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**THE IMF AND  
THE ROAD TO A  
GREEN AND INCLUSIVE  
RECOVERY  
AFTER COVID-19**

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# EXECUTIVE SUMMARY

Since the onset of the Covid-19 pandemic, the International Monetary Fund (IMF) has reasserted its role as the world’s leading financial firefighter. It scaled up financial support to countries in need, developed new lending instruments and secured an increase in the SDR allocation, thereby boosting global liquidity. While achieving these landmarks, the organization also became a strong public advocate of a just recovery, promoting policies that would prevent inequalities around the world from widening. At the same time, the IMF positioned itself at the forefront of policy debates on climate change. The organization has identified mitigating and adapting to climate change as critical to macroeconomic stability. To this end, it recently began rolling out policy measures to underpin country efforts at a green transition, ranging from expanding climate-sensitive economic analysis toolkits, developing relevant technical assistance programs, and—eventually—launching lending facilities to underpin sustainable development policies.

This report examines the scope for IMF involvement in Green, Resilient and Inclusive Development (GRID) objectives, building on how these objectives have been operationalized by the World Bank. Unlike the Bank’s focus on sectoral projects and development lending, the IMF’s mandate is to underpin global financial stability by assisting countries with unsustainable balance of payments positions, including through lending programs. While these seek to bring about macroeconomic stability, they also have clear development implications, as the policy conditions attached to them have important consequences for borrowing countries’ economic systems, income distributions and political economies. In line with the remit of IMF lending, *green issues* refer to the likely impact of IMF programs on the environment and

meeting climate change adaptation and mitigation targets; *resilience* examines how IMF programs affect preparedness vis-à-vis different types of risk, as well as the availability of sustainable financing of basic social services; and *inclusiveness* captures the interplay between the various IMF-mandated reforms and poverty and inequality.

The report has three inter-related objectives. First, it presents evidence on the recent track record of the IMF in supporting GRID issues. Second, the report analyses the scope of the IMF's mandate, how the IMF compares to other international financial institutions in its attempts to develop a GRID orientation, and how GRID issues can be mainstreamed in IMF practices. Finally, the report elaborates on a comprehensive assessment framework that can underpin the ex-ante impact assessment of IMF lending programs on GRID issues.

## TAKING STOCK OF DEVELOPMENTS AT THE IMF

Over time, IMF lending has become a common fixture of the policy environments of low- and middle-income countries. During the 2010s, IMF borrowers had to implement, on average, 34 conditions during each year under an IMF program, while some particularly onerous programs carried well over 60 conditions per year. While these figures remain below the averages for the 2000s, they are comparable to IMF lending operations over the 1990s. Although a wide array of policy reforms are normally attached to IMF programs, recent years have witnessed the meteoric rise of poverty reduction-related conditions: by 2019, more than four in five IMF programs included at least one such condition. Notwithstanding these changes, what has remained constant is the hesitance of countries to implement conditions: approximately 58% of programs get interrupted.

The onset of the Covid-19 pandemic provided a major boost for IMF activities, with a record amount of financial assistance being approved with only limited conditionality. However, as many countries are reaching their access limits for fast-disbursing activities, an uptick for regular financing requests—with their associated conditions—is already occurring. This report shows that GRID issues remain at best marginal in this area of IMF operations. In contrast, economic surveillance and capacity development have been areas of extensive GRID-related innovations, with the IMF planning to further scale up its engagement with these issues by—inter alia—hiring new staff, bolstering internal expertise and developing ad hoc capacity development toolkits.

## THE ROAD AHEAD FOR THE IMF

The IMF's engagement with GRID issues is well-covered by its mandate, as there has been growing recognition both among IMF leadership and its membership that these issues are 'macro-critical.' Even so, there is considerable space to embrace the operational implications of this recognition, as persistently high inequalities and recurring environmental catastrophes ultimately undermine economic performance and can hurt the external position of countries. In line with the IMF's remit on balance of payments problems, its lending programs can be designed to support reforms that 'future-proof' the balance of payments of borrowers and bring the IMF's unparalleled knowledge of fiscal, monetary and financial issues to revamp macroeconomic policy. In institutionalizing GRID engagement, the IMF still lags behind other international financial institutions that have forcefully sought to embed GRID priorities—especially on the green transition—in their operations. To mainstream GRID objectives in IMF's operations, three changes are urgently needed:

1. Ensure that insights from GRID-sensitive economic surveillance and capacity development operations are embedded into policy design in IMF lending programs.
2. Reform conditionality to ensure that it is GRID-aligned, so that it is based on careful analyses of trade-offs in the different policy mixes that are present in conditionality.
3. Expand IMF – World Bank cooperation in ways that make the GRID-related activities of the two organizations complementary, especially vis-à-vis development policy lending.

## 1. INTRODUCTION

The convergence of health, economic and social crises over the past two years has posed profound questions over the direction of travel for the world after Covid-19. Will low- and middle-income countries be able to meet the Sustainable Development Goals and implement the Paris Agreement? Or will they be constrained by economic turmoil as they struggle to control the pandemic and engineer a recovery? The view from the top of the IMF—the world’s premier international financial institution and lender of last resort—holds promise. As IMF Managing Director Kristalina Georgieva outlined, ‘we embrace the transition to the new climate economy—one that is low carbon and climate resilient, that helps fight the causes of climate change and adapt to its consequences’ [1]. This recognition of the central importance of a green transition builds on developments within the IMF prior to the pandemic. Over the last few years, IMF leadership has positioned the organization as a champion of meeting Sustainable Development Goals, evidenced by initiatives to promote environmental sustainability, enhance engagement in social spending and cultivate resilient regulatory and institutional frameworks [2]–[4]. Indeed, since 2015, IMF leadership has recognized economic inequality, gender empowerment and climate change as ‘macro-critical’ issues [5].

Such a reorientation towards sustainable and inclusive development is not only a function of initiatives by IMF leadership and staff, but it has also been powerfully thrust onto the agenda by many of the IMF’s senior shareholders in recent years. For instance, Olaf Scholz, in his former role as Finance Minister, told his peers at the International Monetary and Financial Committee that Germany ‘encourage[s] the Fund to place a stronger focus on the challenges caused by rising income inequality [and proposes that] the IMF’s surveillance activities should consistently cover climate change and mitigation issues’ [6]. Similarly, French finance minister Bruno Le Maire noted that ‘the macro-criticality of climate change is not questionable, and [France welcomes] efforts to further embed the assessment of climate change impact in all IMF’s activities’ [7].

Prompted by high-level interest in placing climate change and income inequality at the forefront of the IMF’s activities, the organization has recently attempted to revamp operational practices and policy advice, and has repeatedly emphasized the importance of avoiding a ‘divergent recovery’ from the pandemic [8], where some countries steam ahead and others fall further behind. To achieve this, new

perspectives on economic management were envisioned to supplement the more traditional focus on fiscal and macroeconomic targets: from increasing taxes on wealthier individuals and corporations to scaling up social investments in health, education, infrastructure and basic services; from supporting the green transition to bolstering transparency and accountability [9].

These perspectives already inform some shifts in IMF activities. In recent years, the IMF has expanded its facilities for financial support, for example through the Catastrophe Containment and Relief Trust, and is currently debating the introduction of a new lending facility through the Resilience and Sustainability Trust. It also called on fiscal policymakers to ‘green’ their responses—for instance, by investing in climate-smart infrastructure or supporting public works programs that advance climate change adaptation—to prevent the Covid crisis leading to an ecological one [10]. And with the aim of achieving inclusive medium-term development objectives, the organization encouraged countries to use the crisis as an opportunity to strengthen social protection systems by augmenting coverage and increasing benefits [11].

To what extent can these approaches become more firmly institutionalized in the three main activities of the IMF: lending programs, economic surveillance and capacity development? In tackling these issues, this report seeks to contribute to global policy efforts to ameliorate the adverse effects of the pandemic by leveraging the power of international financial institutions to support economic, environmental and social development. In line with the Sustainable Development Goals and the Paris Agreement, this report has a starting point similar to underlying developments at the World Bank, with the launch of the Green Recovery Initiative and its burgeoning Green, Resilient and Inclusive Development (GRID) approach.

The report develops empirically rigorous and policy relevant answers to the following research questions: How much progress has already been made at the IMF in supporting the green transition, inclusive development and resilient societies? How can IMF lending programs be reformed to underpin a green, inclusive and resilient recovery? What are the potential impediments (legal or organizational) in instituting this agenda? How much progress has been made on the GRID agenda by the IMF’s peer institutions? How can GRID issues be mainstreamed in the IMF’s lending activities? How can a reformed modus operandi of the IMF be monitored and assessed? What are some early experiences of borrowing governments with revamped IMF assistance, evidenced by case studies?

As these questions suggest, we rely on the GRID approach throughout the report, applied to the activities of the IMF. For the World Bank—where the approach is already in the early stages of adoption—*green* refers to environmental and socio-economic

sustainability; *resilience* links up to preparedness for, mitigation of and adaptation to risks from economic shocks, climate change and pandemics; and *inclusiveness* pertains to combating rising inequalities and social exclusion. All three are seen as cross-cutting and parallel dimensions of development to be addressed in the Bank's operations [12]. In the IMF context, we approach macroeconomic and structural policy as areas where the organization has both a mandate and extensive expertise, which allows for a natural comparative advantage in foregrounding GRID issues in the policy planning of its member-states, including borrowing countries. For instance, the IMF can play a central role in supporting the development of the macroeconomic frameworks to underpin GRID policies.

Harnessing the Bank's definition, we thus adapt the GRID typology to examine issues covered specifically by the IMF's mandate and pertinent to its operations, including lending, as follows:

- *Green issues* focus on the likely impact of IMF programs on the environment and meeting climate change adaptation and mitigation targets (for example, as mentioned in Nationally Determined Contributions).
- *Resilience* examines how IMF programs affect preparedness vis-à-vis different types of risk (including due to climate change or economic shocks), as well as the availability of sustainable financing of basic services for the population.
- *Inclusiveness* captures the interplay between the various IMF-mandated reforms and poverty and inequality.

This report tackles its broad questions by adopting a multi-pronged analytical strategy, including conceptual development, quantitative data collection, qualitative analysis of policies and reports, in-depth country case studies and 44 interviews with key 52 key individuals within and around the IMF. As interviews were granted under the condition of anonymity, we only allude to the affiliations of interviewees here using the following conventions: IMF= IMF staff; TT= think-tank staff; CS= civil society; AC= academics.

**PART I.**  
**TAKING STOCK OF**  
**DEVELOPMENTS**  
**AT THE IMF, BEFORE**  
**AND DURING COVID-19**

## 2. CONDITIONALITY IN LENDING PROGRAMS

The conditions attached to IMF loans are among the most controversial outputs of the organization, often prompting backlash among domestic political actors and social movements, as well as international civil society. The IMF's usual narrative on conditionality—summarized by former Managing Director Dominique Strauss-Kahn—is that 'countries only need IMF resources when they are "sick"—when they face serious balance of payments problems requiring policy adjustment. If you go to the doctor with a liver problem, [...] the doctor will treat you, yes, but will also insist that you stop drinking; so policy conditions are necessary' [13]. This simplified, oft-repeated medical analogy captures the underlying reality of inevitably difficult economic choices, but glosses over the fact that the quality of diagnoses and prescriptions may vary. It is possible that the right course of 'medicine' can help a country return to economic health, but it is also plausible that a treatment may be excessively harsh thereby creating new problems, or that it is inappropriately designed thereby preventing a speedy return to full health.

Importantly, unlike common doctor-patient exchanges, *negotiations* between IMF staff and authorities of sovereign countries are instrumental in the development of the reform packages—and associated conditionality—that countries must implement in exchange for financial assistance. Indeed, the IMF's own Operational Guidance Note on Conditionality clarifies that its staff "should seek the views of country authorities early and make every effort to accommodate their preferences and policy choices—including on growth, labour market and distributional targets—where possible, subject to consistency with resolving balance-of-payments problems, macroeconomic stability, and all other program goals" [14]. In short, IMF conditionality is formally negotiated—and often co-designed—by country officials, and not simply imposed by the Fund on unwilling partners.

Although formal negotiations take place between the IMF and potential borrowers, there are multiple power asymmetries at play. On the one hand, there are power imbalances in negotiations between countries in acute crises and the IMF, as the former often urgently need the Fund's financial support and stamp of approval to catalyse additional official, multilateral and private funding. On the other hand, there are diverse political pressures and economic considerations that inform the IMF's own positioning vis-à-vis negotiations of individual programs. For example, powerful member-states can pressure the IMF to approve financial assistance without necessarily performing due diligence, such as considering the long-term sustainability

of interventions [15], [16]. In turn, this can contribute to overoptimistic assumptions on the capacity to repay and an underestimation of adjustment needs. Besides political pressures, the magnitude of the IMF's outstanding exposure to some countries can also lead to worries over repayment capacity, which in turn can drive the IMF to increase leniency or even funding. For example, after approving an exceptionally large loan to Argentina in 2018 that then rapidly went off-track, the IMF responded by both increasing the loan size and accelerating disbursements [17].

Debates around the merits and pitfalls of conditionality have lingered for decades, commonly centered on four important controversies. First, the impact of IMF programs on economic performance has been a topic of persistent attention. While high-profile critics have drawn attention to the adverse economic effects of IMF programs [18]–[21], academic scholarship in economics is inconclusive on their impact on growth rates [22]–[25]. This is partly due to the sensitivity of these findings to the methodological approach employed by each study. The IMF itself has examined this set of issues in a recent study by the Independent Evaluation Office [26]. This report examined the short-term growth impact of IMF programs 'relative to a notional counterfactual of no Fund engagement,' and found an overall positive impact—on average raising growth by 0.7 percentage points. This positive effect was especially pronounced for countries that fully implemented the programs rather than allowing them to go off-track. These results are encouraging, even though they are still subject to the same econometric limitations as other studies on these issues and do not unpack the precise conditionality included in programs, which might differentially impact borrowing countries. Notwithstanding these findings, at a conceptual level it is worth considering whether the appropriate counterfactual for evaluating the economic impact of IMF programs is the absence of such a program, rather than a differently designed program that might generate greater economic benefits.

Second, the relationship between IMF conditionality and social and institutional indicators has been heavily scrutinized in academic work. Findings of the majority of this research are negative. Even after taking into account adverse selection issues (i.e., that countries with IMF programs are different from countries that do not borrow from the IMF) and controlling for a host of variables, studies have shown that IMF lending causes increased inequalities [27]–[29] and reductions in institutional resilience—for example, through destabilized governments [30], weakened public administrations [31] or growing shadow economies and corruption [32], [33]. In response to such criticisms, the IMF often points to revamped practices [34]–[36]. Most notably, this includes an ever-greater appreciation of the importance of social spending, and the promotion of 'social spending floors' in its lending activities [3]. We return to these issues in Section 7.

Third, an altogether different type of concern is related to the scope of conditionality—that is, the number of policy areas being targeted and the precise nature of proposed reforms. This has changed substantially over the years, from the advocacy of a narrow set of reforms—mostly on fiscal and monetary policy—until the 1980s, to a much wider remit. Taxation, trade policy, privatization and labour issues became targets of loan conditions by the early 1990s. This list subsequently expanded further to include rule of law and governance issues as well as a range of social considerations [37]. After the Asian Financial crisis of the late 1990s, a growing chorus of academics and policymakers criticized the organization for advocating too many reforms in disparate policy areas, which—aside from heightening the difficulties faced by domestic officials in implementing the wide-spanning reforms—was viewed as challenging national sovereignty and domestic autonomy to design policy [38], [39]. To be sure, the IMF recognized the limits of such an expansion of conditionality in the 2000s, embarking on a process of ‘streamlining and focusing conditionality and enhancing ownership’ [40]. The G-24 welcomed these efforts as a move away from profligate conditionality which they described as ‘micro-management’ [41]. We return to this issue below, in light of the empirical data we collected.

Fourth, there is a long-standing policy debate surrounding country ownership in designing and implementing IMF programs. The IMF understands ownership as ‘a willing assumption of responsibility for an agreed program of policies, by officials in a borrowing country who have the responsibility to formulate and carry out those policies, based on an understanding that the program is achievable and is in the country’s own interest’ [42]. As the IMF embarked on its streamlining process described above, it also began to emphasize the importance of local ownership of conditionality [42]. Through the 2000s, the IMF purports to have transformed its lending operations to incorporate borrowing-country ownership [43]. In substantive terms, this implies that IMF programs are the result of negotiations between staff and domestic authorities, and not unilaterally imposed by either of the two parties. Yet, the IMF’s Independent Evaluation Office raised doubts about the extent of this change, noting that a significant number of structural conditions were ‘often felt to be intrusive and to undermine domestic ownership of programs’ [44]. Recent studies also cite permanent interruptions to many IMF programs as evidence of a lack of country ownership in practice [45].

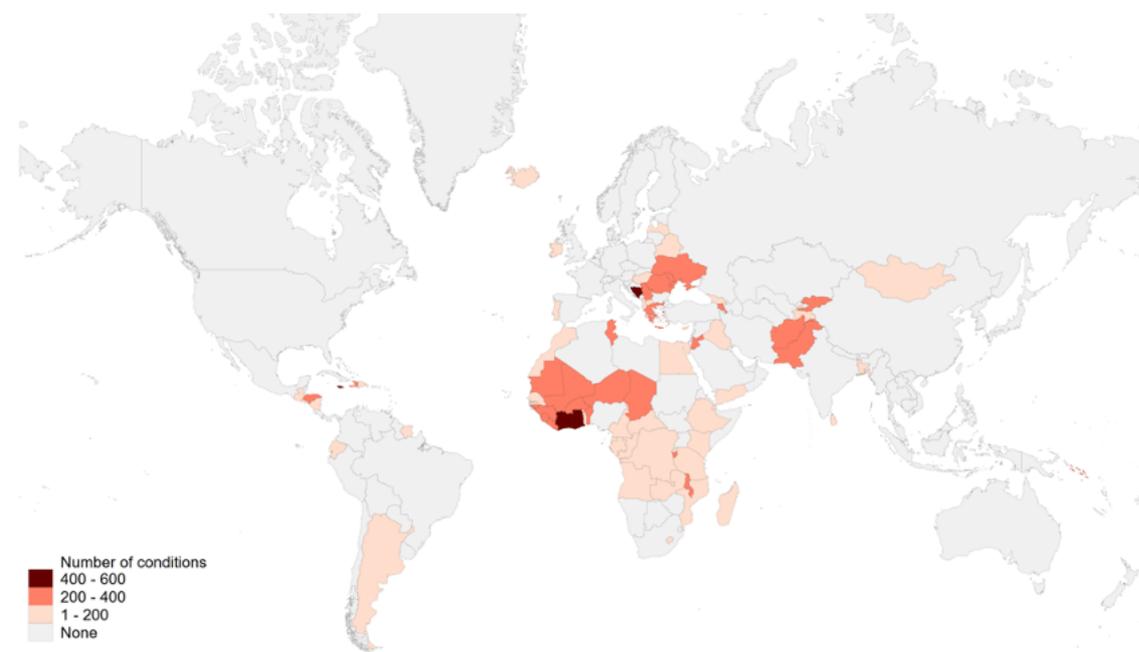
Before proceeding with the analysis, a key distinction in the financing of the IMF’s lending operations should be noted. The IMF’s main lending firepower resides in the so-called General Resources Account (GRA), which accounts for most transactions between the organization and its members (for example, through its frequently used Stand-By Arrangement facility) and is best described as ‘a pool of currencies and

reserve assets built up from members' fully paid capital subscriptions' [46]. Such financial support can be provided to all IMF members on non-concessional terms. In contrast, low-income countries can receive support through the IMF's concessional facilities—that is, instruments carrying very low interest rates and long maturities—that draw on the Poverty Reduction and Growth Trust that was initially financed by sales of part of the IMF's own gold and subsequently bolstered through bilateral contributions by many high-income countries [46]. While GRA loans tend to have more conditions attached to them compared to PRGT ones [44], for the purposes of the present chapter we do not dwell on these distinctions and examine the aggregate trends. We return to the role of GRA and trust funds in Section 7.

## **2.1. THE EVOLUTION OF CONDITIONALITY OVER THE 2010S**

The nature of IMF lending programs has undoubtedly changed since the peak of the era of 'structural adjustment' in the 1990s, and the organization has publicly distanced itself from the legacy of those programs—as former Managing Director Christine Lagarde noted in a press conference in 2014: 'Structural adjustments? That was before my time. I have no idea what it is. We do not do that anymore' [47]. But what do recent programs look like? To answer this question, we collected data on conditionality for the decade before the emergence of the Covid-19 crisis, which we treat separately in Section 2.2.

In Figure 2.1, we present countries' total number of conditions applicable in all IMF loans between 2010 and 2019. A notable finding is the amount of grey space—i.e., countries without IMF programs. This is a marked change from previous decades, where a much greater number of countries received IMF financial support, including many middle-income countries. Instead, we find that IMF programs are concentrated in West and Central Africa and Eastern Europe. Lending to Latin America and East Asia—common in the past—has declined considerably, as they have preferred self-insurance mechanisms via foreign reserve buffers, bilateral currency swap lines and regional financial arrangements (such as the Latin American Reserve Fund and Chiang Mai Initiative Multilateralization) to avoid IMF interference and stigma [48]. Of course, this map only presents evidence on the cumulative number of conditions, so it should come as no surprise that many countries appear in lighter shading, as this often reflects only brief encounters with IMF lending. Furthermore, while fewer countries have been requesting IMF support in the past decade, a rapid increase in conditionality programs is expected over the next few years as low- and middle-income countries struggle to repay debts linked to their Covid-19 responses [49].

**Figure 2.1. Total conditions, 2010-2019**

Delving deeper into these stylized findings, Table 2.1 offers a closer look at how conditionality evolved over the 2010s and compares this to previous decades. Over the 2010s, the median IMF loan carries 35 conditions (annual range: 31.5-44); this is higher compared to the 1990s but significantly lower to that of the 2000s. Despite this decline, we note the existence of many high-conditionality programs, most notably in Bosnia-Herzegovina, Cote d'Ivoire and Jamaica.

**Table 2.1. Descriptive statistics on conditionality**

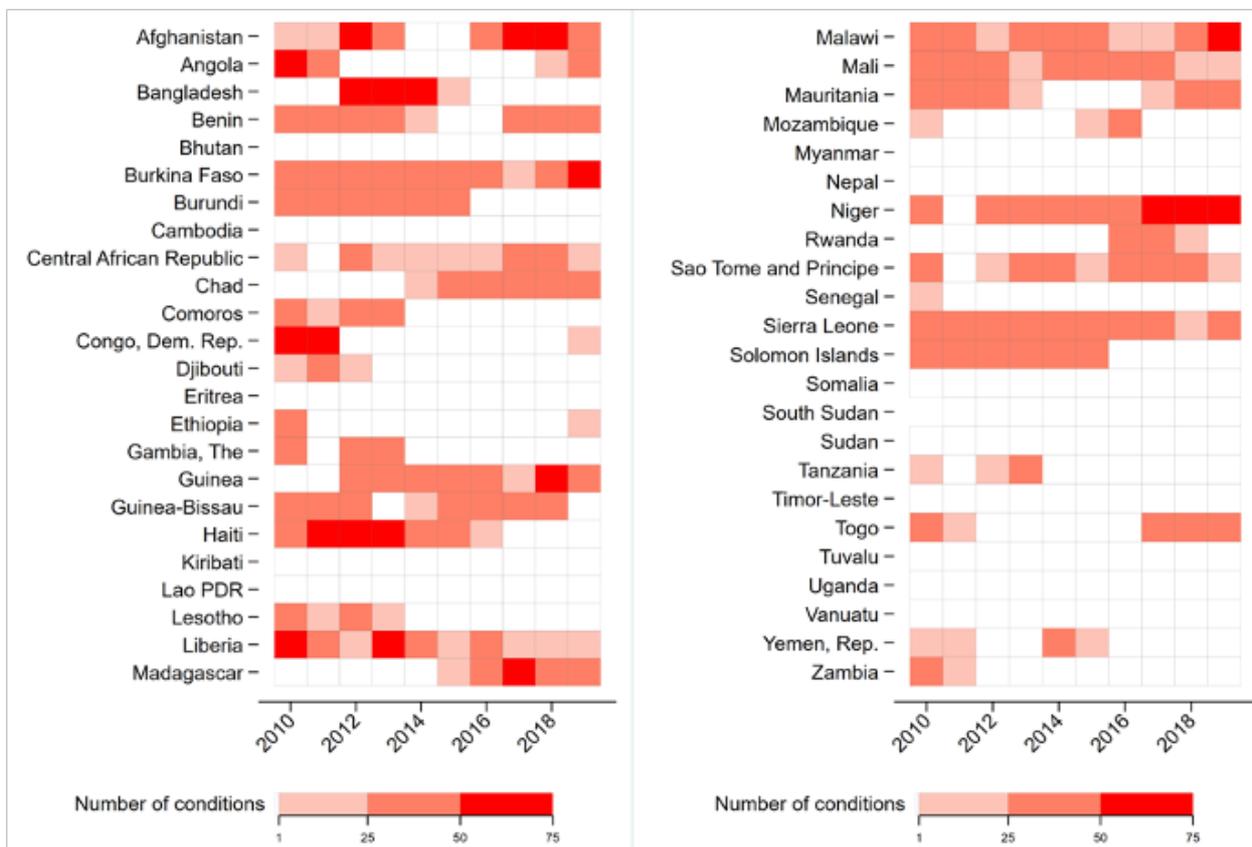
Year	Mean	Median	Country-years with a program	Highest conditionality in...
<b>1990s</b>	<b>36.5</b>	<b>33</b>	<b>582</b>	
<b>2000s</b>	<b>40.3</b>	<b>40</b>	<b>528</b>	
2010	32.3	34	61	Cote d'Ivoire & Ghana (60), Tajikistan (58)
2011	32.2	32	51	Haiti (60), Tajikistan (58), Ghana (54)
2012	32.4	35	45	Greece (62), Afghanistan (60), Cote d'Ivoire (59)
2013	34.4	34.5	40	Bosnia-Herzegovina (85), Bangladesh (69), Cote d'Ivoire (68)
2014	36.1	43	37	Bosnia-Herzegovina (92), Jamaica (63), Ukraine & Greece (61)
2015	30.8	31.5	40	Serbia (65), Jamaica (62), Pakistan (60)
2016	33.7	32.5	40	Ghana (67), Serbia (61), Bosnia-Herzegovina (60)
2017	35.3	37.5	44	Bosnia-Herzegovina (92), Ghana (75), Jamaica (65)
2018	38.6	44	38	Bosnia-Herzegovina (97), Cameroon (68), Ghana (64)
2019	34.7	37	41	Burkina Faso (67), Cameroon (56), Malawi (54)
<b>2010s</b>	<b>33.9</b>	<b>35</b>	<b>437</b>	

Note: The table excludes all IMF programs that did not carry conditions (e.g., precautionary arrangements).

Source: [37]

Figure 2.2 homes in on the experience of Least Developed Countries (LDCs), per the United Nations definition as ‘low-income countries confronting severe structural impediments to sustainable development.’ Among the 47 LDCs, 18 countries—nearly 40 percent—were implementing IMF conditions for at least five years throughout the decade. Burkina Faso, Liberia Malawi, Mali and Sierra Leone stand out for their consecutive IMF loans that span the entire decade, with the Central African Republic, Niger and Rwanda clocking nine years under IMF programs in that decade. In contrast, 14 countries had not received a single conditionality-carrying IMF loan over the 2010s. The remaining LDCs exhibited more conventional experiences with the IMF—that is, receiving loans and being subject to conditionality in periodic 2-3 year intervals.

**Figure 2.2. Conditionality in Least Developed Countries over the 2010s**



**Note:** Empty cells denote no active conditionality in that year, although countries may still be under a program with no conditionality (e.g., a precautionary arrangement).

While trends in the total number or type of conditions are suggestive, adequately assessing policy conditions negotiated between the IMF and domestic officials requires exploring in greater detail their distribution in different policy areas. To do this, we examine the ‘scope’ of conditionality: how many program conditions are

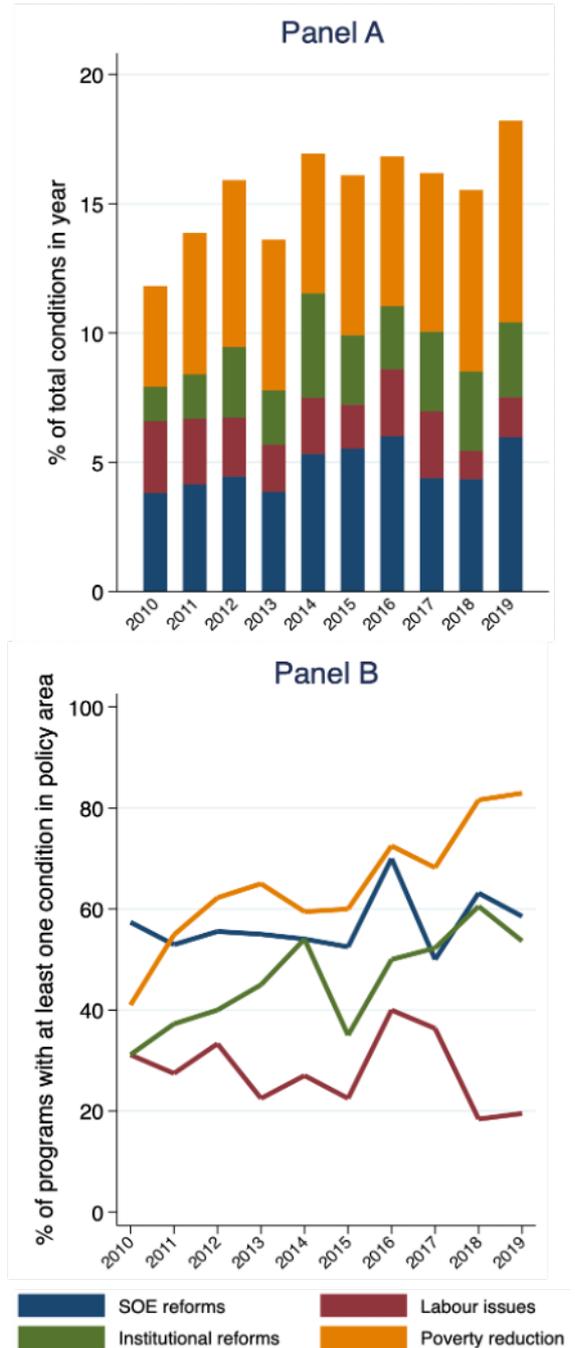
referring to non-core policy areas? Our core versus non-core distinction is based on the IMF’s mandate, and follows the classification system developed by the IMF Independent Evaluation Office [50]. Core policy areas encompass issues relating to (a) external debt, (b) monetary policy and the financial sector, (c) fiscal policy and taxation, and (d) the trade and exchange system.

Most IMF program conditions pertain to these topics: they amount to 85% of the 14,801 conditions that were attached to all 2010s loans. In contrast, non-core conditions refer to four policy areas: (a) state-owned enterprises, (b) labour issues, (c) broad institutional reforms, and (d) poverty reduction policies.

These types of conditions encompass some of the most controversial ‘structural reforms,’ like privatizations, public sector wage reductions, or layoffs. The types of reforms covered under each policy area and the count of associated conditions are summarized in Appendix I.

As shown in Figure 2.3, IMF conditionality in non-core policy areas is growing over the 2010s. At the beginning of the decade, it accounted for only about 12% of conditions assigned on each year, while by 2019 this reached almost 18% (Panel A). Among the four policy areas covered here, only conditions on labour issues are decreasing. This could be explained by their adverse political-economic implications for borrowing countries, and reflects a longer-standing shift away from directly targeting sensitive labour issues by the IMF [51]. Both institutional reforms and state-owned enterprise issues have received greater coverage in IMF programs, but the greatest shift is observable in the inclusion of poverty reduction policies, which—as of 2019—are incorporated in over 80% of IMF loans (Panel B). Such conditions mostly take the form of ‘social spending floors’ that were initially

Figure 2.3. Conditionality in non-core policy areas



**Note:** Empty cells denote no active conditionality in that year, although countries may still be under a program with no conditionality (e.g., a precautionary arrangement).

introduced in IMF programs for low-income countries, but have since been expanded to middle-income borrowers as well. These floors refer to aggregate spending on health and education policies, as well as for social protection, which is commonly operationalized as targeted social assistance policies to support vulnerable groups. Notwithstanding civil society concerns over the efficacy of these policies (see Madagascar case study in Appendix IV), these instruments provide a key opening for embedding GRID considerations into reformed IMF practices, as further discussed in Section 7.

In terms of compliance with conditionality, Table 2.2 shows the extent to which structural conditionality has been implemented over the 2010s. Of the 4,174 structural conditions, at least 2,946 (about 71% of the total number of structural conditions) were met, while 417 (10%) were not met. We could not trace information on the remaining conditions, as they typically pertain to programs that went off-track, and on which conditionality implementation is no longer reported. (For 2010, 2011 and 2019, the higher proportion of conditions with no information on implementation are an artifact of our data collection strategy, and therefore not wholly reliable. In contrast, we had complete data for all remaining years.)

**Table 2.2 Compliance with structural conditionality**

Year	Total structural conditions	...of which:					
		Met		Not met		No info	
		Number	Share of total	Number	Share of total	Number	Share of total
2010	512	307	60%	33	6%	172	34%
2011	427	254	59%	21	5%	152	36%
2012	373	263	71%	31	8%	79	21%
2013	398	298	75%	59	15%	41	10%
2014	399	296	74%	42	11%	61	15%
2015	362	257	71%	60	17%	45	12%
2016	420	336	80%	50	12%	34	8%
2017	450	346	77%	45	10%	59	13%
2018	426	326	77%	49	12%	51	12%
2019	407	263	65%	27	7%	117	29%
Total	4,174	2,946	71%	417	10%	811	19%

Notes: Structural conditions include both prior actions and structural benchmarks. Structural performance criteria were discontinued in 2009 so are not included.

Another way to measure implementation failure is through program interruptions, which occur if a borrower fails to implement critical quantitative or structural conditions. A program is considered temporarily interrupted if there is a time lag between the initially agreed-upon review date and the actual review date, which vary by funding facility: for a Stand-By Agreement, a program review is delayed if it is not concluded within 90 days, while for an Extended Credit Facility or Extended Fund Facility, it is delayed if not concluded within 180 days [39], [52]. If a program review is never completed, the program is deemed to be permanently interrupted. We find that IMF program interruptions are common. Of the 76 programs during 2010 and mid-2015, 44 were interrupted, and 30 never resumed. In other words, 58% of all programs became interrupted over their lifetime, of which 22% had at least one temporary interruption and 39% were permanently interrupted, as shown in Table 2.3. While elaborating on the reasons behind interruptions is beyond the scope of the present report, a recurring concern relates to the importance of governance issues—for example, the potential for misuse of the IMF’s funding. Even so, the IMF has at its disposal ex-ante measures (such as prior actions) to help ‘screen’ borrowers that are able and willing to follow through with reforms and ex-post measures (such as periodic reviews and—if necessary—the suspension of tranche disbursements) to ensure that the use of funds is monitored and safeguarded [41].

**Table 2.3. Program interruptions (1 January 2010 to 31 July 2015)**

	Total number	Percentage of all programs
All programs	76	100%
Interrupted programs	44	58%
... Permanently interrupted	30	39%
... Temporarily interrupted	17	22%

Notes: Excludes programs that cannot be interrupted, for example because they do not include conditionality. A program can have both types of interruptions.

In sum, IMF conditionality has been a common fixture of the policy environments of low- and middle-income countries over the past decades. The average IMF borrower had to implement 35 conditions over the 2010s, even though many programs become interrupted. The prevalence of interruptions is indicative of countries often approaching the IMF as a last resort (that is, after substantial financing gaps already exist), and therefore having few palatable choices: policy reforms that carry substantial political costs have to be implemented to stave off painful defaults

and enable a return to macroeconomic stability. In this context, IMF financing and conditionality have a role to play, and well-designed and targeted programs can help with this process. However, IMF programs are not ultimately binding for countries: they can simply choose to walk away, frequently due to domestic unrest associated with the implementation of conditions. This can be a costly move, and many countries return to the doors of the IMF a few months later—often after economic circumstances have further deteriorated—in order to negotiate a fresh loan [45]. In order to avoid being subjected to painful IMF conditions, many middle-income countries have accumulated sizable international reserves, both as individual governments and as part of regional financial agreements. In this way, they can manage balance of payments crises without risking potentially painful conditionality [53].

## **2.2. IMF LENDING AND CONDITIONALITY DURING COVID AND THE ROAD AHEAD**

Having set out the broader context of conditionality until 2019, we turn to the situation since the pandemic's onset. As shown in Table 2.4, between 2 March 2020 (the date IMF leadership committed to use 'available instruments to the fullest extent possible' to help countries address challenges posed by Covid-19) and 31 August 2021, the IMF has approved 221 loans and grants to 88 countries for \$117.32bn in total, marking the largest-ever increase in demand for its services. There has been high demand for low- or no-conditionality facilities, with rapid concessional loans the most frequently used (48 countries for \$8.17bn), followed by rapid non-concessional loans (37 countries for \$21.63bn). Countries are coming up against access limits for these facilities [54], so further approvals are likely to be few and sluggish. Grants have also been provided to 29 low-income countries, totaling \$0.73bn, although this can only be used for debt relief owed to the IMF. In terms of resources approved, almost half (\$54.58bn) is accounted for by the Flexible Credit Line and the Precautionary and Liquidity Line, both of which are facilities with stringent qualification criteria that render most countries ineligible. These have only been approved for Chile, Colombia, Panama, and Peru, and only Colombia has thus far made a drawing from these facilities: out of an approved amount of \$17.6bn, the country made a drawing of \$5.4bn and the remainder is in principle still available to the country, thereby having an insurance character.

**Table 2.4. IMF approved funding by facility (2 March 2020 to 31 August 2021)**

Facility	Delivery	Conditionality?	Number approved	Number of countries	Total approved (\$ billion)
<b>NON-CONCESSIONAL LOANS</b>					
Rapid Financing Instrument	Rapid	Prior actions only	40	37	21.63
Flexible Credit Line	Mixed	No	4	3	51.88
Extended Fund Facility	Tranched	Yes	12	11	13.82
Stand-By Arrangement	Tranched	Yes	5	5	10.94
Precautionary and Liquidity Line	Tranched	Non-binding only	1	1	2.70
<b>CONCESSIONAL LOANS</b>					
Rapid Credit Facility	Rapid	Prior actions only	58	48	8.18
Extended Credit Facility	Tranched	Yes	14	13	7.13
Standby Credit Facility	Tranched	Yes	2	2	0.31
<b>GRANT</b>					
Catastrophe Containment and Relief Trust	Rapid	No	85	29	0.73
<b>Total</b>			<b>221</b>	<b>88</b>	<b>117.32</b>

Notes: Number approved includes new facilities and augmentations to pre-existing programs. Countries received funds from more than one facility. Some programs draw from multiple facilities. Prior actions are ex-ante binding conditions that must be implemented before the loan is approved. Rapid facilities are not attached to IMF programs per se. The Flexible Credit Line provides up-front access to funding in the context of either a one- or two-year program, but under a two-year program is subject to a mid-term review to maintain access to undrawn funds in the second year.

While low- or no-conditionality facilities were the prevalent lending instrument for the initial phase of the pandemic, these are gradually being replaced by ‘traditional’ lending arrangements—like the Stand-By Arrangement or the Extended Credit Facility—that mandate the introduction of policy reforms as a condition for access to funds. To better understand the requirements of the most recent IMF programs, we briefly examine the experience of countries that requested and received new such agreements since March 2020 (excluding countries with ongoing IMF programs at the time that the pandemic emerged, as policy conditionality reflected prior negotiations). As of end-August 2021, 17 countries had received newly approved support under such agreements: Afghanistan, Cameroon, Congo (DR), Costa Rica, Ecuador, Egypt, Gabon, Gambia, Jordan, Kenya, Madagascar, Senegal, Seychelles, Somalia, Sudan, Uganda and Ukraine. While IMF programs often entail ambitious fiscal consolidation targets, the situation in these countries is more mixed: seven are projected by the IMF to continue fiscal expansion up to 2023, eight will pursue budget cuts and two countries (Afghanistan and Somalia) have no data available.

In the subsequent paragraphs we take a closer look at the nature of these reform programs by examining two countries with expected fiscal consolidation and one with expected fiscal expansion: two of these countries are further discussed in Appendices III and IV (Kenya and Madagascar), and Ecuador was added given the controversies surrounding IMF engagement in the country in 2019 [55]. This analysis is not intended as a comprehensive evaluation of the negotiation between domestic authorities and IMF staff or of political economy considerations underlying program design. Instead, we seek to provide a snapshot of recent country experience with conditionality.

Initially, we focus on the two countries with projected fiscal contraction. Kenya—a middle-income country—entered the Covid-19 crisis with public external debt at 31.5% of GDP, but this rose to 35.6% in 2020 following the outbreak and concomitant reductions in economic activity [56]. With external debt service predicted to rise to 21.0% of revenues by 2024, the IMF assessed the country as being at high risk of external debt distress. In April 2021, the IMF approved a 38-month program for \$2.34bn that calls for a decline in the primary balance from a deficit of 4.6% of GDP to a 0.2% surplus by mid-2024. This objective is underpinned by a series of conditions, including passing a supplementary budget and adhering to quarterly performance criteria on the primary budget balance. On the expenditure side, deficit reduction will be achieved ‘particularly through reduction in the wage bill and transfers to public sector entities’ [56, p. 13]. In addition, to safeguard public finances, the country was mandated to ‘rationalize’ the state-owned enterprise sector, intimating the onset of layoffs. Taken together, these measures are concerning given World Bank estimations that the pandemic raised the number of poor in Kenya by 2 million. The program does note that health and social expenditures will be protected, supported by non-binding targets for priority social spending for transfers to vulnerable groups, free primary and secondary education, food programs, health coverage and insurance and vaccination and immunization programs. But these floors, if met, would only preserve current spending levels rather than increasing it in a time of heightened need.

Similarly, Ecuador—another middle-income country—entered a 27-month IMF program for \$6.5bn in end-September 2020, requiring extensive fiscal adjustment from a primary deficit (excluding oil balance) of nearly 7% in 2020 to a surplus of 1% by 2023. This is against a backdrop of external indebtedness that more than doubled between 2012 and 2019, and further accelerated in 2020 to 59.4% of GDP [57]. To achieve this fiscal adjustment, a range of cuts are envisaged, including on the public sector wage bill, fuel subsidies and pensions. These cuts are complemented by tax increases, notably through value-added and personal income taxes—although these increases purportedly target middle- and high-income individuals. Social spending is projected to increase to around 1.8% of GDP for the 2021-24 period, which is double

what the country was spending in 2019. However, it was unclear how much of this additional spending would be channelled into new social policies versus paying off past financial obligations. As IMF staff reported, parts of the additional social spending would be used ‘to clear past due wage payments in the public sector, especially in the health and education sectors; [...] and to clear outstanding payments to more than 20,000 service providers’ [57, p. 101]. Of course, settling outstanding payments to healthcare workers and service providers is a worthwhile endeavor, but by itself does not amount to a broader contribution to sustainable social protection structures, which is the intended outcome of the IMF’s social sector engagement.

Turning to a low-income country projected to fiscally expand, Madagascar agreed on a 40-month \$312.4mil program in end-March 2021 to address protracted balance of payments needs arising from the impact of the pandemic on tourism and mining and textile exports. With public external debt at 32.0% of GDP in 2020 and debt service estimated to peak at 11.0% of revenues in 2023, the country is considered to be at only moderate risk of external debt distress [58]. Given these lower debt risks, a key program priority is ‘strengthening fiscal space to allow for much-needed capital investment and social spending, by mobilizing domestic revenue and improving quality of spending’ [58, p. 8]. While the program does entail fiscal tightening measures relative to the 2020 primary deficit of -2.6%, this occurs from 2022, offering leeway in 2021 for a more gradual unwinding of Covid-19 mitigation efforts. Projections for social spending beyond 2021 are omitted, but a 10% spending increase is budgeted for four social ministries—health, education, population, and water—in 2021, supported by quarterly priority social spending floors and a condition to extend the number of households benefitting from a cash transfer program from 483,000 beneficiaries to 540,000 by September 2021. Fiscal space for this expansion is to be accomplished by limiting so-called ‘non-priority spending,’ envisaged through—inter alia—removal of value-added tax exemptions for the import and local sale of rice, reform of the civil servant pension system and raising electricity and water tariffs to increase revenue of the public utility company.

Overall, our review suggests that the IMF’s practices on conditionality are showing some change, especially on social spending issues which are now considered in most programs. But this engagement is still a far cry from the more ambitious agenda on GRID issues in surveillance and capacity development, described below. The 2019 conditionality review and a recent staff research paper have alluded to discussions on how to make conditionality compatible with inclusive development and—to a lesser degree—climate change adaptation and mitigation [59], [60]. We return to these issues in Part II of the report.

### 3. ECONOMIC SURVEILLANCE (ARTICLE IV CONSULTATIONS AND FSAPS)

The second core area of IMF operations is economic surveillance of its members' economic and financial policies. This is mandated by its Articles of Agreement and performed annually or biennially for most countries. Following data analyses and consultations with domestic policymakers—primarily from ministries of finance and central banks—IMF staff publish their candid assessments of countries' policy environments and challenges, as well as recommendations on the types of reforms to pursue. This advice—published in the form of 'Article IV reports'—is highly influential, as it shapes policy debates in evaluated countries and informs the decisions of international investors. This is especially the case for low- and middle-income countries, which—unlike high-income countries—often lack extensive economic policy research capacity and therefore rely more on external advice and opinion. In this context, private investors are also likely to be less informed about economic developments, and rely on the IMF's economic evaluations to inform their decision-making [61]. Consequently, Article IV reports have an important role in shaping the parameters of many economic policy discussions in low- and middle-income countries.

A supplementary country surveillance tool—jointly organized with the World Bank—is the Financial Sector Assessment Program (FSAP), which aims to identify financial sector vulnerabilities as well as opportunities for the sector to contribute to broader development objectives. For 47 IMF members with systemically important financial sectors—a quarter of the organization's membership—it is mandatory to participate in a regular FSAP: 32 of the (primarily advanced) countries once every five years, and the remaining 15 (emerging market) countries once per decade [62]. These reports are based on consultations with domestic stakeholders in countries under evaluation and rely on extensive data sharing (e.g., bank data to be used in stress tests). Their findings commonly inform the more frequent Article IV consultations, and provide analytical tools to be employed there.

The way these two surveillance instruments function has been mostly stable over the years. But they are now slated for a revamp vis-à-vis climate issues, where the IMF's engagement is expected to be centrally integrated into its surveillance activities. According to Managing Director Georgieva, the IMF 'will now cover mitigation policies in the 20 largest emitters and other cases, adaptation in countries that are especially vulnerable to climate shocks, and transition in economies heavily dependent on fossil fuel production, [and] FSAPs will examine physical risks due to climate change, and

transition risks as we move to a low-carbon economy’ [63]. These commitments have already received Board approval, and ongoing discussions may lead to a further expansion of ambitions.

Beyond the current modus operandi, recent IMF staff proposals—summarized in Table 3.1—seek to substantially expand operations both in Article IV reports and in FSAPs [64]. First, coverage of climate change adaptation and resilience would be undertaken for climate-vulnerable countries every three years. These issues are not entirely new. Under Christine Lagarde’s leadership, much progress was made on considering adaptation issues—especially for small island economies and natural disaster-prone areas—and linking these to debt sustainability. The current proposals are building on such earlier engagement, and link many such analyses to Climate Macroeconomic Assessment Programs—an analytical instrument that is currently under development to ‘analyse climate change policies and preparedness for climate-vulnerable countries’ [64], as discussed in greater detail in the subsequent section.

Second, the IMF hopes to assess how countries can manage the transition to a low carbon economy. This would entail specifying which revenue and expenditure policies are required, as well as the broader set of regulatory or institutional reforms that can aid this objective. Implementing this proposal will depend on the introduction of a standardized assessment toolkit which can be rolled out and complemented with more tailored analyses to country specifics for selected countries, thereby covering the green transition in almost all IMF member-states within six years. Finally, in line with the high-level commitments by the Managing Director, climate change mitigation measures will be covered regularly for the 20 largest greenhouse gas emitters.

**Table 3.1. Targets for climate-sensitive economic surveillance**

<i>Type of Climate-Related Policy Challenge and Objectives</i>	<i>Coverage</i>
<b>(A) Article IV reports</b>	
Adaptation and Resilience Building	
<i>Objective:</i> cover 60 climate vulnerable countries every 3 years	
Based on a Climate Macroeconomic Assessment Program	10 per year
Without a Climate Macroeconomic Assessment Program	10 per year
Transition Management to a Low-Carbon Economy	
<i>Objective:</i> cover all countries every 5–6 years	
In-depth coverage	8–9 per year
More standardized coverage	25 per year
Climate Change Mitigation	
<i>Objective:</i> cover the 20 largest emitters of GHGs every 3 years	
In-depth coverage	6–7 per year
<b>(B) Financial Sector Assessment Programs (FSAPs)</b>	
Exposure to climate risk and policy options to manage such risk	All FSAPs, based on
<i>Objective:</i> assess climate issues as part of FSAP risk analysis and assessment of financial oversight frameworks	assessment of the materiality of climate risk

Source: [64]

Turning to the case of FSAPs, the intention is to embed within them climate risk analyses, as well as the policy options available to domestic policymakers. To implement this, IMF staff have proposed the development of a diagnostic toolkit to decide on which risks are more pertinent for a given country. Following from this analysis, climate scenarios will be estimated and pressing medium-term risks will be identified, thereby generating a broad set of proposals on financial stability in light of climate risks.

Implementing the entirety of these proposals—a significant scaling up compared to what senior IMF leadership was proposing even a year ago—is conditional on extensive additional resources [64]. Most notably, this includes the hiring of 95 staff to supplement the work of the 60 staff (full-time equivalents) on bilateral and multilateral surveillance, as well as broader research and coordination activities. Further, IMF staff have proposed the development of ‘climate hubs’ within the functional departments to develop and disseminate climate expertise across the organization. At the time of writing (November 2021), a decision on these issues had not yet been taken and the Board would consider it as part of the overall budget discussions.

### **3.1. GRID ISSUES IN RECENT BILATERAL SURVEILLANCE MISSIONS**

Given this general direction of travel, it is worth assessing progress made in recent surveillance missions. Over the past two years, a consistent stream of policy literature—following on from greater academic engagement with the financial sector implications of climate change—has sought to nudge the IMF towards greater and more systematic engagement with climate issues. Such engagement was already increasing within the Fund regardless, with the publication of analyses and policy papers on the economic dimensions of climate change adaptation and mitigation. Three types of financial risks have major macro-critical implications, and are therefore well within the remit of IMF surveillance missions [65]–[69]. First, physical risks—from natural hazards or longer-term changes to weather patterns—contribute to destruction of capital stock within countries (with follow-on macroeconomic implications), but also have cascading effects for private and public finance, ranging from firms’ credit risks and financing costs to the level of tax revenues. Second, the transition to a low-carbon economy also generates risk for the macro-economy and the financial sector through the creation of stranded assets (that is, assets like coal and oil that were once considered valuable and desirable to include in a financial actor’s balance sheet but are now expected to lose value as the world de-carbonizes). Finally, there are so-called ‘spill-over transition risks’ that stem from physical and transition risks of foreign countries that impact the domestic economy and financial sector [70]. A case in point

would be the European Union imposing carbon border taxes—that is, taxes on the imports of carbon-intensive goods—which would directly affect developing countries that export fossil fuels to Europe.

In short, these types of climate change-related risks have important macro-critical implications that are well within the remit of IMF surveillance. A recent academic analysis of the frequency of climate-related terms in Article IV reports revealed evidence of a growing engagement: while 35% of such reports did not include any reference to climate issues in 2017, by 2020 this had dropped to only 16% [71]. Even so, there was no clear relationship between climate vulnerabilities and intensity of engagement with climate issues in IMF reports. For example, Niger, Somalia, Chad, Benin, Myanmar, Liberia and Uganda rank as highly vulnerable to physical climate risks, yet these issues were not covered in their Article IV reports [71]. Recent research by civil society has also drawn attention to the ways in which non-climate related advice by the IMF may nonetheless have adverse environmental implications. For example, policy advice in Article IV reports has been found to include incentives for fossil fuel investments (including coal) [66], [67], and to recommend the privatization of energy-related state-owned enterprises, which hampers the ability of governments to coordinate the green transition [66].

Considering the reservations of this policy literature on the green turn of IMF surveillance, we take a closer look at the treatment of climate change issues in the surveillance missions to the Philippines (2021 Article IV and FSAP). This country was selected due to the availability of very recent reports, its recent addition by the IMF to the list of countries with ‘systemically important financial sectors’ (and therefore foreseeing a mandatory climate assessment in FSAPs once per decade) [62], its major climate vulnerabilities as well as its growing reliance on fossil fuels in its energy supply mix (although the country is still a small contributor to greenhouse gas emissions, accounting for 0.2% of the global total).

The 2021 Article IV report commented extensively on climate change issues and explicitly referred to the country’s Nationally Determined Contributions. IMF staff welcomed the government’s scaled-up spending on climate change adaptation and mitigation, as well as measures designed to incentivize renewable energy generation and limit single-use plastics [72]. An accompanying report outlined the likely effects of the Philippines’ climate vulnerabilities on the economy: from imperiling agriculture, to threatening fiscal stability, to risking debt sustainability [73]. IMF staff also welcomed the policies on financial resilience taken by the government and the broader incorporation of climate risks in macroeconomic planning. Moving forward, the government was urged to spend more on adaptation and mitigation, to be funded by introducing greenhouse gas emissions pricing—for instance, carbon taxes or

emissions trading systems. However, despite these analyses, policy proposals were not further specified.

The 2021 FSAP report of the Philippines contained extensive engagement with climate issues, as it was recognized that the financial system faced significant physical risks related to natural disasters and transition risks related to coal-based energy generation [74]. The IMF team conducted a ‘Climate Change Risk Analysis’ estimating the likely impact of typhoons—a common threat to the Philippines—on bank solvency, reporting moderate risks overall (but high risks in the event of rarely-occurring extreme events). The analysis noted that physical risk from natural disasters has a systemic impact on banks related to credit risk from ensuing macroeconomic shocks and operational risk, while the transition away from coal usage would affect banks with exposure to the energy sector. These findings were based on the IMF team—in collaboration with World Bank staff—considering alternative scenarios for their climate change stress tests. Further, the FSAP included a recommendation to the central bank to invest in building capacity on environmental risk management, including issuing ‘granular regulations and guidance on risk management, stress testing, and reporting and disclosure,’ as well as supervisory capacity [74].

Overall, it is certainly too soon to comprehensively assess the climate pivot in IMF surveillance, which itself is conditional on additional resources to build up capacity and expertise. However, the policy work undertaken within the IMF and the evidence from very recent surveillance reports is encouraging. In contrast to past neglect of climate change issues (especially vis-à-vis mitigation), IMF staff are now—to some extent—bringing the macro-critical implications of climate change to the spotlight. Nonetheless, challenges remain in having an appropriate mix of staff to perform this work, as well as better data to underpin it—both issues that emerged in the IMF’s recent review of surveillance activities [75]. Further, lacking clear operational guidance on how to embed such analysis into economic surveillance, engagement with climate issues still appears somewhat ad hoc, rather than smoothly integrated into a broader analytical framework that systematically covers the macroeconomic effects of physical risks, transition risks and spill-over transition risks [65].

While the climate pivot of the IMF is a welcome development in contributing to a shift towards GRID prioritization, this zeal has not been matched by parallel analyses on inequality reduction issues. To be sure, inequality is often mentioned in surveillance reports. We collected all Article IV reports published between January 2020 and July 2021; of these 66 documents, 47 mentioned the term ‘inequality’ at least once. But a closer inspection of 10 randomly selected reports revealed that analytical engagement with this topic was minimal (in most cases, inequality trends were merely noted in passing). We return to these issues in Section 7.

## 4. CAPACITY DEVELOPMENT (TECHNICAL ASSISTANCE AND TRAINING)

The IMF exerts soft-and-subtle forms of influence via capacity development activities, initiated upon the request of member countries and delivered largely free-of-charge to central banks, finance ministries and statistical agencies. Capacity development represents one-third (about \$400 million) of the IMF's operating budget, and includes both technical assistance and training [76]. Increased donor support, which now constitutes 55% of direct spending in capacity development, up from 15% in 2008 [77], has enabled significant growth in such activities over the past decade. While all 190 member countries are eligible for capacity development, in 2020, 52% of the capacity development budget was directed to low-income countries, 44% to middle-income countries and the remaining 4% to high-income countries [77].

Technical assistance provision represents the bulk of capacity development, accounting for five-sixths of the budget [77]. IMF staff regard such assistance not as policy advice *per se*, but as strengthening the economic institutions to improve the ability of countries to formulate and implement policy advice. This non-binding advice is delivered through a combination of short-term staff missions from IMF headquarters, long-term in-country placements of resident advisors and via a network of regional capacity development centers. The volume of technical assistance provided has undergone significant growth over the past decade, with staff hours in field delivery doubling between 2008 and 2018 [77].

While technical assistance focuses on strengthening the structures and processes of economic institutions, training concentrates on developing skills of domestic officials staffing these institutions. This occurs through practical policy-oriented courses, hands-on workshops and seminars administered from IMF headquarters and a network of regional training centers. Representing one-sixth of the capacity development budget, training programs have also experienced considerable growth in the last decade, with the number of participants in training programs per year tripling between 2008 and 2018 [77].

### 4.1. THE EVOLUTION OF GREEN, RESILIENT, AND INCLUSIVE CAPACITY DEVELOPMENT

The IMF's capacity development forms a key pillar where engagement with climate change and social inclusion are intended to materialize. According to the IMF, capacity

development helps countries in fulfilling their climate priorities by providing advice on environmental tax reforms, efficient carbon and energy pricing, financial public management plans for building resilience to natural disasters and systematic risk monitoring of financial stability from climate change shocks; and fosters inclusion by offering guidance on expenditure and subsidy reforms, progressive taxation and financial inclusion, as well as providing the analytical, operational and monitoring tools needed to tackle inequality [78].

Green priorities in capacity development were not explicitly considered in strategy documents until the mid-2010s. The earliest quinquennial review to refer to climate was published in 2018, where it was deemed a ‘new issue’ alongside gender, inequality and technology that ‘may gradually lead to new types of technical assistance requests from member countries’ [79]. Even so, an IMF official noted that although the shift toward climate concerns in capacity development had occurred in the last ten years, an exception to this was the longer history of engagement via the provision of advice in energy pricing dating back to the late-1980s, where IMF staff considered how energy pricing could correct for climate-related externalities (IMF11). Inclusive priorities in capacity development have a longer history and, as a result, are more entrenched. In 2001, a policy statement on technical assistance clarified one of its key roles as supporting ‘growth-oriented and *poverty-reducing* macroeconomic, financial, and structural policies’, predominantly in connection with public expenditure management and statistical assistance in the design and implementation of Poverty Reduction Strategy Papers and for helping countries under the Heavily Indebted Poor Countries Initiative to undertake debt sustainability analyses and manage debt reduction [80]. Already in 2002, technical assistance delivery assigned to the formal category of ‘poverty reduction’ totaled 69.6 person-years of field delivery out of a total of 188.6 [81].

Since the mid-2010s, several developments represent attempts to integrate climate priorities into macroeconomic diagnostic tools used in technical assistance provision, such as the addition of a resources management pillar to the IMF’s Fiscal Transparency Code [82]. A more extensive effort to incorporate climate commitments was the Climate Change Policy Assessments (CCPA), a joint IMF-World Bank initiative introduced on a pilot basis in 2017 to provide an overarching assessment of the country’s climate strategies with the stated aim to ‘help countries build coherent macro-frameworks for responding to climate change’ [83]. Assessments were conducted for six small island states (Belize, Grenada, Micronesia, Seychelles, St. Lucia and Tonga), which—according to an IMF official—is where much of the demand for climate-focused capacity development originates. This has been discontinued and—as noted above—was replaced by the Climate Macroeconomic Assessment Program:

a diagnostic toolkit that assesses ‘the macro-fiscal risks of climate shocks and stresses, the preparedness of climate vulnerable countries, and the implications of climate mitigation policies, such as carbon pricing’ [84]. Further progress in embedding climate into technical assistance was seen by IMF staff as hindered by a lack of climate expertise within the organization and budgetary constraints to hiring new staff.

With regards to training, the IMF offers several courses related to green and inclusive development at IMF headquarters, virtually and in its nine regional training centers: Energy Subsidy Reform; Financial Development and Financial Inclusion; Gender Budgeting; Reforming Fuel Subsidies; Social Insurance, and Taxation and Employment [85]. In addition, on May 2021, the IMF launched its Inclusive Growth course and a series of related modules on Climate Change, Concepts and Indicators; Fiscal Policy; Governance; and Labor Markets, Gender and Technology [85], [86]. IMF staff also provide dedicated courses, interactive microlearning videos and webinars on a small scale for the Coalition of Ministers of Finance for Climate Action [64].

Looking forward, IMF Managing Director Georgieva outlined earlier this year that capacity development would be augmented in order to help ‘small island states with fiscal strategies that build resilience’ [87], and a more recent IMF staff strategy indicated a further scaling up of climate-related capacity development [64], albeit—to our knowledge—no equivalent commitments exist in relation to combating inequalities. Of foremost relevance was a staff proposal for the establishment of four specialized climate hubs to develop and disseminate climate expertise across the organization. These would be housed in functional departments, two of which would be drawn upon in capacity development provision. The Fiscal Affairs Department (FAD) hub would provide climate-related public financial management advice via the development of a climate-related module in public investment management assessments and lead on the production of 10 Climate Macroeconomic Assessment Programs per year. The Monetary and Capital Markets Department (MCM) hub would focus climate risk stress testing of the financial sector as well as assessments of the adequacy of financial regulatory responses to such risks.

## **4.2. FINDINGS FROM AN ANALYSIS OF TECHNICAL ASSISTANCE MISSION REPORTS**

To illustrate the potential relevance of capacity development to green and inclusive objectives, we retrieved all 146 publicly available technical assistance reports published from 2019 to end-August 2021. It should be noted that document availability

to the general public is limited; our sample represents only about 5% of reports drafted during the relevant period.

Technical assistance reports are, by design, focused on a narrow set of topics, with more general macroeconomic advice reserved for Article IV consultations. That being said, it was nonetheless the case that a total of 66 reports (45%) addressed thematic areas that were plausibly relevant to green and inclusive development, even within the limited confines of the mission objectives. These primarily came from two authoring departments: FAD and MCM. First, technical assistance missions of the FAD entailed undertaking public investment management assessments, tax expenditure and reform assessments, fiscal transparency evaluations and fiscal risk assessments of state-owned enterprises; Box 4.1 describes the links between mission objectives and climate issues in relation to the Maldives' fiscal transparency evaluation.

**Box 4.1. Maldives' fiscal transparency evaluation**

The Fiscal Affairs Department carried out a fiscal transparency evaluation of the Maldives in end-2020, benchmarking practices against the IMF's own 2014 Fiscal Transparency Code. This technical assistance mission included extensive coverage of climate issues, which were discussed in eight out of 93 pages. In one of the nine key recommendations from the evaluation, the organization encouraged the government to enhance disclosure of fiscal risks in budget documents by enriching discussion of risks from natural disasters, reduced biodiversity (as a key driver of tourism) and depleting fish stocks. Nonetheless, discussion of energy resources was absent, such as spill-over transition risks related to the price of imported fossil fuels, a major omission given the country's reliance on diesel imports for over 80% of its energy needs.

More generally, the incorporation of climate issues primarily appeared as discrete bolted-on components, rather than mainstreamed throughout the Fiscal Transparency Code. Indeed, climate considerations crosscut most components of this code, such as macroeconomic forecasts, medium-term budget framework, long-term fiscal sustainability analysis, budget contingencies, public-private partnerships and financial sector exposure.

Sources: [88], [89].

Second, technical assistance missions of the MCM included bank supervision and regulation advice, as well as financial sector stability reviews. Box 4.2 examines the extent to which technical assistance to support Georgia's proposed new structure in the micro-lending sector coheres with the country's efforts to meet green and inclusive development objectives.

#### Box 4.2. Georgia's micro-lending sector

The Monetary and Capital Markets Department led a mission in end-2019 to support a new structure for the micro-lending sector, which currently serves 22% of the population (mostly those of modest means). In a previous mission the IMF identified as a challenge to the sector a lack of micro financial institutions undertaking agricultural lending. The new structure would thus allow micro financial institutions to be licensed as micro-banks, with a clear mandate to function as a lender to agri-businesses, underserved individuals and small-and-medium enterprises.

Climate-related factors were incorporated in one of the nine risk categories ('operational risk') in the risk assessment system used by the National Bank of Georgia for determining whether micro financial institutions require supervisory attention and action—for instance, if they were to pose risks to the broader financial system. In this context, the IMF called for operational risk regulation to step-up over time to cover such areas as disaster recovery planning, information technology risk and pandemic planning. But risks to the banking sector and the macroeconomy from changes in asset values stemming from a move towards decarbonisation were not considered, despite micro-lending institutions holding more than 3% of the banking sector's \$14 billion in assets, and the agricultural sector being at the forefront of plans in Georgia's National Determined Contributions under the Paris Agreement to transition to low carbon.

The IMF also recommended that as a pre-condition to granting micro-bank licenses, the National Bank of Georgia should consider measures to incentivise or require micro-banks to have a minimum portion of their loan portfolio allocated to agricultural lending, small-and-medium enterprises and underserved individuals. This could have positive effects for inclusive development, but no affordances were made to incorporate incentives for green investment (or disincentives for emission-intensive lending), such as dedicating a minimum portion of loan portfolios to low carbon approaches to agriculture. This omission is surprising given the OECD has identified Georgia's clear lack of green credit for small-and-medium enterprises as a major market gap (existing lines typically only serve larger customers) and a key challenge to greening the economy.

Sources: [90], [91].

The remaining 53 reports were for missions conducted by the Statistics Department or by regional capacity development centers. These missions provided targeted technical advice on the collection, compilation and management of data for national account statistics, external sector statistics, price indexes and so on. For example, the aim of a monetary and financial statistics mission to the Philippines was to assist authorities in expanding the compilation of data on insurance companies, financial trusts and holding companies. Given the specialized and technically complex nature of such advice, links to green and inclusive development were either trivial or only distally relevant in a highly contingent causal chain.

Based on our reading of the 66 relevant reports, there were few indications that climate objectives had been incorporated. Where such advice existed outside of the CCPA, it appeared as separate discussion components rather than integrated throughout, and only physical risk factors were considered. Transition risks linked to the phasing out of fossil fuel infrastructure were neglected, thereby failing to encourage countries to re-evaluate energy investment plans to reflect stranded asset risk, current renewable energy costs and increasing global carbon taxes. Coverage of social inclusiveness was more integrated and thorough, especially in relation to distributional issues and poverty reduction. Disparities in coverage between green and inclusive development likely reflect the IMF's longer history of engagement in poverty reduction.

**PART II.**  
**THE ROAD TOWARDS**  
**A GREEN, INCLUSIVE**  
**AND RESILIENT**  
**RECOVERY**

## 5. FIT FOR PURPOSE? THE IMF'S MANDATE AND THE LOOMING GLOBAL CRISES

In recent years, there has been growing recognition that the IMF's mandate is capacious enough to include climate change and inclusive development issues. This prospect was first raised by IMF senior leadership almost a decade ago, when then-Managing Director Christine Lagarde warned of the compounded risks for the world from falling incomes and environmental damage [92]. Later on, Lagarde continued to highlight the congruence between the newer areas of IMF interest and the organization's mandate, explaining in 2015 that 'inequality, gender, and climate-related issues [...] are—as we say—macro-critical' [5]. Since then, the macro-criticality of GRID issues has gained ever-wider acceptance—both among academic audiences and in policy circles—and the IMF has tried to position itself at the forefront of these debates, most notably through innovations in surveillance and capacity development described above. In contrast, lending activities of the Fund appear more isolated from these concerns, partly because meaningful engagement with GRID issues is seen as beyond the scope of the IMF's mandate. This mandate is clearly laid out in Article 1(v) in the organization's founding treaty, which explains that a key IMF purpose is:

*'To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity' [93].*

This provision essentially contains the key elements of IMF lending practices through its General Resources Account<sup>1</sup> up until the present: a focus on balance of payments problems, the temporary nature of assistance and the objective to not undermine prosperity. In particular, the legal basis of conditionality is captured by the reference to 'adequate safeguards' [94], [95], which is intended to protect the resources of the Fund and ensure their revolving character. Even though the premise of conditionality is rarely challenged in contemporary policy communities, a long-standing debate points to the ambiguities inherent in this legal formulation. As senior UN economist Sidney Dell observed in 1981, 'the phrase "adequate safeguards" is far from precise, and it can only be a question of judgment as to when safeguards are "adequate" and when they are not' [96]. In practice, the IMF is wary of the risks

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<sup>1</sup> We discuss the potential role of trusts later in the report.

involved when debt dynamics might become unsustainable, as this can lead to programs going off-track, and adjusts conditionality accordingly to mitigate such risks and protect the resources of the organization [59].

There is neither will nor any serious proposals to formally change this mandate or challenge the premise of conditionality. But even within this mandate, there is considerable scope to revisit country operations through a GRID lens. The present section takes on this analytical task by first examining the historical record of augmenting IMF activities in areas hitherto seen as unsupported by the Articles of Agreement. Subsequently, we outline how GRID engagement could be pursued within the scope of the IMF's mandate.

## 5.1. THE IMF'S EVER-EVOLVING MANDATE

The Fund's legal mandate vis-à-vis lending through the GRA account—which has a famed \$1 trillion lending firepower—has remained unaltered since the time of the Bretton Woods conference.<sup>2</sup> However, this was not due to some kind of constitutional 'originalism'—a view that the mission of the Fund was fixed at the time of the adoption of the Articles of Agreement and no deviations from that are possible, save for amending the Articles—but rather due to the deliberate flexibility that the founders built into the organization. As IMF historian Harold James explains: 'The story of Bretton Woods is exactly that it sets out a very, very broad vision, and a lot of things have been done only by just reacting quickly to policy and they are perfectly in line with the mandate. A fundamental part of the vision of 1944 is that [policy changes] require some general acceptance—some call it epistemic community, some call it normative consensus' [98]. These changes in the modus operandi of the IMF help the organization to remain relevant vis-à-vis its purposes.

In other words, there is an implicit distinction between 'the legal mandate of the IMF, which is very broad, and the operational mandate, which is what the Executive Board allows staff to do in particular circumstances—the second is a subset of the first' (TT1).<sup>3</sup> The collective role of shareholders is central here, as they have the power to recalibrate the interpretation of the founding treaty in order to expand or restrict the scale and scope of IMF operations. Indeed, the Articles of Agreement explicitly note

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<sup>2</sup> Lending to low-income countries under the facilities of the Poverty Reduction and Growth Trust is more flexible yet much more limited. In the years prior to Covid-19, the IMF committed only about \$1.5bn per annum through these facilities [97].

<sup>3</sup> As noted in the Introduction, the interviews for this project were granted under the condition of anonymity. The affiliations of interviewees are cited here using the following conventions: IMF= IMF staff; TT= think-tank staff; CS= civil society; AC= academics.

that any questions regarding the interpretation of their provisions is to be tackled by the Executive Board, where all IMF member-states are represented (Art. XXIX(a)).

This power of the Board to oversee and approve IMF policies places it in a key position to limit undesirable ‘mission creep’. Insofar as the practices of the IMF have changed, this reflects the shifting views on appropriate policies by the membership acting through the Board. This process rarely lacks controversy, and—as is the case in all multilateral rule- and norm-making settings—it is inevitable that the preferred policies of some countries ultimately win-out over the preferences of others, even after rounds of attempts to build consensus among members of the Board. However, the fact that even countries whose position lost-out remain members of and committed to IMF policies is *ipso facto* a suggestion of the perceived legitimacy of the process that altered the remit of the organization’s operations.

This points to a broader issue on the flexibility of mandates of international organizations. A strict originalist interpretation of their founding treaties might mean that they are no longer able to deliver meaningful services or benefits to their membership, and therefore can safely be discarded. But the high rates of survival of such organizations even after their original mandate has been transmuted—often without any legal changes—reflects that their membership finds merits in advancing flexible interpretations of their legitimate scope of activities. To be sure, this does not mean abandoning the spirit of founding treaties in favor of engagement in distal policy areas, but it does encompass novel interpretations of the relationship between the spirit of the treaty and novel risks or newly recognized challenges that pertain to the remit of the organization. As former IMF General Counsel Sean Hagan explained:

*‘The Board is responsible for interpreting the Articles, and therefore, interpreting the breadth of the IMF’s powers. There have been circumstances where the Board has interpreted the existing powers as being adequately broad to encompass the IMF doing new activities. Normally, these decisions are supported by adequate technical analysis and evidence by the Managing Director and her staff, and that is central to the Fund’s own credibility and legitimacy. [Nevertheless,] while there is flexibility in breadth, there are limits’ [98].*

A Board-sanctioned expansion of operations has happened within the IMF numerous times already [98]–[100]. For example, the collapse of the Soviet Union and the transition of several countries from socialism to capitalism meant that the IMF was called to engage with countries that had a fundamentally different market structure compared to its more traditional borrowers. The organization subsequently developed a range of products to allow it to devise comprehensive reforms that directly altered

the political-economic structures of borrowing countries, even though heavy-handed engagement into structural change was not in line with a strict interpretation of the mandate (TT1). Similarly, IMF engagement in social spending issues was controversial for several decades within the organization, notwithstanding persistent calls by developing countries—dating back to the 1970s—for the IMF to safeguard such spending from cuts in the context of IMF-mandated fiscal consolidation. Only in the early 2000s did this issue gain momentum, and now social spending floors or other such conditions are regularly included in the organization’s loans. Box 5.1 delves deeper into a case of an expanded interpretation of the IMF’s mandate in relation to the coverage of growth issues in IMF loans.

**Box 5.1. Growth and IMF programs**

Is economic growth a legitimate goal of IMF programs? Today, many observers would agree that a quick return to growth is essential for countries to deal with their macroeconomic problems, and—per operational guidelines passed in 2002—IMF advice should be geared towards fostering sustainable economic growth. Yet, this was not always the case. Until the 1970s, developing countries persistently called for a growth orientation of the IMF only to be thwarted by high-income country stakeholders and IMF staff. As then-General Counsel Joseph Gold explained to the Board in 1979, ‘growth was not a purpose of the Fund in Article I, and proposals to make it a purpose had been the subject of sustained debate and had been rejected.’ In the subsequent years, this unequivocal rejection on the basis of legal grounds was revisited by the Board and softened through a series of decisions. Indeed, the slow resolution of the Third World Debt Crisis prompted a rethink among the IMF’s shareholders who increasingly accepted the importance of a growth orientation in the organization serving its membership. For instance, in the mid-1980s, the U.S. Executive Director was noting in the Board that a ‘growth orientation needs to be built into the overall [lending] program from the outset [as it] would contribute significantly to their success.’ Subsequent internal developments at the IMF saw a much greater commitment to growth promotion in lending programs, albeit not always with successful growth outcomes.

Sources: [26], [101], [102].

**5.2. GRID ISSUES AND THE VALUE-ADDED OF IMF ENGAGEMENT**

Overall, none of the interviewees favored the IMF’s involvement in areas far removed from its mandate, like being involved in project lending. Nonetheless, interviewees both at the IMF and in the policy and advocacy community saw scope for engagement in GRID issues within the organization’s mandate. One think-tank official explained that the IMF’s central value-added was in ‘helping governments frame the macroeconomic policy position, see what the choices are, what they need to do, and how they get there’ (TT1). This is not an analytical exercise merely limited to surveillance activities,

but centrally important in lending activities as well, where the IMF *de facto* has an impact on the development trajectories in the countries that it is involved in.

Developing a GRID-aligned macroeconomic framework is directly relevant to IMF lending activities as it will enable the organization to both pre-empt and respond to future balance of payments crises. Most notably, climate change generates physical and transition risks, as well as spill-over risks from decarbonisation policies of trading partners, thereby—sooner or later—requiring engagement by the IMF (see also the discussion in Box 5.2). For example, in the case of transition spill-over risks, a close observer of IMF policies noted:

*‘When the Europeans implement a carbon tax plus a carbon border adjustment, that is going to be a balance of payments shock to Nigeria. Most of its economy is based on oil, and most of this goes to European countries. However, this external shock will have nothing to do with mismanagement in Nigeria. If anything, it has to do with Nigeria taking IMF advice for the past 30 years to make a great business environment for the oil sector, which now can lead to a balance of payments shock. This is reflective of a broader problem: in some countries, like Nigeria, their balance of payments are structurally misaligned with the Paris Agreement. If a huge percentage of a country’s foreign exchange is a function of fossil fuel exports, the IMF will be the place where they go when they develop balance of payments problems’ (AC2).*

The interconnection of green issues and the core IMF mandate on helping countries address balance of payments problems was a common theme among interviews with civil society and academic experts (AC1, CS1, CS2). As one interviewee explained, ‘if the world moves towards a global carbon price or regional carbon border adjustment mechanisms like the EU’s proposals, then clearly the world is heading towards a divergent recovery and entrenchment of inequalities. If these policies are instituted, then countries with heavy but increasingly outdated industrial bases—like Argentina or the Ukraine—will become totally outdated and ill-fitted to a carbon price environment. This will be a direct link to balance of payments issues: if countries’ exports are hit by carbon prices, then a range of countries will face balance of payments crises. That becomes an IMF issue then’ (CS2). The limits of the IMF’s attention to these issues was also noted by IMF staff: ‘our analyses tend to be more on questions like how does a risk of natural disasters or climate damages affect GDP and, consequently, the debt projections and fiscal balances? That is, more on the macro-fiscal side, rather than the trade balance. I don’t actually recall any analyses on this, and I am not sure why this wouldn’t be included’ (IMF2).

These arguments do not entail a suggestion that the IMF should get into the business of financing the green transition via investments in physical infrastructures, restructuring the energy distribution, reforming public sector companies or other such tangible projects. The multilateral development banks can play this role, and—as discussed in the Section 6—they increasingly do. However, there is still scope for IMF involvement. Programs could be designed to support the reform objectives of governments in a way that ‘future-proofs’ their balance of payments position (AC2). The crux of this issue concerns the time horizons employed in IMF analyses and projections on balance of payments sustainability. In the short-term it is unlikely that climate risks will create balance of payments problems in enough countries at the same time, so that this would pose a major threat to global financial stability. However, from a longer-term perspective, GRID issues become relevant to the IMF precisely because of their implications for countries’ balance of payments, and this provides an opening—or, in some views, a duty—for the organization to become fully engaged with these issues. As one former IMF staffer explained,

*‘The IMF could commit a small amount of money to help a government to give assurance to its own population and to showcase to the international community that they have a macroeconomic framework that allows embarking on a green transition without upsetting macroeconomic stability and fiscal health. The IMF would be putting money in in order to help the government’s budget transition: there will be upfront budgetary costs, and the IMF can ensure that the budget is sufficiently accommodative and that the country doesn’t face balance of payments problems, which might arise as it transitions to greener policies. So, there is a balance of payments angle, which is part of the IMF’s business. It’s in the long-term interest of the IMF Board, in order to ensure macro-stability, that issues of climate change mitigation and adaptation are dealt with because, otherwise, they all come back and create more serious and dramatic balance of payments disruptions.*

*In other words, it is not the IMF versus the development banks. Both are necessary, and they have to be deeply embedded. Given the realities of climate change, every country needs to have a major structural adjustment. For many that don’t need external financing, IMF surveillance can help nudge towards these transformations. But, for countries needing external financing, they also need help in setting the right macroeconomic framework, which makes sure that the needed structural transformation is done in a sensible fashion. That is the value-added of the IMF’ (TT1).*

As this quote suggests and in line with the views of many interviewees, the IMF's involvement in GRID issues is seen as having a high value-added, especially vis-à-vis balance of payments stability in the long-term. The role of the IMF in the global economy places it at a privileged position to provide leadership on GRID issues. For example, in the case of climate, 'there is no other institution in the international system that can comprehensively analyse balance of payments issues, the fiscal balance, the domestic resource capacity, debt sustainability, and so on' (AC2). These analyses can in turn feed into the design of effective lending programs to prevent balance of payments crises from occurring. Further, GRID issues were seen as directly relevant to the IMF's lending mandate. Persistently high inequalities and recurring environmental catastrophes ultimately undermine economic performance and can hurt the external position of countries, thereby leading them to the doors of the IMF for fresh financial support (CS1, CS3).

Of course, these debates also have concrete policy relevance at the current juncture: the IMF is actively preparing the launch of the new Recovery and Sustainability Trust (RST). Given that the specifics of the operations of the RST are still not settled, we refrain from an in-depth discussion of interviewees' views on these topics. Nonetheless, Box 5.2 includes a limited treatment of some key aspects of this Trust that may aid the IMF in actively contributing to the GRID agenda.

**Box 5.2. The promise of the Resilience and Sustainability Trust for the GRID agenda**

Ongoing debates at the IMF now center on the shape that the RST will have. How much money will be available? Under what terms? And to what end? A key consideration of the RST is to help countries implement the types of policies on climate change adaptation and mitigation that will help them pre-empt climate-related balance of payments crises in the future. This approach is intended to complement the short-term focus of GRA resources and the medium-term focus of the PRGT to provide loans with a maturity exceeding 10 years, as this would allow countries with more fiscal space to implement the types of policies that will enable them to be prepared for the eventuality of climate risks.

In developing the parameters of this Trust, the IMF has been working closely with the World Bank to establish a coordination framework so that the two institutions are complementing each other rather than substituting or competing with each other. In this context, funds provided through the RST will not be intended for adaptation or mitigation projects, but for the implementation of policy reforms—like green budgeting and green public investment management—that will aid countries to develop macroeconomic policies with a green lens.

## 6. LEARNING FROM PEERS? GRID ENGAGEMENT IN OTHER INTERNATIONAL ORGANIZATIONS

While the IMF occupies a unique position in the global economic governance architecture, it is also closely enmeshed with and related to other international organizations (IOs). To be sure, the IMF is unparalleled in its role of ‘lender of last resort’—a role in which it can only be effective if there are no other institutions that replicate this function. Nonetheless, there are still lessons to be learnt from looking at relevant peers in the development space. As a matter of fact, and as shown in previous chapters, the IMF has increasingly engaged in development-related activities, specifically since the advent of structural adjustment lending. Thus, its portfolio of activities and its modalities of intervention have become more like those of other IOs. For example, the IMF’s concessional facilities that provide medium-term support to low-income countries in support of comprehensive transformations of domestic policy environments carry similarities to Development Policy Loans at the World Bank. In addition, the IMF and multilateral development banks are similarly governed through a Board of Executive Directors in which countries with the highest voting shares have their own representation and voting rights are allocated in proportion of subscribed capital.

Cross-organizational cooperation will be essential to coordinate the activities of different development actors—for example, increasingly integrated approaches by the IMF and the World Bank, already attempted since the onset of Covid-19 [103], hold potential for delivering results. The purpose of this section is to provide an overview of GRID engagement by other IOs. As relevant IMF peers, we primarily included multilateral development banks (MDBs), encompassing the World Bank, the regional development banks (African Development Bank, Asian Development Bank, Inter-American Development Bank, the European Bank for Reconstruction and Development<sup>4</sup> and the European Investment Bank), the new development banks (Asian Infrastructure Investment Bank and New Development Bank), as well as some IOs with a portfolio relevant to climate change (Organization for Economic Cooperation and Development (OECD) and International Energy Agency (IEA)).

Our methodological approach was to examine the GRID-related activities of these IOs through screening their official websites, focusing on their general practices and more specifically on their Covid-19 recovery efforts. In addition, we analyzed

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<sup>4</sup> The EBRD fits the definition of regional development bank although it only invests in private-sector projects. We included it here because it was the first MDB to have an explicit environmental mandate.

international newspaper archives for the period 1 January 2015 to 31 October 2021 and attended relevant COP26 events of IOs. This allowed us to better understand the evolution of activities over the past five years (since the Paris Agreement) and to evaluate the sustainability of GRID-related commitments. Finally, to obtain a longer historical view, we also relied on a new dataset mapping the climate change adaptation engagement of 30 IOs for 1990-2017. The IMF was not part of this sample. However, we can draw on our qualitative-historical analysis of IMF GRID policy development for comparison. While the supplemental appendix presents detailed systematic summaries for all IMF peers, in this section we report overarching trends and summarise the best practices from these institutions that could inform GRID policies and practices of the IMF.

## **6.1. INCREASING ENGAGEMENT WITH CLIMATE CHANGE BY INTERNATIONAL ORGANIZATIONS**

Over the past decade, many IOs—including some without an explicit mandate on climate change—have increasingly engaged with climate change. This has been facilitated by three fundamental developments in the global climate change regime complex: the adoption of the United Nations Framework Convention on Climate Change (UNFCCC) providing a legal foundation for international climate action; the broadening of climate change policy commitments to include adaptation and resilience (in addition to mitigation); and the creation of multilateral climate funds (specifically the Green Climate Fund) that create new opportunities for IOs as implementing agencies [104]–[106]. In view of growing recognition of the importance of climate change as a development issue [107]–[109], MDBs have mobilized their own resources for climate-related investments.

Greater awareness on climate change can be seen in the evolving portfolios of activities of IOs, even where they did not previously engage with climate change. A new research dataset allows us to track systematically the climate policy engagement for over 30 IOs from 1990 to 2017 [110].<sup>5</sup> The data only cover adaptation-related engagements. Nonetheless, they generate some interesting overall patterns, highlighting the increased salience of climate change and adaptation-related activities. Figure 6.1 shows the unweighted average climate adaptation engagement index. The data indicate that following a decade of relative stagnation, IOs began to make strong commitments to adaptation in 2007/08. This coincides with the adoption of the Bali Action Plan in 2007, which affirmed both mitigation and adaptation as key UNFCCC objectives. Since 2007/08, IOs have consolidated their engagement. As our

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<sup>5</sup> A caveat is that the data do not capture more recent developments (in the 2018-2021 period).

earlier discussion shows, the IMF has not engaged in climate change issues until the early 2010s. Even where it did, such thinking began at the very top, but is still being operationalized into day-to-day operations. The IMF must therefore be considered a latecomer in this arena.

**Figure 6.1. Climate adaptation engagement by 30 IOs**

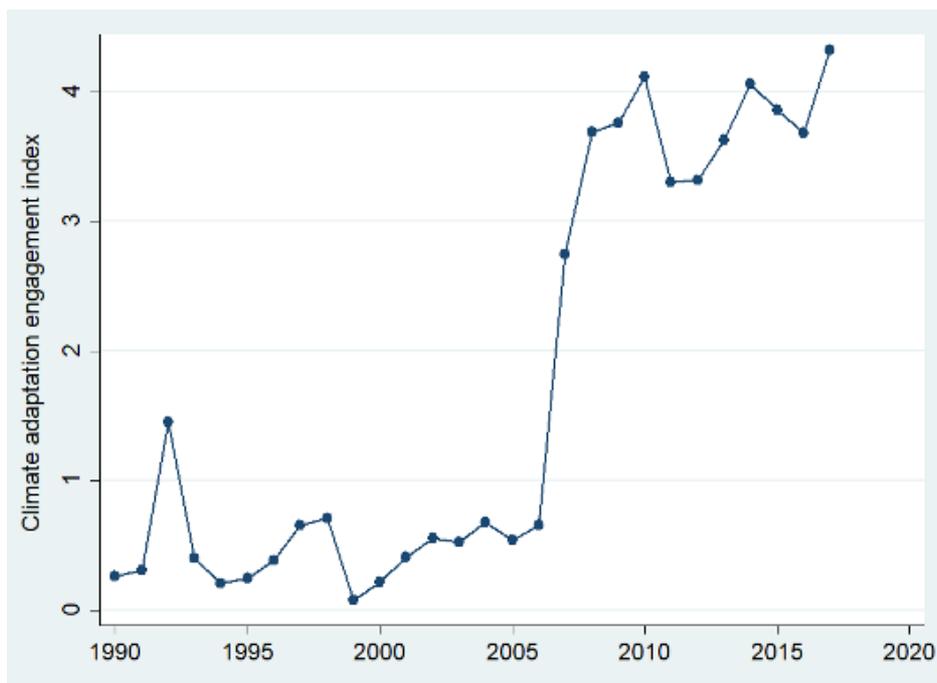
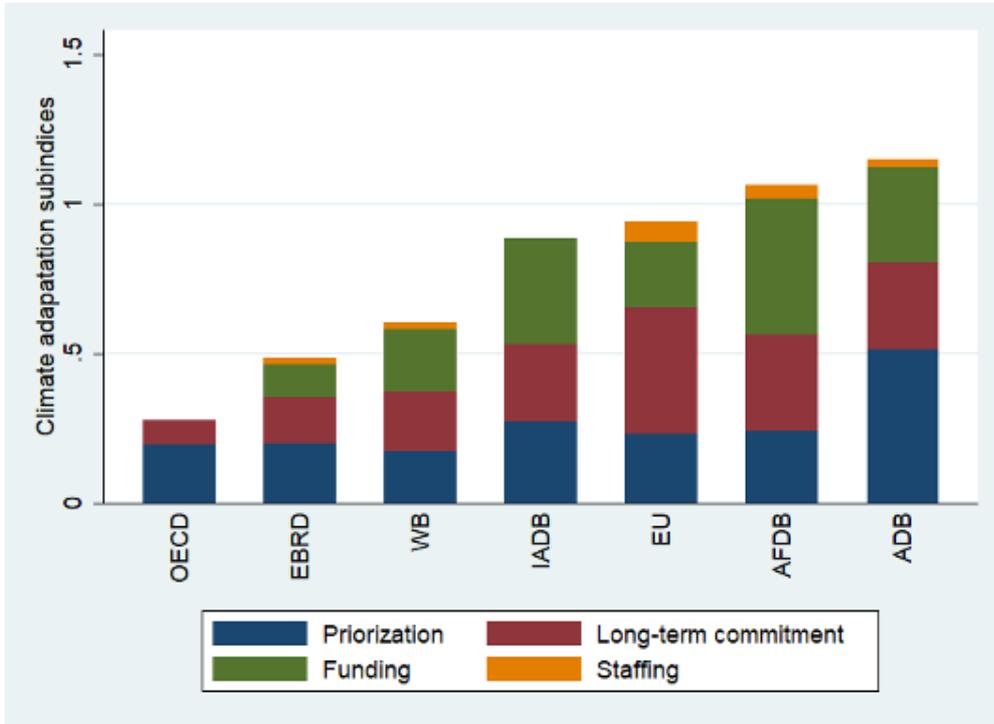


Figure 6.2 unpacks climate adaptation engagement among relevant IMF peers in four dimensions. First, ‘prioritization’ measures the extent to which an IO mentions climate change adaptation as a goal relative to other goals. Second, ‘long-term commitment’ gauges IOs’ commitment to policy strategies to sustain adaptation efforts for at least five years. Third, ‘funding’ captures the extent to which an IO puts financial resources behind these commitments. This includes re-programming existing funds as well as the setup of new funds. Fourth, ‘staffing’ refers to whether the IO recruits or assigns staff to adaptation-related activities [110]. The bars show the decomposition of the average strength of climate engagement across selected IOs in 2009-2017. Overall, we find that the regional development banks—like the ADB, AfDB and IADB—have taken leading positions among relevant IMF peers on adaptation. The EU is similarly engaged. Conversely, the World Bank, EBRD and OECD have lagged behind. MDBs are similar with respect to how their engagement materializes, with a mix of policy prioritization, long-term commitment, new funding and (to a lesser extent) staffing underpinning the focus on adaptation. Importantly, though, for most

IOs shown here, the shift toward climate change has not merely been rhetorical but also witnessed concrete changes on staffing and funding—a development that the IMF has yet to catch up on.

**Figure 6.2. The strength of climate adaptation commitments across selected IOs (2009-2017)**



## 6.2. GRID APPROACHES IN MULTILATERAL DEVELOPMENT BANKS

We turn to the key takeaways—summarized in Table 6.1—from our analysis of GRID approaches in the MDBs. Our goal is to identify some best practices that might inform GRID-related reforms at the IMF. First, MDBs are critical levers for mobilizing funding at scale toward GRID. As separate reporting for GRID is unavailable, we focus here on investments into climate action. Based on current pledges, annual combined MDB climate finance globally will rise to \$65 billion by 2025—a 50% increase from current levels—with \$50 billion set aside for low- and middle-income countries. Within this total, annual combined climate adaptation finance will double to \$18 billion by 2025. Annual co-financing for investment in climate action is expected to rise significantly to \$110 billion by 2025. Of that, \$40 billion is expected to be mobilized from private sector investors [111]. Hence, based on these projections alone, the MDBs are critical for meeting the collective Copenhagen pledge to disburse \$100 billion on climate issues annually by 2020.

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**Table 6.1. Comparative climate engagement across major development banks**

	<b>World Bank</b>	<b>AfDB</b>	<b>ADB</b>	<b>IADB</b>	<b>EBRD</b>	<b>EIB</b>	<b>AIIB</b>
<b>Legal foundation for climate change action</b>							
→ Founding document	--	--	--	--	<a href="#">Yes</a>	--	--
→ Corporate strategy	<a href="#">Forward Look 2030</a>	<a href="#">AfDB Strategy 2013-22</a>	<a href="#">Strategy 2030</a>	<a href="#">2<sup>nd</sup> update to institutional strategy &amp; Vision 2025</a>	--	<a href="#">Operational Plan</a>	<a href="#">Corporate Strategy</a>
→ Climate change strategy	<a href="#">CCAP 2021-25</a>	<a href="#">CCAP 2016-21</a>		<a href="#">CCAP 2021-25</a>	<a href="#">GET 2021-25</a>	<a href="#">Climate Bank Roadmap</a>	--
<b>Past climate finance (2015)</b>							
<u>Absolute amounts</u>							
Climate finance from own resources, of which...	\$10.7bn (2015)	\$1bn (2015)	\$3bn (2015)	\$1.8bn (2015)	\$3.2bn	\$5.1bn	Cumulative \$2.5bn over 2016-18
→ Adaptation finance	...\$3.4bn (32%)	...\$0.4bn (40%)	...\$0.4bn (13%)	...\$0.3bn (17%)	...\$0.2bn (6%)	...\$0.4bn (7%)	
→ Mitigation finance	...\$7.3bn (68%)	...\$0.6bn (60%)	...\$2.6bn (87%)	...\$1.5bn (83%)	...\$3bn (94%)	...\$4.8bn (93%)	
<u>Relative spending (as % of total operations)</u>	21% (2015)	35% (2019)	--	15% (2015)	--	--	35% (2018)
<b>Present climate finance (2021)</b>							
<u>Absolute amounts</u>							
Climate finance from own resources, of which...	\$22bn (2020)	\$2.1bn (2020)	\$6.2bn (2020)	\$3.43bn (2020)	\$3.9bn (2020)	\$27.9bn (2020)	\$1.2bn (2020)
→ Adaptation finance	...\$9.3bn (42%)	...\$1.3bn (63%)	...\$2.4bn (39%)	...\$1.17bn (34%)	...\$0.6bn (14%)	...\$2.8bn (10%)	...\$0.14bn (12%)
→ Mitigation finance	...\$12.8bn (58%)	...\$0.8bn (37%)	...\$4.8bn (61%)	...\$2.26bn (66%)	...\$3.3bn (86%)	...\$25.1bn(90%)	...\$1.06bn (88%)
Private-sector mobilization	\$ 1 trillion		\$ 5bn (green bonds)				
Finance from multilateral funds	--		\$0.5bn (GCF)				
<u>Relative financing as of total operations</u>	29%	34%	17%	20%	28%	37%	12%

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	<b>World Bank</b>	<b>AfDB</b>	<b>ADB</b>	<b>IADB</b>	<b>EBRD</b>	<b>EIB</b>	<b>AIIB</b>
<b>Future ambition on climate finance (2025)</b>							
<u>Absolute amounts</u>							
Climate finance from own resources, of which...	\$50bn (2025)	\$4.2bn (annual) or \$25bn over 2020-25	\$6.7bn (annual) or \$80bn 2019-30	--	--	--	--
→ Adaptation finance	...\$25bn						
→ Mitigation finance	...\$25bn						
<u>Relative spending target</u>	35%	40% (2025)	65% (2024) and 75% (2030)	65% of annual project approvals (2020-23)	50% (2025)	50% (2025)	50% (2025)
<u>Private mobilization</u>		\$3 trillion (2021-30)				\$1 trillion (2021-30)	
<b>Notable initiatives and practices for recovery-forward</b>	All COVID-19 emergency lending (\$160bn) is GRID-aligned.	--	Most ambitious long-term targets for relative share of climate operations in lending. Additional mobilization for GRID-relevant COVID-19 recovery.	--	Anchoring of GRID principles in the Articles of Agreement. Emission reduction target attached to project operations of Mt25 CO2.	All investments already aligned with Paris Agreement.	Most encompassing definition of GRID that also emphasizes ESG (credible GRID policy requires transparent governance).
<b>Touching points with IMF GRID</b>	Coalition of Finance Ministers on Climate Action appears closer to IMF mandate.		ADB-IMF seminar on GRID.	Analytical work on fiscal policies and climate change.			

Second, all MDBs have embraced climate change in their current policy strategies, but few make long-lasting commitments beyond a five-year horizon and for even fewer is GRID envisaged in their founding treaties. In other words, long-term commitment on GRID may wane with a change in priorities in organizational leadership. Only one MDB has enshrined GRID principles in its founding documents: the EBRD Articles of Agreement commit the institution to ‘promote in the full range of its activities environmentally sound and sustainable development’ (Art. 2). While the Asian Infrastructure Investment Bank (AIIB) emphasizes that its operations are built on three core values (‘green, clean, and lean’), there is no reference to these values or related environmentally and socially sustainability principles in its founding document. Similarly, beyond a general commitment to sustainable development, the NDB founding treaty is not explicit about GRID principles.

Third, MDBs have developed dedicated sector strategies to operationalize their commitment to climate action. The African Development Bank (AfDB), Inter-American Development Bank (IADB) and World Bank are already in their second round of ‘Climate Change Action Plans.’ Similar documents exist at the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) and the AIIB through their various sector strategies. Fewer institutions also adapted their corporate strategies to reflect their commitment to climate action. The Asian Development Bank (ADB) developed its Strategy 2030 for the current decade (2019-2030), which explicitly commits the institution to ‘achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific’ [112]. Similar long-term visions can be found for the AfDB and the AIIB.

Fourth, since 2011, MDBs have worked to harmonize their operational definitions of climate finance and report on their commitments through a joint publication. In 2015, common principles for tracking mitigation and adaptation activities were developed together with the International Development Finance Club, and a set of guidelines was established and applied to set a common approach for reporting on climate co-financing flows that are invested alongside MDB climate finance activities. With initial participation from six MDBs, the initiative now enlists eight participating MDBs: the AfDB, ADB, AIIB, EBRD, EIB, IADB, IsDB and the World Bank. While AIIB data was fully incorporated for the first time in 2020, NDB data are not yet included in disaggregated form pending adoption of the common reporting standard [113]. The improvement of climate finance reporting is a first crucial step in steering donor funding and may help nudge MDBs into escalating commitments to climate action through a process of peer pressure. Key goalposts with respect to climate finance include total funding from own resources and co-financing sources, climate finance as

a share of total spending and the parity of spending between climate adaptation and climate mitigation.

Fifth, MDBs have made ‘climate-proofing commitments’, which would require them to review their operations for compatibility with the Paris Agreement, as they currently remain insufficiently aligned to those objectives [114]. In November 2020, MDBs convened on the side-lines of the Finance in Common Summit to present their joint Paris Alignment approach. Since then, MDBs are working on a joint methodology to operationalise this approach. A draft joint assessment framework for direct operations was presented at COP26 [115], while all MDBs involved have communicated at least certain target values for their Paris-alignment. For example, the World Bank has set a target for all new IBRD and IDA operations to achieve such alignment by July 2023, and has also piloted an initial set of 25 so-called ‘Country Climate and Development Reports’ (CCDRs)—a diagnostic tool to help mainstreaming climate issues into country assistance strategies, which we discuss below [116].

Finally, with respect to the Covid-19 recovery, our analysis shows that only few MDBs link their efforts explicitly to GRID principles. While all MDBs were fast to mobilise emergency resources to fight the economic fallout of the pandemic, only two institutions linked the recovery to GRID principles. Specifically, the World Bank states that all its recovery spending of up to \$160 billion is aligned with GRID principles. The ADB announced the ASEAN Green Recovery Platform, which seeks to mobilise \$7 billion for low-carbon climate-resilient infrastructure projects in Southeast Asia as part of a Covid-19 response [117]. A significant part of the ADB pandemic response will therefore be GRID-compatible. Looking further afield, for the EU, the Covid-19 response and the GRID approach are intricately linked: one-third of the €750bn NextGenerationEU Recovery Plan is ring-fenced for climate-related activities. Complementary funding for the ‘Green Deal’ will come from the new seven-year EU budget. Beyond these cases, Covid-19 relief is often not developed with a parallel concern for climate targets, as data in the joint MDB report on climate finance reveal. This mirrors evidence from the OECD Covid-19 recovery tracker showing that only one-fifth of the recovery spending in OECD countries is GRID-compliant [118]. Further, according to the IEA Sustainable Recovery Tracker, only 2% of Covid-19 recovery spending on energy is on renewables [119]. In light of these figures, there is a risk that Covid-19 relief will reduce the relative priority of climate change in MDB financing unless climate change is fully mainstreamed into MDB operations.

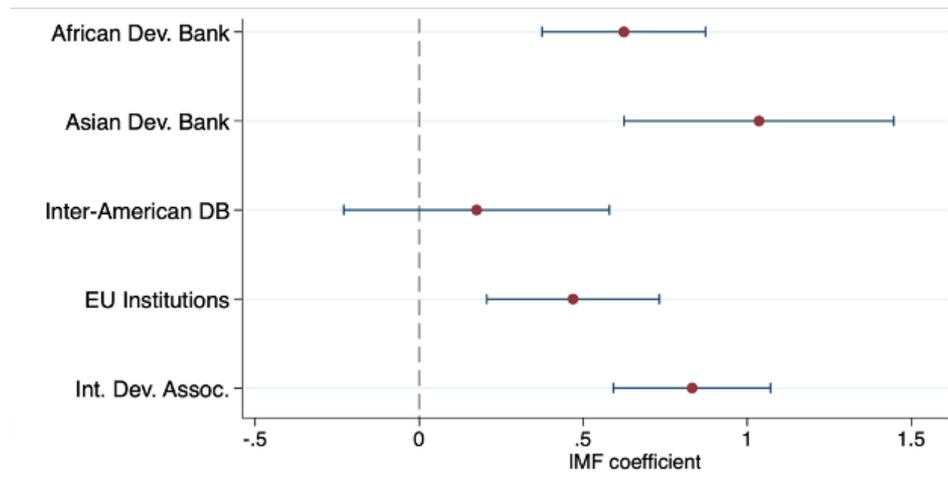
Our review of recent GRID-related initiatives in MDBs reveals a policy area in flux—attempts to meaningfully operationalise the GRID approach and mainstream it into operations are ongoing. Some MDBs held events to launch related discussions. For example, at a joint ADB-IMF webinar on ‘Policies to Support a Green and Inclusive

Recovery,’ international experts discussed which policies can facilitate the recovery and transition to green growth, while taking political economy into consideration and addressing distributional issues. To date, the World Bank produced two papers for the Development Committee—on preparedness and financing—to ‘highlight the need to act forcefully to address challenges posed today by the pandemic and the criticality of pursuing green, resilient and inclusive development’ [120]. To move beyond the conceptual stage, however, would require making clear choices, as the example of phasing out fossil fuel finance illustrates.

Overall, this evidence points to scope for synergies between the IMF and MDBs. The best evidence of such synergies is the de facto catalytic effect that IMF financial support has on selection for financing by MDBs. Figure 6.3 presents the results of a regression analysis of the effects of IMF programs on aid commitments by MDBs for 1986 to 2009 [121], demonstrating a positive and statistically significant effect on selection of countries that are recipients of their aid.<sup>6</sup> Based on a calculation of the average marginal effects, countries participating in an IMF program are 15% more likely to receive aid from the African Development Bank, 20% more likely from the Asian Development Bank, 8% more likely from EU Institutions and 19% more likely from the International Development Association. There is no statistically significant impact on commitments of the IADB. Given this evidence, exploiting synergies could be done in a way that, on the one hand, emphasizes the need for cooperation and coordination among the various

institutions and, on the other hand, expresses their complementarity and the special role of the IMF in the international monetary architecture. We return to these issues with special reference to the World Bank in section 7.3, below.

**Figure 6.3. IMF program effect on aid commitments**



**Note:** Error bars are 95% confidence intervals based on robust standard errors clustered by country to reflect non-independence of sampling. Covers years 1986-2009.

<sup>6</sup> These findings are based on a probit regression model of dyadic data on aid commitments from the OECD’s Aid Statistics database. The model controls for a standard set of possible determinants of aid commitments, including recipient need, recipient merit, and donor self-interest variables, as well as year fixed effects to account for time-variant confounders that recipient countries experience equally.

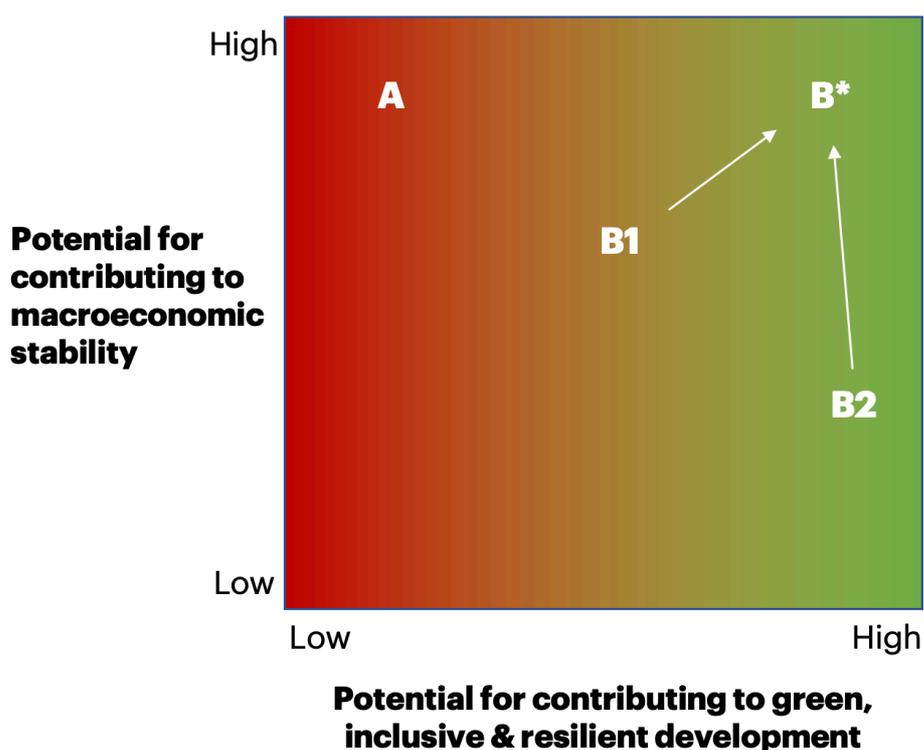
## 7. MEETING THE MOMENT? MAINSTREAMING GRID OBJECTIVES IN IMF PROGRAMS AFTER COVID-19

If mainstreaming GRID issues into the IMF’s lending operations is seen as desirable, the follow-on question relates to how this can be achieved in practical terms. The IMF will need to perform a delicate balancing act to achieve two objectives simultaneously: (a) ensure it is meeting its mandate of assisting countries reach macroeconomic stability, and (b) underpin GRID efforts insofar as they pertain to safeguarding long-term macroeconomic stability and preventing or pre-empting balance of payments problems. Pursuing these dual objectives will have important implications for the modus operandi of IMF programs and their conditionality.

Figure 7.1 seeks to capture this dynamic, and it is possible to imagine a range of policies to populate this space. In a hypothetical example on taxation, large increases in value-added taxes—a common condition in IMF programs [122]—might hold high potential for reducing the fiscal deficit. Unless they are also accompanied by exemptions for basic goods—whether at a zero rate or substantially lower than the standard rate—VAT increases can have adverse distributional implications that endanger inclusive development (point A). In contrast, well-targeted increases of taxes on incomes and corporations could ameliorate inequalities (point B1) and could also be combined with a

carbon tax for high-polluting industries that incorporates redistributive measures to shelter low-income households from energy-price hikes (point B2). In this simple example, the latter two ‘greener’ policies might have a combined high potential for contributing to macroeconomic stability (point B\*), and would therefore be preferable to a blanket increase in VAT.

Figure 7.1. Trade-offs in IMF conditionality design



To be sure, this is a simple and highly stylized example. However, meaningful engagement with GRID issues by the IMF will entail conducting such analyses of trade-offs in the process of developing comprehensive macroeconomic frameworks to help countries return to economic health without hampering the green transition or inequality reduction. Such a process would not only mitigate potentially adverse effects of conditionality on GRID issues, but also encourage ownership insofar as many countries themselves prioritize sustainable and inclusive development. That is, GRID-compatible IMF programs could reduce potential risks, like backtracking on unpopular reforms. Spelling out the various ways in which GRID issues can be mainstreamed in the IMF's lending practices is the task for the remainder of this section.

## **7.1. SCOPE FOR OPERATIONALIZING HOW GRID ISSUES ARE HANDLED IN COUNTRY WORK**

Insofar as GRID issues are becoming increasingly prominent in economic surveillance and capacity development, they form an obvious avenue for influencing the policy content of lending programs. Indeed, the data and analyses underpinning surveillance missions commonly inform the design of lending programs, where applicable, and these links could thus be strengthened and institutionalized, especially as a growing number of countries transition out of rapid support facilities in the immediate aftermath of the Covid-19 emergency and towards more traditional lending programs that carry conditions. Such a strengthening of knowledge transfer from surveillance teams to those negotiating lending programs would facilitate the development of GRID-aligned policy packages. These would still reflect country priorities in economic stabilization, but also ensure that they facilitate—rather than directly or indirectly hamper—meeting social and environmental objectives. This type of knowledge transfer is an explicit priority of the IMF, evidenced by the creation of climate hubs within departments and—as discussed in Box 7.1—investments in building up internal training for IMF staff on how climate change issues pertain to the Fund mandate and how they can be operationalized in country work.

**Box 7.1. The IMF's new internal training toolkit to inform staff engagement with climate issues**

An important innovation within the IMF vis-à-vis climate issues has been the development of an online training course for economists on staff. Rolled out in late 2021, the course sought to 'create a level playing field internally when it comes to initial familiarity of IMF staff with climate issues and the ways that they link up to the main parts of the organization's mandate' (IMF6). This course covers three main issues at an introductory level: the broad science of climate change; the international framework to address it; and what role the IMF can play within this framework and given its mandate. On the latter issue, two topics receive the most systematic coverage. First, the range of mitigation policies available to countries is presented, with special emphasis on carbon pricing—how it can work in practice, what broader policies can be linked up to it, what the political economy implications are and how to pre-empt them (e.g., through redistribution measures) and what alternatives exist. Second, adaptation policies are examined with reference to how to manage risk and the transition to net zero emissions.

While this course has proven popular (more than 750 staff have already taken it), it is still only the first step in increasing knowledge among Fund staff of the macroeconomic aspects of climate change. It will be complemented in the coming months by two types of activities. On the one hand, the IMF will organize 'specialized tool-based boot camps' where IMF staff will be taught what models or tools to use for specific tasks, like running carbon pricing scenarios for different countries and estimating their aggregate and distributional implications, or stress-testing the financial sector against the physical and transition risks of climate change (IMF8). On the other hand, a more problem-solving approach will be developed through 'interactive clinics, where staff will have a chance to address any questions or issues as they go through the program with subject matter experts' (IMF7).

A GRID-alignment could follow progress already made within the IMF in institutionalizing engagement with inequality and social protection issues. Most importantly, the organization has created guidance notes and 'how to' policy papers on incorporating inequality considerations, gender issues and labour concerns in their work [123]–[125]. These are widely seen as cutting-edge, even by civil society that is normally critical of the IMF (CS2). Interviewees at the IMF noted that the organization is currently developing 'a more formal guidance note, but it's very high level. It encompasses issues such as evaluating what countries will need to do to meet their emissions commitments, and the role of carbon pricing and other instruments. Ideally, we'd like to apply this to the G20 countries within the next couple of years or so. That's on the mitigation side. On the adaptation side, work and tools are much less developed' (IMF2).

The importance of turning IMF research and recent policy proposals into templates and guidance notes that can be picked up by staff engaged in country work and applied to different country settings was mentioned by several interviewees (AC2,

TT2). One civil society interviewee proposed turning such guidance notes into standard operating procedures for IMF staff: ‘one of the most transformative things that could be done in terms of IMF reform is to take those guidance notes and make them standard operating procedure on Article IV and—especially—on loan programs and their conditions, because they spell out a very clear process on how to incorporate inequality or other concerns into policy design. If this was done consistently, it would be a big change for the IMF and very positive for conditionality, as it’s currently up to staff to apply the guidance as they understand it. Misinterpretation or misuse of that guidance can be an issue and having standard operating procedures could address this’ (CS2).

One step forward for bridging the policy analysis and the policy design nexus was seen as the development of the Climate Change Policy Assessment (CCPA), jointly with the World Bank, and subsequently the Climate Macroeconomic Assessment Program (CMAP), independently of the World Bank (IMF2, IMF4). Per an IMF interviewee, these instruments are important because they ‘integrate climate change considerations into the macro-fiscal framework: How does the annualized damage from natural disasters and climate change feed into a country’s debt dynamics and fiscal position? If they were to build up resilience and reduce the harms from natural disasters, how would that improve the fiscal position? How much fiscal space is there for investments in adaptation and mitigation?’ (IMF2). In short, these instruments are central to developing worked-out policy transformation proposals, which would later inform Article IV consultations and—possibly—lending programs. However, even these have been constrained in their broader applicability. The initial seven CCPA reports pertained exclusively to small island developing states, and CMAPs are only now in development, with Madagascar being the sole larger low-income country being assessed.

These attempts to scale-up IMF engagement with GRID issues in country work are recent and still under development. Already-instituted organizational changes are central in keeping a high profile for these issues. For instance, the IMF has appointed policy coordinators on climate change issues within the different functional departments, thereby boosting intra- and inter-departmental cooperation on these issues (IMF3). This will be further enhanced by hiring several new staff members to work on climate issues, following the recent approval by the Board of a budget allocation to this end.<sup>7</sup> Even so, both bringing these new staffers on board and completing the ongoing training seminar series for existing staff is likely going to take

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<sup>7</sup> According to our interviews, the Board approved a somewhat smaller budget than the 95 new posts that IMF management had asked for, but we have not yet been able to identify the exact number of new hires.

time, even though current IMF leadership is committed to moving ahead on these areas speedily (TT2).

## 7.2. SCOPE FOR REVAMPING CONDITIONALITY

The IMF's 2018 review of program design already identified gaps in conditionality, with climate change issues ranking among them [59]. But how GRID issues can be embedded in conditionality remains an open question. Through our interviews, we identified two key positions. One approach is that the policy conditions attached to IMF programs should remain as they are in current practice, in order to avoid a mission creep by the IMF into areas that it has neither the mandate nor the expertise to be involved in (notwithstanding the aforementioned active attempts at building up this expertise). This 'traditionalist' approach would suggest the maintenance of the status quo and remains the default position at the moment.

In contrast, alternative approaches call for reimagining how conditionality is deployed. As one former senior IMF staffer and current close observer explained, 'we have to go back to the premise of conditionality and rethink it. In the traditional understanding, the conditions that were put in place were those that were needed to bring the country back to balance of payments sustainability. But what does this mean in the current climate context? What are the conditions that are going to ensure that countries are going to avoid massive climate-linked balance of payments problems in 20 or 30 years?' (TT2).

What would a revamped conditionality mean in practice? One idea occasionally floated in global policy debates is to develop so-called 'green conditionality.' This would mean that climate-friendly policies as defined by the IMF could find their way into the policy conditions attached to its lending programs. While this issue is not currently being formally considered within the IMF and discussions over the nature of its planned Resilience and Sustainability Trust are ongoing, IMF staff noted that there are internal preliminary and informal discussions on these issues. In this context, two types of conditions are being discussed:

- a. Green spending floors: A major change on helping ensure that IMF programs do not unintentionally threaten social protection policies have been so-called social spending floors; that is, non-binding targets that are formally part of a program's conditionality. As one interviewee explained, 'a remarkable result of the IMF's efforts on poverty is that it is now standard practice for lending programs to have social sector spending floors. Thirty years ago, if one talked about a floor on any kind of spending, they were tossed out by the Strategy, Policy and Review Department. Now there is debate whether these floors are

high enough' (TT2). An IMF staff member noted that there is a likelihood that a similar discussion on protecting green spending will come up in the coming years, however—even if such conditions are deemed desirable—they will still face difficulties in their application:

*'It's probably not easy to develop a specific policy to protect green spending. We would need a classification for identifying green spending, which we do not currently have. It probably would be easy for the IMF to ask a country to include a condition on green spending, and then make sure the numbers are above a certain threshold. But if we want that to mean anything, we need to have a lot more groundwork in place' (IMF4).*

- b. Climate policy structural conditionality: Preliminary and informal internal conversations at the IMF have explored how tying conditionality to climate policy might work in practice. These discussions considered whether and how conditionality could be used to implement carbon pricing or prompt the greening of the power sector or industry (IMF2). In any case, attempts to expand the scope of policy conditionality are likely to face strong opposition, not least among developing countries that will likely be exposed to it. This will be especially the case if the IMF's conditions are binding; that is, if they need to be implemented for a loan tranche to be disbursed. Already, civil society has signaled opposition to making conditionality in IMF loans more onerous for borrowing countries (CS1, CS2).
- c. GRID-aligned conditionality: A different approach would not witness the inclusion of new types of conditions, but revisit how conditions are currently designed. As noted earlier, when considering the scope of conditionality and whether it is compatible with advancing GRID objectives, the issue of trade-offs in policy design comes to the surface. According to IMF staff, this is already a key consideration in the design of conditionality. The organizational guidance on inequality and social spending is intended to minimize adverse distributional implications [3], [123]. The same logic applies on environmental protection policies: 'Climate change mitigation policies clearly have losers. For example, if you have a carbon tax, then those people who work in carbon-intensive sectors will be negatively affected by it. Our policy advice would not be complete if we did not have ideas on how to offset this' (IMF4). Such advice includes cash transfers for affected communities, increased public spending to create more jobs in low-carbon sectors or other redistributive measures [126].

Overall, the discussions on the merits of green conditionality are still ongoing, and—given the opposition by many IMF shareholders—it is unlikely to be put into

practice in the near term, with the possible exception of financing under the currently-negotiated RST (the track-record of different lending facilities is discussed in Box 7.2). Even so, the countries that would potentially be subject to green conditionality are for the most part smaller emitters, as many larger developing countries have turned their back on the IMF's financial assistance due to perceived stringency of IMF loans, stigma attached to lending and ample outside options like international bank lending (TT2). Indeed, approximately 80% of global greenhouse gas emissions are attributed to the G20 economies [127], most of which do not resort to the IMF for financing, thereby limiting the relevance of any introduction of green conditionality to climate change mitigation. For this reason, these measures should best be seen as complementary to parallel global efforts to curb emissions, rather than a panacea.

### **Box 7.2. The IMF's lending facilities and their adequacy to respond to crises**

The main lending power of the IMF is in its so-called General Resources Account (GRA), which is governed by the provisions of the Articles of Agreement and is intended for financially supporting countries with temporary balance of payments problems. However, lending under the GRA has been severely underutilized in recent years, even after the onset of the ongoing pandemic. This has prompted close observers of the Fund to wonder 'whether it is fit for purpose for the coming decades; about a trillion dollars are sitting there, only tens of billions have been accessed since the pandemic started, and the needs are great' (TT2). Indeed, many countries seem to prefer to borrow from financial markets even at a higher cost than the IMF because this comes with no conditionality attached, or they choose to use an expensive insurance mechanism like building currency reserves (CS1). These problems are tied to the perceived stigma among middle-income countries of coming to the IMF as a sign of failure (AC1, TT1). Instead, in the context of mainstreaming GRID objectives in GRA loans, 'it could be seen as a sign of success that a country has a policy program for sustainability in place, that the government can then present to the international community in a positive light—as being able to attract funds in support of its reforms' (TT1).

These discussions will likely remain relevant as the IMF is currently debating the financing and nature of the proposed Resilience and Sustainability Trust, which likely only have modest resources available: the target is for \$100bn, but only \$45bn have been pledged thus far [128]. These resources can be of great help to countries highly vulnerable to climate change—the main intended beneficiaries of this lending facility—but are wholly inadequate for supporting middle-income countries that are much greater contributors to climate change (TT1), even though they can have a catalytic effect. At the same time, the IMF itself is wary of providing too much super-senior debt to countries that would crowd out other lending, and is thereby considering restricting access to RST financing (IMF5).

The other major trust through which the IMF supports low-income countries on concessional terms is the Poverty Reduction and Growth Trust, which is more flexible than the GRA but has much more limited firepower. In the years prior to Covid-19, the IMF committed only about \$1.5bn per annum through the facilities of this trust [97].

### 7.3. SCOPE FOR IMF-WORLD BANK COOPERATION

A persistent theme that emerged in our interviews was the importance of collaboration between the IMF and World Bank. Already this issue has received extensive attention at the G-20 level, with special reference to improving cooperation on policy-based lending between the IMF and World Bank, which was seen as insufficient [129]. Most interviewees mentioned with disappointment the limits in the collaboration of the two institutions, with the most notable example being the discontinuation of the joint CCPA. This was due to a decision among World Bank senior leadership to develop their own product—the Country Climate and Development Report (CCDR). The merits of this move were questioned by several informants, and generally seen as a step back in enhancing the coordination between the two organizations. For example, staff at the IMF questioned the wisdom of this move:

*‘The World Bank has suddenly started doing pretty much the same exercise as the joint CCPA, but poured vast amounts of resources into it to cover 30 countries per year or so. We developed ourselves this comprehensive macroeconomic analysis in the context of CCPAs, and now the Bank is doing the same thing alone: if it has already done one of these assessments for a country, there’s less scope for the IMF to add value and offer some novel analysis. This is particularly an issue when it comes to mitigation policies, for which the IMF has developed fast-moving quantitative analyses, which can model the impact of fiscal policies or regulatory approaches. The Bank has greater expertise on the adaptation side. We wanted to keep working with the Bank on these reports, but they wanted to develop their own niche on climate change issues’ (IMF2).*

These tensions are important as they set the broader stage for IMF-World Bank collaboration, including on lending issues. There is a long and occasionally troubled history of the IMF and the World Bank attempting to coordinate on lending, or even attempts to merge the macroeconomic models that they use to inform their policy lending decisions [99]. One former IMF staffer explicitly questioned the merits of returning to a model of cooperation as was in the case of the now-discontinued Poverty Reduction and Growth Facility: ‘the IMF spent more time negotiating with the World Bank than it did with the country authorities. It was just a complicated system and far removed from the pressing needs to collaborate with country authorities on delivering on their priorities’ (TT1). However, notwithstanding problematic cooperation in the past, interviewees clearly saw the need for much greater cooperation between the IMF and the World Bank. According to one close observer:

*‘There is real need for a collaborative IMF-World Bank instrument that allows a country through the lens of the balance of payments constraint to get financing for policies to shift the structure of the economy towards sustainability. The World Bank or other development banks would focus on the development part of such lending, but the IMF would be involved in analyzing and identifying new sources of foreign exchange. For example, Nigeria cannot diversify from oil into barbershops, because that’s just going to be in local currency. It’s going to have to do something that is going to give them some foreign exchange, and so that is the development bank conversation. Then, how does a country develop a fiscal system that helps it pick up the slack that it’s going to lose in fiscal revenues? That’s the role of the IMF in this’ (AC2).*

However, *de facto* coordination between the two institutions—albeit informally—is already happening to a degree, according to our interviewees. This is most notably the case in the World Bank’s Development Policy Operations (DPOs), which often trail IMF programs. A recent analysis of DPOs between January 2020 and April 2021 found that 53 of the 64 countries with World Bank development policy financing already had a loan agreement with the IMF in place, and that the World Bank’s conditionality prescribed measures ‘in full alignment with IMF loans’ [130]. According to staff at the IMF, this points to the opportunities for complementarities between IMF and World Bank financing, especially given the scale of financing needs (IMF5). This situation likely poses challenges for developing countries that have long resisted the idea of ‘cross-conditionalities’ (i.e., conditions that affect access to both IMF and World Bank loans), and it also lacks the transparency necessary for other stakeholders, like donors and civil society, to assess the merits of such conditions.

## 8. HOW CAN IMF LENDING UNDERPIN A GREEN, INCLUSIVE, AND RESILIENT RECOVERY? ASSESSMENT FRAMEWORK AND OPERATIONALIZATION

Mainstreaming GRID issues at the IMF means ensuring they are meaningfully incorporated into the various activities of the organization. As already covered in Part I of this report, economic surveillance and capacity development are the two areas where this work has thus far substantially progressed. In contrast, lending activities are still seen within the IMF as somewhat *sui generis*: ‘program countries’ commonly face urgent crises which may direct the attention of governments and IMF staff towards other issues, and GRID issues may only be marginal in discussions and negotiations. The present section unpacks how IMF programs can be evaluated against the GRID agenda.

To develop a tailored framework on GRID issues at the IMF, we conducted a comprehensive search for available frameworks that provide concepts and criteria for the *ex-ante* assessment of policies, looking at material produced by international institutions, donor agencies, think-tanks, and civil society organizations. By design, our search excluded assessment frameworks that were focused on the impact assessment of projects (e.g., of a major infrastructure development), and instead focused on only those that were intended to evaluate macroeconomic or structural policies. Overall, our search yielded only limited results of interest to the purposes of this study. We found a few frameworks aimed to assess the impact of policies on inequality and inclusive development (along different dimensions of inclusivity), but we were unable to locate a single systematic framework to evaluate the anticipated impact of macroeconomic policies on green or resilient development—likely due to the relative novelty in the prominence of these issues in global economic governance debates. This is not to say that there are no indexes or frameworks that help evaluate these dimensions, but they are usually designed for *ex-post* assessment and/or to measure outcomes in specific dimensions (e.g., through the Environmental and Economic Vulnerability Index). Consequently, in this section we primarily review toolkits developed by the IMF and the World Bank, which—perhaps unsurprisingly—are most relevant to generating an *ex-ante* impact assessment framework on conditionality.

## 8.1. EX-ANTE IMPACT EVALUATION OF POLICIES: REVIEW OF IMF ASSESSMENT FRAMEWORKS

Over recent years, the IMF has developed a set of assessment exercises to guide its expanding areas of work in macro-critical issues (e.g., inequality, social spending, gender and climate) in order to ensure alignment with the macroeconomic mandate of the organization. In particular, two key Staff Guidance Notes—on inequality and gender issues—stand out, as they seek to operationalize how staff are supposed to treat these issues in country-level work while also pointing out that coverage of these issues should be ‘selective and calibrated to the degree of macroeconomic significance’ [123]. Even so, using these frameworks remains at the discretion of IMF staff and—lacking standard operating procedures—there is no formal obligation to employ them for impact evaluation.

The Staff Guidance Note on *‘How to operationalise inequality issues in country work’* recommends that assessment of inequality issues in staff work is guided by several considerations, including an explanation of why the focus on inequality is merited, how inequality impacts macroeconomic stability and growth and whether there are potential concerns about the distributional impact of macro-structural policies [123]. In turn, these considerations would feed into the design of appropriate policies to tackle distributional concerns. Correspondingly, staff are instructed to (a) recommend policies that are meant to tackle inequality, (b) assess the distributional impact of policies promoting macro-stability and growth, (c) consider alternative policy mixes and mitigating policies and (d) examine the feedback loops between inequality-abatement and the macro-economy. Engagement with these issues is underpinned by a list of qualitative questions and quantitative indicators to be considered in country analysis, which is presented in Table 8.1. Importantly, the Staff Guidance Note directly ties these considerations to the design of conditionality: ‘if high and rising inequality is assessed to have adverse implications for stability, policy recommendations would also need to address inequality, which could also take the form of conditionality, if deemed to be macro-critical for the program’ [123]. In evaluating the levels of inequality, staff are urged to rely on international comparisons.

**Table 8.1. Illustrative Questions on Income Inequality Issues**

<p>Why a focus on inequality?</p>	<ul style="list-style-type: none"> <li>• How does inequality fit in the overall macro-picture?</li> <li>• Are there concerns for macroeconomic stability, growth and its durability?</li> <li>• Do the authorities see tackling inequality as a priority? How does inequality fit within the country's development strategy?</li> <li>• Is there a case that more equal income distribution may be desirable given social preferences?</li> <li>• Have the authorities embarked on policies and reforms for macro stability and growth that can have distributional impact?</li> </ul>
<p>Establish the facts</p>	<ul style="list-style-type: none"> <li>• How high is inequality and how does it compare to other countries?</li> <li>• What has been the trend in inequality over time and in across countries?</li> <li>• What are the different dimensions of income inequality? (market vs disposable income inequality, income inequality across rural and urban areas, inequality across regions, inequality in access to education and health).</li> <li>• What is people's perception on inequality? (based on survey data or discussion with unions and Civil Society Organizations (CSOs))</li> </ul>
<p>Identify the driving factors behind distributional concerns</p>	<ul style="list-style-type: none"> <li>• What are the sources of inequality? (e.g. inadequate public spending on health, education, and infrastructure; weak growth; severe recession; economic transformation; technological change, etc.)</li> <li>• How do existing policies and reforms affect the country's income distribution?</li> </ul>
<p>Policy options to tackle distributional challenges</p>	<ul style="list-style-type: none"> <li>• What are the policy options to address existing inequality issues?</li> <li>• If existing policies are not inclusive as warranted, how to address this challenge?</li> <li>• Are planned macro policies and structural reforms likely to have an adverse impact on income distribution? How can this adverse impact be mitigated? And what are the appropriate policy tools?</li> <li>• What is the macroeconomic cost of the policy options to address income inequality?</li> <li>• Among the various policy options available, what are those that would have the biggest impact on reducing inequality given country's specificities and circumstances?</li> <li>• Does the country have adequate capacity to implement the recommended policies?</li> <li>• How do policies interact and are there trade-offs? What are the authorities' views on potential policy trade-offs?</li> <li>• Do policies involve a poverty-inequality trade-off (e.g. energy subsidy reform) and how to address it?</li> </ul>

Other considerations	<ul style="list-style-type: none"> <li>● What is the involvement of other development partners on inequality issues in the given country?</li> <li>● Is their policy advice consistent with the Funds’ and is there a scope for collaboration?</li> </ul>
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Source: [123], Table 1.

Similarly, the Staff Guidance Note on ‘*How to operationalise gender issues in country-level work*’ provides guidelines on how to incorporate gender issues in country papers when gender is found to have macroeconomic significance in the country [124]. Staff are encouraged to indicate how gender issues fit in the overall macroeconomic picture and why addressing gender issues is of macro-critical importance, following the questions in Table 8.2. The Note also recognises that policies to support growth and stability may have a negative impact on gender inequality. In these instances, staff may consider an alternative policy mix to prevent such negative externalities or suggest some mitigating measures. For example, staff are urged to collect data on gender gaps in the labour market through international sources like the World Bank, ILO and OECD, and through country-level labour statistics and household surveys, which ‘would allow a comparison with peers and provide a baseline against which the impact of specific policies could be measured’ [124]. Subsequently, policy design will need to consider potential trade-offs between lending conditions and their gender impact, and regularly report on progress.

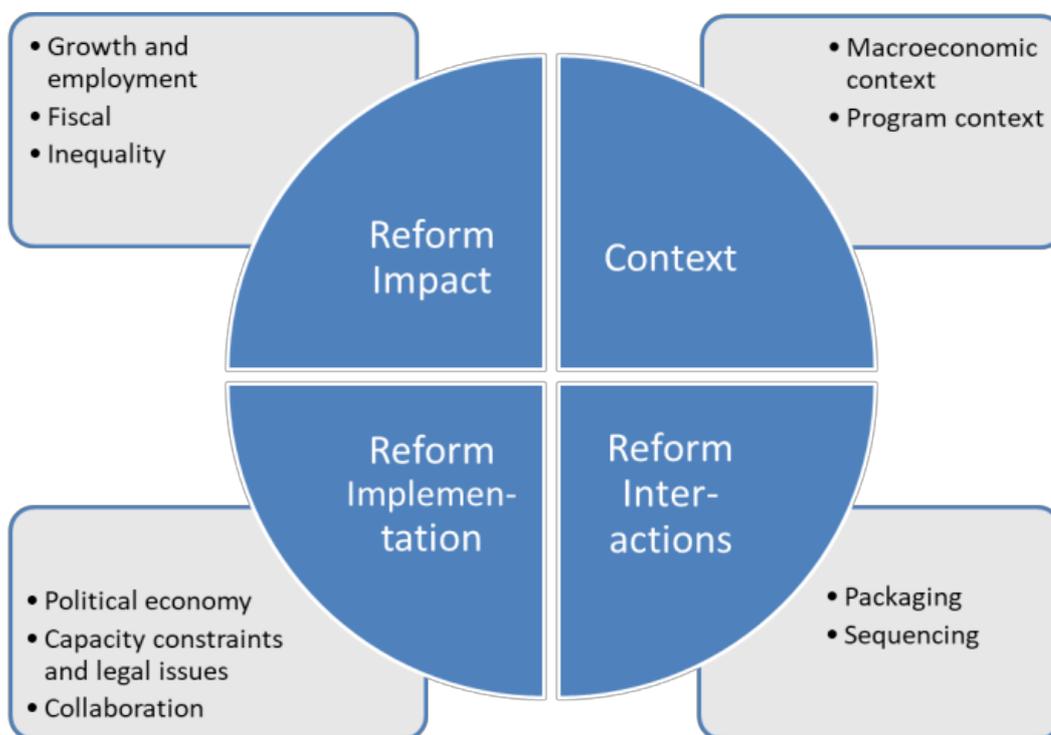
**Table 8.2. Illustrative Questions on Gender Issues**

Guiding questions for coverage of gender issues	<ul style="list-style-type: none"> <li>● How do gender issues fit in the overall macroeconomic picture and what are the transmission channels?</li> <li>● What is the impact the impact of other macroeconomic policies on gender?</li> <li>● How are gender gaps measured?</li> <li>● What are the specific barriers that cause the existing gender gap?</li> <li>● What are the policies to reduce and eliminate those barriers?</li> <li>● What would be the outcome if these policies are implemented?</li> <li>● How do policy recommendations fit in the overall policy mix and what are the policy interactions?</li> </ul>
Other issues to be taken into account	<ul style="list-style-type: none"> <li>● Authorities' views</li> <li>● Cultural considerations</li> <li>● Leveraging external expertise</li> </ul>

Source: [124].

More recently, the IMF published a working paper containing a proposed four-pronged toolkit—presented in Figure 8.1—for evaluating whether structural reforms in lending programs help ‘tackl[e] structural weaknesses’ [60]. First, laying out the context is seen as an essential step to be able to subsequently evaluate the merits of the policy measures introduced. Second, the packaging and appropriate sequencing of reforms is evaluated, as these can ameliorate some of the reform costs and are likely to increase implementation. Third, adequate reform implementation is seen as essential for structural change, which is traced to political-economic dynamics and capacity constraints within countries and the scope of IMF collaboration with other development actors, like the World Bank. Finally, the expected short-term impact of reforms is assessed, as it is central for sustaining the buy-in of countries. Overall, this framework stands out for its relative parsimony and its emphasis on tracing plausible links between structural conditionality and policy improvements. While the end-goals of the framework remain somewhat limited, we draw on its structure in the proposals below.

**Figure 8.1. Structural conditionality evaluation matrix**



Source: [3]

## 8.2. EX-ANTE IMPACT EVALUATION OF POLICIES: REVIEW OF NON-IMF ASSESSMENT FRAMEWORKS

Over the years, the World Bank has also grappled with how to evaluate the social impact of its operations. Developed in the early 2000s, the Bank's Poverty and Social Impact Analysis (PSIA) is intended to assess the distributional impacts of policy reforms on social wellbeing, particularly for the poor and most vulnerable. Initially, it was part of the Poverty Reduction Strategy Paper approach and has subsequently been included in the Operational Policy on Development Policy Lending, which establishes that PSIA is part of the Bank's due diligence for the policy reforms supported by its operations. The World Bank has developed a number of guidance materials to stimulate and support PSIA [131], including a comprehensive user's guide [132]. Table 8.3 illustrates some of PSIA's key elements, which are best seen as a collection of varied approaches and methodologies towards the same analytical end-goal, rather than a clear evaluation template to be followed in each assessment. The intention underlying PSIA is to encompass ex-ante analyses of the likely impacts of specific reforms, analyses during reform implementation, and ex-post analyses of completed reforms. It is supposed to be undertaken early enough to inform the design of reforms, clearly set out the assumptions behind the analysis, address risks to policy implementation, consider all stakeholders in the analysis and promote transparency about expected impacts to strengthen local ownership. In practice, however, its application in the Bank's Development Policy Operations varies for frequency, depth and extent to which it actually influences the design of lending [133].

**Table 8.3. Key elements of Poverty and Social Impact Analysis**

Elements of Good Poverty and Social Impact Analysis	<ol style="list-style-type: none"> <li>1. Asking the right questions</li> <li>2. Identifying stakeholders</li> <li>3. Understanding transmission channels</li> <li>4. Assessing institutions</li> <li>5. Gathering data and information</li> <li>6. Analysing impacts</li> <li>7. Contemplating enhancement and compensation measures</li> <li>8. Assessing risks (Institutional risk, political economy risk, exogenous risk, other country risk)</li> <li>9. Monitoring and evaluating impacts</li> <li>10. Fostering policy debate and feeding back into policy choice</li> </ol>
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<p>Impact Analysis Approaches considered (Social analysis, direct impact analysis, behavioural analysis, partial equilibrium analysis, general equilibrium analysis)</p>	<ul style="list-style-type: none"> <li>● Poverty mapping</li> <li>● Beneficiary assessment</li> <li>● Social impact assessment</li> <li>● Participatory poverty assessment</li> <li>● Benefit incidence analysis</li> <li>● Social capital assessment tool</li> <li>● Demand/supply analysis</li> <li>● Household models</li> <li>● Multimarket analysis</li> <li>● Social accounting matrices</li> <li>● Input/output models</li> <li>● Computable general equilibrium</li> <li>● Macro-model and micro-simulation</li> </ul>
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Source: [132].

Further, recent years have also witnessed the development of several impact evaluation frameworks to assess the consequences of different policy changes on human rights (most commonly, socio-economic rights). For example, the World Bank published a template for assessing the human rights implications of trade agreements [134], to be used by Bank staff and any other interested actor. To do this, it proposed running through each provision of a trade agreement—e.g., capturing agricultural trade, labour issues or investment—and scoring the likely impact on human rights on a negative-to-positive scale, and adding an extensive qualitative elaboration of the reasoning behind each score.

While our review has identified the key thinking within the IMF (and peer institutions) on how to conduct ex-ante impact assessments of policies, we did not identify a single comprehensive framework to guide our analyses. This is not wholly surprising. There are many entry points to conducting such evaluations, and ultimately the choice of framework depends on the needs and priorities of the end-user. Nonetheless, the focus on appropriately capturing the country context and the role of expert judgment for evaluating IMF policies was present in every framework, and informs our proposed approach below.

### 8.3. OPERATIONALIZING GRID FOR EVALUATION PURPOSES

Before outlining the tailored evaluation framework, we first examine how GRID issues can be operationalized in the context of the IMF’s mandate. To do this, we draw on the pioneering work of the World Bank on defining GRID issues for its own operations [12], [135]. According to the Bank, green refers to environmental, socio-economic and financial sustainability; resilience links up to preparedness for, mitigation of and

adaptation to ‘a wide range of risks and uncertainties, including recessions, financial shocks, conflict and violence, natural hazards, climate change, and pandemics’ [12]; and inclusiveness relates to combating rising inequalities and social exclusion. Importantly, these are seen as cross-cutting and parallel dimensions to be addressed in the Bank’s operations.

As outlined in Table 8.4, the World Bank proposes a set of concrete policies that it could pursue under the GRID banner. Unsurprisingly, many of these policies relate to the core mandates of the Bank. For example, building up social protection policies or investing in sustainable infrastructures fit well within the operational portfolio of the Bank. The Bank also refers to macroeconomic and structural policies that could and should underpin the refocusing on GRID issues. However, these issues receive only short shrift in its report: macroeconomic issues are never fully considered and structural reforms are solely linked to ‘promot[ing] robust private sector-led growth’ [135].

**Table 8.4. World Bank proposals for operationalizing GRID issues**

Dimension	World Bank policies and priorities
Green	<ul style="list-style-type: none"> <li>● Focus on transitions in energy, agriculture, food, water, land, transport, cities, and manufacturing systems</li> <li>● Support policies to produce the required skill mix and build social support</li> <li>● Support solutions that sustain natural capital, create jobs, and do not undermine tomorrow's growth</li> </ul>
Resilient	<ul style="list-style-type: none"> <li>● Invest in risk management to prevent and prepare for climate change, pandemics, natural hazards, socioeconomic and financial shocks</li> <li>● Mainstream risk management principles in all sectors, including infrastructure, cities, social systems, service delivery, and macro-stability</li> </ul>
Inclusive	<ul style="list-style-type: none"> <li>● Support solutions that do not leave anyone behind and reduce disparities in opportunities and outcomes</li> <li>● Include beneficiaries in policy and investment project design</li> </ul>

Source: [135].

Macroeconomic and structural policy areas are where the IMF has both a mandate and extensive expertise, thereby providing a natural comparative advantage to the organization for involvement in foregrounding GRID issues in the policy planning of its member-states, including borrowing countries. Indeed, the IMF can play a central role in supporting the development of the macroeconomic frameworks to underpin GRID policies, and this can be consistently evaluated in the organization’s lending programs. For the purposes of the current evaluation framework, we follow the World Bank’s understanding closely, albeit pared down to issues covered by the IMF’s mandate. In particular:

- ‘Green issues’ focus on the likely impact of IMF programs on the environment and meeting climate change adaptation and mitigation targets (for example, as mentioned in the Nationally Determined Contributions).
- ‘Resilience’ examines how IMF programs affect preparedness vis-à-vis different types of risk (including due to climate change or economic shocks), as well as the availability of sustainable financing of basic services for the population. In this context, preparedness relates to the role of the public sector in implementing adaptation policies, rather than individual/household decisions to invest in small-scale adaptation measures.<sup>8</sup>
- ‘Inclusivity’ captures the interplay between the various IMF-mandated reforms and poverty and inequality.

### 8.4. A TAILORED FRAMEWORK TO ASSESS GRID PRIORITIZATION IN IMF PROGRAMS

Drawing on our review of available ex-ante impact evaluation frameworks and our proposed operationalization of GRID issues for the IMF context, this section presents a novel framework that relies both on quantitative indicators and qualitative evaluations. In creating such an assessment, we spell out various missed opportunities for engagement with GRID issues, which readily begs the question of counterfactuals: even if an IMF program is not GRID-aligned, it is surely in the best interest of the country to receive this loan, compared to protracted economic trouble or even default, which will almost certainly be harmful for GRID objectives. This is a ‘something is better than nothing’ type of argument, to which IMF staff have often resorted to in the past when confronted with criticisms on the adverse social consequences of IMF programs: social outcomes would surely have been a lot worse if a country had not received IMF assistance and simply defaulted. But this logic reflects binary thinking about counterfactuals when the scenario of a country default is in fact only one of several imaginable counterfactual scenarios. More fruitful counterfactual exercises—also having real world policy importance—would consider how a differently designed IMF program could still meet its main macroeconomic objectives, while still helping advance GRID goals or—at minimum—remain GRID-neutral. This approach is not only policy relevant, but it also follows the IMF’s own thinking; for instance, one IMF interviewee explained that the organization ‘pays a lot of attention to inequality

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<sup>8</sup> For example, many IMF conditions can affect household incomes (e.g., public sector wage cuts limit the incomes of civil servants), and this can have follow-on effects on their ability to engage in behaviors that are climate friendly (e.g., like using cleaner—but more expensive—energy sources). The causal links between macroeconomic conditionality and microeconomic behavior, while real, are too lengthy to convincingly spell out, so we have refrained from such an exercise.

because we want the overall policy packages to be broadly distribution-neutral or perhaps progressive' (IMF2). In other words, even the approach of the IMF has moved on from the notion that the mere presence of a lending program is *ipso facto* better than its absence and—therefore—social or other considerations should be beyond the scope of its policy planning.

The framework is guided by three overarching priorities and we illustrate its utility by applying it to the two case studies in Appendices III and IV (Tables III.1 and IV.1):

- Identification of direct and indirect links between IMF conditionality and GRID issues, while recognizing the importance of country context and economic constraints. In practice, this means selecting a subset of GRID-relevant conditions (e.g., fuel subsidy removals would be covered, while a reform on monetary targets would not be included in the analysis) and tracing their likely causal pathways to GRID outcomes. Further, the evaluation would identify missed opportunities for engagement with GRID issues (e.g., a case where the IMF advocates for broad tax reform but without proposing tax incentives for investment in the green transition).
- Allocation of scores for each condition, that will be aggregated across each GRID dimension, and across the overall program. Scores will range from -2 for a highly negative evaluation to 2 for a highly positive evaluation. For example, in relation to green issues, a score of -2 would apply to cases where an IMF condition is likely to generate severe adverse environmental impacts, -1 if only moderately adverse impact is expected, 0 if conditionality will not likely impact environmental protection, 1 for moderate anticipated benefits to environmental protection, and 2 for substantial benefits. These scores will subsequently be added up across other conditions directly or indirectly impacting the environment to yield a 'green issues score,' which itself will be aggregated across the corresponding scores on resilience and inclusiveness to yield a cumulative total score for the program. Such a scoring exercise draws on the similar approach utilized by the World Bank in its human rights impact assessments [134], and is important because it allows the users of this framework to compare scores across the review cycle of an IMF program as conditionality becomes further developed (i.e., is it becoming more or less oriented towards GRID issues as each program update is concluded?) and between IMF programs (i.e., how does one country's scores compare to the scores of other countries?). Any coding scheme inevitably entails a degree of subjectiveness: it is possible that different evaluators might arrive at slightly different scores. This shortcoming is compensated by the systematic nature of the coding (each policy condition that plausibly affects GRID issues is captured) and by the transparency of the evaluation (each score is underpinned by a qualitative elaboration of the rationale).

- Ability of users to complete the evaluation through a desk review of IMF lending documents, reliance on publicly available data and—if necessary—consultation with country-level contacts (e.g., on political economy considerations). This means that the ambition of the framework is tempered by concerns over its usability within short timelines. Consequently, priorities commonly found in such frameworks—for example, extensive consultations with various local stakeholders—are seen as beyond the present scope. We have opted to present a comprehensive version of the assessment framework, with the understanding that end-users can opt to collect less contextual or other data.

The initial step of the framework—presented in Table 8.5—is to clearly set out the context in which an IMF program is situated. To that end, a comprehensive dashboard of indicators will set out economic developments in the country, the IMF’s main policy priorities as stated in the loan agreement and the country’s performance on key GRID indicators. Such a comprehensive and systematic use of a wider range of indicators is fully aligned with the recommendations of the 2021 Comprehensive Surveillance Review [75]. To the extent possible, the framework relies on easy-to-access data from trusted sources; ideally, also giving an estimate of country positioning vis-à-vis its income-group peers.

Subsequently, the framework analyses the likely impact of IMF conditionality for each of the three GRID components across four parameters:

- (1) Direct impact of policy conditions: The most obvious way through which IMF-mandated conditionality can impact GRID outcomes is through direct targeting—that is, through conditions that intentionally seek to alter policies with a high GRID-relevance. For example, as discussed in Section 2.2 for the case of Ecuador, its lending agreement foresees cuts to the public sector wage bill, pensions and fuel subsidies. The first two type of cuts are likely to increase inequalities unless they are accompanied by redistributive measures. The removal of fuel subsidies is likely to push the country towards reducing fuel consumption or using cleaner energy, thereby limiting its CO2 emissions.
- (2) Indirect impact of policy conditions: Notwithstanding the direct impact that some IMF conditions may have on GRID issues, conditionality may also have unintended collateral consequences. The aforementioned removal of fuel subsidies provides a case in point. The positive environmental impact of this policy is likely tempered by a potential regressive distributional impact. While rich households benefit more from them than poor households, their rapid removal can still adversely impact income for poor households, which tend to spend a larger share of their earnings on transportation costs. Similarly, the case of

privatizations of state-owned enterprises—a common IMF condition—may lead to mass layoffs, thereby increasing inequality, and may also reduce the ability of the central government to coordinate the green transition, thereby limiting climate change adaptation and mitigation.<sup>9</sup> Such possible indirect impacts need to be captured by an assessment framework, as they can have a multi-pronged impact on GRID issues. Indeed, identifying these issues early on is important for proposing ameliorative measures.

- (3) Political economy considerations: Examining the content of policy conditions alone is not enough, as the domestic policy processes pursued are also likely to impact the implementation and efficacy of any reforms. In the case of Ecuador noted above, the announcement of the removal of fuel subsidies sparked widespread protests, which even led to the government evacuating the capital city. This points to the need for sensitivity to political economy considerations. What are the main political constraints to implementing the reforms? And what is the degree of domestic ownership of the reforms?
- (4) Overall evaluation: Each section will conclude with a discussion of whether the IMF's conditionality meaningfully facilitates GRID objectives. Are the conditions compatible with making progress on international commitments (e.g., on meeting targets set out in NDCs) and are there any missed opportunities for IMF engagement with GRID issues? Each evaluation section concludes with an overall score (average of individual condition scores).

Based on the assessment framework, users will be able to clearly identify how IMF conditions impact each individual GRID component, and to assess whether the organization is abiding by a 'do no harm' principle: overall scores should never turn negative, as this would indicate that conditions are doing more harm than good. In our application of the framework, presented in Appendices III and IV, we find that only the conditionality of Kenya is borderline problematic from a GRID perspective: the overall score is zero, which means that positive and negative impacts on GRID issues cancel each other out. As with any scoring exercise, the results are open to debate, challenge and interpretation, which is why we have placed special emphasis on transparency of coding procedures. Indeed, fruitful exchange with partners based on problems or opportunities identified by the framework can help with the development of more informed positions on IMF conditions.

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<sup>9</sup> This is not an argument necessarily in favor of continuing to subsidize potentially inefficient enterprises with public funds, but to point to the possible trade-offs inherent vis-à-vis green and inclusive development. After all, there are alternatives to improve performance that fall short of privatization.

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**Table 8.5. Impact assessment framework for IMF lending programs**

	<b>Parameters</b>		<b>Evaluation criteria</b>	<b>Source</b>
<b>CONTEXT</b>	Country context	Economic developments	Data collection on five indicators over the three calendar years prior to the beginning of the program, the program year, and the projections for the three years after its onset: <ul style="list-style-type: none"> <li>• Real GDP (percent annual change)</li> <li>• Primary balance (percent of GDP)</li> <li>• Public gross nominal debt, decomposed into i. domestic and ii. external debt (percent of GDP)</li> </ul>	IMF loan document (table entitled ‘Selected Economic Indicators’)
		Development partnerships	Data collection on decomposition of financing over the two financial years prior to the beginning of the program, the program year, and the projections for the three years after its onset	IMF loan document (table entitled ‘Central Government Financial Operations’, ‘General Government Budget’, or similar)
			Reference to ongoing World Bank Development Policy Financing programs	World Bank data.
		IMF program objectives	List of program objectives agreed between IMF and borrowers	IMF loan document (as listed in the ‘Program Objectives’ section or equivalent of the ‘Memorandum of Economic and Financial Policies’)
	GRID context	Climate priorities	List of headline targets set out in the Nationally Determined Contribution or other publicly available strategies, broken down by mitigation and adaptation targets	<a href="#">NDC registry</a>
		Climate change mitigation indicator	Contribution to global greenhouse emissions as share of total global emission	<a href="#">LSE Grantham Institute</a>
		Climate change adaptation indicators	Government expenditure on environmental protection (% of GDP) for the most recently available year	<a href="#">IMF Climate Change Dashboard</a> → Government Policy Indicators → Environmental Protection Expenditures → Indicator GEN_G14
			Score and country rank on ND-GAIN Country Index and constitute components of vulnerability and readiness. Vulnerability measures a country's exposure, sensitivity and ability to adapt to the negative impact of climate change. Readiness measures a country's ability to leverage investments and convert them to adaptation actions.	<a href="#">ND-GAIN Country Index</a>

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	Resilience indicators	Non-life insurance penetration (Average non-life insurance premium to GDP)	<a href="#">IMF Climate Change Dashboard</a>	
		Proportion of total government spending on essential services (education and health) for the most recent year as proxy for availability of shock absorbers in case of crisis (SDG 1.a.2)	World Development Indicators: <a href="#">education</a> and <a href="#">health</a>	
	Poverty, inequality, and gender indicators	Data collection on the Gini Index (latest value; often dating 5-6 years back due to lack of data), share of population in extreme poverty (under \$1.90/day), and gender inequality index for the most recently available year	World Development Indicators ( <a href="#">Gini</a> ), Our World In Data ( <a href="#">extreme poverty</a> ), and UNDP ( <a href="#">gender inequality</a> )	
<b>GREEN ISSUES</b>	Direct impact of conditionality	IMF reform condition 1 (e.g., fuel subsidy removal)	Discussion of the expected pay-off vis-à-vis meeting climate change adaptation or mitigation targets as set out in NDCs. <i>Staff with hands on knowledge of political realities in the countries will be in a better place to assess plausible impacts of conditions.</i>	Scale between -2 and 2.
		IMF reform condition 2 (e.g., carbon taxes)	As above	Scale between -2 and 2.
	Indirect impact of unrelated conditions	IMF reform condition 1 (e.g., rapid & large fiscal consolidation)	Discussion of likely reform impact on the environment and the green transition. For example: <ul style="list-style-type: none"> <li>Large fiscal consolidation → reduced funding for public investments into climate change adaptation and mitigation in the short-run</li> <li>Large fiscal consolidation → government drive to raise revenues → increased pressure on environmental assets due to liberalization of land use laws or privatizations of public land</li> </ul>	Scale between -2 and 2.
		IMF reform condition 2 (e.g., broad tax reforms)	Discussion of likely reform impact on the environment and the green transition. For example: <ul style="list-style-type: none"> <li>Tax incentives for green investment → increased funding available for the green transition</li> <li>Reduction of corporate taxes → increased funding available for private sector investments in greener production processes</li> <li>Reduction of corporate taxes → decreased public revenues to fund public sector investments in the green transition</li> </ul>	Scale between -2 and 2.
	Missed opportunities	Discussion of policy issues relevant to overall program design and conditionality that could have received greater attention by the IMF but did not.		-2 = many and severe; -1 = few and severe or many and not severe; 0 = few and not severe
	Overall score	Average of scores on individual conditions and missed opportunities.		Scale between -2 and 2.

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<b>RESILIENCE</b>	Direct impact of conditionality	IMF condition 1	Discussion of the expected pay-off vis-à-vis strengthening preparedness for risks related to: (a) climate change and natural hazards; (b) economic shocks; and (c) (un)availability of basic services for the population (this category includes consideration of social spending floors).	Scale between -2 and 2.
		IMF condition 2	As above	Scale between -2 and 2.
	Indirect impact of unrelated conditions	IMF condition 1	Discussion of likely reform impact on resilience. For example: <ul style="list-style-type: none"> <li>• Large fiscal consolidation → reduced funding for basic services</li> <li>• Introduction of regressive taxes → decrease in the poorer households' ability to adapt to climate risks</li> <li>• Strengthened tax administration → sustainable funding base for basic services</li> <li>• Improved debt management → strengthened ability to withstand economic shocks</li> </ul>	Scale between -2 and 2.
		IMF condition 2	As above	Scale between -2 and 2.
	Missed opportunities	Discussion of resilience-relevant policy issues relevant to overall program design and conditionality that could have received greater attention by the IMF but did not.		
	Overall score	Average of scores on individual conditions.		Scale between -2 and 2.
<b>INCLUSIVENESS</b>	Direct impact of conditionality	IMF condition 1	Discussion of the expected pay-off vis-à-vis poverty and inequality, with additional emphasis on gender dimensions. This category includes consideration of 'pro-poor' reforms.	Scale between -2 and 2.
		IMF condition 2	As above	Scale between -2 and 2.
	Indirect impact of unrelated conditions	IMF condition 1	Discussion of likely reform impact on poverty and inequality. For example: <ul style="list-style-type: none"> <li>• Labour market flexibilization → reduced incomes or increased unemployment in short-run</li> <li>• Privatization → mass layoffs</li> </ul>	Scale between -2 and 2.
		IMF condition 2	As above	Scale between -2 and 2.
	Missed opportunities	Discussion of inclusive-relevant policy issues relevant to overall program design and conditionality that could have received greater attention by the IMF but did not.		
	Overall score	Average of scores on individual conditions.		Scale between -2 and 2.

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	Political economy considerations	Political constraints	Discussion of the main political constraints to implementing the aforementioned conditions and the broader program.	IMF loan document (annex entitled 'Risk Assessment Matrix' or discussed elsewhere in the main text) and user country knowledge
		Ownership of reforms	Measured as the degree of implementation of previous conditionality, in the previous program review. Following past scholarship [45], [136], condition implementation is a good proxy for ownership. Data on past conditionality implementation is available within each Memorandum of Economic and Financial Policies that is agreed with the IMF (i.e., same source as much of other information needed for this assessment).	Qualitative score: high/somewhat/low
			<b>Score across GRID issues</b>	Numerical score

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## APPENDIX I. CATEGORIZATION OF POLICY AREAS

	<b>Policy area description</b>	<b>Number of conditions</b>
<b>Core policy areas</b>	Fiscal issues, revenues, and taxation <i>Expenditure administration, fiscal transparency, audits, budget preparation, domestic arrears, and fiscal balance, customs administration, tax policy, tax administration, and audits of private enterprises</i>	5,382
	External debt issues <i>Debt management and external arrears</i>	3,318
	Financial sector, monetary policy, and Central Bank issues <i>Financial institution regulation, financial SOE privatization, treasury bills, interest rates, Central Bank regulation, money supply, and domestic credit</i>	2,870
	External sector (trade and exchange system) <i>Foreign reserves, trade liberalization, exchange rate policy, capital account liberalization, and foreign direct investment</i>	962
<b>Non-core policy areas</b>	Poverty reduction policies <i>Poverty Reduction Strategy Paper development, increases in social sector spending, and implementation of social safety nets</i>	876
	State-owned enterprise privatization, reform, and pricing <i>Non-financial SOE privatization (incl. liquidation and bankruptcy proceedings), SOE restructuring, subsidies, price liberalization, audits, marketing boards, and corporatization and rationalization</i>	698
	Institutional reforms <i>Judicial system reforms, anti-corruption measures, competition enhancement, private sector development, devolution, sectoral policies, social policies (excl. poverty reduction policies), price increases for food, water, public transport, or other basic needs goods, land registries, granting of property rights, environmental regulations, and access to commons</i>	377
	Labour issues (public and private sector) <i>Wage and employment limits, pensions, and social security institutions</i>	318
	<b>Total number of conditions</b>	<b>14,801</b>

Source: Authors' database, available on [www.imfmonitor.org](http://www.imfmonitor.org).

## APPENDIX II. DETAILED SUMMARIES OF GRID APPROACHES BY IMF PEERS

### II.1. WORLD BANK

Founded in 1944 as one of the two Bretton Woods Institutions, the World Bank is a multilateral development bank that aims to eradicate poverty and promote shared prosperity in developing countries. The World Bank Group consists of five institutions which fulfill different roles in pursuit of this mission: The International Bank for Reconstruction and Development (IBRD) provides financial development and policy financing. The International Development Association (IDA), a fund administered by IBRD staff and replenished by donors, provides zero- to low-interest loans and grants. The International Finance Corporation (IFC) mobilizes private sector investment and provides advice. The Multilateral Investment Guarantee Agency (MIGA) provides political risk insurance. The International Center for the Settlement of Investment Disputes settles investment disputes, typically between sovereign states and private investors. Since existence, the World Bank has funded over 12,000 development projects, through traditional loans, interest-free credits, and grants.<sup>10</sup> In the area of climate change, complementary support from special-purpose trust funds is significant (Reinsberg et al., 2020). The World Bank is also a unique repository of development knowledge, combining in-country presence and global sectoral expertise (Conceição-Heldt & Dörfler, 2021; Heldt & Schmidtke, 2019; Ravallion, 2016).

The World Bank engaged with climate change issues early but did not prioritize them until recently. Initial engagement with environmental issues was the result of civil society pressure about the environmental impacts of Bank-funded projects (Nielson & Tierney, 2003; Nielson, Tierney, & Weaver, 2006; Winter, 2020). The establishment of the Global Environment Facility (GEF) put the Bank on the map as an entrusted actor for managing donor funds—and helped it secure the trustee role for UNFCCC financial instruments, including the Adaptation Fund in 2006 and the Green Climate Fund in 2010. Under the leadership of James Wolfensohn, the World Bank created a Carbon Finance Unit within the former Environmentally and Socially Sustainable Development Vice-Presidency (Michaelowa & Michaelowa, 2011). In 1999, the Bank set up the Prototype Carbon Fund as its first multi-donor trust fund, followed by a plethora of other trust funds on climate change that attracted about \$450 million on average each year in FY 2007-17—a relatively small amount compared to \$8 billion in total annual IDA contributions (Reinsberg et al., 2020).

Climate-related commitments by the Bank from its own resources are a more recent phenomenon, given the lack of a legally binding basis for engaging in climate change issues. While neither its Articles of Agreements nor its Corporate Strategy mention climate change (or GRID), the World Bank has a strong desire to make its development projects more economically, socially, and environmentally sustainable. Its policy priorities on climate change

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<sup>10</sup> <https://www.worldbank.org/en/what-we-do>

are governed by so-called 'Climate Change Action Plans' (CCAPs). The transition from the first CCAP to the second CCAP shows growing ambition on climate finance and a greater emphasis on adaptation and resilience (as opposed to mitigation).

Under its first CCAP from FY 2015-19, the Bank pledged to increase climate-related spending from 21% to 28%. It achieved this goal early and proclaimed 35% as a new target for FY 2025. In FY 2021, the World Bank spent \$26 billion on climate change, up from \$20 billion in FY 2018. Under its second CCAP, the Bank is committed to double its climate-related spending to reach \$50 billion in FY 2021-25, and to spend the same share on adaptation as on mitigation.<sup>11</sup> These figures make the Bank the largest climate financier, in addition to being a key catalyst of private finance and trustee for multilateral climate funds.<sup>12</sup> Beyond its own resources, the World Bank has catalyzed approximately \$1 trillion, through market creation and de-risking. Through the Clean Technology Fund, an example of a multilateral climate fund, the Bank launched a \$1 billion program on battery storage.<sup>13</sup> The second (and current) CCAP for FY 2021-25 focuses on leveraging private sector finance and supporting increased systemic climate action at the country level, including by supporting Finance Ministers to share best practices and experiences on macroeconomic issues and public financial management policies for low-carbon climate-resilient growth.

The latest CCAP declares 'adaptation and resilience' to be a core theme of Bank work. Focal themes include disaster risk management, coastal resilience, human development, financial protection, and forests.<sup>14</sup> In addition, the World Bank claims a lead role in piloting innovative approaches and global analytical work. In FY 2021, it has built and rolled out a new system for tracking global progress on adaptation and resilience, helping countries identify which activities most effectively build resilience.<sup>15</sup> The system is currently being piloted in 20 countries.<sup>16</sup> Guided by a set of 'adaptation principles'<sup>17</sup> and supported by trust funds, the Bank has piloted innovative work on disaster risk reduction (GFDRR), climate readiness (NDC-SF), clean technology (CIF), carbon emission reduction partnerships (CPF), and forests and decarbonization (FCPF). According to the latest CCAP (FY 2021-25), the Bank wants to move away from green projects and toward greening entire economies. To that end, it began mainstreaming climate issues into all country diagnostics and country strategies, through

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<sup>11</sup> <https://www.worldbank.org/en/topic/climatechange/overview#2>

<sup>12</sup> The World Bank is the financial trustee of 11 FIFs, fulfils the secretariat role for 8 FIFs, and is an accredited implementers under 11 FIFs (Reinsberg et al., 2020).

<sup>13</sup> <https://www.worldbank.org/en/topic/climatechange/brief/3-things-you-need-to-know-about-climate-finance>

<sup>14</sup> <https://www.worldbank.org/en/news/press-release/2019/01/15/world-bank-group-announces-50-billion-over-five-years-for-climate-adaptation-and-resilience>

<sup>15</sup> <https://www.worldbank.org/en/topic/climatechange/brief/3-things-you-need-to-know-about-adaptation-and-resilience>

<sup>16</sup> <https://openknowledge.worldbank.org/handle/10986/35039>

<sup>17</sup> <https://openknowledge.worldbank.org/handle/10986/34780>

Country Climate and Development Reports (CCDRs) as a diagnostic tool. In this year, the Bank plans to complete 25 CCDRs. These are publicly available, to steer donor funding.<sup>18</sup>

The World Bank also supports concrete action at the country level combining efforts to promote development and to address climate change. Through greater in-country presence and country-specific analytical work, the World Bank hopes to unleash systemic transformations in key sectors such as energy, food systems, manufacturing, transport, and urban infrastructure, which collectively account for 90% of greenhouse gas emissions.<sup>19</sup> The Bank leadership states that climate-related support focuses on countries with large CO<sub>2</sub> emissions and those with greatest climate vulnerabilities. The NDC Support Facility plays a critical role in helping countries identify projects with climate change benefits so that they can achieve their commitments under the Paris Agreement. The Bank estimates that there are potential investments over \$23 trillion until 2030 in 21 emerging markets.<sup>20</sup> In addition, the Bank also assists countries in devising climate-friendly macroeconomic and fiscal policies, for example through advice on carbon taxes.<sup>21</sup> In 2019, under leadership of Chile and Finland, it established the Coalition of Finance Ministers for Climate Action.<sup>22</sup> The Coalition operates under the Helsinki principles and devised the Santiago Action Plan, which champions greater private-sector involvement for climate-related investments.

Looking across the World Bank Group, ‘adaptation and resilience’ is also an increasing priority for the International Finance Corporation (IFC)—the private-sector lending arm of the Bank. Since 2010, IFC has issued 178 ‘green bonds’ in 20 currencies for ‘climate-smart investments’ totalling about \$10.6 billion.<sup>23</sup> The IFC now analyzes climate risks in IFC loans and has committed to ‘Paris-align’ all its projects. IFC is leading an MDB group that will meet in November 2021 that will operationalize the key principles of such Paris-alignment. For its own part, IFC adopted a new equity strategy that commits the institution not to invest in financial institutions that allow investments into coal. Furthermore, an increasing share of its projects have adaptation components built into them. With respect to the COVID-19 response, IFC claims to have done “more than ever before”, recognizing the potential of this crisis to deepen existing inequalities. IFC approved a COVID-19 Fast Track Facility over \$8 billion while having put aside \$4 billion for global health issues.<sup>24</sup>

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<sup>18</sup> <https://www.worldbank.org/en/news/speech/2021/03/29/building-a-green-resilient-and-inclusive-recovery-speech-by-world-bank-group-president-david-malpass>

<sup>19</sup> <https://www.worldbank.org/en/news/speech/2021/03/29/building-a-green-resilient-and-inclusive-recovery-speech-by-world-bank-group-president-david-malpass>

<sup>20</sup> <https://www.worldbank.org/en/topic/climatechange/brief/3-things-you-need-to-know-about-ambitious-climate-action-in-developing-countries>

<sup>21</sup> <https://www.worldbank.org/en/news/speech/2021/03/29/building-a-green-resilient-and-inclusive-recovery-speech-by-world-bank-group-president-david-malpass>

<sup>22</sup> [https://www.cape4financeministry.org/coalition\\_of\\_finance\\_ministers](https://www.cape4financeministry.org/coalition_of_finance_ministers)

<sup>23</sup> [https://www.ifc.org/wps/wcm/connect/corp\\_ext\\_content/ifc\\_external\\_corporate\\_site/about+ifc\\_new/investor+relations/ir-products/grnbond-overvw](https://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/about+ifc_new/investor+relations/ir-products/grnbond-overvw)

<sup>24</sup> Presentation by Stephanie von Friedeburg at the virtual COP26 Devex summit (5 November 2021)

The Bank has been at the forefront in stemming the fallout from the COVID-19 pandemic while ensuring that the recovery obeys GRID principles. In a statement on 29 March 2021, at the height of the pandemic, World Bank president David Malpass outlined his approach to tackling the interlinked crises of poverty, inequality, and climate change. Under his tenure, the World Bank claims to have realigned its operations to focus on country-level impact (for example through more country-focused knowledge programs), expanded its presence in fragile and conflict-affected states, and prioritized climate change.<sup>25</sup> The Development Committee—the joint ministerial body of the Boards of Governors at the World Bank and the Fund—approved a GRID-based approach to recovery, announcing new financing commitments (over \$160 billion) that must be aligned to the GRID agenda.

Opinions on the Bank COVID-19 response have diverged. On the one hand, the Bank itself argued that all its recovery operations are aligned with the GRID approach, which is why the institution does not report separate figures on how much of this funding is relevant to this agenda. The World Bank—through all its institutions—was fast to mobilize COVID-19 relief and spearheaded the GRID approach. Research finds no evidence of geopolitical bias (as measured by the UN vote alignment with major shareholders) for emergency loans extended during the COVID-19 pandemic (Kilby & McWhirter, 2021). On the other hand, the implementation of its recovery package is not without criticism. In Indonesia, the Bank was accused of supporting gas as a source of energy in the national energy transition strategy.<sup>26</sup>

Its high current ambition cannot conceal that the World Bank has long not prioritized climate change but instead relied on donor-funded initiatives. Promising steps are the ongoing mainstreaming of climate issues into country operations, as well as the increasing ambition of the World Bank leadership on climate change. Among the remaining challenges will be how the Bank will resolve goal conflicts. The example of Indonesia shows that ‘quick win-wins’ between economic development and climate change are not realistic. Another challenge is to ensure coordination with other institutions. Specifically, the advice on fiscal policy and public financial management seems to be an area that falls closer into the remit of the Fund, with a foreseeable need for division of labor as a result.

### Further links:

- World Bank (2021). From COVID-19 Crisis Response to Resilient Recovery Saving Lives and Livelihoods while Supporting Green, Resilient and Inclusive Development (GRID). Development Committee.
- Kilby, C. & McWhirter, C. (2021). The World Bank COVID19 response: Politics as usual? *Review of International Organizations*, <https://doi.org/10.1007/s11558-021-09440-2>.

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<sup>25</sup> <https://www.worldbank.org/en/news/speech/2021/03/29/building-a-green-resilient-and-inclusive-recovery-speech-by-world-bank-group-president-david-malpass>

<sup>26</sup> <https://www.brettonwoodsproject.org/2021/09/world-banks-plans-for-indonesia-delayed-action-on-climate-and-continued-coal-and-gas-support>

## II.2. AFRICAN DEVELOPMENT BANK

Founded in 1964, the African Development Bank (AfDB) aims to spur sustainable economic development and social progress in its member countries, thus contributing to poverty reduction. The Bank Group achieves this objective by mobilizing and allocating resources for investment and providing policy advice and technical assistance to support development efforts.<sup>27</sup>

Current operations are guided by the AfDB Strategy for 2013-2022, which mentions infrastructure development, regional integration, private sector development, governance and accountability, and skills and technology as the five 'operational priorities' and fragile states, agriculture and food security, and gender as 'areas of special emphasis'. Through a dual commitment on inclusive growth and green growth, the Strategy is informed by a GRID approach. However, its founding document does not mention GRID-related issues. The AfDB presents its engagement with climate change on a dedicated sector website. The rationale for its engagement is a projected investment need of about \$3 trillion in mitigation and adaptation by 2030 to meet the Paris Agreement goal. While 53 African countries have submitted nationally-determined contributions, countries will only be able to achieve them through adequate financing and technical assistance.

AfDB activities on climate change are governed by its second Climate Change Action Plan (CCAP) for 2016-2021. With its second CCAP, the Bank continues a reorientation of its business model to forcefully confront climate change, set in motion after the Paris Agreement. The Bank increased its climate finance from 9% in 2016 to 35% in 2019 and is aiming for a target of 40% by 2021. Its financial contribution for climate adaptation increased from 49% in 2018 to 63% in 2020, making the AfDB the first MDB to achieve adaptation-mitigation parity.<sup>28</sup> The AfDB asserts that it is on track to meet its own commitments under the second CCAP. These include a total spending target of \$25 billion by 2025 and a relative share of 40% of project approvals for climate change, with equal proportions for adaptation and mitigation. The strategy also commits the Bank to fully incorporate climate aspects in the design of its investments.<sup>29</sup> The strategy assigns a key role to the private sector (for achieving the \$3 trillion target in resource mobilization) and to civil society (to hold governments accountable for meeting their NDCs).<sup>30</sup>

Over the past years, the AfDB pulled triggers to be able to achieve the ambitious targets of its current climate action plan. Three initiatives underlined the Bank's efforts to mobilize private finance.<sup>31</sup> In 2017, the AfDB established the Africa NDC Hub which brings together key partners to support NDC implementation in Africa. This is in line with the Paris Agreement

<sup>27</sup> <https://www.afdb.org/en/about/mission-strategy>

<sup>28</sup> "Climate change: The African Development Bank is the first multilateral development institution to achieve mitigation and adaptation parity", Al Hamndou Dorsouma, African Development Bank (Contify Banking News, 15 July 2021).

<sup>29</sup> <https://www.afdb.org/en/topics-and-sectors/sectors/climate-change>

<sup>30</sup> Contify Banking News, 15 July 2021.

<sup>31</sup> <https://www.afdb.org/en/news-and-events/building-partnerships-to-deliver-africas-paris-agreement-commitments-18900>

(paragraph 45) which calls for strengthening of regional cooperation and the establishment of regional centers and networks, in particular in developing countries.<sup>32</sup> To mobilize greater private sector financing, the AfDB led the creation of the Africa Financial Alliance for Climate Change in 2018.<sup>33</sup> In 2019, the AfDB appointed a group of renowned experts to the board of a continental initiative to mobilize financing for resilience to the negative impacts of climate change. The Bank established the interim executive board of the Adaptation Benefits Mechanism (ABM) on 4 October 2019.<sup>34</sup> The ABM board is being assisted by an interim secretariat, placed in the Climate Change and Green Growth department.

Through its own resources, the AfDB continues to support green transitions in its member states. In support of mitigation, the AfDB announced in October 2019 that it would no longer finance coal. In support of adaptation, AfDB funding would benefit projects such as the Africa Disaster Risk Facility and early warning systems.<sup>35</sup> The AfDB uses the entire range of climate finance instruments, including bonds, equity, grants, and other mechanisms. For example, its green bonds program has committed financing for 33 green investment projects so far.<sup>36</sup> An example of a grant-funded partnership is ClimDev, established in 2009. Its primary purpose is to build capacity to generate, share, and use high-quality climate information.<sup>37</sup> AfDB's partnership website lists at least a further 50 initiatives with climate focus.<sup>38</sup> Funding from multilateral climate funds complements AfDB loan resources. In April 2015, the AfDB became an implementing agency under the Green Climate Fund.<sup>39</sup>

The Bank also stepped up its portfolio of analytical tools on climate change issues and related capacity for technical assistance. Some of its recent tools include the Climate Safeguard System, the Greenhouse Gas Accounting and Reporting Tool, the Green Growth M&E Framework, the Green Bonds Framework, the Africa Green Growth Index, Environmental and Social Safeguards, Guidelines for the mainstreaming of environmental and climate change in national income accounting, and the African NDC Support Hub to provide technical assistance and project development.<sup>40</sup>

With respect to a GRID recovery following from the COVID-19 crisis, the AfDB does not mention on its website how its recovery operations align with climate change. AfDB has made available \$10 billion through its Crisis Response Fund. The bulk of this funding is unrelated to

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<sup>32</sup> <https://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/africa-ndc-hub>

<sup>33</sup> <https://financialquest.com.ng/african-development-bank-leads-on-creating-an-africa-financial-alliance-for-climate-change/>

<sup>34</sup> <https://bit.ly/2NezGi>

<sup>35</sup> <https://www.afdb.org/en/news-and-events/press-releases/unga-2019-no-room-coal-africas-renewable-future-akinwumi-adesina-30377> (Intellinews, 2 October 2019)

<sup>36</sup> <https://www.afdb.org/en/documents/climate-change-and-green-growth-2020-annual-report>

<sup>37</sup> <https://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/climate-for-development-in-africa-climdev-africa-initiative>

<sup>38</sup> <https://www.afdb.org/en/topics-and-sectors/initiatives-partnerships>

<sup>39</sup> <https://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/green-climate-fund>

<sup>40</sup> AllAfrica, 21 March 2019

climate change, because COVID-19 recovery spending will reduce the share of AfDB resources spent on climate change from 44% to 34%, according to the joint MDB report on climate finance.

### Further links:

-- Climate Change Action Plan 2016-2020: <https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/AfricanDevelopmentBankClimateChangeActionPlan2016-2020.pdf>

-- Annual report 2020 of the Climate Change and Green Growth department: <https://www.afdb.org/en/documents/climate-change-and-green-growth-2020-annual-report>

## II.3. ASIAN DEVELOPMENT BANK

Founded in 1966, the Asian Development Bank (ADB) is a MDB that is “committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining efforts to eradicate extreme poverty”.<sup>41</sup> ADB assists its members, and partners, by providing loans, technical assistance, grants, and equity investments to promote social and economic development. ADB maximizes the development impact of its assistance by facilitating policy dialogues, providing advisory services, and mobilizing financial resources through co-financing operations that tap official, commercial, and export credit sources.<sup>42</sup>

Climate-related issues are not part of the mandate but have become a priority in ADB policy strategy documents. Current related activities are governed by its Strategy 2030, which sets out a cumulative climate finance target of \$80 billion in 2019-2030 and a commitment to make 75% of ADB projects climate-relevant by 2030. The basis for these ambitious targets was laid in 2015. Then the ADB committed to double climate investment to \$6 billion annually by 2020—a target that the Bank reached already in 2019. Of the \$6.2 billion mobilized, \$4.8 billion was for mitigation and \$1.4 billion for adaptation. Looking beyond own resources, the ADB issued green bonds over \$5 billion and mobilized concessional finance of \$473 million (as of December 2019) from the Green Climate Fund.<sup>43</sup>

Under the leadership of the Sustainable Development and Climate Change (SDCC) department, the ADB has prioritized climate change in recent years. It boasts itself to be the first MDB to set a long-term investment target for 2030, to implement a long-term climate change operational framework, to establish climate risk screening and management, and to disclose project-level data on all climate projects. In view of its climate ambition and achievements to date, ADB refers to itself as the ‘climate bank’ for Asia and Pacific.<sup>44</sup>

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<sup>41</sup> <https://www.adb.org/who-we-are/main>

<sup>42</sup> <https://www.adb.org/who-we-are/about>

<sup>43</sup> <https://www.adb.org/news/op-ed/banking-action-how-adb-achieved-2020-climate-finance-milestone-one-year-ahead-time>

<sup>44</sup> <https://www.adb.org/climatebank>

ADB climate finance includes loans, co-financing investments (with multilateral climate funds), and technical assistance. Its lending business focuses on energy and transport, thus addressing key sectors in the climate-related transition. The ADB concluded consultations on its new energy policy in October 2021, updating its related 2009 strategy. Civil society criticized that gas plays a key role in the energy transition.<sup>45</sup> Due to a relative lack of fundable transition projects, the ADB recently announced plans to buy high-emission coal-fired power plants in Southeast Asia and retire them within fifteen years.<sup>46</sup> As to its co-financing business, the ADB was the first MDB to be accredited by the GCF in 2015, with cumulative funding of roughly \$1 billion. Its technical assistance has been strengthened with the setup of the NDC Advance platform and the Article 6 Support Facility. In addition, ADB mobilizes private sector finance, through issuing ‘green bonds’ and ‘blue bonds’.<sup>47</sup> Finally, ADB has provided disaster and emergency assistance.<sup>48</sup>

Finally, ADB informs prominently on its website about linking its COVID-19 recovery efforts to the GRID agenda. Since the beginning of the pandemic in early 2020, ADB has committed more than \$17.5 billion to help its developing member countries address the impacts of COVID-19 and address vaccination needs, and has mobilized a further \$12.5 billion in co-financing from partners.<sup>49</sup> During COP26, ADB launched the ASEAN Green Recovery Platform, and secured \$665 million in contributions to the facility from four donors—the United Kingdom (£110 million), Italy (€132 million), the European Union (€50 million), and the Green Climate Fund (\$300 million). The platform seeks to mobilize \$7 billion for low-carbon and climate-resilient infrastructure projects in Southeast Asia as part of a COVID-19 response.<sup>50</sup>

Guiding its COVID-19 recovery efforts are the ‘Five Principles for Just Transition’: delivering climate objectives while enabling socioeconomic outcomes and building progress on Paris Agreement goals and the Sustainable Development Goals; support to move away from GHG emissions-intensive economic activities through financing, policy and advisory activities, and knowledge sharing; mobilization of public and private finance and enhanced coordination; support for affected workers and communities to mitigate impacts and increase opportunities; and transparent and inclusive planning and monitoring with relevant stakeholder and affected groups.<sup>51</sup> ADB long acknowledged the need for greater adaptation and resilience in the climate-vulnerable region of Asia and Pacific. At a joint ADB-IMF webinar on “Policies to Support a Green and Inclusive Recovery”, international experts discussed which policies can facilitate the recovery and transition to green growth, while taking political economy into consideration and addressing the concerns of those adversely affected by such

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<sup>45</sup> (Eco-Business News, 21 June 2021)

<sup>46</sup> (ForeignAffairs.co.nz, 24/09/2021)

<sup>47</sup> (BusinessWorld, 17/09/2021)

<sup>48</sup> <https://www.adb.org/news/adb-approves-policy-changes-disaster-and-emergency-assistance>

<sup>49</sup> <https://www.adb.org/who-we-are/main> (accessed 1 November 2021)

<sup>50</sup> <https://www.adb.org/news/partners-pledge-665-million-support-green-recovery-asean>

<sup>51</sup> <https://www.adb.org/news/adb-joins-mdbs-support-just-transition-toward-net-zero-economies>

a strategy. The event was held as part of the 54th Annual Meeting of the ADB Board of Governors.<sup>52</sup> However, ADB has not shown yet how it combines both objectives, given that its crisis support lowered the share of ADB funds spent on climate change from 25% to 19%, according to data from the joint MDB report on climate finance (EBRD, 2020).

### Further links:

-- Strategy 2030: <https://www.adb.org/documents/strategy-2030-prosperous-inclusive-resilient-sustainable-asia-pacific>

-- New Energy Policy: <https://www.adb.org/news/new-adb-energy-policy-support-energy-access-and-low-carbon-transition-asia-and-pacific#:~:text=ADB%20will%20prioritize%20essential%20energy,energy%20security%20and%20climate%20resilience.>

-- <https://www.adb.org/what-we-do/themes/climate-change-disaster-risk-management/main> (for most up to date information)

## II.4. INTER-AMERICAN DEVELOPMENT BANK

Founded in 1959, the Inter-American Development Bank (IADB) is an MDB with the goal to improve lives in Latin America and the Caribbean. The IADB prioritizes social inclusion and equality, productivity and innovation and regional economic integration in its development work, while addressing the cross-cutting issues of gender equality and diversity, climate change and environmental sustainability, and institutional capacity and the rule of law.

Climate-related issues are not mentioned in the founding document. A dedicated Climate Change and Sustainable Development (CSD) department oversees IADB's work on climate change and its subthemes 'environment and natural disasters', 'social investment', and 'agriculture and rural development'. Climate-related activities have been governed by the Integrated Climate Change Mitigation and Adaptation Strategy, adopted by IADB in 2011. The strategy outlined five courses of action: develop instruments to mainstream climate change in IDB operations, strengthen the knowledge base for clients and staff, expand lending and technical assistance in key sectors, strengthen institutional frameworks, and scale up investments, addressing financing gaps and leveraging private sector investments.<sup>53</sup>

Current operations are guided by an update Corporate Strategy, as well as the Climate Change Action Plan for 2021-25. The Corporate Strategy reports on IADB support for climate-resilient development, which includes the mainstreaming of climate change considerations across its operations, including the approval of a joint IADB Group Climate Change Action Plan. IADB created NDC Invest, a platform for countries to access resources for transforming their Nationally Determined Contributions into achievable investment plans. IDB also supports the Caribbean Climate-Smart Coalition, a public-private initiative to transform the region into a

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<sup>52</sup> <https://www.adb.org/annual-meeting/2021/news>

<sup>53</sup> <https://www.iadb.org/en/ove/feature/climate-change-idb>

“climate-smart” zone and has launched its Sustainable Islands Platform to help islands pursue sustainability and climate-resilient investments. IADB work on sustainable infrastructure and sustainable cities is based on a recognition of the multiple dimensions of sustainability that include economic, financial, social, environmental, and institutional considerations.<sup>54</sup>

According to the joint MDB report on climate finance, the IADB currently spends \$3.43 billion on climate change, thereof \$1.17 billion on adaptation (34%) and \$2.26 billion on adaptation (66%). In 2015, IADB pledged to double its climate financing to \$4 billion by 2020, reaching a spending share on climate change of 30% in its overall portfolio (up from 15%). It also pledged to improve the evaluation of climate risks (ADB, 2015).

In support of its climate goals, the IADB provides loans, grants, and technical assistance, and conducts extensive research. As an example of the latter, the IADB published a study estimating that 4.2 million people in SIDS in CARICOM would be affected by climate change, which led to the promulgation of the ‘blue urban agenda for coastal cities’ in SIDS.<sup>55</sup> In 2021, IADB issued a press statement saying that fiscal policies against climate change could help create 15 million jobs.<sup>56</sup>

The COVID-19 response occupies a prominent role in the self-presentation of the IADB. The organization has established a Coronavirus platform<sup>57</sup> which informs about four priority areas (strengthen public health and preparedness; safety nets; economic productivity and employment; fiscal policies). IADB also changed its corporate governance procedures, for instance simplified procedures for contracts, in response to the COVID-19 pandemic. However, the COVID-19 response is not explicitly linked to climate change. The only exception was a virtual workshop event held in March 2021 on how to build back more inclusively.<sup>58</sup>

### Further links:

-- IADB (2011). Integrated Climate Change Mitigation and Adaptation Strategy: <https://publications.iadb.org/handle/11319/2065?locale-attribute=en>

-- IADB (2021). Inter-American Development Bank Group Climate Change Action Plan 2021-2025. <https://publications.iadb.org/en/inter-american-development-bank-group-climate-change-action-plan-2021-2025>

-- IADB (2021). Second Update to the Institutional Strategy. <https://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=EZSHARE-1350314980-470>

-- IADB/OEV (2014). Office of Evaluation and Oversight report on climate change: <https://www.iadb.org/en/ove/feature/climate-change-idb>

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<sup>54</sup> IADB Corporate Strategy, page 25

<sup>55</sup> <https://publications.iadb.org/en/blue-urban-agenda-adapting-climate-change-coastal-cities-caribbean-and-pacific-small-island> (8 June 2017, ForeignAffairs.co.nz)

<sup>56</sup> <https://www.iadb.org/en/news/fiscal-policies-against-climate-change-can-help-create-15-million-jobs> (ENP, 19 May 2017)

<sup>57</sup> <https://www.iadb.org/en/coronavirus>

<sup>58</sup> <https://liveevents.iadb.org/events/22967>

## II.5. EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

Founded in 1991, the European Bank for Reconstruction and Development (EBRD) is a MDB committed to foster progress toward market-oriented economies in its Central and Eastern European member countries. The EBRD soon expanded its original geographic focus to assist countries in the European neighborhood, such as in the Middle East and North Africa. Since its existence, the EBRD has complemented development financing with assistance for political reform.<sup>59</sup>

The EBRD is unique in that its constitutional document heavily draws on the GRID approach (Ambrosio, Hall, & Obydenkokva, 2021). The EBRD Articles of Agreement include a commitment to promote “environmentally sound and sustainable development” (Article 2).<sup>60</sup> Uniquely for a development bank, the EBRD also has a political mandate in that it assists only those countries “committed to and applying the principles of multi-party democracy [and] pluralism” (Article 1). The EBRD further updated its rules of access in 2017. Back then, the EBRD began applying a new transition concept which requires more than competitiveness from a well-functioning market economy—specifically to also be inclusive, well-governed, green, resilient and integrated.<sup>61</sup>

Specifically with respect to climate change, the EBRD has adopted the Green Economy Transition 2021-25 strategy, aiming to build green, low carbon and resilient economies. Through the new GET approach, the EBRD will increase green financing to more than 50% of its annual business by 2025. It also aims to reach net annual GHG emissions reductions of at least 25 million tonnes over the five-year period and fully align with the Paris Agreement by end-2022.<sup>62</sup> GET 2021-2025 adopts a systemic approach in supporting the transition to low-carbon and resilient economies. This involves assessing projects in relation to the principles of international climate agreements, principally the Paris Agreement; enhancing policy engagement for the development of long-term low carbon strategies and greening of financial systems; and scaling investments across a set of priority themes including greening the financial sector, energy systems, industrial decarbonisation, cities and environmental infrastructure, sustainable food systems, green buildings, and sustainable connectivity.<sup>63</sup> To support these priorities, the EBRD uses loans, equity, and guarantees,<sup>64</sup> in addition to external donor funds from the Climate Investment Funds, the European Union, the Global Environment Facility, the Green Climate Funds, and bilateral donors.<sup>65</sup>

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<sup>59</sup> <https://www.ebrd.com/who-we-are/history-of-the-ebrd.html>

<sup>60</sup> <https://www.ebrd.com/documents/comms-and-bis/pdf-basic-documents-of-ebrd-2013-agreement.pdf>

<sup>61</sup> <https://www.ebrd.com/who-we-are/history-of-the-ebrd.html>

<sup>62</sup> <https://www.ebrd.com/what-we-do/get.html>

<sup>63</sup> <https://www.ebrd.com/what-we-do/get.html>

<sup>64</sup> <https://www.ebrd.com/work-with-us/project-finance.html>

<sup>65</sup> <https://www.ebrd.com/what-we-do/get.html>

The EBRD admits that its COVID-19 response package had limited climate relevance. The EBRD responded to the pandemic by committing all its activity in 2020-2021—totaling about EUR 21 billion—to countering its economic impact. The Bank said the pandemic was a huge challenge to the countries where the EBRD works, all shareholders and the Bank itself.

### Further links:

-- EBRD Articles of Agreement: <https://www.ebrd.com/documents/comms-and-bis/pdf-basic-documents-of-ebrd-2013-agreement.pdf>

-- Green Economy Transition 2021-25 strategy: <https://www.ebrd.com/cs/Satellite?c=Content&cid=1395250280926&pagename=EBRD%2FContent%2FDownloadDocument>

-- Ambrosio, T., Hall, S., and Obydenkokva, A. (2021). Sustainable Development Agendas of Regional International Organizations: The European Bank of Reconstruction and Development and the Eurasian Development Bank. *Problems of Post- Communism*, DOI: 10.1080/10758216.2021.1979412

## II.6. EUROPEAN INVESTMENT BANK

Established in 1958, the European Investment Bank (EIB) is “the lending arm of the European Union.”<sup>66</sup> As a globally active development bank, the EIB support projects that promote the priorities and objectives of the EU. The EIB finances bankable projects in the priority areas of climate and environmental sustainability, innovation and skills, infrastructure, small and medium enterprises, cohesion, and development. The EIB was the first international financial institution to issue a green bond in 2007.<sup>67</sup>

With the promulgation of the EU ‘Green Deal’, the priorities of the EIB have further shifted toward climate change. The Green Deal commits Europe to become the first carbon-neutral continent.<sup>68</sup> The EU is on track to meeting its climate commitments under the Paris Agreements, which include 20% emission reduction by 2020 and 40% by 2030.<sup>69</sup> In 2020, the EU updated its pledge, committing the EU to reduce emissions by 55% by 2030.<sup>70</sup> In July 2021, the EU announced its implementing strategy (“Fit for 55”) to achieve its emission targets, which entails concrete sector strategies such as a revision of the Emission Trading System, land use policy, and renewable energy policy. Through the Just Transition Mechanism, the EU

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<sup>66</sup> <https://www.eib.org/en/about/index.htm>

<sup>67</sup> <https://www.eib.org/en/press/all/2017-173-eib-highlights-10th-anniversary-of-the-eib-issuing-the-worlds-first-green-bond-and-confirms-new-green-bond-tree-planting-scheme>

<sup>68</sup> [https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal\\_en](https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en)

<sup>69</sup> [https://ec.europa.eu/clima/eu-action/climate-strategies-targets/progress-made-cutting-emissions\\_en](https://ec.europa.eu/clima/eu-action/climate-strategies-targets/progress-made-cutting-emissions_en)

<sup>70</sup> [https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Spain%20First/EU\\_NDC\\_Submission\\_December%202020.pdf](https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Spain%20First/EU_NDC_Submission_December%202020.pdf)

will mobilize up to EUR 75 billion over 2021-2027 to alleviate the socioeconomic impact of the green transition.<sup>71</sup>

The EIB recently adopted its Climate Bank Roadmap 2021-2025 to deliver on its ambitious agenda to support EUR 1 trillion of climate action and environmental sustainability investments in the decade from 2021-2030 and to deliver more than 50% of EIB finance for climate action and environmental sustainability by 2025. This is double the figure that EIB committed in 2015 for its global lending (ADB, 2015). Also, as part of the Roadmap, from the start of 2021, all new EIB operations will be aligned with the goals and principles of the Paris Agreement.<sup>72</sup> The formulation of the Roadmap benefited from input of a newly created Climate and Environment Advisory Council chaired by ECB president Christine Lagarde) that provided independent advice and expertise on the activities that the EIB is carrying out to reach its climate action and environmental sustainability ambitions.<sup>73</sup> Critics contend that the EIB needs to be more transparent about how it makes investment decisions on climate change, according to environmental lawyers who lodged a complaint with the EU ombudsman.<sup>74</sup>

EIB's climate ambition and engagement is not without precedent: The EIB Climate Strategy, launched in September 2015, committed the Bank to a greater focus on the impact of projects as well as more support for adaptation measures in climate vulnerable countries. EIB also pledged to step up its climate financing in developing countries to 35% by 2020 (and 25% in all borrowing countries).<sup>75</sup> In November 2019, the EIB board agreed a new energy lending policy and confirmed the EIB's increased ambition in climate action and environmental sustainability.<sup>76</sup> Key aspects of the policy included the prioritization of energy efficiency with a view to supporting the new EU target under the EU Energy Efficiency Directive; enabling energy decarbonisation through increased support for low or zero carbon technology, aiming to meet a 32% renewable energy share throughout the EU by 2030; increasing financing for decentralized energy production, innovative energy storage and e-mobility; ensuring grid investment essential for new, intermittent energy sources like wind and solar as well as strengthening cross-border interconnections; and increasing the impact of investment to support energy transformation outside the EU. As of September 2021, the EIB is active in around 160 countries and is the world's largest multilateral lender for climate action projects.

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<sup>71</sup>[https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal/finance-and-green-deal/just-transition-mechanism\\_en](https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal/finance-and-green-deal/just-transition-mechanism_en)

<sup>72</sup> <https://www.eib.org/en/stories/climate-bank-roadmap.htm>

<sup>73</sup> [https://sciencebusiness.net/network-updates/eib-group-creates-climate-and-environment-advisory-council#:~:text=The%20European%20Investment%20Bank%20\(EIB,action%20and%20environmental%20sustainability%20ambition](https://sciencebusiness.net/network-updates/eib-group-creates-climate-and-environment-advisory-council#:~:text=The%20European%20Investment%20Bank%20(EIB,action%20and%20environmental%20sustainability%20ambition) (Science Business, 7 September 2021)

<sup>74</sup> (DJDN, 22 December 2020)

<sup>75</sup> <https://www.eib.org/de/press/all/2016-069-helping-developing-countries-tackle-climate-change-eib-to-partner-green-climate-fund>

<sup>76</sup> <https://www.eib.org/en/press/all/2019-313-eu-bank-launches-ambitious-new-climate-strategy-and-energy-lending-policy> (CNEAGEN, 16/11/2019)

Beyond investing its own resources, EIB also partners with external donors and multilateral climate funds. For example, EIB and GIZ cooperated on mitigation through the FELICITY project (Financing Energy for Low-carbon Investment—Cities Advisory Facility). FELICITY is being implemented on behalf of the German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB) as part of the International Climate Initiative (IKI).<sup>77</sup> In March 2016, EIB was approved as partner institution of the Green Climate Fund.<sup>78</sup>

For the EU, the COVID-19 response and the GRID approach are intricately linked. The NextGenerationEU Recovery Plan will mobilize EUR 1.8 trillion for the COVID-19 recovery, of which one-third is ringfenced for climate-related activities. Complementary funding for the ‘Green Deal’ will come from the new seven-year EU budget.

### Further links:

-- EU green deal: [https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal\\_en](https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en)

-- EIB Climate Bank Strategy: <https://www.eib.org/en/stories/climate-bank-roadmap.htm>

## II.6. ASIAN INFRASTRUCTURE INVESTMENT BANK

Founded in 2016, the Asian Infrastructure Development Bank (AIIB) is a China-led MDB aiming to foster the prosperity and economic development of Asia. It achieves this goal by enabling countries to build “Infrastructure for Tomorrow (i4t)—green infrastructure with sustainability, innovation, and connectivity at its core.”<sup>79</sup> The AIIB has approved strategies for all major infrastructure sectors and for investing in equity, mobilizing private capital, and financing operations in non-regional members.

AIIB operations are guided by its Corporate Strategy, launched in 2020 and applying for 2021-2030. Building on three core values of ‘Lean, Clean and Green’, the focus of the strategy is on green infrastructure, regional connectivity, technology-enabled infrastructure, and private capital mobilization. The Corporate Strategy clearly lays out a commitment to economic, social, and environmental sustainability. With respect to climate change, the strategy sets the target to surpass the 50% share of climate finance in approved operations by 2025.

From its inception, the AIIB put strong emphasis on GRID-related issues, which includes a commitment not only to climate change but also good governance. In 2016, AIIB president Jin

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<sup>77</sup> <https://www.eib.org/de/products/advisory-services/felicity.htm>

<sup>78</sup> <https://www.eib.org/de/press/all/2016-069-helping-developing-countries-tackle-climate-change-eib-to-partner-green-climate-fund> (Ghana News Agency, 10/03/2016)

<sup>79</sup> <https://www.aiib.org/en/about-aiib/index.html>

said: "If we want the AIIB to be a success, it will not simply be by making a lot of money through infrastructure financing, but also by being a role model in terms of governance. My dream is to make it a bank with 21st-century governance."<sup>80</sup> In 2017, the AIIB further sharpened its green lending profile, committing to fund more green projects.<sup>81</sup> Through its Sustainable Energy for Asia Strategy (2017), the AIIB set out a framework for how the Bank will invest in energy projects that increase access to clean, safe, affordable and reliable energy.<sup>82</sup> Also in 2017, the AIIB committed to stay away from coal funding.<sup>83</sup>

Following through on its promise of good governance, the AIIB also strengthened its commitment to environmental and social safety standards. In October 2021, a revised framework entered into force including measures to enhance transparency (adding deadlines for the disclosure of environmental and social documentation and adding more clarity on the disclosure of financial intermediary operations), new measures to address environmental, social and governance (ESG) approaches in capital markets operations, elevated importance of gender equality and commitment to addressing gender-based-violence, and enhanced language to protect biodiversity and to exclude asbestos from AIIB-financed projects. Through these measures, AIIB hopes to help countries meet their needs toward achieving the SDGs and the NDCs.

While its own lending resources are limited, AIIB has partnered with private financial institutions to mobilize climate finance. Specifically, the AIIB-Amundi Climate Change Investment Framework seeks to identify climate champions that will outperform in the long run.<sup>84</sup> To obtain analytical knowledge on green infrastructure, the AIIB signed a MoU with IRENA in September 2021. Under the terms of the AIIB-IRENA MoU, both the Bank and IRENA agreed to scale-up their efforts to unlock capital and accelerate the uptake of renewable energy by AIIB members, including through the Climate Investment Platform multi-stakeholder initiative.<sup>85</sup>

The AIIB also set up a COVID-19 Recovery Facility.<sup>86</sup> Between April 2020 and April 2022, the facility will offer up to \$13 billion (augmenting an earlier credit line of \$5-10 billion) to both private and public sector entities in AIIB member states, following its ordinary approval process. The facility offers interest rate buy-down to support activities addressing immediate health sector needs, economic resilience, and liquidity constraints. According to the joint MDB climate finance report, the bulk of relief funding has no or few climate finance components, thus having the potential of lowering the climate share in AIIB operations (currently at 41%).

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<sup>80</sup> FDINV, 1 June 2016

<sup>81</sup> Global Times, 17 June 2017

<sup>82</sup> <https://www.aiib.org/en/policies-strategies/strategies/sustainable-energy-asia/index.html>

<sup>83</sup> SCMP, 21 June 2017

<sup>84</sup> <https://www.aiib.org/en/policies-strategies/framework-agreements/climate-change-investment-framework/index.html>

<sup>85</sup> <https://www.irena.org/newsroom/pressreleases/2021/Sep/AIIB-and-IRENA-team-up-to-accelerate-ASIAs-energy-transition>

<sup>86</sup> <https://www.aiib.org/en/policies-strategies/COVID-19-Crisis-Recovery-Facility/index.html>

Further links:

-- AIIB Corporate Strategy: <https://www.aiib.org/en/policies-strategies/strategies/corporate-strategy.html>

## II.7. NEW DEVELOPMENT BANK

Following initial discussions by the leaders of the BRICS countries in 2012, the agreement establishing the New Development Bank (NDB or BRICS bank) was signed in 2014. BRICS leaders stressed that the NDB would strengthen cooperation among BRICS and supplement the efforts of multilateral and regional financial institutions for global development, thus contributing to collective commitments for achieving the goal of strong, sustainable and balanced growth.<sup>87</sup> With equal shareholdings of \$10 billion by each BRICS country, the total subscribed capital of the NDB is \$50 billion.

The General Strategy (2017-2021) of the NDB lays out how the NDB intends to fulfill its mandate of mobilizing resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries.<sup>88</sup> The NDB believes that environmental and social sustainability are crucial to addressing the infrastructure gaps and sustainable development needs consistent with national laws and regulations, and its mandate. The Bank lists eight guiding principles that underlie its operations. Of particular importance is the priority for using country systems, in contrast to most other MDBs and bilateral donors.<sup>89</sup>

The NDB is guided by a collaborative approach with other MDBs. For example, in 2018, ISA-ADB, NDB, GCF, AfDB, and AIIB issued a Joint Declaration of Financial Partnership.<sup>90</sup> In the same year, IADB and NDB agreed to finance green projects in Brazil.<sup>91</sup> In November 2020, MDBs convened on the sidelines of the Finance in Common Summit to present their joint Paris Alignment approach. The presentation highlighted the progress by MDBs in developing implementation methods and operationalizing their commitment to climate action in preparation for the COP26 summit in November 2021. The NDB also seeks to mobilize private finance for climate activities. In July 2016, the NDB issued its first Green Financial Bond with an issue size of RMB 3 billion (5 years maturity) in the China Interbank Bond Market. In February 2019, the NDB issued its first Panda Bond with a size of RMB 3 billion in the China Interbank

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<sup>87</sup> <https://www.ndb.int/about-us/essence/history/>

<sup>88</sup> <https://www.ndb.int/about-us/strategy/strategy>

<sup>89</sup> <https://www.ndb.int/about-us/strategy/environmental-social-sustainability/>

<sup>90</sup> (Contify, 10 March 2018)

<sup>91</sup> <https://www.gtreview.com/news/americas/iadb-ndb-finance-green-energy-projects-brazil-brics-bank> (Emerging Markets Business Information News, 16 May 2018)

Bond Market. In 2021, NDB announced to issue most of its future bonds in a green, social or sustainable format as part of its commitment to sustainable finance.<sup>92</sup>

Based on the jointly developed MDB tracking methodology, it is estimated that NDB's cumulative climate finance commitments amounted to \$4.7 billion by the end of 2020, accounting for approximately 19% of the Bank's cumulative approvals (NDB, 2020, p. 44). Within the vast space of infrastructure and sustainable development, NDB has been diversifying its portfolio across strategically selected key areas of operations. While these areas fall within the Bank's mandate, they are also closely aligned with the 2030 Agenda. In 2020, two areas were added, namely digital infrastructure and COVID-19 emergency assistance (NDB, 2020, p. 56).

To support the COVID-19 recovery in its member states, the NDB made available \$10 billion, split equally between recovery lending and emergency assistance in each BRICS country.<sup>93</sup> The NDB adapted its lending policies to enable fast-track emergency response. The recovery facility can support health measures, social safety nets, and urgent recovery.<sup>94</sup> Climate change is not explicitly mentioned, which implies that its relative funding share must be expected to decline as a result of COVID-19 resource mobilization.

Overall, the NDB has been fully GRID-mainstreamed since its inception. However, with a primary focus on BRICS development, limited resources are available for developing countries. This limits the attractiveness of the Bank as a financier of a GRID transition, despite the 'ideational goods' that it has to offer, such as use of country systems. Without changes to its capital endowment and shareholding structure, the BRICS bank is unlikely to challenge the hegemony of existing MDBs (Duggan, Azalia, & Rewizorski, 2021).

### Further links:

-- NDB annual report ([https://www.ndb.int/wp-content/uploads/2021/07/NDB-AR-2020\\_complete\\_v3.pdf](https://www.ndb.int/wp-content/uploads/2021/07/NDB-AR-2020_complete_v3.pdf))

-- Duggan, N., Azalia, J.C.L., & Rewizorski, M. (2021). The structural power of the BRICS (Brazil, Russia, India, China and South Africa) in multilateral development finance: A case study of the New Development Bank. *International Political Science Review*, forthcoming.

## II.8. ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT

Founded in 1961, the Organization for Economic Cooperation and Development (OECD) is a forum of advanced economies aiming to stimulate economic progress, by providing a platform to compare policy experiences, seek answers to common problems, identify good

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<sup>92</sup> (GlobalCapital, 21/04/2021)

<sup>93</sup> <https://www.ndb.int/covid-19-response-programme/>

<sup>94</sup> <https://www.ndb.int/wp-content/uploads/2020/07/Policy-on-Fast-track-Emergency-Response-to-COVID-19.pdf>

practices and coordinate domestic and international policies among members. Unlike the MDBs, it does not mobilize financial resources but provides policy advice through policy analysis. Its member states issue non-binding recommendations and declarations that are thought to mobilize soft pressure for policy convergence.

The OECD is a knowledge hub on topics like ‘Green growth and sustainable development’, ‘Environment’, and ‘Development and the SDGs’—having dedicated websites on each. The clearest references to a GRID approach are the 2009 Declaration on Green Growth,<sup>95</sup> the 2011 Green Growth Strategy,<sup>96</sup> and the various OECD Environmental Performance Reviews undertaken through peer review. In addition to numerous analytical studies—such as the OECD Green Growth paper—the OECD collects indicators that allow for tracking progress on green growth and sustainable development.

The OECD perceives the COVID-19 crisis as an opportunity to align (additional) spending with the GRID agenda. To facilitate this goal, the OECD has developed a new database tracking ‘green spending’ within the COVID-19 recovery packages of member states. It states that only \$677 billion out of \$3,200 billion for COVID-19 recovery is climate-relevant. Within green spending, governments so far focused on energy and transport, but will also need to include agriculture, industry, forestry, and waste management in going forward.<sup>97</sup> In its update report on green recovery spending (published on 30 September 2021), the OECD finds that only 21% of COVID-19 recovery spending is related to climate change—up from 17% from April 2021. The OECD expects that “ongoing annual support to fossil fuels will likely surpass all the one-off green recovery spending in the next couple of years” while deploring a lack of attention on skills development and innovation in green recovery plans which will limit a rapid and just transition.<sup>98</sup>

The OECD/DAC is the main forum for coordination among donor governments, with huge potential impact to align donor funding with GRID approaches. The OECD claimed through leadership on this issue following the Paris Agreement. On 22 December 2016, the organization published a Development Cooperation Working Paper discussing the role of “development finance in climate action post-2015”, following release of papers on “mainstreaming adaptation in national development planning” (6 August 2016) and “What enables effective international climate finance?” (30 June 2016). Since recently, OECD/DAC data allow for tracking of development finance relevant to climate change.<sup>99</sup>

On 27 October 2021, the DAC issued a joint declaration ahead of COP26 committing to align official development assistance (ODA) with the goals of the Paris Agreement. Totalling \$160 billion annually, ODA is a significant financial flow, especially for LMICs, but it may still be insufficiently targeted to climate action or even undermine climate goals. Cognizant of the

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<sup>95</sup> <http://www.oecd.org/env/44077822.pdf>

<sup>96</sup> <http://www.oecd.org/greengrowth/towards-green-growth-9789264111318-en.htm>

<sup>97</sup> <https://www.oecd.org/coronavirus/en/themes/green-recovery>

<sup>98</sup> <https://www.oecd.org/coronavirus/policy-responses/key-findings-from-the-update-of-the-oecd-green-recovery-database-55b8abba/>

<sup>99</sup> <https://www.oecd.org/dac/>

The%20Sustainable%20Development%20Goals%20An%20overview%20of%20relevant%20OECD%20analysis.pdf

need for scaling up climate action, specifically on “adaptation and building inclusive climate-resilient societies,” the document commits DAC members to align their ODA spending with the goals of the Paris Agreement. In addition to climate-proofing their aid spending, ODA members also commit to no longer support fossil fuel aid projects. In view of achieving a “just and fair” transition, the document emphasizes that ODA should support country-specific transition paths and recognizes the diversity in climate strategies, as laid down in nationally determined contributions (NDCs), national adaptation plans (NAPs), long-term transition strategies, and disaster risk reduction strategies. In addition, DAC members promise to use their influence in the multilateral system to “work to promote development effectiveness principles across multilateral climate finance.” While OECD/DAC declarations are non-legally binding, it is noteworthy that all DAC members committed to the declaration which will likely affect policymaking going forward, for instance through peer pressure in the DAC peer review mechanism to redeem these promises.<sup>100</sup>

Beyond official finance, the OECD has long emphasized the role of private (and blended) finance in scaling up climate-related support. Under the Italian G20 leadership, the OECD produced a stocktake report on “Scaling-up green, social, and sustainability bond issuances in developing countries”. The report identifies MDBs as the key actors in green bond markets, and outlines the key gaps and challenges in harnessing them for the GRID transition.<sup>101</sup>

### Further links:

-- Green Recovery Database: <https://www.oecd.org/coronavirus/en/themes/green-recovery>

-- Working Papers on the website (specifically in the three departments relevant to the GRID agenda)

-- OECD (2021). Stocktake Report on Scaling-up Green, Social and Sustainability Bond Issuances in Developing Countries. <https://financeincommon.org/sites/default/files/2021-10/scaling-up-green-social-sustainability-sustainability-linked-bond-issuances-developing-countries.pdf>

- OECD (2021). OECD DAC Declaration on a new approach to align development co-operation with the goals of the Paris Agreement on Climate Change. [https://www.oecd.org/dac/development-assistance-committee/dac-declaration-climate-cop26.htm?utm\\_source=Adestra&utm\\_medium=email&utm\\_content=Read%20the%20Declaration&utm\\_campaign=Fighting%20poverty%2C%20fighting%20climate%20change&utm\\_term=dev](https://www.oecd.org/dac/development-assistance-committee/dac-declaration-climate-cop26.htm?utm_source=Adestra&utm_medium=email&utm_content=Read%20the%20Declaration&utm_campaign=Fighting%20poverty%2C%20fighting%20climate%20change&utm_term=dev)

## II.9. INTERNATIONAL ENERGY AGENCY

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<sup>100</sup>[https://www.oecd.org/dac/development-assistance-committee/dac-declaration-climate-cop26.htm?utm\\_source=Adestra&utm\\_medium=email&utm\\_content=Read%20the%20Declaration&utm\\_campaign=Fighting%20poverty%2C%20fighting%20climate%20change&utm\\_term=dev](https://www.oecd.org/dac/development-assistance-committee/dac-declaration-climate-cop26.htm?utm_source=Adestra&utm_medium=email&utm_content=Read%20the%20Declaration&utm_campaign=Fighting%20poverty%2C%20fighting%20climate%20change&utm_term=dev) (27 October 2021)

<sup>101</sup> <https://financeincommon.org/sites/default/files/2021-10/scaling-up-green-social-sustainability-sustainability-linked-bond-issuances-developing-countries.pdf>

Founded in 1974, the International Energy Agency (IEA) is an international organization committed to shaping a secure and sustainable energy future for all. Originally set up to coordinate oil supplies in the first OPEC oil price crisis, its work now spans a variety of programs and initiatives, helping ensure energy security, tracking clean energy transitions, collecting data, or providing training around the world.<sup>102</sup>

The IEA found itself at the brink of irrelevance as it was not believed to be a credible leader into the post-fossil fuels era while states created the rival International Renewable Energy Agency (IRENA) (Colgan, Keohane, & van de Graaf, 2012; Downie, 2020; Urpelainen & Van de Graaf, 2015). Under new leadership, the IEA underwent a reform program, focusing on energy efficiency and energy security (Downie, 2020).

In relation to climate change, the IEA is a knowledge hub. In a recent press release, it estimated that roughly 70% of the additional spending required to put the world on a net zero path by 2050 is needed in developing countries.<sup>103</sup>

In relation to the COVID-19 recovery, the IEA has deployed the Sustainable Recovery Tracker. It indicates how much COVID-19 recovery spending on energy is on renewables, finding that this figure is as low as 2%.<sup>104</sup> This continues the joint work with IRENA on a database tracking energy-related spending by governments since 1999.<sup>105</sup>

In collaboration with the IMF, the IEA has promulgated the Sustainable Recovery Plan, which envisages \$1 trillion of spending globally on clean energy—an underfunded area.<sup>106</sup> Through 50 case studies, it also helped charting out pathways to financing transitions.<sup>107</sup>

### Further links:

-- <https://www.iea.org/programmes/clean-energy-transitions-programme>

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<sup>102</sup> <https://www.iea.org/about>

<sup>103</sup> Devex webinar, 14 October 2021

<sup>104</sup> <https://www.iea.org/news/with-only-2-of-governments-recovery-spending-going-to-clean-energy-transitions-global-emissions-are-set-to-surge-to-an-all-time-high>

<sup>105</sup> <https://www.iea.org/policies/about>

<sup>106</sup> (<https://www.iea.org/reports/sustainable-recovery>)

<sup>107</sup> <https://www.iea.org/reports/financing-clean-energy-transitions-in-emerging-and-developing-economies>

## APPENDIX III. KENYA

### III.1. BACKGROUND

Kenya—a lower-middle income country of 48 million people—faces a multitude of developmental constraints, including high levels of economic inequality and poverty, weak governance, and climate risks linked to its dependency on tourism and rainfed agriculture. These challenges have been exacerbated by the Covid-19 pandemic, which delivered a triple shock of health effects from the virus itself (albeit mild relative to other countries), economic impact from lockdown measures, and reverberations from the global economic downturn. These factors, combined with a large pre-existing debt burden, are now rapidly eroding the progress made in reducing poverty over the last two decades.

Kenya had achieved sustained economic growth in recent years, averaging 5.7%, between 2015 and 2019, one of the fastest growing economies in Sub-Saharan Africa (World Bank 2020b). But the country suffered a sharp economic downturn in the face of the pandemic, with an initial 5.5% year-on-year decline on economic output in the second quarter of 2020. The government enacted several temporary fiscal and financial sector measures to cushion the impact, estimated at 0.9% of GDP, including more spending for social protection and health, temporary tax cuts, and emergency procedures on the extension and restructuring of loans (IMF 2021e). While these measures contributed to a partial recovery, GDP growth nonetheless decelerated to 1.4% across the year, from 5.4% in 2019 (African Development Bank 2021). The economy is expected to continue to recover, with GDP growth projected to reach 4.5% in 2021 (World Bank 2021a).

The optimistic outlook for economic growth is tempered by an inauspicious picture for public finances. The primary deficit peaked at 5.6% of GDP in the 2016-17 fiscal year, but was still at 3.5% of GDP in 2019-20 (IMF 2020a). It then widened to 4.6% for 2020-21 as a result of revenue short-falls and pandemic-related spending (IMF 2021e). Kenya's public debt also surged over the last decade in order to fund mega-infrastructure projects (e.g., the Mombasa-Nairobi Standard Gauge Railway), from about 40% of GDP in 2012 to 62% by 2019 (IMF 2021e). This increase in debt is underpinned by steep growth in foreign commercial loans. In 2012, commercial loans constituted only 7.4% of external debt, while 62.5% was from multilateral lenders, primarily concessional loans from the World Bank's International Development Association (36.8%); by 2018, commercial loans skyrocketed to 35.9% of foreign debt, an absolute increase from \$50mil to \$800mil (Okoa Uchumi Campaign 2020). Against this backdrop, the IMF downgraded Kenya from low to medium risk of debt distress.

Indebtedness further rose to 70.6% of GDP in 2020 following the outbreak and concomitant reductions in economic activity (IMF 2021d). With public debt projected to reach 73.1% of GDP by 2023 (IMF 2021d), and debt service expected to increase from 47.6% to 79.3% of revenues between 2021 and 2024 (IMF 2021e), the IMF downgraded Kenya again in 2020 to being at high risk of debt distress. The increasing debt burden also prompted protests on social media to dissuade the IMF from approving a loan (Twitter hashtags #StopGivingKenyaLoans and #StopLoaningKenya trended and 230,000 people signed a change.org petition). Critics alleged loans were misappropriated by government officials and that citizens stand to bear the brunt of corruption via higher taxes (Mwaura 2021).

The Covid-19 shock also gave rise to urgent and protracted balance of payments needs due to sharp declines in service sector and agricultural exports, reductions in foreign direct investment and portfolio inflows, and high external debt repayments (IMF 2021e). Kenya faced an external financing gap of 2.0% of GDP for 2020-21 (and with persistent but declining gaps to 2023-24), to be filled by a new IMF program, Debt Service Suspension Initiative relief, and budget support from development partners such as the World Bank (IMF 2021e).

### **III.1.1. RELATIONSHIP WITH THE IMF**

In the decade prior to the pandemic, Kenya participated in three IMF lending programs. In January 2011, the country signed on to a 36-month Extended Credit Facility loan for US\$508.7mil aimed at boosting international reserves while adopting gradual fiscal consolidation (IMF 2011), for which all six program reviews were completed and the entire amount was drawn. Then, in February 2015, Kenyan authorities requested precautionary access to US\$688.3mil under a 12-month blended Stand-By Arrangement and Standby Credit Facility to protect against potential shocks in global financial markets and security- and weather-related risks (IMF 2015a). All reviews were completed and no credit was drawn. The government entered into a follow-up precautionary 24-month blended Stand-By Arrangement and Standby Credit Facility in March 2016 for \$1,484mil, again to guard against external risks that might lead to a balance of payments need. But the program went off-track after only one of the four scheduled reviews: conditions on the primary deficit were missed on account of drought and election-related expenditures; and monetary policy effectiveness declined due to the introduction by parliament of interest rate controls. Negotiations broke down with the IMF after no understandings could be reached on corrective policies to address fiscal slippages (IMF 2018).

The IMF has approved two loans to Kenya since the beginning of pandemic. In May 2020, it approved the disbursement of US\$739mil (SDR542.8mil) from the Rapid Credit Facility, a no-conditionality concessional lending instrument for emergency financing. This supported Covid-19 fiscal interventions to safeguard public health and support households and firms, as well as covering one-third of the pandemic-induced balance of payments gap, with World Bank support and a drawdown of foreign exchange reserves covering the rest (IMF 2020a). The IMF then approved a 38-month lending program with conditionality in April 2021, unlocking access to US\$2,347mil under a combined Extended Fund Facility (\$1,770mil) and Extended Credit Facility (US\$577mil); the first review for the program was completed in June 2021, and the IMF reached a staff-level agreement on the second review in November 2021 (IMF 2021c). These funds are slated for the next phase of the government's Covid-19 response and to help meet sizable balance of payments needs, as well as catalyze support from other lenders (IMF 2021e).

### **III.2 IMF PROGRAM CONDITIONS AND RECOMMENDATIONS**

To what extent has the IMF supported green, resilient, and inclusive recovery from the Covid-19 pandemic in the policies advocated in Kenya's ongoing lending program? We examine this question based on an analysis of the loan documentation, as well as seven interviews with domestic and foreign stakeholders and IMF staff. The program has four stated aims: to ensure an effective Covid-19 response that maintains support for the health sector and those most impacted by the shock; to reduce debt vulnerabilities via fiscal consolidation centered on raising tax revenues; to advance a broader structural reform and governance agenda, including by addressing financial weaknesses in some state-owned enterprises (SOEs) and strengthening the anticorruption framework; and to strengthen the monetary policy framework and support financial stability (IMF 2021e). A development partner noted that there were delays in the government initially agreeing to the program because of reluctance to have fiscal policies straightjacketed by the IMF, since it might bring 'issues of political economy'—impeding the ability to favor some social groups over others in order to maintain political power (Interview CL). Despite this, according to the IMF press release for the staff-level agreement on the second review, Kenyan authorities had 'remained firmly committed to their economic program,' and outperformed on their fiscal target (IMF 2021c).

### III.2.1. GREEN RECOVERY

Kenya is highly vulnerable in terms of its exposure, sensitivity, and ability to adapt to the impact of climate change, ranked 147th of 182 countries in the ND-GAIN index (Notre Dame Global Adaptation Initiative 2021). Its economy is dependent on rainfed agriculture and tourism, both susceptible to climate risks. Communities are already suffering significant losses in agriculture due to increases in temperature, more erratic rainfall, and more frequent and extreme climate events such as storms, floods, and droughts, disproportionately affecting the livelihoods of the rural poor (World Bank and Asian Development Bank 2021a). Macroeconomic stability is also at risk. For example, the tea sector is one of Kenya's top foreign currency earners (along with tourism and remittances), and employs about three million people (Bhalla 2021), but areas with optimal and medium tea-growing conditions are expected to shrink by 25% and 40% respectively by 2050 due to climate change (Jayasinghe and Kumar 2020). Most recently, the country experienced a massive locust plague, which scientists have linked to climate change (Salih et al. 2020). It significantly altered the economic landscape, resulting in lower agricultural production and slower growth, an increase in food inflation, and pressures on public spending and the current account (IMF 2021e). In terms of its greenhouse gas emissions, Kenya contributes only 0.1% of global emissions, according to the LSE Grantham Institute. Agriculture was the leading source, contributing 62.8% of emissions, primarily from enteric fermentation and inefficient animal waste management, and energy was the second largest source, at 31.2% (USAID 2017). An estimated 90% of Kenya's electricity is generated from clean sources, mainly geothermal, wind, and solar; in terms of energy consumption, biomass accounts for 68% of domestic needs, which has led to substantial deforestation and land degradation (World Bank and Asian Development Bank 2021a). Kenya published its Updated Nationally Determined Contribution (NDC) in 2020, pledging to cut emissions by 32% by 2030 relative to the business-as-usual scenario and committing to domestically fund \$3,725mil in mitigation and \$4,393mil in adaptation costs (Government of Kenya 2020).

The IMF program contained no conditions explicitly relating to climate change and the green transition, and the broader program documentation contained only negligible coverage of physical risks relating to climate change (and no coverage of transition risks). First, adverse weather conditions are mentioned in single sentences in relation to downside risks to the current account projections in an external sector assessment, and as a driver of domestic risks to the macroeconomic outlook linked to lower agricultural output. Second, in the program's risk assessment matrix, higher frequency and severity of natural disasters as well as adverse weather conditions and locust invasions feature as two of ten entries, where they are classed as medium-low

likelihood events (probability of 20%) in the short-to-medium term (materializing within 2 years) that have high expected impact on the economy due to slower growth, increases in food inflation, and pressures on public spending and the current account. This risk eventuated in September, when Kenya's northern regions received less than 30 percent of normal rainfall, resulting in higher food prices (Pietromarchi 2021). The proposed policy responses for both sources of risk are to 'use targeted programs to help vulnerable groups and reprioritize spending' and to 'guard against second-round effects on inflation'. Development partners noted that lack of attention on green recovery is partly a reflection of its low priority for domestic authorities, who have shifted their attention to the upcoming elections, scheduled to take place on August 2022 (Interview RO). In addition, the IMF felt they could not overburden the agenda given the government's initial hesitancy to agree to a program of reform (Interview CL).

Some conditions included in Kenya's program have the potential to indirectly impact the country's climate change efforts. On the one hand, the program contains a governance reform agenda bolstered by four structural benchmarks related to fiscal transparency. For example, a structural benchmark for end-May 2021 (implemented with delay) was to 'publish the results of an audit of all Covid-19 related expenditures', and for end-June to 'ensure that comprehensive information on public tenders awarded... are publicly available,' in order to reduce corruption risks, safeguard public resources, and enhance transparency and accountability. There was strong demand for such conditions by civil society representatives, who viewed these actions as necessary—though not sufficient—steps towards green and inclusive development (Interviews IM, JM). The government had previously been marred by corruption scandals, diverting public resources away from—*inter alia*—its climate mitigation and adaptation programs (Government of Kenya 2020). On the other hand, the program calls for a decline in the primary balance from a deficit of 4.6% of GDP to a 0.2% surplus by mid-2024, underpinned by a series of conditions, including a prior action on passing a supplementary budget and adhering to quarterly performance criteria on the primary budget balance. Fiscal consolidation is likely to diminish expenditures needed for Kenya to fulfil its climate commitments; and while the program does ring-fence several priority social spending categories, none of these pertain to the climate adaptation and mitigation programs described in its NDC. Although fiscal consolidation may indeed be necessary for the government's finances to move toward a sustainable path, the absence of any explicit consideration of the trade-offs involved of such measures in achieving climate objectives represents a missed opportunity. Notwithstanding these issues, the press release on the staff-level agreement for the second review did note that the 'IMF team shared the authorities' assessment that

some space is needed for 2021-22 for emergency spending to face the drought in the north.’

More generally, the short shrift on climate becomes apparent when compared to the extensive engagement by the IMF with more traditional areas of economic policy, like fiscal and monetary policy. As a result, several opportunities for substantive engagement with climate issues were missed. First, the IMF calls for an improving prioritization of capital spending to ‘ensure the best value for money in public investments’ and to tighten expenditure controls, bolstered by a structural benchmark to ‘complete stocktaking of existing projects and associated commitments in the areas of education, health, and infrastructure, ...and identify projects to be rationalized’. However, an important omission to the IMF’s recommendations on the prioritization process is to incorporate the environmental credentials and transition risks of a project alongside value for money; for instance, so that green projects are weighted more favorably than coal power plants, *ceteris paribus*. Development partners noted that the proposed Lamu coal power station, a public-private partnership contracted by the Ministry of Energy, would not reflect a ‘macro-economically sensible judgement’ had transition risks and climate damages been costed into the proposal (Interview RO).

Second, climate risks to the banking sector are omitted throughout, despite the Central Bank of Kenya (2021) identifying it as a major source of risk. The IMF does identify a sharp rise in global risk premia as a potential risk that could expose financial vulnerabilities—for example, in response to adverse Covid-19 developments—and advises authorities to closely monitor such risks. But there was no consideration of climate risk exposure, even though the economy is highly dependent on climate sensitive natural resources. Risks to the banking sector and the macroeconomy from changes in carbon-intensive asset values were also not considered, despite the agricultural sector being at the forefront of NDC plans to transition to low carbon. Third, lower oil prices are viewed as an upside risk that would ease potential external balance pressures and allow the government to capitalize on lower fuel prices by aligning the fuel VAT to the standard rate, thereby increasing revenues. An explicit consideration of how these policies could be linked to shifting away from fossil fuel consumption could have been a further step in the direction of decarbonization. Fourth, an opportunity to quantify benefits and drawbacks of policy measures vis-à-vis the environment was missed in the debt sustainability analysis. While six standardized stress tests (real GDP growth, primary balance, exports, other flows, depreciation, and a combination) and two tailored tests (combined contingent liabilities and market financing) were simulated, climate-related stress tests were not.

### **III.2.2. INCLUSIVE RECOVERY**

Kenya witnessed major gains in social development in recent years. The poverty rate decreased from 46.8 to 33.4 per cent between 2005 and 2019 based on the nationally defined poverty line (World Bank 2020a), or about 4.5 million people escaping poverty. But the pandemic and associated lockdown measures had severe social consequences. Although government spending of 0.91% in temporary fiscal and financial sector measures cushioned the impact (IMF 2021e), an additional two million people nonetheless fell into poverty as the poverty rate rose to 36%, and 900,000 people lost their jobs (African Development Bank 2021).

In supporting the response to the Covid-19 shock, the program includes only a limited set of conditions with the potential to directly facilitate socially inclusive recovery. The aforementioned governance reform initiatives represent one such set of measures, as they increase the likelihood that public resources will be safeguarded for social spending rather than squandered through corruption. The program also protects vulnerable groups in a set of non-binding quarterly indicative benchmarks on priority social expenditures, defined as cash transfers to vulnerable groups (orphans and vulnerable children, elderly persons, and persons with severe disabilities), free primary and secondary education, school food and sanitary programs, free maternal healthcare, health insurance subsidies for vulnerable groups, and spending for vaccination and immunization. However, these floors only preserve current spending levels rather than increasing it in a time of heightened need, as reflected by rising poverty rates and joblessness since the pandemic onset. Furthermore, although the expenditure side of the fiscal consolidation strategy targets a gradual reduction in the wage bill and transfers to public sector entities (thereby protecting social and development spending), there is nonetheless a risk that it may crowd out social concerns since budget balance conditions are binding (i.e., the program is suspended if they are not met). And while the program is purported to incorporate 'adequate flexibility to respond to Covid-related exogenous shocks', the emergence of Kenya's third wave of the pandemic was not deemed sufficient for fiscal targets to be revised.

Tax policy was viewed as a core area for reform in the fiscal consolidation strategy, supported by quarterly targets on tax revenues (indicative benchmarks for March and June, performance criteria from December onward) and incorporated within a structural benchmark to submit to Parliament a budget for the new financial year consistent with the program objectives. In line with past IMF technical assistance advice, the country had already repealed the bulk of the emergency tax cuts introduced to cushion the impact of Covid-19, and commenced a process of broadening the tax base by eliminating value-added tax (VAT) exemptions. In the context of the program, the continuation of these reforms was seen as a core

corrective measure that could raise revenues. However, domestic civil society raised important concerns over the potential regressive implications of broadening the VAT base—by increasing the costs of basic goods for low-income households (Interviews IM, WG). For example, the government’s removal of the exclusion of excise duty from the taxable value of petroleum in 2018 prompted public outcry, compelling the government to reduce the rate from 16% to 8% (Okoa Uchumi Campaign 2020). While such reforms are a potential boon for fostering a green transition, without appropriate (and highly visible) compensatory mechanisms for the affected population, they are unlikely to be politically palatable. Furthermore, IMF analyses elsewhere show that poorer households are more likely to be hurt by higher fuel prices since a larger share of their income is spent on energy-intensive goods like transport, electricity, and heating (IMF 2020e).

In addition, to safeguard public finances, a structural benchmark was included to prepare a framework for deciding on reforms to rationalize the SOE sector. According to development partners, in negotiations domestic officials were highly resistant to such reforms, which they believed was because positions in SOEs had been distributed to develop patronage networks (Interview RO). Nevertheless, the restructuring plans of the three largest public universities have now been communicated to the general public, including job losses of academic staff, a doubling of fees, and cutting of scholarship support, which could render attendance unaffordable for low-income segments of society (Interviews JM, WG). Further job losses are expected in the restructuring of Kenya Airways, Kenya Power and Lightning Company, and Kenya Medical Supplies Authority (Omondi 2021).

### **III.3. CONCLUSION**

Based on this analysis, Kenya stands out as a negative case for the meaningful pursuit of green, resilient, and inclusive development. In the context of the IMF program, the country is implementing extensive expenditure cuts and potentially regressive tax reforms, without sufficient protection of lower-income households, while the loan documentation contains extremely limited reference to environmental issues and climate change.

**THE IMF & A GREEN AND INCLUSIVE RECOVERY**

**Table III.1. Impact assessment for Kenya’s 2021 Extended Fund Facility/Extended Credit Facility**

The IMF Executive Board approved a 38-month combined ECF-EFF arrangements for Kenya on 2 April 2021, offering access of up to a combined SDR1.655 billion (US\$2.34 billion). This assessment relates to **Review O** (i.e., program approval) concluded on **2 April 2021**, unlocking access to **SDR217.12 million (US\$313.17million)**.

Parameters		Evaluation criteria																																																																												
<b>CONTEXT</b>	Country context	Economic developments																																																																												
		<table border="1"> <thead> <tr> <th></th> <th>2018</th> <th>2019</th> <th>2020</th> <th colspan="4">Projections:</th> </tr> <tr> <th></th> <th>2021</th> <th>2022</th> <th>2023</th> <th>2024</th> <th></th> <th></th> <th></th> </tr> </thead> <tbody> <tr> <td>Real GDP (% annual change)</td> <td>6.3</td> <td>5.4</td> <td>-0.1</td> <td>7.6</td> <td>5.7</td> <td>6.1</td> <td>6.1</td> </tr> <tr> <td>Primary balance (% of GDP)</td> <td>-3.7</td> <td>-3.6</td> <td>-4.1</td> <td>-3.7</td> <td>-2.0</td> <td>-0.4</td> <td>0.3</td> </tr> <tr> <td>Public gross nominal debt (% of GDP)</td> <td>60.2</td> <td>62.1</td> <td>68.7</td> <td>71.5</td> <td>72.9</td> <td>72.3</td> <td>71.8</td> </tr> <tr> <td>Gross domestic debt (% of GDP)</td> <td>29.6</td> <td>30.6</td> <td>33.0</td> <td>33.7</td> <td>35.4</td> <td>35.6</td> <td>36.1</td> </tr> <tr> <td>Gross external debt (% of GDP)</td> <td>30.6</td> <td>31.5</td> <td>35.6</td> <td>37.8</td> <td>37.6</td> <td>36.7</td> <td>35.7</td> </tr> </tbody> </table>		2018	2019	2020	Projections:					2021	2022	2023	2024				Real GDP (% annual change)	6.3	5.4	-0.1	7.6	5.7	6.1	6.1	Primary balance (% of GDP)	-3.7	-3.6	-4.1	-3.7	-2.0	-0.4	0.3	Public gross nominal debt (% of GDP)	60.2	62.1	68.7	71.5	72.9	72.3	71.8	Gross domestic debt (% of GDP)	29.6	30.6	33.0	33.7	35.4	35.6	36.1	Gross external debt (% of GDP)	30.6	31.5	35.6	37.8	37.6	36.7	35.7																				
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	Public gross nominal debt (% of GDP)	60.2	62.1	68.7	71.5	72.9	72.3	71.8																																																																						
	Gross domestic debt (% of GDP)	29.6	30.6	33.0	33.7	35.4	35.6	36.1																																																																						
	Gross external debt (% of GDP)	30.6	31.5	35.6	37.8	37.6	36.7	35.7																																																																						
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	<table border="1"> <thead> <tr> <th></th> <th colspan="6">Projections:</th> </tr> <tr> <th>(all in % of GDP)</th> <th>2019/20</th> <th>2020/21</th> <th>2021/22</th> <th>2022/23</th> <th>2023/24</th> <th>2024/25</th> </tr> </thead> <tbody> <tr> <td>Net domestic financing</td> <td>4.5</td> <td>5.0</td> <td>5.2</td> <td>4.4</td> <td>2.8</td> <td>2.4</td> </tr> <tr> <td>Net foreign financing</td> <td>3.3</td> <td>3.7</td> <td>2.3</td> <td>1.4</td> <td>1.6</td> <td>1.3</td> </tr> <tr> <td>- Disbursements</td> <td>4.3</td> <td>6.9</td> <td>7.2</td> <td>3.5</td> <td>3.4</td> <td>2.7</td> </tr> <tr> <td>- - Project loans</td> <td>1.5</td> <td>2.2</td> <td>2.2</td> <td>2.2</td> <td>2.2</td> <td>2.2</td> </tr> <tr> <td>- - Program loans</td> <td>2.3</td> <td>1.4</td> <td>1.2</td> <td>0.5</td> <td>0.4</td> <td>0.4</td> </tr> <tr> <td>- - - of which: IMF</td> <td>0.8</td> <td>0.7</td> <td>0.5</td> <td>0.5</td> <td>0.4</td> <td>0.0</td> </tr> <tr> <td>- - Non-concessional</td> <td>0.1</td> <td>3.2</td> <td>3.9</td> <td>0.8</td> <td>0.7</td> <td>0.0</td> </tr> <tr> <td>- - Standard Gauge Railway</td> <td>0.4</td> <td>0.1</td> <td>0.0</td> <td>0.0</td> <td>0.0</td> <td>0.0</td> </tr> <tr> <td>- Repayments due</td> <td>-1.0</td> <td>-3.2</td> <td>-5.0</td> <td>-2.0</td> <td>-1.8</td> <td>-1.3</td> </tr> </tbody> </table>		Projections:						(all in % of GDP)	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	Net domestic financing	4.5	5.0	5.2	4.4	2.8	2.4	Net foreign financing	3.3	3.7	2.3	1.4	1.6	1.3	- Disbursements	4.3	6.9	7.2	3.5	3.4	2.7	- - Project loans	1.5	2.2	2.2	2.2	2.2	2.2	- - Program loans	2.3	1.4	1.2	0.5	0.4	0.4	- - - of which: IMF	0.8	0.7	0.5	0.5	0.4	0.0	- - Non-concessional	0.1	3.2	3.9	0.8	0.7	0.0	- - Standard Gauge Railway	0.4	0.1	0.0	0.0	0.0	0.0	- Repayments due	-1.0	-3.2	-5.0	-2.0	-1.8	-1.3
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	<ul style="list-style-type: none"> <li>• COVID-19 response. Ensure provision of required health services, address urgent needs of vulnerable groups, and support economic activity.</li> <li>• Fiscal policy. Undertake growth-friendly fiscal consolidation to preserve debt sustainability by bolstering revenue primarily through broadening of the tax base and curtailing overall spending while prioritizing high-impact social and investment expenditure.</li> </ul>																																																																													

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		<ul style="list-style-type: none"> <li>Public financial management. Decisively increase the efficiency, effectiveness, and transparency of public spending to eliminate waste and achieve better value for money.</li> <li>Monetary policy. Strengthen the monetary policy framework by refining policy operations to keep short-term interest rates stable and close to the policy rate.</li> <li>Access to affordable finance. Transform the banking sector to one that works “for and with Kenyans” and is anchored on pillars of customer centricity, risk-based credit pricing, transparency, and ethical banking.</li> <li>Financial stability. Safeguard financial stability by enhancing prudential regulation and supervision and enhancing operational tools in the context of increasing financial sector complexity.</li> <li>Structural reforms. Deepen structural reforms to improve the business environment and boost investment, employment creation, and potential growth.</li> <li>Governance. Enhance institutional oversight arrangements, strengthen preventive frameworks to improve accountability and foster good governance, and move towards overall greater transparency.</li> </ul> <p>Statistics. Improve data quality in line with international best practices to support economic policymaking, transparency, and accountability.</p>
GRID context	Climate priorities	<ul style="list-style-type: none"> <li>Mitigation: Abate GHG emissions by 32% by 2030 relative to the BAU scenario, bearing 21% of the cost from domestic sources while 79% is subject to international support</li> <li>Adaptation: Mainstreaming climate change adaptation into the Medium-Term Plans and Country Integrated Development Plans, bearing 10% of the cost while 90% will require international support</li> </ul> <p><i>Each has sub-targets not presented here for brevity, but in principle could be elaborated</i></p>
	Climate change mitigation indicator	Contribution to global greenhouse emissions as share of total global emission: 0.1%
	Climate change adaptation indicators	Government expenditure on environmental protection (% of GDP): 0.108
		ND-GAIN Country Index: 39.1 (147 out of 182 countries) - Vulnerability: 0.518 (143 out of 182) - Readiness: 0.300 (154 out of 192)
	Resilience indicators	Non-life insurance penetration (average non-life insurance premium to GDP): 1.23
Proportion of total government spending on education: 19.0 (2018), compared to 14.3 (2019) for lower-middle income countries Proportion of total government spending on health: 8.55 (2018), compared to 5.62 (2018) for lower-middle income countries		
Poverty, inequality, and gender indicators	Gini index: 40.8 (2015) Share of population in extreme poverty (under \$1.90/day): 31.25 (2019) Gender inequality index: 0.518 (126 out of 162)	

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	<b>Parameters</b>		<b>Evaluation</b>	<b>Score</b>
<b>GREEN ISSUES</b>	Direct impact of conditionality	IMF condition 1: None	None	n/a
	Indirect impact of unrelated conditions	IMF condition 1: Primary budget balance & passing supplementary budget	The program calls for a decline in the primary balance from a deficit of 4.6% of GDP to a 0.2% surplus by mid-2024, underpinned by a prior action on passing a supplementary budget and adhering to quarterly performance criteria on the primary budget balance. The scope of fiscal consolidation necessary is likely to limit the availability of funds needed for Kenya to fulfil its climate commitments. While the program does ring-fence several priority social spending categories, none of these pertain to the climate mitigation programs described in its NDC.	-1
		IMF condition 2: Governance reforms on fiscal transparency	The program contains a governance reform agenda bolstered by four structural benchmarks related to fiscal transparency; for example, to publish the results of an audit of all Covid-19 related expenditures, and to ensure that comprehensive information on public tenders awarded are publicly available. Such reforms reduce corruption risks, safeguard public resources, and enhance transparency and accountability, thereby ensuring more public resources for investments into climate change <i>mitigation</i> programs.	1
		IMF condition 3: Increase tax audits of firms	The program calls for an increase by 30% in the number of Level II audits of firms, selecting taxpayers with focus on industry sectors with large gaps in compliance identified by an IMF VAT-Gap analysis. This strengthening of tax audit functions in taxpayer offices should improve compliance, thereby providing additional resources for investment in climate change mitigation.	1
	Missed opportunities	<ul style="list-style-type: none"> <li>No explicit consideration of trade-offs involved of fiscal consolidation in achieving climate mitigation objectives</li> <li>Failure to incorporate environmental credentials alongside value for money in the project prioritisation process.</li> <li>No explicit consideration of how aligning the fuel VAT to the standard rate could be linked to shifting away from fossil fuel consumption</li> </ul>	-1	
	<b>Cumulative score on green issues</b>			0
<b>RESILIENCE</b>	Direct impact of conditionality	IMF condition 1: Priority social expenditures	The program protects basic services for the population in a set of non-binding quarterly indicative benchmarks on priority social expenditures, defined as cash transfers to vulnerable groups, free primary and secondary education, school food and sanitary programs, free maternal healthcare, health insurance subsidies for vulnerable groups, and spending for vaccination and immunization. However, these floors only preserve current spending levels rather than increasing it in a time of heightened need.	1

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	Indirect impact of unrelated conditions	IMF condition 1: Governance reforms on fiscal transparency	See condition description under 'Green' above. Such reforms reduce corruption risks, safeguard public resources, and enhance transparency and accountability, thereby ensuring more public resources for investments into climate change <i>adaptation</i> programs and basic services for the population.	1
		IMF condition 2: Stocktaking to identify dormant projects to be rationalized & expanded fiscal risk analysis of SOEs	The stocktaking exercise strengthens public investment management by clarifying the status of projects and associated commitments, thus ensuring that administrative delays are addressed and budget appropriations reflect outstanding commitments. The expanded fiscal risk analysis of SOEs will quantify contingent liabilities stemming from high-risk SOEs and initiate coverage of PPPs. These reforms combined will improve debt management, thereby strengthening the ability of Kenya to withstand economic shocks.	1
	Missed opportunities	<ul style="list-style-type: none"> <li>No explicit consideration of trade-offs between fiscal consolidation and achieving climate adaptation objectives</li> <li>Climate risks to the banking sector omitted, even though economy is dependent on climate sensitive natural resources</li> <li>Climate-related stress tests not simulated in debt sustainability analysis</li> </ul>	-1	
	<b>Cumulative score on resilience issues</b>			2
<b>INCLUSIVENESS</b>	Direct impact of conditionality	IMF condition 1: None	None	n/a
	Indirect impact of unrelated conditions	IMF condition 1: SOE rationalization framework	Job losses of academic staff have already been announced in the restructuring of the three largest public universities. Further job losses are expected in the restructuring of Kenya Airways, Kenya Power and Lightning Company, and Kenya Medical Supplies Authority Restructuring. Increased unemployment in the short term could raise income/consumption inequality, although it is typically middle-classes that are impacted by these layoffs. In the longer term, it may foster job growth by placing SOEs on a more sustainable financial path.	-1
		IMF condition 2: Tax revenues & submission of budget	Broadening of the VAT base is a key measure to reach quantitative performance criteria on tax revenues (e.g., removal of exemptions outside agriculture and limiting of zero-rating). These are primarily targeted at producers (e.g., plant and machinery exemptions), but may be passed on to consumers through the price of basic needs goods, decreasing the available income for poorer households.	-1
	Missed opportunities	<ul style="list-style-type: none"> <li>No explicit consideration of how to address income/consumption inequality (although both poverty and gender inequality receive attention)</li> </ul>	0	
	<b>Cumulative score on inclusiveness issues</b>			-2

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	Political economy considerations	Political constraints	The presidential election scheduled for August 2022 represents several constraints: election-related expenditures could lead to higher budget deficits; political violence as seen in previous elections could destabilize the program; and a new elected government may not be committed to reforms under the program (IMF document). There is also low priority for domestic authorities to pay attention to green recovery as attention has shifted to the upcoming elections (Interviews). In addition, there may be resistance to SOE rationalization as key positions in the sector have been distributed to develop patronage networks (Interviews). Fiscal consolidation, which was a key source of the government’s initial hesitancy to agree to a program of reform, may also be problematic as the budget is an important means of maintaining political power by favouring some social groups (Interviews).	
		Ownership of reforms	Initial program approval; no implementation data relevant here (such data will be available in subsequent reviews, where implementation or non-implementation of conditions is reported).	n/a
			<b>Overall score across GRID issues</b>	

## APPENDIX IV. MADAGASCAR

### IV.1. BACKGROUND

With nominal GDP per capita just over US\$500 in 2019 and three-quarters of the population living on less than US\$1.90 a day at purchasing power parity, Madagascar is one of the poorest countries in the world. Its 27 million inhabitants are severely affected by climate change impacts due to their exposure to increasingly frequent and intense cyclones, as well as their reliance on climate-sensitive sectors such as rainfed agriculture, fisheries, and livestock production. Fallout from Covid-19 and the country's acute governance and institutional deficiencies—ranked 149 of 179 on the corruption perceptions index—represent further obstacles to achieving green and inclusive development.

Prior to the Covid-19 pandemic, Madagascar had experienced an acceleration in economic growth over the past five years, reaching 4.4% in 2019, which was its highest rate in over a decade (African Development Bank 2021). But the economic impact of the Covid-19 crisis has been severe. Global trade and travel disruptions as well as domestic containment measures resulted in an initial 20% year-on-year decline in GDP for the second quarter of 2020 (World Bank 2020c), and a 7.1% contraction of GDP across the year (IMF 2021b). This abrupt slowdown was greater than that observed during the country's 2009 constitutional crisis—in which financial support and foreign investment stopped when the sitting president was ousted in a coup d'état—and is expected to erase all gains in income per capita achieved since the return to constitutional order in 2013 (World Bank 2020c). The economic recovery is also expected to be subdued, with GDP growth of 2% projected for 2021, which would be insufficient to increase average income per capita (World Bank 2020c).

Public finances also deteriorated during the pandemic, with the primary balance declining from a surplus of 0.3% of GDP in 2019 to a 2.6% deficit in 2020 (IMF 2021h). Madagascar experienced a significant loss in revenues as a result of the decline in economic activity, at least 1.4 percentage points of GDP (IMF 2021h). Expenditures also increased as the government launched its multisectoral emergency plan, which comprised health and safety measures, tax relief for the private sector, temporary salary subsidies, and new social assistance measures to support vulnerable households—including government in-kind donations of food and staple products, an unconditional cash transfer program, and rescheduling of bill payments to the state-owned electric utility and water services company Jirama (World Bank 2020c). In total, pandemic mitigation efforts cost 2.8% of GDP (IMF 2021h). To alleviate pressure on small-and-medium sized enterprises, the Central Bank also injected expectational

liquidity to the financial system, and encouraged banks to reschedule loan repayments by allowing deductions from their reserve requirements. Despite the increase in spending, the risk of public debt distress has remained moderate throughout the Covid-19 crisis, even though public debt increased from 37.8% of GDP in 2019 to 43.6% in 2020 (IMF 2021h). About three-quarters of the debt is owed to foreign creditors, of which 76% is to multilateral institutions, 19% to bilateral agencies, and 5% to the private sector (African Development Bank 2021).

The current account deficit deteriorated significantly to 6.5% of GDP in 2020, compared with 2.3% in 2019, largely due to a collapse in tourism and reduced demand for mining and textile exports (IMF 2021h). Facing an external financing gap of 4.2% of GDP for 2020, Madagascar made use of two disbursements under emergency IMF facilities (2.3% of GDP), temporary debt servicing relief under the Debt Service Suspension Initiative (0.1%), reserve drawdowns (0.8%), and additional budget support (0.9%) from the African Development Bank, Agence Française de Développement, European Union, and World Bank (IMF 2020c). Persistent but declining external financing gaps are slated until 2024, with the 2.8% gap for 2021 to be filled by a new IMF program and budget support from the aforementioned donors (IMF 2021h)—although all budget support has been suspended by donors for 2021 due to a track record of mismanagement and a lack of credibility of government commitments (Interview MC).

#### **IV.1.1. RELATIONSHIP WITH THE IMF**

Prior to the pandemic, Madagascar participated in a single IMF lending program and received financial support from two rapid facilities since 2010. In June 2014, the IMF approved the disbursement of US\$47.1mil (SDR30.6mil) from the Rapid Credit Facility, a no-conditionality concessional lending instrument for emergency financing. This supported fiscal interventions to increase public infrastructure and social spending and reduce the build-up of budgetary arrears, as well as address balance of payments needs linked to the disruption of production and exports since the 2009 constitutional crisis (IMF 2014). A subsequent Rapid Credit Facility for the same amount was approved in November 2015 to support balance of payments needs, along with a six-month Staff Monitored Program—which offers IMF advice but no access to credit—to develop a track-record of sustained reforms to support an eventual request for a formal lending arrangement (IMF 2015b). Having completed the sole review of the program with satisfactory performance, in July 2015 the country signed on to a 40-month Extended Credit Facility for US\$304.7mil (SDR220mil), subsequently augmented by US\$42.4mil (SDR30.6mil) in June 2017 (IMF 2017), to reinforce

macroeconomic stability and promote sustainable and inclusive growth by increasing investment in infrastructure and human capital, raising social spending, and advancing structural reforms (IMF 2016). All six reviews were completed and the entire loan was drawn.

The IMF has approved three loans to Madagascar since the beginning of the pandemic. In 2020, it approved two disbursements from the Rapid Credit Facility, in April and then in July, each for about US\$170mil (SDR122.2mil), to help the government address urgent fiscal and external financing needs to mitigate the impact of the pandemic, including measures in the aforementioned multisectoral emergency plan (IMF 2020d, 2020c). The IMF then approved a 40-month lending program in March 2021, unlocking access to US\$312.4mil (SDR220.0mil) under the Extended Credit Facility; completion of the first review was delayed, with IMF staff and Malagasy authorities having only reached a staff-level agreement in October 2021 (IMF 2021b). These funds are slated to support pandemic recovery, anchor an economic reform agenda for sustainable and inclusive growth and poverty reduction, and catalyze aid commitments (IMF 2021h). Madagascar also received four tranches of debt service relief to the IMF from the Catastrophe Containment and Relief Trust between April 2020 and October 2021, totaling a combined US\$25.8mil (SDR18.3mil) (IMF 2021a).

### IV.2 IMF PROGRAM CONDITIONS AND RECOMMENDATIONS

To what extent has the IMF supported green, resilient, and inclusive recovery from the Covid-19 pandemic in the policies advocated in Madagascar's ongoing lending program? We examine this question based on an analysis of the loan documentation, as well as 11 interviews with domestic and foreign stakeholders and IMF staff. The program has three key objectives: to strengthen fiscal space to allow for investment and social spending through revenue mobilization and improving the quality of spending; to advance structural reform, including the mitigation of fiscal and climate related-risks, improving the business environment by strengthening governance, and reinforcing the anti-corruption framework; and to strengthen the monetary policy framework and support financial stability (IMF 2021h). Fund staff insisted that the program reflected local authorities' priorities rather than their own, as specified in the government's Plan Emergence Madagascar for 2019-2023, and that their choice of conditions was a function of those that could easily be monitored and that would have the most impact (Interview FL). While the first review will be considered by the IMF Executive Board in December 2021 (IMF 2021b), development partners expressed disappointment that IMF staff recommended its completion, as they questioned Malagasy authorities' commitment to improving fiscal transparency and claimed the

external audit of Covid-19-related contracts—a structural benchmark in the program—was of poor quality (Interview MC). Contradicting the statement that the IMF program reflected local priorities, another IMF interviewee said the staff review mission was ‘extremely long’ due to reluctance of authorities to agree to tax expenditure reductions related to tax-free zones, since the affected firms were politically powerful and sought to quash the proposed reform (Interview DF).

### IV.2.1 GREEN RECOVERY

Madagascar is extremely vulnerable to climate change, ranked 165th of 182 countries in the ND-GAIN index for its exposure, sensitivity, and ability to adapt (Notre Dame Global Adaptation Initiative 2021). Its high poverty, food insecurity, lack of access to social safety nets, poor infrastructure, and heavy reliance on rainfed agriculture increase vulnerabilities to climate-related shocks and present a challenge for resilience. Rural communities are experiencing the repercussions of climate change most acutely through extended drought periods, increased variability of rainfall, intensification of cyclones, and floods (USAID 2016a). Indeed, climate-related disasters are estimated to cost Madagascar 1% of GDP per year on average, and the country has also suffered the largest amount of flood-related damage on average among all sub-Saharan African countries between 1990 to 2020 (IMF 2021h). Yet, the country’s greenhouse gas emissions represent only 0.12% of global emissions (World Resources Institute 2019) primarily through forestry and land-use change (57% of emissions) and agriculture (41%); energy emissions are not reported but are thought to be negligible, according to the LSE Grantham Institute. Against this backdrop, Madagascar published its Intended Nationally Determined Contribution in 2016, committing to reduce emissions by 14% and increase absorption (through reforestation) by 32% compared to the business-as-usual scenario (conditional on international financial support) and implement a series of adaptation measures, estimated at a combined cost of US\$42.1bn, 4% of which would be mobilized from domestic resources (Government of Madagascar 2016).

Climate concerns are firmly embedded in the IMF program documentation. The apex of this treatment is a two-page box in the report showcasing challenges related to climate change and disaster risk management. Within it, the IMF explicitly states that the program will support the authorities’ efforts by incorporating climate change modeling in fiscal risk assessment, and evaluating resources needed for mitigation plans; by encouraging policies for the prevention and management of natural hazards, and the mobilization of necessary domestic resources; and by catalyzing donor support, to bring in necessary financial resources and technical assistance. Elsewhere,

the IMF also states that the program frontloads financial resources based—*inter alia*—on susceptibility to natural disasters (such as the most severe drought in a decade currently affecting southern Madagascar), and climate-related risks are recognized in the overarching program objectives (i.e., to mitigate such risks). Second, the potential for natural disaster shocks is integrated into key macroeconomic toolkits, where it is modeled as an explanatory variable in current account estimates for the external sector assessment and simulated as a tailored stress test in the debt sustainability analysis. Third, climate issues are addressed indirectly through a structural benchmark to ‘finalize and publish a public investment manual’ to guide prioritization of projects and proper costing of the government’s Plan Emergence Madagascar, for which disaster risk management is a key element of the environmental pillar (one of three pillars alongside social and economic). More generally, several structural benchmarks aimed at enhancing economic governance and budget transparency hold potential to safeguard public resources for climate-related investment, such as to publish a quarterly budget execution report and to publish the terms and conditions of all PPP contracts within once month of the date of signature, both on a continuous basis.

Nonetheless, while the program gives space for the primary balance to remain in deficit at 2.5% of GDP in 2021 (2.6% in 2020), it calls for the balance to be in surplus by 2023, supported by quarterly performance criteria. Such targets may impede the ability of the government to scale-up public investment to fulfill the climate adaptation and mitigation programs described in its Intended Nationally Determined Contribution. Several measures are envisaged to safeguard such spending—including changes to the VAT to mobilize revenues and reductions in government transfers to the public utilities company Jirama (described in more detail below). But these reforms could prompt widespread social discontent and political instability, a prospect the program’s risk assessment matrix ranks as a high likelihood event (probability of 30-50%). Given climate future-proofing is a key priority of the program, a condition setting a floor on such spending could have ensured resources are reserved and signaled to domestic authorities that its importance is comparable to headline fiscal and monetary targets.

Further missed opportunities include the omission of explicit recommendations to incentivize green investment from the private sector (or disincentivize emission-intensive investment), especially given the expected materialization of large-scale projects in the energy and extractive sectors. One option could have been to target an amount of new debt to be directed to public investments in infrastructure that contribute to building the country’s resilience to the effects of climate change—such as sustainable roads and renewable energy—relative to the total amount of the cap on new borrowing (Interview TD). In addition, fuel pricing (described in more detail

below) was considered only in relation to immediate fiscal risks but not its fulfillment of climate objectives. An explicit consideration of how these policies could be linked to shifting away from fossil fuel consumption could have been a further step in the direction of decarbonization.

#### **IV.2.2 INCLUSIVE RECOVERY**

Madagascar has experienced modest improvements in social development in recent years. Poverty rates in 2009 stood at 78% estimated to live below the international poverty line of \$1.90, declining to 75% in 2019, but this was still significantly higher than the sub-Saharan African average of 41%. As a result of the Covid-19 crisis and severe drought in the southern part of Madagascar, this rose to an estimated 77.4% in 2020, corresponding to an increase of 1.38 million people falling into extreme poverty in one year and reversing almost all gains in poverty reduction over the last decade (World Bank 2020c). Along with drought, driving this reversal were job losses in 2020 estimated at 27% in the formal sector, focused in tourism, mining, and textiles, as well as income losses for informal workers affected by lockdowns (IMF 2021h). The Malagasy government's Plan Emergence Madagascar for 2019-2023 serves as the main strategic policy document coordinating efforts for poverty reduction, prioritizing social spending on education, health, and housing under its social pillar.

A key priority in the IMF's lending program is to 'strengthen fiscal space to allow for much-needed capital investment and social spending, by mobilizing domestic revenue and improving quality of spending' (IMF 2021h). While the program does entail fiscal tightening measures relative to the 2020 primary deficit of -2.6%, this occurs from 2022, offering leeway in 2021 for a more gradual unwinding of Covid-19 mitigation efforts. Projections for social spending beyond 2021 are omitted, but a 10% spending increase is budgeted for four social ministries—health, education, population, and water—in 2021, supported by indicative benchmarks on quarterly priority social spending floors and a structural benchmark to extend the number of households benefitting from a cash transfer program from 483,000 beneficiaries to 540,000 by September 2021. Whether these steps constitute enough to address the country's pandemic-induced reversal of progress on poverty reduction, as well as job losses in key manufacturing and service sectors, is unclear. There is also a risk that within a limited pool of fiscal resources, the wage bill of public workers in education and health could be squeezed, since these social expenditures are excluded from the IMF's calculation of the social spending floor. Nonetheless, IMF staff did note that deviation from the fiscal consolidation path would be allowed to address the consequences of the drought in southern Madagascar (Interview FL).

Fiscal space for the expansion of social spending is to be accomplished by limiting ‘non-priority spending’ and raising revenues. To this end, the program calls for revising and streamlining of tax exemptions for the import and local sale of rice, which accounts for more than half of total tax expenditure, as well as exemptions related to large mining investments. The removal of exemptions on rice would increase prices for consumers, disproportionately burdening the poorest households. In the press release for the staff-level agreement on the first review, staff already note that ‘tensions on food prices have re-emerged, calling for prompt policy action to support the poor’ (IMF 2021b).

The program also envisages the implementation of a fuel pricing mechanism to avoid the risk of budget costs in the future. The government currently sets prices at the pump in an arrangement by which oil distributors are guaranteed the difference between reference and pump prices, thereby subsidizing fuel consumers. While the new mechanism would reduce liabilities to oil distributors, it would increase prices at the pump should the cost of petrol rise, which may then get passed on to the price of basic needs goods. A mitigation measure discussed is the targeting of the most vulnerable through the scaling up of social safety net programs to compensate for higher prices. However, in a context where three-quarters of the population live in extreme poverty, targeted social programs are unlikely to reach most poor households, thereby burdening them with extra fuel costs that may displace food and other basic needs purchases. Civil society representatives also noted that because corruption is so embedded in Madagascar, the beneficiaries of targeted social programs are frequently politically determined rather than based on need (Interviews NH, KR). In any case, development partners flagged the reform as a commitment the government would be unlikely to meet should a sharp increase in the price of petroleum eventuate, as passing on the prices to consumers would lead to untenable rises in social instability (Interview TD). IMF staff were mindful of the impact of such measures on the middle classes, which represent the core of the voting population; but in their view, better public services and transportation infrastructure would compensate for higher prices—‘If you improve traffic and circulation in the city, then they might be more willing to accept rising fuel costs’ (Interview FL).

The program also calls for a mitigation of fiscal risks related to operating subsidies to Jirama. Its financial situation worsened during the pandemic, due to lower economic activity and the rescheduling of electricity bill payments as part of the Covid-19 emergency plan. A financial recovery plan seeks to reduce government transfers to the SOE by increasing its revenues through gradual increases of tariffs. While it is middle-class households and formal businesses in the capital Antananarivo

that will be most affected (Interview MU), there is again a risk that costs may be passed on to final consumption goods on poorer communities (Interview FL).

### **IV.3 CONCLUSION**

Overall, Madagascar stands out as a positive case for the pursuit of green, resilient, and inclusive development. These priorities are clearly articulated in the loan documentation and integrated throughout the program. Even so, several recommendations appear at cross-purposes with these priorities, such as potentially regressive tax reforms and tariff increases to public utilities, as well as performance criteria on the primary balance that are not counterbalanced with comparable measures to ensure the expansion of climate and social spending.

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**Table IV.1. Impact assessment for Madagascar's 2021 Extended Credit Facility**

The IMF Executive Board approved a 40-month ECF arrangement for Madagascar on 29 March 2021, offering access of up to a combined SDR219.96 million (US\$312.4 million). This assessment relates to **Review 0** (i.e., program approval) concluded on **29 March 2021**, unlocking access to **SDR48.88 million (US\$69.4 million)**.

Parameters		Evaluation criteria										
<b>CONTEXT</b>	Country context	Economic developments						Projections:				
				2018	2019	2020	2021	2022	2023	2024		
			Real GDP (% annual change)	3.2	4.4	-4.2	3.2	5.0	5.4	5.2		
			Primary balance (% of GDP)	0.1	0.3	-2.6	-2.5	-0.4	0.2	0.5		
			Public gross nominal debt (% of GDP)	39.8	37.8	43.6	46.9	47.8	48.6	49.1		
			Gross domestic debt (% of GDP)	13.4	11.2	11.6	12.2	11.7	11.3	11.0		
			Gross external debt (% of GDP)	26.4	26.6	32.0	34.7	36.1	37.3	38.1		
	Development partnerships					Projections:						
		<i>(all in % of GDP)</i>				2018	2019	2020	2021	2022	2023	2024
		Net domestic financing		0.5	0.0	1.5	2.9	0.6	0.5	0.5		
Net foreign financing		1.4	1.2	1.4	3.6	3.5	3.3	3.0				
- Budget support loans		0.4	0.0	0.1	1.3	0.4	0.3	0.3				
- Project loans		1.6	1.7	1.8	2.9	4.0	4.1	3.8				
- Amortization		-0.5	-0.4	-0.5	-0.6	-0.9	-1.1	-1.1				
	IMF program objectives	<ul style="list-style-type: none"> <li>Rebuild and strengthen fiscal space to allow for much needed investment and social spending, by mobilizing domestic revenue and improving quality of spending.</li> <li>Resume and advance the government's structural reform agenda including strengthening governance and reinforcing the anti-corruption framework.</li> <li>Strengthen stability and financial sector development, including through improving supervision and enhancing the monetary framework.</li> </ul>										
GRID context	Climate priorities	<ul style="list-style-type: none"> <li>Mitigation: Reduce emissions by 14% and increase absorption (through reforestation) by 32% compared to the business-as-usual scenario (conditional on international financial support)</li> <li>Adaptation: Implement a series of adaptation measures, estimated at a combined cost of US\$42.1bn, 4% of which would be mobilised from domestic resources</li> </ul> <p><i>Each has sub-targets not presented here for brevity, but in principle could be elaborated</i></p>										
	Climate change mitigation indicator	Contribution to global greenhouse emissions as share of total global emission: 0.12%										

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	Climate change adaptation indicators	Government expenditure on environmental protection (% of GDP): n/a ND-GAIN Country Index: 36.0 (165 out of 182 countries) - Vulnerability: 0.546 (159 out of 182) - Readiness: 0.265 (176 out of 192)		
	Resilience indicators	Non-life insurance penetration (average non-life insurance premium to GDP): 0.46		
		Proportion of total government spending on education: 14.3 (2020), compared to 15.8 (2018) for low-income countries Proportion of total government spending on health: 10.48 (2018), compared to n/a for low-income countries		
	Poverty, inequality, and gender indicators	Gini index: 42.6 (2012) Share of population in extreme poverty (under \$1.90/day): 76.55 (2019) Gender inequality index: n/a		
	<b>Parameters</b>	<b>Evaluation</b>	<b>Score</b>	
<b>GREEN ISSUES</b>	Direct impact of conditionality	IMF condition 1: None	None	n/a
	Indirect impact of unrelated conditions	IMF condition 1: Fiscal consolidation	While the program gives space for the primary balance to remain in deficit at 2.5% of GDP in 2021 (2.6% in 2020), it calls for the balance to be in surplus by 2023, supported by quarterly performance criteria. Such targets may impede the ability of the government to scale-up public investment to fulfil the climate <b>mitigation</b> programs.	-1
		IMF condition 2: Governance reforms	Several structural benchmarks are aimed at enhancing economic governance and budget transparency , such as to publish a quarterly budget execution report and to publish the terms and conditions of all PPP contracts within once month of the date of signature, both on a continuous basis. Such conditions hold the potential to safeguard public resources for climate-related <b>mitigation</b> investment.	1
		IMF condition 3: Fuel pricing	The program sets a structural benchmark on government liability to oil distributors. The government currently sets prices at the pump in an arrangement by which oil distributors are guaranteed the difference between reference and pump prices, thereby subsidising fuel consumers. While the new mechanism would reduce liabilities to oil distributors, it would increase prices at the pump should the cost of petrol rise, disincentivizing use of fossil fuels.	1
	Missed opportunities	<ul style="list-style-type: none"> <li>Explicit recommendations to incentivize green investment from the private sector, especially given expected materialization of large-scale projects in energy and extractive sectors</li> <li>Fuel pricing considered only in relation to immediate fiscal risks but not its fulfilment of climate mitigation objectives.</li> </ul>	0	
<b>Cumulative score on green issues</b>			<b>1</b>	

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	Parameters		Evaluation	Score
RESILIENCE	Direct impact of conditionality	IMF condition 1: Large expansion of social spending	A 10% spending increase is budgeted for four social ministries—health, education, population, and water—in 2021, supported by indicative benchmarks on quarterly priority social spending floors and a structural benchmark to extend the number of households benefitting from a cash transfer program from 483,000 beneficiaries to 540,000 by September 2021. These measures strengthen basic services, which act as shock absorbers in case of a crisis, and free up resources to households to adapt to consequences of climate change.	2
	Indirect impact of unrelated conditions	IMF condition 1: Publish public investment manual	The program contains a structural benchmark to ‘finalize and publish a public investment manual’ to guide prioritization of projects and proper costing of the government’s Plan Emergence Madagascar, for which disaster risk management is a key element of the environmental pillar (one of three pillars alongside social and economic).	1
		IMF condition 2: Governance reforms	See condition description under ‘Green issues’ above. Such conditions hold the potential to safeguard public resources for climate-related <b>adaptation</b> investment.	1
	Missed opportunities	<ul style="list-style-type: none"> <li>None</li> </ul>		0
<b>Cumulative score on resilience issues</b>				4
INCLUSIVENESS	Direct impact of conditionality	IMF condition 1: Large expansion of social spending	See condition description under ‘Resilience’ above. These social support measures hold potential to alleviate income/consumption inequality, and lift individuals out of poverty.	2
	Indirect impact of unrelated conditions	IMF condition 1: Fiscal consolidation	See condition description under ‘Green issues’ above. Within a limited pool of fiscal resources, the wage bill of public workers in education and health could be squeezed, since wage expenditures are excluded from the IMF’s social spending floor. The program also calls for mitigation of fiscal risks related to operating subsidies to public utility SOE Jirama. A financial recovery plan seeks to reduce government transfers by gradual increases of electricity tariffs. While it is middle-class households and formal businesses in Antananarivo that will be most affected, costs may be passed on to final consumption goods on poorer communities.	-1
		IMF condition 2: Tax revenues	The program calls for revising and streamlining of tax exemptions for the import and local sale of rice, which accounts for more than half of total tax expenditure, as well as exemptions related to large mining investments. This is underpinned by quarterly indicative benchmarks on domestic tax revenues. The removal of exemptions on rice would increase prices for consumers, disproportionately burdening poor households.	-1

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	IMF condition 3: Fuel pricing	See condition description under 'Green issues' above. While the new mechanism would reduce liabilities to oil distributors and benefit the environment, it would increase prices at the pump should the cost of petrol rise, which may displace food and other basic needs purchases.	-1
	Missed opportunities	<ul style="list-style-type: none"> <li>None</li> </ul>	0
<b>Cumulative score on inclusive issues</b>			-1
	Political economy considerations	Political constraints	There is a high risk of widespread social discontent and political instability (IMF document), especially where conditions (tax revenues, fuel pricing, transfers to Jirama) may increase prices of basic needs purchases. There is a potential for stalling or reversal in corruption and governance reforms, especially for SOEs (IMF document). There is reluctance for authorities to undergo tax expenditure reductions related to tax-free zones, since the affected firms are politically powerful and will sought to quash attempts to implement reforms.
		Ownership of reforms	Initial program approval; no implementation data relevant here (such data will be available in subsequent reviews, where implementation or non-implementation of conditions is reported).
<b>Overall score across GRID issues</b>			4

### APPENDIX III & IV REFERENCES

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