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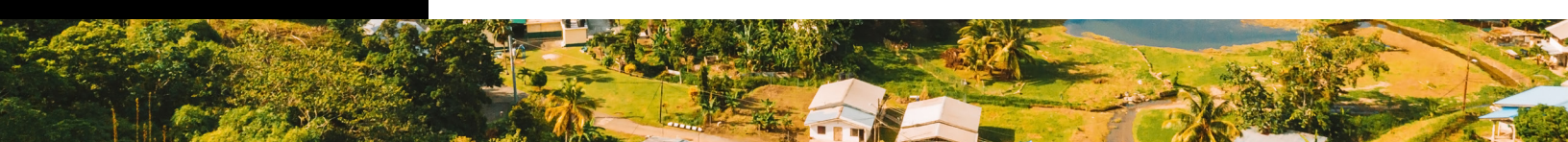
Strengthening the International Monetary Fund's Resilience and Sustainability Trust to Promote a Just, Global Climate Transition

EARLY EVIDENCE FROM BARBADOS AND JAMAICA

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EXECUTIVE SUMMARY

As the only multilateral, rules-based institution responsible for promoting global macroeconomic and financial stability, the International Monetary Fund (IMF) has a central role to play in helping its member countries urgently unlock and mobilize substantial and affordable climate financing. In this respect, the IMF must be commended for expanding and complementing its lending toolkit by creating the Resilience and Sustainability Trust (RST) in April 2022. Through the RST's lending arm, the Resilience and Sustainability Facility (RSF), the Fund provides concessional, longer-term financing to help low- and vulnerable middle-income countries address key structural challenges such as climate change and pandemic preparedness.





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The IMF's Executive Board approved the first RSF arrangement in November 2022. Since then, there has been relatively strong demand for the facility. By early March 2023, the Board had in record time approved five initial "pilot" RSF arrangements for Costa Rica, Barbados, Rwanda, Bangladesh and Jamaica. By the end of December 2024, the number of RSF programs had grown to 21, of which more than half were in Africa. All these arrangements focus exclusively on reducing risks to prospective balance of payments stability arising from climate change.

This study provides an early-stage evaluation of the RSF experiences of the two pilot Caribbean Small Island Developing States (SIDS) - Barbados and Jamaica - and draws lessons for the design of future RSF-supported programs to ensure they adapt to the specific and unique circumstances of IMF member countries.

Key Findings:

- Both Barbados and Jamaica experienced substantial increases in conditionalities when their RSF arrangements were considered along with their accompanying IMF programs.
 - Barbados was required to meet roughly a little over eight structural conditions per year when its RSF arrangement was included with its Extended Fund Facility (EFF)-supported program over the 2022-2025 program period.
 - Compared to Barbados' previous 2018-2022 EFF program, this represents an increase of 60 percent from around five structural conditions per year.
 - In the case of Jamaica, the number of structural conditions increased three-fold to almost nine per year when its RSF arrangement was included with its concurrent 2023-2025 Precautionary and Liquidity Line (PLL) arrangement, compared to an average of 3 conditions per year under the previous 2016-2019 Stand-By Arrangement (SBA).
- The degree and durability of structural conditions in RSF arrangements for both Barbados and Jamaica are mainly of low- to medium-depth.
 - In the case of Barbados, its RSF-supported program is almost equally split between low- and medium-depth conditionality which together account for 90 percent of the total policy reform measures. One high-depth measure makes up the remaining 10 percent of total reform measures.
 - Similarly, for Jamaica, its RSF arrangement is equally balanced between low- and medium-depth conditionality measures. Unlike Barbados, Jamaica's RSF arrangement does not have any high-depth conditionality measures.
- Although the Jamaican authorities have been working assiduously to catalyze private climate financing, by the end of August 2024, when Jamaica's RSF arrangement was completed, no such private flows had taken place, despite Jamaica being under an RSF arrangement for two years and had met all of its RSF reform measures. After being under



an RSF arrangement for two years, Barbados, on the other hand, was finally able to attract private climate finance flows through its debt for climate resilience swap operation.

This study derives a series of recommendations for the IMF to strengthen future RSF programs in other Caribbean SIDS and climate vulnerable states.

Key Policy Recommendations:

The IMF and its member countries should:

- **Consult civil society and other stakeholders** to not only strengthen country ownership with respect to RSF arrangements in the Caribbean and beyond, but also to put climate policy reforms with a just and equity perspective on the negotiating table for consideration.
- **Focus on a few ambitious, high-depth reforms** that stand a reasonable prospect of successfully building economic resilience to natural disasters and climate change in the Caribbean and in other vulnerable developing countries.
- **Candidly highlight potential risks of lower private climate flows** since the RSF's catalytic character is still unproven. The IMF needs to advise member countries on fiscal adjustment measures beyond those contemplated in concurrent IMF-supported programs, if their RSF programs fail to catalyze private climate flows as anticipated.
- **Establish a link between debt and climate finance** to help Caribbean and other nations escape from the vicious 'middle-income' country debt-climate change trap. This means deploying more RST resources to create greater fiscal space for climate action by linking debt relief options such as debt pause clauses, debt restructuring and reprofiling, and debt swaps to investments in green resilience policies aligned to a country's national climate and development plans.
- **Pay more attention to the critical interplay between climate risks and nature.** Future RSF-supported programs in the Caribbean should actively consider sustainable financial mechanisms aligned to the rich and unique biodiversity of these small islands such as blue carbon offset-credits to incentivize the protection, restoration and management of valuable coastal ecosystems. The Kunming-Montréal Global Biodiversity Framework could form the basis for deeper nature policy reform measures. In addition, the task force on Biodiversity Loss and Nature-related Risks of the Network for Greening the Financial System (NGFS) could guide action by regional central banks on future greening of the Caribbean's financial systems.

The IMF has commendably taken important steps in creating the RST, and while the 2024 interim review of the RST represented some progress, many of the major shortcomings of the RST remain in place. The comprehensive review of the RST planned for 2026 presents a vital opportunity for the IMF to not only show faster and bolder leadership to make the RST a transformational part of the global financial architecture, but also to ensure the Fund's future relevance in promoting a just, global climate transition.



INTRODUCTION

Emerging markets and developing economies (EMDEs) require considerable capital investments to accelerate the shift to low-carbon economies in line with the Paris Agreement, enhance resilience to climate shocks, address loss and damage, restore biodiversity loss and navigate cross-border spillovers associated with the global energy transition. Although figures vary on the volume of climate finance, the consensus estimate centers around the Independent High-Level Expert Group on Climate Finance, which projects that EMDEs other than China will need around \$1 trillion per year in external finance by 2030 (Songwe et al. 2022). This is well beyond the restricted fiscal capacities of many EMDEs, especially those with high and rising debt burdens that further constrain their borrowing space and debt sustainability prospects. As the only multilateral, rules-based institution responsible for promoting global macroeconomic and financial stability, the International Monetary Fund (IMF) has a central role to play in helping its member countries to urgently unlock and mobilize substantial and affordable climate financing flows (Task Force 2023).

In this respect, the IMF must be commended for moving from *ad hoc* initiatives to a more systematic integration of climate change into its surveillance, technical assistance and lending functions (IMF 2021), especially expanding and complementing its lending toolkit by creating the Resilience and Sustainability Trust (RST) in April 2022. The RST is the IMF's new lending facility designed to offer concessional, longer-term financing to assist low- and vulnerable middle-income countries in addressing key structural challenges such as climate change and pandemic preparedness (IMF 2022a). Resources for the RST mainly come from voluntary re-channeling by the largest economies of their Special Drawing Rights (SDRs) as part of the Fund's 2021 historic SDR allocation worth \$650 billion to help its members cope with the unprecedented COVID-19 pandemic shock.¹ These RST resources finance the Resilience and Sustainability Facility (RSF), the lending arm of the Trust.

Specifically, the RSF aims to strengthen members' prospective balance of payments stability by promoting economic resilience and sustainability through (i) support for policy reforms that reduce macro-critical risks stemming from structural challenges; and (ii) augmenting longer-term policy space and financial buffers to mitigate these risks. Based on defined per capita income and population thresholds,² some 143 countries or three-quarters of the IMF's 190 members are eligible to receive RSF financing. This includes all low-income countries, all developing and vulnerable small states, and lower middle-income countries. To qualify for an RSF arrangement, member countries need to have a package of high-quality

¹ In August 2021, the IMF's Executive Board approved a historic allocation of Special Drawing Rights (SDRs) worth \$650 billion – the largest in the IMF's history – to provide global liquidity to member countries struggling to cope with the fiscal impact of the extraordinary COVID-19 pandemic. However, since the newly created SDRs were allocated to members in proportion to their existing IMF quotas, more than 60 percent of the SDRs went to the advanced economies which did not need them. Sub-Saharan Africa received roughly 5 percent of the SDR allocation, while only about 3.5 percent went to low-income countries and less than 1 percent went to the Caribbean. As result, the largest economies pledged to voluntarily re-channel \$100 billion of their SDR allocations to countries in greater need of them.

² The IMF Executive 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, and its per capita GNI in 2020 (or 2019, if 2020 data is not available) does not exceed 25 times the 2021 IDA operational cutoff.



reform measures (conditionality) related to qualifying longer-term structural challenges, a concurrent on-track financing or non-financing IMF-supported program with “upper credit tranche” (UCT)-quality policies in place with at least 18 months remaining in the program at the time of approval of the RSF arrangement, and sustainable debt and adequate capacity to repay the Fund (Pazarbasioglu and Ramakrishnan 2022). The starting point for access determination under the RSF is a norm of 75 percent of a country’s IMF quota, with an overall access cap set at 150 percent of quota or up to SDR 1 billion, whichever is smaller. RSF loans have a long maturity of 20 years with a grace period of 10½ years during which no principal is repaid, and RSF financing is provided on highly concessional terms especially to the IMF’s lowest income member countries which pay an interest rate of around 1 percent.

Speaking during a Joint Press Conference at the end of the IMF Managing Director’s visit to Barbados in July 2022, Prime Minister Mottley of Barbados, who has emerged as a global champion for reform of the global financial architecture through her Bridgetown Initiative, endorsed the RST as a major complement to the IMF’s lending toolkit. She had previously called on the IMF to provide low-interest, long-term financing to help small island states mitigate the disproportionate effects of the climate crisis which they did not create. Prime Minister Mottley indicated that, with its substantially lengthy maturity and grace period and greater concessionality, the RST would be good a source of funding for middle-income countries like Barbados which have been locked out of concessional development capital for most of the past three decades and must rely on high-cost bond financing from the international capital markets (IMF 2022b). Nigel Clarke, Jamaica’s former Finance Minister and now an IMF Deputy Managing Director, was also present at the press conference. He said that the RST breaks new ground in the international financial architecture, especially in recognizing that middle-income countries such as Jamaica have other aspects of economic vulnerability not captured in traditional per capita income metrics that now make these countries eligible for concessional financing.³

Although these two top Caribbean officials promoted the RST as a key innovation in both the climate finance and balance of payments architectures, the Trust’s current design features may not have the intended transformational impact on the IMF’s developing country membership. In an open letter to G20 Finance Ministers and Central Bank Governors, several global civil society organizations laid out some principles which they believed should guide a fair and transparent re-channeling of SDRs (Oxfam International 2021). One principle was for the IMF to refrain from linking the re-channeling of SDRs to policy conditionality, mainly to maintain the conditionality-free characteristic of SDRs. However, the IMF violated this conditionality-free principle in RSF arrangements. Structural conditionality is intrinsic to RSF lending programs and is linked to specific policy reform measures that countries are required to implement over the program period. An RSF policy reform measure can be a single policy action, or a set of closely related policy actions that make significant progress towards reducing risks to prospective balance of payments stability arising from qualifying structural challenges.

³ On August 26, 2024, IMF Managing Director Kristalina Georgieva announced that Nigel Clarke had been nominated as one of the Fund’s three Deputy Managing Directors. The nomination was historic, as Clarke is the first Caribbean citizen to be named to such a high post at the IMF, and this act partly reflects Jamaica’s successful track record with IMF-supported programs over the past decade. Mr. Clarke assumed the role of Deputy Managing Director at the IMF on October 31, 2024.



The IMF's own Independent Evaluation Office in an assessment of structural conditionality in IMF-supported programs suggests that most conditions had little structural depth and only about half of them were met on time (IEO 2021). Furthermore, academics, research centers and global civil society groups have found that IMF conditionality has a long history of harming the poorest and increasing inequality (Stubbs et al. 2021), compromising gender equality and women's rights (Fresnillo 2020), and undermining human rights of all types (Centre for Economic and Social Rights 2018). Even where the Fund intends to increase collaboration with the World Bank to compensate for its limited expertise on climate change and pandemics, its Independent Evaluation Office finds that there are "challenges with cooperation with the World Bank and other partners in designing and monitoring IMF structural conditionality in areas outside of the IMF's core expertise" (IEO 2021).

Apart from criticism coming from the IMF's own watchdog, the Task Force on Climate, Development and the IMF (Task Force) published a policy brief which offered five design features to make the RST an important, transformational part of the global financial architecture (Task Force 2022). The Task Force recommended that the RST should have broad eligibility criteria; offer concessional terms; prioritize country ownership and avoid conditionalities; ensure collaborative governance; and build for scale. The Task Force also recommended that the IMF remove the requirement for access to the RSF to have a concurrent Fund program since this may restrict many member countries that wish to build resilience to macro-critical climate shocks but do not wish to have an active IMF program, and it may reduce the overall effectiveness of the push to re-channel SDRs (Task Force 2022). In addition, Mariotti (2022) warned that the RST could further widen the undue influence of IMF conditionality on countries' climate change and pandemic preparedness policy space.

Despite these concerns, the RST became operational in October 2022 and the IMF's Executive Board approved the first RSF arrangement in November 2022. Since then, there has been relatively strong demand for the facility. By early March 2023, the Board had in record time approved five initial "pilot" RSF arrangements for Costa Rica, Barbados, Rwanda, Bangladesh and Jamaica (see Table 1). By the end of June 2024, the number of RSF programs had grown to 20 but remained well below the average of 33 active RSF programs a year that the IMF had initially estimated (IMF 2022a). More than half of these RSF arrangements were in Africa. By the end of December 2024, the IMF's Executive Board approved an RSF program for Papua New Guinea, the first RSF arrangement in the Pacific region, bringing the total number of approved RSF programs to 21. All these arrangements focus exclusively on reducing risks to prospective balance of payments stability arising from climate change; the IMF's Executive Board has yet to approve RSF programs focused on pandemic preparedness.⁴

⁴ Gupta and Brown (2023) offer three plausible reasons why these early RSF arrangements do not include measures to prepare for future pandemics. First, country authorities believe that with COVID-19 receding, the next pandemic might be farther into the future relative to the immediacy of the climate emergency, although this belief may be in error, as the World Health Organization (WHO) declared a public health emergency over Mpox in early August 2024 when the disease had spread rapidly to multiple African countries where it had never been seen before. Second, both IMF staff and government officials do not have sufficient expertise about the policies needed for pandemic preparedness. Finally, the IMF, World Bank and WHO have not issued guidance on preparing for future pandemics that could form part of the policy measures in an RSF-supported program. Only in early October 2024 did the three institutions agree on broad principles for cooperation on pandemic preparedness, within their respective mandates and policies.



TABLE 1: IMF RSF ARRANGEMENTS IN FIVE PILOT COUNTRIES

Date of Approval	Country	Concurrent Program	RSF	
			Amount US\$ mn	% of Quota
Nov. 14 th 2022	Costa- Rica	36-month Extended Fund Facility (EFF)	725	150
Dec. 7 th 2022	Barbados	36-month Extended Fund Facility (EFF)	189	150
Dec. 12 th 2022	Rwanda	36-month Policy Coordination Instrument (PCI)	319	150
Jan. 30 th 2023	Bangladesh	42-month Extended Credit Facility (ECF)/ Extended Fund Facility (EFF)	1,400	94
Mar. 2 nd 2023	Jamaica	24-month Precautionary and Liquidity Line (PLL)	765	150

Source: www.imf.org

In early May 2024, the IMF’s Executive Board completed an interim review of the initial experience of countries with the RST, but regrettably the Board simply tweaked a few operational RST design issues, falling far short of making changes that are necessary for the RST to fulfill its mandate. The IMF plans to undertake a more comprehensive review of the RST during 2026-2027. Going forward, the key question is how can the IMF ensure that the RST addresses a major gap in the global financial architecture, namely balance of payments support for prospective climate shocks and green transitions to foster resilient and sustainable growth over the medium-term?

In this regard, this study provides an early-stage evaluation of the RSF experiences of the two pilot Caribbean Small Island Developing States (SIDS) - Barbados and Jamaica - and draws lessons for the design of future RSF-supported programs to ensure they adapt to the specific and unique circumstances of IMF member countries. In December 2022, Barbados became the first Caribbean SIDS to enter into an RSF arrangement, followed by Jamaica in March 2023. The study is not intended to provide a comprehensive evaluation of the impact of these two RSF arrangements since they are medium-term programs whose policy impacts are still evolving (24 months in the case of Jamaica, which reached completion at end-August 2024 and 36 months for Barbados, which is expected to end in December 2025), but rather to provide insights into the climate conditionality and catalytic role of RSF policy reforms. We anticipate the paper’s findings and recommendations to inform the comprehensive review of the RST which the IMF plans to undertake in 2026-27.

The rest of the study is organized as follows. Section 2 documents the vulnerability to natural disasters and climate change of Barbados and Jamaica, respectively. Section 3 discusses the link, if any, between each country’s national climate change policies and proposed RSF policy reforms. Section 4 evaluates the climate conditionality in RSF arrangements for both Barbados and Jamaica, while Section 5 assesses the potential catalytic financing impact of the two RSF-supported programs. Section 6 provides some policy recommendations for improving the IMF’s future RSF engagement with the Caribbean and other small states. Finally, Section 7 concludes the study.



BARBADOS

Climate Risk Profile

Barbados is located on the eastern most edge of the Caribbean archipelago, bounded on the east by the Atlantic Ocean and on the west by the Caribbean Sea (see Figure 1). The predominantly flat island has a total land area of 432 square kilometers, but its Exclusive Economic Zone (EEZ) is some 430 times larger and represents a significant untapped 'blue economy' resource.⁵ Barbados is most vulnerable to sea level rise, storm surge, increased frequency and intensity of tropical storms and hurricanes, and, more recently, influxes of sargassum seaweed (GoB 2021a). Barbados has a unique hydrogeology which makes the small coral limestone island almost entirely dependent upon scarce groundwater resources for its national water supply. Slow onset environmental impacts such as prolonged drought worsen the country's water scarcity (FAO 2016). With an estimated population of 281,995 persons in 2023, Barbados is one of the most densely populated islands in the Caribbean, with about 660 inhabitants per square kilometer.

FIGURE 1: MAP OF THE CARIBBEAN



Source: www.map.com

Like other Caribbean SIDS, Barbados has historically contributed very little to global greenhouse gas (GHG) emissions, but the island is becoming increasingly vulnerable to the potential impacts of natural disasters and climate change. The ND-GAIN Country Index, a project of the University of Notre Dame Global Adaptation Initiative (ND-GAIN), summarizes

⁵ The concept of the 'Blue Economy' centers on utilizing oceans for their full economic potential while at the same time ensuring environmental sustainability of marine ecosystems. The World Bank 2016 report *'Toward a Blue Economy: A Promise for Sustainable Growth in the Caribbean'* estimated that Caribbean waters generated \$407 billion in 2012, which represented more than 17 percent of Caribbean GDP, including mainland countries.



a country's vulnerability to climate change, on the one hand, and its readiness to improve resilience, on the other hand. The more vulnerable a country is to climate change the lower its score; while the more ready a country is to improve its resilience, the higher its score. Barbados has a low vulnerability score and high readiness score. The 2022 ND-GAIN Country Index ranked Barbados 128th out of 187 countries most vulnerable to climate change but the 29th most ready country to implement resilience solutions, resulting in an overall world rank at 30th position. On this basis, as shown in Table 2, Barbados ranks 1st out of the 13 Caribbean SIDS assessed on the ND-GAIN Country Index and appears very well positioned to adapt to its climate change vulnerabilities.

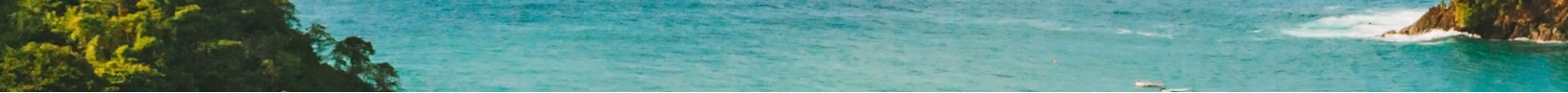
TABLE 2: CARIBBEAN SIDS: ND-GAIN 2022 COUNTRY RANKINGS (OUT OF 187 COUNTRIES)

Country	Vulnerability	Readiness	Overall World Rank
Barbados	128	29	30
Grenada	115	43	46
St. Lucia	122	75	63
Dominica	67	51	69
St. Vincent & Grenadines	80	60	71
Jamaica	94	96	88
Antigua & Barbuda	61	78	90
The Bahamas	72	92	97
Trinidad & Tobago	125	135	100
Suriname	92	141	112
Guyana	83	131	112
Belize	64	138	120
Haiti	43	187	177

Source: University of Notre Dame (2022).

Note: St. Kitts and Nevis is not part of the ND-Gain Country Index.

Barbados is considered highly vulnerable to climate change due to its heavy dependence on the “sun, sand and sea” brand of tourism to drive economic growth and generate foreign exchange earnings. Prior to the COVID-19 pandemic, tourism in Barbados accounted for close to 20 percent of gross domestic product (GDP) in 2019, directly employed over 12 percent of the labor force and generated about 55 percent of total foreign exchange. Tourism is also connected to activity in the wholesale and retail sectors, indicating its broader economic contribution to growth and development. Many tourism resorts along beaches on the southwest and west coasts of Barbados are situated close to the shore or in low-elevation coastal zones and are at flooding risk due to rising sea levels (Mycoo 2014). The Coastal Zone Management Unit of Barbados projects that 70 percent of the hotels located on the west coast of Barbados are likely to suffer from flooding and related damage (GoB 2010). Uyarra et al. (2005) found that tourists would be unwilling to visit or return to Barbados if the beaches were further affected by sea level rise and erosion.



Coral reefs are important coastal assets for small islands. They not only support recreational and tourism activities but also play a key role in ecosystem-based adaptation to climate change, absorbing energy from waves and protecting coastal properties and beaches from flooding events and hurricanes. Many fisheries exist only due to the presence of coral reefs. Estimates from the International Coral Reef Institute show that the 92 km² of coral reefs along the west coast of Barbados provide a tangible annual contribution of \$160 million to the country's GDP (ICRI 2018). However, this important coastal asset is facing threats from climate change. Mass coral bleaching caused by abnormally high sea surface temperatures has been a primary cause of coral reef destruction in Barbados. In August 2005, severe coral bleaching affected all reef habitats and nearly all coral taxa and an average of 71 percent of all coral colonies experienced bleaching (Oxenford et al. 2008). According to scientists from the National Oceanic and Atmospheric Administration (NOAA), the world is currently experiencing another global coral bleaching event due to rising sea surface temperatures. This is the fourth global event on record and the second in the last decade (NOAA 2024). A decline in the tourism industry from climate change would negatively affect Barbados' economic growth, employment generation, public finances, debt sustainability and financial stability (UNDP 2020).

Water is a vital resource for Caribbean countries and their biggest users, the agriculture and tourism sectors. Although Barbados is surrounded by beautiful turquoise seawater, it is struggling with potable water scarcity. The United Nations defines 'water scarce' countries as those with less than 1,000 cubic meters per capita of renewable water resources a year. Barbados' situation with only 350 cubic meters per capita is especially grave, ranking it as the world's 15th most water scarce country (UNEP 2012). Rapid depletion of freshwater aquifers, an increase in saline intrusion into existing freshwater reserves, and pollution of groundwater resources and coastal seawater are already shrinking the island's limited water supply, highlighting the need to urgently develop sustainable water resources and practices.

Due to its location on the easternmost edge of the Caribbean archipelago, Barbados has been less affected by tropical storms than other Caribbean SIDS, but it could become more vulnerable to these climate extreme events in the future, in line with the projected increase in the frequency and intensity of tropical storms and hurricanes across the Caribbean region (CDB 2020). After Hurricane Janet hit Barbados in 1955 causing damages amounting to 14 percent of GDP, Hurricane Elsa⁶ in 2021 became the first hurricane to hit the island in 65 years and caused damages of about 1 percent of GDP. More frequent and severe tropical storms and hurricanes hitting Barbados may sharply reduce tourism inflows, worsen balance of payments stability and adversely impact other sectors such as transportation and retail.

Although Barbados' contribution to the global emissions is insignificant, its dependence on imports of fossil fuels, mostly heavy fuel oil, for electricity generation exposes it to volatility in international energy prices and increases the island's transition risks. This transition vulnerability can exacerbate prospective balance of payment shocks and compromise fiscal

⁶ Hurricane Elsa came on the heels of the eruption of the La Soufrière volcano in neighbouring St. Vincent in April 2021, which blanketed Barbados in ash, severely affected the agricultural sector, shuttered the only airport and caused respiratory distress for many people.



sustainability. In 2023, fuel imports represented almost 25 percent of Barbados' imports of goods. According to the Ministry of Transport, Works and Maintenance, there has been a sharp rise in the volume of combustible engine-based vehicles in Barbados within the last few decades, estimated to be in excess of 110,000 (GoB 2019). This generates serious traffic congestion and high per capita petrol consumption, with negative environmental consequences on an already very small, crowded island. The high and rising cost of fuel imports and related inflationary pressures following Russia's war in Ukraine highlight the urgent need for Barbados to access sufficient volumes of climate finance for its transition to renewable energy.

To tackle these climate risks, Barbados has developed ambitious mitigation and adaptation policies. Barbados' main mitigation policy focuses on transitioning to renewable energy, primarily solar power. Half of the island's households rely on solar-powered water heaters, solar power is about 20 percent of the total installed electricity capacity, and there is a growing electric vehicle market. In its updated 2021 Nationally Determined Contributions (NDC) Report, Barbados has committed to an aspirational target to become the first 100 percent green and fossil fuel free island-state in the world by 2030 (GoB 2021a). While the transition to renewable energy is progressing, the IMF suggests that Barbados is more likely to achieve this target by 2035, five years later than initially planned (IMF 2024c).

Given Barbados' increasing exposure to natural disasters and climate change, the authorities intend to accelerate adaptation measures by improving structural, financial and post-disaster resilience. Among the policies to build structural resilience is the 2021 Physical Development Plan (PDP), which will be used to guide future land use, settlement patterns, food production, infrastructure, mobility and environmental management (GoB 2021b). The PDP is operationalized through the Roofs 2 Reefs program, an island-wide initiative which encourages integrated public and private investments in renewable energy technologies, rainwater harvesting and the use of sustainable nature-based solutions to limit runoff into the coastal environment.

Barbados has developed a comprehensive financial resilience framework that provides liquidity for relief and reconstruction in the aftermath of natural disasters while attempting to safeguard public finances. The financial resilience framework has three dimensions. First, Barbados has parametric insurance protection against natural disaster risks through the Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company (CCRIF), the Caribbean's sovereign risk insurance pool. Since its inception in June 2007 to November 2024, CCRIF has made payouts of just over \$20.5 million to Barbados, covering tropical cyclones and excess rainfall.⁷ Second, Barbados has issued state-contingent bonds to provide debt service relief in extreme events. During its 2018-2019 debt restructuring programs, Barbados included natural disaster clauses into new domestic and external bonds.⁸ Third,

⁷ It is important to note that no climate vulnerable country that is part of a regional disaster risk insurance pool such as CCRIF can afford coverage at optimal insurance levels and so the mobilization of premium support financing is important to encourage and support these countries to afford optimal natural disaster risk coverage.

⁸ These natural disaster clauses allow for the capitalization of interest and deferral of scheduled amortization falling due over a two-year period following the occurrence of a major natural disaster. For the new domestic bonds, the trigger for a natural disaster event is a payout above \$5 million by CCRIF. For external debt instruments the trigger for the natural disaster clause is also linked to CCRIF payouts, using thresholds depending on the type of natural disaster (hurricane, flooding or earthquake).

Barbados has a Catastrophe Fund which is financed by the National Insurance Scheme (NIS), to assist low-income homeowners whose timber houses are uninsurable in the event the house is damaged or destroyed by a catastrophe.

Barbados' post-disaster response and recovery frameworks are relatively well developed and allow for a quick response to humanitarian needs after a natural disaster. The authorities' response to events such as the COVID-19 pandemic, volcanic ashfall from nearby St. Vincent in April 2021 and the passage of Hurricane Elsa in July 2021 demonstrated that Barbados has relatively efficient institutions to assess damage, quickly respond to disasters and develop reconstruction plans. However, the country's severely limited fiscal space constrains its ability to expand its social safety net in cases of climate-related shocks.

Barbados' 2022 RSF Loan

Arguably, the genesis for Barbados being among the first five pilot countries to access the IMF's RSF can be traced to Prime Minister Mottley's passionate speech at the opening ceremony of the 26th Conference of the Parties at the UN Climate Change Conference (COP26) in Glasgow, Scotland in November 2021. During that speech, Prime Minister Mottley called upon the IMF to provide affordable, long-term financing to help small island states deal with the impacts of climate change that pose an existential threat to their future. As a result, even before the RST had become officially operational, an IMF team had already visited Barbados during September 2022 to discuss the authorities' request for access under a new Extended Fund Facility (EFF) and the IMF's newly approved RSF arrangement.

Around the time of these negotiations, the broad-based easing of pandemic restrictions and resumption of major tourism festivals were helping to support a nascent economic recovery in Barbados (see Table 3). The country's performance under its four-year EFF program spanning 2018-2022 was strong, successfully completing seven reviews in a timely manner, and the authorities were making good progress implementing their comprehensive Barbados Economic Recovery and Transformation (BERT) plan, despite a series of severe economic shocks which posed major challenges for the tourism-dependent economy (IMF 2022c). These shocks included the prolonged COVID-19 pandemic, twin natural disasters

TABLE 3: BARBADOS: SELECTED ECONOMIC INDICATORS, 2019-2023

	2019	2020	Est.	Projections	
			2021	2022	2023
Real GDP (%)	-1.3	-13.7	1.1	10.0	4.8
Inflation (%)	4.1	2.9	3.1	9.4	5.8
Primary Balance (% of GDP)	6.2	-0.9	-0.9	2.0	3.5
Public Debt (% of GDP)	123.0	139.8	135.1	122.5	114.6
External Current Account Balance (% of GDP)	-2.8	-5.9	-10.9	-10.1	-8.9
Gross International Reserves (US\$ Mn)	740.5	1,330.3	1,529.4	1,426.2	1,510.7

Source: IMF (2022c).



in the form of volcanic ashfall from neighboring St. Vincent in April 2021 and the passage of Category 1 Hurricane Elsa in July 2021, and the geopolitical uncertainty associated with Russia's invasion of Ukraine in February 2022.

Through the achievement of substantial primary surpluses, fiscal management continued to focus on keeping public debt on a clear downward trajectory, notwithstanding the temporary jump in COVID-19 related spending. In 2021, Barbados was the second most heavily indebted Caribbean SIDS, with public debt at 135 percent of GDP, despite the authorities undertaking two sovereign debt restructurings (both foreign and domestic debt) in 2018 and 2019. Gross international reserves had increased to nearly \$1.5 billion by end-September 2022, from a historical low of \$220 million in 2018, providing an adequate reserve buffer to support the long-standing exchange peg to the US dollar. Over the medium-term, Barbados' economic recovery was expected to continue, supported by a rebound in tourism and related activities, even though downside risks to this positive outlook remain high, including the island's exposure to climate change risks.

Subsequently, in late September 2022, the IMF announced that Barbados had become the first country to reach staff-level agreement to access the IMF's RSF, and in early December 2022, Barbados became the first Caribbean country and the second "pilot" country after Costa Rica to be awarded RSF funding. The IMF Executive Board approved an RSF arrangement for Barbados in an amount of \$189 million, together with a concurrent 36-month arrangement under the EFF in an amount of \$113 million (IMF 2022c). Barbados' successor EFF program builds on the achievements of the previous 2018-22 EFF and draws on the authorities' updated economic reform program, known as BERT 2022. Barbados' RSF access is at the maximum amount of 150 percent of quota, which is twice the normal level of 75 percent of quota. IMF staff justified this high access on the strength and breadth of proposed RSF reforms and that they assessed Barbados as having sustainable debt and an adequate capacity to repay the Fund.

Following the IMF's Executive Board discussions, Mr. Kenji Okamura, Deputy Managing Director and Acting Chair of the Board said, "The arrangement under the RSF will provide financing to support the country's climate change adaptation and mitigation efforts, and support Barbados' ambitious goal of transitioning to a fully renewable-based economy by 2030" (IMF 2022c). Along with the corresponding EFF review, the RSF disbursements will be provided during the March 2023 to March 2025 period in five equal disbursements conditional upon completing five periodic RSF reviews with the aim of addressing 10 policy reform measures.

Barbados' RSF policy reform areas

Barbados' RSF arrangement has ten policy reform measures identified in close collaboration with the World Bank. Although all reform measures are relevant to the country's circumstances and consistent with the broad objectives spelled out in the authorities' national development and climate plans, successfully implementing many RSF reforms together with the conditions of the concurrent program could stretch both the authorities and the IMF staff's expertise. Most of the reform measures would provide the Government of Barbados

with the encouragement to execute or operationalize existing climate plans and policies related to building adaptation resilience to natural disasters and climate change as well as reducing greenhouse gas emissions and transition risks. These climate reform measures can be summarized under three pillars, as shown in Table 4.

Pillar 1 focuses on five climate adaptation and public financial management reform measures to build resilience to natural disasters and climate change, and to contain their adverse impact

TABLE 4: BARBADOS: RSF POLICY REFORM MEASURES

Reform Area	Structural Benchmark	Type	Depth	Theme
Pillar 1: Reform measures to build resilience to natural disasters and climate change	RM1. Adopt a set of measures consisting of: (i) Government to approve the Planning and Development Act to improve the climate resilience of roads through improved drainage and other interventions; (ii) Government to table in Parliament the Water-Reuse Bill, incorporating the new water re-use policy; (iii) Government to fully operationalize the National Environmental and Conservation Trust.	Fiscal	High	Climate Adaptation
	RM2. Government to (i) include a fiscal risk statement focusing on climate change risks in the budget for FY2023/24; and (ii) approve Procurement Act Regulations to enhance efficiency and effectiveness of public expenditure and the support 'green procurement'. The Act should include the requirements to publish beneficial ownership information of bidding companies.	Fiscal	Medium	Public Financial Management
	RM3. Government to approve the Comprehensive Disaster Risk Management Policy to support mainstreaming of comprehensive domestic resource mobilization (DRM) principles into ministry and agency budget planning, ensuring resilience in government and business continuity after a disaster event.	Other	Medium	Public Financial Management
	RM4. Government to table an amended Prevention of Floods Act in Parliament, incorporating the new Stormwater Management Plan.	Other	Low	Climate Adaptation
	RM5. Government to implement reforms to strengthen integration of climate concerns into the public financial management (PFM) process, based on a comprehensive diagnostic evaluation.	Fiscal	Low	Public Financial Management
Pillar 2: Climate mitigation reform measures (reduction of GHG emissions)	RM6. (i) Government to lower import taxes for electric vehicles and (ii) Government to close remaining regulatory gaps in licensing policy/approvals framework to increase investments into battery storage technologies to meet energy demand.	Fiscal	Medium	Climate Mitigation
	RM7. Cabinet approval for the Energy Efficiency and Conservation Policy Framework to reduce energy use of all government agencies and develop efficient public lighting.	Fiscal	Medium	Climate Mitigation
	RM8. Parliament to adopt the New Electricity Supply Act to (i) enhance competition in the electricity market and (ii) introduce local participation in renewable energy investment.	Other	Medium	Climate Mitigation
Pillar 3: Reform measures to mitigate transition risks	RM9. The Central Bank of Barbados (CBB) to adopt a strategy with time-bound guideposts for building capacity to monitor and assess climate change risks, including building a data collection mechanism and joining the Network for Greening the Financial System.	Financial	Low	Climate Finance
	RM10. The CBB to include climate change risk in their bank stress testing exercise with support from multilateral development banks (MDBs) including through relevant capacity development.	Financial	Low	Climate Finance

Source: IMF (2022c).




on growth, public debt and the balance of payments. Much of the cost of climate change to Barbados has been due to infrastructure damage, mainly through widespread flooding from the passage of nearby tropical storms and hurricanes. Therefore, Barbados' first RSF reform measure aims at reducing climate-related road infrastructure losses. Closely linked to this is an updated water re-use policy to improve the use of rainwater and treated wastewater while reducing the dependence on groundwater supplies, since Barbados remains one of the most water-stressed countries in the world. The Ministry of Finance plans to integrate natural disaster risks into fiscal planning by creating climate budget tagging guidelines and systems to better understand climate-related procurement resource allocation and prioritization. Eventually, the Barbados authorities intend to integrate these climate change adaptation measures into the country's natural disaster risk management policy framework.

Pillar 2 focuses on three climate mitigation reform measures to support the Barbados authorities' ambitious goal of transitioning to a 100 percent renewable energy-based economy by 2030. With renewable energy sources (mainly solar) providing just over one-fifth of Barbados' energy needs in 2022, the RSF decarbonization reform measures will focus on encouraging further private sector renewable power generation and electrification of transport, including incentives to purchase electric vehicles and support investments in battery storage technologies.

The third and final Pillar 3 has two reform measures aimed at reducing transition risks in the financial sector. These reforms are meant to help incentivize private climate financing. While the Government of Barbados is seeking to green government expenditures and revenue generation, the Central Bank of Barbados will seek to strengthen the financial sector's resilience in the transition to a low-carbon economy. This includes joining the Network for Greening the Financial System (NGFS), a network of central banks and financial supervisors that aims to accelerate the scaling up of green finance and develop recommendations for central banks' role in climate change.

Between June 2023 and June 2024, the IMF's Executive Board completed three reviews of Barbados' EFF/RSF programs. The conclusion of these reviews allowed the Barbados authorities to receive total disbursements of about \$57 million under the EFF and about \$112 million in RSF funding (IMF 2023c; IMF 2023f; IMF 2024c). The authorities completed RSF reform measures to improve the climate resilience of roads, taken steps to support climate risks in the budget, approved a green/public procurement framework, incorporated the National Comprehensive Disaster Risk Management Policy into ministries, tabled in Parliament a new Stormwater Management Act to improve flood resilience, extended incentives to purchase electric vehicles and support investments in battery storage technologies, and approved an Energy Efficiency and Conservation Policy Framework for government agencies and public lighting.

Around mid-December 2024, the IMF's Executive Board concluded the fourth reviews of Barbados' EFF and the RSF arrangements (IMF 2024e). The completion of the reviews allowed the authorities to immediately draw about \$19 million under the EFF arrangement and about \$37 million under the RSF arrangement. The authorities continued to make good progress on their RSF reforms, tabling a new Electricity Supply Bill in the Parliament, with the



aim of enhancing competition in the electricity market and encouraging local participation in renewable energy investments. In addition, the Central Bank of Barbados adopted a strategy for building its capacity to monitor and assess climate risks.

JAMAICA

Climate Risk Profile

Jamaica is located in the west-central Caribbean Sea (see Figure 1). With an approximate total land area of 10,991 square kilometres, it is the third largest island in the Caribbean Sea after Cuba and Hispaniola. Jamaica's EEZ covers more than 258,000 square kilometers of ocean – about 25 times the size of its land mass and, like Barbados, also offers tremendous opportunities for 'blue economy' development. Jamaica's interior is mountainous especially in the eastern and central regions, with the highest peak (Blue Mountain Peak) reaching 2,256 meters. The island is directly in the North Atlantic Hurricane Belt and is most vulnerable to an increasing frequency of powerful tropical storms and hurricanes. Sea level rise is threatening Jamaica's tourism infrastructure and population that are heavily concentrated in the low-lying coastal areas. Other natural hazards that affect the island include floods, landslides and earthquakes (GoJ 2020). With a population of 2.82 million people in 2023, Jamaica is one of the least densely populated islands in the Caribbean region with around 257 people per square kilometre.

Like Barbados and other Caribbean SIDS, Jamaica has historically contributed very little to global warming, but it is becoming increasingly vulnerable to the potential impacts of climate change and natural disasters. According to the University of Notre Dame's 2023 ND-GAIN Index, Jamaica ranked 94th out of 187 countries most vulnerable to climate change and 96th out of 187 countries most ready to implement adaptation solutions, resulting in an overall world rank at 88th position. Although this suggests that Jamaica is fairly well positioned to adapt to its climate change vulnerabilities, Table 2 shows that its climate adaptation readiness puts it 6th place out of 13 Caribbean SIDS, far lower than Barbados.

Over the past few decades, Jamaica has suffered significant damages from natural disasters, which pose substantial risks to the country's economic outlook. Hydrometeorological events (floods, tropical storms and hurricanes) have been the most prominent, with 24 hurricanes passing by or directly affecting the island between 1950-2024, causing damages of roughly \$5.5 billion (in 2020 constant \$ mn). Hurricane Gilbert in 1988 caused the highest damage of over \$2.2 billion or 50 percent of the island's GDP (Rambarran 2022). More recently, Jamaica suffered around \$200 million, or just over 1 percent of GDP, in damage to property and infrastructure along its southwestern areas from Hurricane Beryl in 2024. These natural disasters have forced the Jamaican government to borrow to fund response, recovery and reconstruction efforts, contributing significantly to the rapid increase in public debt, which stood at around 85 percent of GDP in 2022, when the authorities were negotiating their RSF program. Looking ahead, the IMF estimates that there is a 1 percent probability in any year that Jamaica could face fiscal losses from hydrometeorological events which exceed 10 percent of the country's GDP (IMF 2023e).



Climate change and natural disasters also threaten Jamaica's economic sectors. The dominant tourism sector, which provides about 20 percent of GDP in foreign exchange inflows, is highly interconnected with other sectors, such as retail trade, construction and agriculture. Frequent and severe tropical storms and hurricanes sharply reduce tourist arrivals, affect the nature-based tourism assets on the island, disrupt foreign exchange earnings, trigger unplanned fiscal expenditures and push up debt. They also disrupt other economic sectors, especially agriculture which is already coping with the impacts of extreme hydro-meteorological events, including storms and drought that result in crop losses and a decline in food production (GoJ 2020). More than half of Jamaica's population lives within 1.5 km of the shoreline and approximately 90 percent of the island's GDP (through tourism, industry, fisheries, agriculture) is produced within its coastal zone, making these coastal communities and economic activities extremely vulnerable to rising sea levels. Jamaica's Office of Disaster Preparedness and Emergency Management estimates that "a 1-meter rise in sea level will impact about 8 percent of major resorts in Jamaica, while a 2-meter rise will have an impact on 18 percent of these resorts" (ODPEM 2015).

Warming sea temperature is also affecting Jamaica's coral reefs through coral bleaching. In late 2023, Jamaica's coral reefs were subjected to the deadliest coral bleaching event in history due to the longest and most severe sea surface temperature spike on record. This could reverse more than 15 years' worth of restoration efforts on the island, with significant implications for the ability of the Jamaica's coral reef systems to withstand storm waves, especially during the active Atlantic hurricane season. Similar to Barbados, coral bleaching also has serious erosion and property loss and damage implications for Jamaica's beaches, coastal infrastructure and communities.

Jamaica's contribution to the global warming is modest, but its substantial dependence on imports of fossil fuels for energy generation exposes it to undue volatility in international energy prices. This vulnerability to transition risks can exacerbate prospective balance of payment stability and compromise the authorities' prudent fiscal stance. In FY2022/23, Jamaica's fuel imports represented roughly 35 percent of trade imports and were 1.12 times higher than the exports of goods. Over 85 percent of Jamaica's electricity production is derived from fossil fuel, mostly heavy fuel oil (GoJ 2020). Mass public transportation is underdeveloped, and there is over-reliance on combustible engine-based cars and taxis, which leads to high per capita petrol consumption. The high fuel import bill and the inflationary pressures following Russia's war in Ukraine highlight the urgent need for Jamaica to rapidly transition to renewable energy.

Jamaica has developed a comprehensive policy framework to build climate resilience. Vision 2030 Jamaica - the country's National Development Plan - provides the framework for climate initiatives, the energy sector plan focuses on mitigation, and the water sector strategy on resilient water infrastructure. In June 2020, in line with the requirements of the 2015 Paris Agreement, Jamaica submitted an updated NDC which is more ambitious than the previous 2015 one, both in terms of its sectoral coverage and a commitment to deeper reduction of emissions in the energy sector (GoJ 2020). The updated NDC targets a primary reduction of emissions in the energy, forestry, and land-use sectors of between 25.4 percent (unconditional) and 28.5 percent (conditional on external assistance) relative



to business as usual by 2030. About 80 percent of the emissions reductions are expected to come from the energy sector mainly through a large-scale ramp up of renewable energy in the power sector. The rest will come from the land use change and forestry sector when measures such as the ‘No Net Loss of Forestry’ commitment and the national tree planting projects are completed.

Jamaica is advancing with its adaptation and natural disaster financing policy. Jamaica is developing its first National Adaptation Plan (NAP) which should be ready by 2025. As a complement to the NAP, the authorities are developing a National Disaster Risk Financing Policy that provides a menu of financing options upon which the government can draw to respond readily to natural disasters. A combination of budget instruments, disaster risk insurance and contingent line of credit from international financial institutions (IFIs) is supposed to provide liquidity during natural disasters but this may not always be the case. For example, following the devastation caused by Hurricane Beryl, Jamaica did not receive any payout from its second World Bank-sponsored Catastrophe (CAT) bond⁹ because the conditions for triggering a payout were not at the predetermined threshold to activate Jamaica’s catastrophe bond coverage (Ahmed and Rambarran 2024). Jamaica is a member of CCRIF, the regional catastrophe insurance platform, which offers quick-disbursing, parameter-based insurance cover against disaster hazards.

Jamaica’s RSF Loan

Over the last few years, Jamaica has established a strong track record of implementing sound macroeconomic policies and enhancing its institutional policy frameworks through a Fiscal Responsibility Law (FRL), adoption of inflation targeting and strengthened financial oversight (IMF 2023a). These efforts have helped Jamaica to navigate global shocks associated with the COVID-19 pandemic, Russia’s war in Ukraine, higher energy and food import prices, and tighter global financial conditions. The Jamaican economy continues its post-pandemic recovery, despite the headwinds posed by these successive global shocks.

During early December 2022, an IMF team visited Jamaica to discuss the authorities’ request for access under the Precautionary and Liquidity Line (PLL) and the IMF’s new RSF arrangement. Around the time of these negotiations, Table 5 shows that the Jamaican economy was recovering strongly from the COVID-19 pandemic, despite a difficult global environment arising from the war in Ukraine and the ongoing tightening of global financial conditions. Stop-over tourists’ flight arrivals had rebounded to pre-crisis levels. The overall fiscal balance was in line with the medium-term fiscal framework and public debt remained on a downward trajectory, ranking Jamaica as the seventh highly indebted Caribbean SIDS in 2022. High food and fuel prices contributed to inflation rising above the Bank of Jamaica’s

⁹ CAT bonds, while feasible in some circumstances, need to be scrutinized and assessed independently before being launched. Cases like the Jamaican CAT bonds are prime examples. According to Meenan (2021), in a study done for the Centre for Disaster Protection, Jamaica’s first CAT bond was not only non-transparent, but it also offered little “good” value to Jamaica and crowded out alternative solutions by CCRIF, for example, which could have provided similar protection at much lower cost. In light of Jamaica’s experience with Hurricane Beryl, the V20 Group called on the World Bank to course correct for more flexible CAT bond triggers (Ahmed and Rambarran 2024).



target band and a widening of the external current account deficit, but international reserves remained at adequate levels. Jamaica’s medium-term outlook suggested a continued recovery in economic growth with tourism well above pre-pandemic levels and inflation converging to the central bank’s target range. Despite the positive outlook, there are significant risks including climate change, which could affect the recovery of economic activity.

TABLE 5: JAMAICA: SELECTED ECONOMIC INDICATORS, FISCAL YEARS 2019-2023

				Projections	
	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Real GDP (%)	-0.1	-11.0	8.2	3.5	2.0
Inflation (%)	4.6	5.0	7.4	9.5	6.5
Primary Balance (% of GDP)	7.1	3.5	6.8	5.8	5.4
Public Debt (% of GDP)	94.3	109.7	94.2	84.1	77.9
External Current Account Balance (% of GDP)	-1.7	-1.1	-1.2	-2.5	-2.8
Gross International Reserves (USD million)	3,688	4,244	4,324	4,191	4,100

Source: IMF (2023a).

Against this backdrop, in mid-December 2022, the IMF team and the Jamaican authorities reached staff-level agreement on policies to support the request for an RSF program and a PLL. In early March 2023, the IMF’s Executive Board approved a 24-month arrangement under the PLL for Jamaica with access of \$968 million (190 percent of quota), to provide insurance against external risks from the war in Ukraine, stronger-than-envisaged tightening of global financial conditions and new COVID variants. The Jamaican authorities intend to treat the PLL as precautionary. The IMF’s Executive Board also approved an RSF arrangement for \$765 million (150 percent of quota) to accelerate Jamaica’s transition to renewable energy, strengthen physical and fiscal resilience to climate change, and improve the management of climate risks in the financial sector (IMF 2023a). Jamaica became the second Caribbean country and the fifth “pilot” country after Costa Rica to be awarded RSF funding.

Following the Executive Board’s discussion, Mr. Kenji Okamura, Deputy Managing Director and Acting Chair of the Board said, “Reforms in the RSF, built on Jamaica’s home-grown climate policy, were prepared in close collaboration with the World Bank and other international partners. They create incentives to switch to renewables, reduce energy consumption, develop green financial instruments and require proper management of climate risks in the financial sector. Reforms are expected to catalyze private and official financing for climate-related investment” (IMF 2023a). Jamaica’s RSF access is at the maximum amount of 150 percent of quota and IMF staff justified this maximum access on the strength and breadth of proposed reforms and that they assessed Jamaica as having sustainable debt and an adequate capacity to repay the Fund. Along with the corresponding PLL review, the RSF disbursements will be provided between June 2023 and June 2024 in three equal disbursements conditional upon completing three consecutive semi-annual RSF reviews with the aim of addressing 12 policy reform measures.



Jamaica's RSF Policy Reform Measures

As shown in Table 6, Jamaica's RSF policy reform measures are based on three pillars related to building fiscal resilience to natural disasters and climate change, promoting renewable energy, and reducing transition risks in the financial sector. There are 12 policy reform measures which were identified based on inputs from the IMF's Climate Public Investment Management Assessment (C-PIMA) as well as close collaboration with the World Bank and the Inter-American Development Bank (IDB).

Pillar 1 comprises five reform measures for building fiscal and physical resilience to natural disasters and climate change. They focus on enhancements to the fiscal framework to manage climate events, facilitate investment in climate-related projects, and take better account of climate risks in fiscal decisions. The Ministry of Finance and the Public Service (MOFPS) will develop a National Natural Disaster Risk Financing Policy to inform the selection of the most cost-effective ex-ante financing mechanisms, while the authorities will amend the existing framework to include climate considerations in PPP agreements from project identification to contract management. In addition, the MOFPS plans to introduce analysis of climate-related risks in fiscal policy documents. These macro-fiscal reforms will be instrumental to fostering climate smart public investments that enhance Jamaica's efforts to adapt to climate change.

Pillar 2 deals with four reform measures for strengthening mitigation by promoting renewable energy and curbing energy use to reduce the heavy dependence on fossil fuel imports and achieve Jamaica's updated NDC's ambitious emission reduction targets. Jamaica had already made progress on the mitigation front, including by introducing electric buses in the Montego Bay and St. James parishes, replacing 80 percent of streetlights with energy efficient LED, and a national tree planting project. Regarding legislative approvals, the government will submit to the Parliament a comprehensive electric vehicle policy as well as a bill to provide fiscal incentives for investments in renewables. Broader guidelines will be adopted to increase energy efficiency in schools, hospitals, and other public buildings. The government intends to establish a National Natural Disaster Reserve Fund (NDRF) to be used for relief financing in case of catastrophic events. These reforms have the potential to increase energy generation through renewable sources, expand the electric vehicle share in both the private fleet and public transportation and reduce energy consumption in public buildings, contributing to decarbonization of the Jamaican economy, which is critical to mitigating climate change.

The final Pillar 3 focuses on three reform measures for greening the financial sector. Currently, there is little data on the exposure of the Jamaican financial system to climate risks. The Bank of Jamaica (BOJ) will publish a climate risks assessment and define a timeline to incorporate climate considerations into supervisory activities. In addition, it will adopt a monitoring framework for financial institutions to implement climate-related risks stress testing. The authorities intend to develop a green bond framework to mobilize private sector financing for climate adaptation and emission reduction projects. These reforms are expected to help manage transition risks in the financial sector and incentivize private climate financing.



TABLE 6: JAMAICA: RSF POLICY REFORM MEASURES

Reform Area	Structural Benchmark	Type	Depth	Theme
Pillar 1: Building Fiscal Physical Resilience to Natural Disasters and Climate Change	RM1. The Ministry of Finance and Public Service (MOFPS) to adopt a National Natural Disaster Risk Financing Policy.	Fiscal	Low	Climate Finance
	RM2. The Development Bank of Jamaica in consultation with the MOFPS to modify the Policy and Institutional Framework for the Public-Private Partnership (PPP) policy program of the Government of Jamaica to include climate requirements in PPP project agreements from project identification to contract management and revise the PPP Standard Operating Procedure Manual to reflect these requirements.	Fiscal	Low	Public Financial Management
	RM3. The Public Investment Appraisal Branch (PIAB) to define a methodology to conduct climate impact assessments at project appraisal stage (project proposal stage) and incorporate the methodology in the Public Investment Management System (PIMS) handbook.	Fiscal	Low	Public Investment Management
	RM4. The Planning Institute of Jamaica (PIOJ) to define and publish project selection criteria including climate change criteria.	Fiscal	Low	Public Financial Management
	RM5. The MOFPS to conduct and publish in the Fiscal Risk Statement quantitative analysis of the fiscal risks generated by climate change.	Fiscal	Low	Climate Finance
	RM6. The MOFPS submit to Parliament an amendment to the Financial Administration and Audit Act to establish a National Natural Disaster Reserve Fund (NDRF) subaccount under the consolidated fund account. In parallel, the MOFPS to approve financial regulations for a transparent administration and reporting of the NDRF.	Fiscal	Medium	Public Financial Management
Pillar 2: Strengthening Mitigation/Promoting Renewables	RM7. The MOFPS to submit to Parliament a bill to incentivize investment in renewables through fiscal measures.	Fiscal	Medium	Climate Mitigation
	RM8. The Ministry of Science, Energy and Technology (MSET) to submit to Parliament the electric vehicles policy in line with the objectives in paragraph 23 of the Written Statement.	Other	Medium	Climate Mitigation
	RM9. The MSET to approve guidelines adapted to the type and purpose of the structures, to reduce energy use in schools, hospitals and public buildings for the existing and new structures.	Other	Low	Climate Mitigation
Pillar 3: Greening the Financial System	RM10. Bank of Jamaica (BOJ) to publish a climate risk assessment (including a diagnostic of related climate and environmental risks detailing the current governance and regulatory regime) and define a timeline to embed these risks in supervisory activities and related databases for the development of climate risks assessments.	Financial	Medium	Climate Finance
	RM11. Adopt a monitoring framework that improves data collection and establishes the reporting requirements for financial institutions to implement Climate Related Financial Risks stress testing and for the BOJ to gradually integrate climate risks in supervision and macroprudential policy formulation.	Financial	Medium	Climate Finance
	RM12. Establish an institutional framework for green bond issuance and trading.	Financial	Medium	Climate Finance

Source: IMF (2023a).



Between August 2023 to August 2024, Jamaica successfully completed all three reviews under its PLL/RSF programs. The conclusion of these reviews allowed the Jamaican authorities to receive total disbursements of \$765 million in RSF funding (IMF 2023d; IMF 2024a; IMF 2024d). Access to the PLL was equivalent to about \$980 million, but the authorities treated it as precautionary, even when they needed additional financing following the damage caused by Hurricane Beryl in early July 2024. In the context of the authorities' policy agenda under the RSF, they met all 12 reform measures, comprising the quantitative analysis of climate-related fiscal risks, fiscal measures to incentivize investment in renewable energy, reporting requirements for financial institutions to implement climate risks stress testing, and a framework for issuance of green bonds. The Jamaican authorities expect that successful completion of these RSF reform measures should catalyze private climate financing going forward.

CLIMATE CONDITIONALITY IN BARBADOS AND JAMAICA'S RSF-SUPPORTED PROGRAMS

In its review of program design and conditionality, the IMF advises its staff that structural conditionality in Fund-supported programs should be both critical and parsimonious (IMF 2019). Structural conditions should be critical to achieving the goals of the member's program or for monitoring program implementation. Structural conditions should also be applied parsimoniously, that is, limited to the minimum necessary. Assessing whether these principles have been implemented in RSF arrangements for both Barbados and Jamaica requires an analysis of the volume, focus and depth of structural conditions in these respective programs, as done in Gupta and Brown (2023). Volume is defined as the number of conditions per program year. Focus is assessed by categorizing structural conditions into core, shared and non-core areas of IMF responsibility. Depth is defined as the degree and durability of structural conditions, with measures separated into low-, medium- and high-depth categories. Low-depth reforms do not bring about a change but are considered steps that could lead to implementation of more critical reforms. Medium-depth reforms lead to significant changes but are typically one-off in nature (e.g., budget approval). Finally, high-depth reforms lead to permanent institutional changes, such as legislative changes (parliamentary approval) or conditions with long-lasting impact (e.g., privatization).

In respect of volume of structural conditions, both Barbados and Jamaica experienced substantial increases in conditionalities when their RSF arrangements are considered along with their accompanying IMF programs (Table 7). Barbados was required to meet roughly a little over 8 structural conditions per year when its RSF arrangement is included with the EFF-supported program over the 2022-2025 program period. Compared to Barbados' previous 2018-2022 EFF program, this represents an increase of 60 percent from around 5 structural conditions per year. In the case of Jamaica, the number of structural conditions increased three-fold to almost 9 per year when its RSF arrangement is included with its concurrent 2023-2025 PLL arrangement, compared to an average of 3 conditions per year under the previous 2016-2019 Stand-By Arrangement (SBA).



TABLE 7: BARBADOS AND JAMAICA: VOLUME OF STRUCTURAL CONDITIONS UNDER RSF, CONCURRENT AND PREVIOUS IMF PROGRAMS

	2022-2025 program period				2018-2022 program period	
	RSF	Concurrent EFF	Total	Average	Previous EFF	Average
Barbados	10	15	25	8.3	19	4.75
	2023-2025 program period				2016-2019 program period	
	RSF	PLL	Total	Average	SBA	Average
Jamaica	12	5	17	8.5	12	3

Source: Calculated from IMF (2022c) and IMF (2023a).

All the reform measures under both Barbados and Jamaica’s RSF arrangements are relevant to the circumstances of each country and consistent with the broad objectives spelled out in the authorities’ national development and climate plans. However, it is quite possible that successfully implementing such a “laundry list” of RSF reforms together with the conditions of the concurrent IMF program stretched the capacities of both authorities as well as IMF staff. Hicklin (2023) argues that RSF conditionality needs to adapt and cautions “more will need to be done to erase the specter of unmanageable laundry lists of structural measures that accompanied IMF programs of yesteryear, or the difficulty of justifying why a particular reform merits being chosen as a condition.” At the end of August 2024, Jamaica had implemented all 12 reform measures while Barbados had implemented eight of its 10 RSF reform measures at the end of December 2024.

An RSF-supported program focusing on climate change is expected to concentrate on five key policy reform areas: climate mitigation, climate adaptation, climate finance, public investment management (PIM) and public financial management (PFM). The IMF shares the responsibility for the first two areas mainly with the World Bank while the latter three areas represent the IMF’s core areas of expertise. Regarding focus, Table 8 gives the share of each of these policy reform areas in the two RSF-supported programs for Barbados and Jamaica. RSF reform measures in the IMF’s core areas of expertise range from half of the structural conditions for Barbados to three-quarters in Jamaica. Climate finance is the largest area of conditionality, followed equally by both PFM and climate mitigation.

TABLE 8: BARBADOS AND JAMAICA: FOCUS OF STRUCTURAL CONDITIONS UNDER IMF RSF PROGRAMS

	Climate Mitigation	Climate Adaptation	Climate Finance	Public Financial Management	Public Investment Management	TOTAL
Barbados	3	2	2	3	0	10
Jamaica	3	0	5	3	1	12
	6	2	7	6	1	

Source: Calculated from IMF (2022c) and IMF (2023a).



In respect of depth, Table 9 shows that the degree and durability of structural conditions in RSF arrangements for both Barbados and Jamaica are mainly of low- to medium-depth. In the case of Barbados, its RSF-supported program is almost equally split between low- and medium-depth conditionality which together account for 90 percent of the total policy reform measures. One high-depth measure makes up the remaining 10 percent of total reform measures. Similarly, for Jamaica, its RSF arrangement is equally balanced between low- and medium-depth conditionality measures. Unlike Barbados, Jamaica’s RSF arrangement does not have any high-depth conditionality measures.

TABLE 9: BARBADOS AND JAMAICA: DEPTH OF STRUCTURAL CONDITIONS IN IMF RSF PROGRAMS

	Low	Medium	High	TOTAL
Barbados	4	5	1	10
Jamaica	6	6	0	12

Source: Calculated from IMF (2022c) and IMF (2023a).

From a Caribbean SIDS perspective, this result on climate conditionality in Barbados and Jamaica’s RSF-supported programs is disappointing. Caribbean countries are already disproportionately and tragically affected by record-breaking heatwaves, sea-level rise, longer drought periods, frequent flooding, and substantial loss and damage associated with more frequent and intense tropical storms and hurricanes (CDB 2020). Both Barbados and Jamaica have very ambitious national plans to tackle the longer-term structural challenge of climate change, but most of their RSF reform measures are not as ambitious in institutional and policy measures. For example, Barbados in its 2021 updated NDC recognizes that, as one of the most densely populated countries in the world and one of the most water scarce, attempts to decarbonize its economy must be accompanied by strategies to enhance food and water security and protect vital coastal ecosystems. Such strategies are missing among Barbados’ RSF reform measures. Likewise, Jamaica in its updated 2020 NDC identifies agriculture as a critical sector for both climate mitigation and adaptation, but there’s no clear line of sight between sustainable agriculture and its RSF reforms. In the case of these two Caribbean SIDS, weak capacity could not be cited as a determining factor for having a preponderance of low-to medium-conditionality measures in their RSF arrangements, as both Barbados and Jamaica have developed strong track records under previous IMF-supported programs and certainly demonstrate the capacity to implement more ambitious climate resilience measures.

CATALYTIC ROLE OF RSF ARRANGEMENTS IN BARBADOS AND JAMAICA

The cornerstone of RSF arrangements is the overwhelming reliance on the IMF’s catalytic effect to unlock external financing, particularly substantial sums of private climate flows. Since the IMF provides only a small portion of a country’s external financing requirements, the Fund assumes that its “good housekeeping seal of approval” will encourage others to



lend, acting as a catalyst for private capital flows. This is because the IMF-supported program is seen as sending a signal to private investors that the country is adopting sound policies and reinforcing policy credibility which should increase private investors' confidence (IMF 2020). This thinking has led observers to interpret IMF lending programs as "catalytic official finance," a term that became popular in the 1990's following a series of capital account crises in Latin America and East Asia. The underlying idea of catalytic official finance is that IMF lending programs expect private capital flows to behave like dependable "bedfellows" of official governance (Cottarelli and Giannini 2002).

However, the empirical literature on whether IMF programs have positive catalytic effects is mixed. Some studies such as Bird and Rowlands (2001) and Vreeland (2003) failed to find that IMF programs have a statistically significant catalytic effect. Other research suggests that under some circumstances and when considering certain types of capital flows, the catalytic effect is significant and positive (Mody and Saravia 2006; Diaz-Cassou et al. 2006; van de Veer and de Jong 2010). Specifically, these studies found that countries with weak economic fundamentals were thought to be more likely to benefit from catalytic financial effects. Milsom (2012), on the other hand, found that IMF catalytic official finance is positive and significant with regards to portfolio equity flows, but there is no conclusive evidence to suggest that IMF programs impact foreign direct investment in any significant way, either positively or negatively.

The above empirical findings provide important insights into the anticipated catalytic nature of RSF arrangements and the IMF's tremendous, perhaps misguided dependence on private finance flows to fund countries' climate resilience programs. By supporting policy reforms, RSF programs are expected to provide a critical component to the largely project-based financing from the multilateral development banks (MDBs) and other donors and, most importantly, to help catalyze additional financing from the private sector. However, even MDBs have only been able to attract private climate finance, on average, of a mere 1.2 times the resources they commit themselves (IMF GFSR 2022). Nevertheless, the IMF remains optimistic that through its convening power it can bring together various global financial players – MDBs, other IFIs, bilateral donors and private investors – to explore options for catalyzing private climate finance for its member countries with RSF programs (IMF 2024b).

Barbados

Based on its current climate programs to build resilience and support the ambitious goal of transitioning to a carbon-neutral economy, the IMF estimates that Barbados requires about \$1 billion in external climate funding through 2030 (IMF 2022c). Of this total amount, the RSF arrangement is expected to provide less than 20 percent, once all conditionalities are met, but the program is expected to play an important catalytic role for Barbados to attract and scale up the additional 80 percent or roughly \$810 million in green financing from other IFIs as well as from private capital to support the country's climate policy agenda.

Within one year of being under its RSF-supported program, Barbados has been to attract a total of \$400 million from two MDBs – the World Bank and the Inter-American Development Bank (IDB) – to fund its climate plans. In January 2023, the World Bank approved



a Green and Resilience Development Policy loan equivalent to \$100 million, which would complement structural reform measures under the EFF/RSF. The IDB has indicated that it could increase its financial support to Barbados by up to \$300 million over the next three years. Barbados also attracted smaller climate finance flows of \$15 million from the Green Climate Fund (GCF) and \$5 million from the United States Agency for International Development (USAID), both of which are pledged capital contributions towards the establishment of a new Blue Green Bank. With the Trump administration announcing in late February 2025 that it would be eliminating more than 90% of USAID's foreign aid contracts, it's quite possible that this source of financial support for the Blue Green Bank might be in jeopardy. The Government of Barbados plans to use \$10 million from the fiscal space created by the RSF arrangement as seed capital for the new Blue Green Bank. Once established, the Blue Green Bank is expected to help finance over \$250 million of green investments in resilient housing, hurricane-resilient roofs, the electrification of public and private transport, and water conservation.

Building on its 2022 debt-for-marine conservation swap,¹⁰ the Barbadian authorities successfully completed what it calls the world's first "debt-for-climate resilience" swap in early December 2024. Barbados replaced outstanding, more expensive debt with more affordable financing, freeing up \$125 million in savings which will be used to fund critical investments in water infrastructure, food security and environmental protection. The debt swap was done in conjunction with the Nature Conservancy and involved the issuance of a sovereign sustainability-linked bond, arranged by CIBC Caribbean, with regional banks investing in the transaction, and backed by \$300 million in guarantees - \$150 million each from the European Investment Bank (EIB) and the IDB. Assuming that the full \$300 million of the sustainability-linked bond was taken up by the private sector, this means that, after being under an RSF arrangement for two years, Barbados was finally able to attract private climate finance flows through its debt swap operation (see Table 10). As result, at the end of December 2024, Barbados' climate funding gap stood at about \$200 million, or around 20 percent of its estimated gross climate financing needs.

Jamaica

According to the IMF, Jamaica would need around \$2.4 billion to fund its climate initiatives through 2030 (IMF 2023d). Of this total, Jamaica's RSF arrangement would provide only \$764 million (once all reform conditions were met), with the program expected to catalyze an additional \$1,6 billion in greening financing mainly from the private sector and some from international development partners. In October 2023, the Government of Jamaica together with the IDB, GCF, the United Kingdom, and the EIB as part of Team Europe, announced a

¹⁰ In September 2022, Barbados engaged in a debt for nature swap to improve its debt profile and support marine conservation. The authorities contracted a Blue Bond equivalent to \$150 million (about 3 percent of GDP), with partial guarantees issued by the IDB and The Nature Conservancy. The newly issued bond carries both a natural disaster clause and a pandemic clause. The proceeds were used to buy back part of an outstanding Eurobond (6.5 percent note due 2029) as well as domestic bonds (8 percent bonds held by the National Insurance System). The Blue Bond enjoys a low interest rate, and this is projected to generate substantial savings, which will flow into a conservation fund to enhance Barbados' marine protection areas.



**TABLE 10: BARBADOS: FUNDING OF GROSS CLIMATE FINANCING NEEDS TO 2030
(USD MILLION, AS OF END-DEC 2024)**

Gross climate financing needs		1,000
Funding sources	Nature of funding	
IMF	Resilience and Sustainability Fund (RSF)	189
Multilateral Development Banks		250
World Bank	Green and Resilience Development Policy Loan	(100)
IDB	Policy-based loans	(150)
Multilateral Financial Institutions		55
GCF	Capital contribution to Blue Green Bank	(15)
	Grant for debt swap projects	(40)
International Donor Community		5
USAID	Capital contribution to Blue Green Bank	(5)
Private Sector	Sustainability linked bond	300
Total Climate Financing Received		799
Climate Funding Gap		201
(% of gross needs)		20

Source: Compiled by authors

collaborative, three-pronged approach to catalyze new and larger amounts of private climate finance in the context of the RSF arrangement.

First, the IDB has been working with the Jamaican authorities to launch a Project Preparation Facility (PPF), which would generate a robust pipeline of bankable climate-smart projects required to scale up private investments across Jamaica. Both the Jamaican authorities and the IDB committed resources to establish the PPF and discussions have been taking place with other development partners to scale up the initiative, which was supposed to become operational by mid-2024 but was unavoidably delayed.

Second, the Jamaican government, the GCF and the EIB are seeking to establish a 'Blue Green Facility' - a blended financing structure - of up to \$500 million over five years, domiciled in Jamaica. Once established, the Blue Green Facility is expected to crowd in additional resources (funding, technical support and capitalization) for Jamaica's climate mitigation and adaptation needs from other bilateral and multilateral financing partners. In the interim, the GCF plans to provide credit and capacity development to finance local climate projects in agriculture, energy efficiency, water resource management and sustainable transport. The accreditation of the Development Bank of Jamaica (DBJ) by GCF in July 2023 as a direct access entity and the execution of an Accreditation Master Agreement (AMA) in February 2024 would allow the DBJ to access GCF funding and implement large size climate projects or programs of over \$250 million. An upstream climate resilience investment framework, including systemic climate risk assessment and identification of a prioritized pipeline of projects for the Blue Green Facility is being supported by the Caribbean Community Centre



on Climate Change and the University of Oxford with up to £1 million in funding from the UK through support for the Coalition on Climate Resilient Investment.

Finally, the EIB intends to provide low-cost and long-term financing instruments to support the Jamaican authorities' investment in resilient water and waste treatment infrastructure, flood and coastal protection, or other sectors vulnerable to climate risks. The instruments will have long maturities of up to 30 years with a 10-year grace period. As the European Union's Climate Bank, the EIB is also piloting natural disaster risk clauses for its loans to Jamaica to ensure vulnerable communities can recover and rebuild following a crisis.

Nigel Clarke, former Minister of Finance of Jamaica, in an April 2024 press release from the IMF entitled "Jamaica, International Financial Institutions, Donors Collaborate on Establishing a Programmatic Approach to Climate Finance" said:

We are pleased to be leveraging Jamaica's participation in the IMF's Resilience and Sustainability Trust program to crowd-in further financing for climate smart development. The progress announced today is in keeping with the efforts of the GOJ, working with our multilateral and bilateral partners, to mobilize the blended financing required for sustainable infrastructure investment. This Blue Green and Project Preparation facilities will be particularly catalytic, and when operational, will enable an accelerated pace of development.

Although the Jamaica authorities have been working assiduously to catalyze private climate financing, by the end of August 2024 no such flows had taken place, despite Jamaica being under an RSF arrangement for two years and had met all of its RSF reform measures. As a result, Jamaica's climate funding gap stood at almost 70 percent of its gross climate financing needs by end-August 2024, when its RSF arrangement was completed. Jamaica's RSF experience demonstrates that even strong conditionality performance is not enough to meet its private climate financing needs, although both the IMF and government officials have been hoping that the signaling effect of the RSF climate policy reforms could spur larger private investments, but this expectation faces strong headwinds.

RECOMMENDATIONS FOR FUTURE RSF ARRANGEMENTS

At the outset, we recognize that an IMF program is the outcome of a complex negotiating process, in which Fund staff are required to make judgments balancing country ownership and political and economic feasibility. This reality inevitably tempers the final design of the IMF-supported program, especially in the context of tackling climate change, which is a new area for both the IMF and country authorities. In this respect, the RSF with its focus on helping countries to deal with the structural challenge of climate change while providing highly concessional financing is a welcome addition to the IMF's lending toolkit. Based on our initial assessment of the early experiences of both Barbados and Jamaica under RSF arrangements, we make the following five policy recommendations which suggest ways in which future RSF programs can be strengthened to support a just global energy transition.



These recommendations are also relevant to future RSF arrangements in other Caribbean SIDS and climate vulnerable states.

Consult Civil Society and Other Stakeholders

Although the RSF arrangements in Barbados and Jamaica are strongly government-owned, they lack full country ownership. There is no evidence that the national authorities in both countries consulted civil society and other non-governmental stakeholders to inform and develop the climate policy reform areas. In critical climate hotspots like the Caribbean islands, Fink et al. (2021) highlight that successful climate change adaptation requires informed investigation of the local context, the drivers of change and local inhabitants' awareness of the consequences of different response measures. From this perspective, Ratter (2018) argues that small island communities can be seen as "agents of knowledge production and territorial transformation" which have developed a wide range of indigenous cultural practices to deal with climate variability and extreme weather events, and this local knowledge can help improve the design of national climate policy reforms. In addition, the Caribbean Policy Development Centre (CPDC) is recognized as the authoritative voice of Caribbean civil society on sovereign debt, climate finance and reform of the global financial architecture. CPDC was the sole voice of Global South civil society at the international high level-retreat which was hosted by Prime Minister Mottley in Bridgetown, Barbados in July 2022. This meeting culminated in the establishment of what is now famously known as the Bridgetown Initiative. By engaging in consultations with civil society, the IMF would not only help to strengthen country ownership with respect to RSF arrangements in the Caribbean, but it would also put climate policy reforms with a just and equity perspective on the negotiating table for consideration.

Focus on a Few Ambitious, High-Depth Reforms

Caribbean SIDS are already disproportionately and tragically affected by record-breaking heatwaves, frequent flooding, longer dry seasons and the destructive effects of tropical storms and hurricanes, making adaptation urgent. This means Caribbean countries have to move expeditiously to implement more durable institutional and policy changes which build and strengthen climate resilience. In Barbados' RSF arrangement, however, the share of low-depth policy reform measures is disappointingly high at 40 percent, while that of Jamaica is even higher, at 50 percent. Since the objective of both RST-supported programs is to build resilience to natural disasters and climate change as well as reduce greenhouse gas emissions and transition risks, Barbados and Jamaica (and other Caribbean SIDS contemplating an RSF arrangement) should focus on few ambitious, high-depth reforms that stand a reasonable prospect of successfully generating transformational change or having a long-lasting impact. Commendably, the IMF seems to have recognized this requirement, as its new guidance note on RSF programs issued in November 2023 emphasizes that low-depth reforms "should not stand alone" except in exceptional cases, and when included, they should be part of a broader package of more substantial reforms. This is also consistent with the application of the revised 2017 Staff Guidance Note on the Fund's Engagement with Small Developing States which calls for reforms to build critical resilience to frequent



and severe shocks from natural disasters into the programs. In addition, under previous IMF-supported programs, both Barbados and Jamaica have demonstrated strong capacities to undertake significant policy reforms in the face of very challenging economic conditions. To remain parsimonious, however, some low-depth climate-related reform conditions should have been dropped in both RSF arrangements for Barbados and Jamaica to make room for higher conditionality critical measures.

Formulating and evaluating catalytic structural conditions also requires the IMF to closely engage with development partners, including the World Bank and other regional MDBs. To this end, we welcome the May 2024 announcement between the IMF and World Bank Group to scale up and deepen their climate collaboration through an enhanced framework. This collaboration could also allow the IMF to leverage its own macroeconomic climate-related analytics with the deep sector expertise of the World Bank's Country Climate and Development Reports (CCDRs) to develop material RSF policy reforms. Furthermore, closer collaboration with the World Bank could help increase the catalytic impact of the RST through the design of country-led platforms to mobilize additional climate finance, especially from the private sector.

Candidly Highlight Potential Risks of Lower Private Climate Flows

Mohan (2023) estimates that Caribbean countries would require a total capital investment of more than \$35 billion to finance their climate mitigation and adaptation actions by 2030, or the equivalent of almost 25 percent of the Caribbean's combined 2020 GDP. These climate investments are well beyond the fiscal capacities of many Caribbean SIDS, which face inadequate sources of domestic finance, restricted fiscal space and, most importantly, are grappling with a silent debt crisis that has placed them among the most heavily indebted countries worldwide. The Caribbean therefore requires substantial (mostly concessional) international financing to be unlocked and mobilized with urgency. The potential of private finance to contribute to closing the Caribbean's climate financing gap is compelling but the RSF's catalytic character in making this happen is still unproven. Indeed, the IMF's "good housekeeping seal of approval" should not be an automatic assumption for all IMF lending programs, especially when these programs seem to attract portfolio equity flows and not foreign direct investment. Although the Jamaican authorities have been working assiduously to catalyze private climate financing, by the end of August 2024, when Jamaica's RSF arrangement was completed, no such private flows had taken place, despite Jamaica being under an RSF arrangement for two years and had met all of its RSF reform measures. After being under an RSF arrangement for two years, Barbados, on the other hand, was finally able to attract private climate finance flows through its debt swap operation. This means that the IMF needs to be clear and transparent about the challenges of mobilizing private climate finance and to highlight more candidly and forcefully the potential risks to RSF arrangements if the catalyzing of private climate flows does not take place as currently assumed. The Fund also needs to advise these countries earlier on possible approaches to smoothing prospective balance of payments stability in the absence of higher-than-anticipated private climate financing, so as to avoid fiscal adjustment beyond that contemplated in the concurrent IMF-supported program.



Establish a link between debt and climate finance

By taking on more debt to fight climate change, Caribbean nations have been caught in a vicious, middle-income country debt-climate change trap. The Caribbean's average debt stock currently stands at around 80 percent of GDP, well above the 50-60 percent of GDP threshold which is considered detrimental to the region's growth and development (Greenidge et al. 2012). Rising debt repayments are increasingly diverting the resources Caribbean governments need to invest in fighting climate change, while their borrowing costs are rising partly due to climate-related vulnerabilities, leading to more debt. In this respect, the Vulnerable Group of 20 (V20 Group) – representing 70 of the most climate vulnerable countries – has called for a grand-scale climate-debt swap where the debts of developing countries are reduced on the basis of their own plans to achieve climate resilience and prosperity (V20 2021). In designing future RSF arrangements, particularly in highly indebted climate vulnerable countries, the IMF should consider deploying more RST resources to create fiscal space for climate action through debt relief solutions¹¹ that are timely, fair and effective. This could be done by linking debt relief options such as debt pause clauses, debt restructuring and reprofiling, and debt swaps to investments in green resilience policies aligned to a country's national climate and development plans.

Quite interestingly, the IMF issued a working paper on how the Brady Plan delivered on debt relief in the 1980s (Shenai and Bolhuis 2023), and this may rekindle interest in a broader Brady Plan-style mechanism to facilitate debt restructurings when countries face acute solvency challenges. Both Rambarran (2022) and Ramos et al. (2023) have developed sovereign debt and climate justice proposals which partly draw on the principles of the Brady Plan and other global policy frameworks. The Finance for Development Lab has proposed a “bridging program” to climate action that seeks to unlock net positive flows for debt distressed countries facing liquidity constraints (Diwan et. al 2024). The IMF can use these proposals as templates for incorporating high-depth reform measures in RSF-supported programs that link Brady Plan-style debt mechanisms to countries' climate and development goals.

More generally, affordable and accessible liquidity support arrangements are crucial to ensuring that countries can tide through short-term global shocks. The high cost of borrowing faced by EMDEs makes the provision of low-cost financing urgent. The G20 should tackle this directly by issuing a new round of SDRs to help countries cope with liquidity challenges and increasing the supply of concessional finance.

Pay More Attention to the Critical Interplay Between Climate Risks and Nature

Caribbean SIDS are endowed with a rich and globally unique biodiversity. They host up to 35 percent of endemic marine taxa and 300 bird and mammal species are endemic

¹¹ As it relates to the IMF's Debt Sustainability Analysis (DSA), fully incorporating resilience investments, natural capital, and associated climate shocks will help determine the mix of financing required for a country to maintain debt sustainability. This will vary by country but may involve restructuring in some cases and credit enhancements in others. The importance of concessional finance and haircuts to help to maintain sustainable debt paths is buried in various DSAs but has not risen to the top of the IMF's narrative on this and needs to be emphasized.



(UN-OHRLLS 2017). This biodiversity, which supports industries such as tourism and fisheries and accounts for a significant share of the GDP of these small island economies, has been under severe and increasing threat. The main threats to the biodiversity of Caribbean countries include habitat destruction and fragmentation due to increasing urbanization, conversion of lands for tourism and commercial development, and the expansion of agriculture. Invasive species, pollution and overexploitation of living resources are also major stressors to Caribbean ecosystems and biodiversity. Nonetheless, there are many opportunities to leverage sustainable finance for nature solutions in order to address biodiversity loss in the Caribbean, an area that was ignored in RSF arrangements for Barbados and Jamaica. For example, the Caribbean region holds up to half of the world's seagrass meadows by surface area, and it contains about one-third of the carbon stored in seagrasses worldwide, with important implications for climate change mitigation. Shayka et al. (2023) estimates that Caribbean seagrasses can provide about \$255 billion in services to society annually, including about \$90 billion in carbon storage, highlighting their potential financial importance for the region. The Caribbean's vast blue economy is also an important carbon sink which must be protected. In addition, Caribbean nations like Guyana and Suriname have important biodiversity reserves in the Amazon tropical forest basin.

In October 2024, the International Monetary Fund (IMF) commendably published a nature paper (Gardes-Landolfini et al. 2024) which could help inform RSF-supported programs in the Caribbean and other SIDS. The paper acknowledges that the economy is embedded in, and dependent on, nature. It proposes a conceptual framework for understanding nature-related risks by mapping out the macroeconomic transmission channels. Going forward, RSF-supported programs in these small island nations should actively consider the rich interplay between climate and nature which offers mechanisms such as blue carbon offset-credits to incentivize the protection, restoration and management of valuable coastal ecosystems. To effectively address these risks, the Kunming-Montréal Global Biodiversity Framework, which seeks to protect at least 30 percent of the world's lands, oceans, coastal areas and inland waters by 2030, could form the basis for deeper nature policy reform measures in current and future RSF arrangements. In addition, the Network for Greening the Financial System (NGFS) has set up a task force on Biodiversity Loss and Nature-related Risks. The Task Force is mandated to develop a conceptual framework on nature-related financial risks to guide action by regional central banks, and this could inform future greening of the Caribbean's financial systems.

CONCLUSION

We commend the IMF for creating the RST at a critical moment of need for developing countries buffeted by the 'polycrisis' of multiple, often intersecting and cascading external shocks such as the COVID-19 pandemic, Russia's war on Ukraine, and aggressive U.S. monetary tightening. Strong demand for RST concessional financing has demonstrated the usefulness of the IMF's newest lending instrument among its membership. However, as 2030 nears and the UN 2030 Agenda for Sustainable Development on reducing poverty and meeting other Sustainable Development Goals (SDGs) remains out of reach for many countries, the IMF has an opportunity to redesign and deploy the RST for greater climate



and development impact. To that end, we make five pertinent policy recommendations that not only suggest ways in which the IMF can strengthen the RST, but they are also relevant for other IMF member countries wishing to access concessional RST financing through RSF programs. With continued global interest in using SDRs to support climate and development goals, early lessons from these initial RSF country experiences are instructive in providing important policy direction to the Fund on strengthening the latest instrument in its lending toolkit.

In a March 2024 keynote speech at Kings College, Cambridge where Lord Keynes, one of the founders of the IMF studied and worked, the IMF's Managing Director Kristalina Georgieva stated that Keynes provided a framework — a 'multilateralism for the 20th century' — that served the international community well. Now, it must be updated for a new era. At 80 years old, the IMF has a central role in helping to create this 21st century multilateralism by fostering a globally coordinated transition to a low-carbon, climate resilient pathway. The IMF has taken important steps in creating the RST, and while the interim review of the RST represents some progress, many of the major shortcomings of the RST remain in place. The comprehensive review of the RST planned for 2026 not only presents a vital opportunity for the IMF to show faster and bolder leadership to make the RST a transformational part of the global financial architecture, but also to ensure the Fund's future relevance in promoting a just, global climate transition.

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