# IMF's new policy at odds with green Covid-19 recovery

A new review of the International Monetary Fund's (IMF) most recent economic policy advice for five countries with ongoing coal sector expansions show it is green-lighting fossil fuel expansion, despite the fund's stated support for a green Covid-19 recovery and transition to a climate-resilient and low-carbon economy.

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An analysis published today by the Netherlands-based organisation Recourse (co-published by Greenpeace, Earthlife Africa in South Africa and Centre for Financial Accountability in India) finds that the IMF fails to recognise the scale of climate change-related macroeconomic risks. The review analysed the IMF's most recent risk and economic policy advice (named Article IV reports) for five countries with ongoing coal sector expansions: India, Indonesia, the Philippines, Mozambique, and South Africa.

Not only does the IMF fail to adequately identify climate change as an economic risk in three out of these five countries, it is also supportive of tax incentives for new coal and fossil fuel infrastructure, and even encourages government spending on mega fossil fuel projects in Indonesia, India, and Mozambique, the new research shows.

In an opinion piece published last week in *The Guardian*, IMF's Managing Director Kristalina Georgieva says: "…while fighting the pandemic today, countries must look to transform their economies for a very different tomorrow – including by incentivising the transition to a climate-resilient and low-carbon economy…" This is in direct conflict with actual advice the fund is offering to the five countries covered by Recourse analysis.

As a result, the IMF continues to enable the wrong price for fossil fuel-based energy, even as the world is on track to produce 120% more fossil fuels in 2030 than is compatible with a 1.5°C pathway.

Overall, the IMF is making $250bn available for Covid response or a quarter of its total lending capacity of $ trn. But the advice it is offering alongside this financial support is at odds with the stable and green Covid-19 recovery the IMF advocates for.

## Key findings

- **Insufficient identification of climate change-related macroeconomic risks.** Out of the five countries, the IMF identifies climate change as a macroeconomic risk only for Mozambique and Philippines (and only physical - rather than 'transition' - risks).
- **Fossil fuel producer subsidies, including for coal, remain intact**. The IMF is supportive of tax incentives for new infrastructure investments, which often translate into tax breaks, i.e., subsidies (forgone government revenue), for coal and other fossil fuels.
- **Support for public investment plans in coal infrastructure.** The IMF encourages governments to increase public spending on prioritised infrastructure. In India, Indonesia, and Mozambique, the government-prioritised infrastructure includes coal power plants and/or coal transport/export infrastructure, as well as other mega fossil fuel projects.

"If the IMF is serious about the green recovery and a clean and climate-resilient transition they need to start walking the talk themselves. An easy start would be by ending tax breaks for fossil fuel producers, including for coal. The IMF should recognise that infrastructure investment incentives applied to fossil fuels, such as VAT exemptions, represent producer subsidies and contradict carbon taxes which are key to achieving a low carbon transition," Nezir Sinani, co-director of Recourse said.

Makoma Lekalakala of Earthlife Africa points out that "the IMF needs to re-evaluate infrastructure investment plans based on the 'right' energy price. Covid-19 induced project delays provide opportunities to redirect resources from pending coal power plants and other fossil fuel infrastructure to climate-safe alternatives."

Tata Mustasya of Greenpeace in Indonesia further adds that "It is vital that the full scale of climate change risks are sufficiently identified in IMF Article IV country assessments, especially risks associated with an energy transition away from fossil fuels and the challenges of ensuring a just transition. The IMF needs to ensure the risks of fossil fuel asset stranding are adequately reflected in macroeconomic stress tests."

Maju Vargese of the Centre for Financial Accountability in India concludes that "the IMF must integrate the climate risks in their analysis of macroeconomic risks and in doing so should focus on the equity dimension of the issue. One size fits all policy does not work and burden should not be pushed to consumers and natural resources-based communities. Ultimately, polluters should pay for their doing and not the people."