Remarks by Minister of Economy and Finance of Uruguay, Ms. Azucena Arbeleche, at the IMF/WB Development Committee Meeting

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(As prepared for delivery)

International and Regional Context

The global outlook remains highly uncertain. Multiple challenges, including inflation, surging public debt, food insecurity and conflict, have triggered a **major setback in the fight against global poverty.** This, in turn, is threatening social cohesion and political stability in many countries around the world.

In the Latin America and the Caribbean region, compounding these **overlapping development challenges** is the mounting vulnerability to weather-related disasters. Within the constituency I represent today, Argentina and Uruguay currently face the worst drought in half a century, which also affects Paraguay. Forest fires have recently raged in Chile and Bolivia, while Peru is grappling with the most severe floods in four decades. Investing in addressing climate change and nature conservation solutions is essential, but fiscal resources in our countries are limited.

Addressing climate change, both in mitigation and adaptation, is as much about **managing risks, as it is about embracing opportunities.** We need to harness our collective brainpower to achieve technological breakthroughs and financial innovation that will create investment opportunities and high-quality jobs to make our people flourish in a planet we can take care of.

Harnessing Financial Innovation for the Provision of Global Public Goods

As co-chair of the Development Committee, Uruguay first advanced the notion, back in October 2021, that there was a need to develop new multilateral loan instruments that would **differentiate lending terms on the basis of countries` contribution to global public goods─ such as mitigating climate change and conserving natural capital.** At the same time, we emphasized the need for **accountability on the environmental and financial pledges that countries have made.** The latter has two dimensions: (i) implementing countries` National Determined Contributions (NDCs) submitted under the Paris Agreement and (ii) fairly distributing the financing burden in achieving these environmental goals, guided by the principle of "**common but differentiated responsibilities".**

In this spirit, we have been working with the World Bank to introduce an innovative loan instrument that will link Uruguay`s cost of borrowing with its success in meeting two economy-wide environmental targets: reducing the intensity of livestock methane emissions and protecting our native forests. Both goals are aligned with our commitments under the Paris Agreement. Together, these indicators demonstrate **Uruguay's determination and ambition to pursue a sustainable development pathway** that combines higher growth and productivity in the cattle sector (which is an integral part of the economic fabric of the country) with a commitment to zero deforestation.

After several months of very good dialogue and work with WB staff **ensuring country ownership,** we are well-advanced in the development of this new financial mechanism. Several aspects of this instrument are worth noting:

First, the instrument embeds **positive financial incentives**. In other words, the loan will only have a **step-down mechanism**, reducing the interest rate paid if the country achieves its environmental performance targets. This is a significant **evolution from the current paradigm**, where middle and high-income countries face negative incentives, as their borrowing rates for WB loans increase as they grow their GDP per capita. The notion of a **positive incentive structure for effective climate financing** could be further underscored in the Evolution Roadmap´s operational model currently under discussion.

Second, any potential reduction of the interest charged will be financed through the repurposed IBRD`s *Fund for Innovation on Global Public Goods (FIGPG)*. At the same time, it is important to ensure that concessional financing terms for this new instrument **do not come at the expense of higher loan rates** or a **reduced lending envelope** available to address **national development priorities**. Thus, resources for this Trust Fund should not come only from WB`s own balance sheet, but fundamentally from donors from advanced economies. Replenishing the FIGPG would be one way in which developed countries could **fulfil their commitment** of deploying the pledged resources to support developing countries in meeting their climate and nature conservation goals.

Third, the loan design will feature **increasing levels of ambition on the proposed environmental indicators**. That is, Uruguay will commit to the achievement of **incremental targets over time on the climate and nature indicators,** based on the first and second NDCs submitted under the Paris Agreement.

Fourth, the loan instrument will entail **close collaboration with, and among, multilateral institutions.** We have agreed that the United Nations Development

Program will independently verify the key environmental performance indicators, for enhanced transparency and accountability.

We believe this financial mechanism, which has the potential for scaling and replication, will enable the WBG to innovate and become a **stronger partner to middle-income countries,** creating the **right incentives for countries to tackle global challenges.**

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In closing: Uruguay is willing and ready to take the leap on this innovative instrument, which is **closely aligned with the World Bank`s Roadmap**. At the same time, developed countries must also be ready to allocate resources in funds to finance the concessionality of these financing mechanisms. Finally, multilateral institutions must work in tandem and cooperatively to maximise impact. **We need to lead with credible action, through practical steps that deliver concrete results.**