Friends of the Earth US
Comments on the 2022 Surveillance Guidance Note Overview

The 2022 Surveillance Guidance Note (SGN) updates the 2015 SGN, providing guidance to staff on how to conduct Article IV surveillance – one of the IMF's core functions as mandated under Article IV of the IMF Articles of Agreement. This new GN is meant to reflect and operationalize the new priorities and modalities outlined in the 2021 Comprehensive Surveillance Review (CSR) concluded by the IMF Executive Board on May 20, 2021, including on when and how to integrate "emerging" macro-critical issues of climate, gender, and inequality into Article IVs. The following comments (1) are contextualized by a broader concern with the 2022 SGN consultation process; (2) highlight limitations of the 2021 CSR itself, which set the parameters for the new SGN; (3) provide recommendations to the 2022 SGN focused specifically on the integration of climate transition risks into Article IVs.

Insufficient basis for CSO input

Despite CSO requests for substantive consultation on the development of the 2022 SGN, including through a joint CSO letter addressed to Managing Director Georgieva and Director Pazarbasioglu, we have been left with little basis upon which to formulate concrete feedback to this process. This is important to ensure there is not a disconnect between policy goals and implementation, as has been "our experience with the IMF's previous attempts to incorporate macro-critical analysis of 'emerging issues' into its core work…Staff consistently expressed confusion and even cynicism toward new policies, and were at times resistant to consider emerging issues 'macro-critical', due to the 'limited real estate' of Article IV surveillance documents." We lament the disingenuous nature of this consultation process, during which IMF staff have provided as the basis for our input nothing more than a PowerPoint presentation that provides little new detail – rather than a full draft document.

2021 CSR a missed opportunity

We understand that IMF surveillance – the routine monitoring of countries' economic "health" and analyses of risks to global financial stability – has significant influence on national and the global policy environment, and on investment trends, which is of great consequence to the lives of millions of people across the 190 IMF member countries. As Sargon Nissan from Recourse and Roos Saalbrink from ActionAid International noted, while the IMF framed the 2021 CSR as a modernization of its surveillance to meet the current moment, and embraced a broader understanding of "economic sustainability" to account for the impacts of factors like inequality, climate change, geopolitics, and more, "it then goes on to maintain the imprecise 'macrocriticality' standard." As a result, the 2021 CSR represents a missed opportunity to systematize the approach to incorporating macro-critical issues like gender and economic inequality and climate change into the Fund's surveillance, which we fear will remain inconsistent and inadequate. In addition, the Fund fails to reflect on how these issues interact with one another, as well as on how the Fund's own traditional policy advice contributes to aggravating these.

It is heartening that in the 2021 CSR the Fund has finally acknowledged that both physical and transition risks from climate change present macroeconomic challenges to countries. However, while acknowledging that "transition management is a possible topic for every country with an NDC", the Fund does not then detail when and how the Fund will include this in Article IVs. Concerningly, the IMF's new *Strategy to Help Members Address Climate Change Related Policy Challenges* released in July 2021 outlines the Fund's intent to cover climate transition risk management only every 5-6 years across all member countries. This is not aligned with the needed global decarbonization timeline being discussed by scientists and energy market experts. Also, the IMF only commits to support the 20 largest emitters to address policy challenges of climate mitigation at least every three years, and it does not go so far as to oblige them to undertake these analyses, as it did countries that were "systemically important" to managing risks in the global financial system following the 2008 global financial crisis. Considering these significant shortcomings, which are not an exhaustive list, it is hard to see how the 2021 CSR is fit for purpose in guiding the Fund's surveillance to meet the current moment.

Recommendations to SGN regarding the integration of climate transition risk analyses

- *"Do no harm" : Ensure that IMF policy advice does not enable fossil fuel expansion and undermine a just energy and economic transition*

As recommended in a joint civil society submission to the 2021 CSR, "The IMF should, at a minimum, adopt a 'do no harm' approach and commit to ensuring, via ex-ante assessments, that IMF policy recommendations do not actively exacerbate inequalities or undermine countries' ability to meet their human rights obligations, or achieve the Sustainable Development Goals and their Nationally Determined Contributions under the Paris Climate Agreement."

With regards to climate change, a 2022 brief by Friends of the Earth US, Gender Action, Urgewald, Recourse, and Oil Change International on *6 steps the IMF should take to stop enabling fossil fuels* further recommends that the IMF take steps to ensure that IMF policy recommendations do not enable fossil fuel expansion and undermine a just energy and economic transition across IMF member countries. This means ensuring no support for fossil fuel *producer* subsidies and incentives –i.e. policy and tax reforms that make fossil fuel investments more profitable, like tax breaks for oil companies and low royalty rates; properly analyzing the risks of fossil fuel investments/dependency in a transitioning world; not limiting fiscal space through promotions of fiscal consolidation, for example; not encouraging countries to address sovereign debt by increasing their dependence on fossil fuels; and by adopting more sober fossil fuel revenue projection methodologies. As recommended in a report by the Bretton Woods Project and ActionAid USA, the IMF should also re-evaluate its advice on privatization, "particularly given the risks of compensation claims for stranded fossil fuel assets by private investors, and instead support governments to strengthen public institutions and public services, so that they can effectively respond to climate change."

- *Help countries manage climate transition risks*

The Fund should help countries analyze the risks to country economies posed by the green transition, especially but not limited to those countries dependent on fossil fuel exports and imports, on the brink of new fossil fuel development, or considering new power-purchase agreements for fossil-fuel based electricity.

This includes helping fossil-fuel dependent countries to identify when there is a need to diversify their economies and divest from fossil fuels to avoid fiscal and financial risks, and help countries do this in a way that is fiscally sound and financially stable. This should include recommendations to unwind from investor-state dispute settlement (ISDS) provisions in free trade agreements and bilateral investment treaties – which allow foreign companies to sue host governments for canceling projects or limiting investments – that jeopardize the fiscal and financial aspects of a country's transition.

Among the types of risks associated with the green transition that the IMF should also support countries with is the risk that mixed-ownership fossil fuel projects pose to host country government balance sheets if they don't perform as expected and become stranded assets. The IMF could help determine which parties hold affected assets and related liabilities of fossil-fuel lock-in and non-performing stranded risk between the financial sector, public sector, and major economy export credit agencies, and point to any nationally unfavorable risk-sharing arrangements. Such an analysis can help the IMF to guide governments on how to better manage risk exposures. In addition, this can be linked to financing facilities to help countries reduce fiscal pressures related to transition risks, through refinancing fossil fuel contracts, and through other means.

The IMF should also help countries to increase fiscal space and generate revenues through progressive taxation and sustainable economic activities in order to support climate mitigation, adaptation, resilience and development efforts. Analyses of climate risks should also be coupled with efforts to mobilize greater grant-based and concessional financing to help countries manage these risks and invest in alternative pathways.

- *Systematize consultation on Article IVs*

The SGN Overview PowerPoint presentation suggests that Fund engagement with CSOs happen in the Article IV process in countries. But this has not been our experience; instead, consultation on Article IVs often depend largely on the will of individual mission chiefs, and even when they are carried out, they are often carried out in a manner that is not predictable, inclusive, nor fully transparent. The SGN should provide concrete minimum requirements and procedural guidelines for national level consultation processes on Article IVs, including with civil society organizations, women's rights groups, trade unions, climate groups and indigenous peoples' organizations.

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