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**Statement by Mr. Mohieldin, Mr. Alhosani, and Ms. Choueiri 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**

1. We thank staff for the helpful presentation, questions and answers session, and the outreach to our office. We appreciate their efforts to develop a Fund climate strategy and encourage close collaboration with other institutions and fora to improve leverage, prevent duplication, and increase traction. This discussion is particularly timely for our Chair as Egypt and the United Arab Emirates have expressed interest in hosting the COP 27 in 2022 and the COP 28 in 2023, respectively, reflecting strong interest in and leadership on climate change. We concur with the risk assessment embedded in the paper, in particular the fact that the proposed climate strategy would be creating new risks, such as the Fund being perceived as overstepping its mandate, unless the institution limits its engagement to issues with a clear link to macroeconomic and financial stability, and has adequate resources to carry out this specific mandate. We will turn in the remainder of our comments to key aspects of the staff's proposals and the questions raised for discussion.

**Context of the Fund's Work on Climate**

2. **Sustainability.** We remain of the view that a clear definition and conceptual framework for sustainability, as well as the role of climate within it, are essential before the Fund moves towards further integration of the implications of climate change into its surveillance, lending, and capacity development activities. It is within the Sustainable Development Goals (SDGs) that the Fund's work on climate change should fit. While advanced economies have largely been able to offset the worst effects of the pandemic owing to generous stimulus packages, many emerging markets and developing countries (EMDCs) were not able to afford similar support. As a result, they are now landed with multiple crises

which climate change is difficult to disentangle from, especially when it comes to adaptation and resilience. Staff argues that climate change is an urgent macroeconomic policy challenge. Nonetheless, focusing solely on climate aspects at the expense of decreasing poverty, increasing jobs, protecting the most vulnerable groups, and promoting biodiversity, particularly in EMDCs, will be counterproductive and would jeopardize sustainability. Climate change is, after all, SDG Goal number 13. Achieving it should not contradict the broader and more comprehensive development framework.

3. **Paris Agreement.** Countries signed up to the Paris Agreement to pursue nationally determined contributions (NDCs), i.e. nationally driven adaptation and mitigation measures that meet their specific situations, climate goals, and national priorities. We are, therefore, pleased that the proposed coverage in Article IV consultations, as well as envisaged work on in-depth analysis of mitigation and associated transition risks would be carried out in the context of the Paris Agreement. We encourage staff to maintain its work on climate in alignment with the Paris Agreement, which enjoys multilateral consensus, by giving priority to supporting member countries' NDCs while maintaining a country-based and demand-driven approach.

### **The Fund's role**

4. Within the broader context of sustainability, we agree that climate change presents a unique and unprecedented global policy challenge. The Fund has a role to play to support the global community in addressing climate change within its mandate and expertise. Given the limited expertise linking macroeconomics and climate science, the Fund is uniquely placed to work on **the nexus between macroeconomics and climate issues**.

5. Staff outlines the major challenges for macroeconomic and financial policy management that climate change is bound to trigger. We share staff's view that **the policy response to climate change can give rise to another set of macroeconomic and financial policy challenges**. Adaptation and resilience building can be fiscally costly, not only in small states but in a number of middle-income countries and also in advanced economies, namely hydrocarbon exporters, as we will discuss in more detail below.

6. **Adaptation** is a key priority for the Middle East region, and we would have appreciated a more detailed discussion of the challenges that it presents in the region, particularly that the MENA region receives the lowest finance for adaptation among all regions. Only 5 of 22 Arab States have accessed the Green Fund and the MENA region received only 6 percent of global funding for adaptation in 2017-18, or about US\$ 1.7 billion a year, according to a joint study by the Global Centre on Adaptation and the Climate Policy Initiative. The plan to step-up adaptation work in many areas, including an expansion of coverage in Article IV Consultations and Financial Sector Assessment reports, is, therefore, welcome. We urge staff to provide adequate attention to adaptation in the MENA region in

this context, including the important aspects of water, preparation of national assessments of adaptation and associated financing requirements, and support to member countries in creating an enabling fiscal environment for investments in adaptation. The Fund also plans to significantly increase climate-related capacity development (CD), including the Climate Macroeconomic Assessment Program, which is particularly relevant for adaptation, and we call for adequate coverage of MENA countries in this regard.

7. We appreciate staff's recognition that a global transition to a low-carbon economy creates existential challenges for many **countries that depend on fossil fuel exports**. Nonetheless, the solutions that are proposed in the paper, i.e. financial diversification and real diversification, are insufficient. We would like to suggest the following avenues for the Fund's work on climate in multilateral surveillance, policy papers, and Article IV reports:

- a. **The role of fossil fuels.** The Fund needs to recognize the role of fossil fuels as an important source of growth in EMDCs. Fossil fuels will continue to be important for efforts to bridge the large energy gap and provide affordable and reliable power supplies, which are essential for development and job creating industries. On this topic, the comments of Robert Kaplan, the Dallas Federal Reserve President, last January, are noteworthy. He stressed that even as the U.S. economy makes the switch over the coming decades to renewable energy, the country needs to ensure its fossil fuel industry stays healthy.
- b. **Challenges of oil producers and exporters.** Careful consideration of the trade-offs of climate actions in hydrocarbon-producing/exporting countries is needed. This includes consideration of the opportunity cost of climate actions as well as the speed of adjustment and costs of transition.
- c. **Technology solutions.** The Fund's work should focus on technology solutions that enable fossil fuels to become more climate friendly. Many oil-exporting countries in our region are currently exploring new sources of clean energy, including green hydrogen and renewable sources, to add to their existing energy mix, in line with their green economy strategies. As part of this effort, they are embarking on extensive investment programs to promote "healthy fossil fuels."
- d. **Extractive industries.** The Fund's work also needs to carefully consider the transformation process in extractive industries. A May 2021 UN report on *Transforming Extractive Industries for Sustainable Development* shows that mineral resource extraction plays a dominant role in the economies of 81 countries that account for a quarter of global GDP, half of the world's population and nearly 70 per cent of those living in extreme poverty. It indicates that extractive industries have immense potential to drive growth,

support sustainable development, and reduce poverty in developing countries. It is essential that the transition to more sustainable systems be managed very carefully in these countries.

- e. **Carbon Pricing.** We had the opportunity to discuss staff proposals for an International Carbon Price Floor and Border Carbon Adjustment last June. There are several concerns in our region, that are shared by some EU countries, that carbon pricing may be regressive and overly burdensome for the poorest households. There are also equity concerns relating to deriving the carbon price (which is sensitive to discount rates and varies substantially across countries based on their time preference). Against this background, we encourage staff to consider alternatives to carbon pricing, such as (i) properly designed emissions trading systems; (ii) technology solutions and the G20 endorsed concept of Circular Carbon Economy, and (iii) local pollution standards and regulations, which can also contribute to reducing carbon emissions. We also see scope for the Fund to identify ways to provide more support for transition management as carbon pricing entails major changes to tax, expenditure, and regulatory policies as countries work towards achieving their Nationally Determined Contributions. As they consider these transitions, many member countries will need advice and support to: (i) Assess carbon price floors and policy alternatives, (ii) Adjust to the new global economy shaped by the transition to net zero, (iii) Manage large-scale transition challenges in the case of hydrocarbon exporters, and (iv) Budget for needed critical mitigation and adaptation investments.

## **Partnerships**

8. An increasingly large number of stakeholders are focusing on climate change, particularly in the context of the pandemic. Given the complexity of the subject and the huge resource needs, partnerships are key. We welcome the importance that they are accorded in the paper, and support the partnering areas identified by staff, notably contributions to the policy debate, improving climate data, strengthening financial stability, and collaborating with international organizations on CD. Climate change requires collaboration between the IMF, WBG, other MDBs, the UN system, and the business community. This collaboration is needed not just at the regional level, but also at the national and local levels.

## **Budgetary and Human Resources Implications**

9. Staff estimates that an addition of about 95 full-time equivalents (FTEs) would be needed to ensure that the Fund can cover most macro-critical aspects in its climate work in the steady state. We look forward to further discussion on the issue of resources in the context of overall fund resources at the upcoming budget discussion. Our priority is to ensure

that adequate resources are available to support non-systemic members countries in the core areas of the Fund's mandate.

10. Staff also estimates that externally funded CD of another 20 FTEs will be needed to ensure that members can implement Fund policy advice. We would have preferred a more moderate progression in recruitment in CD to allow sufficient time for building capacity internally before the Fund is able to step up significantly its CD delivery. *Staff's comments would be appreciated.*