IMF Surveillance and Climate Change Transition Risks:

Reforming IMF policy advice to support a just energy transition

August 2021

Acknowledgments

Authors: Jon Sward (Bretton Woods Project), Niranjali Amerasinghe (ActionAid USA), Andrew Bunker and Jo Walker (independent consultants). Andrew Bunker carried-out the original research for this report, which produced the data set on which the IMF Article IV analysis is based.

We appreciate the advice and feedback on drafts received from the following contributors:

- **Bretton Woods Project:** Emma Burgisser, Luiz Vieira and Chris Hope.
- **ActionAid International:** David Archer, Roosje Saalbrink, Harjeet Singh, Teresa Anderson, Arianna Kandell and Mario Machimbene.
- **External experts**: Daniela Gabor (University of West England), Leo Banuch (ITUC), Luma Ramos and Kevin Gallagher (Boston University Global Development Policy), Valerie Laxton, Carolyn Neunuebel, Lauren Sidner, Caitlin Smith, Joe Thwaites (World Resources Institute), Renato Redentor Constantino (ICSC), Sargon Nissan (Recourse), Nadia Daar (Oxfam International), and Lydia Gibson (European Climate Foundation).

Design and layout by Jenna Farineau

Cover photo: Decades of pollution from oil spills and gas flares have killed off fish stocks and destroyed the fertility of the soil in many places overtaken by big polluters like Shell. Featured here is the Niger Delta region of Nigeria. Photo: Nora Awolowo/ActionAid.

CONTENTS

Executive Summary

This report is being released amidst overlapping global crises: the COVID-19 pandemic, the worsening climate crisis, and the widening inequality gap within and between countries. The IMF's Managing Director, Kristalina Georgieva, has been among the most vocal proponents of 'building back better', arguing for a coordinated green recovery from the COVID-19 pandemic. Concurrently, after years of debate within the institution about whether climate change is core to the IMF's mandate, the Fund has belatedly begun to integrate climate issues into its surveillance mandate, with the recently published Comprehensive Surveillance Review (CSR) making a strong case that both physical and transition risks from climate change potentially present macro-structural challenges.[1]

This shift will require significant changes in the policy advice the IMF provides to member countries if the Fund is to support a just energy transition and get behind urgently required climate action efforts. This report focuses on the IMF's approach to transition risks from climate change – that is, the reduction in the value of fossil fuels and related infrastructure or assets, because of the low-carbon transition – which can pose risks for the wider economy. Recent research has already established that the IMF's consideration of transition risks in its surveillance work has been minimal; this report presents new findings on key areas of Fund surveillance related to transition risks, and suggests that the Fund's approach to fossil fuels, which largely sees the imperative to reduce greenhouse gas emissions as a 'demand side' issue, is insufficient to address transition risks, and – more broadly – to support a just energy transition.

Beyond developing a better understanding of the transition risks posed to its member countries, this report argues that current IMF policy advice is undermining many countries' ability to undertake a just energy transition, and that the Fund needs to better understand how this advice itself is shaping member countries' vulnerabilities to these risks. Taken together, the report calls for the IMF to go beyond mitigating transition risks to developing new policy advice for members that is aligned with a just energy transition to a low-carbon economy.

A feminist, green and just energy transition? Implications for IMF's policy advice in Article IV surveillance

The empirical research undertaken as part of this report explores how the IMF's existing policy advice in its Article IV surveillance is undermining a just energy transition across many IMF member countries.[2] It presents new findings from a review of all Article IV reports that the IMF conducted between the signing of the Paris Agreement in December 2015 and March 2021.[3] 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. Additionally, 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 many IMF member countries.

In 69 countries, the Fund has either directly or indirectly[4] 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. Among other considerations, privatisation can lead to a more fragmented energy sector and make it difficult for states to retire fossil fuel-based sources of energy without incurring large compensation claims from foreign investors. 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, these policies largely targeted consumer subsidies rather than affecting the economics of fossil fuel production. This focus on demand side measures is insufficient to achieve a just energy transition. 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.

The review also provides case studies of IMF advice in Mozambique and Indonesia, with a focus on IMF policy advice related to coal mining and the power sector. It shows that in these cases IMF advice has entrenched fossil fuel dependency and opened the door to increased investment in coal. This has left both countries highly exposed to the transition risks associated with coal. The trajectory of this advice raises the question of how the Fund will meaningfully integrate transition risks into its surveillance guidance for these and other member states going forward.

Overall, these findings illustrate the extent to which the Fund will have to substantially modify its policy advice in order to support a just energy transition, and illuminates some of the contradictions of its policy prescriptions in recent decades. This is particularly the case in emerging and developing economies, where countries will need increased fiscal space to undertake national climate plans and achieve the Sustainable Development Goals and thus avoid the worst impacts of climate change. This presents a direct challenge to the IMF's policy orthodoxy, which tends to be centred on ensuring reduced public spending and increasing export revenues, often through carbon-intensive sources.

This report calls for the IMF's policy advice on climate change transition risks to be aligned with ActionAid's principles for a just energy transition,[5] which requires that policy frameworks work to address, rather than exacerbate, inequalities; transform energy systems to work for people, nature, and the planet; and ensure inclusivity and participation.

Recommendations

The IMF plays a critical role in shaping policies that governments adopt to achieve macroeconomic stability. The newly adopted IMF Comprehensive Surveillance Review (CSR) takes steps to increase attention on climate, but the Fund is only at the beginning of developing its approach to addressing transition risks.

As the IMF begins the process of developing detailed guidance for staff that will help them to implement the CSR from early 2022, we recommend the following - based on the analysis in this report as well as proposals across a range of related academic and civil society reports - to help ensure a feminist, green and just energy transition.

- 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 human rights obligations, or achieve the Sustainable Development Goals and their Nationally Determined Contributions under the Paris Climate Agreement.[6]

- The IMF must develop clear guidance for staff on how to assess transition risks in Article IV surveillance, based on the principle of 'do no harm', including the risks posed by the Fund's own advice on, inter alia, fiscal consolidation and support for carbon-intensive energy and exports.

- The IMF should shift its focus to eliminating fossil fuel producer subsidies and expanding investment for renewable energy and other green alternatives, rather than focusing primarily on eliminating or reducing consumer subsidies, while ensuring these efforts remain firmly embedded in countries' national just transition dialogues.

- The IMF should re-evaluate its advice on privatisation, particularly given the risks of compensation claims for stranded fossil fuel assets by private investors, and instead support governments to strengthen public institutions and public services, so that they can effectively respond to climate change. The IMF needs to fundamentally reassess the role of public services in light of both COVID-19 and the climate crisis – and to recognise the limitations of private sector responses. As part of this re-think, the Fund should create an institutional view on sustainable industrial policy that empowers IMF operations to support effective and coordinated strategies for sectoral and economic transformation.

- The IMF can 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 to fund a 'just energy transition.' Promoting renewable energy alternatives and assisting countries in lowering the costs of those alternatives will be an essential part of any transition. This is particularly the case in emerging and developing economies where governments already face rising costs of capital – or lack

market access altogether – and where efforts to 'de-risk' green investments for the private sector may lead to the state taking on substantial fiscal liabilities. An essential pillar of this process will also be supporting countries to strengthen labour market institutions and achieving universal social protection, including social protection floors, to enable a just transition.

- Given the current context, the Fund's climate work should not be siloed. Climate efforts need to be considered alongside more significant debt cancellation efforts; investing in gender-responsive public services; increasing fiscal and policy space for countries to respond to the COVID-19 pandemic; abandoning austerity; and improving the quality and quantity of climate finance. The IMF should solicit input from UN institutions and preeminent experts in the field in developing guidance, as the IMF has limited expertise on climate change at present.

- The IMF should 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.

1. Introduction

Climate change is an existential threat to our survival, a planetary crisis that demands urgent action. Yet efforts to tackle the climate crisis are well off pace to meet the Paris Agreement's aim of keeping global average temperature increase at 1.5°C, relative to pre-industrial levels. Climate impacts, which are already being felt, could push nearly 132 million people into extreme poverty by 2030, with the poorest and most vulnerable being the hardest hit.[7] This report argues that enabling countries to take necessary action on climate change requires fundamental changes to the global economic system. As Lord Stern noted in 2007, "climate change is a result of the greatest market failure the world has seen."[8] The root of this market failure lies in a fossil-fuel based global economy. Since the industrial revolution, fossil fuels, "utilized across the spectrum of commodity production", have formed the basis of a predominantly capitalist global economic system.[9] The COVID-19 pandemic has highlighted both the inequality in the current global economic system as well as its vulnerability to non-financial external shocks, with the exogenous shock wrought by the pandemic decimating economies, especially in the Global South. Such external shocks, including climate disasters and humanitarian emergencies, will likely continue to intensify, particularly if countries fail to address the climate emergency. Within this wider context, ensuring that energy transitions are just and occurring within sustainable economies will be essential to moving forward.[10]

As a key player in shaping the global economic system, the IMF is unquestionably a late comer to climate issues. Despite undertaking research on climate-related issues for over a decade – dating back to the 2008 World Economic Outlook, which noted the severe potential spill-over effects of greenhouse gas emissions – the IMF is only now beginning the process of mainstreaming climate issues into all aspects of its operational mandate. In 2014, the Fund adopted climate change as one of the emerging issues it was seeking to pilot new research and policy work on, along with gender and inequality, spurring further research outputs in the following years, including a flurry of reports in 2018 and 2019.[11] Since her appointment in September 2019, IMF Managing Director Kristalina Georgieva has sought to make climate change more central to the Fund's approach. At the Climate Adaptation Summit in January 2021, Georgieva noted that climate change:[12]

> *...is a fundamental risk to economic and financial stability. It is also an opportunity to reinvigorate growth and create new green jobs. ...This is why at the IMF we embrace the transition to the new climate economy — one that is low carbon and climate resilient, that helps fight the causes of climate change and adapt to its consequences.*

In addition to laying out how it will integrate climate change into its Article IV surveillance in the recently published Comprehensive Surveillance Review (CSR) – which is discussed in more detail later in this section – other recent examples

of the IMF's climate work include a policy proposal for greening the COVID-19 recovery in the October 2020 World Economic Outlook (WEO), and a proposal[13] for an international carbon price floor (ICPF) among major emitters in June 2021. In the 2020 WEO,[14] the Fund argued that "an initial green investment push combined with steadily rising carbon prices would deliver the needed emission reductions at reasonable transitional global output effects." Its ICPF proposal likewise seeks to promote steadily rising carbon pricing as a key lever to achieving the aims of the Paris Agreement, which the proposal seeks to complement.

As mentioned above, climate action is an urgent imperative. However, the Fund's efforts to prioritise demand-side policies, including carbon pricing and the reform of consumer fuel subsidies, to reduce emissions obscures key aspects of the just energy transition and fails to address the transition risks that would emerge in many member states if their price adjustment proposals gained traction in key markets. As noted by the Climate Policy Initiative, transition risks are commonly defined as, "the risk that the value of assets and income are less than expected because of climate policy and market transformations."[15] This process – once underway – is likely to have significant implications across the real economy and the financial sector, as well as impacting the revenues of many countries both directly and indirectly.

Transition risks pose a potential challenge for many countries, but they are particularly acute in emerging or developing economies, where receipts from fossil fuel-related industries constitute key sources of government revenue, and where governments may lack the flexibility to undertake the green infrastructure stimulus the Fund proposes in the 2020 WEO. This is compounded by relatively high cost of capital in these countries and difficulty in accessing the limited climate finance provided by wealthy countries through the Green Climate Fund and other avenues. Additionally, the need for social dialogue as part of a just energy transition, which ensures that unions and workers have a seat at the table as energy systems undergo transformative change, is largely missing in the Fund's approach. This report argues that further attention to these issues is needed, and presents new findings based on analysis of IMF surveillance, which suggest that, in many cases, IMF policy advice may be exacerbating transition risks or working at cross-purposes with ensuring a just energy transition.[16]

Article IV Surveillance and climate risk

As part of its mandate, the IMF conducts annual surveillance (see Box 1) in of all its member countries, to assess balance of payment and general macro-stability issues. In May 2021, the IMF published the CSR[17] – which will guide the Fund's surveillance work for the next five to 10 years. The CSR establishes that the Fund has a clear mandate under its Articles of Agreement, "to cover climate change adaptation and the management of the transition to a low-carbon economy in Article IVs wherever the associated policy challenges are macro-critical."[18] The CSR also notes that the Fund will seek to engage on climate change mitigation policies with the 20 largest emitters, although this dialogue will be voluntary for the countries in question.

In July 2021, the IMF subsequently released an organisation-wide 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'.[19] 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.' However, in both the CSR and the subsequent climate strategy details on how the Fund conceptualises transition risks are sparse and will need to be elaborated further in guidance on the CSR that will be developed for staff over the coming months. The guidance linked to the implementation of the CSR is expected to become mandatory for IMF staff conducting surveillance from 2022 onwards.

It is notable that the IMF's surveillance has scarcely touched on transition risks from climate change to date, with just three Article IV reports explicitly recognising transition risks related to climate change in 2020.[20] The Fund has only considered risks related to carbon stranded assets in two countries, and this has been accompanied by contradictory advice about incentivising investment in carbon-intensive sectors.[21] While the CSR notes the need to address transition risks in IMF surveillance going forward, it fails to commit to assessing how the IMF's own common policy prescriptions – including promotion of austerity measures and carbon-intensive exports – may be exacerbating countries' exposure to transition risks. For example, the IMF has sent a false signal to countries and investors in Africa during the past two decades by repeatedly over-estimating the impact of new oil and gas discoveries on future government revenues.[22] Such projections can encourage countries to develop their extractive sectors for export based on the promise of future revenues that are unlikely to accrue. This can exacerbate stranded asset risk[23] and contribute to debt crises. Similarly, the IMF asserted in 2018 that increased revenue from fracking could help make Argentina's debt sustainable,[24] painting an overly rosy picture of likely future revenues from the export of liquefied natural gas (LNG). It did so while overlooking uncertainty surrounding oil prices and the substantial state subsidies needed to make the export of LNG commercially viable.

Box 1. What is IMF surveillance? (Source: The Bretton Woods Project)

The IMF was established in 1944 with the initial aim of seeking exchange rate stability within the international monetary system. The 1970s and 1980s witnessed an expansion of the IMF's remit, to respond to countries' **balance of payments** difficulties, most notably with the introduction of structural adjustment programmes. In 2012, the IMF's mandate was broadened to include all macroeconomic and financial sector issues that it deemed to have a bearing on global stability. There are several mechanisms it relies on to deliver its mandate, one of which is surveillance, established in Article IV of the Fund's **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 member states of the IMF), 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 such 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 Fund 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 Fund for this purpose. Additionally, in 2010, the IMF made it mandatory for 29 member countries, which it deemed to have systematically important financial sectors, to undergo financial stability assessments, known as the **Financial Sector Assessment Program** (FSAP), every five years.

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, and investment outlook, and negatively impact their relationship with other international institutions. In such cases, as Domenico Lombardi and Ngaire Woods **suggest**, a state intending to borrow from the IMF may feel that the Fund has "bargaining power" to potentially enforce rules and policies through surveillance before approving any lending programmes. Even in cases where the IMF's immediate lending leverage does not come into play, low-income countries and emerging markets may be motivated to implement the IMF's advice to maintain perceptions of creditworthiness and build a good relationship. The IMF surveillance can therefore be significant in shaping countries' macroeconomic policies, from tax structures and debt, to the scale and scope of public sector provision of essential services.

These policy prescriptions are embedded in a wider over-reliance on fossil-fuel exports in economic growth plans, and form just one dimension of the fundamentally unsustainable export-driven growth orthodoxy that the IMF has promoted as a solution to countries' balance of payment issues.[25] As Kate Arnoff comments, "For countries looking to grow debt-servicing revenue by any means necessary, selling off all manner of drilling rights to multinational fossil fuel companies offers a quick buck at a high cost to the planet."[26] Alternative policy responses are needed that address the challenges posed by the deeply embedded nature of fossil fuels in countries' attempts to address balance of payment issues.

This report analyses Article IV surveillance reports since the adoption of the Paris Agreement to determine whether IMF policy advice has undermined a just energy transition. The analysis suggests that policy advice has very likely deepened many IMF member countries' exposure to climate change transition risks, through support for fossil fuel infrastructure, as well as the promotion of a potentially counter-productive energy sector reform agenda that is poorly aligned with just energy transition principles (see Box 2).[27]

For the IMF's advice on transition risks to support a just energy transition, the Fund must develop alternate policy advice that allows emerging and developing countries to escape over-dependence on carbon-intensive exports, and have the ability to access adequate capital and other resources to finance a low-carbon energy transition. Ensuring a social dialogue on the just transition with labour unions, women's rights groups and affected communities is an essential part of this process.

Box 2. ActionAid's definition of a just transition

The term 'just transition' was coined by the trade union movement, and further developed by the International Trade Union Confederation (ITUC).[28] In 2016, the ILO issued formal guidelines for a just transition.[29]

ActionAid has also developed the concept, within the context of sustainable development, social justice, and human rights.[30] This concept describes not only what the new system will look like, but also how that transformation should be carried out, according to four principles:

- **Address – and not exacerbate – inequalities:** A just transition must address pre-existing inequalities such as gender-based inequalities, historical responsibility for causing the climate crisis and vulnerability to its impacts, and access to food and decent work. It must avoid false solutions and technologies that harm communities, or that concentrate control, wealth, land, and power in fewer hands. As new areas of employment grow, these must be governed by strong labour and environmental standards.

- **Transform systems to work for people, nature, and the climate:** Fundamental reshaping of our energy, extractive, food, and agriculture systems is needed on a large scale and at rapid speed. Leaving it entirely to 'green consumerism' will not be enough. These changes must consider the needs of the climate, ensure social justice, and ensure that the planet's biodiversity and natural ecosystems are protected and enhanced.

- **Ensure inclusiveness and participation:** How a process is carried out is key to success in a just transition. A just transition must address power inequalities and give marginalised communities – particularly women who face intersecting inequalities – a seat at the table. Inclusive and participatory planning processes can give communities a chance to shape their own future in a way that benefits them, and can avoid the risk of top-down changes that reinforce inequality.

- **Develop comprehensive plans and policy frameworks:** Governments must act as midwives for just transition processes, to facilitate effective transformations on the scale required, through developing policy frameworks that support the process. Impact assessments, skills and training, social protection and joined-up thinking across sectors and global connections will be key.

1.1 Transition risks: Has the IMF ignored the potential 'macro-criticality' of the carbon bubble?

After much debate about whether climate-related issues should form a core part of the IMF's work, it is encouraging that the CSR clearly acknowledges that climate change adaptation and the transition risks posed by the shift to a low-carbon economy are potentially 'macro-critical'. This decision signals agreement among the major shareholders of the IMF that climate change is fundamental to its mandate. Nonetheless, as already mentioned, the IMF still has much work to do to ensure its policy advice is well-aligned with a just energy transition and supports a global economic system that addresses the climate crisis and operates within planetary boundaries.

While the IMF has been slow to tackle the issue of climate change transition risks, recent academic and policy literature identifies the myriad macroeconomic, financial, and fiscal impacts of climate change. One significant contribution to this field is Volz et al's (2020) report on Sovereign Risk and Climate Change, which sets out a comprehensive framework for conceptualising physical and transition risks from climate change, and the impact that these different 'risk channels' have on states' 'sovereign risk', or "the risk that a government will become unable or unwilling to meet its debt obligations" (see Figure 1).[31] Crucially, with evidence that climate change is already negatively affecting the cost of capital in many climate-vulnerable countries,[32] a systemic approach is needed to reform macro-finance and ensure greater resilience to climate risks. Within this broader framework, transition risks can pose direct fiscal, macroeconomic, and financial risks to IMF member countries. The ways in which a low-carbon transition is likely to affect macro-stability vary widely, with transition risks emerging both within national contexts and via spill-over risks. Gallagher and colleagues (2021) argue that "transition risks are perhaps the most macro-critical in their potential impacts on the real economy and livelihoods, financial systems, and public finance."[33]

Figure 1. Transmission channels of climate risk (from Volz et al 2020)[34]

The driving force behind climate transition risks is the need to rapidly reduce greenhouse gas emissions in order to avoid catastrophic climate change impacts – which will require a managed drawdown of fossil fuel production and use.[35] Volz et al (2020) point out that "some governments rely heavily on revenues from the extraction of oil, natural gas, and coal resources." These revenues comprise "5.6% [of revenues] for G20 countries on average", but reliance (and thus associated risk) are spread extremely unevenly among members of this bloc, as well as among IMF member countries more broadly.[36] The IMF's newly published dashboard of climate change indicators, likewise, demonstrates that countries in developing regions have highly varied exposure to these risks.[37] There are already signs that the so-called 'carbon bubble' (the over-valuation of fossil fuel assets) could 'burst' sooner than many expected in the face of renewable energy alternatives and climate change mitigation policies. According to analysts at Carbon Tracker, "falling demand, lower prices and rising investment risk is likely to slash the value of oil, gas and coal reserves by nearly two thirds, increasing the risk and likelihood of stranded assets,"[38] in the coming decades.

Clearly, new investments in fossil fuel extraction and infrastructure are particularly at odds with these emerging trends. Gallagher et al note that coal is acutely vulnerable in this context:

> *"a number of central banks see transition risks due to coal extraction and coal-fired power plants closings as the most macro-critical form of climate risk given the depth of such exposure and the consensus that coal should be the first energy source to diversify from."*[39]

In this vein, a joint report by the Sierra Club, Carbon Tracker, and the Rocky Mountain Institute argues that, "although coal has long been viewed as the cheapest way to power the global economy, this is no longer the case."[40] The report's global analysis of 2,500 coal plants found, "the share of uncompetitive coal plants worldwide will increase rapidly to 60 percent in 2022 and to 73 percent in 2025." These will represent a fiscal burden where plants are privately owned and states are required to continue to make 'capacity payments' (i.e. minimum payments required under the terms of long-term contracts) for underperforming or offline plants. Alternatively, if states attempt to retire uncompetitive coal power early, they risk facing expensive compensation claims from private investors under investor-state dispute mechanisms (as discussed in more detail in Sections 2.2 and 2.3).

Coal mining and other forms of fossil fuel extraction are also highly vulnerable to the combination of falling renewable energy costs and lower prices or demand. For example, in South Africa, coal exports are particularly at-risk from a low-carbon transition, with an estimated loss of $83.7 billion by 2035 from falling prices and demand.[41] Countries reliant on oil and gas extraction are also not immune to such trends, particularly as a new wave of 2030 emission reduction targets were introduced in key markets in early 2021, which, if implemented, will significantly reduce demand for imported natural gas. In the case of the European Union, one of the largest importers of natural gas, its 2030 target to reduce emissions by 55

per cent could result in natural gas use dropping by 32-37 per cent of final energy consumption compared to 2015, with a significant drop in demand continuing thereafter.[42] The US and UK will also see deep reductions in gas demand by 2035, if they enact recently announced commitments to further decarbonise their power sectors.[43] These commitments follow on the heels of a grim year for the oil and gas sector in 2020, when oil majors undertook historic write-downs of oil and gas assets, such as Exxon's $20 billion write-down of gas assets in North and South America in November 2020. The low-carbon transition is likely to accelerate the rapid 're-assessment' in the value of such assets.

The outlook for the 'carbon bubble' is entering an even more uncertain terrain due to COVID-19, which caused a severe – albeit temporary – exogenous shock to the sector. In this context, the lack of sufficient attention to transition risks[44] – and indeed the Fund's de facto support for fossil fuel infrastructure expansion, as detailed in Section 2 of this report – is a critical blind spot in IMF policy advice to date. So too is the lack of analysis of how existing policy advice is hampering a just energy transition.

1.2 Connecting the dots: A just energy transition, austerity prescriptions, and IMF policy advice

Ultimately, transition risks, as they are emerging in the Global South, are embedded in wider unequal power relations within the global economic system, with new research indicating, "the global North drains from the South commodities worth $2.2 trillion per year, in Northern prices."[45] IMF policy prescriptions, which have often encouraged an increase in carbon-intensive exports alongside fiscal consolidation measures, have played a significant role in embedding these extractive processes in the economies of many countries. This report seeks to contribute to the wider discourse around the need to reverse this trend, which will only be possible through a radical re-imagination of how the international financial architecture is governed. While this may seem a lofty aim, it is a prerequisite for achieving a just energy transition which allows countries to achieve global climate ambitions, while addressing the increasing inequality gap within and between countries. Furthermore, just energy transitions, particularly in the Global South, must be embedded in wider efforts to build resilience to climate and other shocks.

In practice, addressing transition risks from climate change in an equitable manner will require the IMF to abandon its continuing commitment to fiscal consolidation prescriptions. 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 or an international tax body to improve domestic resource mobilisation efforts.[46]

In response to the CSR, civil society groups set out a framework for IMF engagement in country-level surveillance that explained how the IMF can better respond to multiple crises, including the climate crisis, growing structural inequalities, and the impacts of the COVID-19 pandemic – which all undermine the achievement of women's rights.[47] Despite this, there is evidence that the IMF's policy advice is headed in the opposite direction, based on civil society analysis of IMF staff reports. Research by Eurodad published in October 2020 found that 72 countries which received IMF COVID-19 financing have made commitments to begin fiscal consolidation as early as 2021, worth 2 per cent of GDP on average.[48] Similarly, research by Oxfam in 2020 found that in 84 per cent of IMF COVID-19 loans, IMF staff encouraged, if not directly required, countries to adopt tougher austerity measures in the aftermath of the crisis.[49] Research by ActionAid International found that, "despite the virus exposing the manifest shortcomings of developing country health systems, public sector wage bills remain a target for rapid cuts once the initial stages of the crisis are over."[50]

This report builds on this analysis and situates the Fund's advice on privatising state-owned enterprises (SOEs) and promoting fossil fuel subsidy reform as part of this wider policy agenda. It looks at both areas as part of their overall aim to achieve greater 'efficiency' in energy systems through their privatisation and integration into markets (a wide-ranging reform agenda that the World Bank and IMF have sought to implement across developing regions since the 1990s, with uneven success[51]).

The privatisation of SOEs remains a common pillar of IMF-promoted austerity measures - recommended in 59 countries by the IMF in 2018-2019 alone.[52] Such reforms risk further fragmenting the ability of governments to undertake coordinated approaches to the just energy transition. They may lead to job losses and degradation of working conditions and pay. It can also reduce the ability of labour unions to play an active role in national dialogues on the 'just energy transition' in order to help ensure that the negative impacts of transition risks on the real economy are effectively mitigated. Here, one of the vital questions to answer is whether privatisation is necessarily the most advantageous route to a low-carbon transition. In cases where privatisation does lead to increased renewable energy power sources in the power mix, it is also key to assess whether this shift occurs alongside an effective social dialogue with national unions and workers, to ensure a just transition for those who lose out.

As alluded to above, the IMF's common policy prescriptions on fuel subsidy reform are largely focused on addressing demand side issues, including consumer pricing, rather than addressing supply side issues. This includes the systemic overproduction of fossil fuels and the associated transition risks this poses. Although ending all types of fossil fuel subsidies is an inevitable requirement of a low-carbon transition, there is an important question about how this should be sequenced with other policy tools, particularly in emerging and developing economies. Sweeney (2020) argues that the IMF's measures to reform fuel subsidies in many of these instances amount to 'green structural adjustment', based on the assumption that raising fossil fuel energy prices will decrease fossil fuel-based energy demand.[53] He suggests that the IMF assumes a relationship between prices, fossil fuel use, and emissions reductions that is based

on what economists call "elasticities," – i.e. that higher prices will reduce demand, and therefore lead to lower emissions. Sweeney notes that empirical research has shown that the "price-demand ratio" can indeed be quite pronounced when consumers have alternative energy options, but when alternatives do not exist – which is often the case, particularly in poor countries – increases in prices produce a "low to moderate" reduction in demand.[54]

Yet, the Fund has advocated for fuel subsidy reform in a number of countries where alternatives are in scarce supply. As such, rather than being the first step on the road to a just energy transition, this amounts to a punitive policy response that has limited impact on reducing global emissions without concurrent policy initiatives, including front-loading investments in green alternatives.[55]

Simply put, fossil fuel price adjustments on their own will not untangle the complex web of issues that underpin transition risks in many IMF member countries – in fact, they could easily exacerbate them, causing a disorderly collapse in the value of fossil fuel assets in countries who lack the flexibility to respond to the potential macroeconomic fallout of these shifts. They also leave the climate justice issues to one side, largely ignoring the imperative of ensuring a just energy transition.

The remainder of this report is structured as follows: the results of the empirical study of Article IVs carried out by ActionAid and Bretton Woods Project are presented in Section 2; key takeaways from that research are outlined in Section 3; and, the report concludes with recommendations for how the IMF can better address transition risks moving forward, with these recommendations positioned within a broader equity lens.

2. Findings: Is IMF policy advice undermining a just energy transition?

While the Fund is not a signatory of the Paris Agreement, IMF member countries are legally bound to make progress toward a carbon-free future as signatories to the accord.[56] As such, the Fund's policy recommendations should support that transition to low carbon future, or, at the very least, not undermine it. This requires ensuring that advice does not run counter to the creation of an enabling macroeconomic environment for climate action, and does not harm countries' efforts to achieve Nationally Determined Contributions under the Paris Climate Agreement.[57] Therefore, this report seeks to understand how advice related to fossil fuels and the power sector may affect the pathway to ensuring a just transition, by looking at key areas of IMF policy advice since the Paris Agreement was signed.

The following contains highlights from a cross-country review of Article IV surveillance reports, complemented by a more in-depth analysis of advice given to Mozambique and Indonesia in relation to fossil fuel investments in coal.

2.1 Methodology: Cross-country review

To better understand how IMF policy advice is shaping member countries' vulnerabilities to transition risks, ActionAid and the Bretton Woods Project reviewed the 595 Article IV reports published between 2015 and 2021 (see Box 3 for a methodological overview).

This review analysed IMF policy advice in three policy areas that could undermine a just energy transition to a carbon-free energy paradigm, namely:

1. Support for the expansion of fossil fuel infrastructure;
2. Advice on the privatisation or reform of state-owned enterprises in the energy sector; and,
3. The reform or removal of energy subsidies, particularly demand-side consumer subsidies.

As discussed in Section 1, support for fossil fuel expansion can undermine the ability of countries to transition by locking in carbon-intensive investments with extended lifecycles; privatisation of the energy sector can lead to additional costs if assets are stranded and potentially fragment the sector in ways that make a low-carbon transition difficult to achieve; and, the reform or removal of fossil fuel subsidies may be ineffective in reducing emissions, if not coupled with front-loaded investments in green alternatives.

To avoid duplication of existing analyses of IMF surveillance, this report does not attempt to cover the full range of policy actions required for a just energy transition, including abandoning austerity,[58] the extent to which IMF surveillance supports a green recovery from the COVID-19 pandemic,[59] or the impact of Fund advice on gender equality.[60] Rather, it looks at the three areas outlined above, to complement this analysis.

Box 3. Methodological Overview[61]

In an assessment of the Fund's treatment of key policies relating to a just energy transition, ActionAid and the Bretton Woods Project reviewed the 595 Article IV reports published between December 1st 2015 (when the Paris Agreement was signed) and March 25th 2021.

This review identified instances where:

1. The Article IV report advised or supported the development of fossil fuel infrastructure.

2. The Article IV report advised or otherwise supported the privatisation or reform of established power or electric SOE utilities.

3. The Article IV report explicitly or implicitly advised the reduction or elimination of energy subsidies.

The data sample includes 457 observations of policy advice originating from 293 Annual Reports. The data inform statistics indicating the relative frequency of policy advice to compensate for the smaller samples in years 2015 and 2021, as well as the decrease in publication frequency during the 2020 pandemic, when many Article IV reports were delayed. A keyword search was carried out in order to generate results. For more detailed methodological information, see the accompanying **Methodological Note**. To access data repository, see: **https://bit.ly/DataRepos**

Where a keyword was found, the keyword was analysed for relevance to the policy advice. Each observation, therefore, does not merely indicate the presence of any particular term or combination of terms – given the terms searched for are extremely common and would not provide meaningful insights on their own – rather, each observation indicates the verified presence of policy advice relevant to the study.

2.2 Review of IMF advice in three areas that could undermine a just transition

The Fund advised over half of countries to develop fossil fuel infrastructure

From December 2015 through March 2021, the IMF advised or encouraged 55 per cent of all member countries to develop fossil fuel infrastructure (see Figure 2 for an overview of countries). In total, of the 595 Article IV reports reviewed, 193 reports, or 32 per cent, contained at least one instance of policy advice encouraging the development of fossil fuel infrastructure. Policy advice tended to focus on the expansion of fossil fuel-dependent energy infrastructure, increasing investment in fossil fuel extraction and distribution, or the expansion and development of infrastructure projects.

In some cases, there was excessive optimism around fossil fuel revenue streams and potential growth opportunities. Fossil fuel-related industries were frequently mentioned as investment or growth opportunities. This was most notable in many

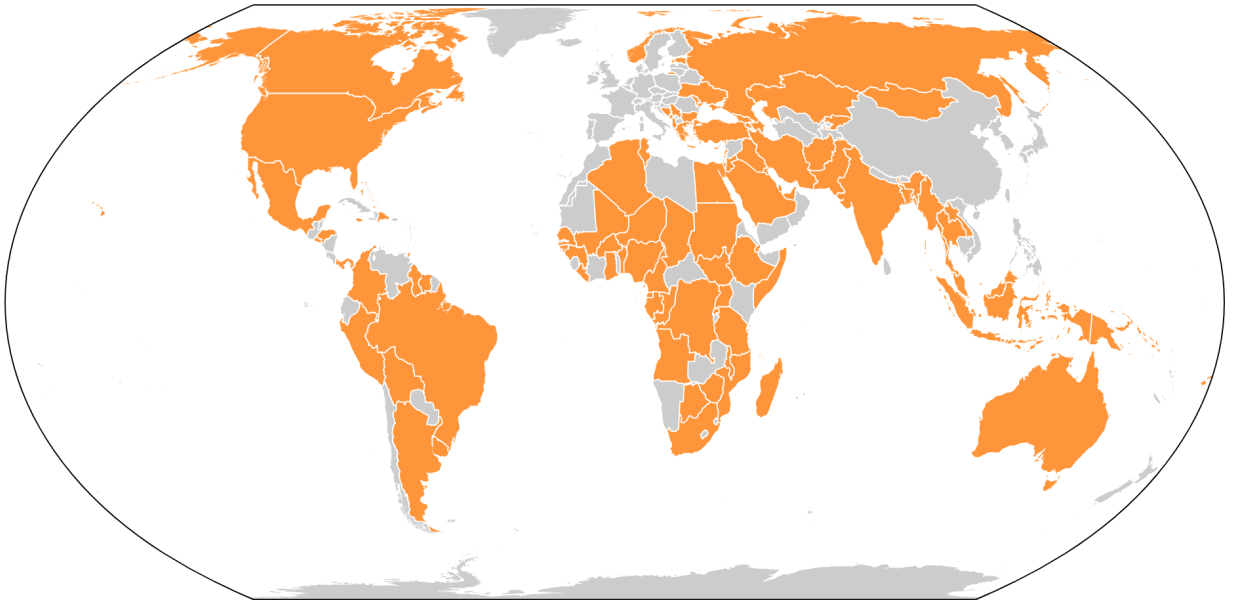
African countries with growing extractive industries, including Ghana,[62] Tanzania,[63] Uganda,[64] and Mozambique. Such optimism tends to foster a macroeconomic environment that supports greater fossil fuel expansion as a key driver of the economy, as explored in the Mozambique case study below (see Section 2.3). The Fund also supported increased fossil fuel extraction and new power plants, through advice detailing opportunities to exploit fossil fuel reserves. For instance, citing coal reserves valued at $1 trillion, the 2017 Article IV report for Mongolia encourages coal extraction as an opportunity to export to Chinese power plants, if "China downsizes its own coal industry for environmental reasons". This encourages coal extraction, while also implicitly acknowledging the transition risks posed by alternative energy sources, when they become cheaper than new coal. This is a view backed by new research from the IMF itself, demonstrating that renewable energy may be a better public investment than fossil fuels.[65]

Article IV reports also showed encouragement for incremental steps to transition to lower-carbon fuels, such as substituting incumbent fuel sources with natural gas – despite the fact that this could lock countries into future stranded asset risk and delay a rapid and just energy transition. For instance, the 2018 Article IV report for Jamaica painted the conversion of the Bogue power plant from heavy fuel oil to gas as an environmental advancement that would reduce both emissions and mortality.

Undoubtedly, the combustion of a shorter carbon chain results in less particulate pollution, but a decrease in greenhouse gas emissions from gas is commonly overestimated unless its significant upstream emissions are properly accounted for.[66] For instance, the International Energy Agency's (IEA) 1.5°C scenario modelling released in May 2021 shows there is limited space for gas as a transition fuel if the world is to meet global climate goals, including in low-income countries.[67] In short, the notion of gas as a transition fuel is out of step with robust, science-based efforts to achieve the 1.5°C goal embedded in the Paris Agreement.

In sum, references to the expansion of fossil fuel infrastructure in IMF surveillance since the Paris Agreement was signed illustrate that the IMF's macroeconomic advice to countries is very often couched in a business-as-usual approach to fossil fuel-based energy infrastructure, that is misaligned with global climate goals. This is important, in terms of illustrating the baseline from which IMF policy advice is starting from, as the Fund begins the process of developing more detailed guidance for staff on implementing the CSR.

Figure 2: Countries advised by IMF on development of fossil fuel infrastructure (December 2015 - March 2021)



The Fund advised – either directly or indirectly - over a third of countries to privatise their energy-related State-Owned Enterprises

The Fund advised 36 per cent of member countries to privatise their energy-related State-Owned Enterprises (SOEs) or gave generalised calls to privatise SOEs between December 2015 and March 2021 (see Figure 3). In total, 117 of the 595 Article IV reports analysed, in a total of 69 countries, encouraged the privatisation of SOEs in a way which is likely to impact on energy SOEs. Of this total, 52 reports contained explicit advice, in 40 of the 69 countries, to privatise or reform SOEs in the energy or power sector. In the remaining countries, the Fund gave generalised calls to privatise SOEs, which were considered likely to impact on SOEs in the energy and power sector.[68]

The privatisation of SOEs more generally forms one pillar of the Fund's larger austerity agenda. Advice around the privatisation of SOEs was almost always given in the interest of fiscal sustainability, often as part of fiscal consolidation measures, and sometimes to support the reduction of the public sector wage bill. Neutral or positive mentions of any type of SOE were rare, and SOEs are described almost invariably as a fiscal risk in Article IV reports. Calls for public sector reform of SOEs are often widespread and based on an assumption that the predicated gains in 'efficiency' far outweigh any value in conserving a government's capacity to control public investments.

Yet, the extent to which the privatisation of SOEs is seen as effective in bolstering fiscal sustainability in practice remains unclear, and in energy and power provision, this can be particularly problematic, where the privatisation of ownership can potentially affect the coordination role required for a just energy transition. In a context where government leadership is required to steer urgent and bold action for the good of people and planet, and governments are required to act as midwives of a just transition, the Fund's assumptions underpinning this advice require greater scrutiny.

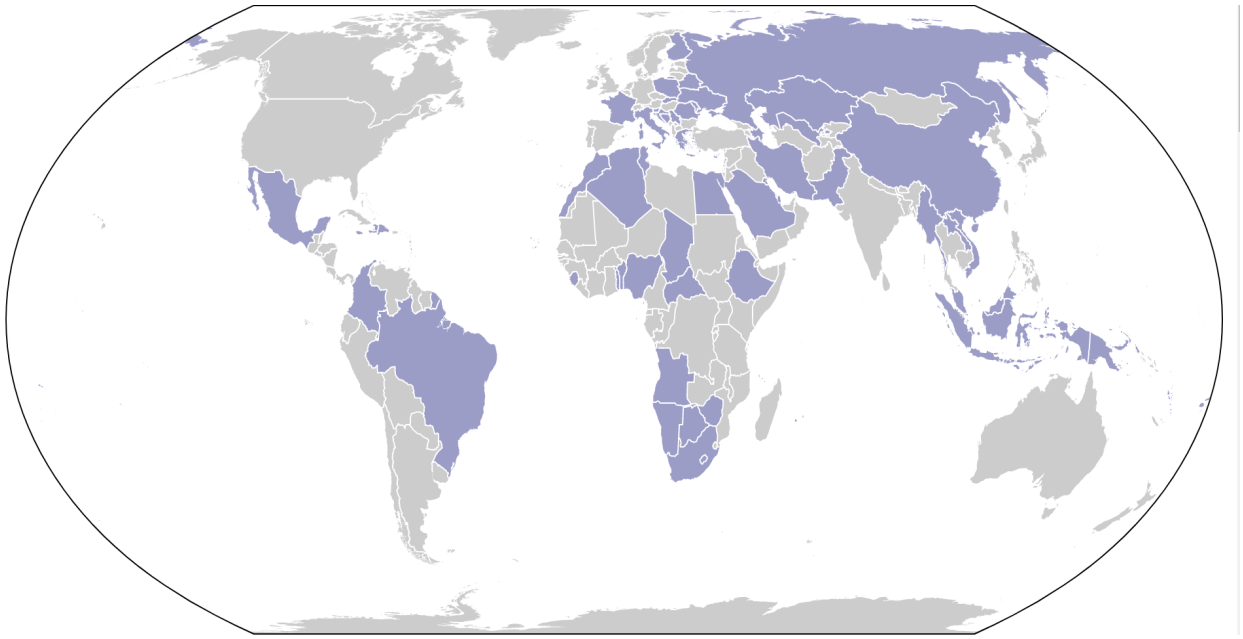
This is particularly critical as the world moves ever deeper into transitioning to a low-carbon future, and as fossil fuel assets will need to be retired. Yet, governments are often required to sign long-term agreements with private sector partners, which leave countries at even greater fiscal risk, while also limiting the prospects of rapidly phasing-out fossil fuel-based energy sources in favour of cleaner and increasingly cheaper renewable energy alternatives.

For example, in both Indonesia and Pakistan, the net-benefit is already questionable, as privatised energy has resulted in substantial fiscal obligations on these governments to comply with unfavourable contractual obligations.[69] In Pakistan, IMF advice repeatedly calls for SOE privatisation. Yet, as the 2015 Article IV report noted, government guarantees to energy companies already amounted to 2.3 per cent of GDP.[70] Pakistan is set to channel $10 billion per year in 'capacity payments' to private companies by 2023 related to underperforming fossil fuel energy plants and is struggling with significant debts as a result of this – including "coal debts" to China.[71] This is a massive fiscal burden, even though such advice is painted as fiscally prudent.[72] In 2021, the government was resisting advice from the IMF - under the Extended Fund Facility negotiations[73] - for further privatisation within the energy sector, including the privatisation of two LNG-fired power plants. Such privatisation efforts have already resulted in the country agreeing to LNG privatisation with long-term contracts with private investors that constrain the government's ability to retire these assets, due to contractual obligations protected by investor-state dispute settlement (ISDS) arbitration.[74]

ISDS presents an increasingly ominous threat to the low-carbon transition, more generally. As a report published in 2020 by the International Institute for Environment and Development noted, "ISDS protects most of the world's 257 foreign-owned coal plants, which must be retired early in order to put the planet on track to keep temperature rise below 1.5°C above pre-industrial levels."[75] This is also explored in more detail in the Indonesia case study in Section 2.3.

Finally, in cases where privatisation does potentially lead to increased renewable energy power sources in the power mix, it is unclear from the results whether the IMF is doing enough to ensure that this shift occurs alongside an effective social dialogue with national unions and workers, to ensure a just transition for those who lose out.

Figure 3: Countries advised to directly or indirectly privatise energy SOEs (December 2015-March 2021)



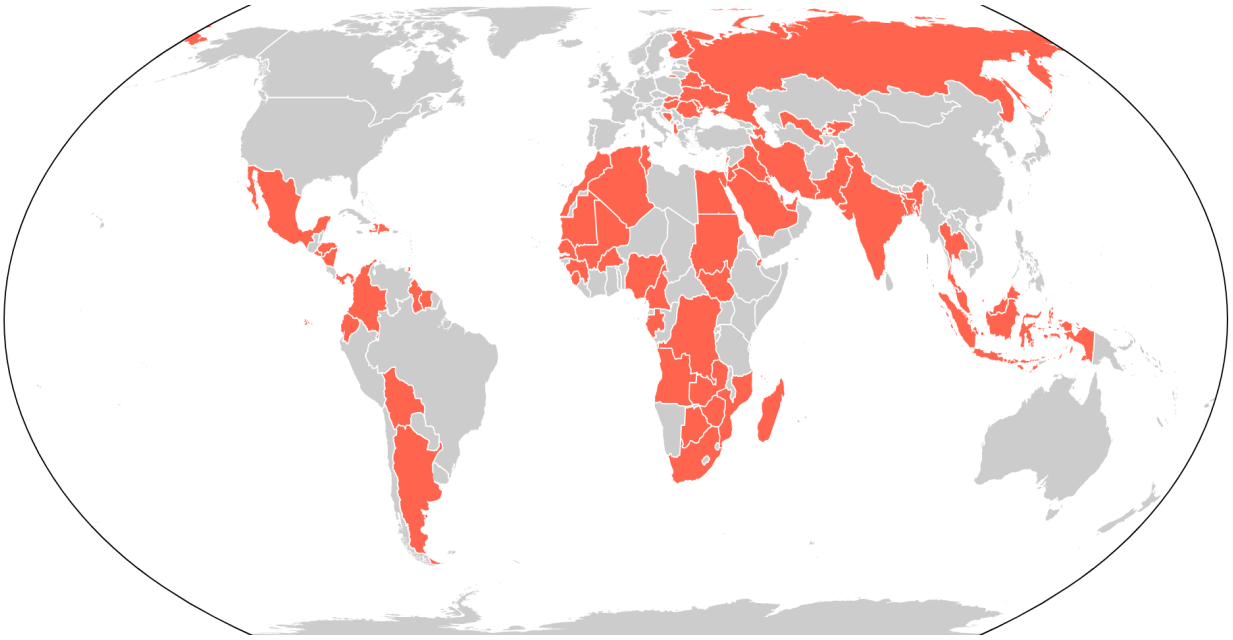
The Fund advised over a third of countries to reduce or eliminate energy subsidies, with a focus on demand-side policy interventions

The Fund advised 37 per cent of member countries to reduce or eliminate fossil fuel subsidies in 22 per cent of reports since December 2015 (see Figure 4 below), with this advice mainly focusing on demand-side policies (i.e. consumer subsidies). This advice is largely positioned in Article IVs as part of a broader agenda to constrain public spending and as part of fiscal consolidation.

As already discussed in Section 1.2, a reduction in demand-side energy subsidies cannot be expected to produce a dramatic reduction of consumers' carbon-dependent energy consumption where renewable energy provisions are not yet established as immediately viable alternatives. Thus, in this form, it can be seen as a type of 'green structural adjustment', particularly in emerging and developing economies, where financing for investment in green alternatives may be limited currently.

Further, although the IMF advice to remove broad-based fuel subsidies is often backed by advice to compensate the poorest through targeted social safety net measures to account for the socio-economic impacts of subsidy removal, such measures are often rife with targeting errors, according to research,[76] which limits their effectiveness in mitigating harm to the poorest recipients, and have high administrative costs.

Figure 4: Countries advised to reduce energy subsidy (December 2015 - March 2021)



Overall, the IMF's demand-side reforms fall significantly short of the actions required to address transition risks, while often negatively impacting on citizens of emerging and developing economies, in a world still largely dependent on fossil fuels.[77] As noted in a 2019 report by UN Women and the International Labour Organization, "Higher energy prices... tend to slow down economic activity and thus generate unemployment. The sudden removal of fuel subsidies and consequent increases in prices have also sparked protests and violent riots in many countries."[78]

In some cases, for example Jordan in 2012,[79] and Ecuador in 2019,[80] these reforms have been linked to large-scale political unrest. In 2019, prices in Haiti rose by 51 per cent after IMF advice to "eliminate regressive fuel subsidies", with widespread riots in 2019 culminating in the Prime Minister's resignation just eight days after announcing the cuts.[81] In Nigeria, the IMF has called for cuts to consumer fuel subsidies over a number of years, with reforms ultimately enacted in 2020 during the COVID-19 pandemic. In 2012, these reforms led to widespread riots and nationwide strikes. In 2020, record low oil prices led to less resistance, but with pressure from rising prices building,[82] there are predictions of new large-scale protests – nevertheless, the 2020 IMF Article IV advised the government to hold fast to its decision in the face of this possible unrest. [83]

These examples show that the IMF's fixation with demand-side fossil fuel subsidies is often at odds with lived realities of citizens in its member countries – pointing to the need for a reset in how the IMF engages on this issue in a way that is better aligned with an inclusive social dialogue on how to ensure a green and just energy transition

that averts runaway climate change impacts. Rather than further austerity measures, the IMF should make the case to its wealthy shareholder countries (who are most responsible for the current climate emergency) that further resources for a just energy transition are required in emerging and developing economies.

2.3 Digging deeper into IMF advice on coal in Mozambique and Indonesia

New coal expansion is particularly problematic as it leaves countries vulnerable to the most immediate transition risks, and thwarts efforts to move towards a low carbon future. To better understand how the IMF deals with this in its surveillance advice, we analysed Article IV reports for Mozambique (a low-income country) and Indonesia (a middle-income country). This analysis shows that IMF advice is entrenching fossil fuel dependency, which has opened the door to increased investment in coal, leaving both countries exposed to transition risks.

IMF displayed unwarranted optimism on coal's potential in Mozambique

IMF Article IV reports, over the time period analysed,[84] promoted optimistic assumptions of future revenues from coal leading to expanded fiscal space, and predicted increased inward foreign investment and increased export-led growth in Mozambique. The stage was set for this in the 2013 Article IV report,[85] which predicted that Mozambique would become "one of the world's leading coal exporters." New gas and coal megaprojects were estimated to add 20 per cent to GDP growth by 2023. Government revenues from coal were predicted to reach 1.6 per cent of GDP. By 2023, alongside gas, this was estimated to account for a "quarter of all revenues."[86]

On the back of these predictions, IMF advice encouraged public spending for infrastructure projects to support coal expansion. For instance, they gave enthusiastic support for the expansion of the Nacala rail corridor – vital to ensuring coal could be exported – which they predicted in the 2016 Article IV report would help to triple exports, add to economic growth, and help boost government revenues.[87] The IMF also focused its technical assistance on tax reforms, including the development of a new tax policy bill in 2014.[88] IMF technical assistance has previously been shown to have resulted in significant tax breaks for coal, which has incentivised new investments in coal megaprojects.[89]

As recently as 2019, the IMF Article IV report noted that Mozambique is "slated for a boom which could make significant contributions to the country's economic growth and government revenues" – despite clear evidence that the coal industry was in trouble.[90] As global prices fell in 2020, Vale, the country's largest coal mine operator, suspended operations, leading to a 40 per cent decline in production at the Moatize

plant. By 2021, Vale announced it was closing its doors for good and selling the mine and Nacala Corridor rail and port project investments, after 10 years of loss-making.[91] This will see the taps turned off on coal exports in Mozambique - which came almost exclusively from the Vale plant – at least in the short-term.[92] Industry specialists have predicted that the sale of the plant and railway will be difficult, due to low prices, challenging conditions in Mozambique, and the pressure from commitments made as part of the Paris Agreement in importer countries.[93] Indeed, Vale announced that the closure of the plant was a step towards its broader exit from the coal sector[94] – in order to become carbon neutral by 2050.[95]

Thus, the overly-optimistic predictions from the IMF have fallen short in Mozambique.[96] As far back as 2014, other analysts were already predicting that Mozambique's coal 'boom' was over.[97] Against this backdrop, the IMF's continuing predictions were clearly out of step – if not directly in conflict – with credible predictions of a decline in coal's outlook in Mozambique.[98]

Although exact revenue figures for coal are not available to compare to early IMF predictions, the whole extractive industry (oil, gas, and minerals) made up just 8 per cent of total revenues collected in 2020 (significantly lower than the quarter of revenues by 2023 coming from oil and gas predicted in the 2013 Article IV), of which a tiny amount was attributed to the mineral sector.[99] As one report from Mozambique-based NGO Justiça Ambiental stated in 2016, "There can now be little expectation of much revenue or economic benefits from the coal mining industry, but these were largely a myth anyway."[100]

The IMF had a key role in creating this myth, which has had serious repercussions in Mozambique. Communities have been displaced.[101] Mozambique is now saddled with further debt, due to government investments in the Nacala Corridor and other infrastructure projects to support coal.[102] Moreover, given that the anticipated foreign investment never materialised, the rail expansion was funded via external debt (which the IMF notes in the 2017 Article IV report[103]).

It is also striking that at the same time as IMF advice was supportive of expanding coal, they were advising reductions in public spending in other areas. This included reductions on consumer energy subsidies – which were eliminated in 2017 following the Fund's advice – and a reduction of the public wage bill, as part of advice on fiscal consolidation.[104] In 2017, the Fund said that fiscal consolidation measures would be offset by new economic growth from coal – a prediction that has also not come to fruition.[105] Together, this paints a picture of IMF advice displaying unfounded optimism about coal, while pursuing an overarching model of fiscal consolidation and support for carbon-intensive exports.

Mozambique is now in another debt crisis. The collapse in coal has exacerbated this crisis. Years of austerity advice from the IMF have also led to cuts in public services, including cuts to the public sector wage bill in recent years.[106] There are also worrying signs on the horizon that similarly optimistic predictions that have been made for LNG – from both the World Bank and IMF[107] – are also not going to be realised. This

may plunge Mozambique ever deeper into a debt crisis. For instance, the French company, Total, declared force majeure on its Mozambique LNG megaproject earlier in 2021, after foreign contractors working on the project were killed in an ambush by Islamist militants.[108] Ongoing conflict is expected due to the scramble for gas in the country, making early predictions for LNG's role in driving growth and increased revenues extremely unlikely.[109] Yet a 2020 debt sustainability analysis for Mozambique (conducted by the World Bank and IMF in April 2020) found that medium-term debt sustainability was largely dependent on revenues from the LNG project.[110] It is hard to see how Mozambique escapes crippling debts if gas goes the same way as coal.[111]

IMF advice in Indonesia says little about transition risk and coal dependency

Coal is the largest export sector in Indonesia. In 2019, the country was the world's largest thermal coal exporter.[112] Plans to build capacity and new coal plants are a major part of Indonesia's economic roadmap, with 52 coal plants at the pre-construction stage, second only to China in the number of new planned plants,[113] and 100 new plants that won't finish construction until 2023, when the government has committed to ending new coal plant construction.[114] As Tim Buckley from the Institute for Energy Economics and Financial Analysis (IEEFA) has pointed out, Indonesia's overreliance on coal presents "a clear and immediate risk that Indonesian export coal mines will be a stranded asset."[115]

Yet in Indonesia, the review of the Fund's policy advice carried out for this study shows strong support to extracting natural resources (notably through boosting infrastructure spending in support of this).[116] While explicit references to coal in Article IV reports were limited to the reform of mining licenses, and, in the context of rising prices, a favourable boost to the terms of trade, advice implicitly endorsed the continuing reliance on coal, by assuming a growth model heavily reliant on coal extraction. More broadly, the absence of a discussion on the role of coal is notable - especially given the importance of it to the Indonesian economy. As such, IMF advice does little to help achieve the objectives set out in Indonesia's Nationally Determined Contribution (NDC) under the Paris Agreement.

The first mention of climate change occurs in the 2020 Article IV report, where the Fund acknowledges that Indonesia is vulnerable to climate change risks. It also points to the significance of coal in the economy leaving the country susceptible to transition risks, and advises the development a "comprehensive transition plan" as part of ongoing structural reforms, which would include "reducing reliance on coal", alongside other measures, such as investment in renewables.[117] However, it expands no further on this sparse advice. This fails to do justice to the extent of Indonesia's vulnerability to the transition risks posed by its excessive reliance on coal – and the urgency for action to address this.

Subsequently, the government has responded to what is increasingly looking like an inevitability – that further coal expansion is now too risky for Indonesia to continue to pursue. In May 2021, the state-owned electricity company Perusahaan Listrik Negara (PLN), announced a moratorium on the construction of new coal plants beyond the current pipeline. PLN said the company would invest in renewables, with the aim of becoming carbon neutral by 2050.[118] However, even this would be too little, too late.

Civil society groups have been critical of the degree of urgency in the announcement – as there are still many new plants being planned – arguing that Indonesia requires a more rapid and just transition out of coal.[119] It also looks out of step with some of its neighbours in the wider region: the Philippines already announced a complete moratorium on new coal; Bangladesh is assessing how to move away from coal-based power plants; and Vietnam plans to cancel seven plants and has committed to reassessing the rest by 2030. With it becoming increasingly clear that coal is no longer a viable path, IMF advice in 2020 appears insufficient.[120]

While coal barely gets a mention, the Fund consistently shows support for reducing consumer energy subsidies, and privatising SOEs. On subsidies, the IMF-backed energy consumer subsidies reform in 2015 led to price rises of 30 to 100 per cent.[121] The reforms have also not realised a number of the expected aims. Targeted social safety nets were introduced, partly on IMF advice, to shield the poorest from the impact.[122]

However, targeting has been shown to be weak in protecting the poor,[123] and there was also no formal reallocation of revenues from subsidy reform (in spite of this being heralded as a deliberate consequence of reforms).[124] Indeed, the subsidy removal freed up little new revenue; as the 2015 Article IV report noted, the predicted government revenue had not materialised, and social spending more broadly was reduced that year to comply with the deficit ceiling.[125] Since then, subsidies have been de facto reinstated, as the government has committed to keep prices stable.[126] The IMF has continued to press – in the 2016, 2017, 2019 and 2020 Article IVs – for reforms in the consumer energy subsidies.

Support from the IMF for greater privatisation of SOEs particularly stands out. Although this advice relates to generalised reform of SOEs – rather than specific reform of the power sector - the advice is telling of the general bias observed in the cross-country findings towards privatisation of SOEs as a matter of principle, rather than based on wider considerations, including transition risks. Certainly, further privatisation of the power sector could be unhelpful, given such efforts have been shown to result in the country signing long-term coal power purchase agreements with private investors.[127] In fact, the moratorium on further coal plant expansion announced by the state-owned PLN demonstrates the clear case for the importance of governments retaining independence to retire plants early to achieve climate goals.

Yet, currently, the privatisation of SOEs puts the government at risk of investor-state dispute settlement (ISDS) arbitration, as previous evidence has shown. As the International Institute for Environment and Development noted in its October 2020

report, this could result in significant liabilities: "In Indonesia... the estimated value of 12 coal-fired power stations protected by ISDS could be up to $7.9 billion. The cost of ISDS compensation could be even greater."[128]

3. Key takeaways

The findings of this review show that IMF policy advice is undermining a just energy transition and that there does not appear to be a consistent shift in advice since the adoption of the Paris Agreement.

3.1 IMF advice may be exacerbating member countries' transition risks

The cross-country review shows that prior to the 2021 Comprehensive Surveillance Review, IMF policy advice very likely deepened many member countries' exposure to climate change transition risks. The clearest case of this is the Fund's support for fossil fuel infrastructure - from mining to transport to power generation. However, the promotion of an energy sector reform agenda built on austerity and privatisation, coupled with fossil fuel subsidy reform, largely focused on consumers rather than producers, is also undermining the ability of governments to support a just transition, particularly in low- and middle-income countries.

IMF policy advice is supposed to enable countries to forecast macro-critical risks and take necessary steps to avoid them. This clearly has not happened in the case of transition risks from coal in Indonesia, or coal mining exports in Mozambique. In these cases, IMF policy advice has been out of step with the Paris Agreement and has ignored warnings from other analysts and broader trends. Governments around the world are taking steps to phase out coal, and both public and private finance is dwindling for future coal investments. For example, the Asian Development Bank announced plans to stop financing coal in May 2021.[129] The president of the African Development Bank announced commitments to stop funding coal in 2019, saying, "coal is the past in Africa, renewables are the future."[130]

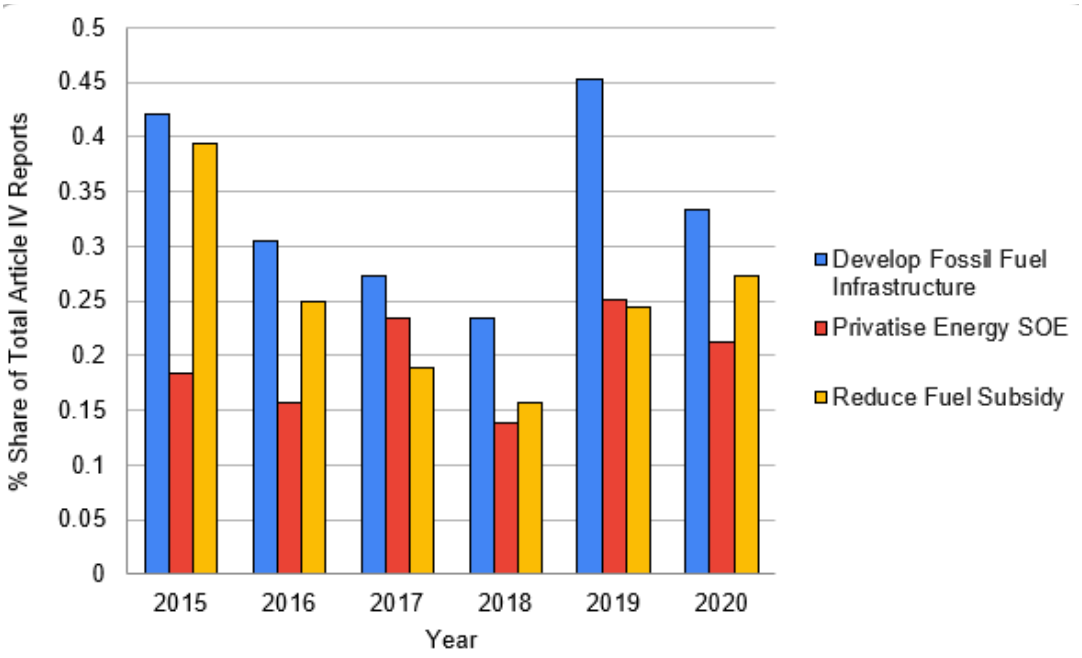
Despite the ambition set forth in its recently published Comprehensive Surveillance Review, the IMF has a long way to go to stop further embedding fossil fuel expansion into the economies of its members. To fulfil its ambition to work towards a green recovery and a low-carbon future, the IMF will have to develop policy advice that is supportive of weaning the global economy off fossil fuels and that accounts for the 'transition risks' posed from the end of the fossil fuel era, which could have severe macroeconomic implications.

3.2 There is little evidence to suggest that IMF advice is shifting in the three policy areas investigated

In the three areas studied, there is little evidence of a shift in the Fund's advice since Paris; as such, IMF advice continues to undermine a just transition to a carbon-free energy paradigm. To understand the trends in reports we also analysed advice year-on-year. Due to the extreme variability in the number of reports published in the sample period, trends in policy advice are best contextualised in relative terms, as displayed in Figure 5.[131] The aggregate data shows that relative prevalence of policy advice was supportive of the development of new fossil fuel infrastructure – which has largely remained consistent in the years following the Paris Agreement. Advice to privatise SOEs has slightly increased, in relative terms, and advice on removing or reforming energy subsidies, after peaking in 2015 and then declining, is now increasing again.

Of course, a decrease in the relative frequency of a particular policy recommendation may also be the result of a country adopting the Fund's persistent policy advice, or topics not being adequately covered in Article IV reports. The latter could account for why the Fund's advice regarding the development of fossil fuel infrastructure in some countries is notably absent, e.g. in Vietnam and Bangladesh, where there is no mention of 'coal' despite both countries considering the developing new, large-scale coal investments in recent years, or only a brief mention in Indonesia, as shown in Section 2.3 above.

Figure 5: Relative Frequency of Policy Advice (December 2015 – December 2020)



4. Conclusion and Recommendations

The IMF plays a critical role in shaping policies that governments adopt to achieve macroeconomic stability. This report shows how existing IMF policy advice is exacerbating transition risks for many member countries and undermining their ability to achieve a just energy transition. For the IMF, aligning policy advice with just transition principles will require moving beyond a strict climate lens. Indeed, a just transition requires that policy frameworks address, rather than exacerbate, inequalities; transform energy systems to work for people, nature, and the planet; and, ensure inclusiveness and participation.[132]

This presents a direct challenge to the IMF's policy orthodoxy, which tends to be centred on ensuring reduced public spending and increasing export revenues, including through carbon-intensive sources. Civil society organisations have already noted that, to achieve the Sustainable Development Goals and Paris Agreement's objectives, multiple issues must be tackled together, including abandoning austerity, supporting gender-responsive public services, and ensuring just climate transitions.[133] As such, the recommendations below go beyond the findings of this specific report and build on proposals across a range of reports aimed at promoting feminist, green, and just economies around the world.

The IMF also has significant influence on what are considered financially viable investments, an important consideration for developing countries seeking climate finance for green initiatives. Governments and investors often look to IMF analysis and advice in assessing risks. Therefore, the IMF needs to contend with its role in the broader climate finance architecture and how it can facilitate finance flowing away from carbon intensive sectors and toward the transitions that are required. Crucially, this will also require the IMF to concurrently collaborate with governments, trade unions, employers and civil society at large to integrate a just transition into countries' macroeconomic policies.

The newly adopted CSR takes steps to increase attention to climate, but the Fund is only at the beginning of developing its policy recommendations to address transition risks. As the IMF develops the guidance note for staff that will help them implement the CSR from early 2022, we make the following recommendations:

- 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 human rights obligations, or achieve the Sustainable Development Goals and their Nationally Determined Contributions under the Paris Climate Agreement.[134]

- The IMF must develop clear guidance for staff on how to assess transition risks in Article IV surveillance, based on the principle of 'do no harm', including the risks

posed by the Fund's own advice on, inter alia, fiscal consolidation and support for carbon-intensive energy and exports.

- The IMF should shift its focus to eliminating fossil fuel producer subsidies and expanding investment for renewable energy and other green alternatives, rather than focusing primarily on eliminating or reducing consumer subsidies, while ensuring these efforts remain firmly embedded in countries' national just transition dialogues.

- The IMF should re-evaluate its advice on privatisation, particularly given the risks of compensation claims for stranded fossil fuel assets by private investors, and instead support governments to strengthen public institutions and public services, so that they can effectively respond to climate change. The IMF needs to fundamentally reassess the role of public services in light of both COVID-19 and the climate crisis – and to recognise the limitations of private sector responses. As part of this re-think, the Fund should create an institutional view on sustainable industrial policy that empowers IMF operations to support effective and coordinated strategies for sectoral and economic transformation.

- The IMF can 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 to fund a 'just energy transition.' Promoting renewable energy alternatives and assisting countries in lowering the costs of those alternatives will be an essential part of any transition. This is particularly the case in emerging and developing economies where governments already face rising costs of capital – or lack market access altogether – and where efforts to 'de-risk' green investments for the private sector may lead to the state taking on substantial fiscal liabilities. An essential pillar of this process will also be supporting countries to strengthen labour market institutions and achieving universal social protection, including social protection floors, to enable a just transition.

- Given the current context, the Fund's climate work should not be siloed. Climate efforts need to be considered alongside more significant debt cancellation efforts; investing in gender-responsive public services; increasing fiscal and policy space for countries to respond to the COVID-19 pandemic; abandoning austerity; and improving the quality and quantity of climate finance. The IMF should solicit input from UN institutions and preeminent experts in the field in developing guidance, as the IMF has limited expertise on climate change at present.

- The IMF should 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.

References

1 In IMF parlance, this means they are 'macro-critical' – for a large number of IMF member countries.

2 As part of its mandate, the IMF conducts surveillance. 'Article IV' reports refer to the outcome of policy dialogues with IMF member countries on balance of payment and macro-stability issues as part of this surveillance. See Box 1 in the report for more information.

3 For more details of review timeframe and methodology followed, see: https://www.actionaidusa.org/wp-content/uploads/2021/08/Methodology-Note_IMF-Surveillance-and-Climate-Change-Transition-Risks.docx

4 In total, 40 of the 69 countries were directly advised to privatise or reform SOEs in the energy or power sector by the Fund; in the remaining countries, instances of generalised calls were made to privatise or reform SOEs, with the energy sector likely impacted, but with too little information for this to be coded as either a direct hit or discounted as not a call for privatisation of energy SOEs.

5 Anderson, T and Kwizera, S (2020). Principles for Just Transitions in Energy, Extractives and Agriculture. ActionAid. https://actionaid.org/sites/default/files/publications/Principles%20for%20Just%20Transitions%20in%20Extractives%20%26%20Agriculture.pdf

6 ActionAid, Bretton Woods Project et al. (2021). A Proposed Framework for IMF Engagement in Country-level Surveillance on Macrostructural Issues; Inequality, Gender and Climate Change: A civil society submission to the 2019-2021 IMF Comprehensive Surveillance Review. https://www.brettonwoodsproject.org/wp-content/uploads/2021/03/A-Proposed-Framework-for-IMF-Engagement-in-Country-level-Surveillance-on-Macrostructural-Issues-Inequality-Gender-and-Climate-Change.pdf

7 World Bank (2020) Poverty and Shared Prosperity 2020: Reversals of Fortune.

8 B, Smee, 2007. 'Stern: Climate change a 'market failure'. The Guardian, 7 November. Available at: www.theguardian.com/environment/2007/nov/29/climatechange.carbonemissions [Accessed 1 July 2021].

9 Malm, A (2016). Fossil Capital: The Rise of Steam Power and the Roots of Global Warming.

10 ICSC Policy Note (2020). The challenge to macroeconomic and corporate governance in an era of pandemic and climate risk. https://icsc.ngo/wp-content/uploads/2020/10/PolicyNote_TMonsod_28Oct2020_ICSC.pdf

11 Bretton Woods Project 2019, Confronted with climate emergency, IMF belatedly attempts to "get real" [Accessed 1 July 2021]. https://www.brettonwoodsproject.org/2019/07/confronted-with-climate-emergency-imf-belatedly-attempts-to-get-real/

12 IMF 2012, Remarks by IMF Managing Director at the Climate Adaptation Summit. The IMF is placing climate change at heart of its work. [Accessed 1 July 2021]. https://www.imf.org/en/News/Articles/2021/01/25/sp012521-md-remarks-at-the-climate-adaptation-summit

13 Parry, I., Black, S. and Roaf, J. (2021). Proposal for an International Carbon Price Floor Among Large Emitters. Available at: https://www.imf.org/en/Publications/staff-climate-notes/Issues/2021/06/15/Proposal-for-an-International-Carbon-Price-Floor-Among-Large-Emitters-460468.

14 See: https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/world-economic-outlook-october-2020

15 Climate Policy Initiative (2019). Understanding the impact of a low carbon transition on South Africa. https://www.climatepolicyinitiative.org/wp-content/uploads/2019/03/CPI-Energy-Finance-Understanding-the-impact-of-a-low-carbon-transition-on-South-Africa-March-2019.pdf

16 UNCTAD (2021). How to finance a Global Green New Deal. Available at: https://unctad.org/news/how-finance-global-green-new-deal [Accessed 1 July 2021].

17 IMF (2021) Comprehensive Surveillance Review. Available: https://t.co/rteq32FbEI?amp=1

18 IMF (2021) Comprehensive Surveillance Review— Background Paper on Integrating Climate Change into Article IV Consultations: https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/05/18/2021-Comprehensive-Surveillance-Review-Background-Paper-on-Integrating-Climate-Change-into-460303

19 This strategy seeks to significantly expand IMF capacity to work climate issues in surveillance and other areas of the Fund's mandate by adding the equivalent of 95 full-time staff, but the strategy

notes that the IMF's Executive Board is still assessing this request for additional resources as part of the Fund's overall budget discussions. See: IMF (2021), IMF Strategy to Help Members Address Climate Change Related Policy Challenges—Priorities, Modes of Delivery, and Budget Implications. Washington DC: IMF. Available online: https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/07/30/IMF-Strategy-to-Help-Members-Address-Climate-Change-Related-Policy-Challenges-Priorities-463093

20 Gallagher, et al, 2021. Op Cit.

21 Gallagher et al, 2021. Op cit.

22 Mihalyi, D and Scurfield, T (2020). "How Did Africa's Prospective Petroleum Producers Fall Victim to the Presource Curse?" World Bank, Policy Research Working Paper, no. 9384.

23 For a discussion of this in the Latin America and Caribbean context, refer to: Caldecott, B., Harnett, E., Cojoianu, T., Kok, I., and Pfieffer, A. (2016) 'Stranded Assets: A Climate Risk Challenge'. Washington DC: Inter-American Development Bank. Available at: https://publications.iadb.org/en/publication/17164/stranded-assets-climate-risk-challenge-summary

24 Di Paola (2020). 'Fracking's false hope: Why fossil fuels won't help to repay Argentina's national debt'. At Issue, Bretton Woods Project. Available at https://www.brettonwoodsproject.org/2020/04/frackings-false-hope-why-fossil-fuels-wont-help-to-repay-argentinas-national-debt/ [Accessed 1 July 2021].

25 Tockman, J (2001). Funding deforestation How International Monetary Fund loans and policies are responsible for global forest loss. https://wrm.org.uy/articles-from-the-wrm-bulletin/section2/the-imfs-role-in-the-destruction-of-tropical-forests/

26 'ExxonMobil, Total discuss offshore drilling opportunities in Greece'. Reuters, 19 May, 2017. Available at: https://www.reuters.com/article/us-greece-energy-drilling/exxonmobil-total-discuss-offshore-drilling-opportunities-in-greece-ministry-idUSKCN18F20K [Accessed 1 July 2021].

27 Anderson, T and Kwizera, S (2020). Principles for Just Transitions in Energy, Extractives and Agriculture. ActionAid. https://actionaid.org/sites/default/files/publications/Principles%20for%20Just%20Transitions%20in%20Extractives%20%26%20Agriculture.pdf

28 See, for example, the ITUC-led 'Just Transition Centre', https://www.ituc-csi.org/just-transition-centre

29 ILO (2016) Guidelines for a Just Transition Towards Environmentally Sustainable Economies and Societies for All. Available at: https://www.ilo.org/global/topics/green-jobs/publications/WCMS_432859/lang--en/index.htm

30 Anderson, T and Kwizera, S (2020). Principles for Just Transitions in Energy, Extractives and Agriculture. ActionAid. Available at: https://actionaid.org/sites/default/files/publications/Principles%20for%20Just%20Transitions%20in%20Extractives%20%26%20Agriculture.pdf

31 Volz, U., et al (2020). Climate Change and Sovereign Risk. London, Tokyo, Singapore, and Berkeley, CA: SOAS University of London, Asian Development Bank Institute, World Wide Fund for Nature Singapore, and Four Twenty Seven. See also: Volz, U. (2020) Climate-proofing the Global Financial Safety Net. Working Paper. London: SOAS Centre for Sustainable Finance; Volz, U. (2021) 'The IMF and the Macro-Criticality of Climate Change'. In: Gallagher, Kevin P. and Gao, Haihong, (eds.), Building Back a Better Global Financial Safety Net. Boston, MA: Global Development Policy Center, Boston University, pp 108-118.

32 The Economist. 2021. Countries most exposed to climate change face higher costs of capital. Available at: https://www.economist.com/finance-and-economics/2019/08/15/countries-most-exposed-to-climate-change-face-higher-costs-of-capital [Accessed 1 July 2021].

33 Gallagher, et al, 2021. Op Cit.

34 Volz, U., et al (2020). Climate Change and Sovereign Risk. London, Tokyo, Singapore, and Berkeley, CA: SOAS University of London, Asian Development Bank Institute, World Wide Fund for Nature Singapore, and Four Twenty Seven.

35 Oil Change International (2019), 'Burning the Gas 'Bridge Fuel' Myth: Why Gas Is Not Clean, Cheap, or Necessary'. http://priceofoil.org/2019/05/30/gas-is-not-a-bridge-fuel/

36 [1] See IMF's Climate Change Dashboard here: https://climatedata.imf.org/

37 See: https://climatedata.imf.org/pages/fi-indicators/#fr4

38 See: https://carbontracker.org/reports/decline-and-fall/

39 Gallagher, et al, 2021. Op Cit.

40 Bodnar, P et al (2020). How to Retire Early: Making Accelerated Coal Phaseout Feasible and Just, Rocky Mountain Institute https://rmi.org/insight/how-to-retire-early

41 Climate Policy Initiative (2019). Understanding the impact of a low carbon transition on South Africa. https://www.climatepolicyinitiative.org/wp-content/uploads/2019/03/CPI-Energy-Finance-Understanding-the-impact-of-a-low-carbon-transition-on-South-Africa-March-2019.pdf

42 See: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52020SC0176

43 Ember (2021). Zero-carbon power is a key milestone on the route to net-zero. How the climate front-runners are discovering that zero-carbon electricity in the 2030s is key to meeting 2050 neutrality targets.

44 While the IMF has a very limited focus on transition risks to date, transition risks have been included in 'stress tests' created by the Network for Greening the Financial System (NFGS), primarily for the use of central banks. However, the credibility of NGFS's scenarios have been criticised by NGOs for under-estimating the pace at which private investors will need to stop providing finance to fossil fuel assets. This point has been echoed by Professor Daniela Gabor in her research on the discussion of transition risks among private investors, which she argues is largely "designed to protect the status quo of financial globalisation," rather than ensuring rapid decarbonisation. Thus, even examples of 'best practice' in this space require improvement to meet global climate goals.

45 Jason Hickel, Dylan Sullivan & Huzaifa Zoomkawala (2021) Plunder in the Post-Colonial Era: Quantifying Drain from the Global South Through Unequal Exchange, 1960–2018, New Political Economy.

46 Rich countries have thus far failed to meet the $100 billion a year commitment, with the UN Environment Programme estimating that adaptation costs alone for developing countries could rise to up to $300 billion a year by 2030. See https://news.un.org/en/story/2021/06/1094762

47 ActionAid, and Bretton Woods Project et al. (2021). A Proposed Framework for IMF Engagement in Country-level Surveillance on Macrostructural Issues; Inequality, Gender and Climate Change: A civil society submission to the 2019-2021. IMF Comprehensive Surveillance Review. See also 2021. ActionAid International. 2021. How the IMF's Comprehensive Surveillance Review sidelines gender equality. Available at: https://actionaid.org/opinions/2021/how-imfs-comprehensive-surveillance-review-sidelines-gender-equality

48 Eurodad (2020). Arrested development: International Monetary Fund lending and austerity post Covid-19.

49 Oxfam International, "IMF Paves Way for New Era of Austerity Post-COVID-19," October 12, 2020, https://www.oxfam.org/en/press-releases/imf-paves-way-new-era-austerity-post-covid-19 [Accessed 30 June 2021].

50 ActionAid (2020). The Pandemic and the Public Sector. ActionAid Policy Brief. Available online: https://actionaid.org/publications/2020/pandemic-and-public-sector

51 Foster, V, and Anshul, R. (2020). Rethinking Power Sector Reform in the Developing World. Sustainable Infrastructure Series. Washington, DC: World Bank. doi:10.1596/978 -1-4648-1442-6.

52 Ortiz, I and Cummins, M (2021). Global Austerity Alert Looming Budget Cuts in 2021-25 and Alternative Pathways. https://policydialogue.org/files/publications/papers/Global-Austerity-Alert-Ortiz-Cummins-2021-final.pdf

53 Trade Unions for Energy Democracy. 2021. 'Weaponizing the Numbers'. http://unionsforenergydemocracy.org/resources/other-resources/weaponizing-the-numbers/ [Accessed 1 July 2021].

54 Ibid

55 For a further discussion of this, refer to Pettifor, A. (2019) The Case for a Green New Deal. London: Verso.

56 For more on this, refer to this recent legal opinion: https://www.climatechangenews.com/2021/06/30/the-shell-court-case-must-be-a-wake-up-call-for-governments-to-end-fossil-fuel-support/

57 ActionAid, Bretton Woods Project et al. (2021). A Proposed Framework for IMF Engagement in Country-level Surveillance on Macrostructural Issues; Inequality, Gender and Climate Change: A civil society submission to the 2019-2021.

58 For instance; Eurodad (2020). Arrested development: International Monetary Fund lending and austerity post Covid-19. Oxfam International, "IMF Paves Way for New Era of Austerity Post-COVID-19," October 12, 2020, https://www.oxfam.org/en/press-releases/imf-paves-way-new-era-austerity-post-covid-19 (Accessed June 30, 2021). ActionAid (2020). The Pandemic and the Public Sector. ActionAid Policy Brief. Available online: https://actionaid.org/publications/2020/pandemic-and-public-sector

59 For instance: Recourse, Greenpeace, Earthlife Africa, Centre for Financial Accountability (2020). Build Back Better? IMF's policy advice hampers green COVID19 recovery; or, Gallagher, et al, 2021. Op Cit.

60 See, for an overview: Bretton Woods Project (2019), The IMF and gender equality: Operationalising change. London: BWP. Available at: https://www.brettonwoodsproject.org/wp-content/uploads/2019/02/Operationalising-Change.pdf

61 For a more detailed overview of the methodology please see Methodology Note: https://www.actionaidusa.org/wp-content/uploads/2021/08/Methodology-Note_IMF-Surveillance-and-Climate-Change-Transition-Risks.docx. To access data go to: https://www.actionaidusa.org/wp-content/uploads/2021/08/Data_Final_Surveillance_and_Climate_Change_Transition_Risks_File-for-uploading_2.xlsx

62 For instance, the 2019 Article IV notes that it expects a 5% growth driven by new potential oil and mining discoveries.

63 For example, the 2016 Article IV notes: "Growth is projected to remain strong at about 7 percent in 2016, on the back of low oil prices (a positive shock for Tanzania)"

64 For example, Uganda's 2017 Article IV notes that "over the medium term, infrastructure and oil sector investments could yield growth rates of 6 to 6½ percent."

65 Batini, N., Serio, M. Di, Fragetta, M., Melina, G., & Waldron, A. (2021). Building Back Better: How Big Are Green Spending Multipliers? IMF Working Papers.

66 Howarth, R. W., Santoro, R., & Ingraffea, A. (2011). Methane and the greenhouse-gas footprint of natural gas from shale formations. Climatic Change, 106(4), 679–690.

67 Gaventa, J. and Pastukhova, M. (2021). Gas under pressure as IEA launches net-zero pathway - Energy Monitor. [online] Energy Monitor. Available at: https://energymonitor.ai/policy/net-zero-policy/gas-under-pressure-as-iea-launches-net-zero-pathway [Accessed 22 July 2021].

68 52 of the 117 recorded observations had direct and/or explicit reference to privatisation or to reform of SOEs in the power or energy sector. In the remaining recorded observations, a wholly generalised call for SOE reform with insufficient specificity to rule-out the power sector was recorded (often these would include broad and sweeping recommendations to reform large sections of the SOE sector and can be assumed to include some energy sector privatisation).

69 Nicholas, S, 2021. 'Post Energy financiers in Asia must stop supporting region's costly addiction to LNG and coal power'. South China Morning. Available at: https://www.scmp.com/comment/opinion/article/3129922/energy-financiers-asia-must-stop-supporting-regions-costly [Accessed 1 July 2021].

70 IMF Article IV 2015 "government guarantees and circular debt among energy SOEs represent contingent liabilities amounting to 2.3 per cent and 0.8 per cent of GDP, respectively".

71 South China Morning Post. 2021. Time to stop funding Asia's costly addiction to LNG and coal power. Available at: https://www.scmp.com/comment/opinion/article/3129922/energy-financiers-asia-must-stop-supporting-regions-costly [Accessed 1 July 2021].

72 IMF (2021) Article IV Pakistan: Second, Third, Fourth, and Fifth Reviews Under the Extended Arrangement Under the Extended Fund Facility.

73 Pakistan Today. 2021. IMF told that Pakistan won't increase tariffs, says Tarin. Available at: https://www.pakistantoday.com.pk/2021/05/05/imf-told-that-pakistan-wont-increase-tariffs-says-tarin/ [Accessed 1 July 2021].

74 Tienhaara, K and Cotula, L (2020) Raising the cost of climate action? Investor-state dispute settlement and compensation for stranded fossil fuel assets. IIED, London.

75 Ibid.

76 For instance, see Development Pathways (2020). Hit and Miss: An assessment of targeting effectiveness in social protection.

77 Trade Unions for Energy Democracy. 2021. "Weaponizing the Numbers": The Hidden Agenda behind Fossil Fuel Subsidy Reform — TUED Bulletin 98. Available at: http://unionsforenergydemocracy.org/tued-bulletin-98/ [Accessed 1 July 2021].

78 ILO and UN Women (2019). Fiscal Space For Social Protection: A Handbook for Assessing Financing Options. Available at https://www.unwomen.org/-/media/headquarters/attachments/sections/library/publications/2019/fiscal-space-for-social-protection-en.pdf?la=en&vs=1903

79 Suleiman Al-Khalidi. November, 2012. 'Jordan risks instability after lifting of subsidies', Reuters. Available at: https://www.reuters.com/article/jordan-discontent-idUSL5E8ME35S20121114 [Accessed 1 July 2021].

80 'How Reforming Fossil Fuel Subsidies Can Go Wrong: A lesson from Ecuador'. Global Subsidies Initiative. Available at: https://www.iisd.org/gsi/subsidy-watch-blog/how-reforming-fossil-fuel-subsidies-can-go-wrong-lesson-ecuador [Accessed 1 July 2021].
81 'Haiti Gives the IMF a Fresh Lesson in the Value of Subsidies to the Poor'. Time Magazine. Available at: https://time.com/5342745/imf-haiti-protests/ [Accessed 1 July 2021].
82 Reuters 2021. Nigeria's fuel subsidy hangover bodes ill for state finances. Available at: https://www.reuters.com/article/uk-nigeria-gasoline-subsidy-idUSKBN2AI15G [Accessed 1 July 2021].
83 IMF (2020) Nigeria: 2020 Article IV Consultation-Press Release; Staff Report; and Statement by the Alternate Executive Director for Nigeria.
84 See Data Annex for exact references to the Fund's Article IV Reports on Mozambique.
85 The 2013 Article IVs preceded the 2015-20 period but the authors have included this as this included a series of medium-term forecasts for coal's potential, on which subsequent IMF advice was based.
86 Ibid
87 The 2016 Article IV Report notes: "in the coal sector, agreements need to be reached to unlock financing for the completion of the Nacala rail corridor, which would triple coal export volumes by 2017." The 2014, 2015 and 2016 Article IV Consultation all give (varying) predictions for revenue raising and growth also.
88 IMF (2015). Republic of Mozambique : Staff Report for the 2015 Article IV Consultation
89 Recourse (2020). IMF in Mozambique and Mongolia: Exacerbating climate crisis with more tax breaks for coal and gas. https://www.re-course.org/wp-content/uploads/2020/11/IMF-in-Mozambique-and-Mongolia.pdf
90 Bloomberg, 2021. 'Vale to Shutter Mozambique Coal Operations for 3 months'. Available at: https://www.bloomberg.com/news/articles/2019-11-27/vale-to-shutter-mozambique-coal-operations-for-3-months [Accessed 1 July 2021].
91 Reuters, 2021. 'Brazil's Vale to divest troubled coal assets in Mozambique'. Available at: https://www.reuters.com/article/us-japan-mitsuimitsui-co-coal-idUSKBN29Q08C [Accessed 1 July 2021].
92 A total $1.7 billion worth of coal exported in 2020 came almost exclusively from Vale Bloomberg. 2021. 'Vale to Shutter Mozambique Coal Operations for 3 months'. Available at: https://www.bloomberg.com/news/articles/2019-11-27/vale-to-shutter-mozambique-coal-operations-for-3-months [Accessed 1 July 2021].
93 BusinessLIVE. 2021. 'Vale's Mozambique coal project: A bottomless pit?' Available at: https://www.businesslive.co.za/fm/features/africa/2021-02-04-vales-mozambique-coal-project-a-bottomless-pit/ [Accessed 1 July 2021].
94 Ft.com. 2021. 'Vale takes first step to divest coal assets'. Available at: https://www.ft.com/content/27fcdbb2-922a-41e6-a043-26000ff93a1f [Accessed 1 July 2021].
95 Spglobal.com. 2021. 'Road fuels in the balance on Colonial Pipeline and Covid recovery' Available at: https://www.spglobal.com/platts/en/market-insights/podcasts/oil/052021-colonial-pipeline-gasoline-diesel-covid-fuel-shortage-europe [Accessed 1 July 2021].
96 Roe, A.R. (2018) Extractive industries and development: Lessons from international experience for Mozambique. WIDER Working Paper 2018/56. Helsinki: UNU-WIDER
97 Stoddard, E., 2021. Mozambique coal: boom to bust to wait it out. [online] U.S. Available at: https://www.reuters.com/article/mozambique-coal-idUSL5N1081H520150728 [Accessed 1 July 2021].
98 Hanlon, J. 2021. 'Mozambique Vale pulling out: This is the end of coal'. Available at: https://clubofmozambique.com/news/mozambique-vale-pulling-out-this-is-the-end-of-coal-by-joseph-hanlon-182889/ [Accessed 1 July 2021].
99 Government of Mozambique (2020) Relatório de Execução do Orçamento do Estado ano 2020. This notes only 8% of all revenues from various extractive industry megaprojects. Of the total figure around 15% was for "minerals", which would include coal. It is worth noting that the revenues in 2020 for the overall extractive industry had been impacted by COVID. However, with the Vale coal megaproject shutting in 2021 revenues will likely contnue to be very low, to minimal reveues for coal (for the foreseeable future).
100 Justiça Ambiental (2016). The Economics of Coal: Where are its Benefits? https://issuu.com/justicaambiental/docs/the_economics_of_coal__digital_
101 Ibid
102 The figures for this are not available but are likely to be large and repayments to last for many

years, e.g. in 2009 the government sought out US$500 million in loans, see https://macauhub.com.mo/2009/10/08/7895/. The following analysis showed a minimum of US$700 million in 2016: https://issuu.com/justicaambiental/docs/the_economics_of_coal__digital_

103 The IMF (2017) Republic of Mozambique: 2017 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for the Republic of Mozambique.

104 IMF (2019). Republic of Mozambique: 2019 Article IV Consultation. The 2019 Article IV advised the "rationalisation" of the wage bill which would lead to increased fiscal space (of 0.3 per cent of GDP by 2022).

105 The 2018 report argues that the "drag on the growth of fiscal consolidation" would be offset by an ongoing expansion of coal production from the Nacala rail corridor.

106 As shown by ActionAid, this contributed to shortages of frontline health workers as COVID-19 hit. See: ActionAid and Public Services International (2020). Covid-19 crisis: IMF told countries facing critical health worker shortages to cut public sector wages.

107 Bretton Woods Project, 2020. World Bank and IMF lend support to mega-gas project in Mozambique, undeterred by growing risks [Accessed 1 July 2021]. https://www.brettonwoodsproject.org/2020/10/world-bank-and-imf-lend-support-to-mega-gas-project-in-mozambique-undeterred-by-growing-risks/

108 The Africa Report.com. 2021. Mozambique: Sophistication of Islamic insurgency threatens LNG plans. Available at: https://www.theafricareport.com/38238/mozambique-sophistication-of-islamic-insurgency-threatens-lng-plans/ [Accessed 1 July 2021].

109 Friends of the Earth International (2020). Gas in Mozambique: A windfall for the industry, a curse for the country https://www.foei.org/resources/gas-mozambique-france-report

110 IMF (2020). Republic of Mozambique : Request for Disbursement Under the Rapid Credit Facility-Press Release; Staff Report; and Statement by the Executive Director for the Republic of Mozambique

111 Al Jazeera (2021). Total Suspends 20bn LNG Project in Mozambique . Available at: https://www.aljazeera.com/economy/2021/4/26/total-suspends-20bn-lng-project-in-mozambique-indefinitely#:~:text=French%20energy%20giant%20Total%20SE%20suspended%20its%20%2420%20billion%20liquefied,by%20Islamic%20State%2Dlinked%20militants.&text=The%20first%20phase%20of%20the,tons%20of%20LNG%20a%20year [Accessed 16 July 2021]

112 International Energy Agency (2019), Coal 2019. Analysis and forecast to 2024 https://www.iea.org/reports/coal-2019

113 HuffPost UK. 2021. The World Is Finally Giving Up Coal — Almost. Available at: https://www.huffingtonpost.co.uk/entry/coal-death-spiral-climate-environment_n_600a72bec5b6d64153aa9d36 [Accessed 1 July 2021].

114 Jong, H., 2021. Indonesia says no new coal plants from 2023 (after the next 100 or so). [online] Mongabay Environmental News. Available at: https://news.mongabay.com/2021/05/indonesia-says-no-new-coal-plants-from-2023-after-the-next-100-or-so/ [Accessed 1 July 2021].

115 Institute for Energy Economics & Financial Analysis. 2021. High Risk of Stranded Assets Across Indonesian Coal Sector - Institute for Energy Economics & Financial Analysis. [online] Available at: https://ieefa.org/high-risk-stranded-assets-across-indonesian-coal-sector [Accessed 1 July 2021].

116 For exact references to the Fund's Article IV Reports on Indonesia, see Data Annex

117 IMF (2020) Indonesia : 2020 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Indonesia

118 Mediatama, G., 2021. Demi zero emisi, PLN moratorium pembangunan pembangkit batubara. kontan.co.id. https://industri.kontan.co.id/news/demi-zero-emisi-pln-moratorium-pembangunan-pembangkit-batubara [Accessed 1 July 2021].

119 Lo, J., 2021. Indonesian utility pledges to stop building coal plants beyond existing pipeline. Climate Home News. Available at: https://www.climatechangenews.com/2021/05/11/indonesian-utility-pledges-stop-building-coal-plants-beyond-existing-pipeline/ [Accessed 1 July 2021].

120 Climate Action Tracker (2021) How a COVID-19 recovery with less coal could benefit Indonesia https://climateactiontracker.org/documents/852/CAT_2021-04-29_Indonesia-COVID-19-Recovery.pdf

121 UN COP (2016) Technical Paper. Just Transition Of The Workforce, And The Creation Of Decent Work And Quality Jobs

122 Ibid.

123 Government Of Indonesia (2018), The Future of The Social Protection System in Indonesia.

124 IEED (2020) Removing Subsidies for Gasoline and Diesel Consumption in Indonesia www.iisd.org/system/files/publications/stories-g20-indonesia-en.pdf
125 Due to low commodity prices – 2015 Article IV report
126 IEED (2020) Removing Subsidies for Gasoline and Diesel Consumption in Indonesia
127 Tienhaara, K and Cotula, L (2020) Raising the cost of climate action? Investor-state dispute settlement and compensation for stranded fossil fuel assets. IIED, London
128 Ibid
129 Farand, C., 2021. Asian Development Bank plans exit from coal finance. Climate Home News. https://www.climatechangenews.com/2021/05/07/asian-development-bank-plans-exit-coal-finance/ [Accessed 1 July 2021].
130 https://www.afdb.org/en/news-and-events/press-releases/unga-2019-no-room-coal-africas-renewable-future-akinwumi-adesina-30377
131 In 2020 there was an extraordinarily low publication rate in Article IVs due to the COVID-19 pandemic. In 2015, there was a low rate due to the starting date of analysis being at the end of the year (to take account of the signing of the Paris Agreement). Advice for 2021 was omitted as only 10 reports had been published at the time of research.
132 Anderson, T and Kwizera, S (2020). Principles for Just Transitions in Energy, Extractives and Agriculture. ActionAid. https://actionaid.org/sites/default/files/publications/Principles%20for%20Just%20Transitions%20in%20Extractives%20%26%20Agriculture.pdf
133 ActionAid, Bretton Woods Project et al. (2021). A Proposed Framework for IMF Engagement in Country-level Surveillance on Macrostructural Issues; Inequality, Gender and Climate Change: A civil society submission to the 2019-2021 IMF Comprehensive Surveillance Review. https://www.brettonwoodsproject.org/wp-content/uploads/2021/03/A-Proposed-Framework-for-IMF-Engagement-in-Country-level-Surveillance-on-Macrostructural-Issues-Inequality-Gender-and-Climate-Change.pdf
134 ActionAid, Bretton Woods Project et al. (2021). A Proposed Framework for IMF Engagement in Country-level Surveillance on Macrostructural Issues; Inequality, Gender and Climate Change: A civil society submission to the 2019-2021 IMF Comprehensive Surveillance Review. https://www.brettonwoodsproject.org/wp-content/uploads/2021/03/A-Proposed-Framework-for-IMF-Engagement-in-Country-level-Surveillance-on-Macrostructural-Issues-Inequality-Gender-and-Climate-Change.pdf