13 April 2023

Subject: IMF-Pakistan review pushing Pakistan towards climate catastrophe

To the IMF Executive Board,
To the IMF Management,

I am writing on behalf of the Alliance for Climate Justice and Clean Energy (ACJCE), a civil society alliance working for a just energy transition away from dirty fossil-fuels and towards clean and renewable sources in Pakistan. We call your attention to the crippling nation wide impact of the ongoing 9th review of Pakistan's Extended Finance Facility (EFF) program – especially on the nation's climate adaptation and just energy transition goals. While the IMF regional staff acknowledges the devastation of the climate-change induced floods of summer 2022, this is not reflected in the Fund's ongoing reviews and its pre-conditions for the release of a $1.1 billion tranche which is crucial for stabilizing the economy. The falling currency, hyperinflation, rising taxes, and spiraling energy prices and production costs – especially in the renewables sector – are tied directly to harmful prior action conditions under successive IMF reviews of the EFF program. Collectively, they have created an economic environment that threatens all planning put in place to meet national climate goals and international climate obligations, and to safeguard the rights and needs of the most vulnerable.

As a coalition of policy professionals, academics, lawyers, environmental activists, journalists, climate affectees, and local stakeholders working to mitigate the impact of climate change in Pakistan, we are familiar with the endemic contradictions between the Fund's rhetoric on climate action and its practices on the ground. Last year we called the Board's attention to the devastating impact IMF backed tax reforms were having on Pakistan's fledgling renewables market. We emphasized the increased climate risks posed by the fiscal austerity measures and the debt stress brought on by the Fund's lending conditionalities. We invited the Board to take our letter as an opportunity to restructure the EFF program in line with climate needs and to shift towards climate compatible models of lending. Our pleas were met with silence. IMF policies ended up not only imperiling Pakistan's NDC goals but also compromising the nation's capacity for adaptive action exacerbating the impact of floods later that year. Today, we cannot sit in silence as the pre-conditions imposed by the IMF for the release of desperately needed funds push the country once again towards economic collapse and climate catastrophe.

Pakistan's green transition rests on effective planning in two key sectors: energy and transport. This requires judicious strategies for integrating renewables and breaking the dependency on imported fossil fuels which are responsible for the bulk of the country's current account deficit. The provision of cheap, clean, and easily accessible energy and transportation requires a long term vision for cutting costs, optimizing investments, upgrading systems, targeting public spending, and transitioning in a sustainable manner that protects vulnerable sections of the population from shortfalls and price shocks. The present IMF backed reforms, on the other hand, are driven by an obsession with short-term fiscal expediency measures such as energy price hikes for raising revenue and phasing out of power and petrol subsidies for reducing public expenditure. The results have been disastrous for working class Pakistanis and vulnerable communities – especially women and children who are disproportionately affected by the consequent price shocks and spiraling costs of living. This short-sighted approach to energy reforms is antithetical to the spirit of a just transition which requires a thorough accounting of climate risks and the needs of vulnerable populations in policy design.

This flawed approach to reforms has also directly impeded Pakistan's renewables markets. Last year, the Government of Pakistan (GOP) was forced to impose a 20% tax on solar panels, wind turbines, and related technologies under the 6th EFF review, reversing the encouraging trend of rapid growth in solar markets under the GOP's tax exemption schemes, and bringing solar investments to a grinding halt. Tax exemptions on solar were only reinstated after considerable public resistance. This year, the tightening fiscal space under loan conditionalities has forced the Pakistani government to abandon its flagship 600 MW solar project and resort to easier, more accessible investments in the shape of coal power which has found new life in the 300MW Gwadar plant. This slip back into further fossil fuel dependency is an entirely predictable outcome we warned the Board about. It stems directly from the Fund's failure to integrate Pakistan's climate objectives and climate finance needs into the design of its loan programs.

In the transport sector, the disastrous IMF tax policies continue to jeopardize the transition to renewables which depends on the import of low-carbon emission vehicles, as well as public support for the local manufacture of hybrid and electric vehicles (EV's) and investments in EV infrastructure. Since the GOP was forced to institute 100 percent taxes on imported electric vehicles along with a 12 percent increase in EV sales tax following last year's review of the EFF loan, EV imports have taken a massive hit. Present fiscal conditions have also impacted EV sales and left the GOP unable to undertake any significant new investments in charging stations. This puts Pakistan's ability to meet its NDC goal of a minimum 30% penetration of electric vehicles (EVs) by 2030 into serious doubt. Pakistan's National Electric Vehicles Policy 2019 (EV policy) roadmaps a shift to electric and hybrid vehicles through the provision of subsidies, fiscal incentives, and tax breaks – expenses to be made up in the long term through the reduction of fuel import costs, health care savings through decreasing emissions, and optimal use of idle electricity capacity. Such a shift only makes sense when synergized with a similar transition in the power sector in the context of increased public spending, reliable climate finance flows, debt relief measures, and a longer-term horizon of economic planning. The energy transition will therefore suffer repeated setbacks with IMF interventions nullifying national policies and planning strategies.

The ongoing standoff between the IMF Pakistan mission and the GOP over energy prices and fuel subsidies for low-middle class and poorer populations is a key marker for how the IMF programme, despite its high rhetoric and insistence to the contrary, has increased economic disparity and climate risks. Rising fuel and electricity prices across sectors curtail the ability of vulnerable, climate-impacted communities to undertake local adaptive action against climate induced disasters, such as yearly floods, owing to restricted savings, decreased mobility due to prohibitive transport costs, and diminishing access to healthcare. The social and economic impact of rising energy and petrol prices is already reversing Pakistan's progress against poverty, and increasing the hardship and health impact on women and flood affectees. The IMF's interventions are, therefore, not only derailing local climate objectives but also exacerbating the impact of climate catastrophes by reducing the fiscal ability of the state and communities to adapt.

Given the IMF's new mandate with the Resilience and Sustainability Trust, (RST) its actions in Pakistan raise serious questions about the Fund's commitment to combating global climate change. There are legitimate doubts about whether there has been genuine financial reform in the IMF under the COP framework, and whether the Fund is in fact fulfilling its obligations under the Paris Alignment. The reality is that the IMF has yet to develop an understanding of climate compatible finance. The RST mechanism remains tied to traditional policy frameworks, which have failed to solve the developmental crisis in the Global South, and now look set to prove themselves entirely inadequate for solving the global climate crisis.

To chart a socially just and climate-responsible economic recovery plan for Pakistan, the IMF must therefore begin with a sincere accounting of its own role in exacerbating the ongoing economic, environmental, food, and cost of living crisis in Pakistan. The IMF's current policy matrix is not just a lost opportunity for mainstreaming climate needs into lending programs – it is an active threat that can set Pakistan back decades in its climate and social policy goals. It is clear that Pakistan's vulnerable populations are being squeezed amidst a climate-induced disaster even as flood waters have yet to fully recede and resettlement processes have barely begun.

Instead of a shrunken fiscal space, a devalued currency, increased tariffs, vanishing social safety nets, and rising costs of living, the country needs debt relief, non-debt creating climate finance, and increased, but targeted, public development expenditure to ensure economic recovery and a sustainable green transition. Fossil fuel subsidies should only be phased out as a medium-term step within a broader energy transition plan with targeted benefits for the vulnerable. Such cuts to social spending must kick in only after meeting certain benchmarks agreed to by civil society stakeholders. Savings from subsidy reforms and tax revenues need to be channeled into the funding of renewables and for investments in indigenous adaptive solutions. Taxes on electric vehicles or any renewables related technologies need to be immediately withdrawn, energy and fuel price hikes need to be rolled back, and a long term macrofiscal plan needs to be developed in consultation with vulnerable communities and civil society stakeholders. Finally, the IMF must integrate Pakistan's climate-related losses and damages and adaptation needs into its debt sustainability analysis and financing models and must issue expanded debt- and conditionality-free SDRs to Pakistan.

Where existing interventions continue to fail the economic and environmental crisis in Pakistan, we reiterate that the IMF faces a historic choice which will shape its legacy for the 21st century. It can choose to continue on the current path, which will push the most climate-vulnerable countries like Pakistan to the brink of disaster, or it could choose a more responsible path, which understands the synergies between debt relief, non-debt creating climate finance, expanded and targeted public sector spending, increased private and public sector investment in renewable industries, and coordinating green transitions in the energy and transport sectors. If the IMF board does not act now, its actions in Pakistan could become a case study for how the Fund recklessly crippled a climate vulnerable nation of the Global South and failed to meet its global obligations towards climate justice.

Keenly awaiting your response.

Respectfully,

Hashim Bin Rashid

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**Endorsements:**

| S# | CSO's Name | District/ Province | CSO's Logo |
|---|---|---|---|
| 1 | Indus Consortium (IC) | Islamabad | |
| 2 | Policy Research Institute for Equitable Development (PRIED) | Islamabad | |
| 3 | Alternative Law Collective (ALC) | Lahore, Punjab | |
| 4 | The Knowledge Forum (TKF) | Karachi, Sindh | |
| 5 | Lok Sujag | Lahore, Punjab | |
| 6 | Health Education and Life Protection (HELP) Foundation | Rajanpur, Punjab | |
| 7 | Initiative for Participatory Development through Peace (IPDP) | Rahimyar Khan, Punjab | |
| 8 | Social Youth Concil of Patriots (Sycop) | Muzafergarh, Punjab | |
| 9 | Participatory Welfare Services (PWS) | Layyah, Punjab | |
| 10 | Tanzeem Tahafuz-e-Maholiat, Enviornmental Proteciton Organisation (EPO) | Bhakkar, Punjab | |
| 11 | Al- Rehmat Welfare Sociecty (ARWS) | Gujranwala, Punjab | |
| 12 | Social Welfare and Community Development Society (SWCDS) | Vehari, Punjab | |

| S# | CSO's Name | District/ Province | CSO's Logo |
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| 13 | Cholistan Development Council (CDC) | Bhawalpur, Punjab | |
| 14 | Good Thinker Organization (GTO) | Lahore , Punjab | |
| 15 | Village Shadabad Organization (VSO) | Dadu, Sindh | |
| 16 | National Disability & Development Forum (NDF) | Nawabshah, Sindh | |
| 17 | Laar Humanitarian Development Program (LHDP) | Badin, Sindh | |
| 18 | Advocacy, Research, Training and Services (ARTS) Foundation | Mirpurkhas, Sindh | |
| 19 | Sustainable Development Foundation (SDF) | Sanghar, Sindh | |
| 20 | National Advocacy for Rights of Innocent (NARI) Foundation | Sukkur, Sindh | |
| 21 | Village Development Organization (VDO) | Ghotki , Sindh | |
| 22 | Marvi Rural Development Organization (MRDO) | Khairpur, Sindh | |
| 23 | Sindh Community Foundation (SCF) | Hyderabad , Sindh | |
| 24 | Grow Green Network, Pakistan | Sindh & Punjab | |

**International endorsements:**

| S# | CSO’s Name | Country |
|---|---|---|
| 1 | Recourse | Netherlands |
| 2 | Debt Justice | UK |
| 3 | Christian Aid | Global |
| 4 | Action Aid International | Global |
| 5 | Oil Change International | US |
| 6 | Asociación La Ruta del Clima | Costa Rica |
| 7 | NGO Forum on ADB | Asia - regional |
| 8 | Friends of the Earth US | US |
| 9 | World Economy, Ecology & Development (WEED) | Germany |
| 10 | Green Movement | Bulgaria |
| 11 | AbibiNsroma Foundation | Ghana |
| 12 | Extinction rébellion université de Goma | RDC |
| 13 | Debt Justice Norway | Norway |
| 14 | Institute for Agriculture and Trade Policy | US and Germany |