July 08, 2022

Re: Treasury strategy at the IMF on climate

Dear Secretary Yellen,

We thank you for your continued efforts to center climate change in the Treasury Department's work. We write to you today to ask specifically about the Treasury's efforts on climate at the International Monetary Fund (IMF).

President Biden's January 27, 2021 *Executive Order on Tackling the Climate Crisis at Home and Abroad* instructed Treasury to "develop a strategy for how the voice and vote of the United States can be used in international financial institutions, including […] **the International Monetary Fund,** to promote financing programs, economic stimulus pack
ages, and debt relief initiatives that are aligned with and support the goals of the Paris Agreement." We were encouraged to see the Treasury issue new guidance on fossil fuel financing at the multilateral development banks (MDBs), engage with heads of MDBs on aligning their lending with the goals of the Paris Agreement, and push the World Bank Group in particular to exercise greater climate ambition. While we disagree on some details, we believe these actions set up an important foundation to build upon. We also applaud the historic issuance of SDRs in 2021 to support the global response to Covid-19, and urge the Treasury to advance reallocation of US SDRs to lower income countries and demonstrate support for additional SDR issuances, which could contribute to a green and inclusive recovery and just transition.

However, when asked about an IMF-specific US strategy on climate, we were informed by Treasury staff that there are no plans for a documented strategy. As the largest shareholder at the IMF, it is critical that the Treasury be public and unambiguous about how it is using its "voice and vote" at the IMF to address climate change.

We urge you to demonstrate greater leadership at the IMF and among other IMF shareholders by publishing a strategy on how the US Treasury will use its "voice and vote" at the Fund to support the goals of the Paris Agreement and to support countries on a just transition to green, resilient economies. This strategy needs to be specific regarding which traditional IMF-supported policies and actions are not aligned with the goals of the Paris Climate Agreement and a just transition, such as fiscal consolidation, fossil fuel producer subsidies and other policies that make fossil fuel investments more profitable, and weaker labor rights.

The IMF has recognized that climate change poses risks and challenges to countries' macroeconomic stability and that addressing it therefore falls squarely within the Fund's purview. The IMF is well placed to support countries to identify fiscal related - climate risks, strengthen adaptive capacity particularly on financing, enable increased investment in climate resilience, and support the design of fiscal policies that can increase fiscal space for climate action. However, it has failed to do this adequately and systematically through loan programs, policy advice, capacity building, debt relief initiatives and convening power. Lamentably, the Fund is in fact aggravating the problem in many ways, by supporting fossil fuel producer subsidies and expanded fossil fuel infrastructure, austerity measures that limit fiscal space for climate action, over-optimistic fossil fuel revenue projections in debt sustainability analyses, and the privatization of energy and utility systems which, among other impacts, spurs higher electricity rates that reduces poor women's, men's and sexual and gender minorities' access.

Since the Biden Administration's Executive Order was released, the IMF Board has approved several problematic Article IV reports and loan programs. In Pakistan, the government has been forced by the IMF to adopt a range of punishing fiscal measures that includes a devastating regime of taxes on solar panels, wind turbines, electric vehicles and related technologies, threatening the country's ability to meet its environmental goals and international climate obligations, in direct contradiction to the IMF's commitments on pricing carbon and supporting a low-carbon transition. In Suriname, a new $688 million loan program increases taxes for citizens and non-oil sectors, while validating new oil investments with exceptionally low royalty rates and tax breaks. In Mozambique, a recently approved loan program and Article IV report, not yet made public, is expected to be premised on debt sustainability analyses that rely on the development of mega-LNG projects, the fate of which remain uncertain because of militarized conflict around the projects' sites. What little details are known about the loan program show no indication of supporting the country to diversify its economy away from risky fossil fuel dependence, as the Fund itself previously suggested.[1] In South Africa, the recent Article IV report called for removing labor protections in the name of facilitating the green transition.

In addition, several recent IMF policy revisions and actions remain problematic. While acknowledging the macro-criticality of climate transition risks, the 2021 Comprehensive Surveillance Review was received as a missed opportunity by CSOs for failing to systematize the Fund's approach to incorporating this –and other macro-critical issues like gender and economic inequality– into the Fund's surveillance. In addition, we are concerned about the terms of the recently approved Resilience and Sustainability Trust, including that it requires countries have existing IMF programs in place and will require countries to undertake conditionality related to climate change and pandemic preparedness financing needs - both of which are likely to dampen demand for the RST. The jointly conducted WB/IMF Debt Sustainability Analyses (DSA) continue to rely on shaky assumptions that fossil fuel projects will bring in a flood of future revenue, disregarding quickly evolving energy scenarios and transition risks. And fundamentally, we remain concerned that the current DSA methodology only assesses the ability of countries to pay back creditors –not their ability to meet development, human rights and climate obligations.

[1] Since the Paris Agreement (December 2015), both Mozambique and Mongolia have had multiple IMF loan operations. During this time, both countries' economies have become significantly more dependent on mega investments in the coal and gas sectors enabled by IMF policy prescriptions on tax frameworks, public financing for coal and gas infrastructure, and energy tariffs, which incentivized more investments in coal and gas. Mozambique had IMF policy prescriptions supporting both coal and gas, while for Mongolia, it only applies to the coal sector.

Finally, the work of MDBs and the IMF overlap in important ways. As such, it is important that US government efforts vis-a-vis the MDBs be accompanied by a detailed strategy on its approach at the IMF as well, to ensure consistency and coherence. For example, the IMF is involved in informing and reviewing MDB policy based operations, which greatly influence countries' regulatory and tax environments. A new World Bank diagnostic and analytical tool, the Country Climate Development Reports (CCDRs), will be used under the Fund's new Resilience and Sustainability Trust. The IMF can work with MDBs to mobilize resources to address climate-related transition risks identified by the Fund. And the World Bank and IMF jointly conduct country Debt Sustainability Analyses which are used in lending and borrowing decisions not only by these institutions themselves, but also by other lenders, and are also used to determine countries' debt restructuring and relief terms.

In closing, the IMF's lending, monitoring, and policy advice influence the trajectory of entire national economies, and the global economy, with impacts touching millions of people across its 190 member states. As the largest shareholder of this publicly-funded international financial institution, the United States must demonstrate how it is wielding its influence on critical issues like climate change. **US engagement at the IMF must be accompanied by greater transparency and dialogue with various stakeholders, including academics, labor unions, climate experts, women's and LGBTQ+ groups, climate vulnerable countries, debt justice advocates, and more.**

We look forward to hearing from you.

Sincerely,

US Groups

Accelerate Neighborhood Climate Action

ActionAid USA

Bank Information Center

Boston Common Asset Management

CatholicNetwork

Center for Economic and Policy Research

Citizens' Alliance for a Sustainable Englewood

Citizens' Climate International

COCRN Colorado Community Rights Network

Colorado Businesses for a Livable Climate

Colorado Call to Action

Colo. Democratic Party Energy & Environment Initiative

CO Jewish Climate Action

Colorado Physicians for Social Responsibility

Colorado Small Business Alliance

Community for Sustainable Energy

Denver Transit Riders Alliance

E3G

Elyria Swansea community

Friends of the Earth US

Gender Action

Globeville-Elyria-Swansea Coalition

Greater Park Hill Community

Green House Connection Center

GreenLatinos

I-70/Vasquez Blvd Citizens Advisory Committee

Indivisible Ambassadors

Justice is Global

Littleton Business Alliance

Mayfair Park Neighborhood Association Board

Mental Health & Inclusion Ministries

Montbello Neighborhood Improvement Association

Mothers Out Front

North Range Concerned Citizens

Oil Change International

Oxfam

Publish What You Pay - US

Save EPA

Southwest Organization for Sustainability

Spirit of the Sun

Sunnyside United Neighbors, Inc (SUNI)

System Change Not Climate Change

UCAN

Unite North Metro Denver

Wall of Women

Women's Environment and Development Organization (WEDO)

Womxn from the Mountain

Working for Racial Equity

Groups outside of the US

AbibiNsroma Foundation

African Climate Reality Project

Alliance for Climate Justice & Clean Energy (ACJCE) (Pakistan)

Alternative Law Collective (Pakistan)

Arab Watch Coalition

Asian Peoples' Movement on Debt and Development

Climate Action for Lifelong Learners (CALL) (Toronto, Ontario)

Climate Finance Group for Latin America and the Caribbean (GFLAC)

Fair Finance Coalition South Africa

Fossil Free South Africa

Innovea Development Foundation

Jubilee Australia Research Centre

Malema Foundation Tanzania

Recourse

Talanoa Institute (Brazil)

Urgewald (Germany)

<u>Individual Experts and Leaders</u>

Rev. Mark Meeks, Pastor, Capitol Heights Presbyterian Church

Bri Morris, Founder, Green Thumbs For Black Power

Sr. Anna Koop, Sisters of Loretto

Rabbi Eliot J Baskin, D Min, with Together Colorado

Scott Denning, Professor of Atmospheric Sciences, Colorado State University

Nic Venner, Metro State Student and Our Children’s Trust *Juliana* Plaintiff