Climate & Environment Assessment:

Support to the IMF Capability Assessment Program (CAP) in Tunisia and Libya

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Report Summary

Evidence on Demand was requested by DFID to carry out a Climate and Environmental Appraisal as part of the Business Case for support to the pilot phase of a new IMF project to conduct a review of the capabilities of key economic policy-making institutions (notably for fiscal and monetary policy) in Tunisia and Libya. The consultant supplemented the Business Case and completed the C& EA Assurance Note, proposing a C category for risk (no/low potential impact) and a B category for opportunity (medium). The justification for this is the opportunity for the missions to identify the scope for introducing or adjusting fiscal measures (taxes and incentives) having positive climate mitigation or local environmental impact. Depending on their findings, further development of such measures could occur subsequently, supported by international or bilateral actions.

Note to readers: Climate and Environment Assessments are used to ensure that climate and environment risks and opportunities are considered as part of the process in developing new DFID Business Cases. The CEA presented here is in draft form, as submitted by Evidence on Demand to DFID for quality assurance and approval by a DFID Climate & Environment adviser.

Climate & Environment Contextual Background

C&E Background

The economic recovery of both countries is closely bound up with climatic and environmental factors. Their fragile natural environments and vulnerability to future climate change could constrain future growth, without greatly improved management of Climate and Environmental (C&E) aspects. Macroeconomic policy, specifically fiscal and monetary policy, can have a great influence on environmental status and adaptation to climate change, which in turn feed back onto growth.[1]

[1] *A sustainable future for the Mediterranean: the Blue Plan's environment and development outlook*, ed. Benoit & Comeau, 2005. Also, summarised in *The Blue Plan's sustainable development outlook for the Mediterranean, Plan Bleu, 2008. and the Regional document for the Mediterranean for the 5th World Water Forum, Istanbul, 2009,*

Climate & Environment Sensitivity Analysis

What is the likely impact (positive and negative) on climate change and environment for each feasible option?

On the basis of both a high-level climate and environment sensitivity analysis and a risk assessment, the three delivery options have been assigned a final risk categorisation of C *("the intervention is unlikely to have significant negative impacts on the climate or environment").*

Through the understanding generated from the findings from the CAP and wider discussions held during the IMF missions, options 2 and 3 have the potential to create some medium opportunities for climate and the environment if they lay the basis for further consideration of fiscal and monetary policies that improve environmental management and contribute to the mitigation of climate change and adaptation to its effects.

Option	*Climate change and environment risks/negative impacts*	*Climate change and environment opportunities*
1	*C*	*C*
2	*C*	*B*
3	*C*	*B*

Definition of Categories:

A	High potential risk / opportunity
B	Medium / manageable potential risk / opportunity
C	No / Low potential impact / opportunity
D	Core contribution to a Multilateral Organisation

Option 1: Do nothing. This option would have low or no significant risks or opportunities on the environment or on climate change, but would forgo the potential opportunities that may be generated through options 2 and 3.

Project level: Without UK funding, the CAP project is unlikely to take place.

Household level: Low risk and low opportunity.

Option 2: Fund IMF pilot phase capability assessments in Tunisia and Libya. This option would be low risk but create medium level potential opportunities for environment and climate change.

Project level: The project consists mainly of technical IMF staff undertaking missions to Libya and Tunisia to assess the capabilities of the key economic policy-making institutions. There would not be any direct impact on, or risks to, the environment and climate change (apart from the negligible carbon emissions relating to travel). However, this project does present an opportunity to influence future policies towards the environment and climate change through the light it sheds on the capacity of key economic ministries to formulate and implement fiscal and monetary reforms. The overall impact of fiscal policy on the local environment and carbon emissions is likely to be considerable: the structure of existing taxes, the efficiency with which taxes and other relevant charges (e.g. on pollution) are enforced and collected, and reforms to these plus the introduction of any new taxes, could all have major impacts on climate and the environment. Likewise, the scale and targeting of subsidies (e.g. for energy and water use) or their impact on sectors with a major impact on energy and water use offer potential benefits to climate and environmental issues.[2]

Household level: The objective of the project is to help improve the macroeconomic policy-making in these countries, which may contribute to improved economic performance. The findings of the CAP and opportunity for wider discussion during the IMF missions may offer a platform for the consideration of fiscal and monetary instruments that could result in climate and environmental benefits accruing to households as consumers, farmers[3] and workers).

Option 3: Deliver similar capability assessment through other implementing partners. This option would present similar opportunities to option 2, but with some additional scope to include climate and environmental considerations into the intervention. This would, however, forgo the institutional knowledge and credibility provided by the IMF and risk delays to this time sensitive intervention.

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[2] Amongst many others, OECD publications such as *Managing the environment: the role of economic instruments (1995), and Overview of key methods used to identify and quantify environmentally-harmful subsidies with a focus on the energy sector. (Sept 2012). For a discussion specifically relevant to North Africa, see the Blue Plan documents referred to earlier.*

[3] Refs in footnote 3. Also, *The Green Economy,* UNEP, 2011,chapter on “Finance”, pp 612-13

Potential Opportunities to Build Climate & Environment into the Management Case

If scope exists to influence the agenda of the IMF missions, DFID could consider coverage of the following topics:

- Energy taxes and subsidies (petrol & diesel, electricity, energy-efficiency incentives, clean energy subsidies & tax breaks, etc.)
- Water and wastewater subsidies for domestic, industrial, tourism and agricultural users;
- Pollution taxes, fines & and charges
- product taxes for non-point sources of pollution
- Dedicated funds for environmental clean-up, “clean” investment, energy and water-efficiency
- Scope for public investment, and incentives for private investment, in adaptation to climate change
- Other relevant fiscal, monetary and economic instruments with an actual or potential impact on environmental status, mitigation of GHG emissions, and adaptation to climate change already under way.

DFID could also offer IMF mission teams a briefing prior to deployment in support of policy reforms for sustainable development. Active planning of future follow-up activities (e.g. on implementation of the C&E agenda) by DFID, other bilateral and other international bodies may also be beneficial during the initial missions.