The Resilience and Sustainability Trust

Early Learning and Challenges from Costa Rica and Rwanda

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Abstract

In 2022, as part of the IMF's recent efforts to re-channel Special Drawing Rights, it created the Resilience and Sustainability Trust (RST), facilitating the transfer of concessional finance from high- to lower-income countries for climate resilience and pandemic preparedness. It is the first new such facility following the polycrises of the early 2020s.

Demand for the RST is strong and learning from its pilots can inform how future RST financing can be used most effectively. This research provides case studies of two RST pilots: Costa Rica and Rwanda. Lessons from the pilots are not only relevant for future RST recipients. The RST is operational, and therefore, uniquely worthy of analysis in terms of how additional financing—above and beyond the RST—can be effectively integrated.

Our analysis finds that the RST is becoming the IMF's de facto climate finance facility; is government-driven; is being awarded to countries with strong governance and climate credentials; and that authorities are banking on using the RST to attract additional climate finance.

At the same time, the RST faces the challenges of being too small to confront climate resilience; has questionable priorities in terms of supporting climate over poverty reduction in low-income countries; is almost tripling the number of IMF program conditions some countries are facing; and is escalating IMF policy influence over governments in an area where the Fund has limited experience.

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Foreword

The International Monetary Fund's (IMF) establishment of the Resilience and Sustainability Trust (RST) was one of the first concrete actions the institution took to assist the world in confronting the needed transition to a sustainable, resilient, and more equitable global economy. While everyone might agree on the urgent need for this transition, and no one knows exactly how the process will unfold, there is no disagreement that it will be costly. And actions taken upfront will be more effective in both adapting to climate change and mitigating it. But many vulnerable low- and middle-income countries do not have the means to take these early steps without endangering their sound macroeconomic management. The IMF's RST is designed to ease these macroeconomic challenges.

Other CGD colleagues have taken a broad look at the measures supported by the early RST-supported IMF programs. Some have made suggestions about how the RST could be reformed, even in its early days to broaden its scope and reach. And we have also suggested that the financial arrangements could be more favorable to beneficiary countries.

But we thought it was important that we look beyond the theoretical frameworks and try to understand the challenges confronted by the IMF and two pioneer RST countries—Costa Rica and Rwanda—in piecing together a policy and financial program that would set the countries on the path to sustainability, without disrupting their immediate economic management. In putting together these two case studies, Andrew Wainer talked to country officials, IMF officials, and other experts to understand the ambition and the reality of climate action. While there is plenty of room for improvement, the paper demonstrates the seriousness of both the IMF and the country authorities in taking the first steps down what is going to be a long and winding road over the next decades.

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Summary

In October 2021, amid a series of external shocks, and following calls for increasing financing for vulnerable developing economies to respond to them, the G20 committed to reallocating $100 billion in IMF Special Drawing Rights (SDRs) to low- and middle-income countries.[1] As part of this effort, the IMF created a new trust to channel billions of dollars of concessional climate finance to middle- and low-income countries: the Resilience and Sustainability Trust (RST).

The Resilience and Sustainability Facility (RSF) – the financing facility supported by the RST – aims to strengthen countries' long-term climate and pandemic resilience while maintaining balance of payment stability. It was created rapidly and is growing – perhaps dozens of countries will receive funding from the RSF in coming years. Early learning from the RST pilots can inform how future RST financing can be used most effectively – from the perspective of lower-income countries themselves. To that end, this research report provides analysis on two RST pilots: Costa Rica and Rwanda.

But lessons from the pilots are not only relevant for future RSF recipients. Global leaders are seeking to re-channels trillions of dollars from higher- to lower-income countries. The RST has the advantage of being operational, and therefore, perhaps uniquely worthy of analysis informing how larger inflows of financing might be most effectively used for climate resilience and sustainable development. Our analysis finds the following early learnings and challenges:

Learnings

1. For Costa Rica and Rwanda, the RSF has become a de facto climate finance facility, providing financing to both middle- and low-income countries, the latter on concessional terms. Both countries, like all pilot countries, chose climate resilience rather than pandemic preparedness through the RSF.

2. Costa Rica and Rwanda's RSF loans are government-owned and driven by government priorities, but there is no evidence of extensive citizen consultation in developing the reform areas.

3. Costa Rica and Rwanda were selected, in part, as RSF pilots due to their high levels of governance and PFM reform capacity. In this respect they are likely outliers compared to future recipients.

4. Both IMF and country authorities are counting on an "RSF halo effect" to drive additional catalytical climate finance, public and private.

Challenges

1. The RST is not at scale for the trillions of dollars needed annually to support inclusive, green growth in lower-income countries. It is unclear whether it will help mobilize additional funding.

2. While the RST is additional, there is an inherent tradeoff in the IMF supporting climate finance instead of poverty reduction, particularly in low-income RSF recipient countries like Rwanda.

3. Many lower-income countries – even those with high levels of governance – may not have the capacity to implement the additional conditionalities that come with the RSF. Costa Rica's number of conditions almost tripled with the RSF.

4. With more conditions, and the requirement of a pre-existing IMF program, the RST could become a tool for the IMF to exert more control over countries' policymaking through "green fiscal consolidation" with no guarantee of increasing social inclusion, economic growth, or climate resilience.

Introduction

Even before the Covid-19 pandemic and the subsequent crises of the early 2020s, financing the Sustainable Development Goals (SDG) was a daunting task. The United Nations estimated costs of $5–7 trillion globally per year to achieve them.[2] For its part, in 2019, on the eve of the pandemic, the IMF costed SDG financing in emerging market and low-income countries alone at $2.6 trillion annually.[3]

Countries themselves are primarily responsible for financing the SDGs and since those pre-pandemic estimates, the fiscal environment in low-income and emerging economies – many of whom were already facing debt risks – became considerably more challenging. Covid-19 escalated health, social protection, and other spending needs while simultaneously battering government revenue sources as economies slowed and then shut down.[4] Developing economies lost $379 billion in reserves in 2022 – due to food, fuel, and climate shocks and amid escalating interest rates and inflation.[5]

Even as they begin to recover from the pandemic, the commodity shocks that followed Russia's 2022 invasion of Ukraine, rising inflation, and the impacts of climate disasters on developing economies meant that by early 2023, 30% of emerging market and 60% of low-income countries were in debt distress – defined as being unable to pay back creditors without debt restructuring or forgiveness.[6] Since 2019, nine countries (Argentina, Belize, Ghana, Ecuador, Lebanon, Sri Lanka, Russia, Suriname, and Zambia) have defaulted on their sovereign debts.[7] At the same time, food insecurity worsened, with 345 million facing severe food insecurity in 2023 – 200 million more than in 2020.[8]

Seeking to ease the looming crisis, the G20 deferred official low-income debt service through the end of 2021 and created a Common Framework on Debt Treatments for long-term relief.[9] While the Debt Service Suspension Initiative (DSSI) provided temporary fiscal space to debtor governments, the Common Framework has struggled to gain traction.[10]

As creditor and debtor countries – and, importantly, private-sector creditors – struggle to create a workable debt restructuring mechanism acceptable to a diverse cohort of stakeholders, analysts and advocates have simultaneously called for the creation of new funding channels to bolster developing-country balance sheets and strengthen long-term resilience – particularly against the fiscal impacts of health and climate shocks. As key arbiters of the global economic system, much of this research and advocacy has focused on international financial institutions such as the IMF and World Bank and a reassessment of their volume of lending in in the era of extended economic polycrises.[11]

The Resilience and Sustainability Trust

The first global effort to address the fiscal impact of Covid-19 was the IMF's approval of a new allocation of Special Drawing Rights (SDRs).[12] In August 2021 IMF Managing Director, Kristalina Georgieva announced the allocation of $650 billion in Special Drawing Rights (SDRs) – the largest in the Fund's history.[13] Allocated according to a country's IMF quota, advanced economies received the majority of the $650 billion, with Africa receiving only about 5%, or $33 billion.[14] Despite not needing the funding as much as lower-income countries, advanced economies received the lion's share.

While initially allocated to provide liquidity to economies recovering from the impact of Covid-19, by 2022, even as the impacts of Covid eased, many low- and middle-income countries faced increasing costs – particularly for food, fuel, and fertilizer – with rising costs driven by the series of global crises discussed above.[15] In the midst of these economic threats, the need for increased financing, including through SDRs, to stabilize balance sheets, became acute.

Given the enduring lack of fiscal space in developing countries, the G20 committed to "recycle" $100 billion of their SDR allocations to the lower-income countries most in need, so that they could afford fiscal stimulus actions similar to those taken by G7 countries during the pandemic.[16] In April 2022, to facilitate this transfer of SDRs, the IMF board approved the creation of the Resilience and Sustainability Trust (RST) conditional lending program.[17]

The RST was the first *new* channel created after the pandemic channeling concessional loans from high- to lower-income countries. It's particularly tasked with confronting the long-term structural challenges of climate change and future pandemics while contributing to balance of payments stability.[18] The IMF estimates that once in a "steady state" there could be 33 active RST programs in an average year.[19]

As one of the first efforts to provide lower-income countries additional climate financing following the Covid-19 pandemic and subsequent crises – and amid growing calls for reforming the global financial architecture – the RST is unique in its ability to inform both future RSF recipient countries on how its loans and technical assistance can best be used for climate resilience, *and* how larger potential inflows of global climate and development finance – with aspirations of increases in the trillions of dollars per year – might best be put to use by lower income governments. To that end, the purpose of this report is to provide an early assessment of two RST pilot countries from the perspective of the recipients: Costa Rica and Rwanda. Key research questions for this report are:

1. How did case study countries develop their RST proposals, including the focus on climate?
2. What are their policy reform priority areas and how were these determined? What policy outcomes are expected?
3. What is the potential catalytic financing impact of the RST?
4. What are the early challenges and critiques of the RST?

This is an early assessment based largely on interviews with IMF and county officials and a review of relevant secondary data and documentation. This report is not a comprehensive or definitive evaluation of the impact of the loans, rather it is intended to provide insight on how pilot countries developed their loan programs, their key RST reform measures, and the promise and challenges identified in the early stages of the RSF.

The report continues with 1) an overview of the development of the RST, including country requirements to qualify for the loan; 2) Costa Rica and Rwanda RSF loan case studies focused on how country authorities developed their loan priorities and key reform areas; 3) early learning; and 4) concerns or critiques of the RST.

The RST is part of the IMF's policy evolution after assessing climate change as "macro-critical" in its 2021 Comprehensive Surveillance Review.[20] This assessment resulted in a series of changes including incorporating climate policy into IMF lending programs and expanding the Catastrophe Containment and Relief Trust to include climate-vulnerable countries.[21]

The RST is the core of this ongoing suite of IMF reforms providing new concessional financing.[22] In both Costa Rica and Rwanda the IMF worked closely with partners with longer climate resilience track records, including the World Bank and bilateral development partners, to inform RSF reform measures. This will be discussed further in the case study sections below.

The IMF sought to raise $42 billion for the RST, $20 billion of which was raised when the RST became operational in October 2022.[23] In June 2023, at the Summit for a New Global Financing Pact in Paris, IMF Managing Director Kristalina Georgieva said that they have already raised more than $40 billion for the RST and were close to the $42 billion target. Due to country demand, Georgieva also announced that the IMF would already be increasing the size of the RST by 50% to $60 billion.[24] The IMF states that the RST's twofold purpose is:

1. "Supporting policy reforms that reduce macro-critical risks associated with…longer-term structural challenges, and
2. Augmenting policy space and financial buffers to mitigate the risks arising from such longer-term structural challenges—thereby contributing to prospective balance of payments (BoP) stability."[25]

The IMF continues fundraising for the RST, and one IMF official said member countries have been keen to support the facility. "In one year, we consider this to be a pretty good outcome, given how much work it takes to actually to go from creating the trust, the operationalizing the trust…to actually starting to lend," the IMF official said. "There is willingness from contributors to provide support. It's probably driven by…the purposes of the RST – the types of structural challenges [it addresses] – climate so far is one that is generating the program demand."

RSF loans have a long maturity of 20 years and are provided at highly concessional terms.[26] At the April 2023 Spring Meetings, Georgieva said there was a queue of 44 low- and middle-income countries waiting to access the RSF and as of spring 2023, more than $3 billion was committed to the RST's five pilot countries: Costa Rica, Barbados, Rwanda, Bangladesh, and Jamaica.[27] For now, the pandemic preparedness argument is moot, as there is no explicit language on addressing pandemic risks in any approved five RST pilot loans.

Qualifying for RST loans

The RST is governed by the IMF's Executive Board in consultation with contributors on key issues.[28] The large majority of the IMF members are eligible for RST funding – 143 countries – including all 54 countries in Africa.[29] As of June 2023, 10 countries have requested RST support and seven have been approved.[30] Despite concerns regarding the increasing number of conditions the RSF can require – which is discussed below – by June 2023, both Rwanda and Costa Rica received their first tranches of RSF funding after passing their first program reviews.[31]

Access to loans is determined by countries' structural reform strength and debt sustainability and are intended primarily for low-income, vulnerable middle-income, and small countries.[32] RST critics have cited its focus on climate and pandemic as potentially too narrow, and whose effectiveness might be limited if reforms are done within a less-than-stable overall governance and policy milieu.[33] Nevertheless, country interest in the RSF is strong.

According to an IMF survey of the countries interested in the RST, 95% said that they are interested in accessing it to support reforms targeting climate change.[34] This is reflected in the early adopters to date and the two case study countries below. All five "pilot" RST countries have focused exclusively on climate resilience. While it's clear that climate resilience is a priority for the governments of Costa Rica and Rwanda, it's worth reflecting whether this would be the top priority of their populations – particularly in low-income countries – given the acute challenges they face.[35] Recent research indicates that multi-lateral development bank officials, on average, believe climate change is a more pressing problem than officials in low-income countries and citizens they lend to.[36] RSF loans are driven by government priorities, but in Costa Rica and Rwanda they did not demonstrate evidence of citizen consultation outside of government.

RSF loans are the first time that IMF conditionality may be exclusively focused on realizing long-term structural objectives.[37] In addition to reform that address long-term structural challenges, RSF countries must also — at creditors' insistence — have a concurrent IMF program with upper-credit tranche (UTC) quality and at least 18 months remaining in the program and the capacity to repay.[38] Interviews with Costa Rica and Rwanda IMF and country officials indicate that RST funds will be largely used to extend previous areas of policy reform. This requirement for a concurrent program has also been criticized as potentially undercutting government ownership, straining country policy reform capacity, and subsuming climate resilience under "fiscal consolidation." This will all be addressed in more detail below.[39]

RST loans made available through RSF are not earmarked for specific projects, and can be used for:

1. "Shorter-term BoP needs stemming from the implementation of policy measures supported under the RST,"
2. Increasing "medium-term policy space to continue implementing priority spending associated with addressing longer-term structural challenges," and
3. Augmenting "buffers against risks associated with prospective BoP stability stemming from these challenges."[40]

On climate, the RST is intended to: "Integrate climate risks in economic decisions and support countries with adaptation, mitigation."[41] While currently focusing on climate and pandemic resilience, the IMF's RST policy paper also leaves open the option to add other challenges over time.[42] RST recipient countries are encouraged to coordinate with the World Bank and regional development banks. As discussed below, both Costa Rica's and Rwanda's RSF involved extensive consultation with the World Bank and bilateral development partners. The following Country Analyses section is focused on how two pilot countries developed their RSF programs with the IMF and what they are hoping to achieve with RSF funding and technical assistance.

Country analyses

Costa Rica

Costa Rica's Climate change context

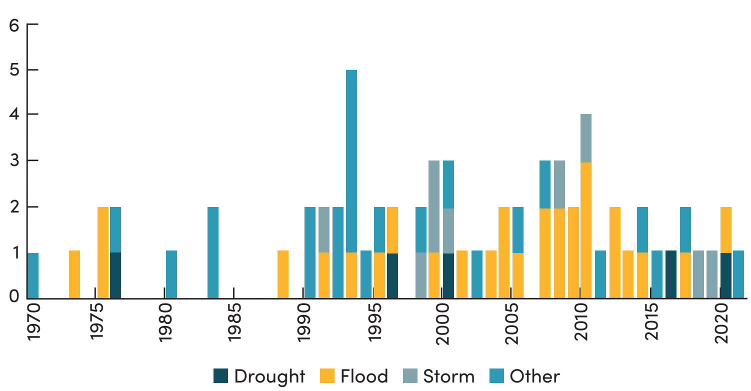
Located in an often-troubled part of the Western Hemisphere, Costa Rica is somewhat distinct from its neighbors in terms of the quality of its governance and the inclusiveness of its economic development (see Figure 1 below). Costa Rica ranks in the first quartile of countries in terms of governance readiness for climate adaptation and scored highly on the Public Expenditure and Accountability (PEFA) assessment – with some weaknesses.[43] Its latest achievement in this regard was joining the OECD in May 2021 – its only Central American member. Today it is also a leader in fighting climate change and "greening" its economy.[44] Almost all of Costa Rica's electricity is generated from renewables, the size of its forests doubled in recent decades, and its decarbonization plans are more ambitious than the Paris Agreement. Costa Rica is the first tropical country in the world to reverse deforestation.[45] Environmental sustainability is central to the country's global brand and a centerpiece of its tourism sector which is its largest source of foreign exchange and represented 8.5% of GDP before the covid-19 pandemic, from which it is still recovering.[46]

FIGURE 1. Map of Costa Rica

Source: https://commons.wikimedia.org/w/index.php?curid=161581

Costa Rica's climate change vulnerability decreased consistently between 1995 and 2013 before stalling over the past decade (see Figure 2 below). While its climate vulnerability is low compared to its neighbors, it continues to confront increased climate challenges.[47] Central America is in one of the most climate vulnerable regions of the world. While Central America contributes less than 0.2% to global carbon emissions, Costa Rica and its neighbors continue to face severe drought, higher temperatures and sea levels, and floods.[48] The government estimates that, over the past 30 years, the direct cost of climate change disasters was 0.5% of GDP per year, mainly related to infrastructure.[49]

FIGURE 2. Key natural hazard statistics, Costa Rica (number of occurrences 1970–2020)



Source: IMF (2022), https://www.imf.org/en/Publications/CR/Issues/2022/11/14/Costa-Rica-Third-Review-Under-the-Extended-Arrangement-Under-the-Extended-Fund-Facility-525684

The largest climactic challenges to Costa Rica are natural disasters, with floods the most significant threat. Costa Rica is the 6th wettest country in the world in terms of average precipitation and is frequently menaced by hurricanes and tropical storms.[50] But in a common climate change paradox, Costa Rica is also increasingly drought-stricken and 2022 was the driest year on record.[51] In 1998–2018, damage from rains and droughts averaged 0.7% of GDP, about half due to transport infrastructure.[52]

Costa Rica's 2022 RST loan

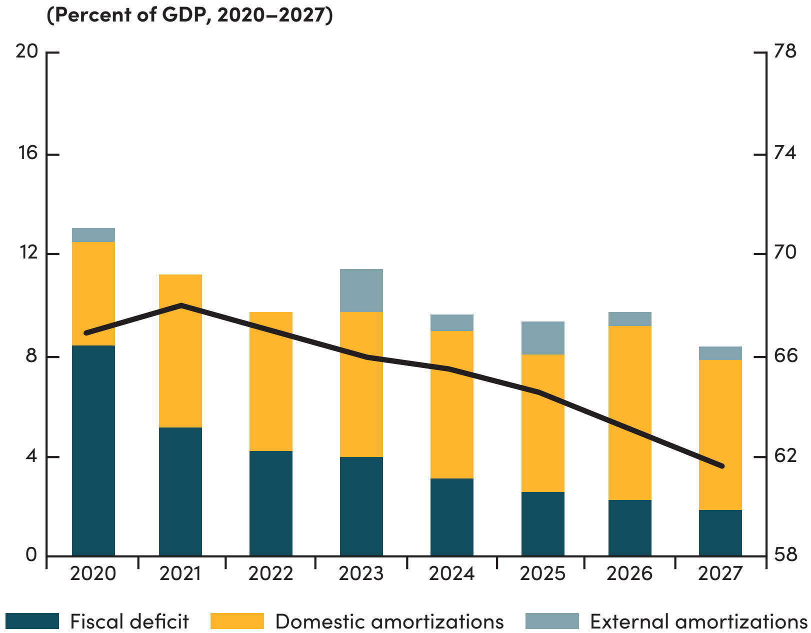
Costa Rica was the first country awarded funding from the RST. The Central Bank of Costa Rica announced in April 2022 that it was seeking such funding from the IMF.[53] In October 2022 the president of the Central Bank of Costa Rica and the minister of finance sent a formal letter of intent seeking RST funds to IMF Managing Director Georgieva. And in November 2022 the IMF Executive Board approved Costa Rica's funding request for SDR 554 million ($725 million).[54] In June 2023 Costa Rica received its first tranche of $246 million in RSF funding after passing its first program review.[55]

Costa Rican Minister of Finance, Nogui Acosta Jaén said that the country's early embrace of the RST was reflection of the country's long-standing integration of climate into national development plans. "The IMF understood that the only way to fight against climate change is…to commit financing to countries so that they can [increase climate finance while] maintain[ing] political, economic, and social stability," he said.

The RSF SDR funding tranche followed an earlier emergency $522 million allocation of SDRs to Costa Rica, starting in April 2020 at the beginning of the pandemic, which the Central Bank of Costa Rica is holding in reserve to strengthen its balance of payments.[56] In March 2021, the IMF followed by granting Costa Rica more than $1.7 billion in SDRs over three years in Extended Fund Facility (EFF) financing to support fiscal consolidation in the face of Costa Rica's growing government debt, which was 67% of GDP in May 2022.[57]

Natural disasters put pressure on Costa Rica's budget, primarily through infrastructure costs and the country's debt almost tripled between 2008 and 2020 as spending increased over more than a decade following the global financial crisis.[58] While many analysts have questioned the effectiveness of the IMF's fiscal consolidation policies, the IMF praised Costa Rica's recent efforts – anchored by a 2018 law to reduce spending and increase and reform revenue collection – and the debt-to-GDP ratio is forecast to decrease to 62% by 2027 (See Figure 3 below).[59]

FIGURE 3. Costa Rica's debt-to-GDP ratio forecast, 2020–2027



Source: IMF (2022) https://www.imf.org/en/Publications/CR/Issues/2022/11/14/Costa-Rica-Third-Review-Under-the-Extended-Arrangement-Under-the-Extended-Fund-Facility-525684

While earlier SDR allocations were provided in part on an emergency basis to strengthen reserves and balance of payments, RSF funding will use SDRs for long-term structural change, rather than as an immediate reaction to the impacts of the pandemic. Per RSF regulations, the RST funding was approved concurrently with a tranche of $270 million in (EFF) funding and RSF disbursements are contingent on implementation of EFF reforms.[60] The RST is closely aligned with the EFF – Costa Rica was halfway through the EFF when the RST was approved – and RST reviews will occur at the same time as the remaining semi-annual EFF reviews. Because of its linkage to the EFF, the RSF timeline is particularly compressed at 18 months. While closely aligned to the EFF, the addition of the RSF almost tripled the number of Costa Rica's IMF conditionalities calling into question the capacity of government officials to implement an ever-growing number of reforms.[61] While too early to assess in-depth, the challenge of adding conditionalities in the context of limited government capacity is discussed below.

IMF officials made it clear that the RSF represented an extension and consolidation of previous IMF programs – and particularly the EFF – rather than a departure in climate policy and finance. "The Central Bank already had a…road map on climate change which was already in the EFF…so we were already supporting those efforts…and that's where it started actually," one IMF official said. To some extent the description by IMF officials confirms the analysis of some experts that the RSF is being used to "top-up" longstanding government and IMF climate priorities and programs in the country.[62]

Costa Rica's RSF loan will be accompanied by extensive IMF technical assistance to address capacity constraints. IMF officials also said – perhaps reflected in its selection as the RST pilot country – that

Costa Rica was chosen in large part for its strength on climate, monetary, and fiscal policy. As noted above, Costa Rica scored highly on its recent PEFA assessment and generally boasts high levels of governance, with notable weaknesses in medium-term expenditure budgeting, procurement, and external audits.[63]

Costa Rica's RSF policy reform areas

In its approval of Costa Rica's RST request, the IMF cited the importance of "fiscal consolidation efforts…planned reforms to increase the fairness and progressivity of taxes, improv[ing] the equity and efficiency of spending, and strengthen[ing] debt management."[64]

IMF officials noted Costa Rican authorities' motivation to access the facility, "We benefitted from fantastic traction with the authorities," one IMF official said. "We are used to having a finance minister and a central bank official. But here we had two vice presidents, the minister of energy [and the environment], the minister of planning, [the minister overseeing social spending], [and] the minister of finance…Really broad-based."

Costa Rica's internal RSF process included coordination among a variety of government agencies. The Ministry of National Planning and Economic Policy was engaged with the IMF on climate assessments even before the RST with the Climate Public Investment Management Assessment (C-PIMA). Other key agencies in shaping Costa Rica's RSF proposal included the Central Bank and the Ministry of the Environment and Energy. Costa Rican First Vice President Stephan Brunner said, "The Ministry of Finance led the process on greening the budget, the Central Bank on greening reserves."

Costa Rica's RSF policy agenda is entirely focused on the nexus of climate and fiscal and financial policy and IMF officials said the country's RSF policy agenda was "home grown, country-owned." "This is not about imposing, that is very important to us," one IMF official said. Research for this report indicates that while both RSF programs were largely government-drive, they also both lacked evidence of citizen consultation beyond government officials.

IMF officials said the RSF reform areas were determined with Costa Rican authorities based on what was feasible in both political and technical terms. As noted above, the determination of climate policy gaps was aided by the IMF's C-PIMA.[65] Finance Minister Jaén stressed that Costa Rica's RST loan was driven by its longstanding climate policy work. "Costa Rica already had a plan…but it needed financing. The IMF saw our decarbonization plan, saw our development plan, saw our programs, and understood that they should finance them," he said. "They are looking to create consciousness that environmental conservation is worthwhile and can be profitable to governments. We're only going to manage environmental resources better if there are solid public policies supporting them."

The IMF's RST statement also cited catalyzing funding from other official and private sources such as $115 million in grants, including from the Green Climate Fund, and $1.5 billion in loans from development partners for climate finance, primarily the World Bank. IMF officials noted, "the signaling effect of the RSF" and its potential catalytic impact for RSF loan recipients. Both the RSF fiscal and financial reforms are intended to create a stronger environment for green financing. To that end, Costa Rica's Minister of Finance, Nogui Acosta Jaén said they intend to use the RSF to issue environmental, social and governance (ESG) bonds.[66]

In the end, RSF loans are not nearly enough to meet Costa Rica's climate resilience needs alone, but IMF officials and government officials are hoping that the signaling effect of the RSF climate-sensitive policy reforms could be among its most important components and will spur larger private and public investments.[67] Recent history demonstrates that this aspiration faces strong headwinds on both the private- and public-sector financing front. Nevertheless, in its June 2023 statement approving Costa Rica's first tranche of RSF funding, the Fund stated, "The authorities are also intensifying efforts to attract climate financing from official and private sector sources."[68]

In Costa Rica's case, IMF officials attributed the RST's climate focus to the country's strong foundation on climate and government officials' preferences. Costa Rica will use the RST to advance a four-fold, climate-centered policy agenda:

1. ***Integrating Climate Risks into Fiscal Planning.*** Costa Rica will work with the Inter-American Development Bank and the World Bank to develop a methodology for climate-related expenditure tagging. This reform measure includes the Ministry of Finance building on its practice of integrating natural disaster risks into fiscal planning by creating climate transition budget tagging guidelines and systems to better understand climate-related resource allocation and prioritization. This data will then be integrated into its financial management information systems.[69] Ultimately, Costa Rican authorities hope to expand the climate fiscal risk analysis in the Medium-Term Fiscal Framework, including the costs of implementing its National Decarbonization Strategy.[70]

   Both Costa Rica and Rwanda are implementing climate budget tagging as one of their primary RST reforms and Finance Minister Jaén said integrating climate impacts into budget analysis, formulation, and forecasting was a centerpiece of the planned reforms. "When we create the budget, we did an analysis of the impact of different interest rates [and] economic growth, but we've had little opportunity to analyze the impact of climate change," Jaén said. "Now our budget office is working to integrate [climate] into our medium-term fiscal framework. We want to be ready in 2024 to incorporate [climate change] impact analysis into the budget for 2025…We want to see the climate vulnerabilities we have in the budget and understand financial impact they could have. It's an opportunity to understand that fiscal sustainability is fundamental to confronting climate vulnerability."

2. ***Strengthening Public Investment and Infrastructure Resilience.*** Much of the cost of climate change for Costa Rica has been due to infrastructure damage which is estimated to cost

.5–.7% of GDP annually between 2022–26.[71] Therefore – closely linked to the budget tagging reform above – Costa Rica's RST reform package includes increasing environmentally conscious investment and reducing climate-related infrastructure loss. "This includes the way we build infrastructure; how we contract to build infrastructure will change," Jaén said. "We are going to try to translate some private sector risks through contracts that include maintenance that ensures sustainability, and we are going to design infrastructure that integrates more climate analysis." This policy action includes designing and implementing new appraisal guidelines to assess the impact of projects on climate change by incorporating the social cost of carbon. Climate change adaptation considerations will also be integrated into urban planning.[72]

3. ***Supporting Decarbonization.*** Costa Rica is seeking to fully decarbonize by 2050. With energy generation already mostly provided by renewables, the RSF will focus on public transportation, specifically its bus system, and support the country's electrification of transport, including incentives to purchase electric vehicles. "We're looking for a mechanism that lets us finance the evolution of our public bus system to be electric," Minister Jaén said. "Like the other measures, the question is how we can monetize our strategy?" Jaén said that bus companies are already required to convert 5% of their buses to be electric and that this RST reform will seek to increase that percentage.

   On the revenue side, the government will review current tax incentives that have a negative environmental impact. To further support renewable energy production, greater competition will be encouraged in private-sector power generation by simplifying the process for private sector renewable power generation.[73] "In June [2023] we're going to create a green tax that will tax vehicles with low performance, that are not so efficient in the use of [fossil] fuels," Jaén said. "We're trying to reward electric vehicles and punish vehicles that are inefficient through tax policy." Jaén said that the average age of a car in Costa Rica is 16 years and that their generally poor emissions contribute to climate change despite the country's success in adopting renewable energy sources.

4. ***Greening Reserves and Strengthening Financial Sector Resilience.*** In addition to greening government expenditures and revenue generation, the Central Bank of Costa Rica will strengthen the environmental sensitivity of its reserve holdings. This includes increasing holdings from issuers with strong environmental credentials. The government will also publish environmental indicators from its investment portfolio in its annual report. "We already have a series of dispositions that catalogue investments as ESG. We are… incorporating the analysis that banks and other financial entities must do to include climate impacts," Jaén said. "We want to make [investments] that have an impact on climate resilience or that reduce the climate impact…easier to finance than those that do not

promote this policy...Through these incentives we're trying to improve the performance of the economy in terms of climate impact."

Like the other three RST objectives, part of this RST supported action will be gathering, collating, and sharing fiscal data in terms of its impact on climate change – data collection, analysis, management, and dissemination features prominently in both the RST loans analyzed in this report. In this case, the central bank will build a data repository, "on the effects of climate hazards on banks' lending exposures with a goal of covering 35[%] of their total credit portfolio by end-February 2023." Costa Rica's national financial system oversight council will also require, "socioenvironmental and climate change risks to be incorporated into banks' assessments of their credit portfolios."[74]

Costa Rican authorities say that their RST climate reform agenda is of a piece with its goal of protecting the most vulnerable, as they are the most likely to be impacted by natural disasters.

As it now stands, Costa Rica's RST reform includes both climate adaptation and mitigation. The adaptation measures are particularly prominent in reform area two in terms of infrastructure resilience and ensuring fiscal stability in the face of climate disasters, both of which could reasonably be expected to improve the well-being of vulnerable Costa Ricans. But Costa Rica's RST reform measures also include multiple mitigation measures – particularly within reform area three focused on decarbonization and the electrification of the bus system. (see Appendix Table 1).

As discussed above, Costa Rica's RSF policy agenda is strongly country-owned and is largely an extension of its longstanding national decarbonization, climate change adaptation, and other climate-related development plans. The policy reform agenda will be led by the ministry of finance and will include important participation from the Central Bank, the ministry of national planning and economic policy, and the ministry of environment and energy. "The most vulnerable countries... [usually] have to compromise their natural resources to take care of their most vulnerable population," Jaén said. "We have to find a way to balance both of these, so that doing one of these doesn't damage the other."

Rwanda

Rwanda's climate environment

Much like Costa Rica (although landlocked), Rwanda is a small country of almost 13 million that – since the 1994 genocide – has stood apart from its neighbors in terms of the quality of its governance (see Figure 4 below). While not rated highly in terms of democratic norms, in 2021, it had the 12th best score for overall governance in Africa.[75]

FIGURE 4. Map of Rwanda

Source: https://commons.wikimedia.org/w/index.php?curid=108836

Rwanda's contribution to climate change is infinitesimal, but climate shocks and their development impacts loom large over Rwanda's growth trajectory.[76] In this verdant "Land of 1000 Hills" flooding and landslides stand as particular threats to agriculture and infrastructure.[77] Although it receives less than half the annual precipitation as Costa Rica, Rwanda relies heavily on rain-fed agriculture that also contributes to its vulnerability to natural disasters.[78] Rwanda's 2016 landslide was the fourth largest in the world since 2010 in terms of the percentage of the population affected.[79] In justifying its need for a climate-resilience focused RST loan, Rwanda's Minister of Finance and Economic Planning, Uzziel Ndagijimana said, "Whatever you create can be destroyed overnight. We've seen the examples."

Led by the Ministry of the Environment, Rwanda has enhanced its climate readiness and reduced its vulnerability over the past several decades, including on the fiscal front where climate considerations are integrated into national and sectoral planning. As of April 2022, Rwanda's national green fund (FONERWA) has mobilized domestic financing for 45 climate-related projects – including eight led by the private sector.

The country's Ministry of Environment is also accredited to the Green Climate Fund and the Adaptation Fund. The Rwandan government is actively seeking to engage private finance through green bonds and is exploring options for carbon credit registry through the United Nations, among other policy actions.[80] In 2022, at COP27, Rwanda launched the "Ireme Invest" green investment fund to support climate adaptation with an initial government investment of $104 million. Ireme Invest is intended to be spur private sector engagement through serving as, "A one stop center for green and sustainable investment.[81]

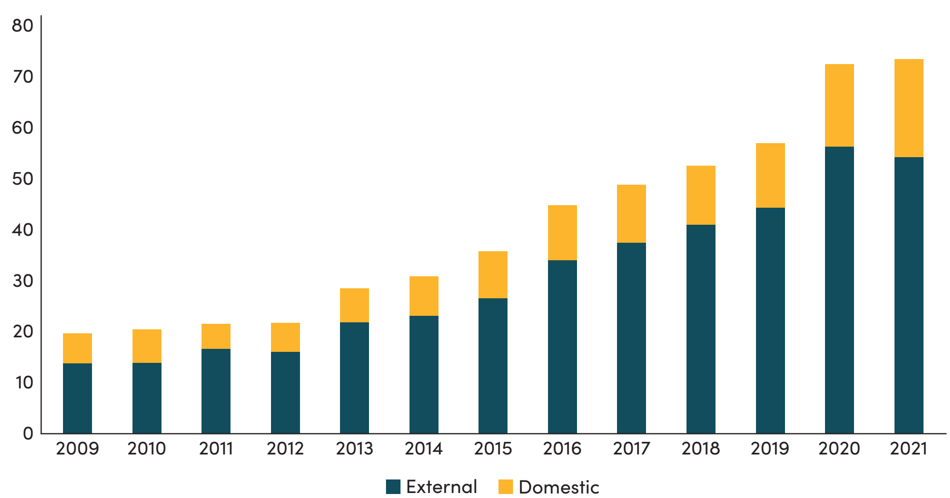
Budget documents already include guidelines for mainstreaming environmental and climate considerations and the Rwanda Environment Management Authority monitors the progress of climate change policies.[82] Nevertheless, Rwanda remains the 10th most climate vulnerable country in the world.[83] The World Bank estimates that climate risks could reduce Rwanda's GDP by 5–7% by 2050.[84]

Rwanda's primary vulnerability to climate change include declining labor productivity due to climate-sensitive illnesses and infrastructure damage and the resulting regional trade disruptions. Rwanda's Nationally Determined Contribution (NDC) estimates climate-investments of $11 billion are needed by 2030 – about 10% of 2022 GDP. While Rwanda is working to expand domestic resource mobilization (DRM), some of this financing will be provided externally, including through the RST loan. Private sector engagement is also crucial to begin to approach the amount needed by the NDC. The government is hoping that greening fiscal and PFM processes, and private sector incentives will create a promising environment for additional climate resilience investments.[85]

Rwanda's 2022 RST loan

Aspiring to middle-income status by 2035, Rwanda recovered rapidly in 2021 from Covid-19 with almost 11% GDP growth rate spurred by a fiscal stimulus and expansion in services and industry.[86] During the pandemic, Rwanda had one of the fastest vaccine rollouts on the Continent, but shutdowns to contain Covid-19 increased unemployment and Rwanda's public debt increased from 57% to 73% of GDP from 2019 to 2021, putting it in moderate debt distress.[87] Fiscal deficits are now slowly reducing with a downward medium-term trajectory due to increasing DRM and reductions in spending. (see Figure 5 below).

FIGURE 5. Rwanda (PPG) external debt-to-GDP ratio 2009–2021



Sources: Rwandan authorities and IMF Staff Calculations.

Since 2021, Rwanda's has received substantial SDR-based financing from the IMF.[88] Like Costa Rica, Rwanda's August 2021 emergency allocation of $219 million (154 million in SDRs) was used largely to respond to the immediate impacts of the pandemic.[89] About 70% was spent increasing on social protection, retrofitting government offices to protect against the spread of Covid-19, and other infrastructure repair, while 30% was held in reserve.[90] Like Costa Rica, Rwanda saw several years of increasing public debt that is now on a downward trend. Unlike previous tranches of SDRs, the RSF allocation will address long-term climate vulnerability rather than respond to the immediate impacts of the pandemic.

Like many middle- and low-income countries, despite its strong 2021 rebound and GDP growth trajectory, Rwanda is facing the multiple challenges of rising food, fuel, and fertilizer prices – mostly due to Russia's invasion of Ukraine – and climate shocks. GDP growth was expected to slow to under 7% in 2022 and unemployment remains above pre-pandemic levels. In October 2022 inflation reached 20%.[91] In 2019, before current economic challenges, Rwanda started a 36-month policy coordination instrument (PCI) with the IMF focused on fortifying macroeconomic stability and increasing inclusive growth. It is now seeking a renewal of that PCI upon which the RST loan is contingent.

Rwanda is the first African and – as of spring 2023 – the only low-income country to receive RST funding. Rwanda sent its RST letter of intent to the IMF in November 2022 to support its transition to a "low carbon growth trajectory."[92] In December it was granted SDR 240 million ($319 million) under a new, concurrent 36-month policy coordination instrument.[93] Like Costa Rica, the RST loan will be devoted entirely to climate resilience. On the other hand, Rwanda's concurrent PCI will address "scarring" from the pandemic including educational losses, long-term unemployment, and increasing income disparity.[94]

Also like Costa Rica, IMF staff indicated that these first RSF countries were akin to "pilots" that provided important learning in crafting the programs. "It's a learning process…Frankly I learned from the two countries [that went to the Board] before us in preparing this for Rwanda," one IMF expert said. "But it's very country specific." Rwanda is also the only RST country so for to have benefitted from both the C-PIMA (Rwanda was one of the countries to request a C-PIMA) and the World Bank's Country Climate and Development Report (CCDR).[95]

IMF officials said the government's keen interest and discussions with development partners in Rwanda working on climate also created a favorable environment Rwanda becoming an early RSF adopter. "We are able to move faster because the authorities [were] already working in this area and… know what they need to do, they already know how the Fund can be involved," one IMF expert said. "Rwanda was already doing this climate work. For them, it's existential. They are highly vulnerable… They see certain areas [through] the RST where the Fund has a comparative advantage [relative to] other development partners."

Minister Ndagijimana also described the RST as an extension of Rwanda's ongoing work, facilitating the speed with which the Fund could issue the loan. "The preparation of the RST was based on the already existing strategies and policies which were extensively consulted on," he said. "That's why the [RST] process was shorter, because we had already consulted on the policies and strategies…Still for the RST we had to consult the different sectors."

Part of the pre-existing framework that sped Rwanda's proposal was the inter-governmental climate finance process in place before the creation of the RST. This allowed Rwandan authorities to quickly mobilize in developing a proposal. "The coordination…started prior to the RST when we were developing those country specific diagnostics that were done by the IMF [and] the World Bank," said Ministry of Finance and Economic Planning Chief Economist Patrick Hitayezu. "By the time the RST came…as a country we had already talked about institutional arrangements [related climate finance].

IMF officials clearly saw this as an indication of the country's preparedness for an RSF loan. The work done alongside other development partners was also an important indicator for Rwanda's readiness, IMF officials said. "Our role is more of a facilitator," one IMF official said. "At COP 27 [Rwanda] launched a green facility bringing in resources from other development partners." The IMF official also said that this spurred RSF discussions for Rwanda.

While Rwandan government officials said the RST "came as a surprise," they added that, in terms of inter-governmental cooperation, "the people were there, the processes were there and obviously we had started some of these discussions with development partners…The coordination…was already existent."

In sum, prior to the RSF, Rwanda had already made significant progress and had ambitious plans for green investment. Climate already figures prominently in the country's long-term development plans. Minister Ndagijimana also said that Rwanda had climate policy and strategy components in place that allowed it to advance quickly in the loan process. "We already had a climate strategy which provided some basics for the policy reform agenda, which was required for the RST," Ndagijimana said. "Rwanda was one of the first countries to present its Nationally Determined Contribution in 2015 and revised in 2020." Ndagijimana also cited the CCDR and C-PIMA as important diagnostic tools already in place that facilitated Rwanda's loan agreement. "These helped accelerate the process," he said.

He also cited Rwanda's integrated financial management information system (IFMIS) as sturdy enough to integrate climate into the country's PFM. "With this system it is easy to integrate the climate component," Ndagijimana said. "That [PFM system] already existed, we just needed to integrate the climate component."

Independent assessments of Rwanda's PFM system generally agree with the minister's assertion of PFM strength, but not without some notable weaknesses. A recent Public Expenditure and Financial Accountability (PEFA) assessment of the country's PFM systems gave Rwanda high marks on dozens of PFM indicators, but it scored low on determining the fiscal impact of policy proposals, performance information for service delivery, and external audits.[96]

Rwandan and IMF officials emphasized the importance of the technical assistance that will accompany the loan and one IMF Rwanda expert said the country has focused on mainstreaming climate into government policy over the past eight years. The IMF has been an important part of this climate reform work and IMF officials said that the RSF-supported program is an extension of that that workstream. "The climate issues [did] not just [start with] the RST, we started – even under surveillance – that has been [an area under the] policy we explored depending on the macro-criticality of the issue," one IMF official said. "We started [discussions] ahead of the RST approval in the context of Article IV."

Rwanda also works with the World Bank on climate policy and finance and the RST is meant to complement this and other support from development partners. Like Costa Rica, it's entirely focused on the intersection of fiscal and climate policy. Per the IMF, Rwanda's RSF-supported program, "Will advance the authorities' efforts to build resilience to climate change by improving the transparency and accountability in the planning, execution, reporting, and oversight of budget resources dedicated to addressing climate change."[97] This includes creating, "A…methodology for the government to evaluate projects," and "enhance[ing] climate-related risk management for financial institutions." Developing a disaster risk reduction and management strategy is also part of the RST agenda in Rwanda.[98]

Rwanda has a history of working with development partners on its climate agenda and RST funds are intended, in part, to ensure that these investments are more transparent and accountable through increased climate reporting and monitoring. Like Costa Rica, RST funds are intended to be catalytic, and Rwanda is planning on issuing green bonds to spur increased private sector engagement in climate finance.

Rwanda's RST funding will be focused on five reform areas (see below) that have some overlap with Costa Rica's RST agenda, but also differ in important ways. The RST disbursement is intended to be used equally among the five reform areas – all of which link to the country's climate policy framework.

At the end of May 2023, Rwanda became the first country to receive RSF funds when the IMF Executive Board approved a disbursement of almost $100 million following the review and approval of the first tranche of RSF reforms.[99] Given concerns regarding the capacity of low-income countries to absorb new IMF conditionalities though the RSF, the Fund's report that Rwanda's "commitment to advancing the climate agenda has been very strong," is heartening.[100] As an African and low-income country, Rwanda's status as the first country to receive RSF disbursements, is also significant given the lack of climate finance on the Continent. Africa is home to one quarter of the world's rainforests, but Africa's share of global climate finance increased, on average, by only 3 percentage points from 2010–2019.[101]

Rwanda's RST Policy Reform Areas

Rwanda's RST policy agenda is intended to establish it as green budgeting leader. As noted above, it is already receiving a high volume of technical assistance from the IMF and the Rwanda government has worked closely with the World Bank and other development partners in developing its RST priorities. Climate resilience work in Rwanda is led by a laundry list of partners including the African Devleopment Bank, several UN agencies, and bilateral development partners from the US, UK, Japan, Germany, Sweden, and many others. This work and input from development partners on the missing components of Rwanda's climate resilience agenda was considered in developing its RSF agenda.

While Rwanda's RSF policy reform agenda was driven by the government, development partners – both bilateral and multilateral – were key to helping determine sector-specific reforms. "In our discussions we dealt with the development partners asking where the gaps are," one IMF official said. "We told the authorities to come up with a few different areas where they see the Fund coming in. They are very aware of the gaps and what they are doing with other development partners."

For his part, Ministry of Finance Chief Economist Patrick Hitayezu said, "We were trying to come up with good reform measures that would make fundamental changes in the way we integrate climate into our public finances. So that's why the Ministry of Finance was on top of everything." Hitayezu added, "However...we involved other ministries. The Ministry of the Environment was the second biggest player...because we had to discuss the soundness and the impact of the reform measures and the time frame of the reform measures: How we could implement them within the three-year timeframe of the RST.'"

Hitayezu also said the Central Bank led on the reform area on increasing awareness and sensitivity of climate in the financial sector and the National Bank of Rwanda coordinated with government institutions including the Kigali International Financial Center.

Rwanda's RSF reform measures are intended to generate tangible changes in public financial management, including protecting climate-spending in the context of fiscal consolidation. All of this is being executed to create more fiscal resilience and institutional capacity in an era of increasing frequency and scale of natural disasters.[102]

1. ***Strengthening and institutionalizing monitoring and reporting of climate-related spending***. Like Costa Rica, a major part of Rwanda's RST loan is on institutionalizing long-term budget tagging guidelines for climate across ministries and agencies. "The idea is to bring Rwanda to the forefront of countries that have really good climate PFM," one IMF official said. "We've been supporting the country with [PFM] capacity development for many years, so it makes

sense for us to do budget tagging work with them." Despite Rwanda's strong PFM, Minister Ndagijimana said that it is not yet climate sensitive. "It's not obvious if you finance, for example, the agriculture sector through purchasing fertilizers, if you finance an irrigation project…how to measure this in terms of contributing to climate adaptation and mitigation," he said. "For us it easier because we already have the content, because the system is ours, we developed it in-house and it can adopt any change…Actually we keep updating it, so our IT team is already ready to integrate new elements. You just have to train the users, the planners, the budget officers."

IMF officials also noted that while they believe that Rwanda has a strong foundation for integrating climate-spending into its decision-making processes, there are gaps that the RSF technical assistance will aim to resolve. This includes harnessing cross-ministry expertise on climate resilience that might be addressed by through an inter-agency working group.

IMF officials said that climate budget tagging was raised by Rwandan authorities and their development partners early on to better track the climate impact of foreign assistance in the country. "In fact, every single development partner said, 'We are providing funding to the government [on climate] but we don't have a way of tracking it,'" the IMF official said. "They said budget tagging would really support the country's [climate resilience] and the IMF has the in-house [expertise] to provide."

Climate budget tagging has been part of Rwandan authorities' dialogue with the Fund for years. IMF officials and Minister Ndagijimana that the RSF is providing the financing and technical assistance to implement it. "We've been hearing about [the need for] budget tagging since Article IV," one IMF official said. "We kept on hearing about it, but nothing was being done. The [RSF] is a way to get them there."

This reform will be led by the Ministry of Finance and Economic Planning with technical assistance provided by the IMF. This reform is intended to result in the publishing of a climate budget statement and quarterly climate expenditure reports that assess Rwanda's climate resilience spending to include comparisons of budget execution with allocations. Authorities also plan on using their Budget Framework Paper to assess how climate information has been used in decision fiscal making.[103]

2. ***Integrating climate risks into fiscal planning***. Closely related to the first reform measure, this will include quantitative climate risk analyses including assessing the climate vulnerability of state-owned enterprises and public-private partnerships and how climate investment can reduce these vulnerabilities and impacts.[104] Minister Ndagijimana said this reform will rely heavily on the World Bank's Country Climate and Development Report. "The idea is to assess…the risk we may have when we implement…economic growth projects, or take on debt," Ndagijimana said. "We need to factor in [climate] risks…and leave some margin of maneuver in case of [climate disasters.]"

3. ***Improving the sensitivity of public investment management to climate-related issues***. The IMF finds that up to one-third of the value of capital investment can be lost through inefficiencies.[105] The RSF reform measures will support making Rwanda's public investment more efficient, but also climate-sensitive and its climate impact measurable. This includes investment analysis and rating by sector on climate adaptation and mitigation.[106] Just as the World Bank's CCDR is informing RST reform measures, the IMF's C-PIMA produced the basis for recommendations for Rwanda that are integrated as public investment reform conditionalities.[107]

   The IMF's PIMA and C-PIMA for Rwanda was finished in April 2022 and contained 15 recommendations to strengthening public investment management and to increase its climate sensitivity.[108] This RSF reform measure closely aligns with ongoing public investment policy reform already underway following the C-PIMA findings. Under this policy reform, Rwanda will continue to incorporate mitigation and adaptation criteria in project appraisal and selection in addition to making it more transparent.

4. ***Strengthening climate-related risk management for financial institutions and developing a green finance market***. In addition to making Rwanda's fiscal and public procurement processes climate-sensitive, RST funding will be used to develop a "green finance market" via the implementation by financial institutions of recommendations from the International Sustainability Standards Board.[109] "Mortgages are the only [sector] exposed to climate [that the banking sector lends to]," one IMF official said. "[Otherwise] the banking sector is not exposed to climate-[risks]. I think there was a lot of frustration among [some] development partners…where they say that some sectors…exposed to climate [are not able to access financing from the domestic banking sector]. The agriculture sector, in particular, [as] there's no clear understanding of climate risk [or guidance to assess climate risks]."

   This reform measure will, "Enhance climate-related risk management for financial institutions," with authorities planning to, "Issue guidelines for financial institutions on climate-related risk…to support the development of a green finance market to mobilize financing for adapting to and mitigating climate change."[110]

5. ***Strengthening the disaster risk reduction and management strategy and operations***. Given the country's vulnerability to natural disasters, RSF-supported activities will include updating Rwanda's 2012 National Disaster Risk Reduction Management Policy. Rwanda's Ministry of Disaster Management and Refugee Affairs will be central to this reform measure that will include operationalizing the strategy at the community-level so that local governments have clear guidelines and appropriate financing to respond to natural disasters at the local level.[111] "This is to build their capacity for preparedness, for early warning systems, and also their operational capacity to respond when disaster happens," Minister Ndagijimana said.

In addition to multiple reforms integrating climate change data into the budget and related PFM reforms, Rwanda's climate strategy is counting heavily on private sector engagement and subnational domestic resource mobilization to finance disaster risk reduction (see Annex Table 2). Minister Ndagijimana said both its policy coordination instrument and the RSF are intended to reduce Rwanda's reliance in the medium-term grants and debt. Like in Costa Rica, Rwanda's RSF does not include nearly enough financing to tackle its climate needs, but government officials are counting on the "halo effect" of the RSF's reform measures to attract additional private and public sources of financing.

Early learning

1. The RST has become the IMF's de facto long-term climate finance facility. One of the RST's two original focuses – pandemic preparedness – is missing from the RSF's five pilot countries. Will that become its long-term nature? While all evidence indicates that the exclusive focus on climate was the choice of government authorities, pandemic preparedness is also an important global public good, as the last several years brought into stark relief.[112]

Respondents for this report said that RST recipient countries are using their concurrent IMF instruments to recover from the pandemic while simultaneously applying for RSF loans to focus on climate, highlighting the additionality of the RST. Costa Rica's letter of intent to the IMF cites its concurrent Extended Fund Facility as the primary IMF instrument addressing the aftermath of Covid-19 while the discussion of the RSF is exclusively on climate.[113] There seems to be a universal preference among all five pilot countries to focus exclusively on climate which brings into question the relance of the RSF's option of investing in pandemic preparedness.

2. Costa Rica and Rwanda's RSF loans are government-owned and driven by government priorities, but there is no evidence of extensive citizen consultation in developing the reform areas. In Costa Rica and Rwanda, RSF policy priorities are driven by government authorities in partnership with the IMF. Country-ownership appears to be strong, but there is a lack of evidence regarding the involvement of civil society and other stakeholders outside government.

Both countries' RSF reform measures reflect years of ongoing climate resilience policy collaboration with the IMF, the World Bank, bilateral development partners, and others.[114] Rwandan officials repeatedly emphasized the diagnostic contributions of the C-PIMA and the World Bank's CCDR in assessing gaps and generating reform measures in preparing them for the RSF. Costa Rica is the only country in Central America that has completed a C-PIMA.[115] Based on this background, there is nothing surprising in the RSF reform areas chosen by Costa Rica and Rwanda. RSF loans have not launched new areas policy reform efforts, as much as extended and deepened reforms government authorities have been considering with development multilateral and bilateral partners. Country-ownership isn't complete though and the shortcomings in full country-ownership are noted below.

3. Costa Rica and Rwanda were selected as RSF pilots due to the quality of their governance and PFM. Throughout research for this report IMF officials repeatedly noted both countries leading roles in governance broadly, PFM reform specifically, and as climate champions. IMF officials clearly wanted to launch RSF pilots in countries with strong fiscal governance foundations, rather than use the RSF to build these systems from lower baselines.

Costa Rica ranks in the first quartile of countries in terms of governance readiness for climate adaptation and Rwanda is just outside the top third of countries globally.[116] Both countries scored highly on the Public Expenditure and Accountability (PEFA) assessments – with some weaknesses. And Costa Rica in particularly stands out for its commitment to green tourism which is part of its global brand – and largest source of foreign exchange.

4. An RSF halo effect? Perhaps the biggest question regarding the RSF is not what it might achieve alone, but the investment environment and signaling effect RSF financing and reforms will create for other public and private climate (and potentially pandemic) funding.

Catalytic funding is the only way that the trillions needed for SDG 3 (Good Health and Well-Being) and SDG 13 (Climate Action) will be realized. But while the potential of DRM and private finance to contribute to development and reduce climate change are well known, they have both underperformed in recent years. Analysts find that domestic resources must constitute at least half of future climate financing, but in sub-Saharan Africa, tax-to-GDP ratios remained stagnant in the years *before* the pandemic, with rates about half those of OECD countries.[117]

The potential of private finance to contribute to development is also compelling but remains disappointing in practice. While the potential of private finance is in trillions of dollars, innovative finance mobilized an estimated $24 billion in 2020.[118] The catalytic potential of the RSF is woven into its structure and embraced by Rwanda and Costa Rica, but their ability to pull in additional funding remains highly questionable and based on the recent history of innovative finance, its catalytic character is not guaranteed.

Challenges

1. Not at Scale. Perhaps the most common critique of the RSF is quantitative: its scope in the tens of billions of dollars is simply not sufficient for the trillions of dollars needed annually to support climate resilience in lower-income countries.[119] Even if the G20 fully realizes its $100 billion SDR recycling commitment, the additional costs of climate finance alone are estimated at about $1.5 trillion annually by 2030 for emerging market and developing countries other than China.[120] The V20 – representing 58 of most climate-threated economies – have also called for a larger and more accessible RSF.[121] As discussed above, countries cannot yet count on the RST's catalytical effect, which remains unproven. As demand for the RSF escalates, increases in the scale of RSF lending and making it even more concessional should be considered.[122]

2. Climate Versus Poverty Relief Tradeoffs. The RST is an important first step in the IMF's climate finance portfolio for which it deserves considerable credit, but it has been criticized for its focus on global public goods—specifically climate mitigation and pandemic preparedness - which can be seen as coming at the expense of poverty reduction and climate adaptation.[123] RST financing is additional – Costa Rica and Rwanda's RSF climate financing may create fiscal space for other development priorities, but the knotty question of tradeoffs between climate finance and financing focused on poverty reduction remains. As an example, fossil fuel subsidy reductions in some lower-income countries negatively impacted residents to the point where they sparked civil disturbances.[124]

In an upper-middle income country like Costa Rica the RST's focus on climate resilience seems particularly sound, but specifically in low-income countries like Rwanda, which had an estimated poverty rate of 42% in 2020, tradeoffs between climate resilience and poverty reduction – and other development priorities – are important to consider.[125] Related to this – and a caveat to country-ownership discussion above – is that there was no evidence of consultation with civil society in developing the RSF reform areas, which might have generated input for how it should be focused, perhaps even beyond climate. While the RSF is strongly government-owned, it lacks full country ownership.

3. Strained Absorbative Capacity. Related to the critique above, analysts have criticized the RST's narrow mandate on climate and pandemic resilience (in reality, to date, *only* climate) worrying that the RST could function as a "climate add-on."[126] The concern undergirding this critique is that if a country's overall quality of governance is not strong, then the impact of enhancing climate policy, which is a long-term endeavor in the best of cases, will be diminished by its other governance shortcomings.[127]

Both Costa Rica and Rwanda have relatively strong PFM systems and multiple national climate frameworks to build on – indeed that's why they were selected as RSF pilots. But analysts question whether lower-income countries – even those with high levels of governance – have the capacity to implement the additional conditionalities that come with the RSF. The increased number of conditionalities is particularly relevant to Costa Rica where they almost tripled with its RSF from 11 to 30, compared to previous IMF programs.[128] As more countries access the RSF, closer scrutiny will be needed both to the depth of the reform measures and the governmental capacity of authorities to successfully implement them.[129] By June 2023, both Rwanda and Costa Rica passed their first program reviews and received their first tranches of funding, providing some optimism for their ability to successfully impellent the RSF reform areas.

4. Green Fiscal Consolidation. Related to the burden of extra conditionalities generated by RST programs is concern that the RSF, and the IMF's delving into climate finance generally, will become a tool for the IMF to exert more control over countries policymaking through "green fiscal consolidation."[130] Analysts have noted that RSF recipients' requirement to have a preexisting IMF program can undercut government ownership and make climate resilience subservient to fiscal concerns.[131]

IMF evaluators themselves found, "Concerns about lack of country ownership," and that, "the volume of structural conditions has shown some signs of rising in recent years, while impact remains a question."[132] Other analysts note that IMF programs do not always successfully increase social inclusion, or even economic growth.[133] This risk is even larger in the case of the RSF, where the IMF's expertise in climate finance expertise is underdeveloped, even as it relies more on the World Bank and other partners with a longer track record of working on climate resilience. At the same time, the IMF's Independent Evaluation Office finds, "Challenges with cooperation with the World Bank and other partners in designing and monitoring IMF structural conditionality in areas outside of the IMF's core expertise."

Appendix 1. Research methods

This policy research brief combined primary qualitative data collection through key informant interviews (KII) with secondary analysis of relevant policy documents. Secondary and primary qualitative and quantitative analysis were synthesized to produce initial case study sketches of how RST funds are being used in Costa Rica and Rwanda with an eye toward identifying lessons for future recipient countries.

Key respondent interviews

Interviews were conducted both in person and remotely with IMF officials. All interviews were recorded and transcribed for analysis. All quotes from the interviews in the report are anonymous. Quotes and information were also used from respondents remarks at events including the 2023 IMF/World Bank Spring Meetings. Respondents included:

- IMF mission chiefs
- Recipient country ministry of finance official managing or engaging with RST funding
- Other ministry and government officials managing the funds
- Citizen and civil society organizations, including the business sector, involved in consultations for the RST requests
- Academic and other experts to provide context and insight, from the Global North and South

Analysis of the secondary documents and findings from the KIIs were gathered through semi-structured interview protocols tailored to the different stakeholder roles. Interviews were recorded and transcribed for analysis.

Appendix 2. RSF measures

APPENDIX TABLE 1. RSF measures, Costa Rica

Reform Area	Measure/Structural Benchmark	Type	Depth	Theme
I. Integrating Climate Risks into Fiscal Planning	RM1. Ministry of Finance to develop and publish guidelines for climate budget tagging.	Fiscal	Low	Public Financial Management
I. Integrating Climate Risks into Fiscal Planning	RM5. Ministry of Finance to expand the quantitative climate fiscal risk analysis in the Medium-Term Fiscal Framework to include climate transition risks.	Fiscal	Low	Public Financial Management
II. Strengthening Public Investment and Infrastructure Resilience	RM6. MIDEPLAN to develop and publish guidelines to expand the project appraisal process to assess the impact of the project on climate change through the social cost of carbon.	Fiscal	Low	Public Investment Management
II. Strengthening Public Investment and Infrastructure Resilience	RM9. MIDEPLAN to publish guidelines on project selection criteria including a range of climate change criteria for SNIP entities.	Fiscal	Low	Public Investment Management
II. Strengthening Public Investment and Infrastructure Resilience	RM10. MIVAH, in collaboration with MINAE, to develop and publish guidelines for including climate change analysis in Regulatory Plans.	Fiscal	Low	Public Financial Management
III. Supporting Decarbonization	RM2. Government to approve implementing regulation to simplify the administrative procedures for private participation in power generation from renewable sources for self-consumption.	Other	Low	Climate Mitigation
III. Supporting Decarbonization	RM7. Government to submit to the Legislative Assembly a bill to introduce feebate scheme to strengthen incentives for low-pollution private vehicles.	Fiscal	Medium	Climate Mitigation
III. Supporting Decarbonization	RM11. Government to appraise and publish a review of existing tax incentives with a negative effect on the environment to support decarbonization efforts.	Fiscal	Low	Climate Mitigation
IV. Greening Reserves and Strengthening Financial Sector Resilience	RM3. BCCR to create a repository with data on climate hazards; industrial and geographical vulnerability to climate events; banks' lending exposure to vulnerable industries and regions.	Financial	Low	Climate Finance
IV. Greening Reserves and Strengthening Financial Sector Resilience	RM4. BCCR to publish indicators of the "greenness" of its reserve holdings in its 2022 Annual Report.	Financial	Low	Climate Finance
IV. Greening Reserves and Strengthening Financial Sector Resilience	RM8. CONASSIF to approve regulation on management of socioenvironmental risks and climate change risks in the credit portfolio.	Financial	Low	Climate Finance
IV. Greening Reserves and Strengthening Financial Sector Resilience	RM12. BCCR to incorporate climate effects on the banking sector in its top-down stress testing, based on aggregated data and capturing those new risks on credit risk parameters.	Financial	Low	Climate Finance

Source: Gupta, S. and Brown, H. (2023) "IMF Lending Under the Resilience and Sustainability Trust: An Initial Assessment." CGD Policy Paper 289. Washington, DC: Center for Global Development. https://www.cgdev.org/publication/imf-lending-under-resilience-and-sustainability-trust-initial-assessment

APPENDIX TABLE 2. RSF measures, Rwanda

Reform Area	Measure/Structural Benchmark	Type	Depth	Theme
Reform Area 1. Strengthening and institutionalizing the monitoring and reporting of climate-related spending feeding into decision making processes.	RM4. Produce internal guidelines on the planned climate budget tagging system, including anticipated changes to the budget call circular and user requirements for the Integrated Financial Management Information System (IFMIS).	Fiscal	Low	Public Financial Management
Reform Area 1. Strengthening and institutionalizing the monitoring and reporting of climate-related spending feeding into decision making processes.	RM6. MINECOFIN staff to implement climate change budget tagging as a prototype on development expenditure only and publish a climate budget statement using the first budget tagging results. Identify in the Budget Framework Paper (BFP) how climate information has been used in decision making.	Fiscal	Low	Public Financial Management
Reform Area 1. Strengthening and institutionalizing the monitoring and reporting of climate-related spending feeding into decision making processes.	RM9. MINECOFIN staff to expand the climate change budget tagging framework to cover all expenditure, adopting the approach laid out in the internal guidelines and drawing on lessons learned in the prototype period.	Fiscal	Low	Public Financial Management
Reform Area 1. Strengthening and institutionalizing the monitoring and reporting of climate-related spending feeding into decision making processes.	RM11. Publish comprehensive tagging results in the climate budget statement and start publishing a quarterly climate expenditure report that compares climate change expenditure execution with budget plans.	Fiscal	Low	Public Financial Management
Reform Area 2. Integrating climate risks into fiscal planning.	RM1. Submit a quantitative climate risk analysis in the Fiscal Risk Statement to the Fiscal Risk Committee.	Fiscal	Low	Public Financial Management
Reform Area 2. Integrating climate risks into fiscal planning.	RM7. Further expand the quantitative climate risk analysis to include PPPs and SOEs that are vulnerable to climate-related risks, highlighting how investment in adaptation seeks to reduce the impacts of negative climate events.	Fiscal	Low	Public Financial Management
Reform Area 3. Improving the sensitivity of PIM to climate-related issues.	RM2. Update the national investment policy to integrate the climate agenda.	Fiscal	Low	Public Investment Management
Reform Area 3. Improving the sensitivity of PIM to climate-related issues.	RM5. Publish the guidelines for the appraisal and selection criteria, including climate considerations, at MINECOFIN website.	Fiscal	Low	Public Investment Management
Reform Area 3. Improving the sensitivity of PIM to climate-related issues.	RM10. Publish a consolidated report on major projects in the pipeline by sector with information inclusive of (i) the appraisal and selection criteria related to adaptation and mitigation and (ii) the distribution of ratings according to the appraisal and selection criteria related to adaptation and mitigation.	Fiscal	Low	Public Investment Management
Reform Area 4. Enhancing climate-related risk managements for financial institutions and developing a green finance market as part of the broader capital market development effort to help mobilize financing.	RM8. Issue a guideline for climate-related risk managements for financial institutions.	Financial	Low	Climate Finance

APPENDIX TABLE 2. (Continued)

Reform Area	Measure/Structural Benchmark	Type	Depth	Theme
Reform Area 4. Enhancing climate-related risk managements for financial institutions and developing a green finance market as part of the broader capital market development effort to help mobilize financing.	RM12. Issue a guideline to financial institutions with regard to the implementation of recommendations of the International Sustainability Standards Board (ISSB).	Financial	Low	Climate Finance
Reform Area 5. Strengthening disaster risk reduction and management.	RM3. Adopt the new National Disaster Risk Reduction and Management Policy, replacing the 2012 National Disaster Management Policy, focusing on clarifying the roles and responsibilities between institutions and providing clear frameworks for community-based disaster risk reduction and management.	Other	Low	Climate Finance
Reform Area 5. Strengthening disaster risk reduction and management.	RM13. Develop financing mechanism at the local level to enhance the ability of local governments to mobilize resources to finance the planning and implementation of disaster risk reduction and management strategy at the local level.	Other	Low	Climate Finance

Source: Gupta, S. and Brown, H. (2023) "IMF Lending Under the Resilience and Sustainability Trust: An Initial Assessment." CGD Policy Paper 289. Washington, DC: Center for Global Development. https://www.cgdev.org/publication/imf-lending-under-resilience-and-sustainability-trust-initial-assessment

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