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Integrating climate change and biodiversity into the response to COVID-19: **International financial flows**

This note is part of a series looking at *climate change and biodiversity considerations in economic responses to COVID-19*. Other notes look at scoring economic stimulus packages via a green stimulus index, corporate bailouts with green strings attached and employment promotion reforms. *This note may be updated as circumstances develop.* ***This work was undertaken by Vivid Economics, in partnership with the Finance for Biodiversity Initiative (F4B), and funded by the MAVA Foundation.***

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Summary

This note has three main aims:

1. Make the case for channelling emergency international financial flows into the agriculture sector in developing countries, highlighting that the rural population is especially vulnerable to the economic consequences of COVID-19 and failing to protect the industry could trigger a food crisis.
2. Make the case that this funding should be tied to the achievement of environmental goals, highlighting the need to support the sustainable transformation of this sector, avoid backtracking toward unsustainable practices, and hence reduce emerging risks to the sector.
3. Estimate the magnitude of public international capital flowing into agriculture in developing countries; and highlight instruments that could be used to enhance the value of nature.

Our target audience includes decision makers and technical teams in:

- **developing countries** and their relevant agencies, including Ministries of Finance, Environment and Agriculture that could help direct financial assistance into the rural sector.
- **developed countries** providing direct support to developing countries or overseeing the response through international financial institutions (IFIs).
- **multilateral development banks (MDBs)** that direct and manage credit lines in developing countries.
- **the IMF** involved in the issuance of stabilisation loans and the management of special drawing rights (SDRs).
- **Members of the international development community** that could support the implementation of the ideas outlined in this note.

Key messages

- The COVID-19 crisis is disrupting rural livelihoods and threatening the transition to sustainable agricultural production in developing countries.
- IFIs already deploy the necessary tools to avoid the economic upheaval, and proven mechanisms exist to assure international finance is aligned with existing national commitments to save nature.

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- Foreign Investment to the agricultural sector by development finance institutes (DFIs) should be channelled heavily, if not exclusively, through green credit lines.
- IMF lending and granted/lent SDRs (from developed to developing countries) should be conditional on maintaining environmental regulations and accelerating their planned extension.
- Debt relief is tied to accelerating existing commitments to extend protected areas to biodiversity hotspots and if possible, to accelerate forest restoration projects.
- Our estimates suggest that this can be achieved through a relatively small portion of overall stimulus funding, but with a razor-sharp focus on nature.

1. Introduction

The international response to stabilise and stimulate emerging economies in the wake of the COVID-19 crisis offers a once-in-a-lifetime opportunity to immediately help the most vulnerable communities while also preserving vast swathes of nature. A smartly designed programme of international assistance to biodiversity-rich countries can secure the short-term aims, advance the transformation of the agricultural sector and rescue of nature by roughly a decade, reverse the precipitous loss of land-based biodiversity, and build long-run economic resilience.

The COVID-19 crisis will likely harm rural livelihoods and require stabilisation and recovery funding to developing countries' agricultural sectors. The COVID-19 crisis has created market volatility and declines in commodity prices. Year-to-date, palm oil prices have fallen more than 25%, cattle prices roughly 20% and both coffee and soy by roughly 10%.[1] The possibility of further supply and demand disruptions remains. Small producers in these sectors rely heavily on government support, even in the best of times, but their governments' ability to provide support is diminishing under mounting economic pressure. International sources of support that keep these producers in the formal market could have a positive impact on food security and poverty alleviation.

The COVID-19 crisis is also disrupting the transition to sustainable agricultural production, which these countries have committed to in the medium term. Nature has suffered a pandemic-like crisis continually for a century or more, with estimated extinction rates >100 times higher than a 'natural turnover rate'.[2] Governments on both sides of international financial flows have recognised this through various treaties on biodiversity, and a large number of farmers have begun transitioning away from unsustainable agriculture practices. However, the pace remains slow, and sustained government direction and support is necessary to meet international commitments and reverse the devastating loss of biodiversity and natural capital caused by current practices. COVID-19 could also derail this transition by drastically reducing government resources to support the sectors' transformation to sustainable practices. Some governments have already turned to relaxing environmental standards and enforcement, and farmers could be encouraged to return to poaching and deforesting.[3]

International financial flows are already deploying the necessary tools to avoid the economic upheaval. International financial flows play a critical role in supporting emerging markets' agricultural sectors both in normal times and in times of crisis. This role can be broken down into five main vehicles, all of which are being deployed as part of the COVID-19 response:

- **Foreign Investment –**the DFIs and private international investors provide financing to agricultural producers and to related infrastructure, supporting improvements in productivity and livelihoods. The multilateral development banks have already announced their intention to increase and accelerate investment to confront the COVID-19 crisis.
- **Monetary and financial stability instruments** – access to IMF's reserves denominated in Special Drawdown Rights and the Federal Reserve's Dollar Swap Lines help countries to maintain financial liquidity and stable exchange rates. This is critical for a healthy trade and investment environment for agricultural commodity sectors, and both are being used now to counter the economic effects COVID-19.

[1] markets.businessinsider.com
[2] Ceballos *et al* (2015). Accelerated modern human–induced species losses: Entering the sixth mass extinction. Science Advances: Vol. 1, no. 5, e1400253
[3] https://www.ohchr.org/EN/NewsEvents/Pages/DisplayNews.aspx?NewsID=25794&LangID=E

- **Stabilisation loans –** IMF loans help stabilise countries by addressing balance of payments problems and ensuring stable government operations in times of crisis. It is often tied to conditions on economic policies. The IMF is currently mobilising to deploy $1 trillion in lending.
- **Sovereign debt** – debt issuance to international markets enables government investment and operations that in turn support the growth of their commodity producing and exporting sectors. Eased terms of debt repayment proposed by major creditors are now key to ensuring stability in those sectors during the COVID-19 crisis.
- **Overseas development assistance** – grant based funding from more developed to less developed countries supports both government capacity building and direct support to sustainable development, with large volumes going to rural, agricultural communities. OECD countries are currently determining how to deploy their ODA to help address the COVID-19 crisis.

Using proven and existing mechanisms to assure international finance is aligned with existing national commitments, the emergency flows can also save nature. Importantly, this in no way needs to compromise the short-term aims of these flows. Three main conditions can drive these win-win outcomes:

- **Foreign Investment to the agricultural sector by DFIs should be channelled heavily, if not exclusively, through green credit lines**. Such mechanisms exist in most biodiversity-rich developing countries,[4] with the necessary knowledge and financial infrastructure to provide timely support through these difficult times.
- **IMF lending and granted/lent SDRs** (from developed to developing countries) **should be conditional on maintaining environmental regulations and accelerating their planned extension.** Reducing such regulations plays no meaningful role in addressing the crisis, and their elimination threatens these sectors ability to trade internationally in the future. Ideally, this would be complemented with overseas development assistance to provide direct budgetary top-ups and technical assistance for enforcement agencies.
- **Debt relief is tied to accelerating existing commitments to extend protected areas to biodiversity hotspots and if possible to accelerate forest restoration projects.** These conditions should simply accelerate these countries' implementation of existing international commitments (e.g. Paris NDCs). With depressed commodity demand and prices, such activities come at an opportune time to support rural communities, although there could be flexibility to spread budgetary commitments to these activities beyond the current crisis period.

Our estimates suggest that this can be achieved through a relatively small portion of overall stimulus funding, but with a razor-sharp focus on nature. Under current expectations, we believe that nature-related conditions could be tied to up to $40bn in stimulus (excluding ODA), representing c.1% of stimulus likely to be channelled into these countries. Nevertheless, even this 'small' amount could not only support rural livelihoods, but effectively accelerate the rescue of nature by five years or more, based on current estimated flows toward such solutions.[5] Without slowing the flow of emergency financing mechanisms, countries could agree to these basic principles upfront, and then work with existing international institutions to meet these agreed conditions over the coming weeks and months.

[4] https://www.cbd.int/financial/2017docs/ice-creditlines2017.pdf

[5] Such flows are not well documented, but best estimates are that financial flows to protect nature in developing countries (excluding China) amount to roughly $10 billion per year, and less than half that amount excluding ODA. See: Parker, C., Cranford, M., Oakes, N., Leggett, M. ed., 2012. The Little Biodiversity Finance Book, Global Canopy Programme; *and* Perry, E. and Karousakis, K., 2020. A Comprehensive Overview of Global Biodiversity Finance, OECD.

2. How the damage of COVID-19 could be amplified

The COVID-19 crisis may trigger a vicious cycle in developing countries, increasing the likelihood of an economic recession and reducing fiscal space to counteract it. Developing countries are experiencing extreme capital flight as international investors shift their money into jurisdictions and assets perceived as the most secure.[6] This has placed downward pressure on local currencies, increasing the cost of imports, and accessing and servicing international debt. In parallel, commodity prices have been volatile and falling, introducing uncertainty to export and tax receipts. Figure 1 demonstrates the increase in price volatility across a selection of key commodities since December 2019. Rating agencies have systematically downgraded sovereign debt making it more difficult and expensive for developing country governments to raise finance and respond to the crisis. The IMF now predicts negative growth rates for most developing economies worldwide[7]. Additionally, sovereign debt servicing costs will become a major burden for governments in the developing world.

Figure 1 CME – Soft commodity prices

Source: CME, 2020

Note: AWM2020 Bloomberg Commodity Index (June 2020), KTK2020 Coffee Futures (May 2020), YOK2020 Sugar Cane Futures (May 2020), LBSK2020 Lumber Futures (May 2020), LEM2020 Live Cattle Futures (June 2020), DCK2020 Milk Class III Futures (May 2020), CPOK2020 USD Malaysian Crude Palm Oil Calendar Futures (May 2020), ZCK2020 Corn Futures (May 2020), ZWK2020 Wheat Futures (May 2020), **ZSK2020** Soybean Futures (May 2020)

[6] https://voxeu.org/article/covid-19-crisis-dollar-and-capital-flows
[7] https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020

At a domestic level, the crisis is shifting demand patterns and disrupting supply chains in the food sector, creating additional uncertainty for agricultural commodity markets and rural livelihoods. Changes in consumption patterns including precautionary buying and the closure of out-of-home food outlets has caused unprecedented and sudden shifts of demand within the retail and hospitality sector.[8] Supply chains are struggling to keep pace as reorienting production and distribution systems takes time. In addition, suppliers face increased restrictions and uncertainties regarding international trade, the viability of local distribution and labour shortages under new lockdown measures and market closures. For vulnerable upstream producers, this downstream volatility presents a material risk of disrupting their livelihoods.

This uncertainty is likely to drive fragile agricultural producers to revert to unsustainable practices, reversing years of progress in the transition to sustainable agriculture. Rural communities have increasingly begun to build stable and sustainable livelihoods, with farmers shifting from subsistence and informal agriculture into commercial and sustainable agriculture. However, they remain dependent on concessional finance programmes and stable commodity demand to consolidate this transition. Most farmers have little or no savings, and their livelihood is secured through each harvest. Moreover, many supply chains and trade relationships are relatively nascent and fragile as a result, especially those that connect the most rural communities and ensure them a fair price.

Local government and IFIs have been the primary funding source for the transition, and remain critical to maintaining progress, and avoiding serious damage, throughout the crisis. Financing has been provided to increase land productivity; reduce fertiliser, pesticide, water and energy use; to encourage investment into technologies that reduce GHG emissions and nutrients run-off; link producers to formal markets; and increase their resilience through agricultural insurance. In recent years, countries like Brazil, Ghana, Indonesia, Mexico and Thailand have deployed hundreds of millions per year in green lending, with a significant proportion going to the agricultural sector.[9] This support has taken the form of concessional debt programmes, technical assistance and grants. As rural farmers face additional risk in the face of the COVID-19 crisis, there is a need for greater financial support through these channels, particularly as local governments face unprecedented fiscal strain.

Alongside this, there is a risk that progress towards the sustainable transition among larger-scale commercial producers slows as a result of stimulus package incentives. Some of the largest producer countries in the world have achieved considerable progress towards halting large-scale commercial deforestation. In the case of Brazil, enhanced monitoring and enforcement efforts combined with government-funded concessional credit programmes have encouraged companies to curb deforestation and plan towards a sustainable transition.[10] At the same time, the reduction of government support from such measures in response to economic concerns has resulted in a reversal of such progress.[11] Commercial-scale producers are highly sensitive to the government enforcement and the availability of financing instruments as the cost of penalties and cost of capital have a significant bearing on profit margins. If regulation is relaxed and agricultural finance is channelled through traditional (rather than 'green') instruments, this will have a significant impact on production and investment plans and hence, the pace of change in the industry.

Without sufficient and targeted funding, the social and environmental damage caused by the COVID-19 crisis will be amplified on a large scale. This represents a significant step backwards for rural communities, local government and IFIs across several dimensions:

[8] https://blogs.worldbank.org/voices/three-imperatives-keep-food-moving-time-fear-and-confusion
[9] https://www.ifc.org/wps/wcm/connect/12ebe660-9cad-4946-825f-66ce1e0ce147/IFC_Green+Finance+-+A+Bottom-up+Approach+to+Track+Existing+Flows+2017.pdf?MOD=AJPERES&CVID=lKMn.-t
[10] https://climatepolicyinitiative.org/publication/deterring-deforestation-in-the-brazilian-amazon-environmental-monitoring-and-law-enforcement/
[11] https://www.nature.com/news/deforestation-spikes-in-brazilian-amazon-1.21083

1. **Poverty and hunger:** Millions of rural farmers will face hardship, unable to provide food and essential goods for their families without stable livelihoods.
2. **Food security:** Further disruptions to supply chains in the global food system will exacerbate food security concerns, and hit the poorest and most vulnerable in society the hardest.
3. **Deforestation:** With a lack of alternatives, rural communities will return to traditional, unsustainable practices, dramatically increasing pressures on deforestation.
4. **Biodiversity:** Habitat loss, increased use of fertiliser and natural resources, and a rise in poaching and wildlife trafficking will cause irreversible damage to stocks of natural capital, particularly in Latin America and Africa.

3. Nature-friendly international financial flows

By acting decisively now, IFIs have an opportunity to mitigate this damage and dramatically lower the cost of meeting their long term environmental objectives. Large injections of capital to support sustainable activities in rural communities, both directly through existing 'green' credit lines and via local governments, is cost-saving in two key ways:

1. Delaying action on climate and biodiversity provides less time to support the transition, reduces opportunities for innovation, increases the risk of severe physical impacts and allows greater loss of nature over time. Climate mitigation responses become 40% more expensive each decade they are put off.[12]
2. The cost of maintaining the fragile markets and networks that IFIs have built with rural communities is far lower than allowing them to fail and attempting to rebuild them after the crisis has passed.

Even a small amount of the massive international financial flows deployed to support developing countries could enhance the conservation of nature significantly. International financial flows are seeking to avoid the economic upheaval by activating emergency foreign investment, allowing governments to access monetary and financial stability instruments, relaxing fiscal rules to issue additional sovereign debt and providing overseas development assistance. Using proven and existing mechanisms to assure international finance is aligned with existing national commitments, the emergency flows can also save nature. For example:

- foreign investment to the agricultural sector by DFIs should be channelled heavily, if not exclusively, through green credit lines.
- IMF lending should be conditional on maintaining environmental regulations and accelerating their planned extension.
- In general, debt relief should be tied to accelerating existing commitments to extend protected areas to biodiversity hotspots and if possible to accelerate forest restoration projects.
- Although unprecedented, SDRs lent by developed countries to developing countries could also be conditional on maintaining environmental regulations or accelerating future commitments.

Our estimates suggest that this can be achieved through a relatively small portion of overall stimulus funding, but with a razor-sharp focus on nature.

[12] https://scholar.harvard.edu/files/stock/files/cost_of_delaying_action.pdf

International capital flowing into developing countries

International financial institutions have pledged $1.46 trillion to fund rescue and recovery stimulus packages in developing countries. The money is divided as follows:

- $1.2 trillion of the total comes from the IMF. Although both developed and developing countries are eligible, it is mostly developing countries seeking support. The entirety of these funds will be channelled through stabilisation loans and grants, in particular:
    - Stabilisation loans: developing countries can either augment existing lending programmes or request support from the Rapid Credit Facility (RCF) and Rapid Financing Instrument (RFI). Economic policies supported under the RCF should aim at addressing the underlying balance of payments difficulties and support the country's poverty reduction and growth objectives.
    - Grants for debt relief: the Catastrophe Containment and Relief Trust (CCRT) allows the IMF to provide grants for debt relief to the poorest and most vulnerable countries with outstanding obligations to the IMF to help address disasters, including public health disasters. The CCRT is currently underfunded with just over $200 million available against possible needs of over $1 billion.

  When a country borrows from the IMF, its government agrees to adjust its economic policies to overcome the problems that led it to seek financial aid. These policy adjustments are conditions for IMF loans and serve to ensure that the country will be able to repay the IMF. This system of conditionality is designed to promote national ownership of strong and effective policies (support the country's poverty reduction and growth objectives). Fund support under the RCF is provided without ex-post program-based conditionality or reviews.

- The World bank stands out as the Multilateral Development Bank with the largest pledge of $180 billion. The set of tools available to the bank spans from foreign investment, stabilisation loans and overseas development assistance. Public project finance and budget support (especially of the health sector) will be done by the International Bank for Reconstruction and Development (IBRD), while foreign direct investment is done by the IFC. IBRD is likely to channel more that 80% of the total investment. It is expected for many existing loans to be repurposed and catastrophe deferred drawdowns to be triggered. Additionally, the Bank has also facilitated procurement of medical equipment.
- The remaining $80 billion are divided among 250+ initiatives by regional development banks.[13] Like the case of the World Bank, most capital will be channelled through foreign investment, stabilisation loans and official development assistance (ODA).

Rescue packages for developing countries are large but insufficient, fortunately the IMF and MDBs have the capacity to raise more capital through different mechanisms. The most widely discussed mechanism is the massive SDR issuance that could be undertaken by the IMF.[14] This tool was already used to issue $283 billion during the 2008 financial crisis, and many economists are arguing for it to be done again at a larger scale (>$1 trillion). This issuance would infuse liquidity into the market by adding to each member's foreign currency reserves. On the other hand, MDBs could tap into highly liquid global capital markets or even sell bonds to Central Banks.

SDRs are distributed in proportion to member's quotas in the fund, meaning developed countries who do not need them would be able to transfer their units to developing countries who do. This redistribution

[13] https://public.tableau.com/views/COVIDFundingvisualisation/COVID-19funding?:embed=y&:toolbar=no&:display_count=no&:showVizHome=no
[14] https://www.brookings.edu/blog/future-development/2020/03/26/imf-special-drawing-rights-a-key-tool-for-attacking-a-covid-19-financial-fallout-in-developing-countries/

would be done on a voluntary basis, meaning that “donor” countries could have discretion to choose the recipient country. The IMF might also set a special purpose vehicle to orchestrate the issuance and redistribution of SDRs.[15] This issuance would prove essential to halt debt service payments on sovereign debt but on private loans as well. Both middle income and poor countries could benefit from this issuance because SDRs can be lent or donated.

Capital flowing into agriculture

Out of the pledged international flows outlined above, at least $2.7 billion have already been earmarked to the sector. This is a lower bound estimation based on announcements that mention the agriculture explicitly. This means that the real amount of capital is considerably higher:

- The IFC will direct a substantial part of its to the agriculture sector: "$2 billion from the Real Sector Crisis Response Facility. IFC will offer loans to companies in need, and if necessary, make equity investments."[16]
- The World Bank announced the following support to agriculture related relief packages in Kenya[17], Pakistan[18] and South Sudan[19] worth $358 million approximately.
- The Interamerican Development Bank has already lent $300 million to Panama to avoid negative consequences of COVID in the agriculture sector.
- The EU is supporting developing countries, including agricultural support worth $20 million to protect the income of the most vulnerable populations and support to the agriculture sector to boost food production. Particular emphasis is given to already fragile contexts, mostly in sub-Saharan Africa, where major threats are already affecting food and nutrition security, like the Desert Locusts plague in East Africa/Horn of Africa." [20]

We estimate that up to an additional $40 billion will benefit the sector through liquidity infusions that flow naturally to the sectors that need it the most. This assumes that international flows that do not explicitly announce a sectoral breakdown, are assigned as governments would normally assign resources across sectors (based on historical government spending)[21] with weighting reflecting the agriculture sector’s vulnerability to the crisis.

Nature-friendly stimulus through green credit lines or imposed conditionality

MDBs are particularly well suited to channel capital into the sector because they have the necessary financial infrastructure and footprint in developing countries. The World Bank’s discussion paper ‘Making Climate Finance Work in Agriculture’ estimates that MDBs invested $6-8 billion in the agriculture, forestry, and other land-use sector in 2014.[22] This means that existing green credit lines between MDB and developing countries are well established after decades of investment and there financial pipelines are there to streamlines stimulus into the sector. Additionally, these investments have created the necessary footprint to quickly increase technical assistance via existing delivery channels. In addition to existing green credit lines, fast-

[15] https://www.ft.com/content/2691bfa2-799e-11ea-af44-daa3def9ae03
[16] https://www.ifc.org/wps/wcm/connect/news_ext_content/ifc_external_corporate_site/news+and+events/news/covid-19-response
[17] Kenya: 50 million. “COVID-19 threatens lives and livelihoods, and a rapid response is needed for food security, nutrition, and schooling.”
[18] Pakistan: 300 million. “Pandemic Response Effectiveness Project (PREP) will also help the poor and vulnerable cope with the immediate impact of the pandemic through social protection measures, food rations, and remote learning education.”
[19] South Sudan: 7.6 million. “The COVID-19 outbreak is anticipated to overburden South Sudan’s weak public health preparedness and response systems and may have a socio-economic impact on South Sudan in terms of increasing food insecurity and deepening poverty and vulnerabilities,” said Husam Abudagga, World Bank Country Manager for South Sudan. “The CERIP will provide emergency funds to help South Sudan to meet critical resource needs as outlined in the COVID-19 Nation Preparedness and Response Plan.”
[20] https://ec.europa.eu/commission/presscorner/detail/en/qanda_20_606
[21] http://www.fao.org/economic/ess/investment/expenditure/en/
[22] Palmer, N. (2016). Making climate finance work in agriculture. http://documents.worldbank.org/curated/en/986961467721999165/pdf/ACS19080-REVISED-OUO-9-Making-Climate-Finance-Work-in-Agriculture-Final-Version.pdf

track facilities could also be used to support the construction of irrigation systems, establish tree nurseries or recover degraded areas. Finally, existing loans could be repurposed and expanded to meet short term needs. For example, on 26 March the World Bank announced a $300 million investment into the Green Agriculture Fund in China which could be frontloaded to respond to the crisis.[23]

Box 1 Green credit lines – Case Studies

- Low Carbon Agriculture programme (ABC Programme)[24]: The project provides subsidised credit lines and technical assistance to promote farmers to adopt integrated crop-livestock-forest systems, agroforestry systems, recovery of degraded lands, and sustainable management of extractive forest-based products, where less trees are cut down and cattle can co-exist and graze amongst crops and forest. To date, it has directly benefited over 18,000 farmers and avoided the deforestation of 8,550 hectares. A recent survey involving more than 3,400 producers who were part of the project, has shown that 99% had increased incomes and 99.4% intended to continue or increase their sustainable practices.
- The Amazon Sustainable Landscapes Program (ASL Program) [25]: With a commitment of US$113 million of GEF resources and an expected US$682 million leveraged in additional financing, the project aims to protect globally significant biodiversity and implement policies to foster sustainable land use and restoration of native vegetation cover. The Program comprises four national projects executed by Brazil, Colombia, and Peru and a regional coordinating project. Together, the program aims to strengthen management effectiveness of almost 65 million hectares of Protected Areas, facilitate the creation of 4.3 million hectares of new protected areas, promote sustainable practices in 11 million hectares of productive landscapes, restore 35,000 hectares of forests, and support actions that help mitigate emissions by 166 million metric tons of carbon dioxide equivalent.
- C6 Programme[26]: This programme develops a comprehensive management plan for coastal basins from creating and consolidating protecting areas to monitoring and long term management in Mexico and provides financing to execute it. The programme brings together four main institutions including the National Commission for Protected Natural Areas, the National Forest Commission, the National Institute of Ecology and Climate Change, and the Mexican Fund for Nature Conservation. The project has avoided over 4 Mt of CO2eq while covering 3.8 million hectares of coastal area along both the Gulf of Mexico and Gulf of California and protecting the production of regional crops and agriculture.

Conditionality of stabilisation loans should be expanded beyond poverty and growth targets, to covering environmental targets. IMF loans have a long-standing history of providing both a lifeline to countries in times of crisis *while also* supporting the implementation of adjustment policies that create the conditions for a stable economy and sustainable growth. In the context of the COVID-19 crisis and its interface with nature, the IMF or the World Bank could provide loans while supporting and securing commitments to strengthen regulatory measures in support of sustainable agriculture, to extend protected areas to biodiversity hotspots

[23] World Bank (2020). https://www.worldbank.org/en/news/press-release/2020/03/26/china-developing-green-finance-in-agriculture
[24] https://blogs.iadb.org/sostenibilidad/en/low-carbon-farming-in-brazil-can-benefit-farmers-and-curb-climate-change/
[25] https://www.worldbank.org/en/programs/amazon-sustainable-landscapes-program/overview
[26] http://www.c6.org.mx

and to accelerate forest restoration projects. These conditions should simply accelerate these countries' implementation of existing international commitments (e.g. Paris NDCs), ensure resilience to future crises and increase the country's ability to pay debts through more stable and resilient commodity export sectors.

The SDR issuance and lending/granting (from developed to developing countries) should be made conditional on maintaining environmental protections, and the associated enforcement resources. Although yet to be fully established as a stabilisation mechanism, the expansion of SDRs – whether through issuance or lending/granting – also offers a mechanism through which countries can be encouraged to strengthen the sustainability of their agricultural sectors. The conditionality could be designed and enforced by the "donor" country or through a special purpose vehicle within the IMF (which would need to be established to execute the issuance anyway). Conditionality on both stabilisation loans and SDRs could be complemented with ODA that provides direct budgetary support and technical assistance for enforcement agencies at the national level.

Box 2 IMF conditionality can be extended to environmental commitments by countries

When a country borrows from the IMF, its government agrees to adjust its economic policies to overcome the problems that led it to seek financial aid. These policy adjustments are conditions for IMF loans and serve to ensure that the country will be able to repay the IMF. This system of conditionality is designed to promote national ownership of strong and effective policies and ensure the liquidity of the international monetary system. The program's conditionality depend on a country's circumstances but the overarching goal is always to restore or maintain balance-of-payments viability and macroeconomic stability while setting the stage for sustained, high-quality growth and, in low-income countries, reducing poverty.

The general problem with this conditionality at times of COVID is that a large proportion of its funds cannot be allocated because many developing countries are unable to meet the conditionality of its programmes. The situation that lead them to request IMF support lies beyond the government's control. This issue froze large part of the available rescue and recovery funds, leaving only special rapid assistance facilities (with loose conditionality) of 100 billion approximately, to insufficiently meet an increasing demand.

It is possible that the IMF will need to review its Program Design and Conditionality to accommodate pandemic like needs, opening a door to introduce environmental conditionality. The IMF periodically reviews the performance of its programmes (last comprehensive revision in 2018). The role of the fund in addressing climate change can be summarised as it Managing Director puts it: "The Fund is not an environmental organization, but climate change poses significant risks for macroeconomic performance and several of the appropriate policy responses lie within the Fund's expertise." Given recent flagship publications that treatment of environmental issues as a central issue for fiscal and macro stability, it is more likely than ever that the Board will decide to include environmental conditionality in their programme design.

Reducing debt obligations for developing or in-transition economies gives the country more control over their credit and allows for less shock during future economic crises.[27] Given the 2008 recession sent many developing countries into a high debts with fiscal deficits and inflating currencies, reducing debt obligations of these countries can allow them to continue to borrow during this crisis and lessen their historical debt. Debt obligations in developing countries has continued to rise in the last decade, with over half of low-income countries considered in debt distress or high risk of debt distress.[28] At the G20 summit this April, the

[27] UN Trade and Development (2015). https://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=1358
[28] Overseas Development Institute (2019). https://www.odi.org/blogs/10801-low-income-country-debt-three-key-trends

countries involved suspended debt service payments on bilateral development assistance.[29] Reducing this debt means the credit rating of vulnerable countries may improve. This can lead to an improved domestic lending environment, and align private and public investment with long run sustainability and development goals for the country.[30] An extension of debt relief beyond what we have already seen through the G20 Summit this month can help further reduce the risk borrower countries face, and can additionally provide global benefits if coordinated to have a climate condition.

Debt relief for conservation commitment through a debt-for-nature swap can reduce the debt burden of developing countries in need of additional support during the crisis. [31] Established funds that provide direct capital or loans for biodiversity or nature related projects can buy a country's debt obligation in exchange for a conservation contract where a contribution is made to ecosystem services, environmental or scenic value of nature.[32] The US has been carrying out debt-for-nature swaps since 1990, when the debt crisis of the 1980s coalesced with the growing concern for deforestation in the Amazon. The US has cancelled $1.8 billion worth of debt while the rest of the developed world has cancelled $1 billion total in debt through debt-for-nature swaps.[33] This financial instrument can leverage a triple-win situation for creditors, debtors, and the environment where debt that is most unlikely to be repaid is covered by a third party investor and debtors are able to meet their obligations without direct payment in return.[34] Debt-for-nature or debt-for-climate swaps are a creative approach building upon basic international lending norms that can help ensure mitigation programmes that have been committed to are funded while at-risk countries are able to meet their obligations without further accumulating debt.[35]

Conclusion

The instruments of green financing are already designed for and available for fuelling both the recovery and the long-term sustainable development of COVID impacted countries. Aligning international financial flows with the already established climate commitments made by developing countries locks in the funding and avoids the cost of setting up a separate mechanism for this funding in the future or reinvigorating green lines of credit post-crisis when lending is more difficult. This generates a pro-climate 'lock in', ensuring climate related development funding will not be undercut by other short-term priorities. By aligning the recovery of agriculture and forestry sectors with climate related goals, we reduce the future transition and physical risk of these assets while also mainstreaming climate goals into international financial mechanisms.

Channelling funds at the margin towards climate and nature based solutions protects vulnerable countries against the future risks of both environmental and economic disasters. We acknowledge most funding will be secured through emergency relief funding to ensure developing and vulnerable nations receive the proper healthcare and social funding necessary to get through the COVID-19 crisis. But, investing in mitigation and adaptation solutions as a part of a resilient recovery can be done without disrupting or making conditional the emergency funds needed for healthcare and immediate economic relief. By making further funding available to those who overperform, there is a reward for countries which undertaken longer term efforts to sustain their recovery for many years ahead.

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