IMF Lending and the Road to Green Transition: One Step Forward, One Step Back

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Executive Summary

In recent years, the International Monetary Fund (IMF) has portrayed itself as a climate champion through its flagship research publications, staff policy papers, public-facing factsheets, and speeches. But what does its track-record reveal when it comes to its most consequential activity: lending to countries in crisis in exchange for policy reforms? This report examines the evidence from recent IMF loans to Bangladesh and Uganda, as well as additional IMF loans and reports. The report's findings present a mixed picture. On the one hand, there have been promising developments. Most notably, the IMF has created the Resilience and Sustainability Facility, a new lending instrument that can help countries implement climate change adaptation and mitigation measures. Further, the organisation's analytical work increasingly covers climate issues, including economic risks from climate change. However, these encouraging steps coexist with the continuing advocacy of policies that are not compatible with meeting the challenge of the green transition. The endorsement of fossil fuel investment as a solution to fiscal and external imbalances neglects environmental costs that have substantial downstream economic effects. Extensive fiscal consolidation measures—better known as austerity—threaten to starve public budgets from the resources needed to invest in green policies. The advocacy of public-private partnerships is also problematic, as even when they are touted as solutions to climate financing gaps, they can have adverse and unpredictable consequences on public budgets and undermine future green investments.

Overall, Bangladesh's IMF programme stands out as a positive first step toward the pursuit of a green, just transition, though is far from perfect. Climate priorities are articulated in the loan documentation and integrated throughout the program, underpinned by conditions calling for green fiscal and public investment management. However, it is worth noting that those climate priorities are not aligned with the Paris Agreement, as Bangladesh has so far not committed to reaching net zero greenhouse gas emissions. Several recommendations appear at cross-purposes with these priorities. Support for PPPs to close the climate financing gap introduces new macroeconomic risks that could undermine future public investment in green infrastructure. Furthermore, hikes to petroleum products, while consistent with a green transition, may negatively impact the most vulnerable communities. The IMF also missed an opportunity to address Bangladesh's power sector overcapacity issues head-on by more assertively endorsing renewable energy solutions, and failed to identify environmental and balance of payments risks linked to the country's continuing reliance on liquified fossil gas.

Based on this analysis, Uganda stands out as a negative case for the meaningful pursuit of a green, just transition. In the context of the IMF program, investment in oil infrastructure was ringfenced and there were only limited attempts at considering climate issues, such as the incorporation of natural disaster shocks into the debt sustainability analysis. While increases in excise duties on fuel consumption could represent a potential boon for fostering a green transition, these were motivated by immediate fiscal risks rather than climate concerns. They are also a regressive tax that disproportionately hurt poorer households, and it is unlikely that lower-income households will be sufficiently protected. Furthermore, IMF-mandated reductions to the fiscal deficit undermine the ability of the government to invest in climate adaptation and mitigation strategies. The IMF programme also failed to account for the beneficial fiscal implications of greater investment in adaptation infrastructure. Most alarmingly, by failing to acknowledge the perverse climate implications of fossil fuel revenues, the IMF implicitly encourages further reliance upon fossil fuels as a means to balance the budget and current account.

Introduction

Climate change has justifiably risen to the top of the global policy agenda, as countries and the international community widely accept the urgency of action and the importance of concerted, coordinated responses to underpin adaptation and mitigation strategies. But the ultimate success of climate change strategies does not only depend on government will to introduce appropriate policies, but also on the broader economic challenges that countries face. For this reason, the International Monetary Fund (IMF), the international organization acting as the world's lender of last resort, is a vital cog in the global fight against climate change. Its lending programs provide financial assistance to countries in economic trouble, but this support is conditional upon the introduction of a range of policy reforms that are meant to facilitate its borrowers' return to economic stability. What evidence do we have on how IMF loans impact the path to the green transition and the likelihood that this will be pursued in a socially just way?

Since 2020, 39 developing countries have requested IMF conditional loans, excluding the emergency assistance provided in the immediate aftermath of the Covid-19 pandemic. Importantly, many of the IMF's borrowers are also countries with extensive climate vulnerabilities, as shown in Table 1. Of these borrowers, 24 countries (62%) rank in the bottom third of the ND-GAIN index that measures vulnerability to and readiness for climate shocks. Another 12 rank in the middle third, and only three are among the top third. This evidence reveals the central role of the IMF in setting the macroeconomic policies of countries affected by climate change the most, and, by extension, helping determine the resources—material as well as technical—that countries have at their disposal to pursue adaptation and mitigation strategies.

At the same time as scaling up its lending activities, the IMF has also emphasized that the policy reforms attached to its programs have fundamentally changed to take climate risks seriously and to safeguard vulnerable groups from the adverse effects of its policies. This follows on from the organization's unambiguous recognition of both climate change and inequality as 'macro-critical' issues. In IMF jargon, this means that the organization considers these issues as central to its core mandate of supporting and safeguarding macroeconomic stability. In the case of climate change, the IMF has accepted that financing may be provided "when climate-related measures are deemed critical to solve a member's balance –of payments problems" (IMF 2021). To this end, it has recently approved a new lending instrument to provide financial support for climate change mitigation and adaptation policies (discussed below). On social issues, the organization has long recognized inequality as an impediment to growth (Ostry, Berg, and Tsangarides 2014), and its recent organizational policies foreground the importance of social spending to underpin redistribution to vulnerable parts of populations (IMF 2019a, 2022c).

The IMF's scaled-up engagement in climate-vulnerable countries and on climate change issues begs important questions about the types of policy advice the organization provides to its borrowers. What measures to support the green transition are included in IMF loan agreements? How are they tailored to meet country needs and fulfil climate-related commitments? And to what extent are they designed with parallel aims to shelter disadvantaged social groups? This report tackles these questions and assesses what the recent experience of IMF loans suggests about the prospects of a just, green transition.

Table 1. List of IMF loans to countries approved between January 2020 and April 2023

Regional classification	Country	Income classification	Arrangement date	Type	SDR, mil	ND-GAIN index
East Asia & Pacific	Papua New Guinea	Lower middle	March 22, 2023	EFF	456	37
			March 22, 2023	ECF	228	
Europe & Central Asia	Armenia	Upper middle	December 12, 2022	SBA	129	56
	Georgia	Upper middle	June 15, 2022	SBA	210	58
	Moldova	Upper middle	December 20, 2021	EFF	396	50
			December 20, 2021	ECF	198	
	Serbia	Upper middle	December 19, 2022	SBA	1,899	51
	Ukraine	Lower middle	June 09, 2020	SBA	3,600	52
			March 31, 2023	EFF	11,608	
Middle East & North Africa	Egypt	Lower middle	December 16, 2022	EFF	2,350	45
	Jordan	Upper middle	March 25, 2020	EFF	1,146	51
South Asia	Afghanistan	Low	November 06, 2020	ECF	259	33
	Bangladesh	Lower middle	January 30, 2023	EFF	1,646	37
			January 30, 2023	ECF	823	
	Nepal	Lower middle	January 12, 2022	ECF	282	42
	Sri Lanka	Lower middle	March 20, 2023	EFF	2,286	46
Sub-Saharan Africa	Cabo Verde	Lower middle	June 15, 2022	ECF	45	52
	Central African Republic	Low	April 27, 2023	ECF	142	27
	Cameroon	Lower middle	July 29, 2021	EFF	322	39
			July 29, 2021	ECF	161	
	Benin	Lower middle	July 08, 2022	EFF	323	38
			July 08, 2022	ECF	161	
	Chad	Low	December 10, 2021	ECF	393	27
	Congo, Dem. Rep.	Low	July 15, 2021	ECF	1,066	31
	Congo, Rep.	Lower middle	January 21, 2022	ECF	323	35

(Table 1 continued)

Regional classification	Country	Income classification	Arrangement date	Type	SDR, mil	ND-GAIN index
Sub-Saharan Africa	Gabon	Upper middle	July 28, 2021	EFF	389	44
	The Gambia	Low	March 23, 2020	ECF	55	39
	Guinea-Bissau	Low	January 30, 2023	ECF	28	31
	Kenya	Lower middle	April 02, 2021	EFF	1,248	39
			April 02, 2021	ECF	407	
	Madagascar	Low	March 29, 2021	ECF	220	35
	Mauritania	Lower middle	January 25, 2023	EFF	43	39
				ECF	21	
	Mozambique	Low	May 09, 2022	ECF	341	38
	Niger	Low	December 08, 2021	ECF	197	33
	Senegal	Lower middle	June 07, 2021	SBA	302	41
	Seychelles	High	July 29, 2021	EFF	74	49
	Somalia	Low	March 25, 2020	ECF	253	34
	Sudan	Low	June 29, 2021	ECF	1,73332	32
	Tanzania	Lower middle	July 18, 2022	ECF	796	39
	Uganda	Low	June 28, 2021	ECF	722	35
	Zambia	Low	August 31, 2022	ECF	978	40
Latin America & Caribbean	Argentina	Upper middle	March 25, 2022	EFF	31,914	49
	Barbados	High	December 07, 2022	EFF	85	58
	Costa Rica	Upper middle	March 01, 2021	EFF	1,237	54
	Ecuador	Upper middle	September 30, 2020	EFF	4,615	44
	Suriname	Upper middle	December 22, 2021	EFF	473	46

Notes:

ND-GAIN index "summarises a country's vulnerability to climate change and other global challenges in combination with its readiness to improve resilience" (Notre Dame Global Adaptation Initiative 2023). Cells shaded in red denote country ranking in the bottom third of the index, orange denotes middle third, and green denotes top third.

Income classification follows 2023 World Bank data; lending data drawn from the IMF's History of Lending Commitments database.

The IMF agreement acronyms are as follows: ECF: Extended Credit Facility; EFF: Extended Fund Facility; SBA: Stand-by Arrangement. We exclude agreements under the Flexible Credit Line or Precautionary and Liquidity Line because they are low- or non-conditionality programmes. Resilience and Sustainability Facility loans are reported in Table 2 below.

The changing nature of IMF engagement with climate change

The past decade has witnessed steadily increasing IMF engagement with climate issues. Compared to previous neglect of how climate change affects or might affect the macroeconomic conditions of the IMF's membership, the organisation now not only identifies it as an existential threat, but also places it squarely within its mandate as the guardian of global financial stability (Georgieva 2021; Lagarde 2015). To operationalise its engagement with climate issues, the IMF has recently issued policy papers and guidance notes on how these can be incorporated into the range of its activities—from economic surveillance to technical assistance, and from data gathering and publication to its lending activities (e.g., IMF 2021a, 2021c, 2021b).

Given that climate is a novel area of engagement for the organisation, it begs the question of what the rationale is for IMF involvement in the first place. After all, there are domestic resources, development banks, bilateral donors, and private lending that are providing financing for adaptation and mitigation plans. However, the justification for IMF engagement with climate issues diverges from those of these groups and is unrelated to more traditional climate-related project lending. Under its climate change strategy, the IMF has a responsibility to assist countries in developing macroeconomic policies that factor in the range of short-, medium- and long-term risks associated with climate change, helping pre-empt future balance of payments crises that would endanger economic stability and require painful adjustment measures (IMF 2021c). These concerns are already recognized by the IMF bureaucracy, who have started developing economic models and simulations on questions like how natural disasters or climate damage may impact economic growth, fiscal balances, external balances, and debt sustainability (see Kentikelenis, Stubbs, and Reinsberg 2022).

In short, IMF involvement with climate issues in its lending activities is, in principle, supposed to help governments 'future-proof' their balance of payments position, an altogether urgent task given the extreme climate vulnerabilities of most recent IMF borrowers (see Table 1). This is pursued in three ways. First, traditional conditionality-heavy loan instruments, like the Stand-By Arrangement or the Extended Credit Facility, increasingly consider climate risks in their evaluation of countries' economic prospects, and a range of policies are advocated with direct or indirect impact on climate issues, as we critically evaluate further below. Second, under certain conditions, governments can also request financial support through the Catastrophe Containment and Relief Trust (CCRT), which offers grants to cover debt service to the IMF to countries that have suffered a major disaster. The final instrument is the new Recovery and Sustainability Facility (RSF), to which we now turn.

The promise of the Resilience and Sustainability Facility

In 2022, the IMF introduced the RSF, which would serve as a key lending instrument for the organisation's climate-related lending operations and was in part envisaged as a convenient vehicle for Global North countries to re-channel some of their additional SDR allocations to benefit countries in the Global South. This lending facility relies on over $34 billion that member-states have already provided to this end, while another $7 billion have been pledged. The aim of RSF loans is to help countries with climate change adaptation and mitigation (or to prepare for the possibility of future pandemics). Eligibility for funding is open to 143 countries, primarily excluding some high and upper-middle income ones. Unlike traditional IMF loans, funds provided by the RSF have a 20-year maturity and a long grace period, intended to ease the fiscal burden of servicing this debt. Importantly, countries can borrow from the RSF only if they have a parallel IMF program through another facility, like the Extended Fund Facility or the non-financing Policy Coordination Instrument. This adds hurdles to climate-vulnerable countries

for accessing much-needed resources, and is perhaps an outcome of the limited voice that developing countries as a whole have on IMF decision-making structures due to the unequal quota system.

Importantly, while RSF loans carry their own set of conditions that governments must fulfil to obtain access to loan tranches, they also work synergistically with a parallel IMF programme that mandates extensive structural reforms, whether it has financing attached or not. As shown in Table 2, the IMF has already approved seven RSF loans as of May 2023, amounting to a total of SDR 2.6 billion. Of the parallel programmes, the ones for Jamaica and Rwanda are primarily signalling mechanisms for countries undertaking extensive IMF-endorsed reforms. Four countries—Bangladesh, Barbados, Costa Rica, and Seychelles—have their RSF loans embedded in the IMF's standard medium-term lending instruments: the Extended Fund Facility and the Extended Credit Facility, which usually run for three to four years. Only Kosovo has its RSF loan attached to a one-year Stand-By Arrangement.

Table 2. List of RSF loans

Country	Arrangement date	SDR, mil	Parallel IMF program
Bangladesh	January 30, 2023	1,000	Extended Credit Facility
Barbados	December 07, 2022	142	Extended Fund Facility
Costa Rica	November 14, 2022	554	Extended Fund Facility
Jamaica	March 01, 2023	574	Precautionary Liquidity Line
Kosovo	May 25, 2023	62	Stand-By Arrangement
Rwanda	December 12, 2022	240	Policy Coordination Instrument
Seychelles	May 31, 2023	34	Extended Fund Facility

In devising the policy reforms to be attached to RSF lending operations, the IMF draws primarily on other instruments. First, the organisation's own Climate Public Investment Management Assessment, is intended to help governments identify and implement green public investments, and—as of May 2023—30 such assessments had already taken place, mostly pertaining to low- and middle-income countries. Second, the IMF also has the Climate Macroeconomic Assessment Programs (CMAP) that are tailor-made reports to evaluate how macroeconomic policies can help underpin responses to climate change, although only two such reports are available to date. Third, in a broader sense, climate considerations are being built into standard elements of IMF operations: economic surveillance reports (known as Article IV consultations) increasingly cover macroeconomically-relevant aspects of climate change, and debt sustainability analyses have started to include considerations of how climate-related risks may influence debt dynamics. Finally, the IMF also extensively draws on the World Bank's Country Climate and Development Reports, which are diagnostic tools on how countries can reduce their emissions and invest in adaptation policies. Thus far, 28 reports are available. The relatively sparse current country coverage of these tools, compared to the wide-ranging eligibility for RSF financing, reveals the scale of rapid progress needed to underpin its operations.

The realities of IMF engagement with climate issues in lending programmes

Thus far, this report has covered what the IMF's engagement with climate change and the green transition is intended to look like, and presented which countries have received financial assistance, whether through traditional lending instruments or in conjunction with the newly-minted RSF. But what is the actual

experience of countries with IMF programmes? Our assessment draws on two in-depth case studies of Bangladesh and Uganda (presented in Appendices 1 and 2), as well as broader analysis of post-2020 IMF loans and secondary literature. It reveals real but limited progress on the treatment of climate issues in IMF agreements. Yet, more alarmingly, the conditions attached to IMF lending programmes have several unintended adverse impacts on the green transition as well as on the likelihood of it being a just transition (i.e., one that does not exacerbate existing inequalities). We examine each of these issues in the remainder of this section.

Real but limited progress on climate

Some recent IMF programmes devote attention to climate issues. At minimum, lending agreements now may include coverage of climate risks in their assessment of broad potential risks to programme implementation and success when these are considered critical for balance of payments or domestic stability. This is a welcome development although not wholly surprising, given the scale of climate vulnerabilities of most current IMF borrowers. Indeed, this fact should yield an expectation of in-depth engagement with these climate change issues. For example, how might different climate risks impact macroeconomic stability, which economic sectors would be affected the most, how would this impact economic activity in the medium- and long-run, and what are the likely distributional consequences of adopting different climate policies? Yet, such extensive coverage—and the analytical work to underpin it—was mostly absent, even though climate-related needs and risks received at least cursory mentions throughout recent lending. To be sure, the newly-established RSF represents a positive step in that direction, but its mandate, funding, and eligibility is limited. Instead, climate considerations—like the negative repercussions of climate change on macroeconomic stability or the potential for different fiscal policies to help pave the way towards a green transition—need to also be foregrounded and meaningfully incorporated into policy design of all IMF lending instruments.

Some IMF loans provide insights of what such sustained and sophisticated engagement could look like. For example, climate risks receive extensive coverage in Kenya's 2021 program, which discusses the country's vulnerabilities to droughts and floods, and outlines how these are likely to impact the economy as a whole, as well as household income and welfare. These assessments rely on model simulations performed by IMF staff that seek to quantify the macroeconomic impact of climate change and made explicit references to the Kenyan Nationally Determined Contribution document that spells out the country's adaptation and mitigation plans. To pre-empt or diminish such risks, the IMF evaluated and endorsed Kenyan policies on mobilizing green financing and climate-related risk management in the banking sector (IMF 2022b).

In the case of Bangladesh, the IMF's analysis considers several climate risks, and its programme design is underpinned by the country's National Adaptation Plan, in conjunction with the analytical work present in the IMF Climate Public Investment Management Assessment and the World Bank Country Climate and Development Report. This is clear evidence of foregrounding country priorities and elaborating on policy options drawing on available expertise on areas of the IMF's mandate. For example, the analytical work primarily focused on fiscal management and public investments in order to aid the country to introduce and implement adaptation policies. These recommendations took place in the context of a loan that advocated for fiscal consolidation measures. These limit the fiscal space for countries in the Global South to scale up public investment in climate change adaptation and mitigation, much like countries in the Global North are currently pursuing. Though milder than for other loans in the case of Bangladesh (a 0.5 percentage point reduction as a share of GDP in the primary budget deficit between FY2023/24 and FY2026/2027), stricter fiscal consolidation requirements are common in the broader universe of IMF loans (Kentikelenis and Stubbs 2023a).

In short, the elevated climate risks across its core borrowers have prompted recent IMF loans to consider climate change in more detail than ever before. The inclusion of stress tests to account for natural disasters in debt sustainability analysis is also a positive step, that can help alter the forecasts and advice of the

organisation towards being more sensitive to climate change. Still, while the level of detail of the IMF's analysis is highly uneven across countries, some agreements—like those of Bangladesh and Kenya—reveal a way forward that relies on utilizing the skillset of IMF staff (e.g., developing simulations and quantifying different policy scenarios) to devise better targeted policy advice.

Climate consequences of standard IMF conditionalities

While climate issues are now discussed in relation to the potential risks they pose for a country's economic performance and the likelihood of success of the IMF program, they are not adequately discussed in the context of the design of conditionality. That is, climate-related analyses are to a degree disconnected from evaluating the—direct or indirect—impact of the corpus of the IMF's conditionality.

The most conspicuous example of that is the endorsement of oil production in Uganda. The exploitation of these oil resources promises to generate public funds that could be invested into green transition objectives, as well as social goals, and could help underpin improvements in living standards in one of the world's poorest countries. However, the IMF's analysis does not consider the economic implications of the environmental damage from fossil fuel extraction, nor the 'spillover transition risk'—that is, the risk that countries in the Global North will impose carbon taxes at their borders (as the European Union will start doing from end-2023), thus rapidly altering the market and profitability of such investments in polluting technologies. Further, even the promise for oil production generating sizeable public revenues for Uganda is moderated by the fact that foreign companies hold large stakes in the oilfield and pipelines.

But even policies that supposedly hold promise to aid the green transition, may end up creating a range of problems that could stall progress on climate goals. In Bangladesh, the IMF endorses the expanded use of public-private partnerships (PPPs) to close the climate financing gap. Using public resources to de-risk private finance for climate-friendly infrastructure investment raises additional macroeconomic concerns, as these partnerships can have adverse and unpredictable financial consequences on public funds, as the IMF's own research has shown (Prasad et al. 2022). For example, a PPP in the energy sector in Ghana ended up with the government paying $250 million in 2019 for gas it had not used (Geary 2020). More broadly, de-risking private investors can lead to the privatization of gains but the socialization of losses, where currency, liquidity, and markets risks are all transferred from the private sector to the public sector balance sheet (Gabor 2021; Prasad et al. 2022; Sward 2023), which in turn undermine future public investment in climate adaptation and mitigation strategies and in achieving social goals. To make matters worse, there are serious concerns around the transparency and accountability of PPPs, as contracts often remain secret which aids predatory costing practices and corruption (Geary 2020).

Last, but not least, a common fixture of IMF programmes has been the promotion of extensive fiscal consolidation policies. In some instances, like the Bangladesh study presented in this report, the fiscal adjustment trajectories are milder than in other agreements. Many countries still face IMF requests for steep cuts to public spending, as the extensive analysis of Uganda below makes clear. In another example, within the first two years of its lending program, Kenya is expected to reduce its public expenditures by 2 percentage points of GDP—a very large reduction at time of heightened needs due to drought. This is a clear example where even thorough treatment of climate issues at an analytical level (discussed above for Kenya), may be uncoupled from the mandates of traditional strict fiscal consolidation policies pursued by the IMF.

Such cuts can have a dual impact on climate change adaptation and mitigation plans. They reduce the availability of public financing for such plans, thereby threatening the availability of resources that countries have already committed to these ends through their Nationally Determined Contributions. In addition, extensive fiscal consolidation also has broader adverse impacts on economic activity and on welfare, which in turn reduce tax receipts for governments, thereby further threatening the funding base for adaptation and mitigation policies.

The elusive promise of a just transition

The IMF has publicly called for this period of economic recovery from the pandemic and simultaneous scaled up investment in the combat against climate change to be one that avoids entrenching inequalities and instead focuses on protecting vulnerable social groups and building up social protection policies. Indeed, to this end, the organisation recently adopted a strategy for sheltering or increasing social spending in the context of its lending activities (IMF 2019a). Yet, assessing evidence from recent loans reveals little ground for optimism for three reasons.

First, the IMF's loans generally advise a combination of removing subsidies for household energy usage (a policy that has recently prompted social unrest in several countries, including Ecuador and Haiti), while also advising increases in consumption taxes, like the value-added tax. The joint effect of these policies is to squeeze personal incomes. Fuel subsidy removal is an important step towards appropriate pricing of the cost of carbon and can be an important tool for reducing consumption and shifting to greener alternatives. Yet, it also illustrates the tensions between the green transition and ensuring this is achieved in a socially just way. Most notably, fuel consumption represents a high share of the expenditures of poor households, which are also often hard to reach through social assistance measures. To be sure, the IMF invariably advises that such policies are coupled with the introduction of redistributive measures to cushion the income shock, although there is little systematic evidence provided by the IMF to document that this is actually achieved: while it is certainly plausible that countries may save funds through cutting fuel subsidies and instead re-invest such funds into social policy, there is little clear cut evidence that this has taken place to the scale necessary to minimise adverse social consequences. In short, there is scope to phase out some types of subsidies—especially for production or the consumption of higher-income households—while retaining a level of support for the energy costs of lower-income households, rural communities, and small and medium enterprises.

Second, while the IMF has elevated attention to social spending and its lending programmes now regularly include mandated minimums of such spending, there is little evidence that such spending is adequate or effective in safeguarding the needs of the population or even protecting the most disadvantaged (Kentikelenis and Stubbs 2023b). This is because such spending floors are generally set at low levels, and are at best seen as social amelioration policies, rather than comprehensive approaches to universal social protection, in line with the Sustainable Development Goals. This is also relevant in the context of the green transition, as appropriate levels of social spending form the backbone of redistributive measures to ensure that those adversely affected by the shifts to cleaner energy—for example, current workers in polluting industries—are able to maintain livelihoods and to access decent jobs.

Finally, there is limited systematic effort to track how countries' balance of payments will be affected by a global green transition drive. For example, developing countries will need access to extensive financing in order to import renewable energy technologies that are currently funded through the green subsidy race in the Global North. Yet, it is unlikely that most Global South countries will have adequate fiscal space to import and benefit from these innovations, and may need to try and attract highly volatile private finance to close the financing gaps. Indeed, the IMF's work on Bangladesh documents shows large climate finance needs, but without providing meaningful insights on how these can be covered.

Audience	Recommendations
IMF management and staff	Integrate and scale up coverage of climate issues under the Paris Agreement objectives: IMF can institutionalize detailed simulations (e.g., on how building infrastructure adaptation can reduce natural disaster-related fiscal gap) and other assessments in order to underpin policy advice in lending programmes.
	Ringfencing climate investments: Rather than ringfencing fossil fuel infrastructure investment (e.g., Uganda), the IMF can instead ringfence higher capital spending on renewable energy infrastructure and industrial policy associated with renewable energy technologies.
	Infrastructure updating: IMF can endorse phasing out of inefficient power plants to reduce overcapacity and its associated subsidy burden, which is a threat to the fiscal balance (e.g., Bangladesh, Ghana).
	Scale up work on fossil fuel exporter countries: assessing transition management risks and prospective balance of payment issues linked to fossil fuel extraction.
	Enhanced monitoring: IMF can carefully monitor funds directed for green investments (already partially attempted in its Climate Indicators Dashboard) and publish relevant data over time in a cross-country comparable fashion.
IMF Executive Board & large shareholder's governments	IMF leadership should adopt a 'do no harm' approach and commit to ensuring that lending programs do not impede countries' efforts to lead development pathways aligned with the Paris Agreement 1.5°C goal.
	Innovations in lending: Capitalize on lending innovations developed during the Covid-19 health emergency to address the climate emergency with a comparative level of urgency.
	Support for the inclusion of climate policy benefits in the upcoming review of the Lower Income Countries Debt Sustainability Framework (LIC-DSF).
	Consider science around fuels: IMF follows EU classification of gas as a 'transition fuel', even though this view is disputed and its prices are subject to economically-destabilizing price fluctuations.

Audience	Recommendations
IMF Executive Board & large shareholder's governments	An overhaul of the institution's approach to energy subsidies phase-out, guaranteeing they are always accompanied by long-term sustainable renewable energy policy strategies and energy access enhancement.
	Support the creation of an accountability mechanism within the IMF to help generate an evidence base on how its programs are fulfilling or impeding commitments to green transition and just recovery.
Global South governments	Coordinated responses through collective instruments: organizations like the V20, G77 and G24 can build a narrative of collective responsibility of the Global North for committing resources to underpin the green transition.
	Countries should develop long-term climate policy development strategies that can demonstrate the positive case for frontloading public investments in mitigation and adaptation.
	Countries' Nationally Determined Contributions must be science-based and aligned with 1.5°C development pathways in order to fulfil the Paris Agreement goals.

Case Study 1 [redacted] [redacted] Bangladesh

Summary

Overall, Bangladesh's IMF programme stands out as a positive first step toward the pursuit of a green, just transition, though is far from perfect. Climate priorities are articulated in the loan documentation and integrated throughout the program, underpinned by conditions calling for green fiscal and public investment management. However, it is worth noting that those climate priorities are not aligned with the Paris Agreement, as Bangladesh has so far not committed to reaching net zero greenhouse gas emissions. Even so, several recommendations appear at cross-purposes with these priorities. Support for PPPs to close the climate financing gap introduces new macroeconomic risks that could undermine future public investment in green infrastructure. Furthermore, hikes to petroleum products, while consistent with a green transition, may negatively impact the most vulnerable communities. The IMF also missed an opportunity to address Bangladesh's power sector overcapacity issues head-on by more assertively endorsing renewable energy solutions, and failed to identify environmental and balance of payments risks linked to the country's continuing reliance on liquified fossil gas.

Economic Context

Bangladesh is a lower-middle income country of 170 million habitants with a $416 billion economy, equating to income per capita of $2,458 (World Bank 2022e). The largest contributor to the Bangladesh economy is its services sector at 55%, followed by industry at 33%, while agriculture contributes only 12% to the economy but accounts for 38% of the workforce—a mismatch between the source of productivity and employment that is linked to growing levels of income and wealth inequality (World Bank and Asian Development Bank 2021). Prior to the Covid-19 pandemic, the country had experienced a strong record of economic development over the past two decades—with real GDP growing by an average of 6% since 2000 (World Bank 2023b). Much of this economic success was underpinned by the growth of the ready-made garment industry, which accounts for 82% of the country's total merchandise exports (World Bank 2023a). Poverty also declined from 41.9% in 1991 to 13.5% in 2016 based on the international poverty line of $2.15 a day (World Bank 2022e).

The Covid-19 pandemic interrupted this period of economic development, although poverty trends were not substantively altered, declining from 12.5% in 2020 to 10.4% in 2022 using the international poverty line (World Bank 2022b, 2023a). While Bangladesh managed to maintain real GDP growth of 3.4% during the Covid-19 pandemic, job losses and reduced earnings were concentrated on the poorest and most vulnerable populations (World Bank 2023b). Elevated global commodity prices and rising global interest rates have also disrupted the post-pandemic recovery, leading to a widening of the current account deficit, depreciation of the Bangladeshi Taka, and a sharp decline of foreign exchange reserves (Asian Development Bank 2023; World Bank 2023a). The resulting rise in inflation and import controls to compress demand are also impacting the poorest households the most, as they are most vulnerable to a loss of purchasing power—with the poorest decile spending more than two-thirds of their income on food, housing, and utilities (World Bank 2023b). The fiscal deficit is also widening due to higher subsidy spending on fertilizer, food, and fuel in the face of elevated commodity prices, while tax revenues remain stagnant—which at 7.6% of GDP is among the lowest tax intake in the world (World Bank 2023a). Nonetheless, a relatively low debt-to-GDP ratio provides a fiscal buffer, and the country remains at low risk of debt distress (IMF 2023a; World Bank 2022c).

Table 3. Key economic indicators for Bangladesh

				Estimates	Forecasts
	2019/20	2020/21	2021/22	2022/23	2023/24
Economic growth / Real gross domestic product growth (%)	3.4	6.9	7.1	5.5	6.5
Balance of payments: Current account balance (% of GDP)	-1.5	-1.1	-4.1	-2.1	-4.2
Foreign exchange reserves (months of imports)	6.1	5.8	4.6	3.5	3.8
Public debt (% of GDP)	34.5	35.6	39.1	42.1	42.4
Primary budget balance (% of GDP)	-3.0	-1.6	-2.1	-3.8	-3.3
Inflation (% of consumer price index, period average)	5.6	5.6	6.1	8.6	6.5

Source: IMF (2023a). Fiscal year runs from 1 July to 30 June.

Global economic conditions are also reverberating through to the costs of industrial and agricultural production. Because Bangladesh depends on imported coal and liquefied fossil gas for some of its energy needs, it has been increasingly exposed to price volatility in the energy sector, which is further draining its foreign reserves and increasing the cost of inputs for domestic production. The government has responded by ramping up energy rationing, known locally as 'loadshedding', with the resultant higher frequency of power outages disrupting industrial production (Asian Development Bank 2023; Zami 2023).

Climate Mitigation

Bangladesh is the world's 39th largest greenhouse gas emitter, with a global share of 0.5%. But with its large population base and fast-growing economy, there is potential for its emissions to rise substantially. Indeed, between 1990 and 2017 the country's emissions increased by 218% (Climate Transparency 2021). As of 2020 (the most recently available year), the energy sector is the leading contributor, with 43% of total emissions, followed by agriculture (37%), land-use change and forestry (9%), waste (9%), and industrial processes (2%) (World Resources Institute 2023a). Agricultural emissions are driven primarily by rice cultivation, which is the leading crop produced in Bangladesh, and enteric fermentation (Climate Transparency 2021). In terms of the energy mix, Figure 1 shows it is dominated by fossil fuels, at 82%, of which 59% is from fossil gas, 18% from oil, and 5% from coal (IEA 2023a). The contribution of gas to the energy mix has, in absolute terms, increased almost ten-fold over the last three decades, overtaking biofuels in the early-2000s as the most widely used energy source. The rapid acceleration of fossil gas over the period covered is due to electricity generation being heavily dependent on fossil fuels, with 79% of electricity generated from fossil gas, 15% from oil, and 5% from coal (Climate Transparency 2021), in a context where access to electricity has increased from 20% of the population in 2000 to over 85% at present (IEA 2023a).

Renewable energy in Bangladesh primarily takes the form of traditional biomass, comprising 18% of total energy supply, whereas wind and solar make up less than 1%. The main sources of biomass energy in the country are agricultural crop residues, wood residues, animal manure, and municipal solid waste. However, biomass is an unsustainable form of renewable energy due to its legacy of deforestation, competition with food crops on productive arable land, and higher life cycle carbon emissions (Arman et al. 2023; Huda, Mekhilef, and Ahsan 2014; Recourse 2023a).

To mitigate global greenhouse gas emissions and support uptake of wind and solar, Bangladesh has developed a series of institutional arrangements, including the Renewable Energy Policy, Mujib Climate Prosperity Plan, Bangladesh Delta Plan 2100, National Solar Energy Roadmap, and Eighth Five Year Plan (Government of Bangladesh 2008b, 2018, 2020a, 2020b, 2021a). The Renewable Energy Policy introduced instruments such as tax exemptions for the production of renewable energy equipment and a micro-credit support system for purchases of equipment in rural areas. Subsequent policies, such as the National Solar Energy Roadmap, reinforce these efforts by providing guidelines for a decentralised solar generation system, solar power-based irrigation, and net metering facilities. The Eighth Five Year Plan also encourages a more diversified energy mix of solar, wind, and imported hydropower from Bhutan and Nepal, while discouraging dependence on imported coal and liquefied fossil gas. Currently three-quarters of Bangladesh's electricity is derived from imported fossil gas, which has exposed the country to price volatility, putting a strain on both the economy and power system (Alam 2023; Paul and Varadhan 2022; Zami 2023). In addition, the policy lays out plans in the transportation sector for banning old vehicles and offering incentives for electric vehicles. The Bangladesh Delta Plan 2100 and Mujib Climate Prosperity Plan recognise these priorities and also seek to abate the country's high levels of air pollution, which caused about 80,000 deaths in 2019 and resulted in economic losses of about 4% of GDP (Raza, Mahmud, and Rabie 2022).

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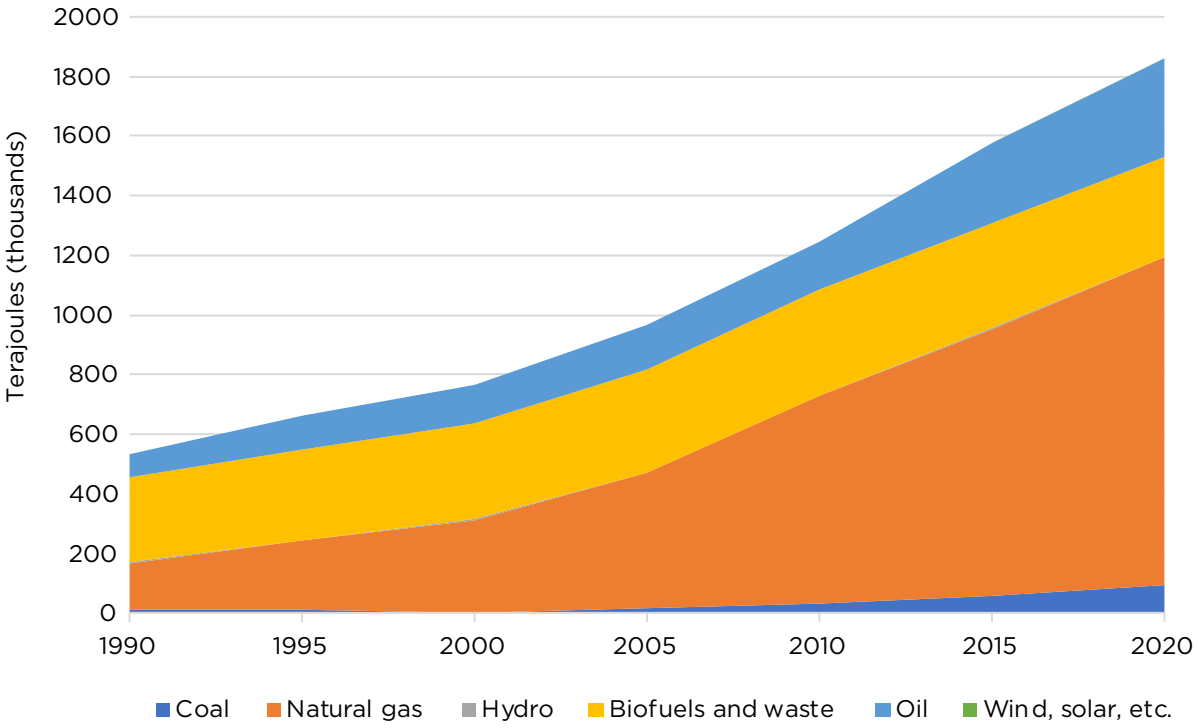
Figure 1. Total energy supply in Bangladesh, by source



These policies informed the country's updated Nationally Determined Contribution, submitted in August 2021 (Government of Bangladesh 2021b), where the government commits to reduce greenhouse gas emissions by 21.9% below the business-as-usual scenario by 2030, conditional on international support. Accounting for 96% of the emissions target are policy priorities targeting the energy sector, including the scaling up of renewable energy, promotion of electric vehicles, and enhancing energy efficiency in buildings and industrial facilities. Overall, an additional $14.4 billion per year (about 3.5% of GDP) up to 2030 will be needed to meet the mitigation target. Reflecting its commitment, the government cancelled 10 coal-fired power plant projects involving $12 billion in foreign investment and set the target of generating at least 40% of total electricity from renewable energy sources by 2041 (Hasina 2021).

It is worth noting that commitments included in Bangladesh's Nationally Determined Contribution fail to deliver on the Paris Agreement goals as they are not aligned with a 1.5°C pathway. Bangladesh has not committed to reaching net zero thus far, so even if the IMF supports the country's national climate policy strategy it may actually end up endorsing policies that reduce the possibility of fulfilling the Paris Agreement goals.

Climate Adaptation

Bangladesh faces significant physical risks from climate change, ranking 164th 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 2023). Its vulnerability is primarily driven by its geographic location, flat and low-lying topography within a network of 230 major rivers, high population density, and rates of poverty (World Bank 2022a). The country already experiences the highest exposure to flooding in the world, frequent exposure to tropical cyclones and their associated hazards, as well as an increased frequency of heat waves and drought (World Bank and Asian Development Bank 2021). Sea level rises also pose a significant threat to the lives and livelihoods of the population living in coastal areas, with 60% of land only five metres above sea level (Climate Transparency 2021). Reflecting its vulnerability, Bangladesh experienced direct economic losses from natural disasters at an average 5.6% of GDP annually over the past three decades (IMF 2023a). Climate-induced risk and damages to the economy and livelihoods will all be exacerbated in the future. For instance, by 2050, people affected annually by river flooding will increase from 2 million people to 2.8 million, one-third of agricultural GDP will be lost due to climate variability (a huge concern given the sector represents large share of employment in the country), and an additional 13.3 million people will be internally displaced by climate change (World Bank 2022a; World Bank and Asian Development Bank 2021). Overall, by 2050 the annual cost to the economy of climate-related events is expected to be $25 billion, or 6% of GDP (World Bank and Asian Development Bank 2021).

Climate change trends will disproportionately impact on Bangladesh's poor and vulnerable populations. For instance, farmers and agricultural labourers are among the lowest paid groups in the country, yet will bear the brunt of the damage from climate change; and in Bangladesh's rapidly growing cities, the poorest and most vulnerable populations live in informal settlements, which are most exposed to flood risks (World Bank and Asian Development Bank 2021). These groups are also least able to afford local water storage, irrigation infrastructure, or other technologies for climate adaptation. And while the impacts of sea-level rise along Bangladesh's coastal zone are mitigated by a network of polders, areas outside of this network are inhabited and farmed by the poorest groups in society—with an estimated 900,000 people expected to be forced out of coastal areas due to permanent inundation by 2050 (Davis et al. 2018). The impacts of climate change in Bangladesh are not gender neutral either. Research shows not only that low elevation and higher salinity levels is strongly correlated with lower incomes, but that it is also driving migration of working-age males in particular, leaving women, the elderly, and disabled behind in the exposed lands (Dasgupta et al. 2014). Females also rely more on climate-affected sectors like agriculture, forestry, and fisheries—where an estimated 59.7% of employed women are engaged—and are typically responsible for collecting water and gathering biomass energy to support the household (UN Women and International Union for Conservation of Nature 2022).

Given such vulnerabilities, managing climate risks has been central to Bangladesh's development, with high rate of economic growth underpinned by decades of proactive policies and investments in climate resilience and disaster preparedness (World Bank 2022a), such as the aforementioned coastal embankment system. Bangladesh's 2008 Climate Change Strategy and Action Plan and 2009 National Adaptation Program of Action guided the country's climate efforts through the 2010s (Government of Bangladesh 2008a, 2009), as well as putting in place a range of climate-related policy tools, such as a climate fiscal framework, climate

change budget tagging, sustainable finance policy for banks and financial institutions, and a green taxonomy (IMF 2023a). Most recently, a new National Plan for Disaster Management, National Adaptation Plan and the aforementioned Mujib Climate Prosperity Plan, Bangladesh Delta Plan 2100, and Eighth Five Year Plan provide the framework for the country's climate adaptation agenda (Government of Bangladesh 2018, 2020b, 2020c, 2021a, 2022). The National Plan for Disaster Management focuses on understanding disaster risk and strengthening coherence among disaster management and development; the National Adaptation Plan sets out a comprehensive implementation roadmap and investment plan on the adaptation agenda; the Bangladesh Delta Plan 2100 details adaptation activities in the coastal zone, including polder construction and enhancement, habitat restoration initiatives, and a potential coastal greenbelt; the Mujib Climate Prosperity Plan targets raising resources for climate risk reduction for the most vulnerable groups and for a just transition; while the Eighth Five Year Plan anchors the economic policies needed to deliver these objectives. These policy priorities of these plans culminate in Bangladesh's Updated Nationally Determined Contribution (Government of Bangladesh 2021b). In total, the cost of climate-related investment—both adaptation and mitigation efforts—required under these plans amounts to up to 7% of GDP annually up to 2030 (World Bank 2022a), significantly more than the current climate-related government spending of just under 1% of GDP (IMF 2023a).

Relationship with the IMF

Bangladesh has participated in 11 IMF programmes since joining the Fund in 1972. Since 2010, the country has participated in a 36-month programme commencing April 2012 to obtain access to a $956 million loan. The programme responded to pressures stemming from oil and capital imports associated with new fuel-intensive power stations and a rise in oil prices, which had meant the balance of payments slipped into a deficit that—in turn—drained foreign reserve buffers. Accordingly, the programme objectives were to restore macroeconomic stability and build an adequate foreign reserve buffer (IMF 2012). The programme was suspended in October 2014 for a year due to government delays in implementing conditions related to the introduction of a value-added tax, but these were ultimately completed and the entire loan drawn (IMF 2015a).

Against the backdrop of the unfolding Covid-19 pandemic, the IMF also disbursed $732 million under a non-conditionality emergency loan in in May 2020 (IMF 2020a). This credit contributed towards addressing urgent balance of payments needs that had arisen as a result of a sharp decline in ready-made garment exports and remittances inflows, and to help finance a stimulus package to address the Covid-19 outbreak, including increased health spending, strengthened social protection, and enhanced support to the private sector.

Box 1. Timeline of IMF engagement in Bangladesh since 2010

April 2012

IMF approves Extended Credit Facility loan for $956 million over 36 months.

May 2020

IMF approves an immediately disbursing combined Rapid Credit Facility and Rapid Financing Instrument loans for $732 million.

January 2023

IMF approves combined Extended Credit Facility and Extended Fund Facility for $3.3 billion over 42 months and disburses the first $476 million; and approves a concurrent Resilience and Sustainability Facility loan for $1.4 billion over 42 months.

Bangladesh started to negotiate with the IMF for possible loans in July 2022 in order to overcome balance of payments challenges. The country's dependence on imported fossil gas meant it was severely impacted by the war in Ukraine, as richer European countries rushed to buy more liquefied fossil gas in international markets, driving up prices (Moazzem 2022a). As a result, the current account deficit increased from -1.1% of GDP in 2020-21 to -4.1% in 2021-22, and foreign exchange reserves fell from 5.8 months of imports in 2020-21 to 4.6 months in 2021-22.

In January 2023, the IMF approved a combined 42-month programme under the Extended Credit Facility and Extended Fund Facility (ECF/EFF), unlocking access to $3.3 billion over the course of six semi-annual reviews, $476 million of which was immediately disbursed. At the same time, the IMF approved a parallel 42-month Resilience and Sustainability Facility (RSF) loan for $1.4 billion, operating on the same review schedule. The stated aims of the ECF/EFF are to restore macroeconomic stability, catalyse financing from other sources, rebuild foreign exchange reserves in the short-term, and support a scale-up in social and development spending in the long-term (IMF 2023a). On this basis, reforms are geared towards creating fiscal space for priority spending, addressing longstanding financial sector vulnerabilities (including high levels of non-performing loans in state-owned banks and weak capital buffers), boosting productivity and exports, enhancing the investment climate to meet financing needs, and modernizing fiscal and monetary systems. The aim of the RSF is to support efforts to tackle climate change adaptation and mitigation challenges, as well as complement reforms under the ECF/EFF (IMF 2023a).

Impact of the IMF Program

To what extent are the IMF programmes—both ECF/EFF and RSF—consistent with enabling Bangladesh to circumvent dependence on fossil fuels and achieve climate policy objectives included in its Nationally Determined Contributions? Is the programme aligned with a just transition that safeguards the rights and needs of the most vulnerable members of society amidst a global climate emergency? We examine these questions based on analysis of the loan documentation, focusing on key conditions and recommendations since the programme began in January 2023.

Climate risk and green transition

If IMF programmes are to facilitate green transition and just recovery priorities, they will need to consider the physical risks of climate change and transition risks associated with a low-carbon future. Toward this end, the RSF programme contains 11 conditions pertaining to three reform priorities: make infrastructure investment green and resilient, strengthen climate fiscal management, and mobilise private climate finance and enhance financial sector resilience. As shown in Table 4, specific conditions attached to the RSF programme include green public procurement plans, guidelines for financial institutions on reporting climate-related risks, climate stress-testing, policies on green bond financing, the adoption of prioritisation criteria for infrastructure projects, an increase in prices for petroleum products, and adoption of an updated public-private partnerships (PPP) framework. The selection of reform measures was underpinned by diagnostics conducted in the World Bank's (2022a) Country Climate and Development Report and the IMF's Climate Public Investment Management Assessment. It is also clear that the conditions are informed by national climate-related strategies, as evident most explicitly in conditions 9 and 11, both of which refer to Bangladesh's National Adaptation Plan. Further synergies with the Bangladesh Delta Plan 2100, Mujib Climate Prosperity Plan, and other key climate strategies and plans are described in the underlying programme documentation. While the ECF/EFF programme includes only one condition that directly addresses climate-related challenges (a duplicate of the RSF condition on petroleum prices), several have indirect implications for a green and just transition, described further below.

Table 4. Resilience and Sustainability Facility conditions

Condition	Climate reform area
1. Government to adopt a sustainable public procurement policy paper and an associated action plan to integrate climate and green dimensions.	Fiscal management
2. Government to adopt a periodic formula-based price adjustment mechanism for petroleum products.	Fiscal management
3. Bangladesh Bank to adopt guidelines for banks and financial institutions on reporting and disclosure of climate-related risks in line with the recommendations of the Task Force on Climate-Related Financial Disclosures.	Private finance and financial sector resilience
4. Government to adopt a national disaster risk financing strategy while integrating social assistance measures.	Fiscal management
5. Ministry of Finance to adopt and implement a methodology for embedding climate change in the Medium Term Macroeconomic Framework, through analyzing macro-fiscal risks from climate change and publishing it in the Medium-Term Macroeconomic Policy Statement.	Fiscal management
6. Government to issue a circular on an update to the Green Book to include supplementary guidance on sector-specific methodologies that integrate climate considerations in the appraisal of major infrastructure projects starting from two key sectors.	Public investment management
7. Bangladesh Bank to conduct and publish climate stress testing for the overall financial system and update the Guidelines on Stress Testing for banks and financial institutions to include climate change considerations	Private finance and financial sector resilience
8. Government to adopt an updated public-private-partnerships policy and framework that integrates climate-related risks and develop relevant guidelines.	Public investment management
9. Government to issue a circular on the adoption of an annex to the Green Book that specifies selection and prioritization criteria for major infrastructure projects that is aligned with the Nationally Determined Contributions and the National Adaptation Plan.	Public investment management
10. Government to establish a public asset register module of the iBAS++ and will incorporate information on climate-related risks and vulnerability of new public assets to the module.	Public investment management
11. Bangladesh Bank to update the Policy on Green Bond Financing, particularly the annex on green taxonomy to be fully aligned with the National Adaptation Plan's strategic and investment priorities.	Private finance and financial sector resilience

The broader programme documentation contained extensive coverage of climate risks and the green transition. In particular, Annex III of the document provided dedicated coverage of climate-related challenges centred on the following themes: climate change risks and impacts, which contained considered examples of previous major natural disasters that affected Bangladesh and the economic losses associated with them, as well as the potential financial losses from future natural disasters; national climate change strategy, which described the country's main adaptation and mitigation goals along with its associated fiscal, financial, and policy architecture, as well as recognising some of the weaknesses of it; costs of climate change mitigation and adaptation investment, which providing a detailed annual and total costings of climate-related investment required under various domestic plans, as well as the overall financing gap; and macro-fiscal implications of climate change policies, underpinned by Debt, Investment, Growth, and Natural Disasters (DIGNAD) model simulations demonstrating the benefits of investing in adaptation measures vis-à-vis several economic indicators. Climate coverage was also integrated in the sense that climate spending was incorporated into the macro-fiscal assumptions made under the programme and in the debt sustainability analysis. Overall, both the condition included in the programme and the underlying discussion was skewed toward adaptation rather than mitigation measures, which is appropriate given Bangladesh's extreme vulnerability to the impact of climate change and relatively modest contribution to global greenhouse gas emissions.

Despite this positive appraisal, the programme did contain some shortcomings in coverage vis-à-vis risks due to the country's dependence on liquefied fossil gas. The IMF refers to fossil gas as "a relatively clean transition fuel" (IMF 2023a, 52), citing the European Union's (2022) taxonomy where it is classed as an environmentally sustainable transition fuel, while ignoring research from climate scientists that is contrary to this view (Recourse 2023a). The IMF also underemphasizes balance of payments risks that reliance on imported liquefied fossil gas entails, especially as other nations may opt to use it as a transition fuel, thereby driving prices upwards. This represents a major omission given Bangladesh's draft Integrated Power and Energy Master Plan expects to increase liquefied fossil gas use ten-fold between 2019 and 2050, based on the moderate economic growth scenario (Moazzem 2022b). This is in line with the country's Nationally Determined Contribution, which has not been designed to fulfil the Paris Agreement mitigation goals.

In addition, the IMF failed to identify balance of payments risks linked to the rapid influx of imported hydropower from neighbouring countries as well as renewable energy technology imports that will be required if Bangladesh is to reach the target of generating at least 40% of total electricity from renewable energy sources by 2041. Finally, several programme measures appeared at cross-purposes to the goal of achieving a green and just transition, described below.

Energy subsidy reforms

Several conditions related to the reduction of the fiscal deficit have the potential to impact the country's climate change efforts. The IMF calls for a fiscal consolidation that would see a decline in the primary budget deficit from 3.8% of GDP in 2023-24 to 3.3% of GDP by the end of the program. Among several measures to geared toward this end (including a series of tax policy and administration reforms), the IMF calls for the introduction of a periodic formula-based fuel price adjustment mechanism to ensure there are no structural subsidies for petroleum products. This measure responds to recent price hikes that have increased government spending, with gas and electricity subsidies expected to reach 0.9% of GDP in 2023-24, compared to 0.4% of GDP in 2021-22. The objective is underpinned by quantitative performance criteria on the primary budget balance and a structural condition in the ECF/EFF, as well as a condition in the RSF.

Reforms to energy subsidies hold important implications both in terms of the shift away from dependence on fossil fuels and the extent to which this shift is consistent with a just transition. Reducing the subsidies can support climate objectives by raising the price of fossil fuels to the end-user, thereby encouraging less and more efficient usage of energy, and providing an incentive to shift to cheaper renewable sources, like solar. Indeed, the IMF makes this case in an analytical box describing how transparent market-based pricing of

fossil fuels can encourage more efficient fuel consumption. But the authenticity of this rationale is dubious given the more substantive coverage in the IMF programme documentation on how such measures would alleviate budget pressures and balance of payments issues, and has led to civil society groups describing it as a retrofit of austerity as climate policy (Recourse 2023b).

Because energy constitutes a larger proportion of poorer households' spending, energy subsidy reductions can place a disproportionate burden on them. According to the IMF, subsidies will be phased out in a way that protects the poor, by creating fiscal space to sustain public investment spending and support poverty reduction expenditure. But civil society groups have questioned whether this will in fact be the case (Recourse 2023b). This concern is warranted given the IMF loan documentation does not adequately specify how the subsidy phase-out will be achieved in a way that does not negatively impact the poorest and most vulnerable communities, in contrast to its Argentina programme that detailed a viable progressive strategy of reducing energy subsidies (Stubbs and Kentikelenis 2022). The IMF does call for higher social spending using the expanded fiscal space, supported by indicative benchmark targets, but this must be considered in a context where poor and vulnerable communities are already reeling from several price increases to petroleum products and power prior to the months leading up to the commencement of the IMF programme (Byron 2023; Chowdhury 2023). Indeed, the IMF has a track record of not coupling the elimination of fossil fuel subsidies with sufficient energy access or other forms of social protection for those most affected by them, with recent energy subsidy reductions prompting riots among poor communities in Haiti and Ecuador (TCD IMF 2023). Civil society groups have proposed an exemption of irrigation, small and medium enterprises, and poor families from this phase-out (Recourse 2023b).

More ambitious reforms to the energy sector also appeared to be overlooked because the IMF's recommendations are primarily guided by short-term fiscal expediency. The potential for cheaper renewable energy could allow for a financially viable long-term solution to addressing the power sector's recurrent deficiencies and dependence on fossil gas. Specifically, public money is being directed to fossil-fuel based energy generators in the form of long-term tax breaks, waiver of duties and tax at the import stage, and lower corporate taxes for private independent power producers—who receive capacity charges even when the minimum amount of electricity is not purchased from them, adding up to more than 50% of the Bangladesh Power and Development Board's operating expenses, paid regardless of whether the power is bought or produced (Moazzem 2022c; Recourse 2023b). Unnecessary capacity charges are linked with increasing overcapacity in Bangladesh's energy system (Nicholas 2022). In 2022, the capacity of the power sector was 22,512 MW and the highest demand for electricity was 14,782 MW, which means 34.3% of the capacity was kept idle—and the ratio is set to increase as new coal and liquefied fossil gas power plants come online (Bangladesh Working Group on External Debt 2022). The IMF should therefore endorse the phasing out of inefficient and old power plants to reduce overcapacity and its associated subsidy burden—which is a threat to the fiscal balance and thus well within the IMF's remit. Savings from capacity charge reduction are estimated at around $1.9 billion assuming a 10% decline by 2035 and 20% by 2041 (Change Initiative 2023a). The IMF could also expand the incentives for a renewable energy transition by encouraging the government to redirect subsidies toward the renewable energy value chain, such as smart grid technology (Change Initiative 2023b), rather than eliminating subsidies altogether. A gradual withdrawal of subsidies for fossil fuel imports could result in savings of $4.4 billion between 2025 to 2041, which could be diverted to renewable energy expansion (Change Initiative 2023a).

Climate financing

The IMF programme seeks to leverage private sector climate financing and the expanded use of public-private partnerships to close the climate financing gap in Bangladesh, supported by an RSF condition for the government to adopt an updated PPP policy and framework that integrates climate-related risks. Bangladesh requires an estimated annual climate financing of 3.3% of GDP, or $137 billion by 2030, to achieve the lower range estimate of climate-related investment requirements (which incorporates commitments in the Bangladesh Delta Plan 2100 and unconditional Nationally Determined Contribution mitigation target)

(World Bank 2022a). According to the IMF's analysis, current financing sources—including the Government of Bangladesh, domestic banks, and the United Nations' Green Climate Fund—cover about 1.3% of financing need, meaning there is a shortfall of 2% of GDP annually. The RSF itself will mobilise an additional $1.4 billion in financing, and the Bangladesh government plan to mobilise another $1 billion through green public bonds under the Bangladesh Delta Plan 2100 and $7 billion in private green financing under the Mujib Climate Prosperity Plan. But the IMF does not make it clear where the remaining climate financing will come from, or indeed how much international donors should be contributing to it, which might pressure them to actually commit. Instead, the IMF entrusts the private sector to fill the financing gap through the expansion of green financial instruments, including sovereign and corporate green bonds.

Using public resources to de-risk private finance for climate-friendly infrastructure investment raises additional macroeconomic concerns, as these partnerships can have adverse and unpredictable financial consequences on public funds. As the IMF itself acknowledges in a staff climate note (Prasad et al. 2022), de-risking private investors can lead to the privatization of gains but the socialization of losses, where currency, liquidity, and markets risks are all transferred from the private sector to the public sector balance sheet (Gabor 2021). PPPs therefore imply "potentially large public debt increases through the crystallization of contingent liabilities" (Prasad et al. 2022, 16; quoted in Sward 2023). For example, the private partner for a new national hospital in Lesotho invoiced fees to the Ministry of Health well in excess of those initially forecasted, compromising necessary public healthcare investment in underserved rural areas (Ortiz and Stubbs 2022). The staff climate note, which is not official IMF policy, also recognises that fiscal resources should only be de-risking private flows in combination with industrial policies to increase domestic renewable energy manufacturing capacities (Prasad et al. 2022). Failure to incorporate this more developmental, state-led component of its de-risking advice in the Bangladesh programme represents a missed opportunity.

Ultimately, PPPs are riskier for the state than for the private companies involved (as the public sector is required to step in and assume costs when things go wrong), tend to have a much larger cost to the public budget relative to public investment, are more complex to negotiate and implement, often lack transparency or fail to consult affected communities, and do not provide any efficiency gains over public financing (Eurodad 2018, 2022; Romero 2015). While adoption of the updated PPP framework (set as an RSF condition) aims to support fiscal planning by enabling the government to identify macro and fiscal risks associated with PPPs, a recent IMF analysis raises concerns that risks may still not be adequately captured (Chuku et al. 2023). It shows that new debt contracts linked to PPPs in lower income countries like Bangladesh are more difficult to manage and assess risks and harder to restructure than traditional debt instruments, thereby elevating debt vulnerabilities that—most alarmingly—do not show up on headline debt indicators. For example, a PPP contract for the exploitation of Sankofa offshore gas obliged the state-owned Ghana National Petroleum Corporation to purchase 90% of a predetermined quantity of gas, regardless of whether it could use it, resulting in Ghana paying around 0.7% of GDP annually for power generation capacity it does not use (Gabor 2021; Geary 2020). In any case, mechanisms to catalyse private finance have so far failed to deliver anything close to the scale required to fulfil global climate financing targets (Bigger 2023; IMF 2022a). The underwhelming track record of market-led de-risking of private investments reinforces the need for an alternative model the IMF could support, such as a state-led allocative green credit policy regime organised around green industrial policy objectives (Kedward, Gabor, and Ryan-Collins 2022).

Case Study 2 [redacted] Uganda

Summary

Based on this analysis, Uganda stands out as a negative case for the meaningful pursuit of a green, just transition. In the context of the IMF program, investment in oil infrastructure was ringfenced and there were only limited attempts at considering climate issues, such as the incorporation of natural disaster shocks into the debt sustainability analysis. While increases in excise duties on fuel consumption could represent a potential boon for fostering a green transition, these were motivated by immediate fiscal risks rather than climate concerns. They are also a regressive tax that disproportionately hurt poorer households, and it is unlikely that lower-income households will be sufficiently protected. Furthermore, IMF-mandated reductions to the fiscal deficit undermine the ability of the government to invest in climate adaptation and mitigation strategies. The IMF programme also failed to account for the beneficial fiscal implications of greater investment in adaptation infrastructure. Most alarmingly, by failing to acknowledge the perverse climate implications of fossil fuel revenues, the IMF implicitly encourages further reliance upon fossil fuels as a means to balance the budget and current account.

Economic Context

Uganda is a low-income country with a $40.5 billion economy and income per capita of $884 (World Bank 2022e). Approximately two-thirds of the country's workforce is engaged in either subsistence- or commercial-based agriculture, and the rest of the working population primarily operates in an informal, low-skilled service sector (World Bank 2023b). Prior to the Covid-19 pandemic, the country was already economically struggling as a result of rapid population growth, drought, security challenges, and corruption. The recent alluring rates of annual economic growth, which reached over 6% in 2018 and 2019, give a misleading impression of the economic realities faced by the population: income per capita actually declined by 8% between 2014 and 2019, and the poverty headcount ratio of $2.15 a day had remained at 42% of the population since 2016 (World Bank 2022e). The Covid-19 pandemic and accompanying containment measures exacerbated socio-economic challenges. Decade-long gains in poverty reduction reversed, the budget balance and debt sustainability deteriorated, and pressures on the current account balance and foreign exchange reserves intensified (World Bank 2021c, 2021d).

Government support for the impact of the pandemic via increased public health spending, extensions of social protection programmes, and recovery loans to keep businesses afloat, led to a widening of the budget deficit (African Development Bank 2022). In order to reduce the deficit, the government initiated a revenue-driven fiscal consolidation in 2021 under IMF guidance, raising excise duty by 100 Ugandan Shillings (or about 3 USD cents) per litre of petrol and diesel and increasing collection of tax arrears, amongst other measures (described further below). Notwithstanding declines to the budget deficit, public debt still rose to 50.6% of GDP in 2021-22, which breached the 50% target codified in Uganda's Charter for Fiscal Responsibility.

Table 5. Key economic indicators for Uganda

				Estimates	Forecasts
	2019/20	2020/21	2021/22	2022/23	2023/24
Economic growth / Real gross domestic product growth (%)	2.9	3.5	4.7	5.3	6.0
Balance of payments: Current account balance (% of GDP)	-6.7	-9.5	-7.9	-9.2	-10.7
Foreign exchange reserves (months of imports)	3.9	4.9	3.7	3.0	3.1
Public debt (% of GDP)	41.9	49.0	50.6	50.9	49.6
Primary budget balance (% of GDP)	-5.0	-6.7	-4.3	-1.8	-0.3
Inflation (% of consumer price index, period average)	2.3	2.5	3.4	8.3	7.2

Source: IMF (2023a). Fiscal year runs from 1 July to 30 June.

Economic activity was particularly hard-hit by Covid-19 restrictions and lockdowns in 2020 and 2021, with growth initially contracting by 3.4 percentage points, from 6.4% in 2018-19 (IMF 2021d). Growth remains below pre-pandemic levels and is not forecast to fully recover until 2023-24. Despite a decline in Covid-19 infections, the economic context has remained difficult due to an outbreak of Ebola since September 2022, spillover effects from the war in Ukraine, and higher global and domestic borrowing costs (World Bank 2022d). Further, drought in some parts of the country has hurt agricultural production and contributed to rising food prices as well as food insecurity (World Bank 2023b). Inflation is also increasing, reflecting domestic supply-shocks from the drought as well as higher imported commodity prices for food, fuel, and fertilizer. Year-on-year headline inflation reached 10.6% in November 2022, as food and energy prices increased by 27.8 and 12.2%, respectively (IMF 2023b). In response to increasing food insecurity, the government has begun rolling out the Parish Development Model, a subnational fiscal transfer programme aimed at supporting subsistence households in rural areas through savings and credit cooperatives (Government of Uganda 2020).

Climate Mitigation

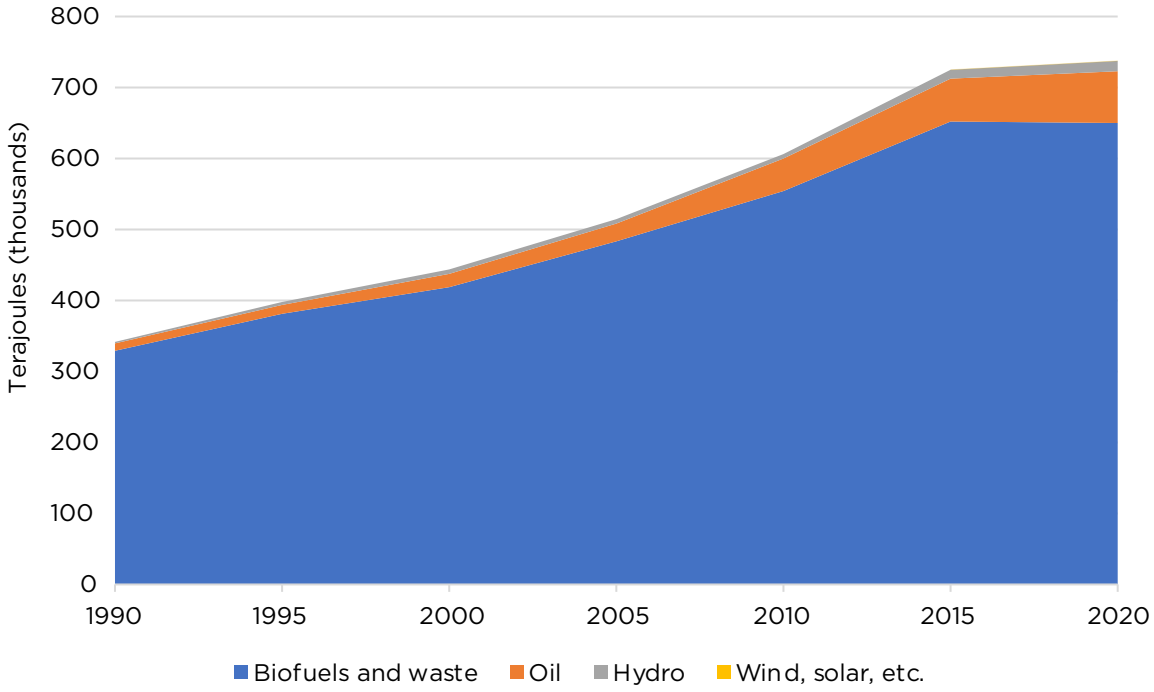
The Ugandan government has established a series of institutional arrangements to mitigate global greenhouse gas emissions. Uganda Vision 2040, the country's overarching development plan launched in 2012, articulated climate change as one of the greatest challenges, promoting a low emissions development pathway based on renewable energy (Government of Uganda 2012). It also mainstreamed climate into sector planning and implementation via the ensuing Second and Third National Development Plans (Government of Uganda 2015a, 2020), and the Uganda Green Growth Development Strategy (Government of Uganda 2017). Another notable release was the 2015 Uganda National Climate Change Policy, the main policy underpinning climate change adaptation, mitigation, research, and observation measures (Government of Uganda 2015b). The government further consolidated this policy by reforming the National Environment Act and adopting the National Climate Change Act (Government of Uganda 2019, 2021), which together provide the legal and regulatory framework for climate change issues.

Uganda submitted its initial Nationally Determined Contribution in 2015, striving for a 22% reduction of greenhouse gas emissions by 2030 relative to the business-as-usual scenario, conditional on accessing external support (Government of Uganda 2015c). The updated Nationally Determined Contribution progressed the mitigation target to a 24.6% reduction, of which 5.9% would be facilitated by domestic resources and the remaining 18.8% conditional on international support (Government of Uganda 2022). Climate mitigation measures focus on, inter alia, energy supply via the construction of infrastructure for electricity sector development to offset wood and charcoal burning and the development of an enabling environment for forestry and wetland management—for a combined estimated cost of $10.3 billion up to 2030.

To contextualise these aspirations, it is noteworthy that the population of Uganda, which stands at 46 million, accounts for only 0.12% of the worldwide emissions of greenhouse gases, rendering the country among the least per capita emitters of such gases. These emissions are dominated by agriculture (50%), with enteric fermentation and inefficient animal waste management systems as the leading contributors, followed by land-use change and forestry (27%), energy (19%), waste (3%), and industrial processes (1%) (World Resources Institute 2023b). Uganda's land-use emissions in particular are driven by deforestation as a result of population pressures and the selling off of forests to the private sector to make charcoal for export to neighbouring countries, to grow sugar cane and oil palms, or to deploy in the construction sector (IMF 2022f). In the past twenty years, Uganda has lost over a million hectares of forest cover, nearly a third of the country's total, with over 2.6% lost annually (World Bank 2021b).

In terms of the country's energy matrix, Figure 2 shows that Uganda's needs are primarily being met by biomass, although fossil fuel usage is increasing (IEA 2023b, 20). In 2020, 88% of the energy mix was composed of biofuels and waste, as most households are reliant on firewood and charcoal for cooking, with remaining needs primarily met by oil (10%). The contribution of oil to the energy mix has consistently grown since 1990, where it constituted only 3% of the mix. Non-fossil fuel energy sources like hydro (2%) and wind and solar (less than 1%) are also increasing, but still remain marginal despite having the greatest potential for energy access for rural and remote communities (Both ENDS 2022). Moreover, it is worth noting the pernicious social and environmental impacts of large hydro projects as reported by national civil society organisations (McCool 2020).

Figure 2. Total energy supply in Uganda, by source



Despite pledges and a policy environment that are broadly consistent with a low-carbon future, in practice Uganda—among other African Union members—has been pushing for massive new investment in fossil fuels (Harvey 2022). Indeed, the state-owned Uganda National Oil Company has partnered with the state-owned China National Offshore Oil Corporation and France's TotalEnergies to extract an estimated 1.4 billion barrels of crude oil over the next 20 to 25 years from the Kingfisher oil field, discovered in 2006. Situated on the eastern bank of Lake Albert, crude oil from the Kingfisher site will then be transported to the Port of Tanga in Tanzania for export to international markets through the construction of the 1,443km East African Crude Oil Pipeline (Nyabiage 2023). Despite major domestic and international resistance to the pipeline (e.g. , #StopEACOP 2023), Uganda intends to produce its first commercial oil in 2025, which will see the country become a significant oil exporter for the first time in its history.

Climate Adaptation

Uganda faces significant physical risks from climate change, ranking 166th 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 2023). Over the past two decades, an average of 200,000 Ugandans have been

affected each year by floods, droughts, and landslides (World Bank 2021a). In 2010 and 2011 alone, droughts caused an estimated $1.2 billion in losses and damages, equivalent to 7.5% of Uganda's economy, while floods are costing the economy at least $62 million a year (World Bank 2019). Climate change will increasingly expose the Ugandan population to droughts, climate variability, and land degradation, threatening the viability of major export crops like coffee, tea, and cotton, as well as subsistence crops like plantains and maize (World Bank 2021a). Absent significant actions to adapt to the impact of climate change, Uganda is projected to incur annual economic costs of 2.8% to 4.5% of gross domestic product up to 2050 (African Development Bank 2022).

Contributing to climate change vulnerability are a set of broader development constraints in Uganda, including post-conflict conditions in the northern region and precipitous rates of malaria and HIV/AIDS. These issues are further exacerbated by Uganda's high levels of poverty and dependence on climate-sensitive sectors—74% of Ugandans rely on rain-fed agriculture for their livelihood, composed primarily of poor rural farmers (World Bank 2021a). Despite significant reductions in poverty since the 1990s, Uganda remains one of the poorest nations in the world, with 42% of the population living below the international poverty line of $2.15 in 2019 (World Bank 2023b). Climate risks will be felt most by the poorest segments of the population, who are not only more vulnerable to physical risks of climate change but also have limited resources with which to increase adaptive capacity.

In recognition of these realities, the country released national adaptation plans in 2007 and 2018 (Government of Uganda 2007, 2018), and also prepared periodic national development plans that integrate climate change adaptation actions (e.g., Government of Uganda 2012, 2015a, 2017, 2020). Reflecting these policies, the country's updated Nationally Determined Contribution prioritises key adaptation efforts in 13 sectors (a much broader selection than most countries): environment and ecosystems, water and sanitation, agriculture, forestry, fisheries, energy, transport, manufacturing and mining, cities and the built environment, tourism, education, health, and disaster risk reduction. The estimated costs for the implementation of adaptation actions up to 2030 are $17.7 billion (Government of Uganda 2022).

However, with Uganda's development strategy hinging on oil revenues from the Kingfisher project (Langer, Ukiwo, and Mbabazi 2020), the country may also be exposed to significant global spillover transition risks (Ramos et al. 2022)—that is, where policy decisions on the green transition in other countries affect its economic fortunes. For example, if richer countries fulfil their commitments to low carbon emissions pathways and start to reject or reduce crude oil imports, including via carbon border taxation, then it would impact Uganda's potential earnings from such exports and—by extension—the availability of resources for a range of domestic adaptation policies.

Relationship with the IMF

Since joining the IMF in 1963, Uganda has participated in 11 programmes in total, its first a 12-month programme commencing June 1972. However, prior to the Covid-19 crisis, Uganda had not requested a loan from the IMF since 2002. Instead, between 2006 and 2017, the country participated in a series of Policy Support Instrument programmes—one-to-five year programmes available to low-income countries where the IMF offers advice, monitoring, and endorsement of their policies, but no access to credit (IMF 2015b). Compared to traditional IMF programmes, conditions attached to the non-financing Policy Support Instrument are not coercive, in the sense that implementation does not determine access to credit (Kentikelenis and Stubbs 2023a; Stubbs and Kentikelenis 2018).

The IMF then approved the disbursement of $492 million under an emergency IMF loan in May 2020 against the backdrop of the Covid-19 crisis (IMF 2020b). This influx of non-conditionality rapid credit helped

Uganda address urgent balance of payments and budget support needs linked to its Covid-19 response, including increased health spending, strengthened social protection, and enhanced support to the private sector.

Box 2. Timeline of IMF engagement in Uganda since 2010

May 2010

IMF approves 36-month Policy Support Instrument program.

June 2013

IMF approves 36-month Policy Support Instrument program.

May 2020

IMF approves an immediately disbursing Rapid Credit Facility loan for $492 million.

June 2021

IMF approves Extended Credit Facility loan for $1,000 million over 37 months and disburses $258 million.

March 2022

IMF completes first review of the Extended Credit Facility loan and disburses $125 million.

January 2023

IMF completes combined second and third reviews of the Extended Credit Facility loan and disburses $240 million.

In June 2021, the IMF approved a 37-month programme for Uganda, unlocking access to $1 billion over the course of six semi-annual reviews, $125 million of which was immediately disbursed. The programme aims to support the short-term response to the Covid-19 crisis and sustain a post-crisis inclusive recovery by creating fiscal space for priority social spending, preserving debt sustainability, strengthening governance, and enhancing the monetary and financial sector framework (IMF 2021d). According to the IMF, the programme is built around principles enshrined in the country's Third National Development Plan (Government of Uganda 2020), including private sector-led inclusive growth and public sector reforms to strengthen governance and transparency, thereby "preparing the ground for sound management of oil revenues" (IMF 2021d, 1, 2022d). The first review of the programme was completed with only a slight delay in March 2022, on account of technical and legislative issues (IMF 2022d). A more considerable interruption was experienced for the second review on account of the government's failure to complete on time an anti-corruption condition requiring a lowering of barriers to access government asset declarations, which IMF staff viewed as necessary for the programme to resume (IMF 2023b). Following implementation of the asset declaration regime, the combined second and third review was completed in January 2023

Impact of the IMF Program

To what extent is the IMF programme consistent with enabling Uganda to circumvent dependence on fossil fuels and achieve climate policy objectives included in its Nationally Determined Contributions? Is the programme aligned with a just transition that safeguards the rights and needs of the most vulnerable members of society amidst a global climate emergency? We examine these questions based on analysis of the loan documentation, focusing on key conditions and recommendations since the programme began in June 2021.

Fiscal policy

Uganda's progress on achieving its climate commitments and addressing transition risks will be affected by several conditions aimed at reducing the fiscal deficit and bringing public debt below target of 50% of GDP

as codified in the Charter of Fiscal Responsibility. At programme approval in June 2021, the IMF called for a fiscal consolidation strategy that would see a decline in the primary budget deficit from 7.1% of GDP in the 2020-21 fiscal year to 3.4% of GDP for 2021-22, with further reductions scheduled in subsequent years culminating in a 0.9% primary deficit by 2023-24. These targets were to be achieved through implementation of the Domestic Revenue Mobilization Strategy, a strategy developed by the Ugandan government which includes an increase of fuel excise taxes amongst other measures, as well as via cuts in capital expenditures and security. These objectives were underpinned by a series of conditions: quarterly performance criteria on the primary budget balance of the central government; indicative benchmarks on tax revenues; a prior action requiring the Ministry of Finance and Uganda Revenue Authority Commissioner to adopt the revenue strategy implementation plan that factors in tax policy and administration measures to achieve at least 0.5% of GDP per year (which was intended by IMF staff to represent the government's commitment to their own strategy); and a prior action requiring Parliament of Uganda to adopt a budget in line with the program (a technical necessity to allow spending and financing commitments to be aligned with the quantitative performance criteria).

In the program's first review concluded in March 2022, the primary deficit target was relaxed by 1% of GDP to accommodate new expenditure demands linked to the impact of the Covid-19 pandemic's second wave and to address higher security tensions. The IMF also made affordances to the fiscal consolidation strategy to accommodate higher capital expenditures in the 2022-23 fiscal year related to the preparation of oil production, as domestic authorities were unable to negotiate for international oil companies to pay for needed infrastructure investments (e.g., construction of an oil jetty and pipeline) in exchange for a share of oil-related proceeds once oil production starts. By the program's combined second and third review concluded in January 2023, a bleaker global economic outlook as a result of the war in Ukraine meant a more accommodative stance to the 2022-23 fiscal consolidation to allow the rollout of the Parish Development Model to protect rural households in the near term from higher food and fuel prices.

The government implemented the increase in excise duties on fuel in July 2021, raising excise duty by 100 Ugandan Shillings (or about 3 USD cents) per litre of petrol and diesel. Such actions hold important implications both in terms of the shift away from dependence on fossil fuels and the extent to which this shift is consistent with a just transition. Excise taxes can support climate objectives by raising the price of fossil fuels to the end-user, thereby encouraging less and more efficient usage of energy, and providing an incentive to shift to cheaper renewable sources, like solar. But while such reforms are a potential boon for fostering a green transition, IMF analyses elsewhere show that poorer households are more likely to be hurt by higher fuel prices since a larger share of their income is spent on energy-intensive goods like transport and heating (IMF 2019b).

In order to protect the most vulnerable populations from fiscal consolidation, the IMF called for an expansion of social assistance programmes and increase in social spending by 0.7% of GDP over the course of the program, supported by two sets of indicative benchmarks: a spending floor on support to vulnerable households through four major social assistance programmes, namely the Northern Uganda Social Action Fund, Urban Labor-Intensive Public Works Program, Senior Citizens Grant, and the Emyooga Initiative (although subsequent delays in implementation meant only the Senior Citizens Grant and Emyooga Initiative were included in the floor); and a spending floor encompassing health, education, and social development. Such programmes, by reducing poverty, indirectly enhance climate adaptation, as they reduce the number of people vulnerable to disasters by increasing their capacity and resources to construct more durable structures and protect property and human lives. Nonetheless, it is unclear whether the targets are sufficient to reach the number of recipients with the level of support needed to compensate the affected population. Uganda's spending on social assistance programmes in the 2020-21 fiscal year was only 0.8% of GDP, well below the East African Community average of 2.6% (IMF 2021d)—the increase in social spending envisaged during the programme would not be enough to reach even this modest comparator. There is a risk therefore that a higher tax burden could further reduce what limited resources poorer households can deploy

to adapt to climate change. Even so, the IMF demonstrated some welcome flexibility in rephasing the fiscal consolidation to allow Uganda to introduce the Parish Development Model in response to the cost-of-living crisis, potentially freeing up household resources for adaptation efforts.

At a time when expenditure on climate adaptation thus need to be scaled up—the financing needed to achieve Uganda's Nationally Determined Contribution adaptation targets alone are an estimated $120 million per year, equivalent to 0.3% of GDP (Government of Uganda 2022)—fiscal consolidation undermines the ability of Uganda to fulfil its climate commitments; and while the programme does ringfence several priority social spending categories, none of these pertain to the projects described in its Nationally Determined Contribution, such as climate-proofing infrastructure. As it is not viewed with the same level of urgency as social spending, climate spending has instead been diverted to tackle the Covid-19 pandemic—for example, the Ministry of Water and Environment suffered a 40% budget cut (IMF 2023b), jeopardizing their ability to undertake new tree planting projects and enforce environmental regulations.

Although fiscal consolidation may appear the most prudent course of action for the government's finances to move toward a sustainable path in the short-term, the absence of explicit consideration of the long-term trade-offs involved of such measures in achieving climate objectives represents a major oversight. Without substantial investment, climate change damage in the agriculture, water, infrastructure, and energy sectors of Uganda could collectively amount to $273 to $437 billion (or 2.8% to 4.5% of cumulative prospected GDP) between 2010 and 2050 (African Development Bank 2022). The IMF's short-termism is all the more perplexing given the organisation itself recognises important dividends from investing in climate adaptation in a Selected Issues paper on Uganda, which acted as background documentation supplement to the combined Article IV and first programme review (IMF 2022e). In this document, the IMF shows through simulations that building adaptation infrastructure in Uganda could reduce by almost half the resulting fiscal gap triggered by a natural disaster. For example, a climate shock comparable to the 2016 drought in Uganda would lead to a fiscal gap of 2.7% of GDP due to reconstruction costs and declines in tax revenues; but with adaptation infrastructure that is less dependent on rain or that can withstand floods, the fiscal gap would be only 1.5%. The outlays required for such infrastructure imply less fiscal consolidation; yet, these important analyses are entirely divorced from the actual programme conditions and recommendations. Ultimately, climate spending needs to be to be assigned the same level of urgency as health and social spending, such that it is explicitly ringfenced in the programme and—even further—treated as an emergency that warrants immediate relaxation of fiscal deficit targets. A precedent for the latter has already been set in other spending areas for the current program, whereby fiscal targets were adapted to allow for a response to the second wave of the Covid-19 pandemic, terrorist attacks, and, more alarmingly, for oil production investment.

Oil production

An explicit priority of the IMF lending programme is "preparing for oil [production]" (IMF 2022d, 15). Revenues from oil are expected to start in 2024-25 and peak at 2.7% of GDP in 2027-28 before gradually declining. Given the forthcoming influx of revenues, the programme aims to help Uganda transition to a transparent, rules-based framework for oil revenue management. To this end, the IMF set a structural benchmark—a type of policy condition—that required Parliament to adopt by July 2022 a new Charter for Fiscal Responsibility for fiscal year 2021-22 to 2025-26 that sets a floor for the overall balance and sets a maximum level of the annual transfer from the Petroleum Fund to the Consolidated Fund. The rationale behind this is to establish a non-oil primary balance as the operational fiscal target when oil production commences, thereby preventing pro-cyclical fiscal policy, and to manage revenues from petroleum resources for the benefit of current and future generations. As mentioned in the previous section, the IMF also accommodated oil production in its fiscal consolidation strategy.

While having oil revenue accountability mechanisms is preferable to having no such mechanisms, the broader concern is that the IMF is providing an unequivocal endorsement of fossil fuel investment, exemplified both

by its accommodative fiscal stance to oil production spending and by failing to acknowledge the perverse climate implications of these revenues. Environmental costs surrounding the Kingfisher project and the East African Crude Oil Pipeline include the potential for irreversible damage to biodiversity, natural habitats, and water sources (Elmawi 2022; Rosen 2022)—all of which have substantial downstream economic effects. Reflecting these concerns, in September 2022 the European Parliament (2022) passed a resolution condemning the pipeline on account of the potential environmental damage and human rights violations linked to the 100,000 people at imminent risk of displacement as a result of the project. The project also represents a significant contribution to global greenhouse gas emissions: it is estimated that emissions from burning the oil transported by the pipeline could reach at least 34.3 million metric tonnes of carbon dioxide per year, greater than the 32.4 million metric tons of carbon dioxide emissions in 2020 produced by Switzerland (Mugonza 2021). At no stage in the loan documentation did the IMF consider the extensive environmental and social costs of Ugandan oil production, thereby offering an incomplete picture of its economic impact. Instead, the IMF's position is that, "oil extraction represents an opportunity to leverage the associated revenue to finance Uganda's low-carbon development plans" (IMF 2022e, 10) as the Kingfisher project represents a crucial source of domestic revenue and foreign exchange that would allow the country to avoid painful budget cuts and would enable rapidly expanding social protection programmes like the Parish Development Model.

While it is conceivable that oil revenues could finance Uganda's climate adaptation and mitigation plans, the IMF fell short of including in the programme any recommendation or condition that would encourage or enforce a share of the revenues to be used to that end—and historical experience for various fossil fuel exporters like Chad, Cameroon, Azerbaijan, and Nigeria suggests oil revenues are unlikely to be directed toward achieving a green and just transition (Friends of the Earth 2012; Mohammed 2021; Rice 2008). Foreign actors like France's TotalEnergies—which holds a 57% stake in the oilfields and 62% interest in the pipeline (Nyabiage 2023)—are also expected to profit handsomely from the venture, while generations of Ugandans will be displaced from their land and forced to suffer the devastating environmental consequences.

Climate risk and green transition

The IMF's macroeconomic stability programme in Uganda is pinned entirely on oil coming on stream. The fiscal consolidation strategy "relies on" forthcoming oil revenues in 2024-25 (IMF 2022d, 18 our emphasis); the health of the current account balance is propped up by oil exports, which IMF projections show will constitute 29% of the total value of exports by the 2026-27 fiscal year; and capital and financial accounts are hinged on foreign direct investment directed into oil infrastructure. The anticipation of oil investment and revenues is also embedded in the IMF's debt sustainability analysis, where the country is assessed as at moderate risk of debt distress. Reflecting the importance placed on oil, the IMF's risk assessment matrix in the programme approval document identifies oversupply and volatility in the oil market, where higher supply and lower demand could lead to lower energy prices, as a "medium" impact risk because it would delay the start of oil production and weaken public debt metrics. However, the IMF did not consider the significant global spillover transition risks linked to the government's economic dependence on oil exports. As an increasing number of countries commit to decarbonization, potential trade partners may impose carbon border taxes, impacting the potential earnings from such exports and exposing the oil sector to asset stranding. Any policy changes to protect the environment and climate but that impact on oil profitability may also lead to costly compensation pay-outs where legal guarantees have been made to private investors. In addition, outside of the new Charter for Fiscal Responsibility adopted to shelter the economy from commodity price volatility, the IMF failed to identify specific balance of payments risks linked to oil sector development, such as technological imports, dividends shared with international companies in foreign exchange, and intra-company loans, which could expose Uganda to volatility in both international fossil fuel prices and interest rates—a concern also raised in relation to the shale oil and gas reserves of Vaca Muerta in Argentina (Zanotti 2020).

Beyond oil-related risks, the IMF programme documentation initially contained only negligible coverage of physical and transition risks, but improved over the course of the program. In the approval document, the risk assessment matrix recognised a "medium" relative likelihood—of probability between 10% and 30%—of a higher frequency and severity of natural disasters related to climate change; the event was classified as "high impact" if realised, as it would lower growth, increase poverty, and worsen public debt sustainability (IMF 2021d, 49). The potential for natural disaster shocks is also integrated in debt sustainability analyses where it is simulated as a tailored stress test, thereby functioning as an opportunity to quantify benefits and drawbacks of policy measures vis-à-vis the environment. In addition to this coverage, the first review document incorporates two priority climate adaptation policies—namely, strengthening water catchment ability and increasing forest coverage—alongside two figures demonstrating the number of people affected by disasters in Uganda since 1985 and the impact of a disaster shock to Ugandan real GDP. This acts as welcome quantification of the physical risks of climate change on the economy. An accompanying paper also provided several pages of elaboration on the climate change context and expected economic impact (IMF 2022e).

The programme documentation for the combined second and third review conveys climate risks in linguistically stronger terms and further expands the scope of the IMF's climate coverage. For example, the IMF describes downside climate risk to the programme as follows: "With mostly rain-fed agriculture and inadequate preparedness and adaptation efforts, Uganda remains very vulnerable to climate shocks" (IMF 2023b, 10). This sentence represents the IMF's first such utterance of the term "inadequate" in relation to Uganda's climate preparedness. In addition, the Bank of Uganda commits in the programme to tackle financial stability risks stemming from climate change by, inter alia, issuing guidelines to financial institution on disclosing climate-related risks in their existing financial reporting systems, integrating climate-related risks in the stress testing of domestic systematically important banks' analytical frameworks, and introducing a new ranking criterion for banks that considers their sensitivity to climate-related issues and their impact on banks' balance sheets. In the context of monetary policy formulation, the Bank of Uganda also commits to developing climate scenarios as a basis for economic forecasts. Overall, the IMF's climate coverage primarily focuses on adaptation, which is appropriate given Uganda's circumstances—though it was worth pointing out that even a cursory treatment on mitigation would result in the IMF implicating itself vis-à-vis its role in promoting oil.

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