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Statement by the Managing Director
on the Fund and Environmental Issues
Executive Board Meeting 90/172
December 12, 1990

During the December 12, 1990 Board discussion on this subject, Directors recognized the importance of environmental preservation in promoting balanced and sustainable growth in member countries, given the linkages between environmental concerns and macroeconomic and structural policies. However, emphasizing the primary role of the Fund as an international monetary institution, most Directors stressed that the Fund should be cautious about extending itself into an area involving microeconomic policy choices in which the Fund has little expertise and responsibility. Noting that other institutions, such as the World Bank, the UNEP, and the OECD, were already heavily involved in environmental issues, most Directors considered that the Fund should rely largely on the expertise of these other international organizations. One Chair argued for a broader involvement of the Fund in environmental issues, while avoiding duplication, but that position attracted little support.

At the same time, Directors generally agreed that the Fund needed a deeper understanding of the complex channels through which macroeconomic and structural policies might influence the quality of the environment. They noted that Fund-supported policies could have immediate environmental consequences, depending on the structure of the economy and the effect of macroeconomic policies on that structure. Therefore, the Fund staff should incorporate structural and environmental issues in its annual consultations with members and in program discussions, but only on the basis of convincing and obvious evidence.

In view of the sense of the Executive Board on the Fund's involvement in environmental issues I propose that our manpower resources to be devoted to these matters be limited to two or three staff, whose terms of reference in addressing environmental issues would be as follows:

First, they would serve as a liaison with other organizations undertaking environmental research. Given the work done by the World Bank, UNEP, OECD, and national governments, these economists could usefully filter the output and channel the relevant information to staff members in area departments. They would also call to staff members' attention the particular studies, completed or in progress, and conclusions of environment-oriented research performed by outside organizations, in order to provide general support to desk economists in their country work where environmental issues are important.

Second, they would help develop, in consultation with desk economists, appropriate methodologies for addressing environmental concerns. These methodologies would be consistent with the Fund's main objective, and would fit within the standard macro-financial framework employed by the Fund. The methodologies to be delineated would have as a prerequisite the protection of the soundness of the Fund's macroeconomic and structural policy advice. Concerns for environmental issues will be expressed within the framework dictated by the need to achieve domestic and external financial stability. One of the objectives of this work would be to prevent situations in which the unprepared addition of the environmental dimension to programs, after their negotiation, makes them inoperative. These economists would help to develop appropriate technical knowledge in the use of public policy instruments to address environmental concerns, in particular tax and public expenditure policies. In countries where environmental issues are paramount and have clear macroeconomic implications, these economists could act as resource persons on missions in selected cases.

In outlining these tasks for the two or three environment-oriented economists, it should be noted that the Fund would not be involved in any basic work in this area or in any work not directly related to the Fund's main objective. Rather, they would ensure that appropriate material is gathered, processed for Fund purposes, and disseminated to the rest of the Fund as the need arises. In addition, since most of the environmental instruments of interest to the Fund are fiscal in nature, they would also be expected to have a strong public finance background. There is no expectation that this work would expand beyond the requirements of two to three economists.

Overall, modalities for dealing with structural environmental issues will be developed within the scope of the macroeconomic programs of the Fund, and the development of these modalities would in no way consider the adoption of environmental conditionality.

I hope that this proposal can constitute a constructive course of action by the Fund on the environment, and I suggest that we conclude our consideration of this subject in early January 1991.