April 05, 2021

Dear Secretary Yellen,

We thank you for your commitment to prioritize climate change in your tenure, and are heartened by the Biden Administration’s swift initial efforts to elevate the United States’s international leadership on climate action in these critical years, as outlined in the January 27th Executive Order on Tackling the Climate Crisis at Home and Abroad.

We write you today to share our recommendations in relation to an important piece of the agenda described in the Executive Order, which instructs 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 packages, and debt relief initiatives that are aligned with and support the goals of the Paris Agreement.”

As you know, the IMF has a critical role to play in supporting countries to address climate-related risks and vulnerabilities, strengthen adaptive capacity, increase resilience, and ensure countries have adequate fiscal space to achieve a climate just recovery and transition. At a recent Ministerial Meeting of The Coalition of Finance Ministers for Climate Action, IMF Managing Director Kristalina Georgieva put an end to the debate about whether climate change impacts macroeconomic and financial stability--and is therefore core to the Fund’s mandate--by stating: “the evidence is clear: climate change is a profound threat to growth and prosperity. It is macro-critical. And macroeconomic policies are central to the fight against climate change.”

Ms. Georgieva and IMF staff have frequently articulated the importance of ensuring a green recovery to support countries in addressing the twin global emergencies of the global pandemic and climate change. While Managing Director Georgieva’s announcements of climate actions being taken by the IMF at the recent Climate Adaptation Summit are important steps, the Biden Administration can and should build on this momentum and use its voice and vote in the IMF to lead other members towards developing and implementing a bold, inclusive and comprehensive climate action agenda.

We, the undersigned, ask that the strategy developed on the use of the US government’s “voice and vote” promote ending IMF loan conditionalities, surveillance recommendations, and technical assistance that support fossil fuel expansion --including that of gas-- and instead, advance just, green transition policies and debt relief solutions, specifically through the actions outlined below.

Broadly speaking, the Strategy should urge the IMF to focus on reducing fossil fuel producer subsidies and incentives (including tax breaks for new infrastructure investments) across its activities. Thus far, the IMF has predominantly focused on reducing fossil fuel consumer subsidies by advising governments to raise consumer prices for electricity, and for gas and oil. However, such price increases --in addition to
being regressive-- also serve to incentivize fossil fuel producers, i.e., new investments in coal and gas power plants and oil and gas production.

**Surveillance**

- Support for the mandatory and systematic integration of physical and transition risk assessments in its Article IV consultations with all countries, and in the Financial Sector Assessment Programs it conducts with the World Bank, as well as assessments of transition spillover risks, including through the publication of specific guidance notes in how to assess these risks to instruct country missions and staff conducting reviews, detailing when and how climate-related issues should be considered ‘macro-critical’.
- Ensure IMF Article IVs avoid the promotion of strict fiscal targets or austerity measures (recent reviews suggest worrying pressure for a premature return to fiscal consolidation in practice at country level) which would limit fiscal space for climate action. Rather, Covid and the climate crisis should mark a turning point, one that sees the IMF move to supporting countries to build fiscal space with a strong emphasis on progressive taxation and investment in quality public services, critical also to reduce gender and economic inequality.
- Support an urgent and open review of the joint WB/IMF Debt Sustainability Analysis to account for climate and environmental vulnerabilities and obligations.

**Capacity Building**

- Support for increasing the scope and quality of technical assistance given to finance ministries and central banks in developing capacities to address climate risks in designing fiscal, monetary and prudential policies--for example through climate stress-testing, strengthening public debt management, developing national approaches and policies for greening the financial sector, designing carbon taxes, fair insurance-based solutions, and more.
- Improving processes for meaningful civil society participation in the development of this guidance including through the publication of toolkits (as has occurred in technical assistance provision relating to fiscal policy reform) and materials setting out methodologies, as well as through greater disclosure and enhanced transparency around IMF technical assistance provided.
- Provide bilateral support to IMF capacity building climate-specific trust funds.
- Convene dialogue among central banks on integrating full employment and climate into frameworks and mandates, supporting the discussions with research.

**Financing**

- Support for a new issuance of 2 trillion in Special Drawing Rights (with a value of USD $2.874 trillion), and the additional exploration of options to channel SDRs – or new financing
available because of the SDR allocation - from advanced economies, like the US, whose historic emissions contributed greatly to climate change, to support climate vulnerable countries for example, through a new climate disaster facility, trust fund, or other mechanism.

- Support options to enhance the Fund’s climate emergency financing toolkit to address climate change, including through the creation of a new climate disaster facility, increasing access under existing facilities, converting facilities from loans to grants, and more.
- Support the development of frameworks and instruments for the treatment of debt incurred as a result of climate disasters and crucial adaptation actions, in alignment with the principle of Common but Differentiated Responsibilities and Respective Capabilities (CBDR–RC) under the United Nations Framework Convention on Climate Change (UNFCCC), for example the promotion of inclusion of climate disaster clauses in sovereign debt contracts, the development of a sovereign debt restructuring mechanism, and more.
- Loan programs should avoid conditionality which impose strict fiscal targets and austerity which prevent the needed fiscal space to invest in a climate-just recovery. Strengthened public services are crucial for achieving an effective and equitable response to the climate crisis.

General

- Conduct a meaningful public consultation process to ensure the US Strategy is sufficiently ambitious, just, and inclusive.
- Build and institutionalize a relationship of collaboration between the Fund and its major shareholders, and climate vulnerable countries, towards the development of a joint action agenda that reflects the voices and interests of developing countries and recognizes the historic role that advanced economies have in causing climate change, and the disproportionate impact borne by developing countries including in the increasing climate risk premium on the cost of capital that they face.
- Support for increasing IMF resourcing to ensure institutional capacity to mainstream climate considerations across the Fund’s operations.
- Support for full implementation of recommendations made in the November 2020 Independent Evaluation Office Report on *IMF Collaboration with the World Bank on Macro-Structural Issues*, particularly noting the recommendation that the Fund develop and agree on concrete frameworks to ensure effective collaboration with the World Bank (or other relevant partner organizations) on key macro-structural issues, which IMF Managing Director Kristalina Georgieva herself supported: “I broadly concur with the recommendation to adopt a more structured approach in select strategic areas […] I strongly agree that activities in the climate workstream where the responsibilities of the two institutions overlap are good candidates.”

Promoting market-based solutions will not be enough. As Biden’s Special Envoy for Climate John Kerry has himself acknowledged in reference to the oil and gas industry, “There is still some resistance to this
transition and that's something we can't afford anymore”. Addressing climate change will require a comprehensive approach, and the equitable transformation of economic and financial systems.

The true measure of U.S. leadership on climate change at the IMF will depend on the outcome of these important processes initiated by the Executive Order. We thank you again for your strong commitment, and for your consideration of these recommendations. We look forward to discussing these further with you and working with you in support of their implementation.

Signed,

**US groups:**

ActionAid USA

Amazon Watch

Avaaz

Bank Information Center

Businesses for a Livable Climate

Call to Action Colorado

CatholicNetwork.US

Earth Action, Inc.

Friends of the Earth U.S.

Gender Action

Institute for Policy Studies Climate Policy Program

Oxfam

Publish What You Pay - United States

RapidShift Network

Revolving Door Project

Zero Hour
Groups outside of the US:

Abibiman Foundation (Ghana)

Andy Gheorghiu Consulting (Germany)

Asian Energy Network (AEN) (Philippines)

Conservation Council of Western Australia

Environmental Justice Foundation (UK)

Friends of the Earth Cyprus

Friends of the Earth Europe

Friends of the Earth Japan

Fundación Ambiente y Recursos Naturales (FARN) (Argentina)

GNDR (Global Network of Civil Society Organisations for Disaster Reduction) (UK)

Recourse (Europe)

Uganda Coalition for Sustainable Development

VedvarendeEnergi (International)

WALHI (Indonesia)

Individual Academics and Analysts:

Prasannan Parthasarathi, Professor of Modern South Asian History, Boston College

Juliet Schor, Professor of Sociology, Boston College

Sarah Louise Babb, Professor, Boston College

Shankar Sharma, Power & Climate Policy Analyst (Sagara, Karnataka, India)