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**Statement by Mr. Mouminah, Mr. Alhomaly, and Mr. Abalala on IMF Strategy to Help Members Address Climate Change Related Policy Challenges—Priorities, Modes of Delivery, and Budget Implications
(Preliminary)
Executive Board Meeting
July 16, 2021**

We thank staff for the well-written paper and outreach, which allowed us to exchange views and clarify important issues. The paper lays out how staff envisages the IMF to engage on climate in line with its mandate and the associated organizational and resources implications. We broadly welcome the more balanced approach of the Fund’s strategy that focuses on GHG emissions rather than sources, anchors the mitigation policies and transition management around NDCs under the Paris Agreement, and recognizes the existential challenges that fossil fuel exporters may face in case of global transition to a low-carbon economy. Here, we stress that careful and well-managed execution based on Paris Agreement principles will be crucial to the success of the strategy. Further, gradual implementation of the strategy is key to help the Fund manage its scarce resources efficiently. Staff are strongly encouraged to continue its efforts to ensure further convergence of views on climate issues. Against this backdrop, we would like to make the following points.

We remain to be of the view that the Fund’s engagement in climate change must be within its core mandate, in collaboration with other relevant IOs, and where macro-critical. In this context, the evolution of the Fund’s role in helping its membership withstand the climate-related challenges is welcome, but should be carefully managed and fall within its mandate, while leveraging the expertise of other IOs. We see that more needs to be done to ensure that the Fund’s work on climate issues complement other international institutions including UNFCCC. Here, we see a rising need for developing a framework of the Fund’s engagement in climate issues that clearly illustrates how its work fits within the broader

context of the ongoing global efforts on climate change. In addition, the proposed strategy must ensure that work on climate will not come at the expense of other priority areas. Evenhandedness and equity in dealing with climate are still worth much further consideration, especially when setting out the yardstick to identify large emitters. A more balanced approach would be the one that takes into account the “stock” of emissions, rather than the “flow”, that was built since the industrial revolution, which brought great economic gains and social welfare in a subset of the membership.

We are of view that stepping up the IMF’s engagement based on the proposed strategy creates a risk of being perceived as overstepping its mandate, as highlighted in the paper. We agree that the Fund needs to limit its engagement to issues with a clear link to macroeconomic and financial stability. Involvement in mitigation policies and transition management must continue to be anchored around multilateral consensus and bottom-up approach. Moreover, coverage of mitigation in surveillance should remain demand-driven and on voluntary basis. Here, we reiterate our position that the Comprehensive Carbon Pricing Policy including ICPF and BCA is divisive and difficult to reach consensus on. Therefore, the strategy must refrain from embarking on top-down approach policy that lacks multilateral consensus. These highly sensitive issues of climate change are extensively discussed under the UNFCCC and COPs which remain the appropriate fora. Relatedly, we encourage the Fund to adopt and promote technology solutions within the Circular Carbon Economy framework as part of its strategy on multilateral surveillance, and policy advice, including the flagship reports and policy papers.

We welcome the Fund’s engagement on adaptation policies to strengthen resilience, especially for members that are vulnerable to natural disasters. Here, it is important to leverage the expertise of other relevant IOs, including the World Bank and UNFCCC. Indeed, the fiscal cost of adaptation and resilience building can be sizable, which can give rise to fiscal management and debt sustainability challenges. To that, the Fund needs to assist its members in managing these challenges. We take note that IMF-support programs can play a role in helping build climate-resilient economies, within the Fund’s lending mandate whereby the IMF provides financing to members in resolving BoP problems. However, we caution against applying climate-related conditionalities on financing instruments as it may result in adverse implications for many struggling emerging markets and developing economies. On the same note, we expect the Fund to advocate for more support from developed countries in meeting their financial commitment of USD 100 billion per year, including by regularly covering the progress in this regard in the Flagship publications.

On transition management, the Fund must acknowledge the fact that the global economy will continue to require investment in all energy sources and ensure a

balanced energy mix. To that, as staff develop the strategy further, we underscore the importance of taking into account the country-specific circumstances and avoid the one-size fits all approach. Here, the Fund should provide practical policy advice for commodity exporters on economic diversification, including through advancing technological advancement in the energy sector. It is also vital to address the growing energy needs of developing countries, especially given the lack of fiscal space. In addition, we encourage staff to adopt a more holistic approach and recognize the importance of technology solutions for countries to meet their NDCs.

On the FSAP, we take positive note of staff’s collaboration with the FSB on climate risks and financial stability, and look forward to further details. We consider that any assessment of climate-related topics in the FSAP should be based on the standards developed by other international bodies. Further, we encourage staff to continue its efforts to enhance collaboration with other relevant IOs on all climate-related issues.

Finally, we cautiously noted the budgetary and organizational implications of the proposed strategy. Staff indicated that the Fund has exhausted all internal avenues to reallocate resources within a flat budget. Here, we are of the view that this topic should be carefully discussed as part of the overall IMF budget discussions. We welcome the Fund’s intention to green its operations and reduce its carbon footprint, and look forward to more details. Here, we underscore the importance of maintaining the quality of work to continue serving its members effectively.