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Boards of Governors of the Bank and the Fund
on the
Transfer of Real Resources to Developing Countries)

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Statement by

**H.E Dr. Abdulrahman A. Al-Hamidy
Director General Chairman of the Board**

Arab Monetary Fund



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106th Meeting of the Development Committee

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“Climate change risks and green transition: Prospects from the Arab region”

On behalf of the Arab Monetary Fund, and in my capacity as an observer member of the Development Committee, I would like to express my thanks and appreciation for the kind invitation to join this meeting and deliver my remarks in a time where we face a number of challenges that are being impacting the global economic outlook, including persistent and relatively high inflation, the rise of food prices, and the lack of clarity regarding policies to address global challenges such as climate change. In this regard, let me take this opportunity to focus my remarks on the climate change issues where the world is looking for appropriate policies and best possible solutions that ensure the widest support for sustainable future.

Since the adoption of Paris agreement in 2015, many conferences and meetings have been organized to address the challenges related to climate risks. The Paris agreement and the build-up on it through a number of summits and gathering, more recently in Glasgow, provide a basis to adopt policies that could effectively address these risks, transform our challenges into opportunities, and provide solutions to our concerns. In this regard, I am pleased that our region will be the host of the upcoming United Nations Climate Change Conferences, COP 27 and COP 28, respectively in the Arab Republic of Egypt and the United Arab Emirates, with the aim to provide practical solutions and scale up finance in order to achieve sustainability in line with the Sustainable Development Goals (SDGs).

Strategies to pursue in order to achieve green transition: One size does not fit all and depends on countries and local context

In recent years, our planet has experienced climate changes where direct and indirect effects are already being felt in several vital sectors, including water, food security and more broadly socioeconomic welfare of people worldwide. Tackling the climate risks, scaling-up efforts to building inclusive climate-resilient societies are globally recognized as an essential means to creating new economic opportunities and an integral part of promoting long-term sustainable growth.

However, there is no single model, approach, or path to pursue to achieve net-zero emissions as these transitions vary by country. Recognizing this will ensure sustainability of the approach adopted at country level to achieve the net-zero emissions target. In fact, all of what we do globally, regionally, and nationally

wouldn't mean a lot until it matches the available finance and impacts the real economy, by creating jobs and improving the people livelihoods of local communities.

A holistic approach in dealing with matters related to climate risks

As it is true at a national level that energy strategy should balance three key objectives: (i) energy security, (ii) environment and climate impact, and (iii) efficiency and competitiveness, this is also true at international level where strong focus on one objective at the expense of others could undermine achieving all objectives. This calls for a holistic approach to address climate risks in the context of the sustainable development goals framework. We will not achieve a lot if the transition is not driven in a way that is as inclusive as possible, minimizing and carefully managing social and economic impacts, creating decent work opportunities to all and leaving no one behind. After all, sustainability cannot be reduced to climate action only and climate action is SDG 13.

Addressing green transition challenges will require significant financial resources

Financing the green transition is one of today's key challenges. Many economies face an already high debt levels and limited fiscal space due to measures taken to mitigate the health and economic effects of the COVID-19 pandemic. This coupled with the scale of the needed capital to support investments in climate transition, make it clear that public spending would not be sufficient to finance the transition and private finance need to be scaled up, both in advancing and emerging countries.

There is clear consensus globally that the current level of investment does not meet the needed investment to achieve the net-zero emission objective. To unlock the private sector financing, we need to reduce the risk for financing new projects. This would require reducing uncertainty and the key step to achieve that is to adopt balanced global policies that could be viewed by investors in all sources of energy as sustainable. This needs to be complemented by stable and sustainable policies at national level which would reduce the risk premium associated with financing these projects.

Moreover, in the coming years, governments will need to invest in climate adaptation and mitigation and build fiscal space to accommodate possible future climate change-related events. In addition, governments may need to play a role in supporting carbon capture and storage (CCS) investments through direct or indirect financial support, such as equity grants, or mandate specialized funders, such as development banks and export credit agencies to support climate transition investments.

Finally, aligning the financial institutions and capital markets business models with sustainable development goals is important, while regulation and supervision need to be strengthened to manage physical and transition risks of financial institutions. A better alignment of government budget and policies with the sustainability, including on climate action, is a key to give the right signal to external finance.

The circular carbon economy as framework to move towards green transition and meet the Sustainable Development Goals (SDGs)

In this regard, the circular carbon economy, a holistic framework to meet the Sustainable Development Goals (SDGs), has gained prominence to achieve climate targets by seeking out zero-emission pathways without abandoning traditional sources. The circular economy of carbon holds critical economic, environmental and social benefits through carbon capture and storage (CCS), so any effective climate policy should achieve short-term economic and social benefits as well as net-zero emissions in the long term.

Within this in mind, and as the world seeks solutions to address the emissions challenges and move towards sustainable and efficient climate adaptation, efforts to implement effective measures to curb emissions and produce cost-effective energy using the latest proven carbon capturing technologies should be encouraged and promoted. These emissions reduction measures and renewable energy investments have the potential

to increase innovation, improve access to energy and jobs, and accelerate sustainable and fair energy transition.

Arab region efforts towards climate adaptation

Many Arab countries have taken actions to address climate risk and to integrate Sustainable Development Goals particularly environment-related issues into their national plans, including efforts to increase the use of renewable energy. In addition, a number of strategic initiatives have been launched in the region including Pan-Arab Clean Energy Initiative, the Saudi Green Initiative, the Middle East Green Initiative; the UAE Green Economy for Sustainable Development and Energy Transition Accelerator Financing Platform; and Egypt Go Green Initiative, to name a few.

In addition, Arab countries have made progress in the dissemination of carbon capture and storage (CCS) technology in the context of the circular economy of carbon. Saudi Arabia launched the concept of a circular economy of carbon during its presidency of the Group of Twenty (G20), the initiative has been approved by the group as an integrated and comprehensive framework for managing greenhouse gas emissions and addressing the issues they pose.

The Arab Monetary Fund (AMF) incorporates green transition as part of its sustainable development agenda

The Arab Monetary Fund (AMF) was created to address balance of payment imbalances, provide liquidity buffers, safeguard macroeconomic and financial stability, and support regional integration in the Arab region. The AMF and its member countries increasingly recognize that climate change could pose severe risks to macro-financial stability and share the common objective of International Community to strengthen policies and scale up financing for climate action. As Arab countries adapt and build resilience to climate risks, while capturing the opportunities offered by sustainable growth, the AMF pays particular attention to the risks of climate change and the circular carbon economy and is helping its member countries' efforts in this regard.

To start with, the AMF focus on inter alia developing internal expertise and analytical tools, incorporating climate change and sustainable finance aspects in its existing strategy and operations. This work is part of wider collective actions which led to establish lines of communication with key regional and international partners and launch a number of new activities and programs in the form of policy dialogue, training, technical assistance to members as per request, research and policy advice on how to manage physical and transition risks, emerging trends in green finance, and environmental taxonomies.

For instance, the AMF has developed and issued in 2020 General Guidelines for Central Banks to deal with the implications of natural disasters and climate changes on banking system and financial stability. These guidelines aim to support Arab central banks to develop a comprehensive natural disaster management and governance framework that includes dedicated stress testing processes, measure potential impact of natural disasters and climate changes on the banking sector, and develop dedicated support programs for eco-friendly projects to benefit from financing at competitive financial conditions and suitable maturities. On another side, and in the context of supporting its member countries to channel finance into sustainable investment projects, the AMF has been working around the integration of ESG framework into investment decisions of Arab pension funds through a comprehensive assessment. A set of recommendations came out from this assessment, focusing in particular on key steps forward from governments and regulators, pension funds, and regional and global organizations to deepen the integration of ESG factors and more closely link them to the SDGs in the Arab region.

Furthermore, the AMF is pursuing its efforts in carrying out research and studies, building capacities of officials in the Arab region, and fostering policy dialogue and peer to peer learning in these key development areas. In this regard, the AMF, in cooperation with the Ministry of Finance and the Circular

Carbon Economy National Plan Program in Kingdom of Saudi Arabia, will be holding in the coming weeks a high-level workshop on the circular economy of carbon.

Before I conclude, I would like to touch base also on how maturity of cross-border financial market infrastructure can encourage greater finance issuance by reducing informational barriers, matching supply and demand for projects and building sustainable financial markets.

Supporting sustainable development through financial market infrastructure

Buna, which is our regional multi-currency cross-border payment system, fulfilling international compliance and payment standards, aims at scaling up sustainable finance infrastructure by its innovative payment solutions for corporates, individuals, and low-income population at both regional and global level. Buna is bringing tangible responses to each of the 19 building blocks of the G20 roadmap, decided during the Saudi Arabia Presidency in 2020, and its alignment is recognizable in different aspects, such as the real-time processing of payments, multi-currency ability, easy access, effective cost, and safe operational and compliance frameworks.

Through the delivery versus payment, a securities settlement layer plan of BUNA, the AMF works to bridging international investors to local markets and vice-versa through a single channel that helps overcoming barriers around unclear securities issuance processes and make it easier for issuers to meet and disclose against Environment, Social and Governance (ESG) standards. With this development, the market can increase the ease of ESG financing across the Arab world and beyond, which will result in deeper and cost-efficient sustainable capital markets.

At the end, I look forward to welcoming all of you at COP 27 in Sharm El-Sheikh next month for fruitful discussions that bring tangible solutions to sustainability challenges, which none of them will happen without collaborations and partnerships.