



Executive Board Minutes 21/73-1

July 16, 2021–9:30 a.m.

IMF Strategy to Help Members Address Climate Change Related Policy Challenges-Priorities, Modes of Delivery, and Budget Implications

Documents: SM/21/121, and Cor. 1, and Sup. 1

Staff: Wiegand and Kostial, SPR

Length: 2 hour, 33 minutes

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CEDA OGADA
Secretary

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¹ Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary “gray” or “buff” statements by Executive Directors and staff’s responses to Directors’ technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair’s “sense of the meeting” or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF’s Transparency Policy and Open Archives Policy.

THE CHAIR'S SUMMING UP

Executive Directors welcomed the opportunity to discuss a strategy to help Fund members address climate change related policy challenges. They concurred that climate change is a global existential threat that poses critical macroeconomic and financial policy challenges for the whole Fund membership in the coming years and decades. Against this backdrop, Directors broadly agreed that the Fund has an important role to play, within its mandate, in supporting members' efforts to address climate change related challenges through its surveillance, when macro-critical, and through its capacity development (CD) activities.

Directors supported a more comprehensive coverage of climate change related policy challenges in Article IV consultations, where macro-critical. In line with the conclusions from the Comprehensive Surveillance Review, they generally agreed that coverage of climate change mitigation in Article IV consultations would be strongly encouraged for the largest emitters of greenhouse gases. Some Directors stressed that this means that coverage of these policies would be voluntary. Directors supported the proposal to regularly cover adaptation and resilience building policies for the most vulnerable countries to climate change, including options to attract climate financing. In addition, they generally saw a need to cover the management of transition risks, including for fossil fuel exporters, of adjusting to a low-carbon economy, while taking into consideration each country's own circumstances.

Directors agreed that Financial Sector Assessment Programs should have a climate component where climate change may pose financial stability risks. This would help assess any potential pressure points for the financial system from physical climate shocks and from the transition to a low-carbon economy. A few Directors emphasized that this climate component should be aligned with the standards being developed by relevant international standard-setting bodies to ensure a consistent policy advice.

Directors supported expanding climate-related CD efforts, given rising demand by the membership. They also generally supported complementing Fund CD resources with donor-funded activities. A number of Directors also noted that the Fund could consider using program conditionality to support borrowing countries to increase their resilience to climate change shocks and ensure macroeconomic sustainability, provided the conditionality is in line with the Fund's lending mandate and policies. A few Directors cautioned, however, against using climate-related conditionality.

Directors agreed that policy papers and multilateral surveillance reports should remain critical outlets for disseminating the Fund's analytical and policy work on climate change, especially for topics with a multilateral component that require policy coordination, such as mitigation policies or climate financing. Directors underscored that reliable climate data are a critical foundation for macro-climate analysis and encouraged further work in this area. They generally stressed the importance of developing models and standardized toolkits

to support the Fund's work in both multilateral and bilateral surveillance, while being mindful of potential limitations in models and toolkits, including due to specific country circumstances.

Directors stressed the importance of partnering with other institutions, including the World Bank Group, on climate-related work. They called for a more systematic approach to collaboration to leverage the expertise of other institutions, while minimizing overlap and maximizing value for the membership.

Directors took note of the proposal for gradually adding 95 Full-Time Equivalents to implementing the proposed climate strategy. They looked forward to assessing this, together with other funding requests, during the discussion of the Fund's overall budget.

Directors generally agreed that some internal re-organization that facilitates an efficient delivery of the climate strategy would be needed, in particular by establishing climate hubs in functional departments and reinforcing area departments as necessary. A few Directors stressed that greening the Fund's own operations and reducing its carbon footprint will be key for the institution's credibility.

EXECUTIVE BOARD ATTENDANCE²

K. Georgieva, Chair

Executive Directors

I. Mannathoko (AE)

C. Huh (AP)

A. Bevilaqua (BR)

Z. Jin (CC)

A. Buisse (FF)

T. Tanaka (JA)

H. Hosseini (MD)

P. Hilbers (NE)

M. Poso (NO)

R. Lim (ST)

E. Shortino (US)

Alternate Executive Directors

F. Sylla (AF)

O. Hendrick (AG), Temporary

A. Guerra (CE)

F. O'Brolchain (CO)

C. Just (EC)

K. Merk (GR)

R. Goyal (IN), Temporary

F. Spadafora (IT), Temporary

A. Alhosani (MI)

L. Palei (RU)

B. Alhomaly (SA)

M. Peter (SZ)

D. Ronicle (UK)

C. Ogada, Acting Secretary
 R. Dall'Orto, Summing Up Officer
 E. Mannefred, Board Operations Officer
 L. Nagy-Baker, Verbatim Reporting Officer

Also Present

African Department: A. Cebotari Ouanes, E. Gemayel, M. Kamel Farid Mohamed Farid, P. Mitra, C. Pattillo. Asia and Pacific Department: E. Dabla, T. Helbling. Communications Department: E. Buckley, M. Candia Romano, A. Kumar, K. Utsunomiya, C. Viegas-Lee.

² For countries in each constituency, please see the Constituency Codes in the annex.

Corporate Services and Facilities: B. Christensen, K. Clark, E. Nash. European Central Bank: K. Nikolaou, R. Rueffer. European Department: D. Iakova. Fiscal Affairs Department: V. Cerra, M. Fouad, V. Guillamo, Y. Kinoshita, I. Parry, J. Roaf. Finance Department: T. Krueger, C. Nachnani. Institute for Capacity Development: A. Berg, F. Bousquet, S. Coorey, M. de Freitas Alves, M. Erbenova, M. Hussain, O. Kanaan, R. Nord, L. Redifer. Independent Evaluation Office: C. Collyns. Legal Department: M. Henriquez, Y. Liu, D. McDonnell, G. Otokwala, N. Rendak, G. Rosenberg, B. Steinki, M. Tamez Lopez Negrete. Middle East and Central Asia Department: Y. Abdih, C. Duenwald, K. Gerling, S. Lall, T. Mirzoev. Monetary and Capital Markets Department: R. Ajit Singh, P. Ananthakrishnan, U. Das, C. Fonseca Ferreira, M. Moretti, F. Natalucci, D. Seneviratne. Office of Budget and Planning: A. Schimmelpfennig, M. Shannon. Office of Innovation and Change: T. Walker. Strategy, Policy, and Review Department: T. Augsten, H. Chociay, S. Fabrizio, E. Jurzyk, K. Kostial, K. Kpodar, N. Meads, D. Milkov, C. Pazarbasioglu Dutz, R. Powell, S. Quayyum, U. Ramakrishnan, T. Teixeira da Silva Filho, J. Thakoor, J. Wiegand, I. Yackovlev Perez-Vilches, Y. Zhao, T. Zheng. Statistics Department: L. Lusinyan, G. Quiros Romero, J. Rodriguez Delgado. World Bank Group: S. Hammer. Western Hemisphere Department: A. Ivanova, J. Kozack, N. Laframboise, C. Lim, S. Munoz, G. van Selm. Executive Directors: A. Andrianarivelo (AF), D. Fanizza (IT), P. Moreno (CE), R. von Kleist (GR). Alternate Executive Directors: H. Azal (EC), L. Dresse (NE), M. El Qorchi (MD), F. Fuentes (BR), S. Geadah (MI), A. Grant (AP), L. Herrera (AG), Y. Indraratna (IN), M. Kashima (JA), F. Mochtar (ST), W. Nakunyada (AE), O. Odonye (AE), J. Romero (CE), P. Rozan (FF), B. Saraiva (BR), J. Sigurgeirsson (NO), C. White (AP), Z. Zhang (CC). Senior Advisors to Executive Directors: W. Abdelati (MI), H. Andrianometiana (AF), E. Cartagena (CE), M. Choueiri (MI), J. Damgaard (NO), Patterson C. Ekeocha (AE), M. Ismail (AE), L. Johnson (AP), R. Mahabir (BR), Z. Mahyuddin (ST), S. Naka (JA), T. Nguema-Affane (AF), C. Quagliariini (IT), J. Rojas (CE), C. Sassanpour (MD), M. Scholer (NE), L. Smith (CO), N. Thiruvankadam (IN), R. Velloso (BR), J. Weil (CO), B. Yoo (AP), M. Zhunusbekova (SZ). Advisors to Executive Directors: A. Abdullahi (AE), F. Al-Kohlany (MI), P. Al-Riffai (MI), D. Andreicut (UK), A. Arevalo Arroyo (CE), S. Belhaj (MD), B. Boostani (MD), I. Bustillo (AG), K. Carvalho da Silveira (AF), L. Cerami (IT), T. Chrimes (UK), K. Dacharux (ST), O. Diakite (AF), F. Dogan (EC), R. Edwards (CO), D. Fadhel (MI), K. Florestal (BR), J. Gallardo Zavala (BR), T. Iona (AP), H. Koh (GR), K. Kuretani (JA), V. Lankester Campos (CE), R. Lopes Varela (AF), R. Makhammadiev (SZ), G. Meizer (EC), M. Merhi (MI), P. Mooney (CO), R. Moral Betere (CE), E. Ondo Bile (AF), B. Piasecki (SZ), A. Ribeiro Mateus (IT), D. Shestakov (RU), B. Singh (IN), I. Skrivere (NO), I. Valdes Fernandez (NO), C. Westphal (US), Y. Yang (CC), T. Abalala (SA), M. Law (CC), F. Lopez (CE), D. Coelho (BR), D. de Waziers (FF).

DISCUSSION RECORD³

The Chair:

I want to recognize World Bank and ECB representatives for attending this meeting. In particular, it is very important to have our colleagues from the World Bank to engage in the discussion given how significant the capacity of the Bank is in this area and the importance of us working together to improve the support we provide collectively to the membership. I also want to thank Directors for the gray statements they have issued. All Directors have issued a statement, and that on its own is an indication of the importance of the topic.

We are discussing two interrelated objectives, how the IMF can help our members address the macroeconomic and financial policy challenges that climate change confronts them with and will do much more so in the future, and how we as an institution need to organize ourselves to provide the best possible, most effective, and impactful support.

What I am particularly grateful for is that all Directors' gray statements indicate a recognition that tackling the macroeconomic and financial policy challenges triggered by climate change is an area where the IMF can and will continue to play an important role. Why? Because climate change affects productivity and GDP. It has repercussions for fiscal positions and public debt trajectories. It impacts asset valuations and therefore the balance sheets of financial and nonfinancial firms, which has implications for financial stability, because it has significance in terms of distribution and redistribution of income and wealth within countries and across the globe. In the latter, that has relevance for trade flows and exchange rates. And last but not least, because mitigating climate change requires an unprecedented degree of policy cooperation and coordination between countries of different income levels, economic structures, and exposures to the challenge of climate change. All of this is going to only be amplified in the future. All of this is in key areas of IMF expertise.

To live up to our mandate, we are duty bound to tackle these challenges. As we know, the IMF has already engaged, and here I want to recognize my predecessor, Ms. Christine Lagarde, for the important work she has done and continues to do from the European Central Bank (ECB), to step up the policy papers, flagship publications and coverage of climate-related

³ Edited for clarity.

policies in some of our Article IV consultations and Financial Sector Assessment Programs (FSAPs).

We also recognize, and that came through from the gray statements, that we have to do more. Far too many countries face pressing challenges and would appreciate Fund advice. We have to tailor it to country-specific circumstances. It cannot be cookie-cutter advice, and therefore we need to deepen our engagement and knowledge, issues that many of the gray statements stress.

We make concrete proposals. They are appropriately ambitious because we need to act fast. The macroeconomic and financial policies we take over the next decade may decide whether or not we are successful in containing climate change within parameters that are conducive to the wellbeing of people and societies.

What if the world that we would leave will be defined over the next decades but especially during the next ten years. The strategy we propose therefore is comprehensive. It covers Article IV and FSAPs, how policy work should complement and inform our bilateral country engagements, and also what role there is for capacity development and how we can step up to meet a growing demand. Many Directors stress the need for collaboration. It is a big part of our strategy. We count on building partnerships that are paramount for the effective use of resources but also the recognition that we can do a lot, but we can do much more and better in collaboration with others.

We count on the Board's continuous guidance and support in that regard, and I particularly want to recognize those Directors who are supporting our capacity development (CD) work. Hopefully, we would see the merits of doing so in this area as well.

I want to finish with a point that I believe is very important for many Directors, and it is how we think about implementation. While we need clarity from the Board up front on the overarching strategy and resources, we will be implementing it in a thoughtful, phased manner. In the remainder of this fiscal year we will lay the foundation for the next years under a phased approach - the organizational and workforce plans, and work priorities under a strategic implementation plan. We hear Directors' call to give as much clarity as well as options, how they compare, as we go forward.

We will come back to the Board regularly on these issues, including in the Global Policy Agenda (GPA) and the Work Program, and in our HR and

budget reporting. In other words, this is a step in our engagement. It is not the end of our engagement on this. We are closer to the beginning rather than to the end.

The Deputy Director of the Strategy, Policy, and Review Department (Ms. Kostial):

I want to start out by thanking Executive Directors for a very constructive dialogue we have been having over the past months, and that dialogue really helped shape our strategy. My hope is that in implementing the strategy, we can continue this dialogue in the same spirit as we have done now with the strategy.

We have provided technical answers to most of Directors' questions, but I wanted to pick up one topic that has been on the minds of many Directors, which is on the next steps, and the Managing Director already outlined how we would do that broadly in the context of the various budget requests. But I want to talk a little bit more of what that means for the climate workstream. I want to also reassure you that in implementing the strategy, our focus will be on making sure that we have high-quality advice and that this advice goes to those members with the highest vulnerability and risks, at least at the beginning of implementing the strategy.

For the first year of implementation, we expect to prioritize country work where policy advice is already quite well developed, where we have capacity or where we can scale up capacity very quickly. What does that mean for Article IV surveillance? This would pertain particularly to mitigation and transition risks related to achieving a country's Nationally Determined Contributions (NDCs). By contrast, a broad and in-depth coverage of adaptation and resilience building, requires building up substantial additional capacity, including also for the Climate Macroeconomic Assessment Programs (CMAPs). Here, work would start from a rather lower base with a focus on the most vulnerable countries and then be phased in gradually. In both adaptation, but also, as many Directors noted, the relevant coverage of transition risks for fossil fuel exporters, we also need to do some more policy work before these can be operationalized systematically in Article IV consultations. What we expect here is that coverage would surge substantially in the second half of the implementation phase. Similarly, to FSAPs, we would start slowly, focused on the most vulnerable countries, and then would scale up and reach full capacity in the third year.

Maybe also a word on capacity development, and capacity development, of course, as the Managing Director said, this depends on the

success of fundraising, and it really depends on the area. So, some areas are more mature. An example here is the climate module of Public Investment Management Assessment (PIMA). In some areas it will take a little bit longer time. We have some more detail in the Technical Questions.

The last thing I wanted to talk about, is this realistic? Can we do this within three years. We do think it is realistic, and there are two reasons for that. The first reason is that the climate strategy real encompasses all departments, so we think that the departments have the relevant absorptive capacity to get new staff on board successfully and ensure quality outputs. The second reason is that more recently we've had a round of mid-career hires, and we were very happy to see that some 20, 30 percent had some background actually on the nexus of macro and climate, and this kind of staff would actually be hitting the ground running. And as we know, a big part of our strategy is the internal training.

Mr. Buisse:

I agree that our ad hoc approach on climate has reached its limits and that a more comprehensive one should be taken across all our activities to really respond to our members' needs. Thus, we fully support the lines of work highlighted in this strategy. We strongly believe that the tools and actions outlined will contribute to helping us ensure that our collective climate transition, as Managing Director said, as part of our Paris Agreement commitments, is fully taken into account in our macro analysis and recommendations across our mandate.

First, we very much agree with the overarching objective of the strategy to provide high-quality, granular, and tailored advice to the membership on macroeconomic and financial policy challenges. This is to serve the whole membership. We support the expanded coverage and systematic integration of adaptation, mitigation, and transition policies in surveillance. As discussed in the CSR, climate change mitigation policies of the 20 largest emitters will be covered every three years. This is a good start, but to get a concrete and tangible result in terms of collective mitigation efforts, we should shift gradually towards a broader target group. Frankly, we should not spend one second more on the exact selection criteria of the 20 largest emitters. If a country is within the 20 top emitters following whatever metrics actually, let's look at its climate mitigation policies.

Second, we strongly support the integration of climate risks in all FSAPs, building on the Network for Greening the Financial System (NGFS)

scenarios. I know it is also a concern on the Bank side, and I supported it there too. We think that the Fund should not duplicate methodologies for climate scenarios and should leverage NGFS scenarios.

We welcome staff's attention to climate-related measures in Fund lending and encourage staff to go further in considering how this can be internalized into program design to build up resilience in countries and ensure that programs do not encourage highly emission-intensive growth. We support rechanneling SDRs to finance climate-support agreements.

Fourth, on CD and CMAPs, we agree that the Fund should provide an adequate diagnostic on climate change policies and performance for climate-vulnerable countries, while ensuring close coordination with the Bank. I will keep on pushing to see how to best marry the World Bank's CCBR and the Fund's CMAPs to have an even greater value offspring.

Finally, we would like to know more regarding the tools that the Fund will put in place to review its own products and programs to track outcomes and progress beyond merely the inputs, which leads me to resources. We acknowledge that climate will require more resources to match our ambition and to successfully leverage external cooperation. We thank the staff for the helpful details provided in the document that will usefully underpin the more global discussion on the budget at the end of this month. We look forward to it. Let's be clear. The Fund is late and lagging behind on what is this century's biggest challenge, so I do not think a gradual and slow approach, as advocated by some of my colleagues' gray statements, would be up to the challenge. Overall, we thank the Fund very much for this excellent climate strategy.

The Chair:

It is the kind of sense of urgency that we all have to embrace. I agree it is not just for the IMF. The world has been slow to recognize the existential threat of climate change, and the incredible opportunity a green transformation offers. It is not just about containing risks. Of course, this is the most important task we have for the future of our kids, but it is also the once-in-decades opportunity for structural transformation that revitalizes economies, and I think we cannot be behind the curve on this topic.

Ms. Mannathoko:

We issued a detailed gray statement supporting the strategy and highlighting some important considerations, so I will try not to go into detail. I

just wanted to really reaffirm our support for this work. It is essential for us all to tackle what is really an existential threat in our time, and the Fund adopting a systematic approach to helping countries will really help us progress in this area and avoid major macroeconomic crises in the future.

The goal for us of regular coverage in Article IVs of adaptation and resilience policies, especially for vulnerable countries, has our clear support. The mitigation work is also important, as was noted, to bring global warming down. This also has important implications for vulnerable regions, so we know currently many island states are hard hit by disasters but also elsewhere the frequency of disasters is growing in coastal economies, including in our region; and projections for some regions show severe impacts due to warming in the future.

We really do expect current demand for support to rise further over the next two decades, demand for support from the Fund. As Managing Director noted, we also feel effective global coordination and cooperation is critical, and the Fund is playing an important role in motivating this. As we move forward towards a global carbon price, carefully designed transitions that avoid destabilization and economic deterioration are especially important, including especially for low carbon emitters, developing countries; many face the prospect of a rather painful adjustment with high costs. They are dealing with the move towards a carbon price at the same time as they are dealing with climate shocks and impacts, so we really underscore the need to help such countries, LICs and MICs, that are vulnerable, especially fossil fuel mining countries, to manage what is going to be a rather difficult transition towards a low global carbon price.

We also just wanted to highlight that more work probably is needed to enhance economic policies appropriate for adaptation, so we encourage work in this regard. At the same time, more effectiveness and broader support to LICs and MICs to help them better access climate financing is needed. We want to reiterate our call for the Fund to scale up [CD].

Finally, we recognize the need for increased resources in this workstream to meet growing demand for TA and advice, and so we see that this will really be important in particular for necessary analytical tools and policy framework as well, so we do look forward to the budget discussion.

The Chair:

It is right to differentiate across countries, and the strategy is I think quite clear about that, to differentiate countries that are big emitters from those that are highly vulnerable to climate change, where adaptation is already a pressing priority, to differentiate in terms of income levels and levels of development and what it translates into, so I appreciate Ms. Mannathoko for bringing that perspective of countries that are highly vulnerable so early in our discussion, and I very much agree with the points Ms. Mannathoko made.

A historical reference, when I was at the World Bank before I had the privilege to come and serve the Fund, I led the institution to put adaptation and mitigation on equal footing and commit the first development finance institution to commit to 50 percent adaptation financing as part of climate finance. The Fund is, of course, a bit different, so we are a different institution, but we should have the same moral principles and ethical foundation on this topic.

Mr. Poso:

I fully share Madam Chair's opening remarks.

We have issued a joint statement with Mr. Buisse, Mr. Fanizza, Mr. Hilbers, and Mr. von Kleist, while also agreeing with many points raised by others, in particular by Ms. Riach, Mr. Moreno, and Mr. O'Brolchain, in their gray statements.

The science of climate change is clear, and the global macroeconomic and financial implications are obvious. Addressing this challenge requires an unprecedented level of cross-country policy cooperation, and Europe is ready to lead the way. As we know, earlier this week, the EU presented a comprehensive plan and concrete proposals to become the first climate-neutral continent by 2050. In this vein, we strongly agree that the Fund should enhance its engagement and more systematically and strategically integrate climate change into its activities.

Therefore, we welcome the thorough strategy outlined in the paper. We strongly agree that mitigation analysis and advice should be systematically included in Article IVs for the 20 largest emitters and then shift towards broader inclusion. We continue to see carbon pricing as a very efficient and cost-effective policy tool to reduce emissions. We also agree that scenario analysis, climate stress testing, and policy options to manage

transition and physical risks should be included in FSAPs. Fund advice, adjustment measures, and policy conditions agreed in the context of lending programs should ensure sustainable economic development and should not encourage highly emission-intensive growth. We agree that the need for climate-related capacity development will increase in the coming years and emphasize that CD should remain demand driven and tailored to country needs and absorptive capacity.

The Fund should continue to use its flagship reports to regularly update the membership on the economic and financial impacts of climate change and other macro-relevant environmental risks. In order to underpin Fund's advice, it is very important to develop and update models and toolkits, as well as enhance climate data.

Given the limited availability of climate expertise, it is especially important to continue cooperating with a range of international actors to avoid duplication. I fully agree with the points raised by Ms. Shortino and Ms. Riach in their gray statements on the need for a more systematic and strategic approach to collaboration, both externally and within the institution.

We agree that it is also important to green the Fund's own footprint, for example, related to the HQ operations and business travel. Additionally, we should consider measures to green the Fund's investments including by carrying out disclosures and signing the United Nations Principles for Responsible Investment (PRI).

This is a relatively new and fast-evolving area, and it is important to train existing staff. We appreciate the proposed internal trainings and the Climate 101 course. Eventually such courses could be offered more broadly to the membership. To deliver on this ambitious and critical agenda, we agree that the Fund should scale up its human and budgetary resources. However, instead of large-scale new recruitments, we encourage a balanced approach of strategic hires and training of existing staff.

We look forward to the budget discussion at the end of this month which will allow a holistic assessment and discussion of potential tradeoffs and prioritization across several competing demands.

The Chair:

We all agree Mr. Poso made points that many would find relevant. I just want to reinforce our commitment to also seek climate-relevant behavior

of the institution, and I agree training of staff is an important objective. We will discuss what exactly we need in terms of human resources because training overburdened staff is not the solution, just to be very clear on that. I do take the importance of us balancing priorities and being as effective as possible in deploying our resources very seriously.

Mr. O’Brolchain:

The small developing state members of our constituency in particular have felt the full impact of climate events, although they are not the main cause of problems. Building resilience to the impact of climate change is being prioritized by all members of our constituency. We, therefore, welcome this comprehensive strategy that will guide Fund engagement with its membership on climate issues.

We have issued a comprehensive gray statement so will highlight a few points for emphasis. We encourage the Fund to strengthen and tailor technical assistance to the needs of small developing states given their high vulnerability to climate events. Notably, building the capacity to address macrocritical consequences of climate change and quantification of the costs of building resilience are crucial. Strong CD is necessary to help the membership navigate the transition to a greener economy by providing guidance on appropriate policy design, establishing needed statistical and data collection frameworks, and undertaking diagnostic assessments. In that regard, disaster resilience strategies and climate macroeconomic assessment programs are important tools for IMF analysis in countries vulnerable to climate impacts.

Funding to finance the resilience building remains a concern for small states, including those of our constituency. We are hopeful that approval of this strategy is a step that would bring us somewhat farther in our discussions on how the Fund toolkit can help meet the needs of climate-vulnerable states. As we indicated in our gray statement, the Fund should consider using IMF program conditionality where appropriate to support borrowing countries in increasing their resilience against climate change and mitigating future shocks resulting from it. We hope this will have the catalytic effect that is expected from Fund lending and will help raise the much-needed financing needs for small states to respond to climate impacts.

We repeat our earlier calls to strengthen the collaboration with World Bank through specific framework on climate-related work and to broaden that collaboration with other multilateral institutions, and here we reflect Mr.

Poso's comments about a strategic approach here. Working in partnership with others allows the Fund to focus on its area of expertise and comparative advantage, operate within its mandate, avoid duplication of efforts, and, importantly, concentrate on the outcome expected by the membership. Fund engagement should help the membership pursue and achieve the commitments in nationally determined contributions to reducing emissions and meeting climate-related national goals.

Finally, on resources—and thank you for the detailed outline—as we have said in our gray statement, we will consider the resource requirements in the context of the forthcoming wider budget discussions.

Mr. Tanaka:

Climate change is a macrocritical issue for member countries. We commend the Managing Director's strong leadership to decisively respond to this important global policy challenge and welcome today's meeting. In the course where G-7 leaders in many countries have agreed to step up action on climate change, Japan has set a national target of carbon-neutral society by 2050, and the work on the target by 2030 is well underway in the government.

I am pleased to convey that today the Bank of Japan announced a comprehensive strategy as a further effort on climate change with a list of measures ranging from a new Fund program measure to support climate change finance, scenario analysis for financial institutions, purchase of green bonds issued by foreign governments, and its own climate-related disclosures taking into account Task Force on Climate-Related Financial Disclosures (TCFD) recommendations for external communication. As we issued a gray statement, we would like to offer a few remarks as follows.

Let me begin with the importance of the Fund to seek good balances in quite a few areas. First, it is paramount for the Fund to take a good, balanced discussion of mitigation, adaptation, and transitional measures based on the Fund's own expertise and each country's own circumstances.

Second, while it is needless to say that the proposal should not fall into one-size-fits-all approach but at the same time pay due attention to the balance between flexibility and evenhandedness. For example, carbon pricing floor is one of the areas where evenhandedness should be considered to ensure a fair, competitive environment and achieve net zero emission in collaboration among all major emitting countries in a fair manner.

Thirdly, on balance among surveillance and CD, while we are supportive of the Fund's direction towards integration of these two, strategic integration with further lending would be also considered, as Mr. Buisse stated. Strong engagement with the authorities will gain the authorities' strong ownership and accordingly ensure demand-driven CD provision.

Fourthly, like other Directors, we would like to underscore a well-aligned collaboration with other institutions with expertise to avoid duplication in surveillance and CD.

Let me move on to resource issues. As we discussed at the other Board meetings on emerging issues, as Mr. Poso stated, we would ask staff to present further analysis of both budget and human resources implication from the holistic perspective on all emerging issues in relation to existing areas. We are concerned these proposals could lead to a permanent net increase in budget and human resources without prioritization. We are looking forward to the Board meeting on budget this month.

Last but not least, in order to discuss thoroughly on the overall picture of the Fund climate change policy at the Board, the Fund could present a visible roadmap, including options, as MD said, for the Fund's analysis and policy advice based on the Fund's own comparative advantage on climate change with support from stakeholders and collaboration with other institutions.

The Chair:

Congratulations to Bank of Japan. I did read what they put out. Very impressive. We see central banks taking climate to heart in a very serious way.

Mr. Hilbers:

Since we issued a joint gray statement with the European partners, my remarks today are for emphasis. We are convinced that climate change is a pressing and overwhelming challenge for the entire membership. We thus fully agree with the compelling case set out by staff, which highlights the macrocriticality of climate-related macroeconomic and financial challenges.

Indeed, countries and institutions around the world have recognized this and are taking action with the European Commission's wide-ranging initiative Fit for 55 being the most recent example. All these actions are

welcome, but if there is one defining aspect of climate change, that would be its global nature, which implies a strong role for international institutions. We thus fully support Managing Director's ambitious strategy for increasing the Fund's engagement on mitigation, adaptation, and transition management across all of its activities.

Against this backdrop, we are particularly supportive of the intention to systemically provide high-quality, granular, and tailored advice in bilateral surveillance. The precise nature of climate-related challenges may vary between countries, but the need for assistance exists across the membership. We also reiterate the need to build on the Fund's macrofinancial expertise and routinely include climate stress testing and scenario analysis in FSAPs.

Furthermore, we fully support the proposal to internalize climate-related measures in program design and lending, as we consider this to be the next step to garner real impact. At the same time, we encourage staff to keep further exploring these issues, such as developing more detailed guidance of the circumstances under which climate-related measures are deemed critical to solve balance of payments problems. We also highly welcome the numerous partnerships the Fund has already built on climate-related issues, including, of course, with the World Bank, as mentioned already by a couple of colleagues, but also with the NGFS and the Financial Stability Board (FSB). Such collaboration is essential to increase traction and prevent duplication. Moreover, we welcome the information provided on estimated budget needs and maintain our position that the various requests should be considered in a holistic manner during the forthcoming discussion on the proposed budget augmentation.

Let me end with a final remark on the subject itself. Managing Director was absolutely right in April to stress that vaccine policy is economic policy. While seemingly less urgent, I would argue that this is equally true, and we can also say that climate policy is economic policy.

The Chair:

Thanks to Mr. Hilbers and all the European Union members. I would like to recognize the leadership they have provided and actually in Mr. Hilbers' personal career for what he has done to expand the horizon of policymakers when it comes down to addressing climate change.

Ms. Riach:

We have had several discussions of the Fund's work on climate in recent works, and we have really seen the staff proposals evolve and adapt in light of those discussions and Executive Directors' views, so I am very grateful for that.

In our view, the set of proposals we have on the table today well balances the macrocritical urgency of climate change with the challenges of responding to it and the fact that building up appropriate expertise is going to take some time. I agree with very many of the comments that have already been made by Directors this morning, in particular those of Mr. Buisse, Mr. Poso, and Mr. Hilbers. I also recognize some concerns that have been expressed by other colleagues in their gray statements, although I do not believe that those concerns would justify deviating from the process or the timeline that staff are proposing.

In particular, the proposed approach in our view does not in any way undermine the important role of the United Nations Framework Convention on Climate Change (UNFCCC). Rather, Fund work can and should complement the UNFCCC approach by providing analysis and advice on the macroeconomic dimensions of climate change. Some colleagues believe that mitigation coverage for large emitters should be voluntary, but as Mr. Buisse has often in the past reminded us, a molecule of CO₂ is the same wherever it is released, so collective responsibility and spillover concerns mean mitigation advice for all major emitters would be helpful. I very much agree with Mr. Buisse's comments this morning that the definition of major emitters is less important than the scale of emissions.

I also want to offer some reassurance from the UK's experience here. Staff interactions on climate change mitigation by necessity touch on difficult subject areas, but they are never rigid or adversarial. Instead, our experience has been that staff has worked very hard to recognize country circumstances and political economy sensitivities.

More generally, we do agree it is critical that the Fund's climate work focuses on its macro stability mandate and that it complements the activities of other organizations rather than duplicating or undermining them. This is not always going to be easy or cost free, but it is essential and will require ongoing efforts and monitoring.

On the issue of budget and proposed increase in staff numbers, I join colleagues in looking forward to the holistic budget discussion that we are having later this month, which is the right place to make decisions on these issues. I do join Mr. Buisse in recognizing that additional resources are likely to be necessary to meet our level of ambition and to say that the detail that has been provided today is welcome and is helpful in informing that budget discussion.

The Chair:

It is, indeed, important to recognize different views because countries face a different combination of challenges. That is very true. But like Ms. Riach, I do not see the Fund ever stepping out of the UNFCCC territory. We think of this being the frame within which we operate, and I want to give my personal assurances that this is the case and will continue to be the case.

Ms. Shortino:

We did issue a comprehensive gray statement, so I will just make a few points. Many of them follow-on what has been said by speakers ahead of me.

First, we very much welcome that this strategy begins to put the meat on the bones, or the substance behind what the Fund engagement on climate will look like in the next few years. Broadly speaking, we find all of the proposals for deepening work on surveillance and capacity development to be well-thought-out and appropriate. Like Ms. Riach, I would underscore that the Fund engagement needs to be driven by the macrocritical benchmark, and I would note that policy advice should be cautious not to prescribe one path, but rather incorporate different approaches to reducing emissions and be very well tailored to different country contexts.

On financial sector surveillance, we very much support analyzing climate issues in FSAPs, but I will reiterate that my authorities feel strongly that the Fund should defer to financial sector standard-setting bodies in their recommendations and be very aware that the standard-setting bodies are actively developing climate-related standards right now, so we do need to be cautious about having the Fund give conflicting policy advice and showing deference to the process underway.

Second, it will be important, as many have said, for the Fund to identify its comparative advantage and coordinate effectively and, more

importantly, systematically with other organizations. We have made this point in several Boards, and I am looking forward to hearing from staff and others on how we are going to make progress on more systematic coordination with institutions like the World Bank and make it less ad hoc. We strongly support the efforts to provide capacity development and the upcoming CMAPs and welcome Ms. Kostial's comments on how those are going to be rolled out.

Finally, on resources, I very much appreciate the ambition and the detail in this document, and we also agree that in principle, additional staff will be required to execute the strategy; so I think our concern is more around the looking at this holistically, which we will need to do later this month, but also having a good sense of prioritization and phasing of the resource needs. I will reiterate a point I think I made last week around the need to prioritize quality over quantity. It is reassuring that some staff that we are hiring will be coming in with climate background and that there is training underway, but I think we need to be very cognizant of getting the right staff and the right training in place and not rushing too much at the expense of quality surveillance.

We would also like to better understand should we not be able to achieve those goals, what are the highest priority outputs that the Fund wants to roll out right away and what can wait a little bit. We look forward to more discussions on this and also very welcome Managing Director's comments, on the fact that there will be regular updates to the Board. We will want to track this closely from our perspective.

The Chair:

It is absolutely paramount to get as strong endorsement from the membership as possible on the package of what we are proposing to be a stepped-up work for the Fund.

This morning I was invited to take part in an APEC leaders retreat and talk about the priorities we see, needless to say mostly the immediate priority is to exit the pandemic and accelerate the recovery everywhere. But in this retreat, one of the questions I was asked was how the Fund is thinking of this changing world of ours, and how are we integrating the challenges to macro stability that were not there when the Fund was first created, with specific reference to climate change. It was good to then come to this meeting, having that clear question from a leader of a country to the Fund that is the expectation for the Fund to do what is right for the present and the future, not just to do what we were set to do 76 years ago.

Mr. Bevilaqua:

We have issued a comprehensive gray statement, so let me highlight a few points.

Through many opportunities our constituency recognized unequivocally the importance of climate change and its long-term adverse consequences. There is no doubt that we are dealing with one of the greatest challenges of our generation, with severe and cumulative impacts over time. If left unaddressed, climate change would pose a major challenge to long-term global prosperity. Tackling this challenge effectively and fairly requires a coordinated international effort with a high degree of consensus and political ownership. The Fund has a role to play.

As clearly spelled out in the Summing Up of the 2021 Comprehensive Surveillance Review, the Fund can contribute within the limits of its mandate in core areas of expertise and as far as bilateral surveillance of mitigation policies goes, on a strictly voluntary basis. We cannot and should not aim at becoming a leading institution on climate change issues. We need to understand not only the limits of our mandate, expertise, and budget, but also the political limits of our activities and objectives. The international community has been coming together to address climate change for decades. It has built an intricate regime under the umbrella of the UNFCCC to address this important issue. Under this regime, for example, small developing states and low-income countries have a level of influence and voice that the Fund with its own voting power mechanism could never replicate. This regime has also developed a particular system to monitor, verify, and report commitments that the Fund should not try to supersede.

As we have stressed in our gray statement, we believe the Fund should not offer opportunities for “forum shopping”, which could lead to further divisions and, in the end, jeopardize the international efforts to combat climate change. In the same vein, the Fund should not try to implement an overly ambitious strategy that would ultimately bestow itself with a monitoring role incompatible with our core mandate and expertise.

The countries in my constituency have already experienced great difficulties with a haphazard attempt at covering climate change issues in surveillance. During recent Article IV consultations, country teams have been pushing to cover climate change issues, especially mitigation, disregarding entirely two crucial prerequisites for IMF engagement on these issues: one, that it is voluntary, hence, the authorities have to request and agree with it.

And two, that macrocriticality must be clearly established. In one case, my authorities have complained about the lack of capacity of country teams to adequately process, analyze, and use the information provided.

Equally troubling, in another case after complaining repeatedly that staff was not following Board-established guidelines, we were told by very senior staff that the explicit instructions they have received from management were that climate change issues must now be covered in all Article IV consultations. And if the authorities were not happy with that, this should be noted in our buff statements. This, however, contradicts the information provided by staff during the recent Q&A that coverage of climate mitigation issues in Article IV reports would be voluntary and at the discretion of the authorities in line with established guidelines. We and our authorities have been receiving conflicting messages from staff that require further and urgent clarification.

Forcing down a partial, inconclusive, and perhaps biased coverage of climate change policies in Article IV consultations would very likely lead to unproductive clashes between country teams and the authorities, putting in jeopardy the Fund's role as trusted advisor in the areas that we are uniquely positioned to provide policy advice, as we have done for decades. The IMF cannot move forward with assessing the adequacy of climate change policies and providing policy advice while it builds capacity. Even so, building adequate capacity to develop comprehensive assessments of climate change policies would require enormous resources. The Fund needs to consider very carefully the tradeoffs associated with a significant expansion of our work in this area.

It is alarming to us that, according to the proposed strategy, the Fund would spend twice as much on covering climate change issues than on FSAPs, a product that is extremely valued by the membership. This, of course, does not mean that the Fund should sit by idly on climate change issues. The IMF has already done good work, in close collaboration with the World Bank and country authorities, in assisting small island states and developing countries to plan, adapt, and mitigate weather-related risks. The Fund has also made important contributions in assessing systematic coverage of climate change in its flagship reports. Going forward, we firmly believe that climate change issues should continue to be addressed within the confines of the Fund's mandate and engagement framework.

More extensive and specific coverage may always be possible in Article IV consultations on a strictly voluntary basis, and at the explicit

request of the member. Yet, this is not what we have so far witnessed. The strategy needs to be significantly reworked and its value for money judged in comparison to other proposals for increase in resources that were presented to the Board in recent days and weeks. As currently presented, we cannot support it.

I conclude by thanking Madam Chair for the opportunity to discuss this very important and timely subject.

The Chair:

I will make three points. One, I very much appreciate Mr. Bevilaqua putting forward concerns expressed by his authorities, and I will take it outside of this meeting to get a bit more detail because obviously we have to be consistent. We are at a point when it is voluntary, and that means that the country wants to do it, or at the minimum, the country understands the logic of engagement in Article IV.

Two, everything Mr. Bevilaqua said about needing people that have the right expertise, being able to provide competent advice, that to me sounds more like he is supporting us to build the skills because otherwise he would have his authorities saying, “Well, you know, they are talking about climate change, but it is not good enough”. So, to get it to be good enough when it is required, when it is asked for, we must have the skills and capabilities.

Three, I listened very carefully to Mr. Bevilaqua’s argument. It is not that he does not think climate change is macrocritical. It is not that we have evidence that the Fund can fulfill its mandate on macro stability, macroeconomic and financial stability and ignore climate change. It is that he is concerned, and maybe rightly so, that we may be overreaching and doing more than we are able to. In other words, we bite more than we can chew. So that is what I heard, and I suggest that we have a separate discussion with Mr. Bevilaqua and his office, especially for me to make sure that we communicate to staff very clearly where we are, what we are aiming to do, what are the expected confirmations from our membership as to when and how we do it. Again, thanks to Mr. Bevilaqua. I am confident that we will get him to a point of being supportive because I did not hear him saying he thinks these issues are irrelevant for the membership and for the work of the Fund. So it is not the what; it is the how, and we will work on the how,

Mr. Just:

In view of our comprehensive gray statement, I will limit my intervention to three substantive points.

The Fund's work on climate issues should primarily be guided by macrocriticality and must not crowd out its other core activities. We also should not lose sight that climate change, as well as mitigation and transition policies, presents different challenges for different countries. Further prioritizing those climate areas and policies that are most relevant within the Fund's remit would make its contribution truly value added and would also enhance the Fund's role as a trusted advisor. Like others, we emphasize that collaboration with other international organizations, the World Bank, the UN, and specialized fora such as the NGFS, is essential to leverage comparative advantages and to increase synergies.

Before stepping up our engagement on the surveillance front across the membership, we would place great emphasis on developing climate-related analytical toolkits and building new capacities. In this regard, we appreciate staff's effort to close the data gaps. Scaling up technical assistance is critical to help vulnerable countries. Relatedly, we see merit in progressively turning the CMAP into a key tool for Fund analysis. We would be in favor of a granular inclusion of macrocritical climate related-risks and integration into macroeconomic frameworks underlying Article IV reports and the FSAP, also on the basis of methodological approaches and by building on the work by others.

On climate change mitigation, we underscore the need to reach an agreement on the appropriate yardstick for large emitters. We emphasize that any additional resource needs will have to be assessed holistically as part of the discussion on the broader budget augmentation. To this end, proper coordination between the various workstreams is crucial. In order to judge the proposed substantial increase in staff, it is first necessary to have an agreement on the new steady state to be reached in the coming years.

Let me conclude on a very strictly personal note, that I am very satisfied that we finally have arrived at this moment today. I have been following these discussions within the Fund since the former Managing Director, Madame Lagarde, had the courage to present her climate statement for the Paris Club Summit to the Board. The change in views expressed back then by Board members to today is, quite frankly, astounding in a positive

sense. I am grateful to Managing Director for pushing ahead and presenting this climate strategy today.

The Chair:

I am grateful that we all have worked together to this point today, and, of course, we will continue to reflect on what is the best for the Fund to do and what it is that the Fund is not the best to do. I agree that we have gone a very long way from the days when Madam Lagarde brought up climate as a macrocritical topic, and many, including some in my former institution, said it is not for the Fund; the Fund should stay out of it. So, we have come a long, long way

Mr. von Kleist:

We would like to thank staff for this excellent and insightful report and the additional oral remarks and fully agree with almost all other previous speakers that climate change is emerging as one of the most critical macroeconomic policy challenges that the membership will have to face, with significant economic, financial, and social ramifications. As others, I also strongly welcome Chair's introductory remarks. We also agree that a more systematic and strategic integration of climate change into the Fund's operations is necessary and welcome staff's proposals in this regard. We have issued a joint gray statement with my European colleagues, Mr. Buisse, Mr. Fanizza, Mr. Hilbers, and Mr. Poso and would like to highlight a few points.

We welcome staff's intention to address climate change mitigation in direct country engagement. In this context, we would like to add that at least every three years should constitute the timeline for covering mitigation policies in depth in Article IV consultations of the 20 largest emitters. Fund TA in this area, notably the Climate Macroeconomic Assessment Program, CMAP, should be based on the needs and articulated interest of the countries to ensure full ownership.

In light of the persisting resource constraints and the need for a clear division of labor, the Fund needs to ensure that CD support is provided on issues of comparative advantage, and, of course, that is true for the overall cooperation with other multilateral institutions, especially the World Bank.

Support from the international community will be decisive in helping low-income countries meet their climate-related development needs and adapt

to climate change on a country level. We, therefore, encourage other advanced economies to also scale up the efforts to support a green recovery in LICs by providing additional external resources geared towards climate mitigation and adaptation.

We welcome staff's breakdown of additional resource needs for the Fund budget but judge the projected increase of 95 FTE as possibly too extensive to accommodate. The full budget envelope will be discussed in its entirety and agreed upon by the Board at the end of this month. Alongside the requests, of course, for climate, we have other priority areas, LICs, fragile states, digital money, financial surveillance, and so forth, so we will need to discuss that in its entirety.

Finally, we agree with staff that climate-specific review is needed and would like to note that an independent evaluation process through the IEO would be a valuable addition in this regard. Let me stop here and thank the Managing Director for her personal engagement on this very important topic.

The Chair:

I do recognize that as we move forward, first we need to look in a comprehensive way at what is critical for the Fund to do to serve the membership and how we make these choices. I completely agree with that. We will have a comprehensive discussion and look at budget demands and budget pressures. I want to recognize the role of an independent evaluation as a matter of principle and also as we embark on activity that is, relatively speaking, new for the world—well, not that new anymore, but relatively speaking, new for the world and for the Fund. We will, of course, rely on that independent evaluation in the case of climate work.

Mr. Mouminah:

We find the strategy paper comprehensive and more balanced in its approach to integrate climate change into the Fund's activities. Hence, we appreciate staff efforts to develop such a strategy. The strategy highlights different regions and countries are facing different challenges, so a solution will be also different, and there will be no generalization of silver bullet solution, which we fully agree with.

We reiterate our authorities' commitment to protect the planet and support climate change agenda, nationally, regionally, and globally. We have made significant progress on this and will continue to do so. Against this

backdrop and given that we issued a detailed gray statement, I would like to add the following general points for emphasis.

First, we take note of staff description that climate change mitigation has a global dimension, and hence its policies should be discussed within the global context. At this particular point, we envisage that the role of the Fund is preliminary; that it is one of the enablers in complementing the role of relevant IOs. Therefore, international fora, and namely the UNFCCC and Conference of the Parties (COPs), are the appropriate platform to discuss global policy coordination to mitigate climate change. I can't emphasize enough that all our work should be all the relevant partners and in collaboration with them. I echo the call for Directors to have this collaboration in a systematic manner. Otherwise, the implication of that, which has been highlighted by Mr. Bevilaqua quite clearly, will become a reality.

This leads me to the second point. While there is a clear heterogeneity across countries, homogenous groups with similar economic structure and development do exist, which allows for policy coordination to mitigate climate change to be more effective. Here, we stress the policy coordination should be implemented within the broader context of the bottom-up approach to ensure that evenhandedness and equity are well served at the global level. Mr. Tanaka mentioned that international carbon floor, which might raise some evenhandedness issue, which we still think that is not suitable for all countries.

Third, on the Fund's level of engagement, let me quote an Arabic idiom, which can be translated to "too little and too much are alike", which as Madam Chair said, "let's not bite more than what we can chew". To that, the Fund must seek to maintain its engagement at the optimal level rather than being extreme on either side. Here, we emphasize that building capacity to execute the climate strategy should be administered in a gradual manner and on a holistic basis. On the same note, we caution against too early jumping into integrating climate aspect into lending operation and Debt Sustainability Framework.

Finally, a point about implementation. The strategic implementation will be extremely important to ensure that there is no deviation from the strategy direction set forth in this paper. This will be important for the implementation to be evenhanded and ensure that taking different country circumstances and different challenges into consideration while solving their issue.

The Chair:

Again, I want to reiterate my personal conviction that there is no one-size-fits-all and that we must work to build an understanding of country-specific circumstances if we are to provide relevant advice. We will continue our conversation on the carbon price floor. I think the Fund actually has made a very important contribution, not just by proposing a way to differentiate and yet bring countries together, but also by recognizing that carbon price can be explicit, or implicit. It can be a product of regulations and technology investments. I think, in fact, in this area, I believe the Fund is offering very constructive consensus-building in what is our expertise, which is fiscal matters, based on many decades of experience on fiscal matters.

Mr. Andrianarivelo:

We would like to express our appreciation to management and Managing Director for taking steps to advance this important agenda item, which is the outcome of several proposals previously discussed. We also thank staff for the responses to our questions. We have issued a gray statement and would like to emphasize a few brief points.

First, we broadly support the proposed strategy to integrate climate change in the Fund policy assessment and recommendations. In line with its mandate, the Fund should contribute in its areas of expertise while leveraging other institutions' knowledge on the issue. We stress that our policy advice in terms of adaptation, mitigation, and transition to low-carbon economies should be driven by country-specific circumstances as policies could be fiscally costly, notably for natural resources, which countries and fossil fuel exporters in EMDEs and, most acutely, in LICs.

Second, on mitigation, we agree with the emphasis put on the mitigation policy of 20 large emitters of greenhouse gasses in line with the CSR. We take note of the in-depth analysis, mitigation, and associated transition risks laid out in Box 1, including carbon pricing. On the latter, we reiterate that evenhandedness and careful consideration of country circumstances is needed, particularly for LICs, and as this may hamper their efforts towards industrialization and economic diversification.

Third, on financing, given that climate-related risk will likely disproportionately affect advanced, LICs, small states and fragile countries, it will be critical to ensure adequate and targeted climate financing to assist

countries in pursuing climate objectives and coping with macroeconomic consequences. CD and TA will be essential for many countries.

Finally, on resource implication, while we concur that additional resources would be necessary to ensure the Fund's effectiveness in this area, we look forward to the broader discussions on strategy budget implication to get a better sense of how fast it can be implemented. We also agree that there is a need for the Fund staff to develop internal capacities to respond to the membership's increasing demand for policy advice and training, specifically on how to integrate climate into macro frameworks.

Mr. Hosseini:

We issued a detailed gray statement and supported the proposed strategy, but we should highlight a few points for emphasis.

First, in dealing with climate, the Fund should build on its comparative advantage, the macroeconomic aspect of climate change. Given the multifaceted and global nature of the issue, many IFIs and international organizations and agencies are involved in climate change issues, drawing on their unique experiences and expertise. Fund's contribution and effectiveness can only be maximized through close and effective collaboration with these institutions. In particular, the membership expects closer collaboration between the Fund and the World Bank at all levels in order to develop a consistent framework, generate synergies, and optimize resources.

Second, with regard to adaptation, a new forward-looking criteria for classifying vulnerability is needed. The 60 or so countries mentioned in the report underestimate, in our view, the real number of countries vulnerable to climate change. This is the case for many middle-income countries in the MENA region that are subject to serious adverse long-term climate trends, such as recurrent drought, flood, cyclones, and water scarcity with significant macroeconomic implications.

Third, fossil fuel exporters have been diversifying their economies for decades with varying degrees of success to reduce their vulnerability to boom-bust commodity cycles. The transition would need to gather pace as greening efforts on the part of major consumers will gradually reduce the demand for their main exports. Many fossil fuel exporters, especially those in the MENA region, are also vulnerable to climate change, so the transition has to be dovetailed with the economic diversification that has been going on for some time.

Fourth, the climate change policies in individual countries should be country-specific, reflect the priorities of the authorities, and be consistent with the longer-term development objectives. Generally speaking, all countries should see a tangible positive impact of global policies and climate issues in order to build buy-in. The benefits of green transformation need to be widely spread, which requires a high level of international cooperation and recognition that all countries are in the same boat.

Fifth, the success of climate policies, while desirable in itself, could also entail risk for a range of industries and to the financial system, which would be potentially exposed to stranded assets. The Fund should take particular care to ensure that climate policies do not lead to global financial disruption.

Finally, the Board's high level of expectation on climate issues should be met with adequate resourcing to ensure the success of this strategy. It is clear that continuous reprioritization within the fixed budget rule is no longer realistic and entails high-risk for the quality of the output and the reputation of the institution. Therefore, we strongly support budget augmentation in line with the staff's proposal to ensure the successful implementation of the climate strategy.

The Chair:

Very thoughtful. Very clear and representing a stark reality of what climate change is. It is already happening, and I actually agree with Mr. Hosseini's point on vulnerabilities growing, and therefore the number of countries that may have to prioritize adaptation resilience is also going to be growing.

Mr. Guerra:

Let me start by recognizing from our constituency the Managing Director's leadership in this topic. Her push in this regard has been instrumental to take us to this day in which we are discussing a consensus-building proposal. We agree with the Managing Director that we have to see the climate change challenge as a unique opportunity, first, to push our economies towards more resilient, sustainable growth and, second, to help the much-needed recovery. We issued a comprehensive gray statement supporting the staff proposal and request for resources. Let me just go into three issues of special interest for our constituency.

First, we want to highlight the urgency to act against the climate change and the necessity to address the global challenges in a multilateral, coordinated, and collaborative manner. With this, we share Mr. Buisse's remarks in calling for the urgent need on this matter. What can we do from our side? We think that the IMF is in a privileged position to signal and monitor climate-related risk towards the development of climate policy and provide policy advice.

Second, we want to reiterate our call for a close collaboration with other institutions. If we want to provide our members with a granular, well-focused and relevant analysis, policy advice and technical assistance should be related with a multidimensional point of view. Therefore, we must build with what others are already doing, avoiding duplication, overlapping, and creating synergies.

In that respect, we join other Directors, and we would appreciate staff comments on how the strategy presented by staff's thinking takes into account the IEO's recommendation for an effective collaboration, in particular across the street with the World Bank.

Finally, we believe that the Fund's engagement with low-income and middle-income countries will be the most prominent challenge in the implementation of the Fund's strategy on climate. We must not underestimate the challenge, including the need to devote other budgetary resources for this purpose. Along the lines already expressed by Ms. Mannathoko, Mr. Andrianarivelo, given the high exposure of low-income countries and middle-income countries to climate change, the Fund must redouble efforts to engage with these countries through surveillance, financial assistance, and especially capacity development. In this regard, we appreciate staff's work on the Climate Macroeconomic Assessment Program, and we want to underscore the need to strengthen collaboration with the authorities on country-specific capacity development programs and especially will point out the strategic role of regional centers which have the relevant expertise in each region.

Let me just end with a point made, just made by Mr. Hosseini, and that is of the risks. The risks are not evenly spread across our membership. Failing to give the adequate resources to build the capacity to confront the climate change issues in the IMF will have greater repercussions for low-income countries and middle-income countries that face the highest risk from climate change. Yes, let's discuss the issues of budget in a holistic and thoughtful way, but also let's bear in mind what is at stake.

The Chair:

I do recognize that we are coming with a series of proposals for the consideration of the Board. They are a reflection of what we hear from the membership. They are not made up in Washington, D.C., and so we will have to take our responsibility for doing the right thing for our members.

Mr. Trabinski:

We welcome this opportunity to discuss the strategy to help address climate change-related policy challenges and Chair's introductory remarks. Today's topic is one of those where we as a Board broadly agree with the direction, but we tend to differ in views on how the set objectives could be achieved. Finding a constructive way to move forward is therefore more a matter of an art than a craft, and both management, as well as staff, deserve credit for listening to different views, reflecting on them, and accommodating the views to the extent possible in the comprehensive proposal we discuss today. We appreciate this careful and unifying approach and offer the following three comments in addition to our gray statement that take into account points raised already by previous speakers, including Mr. Poso, Mr. von Kleist, and others.

First, like other Directors, we are of the view that the Fund has an important role to play in supporting members in addressing climate-related challenges to its surveillance and capacity development within its mandate and when macrocritical. In this regard, we agree with the proposal to broaden and deepen the Fund's activity in this area, especially in the context of Article IV consultations and FSAPs. The Fund's advice in these areas in the form of regular coverage of adaptation, mitigation, and resilience-building policies for vulnerable countries, as well as in the form of advice and transition risk, is justified. At the same time, looking more specifically on mitigation, we call on staff to present to the Board specific criteria and a consistent methodology for preparing the list of large emitters. We also support Mr. Tanaka's point on the need of having balanced discussions, especially on mitigation. This includes a fair approach to questions such as carbon price floor, which warrant staff's careful consideration while taking into account country-specific circumstances.

Second, we reiterate our call for a close and effective cooperation between the Fund and other international bodies working on climate change. An effective division of labor aimed at avoiding duplication of work is

needed, especially with the Fund's traditional partners such as World Bank and FSB, as well as NGFS.

Third and last, on the proposed hiring strategy, we clearly see scope for the Fund to have some skin in the game in the area of climate change. We nevertheless want to emphasize that since the request for a substantial number of FTE increases have been proposed in other areas of Fund engagement, we need to assess the budget envelope in its entirety to realign resources with Fund's priorities and needs. As said by Mr. Poso, a balanced approach to scaling up resources, in our view, is important.

The Chair:

Mr. Trabinski emphasized something that I am grateful to hear from the Board, the thorough work of staff to find a way in which we reflect the differing views so we can get to a point of consensus. We have to find a good way to cooperate and coordinate with others, as stressed by Mr. Trabinski and other Directors too.

Ms. Shortino brought up the standard-setters issue, and I did not at that point react to it, but this is a particular area where obviously we have to reflect carefully not to go ahead of standard-setting by the bodies that have the mandate to do so. Given the comfort that we are engaging very closely with these bodies, so we would be well informed in the way we work. The broader issue here is that there are different configurations of macroeconomic and financial stability, different institutions working in these areas, and we have to be careful to identify what the Fund is best suited to do and stick to it. The Board would make sure that we stick to it.

Mr. Jin:

We welcome the proposal for the Fund to step up engagement on climate issues in line with its mandate, and we call for a clear division of labor so that the Fund can effectively collaborate with other multilateral institutions based on their comparative advantage. It is important to recognize the historical context of climate change, and EMDCs are facing climate challenges at their early or middle stage of industrialization process. Without proper international cooperation, their right of development could be compromised due to a large population, outdated technologies, and the lack of financing. The Fund should base all its climate-related work on the Principle of Common but Differentiated Responsibilities established by the UNFCCC under the Paris Agreement.

The UNFCCC and the Paris Agreement should be the center of collective and multilateral climate actions. We support the coverage of climate-related policies with macrocriticality in direct bilateral country engagement in the form of capacity development and/or policy advice. Discussion of climate issues in Article IVs should fully respect country circumstances and support the authorities to assess the implications of different macroeconomic and financial policies in achieving NDCs. This approach will ensure the feasibility and the practicality of the Fund's policy proposals.

Members' mitigation efforts should be recognized on a broad scale covering all the relevant activities, rather than focusing on a single policy. Multilateral surveillance should cover issues like transfer of green technology and the international financing. The quantitative targets of the Fund's policy papers and staff climate notes and the country surveillance guidance should be based on comprehensive and in-depth analysis and country experiences and practices. We believe it will be inevitable to allocate additional resources to facilitate the climate work. It is critical to improve the efficiency of existing resources, scaling up of resources in a pragmatic and gradual approach.

Climate change is a great challenge to all of us, and my country has determined to face this challenge and transform this challenge into opportunity. I am happy to inform the Board that China's national carbon emissions trading market has just started trading yesterday with opening price at around 8.2 dollars per ton, and the price increased by about 6 percent during the first trading day. We have chosen a market-oriented approach in carbon pricing. The initial batch of participants in this market include 4,200 power enterprises with total carbon emissions of about 4 billion tons annually, which makes this market the world's largest carbon emissions trading market in terms of the greenhouse gas coverage. More industries will be included into the market in the next few years. We are looking forward to working together with management, staff and other member countries to fulfill our common goal of dealing with climate changes.

The Chair:

Very impressive that the market started up, not down. Already the price Mr. Jin announced is almost 3 times the average carbon price that currently exists; and, of course, with China stepping up, the carbon price coverage is going to jump way up from the 23 percent we had before that historic for climate action day. It is actually fantastic to have this Board

meeting and so many of you congratulating each other for what they do. It is implicitly telling me that what we do is the right thing.

Ms. Lim:

We broadly welcome the proposed strategy, which will enhance Fund's capacity to assist membership in dealing with climate change risks that have been more and more macrocritical. We issued a joint statement with Mr. Huh, so I will focus on two points for emphasis.

First, implementation of the framework, particularly in bilateral surveillance, should take into account country specificities, absorptive capacity, as well as readiness and willingness to participate in the climate discussion. We agree that there is an urgency for climate-related policy responses but highlight that policy space may be constrained, particularly at this juncture, by pandemic and crisis-related priorities. Accordingly, staff assessment and policy advice on climate change should be geared towards supporting resilient and sustainable growth.

On mitigation strategies, the Board remains divided on many critical issues, such as emission yardstick. Hence, the Fund should be cautious in its recommendation, especially when it may involve large transition risks, and this could be difficult or even detrimental to introduce in the current context, again considering the uncertainties of the pandemic path and still-fragile recovery. Fund policy advice on climate change should be guided by pragmatism, especially as Fund's internal capacity and expertise still need to be brought up quite significantly.

This leads me to my second point. Given limited resources, especially in terms of climate macroeconomics, we emphasize the importance of collaboration with other organizations and to leverage on the skill set and experience to enhance the quality of the Fund's work, sharpen its policy advice, and avoid any perceived duplication of climate-related work. We agree with Mr. Mouminah's statement on the need to develop the 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.

Like Ms. Shortino, we think staff must be more systematic and strategic in their approach to international cooperation on climate issues. For areas such as adaptation and resilience building, the Fund may need to step even further and require more interdisciplinary approaches. This could

translate into the need for structured arrangements with climate science institutes, natural catastrophe modeling experts, and geophysical data providers, as well as international organizations like the NGFS and FSB, just to name a few.

Mr. Herrera:

Tackling climate change is one of the key policy challenges that all members will face in the coming decades, and we appreciate Chair's leadership on these issues. We published a broadly supportive gray statement, so I will focus my remarks in three points.

First, we concur that the Fund has an important role supporting member countries to address the consequences of climate change through surveillance, capacity development, and lending activities. We agree that the Fund needs a well-structured and resourced organization to address these issues.

Second, we stress that the Fund's engagement in climate change issues must remain firmly anchored in its mandate and core areas of expertise. Some clear examples are helping climate-vulnerable countries to adapt and build resilience to extreme weather events or providing advice on policies to cushion the consequences of decarbonization process, particularly for oil exporters. We remain concerned about the Fund's role in assessing the adequacy of national mitigation policies and whether they meet the NDCs, or as Managing Director, eloquently put it, the risk of biting more than we can chew. Some mitigation policies will have a clear fiscal aspect, like carbon taxes, but in most countries, mitigation policies currently are and probably will be implemented through a complex and heterogeneous package of sectoral regulations, standards, emissions, permits, carbon offsets, subsidies, green investment, and other issues. Assessing the effectiveness of this broad and heterogeneous array of policies will require detailed regulatory and micro-sectoral expertise that are not part of the Fund's DNA. We will need to closely cooperate and rely on the expertise of external institutions and organizations to prepare this assessment. External communication about the role of the Fund in climate-related issues should express its contributions but also its limitations.

Finally, we acknowledge that the Fund will need to ramp up resources allocated to climate change issues. We welcome your initial remarks, Managing Director, and Ms. Kostial's remarks on these immediate priorities

and timeline for the climate change strategy. We look forward to the upcoming budget discussion to review this proposal in more detail.

Mr. Bhalla:

We would like to underscore the following two points.

First, the sole focus of the Fund strategy on carbon taxes in surveillance may not serve the interests of the developing countries, as other two critical elements, financing and technology transfers, have remained a neglected issue in the analysis of the Fund to date. The strategy paper has shied away from providing estimates of the scale of climate finance and technology needs of developing countries as critical pillars to tackle the challenges of climate change or in reaching the goal of zero net emissions. The IPCC, Intergovernmental Panel on Climate Change, in its recent report, global warming of 1-1/2 degrees C, has underscored the urgency of the availability of a combination of technologies and economic, financial, and institutional capacities to achieve the goal of a deeper carbon reduction.

Second, research suggests that climate-compatible investments often have higher investment needs than conventional fossil fuel measures and may also carry higher financial risks because the technologies are not proven or the projects have high upfront costs. Private capital, particularly in developing countries, may be difficult to be attractive to such projects. Therefore, climate change policy should be a cooperative venture between advanced and emerging economies if the developed and developing world have to make progress together towards carbon reduction. This cooperation, in our view, may involve two related policies—advanced economies to transfer a small portion of their carbon tax revenue to an independent global pool or global fund to finance the large green financing needs of the emerging economies. This magnitude can be incentivized via performance. That is, the better the carbon mitigation of the advanced economy, they will have to transfer less, all other things being equal.

Correspondingly, the better the mitigation in the developing economy, the more transfers that country will achieve *ceteris paribus*. As we know, previous commitments or transfers from advanced economies have met with very limited success. A formal incentive-based mechanism may be able to translate past failure into success.

Finally, we support Mr. Bevilaqua and other Directors about the voluntary nature of the coverage of climate change and surveillance and also

the need to account for past emissions, per capita emissions, as well as the needs of developing countries to achieve their development and social objectives.

The Chair:

I take very good note of the points Mr. Bhalla makes. We have to think of ways in which we can incentivize collaboration and support for developing countries. That is very correct. I just want to respectfully express a difference with Mr. Bhalla, on whether the Fund is mindful of the financial needs of developing countries and the importance of transfer from developed to developing countries to support the climate agenda.

If we take the conceptual approach the Fund embraces on mitigation specifically, it has three legs. One is price for carbon, so there is an economic incentive to accelerate the transition to the low carbon economy. Two is the investment, including technologic investment in R&D and new technologies. Three is a just transition, and when we talk about a just transition, we mean within countries, compensate those that are on the losing end of this transformation, and across countries.

On the latter one, I have not ever spoken about climate action without stressing the \$100 billion commitment and that it has not yet been met. Where Mr. Bhalla is right; we have not done original work to calculate exactly what the differential should be, and that is perhaps something to do in the future, but for the benefit of the staff who has done the work on climate, I just want to recognize that a just transition is fundamentally part of the way we think about transformation.

Mr. Huh:

There is no doubt that climate change is one of the most critical macroeconomic challenges for the global economy. The right question might be not whether it is Fund's mandate or not, but how to best serve its membership within its mandate. In this respect, the staff paper describes the Fund's ambitious strategy to engage with climate change issues in a very comprehensive manner. I will limit my intervention to three points.

First, we support the proposed expansion and the systemic focus on climate change in surveillance and capacity development. However, as many other Directors indicated, the coverage of climate integration in Article IV consultations should be determined with the authorities' ownership, and the

policy recommendation should also reflect country-specific circumstances and institutional capacity, as MD, already mentioned already.

In particular, as Ms. Mannathoko and Mr. O’Brolchain mentioned, in the case of small island countries, increasing and deepening CD activities is critical because of their special vulnerability to climate change and natural disasters. At the same time, given the various challenges the Fund is facing in stepping up its capacity in relatively short period, we also see merit in more gradual and pragmatic approach, focusing on quality rather than quantity, as Ms. Shortino suggested.

Second, the Fund must operate within its mandate and expertise while pursuing close and strategic collaboration with other institutions, leveraging their expertise to the maximum extent. In this vein, well-defined framework and incentive structure for the collaboration with the World Bank on the climate change is essential to make it work effectively down to the working level, but we still have a concern over effective coordination between CMAP and the CCBR given different country coverage of the two products in the initial stage. How can staff align these two products and ensure their consistency and complementarity during the first three years? Staff comments are welcome.

Finally, we recognize the significant resource implication of strengthening the Fund’s engagement in climate issues. Like many other Directors, we look forward to the forthcoming discussion in the midterm budget in a holistic manner to consider the appropriate tradeoff and priorities among competing resource requests.

The Chair:

As we develop our work—of course, the Bank is ahead—we will make sure that our instruments are complementary. We have built a mechanism for coordination and collaboration. Staff will talk more about that.

Mr. Fanizza:

We issued a joint gray statement together with Mr. Buisse, Mr. Hilbers, Mr. Poso, and Mr. von Kleist, so I do not have much to say. I wish to reaffirm our strong support for work on macroeconomic and financial stability consequences of climate changes. In fact, we believe that climate change should not be viewed as a mere externality, but instead as an

impediment and a threat to economic and social interaction, so it is a top priority, if not the top priority.

I should also say this topic is in line with the European strategy for transition to a more sustainable level. As stated by Mr. Poso, the European Commission has issued the Fit for 55 climate change initiative. We are fully consistent with that, and we are also consistent with the G-20 work on the subject, and we hope that all of this will come to fruition with COP26 that Italy chairs with the UK.

I have three things to say, to add to what we said in the gray statement. First, that we welcome very much the integrated approach. While climate change will become systematically a topic for surveillance, lending, and capacity development, we would caution against considering climate change as a distinct additional workstream. In particular on the lending side, it has to come within the program design and, of course, as surveillance as part of the regular work and for capacity development, too.

With regard to differential aspects, we appreciate the focus not only on the risk to financial stability but also on the opportunities created by the development of clean markets. Let's be clear, without the private sector we cannot make it. Let me say two more things. One is that we favor the idea of establishing climate hubs and also the proposal on internal and external training.

Finally, most important, we welcome the discussion on resource implication, but like many other of my colleagues, we believe that those would be discussed all together in the budget discussion. We have received a number of requests of new papers, new streams of work that make the point. We welcome information, but the decisions will have to be taken as well.

The Chair:

Well done by the Italian presidency to integrate climate in a comprehensive way into the discussions and decisions to be taken.

Mr. Mozhin:

We have issued a written statement where we fully supported the proposed strategy without any reservations. This may have surprised some of the Board members, but certainly it did not surprise Ms. Kostial, who is now well aware of our views after several outreach rounds.

Obviously, Russia remains one of the major fossil fuel producers. Russia is also still considered to be a northern and cold country. However, in the recent periods, we have had our fair share of climate-related calamities. Let me just mention that this very week, the seat of Moscow is experiencing the record-high temperatures. Over the last couple of weeks, we have experienced in different regions terrible floods related to unprecedented rainfalls, terrible floods, no less terrible than those experienced yesterday in Germany and Belgium; and let me immediately express my deep condolences to Mr. von Kleist and Mr. Hilbers, Mr. Dresse, for the loss of life that happened yesterday.

The main point I would like to make in this meeting is that the success of this whole undertaking will require an unprecedented level of international cooperation. The success or failure will literally depend on how the Fund and other institutions can organize this international cooperation.

In this respect, I share some of the concerns expressed by Mr. Bevilaqua and Mr. Bhalla about some of the critical challenges the international community may face in this undertaking. In particular, we have doubts about the use of conditionality in program cases on climate-related issues. Such conditionality would shift the burden of climate adjustments on smaller and financially distressed countries which play very little role in the overall carbon emissions. The Fund has no power to impose conditionality on large and powerful economies which are the main sources of carbon emissions, so I would be careful and cautious regarding introducing conditionality on climate matters under the program context.

Finally, on resources, for the Fund to be successful in this whole effort, we need our in-house expertise. Yes, we should cooperate with everybody else to the extent possible, but the Fund has comparative advantages in several matters, including our universal membership, including our expertise in fiscal matters. Without an in-house expertise, the Fund simply cannot play a role in these matters. We will have another discussion on budget augmentation later this month.

The Chair:

I join you in expressing deepest sympathy to Germany and Belgium and to our colleagues in this meeting. It is, indeed, the series of frequent and devastating events that have led to a great deal of reevaluation, even from countries where on the surface it appears to not be a big existential threat yet. I

still remember Russia taking a very thoughtful commitment to join the Kyoto protocol, and one of the main arguments was the melting of the permafrost and the implications it might have for the economy and people's lives in Russia.

Thanks to Mr. Mozhin for the support he has expressed. Ms. Kostial actually did say that her engagement with the Russian office has been exemplary, and, of course, I join her in thanking Mr. Mozhin for that.

Mr. Mohieldin:

Before I start, let me share the words of sympathy and condolences made by Mr. Mozhin to the victims of the natural disasters in Europe and particularly in Germany and Belgium. This is a strong reminder of what we are facing supported by science, and we are seeing the evidence of climate change implications almost everywhere.

Many thanks to Madam Chair for her points of emphasis on our adherence to the rules of engagement established under the UNFCCC. Having said that, given that I issued a gray statement on the matter, I would like to emphasize three points. I think the discussion today is reminding us that the world is not flat, and we come to issues of climate change from different perspectives, and the priorities are different. That needs to start first not just to say that we are all supportive of the Paris Agreement that had its legal implications and the NDCs speak for country priorities, but how we are going to be engaging in this.

First, on the sustainability, it is important for developing economies and emerging markets, if not for the rest of the world, to put climate change within the Sustainable Development Goals. The SDGs, and that is not just talking by numbers, are about the integrity of the framework that countries need to prioritize their budgets, their resources, and how to attract investments in different areas of work. The world is already a mess. We are not seeing the alignment between the SDGs, the ESG, and the net zeros. Those who are bragging about achievements of the private sector during the last couple of years in major transactions, yes, the transactions have increased, and there are lots of asset classes attracting more investments into a variety of what is being claimed to be Green or Blue Bonds or other transactions related to climate, but only God knows if these are green enough or not because we do not really have standards. We have not yet applied the TCFD that will tell us if people are telling the truth or just claiming what they are not doing. So, this issue of

standard-setting and applying them would be really very important for our work going forward.

My second point is about adaptation, and while I admire the work of Madam Kostial and her team, let me share very frankly that I am disappointed to hear earlier that the work on mitigation will be prioritized and will turn to adaptation at the end of the three-year period after building internal capacity. This might be realistic, but what can we do in order to change that course? I cannot go and tell my constituency that is suffering more from lack of attention to adaptation, including by the MDBs that are not really committing more than 15 percent in the case of my region, I cannot tell them not to call the Fund if they have a problem attached to adaptation before three years from now. We are supportive of this agenda, and we would like it to speak to our issues of concern.

With regards to issues related to transition, as Mr. Marc Carney would say, it is the ultimate restructuring game, and this means budget implications. It means huge work, and here basically the Fund is coordinating what are the commanding heights that are controlling our economies through the budgets, fiscal policy, and monetary policy, and that needs to be factored in in our work given the significance in the Fund on that.

I think Mr. Guerra saved me time when he talked about budgetary resources in a very eloquent way. There are limits and I have been managing in institutions for many years—there are limits to do more with less; and if we are serious about getting engaged in this area, we need resources. Each time the Fund says that I have a strategy, all of us get calls about having more technical assistance, more capacity development, more engagement. We are raising expectations to those who cannot have other resources, be it first or last, but the Fund. I appreciate others that may have the resources, but in our case, developing economies and emerging markets, we resort to the Fund for help—and that will have its time for discussion—but we have a very serious resource issue. We cannot consider with the same arrangement of a flat budget.

The Chair:

I thank Mr. Mohieldin and agree that a strategy that is not pragmatically supported by the necessary resources is just wishful thinking. I hear from the Board the need to be clear about priorities—to provide a sense as to how we are going to do this, how it fits in the overall direction of the Fund, and how prioritization will take place. I want to recognize what

Mr. Mohieldin said about adaptation. We must reflect on this point. We do quite a lot for vulnerable small states in this area, but he is right; there are middle-income countries that are large and faced with very significant adaptation pressures.

The Deputy Director of the Strategy, Policy, and Review Department (Ms. Kostial):

As climate change affects all countries, all departments are affected, I will take some of the questions, and then I will ask my colleagues to respond. I also would like to take that opportunity to say SPR has signed off on this paper, but the paper very much reflects a very broad effort from the whole institution.

Let me start with the question of how to track all of the proposals we have in the strategy. In a sense, this is a paper to provide costing, and that is why it is focused on output. But really what we want to have is traction and implementation, because outputs are not useful unless they make a difference. Here I listened to Board members very carefully, and many Directors have emphasized the need for tailoring to take into account country circumstances, to take into account political economy circumstances. This is how one can get traction. It is not a cookie cutter approach, but it is really the tailoring that matters, and the good news in that regard is that we have ways to tailor our advice and to ensure that we get the traction on the ground. The Board will know that on the capacity development we are doing that in a way that is results-based, which is precisely getting the change on the ground. And on surveillance we have mechanisms—we have the Comprehensive Surveillance Review; the interim surveillance review—and I would fully expect in the context of these papers, we will provide the Board with an update on how we are faring in implementing the climate strategy.

Then I want to respond on the highest priority outputs. At this point I only have a short answer, which is that we need to focus on those members with the highest vulnerabilities, the highest risks, and then the largest emitters. I also want to add that in developing the strategy, we had a lot of iterations across the institution to make sure that we get the right level of resources that is clearly in line with our comparative advantage and that is clearly in line with staying within macrocriticality and, again, also while ensuring tailoring, and tailoring is actually costly. And I also take note of Mr. Mohieldin's point that adaptation is very critical, and particularly adaptation is something where we need the most tailoring.

The third point I wanted to take up is on collaboration. Really the overriding concern when we think about collaboration is that we deliver high-quality and consistent advice to our members. Collaboration in itself is costly. We do not want to do it for the sake of collaboration, but we really want to do it only if we see it has substantial value added. Some Directors would like to have a more systematic approach, and they also asked about how we are implementing on the IEO recommendations. We will issue today the Management Implementation Plan on the Bank-Fund collaboration, and we will have much more opportunity to discuss those next week at the Board Evaluation Committee.

Just briefly, we want to go into systematic collaboration where it is meaningful, and what we have seen is that systematic engagements with major strategic partners, and particularly the Bank, are actually very useful. What we have in mind here, what is very efficient and effective, is to have regular oversight meetings; and these oversight meetings ensure that we are keeping each other posted on what is happening, what are the emerging issues in the other institutions; what are issues to follow up, and that is then something we can disseminate to the teams. In turn, the teams give us input for these high-level meetings, so also on a country-by-country basis we can identify these issues. That is one of the measures in the MIP that we want to do with the World Bank. That will ensure a very good way in collaborating.

I also want to make clear that the climate macro area is still an evolving field, and there are many institutions that are ramping up their work; and we really need to also learn from each other. We need to be nimble in our approach. Here, we need to experiment, and a good example is what we are doing on the CCPA where we want to do more engagement with the World Resources Institute and also with the NDC partnership.

If the Managing Director allows, I would then ask Ms. Kinoshita to talk a little more on the collaboration of the CMAP and also in the context of the CCDR. Mr. Prasad would talk more about our collaboration with standard-setters, and then Mr. Wiegand on climate in the context of surveillance.

The staff representative from the Fiscal Affairs Department (Ms. Kinoshita):

I will chip in on the CMAP aspect of collaboration, especially with the World Bank. We are trying a systematic coordination mechanism during these test runs that we are proposing for this year. We are planning on two test runs, one in the small states and the other non-small state. During this period, we

are trying out modes of collaboration, sort of in a new fashion. We already prepared some preliminary agreement with the World Bank at the working level, and that includes a point of contact person in each institution, and also we are going to have meetings to touch base but also to more practical suggestions, such as sharing the drafts of various notes and also the official documents at the earliest stage possible so that we can actually benefit from each other's comments.

We also encourage the World Bank to participate on CMAP and also similarly for IMF staff to participate in CCDR. I think the successful collaboration does require some really good framework to start with, but I also have to note that I think to some extent some flexibility can also benefit for a successful and sort of organic coordination between the two institutions.

In terms of the coverage, I think that some EDs expressed concern about the CCDR versus CMAP, the coverage of countries. This will be discussed in these regular meetings. I think our understanding is that the Bank will cover all the countries over the long run, all the member countries over the long run, but I think we are actually talking about the overlap within the short time period.

For this, I think in order for us to closely coordinate between the two, we should be able to actually help a broader set of countries, more member countries, by having not just only IMF working on CMAP, but also the Bank is covering from a CCDR side. I think we will ensure the synergy but also to ensure complementarity between the products.

The other thing is, I think, that perhaps there was also some question about how we are planning to roll out the CMAPs. I think in the short run, as I mentioned, this year we are trying to conduct two CMAPs, the test runs, and with that experience and lessons, we will propose a formal template in the Board meeting early next year. And then we can roll out the CMAP and for the scaling up to double, or to triple, four to six CMAPs a year. Over the long run, we are aiming to conduct eight to ten CMAPs a year. This is also because of the prospect of repeating the CMAPs for the follow-up probably in five years' interval, for the ones who already received the CMAP.

Finally, about the prioritization or adaptation issues, some concerns raised versus mitigation. In fact, for the CMAP, the core sort of objective is to help the climate-vulnerable countries. Therefore, the adaptation issue will be central to conduct this CD.

The staff representative from the Monetary and Capital Markets Department (Mr. Ananthakrishnan):

On collaboration, we are present wherever it matters, and we are collaborating closely with the international financial institutions and standard-setting bodies in the financial sector area. To give a few examples, we are part of all the workstreams of the NGFS. We are present in the stress testing workstream, the microprudential regulation workstream, the data gaps workstream where we are collating some reports, and also on monetary policy and central bank operations workstreams.

With the World Bank, of course, the FSAP is a joint product, and recently we have collaborated with them both on the Philippines as well as in South Africa FSAPs, where there have been joint stress testing on physical risks. We are members of the International Platform for Sustainable Finance (IPSF), which is leading the work on disclosures and on taxonomies. We are also members of the Sustainable Finance Working Group (SFWG), which has a roadmap, a medium-term roadmap, which is concentrating on disclosures, data gaps, and taxonomies. We are part of the Basel Committee subgroups, which are working on insurance; and we are also members in some subgroups of the International Financial Reporting Standards (IFRS), which is also looking into sustainable finance reporting in the medium term. In all areas of financial sector, we are collaborating.

There were a couple of related questions on the NGFS scenarios and FSAPs, as well as our policy recommendations in stress testing in FSAPs, that need to be aligned with standard-setters, so we are leveraging NGFS scenarios for transition risks. These transition risks of the NGFS scenarios are only for certain countries. They are only related to certain countries, and there are many emerging economies and low-income countries that are not covered by the NGFS. Also, in terms of physical risks, the NGFS scenario is only limited to one climate hazard, so they lack comprehensive that is needed for FSAP climate stress testing in certain other countries.

Similarly, we are also engaged, and we are also very well informed that the standard-setting bodies are currently developing climate-related principles, and the policies that we recommend and we will be recommending will be broadly guided by the international standard-setting bodies like the FSB, to enhance risk management, to reduce pressure points for the financial system due to climate risks.

As the Managing Director stated, she noted earlier, there are different configurations of financial stability and different institutions working in these areas, including of calibrating scenarios, and we will be very carefully navigating our scenarios and recommendations and FSAPs depending on country circumstances.

The staff representative from the Strategy, Policy, and Review Department (Mr. Wiegand):

There were a few comments and questions about the CSR and the treatment of mitigation coverage for large emitters, so I just want to summarize briefly to bring us all on the same page. The CSR has that coverage of mitigation policies is strongly encouraged for the 20 largest emitters of greenhouse gasses. Strongly encouraged, of course, means ultimately voluntary. So, if a country is not willing to engage with the IMF on that, we would respect it. At the same time, strongly encouraged also means that we would ask, and, of course, we would hope that the number of countries that would not want to have mitigation covered in their Article IVs would be small. Based on our experiences so far, we are actually very encouraged and very optimistic that this group of countries will indeed be small, and we will get to fairly comprehensive coverage.

There was also a remark on the methodology we use in order to determine the largest emitters. That is also defined in the CSR. We defined the largest emitters on the basis of total greenhouse gas emissions, and so the latest observation we have on total greenhouse gas emissions. We recognize that this could be defined in different ways. The advantage of this indicator in particular is that it requires very few assumptions or imputations, as long as directly observable. Again, it could be defined in different ways. The offset for that is that you keep the group of large emitters to 20 countries; that accounts together for more than 80 percent of global greenhouse gas emissions. There are a few things that we haven't settled; for example, how often would we revise that list, and that we will cover presumably in the forthcoming guidance note that will follow on the CSR.

The Chair adjourned the discussion.

ANNEX

- Gray Statements
- Staff Responses to Executive Directors' Technical Questions
- Constituency Codes

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GRAY/21/2005

July 13, 2021

**Statement by Mr. Bevilaqua, Mr. Velloso, and Mr. Coelho on IMF Strategy to Help Members Address Climate Change Related Policy Challenges—Priorities, Modes of Delivery, and Budget Implications
(Preliminary)
Executive Board Meeting 21/73
July 16, 2021**

We thank staff for the paper and outreach to our constituency. Climate change represents a major challenge to long-term global prosperity. Tackling this challenge effectively and fairly will require a coordinated international effort with a high degree of consensus and political ownership. In our view, this will be better served within the confines of the United Nations Framework Convention on Climate Change (UNFCCC), its Paris Agreement and its Conference of the Parties (COPs), as well as other specialized international fora on climate issues. As spelled out in the summing-up of the recently concluded Comprehensive Surveillance Review (CSR), the Fund has a limited role to play within its mandate and core areas of expertise and on a strictly voluntary basis. We, therefore, do not support the proposed significant increase in the Fund's scarce resources to be devoted to climate issues. In our view, the Fund already spends considerable resources in this area. The strategy will need to be significantly reworked and its value-for-money judged in comparison to other proposals for increase in resources that were presented to the Board in recent days and weeks. We look forward to the medium-term IMF budget discussions later this month.

The IMF has a role to play in providing policy advice and technical assistance on the macroeconomic aspects of climate change when macro-criticality is well-established. In our view, macro-criticality of climate change is better determined by the authorities of our member countries. Fund staff can help the authorities in this process, but it should not replace the authorities' judgment. Once true macro-criticality is unequivocally established and a request for staff's assistance is made by the authorities, there is a role for staff in assisting with the voluntary integration of their climate plans into their macroeconomic framework and risk management tools. In this regard, the Fund has already done good work—together with the World Bank and country authorities—in small island and developing states, where climate change and more frequent natural disasters have a significant impact on their macroeconomic and financial stability.

The Fund should also aim at preserving the integrity of the climate change regime under the UNFCCC. The international community has long recognized that climate change is one of the world’s greatest collective action challenges. Decades of multilateral efforts led to the creation of an international climate change regime under the umbrella of the UNFCCC—comprising a unique set of principles, norms, rules, and decision-making procedures that the Fund cannot and should not try to replicate or superpose. Under a delicate political balance, this international regime has established procedures for conducting negotiations, adopting decisions, as well as monitoring, reporting, and verifying the implementation of commitments. Preserving the integrity of this process is indispensable for the success of the international efforts to combat climate change. A significant expansion of the Fund’s work on climate issues, particularly by inappropriately encompassing a monitoring role, could regrettably increase the risks of running over the important work of the UNFCCC and its COPs. The IMF is guided by a different set of principles, norms, rules, and decision-making procedures that do not reflect those of the Framework Convention. The Fund should not be perceived, therefore, as part of a dangerous policy of “forum shopping” that could lead to further divisions and, ultimately, jeopardize the international efforts to fight climate change.

While the Fund has a role to play in assisting our member countries in addressing adaptation and transitional costs, the Executive Board remains divided on many critical issues about how to address mitigation strategies. The Acting Chair’s summing up of the 2021 CSR stated that Directors “*generally agreed* that coverage of climate change mitigation in Article IV consultations would be *strongly encouraged* for the largest emitters of greenhouse gases.” On paragraph 20 of the report, however, staff expands on this view by saying that the CSR “set forth the *expectation* that mitigation policies of the 20 largest emitters of greenhouse gases (GHGs) would be covered every 3 years or so.” Also, we highlight that there is no clear agreement at the Board on the criteria to determine “largest” emitters. During the Board meeting on the 2021 CSR and in the informal sessions to discuss the Fund’s possible engagement in the area of climate change, some Directors, for example, underlined the need to account for past emissions and to take into consideration *per capita* emissions, as well as the needs of developing countries to achieve their development and social objectives. Like others, we consider that determining the adequacy of individual mitigation targets is well beyond the Fund’s mandate and expertise. Any assessment of the implementation of NDCs is the ultimate responsibility of the UNFCCC. Discussion of climate change mitigation in Article IVs should be driven by the authorities on a strict voluntary basis, as agreed at the Board.

We strongly advise management and staff to proceed cautiously and in close consultation with the authorities and the Board in the development of climate-related analytical tools. Before developing in-depth analysis and start issuing policy advice, as it has been done in some recent cases against the explicit will of country authorities, it will be important to precisely determine the scope of the Fund’s analytical work. Complexities in determining the appropriate yardsticks for mitigation, limitations of assessment tools, insufficient data, inadequacy of models, and other methodological constraints on climate

science and climate economics should be carefully weighted and considered. Also, restructuring Article IV reports to include climate change should not come at the expense of the IMF's key role as a trusted advisor and reliable repository and source of economic data and analysis covering its core sectors, namely: fiscal, monetary, external, and financial.

Finally, the budgetary implications of the proposed strategy are excessive. Spending 155 FTEs annually in steady state on climate issues would represent twice as much what the Fund spends on FSAPs, which is one of our best known and most well-regarded activities by the membership, falling squarely within the Fund's core mandate. It is thus critical to have a holistic view on the budgetary impact—and value-for-money—of the proposed strategy vis-à-vis other recent requests.

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GRAY/21/2006

July 13, 2021

**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 21/73
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 (ii) 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.*

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GRAY/21/2012

July 14, 2021

**Statement by Ms. Mannathoko, Mr. Ekeocha, Mr. Ismail, and Mr. Abdullahi on IMF
Strategy to Help Members Address Climate Change Related Policy Challenges—
Priorities, Modes of Delivery, and Budget Implications
(Preliminary)
Executive Board Meeting 21/73
July 16, 2021**

1. We thank staff for the comprehensive report. Climate change is an existential threat posing a grave global policy challenge and imposing substantial economic and social costs on economies. As climate shocks present significant risks to domestic and global macroeconomic and financial stability, the Fund clearly has the mandate and obligation to help its membership prepare for and confront these macroeconomic shocks, while mitigating the main economic behaviors fueling the shocks. The Fund should also spearhead efforts to enhance cross-country policy cooperation and coordination in order to motivate actions to lessen climate change risks. The Fund's services, therefore, need to evolve to address this critical macroeconomic policy challenge of our time.

2. We appreciate the efforts so far to step up Fund engagement on climate change, including by building internal capacity, through increased emphasis on climate change challenges in the context of multilateral and bilateral surveillance, and through workstreams such as CCPA pilots. Going forward, however, the current ad-hoc approach will not be adequate to meet demand or deliver the high-quality climate policy support the membership will need to navigate climate change without major destabilizing events. A more systemic and structured approach is required and with this in mind, we support the proposed strategy for Fund engagement on climate change, which we consider adequate to ensure that the Fund is able to continue fulfilling its mandate. We also offer a few suggestions.

Stepping up Engagement on Climate in Line with the IMF's Mandate

3. **Mitigation:** Successful mitigation measures by the largest emitters would have significant implications for all. We therefore support the proposed in-depth mitigation coverage of the 20 largest emitters of greenhouse gases in line with the CSR commitment. In contrast, despite their marginal contribution to climate change, LICs and small MICs bear the

brunt of slow global mitigation and rising temperatures, in the form of significant human, economic, and social costs associated with climate change disasters, while at the same time having to face painful adjustment to global mitigation measures. With this in mind, we see the need for a careful and structured approach for IMF support and advice to this group, that recognizes the significant transition costs for these economies as they contend with the impacts of carbon pricing and reduced finance, on their production, exports and revenues.

4. **Managing the transition:** Ongoing global efforts to mitigate climate change are imposing additional policy pressures on LICs and fossil fuel producers, including by heightening risks to fiscal and debt sustainability and price stability. We underscore the need to ensure that LICs and small MICs are well-equipped to address climate change mitigation spillover risks, and that the Fund ensures an adequate transition period is applied to these low-carbon emission economies, that will shield them from associated shocks and ensure their smooth, stable transition as the world shifts to a low carbon economy.

5. **Adaptation:** As we noted in our May statement to the Board, UNDP reporting highlights significant risks for Africa as temperatures on the continent are rising faster than the global average, and the climate impacts are likely to further derail progress on SDGs. Adaptation will be essential to better prepare for more frequent sudden disasters and current slow onset disasters like drought. Resilient infrastructure to guard against future flooding, cyclones and similar disasters, and appropriate agricultural investment and planning to guard against future food shortages and disruption in agricultural output, are all needed. There is need to enhance adaptive capacity through appropriate fiscal and structural policy planning, and to improve general climate-related macroeconomic decision making and access to climate finance and markets. This includes enhancing support on policy mainstreaming and evidence-based decision making. We expect the planned Climate Macroeconomic Assessment Program (CMAP) and similar assessments, will provide the necessary, quality analysis to properly inform advice to countries.

6. **Carbon financing:** We urge staff to ramp up support to low-carbon LICs and small MICs to help them access global climate financing. We encourage the careful structuring of CMAP and bilateral advice and TA to these countries to help them meet requirements to access this financing. Our region also needs analytical support and guidance in framing investment and financing proposals to meet ESG investment requirements and secure more climate capital flows. At the same time, given the low financing available to invest in climate adaptation and resilience building we note the need to prioritize Fund support to LICs to help them grow and generate the fiscal space needed to invest in climate adaptation and resilience. We feel more can be done to bolster LICs' capacity to pursue adaptation policies.

7. **Climate coverage in surveillance:** We support proposals to deepen the coverage of climate change issues in Article IV consultations, with an emphasis on adaptation and resilience building, and transition management for most economies, and a focus on mitigation in particular in the largest emitter economies. Attention to macro-critical climate change aspects is crucial, especially for those Article IVs that will not be preceded by a

CMAP. LICs and small MICs, in particular, that are vulnerable to sudden as well as slow-onset disasters such as drought, need help to prepare for and where possible avert, significant policy challenges. We also welcome the proposal to routinely analyze the impact of climate change and transition risks on the financial sector as an integral part of Financial Sector Stability Assessments (FSSAs), as well as enhancing risk management and the resilience of the financial system.

8. **Scaling up capacity development:** This will be crucial for single-country CD in view of the significant increase in demand, especially from LICs vulnerable to climate change. It will be important to bolster LICs capacity to address climate change risks by developing the appropriate mix of fiscal and financial policies, and macroeconomic and legal frameworks. CD should also focus on enhancing LICs' capacity to manage public debt, while also modernizing monetary policy frameworks to achieve price stability; and improving supervisory and regulatory capacity. At the same time, the Fund should scale up membership training, including in-person and online courses, to enhance authorities' capacity to assess and address climate risks. In this context, we welcome the recent inclusion of climate modules into existing training courses as well as the ongoing work for the Coalition of Ministers of Finance for Climate Action. While we stress the importance of CD that is appropriately tailored to country specifics, we also encourage staff to find mechanisms to facilitate sharing of country experiences.

9. **Climate data:** While we welcome the various workstreams aimed at improving climate data for macroeconomic and financial analysis, more work needs to be done to enhance data granularity and availability, including more CD to bolster country authorities' capacity to provide timely and reliable data needed to inform policy making. *In this context, could staff provide more information on efforts to systemically integrate climate data and analytics produced by other institutions, into Fund work, and on ongoing work to develop and improve methodologies.*

10. **Collaboration:** The extensive Fund engagement and collaboration on climate with a large number of other multilateral institutions and standard setting bodies is commendable. This will enhance Fund contributions to policy debates on climate issues while advancing efforts to strengthen information architecture around climate risks. *Could staff elaborate on the extent of their engagement with regional development banks? We noted the reference to information exchange and wonder whether staff find that this contributes adequately to building synergies and ensuring consistent, complementary advice? Might there be a case for closer collaboration with these regional institutions alongside the World Bank since they serve a similar role to the latter?*

Resource Implications and Risk Assessment

11. We support the request for resource augmentation necessary to bring the Fund to a position where it can deliver effectively on the climate change engagement strategy, meeting growing demand for quality support from the membership. We welcome the envisaged internal reorganization, including the establishment of climate hubs in functional departments

to support climate change work, as well as scaling up related CD activities. We look forward to a comprehensive discussion in the context of the broader budget augmentation request.

12. We agree that this strategy will help to mitigate reputational and strategic risks to the Fund, enabling it to assist its members with one of the most critical macroeconomic and financial policy challenges of our time. It will be important to clearly communicate the scope and limitations of the IMF's engagement consistently, to avoid misconceptions regarding the Fund's work in this area.

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GRAY/21/2013

July 14, 2021

**Statement by Mr. Andrianarivelo, Mr. Sylla, and Mrs. Raolisoa Andrianometiana on
IMF Strategy to Help Members Address Climate Change Related Policy Challenges—
Priorities, Modes of Delivery, and Budget Implications
(Preliminary)
Executive Board Meeting 21/73
July 16, 2021**

We thank staff for the well-written paper, outlining a comprehensive strategy for the IMF's engagement on climate change-related policy issues, including details on organizational implications and resources requirements. We welcome the timely work and broadly concur with staff proposals to further enhance the Fund's work on climate change. We also appreciate the useful Q&A session.

We agree that the IMF's role should evolve with the transforming economic landscape in light of climate change, for the benefit of the membership. Climate change is a major global challenge, and given its macro-relevance, it is undeniable that the Fund has a central role to play to promote a resilient and sustainable global economic recovery from the Covid-19 pandemic. Not only climate change poses a threat to macroeconomic and financial stability, but also creates fiscal, financial, and structural policies challenges over the next years and decades. The IMF's surveillance, lending, and capacity development functions will be essential in helping the membership address these challenges. It is therefore important to integrate climate change considerations into the Fund's bilateral and multilateral surveillance products in a more strategic and systematic manner.

We stress the importance of close collaboration with other institutions and international organizations to avoid duplication, leverage external expertise, and increase traction.

We agree that the Fund has a comparative advantage in coordinating the macroeconomic and financial policy response to address climate change. The Fund climate strategy will help to further clarify the Fund's role in the climate agenda and limit misconceptions regarding what the Fund will be doing. However, addressing climate change requires not only policy intervention, but also unprecedented level of global policy coordination between countries.

Therefore, enhanced collaboration with IFIs and development partners is crucial to leverage these institutions' expertise.

We broadly concur with the proposed strategy for the work on climate change, including the delivery of specific outputs. Given the urgent and pressing needs of our members, we fully agree that the Fund should step up its engagement on climate change to ensure that it can continue to fulfill its mandate. We note that engagement to date has been mostly ad-hoc and unstructured, with great emphasis on flagship reports and policy papers, complimented by some climate-related challenges discussion in bilateral country reports. Against this background, we fully support that a more systematic and strategic approach is needed, with the objective to provide high-quality, granular, and tailored advice on macroeconomic and financial policy challenges related to climate change. We believe that the strategy will help to ensure more effective and consistent Fund engagement with member countries to address climate change issues.

We welcome the staff's plan to expand the currently limited coverage of climate related policies in Article IV and FSAP, wherever climate change triggers macro-critical policy challenges. We appreciate the work done so far on pilot basis. Looking ahead, the approach to integrate risks from climate change and policy options to manage such risks as part of all analysis under the FSAP is warranted. We also see merit in continuing to have a dedicated chapter on climate change in flagship reports including the GFSR, WEO and the Fiscal Monitor. Moreover, staff's plan to increase the publication pipeline on climate change is welcome, including through regional surveillance reports, policy papers, and the new climate notes. We agree that these reports remain key outlets for disseminating the IMF's analytical and policy work on climate.

On surveillance, we take note of the comprehensive strategy, including adaptation, mitigation, and transition toward a green economy which are mutually reinforcing. On adaptation and resilience building, we find the CMAP to be particularly useful and merits expansion beyond the pilot phase, though it should remain voluntary and demand driven. As it relates to mitigation, we share the view that emphasis should be given to the mitigation policies of the 20 large emitters of greenhouse gases. In this respect, *could staff elaborate on the methodology applied to identify those 20 countries?* Regarding the transition to low carbon economy, we take note of the approach to cover all members every 5-6-year cycle. That said, we call for tailored policy advice and continued flexibility, particularly for fossil fuel exporters in LICs, as adaptation, mitigation and transition policies could be fiscally costly and impact negatively vulnerable households and high-carbon sectors. Furthermore, we call for a greater recognition of the fiscal efforts done in many LICs to preserve their natural resources, notably forests preservation in Congo Basin. These fiscal costs should be considered in the policy discussions with countries. While we recognize that financing may

be provided under IMF-supported program when climate-related measures are deemed critical to solve BoP problems or through emergency financing, we reiterate the importance of substantial climate financing to support countries in their efforts to mitigate the effects of climate change, given the limited fiscal space. *Staff comments are welcome.*

We appreciate the emphasis placed on capacity development and training. We note that climate-related risks will likely disproportionately affect hotter and poorer countries, notably LICs, small states, and fragile countries. In addition, these groups of countries' vulnerabilities are reinforced by their limited implementation capacity and structural weaknesses. Against this background, we are pleased to note that a substantial share of climate-related CD is expected to go to LICs and small states, reflecting the need to bolster capacity in those countries.

We agree with staff that additional resources would be necessary to ensure the Fund's effectiveness in the area of climate change. We take note of staff's estimates for resource needs of about 95 FTEs to help equip the Fund to operationalize its climate strategy. However, this question should be considered as part of the overall budget discussion and we look forward towards a more comprehensive consideration of the budget augmentation needs.

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**Statement by Ms. Riach, Ms. Andreicut, and Mr. Chrimes on IMF Strategy to Help Members Address Climate Change Related Policy Challenges—Priorities, Modes of Delivery, and Budget Implications
(Preliminary)
Executive Board Meeting 21/73
July 16, 2021**

Addressing climate change is one of the biggest macroeconomic challenge facing the global economy. Effective solutions on mitigation, adaptation and transition management will require unprecedented multilateral cooperation as well as significant, bold and well-calibrated policy actions from national authorities. Without concerted near-term efforts, the current unsustainable trajectory will be locked in, with massive implications for macroeconomic stability. Policies to address climate change will also involve difficult trade-offs.

All of this means that climate change and associated policies are central to the IMF's mandate, requiring a serious, considered and urgent institutional response. We appreciate the increasing focus that the Fund has given to climate issues in recent years, providing some helpful analysis both in multilateral surveillance and in bilateral policy advice. However, we agree that more is needed, and we welcome the more comprehensive and strategic approach proposed in this paper. **We therefore thank staff for their proposals and offer our very strong support for the direction of travel.**

We strongly support the proposed expanded and more systematic focus on climate change in surveillance engagement. We fully agree that both the largest emitters and the most climate-vulnerable countries should be given particular attention in coverage. As previously stated, we believe the scale of the macroeconomic challenge means that mandatory coverage in Article IVs for the largest emitters would have been appropriate, but we can accept staff's proposal as a pragmatic way forward. The paper's emphasis on transition management – in particular for carbon exporters – is also helpful: such economies will face acute challenges, but delaying action is a false economy. We also note that transition risk coverage is closely related to both mitigation and adaptation efforts. The proposed balance, covering key high-emissions and particularly vulnerable economies every three years, feels appropriate: this should help to ensure that staff reports add real value by

addressing difficult policy questions constructively with country authorities. We strongly support the integration of climate risks, both physical and transition, in all FSAPs. When conducting climate stress tests, we encourage staff to use NGFS reference scenarios and to consider both medium- and long-term horizons. Multilateral surveillance and research on the intersection between climate change and macroeconomic policy must also play an increasingly important part in the Fund's agenda; the flagship reports are an excellent vehicle for laying out global and cross-cutting analysis. We also welcome the Fund's collaboration with the IFRS Foundation and FSB on climate disclosures and taxonomies, and would have appreciated more detail on this work. The Fund also has an important role to play in promoting climate-related disclosures and we encourage staff to discuss such disclosures in IMF surveillance products.

We welcome staff's attention to climate-related measures in IMF lending programs. The paper gives examples which show that climate-related issues can be key to addressing balance of payments problems and restoring macroeconomic stability. Indeed, it reminds us that some of these issues, such as fossil fuel subsidies, have been acknowledged as macrocritical in some circumstances for decades. We encourage staff to go further in considering how climate-related measures can be further internalized into program design. As a minimum, we must work together to ensure that programs do not promote policies that are harmful to sustainable development and or advocate growth plans that are highly emissions-intensive, while also recognizing countries' differing levels of development and energy access.

The scale and interdisciplinary nature of the challenge means that many authorities could also benefit from tailored IMF capacity development and technical assistance as they develop policies to tackle climate change. We welcome staff's intentions here. In particular, we see value in developing an explicit green element to Public Investment Management Assessments; our authorities look forward to working with staff to help develop this. We very much welcome the objectives of the proposed Climate Macroeconomic Assessment Plans (CMAPs), with their longer-term resilience-building focus, but we also reiterate that good collaboration and delineation with the work of other international institutions will be crucial to delivering the best outcomes for the membership. This extends further than simply ensuring that World Bank Climate Change Development Reports and CMAPs do not initially cover the same countries, for example: the two products must be consistent and complementary.

We underscore the importance of pursuing effective collaboration with other institutions and of maintaining a distinct role for the Fund on climate change, consistent with the Fund's mandate and comparative advantages. In previous Board engagements – perhaps more strongly than in this paper – staff have been careful to set out how the Fund's engagement and products would be unique and complementary to the work of other institutions. This remains critical: if international financial institutions cannot collaborate effectively, it is their memberships who will suffer. Initiatives within the Fund should also be distinct and mutually reinforcing, so strong internal coordination,

collaboration and coherence will also be essential. For example, fiscal assessments and financial sector stress tests and scenarios are presented as independent exercises in the paper, but should not be considered in siloes. The Fund must also set a positive example on greening its own operations, including addressing its direct carbon footprint, making relevant climate-related disclosures and considering the impacts of its investment decisions; we are pleased that the paper references some initial thinking here.

We recognize that integrating climate change more fully into the work of the Fund will have resource implications, which will need to be considered in the round alongside other requests. We accept that there is a need for more staff with the right skills and expertise to effectively service the needs of the membership, and we agree that this is likely to require a combination of training for existing staff and recruitment. While the detail included in this paper on the resourcing proposals for climate change is helpful, our position remains that we will need to consider requests for resourcing uplifts in the round at the upcoming budget discussion.

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GRAY/21/2016

July 14, 2021

**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
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Executive Board Meeting 21/73
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.

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GRAY/21/2019

July 14, 2021

**Statement by Mr. Bhalla and Mr. Singh on IMF Strategy to Help Members Address
Climate Change Related Policy Challenges—Priorities, Modes of Delivery, and Budget
Implications
(Preliminary)
Executive Board Meeting 21/73
July 16, 2021**

We thank the staff for their very timely strategy paper and would like to underscore the following points in response to the issues raised for discussion in the paper.

1. Do Directors agree that the Fund's role would need to evolve in light of climate change emerging as one of the most critical macro-economic policy challenges that the IMF's membership will face in the coming years and decades?

We support the genuine need to implement efficient and effective climate change mitigation policies and our authorities have been attaching high importance to climate change. Thus, we welcome the IMF proposal under consideration. However, given the risk assessment horizon of the surveillance exercises, there is a need to think about how the climate change risks unfolding over a longer horizon fit within the short-to-medium-run risks assessment cycle of the bilateral surveillance. We believe that climate-related risks move over a longer horizon and need somewhat different treatment of risks than other short and medium-term risks covered in the Fund's bilateral surveillance to make the surveillance exercise more pointed and useful.

2. Do Directors agree that the proposed strategy will ensure that the Fund can continue to fulfill its mandate?

While we find the proposed strategy well-crafted, the issue is whether this may be the appropriate time for the Fund to divert relatively large resources for climate-related issues, when the membership has competing demand for meeting other mandates including Covid-related Fund programs and given the fact the multiple international organizations are engaged in this work. Thus, the apprehension is that this could squeeze out the resources to support the membership which is facing several near-to-medium-term challenges posed by the

Covid-19 crisis and its long-lasting scars. We feel there is a need to strike a balance between the competing priorities for the short, medium, and long run under different workstreams.

3. Do Directors see any further areas that could be considered to better serve the membership?

The sole focus of the Fund on carbon taxes in surveillance may not serve the interests of the developing countries, as other two important tools – financing and technology transfers – which unlike the carbon taxes do not disproportionately penalize developing countries, have remained a neglected issue in the analysis of the Fund so far. In proposing a strategy, the paper has shied away from providing estimates of the scale of climate finance and technology needs of developing countries as critical pillars to tackle the challenges of climate change. The Intergovernmental Panel on Climate Change (IPCC) in its report “Global Warming of 1.5 °C” (2019) makes the following observation regarding emission reduction from industry, which underscores the urgency of the availability of a combination of technologies, economic-financial and institutional capacities to achieve the goal of a deeper carbon reduction:

“Such reductions can be achieved through combinations of new and existing technologies and practices, including electrification, hydrogen, sustainable bio-based feedstocks, product substitution, and carbon capture, utilization, and storage (CCUS). These options are technically proven at various scales, but their large-scale deployment may be limited by economic, financial, human capacity, and institutional constraints in specific contexts, and specific characteristics of large-scale industrial installations. In industry, emissions reductions by energy and process efficiency by themselves are insufficient for limiting warming to 1.5°C....” [para C.2.3]

When we talk about carbon taxes, we are attempting to penalize the polluting technology/fuels. This implies that we must substitute these with less polluting technologies to reduce our carbon footprint, with minimum damage to livelihoods. This in turn means access to technology and financial resources. So, we must also talk about the incentive mechanism for investment in new technology which pollutes less, the need for easy transfer of technology, and patent issues to maximize the benefit of the global public good. Talking about carbon taxes in isolation, when other complementary parts are not in place, may limit the progress in achieving desired emission reductions.

Climate finance must accelerate the tipping points at which renewables become cost-competitive vis-a-vis fossil fuels. Larger shares of climate-related finance are needed in key climate-sensitive sectors such as energy, transport, agriculture, and water to harness low emission technologies. The research suggests that climate-compatible investments often have higher investment needs than conventional (fossil fuel) measures and may also carry higher financial risks because the technologies are not proven, or the projects have high upfront costs. Private capital, particularly in developing countries, may be difficult to be attracted to such projects. These issues assume macro-criticality in any strategy of climate change.

4. Do Directors agree with the request for additional resources that would be necessary to ensure Fund's effectiveness in this area?

As stated earlier, there is a need for balanced allocation of the limited resources conditional on the horizon of priorities and the burden-sharing with other international/regional organizations working in similar workstreams. While the climate remains a daunting challenge, Fund is also facing other pressing challenges in the near future, including the ongoing pandemic-related challenges, greater demand for upper-tranche programs, work on debt restructuring and debt transparency, the challenges from transformation towards a digital world and digital currencies, fragile states, and other bilateral surveillance needs. We feel that the resource allocation needs to be balanced based on the varying horizon of priorities of the Fund. To avoid duplication of work and preserve resources, we also feel the need for accelerated collaboration on climate change work with other bodies already engaged in this workstream, including the World Bank, other MDBs, and the United Nations.

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GRAY/21/2022

July 14, 2021

**Statement by Mr. Herrera and Ms. Bustillo on IMF Strategy to Help Members Address Climate Change Related Policy Challenges—Priorities, Modes of Delivery, and Budget Implications
(Preliminary)
Executive Board Meeting 21/73
July 16, 2021**

We thank staff for the report on the strategy to deliver on policy challenges related to climate change to build on the valuable work the Fund has done to help members address these challenges.

We broadly support stepping-up the Fund's engagement in climate-related issues and policies. We agree that climate change has emerged as one of the key policy challenges for the coming years and decades. Both global warming and climate policies will have profound macroeconomic and financial consequences for member countries. The Fund has an important complementary role in helping member countries cope with these consequences through its surveillance, capacity development, and lending functions.

The Fund's engagement must be limited to those climate-related issues with clear and direct links to macroeconomic and financial stability. The limits regarding the areas and policies that fall within its scope must be well defined so as not to exceed its mandate and comparative advantages. Also, external communications about the scope and limitations of the Fund's participation in climate related issues must be clear. For example, assisting climate-vulnerable countries, especially small island states and low-income countries, to adapt and increase their resilience to extreme weather events falls clearly within the Fund's mandate and expertise, and must be immediately scaled-up (p. 14). Developing global macroeconomic models with detailed links to climate policies, carbon emissions, and global warming is another example. Other issues, such as a detailed surveillance of mitigation policies to achieve Nationally Determined Contributions under the Paris agreement, including tax regimes and regulatory frameworks, are much less clear cut (p.15). We welcome a selective and focused integration of climate change issues and policies into macroeconomic and financial surveillance, capacity development, and IMF-supported programs when their consequences are macro-critical in the short or medium term.

The Fund has a complementary role in the global transition to a low carbon economy, in full accordance with NDCs and international political agreements. The adoption of climate mitigation policies at the national and global levels will have broad economic, financial, regional, and social consequences on the global economy, particularly on carbon exporters.

These consequences must be addressed in a timely and effective manner to ensure a successful decarbonization process. The Fund, with its near universal membership and core expertise, can help to coordinate and support complementary macroeconomic, social, and financial policies to cushion transition costs and risks, and curb undesired income redistribution triggered by the implementation of mitigation policies.

The difference between climate change mitigation policies and transition management policies is blurred in the current proposal and opens the surveillance of mitigation policies for all members and not only the 20 largest emitters. Staff's proposal considers detailed surveillance of mitigation policies for the 20 largest emitters under the header *Climate Change Mitigation*. However, under the header *Transition Management*, which would cover "almost every IMF member", it also includes surveillance of policy efforts to achieve a country's NDC, as well as other complementary policies to buffer their social and labor market impact, or help the transition of carbon exporters. It would be more accurate if climate policies that directly aim to comply with NDCs are called *mitigation policies*, while complementary policies aimed at softening the macroeconomic, financial, and social consequences of mitigation efforts are called *transition management policies*. Beyond semantics, Fund surveillance for non-systemic emitters has comparative advantages to focus on the complementary policies designed to cushion the consequences of global and national mitigation efforts. Providing detailed assessments of the adequacy of each country's climate mitigation policies, particularly when they are not implemented through broad frameworks such as carbon pricing, would require in-depth regulatory and sector analysis that is not part of the Fund's core mandate and expertise and may create unrealistic expectations about its role.

We support the coverage of climate change issues into multilateral and regional surveillance, research, and policy advice. The flagship global and regional reports, policy papers and staff notes are key outlets to disseminate the work of the Fund on the macroeconomic and financial dimensions of climate change issues. Modeling the macroeconomic and financial interactions between the global economy, climate change and adaptation, transition and mitigation policies is one of the key contributions the Fund can make into the international discussion. Similarly, we support extending the debt sustainability analyses, financial and fiscal stress tests and other toolkits and templates to include the macroeconomic and financial consequences of global warming and climate policies.

We encourage continuing and deepening the collaboration with other multilateral institutions, standard setting bodies, and the private sector, with emphasis on the principles of comparative advantages and flexibility. The Fund will need the input of other organizations to map the physical vulnerabilities and resilience investments to adapt to climate risks, set out climate scenarios, map the linkages between target emissions, climate policies and economic activity, or provide guidance about financial regulations and disclosure related to climate risks. At the same time, the Fund can provide useful inputs on the macroeconomic and financial consequences of global warming and mitigation policies.

Regarding further areas to be considered, adequate and targeted climate finance is critical to assist countries pursue climate objectives and cope with macroeconomic and financial consequences. The Fund's climate strategy should consider how to support the membership in accessing public and private climate finance.

We support a gradual ramp up of resources dedicated to climate change issues if they have clear and direct links to macroeconomic and financial stability in the coming years. For example, we see a strong case to increase human capital and financial resources devoted

to assisting climate-vulnerable countries, particularly small island states and low-income countries, including strengthening focused climate-related surveillance, capacity development, and financial assistance. We acknowledge that the list of climate-vulnerable countries will increase through time and we must plan for additional resources in coming years. We also see a strong case to strengthen our research and policy advice capabilities, as well as capacity to deliver on demand-driven technical assistance and training on the macroeconomic and financial dimensions of climate change. We are more skeptical about the ramp up of resources allocated to bilateral surveillance of climate change mitigation and transition policies, which amount to one third of total resources.

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GRAY/21/2024

July 14, 2021

**Statement by Mr. Mozhin, Mr. Palei, and Mr. Shestakov on IMF Strategy to Help Members Address Climate Change Related Policy Challenges—Priorities, Modes of Delivery, and Budget Implications
(Preliminary)
Executive Board Meeting 21/73
July 16, 2021**

We thank staff for the informative report and the helpful Q&A session, as well as for the outreach to our office. **We support the proposed strategy for the IMF’s engagement on macro-critical climate-related policy issues.**

Climate change poses many challenges to the IMF members and threatens both domestic and global macroeconomic and financial stability. Absent decisive mitigating action the global temperature is expected to raise to the levels, which would risk triggering the “tipping points”, after which new climatic state would be locked and likely become irreversible. While the global economic and social impact from the adverse scenario for the future appears to be devastating, for many countries climate change has already caused significant losses due to increased frequency and scale of extreme weather events. Near-term implications of the climate change are unevenly spread across the Fund membership, with LICs and small states often being hit the hardest. Ultimately the climate change represents a global challenge and requires a multilateral solution.

The Fund is well positioned to leverage its expertise and support its members in their efforts to mitigate the adverse impact of climate change. According to the report, there seems to be a high demand for the Fund’s expertise from its members in the areas of climate change adaptation, resilience building, and transition management to a low-carbon economy. A substantial share of member countries, including LICs and small states, indicated their interest in conducting CMAP diagnostic. In light of the above, we see the planned strategy as a demand-driven response by the Fund to deliver value to its members.

We believe that the Fund’s work on its analytical toolkit for modeling climate impacts and on data collection holds promise. Many of the Fund’s well-developed modelling frameworks might be updated to include blocks for climate change or emissions projections. We hope to see more work in the areas of climate change impacts on real economic activity, the role of structural policies in spurring innovation in the private sector and bolstering

sustainable solutions through the ESG financing instruments. The tools then can be used actively in bilateral and multilateral surveillance, program work, and capacity development.

Collaboration on climate work with the development partners is the necessary ingredient in the recipe for success. but the voice of the Fund should be distinct and strong. Many international organizations, including the World Bank, other MDBs, UN bodies, and the International Energy Agency, possess valuable expertise in climate change mitigation and risk assessment. However, we would like to underscore the need to develop “in-house” expertise for the IMF, since many of these issues are macro-critical and are not fully covered by the mandates of other organizations, and these organizations might not fully recognize implications of the climate risks for fiscal and financial sector challenges.

We support the request for additional resources that would be necessary to ensure the effectiveness of the proposed strategy. The request for 95 additional FTEs (and 20 externally funded FTEs for the necessary CD) in a steady state seems to be a justified request, given the scale of the expected workload. We recognize that there may be different paths to the steady state and synergies with existing expertise might be productively exploited. We agree that under-resourced effort in this area might cause an uneven quality of delivery, which could pose reputational risks for the Fund. We look forward to a more comprehensive discussion on the budget augmentation.

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GRAY/21/2027

July 14, 2021

**Joint Statement by Mr. Huh and Ms. Lim on IMF Strategy to Help Members Address Climate Change Related Policy Challenges—Priorities, Modes of Delivery, and Budget Implications
(Preliminary)
Executive Board Meeting 21/73
July 16, 2021**

We thank staff for the comprehensive paper and helpful Q&A session and bilateral outreach. Beyond the issue of macro-criticality, climate change is an existential threat with enormous economic and social costs for many member countries. A more systematic and strategic engagement of the Fund is necessary to help members address climate-related challenges and promote green recovery and transition toward low-carbon economy in the wake of the COVID-19 pandemic. **We welcome the proposed IMF climate change strategy as timely and comprehensive and would like to offer a few comments on its implementation with some caveats.**

We support the Fund’s stepping up of climate work to better serve increasing demands of the membership. In carrying out its strategy, the Fund must play to its comparative advantage and remain within its mandate and expertise. Climate change can cause major macroeconomic and financial policy challenges through various channels including fiscal management, monetary policy, financial stability and trade policy. We concur that most of these challenges and policy issues fall within the Fund’s mandate. The Fund is well placed to provide high-quality analysis on the economic and financial impacts of climate change and relevant policy advice through bilateral surveillance and capacity development activities. The Fund may also use its unique role of multilateral surveillance and flagship reports to play a useful role in facilitating coordination of global macroeconomic policy responses, given the global public good character of climate change mitigation.

We broadly support the expansion of coverage in bilateral surveillance and continue to stress that the coverage of climate mitigation in bilateral surveillance should be voluntary. Policy recommendation should also reflect country specific circumstances and capacity, including immediate policy priorities amid challenges from the pandemic. We reiterate the need for authorities to have the flexibility to choose instruments best suited to domestic conditions, both economic and political. While carbon pricing is an efficient way to curb emissions, other instruments

such as regulation or climate finance also have significant potential mitigation benefits. We welcome the Fund's work in incorporating climate-related risks—physical risks and transition risks—in FSAPs including through stress testing and assessment of climate-related financial regulation and supervision. We encourage a standardized approach for assessment based on members' consensus. Recommendations from bilateral surveillance should take into consideration, and clearly communicate, limitations of current assessment tools as well as policy constraints facing the authorities. We welcome the launch of the Climate Macroeconomic Assessment Program (CMAP) building on the successful completion of pilot Climate Change Policy Assessment (CCPA). We also see scope for Fund's CD and external training to play a complementary role to help the membership address these challenges, tailored to countries' circumstances and technical capacity. However, we are concerned that staff's vision of direct country engagement described in the paper is too ambitious, though it is a steady state, given the challenge the Fund faces to build capabilities around climate change within a relatively short period of three years. *Could staff provide details of annual plans for staffing and resource allocation for and potential outturn of each activity on climate change over the three-year period and a contingency plan in case that required human resources cannot be secured?*

A close and strategic collaboration with other institutions, including the World Bank, must be done to benefit our members and to increase traction of policy advice. In line with the findings and recommendations of the IEO, a clearer framework for collaboration with the World Bank on climate change is essential in taking this work forward. The Fund should not seek to be the lead organization on climate change given the Fund's overall mandate, expertise and resources. We urge staff to leverage the expertise of other institutions to the maximum extent and avoid duplication of work. The Fund should also play a critical role in catalyzing finance for climate adaptation by helping members build strong institutions and public financial management systems to meet the requirements of development banks and multilateral climate funds. Therefore, close cooperation with these institutions for understanding their requirements and procedures will help facilitate vulnerable countries' access to climate financing.

While noting the need for substantial additional staffing to implement the proposed climate strategy, we look forward to a holistic discussion on the medium-term budget augmentation to consider the appropriate tradeoffs and priorities among competing resource requests. We welcome a flexible approach to the governance by organizing "climate hubs" in different ways in four major functional departments while reinforcing area departments and others as necessary. We see merit in taking a gradual approach to integrate climate change into the Fund's surveillance and CD and emphasize the importance of internal training to appropriately equip existing IMF economists with climate expertise considering the dearth of climate macroeconomists. We are also cautious about unnecessary competition for quality climate economists and potential crowding-out effect in the market which may weaken the capabilities of other international, national and private organizations in climate change response. *Staff comments are welcome.*

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GRAY/21/2033

July 14, 2021

**Statement by Mr. O'Brolchain and Ms. Edwards on IMF Strategy to Help Members Address Climate Change Related Policy Challenges—Priorities, Modes of Delivery, and Budget Implications
(Preliminary)
Executive Board Meeting 21/73
July 16, 2021**

We thank staff for the work that has gone into the preparation of the proposed “*IMF Strategy to Help Members Address Climate Change Related Policy Challenges*.”

We agree fully that climate change is macro critical, and as such, addressing climate change issues fall within the remit of the Fund’s mandate. We broadly concur with staff’s proposal. We therefore offer some comments on the various elements of the proposed strategy.

We support the plan to increase coverage of the macroeconomic and financial impacts of climate change in Article IVs and FSAPs and assess the potential impacts of mitigation and transition policies. In its surveillance work, the Fund must be able to incorporate the effects of climate change on macroeconomic and fiscal developments when they are sizable, including in the evaluation of related risks. Special attention must be given to risks related to natural disasters in small states. Surveillance work should also identify best practices to help members learn from others in addressing climate issues.

Capacity development is central to the Fund’s mandate and has a crucial role to play in supporting its members in considering the fiscal implications of their mitigation efforts and adaptation strategies in a way that is consistent with debt sustainability, growth and poverty reduction objectives. Moreover, assisting with costing of disaster resilience plans and determining financing requirements will be critical, especially for small developing states with limited capacity to undertake these assessments. Due regard must be given to building the data sets that are crucial to developing appropriate macroeconomic frameworks.

When lending, the Fund should consider using IMF program conditionality, where appropriate, to support borrowing countries in increasing their resilience against climate change and mitigating future shocks resulting from climate change. Integrating countries’ exposure to climate risk, and policy options to manage such risks, into the Fund’s

Debt Sustainability Analyses (DSAs) will be important. A stress scenario like those done for low-income countries should be provided in the debt sustainability framework for market access countries considering both the costs and benefits from climate resilience and adaptation policies in terms of growth performance.

It will be critical for the Fund to work in collaboration with other IFIs and UN agencies on these issues. The Fund's work should focus on its key mandate and on the areas where it has a comparative advantage. We are disappointed that the Fund and World Bank are pursuing separate climate strategies and would like to see much closer collaboration with UN agencies in assessing countries' climate change mitigation and low-carbon transition efforts. In this context, complementarity and the avoidance of duplication are critical at all levels. Staff must also actively engage the membership.

We recognize that the pursuit of this strategy will call on resources. The Fund must have the expertise and capacity to help its membership address climate change. As with other workstreams, we will consider the resource requirements within the context of the wider budget discussion and look forward to the upcoming budget discussions.

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GRAY/21/2039

July 14, 2021

**Statement by Ms. Shortino and Mr. Westphal on IMF Strategy to Help Members
Address Climate Change Related Policy Challenges—Priorities, Modes of Delivery, and
Budget Implications
(Preliminary)
Executive Board Meeting 21/73
July 16, 2021**

Climate change represents an existential threat to our future economy and way of life. The Fund has an important role to play in deepening members' understandings of climate change and building members' capacity to respond to the macroeconomic and financial sector implications. We thank staff for the clear strategy paper to accomplish these goals, and we generally agree with it (with some nuance). **We encourage management and staff to (1) continue to deepen coverage of climate-related issues in surveillance, expand capacity development (CD) work, and increase data collection and provision efforts, (2) collaborate with other organizations more systematically and strategically, and (3) develop plans for operationalizing this strategy.** We note that of the proposed areas for structural budget increases, we consider climate change to be the most pressing priority, though we question whether the quantity of proposed new FTEs will be necessary or feasible; we will consider this budget request holistically as part of the broader budget discussion at the end of the month. Below we offer specific comments on each of the proposals.

We strongly support expanding the coverage of climate change issues in Article IV surveillance where climate change is macro-critical. We welcome the proposed areas for staff analysis and engagement systematically across the fiscal, monetary, financial, and external sectors. The Fund's membership will be best served by staff focusing their climate-related surveillance on the macroeconomic and financial sector implications of climate change and climate-related policies. Staff will need to consider authorities' views on the domestic feasibility of specific policies, and other organizations will be better suited to evaluate nationally determined contributions and emissions targets. We found the discussions of exchange rate implications and potential BOP adjustments to be particularly thought-provoking, and we agree that such work will align well with the Fund's comparative advantage.

We support expanding the Fund's climate-related CD, though we would appreciate more context on the proposed breakdown of staff by sector. We particularly support plans

to expand the Climate Macroeconomic Assistance Programs and welcome that countries are expressing strong demand for them. It seems that financial sector issues are comparatively better understood and being covered by other organizations, so we question whether relatively fewer staff for financial sector CD and relatively more staff for fiscal CD would be appropriate. We also strongly support the Fund's efforts to enhance climate data, including by offering CD to countries to improve data compilation and reporting to the climate change indicators dashboard, to facilitate macro-climate analysis.

Multilateral surveillance represents an important aspect of the Fund's work on climate change, but we have several questions about the value of some of the proposed multilateral work. We see value in expanding coverage of climate-related issues in the flagship reports in the near term. However, we would stress the importance of quality over quantity and note that it may be more effective to select a few priority topics in the flagship reports over the next few years rather than spreading coverage across a range of surveillance vehicles, including the Regional Economic Outlooks and staff-directed notes. We agree that climate change will impact debt sustainability, and we look forward to the Fund's thought-leadership on this issue; however, climate change's long-term implications for debt sustainability are not yet well understood and are subject to a high degree of uncertainty. As such, we do not support modifications to the debt sustainability frameworks at this time.

We strongly support covering climate-related issues in FSAPs, but we reiterate that the Fund should follow the lead of the financial sector SSBs with respect to formal FSAP recommendations. The SSBs are currently developing climate-related standards in deliberate, systematic ways to promote clear, consistent, principles-based standards that work across jurisdictions. While we appreciate that this climate change strategy paper recognizes the role of the financial sector SSBs, we urge Fund staff to base FSAPs' formal matrices of policy recommendations against which authorities are judged in future FSAPs and Article IVs only on international standards. This will avoid giving conflicting policy advice that could potentially increase financial sector risks or exacerbate regulatory fragmentation. Staff should also collaborate with the SSBs on developing common scenarios and using consistent data sources for climate-related financial sector surveillance.

We encourage staff to be more systematic and strategic in their approach to international cooperation on climate issues. We appreciate that staff are actively collaborating with a variety of organizations, and that new organizations are emerging each year to work on climate-related issues. We question, however, whether this extensive ad hoc collaboration results in the most efficient use of Fund resources: it seems to encourage overlapping remits between organizations, while certain strategic partnerships may remain underdeveloped. For many emerging issues, including climate change, we would welcome a more systematic and strategic approach to collaboration with other organizations – one that is incentivized and reinforced by management on a consistent basis. We note that this is also in line with the IEO finding on IMF-World Bank coordination on macro-structural issues.

Regarding staff's examples of potential policy responses to climate change, we note with some apprehension staff's comments about potential "adjustments to development and industrial policy strategies." We strongly believe in the importance of open markets to

facilitate our global efforts to mitigate and adapt to climate change in the coming decades. We would welcome future analysis on the costs of protectionist policies in this sector. We also emphasize the importance of maintaining strong intellectual property rights to incentivize the innovation that will be necessary in the global fight against climate change.

Finally, we look forward to working with staff on the operationalization of this strategy, but we have some questions about the number of staff being proposed and the feasibility of hiring that many staff. We firmly reiterate that emerging issues should not crowd out core Fund work. We would welcome significantly more detail on the timeline for phasing in new staff and training programs, along with scenarios for different resource levels. Further, we encourage the Fund to maintain its rigorous hiring standards, which may require slowing the pace of staffing increases, building to a smaller final number of new FTEs, or prioritizing re-training existing staff. *Given the urgency of the Fund's climate work, which aspects of the climate strategy will be prioritized in the first few years before the staffing increases are completed?* Finally, we strongly believe that a strategy to hire additional external staff would represent a critical opportunity to make progress on the Fund's broader diversity objectives. We look forward to working with staff on the operationalization of this strategy and would welcome regular updates to the Board.

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GRAY/21/2040

July 14, 2021

**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 21/73
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.

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GRAY/21/2043

July 14, 2021

**Statement by Mr. Palotai, Mr. Azal, Mr. Just, and Mr. Meizer on IMF Strategy to Help Members Address Climate Change Related Policy Challenges—Priorities, Modes of Delivery, and Budget Implications
(Preliminary)
Executive Board Meeting 21/73
July 16, 2021**

We thank staff for the comprehensive paper, outlining the operational strategy for the Fund's possible engagement on climate-related issues.

Climate change is a global challenge that requires collective global action. Individuals, companies, nations, and international organizations all have an important role to play in enhancing mitigation measures and promoting the transition to a low carbon economy. While there is an increasing need to galvanize climate action to limit global warming, policymakers need to find solutions to this global challenge along well-calibrated strategies that duly take into account the interests of countries with different levels of development and economic structure in order to lay the groundwork for a more resilient and greener future for the whole world.

While we see scope for the Fund to step up its engagement on climate issues, we also stress the importance that these activities continue to be in line with the Fund's mandate and are strictly focused on macro-critical aspects. Whether an issue or policy meets the macro-criticality threshold should be country specific. Against this background, we continue to call on staff to establish more systematic and quantitative criteria for assessing macro-criticality. Although staff illustrates the major transmission mechanisms through which climate change can impact macroeconomic and financial stability, we would deem it important to learn more about those macro-critical implications that are the most relevant for the Fund and its membership. We take note of the wide variety of climate-related topics and policies where the Fund's engagement could potentially be strengthened, but in order to make this work more effective and to be fully in line with the Fund's mandate, it will also be necessary to prioritize those areas on which the Fund should focus in the short and medium term, with the broad support of its membership. Furthermore, as staff rightly emphasized, the policymakers should also be mindful that climate economics is a rapidly evolving field.

We agree with staff on the importance of better structuring the Fund’s climate-related work, which has gained significant traction in the previous years. We thank staff for providing a comprehensive view about the Fund’s activities in this area to date. We take note that substantial reallocation efforts were required within the pre-existing budgetary and organizational framework for the Fund to be able to meet climate-related demands. Given that climate topics have typically been covered during country engagement on an ad-hoc basis, there is a great need to better structure these activities, taking a coherent approach for both analysis and policy advice.

We deem it important to leverage the Fund’s comparative advantages at the intersection of macro-economics and -policies and climate issues but also suggest taking a gradual and flexible approach to the climate-related areas. In this regard, we welcome staff’s proposal for a medium-term strategy, where a steady state is envisaged to be reached within 3 years. Going forward, the Fund will need to build new capacities without compromising the performance of other core functions.

While better integration of adaptation, mitigation, and transition policies into the Fund’s bilateral and multilateral surveillance would be an important step, we also stress the importance of further developing the Fund’s methodological approaches. Strengthening the Fund’s own analytic capacity and expertise should take priority, focusing on areas that are widely supported by the membership. We advocate that the Fund places increased emphasis on developing climate-related analytical tools and on improving climate data in the first stage of its climate strategy. Relatedly, we take positive note of staff’s efforts to further upgrade the Fund’s climate data dashboard and enhance its granularity. Climate risks and policies should be examined in the context of surveillance mainly to the extent that they influence present or prospective balance of payments or domestic stability. Meanwhile, the Fund should support its members’ efforts not only in mitigation measures but also in the green transition, with special attention to the drivers of technological advancements.

We welcome staff’s efforts to integrate the macro-critical climate-related risks and countries’ policy options to manage such risks into the analyses on financial sector resilience and debt sustainability. Close coordination with the authorities will also be essential in this regard. To prevent financial stability risks, there is a great need to appropriately capture both the current and potential risks in the financial sectors related to climate change and transition management. We emphasize that the coverage of climate-related issues in the Financial Sector Assessment Programs (FSAPs) needs to be agreed on with country authorities based on an assessment of the materiality and systemic importance of climate risk, as is also highlighted in Table 2. *Given that the paper also suggests that exposure to climate risk and policy options to manage such risk should become an integral part of all analyses under the FSAPs, we would appreciate staff’s further clarification.* We also encourage staff to develop a standardized approach to assessing financial stability risks as well as sector-specific guides. We agree that the debt sustainability frameworks for both low-income countries and market access countries include a stress scenario on the impacts of climate change, if this scenario takes duly into account the costs and benefits from resilience and adaptation policies as well.

climate-related conditionality in the Fund's lending programs also requires careful consideration. In this regard, we underscore the importance that the Fund continues to place emphasis on solving a member's balance-of-payments problems and achieving medium-term external viability while fostering sustainable economic growth according to the Guidelines on Conditionality. Where climate-related measures are deemed critical to meet these objectives, using program conditionality on climate measures should be considered. Furthermore, we advocate that the Fund promotes sustainable development in its policy advice, including environment sustainability.

In view of the rapidly increasing demand for climate-related technical assistance, we support to increase and deepen the Fund's capacity development (CD) activities in this area. We take note that the Fund's climate-related CD activities have so far focused on the fiscal issues; however, going forward, we see scope to increase coverage of financial sector policies as well. Since many countries have already expressed their interests in the Climate Macroeconomic Assessment Program (CMAP), this new diagnostic tool should focus first on the most climate-vulnerable developing and small countries. We also share staff's view on the need for bolstering the authorities' climate-related capacities with new trainings. Given that the share of externally financed CD activities is continuously increasing, and there is limited fungibility in this type of financing, it will be essential to establish a multi-year cooperation with external stakeholders if externally-funded CD is also planned in the area of climate issues.

We encourage staff to continue to cooperate with other international organizations and stakeholders which have greater expertise to maximize synergies and minimize duplication of work. Effective climate strategies require an unprecedented level of cross-country and cross-institutional cooperation and coordination. In this regard, we take positive note of management's and staff's commitment to work closely with other relevant international organizations, standard setting bodies and central banks. The Fund should clearly delineate an effective division of labour in the climate field, and the cooperation with the World Bank is particularly critical. We would also deem it important to scale up cooperation with the various bodies of the United Nations, also considering that the UNFCCC is the key multilateral fora for addressing the global challenges of climate change.

While we appreciate that staff pays close attention to the budgetary and human resources implications of the proposal, we also emphasize that any additional resource needs will need to be built on a solid foundation and assessed holistically in the context of the budget augmentation proposal. We agree on the need for internal reorganization. In this regard, it will be critical how the proposed climate hubs could support the work of other departments and how knowledge transfer practices could be improved. We also thank staff for providing a preliminary estimation for the additional resource needs for new deliveries. A more precise definition of macrocritical climate areas would also be needed to be able to assess the proposed increase in staff more thoroughly. In this regard, we would also appreciate if staff could break down the estimated needs per year or milestones for the upcoming budget discussion. *It would be useful to learn more about how staff coordinate the climate strategy with other workstreams ahead of the discussion on the envisaged budget augmentation.* *Staff's comment is welcome.*

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GRAY/21/2044

July 14, 2021

**Statement by Mr. Hosseini, Mr. Sassanpour, and Mr. Belhaj on IMF Strategy to Help Members Address Climate Change Related Policy Challenges—Priorities, Modes of Delivery, and Budget Implications
(Preliminary)
Executive Board Meeting 21/73
July 16, 2021**

We thank staff for the comprehensive and well-written report that provides a good overview of the proposed Fund's strategy to integrate climate change related issues and policies into its workstream. We also appreciate staff's outreach to our office. We recognize that the task is very challenging, has a long-term timeframe, and most importantly demands a high degree of commitment and cooperation between members as well as between the Fund and other international institutions involved with climate change.

1. Climate change related issues have palpable macro-critical dimensions and as such are consistent with the Fund's core mandate. The question then is not whether the Fund has a role to play, but rather what would be the value added of its contribution to the collective work of a broad spectrum of IFIs and specialized organizations involved in this area. We find the niche identified by staff broadly relevant and believe that the Fund is well positioned to take the lead in strengthening the nexus between macroeconomics and macro-critical climate change issues in line with its comparative advantages. This said, collaboration with other relevant IFIs and international organizations, is essential to increase synergies and build on the complementarity between institutions.
2. We are very disappointed at the lack of cooperation so far between the Fund and the World Bank. Close collaboration between the sister institutions at all levels—staff, management and the Board—is of outmost importance, including through producing joint climate change macroeconomic assessments in order to optimize resources and minimize the burden on the authorities.
3. The strategy should be anchored in long term and clearly recognize the political economy dimensions of the issue in order to ensure sustained member engagement and acceptance. The strategy correctly identifies the need for country-specific features and

constraints and should also be recognized that many climate targets and objectives are not set purely on technical grounds.

4. We reiterate that the risks of climate change are serious and real, encompassing all regions and many countries, including MICs. MICs are not immune to climate change and many of them have the same degree of vulnerability and institutional limitations as LICs. In many MICs, particularly those in the MENA region, the negative impact of global warming is already materializing, including through frequent drought-flood cycles, heat records, water scarcity, and rising sea levels, affecting people's lives and governments' budgets, and exacerbating migration and geopolitical tensions. The Fund should extend coverage on adaptation to all countries vulnerable to climate issues, and that would require new forward-looking criteria for vulnerability classification. The strategy on climate change should also explore overlaps with the Fund strategy on FCS as many fragile states are also highly vulnerable to climate change.

5. Many fossil exporting countries in the MENA region are also seriously vulnerable to climate change through no fault of their own. They face an existential threat related to the diminishing role of fossil fuels in the global energy mix on the one hand, and country-specific climate vulnerabilities on the other. The duality should be recognized in the developing transition policies for fossil fuel producers and exporters. In fact, transformational policies in many fossil exporters have been in place for few decades as these countries have been trying since the 1970s to diversify their economic, export and revenue base, with different degrees of success. The strategy on climate change in these countries should therefore dovetail these countries' ongoing diversification strategies, taking into consideration the countries' endowments of natural resources, labor and capital.

6. We note the challenges for macroeconomic and financial policy management associated either by the climate events themselves, or by the policy response to them. These are complex and multifaceted issues, and are at times likely to be controversial, particularly in those countries where policy changes will have a significant adverse socioeconomic impact. To gain traction and garner support, all countries should see a tangible positive impact from global policies on climate issues. As some countries are asked to be part of the solution, while not being part of the problem, the benefits of green transformation should be widely spread and that requires a high level of international cooperation and the recognition that all countries are in it together.

7. The Fund has been vocal on climate issues in various global forums, but the message has to percolate down to country level and the street level to garner public support and ensure buy-in. Direct country engagement is essential whether through Article IV, FSAPs or country programs. By highlighting and quantifying the direct and indirect links between climate change and macroeconomic and distributional policies, Fund staff can help members to integrate climate policies into their economic policies, taking account of countries' broader

country objectives and constraints. Staff country teams will have an important role to play, with identifying and encouraging the emergence of climate champions and peer experience could be an important aspects of their work. Upfront TA and CD will be required for countries to begin contributing to the global climate work, including by compiling and providing the necessary data for analytical work and the Fund dashboard.

8. The Fund's communication strategy on climate should be reviewed regularly to make it more impactful as experience is accumulated.

9. The proposed strategy is ambitious and should be given the means to succeed. This inevitably requires adequate financial resources and manpower. The Fund's flat budget rule continues to place a heavy burden on staff and is not consistent with the Fund's increasing workload in strategic areas and competing demands from high priority areas. We have been reprioritizing our priorities for some time to meet the flat budget constraint—there must be a point of diminishing return. Lack of sufficient resources risks spreading efforts too thinly thus undermining the quality of staff's output and the Fund's reputation. We should also recognize that there are other concurrent high priority workstreams of equally significant importance to a large part of the membership (e.g., Fund strategy on FCS). We therefore strongly support budget augmentation, in line with the staff's proposal, to ensure the successful implementation of the climate strategy.

10. Finally, we welcome the proposals on greening the IMF (Box 4). We agree that the Fund should explore all means to reduce its carbon footprint, particularly in relation to non-essential mission travel and commuting, and to build on the successful experience of teleworking during the pandemic.

We thank staff again and wish them every success.

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GRAY/21/2046

July 14, 2021

**Statement by Mr. Tanaka, Ms. Kashima, Mr. Naka, and Mr. Kuretani on IMF Strategy to Help Members Address Climate Change Related Policy Challenges—Priorities, Modes of Delivery, and Budget Implications
(Preliminary)
Executive Board Meeting 21/73
July 16, 2021**

We thank staff for the informative paper on a comprehensive strategy for the Fund's engagement on climate related issues. We welcome that the Fund has discussed rapidly its role under MD's leadership responding to the growing demand of the membership.

It is very clear that climate change is macro-critical, and we understand the Fund's direction toward strengthening surveillance and CD on climate issues and providing appropriate policy advice to member countries. However, before discussing the operational modality and resource implication focused on in the report, we should discuss and organize thoroughly at the board on the overall picture of the Fund climate change policy, including what the Fund competitive advantage is and what type of policy advice should be made. In addition, it is essential for the Fund to tackle this issue in a transparent manner through, for example, presenting a roadmap for the Fund's analysis and policy advice on climate change going forward. Furthermore, given that climate change is a global challenge, establishing such policy requires a comprehensive approach with the participation of all major emitting countries.

As we discussed at the board, **the Fund should pay due attention to “flexibility” and “pragmatism” in their analysis and policy advice on climate change, and it is important that the proposals do not fall into one-size-fits-all approach.** It is also paramount for the Fund to exercise deep analysis and balanced discussions of mitigation, adaptation and transition measures based on the Fund's own expertise, considering each countries' own circumstances. For example, for the countries committed net zero emissions by 2050, explicit carbon pricing should not be the only option, but rather several policy options should be considered to make the best

policy mix based on each countries' circumstances, such as implicit carbon pricing, preferential treatment of renewable energy, and regulations.

Furthermore, ensuring “evenhandedness” among member countries is also a necessary factor in policy advice. For example, staff proposed last month differentiated carbon pricing floors according to the level of economic development, such as with a higher price floor for advanced economies and a lower price floor for EMEs. However, given that the Fund is not a standard-setting body and that EMEs account for the large portion of emissions, we are cautious about differentiating the carbon pricing floors according to the level of economic development, to ensure a fair competitive environment and achieve net zero emissions by 2050. Going forward, it is necessary to comprehensively analyze and discuss this issue from various perspectives, including evenhandedness and effectiveness, together with the Border Carbon Adjustment.

On resource issues, we would like to ask staff to present further analysis of both budget and human resource implication from the holistic perspective including other emerging issues. We have received several requests for resource increases in such areas as FCS, digital money and inclusion. We are a bit concerned that these proposals could lead to a permanent net increase in budget and human resources without prioritization. It is important to exercise a comprehensive periodic review of the adequacy of human resources, considering both as to whether there are sufficient resources to address emerging issues and whether it is possible and appropriate to streamline conventional areas. As number of macroeconomists majoring in climate change is very limited, *we would ask staff to elaborate on detailed plan on how to hire such economists.*

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July 14, 2021

**Statement by Mr. Trabinski and Mr. Makhammadiev on IMF Strategy to Help Members Address Climate Change Related Policy Challenges—Priorities, Modes of Delivery, and Budget Implications
(Preliminary)
Executive Board Meeting 21/73
July 16, 2021**

The discussion on how to address climate change challenges within the IMF’s activities more systematically is timely. We thus welcome staff’s work on plans for changes to the internal organization of the IMF to support and monitor mitigation and adaptation activities. The impact of climate change on the economy and financial markets is potentially wide-ranging and substantial, which is also reflected in an increased demand by the membership for advice on climate-related issues. At the same time, much remains to be learned about the transmission channels of climate change risks to financial market valuations and macroeconomic performance. We thank staff for concisely laying out the market failure and economic cost rationales for policy action, made more pressing still due to apparent non-linearities.

We agree that the Fund needs to broaden and deepen its engagement on macro-critical climate change issues across its activities. Moreover, we are reassured that such an engagement is already being mainstreamed throughout the Fund. However, we agree that due to the cross-cutting nature of the topic, an interdisciplinary approach to climate change is of the essence and that climate-related knowledge should be further disseminated within the Fund. While selective training will be needed, we think that staff economists already have strong skill sets. Still, the Fund should proceed with caution to preserve its knowledge base in its field of expertise.

Recent policy discussions have clarified the Fund’s role in climate change work relative to its mandate. The CSR and the FSAP reviews have confirmed the Fund’s responsibilities on climate in multilateral and bilateral surveillance. Also, the review of pilot cases that launched the CMAP has defined how this diagnostic tool can be employed to assess climate vulnerabilities with a strong macroeconomic and financial emphasis. We agree that for these activities, as well as for program-related work, macro-criticality is a key prerequisite. To provide impactful advice on climate-related issues, the Fund should focus on its remit and expertise in enhancing macroeconomic and financial stability. In particular, the Fund should

systematically provide its members with analysis, access to reliable data, and advice on fiscal and financial policies aimed at mitigating and adapting to climate change, including supporting the transition to a low-emission, sustainable and resilient economy.

We support the integration of adaptation, mitigation, and transition policies into Article IV consultations and the underlying macroeconomic framework, based on the appropriate methodological approaches. We agree that these issues could be included in Article IV consultations with large emitters and could then be incorporated more broadly to ensure equitable treatment of IMF members and to achieve specific and measurable mitigation efforts. Nevertheless, we would like staff to present to the Board more specific criteria and consistent methodology used in preparing the list of large emitters. We also support the integration of policy consequences of macro-critical climate-related risks and spillovers into both Article IVs and FSAPs, based on a comprehensive assessment of climate change-related physical and transition risks for the overall economy (Article IV) and stability of the financial sector (FSAPs).

The envisaged new steady state is ambitious. Stepping up the engagement on climate is less a question of direction, but one of scale, pace, and reliance on internal staff resources. We wonder whether pursuing output targets, e.g., the number of climate chapters in Article IV reports per year, rather than formulating objectives in terms of outcomes will ensure high-quality advice, traction, or impact for members. *We ask staff to elaborate.* Recalling earlier experience from integrating financial sector analysis into surveillance suggests that an internal upskilling on climate can only be gradual and needs time. A more measured pace would be more realistic and workable, not least given the rapid methodological developments in this area. Such an approach would also allow to better take advantage of the existing staff pool and to better reshuffle FTEs within the organization. *Did staff evaluate the option of a more gradual approach?*

The implementation of the climate strategy is subject to decisions on the overall budget envelope and budget allocation choices. The consolidated budget will demand that the relative priorities of the Fund's activities be spelled out. We note that requests for substantial increases in FTEs have also been flagged in other areas. These resource requests have to be assessed and agreed upon jointly, not sequentially. Foreshadowing the upcoming discussion on a possible budget increase, we believe that the flat real budget has served the Fund well as has required continuous realignment of resources to priorities and needs. This implies that additional FTEs which are allocated to priority areas, including climate change, would have to be largely compensated through judicious reprioritization and savings.

Close and effective cooperation is needed among international bodies and various international initiatives that seek to advance work on climate change. We encourage an effective division of labor among these fora with the clear objective to avoid duplication of work. The FSB roadmap on climate-related risk and the upcoming G20 sustainable finance roadmap are welcome steps towards more coordinated action in this area. The Fund should partner with and draw on the analysis of the FSB and NGFS, among others, e.g., in the area of climate scenario analysis. We echo earlier calls by the Board to strengthen the collaboration with the World Bank through a specific framework on climate-related work. In

doing so, and to provide impactful member advice, the Fund must contribute first and foremost with its proven expertise in fiscal, monetary, exchange rate, and financial sector policies.

Lastly, as a more technical remark on terminology, we would suggest using the term “low-emission economy” instead of a “low-carbon economy”, as we believe that this would better underscore the need to reduce all greenhouse gas emissions rather than solely those based on carbon compounds.

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GRAY/21/2050

July 15, 2021

**Joint Statement by Mr. Buissé, Mr. Fanizza, Mr. Hilbers, Mr. Pösö, and Mr. von Kleist
on IMF Strategy to Help Members Address Climate Change Related Policy Challenges—
Priorities, Modes of Delivery, and Budget Implications
(Preliminary)
Executive Board Meeting 21/73
July 16, 2021**

We strongly welcome the IMF strategy presented in the report. The science of climate change is clear, and the global, systemic macroeconomic implications are obvious. The challenges facing individual Members differ, and the timing and scope of disruptions may vary. But concerted action everywhere, now and over the next decade will be crucial to mitigate climate change. We therefore agree that the Fund has a key role to play, and strongly support the set of actions and tools outlined in the paper to broaden and deepen the Fund's engagement on macro-critical climate change related issues across its activities. Doing so would help the Membership prevent and address macroeconomic and financial stability risks related to climate change, while ensuring economic sustainability and thus falls squarely in the Fund's mandate. This would be in line with the objectives of the EU Green Deal and would contribute to the alignment of financial flows with the climate goals of the Paris Agreement (Article 2.1.c). The EU is strongly committed to remain in the lead on the climate agenda, having just adopted a comprehensive package with concrete proposals to reduce emissions by 55% in 2030 compared to 1990, and become the first continent to achieve climate neutrality by 2050.

In terms of both **multilateral and bilateral surveillance**, the Fund should systematically provide the Membership with analysis, data and advice on fiscal and financial policies to mitigate and adapt to climate change, as well as to support the transition to a low-emission, sustainable and resilient economy. In addition, the Fund should continue to use its flagship reports to regularly update its Membership and the wider public on the economic and financial impact of climate change. This could include, for instance, effective carbon pricing and the introduction of an International Carbon Price Floor -ICPF-, either in the form of an

Emissions Trading System (ETS) or carbon taxes. When integrating climate change considerations into macro policies, the Fund should also monitor distributional aspects and flag the potential need to support those that are negatively impacted. An analysis of the Paris goal-compatible path of carbon price increases that minimizes adjustment costs and its impact on the competitiveness of the economy would also be welcome.

We strongly support the **integration of adaptation, mitigation, and transition policies into Article IV consultations and underlying macroeconomic framework, on the basis of the appropriate methodological approaches**. Mitigation issues would first feature in Article IV consultations for large polluters under the spillover provision, and could then shift towards a broader inclusion to ensure a fair treatment of Fund's Members and get concrete and tangible results in terms of mitigation efforts.

In line with the Fund's mandate, we also support the integration of the **policy consequences of macro-critical climate-related risks** and spillovers into both Article IV consultations and the Financial Sector Assessment Programs (FSAPs). This can be done on the basis of a comprehensive assessment of climate-change related physical and transition risks for the overall economy (Article IVs), and the stability of the financial sector (FSAPs). A holistic, cross-sectoral approach is key to properly capture spillover effects and potential risk transfers across sectors and borders. Not only the level of risk exposure but also its distribution across the economy should be taken into account. FSAPs should routinely feature climate stress testing and scenario analysis.

When **lending**, the Fund should consider using program conditionality, where appropriate, in order to support borrowing countries in increasing their resilience against climate change, and mitigating future shocks resulting from climate change. Thereby, Fund advice, adjustment measures, and policy conditions agreed in the context of lending programs should ensure sustainable economic development and should not encourage highly emission-intensive growth.

To that end, we welcome the **integration of countries' exposure to climate risk and policy options to manage such risks into the Fund's Debt Sustainability Analyses (DSAs)**. While the debt sustainability framework for low-income countries (LIC DSF) already includes—for countries that are frequently exposed to natural disasters—a stress test scenario that incorporates a large temporary impact on growth, a similar stress test scenario should be incorporated in the debt sustainability framework for market access countries (MAC SRDSF), taking into account both the costs and benefits from resilience and adaptation policies in terms of growth performance.

Utilizing technical assistance, the Fund should aim at enhancing countries' ability to monitor and adapt to macroeconomic and financial climate-related risks. The Fund should offer strengthened technical assistance notably to developing countries, as they are more vulnerable to macro-critical consequences of climate change. The Climate Macroeconomic Assessment Program (CMAP) should be progressively turned into a key tool for IMF analysis in climate-vulnerable countries.

In order to perform all these tasks, the Fund should **enhance its climate expertise** and ensure coordination across departments and with other relevant international organizations, standard setting bodies, central banks, and NGOs. Fund's efforts should not duplicate, but rather complement existing initiatives. To this end, we would strongly encourage collaboration of the Fund with relevant stakeholders, and the World Bank in particular. We support the emphasis the Fund is putting on collaboration with these institutions, as it could enhance a global response to the climate crisis. To deliver on its ambitious climate agenda, we acknowledge the intention to **scale up its human and budgetary resources devoted to climate work**, including by re-prioritization and balancing against other non-core priorities if needed, while at the same time considering the requests for additional resources as part of the overall budget exercise. In this regard, we highlight that the Fund's ability to perform its core tasks must not be compromised under any circumstance.

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GRAY/21/2053

July 15, 2021

**Statement by Mr. Jin, Mr. Zhang, and Ms. Yang on IMF Strategy to Help Members Address Climate Change Related Policy Challenges—Priorities, Modes of Delivery, and Budget Implications
(Preliminary)
Executive Board Meeting 21/73
July 16, 2021**

We thank staff for the well-written report and the helpful outreach to our office.

Climate change has had a profound impact on the macroeconomic and financial stability and has incurred significant but disproportionate economic and social costs on different countries. It is one of the most pressing concerns that the IMF's membership will confront in the coming years, and the Fund should assist countries in addressing climate change-related policy challenges that are macro-critical. **We welcome the proposal for the Fund to step up engagement on climate issues in line with its mandate, and we call for a clear division of labor** so that the Fund can effectively collaborate with other multilateral institutions based on their comparative advantages and avoid duplication of effort. We would like to provide the following comments.

We should recognize that climate change should be viewed in a historical context.

Climate change has its own long-term cycle. Industrialization may have accelerated greenhouse gas emissions. At the current juncture, EMDCs and LICs are facing climate challenges at their early or middle stages of industrialization process, and their per capita emission rights could be compromised due to large population, outdated technologies, and lack of financing. As a result, developing countries bear a disproportionate share of the burden of adjustment and a higher development cost compared with their advanced peers. We emphasize that Fund engagement in climate issues should treat countries evenhandedly and fairly. To this end, **the Fund must respect and base all its climate related work on the principle of common but differentiated responsibilities established by the UNFCCC and the Paris Agreement.** The UNFCCC and Paris Agreement should be the center of collective and multilateral climate actions. In view of differing capacities and historical responsibilities between developed countries and developing countries, the developing countries need time, financing assistance, and up to date technologies to achieve green transition.

We support the coverage of climate related policies with macro criticality in direct bilateral country engagement in the form of capacity development and/or policy advice, so that the Fund can better play the role of trusted advisor to its member countries.

- We agree that **adaptation and resilience building** should be covered by Article IV consultations in all countries, and some countries can be accompanied by a CAMP to enhance effectiveness of bilateral surveillance. We also support the coverage of **transition management** for the membership, including in-depth analyses for carbon exporters.
- Regarding the coverage of **mitigation**, all the work must be based on each member's NDCs that meet their specific situations, climate goals, and national priorities. In this regard, **discussion of climate change mitigation in Article IVs should be driven by the authorities, supporting the authorities to assess the implications of different macroeconomic and financial policies, as well as their effectiveness in achieving NDCs.** The Fund should keep an open mind to different policy approaches that are fit for national circumstances, such as development stage, industrial structure, natural resource endowment, and mitigation timetable. Meanwhile, **the Fund should refrain from assessing mitigation targets, giving specific policy advice that is controversial or lack of consensus, or imposing additional obligations on the top of the Paris Agreement and each members' NDCs.** Member countries also have the discretion to choose and implement policy solutions other than carbon tax, such as regulatory requirements and ETS. **Members' mitigation efforts should be recognized on a broad scale, taking into account all of the activities they've taken rather than focusing on a single policy like carbon pricing.** In this regard, we believe the chart in Box 1 does not adequately reflect all the efforts taken by members. It is also necessary to assess the mitigation policies from a longer-time perspective, because carbon emissions may fluctuate with economic growth.
- In terms of **FSAP**, we agree to assess climate issues as part of FSAP risk analysis and assessment of financial oversight framework for all FSAPs.

We agree that multilateral surveillance could cover climate related topics with a multilateral component that require coordination, such as climate financing, green technology transfer, and sustainable finance. To address the needs of developing countries, multilateral surveillance should regularly monitor how developed countries are fulfilling their financial commitment of USD 100 billion per year. Meanwhile, international cooperation on development and transfer of green technologies should be strengthened and covered, with the Fund promoting and monitoring free flow of green technologies. We also encourage the Fund to work with G20 on promoting private finance to meet the climate targets and address climate challenges. The quantitative targets of the Fund policy papers and staff climate notes should be based on solid and comprehensive analysis. Necessary experiences and lessons should be accumulated before the country surveillance guidance is updated and published. We support the proposal of developing models and standardized toolkits to support the Fund's analytical work, and we emphasize the importance of assisting

authorities in learning and deepening their understanding of the models and toolkits.

We are open to the proposal on allocating additional resources to facilitate the climate work. It is critical to improve the efficiency of existing resources and scaling up resources in a pragmatic and gradual approach. The Fund should enhance internal training to assist existing staff in upgrading their skill and knowledge to handle climate issues, while fully leveraging and utilizing the RCDCs for external training purposes. Staff estimates 20 FTE financed by external contribution are required for CD activities, such recruitment plan should be based on secured rather than anticipated external funding. In addition, more needs to be done to improve the intake of nationals from URRs in hiring, especially from EMDCs where there will be large-scale of engagement. **Given the multiple resource requests brought to the Board, we stress that the resource needs should be assessed holistically in the context of the broader budget augmentation request.**

IMF Strategy to Help Members Address Climate Change Related Policy Challenges: Priorities, Modes of Delivery, and Budget Implications

Responses to Technical Questions Posed by Executive Directors in Advance of
EBM/21/73—July 16, 2021

Staff's responses to technical questions are below. Broader policy questions on the operationalization and deployment of the climate strategy will be addressed in staff's intervention at the Board meeting.

Mitigation

1. **As it relates to mitigation, we share the view that emphasis should be given to the mitigation policies of the 20 large emitters of greenhouse gases. In this respect, could staff elaborate on the methodology applied to identify those 20 countries?**
 - The 20 largest emitters are determined on the basis of their total greenhouse gas emissions—the CSR background paper on “integrating climate change into Article IV consultations” contains a list.
 - We recognize that “large emitters” could be measured in different ways (for example, a country’s contribution to the stock of greenhouse gases in the atmosphere, or projected emissions in the years and decades ahead); current emissions is the metric that requires the fewest assumptions and imputations. Keeping the group of large emitters broad—the 20 largest emitters account for more than 80 percent of global greenhouse gas emissions—ensures that the most important countries for the global mitigation effort are covered, independent of the precise metric used.

Climate finance

2. **While we recognize that financing may be provided under IMF-supported program when climate-related measures are deemed critical to solve BoP problems or through emergency financing, we reiterate the importance of substantial climate financing to support countries in their efforts to mitigate the effects of climate change, given the limited fiscal space. Staff comments are welcome.**
 - There can be substantial financing needs for climate change adaptation and, in some cases, mitigation. It is therefore in the collective global interest that such measures will not be obstructed by a lack of fiscal space and financing. In this context, the principle enshrined in the Paris agreement of supporting lower-income countries with their climate policies is important. The strategy paper notes that staff can help authorities to assess their climate financing and investment needs.
 - As correctly noted, the Fund’s lending mandate constrains its options to contribute directly to this effort. We nevertheless encourage coverage of climate financing issues in Article IV support wherever these are macro-critical. There are also considerations how climate objectives may be

supported in the context of options for SDR channeling—an issue that the Board will discuss next week.

FSAP

3. **We emphasize that the coverage of climate-related issues in the Financial Sector Assessment Programs (FSAPs) needs to be agreed on with country authorities based on an assessment of the materiality and systemic importance of climate risk, as is also highlighted in Table 2. Given that the paper also suggests that exposure to climate risk and policy options to manage such risk should become an integral part of all analyses under the FSAPs, we would appreciate staff's further clarification.**
 - Assessment of climate physical risk and/or transition risk will indeed depend on the materiality and on the systemic importance of climate risk in the jurisdiction and will be agreed with country authorities. Evaluating the materiality of climate risk would require a diagnostic and an assessment of what are the principal sources of risk facing a jurisdiction that may arise from climate change. This diagnostic will draw on data and analysis of types of physical risks, the extent of hazards, and likely damages, and separately on data and analysis of the exposure to carbon in sectoral or firm level production structures determining transition risks. It will be an important part of an FSAP, as there might be a need for policies, guided by international standard setting bodies like FSB, to enhance risk management to reduce pressure points for a financial system due to climate risks.

Climate data

4. **Could staff provide more information on efforts to systemically integrate climate data and analytics produced by other institutions, into Fund work, and on ongoing work to develop and improve methodologies.**

Fund staff make extensive use of readily available data from other institutions when undertaking analytical work and staff also provide data to support the work of other institutions. Below we provide some examples.

- STA's collaboration on climate data has so far focused on international organizations with experience with climate-related data. Direct engagement with individual country authorities will be better supported once a suitable foundational statistical framework is consolidated, on the basis of the Fund's Climate Change Indicators Dashboard (CID) being developed. As a first outcome of our interaction with country authorities, the G20 will be launching a new data gap initiative with a focus on climate data. The Fund, in close collaboration with other international organization, has provided a high-level note and is preparing a more detailed guidance note that is expected to be submitted to the G20 Finance Ministers and Central Governors in the Autumn this year. In general, STA's strategy for the CID is to leverage on the available data sources and methodology, limiting its scope to climate data needs related to surveillance purposes by area and functional departments. The statistical methodology being developed is firmly anchored in the overall macroeconomic statistics. Our sister

organizations on the other hand focus on other essential dimensions, including social indicators (World Bank) or microdata for financial stability (FSB, NGFS).

- FAD's Carbon Pricing Assessment Tool (CPAT) uses data from the IEA (for country-level fuel use data); the WRI, IIASA, and UNFCCC (for GHG); the WB, IEA, OECD (for fuel price, tax, and subsidy data); WHO, IIASA, and EU-JRC and the Global Burden of Disease (for estimates of local environmental costs of fossil fuel use (e.g., air pollution mortality, traffic congestion and road fatalities)). Assessments of the impacts of border carbon adjustments use data on embodied carbon in trade flows from OECD.
- RES also uses data from the IEA (e.g., energy and CO2 from fuel combustion, estimates of energy-related investment needs), the EU EDGAR database and UNFCCC (e.g., non GHG emissions), IRENA (renewables data), the OECD (e.g., environmental policy stringency database), the World Bank (e.g., carbon pricing dashboard), and GTAP (RES is a member of the GTAP Board). RES is also collaborating with the IEA, drawing on their expertise on the transformation of the energy sector and providing macro analysis of the effects of investments that are needed in this sector.
- For FSAPs, staff leverage climate physical risk data from the World Bank Climate Change Knowledge Portal. Staff also leverage NGFS scenarios for transition risks related to countries that are covered by the NGFS in designing climate scenarios for stress testing. Given the critical importance of climate-related data and disclosures for all players, including investors, issuers, credit rating agencies, central banks and regulators, MCM is closely engaged with international standard setting bodies and financial institutions with initiatives on closing data gaps and promoting disclosures.

Collaboration

5. **Could staff elaborate on the extent of their engagement with regional development banks? We noted the reference to information exchange and wonder whether staff find that this contributes adequately to building synergies and ensuring consistent, complementary advice? Might there be a case for closer collaboration with these regional institutions alongside the World Bank since they serve a similar role to the latter?**

Fund collaboration with regional development banks (RDBs) takes place in the context of the MDB Group, regional conferences, regular exchange between senior staff, and at the level of country teams.

- **MDB Group and Conferences.** The Fund's participation in the MDB group and regional conferences hosted by RDBs serves two main purposes: (i) allowing the Fund to periodically brief RDBs on workstreams and priorities, including progress toward integrating climate into macroeconomic and financial surveillance, development of the CMAP, etc.; and (ii) keeping the Fund updated on RDB efforts to scale up climate finance (notably through targets embedded in their strategy documents) and how they intend to coordinate among themselves and with Fund country teams to maximize impact. The MD has also used this forum to advocate for greener RDB financing. Fund staff participate frequently in regional conferences, presenting their recent analytical work.

- IMF and RDBs collaborate closely in the context of the implementation of the G20 principles for effective coordination between the IMF and MDBs on policy lending. We have established and regularly maintained a list of “first points of contact” on country matters to ensure that potentially complex country cases receive appropriate attention. We have also formalized upstream exchanges of views (at the Management and Senior Staff level) to complement coordination at the country-team level and engage on cross-cutting policy issues, such as public debt and climate change issues. These exchanges typically take place at the margins of the IMF-WB Annual and Spring Meetings, MDBs’ annual meetings and other high-level conferences.
- **Country team engagement.** All area departments engage frequently with their counterpart RDBs. A few recent examples:
 - AFR. Country teams are in close contact with their African Development Bank (AfDB), which finances resilience-building projects and climate capacity development. Fund and AfDB teams discuss to discuss and ensure consistent and complementary advice in public investment management, debt management, and broader structural reforms (e.g., access to finance).
 - APD. Country teams have regular exchanges on social and structural policies in countries with the ADB on their lending and projects. Staff inform each other about background work and CD workstreams, so as to avoid duplication.
 - EUR. Country teams meet and exchange views with the European Investment Bank, which is the main “development” bank in the region and carries a lot of investment initiatives in the climate area.
 - MCD. Although engagement with MCD country authorities on climate is just starting, there has already been some collaboration on specific areas. For example: (i) the Pakistan teams works with the ADB on power sector reforms and energy pricing; and (ii) the Jordan team is collaborating with the EBRD on water issues.
 - WHD. Country teams collaborated with the Caribbean Development Bank to do the Disaster Resilience Strategy for Dominica. CDB technical staff participate in Fund Article IV mission of several Caribbean countries, and Fund teams are in close contact with their counterpart at the CDB during Fund programs. ECCU consultation missions always meet with the CDB President.

Staffing and contingency plans

6. **As the number of macroeconomists majoring in climate change is very limited, we would ask staff to elaborate on detailed plan on how to hire such economists.**
7. **We are also cautious about unnecessary competition for quality climate economists and potential crowding-out effect in the market which may weaken the capabilities of other international, national and private organizations in climate change response. Staff comments are welcome.**

- Several departments have more recently been quite successful recently in hiring economists with the desired skill set for open climate positions. Moreover, on the most recent list of economists ready for mid-career hiring, a substantial share of candidates—perhaps 20-30 percent—had experience with work at the intersection of macro and climate. This would not have been the case only a few years ago. Additionally, the broader definition of macroeconomists used in the Board paper would also include financial sector experts with operational expertise.
 - Through collaboration with universities and think tanks, we hope to further identify talent. Staff will rely on its existing sourcing networks and capabilities, including the use of LinkedIn Talent Insight global sourcing tool, as well as additional ramped up outreach to candidates on a global basis.
 - Hiring will be complemented by internal and external training - hence the IMF will generate a part of the needed skill set internally, and it will also contribute to increasing the supply of economists with climate expertise. This would be reinforced through country team engagements and capacity development. For climate-related CD, we will also leverage other institutions with climate expertise by hiring short-term experts.
 - HRD is working with OBP to develop a more holistic and comprehensive hiring and on-boarding strategy, including incorporation of elements of workforce planning.
8. **Recalling earlier experience from integrating financial sector analysis into surveillance suggests that an internal upskilling on climate can only be gradual and needs time. A more measured pace would be more realistic and workable, not least given the rapid methodological developments in this area. Such an approach would also allow to better take advantage of the existing staff pool and to better reshuffle FTEs within the organization. Did staff evaluate the option of a more gradual approach?**
9. **Could staff provide details of annual plans for staffing and resource allocation for and potential outturn of each activity on climate change over the three-year period and a contingency plan in case that required human resources cannot be secured?**
- We agree that hiring a significant number of climate-macroeconomists within a relatively short time frame can be challenging. However: (i) it is necessary so that the Fund can assist its membership with critical and urgent policy challenges – the next few years will be critical for the world’s climate; and (ii) overall we are reasonably optimistic that the IMF can attract staff with the right skills and in the needed quantities, complemented through intensified internal training (see the response to the previous question). At the same time, seeking to address the shortage of staff working on climate through reshuffling within the existing staff pool has reached its limits and would go inevitably at the expense of other core work.
 - More generally and different from integrating financial sector analysis into surveillance, it is worth keeping in mind that the upscaling of climate work will affect almost every department in the Fund. Therefore, annual hiring needs per department are modest (in the single digits, and in the low single digits in most cases).

- We have not yet developed an annual staffing plans for the climate stream. An overall plan for FY23 will likely be presented together with the overall budget proposal in the fall.
- We have outlined our hiring strategy in our response to question 7. At this point, we do not see a need at this stage to develop contingency plans (but would of course reassess in case our expectations are disappointed).

10. 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.

- Staff agrees scaling up of capacity development in climate change policy should be gradual to ensure good quality policy advice to member countries. This however needs to be balanced with the urgency to act on climate and support the increasing demand from member countries.
- As for training, scaling up of both external delivery and internal training has already commenced (currently funded out of diverting existing resources/relying on overtime). The new on-line course, microlearning, and climate 101 course are immediate priorities since these will be used for both internal and external training. The climate 101 course is expected to be rolled out by the end of the year. For climate-related CD, we will also leverage the capacity of other institutions with climate expertise by hiring short-term experts.
- Functional departments are balancing the increased demand for Fund support with delivery capacity with some being more advanced than others in terms of actual CD delivery. For example:
 - FAD already has experience on the PIMA climate change module, where demand is increasing and where FAD could scale up quickly. It also has experience on CCPAs and has received interest from 14 countries for CMAPs. As reported to the Board, FAD will undertake two additional pilots based on a revised CMAP template, which it will present to the Board early next year, after which it expect to be able to scale up three-fold to serve the most climate-vulnerable member countries. Demand for climate-related CD in green budgeting is also increasing, but it might take more time to scale this up. FAD is prioritizing countries and areas of CD delivery to continue to maintain the quality of CD delivery.
 - MCM's capacity is more constrained and it has so far provided modest climate-related CD in partnership with regional training centers on climate-related stress testing for the insurance sector, regulation and supervision of climate-related risks, climate-related debt management, and green bonds. MCM will meet emerging demands in the areas of supervision and regulation, debt management and stress testing exercising flexibility and agility without compromising quality.

11. Given the urgency of the Fund's climate work, which aspects of the climate strategy will be prioritized in the first few years before the staffing increases are completed?

- Staff will answer this question during the Board meeting.

Objectives and coordination

12. **Stepping up the engagement on climate is less a question of direction, but one of scale, pace, and reliance on internal staff resources. We wonder whether pursuing output targets, e.g., the number of climate chapters in Article IV reports per year, rather than formulating objectives in terms of outcomes will ensure high-quality advice, traction, or impact for members. We ask staff to elaborate.**

- The quantitative targets formed the basis of the costing exercise. Beyond these numbers, we fully agree that delivering high-quality advice and outputs is paramount. In this context, the strategy stresses the need for guidance and review (which are included in the costing exercise) to ensure high-quality, granular and evenhanded advice to the member ships.
- Issues of traction and impact are regularly assessed in the context of the interim and comprehensive surveillance reviews.

13. **It would be useful to learn more about how staff coordinate the climate strategy with other workstreams ahead of the discussion on the envisaged budget augmentation. Staff's comment is welcome.**

- The climate strategy and the other strategies that have been presented to the Board (fragility, gender/inclusion, digital money) will indeed have some (albeit limited) overlaps. For instance, climate can exacerbate vulnerabilities in fragile states and there also is a need to integrate policies on climate adaptation in a broader framework on how to address a country's fragility. Similarly, climate has inequality and gender dimensions, with higher inequality of opportunities and gender inequality in climate-vulnerable environments. The coordinators of the various strategies are working closely to leverage the synergies across the various cross-cutting issues.

Organizational structure

14. **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.**

- Cross-departmental coordination through the IMF Climate Coordinator and the Climate Advisory Group exists already and works well. Even though the demands on these structures will increase as climate work intensifies, we believe that this informal matrix structure is efficient and effective in ensuring strong policy coordination. Also, it is difficult to see how the responsibility for carbon taxation, for example, could move outside FAD, or how disclosure standards would not be

handled by MCM. And review and guidance will arguably have to remain with SPR. That said, there might be scope for reconsidering the organizational structure once we have gained more experience with the upscaling.

Capacity development and fundraising

15. 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?

- Given the rapid increase in demand for climate work, donor support for climate CD activities is necessary. Departments aim to leverage donor funding to the extent possible. In cases where donor funding is not available or the target country is not eligible for donor funding, departments will rely on Fund-own resources to the extent possible.
- External partners are already providing financing to support the Fund's climate-related CD, among them Germany, the UK, and Switzerland. Indeed, most of the Fund's core CD partners prioritize climate change and have substantial aid budgets related to climate, so the expectation is that additional funds could be raised for this initiative and the additional amount required for this initiative would be a relatively small part of the total amount raised on an annual basis.
- The strategy going forward is to integrate climate change related CD in future fundraising initiatives, including for the regional centers, ensuring that any donor support is aligned with IMF and member country priorities.

CONSTITUENCY CODES

OEDAE

Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

OEDAF

Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

OEDAG

Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

OEDAP

Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

OEDBR

Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

OEDCC

China

OEDCE

Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Spain

OEDCO

Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

OEDEC

Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

OEDFF

France

OEDGR

Germany

OEDIN

Bangladesh, Bhutan, India, and Sri Lanka

OEDIT

Albania, Greece, Italy, Malta, Portugal, and San Marino

OEDJA

Japan

OEDMD

Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

OEDMI

Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen

OEDNE

Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

OEDNO

Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

OEDRU

Russian Federation and Syrian Arab Republic

OEDSA

Saudi Arabia

OEDST

Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

OEDSZ

Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

OEDUK

United Kingdom

OEDUS

United States