



Second workshop on addressing loss and damage in the context of
decisions 2/CP.27 and 2/CMA.4

Operationalization of Funding to Addressing Loss & Damage: *an IMF Perspective*

July 16, 2023

The IMF's Emergency Response Framework

In addition to its standard lending windows, the IMF has specialized instruments to provide **emergency financial support** to members struck by natural disasters, including from climate change, as demonstrated by its response to the global **COVID pandemic** and **food shock**.

- IMF provided IMF **debt service relief** grants through the **Catastrophe Containment and Relief Trust (CCRT)** to 31 of its most vulnerable members for two years from April 2020, totaling over US\$930 million.
- The IMF can provide **emergency financing** without ex post conditionality to members facing urgent BoP financing needs through LIC (RCF) and standard-window (RFI) facilities.
 - In October 2022, the IMF approved the **Food Shock Window**, under its emergency financing instruments, which provides additional access for members suffering acute food insecurity, including longer-term issues related to climate vulnerabilities.
 - In response to COVID, **IMF credit outstanding** increased by **US\$45 billion** from March to December 2020, of which US\$27.8 billion was emergency financing. In response to the terms-of-trade shock unleashed by Russia's invasion of Ukraine, IMF approved **new lending or increased existing lending by over US\$16 billion**, of which six FSWs (US\$1.8 billion)

SDR Channeling

- ***SDR channeling***: a broad range of financial transactions in SDRs (pledging, lending, donating) are permitted between IMF members and prescribed holders
- In the wake of the US\$650 billion August 2021 SDR allocation, three ***SDR channeling*** options are under consideration:
 - **Scaling-up the PRGT** to support lending to LICs
 - Financial resources for the **Resilience and Sustainability Trust (RST)**
 - Possibly **lend SDRs to MDBs**.
- Channeling faces ***challenges*** associated with maintaining the ***reserve asset characteristic*** of the channeled SDR; hence, channeling has largely been limited to the PRGT and RST

The RST–Qualifications, Objectives and Uses

- **143 countries** are RST-eligible, including all low-income (PRGT), and vulnerable small states and middle-income countries
- RST provides financing and policy reforms to reduce risks associated with **climate change** and **pandemic preparedness**, build long-term resilience, and to **support longer-term prospective balance of payments stability**.
- The aim is to **boost policy space** by building policy and financial buffers; it can only be used *in concert* with another **IMF upper credit tranche (UCT) arrangement**.
- The RSF is ***not* project financing** nor does it address **general BoP problems** (which is the focus of the concurrent the other Fund-supported program).

The RST–Rapid Implementation & Early Lessons

- ***Nine RSF*** arrangements approved by end-June 2023: Costa Rica, Barbados, Rwanda, Bangladesh, Jamaica, Seychelles, Kosovo, Senegal, and Niger, for total access of \$3.9 billion
- ***Strong demand pipeline of diverse countries*** (more than 40 countries; the Fund is working with authorities to develop their capacity to implement RSFs. About 10 to 15 RSF requests are expected to be considered by the IMF Board in the coming year)
- Key is a ***strong package of reforms***, developed in ***coordination with other IFIs***
 - **Country diagnostics** (CCDRs, CMAPs, other climate diagnostics).
 - **Intense use of Capacity Development** (C-PIMA, climate fiscal diagnostics, budget tagging, green PFM)
 - **Policy priorities** are identified in coordination with the WB and other partners
 - These elements are key to **catalyzing additional financing**, especial private

Action need to support IMF resource for LICs

- **PRGT:** in the context of high IMF lending to LICs, the PRGT faces a sizeable gap in loan (US\$ 1.3 billion) and subsidy (US\$1.2 billion) resources to meet stage 1 of the 2021 fundraising strategy. **SDR channeling** has helped but more is needed to close a fundraising shortfall.
- **CCRT:** Despite the generous contributions of close to SDR 610 million (compared to target of SDR 1 billion) from 18 members and the EU, the CCRT's **current cash balance** remains **very low at under US\$100 million**. This is insufficient to meet future shocks.
- **RST:** Adequate lending capacity in the short term, but **funding target still unmet**
 - Loan resources from current pledges are only 78% of the loan resource target. Once all pledges are effective, lending capacity of *SDR 16.5 billion well short of projected medium-term demand of SDR 22 billion*.
 - Hence, key for IMF members to **deliver remaining pledges and make new pledges**.
 - Given strong demand, MD lifted our fundraising ambition to increase the envisaged size of the RST, from SDR 33 billion (\$44 billion) to SDR 45 billion (\$60 billion).



Thank you.

References:

- [RST Board paper](#)
- [RST webpage](#)
- [PRGT webpage](#)