Build Back Better?
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Published by: Recourse, Greenpeace, Earthlife Africa, Centre for Financial Accountability, September 2020.

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Greenpeace uses non-violent creative action to pave the way towards a greener, more peaceful world, and to confront the systems that threaten our environment.

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Centre for Financial Accountability engages in critical analysis, monitoring and critique of the role of financial institutions – national and international, and their impact on development, human rights and the environment, amongst other areas.

As of the end of July, the International Monetary Fund (IMF) had provided US$ 87.8 billion in COVID response emergency finance to 80 countries.[1] This first wave of finance from the IMF is intended as emergency finance provided through a Rapid Financing Instrument (RFI) or Rapid Credit Facility (RCF). Such finance can be used for a wide-range of COVID-related activities, not only limited to health and social spending. IMF finance is provided as government budget support (i.e., it does not involve direct project finance). Overall, the IMF is making US$ 250 billion available for COVID response or a quarter of its total lending capacity of US$ 1 trillion.

Going forward, the focus of IMF assistance is likely to shift to longer-term economic recovery plans. Many of these recovery plans will include government stimulus spending and other economic incentives aimed at the energy sector. In designing COVID recovery plans, Fatih Birol, executive director of the International Energy Agency (IEA), says that many of the "decisions will shape economic and energy infrastructure for decades to come and will almost certainly determine whether the world has a chance of meeting its long-term energy and climate goals."[2]

The IMF's budget finance is linked to a country's observance of IMF-required policy reforms. However, even in the absence of an IMF finance package, the IMF has considerable influence on many governments' economic policies. The main role of the IMF is to monitor the economies of its 189 member countries to identify and address macroeconomic risks in order to help prevent widespread economic crises. The IMF issues identified risks and economic policy advice through Article IV consultation reports. Article IV reports are widely used by investors and financial institutions, both public and private. As such, a country's observance, or lack of observance, of IMF advice can have a significant impact on international investment and assistance levels – mainly in emerging markets and developing countries.

IMF urges countries to Green the Recovery in order to avoid a Climate Crisis

In the April 2020 Special Series Note on Greening the Recovery, the IMF states "the COVID crisis won't change the climate, but the response will."[3] The IMF argues that "unless the right energy prices are put in place, the extra investment induced by [COVID recovery] stimulus will be misallocated between clean and dirty sectors…[resulting in] one crisis leading to another."

According to the IMF, getting the energy price right requires reducing fossil fuel subsidies and adopting adequate carbon taxes. In order to contain global warming to 2°C or less, the IMF says, "requires rapidly phasing in measures equivalent to a global carbon tax of at least $75 per ton by 2030." The IMF also suggests other measures towards creating a "green" stimulus, such as public investment and guarantees for renewable energy.

IMF Article IV advice still embeds public incentives for fossil fuel investments, including coal

Despite the IMF's stated support for green stimulus and getting the energy price right, a review of the IMF's most recent Article IV reports for five countries shows the IMF contradicts its own advice. Overall, IMF Article IV reports fail to recognize the scale of climate change-related macroeconomic risks, especially related to the energy transition, and thus, policy advice continues to embed or ignore government subsidies and other investment incentives for fossil fuels, including coal. As a result:

- **The IMF continues to enable the wrong price for fossil fuel-based energy. Thus, investment continues to be misallocated – perpetuating the fact that the world is currently on track to produce 120% more fossil fuels in 2030 than is compatible with a 1.5°C pathway (i.e., goal of the Paris Climate Agreement).[4]**

Given coal is the most GHG-intensive fossil fuel, IMF Article IV reports were reviewed for five countries with ongoing coal sector expansions: **India, Indonesia, Philippines, Mozambique and South Africa**. The review found:

Insufficient identification of climate change-related macroeconomic risks. Out of the five countries, the IMF identifies climate change as a macroeconomic risk only for Mozambique and Philippines and only considers risks from increased extreme weather events. On the one hand, the IMF claims to promote policies to bring about the energy transition from fossil fuels to renewable energy (e.g., carbon taxes), but then ignores the economic and social risks that could result from measures taken for the transition, which could leave significant fossil fuel assets stranded. Given the urgency of action needed for countries to meet the Paris Agreement goals, climate transition risks are increasingly important to understand for government decisions regarding public investments for infrastructure, tax incentives, etc. Moreover, it is vital to assist countries to address the challenges posed by ensuring a just transition, e.g., job losses associated with a transition out of coal.

Fossil fuel producer subsidies, including for coal, remain intact. In the Article IV reports, the IMF is supportive of tax incentives for new infrastructure investments, which often translate into tax breaks, i.e., subsidies (forgone government revenue), for coal and other fossil fuels. For example, the IMF provides assistance in designing India's goods and services tax (GST) regime, which in the last couple years reduced rates to the lowest level for production of coal, oil, gas and certain renewable energy sources. Tax breaks that apply to fossil fuels undermine the energy transition and undermine getting the price of energy right. **On the one hand, IMF advises countries to reduce subsidies provided to power or fuel purchases, i.e., consumer subsidies, while leaving fossil fuel producer subsidies intact (e.g. VAT exemptions for equipment to build coal power plants or for oil exploration).**

Support for public investment plans in coal infrastructure. In the Article IV reports, the IMF encourages governments to increase public spending on prioritized infrastructure. In India, Indonesia, and Mozambique, the government-prioritized infrastructure includes coal power plants and/or coal transport/export infrastructure, as well as other mega fossil fuel projects. The IMF is silent on these coal plans – silent on the need for stranded asset stress tests for public investments. By supporting government infrastructure investment plans prioritizing coal, oil and gas, the IMF is not helping the world avoid a climate crisis.

Recommendations

The IMF needs to provide Article IV advice that is comprehensive and consistent with getting the price of energy right in order to prevent a climate crisis. The IMF should call out government actions that perpetuate a development model based on volatile and climate-destroying fossil fuel commodities. In order to steer the COVID recovery stimulus away from public incentives for fossil fuels, the IMF needs to:

Ensure risks of fossil fuel asset stranding are adequately reflected in macroeconomic stress tests. It is vital that the full scale of climate change risks are sufficiently identified in IMF Article IV country assessments, especially risks associated with an energy transition away from fossil fuels and the challenges of ensuring a just transition. To begin, IMF needs to integrate shocks from the stranding of fossil fuel assets into their stress tests as part of their Financial Sector Assessment Programs (FSAP) for all countries and ensure financial authorities, such as central banks, are doing the same (e.g., see initiative by the Bank of England).[5]

Ensure no COVID recovery bailout for coal, oil, or gas, including under the guise of GHG emissions reductions. IMF advice should make clear that the use of public COVID recovery funds to bailout fossil fuel operations contributes to the climate crisis.

The world's fossil fuel production is already on track to exceed a 1.5°C pathway by 120% by 2030. Accordingly, all **IMF funding agreements with governments should list coal, oil and gas operations as Excluded Expenditures.** Likewise, much of the World Bank's COVID recovery finance will come in the form of budget support operations called Development Policy Loans. The IMF should ensure the World Bank also excludes fossil fuel expenditures from these operations.[6] Unfortunately, a joint IMF-IEA "sustainable recovery" recommendation is to fund the reduction of methane/gas emissions from oil and gas field operations.[7] Even though stopping gas flaring and reducing methane emissions is critical, tax payers should not bear the costs while oil companies profit (through selling the captured gas). This is the opposite of a carbon tax and disguises a fossil fuel bailout under the cloak of GHG reductions.[8]

End tax breaks/subsidies for fossil fuel producers. The IMF should recognize that infrastructure investment incentives applied to fossil fuels, such as VAT exemptions, represent producer subsidies and contradict carbon taxes and getting the energy price right. Most importantly, the IMF needs to call out fossil fuel producer subsidies in G20 countries. Furthermore, eliminating such tax breaks could significantly increase government revenues desperately needed for COVID recovery. **Removal of VAT and GST exemptions and accelerated rates of depreciation for coal, oil and gas should be a top priority in all Article IV reports, especially in G20 countries**. Carbon taxes will not be effective until the IMF stops supporting fossil fuel investment incentives.

Re-evaluate infrastructure investment plans based on the "right" energy price. COVID-induced project delays provide opportunities to redirect resources from pending coal power plants and other fossil fuel infrastructure to climate safe alternatives. The IMF should encourage and assist countries to re-evaluate energy infrastructure investment plans to reflect stranded asset risks; current renewable energy costs; increasing global carbon taxes; and realistic power and fuel demand scenarios. The climate crisis and associated energy transition render no business case for coal as well as many other fossil fuel operations. Furthermore, given the global COVID pandemic, the IMF should support government's rights to invoke *force majeure*[9] and thus, be able to renegotiate power and fossil fuel purchase agreements, which could significantly reduce fiscal deficits.

More recommendations are provided at the end of the document.

IMF Article IV Review

The following paper provides a review of the IMF's latest policy reform agendas contained in the annual **Article IV consultation reports** for five countries with ongoing coal sector expansions: **India, Indonesia, Philippines, Mozambique and South Africa**.[10] The Article IV reports provide important insights into the IMF's current priorities on macroeconomic risks and the recommended policy reforms shaping national budgets, tax policy, investment incentives, financial sector regulations, and prioritized infrastructure.

The following review aims to help provide a better response to both the COVID crisis and the climate crisis by identifying recommendations for IMF policy measures relevant to the energy sector. It is important to note that the Article IV reports represent a limited timeframe of IMF advice and were done before the COVID-19 pandemic. The scope of this review only includes an overview of the limited information contained in the Article IV reports and is meant to give a general overview not a broader assessment of each country. It does not represent specific concerns expressed by civil society located in these countries. In many cases, the IMF's reform agenda is generalized, e.g., not necessarily directed at a specific sector, and involves a complex web of relationships.

IMF-identified Macroeconomic Risks

Table 1 provides a summary of the IMF-identified macroeconomic risks in the near- to medium-term (next 1-5 years) for each of the five countries reviewed. It should be noted that further country-specific details and the IMF's specific statements are provided in the Annex, Table 1 notes.

Climate Change as an Identified Risk. The IMF identifies climate change as a macroeconomic risk in only two of the five countries, the Philippines and Mozambique. While it is good to see that the IMF highlighted climate change as a risk for these two countries (both of these countries experienced highly destructive tropical cyclones recently), it is concerning that climate change risks were not identified for the other countries. Furthermore, the IMF only considered physical risks associated with increasing extreme weather events and not risks associated with the energy transition, including stranded fossil fuel assets and challenges of a just transition (e.g., job losses associated with transition away from coal). The IMF's approach is limited to only physical disaster risk management.

In a recent climate change risk assessment of 67 countries by HSBC, India was ranked the most vulnerable country and the Philippines (ranked 3), South Africa (ranked 10) and Indonesia (ranked 17) were all in the top 17 most vulnerable countries (Mozambique was not included in the assessment).[11] In order for the IMF to have better policy reform recommendations to address the climate crisis, it needs to begin by recognizing and alerting countries to the near-, medium- and long-term macroeconomic risks of climate change and the measures taken to transition to a low-carbon economy, including the energy transition away from fossil fuels.

Current Account Deficit. In all five countries, the current account deficit was identified as a significant vulnerability. A current account deficit reflects the country's trade situation when the value of goods and services imported exceeds the value of the products it exports. Global prices determine the value of imports and exports. In three of the countries (India, Indonesia, and Mozambique), the IMF emphasized the macroeconomic risks of volatile oil prices, especially higher oil prices that would translate into higher current account deficits. In three countries (Indonesia, Mozambique, and South Africa), lower coal prices would negatively impact coal exports.

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	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
Business Climate - Governance	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. See Annex for the notes that correspond to the numbers in brackets [1-9].

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

For several of the countries, the IMF also points to Current Account pressures stemming from lower commodity exports coupled with higher infrastructure-related imports. All of these countries have recent, current, or planned large-scale coal infrastructure projects requiring imports. In addition, Mozambique has mega gas infrastructure projects under development. In general, the IMF does not make a connection between climate change risks, e.g. energy transition, and the risk of higher current account deficits. In the case of Mozambique, the two devastating 2019 cyclones, Idai and Kenneth, not only caused deaths of people and destruction to towns, hospitals and agriculture, but also had significant negative impacts on the export sectors of coal (flooding coal mines) and gas (slowed down LNG developments) (See Annex, Table 1 notes).

As demonstrated, the global prices for coal, oil and gas as well as the level of imports and exports of these commodities are macroeconomically important to the five countries in this assessment. All three of these commodities have significant price volatility. Although it seems to be implied, the IMF does not explicitly point out that the higher the degree of dependency on fossil fuels the higher the macroeconomic vulnerability. It is prudent for the IMF to continually and explicitly remind countries of this fact in every Article IV consultation.

<u>Infrastructure and Fiscal Deficits</u>. The IMF identified a combination of lacking/delayed infrastructure and concerns regarding fiscal deficits related to government liabilities and/or tax short falls, which is related back to the government's lacking ability to pay for the necessary infrastructure and/or government liabilities associated with new infrastructure. In all of these countries, coal-associated infrastructure plays a role in growing fiscal deficits/stress. For example, Eskom, South Africa's state electricity utility, is under severe financial distress requiring large transfers from the government budget. The severe financial distress is due to lower power demand, rising domestic coal input costs, and a substantial jump in debt service. Although not noted in the IMF report, the jump in debt service stems from two large new coal power plants (e.g., 4,800 MW Medupi[12] and 4,800 MW Kusile coal power plants).[13]

<u>Climate Inadequacies in IMF Identified Risks</u>. Currently, there is a disconnect between climate change risks and the IMF's core macroeconomic concerns: current account deficits, fiscal deficits, external global economic shocks, etc. Within IMF-identified risks, climate change is limited to concerns related only to extreme weather events/disaster risk management. Most important, the IMF is silent on the risks associated with the imminent energy transition from fossil fuels to renewable energy, which would leave significant fossil fuel assets stranded.

Understanding the energy transition risks is vital to government decisions regarding public investments for infrastructure and tax incentives, among others. For example, according to JP Morgan, for the world to limit warming to 2°C or less [e.g., to be aligned with the goals of the Paris Agreement], nine-tenths of today's coal reserves have to stay in the ground.[14] The IMF does not identify risks associated with this fact for any of the five heavily coal-dependent countries in this assessment.

IMF Policy Reform Agenda and Recommended Measures

The following section of the paper describes the IMF's policy reform agenda and corresponding recommended measures contained in the latest 2019-20 Article IV consultation reports for each country. This section contains four tables that provide a tally across the countries for various types of policy reforms and a brief discussion of some of the main issues. See the Annex for table notes providing country-specific details and IMF statements on selected reform recommendations relevant to coal, oil and gas.

For the most part, IMF Article IV consultation reports represent IMF analysis and policy reform advice that may or may not be followed by a given country. However, when the IMF provides finance to a country, many of the recommended policy reforms become requirements to obtain the finance. So far, the IMF's COVID response has involved rapid emergency finance largely without policy reform conditionalities. As the response turns to longer-term recovery finance programs, IMF policy reform requirements will become important. Out of the five countries covered in this assessment, only Mozambique has a current IMF loan program (some of which involves emergency funds for Cyclone Idai recovery).[15]

Tax Policy Reforms

Table 2 provides a summary of the IMF's tax policy reform agenda for each country. Tax policies are central to creating the right investment incentives for the energy transition from fossil fuels to renewable energy. A single tax reduction can turn an uneconomic energy project into an economic one. Raising tax rates can raise substantial government revenues and tax breaks can cost substantial government revenues. Every tax policy has benefits and costs; winners and losers. For the climate crises and the energy sector, it is important to understand how the IMF's reform agenda supports or hinders the energy transition.

Carbon Tax. The IMF believes that one of the most efficient measures to promote the energy transition is through a Carbon Tax that accurately reflects the externalities of greenhouse-gas emissions (GHG) associated with the burning of fossil fuels. According to the IMF, a $75 per tonne price on all GHG emissions is required to keep warming below 2 degrees Celsius. According to the *Economist*, at present only 20% of world emissions are covered by a carbon price.[16] Although the details surrounding this estimate are unclear (e.g., price per tonne), it indicates the world is far from implementing an effective carbon tax.

As indicated in Table 2, the IMF's Article IV reports advised India and South Africa to increase rates of existing carbon taxes. In both cases, the IMF's carbon tax recommendations were not included in the main policy recommendations, but rather in the general text on possible ways to increase government revenue. Including carbon taxes in the main policy recommendations would help to elevate the importance of such a tax as well as the overall importance of addressing climate change.

While the IMF's support of carbon taxes is positive, there is more the IMF could do to ensure more effective implementation of carbon taxes. For example, in the case of India, coal production recently received a significant tax reduction so the impact of a carbon tax needs to be understood in the context of the overall effective tax rate on coal.[17] A recent (June 2017) decrease in India's Goods and Services Tax rate on coal (reduced from 12 percent to 5 percent) most likely significantly marginalizes the potential carbon tax increase. Through Article IV recommendations and through the IMF's Capacity Development (i.e., technical assistance and training operations[18]), the IMF should urge that carbon taxes need to be without counter tax breaks for coal, oil or gas.

Table 2. IMF Policy Reform Agenda: Tax Policy

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

Table notes [1-6] are provided in the Annex. *It is unclear if the removal of VAT exemptions will apply to fossil fuels.

Tax Breaks for Fossil Fuel Producers. A value added tax (VAT), also known as a goods and services tax (GST), is a commonly employed tax in over 166 countries across the world. A reduction or exemption of the VAT or GST is one of the more common investment incentives for large infrastructure projects either included in general infrastructure investment frameworks or in sector-specific tax policies, like mining, petroleum, or renewable energy tax policies (see New Tax Breaks in Table 2).

In one example, the IMF provides technical assistance for designing India's GST regime, which in the last couple years reduced rates to the lowest level for production of coal, oil, gas and certain renewable energy sources. This is a producer subsidy (in the form of foregone government revenue). In addition, it is common for Public Private Partnership (PPP)

frameworks supported by both the IMF and World Bank to contain VAT exemptions for PPP infrastructure projects.[19] Which energy projects ultimately benefit from PPP-targeted tax breaks depends on what energy projects the government provides through PPP offerings or which projects are government-prioritized infrastructure (see more in the section below on prioritized infrastructure).

With regards to sector-specific policies, the IMF's current Article IV report for Mozambique highlights that the "petroleum and mining fiscal regimes were improved in 2014." However, the IMF's Article IV report does not explain that Mozambique's 2014 new fiscal regimes, i.e., tax regimes, for coal and petroleum provide significant tax breaks for fossil fuel producers. Investments in coal production and coal power plants benefit from a low coal royalty rate of only 3% and a 50% reduction of the mining production tax when coal is used for domestic use, e.g., domestic coal power plants.[20]

In addition, the 2014 petroleum regime benefits new oil and gas exploration investments through VAT exemptions and accelerated rates of depreciation.[21] Accelerated depreciation of new capital investments allow oil companies to quickly write down capital investments that would otherwise depreciate more gradually. In other words, larger tax reductions are taken at the start of the operation, thus making new projects more economic and increasing cash flows that can be put towards more drilling.

Selected elimination of VAT exemptions. Table 2 shows that for three countries (India, Indonesia, and Mozambique) the IMF recommends eliminating some VAT exemptions. Table 2 includes a footnote, which points out it is unclear whether or not the IMF's recommended VAT exemption removal would apply to fossil fuels. This is because the IMF leaves wiggle room by indicating it should apply only to "certain goods" or "except for basic goods" (see Annex, Table 2 notes). Because VAT can be a regressive tax, it should not be increased for certain basic goods, such as certain food stuffs and hygiene and medical supplies. However, the IMF needs to specify a top priority for VAT exemption removal includes all coal, oil and gas operations and related infrastructure. This could take large tax breaks away from pending coal/oil/gas operations while increasing government revenue desperately needed for COVID recovery as well as other social and environmental needs.

Reduction of fossil fuel consumer subsidies. In three countries (India, Indonesia, and Mozambique), the IMF supports reduction of unspecified fuel subsidies ("accelerate reform of remaining fuel subsidies" assumed to be petroleum and/or diesel). Although not mentioned in any of the current Article IV reports, the IMF also supports the reduction of electricity subsidies. Unfortunately, the IMF only targets consumer fossil fuel subsidies and does not target producer subsidies, which would more directly target investments for the expansion of fossil fuel development. In fact, by supporting infrastructure investment incentives, the IMF is by default supporting fossil fuel producer subsidies (see India example above).

No Specified Renewable Energy Tax Incentives. In general, the IMF is supportive of tax incentives for new infrastructure investments, but does not specify any incentives aimed at renewable energy. By doing so, the IMF encourages incentives for the development of all energy sources, including coal. In the case of India, the IMF provided technical assistance (called capacity development) to help design India's GST tax framework. It is unclear what specific advice the IMF gave; however, the latest revised version of the GST framework reduced tax rates across renewable energy, electric cars, coal, oil and gas (See Annex, Table 2 notes for details) – mainly everything was reduced to the lowest GST level of 5 percent.

In general, the IMF tends to support uniform tax rates so as not to introduce any bias. Tax policies that support increased investment in all energy sources facilitates expansion of fossil fuels. It does not bring about the energy transition the IMF claims to support. Moreover, until there are widespread carbon/methane taxes that are reflective of the true costs of GHG emissions externalities, the IMF should support tax breaks specifically for renewable energy to foster the energy transition needed to meet the goals of the Paris Climate Agreement.

Furthermore, new fossil fuel projects often have specialized tax breaks, such as accelerated rates of depreciation, either in sectoral tax policies or specified in contracts. It is difficult if not impossible for the public to determine how much foregone tax revenue these policies cost the government. In order to better inform the public and government, the IMF should perform rigorous assessments of the effective tax rates on coal, oil, and gas production.

Prioritized Infrastructure Investments

Table 3 provides a summary of the IMF's policy reform agenda and recommended measures regarding prioritized infrastructure investments for each country.

In four of the five countries (all but South Africa), the IMF supports increasing government budgets for infrastructure investments in line with government-prioritized infrastructure lists. The Article IV report points out India will be more than doubling its budget for infrastructure targeted at US$1.4 trillion over the next 6 years (note: target was set before the COVID crisis). For the Philippines, it is noted the government plans to raise infrastructure spending from 5.1% to 6% of GDP by 2022.

In India, Indonesia and Mozambique the government-prioritized infrastructure lists include several coal and other fossil fuel projects (see Annex, Table 3 notes). For example, India's prioritized infrastructure projects include 11 thermal power projects worth USD $7 billion with four large-scale coal power plants at a combined project cost of over $4.8 billion and two coal mining projects – a $1.56 billion open cast coal mining project and a $1.72 million coal exploration project. In Mozambique, both mega coal and liquified natural gas (LNG) export projects are government priorities.

On the renewable energy front, India's priority list includes 109 solar projects worth US$4.8 billion; and 3 wind projects worth $42 million. The only country that the IMF's Article IV report specifically advises to support renewable energy is in South Africa: "the financial and technical capacity of the private sector in renewables must be actively pursued." Furthermore, in the two countries where the IMF identified climate change as a risk, Philippines and Mozambique, the IMF advises to prioritize climate change resilient infrastructure.

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 notes [1-9] are provided in the Annex.

Moreover, the IMF Article IV report for Mozambique states "Integrating climate change within the broader developmental agenda is essential given Mozambique's vulnerability to natural disasters." It goes on to provide a list of policies the IMF regards as enhancing preparedness, such as the National Climate Change Strategy 2013-2025; the Master Plan for Risk and Disaster Reduction 2017-2030; and World Bank assistance in preparing a National Resilience Strategy. Unfortunately, the IMF's Article IV report does not recognize the contradiction between supporting Mozambique's mega coal and gas infrastructure projects and the need to integrate climate change within the development agenda.

Overall, the IMF does not address the risks to these countries in prioritizing large fossil fuel infrastructure, including the potential for stranded assets due to climate policies, increasing macroeconomic vulnerability due to global price volatilities, or locking in high-GHG infrastructure and contributing to the climate crisis. The IMF does not discuss the importance of prioritizing alternatives to fossil fuel exports to make these countries less dependent on fossil fuels.

In some cases, the COVID-19 crisis has induced project delays, which provides an opportunity to reset energy development plans and redirect resources to support a low-GHG development path. Especially given the business case for coal power plants is outdated and renewable energy plus storage is now a more competitive option. Existing coal and other fossil-fuel proposals could be redirected to more appropriate low-GHG alternatives. According to the IEA, globally nearly 130 gigawatts (GW) of coal-fired capacity was under construction at the start of 2020 and a further 500 GW was in a planning phase, which would tip the world past any chance of containing global warming to 1.5°C.

Government Debt and Liabilities

Table 4 provides a summary of the IMF's policy reform agenda and recommended measures regarding government debt and liabilities for each country. In all five countries the IMF urges the need to improve the management of public debt and risk evaluation of public investments, which would include government liabilities associated with power purchase agreements.

In two countries the IMF specifically points to concerns of government contingent liabilities associated with Public Private Partnerships (PPP). At the same time, the IMF continues to encourage countries towards PPPs as an investment framework for infrastructure, about which the Article IV noted the Philippines government expressed reservations. The IMF urges all five countries to improve the management of public debt. Except for the case of Eskom (see above), the IMF does not discuss that in all of the countries some of the public debt stress is linked to the coal power sector. In South Africa, India and Indonesia, coal power is significantly responsible for public debt stress.

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

Country	Improve Public Investment/ Debt Management	Public Private Partnerships (PPP)	Address SOE Weaknesses	Renegotiate Contracts	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 notes [1-5] are provided in the Annex.

According to the Institute for Energy Economics and Financial Analysis (IEEFA), Indonesia's PLN (the state-owned power utility), has seen its over-commitment to coal power lead to a rapid escalation in government subsidies which reached an enormous US$5 billion in 2018.[22] Indonesia's coal power capacity exceeds power demand and PLN is stuck paying for it because of its power purchase agreements on fixed terms with Independent Power Producers (IPPs) (a framework encouraged by the World Bank[23]). The over capacity is a result of the overestimated power demand growth forecast for 2019-2028. India and South Africa made similar overestimates on demand growth. The IMF fails to discuss the risks of energy infrastructure plans that are based on overly aggressive power demand forecasts that have resulted in the over-capacity responsible for the deterioration of public debt.

IEEFA reports that PLN is hoping to renegotiate the fixed power purchase agreements with IPPs. IEEFA states that a major issue is whether the circumstances surrounding COVID-19 qualify as a so-called "force majeure" event which eliminates liability when the parties cannot meet their obligations due to a natural disaster or catastrophe.

With regards to South Africa's Eskom stabilizing its stressed financial situation, the IMF's Article IV report states: "Efforts are underway to cut procurement costs through improved governance and renegotiation of certain contracts." This seems to indicate that the IMF is open to renegotiating certain contracts (see Annex, Table 4 notes). Given COVID is a global pandemic that has resulted in significantly decreased power demand, as part of the COVID response, the IMF should support governments' rights to invoke force majeure and thus, be able to renegotiate power and fuel purchase agreements.

Financial Sector and Business Environment
Table 5 provides a summary of the IMF's policy reform agenda and recommended measures regarding the financial sector and the business environment. In all five countries, the IMF advises to improve the business environment or ease of doing business.

In four of the countries the IMF advises governments to streamline or expedite permitting processes such as for land acquisition and environmental permits. Unfortunately, the IMF is largely focused on strengthening developers and investors benefits without weighing the potential costs to the climate, environment, or other social concerns of expediting permitting for large coal, oil and gas infrastructure projects. Furthermore, in Mozambique, the IMF advises to "enhance security, particularly in the LNG development related region."

Lastly, it is important to flag that the IMF appears to support the use of non-bank financial institutions to finance infrastructure, while stressing the need to improve supervision of such institutions. It is important to note that non-bank financial institutions include pension and insurance funds and are often used to channel long-term finance into infrastructure including for coal, oil and gas.

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

Table notes [1-6] are provided in the Annex.

Conclusions and Recommendations

Despite the IMF's stated support for green stimulus and getting the price of energy right, IMF Article IV reports in five countries fail to recognize the scale of climate change-related macroeconomic risks, especially related to the energy transition, and thus, policy advice continues to embed or ignore government subsidies and other investment incentives for fossil fuels, including coal. As a result:

The IMF continues to enable the wrong price for fossil fuel-based energy and investment continues to be misallocated – perpetuating the fact that the world is currently on track to produce 120% more fossil fuels in 2030 than would be compatible with a 1.5°C pathway (i.e., goal of the Paris Climate Agreement).[24]

The IMF needs to provide Article IV advice that is comprehensive and consistent with getting the price of energy right in order to prevent a climate crisis. The IMF should call out government actions that perpetuate a development model based on volatile and climate-destroying fossil fuel commodities. In order to steer the COVID recovery stimulus away from public incentives for fossil fuels, the IMF needs to:

Ensure risks of fossil fuel asset stranding are adequately reflected in macroeconomic stress tests – It is vital that the full scale of climate change risks are sufficiently identified in IMF Article IV country assessments, especially risks associated with the energy transition away from fossil fuels and the challenges of ensuring a just transition. To begin, IMF needs to integrate shocks from the stranding of fossil fuel assets into their stress tests as part of their Financial Sector Assessment Programs (FSAP) for all countries and ensure financial authorities, such as central banks, are doing the same (e.g., see initiative by the Bank of England).[25] The IMF needs to assist countries to better understand how climate change and policies needed to meet the goals of the Paris Climate Agreement could impact economic sectors and livelihoods in each country.

Ensure no COVID recovery bailout for coal, oil, or gas, including under the guise of GHG emissions reductions - IMF advice should make clear that the use of public COVID recovery funds to bailout fossil fuel operations is not a Green Recovery. The world's fossil fuel production is already on track to exceed a 1.5°C pathway by 120% by 2030. Accordingly, IMF funding agreements with governments should list all coal, oil and gas operations as Excluded Expenditures. Much of the World Bank's COVID recovery finance will come in the form of budget support operations called Development Policy Loans.[26] The IMF should ensure the World Bank also excludes fossil fuel expenditures from these operations.

Unfortunately, a joint IMF-IEA "sustainable recovery" recommendation is to publicly fund the reduction of methane/gas emissions from oil and gas field operations.[27] Even though stopping gas flaring and reducing methane emissions is critical, tax payers should not bear the costs while oil companies profit (through selling the captured gas). This is the opposite of a carbon tax and disguises a fossil fuel bailout under the cloak of GHG reductions.[28]

Tax Policy Reforms

End tax breaks/subsidies for fossil fuel producers – The IMF should recognize that infrastructure investment incentives applied to fossil fuels, such as VAT exemptions, represent producer subsidies and contradict carbon taxes and getting the energy price right. Most importantly, the IMF needs to call out fossil fuel producer subsidies in G20 countries. Furthermore, eliminating such tax breaks could significantly increase government revenues desperately needed for COVID recovery. Removal of VAT and GST exemptions and accelerated rates of depreciation for coal, oil and gas should be a top priority, especially in G20 countries. Carbon taxes will not be effective until the IMF stops supporting fossil fuel investment incentives.

Promote more effective carbon taxes – Continue to support the adoption of Carbon Taxes and increasing the rate of existing Carbon taxes towards reaching the true external cost of carbon. Prevent greenwashing by ensuring, through a transparent assessment, there are no tax breaks provided that stand to marginalize the Carbon Tax.

Adopt methane tax on gas emissions from oil and gas operations – Until laws are in place to prevent gas flaring/venting (Norway already has such a law), the IMF should advise governments to charge a tax or fine on oil and gas operations' methane/gas emissions, which could generate revenue for COVID recovery.

Provide Tax Credits and Loan Guarantees for Renewable Energy and Electric Vehicles – Until there are widespread carbon/methane taxes that are reflective of the true costs of GHG emissions externalities, the IMF should support tax breaks for renewable energy and electric vehicles and associated infrastructure.

Reduction of Current Account Deficits

Re-evaluate infrastructure investment plans based on the "right" energy price – COVID-induced project delays provide opportunities to redirect resources from pending coal power plants and other fossil fuel infrastructure to climate safe alternatives. IMF Article IV reports should strongly recommend countries re-evaluate energy infrastructure investment plans to reflect stranded asset risks; current renewable energy costs; increasing global carbon taxes; and realistic power and fuel demand scenarios. The climate crisis and associated energy transition render no business case for coal as well as many other fossil fuel operations.

Prioritize investments for alternatives to fossil fuel exports – In order to reduce dependency on fossil fuels, the IMF should assist countries to identify alternatives that can replace fossil fuel export earnings.

Reduction of Public Debt

Uphold government rights to invoke Force Majeure[29] – Given COVID is a global pandemic that has resulted in significantly decreased power demand, as part of the COVID response and IMF advice regarding fiscal deficits, the IMF should support the government's right to invoke force majeure and thus, be able to renegotiate power and fuel purchase agreements. By doing so, many governments may be able to reduce government debt/liabilities associated with coal, oil or gas infrastructure and may also reduce the rate of fossil fuel production.

For Annex tables and notes please go to: https://www.re-course.org/wp-content/uploads/2020/09/IMF-Annex.pdf

Endnotes

1 https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker#AFR
2 https://www.iea.org/reports/sustainable-recovery
3 IMF Special Series Note: Fiscal Policies to Respond to COVID-19: "*Greening the Recovery,*" April 20, 2020. https://www.imf.org/~/media/Files/Publications/covid19-special-notes/en-special-series-on-covid-19-greening-the-recovery.ashx?la=en
4 SEI, IISD, ODI, Climate Analytics, CICERO, and UNEP. (2019). The Production Gap: The discrepancy between countries' planned fossil fuel production and global production levels consistent with limiting warming to 1.5°C or 2°C. http://productiongap.org/
5 See: https://neweconomics.org/2020/02/banking-on-coal
6 Even though the World Bank Group pledged not to provide project finance to coal power plants in 2013, significant World Bank Group finance can still be channeled to coal operations through budget support (e.g., Development Policy Loans) and financial intermediaries.
7 See: https://www.iea.org/reports/sustainable-recovery
8 See: https://urgewald.org/medien/iea-and-imf-covid-recovery-oil-industry-bail-out-cloaked-under-ghg-reductions
9 *Force majeure* is a common clause in contracts that essentially frees both parties from liability when an extraordinary event beyond the control of the parties, such as a war, natural disasters, or epidemics, prevents one or both parties from fulfilling their obligations under the contract.
10 See IMF Article IV Consultation Press Release (summary of Executive Board views) and Staff Report for India (December 23, 2019); for Indonesia (July 31, 2019); for the Philippines (February 6, 2020); for Mozambique (June 18, 2019); and for South Africa (January 30, 2020).
11 https://www.sustainablefinance.hsbc.com/carbon-transition/fragile-planet
12 It should be noted that the Medupi coal power plant was the last coal power plant to receive direct project finance from the World Bank, which provided $3.75 billion in 2010. Even though the World Bank Group pledged not to provide project finance to coal power plants in 2013, significant World Bank Group finance can still be channeled to coal operations through financial intermediaries and general budget support. https://www.brettonwoodsproject.org/2019/04/world-banks-toxic-medupi-loan-leaves-south-africans-in-the-dark/
13 https://www.bloomberg.com/news/articles/2019-10-09/two-mammoth-power-plants-are-sinking-eskom-and-south-africa
14 https://www.economist.com/briefing/2020/06/20/how-much-can-financiers-do-about-climate-change
15 The IMF Executive Board approved on April 19 US$118 million in emergency assistance under the Rapid Credit Facility (RCF) in the wake of TC Idai. IMF total estimated needs associated with TC Idai are expected to amount to US$800 million for 2019 and are projected to decline to US$500 million in 2020 and US$200 million in 2021.
16 *The Economist*, June 20, 2020. Briefing: Green investing.
17 India has a specific cess (i.e., tax) on coal production that is considered to be equivalent to a carbon tax set at approximately USD 4 per tonne of carbon dioxide (400 INR per tonne) levied at the point of production. The current cess/tax on coal is the GST Compensation Cess, which was aimed at filling in the budget deficits following the introduction of the Goods and Services Tax (GST), which reduced tax rates for many goods including coal. See https://www.iisd.org/sites/default/files/publications/stories-g20-india-en.pdf
18 The IMF has current Capacity Development operations addressing tax policies in India, Mozambique, South Africa and Indonesia.

19 See: https://www.re-course.org/wp-content/uploads/2017/11/Study-2-Executive-Summary-of-DPL-reports.pdf
20 See: EY, 2014. Global Tax Alert: Mozambique introduces new tax regime and incentives for the Mining Industry. Ernest and Young (EY), October 20, 2014. http://www.ey.com/gl/en/services/tax/international-tax/alert--mozambique-introduces-new-tax-regime-and-incentives-for-the-mining-industry
21 See: https://www.ey.com/Publication/vwLUAssets/EY-2015-Global-oil-and-gas-tax-guide/$FILE/EY-2015-Global-oil-and-gas-tax-guide.pdf
22 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.
23 See the World Bank's First Indonesia Sustainable and Inclusive Energy Development Policy Loan, December 2015.
24 SEI, IISD, ODI, Climate Analytics, CICERO, and UNEP. (2019). The Production Gap: The discrepancy between countries' planned fossil fuel production and global production levels consistent with limiting warming to 1.5°C or 2°C. http://productiongap.org/
25 See https://neweconomics.org/2020/02/banking-on-coal
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27 See: https://www.iea.org/reports/sustainable-recovery
28 See: https://urgewald.org/medien/iea-and-imf-covid-recovery-oil-industry-bail-out-cloaked-under-ghg-reductions
29 *Force majeure* is a common clause in contracts that essentially frees both parties from liability when an extraordinary event beyond the control of the parties, such as a war, natural disasters, or epidemics, prevents one or both parties from fulfilling their obligations under the contract.

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