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Reaching the Mainstream: Resilience, Climate Change and the IMF

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The International Monetary Fund (IMF) recently published a fascinating [study](#) on the macro-economic and fiscal impacts of natural disasters, in particular weather-related disasters, in small-island Pacific states. This study provides powerful conclusions on the economic impacts of natural disasters and the role of mainstream international financial institutions like the IMF in improving resilience to disasters and the long-term effects of climate change.

Let's start with the headline conclusions of the study:

- On average natural disasters, mainly weather-related, caused a short-term drop in GDP of 2.1 percentage points from 1970-2013 in the Pacific Island countries studied.
- The long-run average impact, measured over 10 years, is estimated to reduce annual growth by 0.7 percentage points each year. This means that cumulated over ten years the GDP hit would amount to an impact of 9 percentage points in lost income for the Pacific Island countries studied.
- Perhaps most strikingly, the IMF, a sober financial institution, notes that “climate change also poses risks to the continued survival of some Pacific islands”.
- Climate change driven disasters can have a significant economic and social impact, with potential spillovers to other countries (for example, migration within the Pacific region).

This last element shows once again, as IDDRI has argued in a recent [paper](#), that adaptation to climate change is a global concern.

The study also describes a framework for improving the resilience of small island states affected by climate change, and the role that the IMF could play. The study notes the role that the IMF could play in:

- Providing technical support on fiscal and macroeconomic policies to improve economic resilience to disasters. For example the IMF describes how it has started to include the costs of climate change in its annual macroeconomic and fiscal assessments conducted in the framework of the Fund’s Article IV consultations (its annual monitoring report on the state of each member country’s fiscal position and macroeconomic policy).
- Providing emergency financial assistance to countries affected by disasters. The IMF was set up to provide balance of payment support to countries that are unable to meet their international payment obligations. Natural disasters affect countries’ balance of payments by reducing fiscal revenues and exports, and potentially increasing expenditure on imported goods as part of the reconstruction process. The IMF’s Rapid Credit Facility has provided disbursements to Pacific islands affected by weather related disasters.

Another recent IDDRI [paper](#) analysed how climate change could be mainstreamed into the work of international financial and recommended notably that the IMF makes climate adaptation and mitigation a structural part of its surveillance activities, particularly under the Article IV consultations. As reported above, the IMF indicates that it is starting to do so for countries highly vulnerable to climate change. Could it be extended and become a structural part of its work with all countries?

We could even go a bit further. Given its role in providing post-crisis financial assistance, what could the IMF do to further support international resilience schemes, such as regional insurance pools? Could some of the Fund’s quotas be set aside to provide collateral for such international climate insurance schemes, or earmarked for climate-related disaster assistance? Is it time to set up an LDC Climate Change Disaster Assistance Facility capitalized through Special Drawing Rights?

What is clear is that the study discussed here is one more sign that climate change is becoming too big to be ignored by mainstream players. International Institutions like the IMF are starting to become more and more concerned, and proactive on the solutions that they can provide.