Off track: The long road to mainstreaming climate action into IMF lending

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Off track: The long road to mainstreaming climate action into IMF lending

Published by Recourse, Alternative Law Collective, Alliance for Climate Justice and Clean Energy, MENA Fem Movement For Economic, Development, And Ecological Justice

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October 2024

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Executive summary

The International Monetary Fund (IMF) has significantly scaled up its engagement on climate change in recent years, recognising the macro-critical impacts of the climate crisis and integrating climate analysis and policy advice into its surveillance, capacity building and lending. While an IMF aligned with the Paris Agreement could play a crucial role in international efforts to address the climate crisis — by galvanising multilateral resource mobilisation, public investment in renewable energy, green industrial policy, financial regulation and green central banking, and debt cancellation to create fiscal space for climate action — this report finds that the IMF is, instead, using climate change arguments to justify austerity measures in many of its current loan programs.

Drawing on an in-depth analysis of all 51 current IMF programmes (including both 'traditional' loans and those under the new Resilience and Sustainability Facility (RSF), this paper identifies four key challenges:

The IMF greenwashing austerity: Austerity policies can undermine countries' ability to invest in climate action and green industrial policies, yet the great majority of IMF programmes continue to promote fiscal consolidation. 40 of the analysed programmes included budget cuts of 3.3% GDP (gross domestic product) on average. The 12 low-income countries are hit hardest, with average cuts of 4.1% GDP, while 27 middle-income countries face 2.9% GDP of average cuts. 14 of these countries under austerity are classified as being 'in debt distress' or 'at high risk of debt distress', indicating that much of the rationale for high fiscal consolidation is to repay debt.

'Just transition' challenges in energy subsidy reform: As the main champion of carbon pricing for climate action, the IMF's most frequent policy recommendation was price increases or subsidy cuts to electricity, gas or fuel (in 36 countries). Yet, in many Global South countries energy subsidies are de-facto social programmes and their elimination — especially in the absence of 'green' energy alternatives and adequate social infrastructure — has frequently resulted in backlash and social unrest, threatening to undermine support for climate action more widely. Only four programmes analysed the inequality impacts of their proposed reforms, and hardly any grappled with the implementation challenges of targeted social transfers. Even loans under the RSF seemed to differ little from traditional programmes — 80% called for fiscal consolidation and 75% for energy price increases or subsidy elimination.

The IMF must move away from a one-size-fits-all solution to climate policy by expanding the reform horizon beyond 'getting energy prices right' and into non-pricing measures and green industrial policy strategies. It should reconsider the nature, timing and pacing of energy subsidy removal to minimise socio-political costs, by systematically integrating distributional impact assessments and long-term sustainable renewable energy policy strategies.

The IMF entrenching fossil fuels vs. renewables: In 11 out of 21 fossil fuel producer countries studied in this report, the IMF endorsed continued extraction in its analysis, often driven by their need to repay debt with foreign exchange made from commodity exports. Only in two countries was renewable energy promoted as an alternative, and neither the transition risks of keeping up fossil fuel production, nor the prospect of debt cancellation to ease the pressure were examined. In non-producers of fossil fuels (30 countries) the Fund fared better, promoting renewables in half (16) of them, mostly through enhancing the role of markets and the private sector.

The market vs. green industrial policy: The analysed IMF documents also lacked any meaningful discussion of industrial policy to steer a green transition, mostly championing market- and price-based approaches. IMF leadership should create an institutional view on sustainable industrial policy and green capital allocation measures that empowers IMF operations to support effective and coordinated strategies for sectoral and economic transformation.

Introduction

At the 2023 Annual Meetings of the International Monetary Fund (IMF) and World Bank Group in Marrakesh, IMF Managing Director Kristalina Georgieva reiterated her organisation's commitment to combating climate change: "We are a financial institution, so we put money where our mouth is" (World Bank 2023). Such a strong pronouncement from the leader of the world's 'lender of last resort' matters, as it can turn the tide on how it approaches climate considerations in its loans. These set out a range of policy reforms — collectively known as conditionality — that borrowing countries must implement to secure continued financial support.

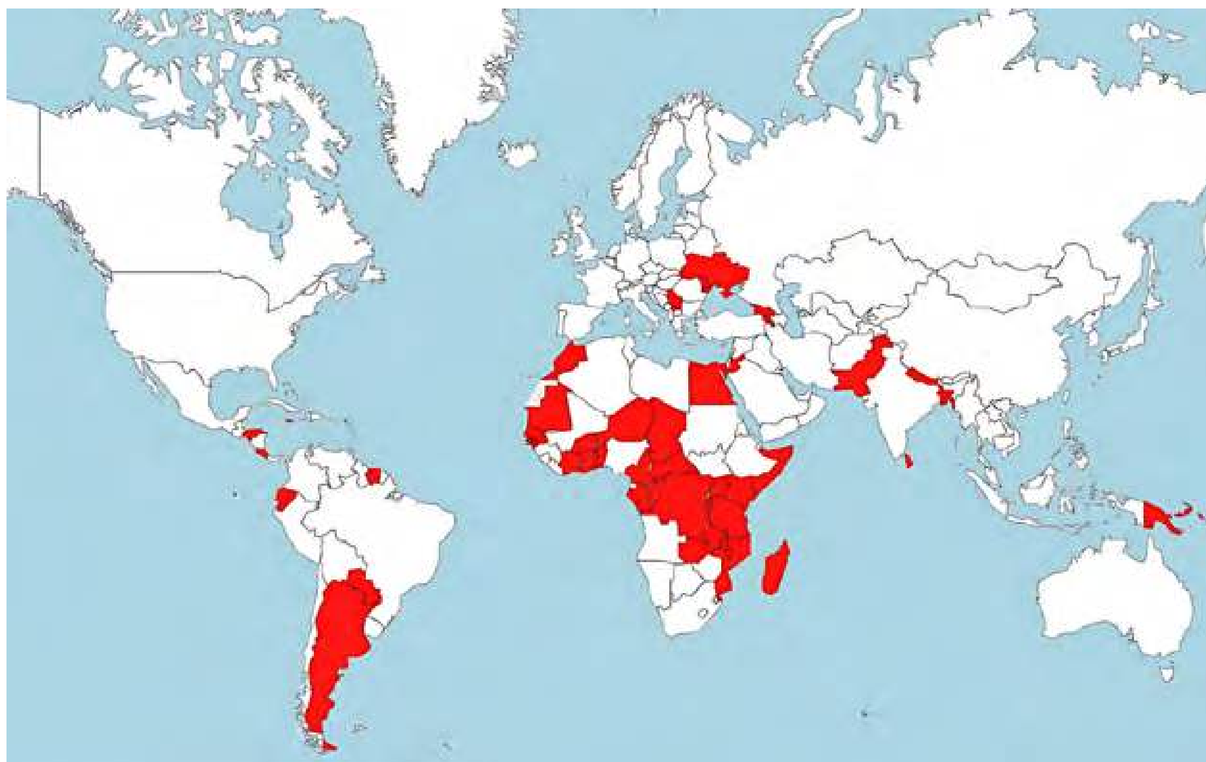
In the second quarter of 2024 alone, more than a quarter of the world's countries had active lending agreements with the IMF, shown in Figure 1. This represents a marked increase from the 36 countries that had such loans in 2019, before the onset of the Covid-19 pandemic. Consequently, the centrality of the IMF in shaping economic policies in these 51 countries — including fossil fuel producers — invites questions over the extent to which its high-level pronouncements are reflected in actual policy practice.

IMF engagement with climate issues has not been a smooth process. About a decade ago, the Fund acknowledged that the risks posed by climate change are 'macro-critical' — that is, related to risks that impact macroeconomic stability — and are thus within the remit of IMF activities (Gallagher, Rustomjee, and Arevalo 2024). But such recognition did not directly translate into organisational action. Evidence from IMF surveillance missions in the 2015–2021 period revealed that the organisation continued to advocate fossil fuel expansion, despite the global effort — most notably codified in the Paris Agreement — to reduce fossil fuel emissions (Sward et al. 2021). This period was one of limited concerted action within the organisation: There were only a handful of staff dealing with climate topics, primarily "on the basis of their general research interest in climate [...and] without broader institutional support" (Gallagher, Rustomjee, and Arevalo 2024). Only in the aftermath of the pandemic and prominent efforts to raise the profile of climate considerations within global economic governance, like the Bridgetown Initiative, did IMF engagement with climate issues start ramping up in earnest.

The 2021 Climate Strategy clarified how climate concerns are supposed to be considered in the organisation's activities (IMF 2021). In particular, in the case of lending programmes, the stated aim was to help build 'climate-resilient' economies, not least because this will help countries preempt major balance-of-payments disruptions, the raison d'être for IMF interventions (IMF 2021, 20). The Climate Strategy itself only included references to conditionality in the context of the reduction of energy subsidies, seen as having the dual effect of helping stabilise balance-of-payments problems and mitigating climate risks (IMF 2021, 20). Even so, the term conditionality does not appear in the document, other than to note that there was divided opinion within the IMF's Executive Board on whether such reforms should be mandated in lending programmes.

When, two years later, the IMF introduced the Resilience and Sustainability Facility (RSF), conditionality was foreseen in these lending operations and intended to pre-empt prospective balance-of-payments problems. The aim of such conditions was mandated to be to "close critical policy, legal, data and institutional gaps in the implementation of the national climate and pandemic preparedness objectives" (IMF 2023g, 20). This left open to interpretation how IMF agreements that do not entail RSF financing could deal with climate issues. As the Climate Strategy

Figure 1. Countries with IMF lending agreements between April and June 2024



Note: This map plots all conditional lending agreements, excluding Precautionary and Liquidity Lines and Flexible Credit Lines that do not have a money-disbursing Resilience and Sustainability Facility attached.

did not spell out precisely how climate considerations are to be built into lending programmes, the integration of such policies into lending programmes has been ad hoc and not evidently informed by a comprehensive set of guidelines. **This leaves the question open of how IMF lending will be aligned with the Paris Agreement's Article 2.1c and its objective of 'making financial flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development'.**

In line with the extremely limited treatment of lending in the Climate Strategy, IMF's concerns with climate issues have been operationalised through spearheading the reform of energy subsidies, long seen by the organisation as both fiscally profligate and environmentally harmful (Clements et al. 2013). This has been notwithstanding evidence of such policies contributing to the collapse of governments in developing countries, for example in Sri Lanka and Ecuador (International Crisis Group 2024, Ioanes 2023). Even most recently, in the context of the gas price hikes and ensuing cost-of-living crisis, the IMF has advocated for subsidy reduction as a means for simultaneously fighting climate change and generating public revenues (Lawder 2024; Black, Parry, and Vernon-Lin 2023), a message that has resonated with senior economic policymakers around the world (CFMCA 2024). Even though the advocacy of such reforms is commonly accompanied by calls to protect vulnerable populations, nonetheless these measures have prompted major concerns about their distributional implications (Diab 2024; FES 2023), especially in contexts without alternative 'green' energy sources. As a result, they have often become politically untenable. Reflecting these considerations, at COP28 in Dubai in 2023, governments committed to reduce fossil fuel subsidies only insofar as they "do not address energy poverty or just transitions" (UNFCCC 2024).

Along with energy subsidy reductions, the IMF also has an emerging track record of promoting carbon taxes as a key pillar to achieving a reduction in global greenhouse gases. Indeed, from as early as 2015, then-Managing Director Christine Lagarde suggested "carbon pricing should be the centerpiece of climate mitigation efforts" (IMF 2015). This position has since solidified, and it was reiterated by IMF staff in a recent proposal for an international carbon price floor among large emitters, where carbon pricing is referred to as "the most important policy tool to achieve the drastic cuts to emissions we need" (Gaspar and Parry 2021). Yet, like with energy subsidy removal, these also disproportionately impact poorer households because a greater share of their income is spent on energy costs. Carbon pricing and energy subsidies removal suffer from a lack of political buy-in from current large emitters as well as contention over the magnitude of historical versus current emissions. As this report shows, the IMF's fascination with carbon pricing (including energy subsidies) also appears to have narrowed their appetite for alternative policy options — like large-scale public investment in renewable energy — that could also bring a shift away from fossil fuels.

This report provides the most up-to-date assessment of how IMF lending programmes consider climate issues, with a special focus on reforms related to the energy sector, whose high polluting potential carries it to the forefront of global efforts to bring about a green transition. For this analysis, we collected the lending agreements of the 51 countries that had an ongoing IMF programme between March and June 2024 (regardless of whether the programme started earlier or within those months). These include both lending agreements with an RSF component — as RSF financing is generally linked to an ongoing 'traditional' IMF programme — and those without. Indeed, the latter form the majority of IMF loans in our sample period (61%), thus requiring in-depth exploration of how they deal with the energy sector and broader climate risks. From these reports, we extracted a battery of information on the treatment of climate risks and considerations in different policy recommendations, the inclusion of climate-related conditions, and the nexus between climate and fiscal concerns. This included the IMF's justifications for a range of climate-relevant policies, like fossil fuel expansion, renewable energy investments and green industrial policies. We then analysed this data to assess the extent of IMF lending programmes' climate engagement.

Greenwashing austerity

The global green transition will demand large-scale investments from various sources. While the exact mix of public, private and multilateral financing for this goal varies by country, there is wide-ranging acceptance that the role of states is central, both as funders and as regulators (Rodrik 2014; Lamperti et al. 2019; Mazzucato 2022). This role comes under intense pressure over the course of IMF interventions due to the organisation's demands for extensive fiscal consolidation measures — that is, reductions to the fiscal deficit as a share of gross domestic product (GDP) via government expenditure cuts and revenue generation. Yet it is also the case that governments continue to prop up the fossil fuel industry by providing generous subsidies, which could plausibly be cut as part of a climate mitigation strategy when paired with a ramping up of investment in alternative forms of low-carbon energy.

An important distinction must be drawn between producer subsidies for coal, oil and gas companies — including subsidised inputs, preferential tax treatment and government budget transfers — and consumer subsidies, calculated as the difference between international prices for energy and the actual retail price paid (Sweeney 2020). Since the 1980s, the IMF has primarily focused on eliminating consumer subsidies across the Global South in order to reach what it considers to be the efficient (market) price of fossil fuels. However, there is currently no fine-grained data to be able to precisely trace what element of energy subsidy elimination affects production processes or consumers, directly or indirectly.

Even so, the IMF's guide for fiscal policy to mitigate climate change explains how "low-income countries should focus on 'getting energy prices right' from a local perspective, which would also have climate benefits. The first priority is to scale back any fossil fuel subsidies (especially consumer subsidies for high-carbon fuels)" (Parry, Mooij, and Keen 2012, xvii). This is socially regressive because their elimination places the greatest burden on poorer households (IMF 2020), and in many Global South countries they form a de facto social policy since other forms of social provision are severely constrained. Such a strategy fails to pressure fossil fuel interests and strengthens free market discourses in favour of minimal state interventions (Sweeney 2020).

The current system of global emergency financing relies on the imposition of spending cuts in countries undergoing deep economic crises, the most common reason for resorting to the IMF in the first place. This is because implementing these cuts often unlocks access to additional financial inflows, whether from other multilateral organisations or private financial flows. This strategy has inherent limitations, as it tends to underplay the exogenous sources of many countries' current debt problems. That is, hikes in interest rates and energy and food prices have depleted treasuries in many countries in the Global South, which makes them unlikely to have available resources for public investments for a green transition or for large-scale redistribution of carbon revenues. Not having control over these exogenous pressures, countries — under the tutelage of the IMF — are faced with reforms that seek to cut spending, increase revenues and rely on private investments. This is at odds with current targets on sustainable development and the just transition, as they limit the scope for much-needed public investments, as outlined in most cases within countries' Nationally Determined Contributions (NDCs), as raised in the last Global Stocktake (UNFCCC 2024).

Even so, in the context of current arrangements that place the bulk of the adjustment burden on fiscal consolidation, countries are left with generally unpalatable austerity policies. In these instances, what matters most is the scale, scope and pace of such fiscal measures — how much will be cut, in which areas, and how fast — as well as the terms on which new financing becomes available, such that it does not leave countries with unsustainable debt burdens in the future. Where needed, **fiscal reforms should occur in a context that allows countries to fulfil international obligations,** like the Paris Agreement or the International Covenant on Economic, Social and Cultural Rights.

Indeed, the Global Stocktake of the Paris Agreement recently concluded that "there is a positive connection between having sufficient fiscal space, and climate action," and that "scaling up new and additional grant-based, highly concessional finance, and non-debt instruments remains critical to supporting developing countries, particularly as they transition in a just and equitable manner" (UNFCCC 2024). It is in these regards that the IMF has a central role in shaping country decisions through the conditions attached to its loans, which specify a wide range of quantitative fiscal targets and many 'structural reforms' to help attain these targets, discussed in detail below.

It has been widely documented how deep, far-ranging and fast-paced austerity measures have negatively impacted health, education, gender equality and other social outcomes (Bretton Woods Project 2017; Brunswijck 2018; Kentikelenis and Stubbs 2023a), and there is now a growing recognition that they undermine green transition objectives as well. First, and most conspicuously, reductions in public spending impact available financing for climate change adaptation or mitigation projects. As governments seek cuts, future-oriented projects — like disaster risk reduction and management activities, infrastructure for renewable energy, or enhanced social protection systems allowing poorer households to adapt to the effects of climate change — are often retrenched. For example, Uganda's Ministry of Water and Environment suffered a 40% budget cut in the context of an IMF programme as resources were diverted to tackle the Covid-19 pandemic, jeopardising the government's ability to undertake new tree planting projects and enforce environmental regulations (Stubbs and Kentikelenis 2023). Pakistan's public development spending, which had averaged 2.1% of GDP over the past decade, fell to 1.2% of GDP in 2022 during its IMF programme — a decline driven by debt servicing obligations, which limited available funds for investment in adaptation and mitigation projects (Government of Pakistan 2023; Rashid et al. 2024). In other words, short-term fiscal goals trump concerns over long-term sustainability.

Second, austerity — which often includes cutting public sector wage bills — diminishes the ability of states to recruit, train and retain qualified personnel (ActionAid 2021), which in turn reduces the regulatory and enforcement capacity of the state (Reinsberg et al. 2019). This opens the door for entrenched interests to block or stall major green initiatives and for weak enforcement of climate-related regulations.

Third, the social backlash from austerity — stemming from citizens' exposure to reductions in the availability of social services or the introduction of new taxes — erodes the potential support base for green policies, insofar as these are perceived to require public financing or additional spending by households. In short, global green transition objectives — outlined in the Paris Agreement and codified in countries' NDCs (i.e., climate strategies to meet decarbonisation goals) are directly imperilled by the onset of austerity. Indeed, recent evidence shows that most low-income countries do not have the fiscal space to make the

investments they have identified in their national adaptation plans (Chamon et al. 2022). This links back to discussions on whether international financial institutions are aligned with the aims of the Paris agreement, not only vis-à-vis reducing greenhouse gas emissions, but also promoting climate-resilient development, poverty eradication and common but differentiated responsibilities for climate action. In this context, the role of these institutions would be to build towards alternative policy paradigms that are conducive to climate-friendly economic transformations.

Yet, **the evidence on the IMF's recent programmes reveals that austerity measures form a key part of its policy advice to countries**. Of the 51 countries in our sample of recent IMF programmes, 48 had available data on fiscal consolidation, and budget cuts were foreseen for 40 of them, averaging contractions to the tune of 3.3% of GDP.[1] Disaggregating these IMF borrowers by their income classification reveals that low-income countries (12 countries) will bear the brunt of austerity, with average IMF mandated contractions of 4.1% of GDP, while middle-income borrowers (27 countries) are required to contract by 2.9% (and one high-income country, Barbados, must also contract). A main reason for these high levels of fiscal austerity is to repay debt: According to the IMF and World Bank's latest assessment of debt sustainability, 14 out of the 26 contracting countries for which we have data on debt distress are classified as being 'in distress' or 'at high risk of distress'. As the United Nations Conference on Trade and Development (2024, 17) highlights, "developing countries' [debt] interest payments are not only growing fast, but they are outpacing growth in critical public expenditures," resulting in debt repayments that were higher than public health spending for 46 countries between 2020 and 2022. Recent evidence also points to 47 out of the 66 most economically vulnerable countries encountering insolvency issues if they went ahead with investments to meet their climate and development ambitions (Zucker-Marques et al. 2024).

As a country at high risk of debt distress, Kenya provides a case in point. The country commenced an IMF programme in April 2021 that mandated extensive fiscal consolidation of 4.8% of GDP over four years (IMF 2024i). These cuts occur in a context of urgent financing needs for climate adaptation, as the country has recently experienced droughts, floods and locust infestations (Detelinova et al. 2023; Salih et al. 2020). To reach the fiscal target, the government increased value added taxes and fuel and food prices, prompting mass protests and riots with slogans that explicitly targeted IMF austerity, like "IMF keep your hands off Kenya" and "Kenya is not IMF's lab rat" (Schipani and Adeoye 2024; Kaboub 2024).

Of course, austerity measures have been part of the IMF's toolkit for decades (Kentikelenis and Stubbs 2023), so their promotion in recent lending programmes should not come as a surprise. But this time is different, because such measures are in part defended through a climate rationale. For example, IMF operational guidance for the RSF describes the elimination of fossil fuel subsidies as "dual purpose reforms" that improve fiscal and debt sustainability while promoting climate mitigation (IMF 2023g, 23). The main justification for subsidy cuts is that it "will raise energy prices and, indirectly, the prices of other goods that use energy as an input" (IMF 2023c, 10), thereby ensuring end-users face the 'true' cost of fossil fuels, in turn reducing energy consumption and/or shifting to cleaner energy sources.

In our sample of recent IMF loans, price increases or subsidy cuts in electricity, gas or fuel were requested in 36 countries. For example, Suriname's IMF programme necessitated a fiscal consolidation of 5.5%

1 The period and duration of fiscal consolidation varies across programmes in our sample. Programme start dates range from March 2021 to June 2024, and the duration for consolidation is between 1 and 4 years.

of GDP over 2021–2025, of which 3.9% are meant to be savings from the reduction of energy subsidies (IMF 2024o). As a result, fuel subsidies were eliminated in March 2023; liquified petroleum gas subsidies were reduced to 55% of the cost, resulting in a price increase of 425% in September 2023 (with further increases slated); and average electricity tariffs increased in the second, third, and fourth quarters of 2023 by 28%, 42% and 21% respectively, with the aim of eliminating subsidies (cost-recovery) by end-2024.

Finally, despite the RSF's stated goal to buttress countries' climate action, we did not find meaningful differences between RSF and non-RSF programmes in relation to austerity and subsidy reforms. For the 20 RSFs we analysed, 16 (80%) called for fiscal consolidation and 15 (75%) for energy tariff increases or subsidy decreases; and for the 31 non-RSF loans 24 (77%) called for fiscal consolidation and 22 (71%) for energy tariff increases or subsidy decreases.

Activists from Pakistan staging a protest outside Lahore press club, against IMF's fossil fuel lending and debt, at the time of the IMF Spring Meetings in Washington DC, April 2024. By PKRC and the Asian People's Movement on Debt and Development (APMDD) Pakistan. Accessed October 2024 on x.com/APMDD_Pakistan/status/1781360122280747521 Accessed October 2024 on x.com/APMDD_Pakistan/status/1781360122280747521

The IMF in Pakistan: Green energy transition derailed by failed austerity and private power paradigm

By Alternative Law Collective

Pakistan is the IMF's fourth largest debtor with the dubious distinction of 25 IMF programmes from 1958 onwards. Pakistan's energy transition and climate goals have been held back by the debt and privatisation trap laid by the IMF over successive programmes. In the 1990s, the IMF, in tandem with the World Bank, pushed through energy sector reforms built around the unbundling of the power sector and the privatisation of energy generation and one distribution company (K-Electric), culminating in highly lucrative contracts for fossil fuel-based Independent Power Producers (IPPs).

By the early 2000s, hefty import and capacity payments under the onerous IPP contracts made it clear that the privatisation strategy was piling on debt in hundreds of billions of rupees per year. K-Electric, the only privatised distribution company, received as much as $551 million in 2010 – (a higher amount than any other distribution company and more than the total budgetary allocations for Health, Education, and Research, Environment Protection, and Housing and Social Protection for that year) (SDPI 2012).

By 2022, actual utilisation of the IPP's capacity was only 46%, with consumers burdened by capacity payments for the remaining unutilised 54%. Consumer-end power subsidies were the last remaining lifeline for vulnerable sections of the population. Concerns around the impact on human rights of these policies have been raised by NGOs (Ijaz 2023).

Between 2019 and 2023 under the EFF programme however, the IMF responded to the crisis by calling on the government to raise energy tariffs, reverse consumer subsidies, and increase taxes on consumer goods as part of harsh austerity reforms under the EFF programme. The currency devaluation combined with the dollarised legacy IPP contracts resulted in record high capacity payments of over PKR 1.3tn in 2022 — expected to rise to PKR 2.8tn in FY2024-25 (Khan 2024).

The Fund's greenwashing was further exposed when it responded to Pakistan's devastating 2022 floods by refusing to release the due tranches under the EFF citing deviations from fiscal austerity. As the nation scrambled to rebuild and make up its $40bn in flood losses, the IMF refused to budge, stalling global fundraising efforts and pushing the nation to the brink of debt default. Delays in anticipated bilateral financing and debt servicing accounted for a net outflow of $2.1bn. The absence of any debt relief despite the flood hit the economy hard, and the debt-to-GDP ratio shot up to 77.3% in FY2022-23, making a mockery of the Government's 5-year debt management targets,which had sought a 0.5% annual reduction in debt-to-GDP over the programme's horizon.

According to Pakistan's National Adaptation Plan, 'Public development spending averaged only 2.1 percent of GDP over the past decade and dropped to 1.2 percent of GDP in FY2022-23 when debt servicing obligations rose rapidly above budgeted amounts' (Government of Pakistan 2023). Pakistan was forced to return to the austerity pathway, initiating a new round of energy price hikes, subsidy reversals and unprecedented currency depreciation in a bid to win over the Fund.

When a new IMF Stand-By-Agreement was finally agreed in 2023, a fresh round of even harsher austerity commenced. Between June 2022 and June 2024, the national average base tariff increased by an estimated 90.3% and the total billed electricity price increased by an estimated 73.3%. Under the new IMF-backed budget for FY2023-24, the government was forced to avoid fuel imports by subsidising domestic coal and ecologically risky hydropower projects.

Further details in Recourse (2023).

The unfulfilled promise of a just green transition

While the IMF does concentrate on the reduction of consumer subsidies for energy, it also points to how such cuts are done — insofar as possible — with simultaneous concern for their distributional implications. For this reason, the organisation promotes compensatory measures — commonly in the form of so-called 'social spending floors' that stipulate a particular level below which social spending should not sink during IMF intervention. Of the 36 countries that the IMF calls for decreases in energy subsidies, 32 contained non-binding quarterly indicative targets on priority social expenditures, and 25 contained explicit reference to compensatory measures for households in direct relation to higher energy prices. For example, the Democratic Republic of Congo's loan called for a 7% increase in fuel prices in April 2024, which brought total increases since the programme began to over 75% percent. The IMF loan agreement stipulated that the authorities should "ensure a timely phasing out of direct fuel subsidies, to reduce tax expenditure (implicit subsidies), and develop targeted social safety nets for vulnerable populations" (IMF 2024e). Similarly, the IMF's approach to a just transition in Chad's loan was focused on ensuring the phase out of subsidies is coupled "with appropriate transfers to households to mitigate the impact on vulnerable ones" (IMF 2023b). And in Benin's 2023 loan, a condition was set to "Establish a compensatory mechanism to limit the effect of fuel subsidy reform on vulnerable groups using the social registry" (IMF 2024b).

These examples typify the IMF's approach to compensation for the removal of subsidies: **Targeted transfers to the most vulnerable groups**, underpinned by social spending floors that were codified in the organisation's recent Strategy on Social Spending (IMF 2019). The promise of these measures is that they allow — or compel — countries to protect or increase public investment in health, education and social protection. But the way the IMF implements this strategy often presents several issues, and these floors have been criticised for being inconsistent, inadequate and not implemented (see Kentikelenis and Stubbs 2023b; Saadoun 2023). In relation to the present analysis of IMF conditions, three issues stand out.

First, **the IMF neglects the sequencing of reforms**. Compensatory mechanisms take time to build, and key populations that would benefit from compensation can struggle to access these resources (e.g. due to bureaucratic hurdles, complex eligibility criteria, or inadequate information). Yet, the IMF can expect cuts to subsidies at the outset of the programme, before mechanisms have been put in place to protect vulnerable households. For instance, the IMF advised Gabon in July 2022 that "[fuel] subsides should end by end-December 2022," despite Gabonese authorities indicating that "their option of protecting all households [via fuel subsidies] is based on the absence of well-targeted social safety nets" (IMF 2022a). While the IMF also urged authorities to "finalise the database of the most vulnerable by end-December 2022, and subsequently develop well-targeted measures," even the most optimistic timeline would leave vulnerable households exposed for a six-month period while subsidies are being phased out but no targeted measures are in place. Only in Honduras and Madagascar were sequencing issues explicitly mentioned. In Honduras, the IMF stated that "authorities should consider reversing the reductions to gasoline and diesel taxes introduced in 2022 — at an annual cost of 0.4% of GDP — *once the social safety nets have been further strengthened*" (IMF 2023d,

our emphasis). And in Madagascar, the IMF called for fuel price increases to "differentiate across the types of fuel, with kerosene prices being increased more gradually than diesel prices, to allow for the implementation of measures to mitigate the impact on poorest households, such as the distribution of solar kits [to replace kerosene as a lighting fuel]" (IMF 2024j).

Second, the IMF calls for countries to proceed with the various energy sector reforms it proposes **without first having conducted inequality or gender impact assessments** using household data, and therefore lacks the requisite knowledge base to ascertain how reforms will affect vulnerable groups and — by extension — how precisely compensatory measures can ameliorate that impact. This is noteworthy because the organisation's recently adopted strategies on inequality and gender explicitly point out the importance of staff conducting ex ante impact assessments to evaluate how proposed policies will affect them. In relation to gender, **there were no impact assessments of the various energy sector reforms on women**. This is despite IMF promises to incorporate such considerations in its practices, for example by training its staff to conduct such impact assessments per the 2022 gender mainstreaming strategy (IMF 2022). Such impact assessments are important because women are disproportionately exposed to adverse effects of budget cuts, and energy sector reforms can increase the burden of carbon prices on vulnerable households (Donald and Lusiani 2017; Abdo 2019; Saalbrink and Amerasinghe 2021).

In relation to inequality, the organisation has proposed adopting "a more systematic and structured approach," including through operationalising evaluations that would enable staff "to effectively integrate distributional issues into broader surveillance and program work" (IMF 2018, 3). However, **of the 36 countries facing energy subsidy reductions, only two conducted impact assessments of green reforms on domestic distribution.** In Suriname, the distributional impact of removing electricity subsidies was assessed through IMF capacity development occurring in tandem with the programme, the details of which were not made available in the programme review report. For Tanzania, the distributional impact assessment focused on energy pricing and examined 'no cost pass-through' and 'full cost pass-through' scenarios in relation to income decile groups. The IMF found that, "Carbon pricing imposes a burden on an average household of between 0.1 to 0.2 percent of consumption for the higher pass-through scenario. Providing 30 percent of revenues to the lowest four income deciles as cash transfers and using the remaining revenues for public investment will make poorer households significantly better off (positive impact in decile 1 consumption will be between 1.3-2.9 percent)" (IMF 2024p). In two additional countries — Cabo Verde and Moldova — the IMF included the undertaking of distributional impact assessments as part of a lending condition requiring the phasing out of energy subsidies. However, we recorded no instances where gender impact assessments were conducted in relation to energy pricing.

Third, there is a **lack of transparency in terms of how the resources freed-up from energy subsidy elimination are repurposed.** The IMF claims that such savings can be directed towards increases in social protection and investment for renewable energy (IMF 2019). But this commitment is difficult to verify — and is therefore non-transparent — due to the insufficient provision of data in IMF programme reports detailing where such savings will be used. For example, in the Republic of Congo's loan, the IMF called for "reprioritiz[ing] resources freed up by the elimination of fuel price subsidies (2.7 percent of non-oil GDP for 2023) to social spending targeted at vulnerable groups (0.4 percent of non-oil GDP, including measures targeting public transportation) and capital spending (1.5 percent of non-oil GDP), providing a positive impulse to

inclusive growth while still achieving fiscal consolidation" (IMF 2024m). Notably, the increase in capital spending includes agriculture, roads, electricity, health, education, transportation, as well as promoting tourism, industry, the digital economy, and special economic zones, but no indication is provided for how spending is distributed among these sectors (and with little guarantee that it was not redirected to supporting the country's hydrocarbon industry).

The case of Egypt

By MENA Fem Movement For Economic, Development, And Ecological Justice

In recent years, the IMF has played a contentious role in shaping the economic landscape of the Global South, with Egypt standing as a stark example of the adverse effects of its policies (HRW 2023). IMF conditionalities, particularly within the energy sector, are claimed to be a necessary step for fiscal consolidation and macroeconomic stability (IMF 2024g).

The IMF's drastic influence in the energy sector came with Egypt's 2016 loan agreement under the Extended Fund Facility (EFF) (IMF 2016). This agreement included conditions for economic reforms, including substantial energy subsidy cuts, currency devaluation and increases in regressive indirect taxation. To meet IMF conditions, the Egyptian government has had to cut spending on social programmes and public services (Diab 2023). This has resulted in diminished funding for critical public services such as healthcare and education, which disproportionately affects low-income families who rely heavily on these services. The knock-on effects of higher energy prices include increased transportation and production costs, contributing to broader inflation (ibid.). This inflation erodes the purchasing power of Egypt's poorest citizens, making everyday necessities even less affordable. It would be remiss to ignore the drastic effects lifting energy subsidies have had on the making of the Egyptian food basket (Sawle 2017). The steep rise in food prices comes in the context of an already unequal access to healthy food sourced locally, one of the catalysts of the deterioration of the health of Egypt's poorest (ibid.). Real food inflation (rate of food inflation in excess of overall inflation) in Egypt was the third highest in the world (Diab 2023).

IMF involvement in Egypt's energy policy reforms has come hand in hand with an increase of investment in fossil fuels (Informa Markets 2022), particularly oil and gas. The liberalisation of the energy sector along with the lifting of subsidies encouraged private investment in fossil fuels rather than renewable energy (ibid.). Even under the guise of lifting subsidies for the purpose of 'climate action', in the absence of an accompanying strategy to support the build-up of renewable energy sources, the evidence seems to point to the opposite impact. The portal for the General Authority for Investment and Free Zones in Egypt (2024) names a multitude of investment opportunities in fossil fuels and significantly fewer opportunities in renewable energy.

IMF reforms have frequently resulted in a regressive rollback of social benefits, disproportionately affecting Egypt's poorest people and exacerbating inequality (Diab 2023), which directly feeds into people's ability to individually adapt to adverse climate disasters. This puts them at odds with climate considerations and climate justice. Wealthier individuals and businesses are better positioned to absorb the cost increases or benefit from privatisation opportunities, as well as to withstand the harsher effects of climate change, while poorer households face the brunt of economic and climate pressures without the means to adjust. This dynamic is not merely an issue of economic mismanagement and short-sightedness, but is a deeply political issue. The resultant economic strain has led to a deterioration in living standards, stifling opportunities for sustainability and social protection and perpetuating a cycle of dependency that favours lenders, which are namely but not exclusively international financial institutions, over local needs.

Structural adjustment: Entrenching fossil fuels vs renewable investment

The discussion has thus far presented summary evidence of IMF advice on fiscal policy and social protection for its recent borrowers — these are features of nearly all IMF programmes. However, beyond IMF targets on public expenditures, lending programmes also include a range of so-called **structural reforms** — that is, measures that target deep changes to a country's policy environment and that include fine-grained interventions on policy areas considered by the IMF as important. Such IMF reforms vary considerably in each country, and, per Table 1, we distinguish its borrowers

between established fossil fuel producers (either major global producers, or producers for whom fossil fuel rents form a significant part of economic activity), emergent fossil fuel producers (countries with ongoing fossil fuel exploitation projects), and the remaining countries, which are either non-producers or where such production forms only a minor part of economic activity. If the IMF lives up to its own rhetoric on supporting the green transition, then its advice for the former two categories should be geared towards facilitating the decarbonisation of these economies and against further extraction. Indeed, the International Energy Agency estimates that the Paris target of limiting warming to 1.5 degrees Celsius above pre-industrial averages is only attainable without any new oil and gas fields or coal mines (IEA 2021). Further, for fossil fuel producers and non-producers alike, investments in renewable energy should be expected to form a major part of IMF policy advice.

Table 1. Recent IMF borrowers by fossil fuel production status

Category	Definition	Countries
Established fossil fuel producers	Either producing over 0.1% of global oil, gas, or coal in 2023, or as having fossil fuel rents that exceed three percent of GDP	14 countries: Argentina, Bangladesh, Cameroon, Chad, Rep Congo, Ecuador, Egypt, Gabon, Ghana, Papua New Guinea, Pakistan, Serbia, Suriname, Ukraine
Emergent fossil fuel producers	New fossil fuel projects are mentioned in the IMF review, and the country is not already an established fossil fuel producer	7 countries: Mauritania, Mozambique, Niger, Senegal, Somalia, Tanzania, Uganda
Non-producers of fossil fuels	Countries not in the two groups above	30 countries: Armenia, Barbados, Benin, Burkina Faso, Burundi, Cabo Verde, Central African Republic, Comoros, Dem Rep Congo, Costa Rica, Côte d'Ivoire, Gambia, Georgia, Guinea-Bissau, Honduras, Jamaica, Jordan, Kenya, Kosovo, Madagascar, Malawi, Moldova, Morocco, Nepal, Paraguay, Rwanda, Seychelles, Sri Lanka, Togo, Zambia

Notes: Established fossil fuel producers are defined as countries that are either producing over 0.1% of global oil, gas, or coal in 2023 or that have fossil fuel rents that exceed three percent of GDP annually from 2015 to 2019. Emergent fossil fuel producers are coded as countries for which fossil fuel projects are mentioned in the IMF programme documentation (and where the country is not already an established fossil fuel producer). The remaining countries are classified as not being major producers of fossil fuels.

Entrenching fossil fuels

In four out of the seven emergent fossil fuel producers and in seven of the 14 established producers, the IMF discusses the economic effects of continued production through its analysis of ongoing reforms in these countries. Of these 11 countries, in parallel to other IMF programmes, five also have RSF agreements, which encourage transitions to renewable sources of energy — an issue the report returns to later on. IMF engagement with these issues primarily focuses on how fossil fuel production will affect the macroeconomy. In the remaining 10 countries, the question of fossil fuel production is not discussed.

The rationale for covering extractive policies in the emergent or established fossil fuel producers frequently relates to fiscal or debt considerations, as well as revenue management. For example, in the case of Chad, the IMF explains that additional oil revenue will be central to "reduce domestic arrears and external debt" (IMF 2023b), as the country was unable to secure debt relief during the pandemic due to the rising oil prices (Bretton Woods Project 2022). In particular, per IMF advice "higher oil revenue should be used to build buffers and accelerate the payment of debt. [...] Debt is expected to decline faster than envisaged at the time of the [original request for the lending agreement], as higher oil prices would result in accelerated repayments to Glencore, while higher net oil revenue will allow for a quicker reduction of the stock of T-bills and payment of domestic arrears" (IMF 2023b). As IMF staff research has shown, this situation means that prolonged debt problems and debt distress can end up "entrench[ing] extractive growth models and the lock-in of emissions" (Prasad et al. 2022), a phenomenon that is becoming known as the debt-fossil fuel trap (Woolfenden 2023). Similarly, in the case of Uganda, the IMF outlines how investments in the oil sector would improve the fiscal deficit (IMF 2024q). Or, in Gabon, the IMF explains that the government should "enhance facility maintenance and plan adequate investment for refurbishment and encourage exploration and discovery of new oil" in order to safeguard fiscal revenues and exports (IMF 2022a).

In other words, **the reduction of budget deficits and external debts and the promotion of exports to bolster economic activity and foreign reserves have been the key reasons for the promotion of fossil fuel extraction and exploration**. Even in Zambia, a country that is not a significant fossil fuel producer, the IMF promoted the construction of the Tazama pipeline, which is expected to reduce transportation costs, but will also lock in such fossil fuel investments over the medium-run (IMF 2024r). Such an approach raises questions over stranded assets: Locking in further exploration at a time when a global green transition is underway can mean that such investments end up losing significant value, and thus creating future problems with macroeconomic stability. Yet, these crucial long-term transition risks are not discussed in any of the loan programmes, not even the ones with an RSF programme.
One possibility for the IMF would have been to couple such recommendations with the promotion of investments in renewable energy, in order to gradually wean domestic energy production off fossil fuels. This was the case in only two of these 11 countries: Ecuador and Niger. The former was advised to prioritise "unlocking private-led investment projects in renewable energy sources such as solar and wind, for which Ecuador has good potential" (IMF 2024f). Niger was also encouraged to promote private sector investments in the renewable energy sector, leveraging its National Support Fund for Small and Medium Enterprises and Medium Industries to spur such spending (IMF 2023f).

The case of Argentina: subsidising fossil fuel production or consumption?

By Guillermina French and Julia Gerlo, Fundación Ambiente y Recursos Naturales (FARN)

Argentina has a longstanding history with the IMF. In 2018, the Argentine government signed a Stand-by Agreement that was the largest loan in the Fund's history. In 2022, the country entered into a new arrangement under the EFF in order to service obligations included in the previous agreement. In 2024, under the government of the new President Javier Milei, the IMF offered clear support to the new authorities' strong policy efforts to restore macroeconomic stability — even at the cost of major social upheaval and the slashing of renewable energy programmes. New structural benchmarks added to the current IMF arrangement aim at reducing consumer energy subsidies, leading to higher energy prices. From December 2023 to August 2024, the average increase in electricity tariffs electricity was 204% and that of natural gas 1132% in nominal terms (AFISPOP 2024). Fifty-eight percent of Argentinean households suffer some form of energy deprivation (IDB, 2024).

At the same time, the EFF endorsed substantial producer energy subsidies for fossil fuel companies that amounted to almost $10bn in the period 2016–2022 (Cena Trebucq and French 2023). In the 2025 National Budget Bill (Government of Argentina 2024), supply-side subsidies are projected to increase to ARS 228bn from ARS 150bn allocated in August 2024, while demand-side subsidies are reduced from ARS 119bn in August 2024, to $77bn by 2025. [2] Renewable energy programmes like the *Programa de Desarrollo de Iniciativas de Promoción de Energías Renovables, Fomento de la Generación Distribuida and Proyecto de Energías Renovables en Mercados Rurales* were eliminated altogether (FARN 2024). The Fund actively encourages the acceleration of associated fossil infrastructure and boosting up export fossil reserves through the exploitation of Vaca Muerta, located in Northern Patagonia (IMF 2023a). The environmental impacts of this are wide-ranging and deeply concerning. The acceleration of extraction activities exacerbates several critical environmental challenges: Greenhouse gas emissions, water use and contamination, air pollution, seismic activity (FARN 2023), land degradation and habitat loss and toxic waste. The full exploitation of the Vaca Muerta reservoir could release a significant volume of CO_2, equivalent to 11.4% of the global CO_2 budget, which threatens global climate targets (350.org 2022).

The current macroeconomic trajectory rooted in the financing arrangement between the IMF and the Argentine government not only undermines the country's fulfilment of international climate obligations, but also delays the necessary transition towards a cleaner, more resilient energy future.

2 Energy demand side receives other indirect support, but these are also continuing to be cut in line with IMF requests.

A battery of pumping trucks for fracking at Vaca Muerta shale field in Argentina, August 2014. Photo by SobrevolandPatagonia/ Adobe Stock 366388349. Received from FARN, October 2024.

Promoting renewable energy

In contrast to the very limited treatment of renewable energy investments for fossil fuel-producing borrowers, the IMF fares better in its attention to such issues for non-producers. Of the 30 such recent borrowers, renewable energy issues were included in its arrangements with 16 countries, of which 12 had a RSF loan. In almost all cases, the advice was heavily geared towards supporting the role of the private sector, as IMF analysis in 14 of these 16 countries clearly referred to measures that would expand the remit of markets, rather than more strategic industrial policy approaches, as we discuss in the subsequent section. This has possibly momentous implications not only for the ability of governments to control the speed with which they meet climate commitments, but also for the distributional implications of these investments, as it was not clear whether these measures would also ensure accessibility and affordability for low-income households.

The precise character of these recommendations varied. First, in most cases, the IMF promoted new regulations that would unlock investments in renewables and deal with bottlenecks in energy markets. For example, the Seychelles introduced new legislation that was intended to "increase private sector climate investment through innovative approaches such as distributed electricity generation and renewable energy independent power producers."[10] Similarly, Costa Rica — a country with an energy system that is primarily state-owned (Messina and Sanguinetti 2024) — passed "new regulations to facilitate private participation in the generation of electricity from renewable sources" (IMF 2024c).

Second, increasing competition in the energy sector was promoted by the IMF as a key pathway towards decarbonisation. This has the potential for lowering prices and displacing the dominance of fossil fuel usage, but can also lead to uncoordinated, fragmented efforts, and a short-term focus on profits rather on the long-run investments that will ensure the viability of long-run investments. Given the focus on competition, several of its loans proposed measures to ease entry into energy markets for private producers. For instance, Costa Rica was lauded for "simplify[ing] the administrative procedures for private participation in power generation from renewable sources for self-consumption, [and as a result] more than 50 new operators have participated in electricity production, in addition to the existing operators who have switched to the new framework" (IMF 2024c). Opening up to competition was also promoted in the context of public procurement for renewables: Cote d'Ivoire launched a competitive procurement process with the participation of independent power producers for the "development, construction and operation of solar power plants" (IMF 2024d).

Third, the IMF also promoted an increased role of the private sector in energy production as a means for spurring expansion of renewables. Such measures appear in opposition to its own research, which showed that energy sector privatisations did not lead to expansion of renewables and raised GHG emissions across the board (Cevik and Jalles 2023). In the case of Morocco, the IMF pointed to the scope for further limiting the activities of the state-owned utilities company, especially vis-à-vis its retained monopoly in the transmission of electricity. Consequently, the IMF promoted "unbundling [the public utilities company] into separate generation, transmission, and distribution companies [as this] would allow for greater competition, boost investment in renewable energy, and eventually lead to lower electricity prices" (IMF 2023e). However, these policies — as they are based on private initiative and limit state involvement — can also lead to loss of public control over renewable energy generation, which in turn could

drive a "hydrogen rush" that would be designed to serve EU needs rather than long-term sustainable renewable energy strategies (Bretton Woods Project 2023).

Finally, fiscal and tax incentives for renewable energy investments were also promoted. Most prominently, this was the case for Jamaica, where the IMF asked the government to complement its already wide-ranging incentives schemes with the introduction of "personal income tax rebates to incentivize take up of solar panels for residential generation" (IMF 2024h). Similarly, Paraguay was asked to introduce various measures, including tax exemptions, to facilitate the construction of solar and wind energy facilities (IMF 2024l).

In sum, promoting renewable energy was only pursued in a small subset of all its recent borrowers, and — in those cases — the focus was primarily on expanding the role of the private sector in production and distribution processes. Such measures indeed have potential for spurring investment in renewable energy, but they can also foreclose more strategic and centralised approaches that accord states a more active role in steering such transformations. This market expanding advice locks in the role of the private sector within energy production and can generate a range of political economy concerns, like rent-seeking through subsidies or tax incentives and white elephant projects (Prasad et al. 2022). In turn, this can end up exposing poorer households to higher costs, thus hampering just transition goals.

The debt is with the people, not with the IMF". A protest against the IMF pact and external debt in Argentina on 11 December 2021. Photo by Nicolas Solo ((i)). Accessed October 2024 on argentina.indymedia.org/2021/12/12/contra-el-fmi-y-el-pago-de-la-deuda/

A market-driven logic

The role of private sector promotion in recent IMF programmes raises broader questions about the possible biases that the organisation's policy advice has. What is the mix of market- and state-driven approaches to green economic transformations promoted in lending programmes? This question matters because it directly impacts the likelihood of sustainable green transition policies: Shifting environmental responsibilities away from the public sector to profit-oriented initiatives limits the government's ability to devise fully-planned investment projects and carry them through to fruition, while at the same time allowing the private sector to accrue major benefits from publicly supported or guaranteed projects, the risks for which are borne by the public and thus, citizens (Irwin, Mazraani, and Saxena 2018).

The IMF has long promoted pro-market approaches (Gabor 2021b; Kentikelenis, Stubbs, and King 2016), even though — in recent years — there has been cautious acknowledgement of the potential of state-led programmes for green transformation. For example, recent IMF research has noted the potential for industrial policies to increase domestic renewable energy manufacturing capacities (Prasad et al. 2022). Indeed, nearly 30% of all industrial policies that were developed in 2023 have been justified by governments on climate grounds, thus prompting the IMF to point to the return of industrial policy (Ilyina, Pazarbasioglu, and Ruta 2024). However, the evidence from the Fund's recent lending programmes reveals that **engagement with the potential for green industrial policies was generally non-existent**. The closest the IMF came to advocating for such policies was in only one case: In the Democratic Republic of Congo, it acknowledged the country's potential for becoming a major player in the global green transition, given its abundant wealth of critical transition minerals, and the importance of "expanding along the mining value chain" (IMF 2024e). Even so, the practical steps promoted were primarily regulatory interventions: Improvements in mining governance and transparency, and enforcement of social and environmental regulations. While such measures are undoubtedly important, they do not constitute major efforts to develop comprehensive green industrial policies that would ensure broad-based and sustainable economic development. Indeed, expanding the mining value chain could have the opposite effect, as local communities are often adversely affected and their input generally not embedded in decision-making processes (Recourse 2024).

Instead, for the most part, the IMF climate-related conditionality that was attached to recent loans revealed measures that were calling for state-owned enterprise restructuring or called for deregulation and other institutional reforms that would expand the remit of private actors. In the case of the former, Serbia stands out as the IMF reforms targeted Elektroprivreda Srbije, the country's electricity utility. In particular, the IMF mandated the adoption of a comprehensive restructuring plan that specified "reform priorities in the areas of organizational and financial restructuring, human resources, procurement, project development, reporting, risk management and the environment" (IMF 2024n). Similarly, Georgia was expected to drive major reforms to its major state-owned enterprises, including the Georgian State Electrosystem and the Gas Transportation Company (IMF 2022b).

In relation to institutional reforms, the IMF proposed the adoption of various new regulations that would open up energy markets and other opportunities for private sector investment. For example, the IMF asked the Parliament of Barbados to adopt a new bill on the

electricity market that would enhance competition, and the government was expected to finalise regulations that would "increase investments into battery storage technologies" (IMF 2024a). Mauritania also had to implement new regulations that would "provide access for independent power producers to the Mauritanian energy market" and allow private producers "access to transmission infrastructure owned by the public power utility" (IMF 2024k).

Overall, IMF promotion of market-oriented policies precludes alternative approaches to the green transition that foreground the role and coordinating capacity of the public sector. Even in cases where the state had such important roles, like Costa Rica where renewable energy generation was fully public, the IMF advocated for privatisation and deregulation. In other words, even at a time when Global North countries are devising major public green transition packages, like the US Inflation Reduction Act and the EU's European Green Deal, the IMF's dominant advice to developing countries is to promote the private sector. The so-called 'big green state' approach (Gabor 2021a) to investing in green industries and infrastructures appears out of reach for these countries.

Activists call for an end to austerity outside the IMF offices in Washington DC, during the IMF's Spring Meetings 2023. Photo by MENA Fem and the End Austerity Campaign. Obtained from MENA Fem October 2024.

Conclusions

A key pillar of meeting the goals of the Paris Agreement is "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development" (UNFCCC 2015). As a provider of multilateral financial assistance, the IMF has a crucial role to play, and consistent policy debates point to the need for the organisation to become 'Paris-aligned' (Nasheed and Mohan 2024). In this context, IMF conditionality matters, as it sets the macroeconomic parameters for countries' climate policy action: whether directly through mandated reforms to energy policies, or indirectly through the consequences of its fiscal policy measures on pathways to a just green transition.

The evidence provided in this report provides reason for scepticism on the extent to which the IMF can assist its Global South borrowers to meet their green transition objectives. Austerity measures remain a key part of the organisation's advice, and these reduce the availability of public money to spend on climate adaptation and mitigation strategies. Further, a key component of these austerity policies is the reduction of energy subsidies, which might have short-term deficit-reducing potential, but also have adverse distributional implications that increase the likelihood of climate backlash. Compensatory measures, commonly in the form of social protection floors, are generally inadequate and poorly timed.

Beyond fiscal measures, the other major element of IMF engagement with climate issues — and the energy sector in particular — are structural adjustment policies. These measures continue to endorse fossil fuel production among established as well as emergent producers, as receipts from such exploitation can help reduce budget deficits and facilitate debt repayment. To the extent that renewable energy generation is promoted, this is done primarily through a market-driven logic of enhancing the role of the private sector.

Repeated calls by civil society for a fair, fast and publicly funded fossil fuel phaseout are thus not matched by adequate IMF action on this front. In particular, IMF's policy package for dealing with climate risks is one-sided: It heavily relies on carbon pricing (including subsidy reduction) and expanding the role of markets, while foreclosing alternative policy options, like state-led green industrial policies. In doing so, the organisation restricts its borrowers' policy space and fiscal options to pursue alternative paths to decarbonisation.

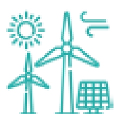
Policy recommendations

IMF staff

Staff should move away from a one-size-fits-all solution to climate policy by **expanding the reform horizon beyond 'getting energy prices right'** via energy subsidy reduction and/or carbon taxes, and into non-pricing measures and green industrial policy **strategies**. Such measures might include emission standards, technology mandates, fuel efficiency regulators, permits, quotas, subsidies for clean technologies and research and development, domestic low-carbon manufacturing, and if necessary, protection measures to foster domestic green energy production.

Staff should take seriously the pronouncements of Kristalina Georgieva at COP28 on the need to move away from business-as-usual approaches, and should not endorse policies in opposition to its own research showing energy sector privatisation has not proved effective for reducing emissions (Cevik and Jalles 2023).

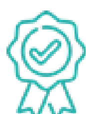
It is crucial that staff reconsider the nature, timing and pacing of **energy subsidy removal** to minimise adverse socio-political costs by systematically integrating a just transition lens and **distributional impact assessments**, as well as accompanying subsidy phase-out with long-term sustainable renewable energy policy strategies. IMF lending programmes' design must include an assessment of what are the impacts of the macroeconomic pathway implied in it on countries' climate targets and fiscal space for climate action. For example, the IMF can institutionalise 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.



Rather than ringfencing fossil fuel infrastructure investment, the staff should instead ringfence higher capital spending on renewable energy infrastructure and industrial policy associated with renewable energy technologies.

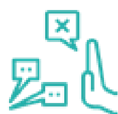
For fossil fuel producers, include much more in-depth analysis of transition management risks and prospective balance of payment issues linked to continued fossil fuel extraction, with sustained emphasis on shifting towards renewable energy.

A guidance note should be drafted on sectoral issues with a specific focus on energy subsidies, to provide staff with clear guidance on how to address distributional (and gendered) impacts arising from interventions in the energy and water sectors, and to ensure clear criteria and accountability for policy decisions and their trade-offs.



For the RST specifically, staff should develop specific criteria for what constitutes 'high-quality' climate-aligned reform measures, which should be focused on how RMs align with a 1.5˚C pathway and countries' existing climate plans. Staff should also increase transparency around climate diagnostic tools that feed into the design of arrangements under the RST.

IMF Board & Leadership



The Fund continues to refute its accountability under the human rights framework and has not explicitly aligned its climate work and lending operations (including those outside the RST) with the UNFCCC and Paris Agreement in a **cohesive framework**. IMF leadership should **adopt a 'do no harm' commitment** to ensuring that lending programmes actively support — or at a minimum, do not undermine — countries' efforts to lead development pathways aligned with the Paris Agreement.

IMF leadership should make a concrete commitment to **end all endorsement of fossil extraction** as means to generate public funds and repay debts in the medium term.

Capitalise on **lending innovations** developed during the Covid-19 health emergency to address the climate emergency with a comparative level of urgency and scale — for example, by scaling up the CCRT and broadening its eligibility to climate-vulnerable countries.

Eliminate the requirement that an RSF recipient must have a concurrent UCT program, as recommended by civil society and academics since the very beginning of the RST's development, recognising that the RSF-UCT combination has led to explicit contradictions, requiring mitigation investments in one while expanding fossil fuels in the other, or expanding fiscal space for climate action in the RSF while pursuing austerity under the UCT.

Incorporate the increasing incidence of macro-critical climate shocks and transition spillovers into assessments of the **adequacy of IMF resources** and support a regular **new issuance of Special Drawing Rights (SDRs)** with the explicit purpose of helping Global South countries finance the green transition without taking on more debt.

Create an **institutional view on sustainable industrial policy** that empowers IMF operations to support effective and coordinated strategies for sectoral and economic transformation. This should also include an updated view on green central banking in line with recommendations developed e.g. by the Network for Greening the Financial Sector to build out an "allocative green credit policy regime" organised around productive, sustainable green industrial transformation, and encouraging **financial regulation** that would align capital allocation with green transition objectives.

Continues on next page.

IMF leadership should leverage the Fund's central role in the international debt management architecture and assessment of debt sustainability to push for much more decisive action on **debt restructuring and cancellation**, especially for countries where climate action is significantly hampered by their debt burden. This also means further reforming the debt sustainability analysis frameworks for both middle and low income countries to more accurately account for climate spending needs and spillover effects of climate investments. In the medium term, the IMF should support the development of a **multilateral debt workout framework under UN auspices**.

Support the **creation of an accountability mechanism** within the IMF to help generate an evidence base on how its programmes are fulfilling or impeding commitments to green transition and just recovery.

Independent Evaluation Office

The upcoming IEO evaluation of the IMF's role on climate issues must assess the impact of the universe of IMF lending programmes, and not just the programmes with an RSF component; this should encompass the evaluation of different economic policies — including fiscal, financial and industrial policies — on climate action.

International decision-making and governance

Discussions over the future direction of IMF climate engagement should include increased participation of civil society organisations and national trade unions.

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