Out of the Shadows: Integrating climate change into IMF Technical Assistance

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Authors: Alexander Kentikelenis & Thomas Stubbs

About the Cover: Aftermath of typhoon Haiyan (local name Yolanda), one of the most powerful storm to hit the Philippines.

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For further information on the issues raised in this report please contact:
Recourse
Kraijenhoffstraat 137A
1018 RG Amsterdam
The Netherlands

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Introduction

The convergence of ecological and socio-economic crises poses profound questions over the direction of travel for the world after Covid-19. Will low- and middle-income countries be able to speed ahead to implement the Paris Agreement? Or will they be constrained by economic trouble as they struggle to engineer a recovery? The view from the top of the International Monetary Fund (IMF)—the world's premier international financial institution and lender of last resort—holds promise. As IMF Managing Director Kristalina Georgieva outlined, "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" (Georgieva 2021a).

Since 2015, IMF leadership has recognized climate change as a 'macro-critical' issue (Lagarde 2015), and has introduced initiatives to promote environmental sustainability (IMF 2019a). It also called on fiscal policymakers to 'green' their responses to Covid-19—for instance, by investing in climate-smart infrastructure or public works programmes that advance climate change adaptation—to prevent the Covid crisis leading to an ecological one (IMF 2020c). To what extent has this emergent view found fertile ground in IMF technical assistance provision?

The IMF typically courts controversy because of the more conspicuous formal compliance mechanisms at its disposal: the policy reforms governments must implement to obtain access to loans. But profound influence is also exerted through other interactions with countries, including by providing domestic policymakers with technical assistance to support economic institutions in core areas of its competence, such as tax administrations, budget system statistics agencies, and central banks and financial sector supervisory agencies. Technical assistance missions are carried out at the request of member countries and, unlike conditional lending programmes, are non-coercive: countries can choose to disregard the advice, although they generally do not as they requested such advice in the first place to deal with underlying technical problems in their economic institutions and/or in policy implementation. This commonplace provision of advice is hidden from public scrutiny, as the vast majority of the recipient requests and underlying reports are never published. According to the plans of IMF management, green priorities are beginning to be embedded in the organization's capacity development activities, which includes technical assistance and training (Georgieva 2021b). But there are currently no in-depth analyses on how or even if this new climate narrative is being incorporated into IMF technical assistance.

Given this significant gap, this report examines several recent IMF technical assistance reports and assesses the extent to which the assistance provided was compatible with meeting climate change objectives, as set out in Nationally Determined Contributions under the Paris Agreement. It does so based on an analysis of mission reports and interviews with IMF officials and domestic civil society, honing in on the experiences of four countries since 2019: Georgia, Maldives, Philippines, and Uganda. To this end, the report offers broader insights into the challenges of meeting ambitions of the IMF's climate strategy given the prominence of technical assistance to its realisation.

Background to the IMF technical assistance

The IMF is a ubiquitous actor in the diffusion of macroeconomic policy ideas, relying on its widely perceived legitimacy to influence policymakers around the world through a combination of coercion and persuasion. Through the operation of its three core functions, its ideas are spread across the globe. First, the IMF provides financial resources to countries experiencing economic crises in exchange for a package of policy reforms, or conditionality, administered through a lending programme.

Second, it conducts regular surveillance missions of economic performance and risks at the national, regional, and global levels, forming the basis of non-binding policy advice communicated to countries via Article IV consultations. The IMF's third core function is the provision of capacity development in the form of technical assistance and training on economic issues to central banks, finance ministries, and statistical agencies.

The IMF's lending practices have historically attracted most attention and controversy. For decades the civil society community has raised alarm about the pernicious impact of coercive conditions attached to lending programmes, for example in undermining access to essential health services (Brunswijck 2018). But conditionality represents only the most visible set of IMF-induced policy constraints facing the organization's members. Less attention has been paid to economic surveillance activities and capacity development, even though these have major implications for the achievement of climate objectives. For instance, technical assistance can be used to build government capacity. An accompanying Recourse report examines IMF surveillance activities on climate objectives.

What is technical assistance?

Technical assistance focuses on strengthening economic institutions, structures, and processes, as distinct from training which concentrates more on developing the skills of people staffing the institutions. It accounts for about one-third of the IMF's operating budget and is provided largely free of charge, initiated upon the request of member countries (IMF 2018b). This non-binding advice is delivered to country officials through a combination of short-term staff missions from the IMF's Washington DC headquarters, long-term in-country placements of resident advisors, and through a network of regional capacity development centres. In this fashion, the IMF has provided technical assistance in some form to all 190 member countries, frequently in partnership with other multilateral institutions and donors. But it is primarily focused on countries in the Global South. In 2020, 52% of the capacity development budget was directed to low-income countries, 44% to middle-income countries, and the remaining 4% to high-income countries (IEO 2020).
The IMF has provided technical assistance for over 50 years in public finances, monetary and financial institutions, legal frameworks, and statistics. This includes support for long-term institution-building, along with fact-finding, diagnostic, and consultative activities that dovetail IMF surveillance and lending programmes. Since 2008, delivery of technical assistance has increasingly relied on donor financing, now covering about 50% of total direct costs (from 15% in 2007) (IEO 2020). This has enabled significant growth in the volume provided, an increasing share of which is delivered through regional capacity development centres (IEO 2014). Between 2008 and 2018, staff hours dedicated to technical assistance field delivery doubled (IEO 2020).

Given the more decentralized management of technical assistance relative to lending and surveillance, technical assistance missions are often where IMF staff have greatest discretion and autonomy. Furthermore, because technical assistance is provided only upon the request of member countries and its recommendations are not obligatory (whereas undertaking Article IV consultations is compulsory and lending programme recommendations are linked to financing), IMF staff seldom face resistance from domestic officials—the advice is generally welcome and put to use, as conveyed to us by IMF interviewees.

Technical assistance and climate change

According to the IMF, technical assistance helps countries in fulfilling their climate priorities by providing advice on environmental tax reforms, efficient carbon and energy pricing, financial public management plans for building resilience to natural disasters, and systematic risk

monitoring of financial stability from climate change shocks (IMF 2021e, 2018c). Most recently, an IMF staff policy paper called for a systematic and strategic integration of macro-critical aspects of climate change into the organisation's core activities, including a significant scaling up of climate-related capacity development (IMF 2021b). On technical assistance, the policy paper noted that climate-related topics are a rapidly increasing area of demand and anticipate significant increases in provision, especially to low-income countries and small states.

Against this backdrop, the policy paper proposed the establishment of climate hubs in the Fiscal Affairs Department, Monetary and Capital Markets Department, Research Department, and Strategy, Policy and Review Department to host climate expertise that *inter alia* could be drawn upon in technical assistance provision. For instance, the Fiscal Affairs Department's climate hub would provide climate-related public financial management advice through the development of a climate-related module in public investment management assessments. It would also lead on the production of 10 climate macroeconomic assessment programs per year, a diagnostic tool to analyse climate change policies and preparedness for climate-vulnerable countries. The Monetary and Capital Markets Department's climate hub would focus on climate risk stress testing of the financial sector as well as assessments of the adequacy of financial regulatory responses to such risks. However, the IMF Executive Board was tentative in its commitment to funding the strategy, noting that it "looked forward to assessing this, together with other funding requests, during the discussion of the Fund's overall budget," due end-2021.

Outside of the recent staff policy paper, public-facing factsheets, and speeches, climate change has rarely featured in the technical assistance agenda. It initially appeared in a quinquennial capacity development review in 2018 where it was briefly referred to as a "new issue" alongside gender, inequality, and technology that "may gradually lead to new types of technical assistance requests from member countries" (IMF 2018a). An IMF official confirmed in interviews that there has been a big shift in the last ten years from "almost nothing on climate" to the current juncture where it is being integrated into macroeconomic diagnostic tools—such as the addition of a resource revenue management pillar to the IMF's (2019e) fiscal transparency code—and via more focused climate change policy assessments. The latter constitutes a joint IMF-World Bank initiative that was introduced on a pilot basis in 2017 to provide an overarching assessment of the country's climate strategies, and is slated for replacement by the aforementioned climate macroeconomic assessment programs. Its stated intention was to "help countries build coherent macro-frameworks for responding to climate change" (IMF 2021a). The IMF conducted six such assessments (Belize, Grenada, Micronesia, Seychelles, St. Lucia, and Tonga), all small-island states which—according to an IMF official—is where much of the demand for climate-focused technical assistance originates. Nonetheless, the same official also noted that limited climate expertise within the IMF as well as budgetary constraints for hiring new staff had hindered progress in embedding climate change into technical assistance more broadly.

Synthesis of findings

To illustrate the type of technical assistance missions the IMF provides and its potential relevance to climate objectives, we retrieved all publicly available reports published from 2019 to end-August 2021. While technical assistance reports are generally disseminated widely to country officials and development partners, explicit consent of both the recipient country and IMF staff is required before they are published. As a result, document availability to the general public is extremely limited. For instance, the IMF's Monetary and Capital Markets Department indicates that they conducted 1,092 missions in fiscal year 2019—in itself not an exhaustive

measure as other functional departments also provide technical assistance, such as Fiscal Affairs Department and Statistics Department (IMF 2019c). We were able to retrieve only 146 technical assistance documents in total (Table), and several of these report on missions completed in 2018 or earlier (despite a 2019 publication date). According to an IMF interviewee, published reports represent about 5% of reports. They identified two reasons underpinning the lack of availability: first, there is reluctance from domestic officials who do not wish to expose weaknesses in their institutions to political opposition or other members of the public; second, there are procedural blockages to obtaining clearances within the IMF that disincentivise publishing the reports, such as a requirement to translate material into English. Yet, such a lack of transparency represents a fundamental shortcoming of technical assistance if it is to be relied upon for the delivery of climate objectives, since it obstructs broader scrutiny of the IMF's actions and possibilities for improvement.

Table. IMF technical assistance country reports published since 2019

Authoring department	Frequency	Percent of available reports	Mission examples…
African Regional Technical Assistance Center for Central Africa (AFRITAC Central)	1	0.68	Congo, Rep.: National accounts statistics
African Regional Technical Assistance Center for Southern Africa (AFRITAC South)	7	4.79	Botswana: National accounts statistics
African Regional Technical Assistance Center for West Africa (AFRITAC West)	1	0.68	Togo: National accounts statistics
Capacity Development Office in Thailand (CDOT)	4	2.74	Myanmar: External sector statistics
Caribbean Regional Technical Assistance Center (CARTAC)	3	2.05	Aruba: National accounts statistics
Central America, Panama and the Dominican Republic Regional Technical Assistance Center (CAPTAC-DR)	4	2.74	Costa Rica: National accounts statistics
Fiscal Affairs Department (FAD)	39	26.71	Mexico: Public investment management assessment Estonia: Fiscal transparency evaluation
Fiscal Affairs Department (FAD), Legal Department (LEG)	5	3.42	Congo, Dem. Rep.: Governance and anti-corruption assessment

IMF staff	1	0.68	Argentina: Staff technical note on public debt sustainability
Legal Department (LEG), Fiscal Affairs Department (FAD), Monetary and Capital Markets Department (MCM)	1	0.68	Moldova: Country governance assessment
Legal Department (LEG), Monetary and Capital Markets Department (MCM)	1	0.68	Chile: Forming an integrated supervisory authority
Monetary and Capital Markets Department (MCM)	19	13.01	Belarus: Monetary policy modelling Somalia: Bank supervision and regulation
Middle East Regional Technical Assistance Center (METAC)	3	2.05	Iraq: Guarantees and extra budgetary funds management
Pacific Financial Technical Assistance Center (PFTAC)	3	1.37	Vanuatu: Feasibility study on quarterly national accounts
South Asia Regional Training and Technical Assistance Center (SARTTAC)	1	0.68	Bhutan: Liquidity forecasting and management framework
Statistics Department (STA)	53	36.3	Afghanistan: Government finance statistics Guinea: External sector statistics
Total	**146**	**100**	

About half of available reports addressed thematic areas that were either directly or indirectly related to environmental risk and climate objectives, primarily those authored by the Fiscal Affairs Department and Monetary and Capital Markets Department. This included *inter alia* missions for public investment management assessments, tax expenditure and reform assessments, fiscal transparency evaluations, fiscal risk assessments of state-owned enterprises, bank supervision and regulation advice, and financial sector stability reviews. Two missions by the Fiscal Affairs Department focused *solely* on climate or energy: a 2020 mission to Tonga that conducted a climate change policy assessment and a 2019 mission to Colombia to advise on energy subsidy reform. Notwithstanding, nearly half of the reports pertained to missions of a statistical nature—53 (36.3%) conducted by the Statistics Department, and a majority of the 27 (18.5%) missions conducted by regional capacity development centres—that contained only tangential links to climate objectives. Because technical assistance reports require explicit consent of both the recipient country and IMF staff before they are published, we cannot speak with any confidence about general trends across all missions based on these 146 reports, since there may be bias in the types of reports that officials are willing to release—for instance, those less likely to diminish the status of the government.

Summary of case studies

We examined the extent to which IMF technical assistance coheres with country efforts to meet its climate objectives in

Georgia, Maldives, Philippines, and Uganda, based on an analysis of technical assistance reports since 2019. Results are summarized in the Table.

Table. IMF technical assistance country reports and country climate objectives

Country	Technical assistance report	Aim of mission	(Non-)Coherence with climate objectives
Georgia	The public sector balance sheet and state-owned enterprises	Provide guidance on compiling, analysing, and using the public sector balance sheet	Climate mentions: • None IMF advice: • Privatization of 'underutilized' public land risks exacerbating land degradation Key omissions: • Fiscal pressures to the public sector balance sheet from physical and transition risks not considered • Financial risks to the six largest state-owned enterprises (incl. Georgian Oil and gas Corporation) from transition to low carbon not considered • Government fiscal risks statements assessed as at a 'high standard' despite missing climate scenarios
	Strengthen regulation, supervision, and oversight of micro-lending institutions	Support a proposed new structure in the micro-lending sector	Climate mentions: • Solely in advice to step-up operational risk regulation (incl. disaster recovery planning) of micro-financial institutions IMF advice: • Stepping-up operational risk regulation (incl. disaster recovery planning) of micro-financial institutions improves financial sector resilience to climate shocks Key omissions: • No incorporation of measures to incentivize green investment (or disincentivize emission-intensive investment)

Maldives	Reform options to strengthen tax policy	Review tax policy and identify potential reform options to bolster efficiency, equity, and revenue	Climate mentions: • None IMF advice: • Removal of goods-and-services tax zero-rating for essential goods (incl. diesel and petrol) disincentivizes fossil fuel use but burdens vulnerable populations • Introduction of excise tax for fuels and vehicles disincentivizes fossil fuel use (but was not on final list of reform recommendations) Key omissions: • Assessment of tax structure did not consider the green tax (representing 5% of revenues) • No consideration of tax incentives for renewable energy
	Fiscal transparency evaluation	Benchmark government practices against IMF Fiscal Transparency Code	Climate mentions: • Extensive coverage as a discrete component of Fiscal Transparency Code but not mainstreamed throughout the evaluation IMF advice: • Enhancement of disclosure of fiscal risks from natural disasters, reduced biodiversity, and depleting fish stocks in budget documents improves climate risk management • Revision of Fiscal Responsibilities Act for more realistic path to fiscal consolidation impedes ability to scale-up investment in climate adaptation and mitigation Key omissions: • No discussion of cross-border transition risks related to the price of imported fossil fuels (representing 80% of energy needs)

Philippines	Public investment management assessment	Benchmark government practices against IMF Public Investment Management Assessment	Climate mentions: • In advice to require environmental issues are resolved prior to project implementation and to improve methodology for costing asset impairment due to natural disasters IMF advice: • Requiring environmental issues are resolved prior to project implementation reduces risk of projects damaging climate • Improved methodology for costing asset impairment from natural disasters improves public investment resilience to climate shocks • Embedding of private sector solutions in Public Investment Management Assessment effectiveness measures risks prioritizing actors not committed to climate objectives Key omissions: • No incorporation of climate risks and opportunities in Public Investment Management Assessment planning phase (e.g., project appraisal) • Quality of investment assessed on economic growth and investment efficiency but not fulfilment of climate objectives
Uganda	Strengthening the performance of public investment management	Improve project prioritization and budgeting, implement an integrated database of projects, and strengthen the institutional and legal framework	Climate mentions: • None IMF advice: • None relevant to climate Key omissions: • Climate objectives not considered in discussion on how to improve project prioritization and budgeting • No incorporation of climate risk and opportunities for inclusion of recommended set of public investment project information (e.g., transition risks in burgeoning oil sector)

All four countries set ambitious climate targets in their respective Nationally Determined Contributions, pledging to reduce emissions in a range of sectors and to incorporate a series of mitigation measures. Despite these commitments, there was little consideration of climate objectives in the technical assistance reports. With the exception of a mission to the Maldives, climate risks and opportunities were alluded to in each of the reports we studied on two occasions at most—typically in reference to physical risks—although it was usually never mentioned at all. As such, the IMF failed to consider key aspects of the shift to a low carbon future. For example, its advice neglected transition risks linked to the phasing out of fossil fuel infrastructure,

thereby failing to encourage and assist countries to re-evaluate energy investment plans to reflect stranded asset risk, current renewable energy costs, and increasing global carbon taxes. Where climate was incorporated into technical assistance, as in the Maldives fiscal transparency evaluation, it was as a discrete bolt-on component rather than integrated throughout, and therefore clashed with macroeconomic advice that could impede climate objectives, such as the pursuit of fiscal consolidation or the prioritization of the private sector.

Conclusions

The IMF's commitment to climate has been evolving since 2015, when IMF leadership explicitly recognized climate change as a 'macro-critical' issue (Lagarde 2015). Against this backdrop, we sought to examine the extent to which this emergent view had been reflected in IMF technical assistance provision. Overall, the evidence from our four country case studies showed that such assistance has been incompatible with meeting domestic climate commitments, as articulated in Nationally Determined Contributions under the Paris Agreement. This is perhaps unsurprising given how recent the prominence of these issues has been within the organization and the current resource constraints it faces. These findings must also be qualified by the fact that technical assistance reports are not intended to provide coverage of *all* issues. By design, they are focused on a narrow set of topics, with more general macroeconomic advice reserved for Article IV consultations. That being said, we still identified key omissions even within the limited confines of the mission objectives.

An important caveat to our findings is that less than 5% of the mission reports were publicly available. This reveals a need for greater transparency if the IMF is to be held accountable to the goals of its own climate strategy. While the public release of all mission reports may not be feasible given the reluctancy of domestic governments, the IMF should—at minimum—publish a regular and comprehensive list of technical assistance missions conducted, including the recipient country, coordinating department, mission purpose, start and end date, and domestic counterparts. It should also publish the toolkits that inform the advice to provide clarity to donors, national climate bodies, and civil society actors as to the basis of otherwise private technical assistance, and to allow for constructive debate between the IMF, academics, and other experts on how such toolkits can better incorporate global climate objectives. Indeed, a positive model for emulation is the Fiscal Affairs Department's extensive publication of toolkits and workshops guiding technical assistance on domestic revenue mobilisation (IMF 2021d).

Looking forward, IMF technical assistance needs to embed environmental and climate change considerations by placing it on equal or greater footing as economic growth and other 'traditional' measures of macroeconomic performance. Based on the missions described, this should include *inter alia* consideration of physical and transition climate risks in the public sector balance sheet and in project prioritization, the incorporation of climate change into fiscal risk scenarios, and incentivisation for green investment in the micro-lending sector and in taxes. But beyond any individual mission, the onus ultimately falls on IMF leadership to engender a shift from the incomplete and ad hoc incorporation of climate concerns in technical assistance toward a more systematic treatment. An obvious starting point is to develop an enabling environment with the requisite resources for its staff to be able to engage more seriously in climate issues.

There are already promising signs that the IMF may be heading in the right direction, such as the development of a climate-related module in public investment management assessments and the expansion of the climate change policy

assessments (IMF 2021b). But there is a risk that such an approach could silo climate change issues and generate conflicting advice with broader non-climate specific technical assistance recommendations. Mainstreaming climate means integrating it throughout all diagnostic tools in the same way that fiscal considerations are treated, as well as ensuring representatives from environmental ministries are privy to discussions the IMF has with domestic counterparts in finance ministries and central banks. To this end, the IMF could incorporate a mission engagement protocol for domestic officials that encourages them to work across ministries to ensure macro-critical issues are considered in light of domestic environmental commitments.

Given the IMF's ubiquity in the spread of macroeconomic policy ideas through the provision of technical assistance, the organisation will be a major contributor to shaping the design, implementation, and ultimate outcomes of climate change policies and commitments. Steadfast adherence to the status quo—where climate scarcely warrants a mention—is not an option if a decarbonized world is to become a reality.

CASE STUDY I: Georgia

Georgia's climate commitments

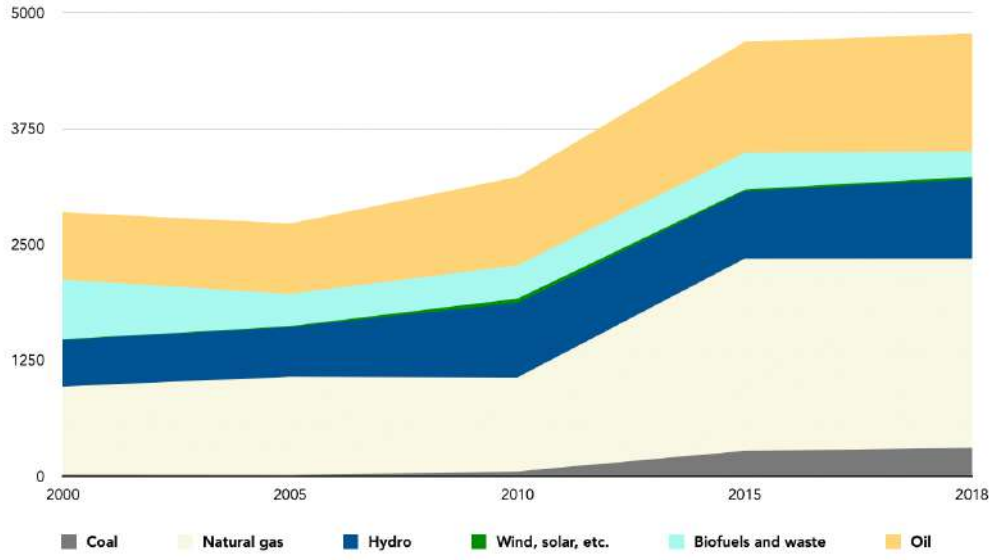
The Georgian government has developed a series of institutional arrangements to address climate risks, foremost of which is the Third National Environmental Action Program, serving as the main strategic document coordinating environmental protection efforts (Government of Georgia 2018). It also prepared the National Energy Efficiency Action Plan (Government of Georgia 2020a), which details a series of energy saving measures related to improving the efficiency of energy distribution and end-use equipment, and the National Renewable Energy Action Plan (Government of Georgia 2020b), which establishes the use of renewable energy sources as a key national priority, especially via hydropower development (OECD 2019). While Georgia has made significant strides in updating its environmental policy and legislation, it is hamstrung by a lack of adequate financing to support implementation: environmental expenditures represented 0.2% of GDP in 2018, compared to the EU28 average of 2.2% (USAID 2016a).

Georgia's environmental priorities are echoed in its Nationally Determined Contributions (NDCs). The country's initial intentions—submitted in 2017—were to unconditionally reduce its greenhouse gas emissions by 15% below a business-as-usual scenario by 2030, and to reduce it by up to 25% subject to a global agreement on technical cooperation, access to low-cost financial resources, and technology transfer (Government of Georgia 2017). Georgia expanded its pledge to reduce greenhouse gas emissions in the updated NDC for 2021, exceeding the earlier unconditional target by 7% (Government of Georgia 2021b). The country's 2030 Climate Change Strategy and Action Plan, adopted at the same time, outlined concrete actions to implement the agenda (Government of Georgia 2021a). Key components include sectoral emissions targets in the transport, industry, and energy generation and transmission sectors; development of low carbon approaches in construction, industry, waste management, and agriculture sectors; increases to carbon capturing capacity in the forestry sector; and adaptation measures based on assessments of the economic, social, and health impacts of climate change.

Box 1. Background to Georgia's energy sector

With a population of 3.7 million, Georgia contributes only 0.03% of CO2 emissions and, on a per capita basis, produces less than half the average worldwide carbon footprint. Despite this, economic advancement has ushered a rise in the rate of emission-intensive economic activities, such as transport, energy supply, and agriculture. As Figure # shows, the country is dependent on fossil fuels (79.1%), primarily natural gas and oil, the use of which has increased over the last two decades (IEA 2021a). Coal use has also grown since the late-2000s where it scarcely featured, to now constituting 4.8% of the energy mix. Greenhouse gas emissions are dominated by energy at 71%, then waste (26%), agriculture (21%), industrial processes (14%), and land-use change and forestry (-33%) (USAID 2016a).

Fig. 1: Total energy supply in Georgia, by source



IMF technical assistance

To what extent have Georgia's climate objectives been factored into the approaches and policies advocated as part of the IMF's technical assistance provision? We examine the extent to which IMF technical assistance coheres with Georgia's efforts to meet its climate objectives, based on an analysis of technical assistance reports since 2019. A total of five reports were available for the country, corresponding to the following missions:

- External sector statistics (completed July 2019)
- The public sector balance sheet and state-owned enterprises (November 2019)
- Strengthen regulation, supervision, and oversight of micro-lending institutions (November 2019)
- Produce price indexes (December 2019)
- Residential property price indices (March 2020)

We focus on the two reports most relevant to climate objectives, authored by the Fiscal Affairs Department and Monetary and Capital Markets Department respectively, which are singled out by the IMF (2021b) climate strategy as departments in need of climate expertise hubs.

The public sector balance sheet and state-owned enterprises

In response to a request from the Deputy Minister of Finance, the IMF's Fiscal Affairs Department undertook a technical assistance mission from November 6th to

25th in 2019 (IMF 2020b). The stated aim of the mission was to provide guidance on compiling, analysing, and using the public sector balance sheet, although several recommendations went beyond this remit.

Climate risks, such as fiscal pressures that would result from realised transition risks, were not raised in the report despite opportunity for their consideration. First, acknowledging that the public sector balance sheet was in a relatively healthy shape (i.e., assets exceeding liabilities), the IMF nonetheless raised concerns about potential fiscal pressures to the public sector balance sheet, including large foreign exchange exposure, a relatively large SOE sector, and a looming demographic transition toward an ageing society. Indeed, several pages of the report were dedicated to modelling how demographic changes will increase pressures on the balance sheet through pension and health care spending. Yet, fiscal pressures stemming from Georgia's physical risk factors—such as rising sea levels, higher temperatures, and desertification (World Bank 2020)—were not accounted for; nor were transition risks related to the shift toward low carbon approaches encompassed in the NDCs, such as shifting toward more sustainable forestry practices and away from fossil fuel energy production. These considerations should underpin long run fiscal projections, and without their inclusion Georgia's future financing needs are underestimated.

Second, the report assessed fiscal prospects focusing on Georgia's six largest SOEs: Georgian Oil and Gas Corporation, Engurhesi (electricity generation), Georgian Railway (railway network operations), Georgian State Electrosystem (electricity transmission and dispatch), Marabda-Katsakhi Rail (railway construction) and United Water Supply Company of Georgia. Five of the six SOEs operate within sectors assigned specific emissions targets in the NDCs (i.e., transport and energy generation and transmission). Yet, in the IMF's assessment of major financial risks for each of the six SOEs, climate risks—either physical or transition risks—were never mentioned. One such risk relates to government exposures under PPP contracts in the energy sector, of which there are at least 180. The government has guaranteed power purchase agreements with hydropower producers, locking in environmentally harmful projects—as hydropower development has led to extensive forest felling, a significant carbon sink in Georgia (Green Alternative 2012)—that could represent a major fiscal burden were it to be cancelled in pursuit of a low-carbon future and meeting Georgia's NDC commitments. Instead, a standard assortment of forex, valuation, and refinancing risks are considered, alongside several political risks—such as political pressures on Georgian Oil and Gas Corporation to keep its natural gas prices down, labour market unrest over potential job cuts in Georgian Railway, and risks of delays to planned tariff increases by United Water Supply due to popular discontent.

Third, in the IMF's assessment of the Georgian government's fiscal risks statement, they note that a high standard has been reached and that the priority is now to improve management of these risks. Yet, climate scenarios are not included in these statements (Government of Georgia 2019), despite high potential for fiscal pressures stemming from transition to low carbon activities and—given the profile of the country's largest SOEs—asset stranding.

Strengthen regulation, supervision, and oversight of micro-lending institutions

At the request of the National Bank of Georgia (NBG), the IMF's Monetary and Capital Markets Department led a technical assistance mission from November 4th to 13th, 2019, in order to support a proposed new structure in the micro-lending sector, which currently serves 22% of the population (mostly those of modest means) (IMF 2020a). The IMF identified as a challenge to the sector a lack of micro financial institutions undertaking agricultural lending. The new

structure would thus allow micro financial institutions to be licensed as micro-banks, with a clear mandate to function as a lender to agri-businesses, underserved individuals, and small-and-medium enterprises (which are typically overlapping groups of borrowers).

Climate-related factors were alluded to on a single occasion, incorporated within one of the nine categories of riskiness ('operational risk') in the general risk assessment program system used by the NBG for determining whether micro financial institutions require supervisory attention and action—for instance, if they were to pose risks to the broader financial system. Specifically, the IMF called for operational risk regulation to step-up over time to cover such areas as disaster recovery planning, information technology risk, and pandemic planning. Mention of disaster planning represents welcome consideration of physical risk factors in climate change; however, risks to the banking sector and the macroeconomy from changes in assets values stemming from a move towards decarbonisation were not considered, despite micro-lending institutions holding more than 3% of the banking sector's USD$14 billion in assets (IMF 2020a), and the agricultural sector being at the forefront of NDC plans to transition to low carbon.

Elsewhere, further opportunities to account for climate objectives were missed. The IMF recommended that as a pre-condition to granting micro-bank licenses, the NBG should consider measures to incentivize or require micro-banks to have a minimum portion of their loan portfolio allocated to agricultural lending, small-and-medium enterprises, and underserved individuals. Consideration of vulnerable populations is welcome, but no affordances were made to incorporate incentives for green investment (or disincentives for emission-intensive lending), such as dedicating a minimum portion of loan portfolios to low carbon approaches to agriculture. This omission is surprising given the OECD having identified Georgia's clear lack of green credit for small-and-medium enterprises as a major market gap—since existing lines typically only serve larger customers—and a key challenge to greening the economy (OECD 2019).

Discussion

The Georgian government set ambitious climate targets in its NDCs for 2017 and 2021, pledging to reduce emissions in transport, industry, and energy generation and transmission sectors, and to develop low carbon approaches in construction, industry, waste management, and agriculture. Although the IMF technical assistance reports preceded the updated NDC, initial commitments still offered multiple avenues that could have been considered in IMF recommendations. Yet, ample opportunities for greening the advice were overlooked. The future does offer promising signs that the IMF is beginning to take on-board Georgia's climate concerns. For example, the IMF provided public financial management expertise to support the upcoming fiscal risks statement accompanying the government's 2022 budget document, which is expected to incorporate a section on climate-related risks.

CASE STUDY II: Maldives

Maldives' climate commitments

Climate change represents an existential threat to the Maldives, with scientists predicting that 77% of its land area will be underwater by 2100 (Mulhern 2020). Reflecting these vulnerabilities, the National Adaptation Programme of Action in 2007 prioritized actions for mainstreaming adaptation and disaster risk management (Government of Maldives 2007). Then, in 2015 the government released the Climate Change Policy Framework, which is the acting strategic document coordinating mitigation and adaptation measures to climate change

(Government of Maldives 2015b). It sets as an objective a shift from the established diesel-based power generation system toward local renewable sources to meet energy demand, such as solar irradiance. However, thus far the introduction of solar photovoltaic systems has been hampered by a lack of technical capacity, limited land area, high investments costs, and—given diesel power is subsidised—a lack of incentives. In 2019 alone, the government subsidised electricity utility companies USD$32 million to purchase diesel from the importer and residential consumers USD$18 million in tariffs, combined representing 1% of GDP (World Bank 2019). More encouragingly, the Maldives also introduced a daily green tax on tourism in 2015 to finance environmental management (Government of Maldives 2015a). In 2020, the Maldivian parliament declared a climate emergency (South Asia Monitor 2020); and a year later the President ratified the Climate Emergency Act, which introduces a legal structure for addressing climate change risks, including reporting, ensuring sustainability of natural resources, overcoming negatives impacts, and allocation of funds for renewable energy sources (Government of Maldives 2021).

Maldives' priorities are reflected in its commitments in its Nationally Determined Contributions (NDCs) under the Paris Agreement. In the 2015 NDC, the country pledged to reduce unconditionally 10% of greenhouse gas emissions below a business-as-usual scenario by 2030, and by up to 24% conditional on the availability of international financial support, technology transfer, and capacity building (Government of Maldives 2015c). The main area of focus for mitigation was fuel switching from the already established diesel-based power generation systems to solar photovoltaic systems. In the updated NDC for 2020, the unconditional target was raised to a 26% reduction of emissions by 2030, to be achieved by increasing the share of electricity production from renewable energy to 15% of the energy mix (currently at less than 1%), installing waste-to-energy systems, and establishing vehicle/vessel emissions standards (Government of Maldives 2020). The government also committed to mainstreaming climate in national development planning processes and to scaling up annual budgetary allocations for adaptation and mitigation measures in agriculture and food security, infrastructure resilience, public health, water security, coastal and coral reef protection, disaster risk management, tourism, and fisheries.

Box 2. Background to the Maldives' energy sector

With an estimated 0.5 million residents dispersed across 184 of its 1,190 islands, the Maldives is one of the most densely populated countries in the world. While the country's greenhouse gas emissions stand at only 0.003% of the global share—more than half of which come from the energy sector—its dependence on fossil fuels renders it susceptible to transition risks. More than 99% of the country's energy demand is met by imported fossil fuels (Government of Maldives 2016). Fuel imports for 2019 were 80% diesel, 12% petrol, 6% liquefied petroleum gas, and 2% aviation fuel (Asian Development Bank 2020).

IMF technical assistance

To what extent have Maldives' climate objectives been factored into the approaches and policies advocated as part of the IMF's technical assistance provision? We examine the extent to which IMF technical assistance coheres with Maldives' efforts to meet its climate objectives, based on an analysis of technical assistance reports since 2019. Two were available for the country, corresponding to the following missions:

- Reform options to strengthen tax policy (July 2019)
- Fiscal transparency evaluation (April 2021)

Both reports were highly relevant to climate objectives, discussed in greater detail below.

Reform options to strengthen tax policy

At the request of the Ministry of Finance, the IMF's Fiscal Affairs Department carried out a technical assistance mission from February 4th to 15th in 2019 to review tax policy and identify potential reform options to bolster efficiency, equity, and revenue (IMF 2019b).

Despite providing detailed assessments for personal income, presumptive, business, international, goods-and-services, capital gains, and property taxes, the green tax—representing 5% of all tax revenues—did not warrant a mention outside of a single sentence reporting tax revenues generated as part of a broader overview of the country's tax structure. The IMF also dedicated a paragraph to discussing the introduction of excises for goods characterised by inelastic demand with major negative externalities, citing tobacco, alcohol, fuels, and vehicles. However, it was not deemed important enough to make the list of 22 reform recommendations.

Notwithstanding these concerns, the IMF did recommend harmonization of goods-and-services tax (GST) rates by increasing standard GST of 6% toward the tourism sector GST of 12%, and by removing the zero-rating for essential goods, which includes diesel and petrol. This reform could indirectly support climate objectives by raising the price of fossil fuels, thereby reducing demand and offering greater incentives to shift to solar photovoltaic systems. This recommendation was informed on the basis of economic efficiency—that tax expenditures erode the tax base and reduce revenues—rather than climate concerns (Sward et al. 2021), which explains why it called for a blanket application to all 21 predominantly food items on the zero-rated list, not just fuels (Government of Maldives 2011). Political palatability of the reform was discussed, with the IMF suggesting compensation on higher basic food prices for low-income households through targeted social transfers. But relief for higher fuel prices was regarded as unnecessary on the basis that it is consumed in larger quantities by high-income than low-income individuals. This view directly contradicts IMF analyses elsewhere showing that poorer households are more likely to be hurt by these reforms since a larger share of their income is spent on energy-intensive goods like electricity and heating (IMF 2020d).

These sentences aside, there was no further mention of climate, energy, fuels, natural disasters, sea levels, or related terms. Consequently, more ambitious reforms for a greener society, like tax incentives for renewable energy, were not considered.

Fiscal transparency evaluation

In response to a request from the Minister of Finance, the IMF's Fiscal Affairs Department carried out a fiscal transparency evaluation, conducted remotely from November 23rd to December 14th in 2020 (IMF 2021c). The aim of the mission was to benchmark government practices against the IMF's Fiscal Transparency Code (FTC) (IMF 2014). The FTC is divided into three pillars—i) fiscal reporting, ii) fiscal forecasting and budgeting, and iii) fiscal risk analysis and management—each containing 12 assessment components (Figure). The third pillar contains two components directly related to climate: natural resources, and environmental risks.

Figure1. The Fiscal Transparency Code (FTC)

The IMF provided extensive coverage of climate issues in the evaluation, totalling 8 out of 93 pages. In one of the nine key recommendations coming from the evaluation, the IMF also encouraged the Maldives to enhance disclosure of fiscal risks in budget documents by enriching discussion of *inter alia* risks from natural disasters, reduced biodiversity (as a key driver of tourism), and depleting fish stocks. However, discussion of energy resources was notably absent in the evaluation, such as cross-border transition risks related to the price of imported fossil fuels, a major omission given the country's reliance on diesel imports for over 80% of its energy needs.

Another concern relates to the IMF's recommendation to revise the Fiscal Responsibilities Act to provide a "more realistic path to fiscal consolidation". The Act itself calls for the overall balance to remain below 3.5% of GDP (Government of Maldives 2013), which the government has consistently exceeded. But the apprehension here is that the IMF is applying pressure for fiscal consolidation *at all*. Indeed, the issue features in its summary assessment matrix at 'high' importance in order to "put public finances are on a clear and sustainable path". Yet, this could impede the attainment of climate objectives, like scaling-up of annual budgetary allocations for climate adaptation and mitigation.

A more general criticism relates to the IMF's tokenistic treatment of climate risk. It is incorporated in the FTC as a discrete bolt-on component of the fiscal risk assessment pillar, rather than mainstreamed throughout the evaluation. For example, climate considerations cross-cut almost all other FTC components, including *inter alia* external audits, statistical integrity, macroeconomic forecasts, medium-term budget framework, long-term fiscal sustainability analysis, budget contingencies, PPPs, and financial sector exposure. Ironically, the IMF criticises the Maldivian government on a similar basis, stating that the government identifies and discloses environmental risks, but that "these findings are not fully integrated into overall fiscal planning."

Discussion

As a small-island nation with high vulnerabilities related to climate change, the Maldives presents a crucial case for examining links between rhetoric and practice in the IMF's policy advice. These vulnerabilities were reflected in the multitude of mitigation and adaptation measures incorporated in the government's NDCs for 2015 and 2020. Yet, the IMF technical assistance report

on tax reform lacked any explicit climate considerations, a surprising omission given the existential threat that climate change represents to the Maldives. While the fiscal transparency evaluation did offer coverage of climate, it was provided in a tokenistic fashion, failed to identify key transition risks related to the country's energy mix, and contained fiscal advice that could potentially impede climate adaptation efforts. Nevertheless, it is worth pointing out that the IMF did provide extensive consideration of the linkages between climate change and infrastructure investment options and trade-offs *outside* of the formal technical assistance architecture in a working paper discussed with Maldivian authorities in the context of their 2021 Article IV consultation (Melina and Santoro 2021). This supporting tool is certainly welcome, but is symptomatic of the ad hoc approach to climate change by the IMF thus far.

CASE STUDY III: Philippines

Philippines' climate commitments

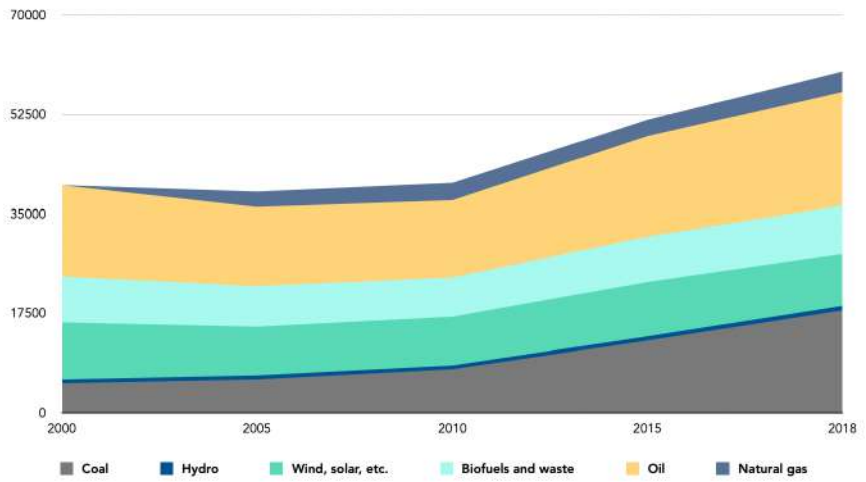
The Philippines is increasingly exposed to climate risks due to its dependence on natural resources and extensive coastlines where the majority of the population reside. Extreme weather events—averaging 8 cyclones per year which make landfall—are causing extensive damage to infrastructure and agriculture, both trends that are projected to intensify with climate change (World Bank and Asian Development Bank 2021). Against this backdrop, the Philippine government anchored a series of institutional arrangements to address climate risks, foremost of which is the Climate Change Act of 2009. The Act established the Climate Change Commission, which serves as the lead policymaking body tasked with coordinating, monitoring, and evaluating policies and programmes related to climate change (Government of Philippines 2009). Additional strategy documents include the National Framework Strategy on Climate Change (Government of Philippines 2010), and the National Climate Change Action Plan (Government of Philippines 2011), which maps out a national adaptation strategy based on food security, water sufficiency, ecological and environmental stability, human security, climate-friendly industries and services, sustainable energy, and knowledge and capacity development. The Philippine Energy Plan also set as a main objective to increase production of clean sources of energy (Government of Philippines 2018). To this end, 277 renewable energy service contracts were awarded by the government in 2018, creating over 10,500 green jobs. It also launched competitive renewable energy zones to encourage private investment in renewals by expanding transmission facilities in 25 locales. The government subsequently announced a moratorium on new coal-fired power plants in 2020.

The Philippine's National Determined Contributions (NDCs) reflect these priorities. The 2015 intended NDC set a greenhouse gas emissions reduction target of 70% by 2030 relative to the business-as-usual scenario, conditional on financial, technological, and capacity building external support (Government of Philippines 2015). The finalised 2021 NDC sets an emissions reduction target of 75% below the business-as-usual scenario by 2030, of which 2.71% is unconditional and 72.29% (Government of Philippines 2021). The country also pledges to undertake adaptation measures in agriculture, forestry, costal and marine ecosystems and biodiversity, health, and human security. It commits to do so in the context of accelerating a just transition and the delivery of green jobs and other benefits to its people.

Box 3. Background to the Philippines' energy sector

As one of Asia's fastest growing economies, energy consumption in the Philippines has increased rapidly over the past two decades. Correspondingly, the country's greenhouse gas emissions surged by 114% between 1990 and 2017 (Climate Transparency 2020), driven by energy and industrial process sectors. As of 2019, its CO2 emissions amount to 0.2% of the global total. As shown in Figure #, The Philippines has become more reliant on coal and natural gas over the last two decades from both imported and domestic sources (IEA 2021b), with fossil fuels currently making up 70% of the energy mix. Greenhouse gas emissions are dominated by the energy sector at 54%, followed by agriculture (33%), industrial processes (8%), waste (7%), and land-use change and forestry (-1.6%) (USAID 2016b).

Fig. 2: Total energy supply in the Philippines, by source



IMF technical assistance

To what extent have the Philippines' climate objectives been factored into the approaches and policies advocated as part of the IMF's technical assistance provision? We examine the extent to which IMF technical assistance coheres with the Philippines' efforts to meet its climate objectives, based on an analysis of technical assistance reports since 2019. Two were available for the country, corresponding to the following missions:

- Public investment management assessment (December 2018)
- Monetary and financial statistics (July 2019)

The mission on monetary and financial statistics was carried out by the IMF's Statistics Department and was less relevant to the Philippines' climate objectives. Its aim was to assist authorities in expanding the compilation of data on insurance companies, financial trusts, holding companies, and other financial intermediaries.

Public investment management assessment

In response to a request from the National Economic and Development Authority, the IMF's Fiscal Affairs Department visited the Philippines from August 9th to 22nd, 2018, to conduct a public investment management assessment (IMF 2019d). The aim of the mission was to benchmark government practices against the IMF's Public Investment Management Assessment (PIMA) methodology (IMF 2018d). The PIMA framework is a tool for assessing infrastructure governance. It divides the public investment cycle into three phases—planning, allocation, and implementation—each containing five indicators the country

is assessed on (Figure). An accompanying scoring matrix is comprised of 45 evaluative questions (three per indicator).

Figure 2. The Public Investment Management Assessment (PIMA) framework

Not a single entry in the PIMA matrix relates to climate, despite ample opportunity for its incorporation at all stages of the public investment cycle. For example, an assessment question for project appraisal reads "Are major capital projects subject to rigorous technical, economic, and financial analysis?" Climate risks, which are considerable in the Philippines, could reasonably have been included as another analysis component. Furthermore, the PIMA embeds private sector solutions in the effectiveness measure on alternative infrastructure financing. The question "Does the regulatory framework support competition in contestable markets for economic infrastructure (for example, power, water, telecommunications, and transport)?" is assessed highly for strong competition, even though private investors are not subject to the country's green objectives. More generally, there is no space for a similar style of question asking if the regulatory framework supports green investment represents a missed opportunity. Notwithstanding these concerns, a welcome recommendation was for the government to issue instructions requiring that all right-of-way, resettlement, social safeguard, and environmental issues are resolved prior to the implementation of an infrastructure project, which had erstwhile played out *in situ*, resulting in cost overruns and delays. The IMF also identified as a key issue the lack of a standard methodology for maintenance planning and costing for asset impairment due to natural disasters, a significant risk factor in the Philippines. Furthermore, the IMF endorsed the government's plans to accelerate infrastructure development in energy, water resources, transport, and social infrastructure as "one of the foundations for sustainable development," but did point out that strengthening public investment management would improve the quality of this investment. Their measure of improvement was based on a narrow set of economic considerations—delivering economic growth and investment 'efficiency' (i.e., the amount of infrastructure for funds expended)—and not the fulfilment of climate objectives.

Beyond this, the report contained no reference to energy, fossil fuels, or climate objectives. Indeed, a notable absence was any mention of how to incorporate transition risks linked to the Philippines' phasing out of fossil fuels into public investment management planning.

Discussion

As it boldly embarks on a path toward cleaner energy sources and away from fossil fuels, the Philippines will be confronted with considerable transition risks, on top of the already significant physical risks it currently faces as a result of climate change. These risks and the country's broader climate ambitions were fundamentally overlooked by IMF staff. Indeed, our analysis shows that despite bearing on all phases of the public investment cycle, the IMF's technical assistance failed to integrate the Philippines' climate objectives.

CASE STUDY IV: Uganda

Uganda's climate commitments

Uganda ranks as one of the most vulnerable countries in the world—10th of 182 countries in the ND-GAIN index—in terms of its exposure, sensitivity, and ability to adapt to the impact of climate change (Notre Dame Global Adaptation Initiative 2021). The 80% of Ugandans whose livelihoods rely on rain-fed agriculture are increasingly exposed to the effects of climate change via droughts, climate variability, and land degradation. Against this backdrop, Uganda Vision 2040, the country's overarching development plan (Government of Uganda 2012), articulated climate change as one of the greatest challenges for the country, promoted a low emissions development pathway based on renewable energy, and mainstreamed climate into sector planning and implementation via the ensuing Second National Development Plan and Green Growth Development Strategy (Government of Uganda 2015a, 2017). The National Climate Change Policy of 2015 is the acting strategic document underpinning climate change adaptation, mitigation, research, and observation measures at present (Government of Uganda 2015b). And in 2021, the National Climate Change Act was enacted, providing the legal and regulatory framework for the operationalization of the policy (Government of Uganda 2021).

The importance Uganda attaches to climate risk is reflected in its Nationally Determined Contribution (NDC). In its 2016 NDC, the country strives for a 22% reduction of greenhouse gas emissions by 2030 relative to the business-as-usual scenario, conditional on accessing external support to cover 70% of the additional financial resources required (Government of Uganda 2016). Climate mitigation measures focus on energy supply via the construction of infrastructure for electricity sector development to offset wood and charcoal burning and the consequential deforestation, as well as developing an enabling environment for forestry and wetland management. Priority sectors listed for adaptation actions include agriculture, forestry, water, infrastructure (including human settlements, social infrastructure, and transport), energy, health, and disaster risk management.

Box 4. Background to Uganda's energy sector

Uganda is one of the lowest CO2 emitters per person, contributing only 0.099% of global emissions. About 94% of Uganda's energy mix is composed of biomass, with the remaining 6% met primarily by oil (USAID 2015). There are plans to extract an estimated 1.7 billion barrels of crude oil, making Uganda a significant oil exporter for the first time in its history (World Bank 2021). With Uganda's development strategy hinging on its success (IMF 2019f), the country may be exposed to significant spillover transition risk (Gallagher et al. 2021)—for example, if richer countries fulfil their commitments to low carbon emissions pathways and start to reject or reduce crude oil imports, including via so-called carbon border taxation. Uganda's agricultural sector is the leading contributor of greenhouse gas emissions, primarily from enteric fermentation and inefficient animal waste management. Forest cover is also rapidly deteriorating at over 2.6% lost annually (World Bank 2021), driven by household reliance on firewood and charcoal for cooking and new sugar cane and palm oil plantations.

IMF technical assistance

To what extent have Uganda's climate objectives been factored into the approaches and policies advocated as part of the IMF's technical assistance provision? We examine the extent to which IMF technical assistance coheres with Uganda's efforts to meet its climate objectives, based on an analysis of technical assistance reports since 2019. One was available for the country, corresponding

to the following mission:

- Strengthening the performance of public investment management (September 2019).

At the request of Uganda's Permanent Secretary/Secretary to the Treasury, the IMF's Fiscal Affairs Department carried out a technical assistance mission from April 29th to May 13th, 2019, in order to provide advice on public investment management (IMF 2019g). The mission was narrowly focused on three components: improving project prioritization and budgeting via new procedures to refresh project information; implementing an integrated database of projects; and strengthening the institutional and legal framework.

While the report contained no explicit mention of climate, energy, forestry, agriculture, and related terms, the IMF did acknowledge that Uganda's draft National Investment Policy contains "sustainable development" as one of several guiding principles of policy that should be incorporated in the public investment management system, alongside return on investment, risk management, and equity and fairness. Notwithstanding this recommendation, the IMF failed to incorporate any climate considerations in the report, despite opportunity to have done so. For example, IMF discussion on how to improve project prioritization and budgeting centred around using investment project information to determine available fiscal space to guide decisions on new project approvals. Consideration of climate objectives should also inform such decisions, especially given the Ugandan government's commitment to integrating climate in its policies. And in recommending the government to define a minimum set of basic public investment project information that should inform public investment management, the IMF missed an opportunity to explicitly endorse the inclusion of climate risk measures. In this regard, transition risks—for instance, significant spillover risks emerging from the ramping up of public investment in the oil sector should external markets reject fossil fuels—could be accounted for.

Discussion

A predominantly rural society already experiencing the repercussions of climate change, Uganda has mainstreamed climate adaptation and mitigation risks into development planning over the past decade. Our analysis shows that the IMF's technical assistance failed to adhere to this precedent or to facilitate the country's attainment of its NDC pledges. While climate objectives ought to have been integrated at all stages of the public investment management project cycle—in planning, allocation, implementation, and monitoring and evaluation—it merited little more than a fleeting mention by IMF staff. This is an alarming omission given the IMF's endorsement of Uganda's nascent oil sector (IMF 2019f), which will expose the country to significant transition risks. Indeed, the organisation has thus far provided no advice on how Uganda can use the proceeds from crude oil to transition into a green economy, although a forthcoming (combined) Article IV consultation and lending programme review to be completed in January 2022 is expected to discuss climate risks and adaptation challenges.

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