

The logo for ActionAid, featuring the word "actionaid" in a bold, red, lowercase sans-serif font.

Reforming Global Finance To Support A Just Energy Transition: Implications For IMF Policy Advice

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SUMMARY

The IMF has a huge influence on economic policy setting, especially in low- and middle-income countries. Under its mandate, the IMF is tasked with helping to ensure global macro-stability, including through the policy advice it provides to all its member countries via annual economic 'health checks' (which it refers to as 'surveillance'). This advice helps to shape the perception of countries' macroeconomic outlooks among other international financial institutions, investors and private creditors.

The IMF has recently announced plans to mainstream a focus into its economic surveillance on helping countries achieve a low-carbon transition. However, research by ActionAid-USA and the Bretton Woods Project shows that in order to achieve this aim, the Fund needs to significantly rethink its current policy advice. Since the Paris Agreement was signed, the IMF has supported the expansion of carbon-intensive sectors in many emerging markets and developing economies, while

promoting austerity measures that may undermine countries' spending on climate action.

Ultimately, achieving a just, feminist and green transition demands a recognition that fossil fuel dependent, extractive macroeconomic models are failing people and planet. Economies must be reorientated to place wellbeing and care (of both the environment and people) at the centre. Changing unequal power relations in global governance between the Global North and South is also critical. For the IMF, at the apex of global financial architecture, this requires a deep institutional shift in its country advice. Its advice must move away from embedding extractive economic models and austerity approaches, towards rights-based approaches that promote community and planetary well-being, while massively scaling-up public spending to support a just, feminist and green transition.

This briefing is primarily based on the [report **IMF Surveillance and Climate Change Transition Risks: Reforming IMF policy advice to support a just energy transition**](#) by ActionAid-USA and the Bretton Woods Project. The report argues that enabling countries to take necessary action on climate change requires fundamental changes to the global economic system, including major reform to IMF policy advice. But it also draws on the recommendations and conclusions from a variety of other sources, including the [Civil Society Submission Statement](#) on the IMF Comprehensive Surveillance Review, and The [Public vs Austerity](#) and [Who Cares for the Future?](#) reports by ActionAid.

1. THE IMF, 'TRANSITION RISKS' AND CLIMATE ACTION

The IMF is tasked with ensuring macro-economic stability, and climate change poses macro-economic threats to countries in (at least) two major ways: Through the physical impacts of climate change (which may result in economic losses, including [loss and damage](#)); and through 'transition risks' posed by the shift from a fossil-fuel based global economy to a low-carbon one. Transition risks can pose a threat to economies in different ways, such as through the loss of expected government revenue and tax earnings from fossil fuels or other carbon-intensive exports; by the emergence of 'stranded assets', if fossil fuel projects become uncompetitive or are no longer needed (resulting in economic losses); or even through reductions in tourism income due to higher airline flight costs due to carbon-related taxation. Transition risks may have the [biggest impact](#) on the economy and on livelihoods, as well as financial systems and public finance.

The IMF is highly influential in how countries can respond to transition risks, which are relevant to its country-level surveillance. IMF surveillance is

focused on issues that are 'macro-critical' ('IMF-speak' for issues that may affect countries' macro-economic stability, including their ability to service debt payments and access finance). Through its country monitoring and advice - summarised in 'Article IV' surveillance reports - the IMF has enormous influence on member countries economic policy (see Box 1). Yet, IMF policy advice has been shown to be exacerbating climate risks and undermining action on a just transition.



Md. Sariful Islam/ActionAid

BOX 1. WHAT IS IMF SURVEILLANCE? WHY DOES IT MATTER?

As outlined in its Articles of Agreement, the IMF conducts [surveillance](#) at the bilateral (member state) and multilateral (regional and global) levels. At the member state level (there are 190 IMF member states), surveillance is designed to enable the IMF to continuously monitor a country's fiscal policies and overall economic conditions and to identify perceived risks, which it classifies as posing present or future threats to global economic stability. Having identified these risks, surveillance recommendations typically include suggested policy adjustments to mitigate against perceived triggers and root causes of economic instability. This forms the basis for the Article IV consultations. While the recommendations made by the IMF through Article IV consultation reports are not binding, bilateral surveillance is mandatory for both the IMF and all members, who have an obligation to consult with the IMF for this purpose. The IMF's position at the apex of the international financial architecture and as a key determinant of both 'sound' economic policies and creditworthiness means that failure to follow advice can place countries in a precarious position in terms of access to IMF lending programmes, financial markets, their investment outlook, and can negatively impact on their relationship with other international institutions.

THE IMF'S CHANGING ROLE IN CLIMATE ACTION

Since her appointment as the Managing Director of the IMF in September 2019, Kristalina Georgieva has repeatedly highlighted that climate action is essential for economic stability. This has set the stage for the IMF to take a larger and more [visible role](#) in global efforts to tackle climate change.

The IMF is now positioning itself to become more active on climate action through its country surveillance. In July 2021, the IMF released a climate strategy policy [paper](#), where it proposed that the Fund would assess transition risks in every IMF member country every 5-6 years, noting that, "Transition management is a macro-critical policy challenge for almost every IMF member". The climate strategy proposed that 33-34 countries be assessed for transition risks annually in Article IV

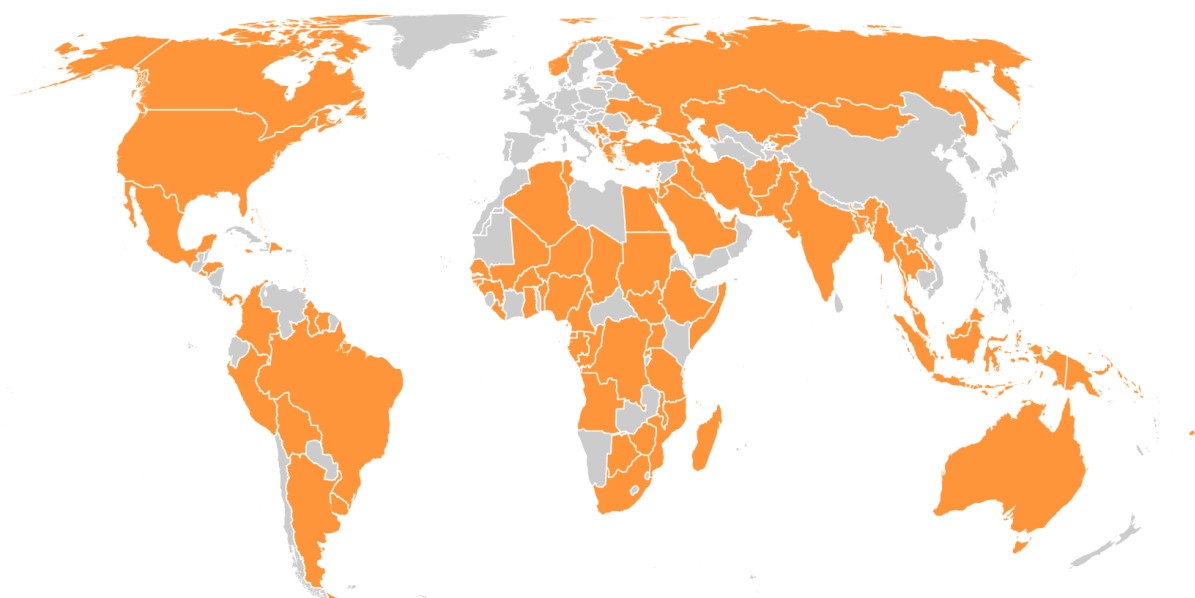
surveillance, with 8-9 in-depth assessments being done annually for 'carbon exporters.' This heralds a major departure from IMF surveillance to date.

While the IMF's rhetoric on climate might have shifted, there is still a very long way to go before the IMF is a positive force on climate change through its country-level policy advice. According to [research](#) by Boston University, the Fund only considered risks related to carbon stranded assets in two countries in 2020, and this was accompanied by contradictory advice about incentivising investment in carbon-intensive sectors.

2. RECENT IMF POLICY ADVICE HAS POTENTIALLY EXACERBATED CLIMATE RISKS

In order to investigate the impact of IMF policy advice on transition risks, ActionAid USA and the Bretton Woods Project commissioned a review of all Article IV reports conducted by the IMF since the signing of the Paris Agreement (between December 2015 and March 2021). The [findings](#) demonstrated that the IMF's surveillance advice has been potentially undermining a just energy transition in many of its member countries. The review found that in 105 member countries, despite the urgent need to reduce greenhouse gas emissions to meet global climate goals, the IMF's policy advice endorsed, or directly supported, the expansion of fossil fuel infrastructure (see Figure 1). Yet, the continued expansion of fossil fuel infrastructure leaves countries with increased risk of stranded assets as the global economy shifts to low-carbon alternatives.

FIGURE 1. COUNTRIES ADVISED BY IMF TO DEVELOP FOSSIL FUEL INFRASTRUCTURE

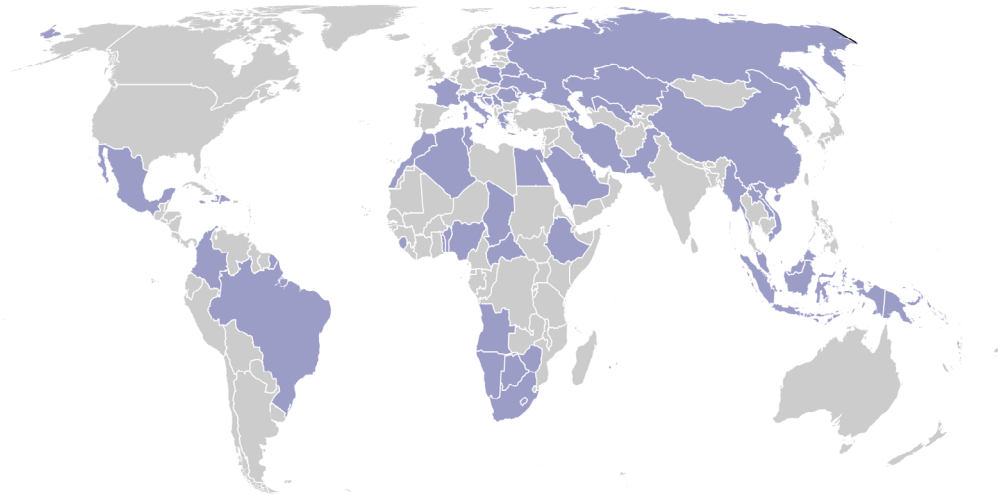


BOX 2. MOZAMBIQUE LEFT IN DEEPER DEBT DISTRESS AFTER THE IMF ADVISES EXPANSION OF THE COAL INDUSTRY

The [research](#) found that IMF country advice contained in its Article IV reports in Mozambique endorsed major coal expansion. Its advice predicted a major coal boom that would lead to hugely expanded government revenues. Instead of the promised boom, the coal industry is now on its knees after the country's largest coal mine operator shut its plant and announced its exit from the coal sector as part of a drive to decarbonise its business. This was entirely predictable, and yet IMF advice was completely blind to this risk. Meanwhile, the country is grappling with a major debt crisis, exacerbated by public investment in costly coal infrastructure projects. When combined with the IMF's recommended spending cuts, this has led the country down a road of further indebtedness while undermining the capacity of the country to respond to the COVID-19 crisis.

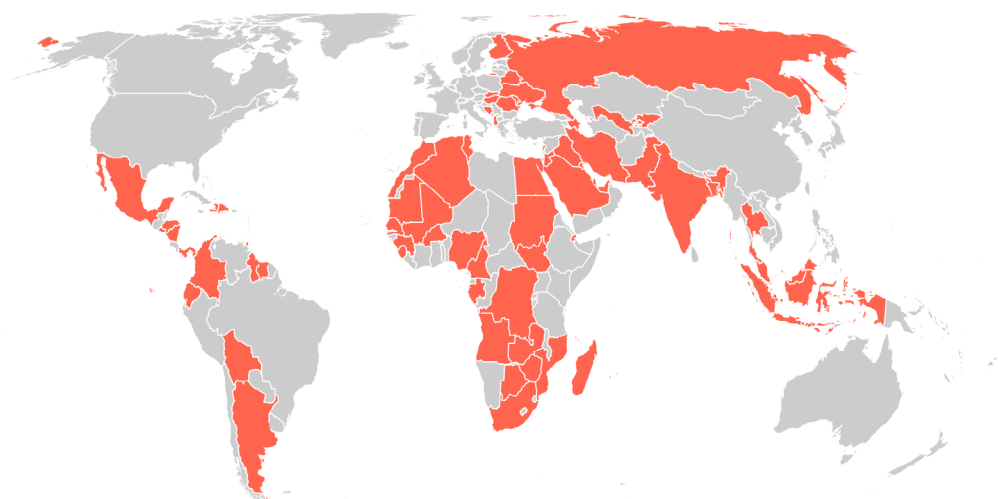
The Fund's commonplace policy advice on power sector reform and removing demand-side energy subsidies may present further obstacles to a just energy transition. In 69 countries, the Fund has either directly or indirectly advocated for the privatisation of state-owned energy or electricity utilities, which is compounded by the more ubiquitous advice to slash public spending in many member countries (see Figure 2). Yet, privatisation can lead to a more fragmented energy sector which can make it more difficult for states to retire fossil fuel-based sources of energy without incurring large compensation [claims](#) from foreign investors in investor-state dispute settlement tribunals.

Figure 2. Countries advised to privatise energy-related state-owned enterprises



The IMF is also increasingly positioning energy pricing reforms as a necessary first step in decarbonising national economies. Our research indicates that while the Fund advocated for fossil fuel subsidy removal or reform in 71 countries (see Figure 3), these policies largely targeted consumer subsidies or other demand-side subsidies, rather than affecting the economics of fossil fuel production itself. This focus on demand side measures is insufficient to achieve a just energy transition, especially as this pushes the costs onto the shoulders of ordinary citizens. In cases where there are few alternatives to fossil-based power or transport, including in most emerging or developing economies, such policies are likely to have little impact on reducing greenhouse gas emissions at scale unless accompanied by investment in clean energy alternatives. This effectively results in a form of ['green' structural adjustment](#).

Figure 3. Countries advised to reduce energy subsidies



This adds to mounting evidence that, instead of helping its member countries address the macroeconomic risks climate change represents, the IMF policy advice has supported a business-as-usual approach to carbon-intensive growth. Moving at the scale and speed required to support a just transition will require the IMF to embrace a major break with the development paradigm based on fossil fuel extraction and privatisation, and will require a shift towards a low-carbon, sustainable economy that sees massively scaled-up investment in public spending as integral to the solution. Instead, our research shows that IMF advice is embedding a system at odds with a just transition into countries' economies.

3. REFORMING IMF POLICY ADVICE TO SUPPORT A JUST, FEMINIST AND GREEN ENERGY TRANSITION: A RADICAL DEPARTURE FROM BUSINESS-AS-USUAL

Transition risks, as they are emerging in the Global South, are rooted in wider unequal power relations within the global economic system. New [research](#) indicates that the Global North drains commodities worth \$2.2 trillion per year from the Global South. Ultimately, IMF policy prescriptions have encouraged an increase in carbon-intensive exports and have played a significant role in embedding these extractive processes in the economies of many countries facilitated by, *inter alia*, illicit financial flows and global trade imbalances.

Addressing transition risks from climate change in an equitable manner will mean the development of sustainable industrialisation and trade policies, as well as necessitating that the IMF abandon its commitment to austerity. Additional evidence from [ActionAid International](#) suggests that the IMF advice is moving countries ever deeper down the road of austerity and privatisation through ubiquitous country advice to cut or freeze public sector wage bills. It concludes that the IMF must move away from broken austerity approaches, towards public investments - in public services, care infrastructure and social protection - to support a just transition and a strong public sector

to steer responses to both COVID-19 and the climate crisis. Indeed, there needs to be a bold reimagining of [public services](#) to respond to these multiple and intersecting crises.

For emerging and developing economies, entering another era of austerity on the heels of the COVID-19 crisis will render the climate commitments of these countries impossible to achieve. This is particularly the case given the larger flaws of the global financial system, including the lack of an effective sovereign debt workout mechanism and a UN tax body to address illicit financial flows, which means that poor countries often [spend](#) far more on debt repayments than climate action.

Given these challenges, achieving a feminist, green and just transition demands a complete departure from business-as-usual, and a recognition that the current macroeconomic model is failing people and planet. It necessitates an exit from a neo-colonial, fossil fuel dependent, emissions-intensive, extractive economy, by reorientating economies to place wellbeing, care and public services at the centre. This requires revaluing women's paid and

unpaid work, providing decent work and 'green jobs' for all, and an end to austerity, followed by a massive scale-up of investment in public services. It also requires a fundamental transformation of global governance rules and institutions, to rebalance (historical and current) unequal power relations between the Global North and Global South.

For the IMF, this requires a deep institutional shift in its country advice away from austerity and towards policies which support - or at least

do not undermine – countries' ability to ensure a just transition as they move towards a carbon-neutral economy. IMF policy advice must become aligned with ActionAid's [principles for a just energy transition](#), and encourage policy frameworks that address, rather than exacerbate, inequalities; transform energy systems to work for people, nature, and the planet; and ensure inclusivity and participation. This includes the need to provide support, including re-training, for workers displaced by the low-carbon transition.

KEY RECOMMENDATIONS:

The world is on the [brink](#) of ecological collapse. The IMF must act now to ensure its policy advice can help countries to move away from economies which depend on fossil fuels and support a just transition. Their advice must give countries the fiscal space to implement their climate plans and respond to COVID-19 - including via increased investment in renewables, [decent green jobs](#) and supporting gender-responsive public services and social protection - and avoid embedding greater transition risks into economies in the Global South.

To fulfil its ambition to work towards a green recovery and a low-carbon future, the IMF should:

- At a minimum, adopt a 'do no harm' approach and commit to ensuring, *via ex-ante* assessments, that IMF policy recommendations do not actively exacerbate inequalities or undermine countries' ability to meet their international human rights obligations or achieve the Sustainable Development Goals and their Nationally Determined Contributions under the Paris Climate Agreement.
- Help countries to better judge the costs of transitioning to a low-carbon future. For low- and middle-income countries, this should be part of a wider discussion about mobilising greater resources from wealthy countries – including, *inter alia*, increased levels of climate finance – to support a just energy transition. As part of these efforts, the new proposed [Resilience and Sustainability Trust](#) at the IMF, which will [provide](#) 'affordable long-term financing' to help countries address climate and other challenges, should avoid requiring 'green conditionality' in order for countries to access finance

- Fundamentally reassess the role of public services in light of both COVID-19 and the climate crisis – and recognise the limitations of private sector-led responses. As part of this re-think, the IMF should look at supporting a bold expansion of progressive taxes, nationally and internationally, to create positive new cycles of investment in public services. The IMF also needs to create an institutional view on sustainable industrial policy that empowers IMF operations to support effective and coordinated strategies for sectoral and economic transformation.
- Improve national level consultation on Article IVs, including with civil society organisations, women’s rights groups, trade unions, climate groups and indigenous peoples’ organisations, in an effort to integrate social dialogue into surveillance and the design of lending programmes.