BUILD BACK BETTER?
IMF'S POLICY ADVICE HAMPERS GREEN COVID19 RECOVERY

ANNEX

IMF Article IV Review: Annex

Table 1. IMF Article IV Identified Risks - Macroeconomic Vulnerabilities

Vulnerability	India	Indonesia	Philippines	Mozambique	South Africa	Total
Climate Change / Extreme Weather			Yes [1]	Yes [2]		2
Current Account Deficit - higher imports / lower exports	Yes	Yes	Yes	Yes	Yes	5
Oil Price Volatility	imports [3]	imports, exports		imports		3
Gas Price Volatility						0
Coal Price Volatility		exports		exports [4]	domestic vs. intl [5]	3
Infrastructure: Lacking or Project Delays	Yes	Yes		Yes [6]		3
Fiscal Deficit	Yes	Yes		Yes	Yes	4
- Public Debt Distress - Liabilities, SOEs & PPPs[1]	Yes	Yes [7]		Yes	Yes	4
- Tax Revenue Shortfalls	Yes	Yes			Yes	3
Financial Sector Weaknesses, Lack of Credit, Global finance	Yes	Yes	Yes	Yes		4
Governance – Business Climate	Yes	Yes	Yes	Yes	Yes	5
- Transparency, corruption, contracts			Yes	Yes	Yes	3
- Environmental Regulation Uncertainty	Yes					1
- Land Acquisition	Yes [8]	Yes [8]			Yes [8]	2
- Security				Yes [9]		1

Notes: The rate of inflation, which often is a concern of the IMF, is not reflected here. It is often related to energy and food price volatility.

[1] SOEs = state-owned enterprises and PPPs = public-private partnerships.

Table 1 Notes:

These notes generally represent the IMF's statements of the risk in the Article IV reports with author-added bolded text and author-added information indicated in brackets [ ].

[1] Risks from natural disasters and climate change are significant in the Philippines, which is categorized as one of the world's most vulnerable countries to climate change. Risk to agriculture production, damage to properties, and higher flood inflation, with especially larger impacts on low-income households in rural areas.

[2] Mozambique is one of the most vulnerable countries to natural disasters and climate change. Tropical Cyclone Idai inundated entire neighborhoods and destroyed most homes, hospitals and schools in Beira [Port Beira – large coal terminal]. Floods are esti-

mated to have ruined around 800 thousand hectares of crops, including for local consumption and exports [see also coal mine flooding in note 4 below]. Tropical Cyclone Kenneth struck on April 25 the northern province of Cabo Delgado [location of mega LNG projects].

[3] "In particular, the Indian economy depends heavily on imported oil. The net oil import bill amounted to about US$94 billion in FY2018/19, equivalent to about 3½ percent of GDP or a fifth of merchandise imports. An increase in international oil prices, therefore, directly affects the economic outlook, with a widening current account deficit raising concerns over external financing and rising inflation affecting real disposable income and private consumption, and ultimately growth."

[4] The current account deficit worsened in 2018 for Mozambique. Lower exports, mainly due to mine flooding in coal production, and higher megaproject imports of services led to a deterioration in the current account deficit to 30½ percent of GDP in 2018, from 20 percent of GDP in 2017. While megaproject imports contributed to the large deficit, it was financed to a large extent by FDI. [It should be noted that the megaprojects are largely the gas/LNG projects and also coal export-linked infrastructure]

[5] For South Africa, IMF lists domestic coal prices as being higher than international prices - not as a contributor to the Current Account deficit. "Rising input, employment and interest costs. Eskom has been purchasing coal and other inputs at significantly above world prices." "coal costs remain elevated reflecting scarce readily available cost-effective suppliers; tariffs are not yet cost-reflective; technical deficiencies continue to force heavy reliance on expensive generation turbines; and disruptive power outages continue."

[6] Delay in implementation of megaprojects [Note: this largely refers to the mega LNG projects and possibly to some coal projects, i.e., transport/export corridors, Nacala and Beira corridors]

[7] Rising fiscal risks from contingent liabilities linked to state-owned enterprises (SOEs) and public-private partnerships (PPPs). [Note: significant link to coal power plants]

[8] For India, Indonesia and South Africa, the IMF indicated that "clarity on land reform" was essential. India: "Bottlenecks include delays in land acquisition, environment and forest clearances, stressed balance sheet of private companies involved in infrastructure investment…" "land reform remains essential to raise agriculture sector productivity and achieve the authorities' ambitious infrastructure development targets." "Land acquisition should be eased by reforming the land acquisition law." Indonesia: Improving business environment, IMF notes that the land acquisition process was simplified [compliments of the World Bank];

[9] A deterioration in security in the North; "Bouts of violence in the North continue unabated, but these attacks have so far not disrupted the pace of implementation of the LNG megaprojects in the region".

Table 2. IMF Policy Reform Agenda: Tax Policy

Country	Carbon Tax	Eliminate Fossil Fuel VAT Exemptions	Reduce Fuel Subsidies	New Tax Breaks/Reductions			
				General Infrastructure Investment Incentives	Renewable Energy / Electric Cars	Coal	Oil & Gas
India	Yes [1]	? [3]	Yes	Yes [4]	Yes [4]	Yes [4]	Yes [4]
Indonesia		? [3]	Yes	Yes [5]		Yes	Yes
Philippines				Yes [6]			
Mozambique		? [3]	Yes	Yes		2014	2014
South Africa	Yes [2]						
Total	**2**	**3**	**3**	**4**	**1**	**3**	**3**

Table 2 Notes:
These notes represent the IMF's statements in the Article IV reports with author-added bolded text and author-added information indicated in brackets [ ].

[1] Additional measures to offset the estimated revenue loss from the recent CIT [Corporate Income Tax] rate reduction would also be needed to achieve the current FRBM debt target by FY2024/25. As examples, consideration could be given to expanding property taxation, increasing the coal cess, and enacting equal tax treatment of agricultural income with that from other sources. [The cess on coal production, called the GST Compensation Cess, is at the rate of INR 400 per tonne (~USD 4).[1]]

[2] On the tax policy front, it would be important to review legislation to limit base erosion and profit shifting opportunities, reduce tax expenditures including those related to special economic zones, and gradually increase the carbon tax introduced this year. [Note: the carbon tax recommendation is somewhat lost in the text. It is not highlighted in the summary as a main policy recommendation.]

[3] [To increase tax revenue in India, Indonesia and Mozambique, the IMF suggests eliminating VAT exemptions, but does not specify that is should apply to exemptions for fossil fuels.] Indonesia: "Remove certain VAT exemptions"; Mozambique: To create fiscal buffers, including to deal with future natural disasters, IMF staff recommended revenue enhancing measures, i.e., eliminating VAT exemptions except for "basic goods".

[4] "Implementation of reforms initiated earlier, such as the Goods and Services Tax (GST) rate reductions… IMF "technical assistance (TA) and training have supported the authorities' efforts to enhance the formulation and implementation of…the Goods and Services Tax (GST)." [It is unclear what specific advice was given in the "formulation" of the GST. However, over the last few years, the GST tax policy reforms have centered on rate reductions (GST rates are pegged at 5%, 12%, 18% or 28%). Recent GST rate reductions include: June 2017, coal reduced from 12% to 5% (beneficial for the power sector and heavy industries); mining of petrol crude reduced from 18% to 12%; LPG for household use - reduced from 18% to 5%; marine fuel reduced from 18% to 5%; specified goods for petroleum operation under HELP (Hydrocarbon Exploration Licensing Policy) taxed at 5% (unclear what previous rate was but this is the lowest GST rate). July 2019 - The GST rate on all electric vehicles reduced from 12 percent to 5 percent. The GST rate on charger or charging stations for Electric vehicles reduced from 18 percent to 5 percent. Hiring of electric buses by local authorities be exempted from GST.[2]

IMF on India TAX REFORM: "Increases in revenue collections, through two complementary reforms: On GST (Goods and Services Tax), staff recommends increasing compliance by streamlining filing and refund mechanisms, broadening the base (e.g., including electricity and petroleum products), and simplifying the rate structure—adopting fewer rates—in line with past Fund advice and analysis (2018 Staff Report and Selected Issues Paper)."

[5] "Implementing a medium-term revenue strategy (MTRS) will be critical to finance priority spending and avoid measures that erode the tax base. The MTRS should aim to raise revenue by around 5 percent of GDP over five years to finance priority spending on infrastructure, education, health, and social safety nets." … "As the MTRS covers both tax policy and tax administration reforms comprehensively, implementation challenges call for careful prioritization and sequencing (Box 2). The government should avoid measures that would weaken revenues, including additional tax incentives." [Note: the IMF advised the authorities against mandates to repatriate proceeds from natural resource exports and instead encouraged tax incentives to keep proceeds in the country, which contradicts avoiding additional tax incentives.]

Table 3. IMF Policy Reform Agenda: Prioritized Infrastructure Investments

Country	Increase Infrastructure Budget	Climate Change Resiliency	Coal Infrastructure	Oil & Gas Infrastructure	Renewable Energy Infrastructure
India	Yes [1]		Yes [5]		Yes [5]
Indonesia	Yes		Yes [6]	Yes [6]	
Philippines	Yes [2]	Yes [3]			
Mozambique	Yes	Yes [4]	Yes [7]	Yes [8]	
South Africa					Yes [9]
Total	**4**	**2**	**3**	**2**	**2**

Table 3 Notes:
These notes represent the IMF's statements in the Article IV reports with author-added bolded text and author-added information indicated in brackets [ ].

[1] "In line with government plans, further emphasis should be put on addressing infrastructure bottlenecks. In recent years, the supply side of the economy has been strengthened through large investments in airports, roads, telecom, and power generation. The government has announced ambitious plans in this regard. The new target is to invest Rs. 100 trillion (about US$1.4 trillion) over the next six years. This would involve more than a doubling of infrastructure investment from the pace of the last five years."

[2] "[The authorities] intend to raise the general government infrastructure spending to over 6 percent of GDP by 2022, from 5.1 percent in 2018. Consistent with this objective, they have recently revised the list of priority flagship infrastructure projects, reflecting the results of feasibility studies and cost-benefit considerations." [It is unclear what projects are the priority infrastructure projects.]

[3] "Increase public investment in weather-related infrastructure…" "The Philippines has taken a number of climate change-related initiatives, but further steps are needed. The Philippines has been one of the most proactive emerging market countries in strengthening financial preparedness for natural disasters and green financing, and in introducing government budgeting for climate change. But more resources and incentives for climate change adaptation and mitigation are needed to induce investment and changes in emission patterns (see Selected Issues

on climate change). Greater climate change resilience would also contribute to further poverty reduction."

[4] Mozambique: "Increasing the economy's resilience and preparedness to adverse weather events that are becoming more frequent and intense due to climate change… Directors commended ongoing efforts to increase the country's resilience to natural disasters including through the National Resilience Strategy with support from the World Bank and encouraged the authorities to integrate climate change resilience within their broader development agenda."

[5] [India: Ministry of finance to drew up a National Infrastructure Pipeline for each of the years from FY2019/20 to FY2024/25 to spend about $1.4 trillion (INR 100 trillion) over these years. (see https://indiainvestmentgrid.gov.in/) The NIP includes: 11 thermal power projects worth USD $7 billion; 109 solar projects worth USD $4.8 billion; 56 hydro power projects worth $4.6 billion; and 3 wind project worth $42 million. Specific coal power projects include: Project ID: 4625, Coal Based Power Project USD$1.32 billion, Andhra Pradesh; Project ID: 18635 Tenughat Coal Thermal Power Extension Project Stage II, USD$1.26 billion, Jharkhand 2 X 660 MW; Project ID: 17930 Coal Based Power Project [Raigarh], USD$818 million, Chharhattisgarh; Project ID: 17736, 2 X 800 MW Coal Based Thermal Power Project, USD$1.41 billion, Assam; and coal mining projects: Project ID: 21585 Gevra Open Cast Coal Mining Project; USD$1.56 billion; Chharhattisgarh; and Project ID: 601599; Coal Block Exploration Project; USD$1.72 million; Chharhattisgarh.

[6] Indonesia's national strategic projects – priority infrastructure projects list contains 3 coal power plants, 2 oil refineries, and 1 gas field development. See: https://kppip.go.id/en/national-strategic-projects/#

[7] Mozambique: Nacala Corridor Coal Railway and Port; https://clubofmozambique.com/news/mozambique-seeks-4-billion-for-infrastructure-development/

[8] Mozambique: Mega LNG Areas 1 and 4.

[9] South Africa: "the financial and technical capacity of the private sector in renewables must be actively pursued" "On energy, the Eskom unbundling process under discussion should leverage the use of cleaner energy and private sector participation." "They have stepped up efforts to restructure the electricity sector, as outlined in the reformed Electricity Supply Industry paper (Eskom Roadmap). Once implemented, these measures would reduce the need for government to continue to support Eskom. Furthermore, the Eskom Roadmap also sets out a plan for expanding renewable energy output and cutting fuel costs. In this regard, the authorities have promulgated the new Integrated Resources Plan (IPP) which will guide the expansion and diversification of electricity supply over time."

Table 4. IMF Policy Reform Agenda: Government Risks - Debt and Liabilities

Country	Improve Public Investment/ Debt Management	Public Private Partnerships (PPP)	Address SOE Weaknesses	Contracts Renegotiation	Establish a Sovereign Wealth Fund
India	Yes				
Indonesia	Yes [1]	Yes [1]	Yes		
Philippines	Yes [2]	Yes [2]			
Mozambique	Yes [3]		Yes		Yes
South Africa	Yes		Yes [4]	Yes [5]	
Total	**5**	**2**	**3**	**1**	**1**

Table 4 Notes:
These notes represent the IMF's statements in the Article IV reports with author-added bolded text and author-added information indicated in brackets [ ].

[1] "Directors also called for monitoring risks and contingent liabilities arising from state-owned enterprises and public-private partnerships. Low fiscal revenues have also resulted in reliance on SOEs and PPPs to channel recent increases in infrastructure spending, increasing fiscal risks from contingent liabilities." "While outstanding explicit government guarantees at the end of 2018 amounted to only 1.2 percent of GDP, additional fiscal risks could stem from implicit guarantees of SOE debt and PPPs." [For details on coal power plant liabilities, see IEEFA, 2020. IEEFA Indonesia: Playing with matches—Who should take responsibility for PLN's financial mess? Institute for Energy Economics and Financial Analysis, April 30, 2020.]

[2] IMF Staff: "With adequate management of fiscal risks, more private sector participation could complement the public sector efforts in the infrastructure build-up. Such participation would require dedicated capacity and planning, and an update of the legal framework to include all possible forms of PPPs (for example, joint ventures)." Philippine Government: "The authorities also expressed reservation about a greater reliance on PPPs for major infrastructure projects, citing the long delivery times experienced in the past and the difficulties in designing balanced risk sharing agreement with the private sector."

[3] "Accounting for the authorities' debt restructuring strategy and considering that, to a large extent, future borrowing and government guarantees reflect state participation in the sizable LNG development, debt is deemed sustainable." [Notably, there is no discussion on how the oversupply of LNG/gas and lower global gas prices impact these assumptions.] "the authorities are in good-faith discussions with private creditors to restructure Mozambique's Eurobond and previously hidden loans or are taking legal measures as appropriate." [It should be noted that debt restructuring was necessary because of the hidden loans, which are partly linked to security for offshore gas development.]

Mozambique Note: Increasing fiscal space in the near term to respond to the urgent needs in areas affected by the cyclones by, inter alia, reallocating lower priority spending in the annual budget to emergency assistance and reconstruction. [Note: Is security for gas operations a low priority?] [Notably, did not specifically mention the big gas and coal developments happening in the country….and how the prices of these commodities impact the government's budget, etc.] Mozambique: The IMF Executive Board approved in April US$118 million in emergency assistance under the Rapid Credit Facility (RCF).

[4] Eskom's inability to pay debt. "Eskom being macro-critical (95 percent of domestic electricity production and 16 percent of GDP in size), major adverse consequences for the economy."… "Eskom is by far the largest SOE and its position is particularly critical, with an operational balance insufficient to service its high debt—around 10 percent of GDP. Amid declining sales, elevated procurement costs, and a rising wage bill, Eskom faced a liquidity crisis in March 2019 that prompted a bridge bank loan and urgent budget support." "After years of poor performance by Eskom, the government agreed to support it with exceptional financing, committing so far to transfers equivalent to 4¾ percent of GDP over 10 years (2 1/3 percent over the next 3 years)."

"Measures to stabilize Eskom finances in the short run and overhaul the business model over the medium term to create space for greater private sector participation. Strict enforcement of structural conditionality for fiscal support." "All further budget transfers should be subject to adopting measures to: (i) reduce primary energy costs through improved procurement of coal and cost-efficient electricity generation; (ii) enhance service delivery to help improve demand; (iii) collect arrears;

and (iv) rationalize the wage bill."

[5] Eskom: "Eskom's finances remain under severe pressure, requiring large transfers from the Treasury. Efforts are underway to cut procurement costs through improved governance and renegotiation of certain contracts. The tariff-setting process remains uncertain due to different interpretations of the pricing formula, which is being reviewed in court. Eskom Roadmap and Integrated Resource Plan have put forward long-term plans on restructuring of energy sector." [Note: Although this is not an IMF policy recommendation, the IMF makes note of it as being a measure the government is taking to help manage the fiscal stress and notably the IMF does not warn against contract renegotiation.]

Table 5. IMF Policy Reform Agenda: Financial Sector and Business Environment

	Financial Sector*		Business Environment			
Country	**Stressed Assets**	**Non-Bank Financial Companies***	**Improve Business Climate**	**Foreign Direct Investment - lifting restrictions**	**Streamline approval / expedite permitting**	**Local Content Policy**
India	Yes [1]	Yes [2]	Yes	Yes	Yes	
Indonesia		Yes [3]	Yes [4]	Yes [5]	Yes	
Philippines			Yes	Yes [6]	Yes [6]	
Mozambique			Yes [6]			
South Africa	Yes		Yes		Yes	Yes
Total	**2**	**2**	**5**	**3**	**4**	**1**

[1] Prudential Framework for Resolution of Stressed Assets [details not provided]

[2] One of the key issues for the IMF in the financial sector was "stresses in the non-bank financial sector" and "overdependence on bank lending for financing of infrastructure." "Regarding the latter, efforts are being made to promote institutional investment into infrastructure from pension, insurance, and sovereign wealth funds through various modalities, including brownfield asset monetization using vehicles such as Toll Operate Transfer and Infrastructure Investment Trusts."

India: "Withdrawal of Exemptions Granted to Government-Owned NBFCs: the RBI withdrew special dispensations granted earlier for NBFCs owned by the government. It has specified a roadmap, stretching till 2021/22, for these lenders to meet the norms on capital adequacy, provisioning and corporate governance. Among the entities affected are IFCI [Industrial Finance Corporation of India], Power Finance Corporation, India Infrastructure Finance Company, Indian Railway Finance Corporation, Indian Renewable Energy Development Agency and Housing & Urban Development Corporation."

India: "Priority Sector Lending: the RBI permitted bank credit to NBFCs (other than MFIs) for on-lending to be classified as priority sector lending."

India: "…complicated process of resolving insolvencies—even with the IBC—and land acquisition." "Measures to reduce administrative and regulatory burdens, strengthen the efficiency of judicial systems, improve governance, shorten regulatory approval timelines, and implement single-window clearance more widely would be beneficial."

[3] Need for improving supervision of nonbank financial institutions and financial conglomerates. *

[4] Indonesia "Concerning the rule of law, strengthening investor protection and the integrity of contracts and property rights are important." Streamline construction permits and strengthen investor protections, property rights and contracts.

[5] "Priority actions also include …easing restrictions to foreign direct investment,…"

[6] Philippines "Following the enactment of the Ease of Doing Business law in May 2018, the Anti-Red Tape Authority has been established to oversee the streamlining of procedures for government licenses and permits. The authorities also intend to further ease the restrictions on foreign investment by amending relevant laws, especially for public utilities."

[7] Enhance security, particularly in the LNG development related region. [Note, the big oil companies developing the mega LNG projects (Area 1 and 4) have requested the government step up security.]

Endnotes

1 IISD, 2018. The Evolution of the Clean Energy Cess on Coal Production in India. International Institute for Sustainable Development. https://www.iisd.org/sites/default/files/publications/stories-g20-india-en.pdf
2 See: https://cleartax.in/s/gst-rates and https://cleartax.in/s/fossil-fuels-coal-petroleum-gst-rate-hsn-code

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Sarphatistraat 30
1018GL Amsterdam
The Netherlands
www.re-course.org