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**Statement by Mr. Moreno, Mr. Guerra, Mr. Romero Tarazona, and Mr. Lopez 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 strongly support staff’s view that the time has come to scale up and give structure to the Fund’s engagement on climate change.** We welcome staff’s report on the IMF Strategy to Help Members Address Climate Change Related Policy Challenges. Climate change is an existential global threat and the IMF must contribute to the international efforts to address it. The sooner countries start facing the challenges posed by climate change, the smoother the process of mitigation, adaptation and transition will be. Equally important, addressing climate change must be considered an opportunity for all members to transform our economies towards sustainable growth models, boosting technological change, investment and employment along the way. For this purpose, the Fund needs to shift from the actual ad-hoc and unstructured approach to a systematic engagement and close dialogue with authorities based on a comprehensive strategy that clearly defines our mission, goals, and implementation framework.

**The IMF’s work on climate change should be guided by three principles: macro criticality, areas of expertise, and a strong collaboration with other institutions.** For this purpose, the Fund will need to increase its internal capacity and analytical toolkit, and it will have to adapt its surveillance, lending and capacity development activities to reinforce its role as “trusted advisor” and ensure traction of policy recommendations. The climate strategy will also require a deep assessment on resource needs, including budgetary and human resources increases while also considering savings and efficiencies.

**The IMF’s multilateral surveillance should confront the global implications of climate change policies.** Addressing this global challenge necessarily requires international cooperation and coordination to avoid free-riding behavior, while mitigating potential spillovers. Through its flagship reports, the IMF is in a privileged position to signal and

monitor risks, to assess aggregate developments on climate goal policies, to analyze international spillovers, to learn from cross-country experience, to promote a harmonized taxonomy and definition of climate topics, and to provide policy recommendations related to the global and regional macroeconomic and financial implications of climate change. The Fund should promote comprehensive strategies (i) to facilitate mitigation that include, if appropriate, the use of carbon pricing mechanisms—while providing targeted support for the most vulnerable—green investments and technological transformation; (ii) to help the economic transition and adaptation—while limiting their costs in terms of competitiveness and distributional effects—that include fiscal and financial policies, along with the design of financing strategies to help the green transition and (iii) to close data gaps on climate-related issues, which constitute a critical objective to adequately assess risks and inform policy decisions.

**On bilateral surveillance, we welcome the systematic inclusion of climate change policy discussions in Article IVs and FSAPs.** Given the structural nature of these policies, we welcome the multi-year cycle in both Article IVs and FSAPs proposed by staff, which should be reviewed as part of a specific follow-up evaluation on the climate change strategy. The Fund should also develop adequate analytical tools to support its work, including macroeconomic models, stress tests for the financial sector, and the integration of climate risks in debt sustainability assessments. The focus of policy analysis in Article IVs on either mitigation, adaptation or transition must be contingent to country characteristics, in close consultation with country authorities, while policy recommendations must be tailored to country-specific circumstances. The FSAP should evaluate physical and transition risks to financial stability, along with policies to enhance the resilience of the financial system. To this end, collaboration with the WB, the FSB, the NGFS and other standard setters is critical to ensure adequate and standardized data and analytical tools, as well as coordinated policy messages.

**We support staff’s proposal to cover mitigation policies in the bilateral surveillance of the largest emitters in line with their global public-good character.** The analysis should be done in the context of the Paris Agreement and national mitigation plans. The IMF can provide a significant value added to its engagement with country authorities through a comprehensive and multidimensional discussion on international best practices and cross-country experience to reach mitigation objectives while limiting adjustment costs, distributional effects, and competitiveness challenges. Climate adaptation and transition constitute more common and prominent challenges across the membership, especially among LMICs and small states—many of them exposed to recurrent extreme weather conditions and catastrophes—or among specific country-groups such as oil exporters or tourism dependent countries.

**Surveillance, lending and capacity development will need to be well-integrated to help the most climate-vulnerable countries.** The IMF’s engagement with LMICs will be one of the most prominent challenges in the implementation of the Fund’s strategy on climate, given their limited capacity and their multiple challenges—economic, fiscal, financial, statistical,

and financing—related to climate change. All these issues warrant a broad IMF engagement in surveillance, financial assistance and capacity development. Fund programs should introduce well-targeted measures to help build climate resilient economies, in close coordination with authorities' plans when deemed critical for addressing balance of payments problems. The planned expansion of the Climate Macroeconomic Assessment Program (CMAP), along with the strengthening of country-specific CD and regional centers, will be instrumental to enhance the Fund's engagement in these areas. Collaboration with other expert institutions will also be essential to provide a granular and well-focused analysis, policy advice and technical assistance.

**We broadly support the internal reorganization proposed by staff although we caution against its apparent complexity.** The organizational structure includes several groups, coordinators and hubs that could lead to duplications and overlaps. Although it may be a valid structure in the first stages of implementation of the climate strategy, it would be useful to explore, in the longer term, the creation of a department that would integrate new macrocritical areas, such as climate, with transversal functions and also in charge of the coordination with other institutions. *Staff's comments are welcome.*

**To successfully implement the climate change strategy, the Fund will need to devote additional resources to all areas, especially CD.** This discussion should be framed within the general budget augmentation process. We acknowledge staff's estimates of additional needs of 95 FTEs over the 60 FTEs already in place, complemented by another 20 FTEs for externally funded CD. We underscore the importance of strengthening the technical skills of the CD regional centers to reinforce regular CD on climate change in coming working plans, as they have a close engagement with country authorities and expertise on regional vulnerabilities; this can help creating synergies and developing regional approaches. Moreover, we are concerned by the fact that additional CD activities are expected to be funded by donor support, which could be insufficient especially in the initial stages of the implementation of the strategy. We note that the Committee on Capacity Building has already designated climate change as a topical growth area. *Can staff provide more information on the planned strategy related to fund raising?*

**Finally, it is paramount to upgrade and enhance our collaboration with other multilateral institutions, standard setting bodies, and other stakeholders.** It would be useful to explore the setting up of a formal framework or define clear guidelines for collaboration with other international institutions to avoid overlaps and ensure synergies.