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RESILIENCE AND SUSTAINABILITY FACILITY—OPERATIONAL GUIDANCE NOTE

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RESILIENCE AND SUSTAINABILITY FACILITY—OPERATIONAL GUIDANCE NOTE

EXECUTIVE SUMMARY

This note provides general guidance on the operationalization of the Resilience and Sustainability Facility (RSF) for arrangement requests and reviews. The RSF complements the existing IMF lending toolkit by providing longer-term, affordable financing to members to help them address longer-term structural challenges from climate change and pandemic preparedness. The note has benefited from experience gained during early operationalization in a pilot phase.

Operational issues are covered in several areas:

- The RSF framework, including objectives, eligibility and qualification;
- RSF arrangement design, specifically identifying longer-term structural challenges, assessing the associated Balance of Payments (BoP) risks, designing strong Reform Measures (RMs), and determining access levels;
- The catalytic role of RSF-supported reforms and financing;
- Coordinating diagnostics and reform priorities with outside expert stakeholders;
- Other RSF modalities, such as phasing, reviews, safeguards, and lending terms;
- Other operational considerations and documentation requirements.

The note is an aid to the implementation of the policy and its underlying principles. If there is any instance in which a provision of the guidance note or its implementation conflicts with Board policy, Board policy prevails.

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AML/CFT	Anti-Money Laundering and Combatting the Financing of Terrorism
AD	Area Department
AL	Assessment Letter
BMP	Balance of Payments Manual
Board	Executive Board
BoP	Balance of Payments
BTO	Back-To-Office
BUFF	Statements made by Management, Staff, or Executive Directors
C-PIMA	Climate Public Investment Management Assessment
CC	Climate Change
CCDR	Country Climate and Development Report
CCPA	Climate Change Policy Assessment
CD	Capacity Development
CES	Country Engagement Strategy
CMAP	Climate Macroeconomic Assessment Program
CSD	Common Surveillance Database
CtR	Capacity to Repay
CPAT	Climate Policy Assessment Tool
CPD	Climate Policy Diagnostic
CR	Country Report
CRND	Climate Related Natural Disaster
DSA	Debt Sustainability Assessment
DPO	Development Policy Operation
DIGNAD	Debt-Investment-Growth and Natural Disasters
DRM	Domestic Revenue Mobilization
DSF	Debt Sustainability Framework
ECF	Extended Credit Facility
EMDE	Emerging Markets and Developing Country
ESG	Environmental, Social, and Corporate Governance
EFF	Extended Fund Facility
EU	European Union
FAD	Fiscal Affairs Department
FADCP	Fiscal Affairs Department's Climate Policy Division
FATF	Financial Action Task Force
FIN	Finance Department
FD	Functional Department
FSAP	Financial Sector Assessment Program
FSSR	Financial Sector Stability Review
FCL	Flexible Credit Line
FCS	Fragile and Conflict-affected State(s)
FFSR	Fossil Fuel Subsidy Reform*
FX	Foreign Exchange
GoC	Guidance on Conditionality
GDP	Gross Domestic Product

GFN	Gross Financing Need
GHG	Greenhouse Gas
GHSA	Global Health Security Agenda
GIR	Gross International Reserves
GRA	General Resources Account
GNI	Gross National Income
HFPM	Health Financing Progress Matrix
ICD	Institute for Capacity Development Department
IDA	International Development Association
IDB	Inter-American Development Bank
IHR	Internal Health Regulations
IMF	International Monetary Fund
ISD	Integrated Surveillance Decision
JEE	Joint External Evaluation
LEG	Legal Department
LIC	Low-Income Country
LIDC	Low-Income and Developing Country
LOI	Letter of Intent
LT	Long-term
M&E	Monitoring and Evaluation
MAC	Market Access Country
MCM	Monetary and Capital Markets Department
MD	Managing Director
MDB	Multilateral Development Bank
MEFP	Memorandum of Economic and Financial Policies
MIC	Middle Income Country
MOF	Ministry of Finance
MOT	Ministry of Transport
NAPHS	National Action Plans for Public Health Security
NDC	Nationally Determined Contributions
NHA	National Health Accounts
PEFA	Public Expenditure and Financial Accountability
PCI	Policy Coordination Instrument
PCM	Policy Consultation Meeting
PIM	Public Investment Management
PIMA	Public Investment Management Assessment
PFA	Post Financing Assessment
PFM	Public Financial Management
PLL	Precautionary and Liquidity Line
PN	Policy Note
PPP	Public Private Partnership
PS	Program Statement
PRGT	Poverty Reduction and Growth Trust
PSI	Policy Support Instrument
RES	Research Department
RM	Reform Measure

RSF	Resilience and Sustainability Facility
RST	Resilience and Sustainability Trust
SAI	Supreme Audit Institution(s)
SB	Structural Benchmark
SBA	Stand-by Arrangement
SCF	Stand-by Credit Facility
SDG	Sustainable Development Goal
SDR	Special Drawing Rights
SDRi	SDR Interest Rate
SDS	Small Developing State(s)
SLA	Staff Level Agreement
SR	Staff Report
SRDSF	Sovereign Risk and Debt Sustainability Framework
SPAR	State Party Annual Report
SPR	Strategy, Policy, and Review Department
SPRCD	SPR's Climate and Development Policies Division
STA	Statistics Department
UCT	Upper Credit Tranche
UNPR	Universal Health and Preparedness Reviews
T	Time
TA	Technical Assistance
TMU	Technical Memorandum of Understanding
UN	United Nations
VAT	Value-Added Tax
WB	World Bank
WHO	World Health Organization

INTRODUCTION

1. **The Resilience and Sustainability Trust (RST) is a major innovation to the International Monetary Fund's (IMF) lending toolkit.** The RST complements the existing lending toolkit by providing longer-term, affordable financing to members to help them address longer-term structural challenges, including from climate change and pandemic preparedness. The IMF's Executive Board approved the establishment of the RST in April 2022, and it became operational in October 2022. As of end-September 2023, eleven arrangements have been approved to access financing from the RST under the Resilience and Sustainability Facility (RSF)[1] during a pilot phase.[2] Early RSF arrangements have focused on reducing risks to prospective Balance of Payments (BoP) stability from climate change through sets of measures covering both adaptation and mitigation.[3]

2. **This guidance applies to all RSF arrangements, including upcoming reviews of current arrangements and future requests for RSF financing.** Reviews under RSF arrangements in place as of October 2023 and all subsequent requests will be guided by this note. The note has benefited from experience gained during the pilot phase. Early RSF arrangements have focused exclusively on addressing longer-term structural challenges posed by climate change. The guidance will be updated once we gain more experience with pandemic-related RSF financing requests.[4]

3. **The note is organized as follows.** The first section provides key information on the RST framework, including objectives, eligibility and qualification. The second section provides guidance on RSF design, specifically identifying longer-term structural challenges, assessing the associated BoP risks, designing strong Reform Measures (RMs), and determining access levels. The third section covers the catalytic role of RSF-supported reforms and financing, followed by a section on coordination with outside expert stakeholders. The fifth section details other RSF arrangement modalities, such as phasing, reviews, safeguards, and lending terms. Finally, the note details operational considerations and documentation requirements.

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[1] Resilience and Sustainability Trust (RST) references the vehicle for collecting, managing, and disbursing member contributions. The RST is a loan-based trust funded with donor contributions on a voluntary basis (2022 RST Board paper (RST Board paper) ¶6). The RSF is the instrument under which RST loans are made available to members under an RSF arrangement.

[2] "Pilot phase" refers to the period of RST operations prior to the publication of this Guidance Note. For brevity, the term "pilots" is used to refer to RSF arrangements approved during this period.

[3] Specific areas include public financial management (e.g., green Public Investment Management (PIM), green budget tagging, climate-informed macro-fiscal frameworks, disaster risk management), sector-specific policies (e.g., energy efficiency, renewable energy growth, spatial planning), financial sector (e.g., managing financial sector climate risks), central banking (e.g., evaluate the legal mandate and the scope of contributions to climate policies), and fiscal policy (e.g., review of tax incentives to support decarbonization fuel subsidy reforms, and carbon pricing).

[4] Updates to the online version of this note can be made in the future to reflect changes based on reviews of the instrument and further experience with the RST. When approving the Board Paper, the Executive Board agreed on an Interim Review to take stock of the initial experience and revisit the set of qualifying structural challenges at around 18 months after its operationalization.

4. Several annexes provide more detailed information to assist country teams. Annex I lists RST-eligible countries as of October 2023 and their respective country group classifications regarding the financial terms of RST financing. Annex II provides examples of the presentation of RSF financing in standard Fund-supported program tables. Annexes III and IV illustrate additional information on Capacity to Repay (CtR) Assessments and on completing Debt Sustainability Assessments (DSAs) for the upper credit tranche (UCT) and RSF arrangements. Annex V details principles for designing strong reform measures and provides some examples. Finally, Annex VI summarizes key aspects of the 2018 Governance Framework that are relevant for RSF arrangements.

THE RSF FRAMEWORK

A. Objectives, Eligibility, Qualification and Use

5. The RST aims to enhance members' prospective BoP stability by promoting economic resilience and sustainability through (i) support for policy reforms that reduce macro-critical risks associated with longer-term structural challenges, and (ii) augmenting longer-term policy space and financial buffers to mitigate risks arising from such longer-term challenges (RST Board paper, ¶16). In this sense, the RST complements the IMF's lending toolkit by providing longer-term financing compared to the Fund's other lending instruments which focus on short- and medium-term challenges.

6. Eligibility. RST eligibility is based on a combination of per capita income and population thresholds. At its inception, the Board defined RST-eligibility based on two criteria: (i) an IMF member's per capita gross national income (GNI) in 2020 (or 2019, if 2020 data is not available) does not exceed ten times the 2021 International Development Association (IDA) operational cutoff ($1,205) or (ii) it has a population below 1.5 million as of 2020, as reported by the World Bank (WB), and its per capita GNI in 2020 (or 2019, if 2020 data is not available) does not exceed twenty-five times the 2021 IDA operational cutoff (RST Board paper, ¶34-36). The list of RST-eligible countries (Annex I) will be updated to reflect updated IDA operational cutoffs at periodic reviews, which will be synchronized with Poverty Reduction and Growth Trust (PRGT) eligibility reviews that are currently on a two-year cycle.[5] Ad hoc decisions on eligibility could be taken in interim periods to avoid disadvantaging a member that is not on the eligibility list but meets the eligibility criteria.

[5] The first review of eligibility will take place at the RST interim review (expected in mid-2024) and will align with PRGT eligibility reviews thereafter.

7. **To qualify for an RSF arrangement**, eligible members would need to have:

- (i) a package of high-quality reform measures (see ¶22-28) that help the member make significant progress toward strengthening its prospective BoP stability by reducing macro-critical risks related to qualifying longer-term structural challenges[6] (Box 1);
- (ii) a concurrent on-track qualifying UCT program with at least 18 months remaining at the time of RSF arrangement approval to ensure adequate policy safeguards, support a stable macroeconomic environment in which RSF-supported reforms can be effective, and provide sufficient time for RSF-supported reform implementation (¶10-13);[7] and
- (iii) sustainable debt and adequate capacity to repay (¶14-16)

Box 1. Balance-of-Payments Needs Under the RSF

By reducing prospective balance of payments risks, an RSF arrangement aims to contribute to longer-term BoP stability. In some cases, the RSF arrangements may also have an impact on short- and medium-term BoP needs. Staff should illustrate in program documentation:

- *Risks to prospective BoP stability that may entail longer-term BoP financing* needs (see ¶20) associated with the relevant longer-term structural challenge. These risks are a qualification criterion for an RSF arrangement (though they are *not* related to access levels, which are governed by separate criteria, see ¶35-37). Leveraging diagnostics and available modelling tools (¶20), staff should strive to illustrate the challenges to prospective BoP stability and substantiate the relevance of the proposed package of reforms to mitigating these prospective risks. Quantification, if feasible, is expected, but not required given inherent challenges.
- *Where relevant, any direct short to medium-term BoP financing* needs (see ¶12, 29) arising from the implementation of RSF-supported reforms. Staff should provide precise estimates and include them in the fiscal or BoP frameworks. Any positive impact on the BoP in the short-to-medium term from RSF-supported reforms should also be captured to the extent possible.

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[6] In establishing the RST, the Executive Board decided that RST operations should initially focus on climate change and pandemic preparedness, while maintaining flexibility to add additional qualifying challenges in the future subject to the consent of contributors (RST Board paper, ¶10, 11 & 29).

[7] This criterion will be considered met when a qualifying member is either requesting or has an active, on-track Stand-by Arrangement (SBA), Extended Fund Facility (EFF), Precautionary and Liquidity Line (PLL), Flexible Credit Line (FCL), Stand-by Credit Facility (SCF), Extended Credit Facility (ECF) arrangement, or Public Coordination Instrument (PCI) or Policy Support Instrument (PSI) (all referred to as UCT program in this Guidance Note (GN)). "Financing under the RST requires a concurrent Fund arrangement or instrument supporting a program with UCT-quality conditionality (henceforth called "UCT program") to (i) provide adequate policy safeguards that contribute to mitigating the credit risk associated with RST financing and maintaining the reserve asset status of RST contributions, a key requirement for central banks of many potential contributors, (ii) mitigate the risk of facility shopping, whereby the RST's longer and cheaper financing could be (mis)used to finance BoP problems normally addressed under General Resource Account (GRA)/PRGT programs, and (iii) support a stable macroeconomic environment in the borrowing country which is a necessary condition to pursue long-term reforms and support a catalytic role for the RST" (RST Board paper, ¶19). SLL arrangements do not qualify given their short duration, and Staff Monitored Program (SMP)-even those of UCT quality- are excluded as they are not Fund supported and do not have the same level of financing assurances and safeguards. Similarly, emergency financing such as RCF or RFI does not qualify for the RSF.

8. Program documents should describe how the RSF reforms and funding would support the authorities' climate or pandemic preparedness strategies, consistent with the purpose and qualifying uses of RSF. The purpose of the RSF reforms and financing is to help members address the longer-term structural challenges of climate change and pandemic preparedness, with the goal of strengthening their prospective (future) balance of payments stability. The staff report for the RSF arrangement request (and any relevant SR outlining significant changes in the design of the RSF arrangement) should note the intended uses of the RSF funding, which can include: (i) covering any shorter-term BoP/fiscal needs directly associated with implementation of RST-supported reforms; (ii) increasing policy space for fiscal spending and reforms associated with qualifying longer-term structural challenges, and (iii) augmenting longer-term buffers to strengthen the member's ability to face shocks linked with qualifying structural challenges (Board Paper, (¶16, 30). Any direct costs related to the implementation of RMs should be described in detail. Current BoP needs not directly linked to RSF RMs should be covered by the UCT program (¶12, Annex II).

9. For the purpose of providing greater transparency around their plans for the use of the RSF financing (¶42), the authorities would be expected to publicly state their intentions for the general use of the policy space made available by RSF in the Memorandum of Economic and Financial Policies/Program Statement (MEFP/PS).[8] Ideally such statements would be grounded in and refer to the authorities' broader strategy for climate or pandemic preparedness, keeping in mind that RSF loans are not earmarked for specific projects.[9] If the authorities intend to use RSF financing as budget support, general IMF policies on budget support apply, including specifying this in program documents and ensuring appropriate arrangements between the Central Bank and the Ministry of Finance are in place.[10] RSF arrangements cannot be used on a precautionary basis; available financing is expected to be drawn promptly after the Board approves an RSF disbursement (¶56; RST Board paper, ¶30).

[8] For FCL and PLLs, these could be included in the Written Communications. An example of statements on the general use of funds is the following: "The RSF will support our budgetary efforts to build resilience to climate change through greater spending on resilient infrastructure and green energy, as envisaged in our National Mitigation and Adaptation Plan." The staff report can state: "The RSF will increase the policy space for fiscal spending and reforms to build resilience to climate change – in line with the country's climate strategy – which would ultimately strengthen prospective balance of payments stability." Another example: "The RSF will augment international reserves thus improving investors' confidence and strengthening the country ability to face future climate-change related shocks."

[9] Use of RST financing for budget support could consider, inter alia and depending on country specific circumstances: well-targeted, temporary subsidies to incentivize green technologies; and augmenting social assistance to offset carbon price increases; these uses should be well-costed and directly linked to RSF reforms (Box 1, ¶38). The RSF may also facilitate the expansion of the envelop of "green" public investment and/or contributions to well-designed green PPP projects by providing additional policy space (Board paper, footnote 14). When reporting on such cases, the authorities and staff should bear in mind that (i) the budget should remain fully financed within the UCT program, without the RSF (¶12); and (ii) "earmarking" projects or part of the Public Investment Pipeline to be contingent on RSF resources should be avoided.

[10] See Staff Guidance Note on the Use of Fund Resources for Budget Support (2010).

B. Concurrent UCT Program

10. Implications for requests, reviews, and termination of RSF arrangements. An RSF arrangement shall normally be approved concurrently with either the approval of, or the completion of a review under, a qualifying UCT program with at least 18 months remaining until its expiration (see ¶49, RST Board paper). For FCL arrangements, the approval of an RSF arrangement could take place after the approval of the FCL and outside a review.[11] Delays in completing reviews under the UCT program would also delay RSF arrangements reviews. The RSF arrangement automatically terminates when the UCT program expires or is cancelled.[12]

11. The duration of the concurrent UCT-quality instrument may be extended to allow a member to qualify for an RSF arrangement, provided such an extension is consistent with the decisions and policies governing the instrument. If fewer than 18 months remain in the concurrent UCT-quality instrument, the member may request its extension in the Letter of Intent (LOI). Country teams should carefully review the requirements under the relevant UCT-quality instrument[13] and seek early guidance from LEG and SPR. A request for extension cannot be approved on the basis of the RSF financing request alone; country teams should support it with considerations related to the UCT program, for example because more time is needed to complete the expanded set of UCT program reforms associated with the RSF reforms (¶29 & 30).[14] Alternatively, the authorities can cancel the ongoing UCT program and request a new UCT program of at least 18 months together with a request for approval of an RSF arrangement.[15] The approach chosen should account for several factors including limits on the duration of the underlying UCT-quality instrument, the appropriate UCT-quality instrument given the member's short and medium-term BoP needs, whether an extension of the member's Fund supported program is appropriate, and the member's own preferences.

12. RSF financing must be additional to—and not substitute for—other IMF financing. The UCT program must "stand on its own" in terms of financing and adjustment. The Financing Assurances Policy applicable to the concurrent UCT program requires (i) firm commitments of financing to be in place for the upcoming 12 months, and (ii) good prospects that there will be adequate financing for the remaining program period beyond the upcoming 12 months. This

[11] Given the ex-ante UCT qualifications underpinning an FCL arrangement, an RSF request could be made outside of an FCL request/review provided the FCL residual duration is at least 18 months. One RSF review, however, should coincide with the FCL review; other RSF reviews could be stand-alone.

[12] As with other Fund arrangements, the RSF arrangement would also automatically terminate at the time when all financing available under the arrangement has been disbursed.

[13] Extension of the concurrent UCT-quality instrument would normally warrant adding one or more reviews. For disbursing arrangements, an "empty review", i.e., a review without an associated purchase/disbursement, is not possible, and the extension would need to be accompanied by the inclusion of additional test dates with associated disbursements/purchases. Hence, either rephasing (or augmentation if warranted) would be required to facilitate the extension in most cases. Additional instrument specific constraints may also apply.

[14] These could be Structural Benchmarks or reform commitments illustrated in the MEFP.

[15] Early examples include Rwanda, Seychelles (cancellation and new UCT program); and Niger, Kenya (extension).

requirement remains unchanged, and RSF financing may not be used to close any financing gaps. This means that the UCT program must be assessed as sufficient to address the financing needs expected to arise during the program period to ensure medium-term external viability under the baseline scenario (under the General Resource Account (GRA)) or make "significant progress" towards it (under the ECF of the PRGT; RST Board paper, ¶21 and ¶33),[16] with the exception of BoP needs directly stemming from RSF-supported RMs (see Box 1, ¶38). If additional BoP needs emerge during the program period, they should be addressed through augmentation of access under the UCT program and policy adjustment, and not through RSF financing.[17] For example, if the member suffers an external shock—such as a natural disaster—emergency financing or an augmentation of UCT-quality lending instrument could be considered. In all cases, a successful review of the UCT program needs to be completed in order for RSF reviews to proceed.

13. Presentation of RSF financing in tables in program documents should reflect its "additionality" and the fact that the UCT program stands on its own in terms of financing and adjustment (Annex II).

- RSF financing should be shown below the line, along with reserves, and illustrated separately from Fund financing under the UCT program, after closure of any exceptional financing need.[18]
- International reserves should be shown to remain adequate and fiscal gaps closed through the program horizon without RSF financing.
- Any measurable impact of RSF-supported reforms on BoP or fiscal projections should be accounted for in program documents and in the macroeconomic projections.[19] More specifically, if there are direct costs from RMs, the additional financing gap can be financed by RSF disbursements—presented as prospective financing that is separate from other IMF financing.

C. Member's Capacity to Repay and Debt Sustainability

14. Additional safeguards apply to RSF arrangement. All Board documents for RSF financing requests and augmentations will need to include analysis and discussion of (i) an extended CtR analysis that covers the RSF repayment period, taking into account all Fund borrowing by the

[16] A fully financed UCT-program is indirectly a requirement for all RSF disbursements because RSF reviews can generally only be completed in the context of completed reviews under the underlying UCT-quality instrument.

[17] Should BoP needs arise over the course of a non-disbursing UCT program, such as a PCI, a concurrent SBA/SCF arrangement may be requested. Alternatively, the PCI could be canceled and a new UCT/RSF program may be requested in its place.

[18] See Balance of Payments Manual (BMP) BMP6, paragraphs 14.16-14.17, Table 14.1, and Annex I, paragraphs A1.1-A1.2. The analytical presentation of balance of payments statistics is used to facilitate a basic distinction between (a) reserves and closely related items and (b) other transactions.

[19] RSF-supported reforms may raise actual or prospective BoP needs, for instance through upfront fiscal costs or by generating higher imports. They could also lower BoP needs, in particular when reforms serve a dual purpose of contributing to prospective stability and helping achieve the objectives of the accompanying UCT arrangement, such as a fuel subsidy reform.

member; (ii) debt risk analysis over a longer time horizon (up to 20 years), and (iii) the composition of public debt, including the share of de facto senior debt.

15. Requests for new RSF arrangements and augmentations of existing arrangements require enhanced analysis of the member's CtR. In this regard, program documents for a new RSF arrangement or an augmentation of access under an RSF arrangement should include a set of standardized charts on capacity to repay (CtR "dashboard") for the repayment period of RSF loans.[20] These dashboards illustrate the evolution of total projected credit outstanding to the Fund (i.e., PRGT+GRA+RST) and debt service to the Fund in relation to key economic metrics over the course of the RSF repayment period (20 years), and compare it with available data from past Fund financing arrangements. The dashboards, which are prepared by Finance Department (FIN) and provided to country teams, are additional to the standard CtR table, and are intended to inform the bottom-line assessment in the CtR paragraph. When financing requests would result in comparatively elevated levels of key CtR indicators, the program documents would need to examine the severity of the implied risks and explain how RSF design—including access and phasing, and the accompanying UCT program—seeks to mitigate these risks (additional details and sample CtR paragraphs are in Annex III).[21] SRs completing reviews under an RSF arrangement must include a paragraph with a bottom-line CtR assessment informed by a standard CtR table with the CtR dashboard being optional (see ¶56).

16. Debt must be assessed as sustainable over the medium term for staff to recommend and the Board to approve a new RSF request, augmentation of access, and completion of reviews under RSF arrangements. Teams should conduct a rigorous debt sustainability assessment using established analytical and policy frameworks—Low-Income Country (LIC) Debt Sustainability Framework (DSF) and Market Access Country (MAC) Sovereign Risk and Debt Sustainability Framework (SRDSF).[22] They should include the natural disaster stress test if applicable,[23] and cover long-term risks by including the entire 20-year horizon in the LIC DSA and the long-term modules in the MAC SRDSF (unless better alternative estimates are available) on long-term amortizations, demographic developments (including their impact on health and pension-related expenditures), and climate change (including mitigation and adaptation expenses). Country teams for LICs and MACs are expected to make full use of the tools, flexibility and possibility to customize of existing frameworks to discuss: (i) the adverse effects of climate change on debt sustainability; and/or (ii) the potential costs and benefits of climate action; and where applicable (e.g., hydro-carbon exporters) (iii) the debt sustainability implications of global decarbonization efforts. The use of alternative

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[20] The policy, including the metrics, is broadly based on the Enhanced Safeguards (ES) on CtR for the PRGT, and is applied to all member countries with RSF arrangements. See Poverty Reduction and Growth Trust—Guidance Note on New Enhanced Safeguards for Debt Sustainability and Capacity to Repay (imf.org).

[21] See Proposal To Establish A Resilience and Sustainability Trust (imf.org).

[22] The LIC DSF and MAC SRDSF staff guidance notes specify when such assessment requires running an updated DSA and when the assessment can be done on the basis of a recent DSA.

[23] According to LIC DSF and MAC SRDSF staff guidance, all small states vulnerable to natural disasters and countries that meet the frequency criteria (2 natural disasters in a 3-year window) and economic loss criteria (above 5 percent of Gross Domestic Product (GDP)), are required to run a natural disaster stress test.

scenarios, and early consultation with the WB for LIC-DSF climate-related discussions, are encouraged.[24] The discussion of debt sustainability, including climate-related macro developments and risks, should be included in the main text of Policy Notes (PN) and SRs as well as in the DSA annex (Annex IV).

RSF ARRANGEMENT DESIGN

RSF arrangements should support strong RMs that enable significant progress towards strengthening the member's prospective BoP stability, by reducing macro-critical risks associated with qualifying longer-term challenges. RMs should be grounded in solid diagnostics (Section A), strengthen prospective BoP stability and reduce macro-critical risks (Section B), be fully owned by the authorities, and enable deep and lasting reforms (Section C). Access to RSF financing is guided by a norm and phased with each RM linked to one disbursement (Section D).

A. Identifying Vulnerabilities Associated with Qualifying Challenges

17. Assessment of the qualifying longer-term challenges need to be underpinned by diagnostics, which can come from a variety of external and/or internal sources. No single diagnostic is mandatory for designing an RSF arrangement, but the set of diagnostics used for the RSF preparation should be collectively strong enough to comprehensively assess the qualifying longer-term structural challenge the RST aims to address. When designing an RSF arrangement, teams are encouraged to use the following analytical products, when available:

- ***Climate change diagnostics*** such as the WB's Country Climate and Development Report (CCDR) and Climate Change Knowledge Portal, the IMF's Climate Policy Diagnostic (CPD; see ¶19), and Climate Public Investment Management Assessment (C-PIMA) (Box 2).

- ***Pandemic preparedness-related diagnostics*** such as Universal Health and Preparedness Reviews (UHPR), State Party Annual Reports (SPARs), Joint External Evaluations (JEEs),[25] National Action Plans for Public Health Security (NAPHS), WB Pandemic Preparedness Assessments and Public Expenditure Reviews, Health Financing Progress Matrix Assessments (HFPM), National Health Accounts (NHA), and reports from regional health agencies.

[24] Good examples include: (i) the Dominican Republic 2023 Article IV consultation, which includes a customized scenario where nominal depreciation is higher than the baseline and the cost of adaptation is calibrated to country specific investments; and (ii) the Costa Rica Third Review Under the Extended Arrangement Under the Extended Fund Facility, Request for an Arrangement Under the Resilience and Sustainability Facility, which uses a scenario based on a customized baseline.

[25] JEEs consolidate the World Health Organization's (WHO) International Health Regulations (IHR) Monitoring and Evaluation Framework with the Global Health Security Agenda (GHSA) country assessment, providing an objective, voluntary, peer-to-peer, and multi-sectoral assessment of a country's health security preparedness and response capacity across 19 IHR areas. The JEE is divided into 4 areas: (i) prevention; (ii) detection; (iii) response; and (iv) other hazards, with indicators rated on a score of 1 (no capacity) to 5 (sustainable capacity).

- ***Fund surveillance and capacity development products*** such as Article IV and Selected Issues papers, the Financial Sector Assessment Program (FSAP), as well as other Fund analytical and capacity development work, such as Fiscal Transparency Evaluations and Fiscal Safeguards Reviews, that all could inform RM design. Attention should also be given to Governance Assessments, as poor governance and corruption could hinder implementation of both the UCT program and RSF-supported reforms (Annex VI).

- ***Authorities' own diagnostics and plans*** are an equally critical input. Country teams should take stock of existing domestic studies and national-level plans, as well as costed investment plans, and discuss the underlying assumptions with the authorities and other partners.

18. Additional diagnostics and quality control. The above list is non-exhaustive, and teams are encouraged to consider additional available country-specific information, including feasibility relative to political economy and capacity considerations. All diagnostics should meet minimum quality standards in terms of analytical soundness, objectiveness, and realism; they should be grounded in empirical evidence when possible. Diagnostics should come from reputable sources, including international organizations and other official development partners (e.g., Regional Development Banks, and other multilateral institutions), peer-reviewed published research articles and other sources of comparable quality. Whenever possible, RSF arrangements should rely on findings validated by multiple independent diagnostics.

19. Support from IMF Functional Departments (FD). FDs can support country teams in assessing and/or supplementing diagnostics (Box 2; ¶76-77). Where quality assessment of external diagnostics is outside of Fund expertise, teams should seek to discuss it with the WB. When existing diagnostics are incomplete or missing, or more targeted assessments on specific issues are needed, the Fiscal Affairs Department (FAD) can provide guidance on identifying alternative climate documents and/or appropriate diagnostics to be undertaken, such as a brief country-specific overview of key climate issues and cross-country comparisons. The Monetary and Capital Markets Department (MCM) can help country teams identify key challenges to private green investments along with key climate-related financial risks and design appropriate steps to address them. The Legal Department (LEG) can support development of legal frameworks in line with best practices together with MCM (relating to, for example, central banking, financial sector oversight) or FAD (relating to, for example, Public Financial Management (PFM), C-PIMA and tax). STA can support the development of climate statistics. In parallel, FAD, the Institute for Capacity Development Department (ICD) and the Research Department (RES) can help with the modeling of the macroeconomic implications of various climate policies.

Box 2. Useful Resources to Inform Climate-Related RSF Design

Key country diagnostics include:

- CPD (IMF). The IMF's Climate Policy Diagnostics (CPD) is a broad climate policy diagnostic that FAD is rolling out to support RSF requests and inform the design of reform measures through a tailored diagnostic focusing on key macro fiscal issues.[1] The CPD covers mitigation, adaptation, policies as well as enabling institutions, including by applying Climate Policy Assessment Tool (CPAT), which helps to assess, design, and implement climate mitigation policies. An IMF assessment needs to be requested by the country authorities. FAD (with other functional departments where relevant) conducts the country-specific assessment.
- **C-PIMA** (IMF). The C-PIMA provides an assessment of a country's strengths and weaknesses related to the integration of climate considerations into PIM. It also provides a set of recommendations in the form of a sequenced and prioritized action plan that can support the implementation of green and resilient infrastructure. An IMF assessment needs to be requested by the country authorities; FAD then develops the country-specific assessment.

Diagnostics and tools from development partners and other stakeholders: To help identify key climate challenges and inform RSF design, staff should actively seek existing, specialized expertise from development partners and other stakeholders. This includes, among others:

- **CCDR** (WB, ongoing roll-out across IBRD/IDA countries). The CCDR is a core diagnostic report that integrates climate change and development considerations. CCDRs help countries identify key challenges and prioritize the most impactful actions to reduce greenhouse gas (GHG) emissions and boost adaptation, while delivering on broader development goals.

  The WB's Climate Change Institutional Assessment (CCIA) identifies strengths and weaknesses of the country's institutional framework for managing climate change challenges.
- Climate Change Knowledge Portal (WB). The portal provides a rich set of climate-related risk profiles for many countries. Climate Public Expenditure and Financial Accountability (PEFA) (WB, European Union (EU)). The Climate PEFA, broadly equivalent to the C-PIMA, assesses climate responsive public financial management by evaluating to what extent a country's PFM system is ready to support and foster the implementation of government climate change policies, i.e., is "climate responsive."

Additional resources available at the IMF. Analysis related to the impact of climate change on macroeconomic and financial stability, covering adaptation, mitigation, and transition issues can be found in IMF working papers, staff climate notes, staff discussion notes, departmental papers, and regional and flagship publications. Many are published in the *IMF climate change topics* website. Within the IMF, ICD and SPR, in collaboration with FAD and RES, organize a Community of Practice on Climate Models and Macroframeworks which brings together economists from area and functional departments to facilitate the exchange of ideas, approaches and experiences about available tools and best practices (intranet link for IMF staff). The Fund's Climate Change Indicators Dashboard contains useful climate-related data for macroeconomic and financial stability analysis.

[1] As of end-September 2023, CPDs have been completed for Kenya, Jordan, Cabo Verde and Mauritania.

B. Assessing Prospective Balance of Payments Stability Risks

20. Risks to prospective BoP stability stemming from qualifying longer-term structural challenges can be difficult to assess. The diagnostic tools listed in Section A, combined with other Fund tools, including the DSA framework and models like the Debt-Investment-Growth and Natural Disasters (DIGNAD) (Box 3), can inform the discussion of the associated risks and of the longer-term macroeconomic outlook. Existing climate strategy or pandemic preparedness-costing exercises may be referenced in the SR but should be carefully vetted and evaluated against staff's own analysis.

21. Program documents should discuss the longer-term macroeconomic outlook, while acknowledging uncertainties. In justifying a request for an RSF arrangement, teams should strive to (i) illustrate and quantify macro-critical risks associated with qualifying challenges to prospective BoP stability in the narrative of the macroeconomic framework and the DSA[26] to the extent possible and (ii) provide an illustration of the benefit of the RSF arrangement where feasible (e.g., by demonstrating how the RSF arrangement help mitigate challenges to prospective BoP stability). Moreover, when the RSF is used to substitute for more expensive financing, teams should quantify how much debt service is saved by the cheaper terms of the RSF financing compared to alternative sources of financing and how these savings would contribute to augmenting buffers to strengthen the member's ability to face shocks linked with qualifying structural challenges. Staff should explicitly acknowledge the uncertainty that comes with attempting to quantify the costs of uncertain long-term events and the long-term benefits of proposed RMs (see Box 3 and Annex IV).

Box 3. Providing a Macroeconomic Justification for RSF Arrangements

New tools developed at the IMF can help country teams quantify the macroeconomic impact of climate change and climate policies. For example, the DIGNAD model allows staff to quantify the effect of natural disasters in small open economies and the benefits of investing in resilient infrastructure, increasing fiscal buffers, and improving public investment efficiency.[1] Staff may also rely on DIGNAD to substantiate the assumptions underpinning the macroeconomic projections and stress-test parameters in the DSA. Developed jointly by the IMF and the WB, the Climate Policy Assessment Tool (CPAT) is a spreadsheet-based model which helps policymakers to assess, design, and implement climate mitigation policies. Policies covered include carbon pricing (carbon taxes and ETSs), fossil fuel subsidy reform, energy price liberalization, electricity and fuel taxes, methane fees, Value-Added Tax (VAT) harmonization, energy efficiency and emission rate regulations, feebates, renewable subsidies and feed-in tariffs, green public investments, and combinations of these policies. In the case of large G20 emitters, staff may also use the IMF-ENV model to analyze scenarios for the transition to a low-carbon economy.[2]

[26] This paragraph and Box 3 provide guidance on how the DSA framework can inform the macro-economic narrative underlying the RSF arrangement. They are not meant to augment or substitute DSA requirements for country teams, which are spelled out in Annex IV.

Box 3. (concluded) Providing a Macroeconomic Justification for RSF Arrangements

Leveraging Debt Sustainability Frameworks (¶16, Annex IV). Both the LIC-DSF and MAC-SRDSF frameworks allow staff to quantify risks to debt sustainability associated with the qualifying structural challenges. Tailored stress tests for natural disasters can be used to illustrate the risks to debt sustainability associated with climate events over the medium-term. Alternative scenarios can show the cost of inaction and highlight how climate change-related policies and financing, including those linked to RSF arrangements, impact recipient countries' debt sustainability. For instance, higher investment spending can raise growth or limit the long-term costs of climate change, and RST funds can substitute more expensive financing.

Presenting a unified macro narrative. Teams are expected to present a consistent macroeconomic narrative, describing the risks from climate change, the endogenous interactions among policy actions, and the debt implications rather than presenting only a stand-alone application of an individual model. Different models can produce different results depending on the methodology and assumptions used, therefore teams should provide appropriate caveats when presenting model results.

Sample cases. Despite model limitations and uncertainties associated with the quantification of longer-term risks, these tools can help illustrate potential BoP risks and help provide a justification for an RSF arrangement. For example, the DIGNAD model applied to the cases of Bangladesh and Rwanda (CR 23/66 and 22/381) shows substantial benefits from scaling-up climate-resilient infrastructure and improving the efficiency of public investment: real GDP and public debt become more resilient to natural disasters. In Bangladesh, the DSA showed that additional climate investments financed by RSF disbursements would reduce the present value of debt by substituting for more expensive financing. In Kenya (CR 23/266), the DSA illustrates the economic and fiscal impact of climate change and how the RSF-supported reforms help limit risks to debt sustainability.

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[1]For more details on the DIGNAD model, see A User Manual for the DIGNAD Toolkit (imf.org)

[2]For more detail on the IMF-ENV model, see Economic and Environmental Benefits from International Cooperation on Climate Policies (imf.org)

C. Designing Strong Reform Measures

22. Defining strong reforms. A strong RM is defined as a single policy action or a set of closely related policy actions that make significant progress towards reducing risks to prospective BoP stability from qualifying longer-term structural challenges.[27] In cases where a RM includes a set of closely related policy actions, the underlying policy objective should be clearly identified and discussed in program documents. To design RSF conditionality, teams should keep in mind that RSF conditionality is not focused on helping the member resolve current BoP problems (Guidance on Conditionality (GoC), ¶6(a)), but rather on improving prospective BoP stability. Certain general principles underlying the Guidelines of Conditionality (Board Paper, ¶52), however, guide the RSF reform design: national ownership, tailoring of RM to member's circumstances, clarity in the specification of RM, and effective coordination with other multilateral institutions (see RST instrument, Section II, paragraph 1 (b)(13)). The following paragraphs build on these principles as elaborated in the Revised Staff Statement on Principles Underlying the Guidelines on Conditionality,

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[27] 2022 RST Board Paper, Supplement 1 -- RST Instrument.

and Operational Guidance Note on the 2002 Conditionality Guidelines.[28] Annex V provides an illustrative list of strong RMs.

23. Strong RMs should be grounded in solid diagnostics. RSF requests should be supported by high-quality country climate, legal and policy diagnostics (¶17-19, Box 2), including, where feasible, benchmarking to countries in similar circumstances. These would enable tailoring RMs to the country's challenges and priorities, while ensuring that the establishment and assessment of RSF RM remains even-handed across countries.[29]

24. To assess the RSF reform package as strong, the member's broader policies should be consistent with the RST objectives. The RM package strength could be compromised if conflicting policies are introduced or already exist that call into questions the credibility of efforts to address the longer-term challenge (e.g., destruction of primary forests, fossil fuel exploration in protected areas).[30] In these situations, the member's broader policy package may not be assessed as strong to qualify for an RSF arrangement and, if an RSF arrangement is in place, to complete an RSF review. More broadly, RMs should support the country in achieving or surpassing its international climate commitments, such as Nationally Determined Contribution (NDC) goals.

25. Strong RMs should be critical, ambitious, and deep.[31] These reform features also help enhance synergies with other partners and further attract concessional and non-concessional finance.

Criticality. RSF conditionality should support only reforms that are key to reduce risks to prospective BoP stability stemming from the qualifying longer-term challenges. The types of reforms that are critical will depend on country circumstances such as specific climate vulnerabilities, income level, or institutional capacity.[32] Measures should embody actions to

[28] This section also builds on some of the definitions developed for the 2011 and 2018 Reviews of Conditionality (RoC) to the extent they can provide useful guidance for the design of RSF reform measures.

[29] Balancing tailoring with evenhandedness does not require that member countries be treated identically—but, rather, that countries in similar circumstances be treated similarly. This inevitably requires judgment because country circumstances vary (2018 RoC, ¶58). In this context, sound diagnostics are critical to inform staff's judgement.

[30] Fossil fuel or mining concessions are not necessarily counter to RSF objectives, provided they are designed following good international environmental safety practices and carried out outside vulnerable or protected areas. RSF conditionality can help ensure the enforcement of the highest possible environmental standards on new and ongoing extractive projects.

[31] The criteria build on the methodology of the 2011 RoC and the IEO 2008 report which provide very useful guidance for how to design structural reforms which is at the core of an RCF: depth is defined as the degree and durability of Structural Conditions (SCs), with measures separated into high-, medium-, and low-depth categories; and volume is defined as the number of conditions per program year. As a further insight into the criticality of SCs, the following is considered: (i) the consistency of SCs with program objectives; and (ii) the structural policy gaps identified in surveillance. While criticality in the context of a UCT program is assessed to against the objective of helping a member resolve its BoP problems, the focus in the RST is on helping to reduce the risks to prospective BoP stability (2018 RoC).

[32] The definition of criticality outlined above builds on the 2014 revised *Operational Guidance Note on Conditionality* (¶7 & 13), "program-related conditions generally must be either critical to the achievement of program goals, to

(continued)

close critical policy, legal, data and institutional gaps in the implementation of the national climate and pandemic preparedness objectives.

Ambition. Strong RM packages should aim for ambitious reforms that would be unachievable within the same timelines in the absence of a RSF arrangement. PN/SR should provide details on the reform objectives and expected outcomes, including, where possible, through benchmarking against peers. For instance, carbon pricing (i.e., carbon taxes and ETSs) reforms should elaborate on the proposed price path (initial price and target price to be reached in X number of years) and sector coverage, demonstrating ambition, including in comparison to countries facing similar circumstances. Strong energy subsidy reform would announce a schedule for permanently phasing out subsidies and implement at least the first stages of the phase out. Similarly, adaptation measures should be structural, for example changes in the country's building codes, or measures to substantially reduce major disaster risks (e.g., flood defenses regulations applicable across all coastal/vulnerable areas). While seeking ambition in the RM design, country ownership should be preserved to reduce the risk of reversal.[33]

Depth.

- RMs should pursue *high-depth reforms*, i.e., "reforms that lead to permanent institutional changes, such as by involving legislative changes (parliamentary approval), or conditions with long-lasting impact" (2018 RoC, Appendix II, ¶2). *Medium-depth* reforms that "lead to a significant change but are one-off in nature (e.g., a one-time change in tariff rates as opposed to institutionalizing an automatic tariff adjustment mechanism)" can also be part of an RM package. Alignment with existing legal frameworks and ongoing or proposed reforms; clear regulations and their effective implementation are also important to ensure RMs achieve their intended impact.

- *Low-depth reforms*, that in themselves do not bring about change but are steps towards a policy change (e.g., feasibility studies, diagnostics), should not be stand-alone RMs, except in exceptional and well-justified cases (¶26). When the authorities' climate policies are not fully developed yet, comprehensive and costed climate strategies, time-bound action plans and improved accountability frameworks to implement broad climate policy agendas, could be part of RSF conditionality for countries in need to strengthen their coordination and implementation capacity. In any case, they should be part of a package of much stronger RMs; motivation for their inclusion should be explained clearly in program documents; and their presence in reform packages would impact access level discussions (¶38).

monitoring implementation of the program, or necessary to the implementation of [...] policies developed thereunder". For a detailed discussion of macro-criticality, see [Guidance Note for Surveillance under Article IV Consultations.]

[33] The authorities' climate policy track record can serve as a proxy of the authorities' overall commitment to tackling climate change challenges. Where applicable, a track record of UCT-quality engagement can further inform country teams' broader assessment of the authorities' ownership and commitment to deep reforms.

26. Strong RMs should be tailored to country circumstances and aligned with implementation capacity. Strong RM packages should take into account the country's institutional environment, as well as implementation capacity. The sequencing of reforms is crucial, especially in Fragile and Conflict-Affected States (FCS), Small Developing States (SDS), and Low-Income and Developing Countries (LIDCs), where capacity is often severely constrained and extensive reforms may already be underway, including under the UCT program. In these cases, a more gradual approach may be needed (Box 4).[34] If the country requires technical assistance (TA) for designing and/or implementing the reforms, the RSF design should allow sufficient time and resources for the IMF and other partners to provide the needed TA during the program.

27. RMs should be designed so that they can be independently monitored and verified by IMF staff and assessed by the Executive Board. Teams should draft the RMs as specifically and clearly as possible, identifying responsible entities (e.g., Ministry of Finance (MOF), Parliament, energy regulator), specific actions to be undertaken for the RM to be evaluated as completed (e.g. enactment of legislation, publication/enactment of regulations, codes, etc.), and the targeted completion date (¶54-55).[35] Where details are too long to be included in the main formulation of an RM (e.g. specific laws to be changed, or parameters to be followed to consider the RM implemented), they should be described in the Technical Memorandum of Understanding (TMU) (see Kosovo example).

28. Reforms that do not meet the above principles should normally not be considered as stand-alone RMs. These can be appropriately mentioned in the MEFP/PS.[36] Examples include: (i) developing plans/strategies that are either narrow in focus or lack clear implementation milestones; (ii) conducting research, technical and feasibility studies,[37] or (iii) other institutional, regulatory or legislative changes that are mere prerequisites to policy reforms should not be RMs. This exclusion is in line with the requirement that low-depth reforms should generally not be RMs (¶25). Other considerations, such as co-benefits beyond climate (e.g., access to electricity through off-grid renewables), are not sufficient to justify RMs diverging from the principles described above but could justify the prioritization of certain reforms.

[34] In line with the definition used to determine RST eligibility, SDS are defined members having a population under 1.5 million, with per capita GNI below 25 times the 2021 IDA operational cutoff.

[35] Normally, the completion date of the legislative or other measures to be undertaken to consider the RM completed should match the implementation date of the entire reform. However, when the recommended timeline for certain reforms (e.g., complex electricity sector reforms to enable renewables) goes beyond the RSF horizon, the RM should include a clear indication (enshrined in applicable legislation) of the timeline for full reform implementation.

[36] Plans/strategies that also contribute to the objectives of the UCT program could be included as structural benchmarks under the UCT program.

[37] This does not apply to *climate smart feasibility studies for public investment projects*, which have been and could be part of climate-smart PIM-related RSF-supported RMs.

Box 4. RSF Conditionality for FCS and Small Developing States

Many FCS and SDS are disproportionately affected by climate change and pandemics. Vulnerabilities that stem from geographic location and dependence on agriculture, among others, are aggravated in these countries by climate change. Similarly, inadequate urban infrastructure and limited access to clean water, sanitation and hygiene (especially in FCS) increase vulnerability to pandemics. In FCS, fragility and conflict often interact with, and are exacerbated by, these structural challenges.[1] SDS are disproportionately affected by climate change, including through more frequent and intense natural disasters and gradual effects such as rising sea levels.[2] Consequently, these types of countries face much larger economic costs from climate change and pandemics and have limited capacity and room for policy responses, making the RSF particularly relevant for building resilience.[3]

Particular attention to the design of RMs is needed for FCS and SDS given significant capacity constraints. Where possible, country teams should build on the analysis carried out in the Country Engagement Strategy. Parsimonious use of conditionality and careful prioritization of reforms that address the key climate/pandemic preparedness challenges is even more important than in other countries. In line with the FCS strategy and the staff guidance note on SDS, solid preparation involving close coordination with other stakeholders and comprehensive diagnostics would be especially important. Intermediate steps (often requiring Capacity Development (CD) support) may be formulated as RMs on condition that they are properly sequenced, tailored to the country's needs and absorptive capacity, and aligned to a broader engagement strategy that delivers sufficiently strong reforms within the duration of the RSF.[4] The climate annex should include greater detail to help prioritize and sequence reforms. Moreover, access needs to be carefully calibrated. Capacity Development needs should be reflected in the tentative timelines for reform implementation y. Ownership, transparency, and accountability are particularly important.

[1] See Laura Jaramillo, Aliona Cebotari et al. (2023): "Climate Challenges in Fragile and Conflict-Affected States" IMF Staff Climate Note 2023/001, International Monetary Fund, Washington, DC.

[2] See IMF (2016): Small States' Resilience to Natural Disasters and Climate Change—Role for the IMF. International Monetary Fund, Washington, DC.

[3] The IMF adopted the methodology, thresholds, and criteria of the Bank's FCS list as part of the FCS strategy approved in 2022. Among 39 countries in the FY24 FCS List (last updated July 10, 2023), 37 countries (excluding Venezuela and West Bank and Gaza) are eligible for an RSF. All 34 SDS are RSF-eligible. There are 8 RSF-eligible countries that are simultaneously categorized as FCS and SDS.

[4] RSF financing is contingent on the implementation of completed reforms, and not mere steps towards reforms. Incremental steps of complex reforms could be justifiable as RMs in FCS or SDS with limited capacity; they would be considered as low-depth reforms and should be part of a package of stronger RMs. Access could be backloaded to reflect the additional time needed to complete the full reforms.

29. Synergies with conditionality under the UCT program. Reforms that target macroeconomic stabilization should generally be part of conditionality under the UCT program, even if they also impact the structural challenge to be addressed by the RSF arrangement. RSF-supported RMs, including in FCS, should focus on reforms that primarily target the structural challenge to be addressed by the RSF arrangement. Conditionality under the UCT program and RSF-supported reforms could be closely aligned to leverage synergies. For example:

- One-off changes in administered prices to reduce fuel subsidies could be part of conditionality under the UCT program to address immediate BoP needs, while a RM under the RSF arrangement could build on this reform to establish market-based fuel pricing.

- Reforms that deepen local capital markets in a UCT program can increase the availability of private capital for climate-related investments.

- Measures to address structural governance weaknesses and corruption vulnerabilities would be best placed in the UCT program linked to the RSF arrangement. However, RSF-supported RMs could also include governance and corruption measures if these are specific and critical to achieving the objectives of the RSF-supported reforms (Annex VI).

30. Dual purpose reforms. RMs will generally be distinct from the conditionality under the concurrent UCT program. In general, if a conditionality is relevant for the objectives of both the RSF arrangement and UCT program, the presumption should be that it will be included in the UCT program. The RST Board paper (¶31 and ¶53), however, recognized that a single measure could be simultaneously part of conditionality under the UCT program and a RM under the RSF arrangement, when it is key to the success of both ("dual purpose reforms"). For example, RMs to eliminate fossil fuel subsidies would improve the fiscal balance and debt sustainability prospects, while promoting the authorities' climate mitigation goals. Under dual purpose reforms, RMs should be specified identically for both the UCT program and RSF arrangement.[38]

31. While seeking synergies with other institutions is encouraged, reform packages should emphasize measures in core areas of Fund expertise (¶47-52). Reform design and monitoring can be more challenging in non-core areas. Teams should coordinate with multilateral institutions and development partners to explore synergies and use their expertise and comparative advantage, while still keeping the RMs within the area of Fund's expertise.[39] Other institutions can provide capacity development in support of the implementation of an RM, provided IMF staff can independently assess its eventual implementation (no cross-conditionality; ¶50).

32. RSF design should ensure policy additionality. RMs should: (i) spur additional reform efforts by the authorities compared to a no-RSF scenario; (ii) mitigate the risk of facility shopping by

[38] The UCT arrangement must close the residual financing gap, even considering dual purpose reforms, without recourse to RSF financing (¶11-12). An exception could be RMs that trigger specific BoP costs.

[39] See Revised Operational Guidance to IMF Staff on the 2002 Conditionality Guidelines (August 2014, ¶14, 16). Recent UCT program examples of collaboration with the WB and other institutions include PLL programs in Panama and Jamaica (CR 22/276 and 23/105), where the assessment of Structural Benchmarks (SBs) related to improving the Anti-Money Laundering and Combatting the Financing of Terrorism (AML/CFT) framework takes Financial Action Task Force (FATF) views into account; and the Madagascar ECF, where a SB required the submission to Parliament of a new mining code in line with WB advice, on which IMF staff concurred (CR 23/239). Early RSF arrangement examples include Kosovo, where the completion of one RM requires the preparation of a plan to support vulnerable consumers' energy consumption, in collaboration with the WB, and Senegal, where a RM gradually phasing out electricity subsidies is based on the results of a financial audit of the state electricity company supported by the WB. However, in all circumstances, "cross-conditionality" (linking the use of IMF resources to rules and decisions of other organizations) is disallowed (BUFF/21/13).

a focus that is distinct from GRA and PRGT arrangements (¶12-13); (iii) avoid duplication of conditionality with other development partners. In exceptional cases, reforms that are already planned by the authorities but facing implementation issues or long timelines for completion can also be considered as RMs as long as that will result in significant acceleration of the reform implementation.[40]

33. RM packages should be parsimonious. Reform package strength is not measured by the number of RMs. An RSF arrangement is not stronger if more RMs are proposed; rather, the IMF team and the government should focus attention on fewer key reforms (¶25).[41]

34. Strong RMs would typically have a catalytic effect (¶40-46)**.** Strong reform packages should also help lift barriers to private climate- and health-related investment, including through specific RMs, where applicable. Most climate and pandemic preparedness objectives are not attainable without the mobilization of significant private finance. In many instances, well-designed RMs can help attract private investors, with due consideration for countries' level of financial development and market size (Annex V).

35. PNs and SRs should connect the key longer-term structural challenges to specific RMs and summarize available diagnostics and partners' involvement. The reports should include:

- For climate-related RSF arrangements, a climate Annex should be included in PNs and SRs of RSF requests, describing in detail climate challenges/vulnerabilities and the authorities' plans and initiatives, including key past or ongoing policy reforms and ongoing major projects.
- A reform matrix (Table 1) —complementing other documentation requirements for RSF arrangement requests (¶87-90)—should associate each RM with a diagnostic (e.g., CCDR, CPD, C-PIMA), describe whether and how CD will be delivered, and the expected outcome of the RM once implemented. The Table should also outline the role of development partners.
- The involvement of development partners in key areas not covered by the RSF-supported reforms can be summarized in a separate Table (Table 2). The purpose of this table is not to agree on a Joint Policy Matrix with the WB or other partners, but to illustrate synergies and complementarities with other institutions: some of the key challenges identified in the diagnostic stage may be already addressed through conditionality by development partners, and therefore there may be no need for RSF RMs in these areas (or the RMs should complement the measures already in train). The table is not meant to be an exhaustive list of all partner initiatives, only a few key ones should be highlighted.

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[40] Such cases should be rare and will carry significant burden of proof. Teams need to demonstrate that the reform will be accelerated significantly as a result of the RSF conditionality, that it is a necessary part of a strong reform package (for example that it is a pre-condition for other critical reforms), and that it is key for the successful achievement of the objectives of the RSF-supported RMs.

[41] However, strong reform packages would normally not target a single policy reform area, unless supported by well-documented country circumstances and diagnostics vetted by functional departments. For example, a set of RSF-supported reforms exclusively centered on PFM reforms would typically not be considered strong.

Table 1. Illustrative Example of a RSF Reform Measure Matrix

KEY CHALLENGE	REFORM MEASURE	TENTATIVE DATE	DIAGNOSTIC REFERENCE	IMF CD INPUT	RM EXPECTED OUTCOME	DEVELOPMENT PARTNER ROLE
LARGE AND GROWING SHARE OF ROAD VEHICLE EMISSIONS	RM1. The Government enacts legislation introducing a fuel pricing formula that gradually aligns domestic to international prices over three years	July 1, 2024	WB CCDR and IMF CPD recommend a change in the legal framework to guarantee a permanent change.	Fund-provided CD support for implementation.	Institutionalizing fuel price setting, eliminating discretionary decisions. Expected to reduce road transport emissions by about 6% per year.	
	RM2. The Parliament approves legislation that introduces a vehicle feebate policy encouraging a shift in the vehicle fleet towards zero and low-emissions vehicles.	July 1, 2024	CCDR and Country Diagnostics from the Ministry of Transport		Encourage increase in the share of electric vehicles and low emissions vehicles.	IDB TA on vehicle policies and feebates design.
INCREASED FREQUENCY AND INTENSITY OF CLIMATE RELATED NATURAL DISASTERS (CRND)	RM3. The Ministry of Finance establishes and implements a budgetary program to rapidly reallocate federal funds to the rehabilitation of public infrastructure in the event of shocks.	February 1, 2025	IMF Climate Policy Diagnostic recommends budgetary tools to address recurring shocks.	Fund-provided CD support for policy design	Expected to jumpstart the recovery effort and support GDP growth.	
WATER SCARCITY	RM4. The Water Authority approves regulation for more efficient water management, reforming governance of the sector, improving infrastructure management and reforming water pricing.	February 1, 2025	CCDR		Increase in available surface and/or ground water resources; increased use of drip irrigation in agriculture; reduced likelihood/severity of drought episodes.	World Bank TA.

Table 2. Other Country and Development Partner Efforts

KEY COUNTRY CHALLENGE	REFORM AREA NOT INCLUDED IN RSF CONDITIONALITY	DIAGNOSTIC REFERENCE	DEVELOPMENT PARTNER INVOLVEMENT
CURBING *DEFORESTATION AND BOOSTING AGRICULTURAL PRODUCTIVITY*	Ministry of Forestry approves and implements regulations to define legal modalities for managing and monitoring agroforestry concessions.	WB CCDR	WB has been involved with TA for the design of policies in the forestry sector, including for resourcing satellite monitoring. A WB Development Policy Operation (DPO) includes forestry regulations as a prior action.

D. Determining Access Levels

36. Access to the RST is guided by the norm of 75 percent of quota, and is capped at the lower of 150 percent of quota or Special Drawing Rights (SDR) 1 billion (¶46 and 47, RST Board paper). The norm is neither a floor nor a cap, but provides an important operational anchor, given the difficulty of precisely assessing the BoP implications (both medium-term costs and long-term implications) of RSF-supported reforms, and their relative strength given varying country circumstances. Generally, access up to the norm does not require additional justification in program documents beyond the qualification criteria: identifying longer-term structural challenges and strong RMs that help address them, as well as debt sustainability and capacity to repay, are sufficient.

37. Justification of access above the norm. Access above the norm may be considered based on (i) short- to medium-term BoP needs directly associated with the implementation of corresponding RSF-supported reforms, (ii) strength of the package of RSF-supported reforms; and (iii) capacity to repay the Fund, taking into account the member's debt sustainability, debt carrying capacity, and composition of debt (¶47, RST Board paper).[42]

38. Teams should follow the following process when determining whether access above the norm could be justified (Figure 1):

a) ***Assess the country's capacity to repay the Fund (CtR).*** Adequate capacity to repay is always required for all Fund financing. Thus, CtR must be assessed at least as "adequate" for any level of access under the RSF (¶15), including the proposed higher-than-normal access. Access would be

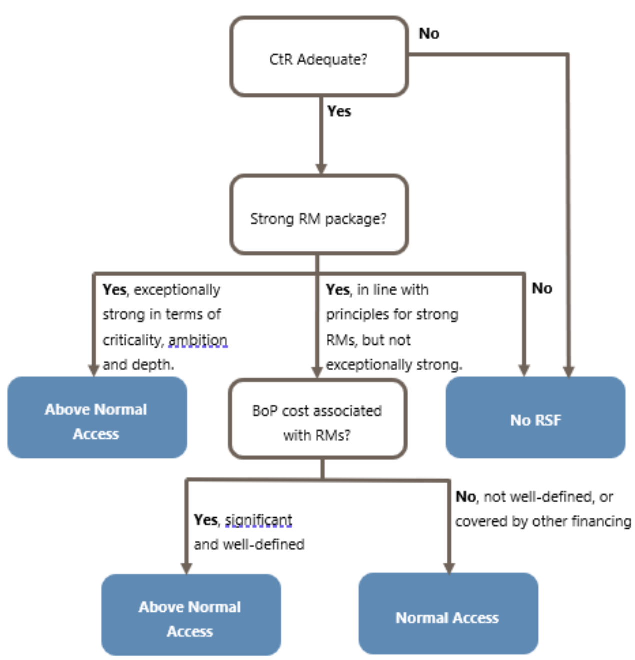
[42] In particular, the prevalence of *de facto* senior obligations, especially in cases of elevated debt vulnerabilities.

expected not to exceed (and could be below) the norm in case of an assessment indicating heightened CtR risks.

b) ***Assess the strength of the reform package.*** Program documentation should explain how the set of RMs is in line with the principles laid out in Section C. Teams should demonstrate the strength of the reform package by focusing on the criticality, ambition, and depth of the RMs (¶25). Staff should also illustrate and, where feasible, quantify the expected impact of key RMs (Annex V). Provided CtR is adequate (see (a) above), a reform package assessed as exceptionally strong can qualify for higher-than-normal access without the need to check criteria (c) below.

c) ***BoP financing needs directly associated with the RMs.*** Higher than normal access may also be granted for current BoP needs triggered by RMs' costs, provided CtR is met and the reform package is at least strong. In such cases, the costs must be measurable, discrete, incurred during the program period, and included in macroeconomic projections—keeping in mind that RSF arrangements cannot earmark financing for specific projects (¶8-9 and Annex II). Examples include additional imports related to the expansion of solar/wind generating capacity (mitigation), costs associated with reforms to support climate-resilient agriculture or construction of seawalls (adaptation), or increased cash transfers accompanying energy transition measures. Costs associated with RMs do not necessarily justify access above the norm if they are poorly defined or uncertain, or where they would be covered by other sources (e.g., a parallel WB lending operation or by the private sector).

Figure 1. Determining Whether Access Above the Norm can be Justified



39. Augmentation of access or repeated access to resources under successor RSF arrangements are both permitted, subject to the maximum access cap. Some members may face capacity constraints in implementing RMs that are both comprehensive and ambitious. In such cases, the implementation of ambitious reform packages can be better supported through two or more successive RSF arrangements—where subsequent requests complete the reform agenda, building on the reforms in the initial RSF arrangement. In other cases, RMs can be added in the course of the RSF arrangement (for example, as new diagnostics become available or new political impetus makes implementation possible).[43] If these RMs strengthen the program considerably, they may justify augmentation of access.

THE CATALYTIC ROLE OF THE RSF

40. For most IMF members, the financing needed to address longer-term qualifying challenges cannot be provided without mobilizing the private sector. Reform synergies with other IFIs can facilitate larger official financing packages and access to climate funds. Parallel financing from official bilateral and multilateral partners (based on their projections) should be highlighted in the SR. For most countries. securing private financing is also critical, given the magnitude of climate finance needs. However, emerging markets and developing countries (EMDEs) face multiple challenges in attracting private capital. The perceived risk-return profiles may not be in line with investors' risk bearing capacity for countries with elevated macroeconomic, regulatory and policy uncertainty; weak governance and corruption; and limited technical capacity. Lack of high-quality comparable data needed for investment decisions, and lack of standardized environmental, social, and corporate governance (ESG) products further reduce investors' appetite for allocating capital to climate investments in EMDEs. Moreover, there are no robust pipelines for investable project in many EMDEs.

41. The accompanying UCT program provides a critical anchor for development partners and private investors. The concurrent UCT program buttresses macroeconomic and financial stability, which improves investor confidence. UCT reforms can also include reforms that improve the quality of the overall regulatory environment, which is critical in many RSF-eligible countries. For example, reforms to strengthen financial institutions, deepen domestic financial markets, or improve predictability of the legal and regulatory environment (e.g., the regulation of energy markets) can help attract longer-term investments by the private sector.

42. The RSF can play a catalytic role through policy reforms, capacity development and financing. Staff should discuss the authorities' needs and plans to attract private finance and how they plan to boost the signaling effect of the RSF arrangement. It is important to anchor the

[43] This two-stage approach with subsequent augmentation or a successor RSF arrangement – subject to resource availability, staff agreement, and Board approval – could be considered (i) when some of the diagnostics that could underpin a stronger reform package are not available initially; (ii) when time is needed to build political capital and secure ownership for more ambitious reforms; (iii) when the authorities' reform plans are not yet well developed and costed; or (v) when implementation capacity constraints suggest it would take longer to implement a full set of reforms that can justify above-normal access.

discussions on the broader climate strategy of the authorities, which should be as clear and specific as possible, and include a description of longer-term investment plans.[44] RSF arrangements can signal strong and credible climate ambition and increase clarity on longer-term policy commitments.

43. RSF-supported reforms could help attract additional climate finance through a number of channels:

- ***Integrating climate considerations in policy frameworks.*** RSF arrangements help countries integrate climate issues into the public finance policy frameworks (PFM, PIM) and public procurement frameworks (with support from the WB). PIM measures can also facilitate the creation of a pipeline of investable projects for the private sector. Climate budget tagging can facilitate finance flows as development partners and the private sector look for transparency and accountability of climate spending in the budget. Where budget tagging is in place, the authorities can choose to commit to devoting a minimum share of the budget to supporting green investments and to report regularly and transparently on progress in the implementation of supported projects (¶9). Integrating climate-related risks into financial stability frameworks (i.e. incorporating climate risk considerations into regulation and supervision frameworks and incorporating climate risks in banking sector risk assessments) can increase the capacity of the financial institutions and authorities to quantify and mitigate climate-related financial risks.

- ***Realigning relative prices.*** Where emissions mitigation is a key goal, reform measures would ideally include reducing energy subsidies or adopting carbon taxes or feebates—all of which can help attract additional climate finance.

- ***Non-price measures.*** Non-price measures can strengthen further incentives for green investments. Such measures can include, for example, establishing strong PPP frameworks or introducing frameworks for green-bond issuance and trading. More broadly, legal, regulatory and institutional reforms can reduce impediments to investment by improving data collection and coordination; clearing regulatory bottlenecks; advancing permitting reforms; expediting project review processes; improving risk management practices; and enhancing governance.

44. Staff should also consult with development partners, private investors, and other stakeholders to identify reform measures that can reduce barriers to climate finance. To identify policy reforms that could support climate finance, staff should engage early in the diagnostic phase with International Financial Institutions (IFIs), including the WB and regional development banks, as well as other important stakeholders.[45] Strong public-private sector

[44] The publication of credible, costed climate investment plans and proposed financing strategies would provide further transparency for investors.

[45] For example, on climate, staff has fruitfully engaged with the Green Climate Fund. On pandemic preparedness, potential synergies should be sought with the Pandemic Fund and more broadly through engagement with the WB and the WHO.

coordination is also essential for identifying policy hurdles and effective measures to alleviate the constraints on scaling up private climate finance.

45. In some of the pilot cases, the authorities have explored options to crowd in private investments and/or reduce the risk of such investments (Box 5).[46] For example, in Barbados, the authorities have developed with Multilateral Development Banks (MDB) support a pipeline of climate-related projects, which is expected to help attract private investments. In other cases, the authorities have used public resources to directly incentivize additional climate investments through risk-sharing, blended finance, and other financial tools.[47] It is the prerogative of the authorities to choose how to use the fiscal space created through RSF financing, as long as the use is consistent with the RST objectives and the priorities set out in the MEFP.[48] At the same time, it would be important for country teams to flag that there are contingent fiscal liabilities associated with the public provision of credit enhancements for private investments, and advise the authorities to consider carefully both the benefits and the risks. Any initiatives that utilize public resources should have appropriate governance structures, and the processes for project selection, impact reporting, monitoring, and verification should be in line with best practices.

46. The IMF's role. The RSF-supported RMs can help the authorities adopt effective climate policies, strengthen governance, PFM, and accountability frameworks. Moreover, the Fund is helping member countries with capacity development, including advice on reducing barriers to private investment. IMF teams should strive to bring together all relevant stakeholders to explore ways for the RSF to play a catalytic role in scaling up climate finance (Box 5). However, the Fund cannot seek to mobilize climate financing by development banks or investors on behalf of the member, nor act as a financial advisor, and it cannot be involved in the management or oversight nor vouch for the bona fides or success of any climate finance vehicle or fund, or any climate project. The Fund focus is to provide policy advice to support an enabling environment for productive investments.

[46] Recent examples include Barbados, Rwanda, Costa Rica, Jamaica and Bangladesh.

[47] Risk sharing may be justified conceptually, for example, if there is a substantial asymmetry of information between the authorities and private investors (although that would be better addressed by improving transparency and governance frameworks) or if the social benefits from the investments are expected to exceed private returns.

[48] Country teams' monitoring should be similar to that under a stand-alone UCT program where disbursements are used for budget support. See Staff Guidance Note on the Use of Fund Resources for Budget Support ¶7.

Box 5. Scaling up Climate Finance in Rwanda and Barbados

Rwanda and Barbados provide two examples of intensive collaboration across stakeholders and innovative use of financial resources to crowd in private climate investments.

- Rwanda has adopted a new programmatic approach to supporting climate investments through its green investment facility, Ireme Invest, set up by the Rwanda Green Fund and the Development Bank of Rwanda. In the weeks following the RSF arrangement, development partners, including AFD and EIB, have committed to scale up climate financing with budget support, technical assistance, and long-term low-cost loans. This initiative is expected to fund a pipeline of projects estimated at EUR 400 million, including EUR 130 million in equity contributions from private investors. The Government of Rwanda is also prepared to scale up the equity of the Development Bank, as the pipeline of projects expands further.
- Similarly, Barbados adopted innovative initiatives to accelerate its transition to net zero and boost climate resilience. The Government of Barbados used part of the fiscal space created by the RSF to provide equity capital for a new Blue Green Bank which will lend to the private sector for investments in affordable green homes, hurricane-resilient roofs, and the electrification of transport, among others. The Bank is supported by additional capital from the Green Climate Fund. In addition, low-cost, and long-term financing instruments and grants from development partners will support public investment in water, sanitation, and flood and coastal protection projects. Development Partners will also help increase the authorities' capacity and expertise in Private Public Partnerships (PPP) to attract private investment to build more resilient infrastructure.

COORDINATION WITH EXPERT STAKEHOLDERS

47. Coordination with the WB and other outside expert stakeholders is crucial throughout the RSF arrangement design and implementation process. The Bank and the Fund will seek complementarity and synergies in their climate-related works, as outlined in the September 2023 Joint Statement of the IMF Managing Director and the World Bank President. IMF teams preparing RSF arrangements are encouraged coordinate with the WB and also reach out to reputable external partners, including other international organizations, leveraging outside technical and sectoral expertise and ensuring complementarity of interventions by the IMF and development partners. Compliance with the Fund's policies on protecting confidential information is required at all times (Annex IX of the 2014 Guidance Note on the Fund's Transparency Policy). Mission chiefs should ensure that the confidentiality of IMF-member discussions is maintained, consulting with LEG and SPR as needed.

48. The IMF has developed a well-defined coordination framework with the WB on addressing climate challenges.[49] Principles for coordination are laid out in Annex III and ¶76-77 of the RST Board paper and focus on cooperation in diagnostics, reform design, and assessment of

[49] All IMF and WB collaboration is covered by the general principle that confidentiality of IMF-member policy discussions should be maintained.

climate policies.[50] When engaging with the WB, mission chiefs should first contact the Country Director, including to coordinate sectoral work.

49. The IMF has developed a similar coordination framework on pandemic preparedness with the WHO, which is less tested. Good coordination between WB and IMF teams is strongly encouraged also in the area of pandemic preparedness. As with the WB, Fund staff should draw on specific country diagnostics and coordinate with WHO to identify effective RMs and to ensure complementarity with WHO activities, such as the National Action Plan for Health Security (¶17). In line with existing modalities for coordination with other United Nations (UN) agencies, Fund and WHO staff are expected to share available diagnostics and analyses (e.g., Selected Issues Papers) and to engage early on potential reforms.

50. Avoiding cross-conditionality. Staff and the IMF's Executive Board can draw as needed on the advice of WB/WHO staff in areas of the WB/WHO expertise. However, policy measures can be included as RMs only if staff is able to monitor and verify their implementation independently, and the Executive Board can assess the implementation of the measure, regardless of conclusions drawn by other institutions.

51. Assessment Letters. The WB provides an Assessment Letter (AL) on the authorities' broader (i.e., beyond RSF-supported reforms) climate and/or pandemic preparedness policies for information ahead of the approval of an RSF arrangement. When requesting an AL, IMF country teams should share with the WB available information on the likely reform areas for which the authorities may seek RSF support. For reviews where implementation of RMs is assessed, ALs can take the form of a streamlined update of the previous AL.

52. Cooperation with other development partners. Engagement and cooperation with other expert stakeholders are encouraged, both to develop good diagnostics and to explore synergies in supporting the member country's climate agenda.[51] When experts are not bound by a contractual relationship with the IMF or there are no general agreements governing cooperation at the institutional level, staff should be mindful of potential sensitivities when external experts participate in RSF-related discussions. When these discussions are with the authorities, staff should always seek their consent for the participation of external experts. The aim should be to leverage reputable outside expertise to inform the negotiations, while maintaining confidentiality of the discussions and protecting confidential information.

OTHER RSF ARRANGEMENT MODALITIES

A. Phasing and Reviews

[50] See the September 2023 Joint Statement of the IMF Managing Director and of the World Bank President.

[51] See, for example, how the IMF and the IDB are deepening collaboration on climate policies.

53. Reviews of RSF arrangements are synchronized with, and their completion is conditional on the completion of, the concurrent UCT program review (¶58, RST Board paper). RSF disbursements cannot be a substitute for financing through a Fund-supported program and can only occur in the context of an on-track UCT-quality program. Should a UCT program review be delayed, the accompanying RSF arrangement review would also be delayed. The RSF arrangement would automatically terminate when the UCT program expires or is cancelled. Hence all RMs will need to be implemented before the last review date of the UCT program. If an RM is not implemented in time for a review, it will be assessed at the time of the next review of the UCT program (¶57). As is the case for other Fund instruments, in case parliamentary approval is needed for a member to request RSF financing, it should be in place before IMF Board approval of the RSF arrangement.

54. The phasing of disbursements under an RSF arrangement will be linked to the timing of RM implementation. Each RM will specify a tentative implementation target date and an availability date which is the earliest date on which the Board can review the implementation of the RM and the associated disbursement can be made. RSF disbursement availability dates normally mirror those of the accompanying UCT arrangement, but later dates are possible if justified.[52] In any case, availability dates will need to be set sufficiently ahead of the expected date of the Board meeting to allow adequate time for monitoring, assessment, and reporting to the Board.

55. Teams must specify the proposed phasing of disbursements under the RSF arrangement in the SR at the time of the request for RSF financing. Normally, phasing would be even across RMs.[53] One or more RMs and disbursements could be linked to a single review, but when originally phased, RSF disbursements available upon completion of a single review should not exceed 50 percent of quota.[54] No RSF disbursement is available upon approval of an RSF arrangement, and if any proposed measures have already been implemented before the Board approval of an RSF arrangement, they cannot be part of the RSF arrangement.

56. RSF disbursements become available following the completion of a review assessing the implementation of RMs. Key elements of the process include the assessment of the measure, safeguards (i.e., CtR and debt sustainability), reporting, timing of the assessment, and disbursement.

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[52] In cases where alignment with the availability date under the UCT program would imply unrealistic RM implementation timelines, different availability dates could be set under the RSF arrangement, provided Board assessment of the RSF-supported RM occurs at the same time as a scheduled review under the UCT Program and there is adequate time provided for assessment and reporting. For example, in a case where an RSF arrangement is requested at the first review of the UCT Program, and the availability date for the second UCT Program review is too close to the Board discussion to ensure timely implementation and assessment of RMs for the first review under the RSF arrangement, the availability date of for the RSF disbursements associated with those RMs could be set after of the availability date under the UCT Program, but before circulation of the SR for the second UCT Program review and first review under the RSF arrangement.

[53] An exception could be an RM which entails specific near-term BoP costs. In this case, the disbursement for the review(s) that includes this RM(s) could be larger.

[54] Ex post, a disbursement can exceed 50 percent of quota in the case of delayed reform implementation.

- ***Substantive assessment.*** The RM must be implemented in its entirety to be assessed as met. No waiver of non-observance is possible under an RSF arrangement. However, minor deviations relative to the Board-approved design of an RM could be acceptable if the reform is substantively implemented and the objective of the reform measure is met. Other changes would not be considered "minor".

- ***Capacity to repay.*** SRs for reviews of RSF arrangements require the inclusion of a paragraph with a bottom-line CtR assessment informed by a CtR table covering the RSF repayment period. The CtR dashboard is optional unless there are substantial changes to the macroeconomic framework.

- ***Timing of RM implementation, reporting, and disbursement.*** RMs need to be implemented in time for staff to make an assessment and reflect it in the SR or in a Supplement, provided Executive Directors are given enough time to form their own view on the implementation of the measure. RSF disbursements must be requested within 30 days of the completion of the Board review. Teams should remind authorities of this requirement. In cases where a member does not request the disbursement within 30 days of completion of the review, the disbursement of such resources may only be requested upon completion of the next review.[55]

57. Delays in the implementation of RMs. The target date for RM implementation is only indicative. When implementation of a RM occurs later than the tentative target date, but in time to allow proper staff assessment and before the circulation of the SR to the Board, the RM could be assessed as implemented by the Executive Board and the disbursement would take place upon completion of the relevant review. In case of delays in RM implementation that prevent a timely assessment, the assessment of the RM would need to be conducted at the next review to unlock the associated disbursement at that time (¶59).

58. Modification to the reform package. Where necessary and appropriate, RMs can be modified, dropped or added by the Executive Board, but only in the context of reviews. The changes in reform package can affect access levels. For example, dropping one RM will make the associated disbursement unavailable, reducing the amount of total RSF access by a corresponding amount, unless the dropped RM is replaced by another RM.[56] Modified or additional RMs would always need to be in line with the principles for strong reform measures. Modification can entail different target implementation and availability dates; in which case access would be rephased.

59. RSF arrangement rephasing modalities. Rephasing (i.e., adjusting the dates on which RST financing becomes available) can take place to realign the RSF arrangement with modifications or delays in reform implementation, or with the phasing of the UCT program. Rephasing should be

[55] In practice, FIN, copying Area Departments, will consult with the authorities once the SR is issued to ensure to the extent possible that the loan request is received before the review date to facilitate prompt disbursement following completion of the review.

[56] In rare cases where the new RM is much stronger than the dropped one, total access may increase.

requested by the authorities in the Letter of Intent (LOI) and supported by staff in the SR, then approved by the Board.

- Regardless of the target date, a RM will be assessed at the UCT program review following: (i) the implementation of the RM, and (ii) after the relevant availability date has passed. Rephasing of access to later reviews is also possible if deemed appropriate by the authorities and staff and approved by the Executive Board. Access associated with the delayed review would not count towards the 50 percent access limit per review.

- Rephasing to take into account earlier implementation of RMs is also possible**.** RMs can be brought forward to earlier (future) reviews if authorities are confident that they can implement them earlier than envisaged. However, teams should be cautious when supporting such requests, as advancing RM implementation could create undue pressures for early scheduling of CD support or result in weaker implementation if authorities try to meet a more ambitious timeline. Access associated with the early implementation of a RM would count towards the 50 percent access limit per review.

60. Changes in RMs or phasing at the time of the scheduled review. Modifications or additions to RMs cannot be made at the time of the related review, i.e., the Board cannot modify and assess a RM at the same time. Bringing forward availability dates for completed RMs ahead of the original phasing to allow for an earlier RSF disbursement, at the same time as the request for rephasing should be exceptional and well-justified.[57] Also, staff should demonstrate that the additional financing made available through the earlier RSF disbursement is not intended to cover any UCT program financing gap. Total RSF access made available for the review, including the rephased RM, should not exceed 50 percent of quota.

61. Additional guidance for phasing and reviews in the context of non-disbursing or precautionary facilities.

- For an RSF arrangement accompanying a two-year FCL arrangement, the single mid-term FCL review would be a combined review under the FCL/RSF arrangements, with standalone RSF arrangement reviews for the residual RSF disbursements (all RSF reviews should be completed prior to the expiration of the FLC arrangement). For countries with the PLL/RSF requests, only PLLs with a residual duration of at least 18 months would meet the length requirement of a qualifying UCT program for an RSF arrangement. RSF reviews and disbursements would generally take place concurrently with PLL reviews, with the availability dates under the RSF arrangement providing sufficient time to allow for assessment of the relevant RM(s) at the Board meeting (which could be scheduled prior to the PLL review date). PLL arrangements provide rolling 6-month access upon approval and following reviews, which means that there is no

[57] In practice, this would mean that the same SR includes the request for rephasing, assesses the completion of the RM and requests disbursement of the amounts associated with the re-phased RM. In this context, unexpected early completion could call into question the strength or additionality of the RM. Additional caution is warranted when rephasing RMs that generate a specific BoP financing need and when that need justifies access above the norm (see Access Section).

review at expiration. As a result, the final RSF disbursement/review would need to be linked to the last PLL review.[58, 59]

- For parallel PCI/PSIs and FCLs that do not have scheduled disbursements, the RSF arrangement would identify availability dates linked to scheduled reviews or stand-alone RSF arrangement reviews.

B. Safeguard Modalities

62. Safeguards Policy. A safeguards assessment is required under the concurrent UCT program, including the PCI and PSI, but no separate safeguards assessment is required for RSF financing (See Safeguards Assessments—2022 Review of Experience.)

63. Post-Financing Assessments (PFA) and Article IV consultations will monitor developments following the end of an RSF arrangement and UCT program. Under the PFA policy, an assessment is expected for members that are not in a Fund arrangement and where combined GRA/PRGT/RST credit outstanding exceeds 200 percent of quota. A nominal threshold—set at SDR 0.38 billion credit outstanding to the RST—also triggers the need for PFA. Even where credit outstanding is below the threshold, the PFA policy provides the Managing Director with discretion to recommend the institution of PPM if there are developments that suggest the need for closer monitoring of the member's capacity to repay, and particularly, where developments call into question the member's progress toward external viability (RST Board paper, ¶68). This recommendation is typically made at the last review and captured in a Board decision.

64. Close monitoring of long-term RMs impact. In cases where PFA is triggered, the evolution and impacts of reform measures and monitoring the member's capacity to make repayments to the RST would be covered as part of the PFA. In other cases, Article IVs are the main vehicle for covering issues raised in the context of RSF arrangements that remain macro-critical beyond the end of the program. As RMs are designed to help the member make significant progress toward prospective BoP stability, issues related to the RMs—including RMs that may not have been completed—may remain macro-critical, and as a result Article IV SRs would be expected to discuss these issues as well as any deviations or regressions in RSF-supported reform implementation, in line with the

[58] Assume that a 24-month PLL, approved at time (T), provides 6 months of potential access to the first review at T+6 months, then another 6 months of potential access to the second review at T+12 months, and another 6 months of potential access until the third (and final) review at T+18. In this scenario, the accompanying RSF approved at time T could have a maximum of 3 reviews/disbursements, at PLL/PCL reviews 1-3. If, however, the RSF request is paired with the first review of PLL arrangement, total access of the RSF could be only up to 100 percent of quota, as there would only be two reviews remaining under a 24-month PLL (PLL reviews 2-3).

[59] It is important to bear in mind that the 30-day rule operates in a more restrictive manner than most Fund financing as the undrawn disbursements cannot be made available until the following review (and are forfeited if not drawn within 30 days of completion for the last review (Section II paragraph 3(b) of the RST instrument). Also, the last review should be scheduled so that there is sufficient time after its completion for the last disbursement to take place within the duration of the arrangement.

macro-criticality criterion of the Integrated Surveillance Decision (ISD).[60] In cases where developments during the repayment period require closer monitoring of the Member Capacity to Repay, staff may recommend a PFA to the Managing Director. If residual BoP needs persist or a new BoP gap emerges, any follow-up UCT program would be expected to account for RSF repayments in assessments of debt sustainability and CtR.

65. Misreporting framework. Misreporting under an RSF arrangement occurs either:

(i) when the member has received a noncomplying disbursement under an RSF arrangement as a result of inaccurate information being provided to the Fund which leads to an incorrect assessment that (a) an RM has been implemented when it has in fact not been implemented or (b) that the deviation in implementation of the reform measure was minor when in fact it was not; or

(ii) there is an Executive Board finding of misreporting at a concurrent review[61] under the accompanying UCT program, which was not assessed as "de minimis" or waived by the Executive Board. In such cases, the disbursement made under the RSF arrangement at that concurrent review will also be tainted. This is a special design feature of the RST. As the UCT program provides the short-term policy anchor and safeguards for disbursements under the RSF arrangement, a noncomplying disbursement under the accompanying UCT program would also make disbursements made at the same time under the RSF arrangement noncompliant. Misreporting under the UCT program supported by a Fund arrangement could arise from the provision of inaccurate information with respect to a performance criterion, prior action or conditions for granting a waiver of a performance criterion. Misreporting under the PCI and PSI could arise from the provision of inaccurate information as specified in the respective policies governing these instruments. If the misreporting arises solely due to the UCT program, the misreporting under an RSF arrangement is subject to the same limitation period that applies to the misreporting under the relevant accompanying UCT-program.

66. Upon evidence that a member may have received a noncomplying disbursement under ¶65(i) above, the Managing Director (MD) will inform the member promptly. If, after consulting with a member, a determination has been made that a member has received a noncomplying disbursement, the MD will promptly notify the member and submit a report to the Executive Board. If the noncomplying disbursement was made no more than four years prior to the date on which the MD informed the member, the Board may decide either (a) that the member should make an early repayment of the disbursed amount, or (b) no early repayment is required based on a determination that the objectives of the reform measure have been achieved because the deviation in policy implementation is minor (¶56). If the decision of the Executive Board is to call upon the member to make an early repayment, the member will be expected to repay an amount

[60] Article IVs are expected to report on any policy reversal or new policies that undermine the objectives of the RSF arrangement as long as they remain macro-critical.

[61] "Concurrent review" refers to reviews under the RSF arrangement and UCT program that are completed at the same Executive Board meeting.

equivalent to the noncomplying disbursement, together with any interest accrued thereon, normally within a period of 30 days from the date of the Executive Board decision.

67. With respect to cases of misreporting under ¶65(ii) above, the misreporting framework applicable to the UCT program applies, with no separate or additional steps required. If a disbursement made under an RSF arrangement is non-complying solely because of a finding of misreporting under the accompanying UCT-quality instrument, the applicable misreporting procedures shall be those specified under the provisions governing a misreporting under the relevant UCT-quality instrument. No additional steps are required in such situations under the RSF misreporting framework. Members are expected to make an early repayment of the non-complying disbursement(s) under the RSF arrangement unless, pursuant to the misreporting framework applicable to the UCT program, the misreporting under the UCT program is de minimis or a waiver of non-observance is granted by the Executive Board.

68. The misreporting framework of the RST is otherwise procedurally analogous to that of the PRGT.[62] Relevant information on misreporting should be made public by including it in the documents to be published after the Board discussion, such as a press release containing the Chairman's Statement or summing up, with prior Board review of the text for publication. Whenever the Executive Board grants a waiver for nonobservance under the UCT program or makes a determination that that the objectives of the RSF-supported RM have been achieved, notwithstanding the misreporting, the discussion of misreporting will be included in the SR, though it will be deleted if the report is published.

69. The MD will not recommend an RSF arrangement for approval by the Executive Board if a member country has overdue financial obligations to the Fund. Specifically, where a member is in arrears to the Fund in the GRA, the Special Disbursement Account, or the SDR Department, or to the Fund as Trustee (including the PRGT and RST), the MD will not recommend and the Board will not approve financing, including an RSF arrangement, or completion of a review under an RSF arrangement, and any pending disbursements under an existing arrangement will be suspended until the arrears are cleared. Moreover, should a member incur overdue financial obligations to the RST, that member's access to the GRA and PRGT would also be suspended.

70. The Fund's strategy to prevent and remediate overdue financial obligations applies to the RST. This strategy consists of three elements: prevention, intensified collaboration, and remedial measures. An escalating timetable will guide the Executive Board in considering remedial measures of increasing intensity, although the application of each measure would take into account the specific circumstances of the member. Details of the policy on overdue obligations for the RST are found in Appendix II of the RST Instrument and Section III G, paragraphs 64 to 67, of the Board paper establishing the RST. Whenever a member fails to settle a financial obligation to the RST on time, communication urging prompt payment would be sent to the member and the Executive

[62] For more details on the misreporting framework of the PRGT, see Handbook of IMF Facilities for Low-Income Countries (IMF, 2023), Appendix I of the PRGT Instrument, Decision No. 14354-(09/79), and Making the Misreporting Policies Less Onerous in De Minimis Cases (IMF, 2006).

Director concerned, and the member's access to the GRA, PRGT, and RST will be suspended. In all cases, overdue obligations (i.e., repayments of principal or payment of interest) to the RST would accrue interest at an interest rate equal to the applicable interest rate under the relevant tier structure to compensate the Trust for the opportunity cost of arrears, subject to a minimum interest rate charge of the SDR. In addition, in cases of protracted overdue obligations, remedial measures would also include the Executive Board's consideration of removing the member from the list of RST-eligible countries (6 months after emergence of arrears) and declaration of noncooperation with the Trust (12 months after emergence of arrears). Upon a declaration of noncooperation, the Fund could decide to suspend the provision of technical assistance to the member. The RST framework for overdue financial obligations allows for and encourages the prioritization of GRA repurchases and PRGT repayments (arrears clearance or as appropriate periodic partial/small payments) given that these have a unique "lender-of-last resort" function that is essential for the stable functioning of the international monetary system.

C. RSF Lending Terms

71. RSF loans have a maximum maturity of 20 years with a grace period of 10½ years. Principal repayments are made in 20 equal semi-annual installments that begin 10½ years after each RSF disbursement.

72. RSF borrowers pay a margin over the 3-month SDR interest rate (SDRi), differentiated across three groups of countries through a tiered interest rate structure:

- Group A countries pay a margin of 55 basis points above the SDRi up to a cap of 2¼ percent and are exempt from any service charges on RSF loan disbursements. These are all PRGT-eligible countries that are not presumed blenders.[63]

- Group B countries pay a margin of 75 basis points above SDRi and are subject to an upfront one-time service charge of 25 basis points on each RSF disbursement. This group includes all "presumed blenders" (of PRGT and GRA resources) and all small states (below 1.5 million inhabitants) with per capita GNI below ten times the IDA operational income cutoff.

- Group C countries pay a margin of 95 basis points above SDRi and are subject to an upfront one-time service charge of 50 basis points for each RSF disbursement. This group includes all other RST-eligible countries, i.e., all eligible (non-small) Middle Income Countries (MICs) and all small states with income above ten times the IDA operational income cutoff.

73. Margin structure and service charges are subject to reviews, with adjustments as the Board considers appropriate. The Board retains flexibility in setting the margin structure for RST loans that balances the need to ensure the financial sustainability of the Trust with the need to protect the

[63] In addition, while Syria is not currently PRGT-eligible, given that Syria's latest available GNI per capita is below the threshold for entry on to the list of PRGT-eligible members, Syria is also included in Group A.

poorest members. The Board will review interest rates during each regular RST policy review but can also conduct earlier/ad hoc reviews if needed.

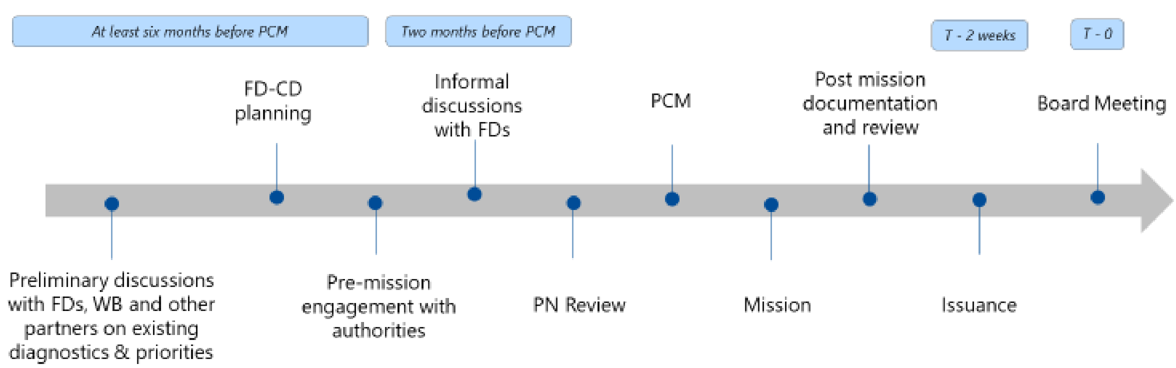
OPERATIONAL CONSIDERATIONS

A. Pre-Mission Work

RSF Requests

74. **Early experience with RST operationalization has shown the importance of allowing enough time to develop a well-designed program.** Table 3 and the paragraphs below illustrate good practices developed during the pilot phase.

Table 3. RSF Engagement Timeline



75. **Preparations for an RSF request should generally begin at least six months before the PCM, with at least 24 to 26 months remaining in the concurrent UCT program.** Engagement with the WB – through the Country Director – should start in the early stages of preparation to distill available diagnostics and identify diagnostic gaps. At this time, the team should also request an AL and communicate to the WB team the timeline for the PN (the WB should be invited to the Policy Consultation Meeting (PCM)), mission, and expected Board discussion. Country teams may also consider a staff visit to gather information on climate challenges and needed reforms that could inform the PN for a subsequent RSF request negotiation mission. The preparation period can be shortened for cases where RMs have been previously discussed with the review departments (e.g., as part of a program that was not finalized) and may decrease over time as the Fund builds more experience with RSF requests.

76. Country team-led preliminary discussion. To develop broad consensus on climate challenges and potential RSF goals, the country team should discuss early in the process with FDs, the WB and other development partners as appropriate: (i) the climate policy landscape, (ii) relevant climate work already undertaken or planned timeline for it—including Climate Change Policy Assessment (CCPA), Climate Macroeconomics Assessment Program (CMAP), CPD, C-PIMA, CCDR, and other support/CD from the WB and development partners,[64] (iii) broad reform areas under consideration and related capacity development needs, (iv) potential cross-institutional synergies (avoiding overlapping CD across institutions) and (v) the potential for the RSF to help attract additional climate finance. In order to prepare a comprehensive reform matrix (¶35), teams will also need to reach out to development partners to learn about their work on the respective longer-term structural challenge. Examples of support that can be provided by functional departments at this stage (if needed) include:

- FDs can share climate-related areas/questions for country team to explore.
- If major climate products (CCDR, CPD, C-PIMA etc.) are not available or planned, Fiscal Affairs Department's Climate Policy Division (FADCP) can provide guidance on identifying alternative climate documents. If the timeline and resources permit it, FADCP could put together a detailed "information note" to help guide country teams.
- If country teams find it helpful: (i) FAD can provide a brief country-specific overview of key climate issues based on available documents, and (where available) cross-country comparisons and good practices. If interested, country teams should agree on a timeline with FAD as soon as possible; (ii) MCM could meet with the country team to discuss the potential of scaling up climate finance and potential climate-related risks to financial stability; (iii) ICD and RES can discuss models that may be appropriate for assessing the macroeconomic impact of climate policies; and (iv) STA can discuss potential climate data issues and gaps.

77. The determination of the scope and timing of FD support should start ideally 6 months before the PCM to allow for resource planning.[65] Based on the initial discussions, the country team will determine concrete climate CD needs and decide whether further FD support is needed (including whether a FD climate economist will join the team). To allow sufficient time to develop strong RMs, climate CD diagnostic missions (if needed) should take place *2-3 months* prior to the negotiation mission (an FD economist, if needed, would be assigned at that time as well).

78. Available diagnostics and climate CD recommendations should form the basis for the design of reform measures. They should be available to the country team when it starts designing RMs, well ahead of the PN review. The design of strong RM typically requires a period of close collaboration and discussions with the CD team. Further FD CD may be needed to implement RMs

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[64] This can include key climate projects undertaken by development partners.

[65] This timing is important for CD planning purposes although specific timelines will vary on a case-by-case basis. Ideally, CD needs for RSF requests would be integrated ex-ante in the annual and medium-term CD planning frameworks.

though the course of the program. In such cases, to facilitate planning, expected future FD support needs should be discussed as early as possible with relevant departments.

79. Early engagement with country authorities. Country teams should also engage early with the authorities to understand their climate strategy and the latest NDCs, and identify the key agencies involved. Later in the pre-request stage, staff visits preceding the RSF/UCT negotiation missions could be a useful opportunity to present to the authorities an early overview of the reform areas being considered for inclusion in the RSF.

80. Informal discussions with FDs prior to PCM

- ***Two months before the PCM.*** The country team should present to relevant FDs (i) key climate challenges/risks, plans, and initiatives (could share climate annex if ready) (ii) climate work already undertaken (including diagnostics and CD provided or planned by the Fund or other institutions) and (iii) initial thinking on the reform strategy. The discussion would focus on what more is needed to help define RMs and sharpen the analysis. Relevant FDs will share additional climate-related areas/questions for country team to explore.

- ***One month before the PCM.*** Country teams could compile a list of potential RMs and MEFP commitments—based on climate CD and/or inputs of the team's FD climate economist (if one was assigned). Where appropriate, this list can serve as the basis for early feedback from the authorities on potential RMs and MEFP commitments. The format can vary across staff visits, virtual missions/meetings, and email exchanges.

- ***Optionally,*** the Climate Annex could be shared with relevant FDs for informal comments a couple of weeks prior to PN circulation.

RSF Reviews

81. Pre-mission work for RSF reviews broadly follows the process for general UCT. The primary purpose of an RSF review is for the team to assess the member's performance on RMs, while confirming the member's debt sustainability and capacity to repay. Reviews can also be used to monitor the implementation of past RMs (for previous reviews) and make any needed updates to RSF program design, such as the content of future RMs or phasing (see ¶58-61) depending on changing circumstances. However, given the longer-term nature of the RSF challenges and reforms, changes in RSF design are expected to be less frequent than in UCT programs. If changes become necessary, teams should seek early discussion with the FDs (ideally about one month before the PCM).

Internal Review

82. PN Review and PCM. Whenever possible (for both RSF requests and reviews), country teams should allow extra time for PN review to facilitate in-depth assessment of RMs, including feasibility, consistency with climate plans, and synergies with reforms supported by other institutions. Teams should also invite the WB/WHO to comment on relevant parts of the PN. Teams are strongly encouraged to plan either longer or separate PCMs to allow enough time for in-depth RM discussions, and should invite the WB to the RSF part of the PCM. Table 4 below provides word count guidance on PNs and SRs for RSF requests and reviews.[66]

Table 4. Proposed Word Count Limits for RSF Requests/Reviews

	PN	SR
Joint RSF request/UCT/A4	5,100	10,500
Joint RSF request/UCT Joint RSF review/UCT/A4	4,600	10,100
Joint RSF review/UCT	3,600	9,500

B. Mission Work

83. Teams should define clear objectives for RSF-related missions.

For RSF arrangement request missions, objectives should include—but are not limited to:

- Confirming an understanding of the key policy gaps in the context of striving for mutually agreed objectives for the RSF targets with the authorities, and other partners. This would include key challenges, declared government objectives, current government policies/projects and policy/project reform needs, current/planned support by other development partners.
- Agreeing with the authorities on a RSF RM matrix to close the policy gaps (including the content of policy reforms, the timeline, responsible entities, CD and development partner implementation support if needed).
- Finalizing integration of the RSF RMs and RSF financing in the macro framework of the arrangement (if not already done for the PN), particularly when the implementation of RMs create short to medium-term BoP needs.
- For RSF arrangement review missions, objectives should include—but are not limited to:
    - Confirming completion of RSF RMs (including weblinks to published documents).

[66] General guidance on document length can be found here.

- Discussing intermediary steps and additional CD necessary to ensure timely completion of the remaining RSF RMs.
- Discussion of other climate policy gaps and a decision on whether RSF program modification/augmentation is warranted.

These should be considered in the context of evolving UCT policies and conditionality.

84. Country teams are encouraged to leverage expertise from outside experts, especially from the WB and from other partner institutions (for both program requests and reviews). While all meetings should be led by staff, mission chiefs are encouraged to involve the WB and WHO in meetings but should be cautious in inviting other outside experts to join RSF negotiations (¶47).

85. Country teams are encouraged to allow enough mission time to cover all key RSF-related issues. For both program request and reviews, country teams could consider (i) dedicated mission days focused on the RSF arrangement and (ii) an introductory meeting in which the team presents to the authorities the mechanics of the RSF arrangement and discusses key climate challenges that could be tackled by the RSF arrangement. Compared to stand-alone UCT program missions, RSF arrangement missions should aim to broaden the range of counterparts to include government entities responsible for coordinating and implementing climate policy, Ministries responsible for environment, infrastructure, energy, agriculture, transport, as well as relevant sectoral experts from the WB and other development partners.

86. Generally, joint UCT program and RSF arrangement missions will conclude with the announcement of a joint Staff Level Agreement (SLA). If more time is needed to reach understanding on RSF-supported reforms and/or RSF arrangement modalities, SLAs for the RSF arrangement can be reached after that for the UCT program. However, the RSF SLA cannot precede that of the UCT program, as RSF arrangement cannot be approved on a standalone basis and any changes to the UCT program might impact the timing and implementation of RSF-supported RMs.

C. Post-Mission Work and Documentation

87. Post-mission work broadly follows that of a UCT program, but specific attention is given to any changes to RSF arrangement modalities. After the mission (for program requests and reviews), the mission chief should send a Back-To-Office (BTO) to Management, covering RSF arrangement and UCT program-related issues. To help streamline the SR review and clearance process, the BTO should include (i) any changes in the RSF arrangement, (ii) any important developments in climate-related policies, and (iii) a table mapping RMs included in the PN and those agreed during the mission.

88. Documentation for PNs and SRs for RSF. The following items should be included in PN and SR for RSF requests and reviews.

- ***Executive summary:*** (i) The context section should reference the structural challenges the RSF request aims to address; and (ii) the program modalities section should include a separate paragraph introducing the RSF arrangement, including any BoP need justification, RSF financing amount and RSF reform priorities.

- ***Context:*** Highlight the longer-term structural challenge the RSF request aims to address, including the BoP link, and a concise discussion of government objectives and plans.

- ***Policy discussion:*** Include a section discussing (i) the structural challenge the RSF request aims to address and (ii) the country's current and planned policies to tackle the challenge, where RSF RMs should be highlighted.

- ***Program modalities:*** Include a paragraph on the RSF. For requests and augmentation, the paragraph should highlight (i) eligibility/qualification for the RSF request, (ii) justification of the access level, (iii) how the RSF financing is integrated in the macroeconomic framework and what BoP needs it addresses. Include an additional paragraph on how the RSF catalyzes other climate financing, if applicable.

- ***RM matrix and development partners engagement table:*** The RM matrix table links RMs to key challenges, diagnostics, CD and outcomes (Table 1). RSF requests should also include the mapping of the climate policy space, including outlining existing policy actions taken by the authorities, and the role of other development partners in supporting other reforms (Table 2).

- ***Climate Annex (for RSF requests only):*** More details on the structural challenges the RSF aims to address, the government's overall reform program, an overview of other support by development partners; it could also be augmented with a box outlining CD needs a CD strategy for program implementation and review stages (regardless of whether the CD is provided by the Fund or other institutions).

- ***DSA:*** The DSA write-up should explain how (i) the structural challenges targeted by the RSF and (ii) the accompanying policy/investment response measures are reflected in the macroeconomic framework underlying the DSA. Under the MAC DSA framework, teams are required to run the LT climate stress test module in case of climate-related RSF requests. In general, teams are encouraged to include customized stress tests reflecting risks linked to the size of the structural challenge tackled by the RSF (Annex IV).

- ***Program tables:*** Ensure that the fiscal, BoP and external financing tables clearly show that the pre-RSF financing gap is closed by the UCT arrangements. RSF financing is additional (i) to build foreign exchange reserves towards future prospective balance of payment needs, (ii) to replace alternative financing with less advantageous terms and/or (iii) to cover additional financing needs from the RSF reforms themselves (Annex II).

- ***Additional RSF-specific tables:*** In addition to the standard UCT-UFR tables, and Tables 1 and 2 described above, teams should include in the SR a RM timeline organized by broad reform areas, and a RSF phasing table.[67]

- ***Other:*** Stand-alone RSF SRs (in the case of a concurrent FCL arrangement) should follow standard UCT program practices and policies, and illustrate how the UCT program qualifications are verified. For RSF reviews, the SR should reflect on RM performance.

89. Assessment Letters and reporting on cooperation with expert stakeholders. For both program requests and reviews, AL should be included as a supplement of the SR and in the bundle for publication. For program reviews, the AL can take the form of a streamlined update of the previous AL. Similarly for both program requests and reviews, the SR and MEFP (or Program/Written Statement) should document the coordination with the WB/WHO, including a brief description of their engagement in the sector and/or any technical assistance related to RST-supported reforms they provide. The SR should also acknowledge WB/WHO staff's inputs, describe parallel financing arrangements, and complementary/synergic policy and financial operations when relevant.

90. LOI, MEFP/Program Statements and TMU. Following standard lending policies and practices, the joint UCT program/RSF arrangement LOI and MEFP should reflect the request for RSF financing and disbursements during a review, and adjustments in phasing or substance of RMs, as needed.[68] The MEFP should describe the authorities' plans to address the qualifying longer-term challenge(s) and, if applicable, any related financing plans; and should also explain how RMs would contribute to those plans. Where appropriate, detailed specifications on how RMs should be implemented and assessed can be included in the TMU.

[67] See as an example the March 2023 Jamaica Staff Report, IMF Country Report No. 23/105 (Text Table 3 with a RM timeline and Table 8 for RSF phasing).

[68] In cases where a full-fledged MEFP or PS is not required under the UCT arrangement (e.g. FCL), a stand-alone LOI should include the formal request for an RSF arrangement and a stand-alone MEFP should detail the authorities' objectives related to the RSF-qualifying challenge(s), their plans and commitments to implement the RMs. An informal Board briefing preceding the formal FCL request will not cover potential RSF arrangement request and will be limited to the potential FCL arrangement only.

Annex I. RST-Eligible Countries

Country	PRGT	Small State	Group[1]	Country	PRGT	Small State	Group
Afghanistan	1	0	A	South Sudan	1	0	A
Burkina Faso	1	0	A	St. Lucia	1	1	A
Burundi	1	0	A	St. Vincent and the Grenadines	1	1	A
Cabo Verde	1	1	A	Sudan	1	0	A
Central African Republic	1	0	A	Syria	0	0	A
Chad	1	0	A	Tajikistan	1	0	A
Congo, Democratic Republic of	1	0	A	Tanzania	1	0	A
Djibouti	1	1	A	Togo	1	0	A
Dominica	1	1	A	Tonga	1	1	A
Eritrea	1	0	A	Tuvalu	1	1	A
Ethiopia	1	0	A	Uganda	1	0	A
Gambia, The	1	0	A	Yemen	1	0	A
Grenada	1	1	A	Zambia	1	0	A
Guinea	1	0	A	Zimbabwe	1	0	A
Guinea-Bissau	1	0	A	Bangladesh	1	0	B
Haiti	1	0	A	Belize	0	1	B
Kiribati	1	1	A	Benin	1	0	B
Kyrgyz Republic	1	0	A	Bhutan	1	1	B
Lesotho	1	0	A	Cambodia	1	0	B
Liberia	1	0	A	Cameroon	1	0	B
Madagascar	1	0	A	Comoros	1	1	B
Malawi	1	0	A	Côte d'Ivoire	1	0	B
Maldives	1	1	A	Equatorial Guinea	0	0	B
Mali	1	0	A	Eswatini	0	1	B
Marshall Islands	1	1	A	Fiji	0	1	B
Mauritania	1	0	A	Ghana	1	0	B
Micronesia	1	1	A	Guyana	0	1	B
Mozambique	1	0	A	Honduras	1	0	B
Myanmar	1	0	A	Kenya	1	0	B
Nepal	1	0	A	Lao P.D.R.	1	0	B
Niger	1	0	A	Mauritius	0	1	B
Congo, Republic of	1	0	A	Moldova	1	0	B
Rwanda	1	0	A	Montenegro, Rep. of	0	1	B
Samoa	1	1	A	Nicaragua	1	0	B

1/ See paragraphs 60-62 on RSF financial terms.

Country	PRGT	Small State	Group[1]	Country	PRGT	Small State	Group
São Tomé and Príncipe	1	1	A	Papua New Guinea	1	0	B
Sierra Leone	1	0	A	Senegal	1	0	B
Somalia	1	0	A	Malta	0	0	C
Solomon Islands	1	1	B	Mexico	0	0	C
Suriname	0	1	B	Mongolia	0	0	C
Timor-Leste	1	1	B	Morocco	0	0	C
Uzbekistan	1	0	B	Namibia	0	0	C
Vanuatu	1	1	B	Nauru	0	1	C
Albania	0	0	C	Nigeria	0	0	C
Algeria	0	0	C	North Macedonia	0	0	C
Angola	0	0	C	Pakistan	0	0	C
Antigua and Barbuda	0	1	C	Palau	0	1	C
Argentina	0	0	C	Panama	0	0	C
Armenia	0	0	C	Paraguay	0	0	C
Azerbaijan	0	0	C	Peru	0	0	C
Bahamas, The	0	1	C	Philippines	0	0	C
Barbados	0	1	C	Russian Federation	0	0	C
Belarus	0	0	C	Serbia	0	0	C
Bolivia	0	0	C	Seychelles	0	1	C
Bosnia and Herzegovina	0	0	C	South Africa	0	0	C
Botswana	0	0	C	Sri Lanka	0	0	C
Brazil	0	0	C	St. Kitts and Nevis	0	1	C
Bulgaria	0	0	C	Thailand	0	0	C
China	0	0	C	Trinidad and Tobago	0	1	C
Colombia	0	0	C	Tunisia	0	0	C
Costa Rica	0	0	C	Türkiye	0	0	C
Cyprus	0	0	C	Turkmenistan	0	0	C
Dominican Republic	0	0	C	Ukraine	0	0	C
Ecuador	0	0	C	Vietnam	0	0	C
Egypt	0	0	C				
El Salvador	0	0	C				
Estonia	0	0	C				
Gabon	0	0	C				
Georgia	0	0	C				
Guatemala	0	0	C				
India	0	0	C				

Country	PRGT	Small State	Group[1]	Country	PRGT	Small State	Group
Indonesia	0	0	C				
Iran	0	0	C				
Iraq	0	0	C				
Jamaica	0	0	C				
Jordan	0	0	C				
Kazakhstan	0	0	C				
Kosovo	0	0	C				
Lebanon	0	0	C				
Libya	0	0	C				
Malaysia	0	0	C				

Annex II. RSF Financing Presentation in Tables for Program Documents

RSF financing should not contribute to closing external/fiscal financing gaps, unless the RMs generate direct, identifiable, and short-term BoP/fiscal costs not covered by other development sources. This annex explains how to present RSF financing in PN and SR external financing needs and sources, BoP, and fiscal tables by means of an illustrative example. Importantly, RSF disbursements should be recorded below the line, along with other reserve and closely related items.

1. An imaginary RSF case as illustrative example. Country X requests a 3-year RSF, which intends to use for budget support. RSF disbursements will help build external and fiscal buffers in year 1, but also finance BoP and fiscal costs directly linked to RMs in year 2. In year 3, the authorities plan to use the RSF disbursements to substitute for more expensive domestic financing; these savings will in turn increase buffers against risks related to the qualifying structural challenges. The paragraphs and Table A1 below give an illustration of the different uses could be reported in program tables.

2. External Financing Needs and Sources Table(Panel A)**.** If RMs do not generate identifiable BoP costs (i.e., in 2023 and 2025 in Table A1 below), the financing gap should be closed excluding RSF financing. In this case, RSF disbursements are presented after the exceptional financing/residual gap, which should be equal to zero. Consequently, RSF financing will either top up overall reserves or substitute for more expensive financing. If RMs generate identifiable BoP costs (e.g., through larger imports), the additional financing gap can be financed by the RSF arrangement. In these cases, the portion of the RSF disbursements dedicated to these RMs should be presented under prospective financing, but separately from other IMF financing (e.g., ECF/EFF) and budget support (year 2024 in Table A1). The remainder of the RSF financing should be presented after the exceptional financing/residual gap.

3. BoP Tables(Panel B)**.** The final presentation of these tables may depend on staff preferences and current practices but, consistent with the table above, RSF disbursements would typically be presented after the residual gap, topping up the overall reserves or substituting for more expensive financing. In cases where RMs generate identifiable BoP costs, the higher overall deficit can be financed by the RSF.[1] The portion of the RSF disbursement providing this financing should be presented separately from prospective budget support and other IMF financing. The remaining portion of the RSF disbursement should be presented after the residual gap. In both cases, gross

[1] The specific costing of reforms would be required, especially if it serves to justify RST access above the norm to address any direct short- to medium-term BoP needs associated with the implementation of corresponding RSF-supported reforms. However, quantification may be difficult and may generate misunderstanding about the earmarking of RSF disbursements; teams should exercise caution and consult with SPR in case of doubt.

reserves with and without the RSF are shown in the memorandum items to disentangle the impact of the RSF.

4. Fiscal Tables (Panel C)**.** RSF financing is usually recorded under external financing below the line (in some cases however, RSF disbursements may be recorded under domestic financing as the disbursement is kept in the central bank and the equivalent amount is lent to the government in domestic currency). If the RMs do not generate fiscal costs, the RSF disbursements should lead to (i) an "over-financing" that increases government financial assets or (ii) replacing other, more expensive financing. In cases where RMs generate identifiable fiscal costs, a portion of the RSF disbursement can be presented as financing the higher fiscal deficit driven by the larger current/capital expenditures due to RM costs.

Table A1. RSF Presentation in Program Tables

A. Gross Financing Needs Table

		2023	2024	2025
A	**Gross Financing Needs** (1+2)	**1050**	**1050**	**1000**
1	Current account deficit	1000	1050	1000
	of which RSF reform costs	0	50	0
2	Reserve accummulation (without RSF)	50	0	0
B	**Gross Financing Sources**	**750**	**700**	**700**
C	**Financing Gap (B-A)**	**-300**	**-350**	**-300**
D	**Prospective Financing (3+4+5)**	**300**	**350**	**300**
3	IMF ECF/EFF	100	100	100
4	Budget support (multilateral excl. IMF)	200	200	200
	Grants	100	100	100
	Loans	100	100	100
5	RSF disbursement (RM BoP costs)	0	50	0
E	**Exceptional Financing/Residual Gap (C+D)**	**0**	**0**	**0**
6	RSF disbursement (not linked to RM costs)	50	50	50
F	Reserve accumulation (with RSF) (2+6)	100	50	50
	Memorandum items			
	Total RSF disbursements	50	100	50

B. BoP Table

	2023	2024	2025
Current Account [A]	**-1000**	**-1050**	**-1000**
Goods and services	-300	-350	-300
of which, identifiable RM BoP costs	0	-50	0
Primary and secondary income	-700	-700	-700
Capital and Financial Account [B]	**750**	**700**	**700**
Overall Balance [A]-[B]	**-250**	**-350**	**-300**
Financing	**150**	**250**	**200**
Change in reserves (- = increase, without RSF)	-50	0	0
Prospective budget support	200	200	200
RSF disbursement (identifiable RM BoP costs)	0	50	0
Financing Gap	**100**	**100**	**100**
Use of Fund credit: ECF/EFF	100	100	100
Residual Gap	**0**	**0**	**0**
RSF disbursement (not linked to RM BoP costs)	50	50	50
Memorandum items			
Gross reserves (with RSF)	1000	1050	1100
Gross reserves (without RSF)	950	950	950
Total RSF disbursements	50	100	50

Table A1. (concluded) RSF Presentation in Program Tables

C. Fiscal Table

	2023	2024	2025
Total revenue and grants	**2500**	**2500**	**2500**
Total expenditure and net lending	**4950**	**4950**	**4900**
Current expenditure	3950	3900	3900
Capital expenditure	1000	1050	1000
Fiscal balance	**-2450**	**-2450**	**-2400**
Domestic financing	**1500**	**1500**	**1450**
External financing	**1000**	**1000**	**950**
Project financing	0	0	0
Budgetary assistance	200	200	200
Eurobond issuance	750	700	700
RSF disbursement (total)	50	100	50
Increase in government assets	**50**	**50**	**0**
of which RSF (not linked to RM fiscal costs)	50	50	0
Memorandum items			
Fiscal balance excluding RSF spending	-2450	-2400	-2400
Financing excluding RSF disbursement	2450	2400	2400
Domestic financing without RSF	1500	1500	1500
Domestics financing with RSF	1500	1500	1450

1/ For simplicity, the exchange rate for the domestic currency is assumed pegged at 1 USD=1 LCU

Annex III. Assessment of Capacity to Repay the Fund in RSF Arrangements

CtR "Dashboard"

1. For new RSF programs and augmentation requests, a country's Fund credit exposure is benchmarked against a comparator group, and exposure metrics are presented in a CtR dashboard (i.e., a set of standardized charts) in program documents. The CtR dashboard includes key economic metrics for the country in question and a relevant comparator group to detect cases of elevated risk. This CtR dashboard must be included in the PN and SR of the RSF request or the request for augmentation.

Economic Metrics

2. The CtR dashboard should present eight metrics. These metrics, which are reflected in standardized panel charts, illustrate the evolution of projected Fund credit and debt service to the Fund both for the country in question and a comparator group:[1]

i. Six time-series charts with projections starting the year of the program request or augmentation and ending when credit outstanding is repaid (i.e., 20 years from the last disbursement):

- **Three stock indicators:** projected stock of Fund credit outstanding relative to (i) GDP, (ii) gross international reserves (GIR),[2] and (iii) public and publicly guaranteed (PPG) external debt (for LIC DSF users) or public external debt (for MAC SDRSF users); and
- **Three flow indicators:** projected annual debt service to the Fund relative to (i) fiscal revenues (excluding grants for countries using the LIC DSF), (ii) exports of goods and services, and (iii) PPG external debt service (for LIC DSF users) or public external debt service (for MAC SDRSF users).

ii. **Two cross-section charts:** these focus the analysis on the highest peak credit indicators for the above metrics,[3] (i.e., the two most elevated of the six metrics listed above) and compare these indicators to a subset of past financing programs with top exposures.

Comparator Groups

3. The baseline comparator group for the CtR dashboard is based on all UCT-quality

[1] If a country team believes other metrics are more relevant, the dashboard can be adjusted. Nevertheless the eight metrics listed here should be retained, and the alternative metrics should draw from the indicators already embedded in FIN's dashboard.

[2] For members of currency unions, GIR could be based on imputed reserves.

[3] The control group of countries with top exposure levels consists of the top quartile of past exposures.

disbursing programs approved for GRA or PRGT arrangements over the most recent decade.[4] This sample period includes a sufficiently large number of Fund arrangements for meaningful comparison and it includes enough observations for constructing alternative control groups.[5] It also captures shifts in Fund financing, including recent years' rising trend in Fund exposure.

Elevated Levels of Fund Credit Exposure

4. **The dashboards illustrate <u>median</u> and <u>interquartile ranges</u> for the control group.** For RST borrowers also requesting GRA or PRGT financing or already with a GRA or PRGT arrangement in place (or a blend PRGT/GRA program), the exposure metrics enable a cross-country comparison against previous borrowers. In general, CtR risks would be deemed at acceptable levels if projections for all CtR indicators lie below the 75th percentile of the respective metric, while levels above the 75th percentile would require a deeper analysis. The dashboards should not be interpreted mechanistically but inform judgment, understanding that high access under the GRA may also be associated with access under the exceptional access framework, which entails additional scrutiny.

5. **Comparison of the country under assessment against benchmarks should be combined with staff's judgment informed by the macroeconomic-framework, DSA, risk matrix, and other relevant analysis.**[6] Country teams should complement the information provided by the tool with their own country-specific knowledge and judgment to come to an overall assessment of the risks implied by comparatively high exposure metrics. For instance, small and/or temporary deviations above the triggers do not necessarily indicate elevated CtR risks, or there may be mitigating circumstances. On the other hand, absence of metrics exceeding the 75th percentile does not necessarily imply absence of elevated risks and could still require a more careful assessment, including when the outlook is highly uncertain and risks to the program are tilted to the downside, or when small outstanding Fund credit and Fund debt service ratios are a by-product of very high levels of total debt and debt service.

Expanded CtR Analysis

6. **In cases where elevated metrics of Fund exposure combined with staff judgment indicate high CtR risks, the SR should discuss the severity of the risks and explain how the design of the RSF and concurrent UCT program seek to mitigate these risks.** The CtR paragraph

[4] Approved RSF arrangements will be included in the future as the database is updated.

[5] An additional comparator group (e.g., fragile and conflict-affected states (FCS) and presumed blenders) could be considered to supplement the general comparator group, but should be used rarely. In such cases, the use of these additional comparator groups should be communicated to FIN staff by the time country teams share the data for the preparation of the CtR dashboard and should be justified in the program documents.

[6] Judgment can be particularly useful when CtR metrics convey mixed signals (e.g., the observations for the same CtR indicator could lie above the 75th percentile in some years and below in others); borderline cases (e.g., observations for a CtR indicator could lie above the 75th percentile for several years but by a small margin); or in programs requiring debt restructuring, in which case the path of PPG external debt (or public external debt) and debt service may be subject to large uncertainty at program inception.

should draw from the information conveyed in the applicable CtR dashboard, together with information from the standard CtR Table (see below sample CtR write-ups for PRGT and GRA arrangements for reference). This expanded analysis should particularly focus on the CtR indicators pointing to elevated levels of Fund exposure. For instance, it could elaborate on the drivers of elevated CtR ratios relative to the control group; the size of elevated ratios; the duration of such levels above the 75th percentile; and the economic significance of the identified risks. The analysis could also draw attention to risks associated with the authorities' willingness and ability to implement reforms needed to strengthen CtR.

7. The expanded CtR analysis should explain how the design of the RSF and concurrent UCT program mitigate the risks. This could include:

- ***Access.*** Does the proposed access level keep Fund exposure at manageable levels?
- ***Phasing.*** Are the phasing and strength of reforms under the program commensurate to the phasing of disbursements, or are disbursements frontloaded while reforms are not?
- ***UCT program.*** Are there good prospects that program targets and policies will be achieved during the proposed timeframe to help reduce elevated CtR ratios?
- ***Country-specific factors.*** These can include considerations such as the size of contingent liabilities, the prospects for growth (or depletion) of natural resource revenues, and burden-sharing with other official creditors. The existence of prior calls on the availability of foreign exchange that could weaken the capacity to repay the Fund (e.g., earmarked revenue or exports proceeds, escrow accounts, collateral) could also be noted and the relevant economic metrics could be adjusted accordingly.[7]

8. The CtR paragraph in program documents, including all program requests, augmentations and reviews, should include a bottom-line assessment of a country's capacity to repay the Fund. The bottom-line assessment should be referenced in the topic sentences. Furthermore, the assessment, which should inform a country's program design and the level of access to Fund resources, must also reflect the balance of CtR risks. For a program request to move forward, CtR must be assessed to be at least "*adequate.*" In cases of elevated but still acceptable/manageable CtR risks, the bottom-line assessment should be conditional on the balance of risks, e.g., "CtR *is adequate but subject to significant downside risks*." Lastly, in cases where CtR is deemed weak, the request for a Fund-supported program should not move forward unless the program includes clear measures that would restore the member's CtR to at least adequate, even if significant risks remain.

9. The CtR dashboard should typically be based on the baseline macroeconomic scenario but should include information on downside scenarios where applicable, including in

[7] These metrics could be adjusted to reflect their unencumbered values. For instance, if a country has pledged resources under commodity-backed debt arrangements, the pledged flows and stocks could be subtracted from the original amounts of the corresponding metrics (e.g., Table 9 in the SR for Angola's 2018 EFF request).

precautionary settings. The dashboard would typically be based on the baseline scenario underpinning the proposed program. However, the dashboard and the CtR write-up could elaborate on downside scenarios if these are included in program documents and a financing arrangement is incorporated in that scenario. [8] For all precautionary arrangements, the CtR dashboard and the standard CtR table should be based on a downside macroeconomic scenario.

10. Revisions to the macroeconomic framework during the internal review process for new RSF requests or augmentations would necessitate a revised CtR analysis. If the macro-framework is revised during the internal review process and/or the access level and phasing are changed, the CtR dashboard, the standard CtR table, and the CtR assessment should also be revised accordingly and reflected in the revised program document.

11. Data sharing for CtR dashboards. FIN is responsible for preparing CtR dashboards using data provided by country teams. This data should be shared with FIN as soon as the framework is finalized (at a minimum one day before program documents are posted on eReview, allowing FIN time to prepare the CtR dashboard) and using an automated data transmission system within the Common Surveillance Database (CSD) platform. If projections are revised, the data should be shared via CSD during the internal review process and teams should allow at least one day for FIN to reproduce the revised dashboard.[9] For guidance, teams can contact FIN-CTR@imf.org.

Sample Write up for Capacity to Repay Paragraphs

12. PRGT borrower example. Country X's capacity to repay the Fund is adequate and the authorities' track record of servicing IMF debt is strong. Total Fund Credit Outstanding is mostly below or at the bottom of the interquartile range for PRGT borrowing countries, peaking in 2026 at SDR 3.6 billion, equivalent to 0.8 percent of GDP (6.0 percent of exports of goods and services or about 10.0 percent of gross Foreign Exchange (FX) reserves). Total obligations to the Fund peak at 0.1 percent of GDP (0.5 percent of exports of goods and services or 1.0 percent of gross FX reserves) in 2024. The risk of debt distress is assessed to be low, and the debt outlook is expected to remain sustainable.

13. GRA borrower example, precautionary arrangement. Country X's capacity to repay the Fund is adequate. Debt outstanding and debt service to the IMF in a purchase scenario would make credit outstanding reach around 520 percent of quota (320 percent of quota excluding the RSF) or 3.3 percent of GDP in 2024 (Figure 1, Panel A). Debt service to the Fund, including resources drawn under the RSF, would peak at SDR 264.2 million (about 0.5 percent of GDP; Figure 1, Panel B). [Country X's] largest peaks for both credit outstanding (in percent of GDP) and debt service to the Fund with RST resources are [at/above] the [75th] percentile of comparators (Figure 1, Panel C). Over the longer term, risks are mitigated by [for example: comment on the authorities' commitment to

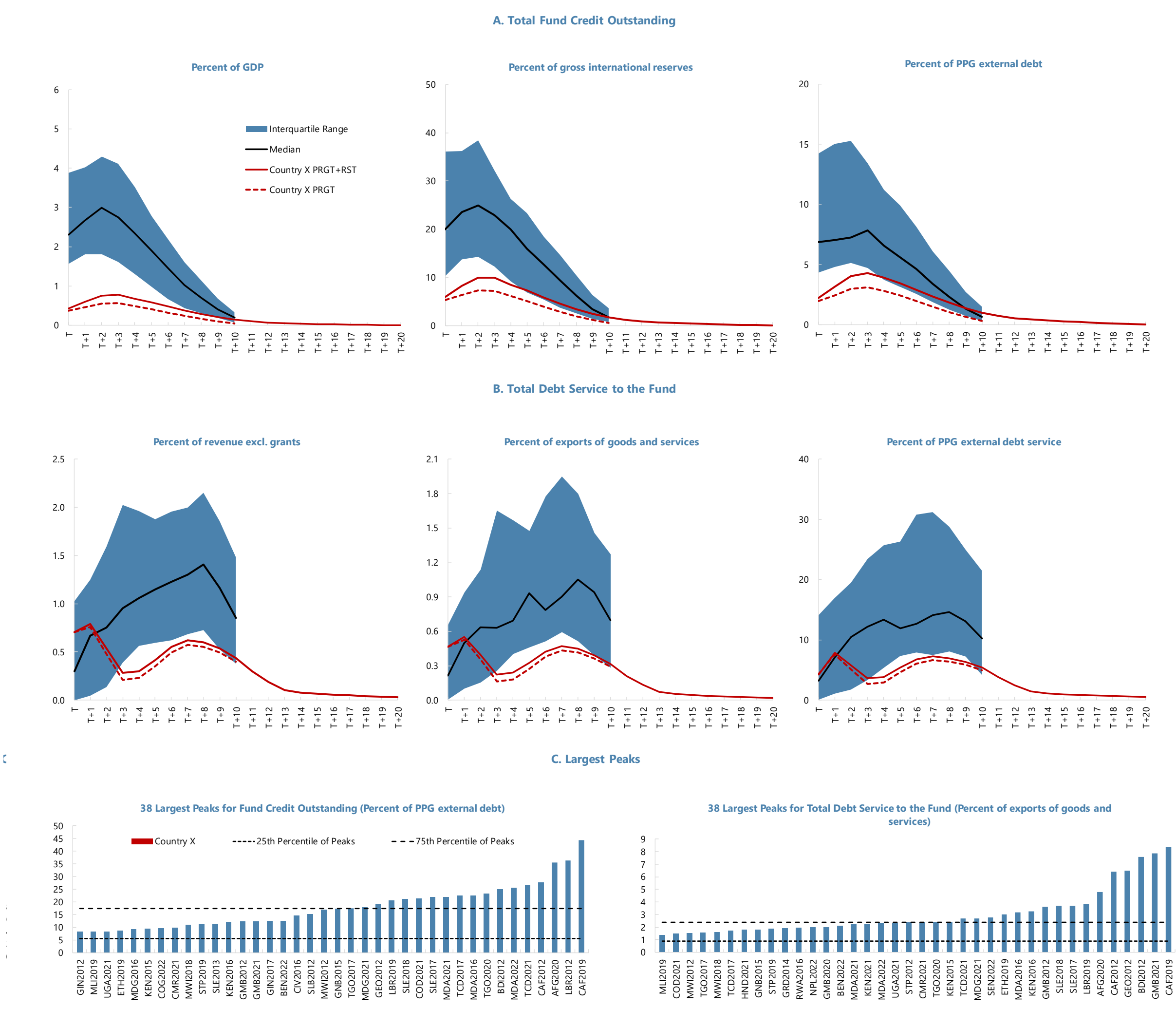
[8] Further details are found in Poverty Reduction and Growth Trust—Guidance Note on New Enhanced Safeguards for Debt Sustainability and Capacity to Repay (imf.org), (paragraph 22-23).

[9] The data underpinning the samples of control groups will be updated annually by FIN. This update will incorporate all respective UCT programs (GRA, PRGT, RST) approved in the previous calendar year.

structural reforms, macro policies, and international reserves in terms of the ARA metric in the projection period. The program is fully financed (without RSF disbursements) over the next 12 months, with good prospects for the remainder of the program.

Figure 1. Country X: Capacity to Repay Indicators Compared to UCT Arrangements for PRGT Countries

(In Percent of the Indicated Variable)



Notes:

1) T = date of arrangement approval. PPG = public and publicly guaranteed.
2) Red lines/bars indicate the CtR indicator for the arrangement of interest.
3) The median, interquartile range, and comparator bars reflect all UCT arrangements (including blends) approved for PRGT countries between 2012 and 2022.
4) PRGT countries in the control group with multiple arrangements are entered as separate events in the database.
5) Comparator series is for PRGT arrangements only and runs up to T+10.
6) Debt service obligations to the Fund reflect prospective payments, including for the current year.
7) In the case of blenders, the red lines/ bars refer to PRGT+GRA. In the case of RST, the red lines/ bars refer to PRGT+GRA+RST.

Annex IV. DSAs in Joint RSF-UCT Programs

1. **Medium-term debt sustainability is a key qualification for accessing the RST.** RSF arrangements can only be approved if debt is assessed as sustainable under the applicable debt framework: LIC-DSF (non-market access countries) or MAC-SRDSF (the Sovereign Risk and Debt Sustainability Framework for Market Access Countries). The LIC-DSF and SRDSF Guidance Notes remain the governing guidance on interpreting the long-term impact of climate risks in the DSA. Within these frameworks, given the longer maturity of RSF loans, the debt sustainability analysis in RST financing requests needs to analyze long-term implications of climate change and, more generally, pay attention to debt vulnerabilities over a longer time horizon.

2. **A discussion of longer-term risks to debt sustainability, with a focus on country-specific climate-related risks and policy action, is required in DSAs for RSFs.**[1] The focus of the RSF is to support policy reforms to help the member country make progress toward reducing risks related to the longer-term structural challenges. When the challenge is climate change, the LT climate module in the MAC SRDSF and the 20-year baseline macroeconomic projections in the LIC-DSF should include (i) any relevant information on the impact of climate risks such as climate-related spending on adaptation and/or mitigation as well as their financing mix (e.g., DRM, grants, domestic/external loans) and (ii) the impact of climate-related policy measures on average long-run growth. The writeup should indicate if the baseline assumptions are aligned with the authorities' climate-related investment plans or whether adjustments have been made because staff views the plans as unrealistic. Climate change risks included in the baseline could affect the mechanical risk rating in the LIC-DSF. Country teams are expected to make full use of the tools, flexibility and customization potential of existing frameworks to discuss: (i) adverse effects on debt sustainability related to climate change; (ii) potential costs and benefits of climate action; and (iii) where applicable (e.g. hydro-carbon exporters) debt sustainability implications of global decarbonization efforts. Both the MAC-SRDSF and the LIC-DSF already provide tailored stress tests for natural disasters (triggered for vulnerable countries) to capture risks associated with one-off climate events over the medium term.

3. **Alternative scenarios are encouraged, though not required.** Work on alternative scenarios would not only provide a more thorough assessment of longer-term debt sustainability, but also inform the general macroeconomic discussion in SRs. Alternative scenarios should reflect costs and risks from climate change over the longer term. Analysis of debt sustainability under these scenarios should be anchored in the relevant DSF, with illustrative figures typically showing the full 20- or 30-year horizon, but could be complemented by other analysis the team sees fit. In such cases, teams should strive to justify and, where possible, benchmark parameters to other countries in similar circumstances. More details for each relevant DSF is provided below.

[1] Such discussion could be included in the write-up of LIC DSAS or in the commentary box for long-term modules of MAC SRDSAs.

A.1 Market Access Countries

4. For market access countries, the long-term modules provided with the MAC-SRDSF modules are required. The modules on climate change, large amortizations, and demographics, under the new MAC-SRDSF are required for program documents with a concurrent RSF arrangement, while the natural resource scale-up/depletion module remains optional. (Details are found in the MAC SRDSF Guidance Note).

5. The SRDSF's Climate Change module is the workhorse to analyze the impact of climate change in market access countries. The tool consists of two sub-modules: (i) the first models the impact of adaptation investments, which involves building resilience to the effects of climate change; (ii) the second covers climate change mitigation, which involves efforts to reduce greenhouse gas emissions to limit increases in temperatures. The two sub-modules allow for projections of debt-to-GDP and Gross Financing Needs (GFN)-to-GDP over a 30-year horizon.

6. Users are encouraged to design a customized scenario, which allows teams to adjust the assumptions to country-specific characteristics, including any insight on the impact of agreed RMs. A standard scenario based on the default assumptions in the DSA template is also available.

7. The key outputs from both sub-modules are extended projections for debt-to-GDP and GFN-to-GDP, which can be used to inform the long-term risk assessment. Since there is substantial uncertainty about the future evolution of climate change and its impact on sovereign risks, this assessment would be qualitative (as with the other long-term modules). When designing scenarios and drawing out long-term implications for debt, teams are encouraged to leverage relevant analysis from the IMF's CPD, WB's CCDR, or other country-specific work.

A.2. Non-Market Access Countries

8. The LIC Debt Sustainability Framework (LIC-DSF) already requires a macroeconomic framework for a 20-year projection period (elaborated in the LIC DSF Guidance Note), providing debt and debt service projections for the full repayment horizon of RST financing.

9. Teams should pay special attention to the evolution of debt over the longer term. In the LIC DSF, breaches projected to occur in projection years 11–20 do not normally give rise to a rating downgrade and, usually, only the first 10 years of projections are shown in the figures and tables in the DSA writeup. However, if the analysis results in an upward debt trajectory over the longer horizon or if there are breaches of thresholds in the baseline or stress tests in years 11-20 of the DSA, consideration can be given to change the debt risk rating when (i) the breaches are expected to be large, persistent, and thus resulting in significant differences relative to historical averages; and (ii) occur with a high probability despite occurring in the distant future. The DSA should clearly explain a rating change informed by such a breach, including by discussing why the breach can be expected to be large and persistent, and occur with high probability. In these cases, the DSA figures can show the 20-year horizon in addition to discussing longer term implications of climate measures. In all cases, the DSA tables already report the debt indicators in the 11th and 20th years, giving an indication of the trajectory of the debt and debt service indicators.

10. Alternative scenarios could be explored to inform the assessment. Depending on the extent to which climate risks and measures and investments to address them are incorporated in the baseline, an alternative scenario could reflect likely climate-related investment that need to be carried out by the country to either meet adaptation needs or reach climate mitigation objectives. Where assessments for likely climate-related investment needs are not available, teams could draw these assumptions from the IMF's CPD or WB's CCDR, or any other relevant study. Teams could consult with the WB/FAD/Strategy, Policy, and Review Department's (SPR) climate group on how to incorporate climate change into the macroeconomic projections. Teams could also consider showing another scenario illustrating the cost of inaction to emphasize the benefits of the RST and climate-related investment; qualitative analysis may inform model parameters if quantification is difficult. The alternative scenario could be used to inform judgement on assessing debt sustainability and the debt risk rating, and to assess the authorities' commitment, their possible financing strategy, as well as risks to the capacity to repay the Fund.

Annex V. Examples of Strong RMs

This annex provides an illustrative and non-exhaustive set of examples of strong reforms consistent with the principles set out in ¶22-28. It also outlines the channels through which strong reforms could help catalyze private finance.

Climate Mitigation and Transition Policy

- ***Putting a price on carbon.*** Explicit carbon pricing (carbon taxes and ETSs) is widely considered the most effective instrument for reducing emissions as it elicits the full range of behavioral responses for reducing energy use and shifting to cleaner fuels. This could be introduced economy-wide or in sectors that would account for most of emissions. To date, 49 carbon pricing schemes have been put in place at regional, national, and sub-national levels.[1] Carbon pricing can take different forms, including carbon taxes, emissions trading systems, feebates, environmental fiscal reform, and excises on fossil fuels. Carbon pricing policy should be ambitious (accounting for effective rates/coverages and exemptions). Revenue recycling mechanisms could be considered to minimize adverse social and economic impacts, including strengthening the social welfare system, reducing distortionary taxes, and productive investments.

- ***Fossil fuel subsidies reform.*** Phasing out government support to fossil fuels can play a significant role in climate mitigation. For example, RMs can include automatic fuel price and electricity tariff adjustments to reflect cost changes. Furthermore, such reforms should account for the energy sector's financial sustainability, energy/electricity affordability, and distributional effects and should be accompanied by targeted social assistance and public transport subsidies, when needed.

- ***Sectoral mitigation policy.*** Sectoral measures may be proposed to support climate mitigation. Feebates and tradable performance standards are considered effective and efficient policy tools. Other potential measures include, for example: (i) incentives to promote renewable energy investment (feed-in-tariffs, net-metering/billing and gross metering, investment and production tax credits for renewable and battery storage, renewable portfolio standards, and regulatory changes to allow distributed generation); (ii) standards and regulations to support energy efficiency improvements in the end-use energy sectors such as buildings, industry, and transport; (iii) regulatory reform to promote the adoption of electric vehicles and private investment in charging stations; (iv) coal decommissioning or phase-out coupled with social transition measures; and (v) incentives to reduce emissions in the agriculture, land-use, forestry, and waste sectors.

[1] International Monetary Fund. "Climate Crossroads: Fiscal Policies for a Warming World," *Fiscal Monitor*, October 2023.

Climate Adaptation Policy

- ***Fiscal policy tools can be deployed to promote climate adaptation and resilience, and there are emerging good practices around the world.*** Adaptation RMs should aim to enable large-scale climate-resilient investment, promote efficient private adaptation, and strengthen social safety nets. For example, RMs may include pricing instruments, market mechanisms/reforms, and fiscal incentives for adaptation. These may encompass natural resource/water pricing, establishment of water markets, tax incentives to promote adaptation (provided they are well-targeted and their effectiveness is periodically reviewed),[2] removal of implicit and explicit subsidies to private risk taking (e.g., subsidized flood insurance), payment for environmental protection services, social programs targeting the most vulnerable, among others. Adaptation reforms can overlap with countries' broader development agendas, particularly in the areas of clean water, sanitation, agriculture, and infrastructure; and can have synergies with reforms to strengthen institutions and promote better public investment management and infrastructure governance.

- ***Risk management.*** Measures may be proposed to address climate-related risks and adopt instruments that help transfer and distribute risks. Managing climate risks should be done in the context of the overall national disaster risk management and financing strategy and may involve measures such as the provision of adequate fiscal/financial buffers, contingent financing, insurance for public assets, catastrophe insurance, and weather insurance.[3] Providing sufficient information and equipping governments/individuals/ investors with capacity to adapt are also essential. In this regard, RMs may involve the implementation of a tool/framework for quantifying fiscal risks from climate change, establishment of data repository on infrastructure assets at risk,[4] operationalization of an early warning system, as well as the development of data infrastructure and decision-support tools to disseminate key weather/climate data and information on climate-related risks and vulnerabilities.

Enabling Institutions

- ***Making infrastructure green and resilient.*** Integrating climate considerations in the public investment management process and infrastructure investment cycle is critical to achieving climate adaptation and mitigation objectives. The C-PIMA is the Fund's main diagnostic tool for assessing a country's progress and has been utilized in several RSF programs to inform RM design. FAD's note "Use of RST to support climate smart public financial management and public investment management" can guide RM formulation in this area. RMs based on C-PIMA

[2] These include, for example, tax benefits for desalination investment, stormwater retention ponds, resilient buildings, and taxation on the use of public natural resources.

[3] Reforms to support the development of insurance markets need to take into account that (i) initial insurance penetration is generally extremely low in the RSF-eligible countries and (ii) the insurability of climate-related events can be difficult, even in advanced economies.

[4] The C-PIMA provides an assessment of infrastructure risk management, and the Green PFM framework offers guidance on the incorporation of climate-related fiscal-risk analysis in a government's fiscal risk framework.

diagnostic include, for example, aligning public investment plans with the NDC goals, integrating climate-related risks in land-use and urban regulations, incorporating climate adaptation and mitigation requirements in project appraisal and selection processes, making the PPP framework climate-responsive, and reflecting climate risks in asset management and project implementation. While C-PIMA based RMs are process-oriented in nature, they can have a significant impact on the effectiveness of climate investments in practice.

- ***Incorporating climate in the fiscal and budget frameworks*** including climate considerations in the macro-fiscal framework and budget processes (including public investment planning) can facilitate climate-friendly policymaking and reporting on climate-relevant spending. An FAD Climate Note on Green PFM provides guidance on effective reforms that can support this process. Transparent reporting of climate spending, with continued technical assistance from the Fund, including on budget tagging, help increase access to official and private climate finance. It is crucial that the proposed reforms, including any legislative amendments, are coherent with the country's capacity and its broader institutional reform roadmap, especially in LIDCs and FCSs. Examples of RMs in RSF programs include integration of climate elements in medium and long-term macroeconomic frameworks, development and implementation of climate budget tagging systems, and putting in place frameworks for green public procurement.

Financial Sector Reforms

1. Green financing and incorporating climate in financial sector risk assessments. Better understanding and management of climate-related risks will enhance financial sector resilience and help scale up private climate finance. The authorities could consider conducting a diagnostic exercise to establish a climate change Risk Assessment Matrix (C-RAM) that describes key climate risks, their potential macro-financial impact and transmission channels. Potential RMs in this area include: (i) implementing a green bond/green taxonomy framework; (ii) establishing sustainability-linked bonds frameworks and the associated key performance indicators frameworks; (iii) implementing climate risk disclosure; (iv) establishing a data repository on physical risk (projections of frequency and intensity of hazards and their damages), transition risk (individual corporates' data on emissions), and bank exposures to these risks; and (v) integrating climate change into the corporate governance of banks (in the fiduciary duties and accountability mechanisms for board members and senior managers). Climate risk stress testing for financial institutions and systems could be considered once gaps on climate and bank exposure data have been addressed. RMs in this area should be formulated in accordance with international standards.[5]

The Catalytic Potential of Strong Reforms

2. Mitigation and transition reforms. Carbon taxes and fossil fuel subsidies reforms can help

[5] These include the BCBS guidance in the effective management and supervision of climate-related financial risks, the International Capital Market Association Principles, the Climate Bonds Standards, the International Sustainability Standards Board's climate disclosure standards, and the recommendations of the Task Force on Climate-Related Financial Disclosures. In practice, country teams will typically have to rely on support from functional departments to design RMs in this area.

redirect private investments from fossil fuels to clean energy, by shifting their relative prices and expected returns. These policies also have the potential to accelerate private financing in other sectors, such as production and adoption of electric vehicles. Directing some of the budgetary savings from fossil fuel subsidies reform to supporting an enabling environment for renewable energy investments would further accelerate private climate-related financing flows. Other sectoral measures can help reduce regulatory frictions, improve risk-return profiles, and lead to a more consistent pipeline of projects, which will broaden the investor base for EMDEs.[6]

3. Adaptation reforms. Climate adaptation reforms such as water pricing, water market reforms, and fiscal incentives are expected to promote private sector adaptation investments (e.g., investments in water-efficient technologies, climate-resilient buildings, and increased private sector participation). Better risk management and the use of risk-sharing facilities and guarantees can help reduce risks associated with adaptation investments and mobilize private capital for adaptation and post-disaster response.

4. Institutional reforms. Reform measures in this area provide an institutional foundation that enables climate-smart infrastructure investment across public and private sources. Climate-responsive fiscal and budget frameworks also improve access to international climate finance, as well as facilitate the mobilization of private sector finance. Where appropriate, a public-private partnership (PPP) approach can be used to leverage climate/green private finance,[7] while climate budget tagging systems can form a basis for the issuance of green bonds.

5. Financial sector reforms. Addressing climate data gaps, reporting of exposure to climate-related risks, and broad climate diagnostic exercises support banks and financial institutions in managing physical and transition risks and help them steer private investment towards risk-adjusted climate investments. High-quality, reliable, and internationally comparable data help investors to make better-informed investment decisions and risk-return assessments. Adopting sustainable finance alignment tools, such as green taxonomies, make it more efficient for investors to identify sustainable assets which would support the mobilization of private climate finance.

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[6] A limited pipeline of projects in many EMDEs is a major constraint that prevents scaling up of climate investments, even where the private sector is otherwise willing to invest. Some weaknesses are due to legal or regulatory frictions, which reduce investors' incentives to finance climate projects. Lack of a sizeable pipeline reduces diversification opportunities, discouraging institutional investors that need to maintain a diversified set of investments.

[7] PPPs usually result in higher financing costs, require complex tendering and careful contract management, and expose governments to significant fiscal risks. PPP processes need to be carefully managed, including fiscal risk management considering the long-term nature of PPPs and the complexity of risk-allocation agreements.

Annex VI. Applying the 2018 Framework for Enhanced Engagement on Governance in RSF Context

This annex describes how country teams can promote improved design and implementation of RSF-supported reforms by considering governance and corruption issues, guided by the 2018 Framework for Enhanced Fund Engagement on Governance. If governance weaknesses and corruption vulnerabilities exacerbate the risks associated with qualifying structural challenges—including by undermining the RSF's catalytic role for private climate finance—teams could consider the inclusion of governance-related conditionality to address these vulnerabilities. Structural governance issues would be best addressed in the concurrent UCT programs. Governance and corruption measures that are specific and critical to reduce risks to prospective BoP stability stemming from the qualifying longer-term challenges could become part of the RSF reform package.

Identifying Governance and Corruption Issues

1. The 2018 Enhanced Governance Framework guides the identification of governance vulnerabilities. In line with this framework, a centralized process systematically identifies governance weaknesses and corruption vulnerabilities that warrant attention for every member country. Based on this assessment, country teams are expected to substantively discuss governance and corruption vulnerabilities that are sufficiently severe within the context of a medium-term surveillance cycle (normally within three years).[1] This discussion should provide a candid and granular analysis, as well as concrete policy advice. The results of this centralized assessment also inform country engagement strategies for FCS, program conditionality (subject to the conditionality guidelines), and CD priorities.

2. Detailed resources are available to identify country-specific, granular information about governance and corruption issues that could guide development of Fund policy recommendations, program conditionality, and provision of capacity development:

- ***Centralized Governance Assessment.*** The Fund's governance assessment is a framework that identifies critical governance weaknesses and corruption vulnerabilities across the entire membership, using quantitative and qualitative information from governance-related indicators as well as qualitative information from experts. Governance weaknesses are identified across six core state functions most relevant to economic activity: (i) fiscal governance; (ii) financial sector oversight; (iii) central bank governance and operations; (iv) market regulation; (v) rule of law; and (vi) AML/CFT. The severity of corruption is also identified.
- ***Brainstorming Sessions.*** If the IMF country team sees value in conducting a deep dive into selected governance and corruption issues or would like to discuss any areas of interest, they are encouraged to request a governance brainstorming session with experts from functional departments and other specialized organizations such as the WB, as needed. Such a brainstorming session can be requested ahead of policy note preparation for the RSF

[1] Box 13 of the *Guidance Note for Surveillance Under Article IV Consultations* discusses further.

arrangement and the concurrent UCT program, can feature governance issues critical to underpinning climate related measures, and the session's results may be documented in a note.

- ***Governance Diagnostics***. Country authorities can also request a governance diagnostic assessment. These exercises, which have been co-led by FAD and LEG, are subject to resource availability and typically include staff from other relevant Functional Departments (e.g., MCM and FIN). Governance diagnostic reports provide in-depth, country-tailored assessments of governance weaknesses and corruption vulnerabilities. They draw heavily on local knowledge and expertise and provide a prioritized and sequenced set of measures to address these vulnerabilities. Most of them are published.[2]
- ***Country Engagement Strategies.*** The 2022 Strategy for FCS requires CES to be produced in all FCS—with careful consideration for corruption as a potential driver of fragility, a prime constraint to escaping fragility, and a factor in governance and corruption challenges in the design of overall engagements and specific reforms.
- ***Climate-related CD Reports.*** Governance and corruption vulnerabilities specific to climate-related measures can be derived from pertinent technical assistance reports, including CPD, C-PIMA, Green PFM, and other CD reports related to specific climate-related matters such as carbon pricing, fossil fuel subsidies, or green tax reforms.
- ***SRs including TA Reports***. For supplemental and more detailed information, staff can also leverage information from previous Article IV reports, which are expected to address severe governance weaknesses over a medium-term surveillance cycle (typically three years), program request and reviews, as well as TA reports such as the most recent FSAP, FSSR, PIMA, etc.

How Governance and Corruption Vulnerabilities can Hamper Climate Policies

3. **The effectiveness of climate-related policies can be hampered significantly by poor governance and corruption, especially given their longer-term nature.** The longer-term nature of the climate change measures envisaged under the RSF makes them particularly vulnerable to governance issues such as, vested interests, incomplete or non-functional accountability systems, other institutional weaknesses, and the resulting lack of ownership by policy makers. Further, climate adaptation measures are often linked to significant public expenditures and public project financing, making them vulnerable to public investment management weaknesses which can lead to significant inefficiencies and corruption. Limited institutional competencies and coordination, lack of transparency and governance rigidities undermine policy effectiveness and the ability to effectively implement complex and high-value investments, leading to inefficient use of resources, promoting elite capture of government processes, and excessive influence of vested interests. The management and utilization of natural resources (e.g., mining, oil and gas, forestry, fishing) has not only serious implications for the environment but can also raise significant governance and corruption concerns.[3]

[2] Links to published governance diagnostics can be found on the IMF's Governance and Anti-corruption page.

[3] For example, on the monitoring and auditing of: (i) the use of or proceeds from natural resources; and/or (ii) any provisions for site rehabilitation (which are commonly treated as deductible for CIT purposes) at the end of exploration/exploitation projects.

4. In addition to the channels above, governance and corruption vulnerabilities have a deleterious effect on the catalytic role of climate financing. Weak governance and widespread corruption, among other issues, could hinder private climate finance for climate investment, which the RSF supported reforms may otherwise help to catalyze. Governance reforms in the context of RSF arrangements and their accompanying UCT programs, especially in areas covered by the 2018 Enhanced Governance Framework, can help mitigate this risk.

Addressing Governance and Corruption Issues in the RSF Context

5. UCT programs should include governance and anti-corruption conditionality when critical to achieving program objectives. Pursuant to the 2018 Framework, addressing governance and corruption vulnerabilities should be a condition for the use of Fund resources if, given the severity of governance vulnerabilities, it is assessed that addressing the identified vulnerabilities is of critical importance for achieving the member's program objectives.[4]

6. Governance issues can be discussed and addressed within the 2018 governance framework. In the fiscal area, the framework recognizes that institutional arrangements and practices to foster transparency, enhance public spending efficiency, and improve revenue administration all reduce the risks of leakage from funds. In line with the framework, governance issues for climate policies are widely covered in the areas related to procurement, public investment management, and natural resource management. Design of specific governance- and corruption-related measures should draw on available diagnostics (¶2), should be appropriately sequenced and prioritized according to the principle of parsimony in conditionality.

7. Governance and corruption conditionality of a cross-cutting nature would fit well in the UCT program accompanying the RSF arrangement, while governance measures that are specific and critical to achieving the RST purposes could become part of the RSF reform package. Teams can apply a two-step approach: (i) Identify governance and corruption issues (section A) which can undermine effective implementation of RSF RMs or more generally contribute to macro-critical risks related to the qualifying longer-term structural challenges; (ii) Proactively engage with LEG and FAD on the design of appropriate governance and corruption measures to address these issues. The UCT-program accompanying the RSF arrangement would be the natural bedrock of broad governance reforms that would also support implementation of RSF reforms and prospective BoP stability (e.g., PPP frameworks). Governance-associated RMs would be appropriate in the RSF reform package if specifically relevant for addressing the longer-term qualifying challenge. For example, in cases where corruption is assessed as severe and implementation capacity low, RSF-supported RMs could focus on the role of Supreme Audit Institutions (SAIs) to support accountability regarding climate investments and climate related spending.

8. Governance-related conditionality needs to account for country context. For example, effectively addressing governance weaknesses in fragile and conflict-affected states requires

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[4] The 1997 Governance Policy also stipulates that approval of a new program or completion of reviews could be suspended or delayed on account of poor governance, if it threatens the successful implementation of the program.

consistent engagement over many years. Among other factors, Fund engagement should therefore account for the limited implementation capacity and incentives facing key stakeholders (political economy). For further details, please refer to the FCS GN (2022), Annex II.

9. Capacity Development can enhance traction and effectiveness of governance related conditionality. Well-sequenced CD to support effective implementation of governance measures can be critical to successful Fund-supported programs, especially in situations of limited resource availability or implementation capacity. This can be addressed through integration of pertinent CD offerings in the member's CD priorities, coordination with other CD providers, or within the program context.