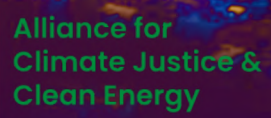


HOW ARE THE IMF AND THE WORLD BANK *SHAPING* CLIMATE POLICY? LESSONS FROM PAKISTAN



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ALC would like to recognize the ongoing struggles of communities affected by Thar coal and the LBOD project in Sindh and by the CRBC canal in Siraike Waseb – in particular we thank the Chashma Lok Sath and Thar coal Rajouni for inspiring us to imagine more just and inclusive climate futures.

With special thanks to Kat Kremer.

Executive Summary

There is a consensus that the IMF and the World Bank Group (WBG) need reform. The President of Kenya called for a "new financial model where power is not concentrated in the hands of the few" (Nation, 2023). However, current proposals primarily focus on increasing their financial power while neglecting to advance meaningful transformation.

The WBG and the IMF play significant roles in shaping Global South countries' climate policy. Without substantial changes in governance, accountability, and a thorough review of their toolkits, these institutions risk repeating past failures in promoting development. This report analyses the WBG's and the IMF's climate policies and assesses climate-related aspects of both institutions' recent operations in Pakistan in order to review the compatibility of their operations with meaningful climate action.

Both the WBG's Evolution Roadmap and Climate Change Action Plan, the IMF's Climate Change Strategy, and the Resilience and Sustainability Trust (RST) highlight the extent of their ambitions. The emphasis remains on catalysing private finance and addressing short-term fiscal issues and debt sustainability, disregarding the tension of these objectives with long-term strategic investments and climate justice. The proposed scaling up of collaboration between the IMF and the WBG, as outlined in the RST, raises concerns reminiscent of structural adjustment programs from the 1980s and 1990s.

The adverse impacts of WBG and IMF interventions on climate action in Pakistan underscore the need for a comprehensive review of their activities, approaches, procedures, and objectives. Pakistan's extensive history of 23 IMF programs and over \$40 billion in WBG investments across various sectors provides ample opportunity for cross-sectoral assessments of the climate compatibility of International Financial Institutions' (IFI) operations (Rajvanshi, 2023; WBG, 2023).

WBG's Privatization and Fossil Fuel Dependency

In 1988, the World Bank initiated the Private Sector Energy Development Project (PSEDP) loan programme to assist Pakistan in mobilizing resources from the private sector to expand energy generation and address supply deficits. This programme relied heavily on investments in fossil fuel-based Independent Power Producers (IPPs). Within a decade, Pakistan faced a crisis marked by soaring power prices due to exposure to volatile fossil fuel costs, overcapacity, circular debt, and rising greenhouse gas emissions, with no apparent solutions (Fraser, 2005).

The World Bank's Implementation Completion Report acknowledged the flawed nature of its advice to the Pakistani Government, which included excessive concessions such as a post-tax equity return rate of 25%. The WBG also played a pivotal role in facilitating IPP investments, effectively acting as a "broker" and "promoter" for sponsors, lenders, and governments. While the WBG directly invested in about 20% of IPP capacity, it indirectly influenced up to 88% of the sector (Fraser, 2005).

The policy also locked in fossil fuel reliance. In 1994 the total installed capacity was 11,000MW with hydroelectric accounting for 60% and thermal and nuclear power plants 40%. This ratio reversed with thermal plants based on imported fuels now accounting for over 70% of the generation mix.

In 2022, the utilisation factor of 30,303 MW thermal power plants was only 46%, with consumers burdened by capacity payments for the remaining unutilized 54% (NEPRA, 2022). In 2023 alone, the capacity payments under these contracts rose to a staggering Rs 1.3 trillion (Profit Pakistan Today, 2023). Of the nearly 2.5 trillion in circular debt in the power sector, these legacy contracts account for the lion's share.

WBG and Hydropower

The WBG's Development Policy Financing Program for Affordable and Clean Energy (PACE) categorizes hydropower under 'renewable energy'. However, an ecologically and socially responsible approach to hydropower is vital for a just energy transition in Pakistan and aligns with the country's climate adaptation strategies. Despite the urgency of the climate crisis, the WBG fails to adequately assess the climate risks associated with hydropower.

The WBG-supported Tarbela Dam submerged 120 villages, resulting in significant population displacement and social upheaval linked to the presence of the Taliban. During the 2022 floods, the Left Bank Outfall Drain (LBOD) exacerbated the disaster, leading to extensive damages and losses estimated in the billions. The WBG itself admitted in 2006 that the dam's construction proceeded "without adequate provisions to minimize the risks that the structures would give way." Given Pakistan's current energy system limitations, hydropower's seasonal variability could lead to delays, prompting increased use of gas and local coal and substantial cost increases, estimated at more than PKR 70 billion in FY 2024 (LUMS, 2022).

IMF Programs and the 2022 Floods

Energy sector reform has been central to IMF interventions in Pakistan. During the sixth review of the Extended Fund Facility arrangement, the withdrawal of energy subsidies and tax exemptions for renewable energy technologies was pushed through the National Assembly to secure the IMF's disbursement. Climate spending decreased by at least 25% between FY21-22. The later disbursement was delayed due to a new fuel subsidy aimed at mitigating the price impact of the 2022 Ukraine conflict as Pakistan grappled with the pandemic's consequences. The IMF challenged the subsidy package, leading to the government's removal following a no-confidence vote.

At the height of the 2022 floods, which affected 33 million people, destroyed 1.7 million homes, with losses estimated at \$40 billion, the seventh and eighth reviews of the Extended Fund Facility were approved, contingent on a 2.5% GDP fiscal consolidation focused on consumer energy subsidies to tackle circular debt linked to IPP policy. The IMF was aware that this would dampen economic activity and reduce purchasing power due to higher inflation during the climate catastrophe. Inflation skyrocketed to 40% in May 2023, making it difficult for people to migrate from flood-affected areas.

Moreover, the budget approved under the Stand-by Arrangement includes public investments in indigenous coal, further cementing Pakistan's reliance on fossil fuels for short-term fiscal reasons and continued investments in hydro.

Debt Servicing and Human Rights

Despite fundraising efforts at the International Conference on Climate Resilient Pakistan in January 2023, the failure of the international community to advance debt cancellation and the IMF's reluctance to champion proper debt restructuring means that funds raised will primarily go toward debt repayment (\$14.5 billion in FY24), rather than reconstruction after the floods. Despite the IMF recognizing the benefits of investments in adaptation policy, its financing strategy relies on private investments, justifying the need for structural reform, including the reduction of energy subsidies.

Debtor countries are highly vulnerable to decisions made by international financial actors. In the midst of the floods, the United Nations Development Program (UNDP) called for the suspension of debt repayment to allow for reconstruction investments (UNDP, 2022). However, this triggered a significant drop in the face value of the countries' bonds as creditors feared non-repayment (Reuters, 2022).

The following steps are essential for advancing transformation rather than mere reform:

1. Institutionalise a ‘do no harm’ methodology to monitor and assess existing and future programmes and to ensure that at the very least, IFI operations do not negatively impact Global South countries’ policy frameworks or compromise their fiscal space to lead green and just transitions.
2. Governance reform within the IMF and the WBG. All countries should have an equitable say in the direction of these institutions. The current framework is highly likely to be influenced by Global North countries.
3. A proper review of the toolkit the institutions rely on, including a review of Paris Alignment methodologies, debt sustainability frameworks, fossil fuel subsidies policy, and the privatisation approach
4. Application of CSO’s SDR rechanneling principles and changes to the RST design to include non-conditionality-based and non-debt-creating financing solutions. Eligibility under the RST must also be expanded to include those countries without IMF programs (Latindadd, 2021).
5. Providing adequate and sufficient compensation to affected communities for losses and damages sustained by them due to climate-averse policies and projects supported by the WBG and the IMF. As a preliminary step, the WBG should finance remedial measures for projects like the LBOD and arrange payments for affected communities based on principles of restitution.
6. Immediate amendments to existing reports, policies, and loan programs such as the SBA, CCDR, and PACE to integrate the above-stated “do not harm” measures and principles.

In order to positively support countries besides doing no harm we recommend that the IMF and WBG:

- Issue SDR annually to ensure liquidity provisions are not linked to existing quota formulas but are genuinely needs-based;
- Advance international taxation and trade reforms that can scale up countries’ possibilities of leading just energy transitions;
- Make their knowledge and expertise transparent and available for communities and local governments in Global South countries through open access fora to facilitate democratic home-grown macroeconomic policymaking;
- Echoing President Ruto’s call for a new financial model where power is not in the hands of the few, there is a need for a global civil society-wide dialogue on the degree to which the IFIs are suitable for properly addressing the climate crisis given their current mandates, and an assessment of alternative financial architectures and instruments.

“The advice and policy prescriptions of the IMF and World Bank have not emerged as a result of pure economic research and debate. Rather, the institutions have adapted economic ideas to fit their available resources and instruments. Facing new challenges, each institution has dashed in using tools already at hand. Necessarily, each has left behind economic theories or policy prescriptions which would require greater resources or a different expertise. This greatly narrows the consensus forged within the institutions and used to prescribe conditionality for countries. In turn, the narrow consensus can become a trap for the institutions, creating fertile conditions for groupthink and a fixation on a particular interpretation of events, screening out alternative scenarios and thereby failing to foresee crises”.

The Globalizers: the IMF, the World Bank, and their borrowers
Ngaire Woods, 2006, p.181





INTRODUCTION

At COP27, member parties called for reform of the international financial institutions (IFIs) to ensure they are “fit for the purpose of adequately addressing the global climate emergency”. The message was clear. The international financial system is failing to ensure countries can lead green and just transitions and needs to be reformed.

Discussions at the Paris Summit in 2023, where world leaders gathered to lay the groundwork for a ‘New Global Financing Pact’ failed to find a common agreement between Global North and Global South governments. Mia Mottley, Barbados Prime Minister and leader of the Bridgetown Initiative commented on the need for an “accountability-based” paradigm for grounding the climate mandate, emphasising the need for transformation rather than reform (PMOBarbados, 2023). Moreover, President of Kenya, William Ruto, even called for the creation of new institutions outside of the International Monetary Fund (IMF) and the World Bank Group (WBG) to address the various development crises, especially emphasising the need for a “new financial model where power is not in the hands of the few” (Nation, 2023).

Both the WBG and the IMF are currently ensconced in the reform discussion. The WBG’s shareholders are discussing an Evolution Roadmap to respond to G7 calls to ensure “a World Bank which is well prepared to address global crises such as climate change and which is able to share its knowledge worldwide” (BMZ, 2022). This will reform the WBG’s mission, operations, and resources. In the case of the International Monetary Fund (IMF), recent developments include the 2021 Climate Change Strategy and the Resilience and Sustainability Trust (RST).

The RST is one of the best examples of how the institutions’ current ambition is informed by a preference for limited reform rather than a commitment to transform. In active collaboration with the WBG, the IMF will design loan programmes and policy

conditionalities aimed at addressing climate change (and pandemics). This seamless assumption of climate expertise and leadership without an internal accountability-based transformation, however, is something a number of IMF directors cautioned against in the discussion of the institution's 2021 Climate Change Strategy (IMF, 2021).

These two institutions have a record of collaborating, working particularly closely since the 1980s debt crisis on the design of structural adjustment programmes. These programmes aimed at scaling up market-led economic growth through policy conditionalities attached to their loan programmes that included privatisation, deregulation, and trade liberalisation (Kentikelenis, Babb, 2019). Policies were orientated towards short-term fiscal targets to regain debt sustainability, relegating wider development objectives to secondary priorities (UN Human Rights Council, 2018). The financing operations and developmental projects pushed by the IFIs have been associated with widespread environmental damage, rise in poverty, and inequitable developmental outcomes due to pressures for countries to increase exports and curtail social spending (p.4, UNEP, 1996).

With the two institutions now intensifying collaboration and developing a number of programmes and instruments ostensibly designed to chart a more climate-responsible way forward, it is time to ask a number of questions:

- What is these institutions' expertise, and how will it shape climate policy?
- Are the underlying visions of growth and development guiding their operations compatible with meaningful climate action?
- What is the rationale for not "greening the IMF's or the WBG's own operations" first, rather than taking up climate action leadership without proper transformation on, for instance, accountability and governance?
- What have their processes for consultation and ensuring inclusivity, transparency, and accountability in their operations been?
- Are their diagnostic toolkits and analytic practices suitable for effective integration of climate into their core operations?
- Are their present approaches to climate action adequate to meet the demands of the climate challenge especially for countries of the Global South?

This report addresses these questions by reviewing key diagnostic toolkits, lending programme documentation, and technical advisory input of the IMF and the WBG. In section one, we focus on the general framework and design of the IMF's Resilience and Sustainability Trust (RST) and the WBG's Country Climate and Development Reports (CCDRs). Section 2 reviews specific country projects in Pakistan and evaluates their impact on the nation's capacity to meet its climate obligations and respond effectively to local climate challenges. In section 3, we examine existing and expected interactions

between the IMF and the WBG's present operations in Pakistan and assess their implications for the future of climate and development in the nation in the light of a probable arrangement under the RST.

Such an evaluation requires a historically grounded assessment of the climate-related aspects of the IMF and WBG's recent operations in Pakistan against three measures:

- 1.** The internal consistency between these institutions' self-stated goals and objectives vis-à-vis climate, their practices on the ground, and the resulting effects and impacts of their operations.
- 2.** The degree to which their operations are consistent with the international regimes of climate change control and recognised best practices as under the Paris Agreement and the United Nations Framework for Convention on Climate Change¹.
- 3.** Whether their operations reflect an adequate engagement with the global state of the art in climate science and analytics as well as local community-based knowledge on climate and its connection to debt, finance, and developmental infrastructure.

¹The Paris Agreement's 1.5°C goal is: "...stabilisation of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system. Such a level should be achieved within a time frame sufficient to allow ecosystems to adapt naturally to climate change, to ensure that food production is not threatened and to enable economic development to proceed in a sustainable manner." (UNFCCC, 2015).



SECTION 1

1.1. The IMF's and WBG's DNA

The Bretton Woods Agreement in 1944 was meant to establish a framework of economic cooperation for a more stable and prosperous global economy, of which the IMF and the WBG were to be the major protagonists. The IMF would be in charge of safeguarding international financial stability and addressing countries' balance of payments issues through interventions in exchange rate policy, while the WBG would have a longer-term focus on economic development and poverty reduction.

The IMF's activities' impact on longer-term development is significant. Its role in the international financial ecosystem is to provide financial assistance to countries in balance of payment distress, with such assistance made subject to wide ranging adjustments in domestic policy (ECB, 2019). Attached to the loans, these policy conditionalities are "the set of policy measures under the control of national authorities which are required by the IMF as a condition for the use of its own resources, with the objective of enabling the borrowing country to resolve its balance of payment difficulties while repaying the IMF in a timely manner" (ECB, 2019). Policy conditionality under IMF programmes is therefore tied by design to the narrow goal of fiscal balancing and timely payback.

These programmes have a signalling effect on international financial actors, indicating that a country is adopting policies consistent with regaining external viability and debt sustainability. In this way, IMF programmes do not aim to finance the entire balance of payment gap but ensure that "proper policies" are pursued so that other creditors appear. For the same reason, IMF assistance assumes special significance for struggling economies as sovereign governments, creditors, and private investors alike take their

cues from the IMF when gauging the profitability and economic viability of a nation within the global finance and trade architecture.

Box 1: **Policy conditionalities**

Domestic policy commitments under IMF programmes can take the form of prior actions (needed before the approval of the agreement), performance criteria (macroeconomic variables expected to be reached) and structural benchmarks (specific policies).

As an example, the recent Stand-by Arrangement between the IMF and the Pakistani government included reform of the foreign exchange market as a prior action, a Cabinet adoption of a Climate Public Investment Management Assessment (C-PIMA, see Annex I) as structural benchmark, and a floor on the net international reserves as performance criteria.

The WBG's remit is of a different nature than the IMF. The WBG channels investments to countries for development purposes, providing financing, policy advice, and technical assistance. Initially focused on earmarked finance and supporting project design, the WBG has increasingly been involved in sectoral reform in the last few decades. Presiding over the 'industrialization' and economic 'modernization' of the Global South, the WBG has enjoyed something of a "near monopoly on the business of development" (Marshall, 2008). As a "core agency in global governance," the WBG has overseen programmes of economic structural adjustment in a number of these countries.

Bank-led structural adjustments have typically involved sectoral reform to advance the "liberalisation of markets (such as abolishing price controls and trade barriers), currency devaluation, institutional reform (such as privatisation and the promotion of foreign investment), and stabilisation (especially reducing government deficits)" (Storey, 2000). To this end, the WBG can include policy conditionalities through its Development Policy Financing (DPF), one of its three lending modalities aimed at "supporting policy and institutional reforms to help clients achieve sustainable growth and poverty reduction" (WBG, 2022).

This instrument is the continuation of the Structural Adjustment Loans, through which the WBG together with the IMF advanced reforms toward market-oriented policies (Bretton Woods Project, 2021). According to the WBG (2022, p.iii), "DPFs and IMF programs were complementary, supporting sound macroeconomic framework and

joining forces to support macroeconomic, and in particular, fiscal and debt reforms.” The unicity of this developmental agenda and its manifestation in Pakistan will be addressed in section 2. The mechanics and impact of the ‘complementarity’ between the two organisations will be studied in greater detail in section 3 which traces the interplay between the Fund and the WBG’s climate-related interventions.

A preliminary question for this task relates to the consistency between the IMF and WBG’s operational objectives and climate goals. To this end, it is useful to understand their definition of success in programmes. According to the most recent IMF 2018 Review of Program Design and Conditionality, success is defined as (IMF, 2019, p.8):

- i. solving the member’s BoP problem without recourse to measures destructive of national or international prosperity;*
- ii. achieving medium-term external viability, while fostering sustainable economic growth*

The number of successor IMF-supported programmes is the criteria to monitor i), while ii) depends on a wider range of factors, including:

- i. the current account, including the growth of import and export volumes;*
- ii. international reserves;*
- iii. growth;*
- iv. fiscal balance;*
- v. public debt and market access; and*
- vi. the stock of non-performing loans*

In the case of the World Bank Group, the ‘twin goals’ are the institution’s main goals. These include the reduction of extreme poverty by 2030 (defined in monetary terms: people living on less than \$1.25 a day) and the improvement of living standards in the bottom 40% of the population of every country by “evaluating economic development from average income growth to income growth of the bottom 40 percent” (WBG, 2014). According to the United Nations Human Rights Office (2023), the twin goals fail to properly address inequality, by failing to compare the bottom 40% with wealthier parts of the population and by assuming income is a good proxy for basic needs.

This wider scope in evaluation criteria indicates the broader developmental mandate of the WBG. By design, the WBG was set up to complement the Fund by helping to provide a response to longer-term challenges and support development.

However, the scope of the twin goals is now under debate in light of the Evolution Roadmap discussion. Following a global recognition of the need to reform IFI operations to meet the climate challenge, the WBG has attempted to mainstream climate within this overarching mandate. As our discussion in section 2 will show,

despite this broader developmental mandate, there are question marks on how far the 'Business as Usual mandate plus climate' formula translates into effective climate action. The WBG's and IMF's Development Committee proposed widening the WBG's mission in the Evolution Roadmap discussion by "more explicitly recognising that resilience to shocks, sustainability, and inclusion are essential to the WBG mission", proposing the formula: "To end extreme poverty and boost shared prosperity by fostering sustainable, resilient, and inclusive development" (Development Committee, 2023).

As observed by the response to the Evolution Roadmap by various civil society organisations, the developmental vision of the WBG has remained limited and continues to prioritise profit and economic growth at the expense of meaningful climate action. According to the CSO joint paper, "the World Bank's efforts to eradicate extreme poverty and promote shared prosperity in a more inclusive way are undermined by the Roadmap's incomplete analysis of the current 'crisis of development' it seeks to address, which ignores the role of the highly inequitable global financial architecture in causing this crisis and the Bank's role within it" (BWP, 2023).

1.2. Designing climate policy conditionalities

Box 2: IMF and World Bank Group mandates and their intersection with climate action

The IMF through its surveillance activities² has increasingly involved itself in 'macro-critical issues', defined as "macro-critical if it affects, or has the potential, to affect domestic or external stability, or global stability" (IMF, 2015). According to its Climate Change Strategy published in 2021 –one year before the RST was put in place– the IMF must live up to its mandate and assist its members to address climate-related challenges through the systemic and strategic integration of macro-critical aspects of climate change (IMF, 2021). In this way, climate action will be relevant as long as it affects financial stability.

The transmission channels through which climate risk drivers affect macroeconomic variables identified by the IMF (2021) are:

- physical risks that can negatively affect macroeconomic and financial policy management, stability, monetary policy, trade and exchange rates;

² The IMF has three main activities: lending, surveillance and capacity development. The Article of Agreements of the Fund establishes the institution's mandate to surveillance all member countries' policies and their contribution to international economic and financial stability.

- transition risks related to policy responses, including costs of adaptation, mitigation-related tax reforms, spending and regulation changes associated with mitigation;
- transition spillover risks that will affect fossil fuel exporters.

In the case of the WBG, its 2021-2025 Climate Change Action Plan recognises the need to address the climate change issue due to its impact on poverty reduction (the poor will be the most negatively impacted by climate change impacts) and on economic development. Trade-offs associated with transition costs “can be reduced through a people-centred approach, effective fiscal and social policies, and policies supportive of attracting private sector investment” (WBG, 2021a).

The Action Plan aims to integrate climate and development by:

- addressing the interplay between climate and development at a country level through Country Climate and Development Reports (CCDRs);
- launching a Paris alignment process of WBG’s financial flows through which the vast majority of WBG operations would be Paris-aligned by July 2023 (100% for the World Bank and 85% for the International Finance Corporation (IFC);
- increasing climate finance.

In 2022, the IMF Board approved the RST. The organisation’s climate-related lending tool was envisaged as a convenient vehicle for Global North countries to re-channel some of their additional Special Drawing Rights (SDRs) allocations to benefit countries in the Global South (Recourse, 2023; IMF 2022a).

The rationale is to complement the IMF’s existing lending toolkit by focusing on longer-term structural challenges that entail significant macroeconomic risks rather than short- and mid-term balance of payment challenges (IMF, 2022). The two focus areas agreed on in 2022 were climate change and pandemic responsiveness, but these could be expanded in the upcoming interim RST review in 2024. To date, all arrangements under the RST have had the objective of addressing climate change rather than pandemic responsiveness (CGDEV, 2023).

To this end, the IMF will design a loan programme together with the respective national government conditional on reform measures. The framework of the RST proposes ramping up collaboration between both the World Bank and the IMF in the design of climate policy conditionalities attached to loan programmes “drawing to the fullest extent deemed useful on the advice of WBG staff in areas of the WBG expertise” (IMF, 2022, p. 39). This will also be the case with other relevant MDBs.

IMF-WBG collaboration on this front has been ongoing for some years. Country diagnostics by both the WBG and the IMF are instrumental for the RST, according to the IMF's RST Board document, starting with the WBG's Country Climate and Development Reports (CCDRs, which will be covered in section 2) followed by the IMF's Climate Change Policy Assessments (CCPAs) –elaborated in close collaboration with the WBG– and its potential successor instrument, Climate Macroeconomic Assessments Programs (CMAPs) (IMF, 2022). It bears noting that this reliance on the WBG's diagnostic reports has already shown up in IMF loan facilities, as shown in Pakistan's recent Stand-by Arrangement.

CCDRs originate from the WBG's Climate Change Action Plan (2021–2025), which recognises the need for a core diagnostic tool to mainstream climate across the WBG's operations. The CCDR was intended as a core diagnostic tool for identifying and assessing the most pressing sources of climate risks and charting possible solutions. "CCDRs assess how climate risks affect people, and how governments and the private sector can build resilience, considering the implications of physical and transition risks on poverty and jobs" (WBG, 2023). The CCDR is, therefore, a fulcrum to "integrating climate into the WBG's developmental thinking," shaping the WBG's country-level engagements, including their Systematic Country Diagnostics and Country Partnership Frameworks, and affecting all lending and technical assistance operations in the process (WBG, 2022c).

As is the case with the IMF, the WBG limits its approach to climate by considering only how it affects its traditional mandate rather than focusing on how the WBG's operations and developmental thinking may have contributed to the climate crisis or failed to provide an adequate response. The connection between this crisis of development and the WBG's present climate thinking will be elaborated in section 2.

Access to the RST is limited to countries under a concurrent financing or non-financing programme³ with "upper credit tranche" (UCT) quality policies with at least 18 months remaining. This means that only those countries facing short-term balance of payment distress can have access to the SDRs available in the RST.

The reasons given by the IMF for this are similar to the arguments behind the inclusion of policy conditionalities attached to loan programmes: The mitigation of credit risk (ensuring loan repayment) and the assumption that "a stable macroeconomic environment in the borrowing country (...) is a necessary condition to pursue long-term reforms and support a catalytic role for the RST" (IMF, 2022, p.13). In this way, "the RSF will be part of a policy and financing framework for structural transformation that is consistent with macroeconomic stability".

³ Non financing programs include the Policy Coordination Instrument (PCI) through which member countries receive technical assistance by the IMF in formulating and implementing macroeconomic policy, giving a seal of approval that can help catalyse finance by other creditors.

A good example of the implications of this rationale is the joint policy conditionality included in the arrangement between the IMF and the government of Bangladesh under the RST. This is focused on the adjustment of the petroleum price formula, in order to reduce fossil fuel subsidies which is central to the fiscal deficit reduction strategy (Recourse, 2023). This echoes experts' concerns on the risk of considering climate resilience subservient to fiscal concerns (Task Force on Climate, Development, and the International Monetary Fund, 2023; CGDEV, 2023). In fact, the overfocus on slashing consumer subsidies has already been flagged by civil society as one of the preferred policies of the IMF which ignores distribution effects, including unequal gender impact (Action Aid, 2021; BWP, 2021b)).

Moreover, as stated above, under the RST the IMF's collaboration with MDBs will be an important part of policy conditionality design, with the aim of complementing "their lending and to help catalyse additional financing, including from private sources" (IMF, 2022, p.25). This is in line with the WBG's 2017 Maximising Finance for Development (MFD) approach through which the institution primarily "seeks to mobilise commercial finance" and turn to official and public resources "only where market solutions are not possible through sector reform and risk mitigation" (Development Committee, 2018).

However, there is no evidence this approach to leveraging private finance actually works: empirical findings on the catalytic effect of IMF programmes are mixed (ECB, 2019), and, according to the IMF, "MDBs attracted only 1.2 times the amount of private finance (equity and debt) relative to commitments of their own resources in 2020" (IMF, 2022, p.57). According to the IMF, instruments like private-public partnerships –a favoured approach under MFD– can further endanger countries' balance of payment stability (IMF, 2022c, p.16).

Lastly, the RST, which involves direct IMF engagement through its loan activities and design of policy conditionalities in new 'macro-critical' areas, has not been accompanied so far by a review of guidelines for IMF staff on engagement with civil society.

According to a preliminary analysis of the first arrangements under the RST, "there is no evidence of extensive citizen consultation in developing the reform areas" (Center for Global Development, 2023). This is in complete contradiction with the Intergovernmental Panel on Climate Change (IPCC) recommendations, according to which "Inclusive processes can facilitate transformations by ensuring participation, transparency, capacity building and iterative social learning" (IPCC, 2018).

Recent research has shown the limited impact perceived by CSOs engaging with the institution: "most CSOs interviewed who had engaged with the IMF did not feel their engagement had any major impact" (Oxfam, 2023, p. 41).

The RST's focus on the long-term prospective balance of payment challenges the IMF's focus on short-term fiscal solvency. This expansion should have at its centre the trade-offs between acting on both the short- and the long-term: The reduction of fiscal space today to guarantee debt sustainability can, for example, erode states' capacities to respond to the climate crisis for decades to come. However, the IMF's operations, objectives, and toolkits so far do not reflect this tension.

The next section will provide evidence from Pakistan on the impacts of the World Bank and IMF approach in the country; to determine whether it creates a framework that is aligned with climate justice and that can ensure a 1.5°C aligned green and just transition, and highlight the need to systematically review the WBG and IMF's policies if they wish to become the leaders of this process.



SECTION 2

Articulating the oversized power and role of the IMF and WBG in charting Pakistan's developmental trajectory on Energy, Environment, and Economy

Many critics view the Bretton Woods institutions as little more than “instruments” of the Global North serving their political and economic interests (Dreher et al., 2006). It is widely observed that financial assistance from the IMF and the World Bank works as a smokescreen concealing their true role as political engineers shaping Global South markets and governance to meet the needs of its main shareholders in the Global North.

Up till the 1970s, IFI-led structural adjustment programmes invariably promoted commercial agriculture, and industrialisation, and supported large-scale, state-led development investments. These measures suited commercial lenders and manufacturers in the Global North who sought new markets for surplus capital and products in what has been described as the capital export era of the IFIs (Storey, 2000). Later in the 1980s and 1990s, the debt crisis and fiscal crunch in the US marked a shift with IFI reforms narrowing their focus on short-term fiscal stabilisation to aid in capital recovery and debt repayment. The shift is often described as the neoliberal phase of IFI approaches.

Another strand of criticism, however, focuses on the failure of IFI advisory assistance, loans, and conditionalities to achieve their own targeted goals. In this view, apart from the undemocratic nature of their governance or political instrumentality, the oversized and excessively entangled nature of IFI influence in the developmental planning

practices of Global South countries only leads to counter-productive outcomes inconsistent with their own goals. In particular, it is observed by many that the IMF and World Bank prescribe premature and excessive fiscal consolidation that fails to fulfil their own mandates vis-à-vis growth, jobs, stability, and debt reduction (Recourse, 2022).

More recently, this critique has been extended to highlight these institutions' roles in exacerbating the climate vulnerabilities of Global South countries by promoting harmful investments in unsustainable energy infrastructure and dispensing reckless policy advice with wide-ranging socio-ecological fallouts. IFI-led interventions in the Global South have generally advanced extractive development models that view natural resources such as rivers, fossil fuel reserves, land, and agriculture, as profit-making opportunities and as mere means to an end for expanding markets and driving economic growth and development (Debt Justice, 2023).

Along with trapping Global South nations into a commodity export-based developmental model dependent on Northern markets, and rooted in unequal trade relations, this paradigm has also forced their economies into a cycle of debt and fossil fuel dependency. This leaves them vulnerable to global market shocks and vicious cycles of poverty and indebtedness. Accordingly, IFIs have been seen as doubly responsible for the climate crisis in the Global South countries: first, by pushing them to adopt ecologically unsustainable economic practices, and secondly, by shrinking the fiscal space available to them to respond to their local climate challenges.

Pakistan serves as a fitting case study for investigating the various climate-related impacts of IFI activities within the Global South. With a record of 23 IMF programmes and WBG investments of over \$40bn across sectors as diverse as energy, agriculture, and water spanning over seven decades, Pakistan's profile allows for a cross-sectoral testing of the climate compatibility of IFI operations across multiple types of interventions and in various different contexts (Rajvanshi, 2023; WBG, 2023).

The WBG and IMF have been at the forefront of Pakistan's development policies since as early as 1958 when the government signed its first loan agreement with the IMF. The WBG was initially focused on supporting large-scale state-led projects like Pakistan's Indus Basin and irrigation systems as well as its water and power infrastructure. It played a crucial role in setting up the Water and Power Development Authority (WAPDA).

More recently, Pakistan has faced a number of serious policy dilemmas associated with macroeconomic and social instability amidst a backdrop of growing climate risks and impacts. Resorting to WBG and IMF loans has become a common practice for Pakistani governments seeking to address short-term crunches, such as external debt

servicing, and paying for essential imports, such as fuel and industrial technology. Accessing this financial assistance, however, has required those governments to agree to an increasingly exacting range of policy reforms promoting market-based solutions. These conditionalities generally attach to Development Policy Finance (DPF) loan programmes and typically cover issues like balancing the government budget, improving debt sustainability, bumping up foreign exchange reserves, privatising state-owned enterprises, implementing austerity measures, and deregulating economic activities.

Over the last three decades, IFI-led policy advice and developmental reforms in the nation have increasingly focused on the energy, agriculture, and water sectors. It is in these policy areas that the climate-related impacts of their interventions are most visible.



THE WORLD BANK



POLICY FRAMEWORK AND
PACKAGE OF INCENTIVES
FOR PRIVATE SECTOR
POWER GENERATION PROJECTS
IN PAKISTAN

MARCH 1994

GOVERNMENT OF PAKISTAN



TRACING PAKISTAN'S CLIMATE AND DEVELOPMENTAL TRAJECTORY THROUGH A GENEALOGY OF KEY IFI OPERATIONS IN THE ENERGY AND WATER SECTORS.

1960

The WBG brokers the Indus Water Treaty, and fronts \$80m in loans to set up the Indus Basin Development Fund (IBDF) which it will administer, instituting a system of irrigation and power production based on an engineering concept of 'link canals' from a network of earth filled storage dams.

1968

The WBG proposes a large dam on the Indus at Tarbela, extensive networks of hydraulic infrastructures on Jhelum river, and publishes a comprehensive study on Water and Power Resources in Pakistan.

1986

The WBG provides technical assistance to the Pakistani government advising a power generation system built around gas and hydroelectric sources.

1988

Pakistan receives an IMF loan prescribing subsidy reform resulting in a sharp rise in poverty levels.

1991

WBG funds the Private Sector Energy Development Project (PSEDP) advising the establishment of private thermal independent power producers on cost plus regime.

1994

HUBCO oil is set up with WBG support on terms guaranteeing a record-high rate of return. It immediately suffers cost overruns of \$500m. HUBCO became the largest IPP in Pakistan and went on to become a key owner/investor in Thar Coal power projects.

1995

WBG funds 12 fossil fuel-based IPPs under the WB inspired 1994 Power Policy.

1996

The WBG and Asian Development Bank fund \$350m and \$300m respectively for the 1450MW Ghazi Barotha Hydropower project on the river Indus.

1997

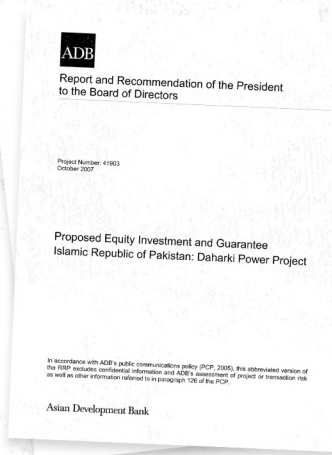
Asian Development Bank (ADB) funds several fossil fuels-based IPPs. ADB Technical Assistance recommends private hydro and gas imports. WBG introduces the National Drainage Program to address declining productivity of agricultural lands. It funds the ill-fated Left Bank Outfall Drain (LBOD) project linked to increased flooding risks in areas of Sindh. The project was later the subject of an Inspection Panel complaint.

1998

Power Policy was introduced, heavily influenced by ADB and WBG.

2001

ADB Loan 1807/1808 & 1809 for power sector reforms are linked to WBG and IMF structural adjustments.



2007

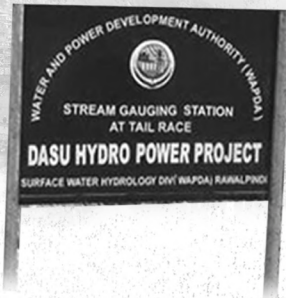
The Asian Development Bank (ADB) approves equity investment of \$2.75 million in Daharki Power Holdings Limited (DPHL) for a private gas-fired power plant and provides guarantee in the principal amount of up to \$44 million plus interest for the lenders to DPH.

2008

Fauji power and gas field developed through an ADB funded oil and gas development project.

2011

WBG invests another \$1.8bn in large hydropower including extensions to Tarbela and Dasu hydropower projects.



2015

the World Bank's private sector arm, the International Finance Corporation (IFC) invests \$75m in equity plus a \$150m in private loans to Habib Bank. Habib then goes on to invest equity and provide debt finance to five coal projects in Thar.

2019

Board approval of the arrangement between the IMF and the Pakistani government under the Extended Fund Facility (EFF).

2021

WBG's Board approval of the Pakistan Program for Affordable and Clean Energy (PACE) under a Development Policy Financing, together with other programmes like RISE and SHIFT.



2022

Publication of the WBG's Country Climate and Development report (CCDR)

2023

Arrangement under the EFF interrupted, replaced by a 9-month Stand by Arrangement (SBA).

2.1. World Bank

In this section we report on two of the World Bank's most recent interventions on climate policy in Pakistan: The Program for Affordable and Clean Energy (PACE) – a development policy finance (DPF) loan – and the CCDR. We analyse systemic shortcomings in the WBG's attempt to respond to the crisis of an expensive and polluting generation mix and trace these failures to inadequate climate analytics, faulty developmental assumptions, and inherent limitations of the DPF tool. We then assess Pakistan's CCDR and evaluate its approach to the climate and development question and report on the consultative practices followed in its preparation.

2.1.1. PACE:

Context and rationale

Launched in 2019 as the flagship DPF project to anchor Pakistan's transition away from expensive fossil fuels and towards cheap and clean energy, the \$800m PACE programme was part of three connected World Bank DPF operations: the Resilient Institutions for Sustainable Economy (RISE) program (meant to improve fiscal management and competitiveness), the Securing Human Investment to Foster Transformation (SHIFT) program (which looked to accelerate human capital accumulation), and PACE itself which sought to decarbonize generation and return the power sector to financial viability. The Bank envisioned reforms under PACE, RISE, and SHIFT as a collective strategy to help Pakistan break out of boom-and-bust macroeconomic cycles and chart a path to sustainable growth (Recourse, 2021). The World Bank's 2021 Retrospective on its DPF operations hails the PACE Programme as an "example of a DPF with climate-related reforms" (WBG, 2022a).

Reforms under PACE were conceived as an attempt to address serious structural problems that had been dogging the energy sector for over two decades. These challenges included high generation costs, a vicious circular debt problem, reliance on expensive imported fuels, costly electricity subsidies, inefficient distribution and transmission systems, non-optimal electricity pricing, and a carbon-intensive generation fleet (WBG, 2021b, p.4). PACE introduces itself as explicitly designed to address these problems and oversee the energy transition in a manner "complementary to the IMF and ADB sector program." The PACE programme mandates a wide range of prior action reforms focusing on "power cost reduction, electricity subsidy reform, and bringing in private participation" (WBG, 2021, p.4).

What explains this laundry list of serious problems plaguing Pakistan's power sector?

In 1988 the Private Sector Energy Development Project (PSED) loan programme was developed by the WBG to assist Pakistan in mobilising resources from the private

sector to increase generation and meet supply deficits. The programme advised the Government Of Pakistan (GOP) to establish a brand new institutional framework for facilitating private sector participation, prescribing a number of incentives to encourage private investments “on a sustainable basis” (WBG, 2001). Under the programme, the World Bank and various governments and international donor agencies provided loans and set up a fund to support the privatisation of generation through heavy investments in fossil fuel-based Independent Power Producers (IPPs).

The decision to attract fuel based IPPs culminated in Pakistan’s ill-fated 1994 private power policy. The WBG recognises its influence in the process: “During the negotiation for the Hub Project (the sole subproject financed under PSEDP I) and the preparation of PSEDP II, the Government recognized the need to fine-tune the incentive framework to take into account the feedback received from private investors and the international financial community. Refinements in the framework were also needed to make Pakistan internationally competitive in attracting financial resources, and to integrate these measures with the actions taken by the Government to deregulate the economy and increase reliance on the private sector. The result was a new policy for private power (“Policy Framework and Package of Incentives for Private Sector Power Generation Projects in Pakistan”), promulgated in March 1994” (WBG, 2001, p.3-4).

The 1994 policy introduced a cost-plus method to set electricity tariffs offering a lucrative tariff and incentives package to prospective investors. These incentives included up to 30-year-long contracts, unprecedented concessions in taxes and levies, a foreign exchange risk insurance mechanism, penalties on late payments by the power purchaser, and a bulk power tariff system built around front-loaded tariff structures, high-capacity charges backed by sovereign guarantees and payable irrespective of power off-take (often referred to as the “take or pay” power purchase model) (WBG, 2001). The new policy environment opened the door for a barrage of private profiteering resulting in the growth of a massive IPP fleet consisting entirely of thermal power plants based on furnace oil, high-speed diesel (HSD), and natural gas. In under a decade, Pakistan was facing a crisis of skyrocketing power prices, over-capacity, circular debt, and rising GHG emissions (Fraser, 2005).

Under the 1994 policy, over 4100MW of capacity was added by 16 fuel-based IPPs – as against the anticipated need of 1500 MW (WBG, 2001). By 1998, the power sector registered a surplus capacity of nearly 2000 MW (MEED, 1998). The IPPs collectively raked in profits in excess of Rs. 400bn as against investments of just Rs. 51bn (PIDE, 2022). The shift also locked in fossil fuel reliance. In 1994 the total installed capacity was 11,000MW with hydel accounting for 60% and thermal and nuclear power plants 40%. This ratio reversed with thermal plants based on imported fuels now accounting for over 70% of the generation mix (Hussain, 2017).

The PSEDP model was quickly embraced as economic orthodoxy with the privatisation-led strategy shaping subsequent developments in the power sector. The 1638MW KAPCO gas plant – a public-sector power project – was converted into a private IPP in keeping with the 1994 policy. The 2002 power policy saw the addition of another 3267 MW from 15 thermal IPPs (PIDE, 2022).

The IPPs power purchase agreements (PPA) and implementation agreements (IA) devised under these policies obligated the then publicly owned distributing companies WAPDA and KESC to purchase power from the IPPs on onerous terms. At the time, the power purchase price agreed upon between the GOP and the IPPs was almost twice KESC's thermal generation price and four times WAPDA's average hydro-thermal generation (SDPI, 2012). These payments escalated further owing to the exposure to volatile international oil markets and currency exchange rates, capacity payments, and the onerous front-loaded tariff structure of the PPAs. In the case of KESC for instance, by the year 2000, fuel-based IPP costs had increased from Rs 128.26/KWh to Rs 329.78/KWh and accounted for 46.4% of the company's operating revenues. The company's outstanding debts during this period are telling: \$308m in fuel and power purchase arrears and \$71 million in loan arrears (SDPI, 2012). Similar impacts were observed in WAPDA's financial profile during this period. These trends locked in Pakistan's reliance on imported fossil fuels and effectively cemented the circular debt problem.

To make matters worse, Pakistan was saddled by numerous loan-related liabilities tied to the extensive institutional restructuring of the power sector that accompanied the shift to private production. Supported by the WBG and the ADB, this restructuring included the unbundling of WAPDA, the privatisation of state-owned electricity distribution companies, and a push towards deregulation designed to liberalise Pakistan's energy markets.

The advice reflected a joint strategy between the ADB, the WBG, and the IMF with the privatisation drive made an 'essential component' of IMF reforms for "macroeconomic stabilisation" under a 1999 loan agreement (Haider, 2020). The case of KESC's privatisation is instructive in this regard. In 2005 under the joint MDB strategy, KESC (now KE) was privatised with majority holdings transferred to a Saudi consortium. Borrowings of \$71m were made for the resultant power purchases and an additional \$1 million in technical assistance costs. The World Bank and the IFC lent the KESC \$375m to help the process. In the decade following the privatisation however, the cost of electricity in KESC's service area surged from Rs. 4.58/kWh to Rs. 15.5/kWh (Haider, 2020).

The crippling economic effects of the WBG's policy frameworks driving these developments are still being felt in Pakistan's energy sector. In 2022 for instance, the

utilisation factor of 30,303 MW thermal power plants on the legacy take-or-pay contracts was only 46%, with consumers burdened by capacity payments for the remaining unutilized 54% (NEPRA, 2022). In 2023 alone, the capacity payments under these contracts rose to a staggering Rs 1.3 trillion (Profit Pakistan Today, 2023). Of the nearly 2.5 trillion in circular debt in the power sector, these legacy contracts account for the lion's share. Current debates on fixing the power sector's woes have therefore generally converged on the need for re-structuring IPP contracts as a necessary step to restoring financial viability to the sector.

The WBG was later forced to acknowledge its hand in precipitating this colossal failure in energy planning. As early as 2001, it admitted a number of errors on its part, with the PSEDP programme receiving a grade of unsatisfactory across all performance metrics in its Implementation Completion Report (2001). The Report criticised the WBG's preparation of PSEDP 1 and 2 noting that adequate thought was not given to the "long-term sustainability of the approach and its future" (WBG, 2001). It went on to note that "insufficient attention was devoted during the appraisal of PSEDP 2 to the affordability of private power in Pakistan" (WBG, 2001). The report also recognized the flawed nature of the WBG's advice to the Pakistani Government to offer excessive concessions such as a tariff rate that included a return on equity of 25 percent after tax. A more recent WBG report admits to similar failures in the strategies for privatising state-owned distribution companies (Hamza, 2019).

The severity of these errors was compounded by the WBG's extensive involvement in the overall development of the IPP sector. Aside from its decisive role in establishing the policy frameworks through technical advice and loan conditionalities, the WBG also provided important market stimulus by facilitating investments in the IPPs and serving as a 'broker' and 'promoter' representing sponsors, lenders, and governments all at once. While its direct investments were limited to about 20% of the IPP capacity, the WBG was involved in up to 88% of the sector through indirect channels (Fraser, 2005). The International Bank of Reconstruction and Development (IBRD), for instance, gave risk guarantees to Hub Power Company (HUBCO)⁴ for \$137m and Uch Power Ltd⁵ for \$75m, respectively. The International Finance Corporation (IFC) also provided loans to five different projects amounting to about \$378m (Fraser, 2005). Uch Power alone received IFC loans of \$100m. The latter ran into cost overruns of another \$100 million also covered by the WBG. Ultimately, the WBG's own review of the PSEDP programme found that its oversized involvement "went far beyond what was prudent for a development banker," introducing significant "conflicts of interest" (WBG, 2001).

⁴ The Hub Power Company (HUBCO) was the largest private sector power generation venture in Asia (Fraser, 2005).

⁵ Third largest IPP by capacity in 2002 (Fraser, 2005)

Repeating mistakes?

A complete diagnostic study of this historical failure ought to have served as a point of reference for designing the PACE program. The program document, however, makes no attempt to investigate the root causes of the entrenchment of expensive carbon intensive private projects in the first place. The PACE document includes only a cursory reference to the error of encouraging fossil fuel IPPs, bemoaning the “uncompetitive nature of power procurement” and lamenting the “high risk premia and de-risking incentives” that were put in place to attract private investments under those policies (WBG, 2021b). However, it places the blame of these choices squarely on the Government of Pakistan (GOP), omitting any mention of the WBG’s own complicity in pushing those policy reforms. In particular, neither PACE nor the Implementation Report undertake any critical study for identifying shortcomings in the underlying analytic assumptions and macro-economic vision that had guided the Bank’s previous choices.

The \$800 million PACE loan was divided into two tranches: the first \$400 million tranche of the PACE program sought to reduce power generation costs and green the energy mix through the use of several prior action conditions. Key amongst them are the Pakistani government’s commitments to transition to 66% generation from renewables by 2030 through the adoption of a least cost generation plan (IGCEP) and the formation of a national electric policy (NEP), intended to prioritise private investments in renewables through competitive bidding (WBG, 2021b). The PACE program, therefore promoted energy privatisation as the go-to strategy for green and cheap generation, placing a high premium on technocratic least cost analysis and competitive bidding for integrating renewables. The program envisioned all RE targets for this plan to be informed by Pakistan’s Alternative Renewable Energy Policy 2019 and the Bank’s own Variable Renewable Energy Integration and Planning Study.

The subsequent least cost generation plan (IGCEP 2021) however, failed to provide an optimal trajectory for affordable and clean capacity additions with substantial non-renewable sources pushed through as “pre-committed” projects. As a result, the installed generation mix by 2030 (base scenario) came to be dominated by large hydropower and fossil fuels, with additions of around 8.5 GW of coal, and 10 GW of LNG and Gas, and a massive ontake of over 23 GW in large hydropower (National Transmission and Distribution Company, 2021, p. xx).

This preference for dirty fossil fuels and risky hydropower came at the cost of green technologies (solar, wind, bagasse, and hybrids) which were allocated a meagre 16% share in the mix (National Transmission and Distribution Company, 2021). The planned mix ended up not only contravening the 30% minimum Variable Renewable Energy (VRE) share prescribed by Pakistan’s 2019 Alternative and Renewable Policy (ARE), but

also fell well short of the 35% share recommended by the Bank's own Variable Renewable Energy Integration and Planning Study (NEPRA, 2020; WBG, 2020).

What explains this counter productive outcome? Part of the answer lies in the excessively bureaucratic and impositional logic of the DPF as an instrument of lending. In August 2021, under immense pressure to meet loan obligations under PACE, Pakistan's Cabinet Committee on Energy (CCoE) and electric power regulator NEPRA gave a hasty approval to what was already a controversial proposal for the Indicative Generation Capacity Expansion Plan, 2021-2030 (IGCEP) (National Transmission and Distribution Company, 2021). This was largely as a result of a hurried process with WBG prior action timelines ousting the role of local planners, regulators, and civil society experts from shaping the plan according to the original policy intent.

A much needed collaborative and inclusive process for determining a least cost plan was effectively interrupted because of conditionality timelines. Consequently, a fatally flawed plan that had received insufficient deliberation was rubber stamped and bulldozed through in a frantic bid to secure the Bank's funds in order to reverse an economic crisis of the Bank's own making.

The World Bank's obsession with hydropower

The failure of the least cost plan can be traced back to contradictory features built into the very design of PACE's conditionality clauses. The case of hydropower exemplifies this contradictory design. Despite hydropower's express exclusion from Pakistan's ARE policy, PACE's prior action clause wrongly categorises it as a renewable energy (RE) source. Prior Action DPFI-3 specified that loan monies were to be disbursed only after "NTDC has developed and submitted to NEPRA a least cost generation plan based on criteria approved by the Cabinet, which includes 63 percent of renewable energy" (WBG, 2021b). PACE's conditionality further required the regulator NEPRA to approve a least-cost plan in a manner that meets requirements for an increased share of variable renewable energy in the generation mix.

These minimum requirements and guidelines for what qualifies as an RE source are detailed in Pakistan's ARE Policy which PACE's programme document identifies as one of the "analytical underpinnings" of the proposed reforms. The ARE policy specifies a 30% mandatory minimum capacity share for RE by 2030. It defines RE as solar, wind, and/or bagasse and expressly excludes hydropower (both large and small) from the definition of renewables (NEPRA, 2020). The PACE programme document, however, blatantly misrepresents the ARE policy boldly declaring that "The RE Policy stipulates that the major expansion of installed generation capacity over the next 10 years should be from RE (solar, wind, hydropower, and bagasse)" (WBG, 2021b, p.19). As a result, large hydropower came to dominate the planned mix under the guise of a "renewable" – an outcome completely inconsistent with local policy.

A dangerous approach to hydropower

An ecologically and socially responsible approach to hydropower is central to a just energy transition for Pakistan and remains a key aspect of the country's climate adaptation strategies. Beyond well-known problems of construction delays and cost overruns associated with large hydel, hydropower projects also incur massive social and environmental costs. These include mass displacements, loss of livelihood, greenhouse gas emissions, coastal erosion, and irreversible ecological impacts on lower riparian regions (World Commission on Dams, 2000).

The WBG-supported Tarbela dam for instance has been linked to water shortage in Pakistan. It has also perennially suffered from siltation problems with ecological impacts threatening the mangrove population and contributing to sea intrusion that has resulted in an estimated two million acres of land lost to sea (BR Research, 2019). The project also submerged around 120 villages resulting in large-scale displacement of around 96, 000 locals. The vast majority of those who lost their homes and livelihoods to the dam's reservoir are still suffering to this day. (Geary, 2017).

Of this long list of climate risks, the PACE programme offers only a passing reference to biodiversity impacts and directly addresses just one – displacement – which it claims to mitigate by planning the land acquisition and resettlement as a development opportunity for the affected people during individual project planning, design, and implementation (WBG, 2021b). Beyond the odd labelling of an event as traumatic as forced displacement as a “development opportunity,” the PACE programme in fact offers no concrete safeguards or mechanisms for the intended resettlement.⁶ The WBG also fails to provide for relevant protective safeguards under any of its other related DPF programs. Recent research by Coventry University (2023) concludes that “half a century of evidence shows, indisputably, that displacement causes social, economic and environmental harm, and that it cannot be mitigated by resettlement.”

This treatment of hydropower reveals inherent limitations in the WBG's analytic framing of “climate change” which is conceptualised in fragmented, narrowly technocratic, and overly abstractive ways. The anticipated climate impacts of the programme in fact receive no systematic attention beyond a reference to the mitigatory “climate co-benefits” of reduced GHG emission resulting from a shift towards “low carbon technologies” (i.e., hydropower and renewables.) The PACE document makes no attempt to analyse either the systemic risks to the energy system or the climate impacts of its proposed conditionalities.

A true costing of hydropower and the interactive effects of climate change on water flows and their impact on a hydro reliant energy system are entirely missing from the

⁶ PACE does make a vague reference to environmental risks from hydropower being “mitigated through the WB and other donors' support for the investment projects which incorporates international good practice and includes technical assistance to build capacity, strengthen government policies and legislation for environmental and social management.” However, it neglects to offer specific safeguards and makes any mitigation measures contingent on its own involvement in specific projects rather than a precondition for the hydropower related capacity expansions it recommends.

analysis. Recent studies have since exposed the short-sighted nature of such a methodological approach. For instance, adjusting for debt servicing, cost overruns, and delays reveals hydropower to be one of the costliest options (Isaad, 2022). PACE's prior action conditions on the other hand effectively make the on boarding of hydro projects all but mandatory.

Studies have also shown that when transmission system constraints are factored in, an increased hydro reliance threatens the reliability of supply, increasing thermal reliance in turn. Given Pakistan's present energy system limitations, hydropower's seasonal variability could for instance entail delays encouraging the dispatch for Gas and Local Coal and forcing payments to swell by more than PKR 70bn in FY 2024 (LUMS, 2022).

The WBG's conceptual framing of the climate challenge therefore glosses over the system-wide interactive effects of various energy choices leaving no room for an informed analysis of the relationship between climate vulnerability and broader developmental infrastructures and policy paradigms. Similarly, there is no reference to the climate-averse role of hydraulic infrastructures – a long-favoured strategy for agricultural and power sector development promoted by the IFIs (Hayat, 2022). These developmental interventions stand fully implicated in the destruction of the Indus River delta and the multiple flooding disasters experienced by Pakistan in the last quarter century (Otto et al., 2023).

The Report of the Flood Inquiry commissioned by Pakistan's Supreme Court to investigate the devastating 2010 floods, found that rather than a result of an extreme weather event, the majority of flood-related losses and damages were, in fact, attributable to “dam and barrage-related backwater effects, reduced water and sediment conveyance capacity, and multiple failures of irrigation system levees” (Flood Inquiry Commission, 2011). Some of the dangers associated with dams and other hydraulic projects are well established in studies by the World Commission on Dams (WCD) set up in 1997 by the World Bank itself. Despite being fully aware of the long-term dangers of hydropower projects, through the PACE loan, the WBG effectively peddled the dangerous trope that hydropower is “green” energy.

Box 3: How a World Bank Loan Program can destabilise national strategies for coordinating climate adaptation

These multiple analytic failures preface another historic casualty of IFI operations in Pakistan – namely ‘interprovincial harmony.’ Pakistan’s constitution treats electricity as a special subject to be regulated by a separate interprovincial body – the Council of Common Interests (CCI)⁷. At the time the ARE Policy was under deliberation, the then Federal Minister for Energy had attempted to include hydro in the RE category as part of a targeted RE share of 60% of power generation by 2030. The resultant dialogue within the CCI, however, saw a strong opposition to this choice, mainly on account of hydro’s ecologically disastrous history and its role in increasing the climate vulnerability of Sindh, one of Pakistan’s main provinces.

The PACE program document omits any reference to this context, merely requiring a least cost plan to be developed based on assumptions criteria ratified by the Cabinet (a federal office).⁸ This ad-hoc, contradictory and top-down approach eventually compromised inter-provincial harmony, with Sindh’s grievances with the decision-making process making national headlines (Kiani, 2021b).

In a letter to the regulator titled “Dissenting Note on the IGCEP” the Government of Sindh expressed concerns regarding the effect of “ignoring cheaper electricity options of renewable energy such as wind and solar” and strongly protested the backdoor change in RE definitions by a Federal Ministry in order to make room for hydropower circumventing the CCI’s role in the process. The letter demonstrates how design flaws and on ground impacts of the PACE programme ended up destabilising a hard-won interprovincial consensus on the definitions of renewables and planning strategies for a just energy transition. The mechanics of DPF lending ended up undercutting the existing constitutional and democratic process related to energy and climate planning. Under pressure to meet the 66% target for renewables (defined by the WBG as including hydropower), large hydropower projects were eventually forced into the mix, without adequate consensus-building dialogue, preparatory impact assessments, or the development of adequate mitigation strategies.

⁷ The CCI resolves the disputes related to power sharing between the federation and its provinces. Under Article 154 of the Constitution of Pakistan, it is also designated the relevant body for “formulating and regulating policies” in relation to electricity. Likewise, under Article 155, it is the recognized body for dealing with disputes related to water sharing.

⁸ PACE fundamentally misunderstands the constitutional framework on energy planning. In particular, its conditionality undermines the role of the CCI as the relevant body for settling inter-provincial coordination. The programme document states that “Consensus between Federal and Provincial governments is needed for finalisation and acceptance of the LCGP. The NTDC in FY20 for the first time produced a comprehensive least-cost generation expansion plan (IGCEP). This plan was, however, not approved in 2020 by the regulator NEPRA due to conflicts regarding how to include pipeline generation projects promoted by Provincial governments. The MoE has held extensive consultations with Provinces during FY21, which led to the Cabinet decision in April 2021 on defined assumptions and criteria for the computation of IGCEP (PA DPFI-3). The agreed assumptions and criteria will enable approval of IGCEP by NEPRA, which has representatives from all provinces.” However, neither the ministry of energy, nor NEPRA is the constitutionally relevant body for the purposes of developing interprovincial consensus – especially on matters related to electricity and water supply – which is the exclusive purview of the CCI.

2.1.2. Country Climate and Development Report (CCDR)

Published by the WBG in the immediate aftermath of the 2022 floods, Pakistan's CCDR is set to become the single most influential report shaping the future trajectory of climate planning in the nation. This section of the report analyses the CCDR's scope and conceptual framing of climate and development, and then turns to the methodology and process of its preparation, and finally assesses some implications of its proposed climate reforms.

Flawed Framing of the Climate and Development Relationship

Pakistan's CCDR opens with the weighty declaration that “climate action is the most important priority for the government and people of Pakistan today” (WBG, 2022b, p.viii):

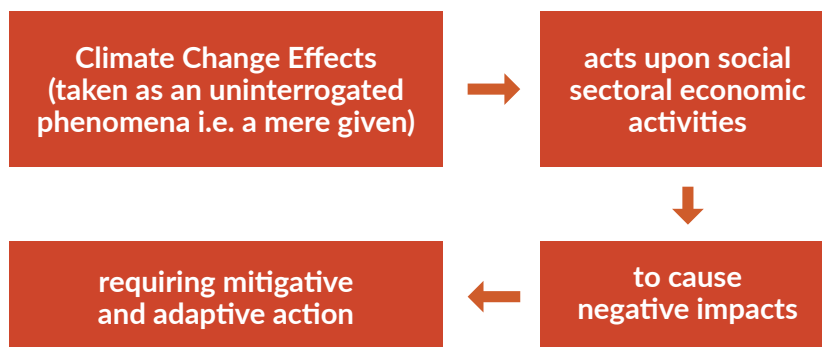
“Action is essential—and urgently so. It will require firm, clear decisions from the government and the engagement of the entire national population in the effort to turn the situation around. Pakistan needs to act on the recommendations of this report to “build back better” and undertake the transformation of the key sectors identified.”

The CCDR then goes on to chide the GOP for its hitherto injudicious approach to reforms, announcing that climate-compatible reforms “will require the government to make smart but tough decisions, even within its limited fiscal space, and create an enabling environment to raise revenue while also attracting further international finance” (WBG, 2022b). The CCDR insists on the need for an “accountability of government service providers” declaring that “Pakistan must also act to correct the structural inequalities and inefficiencies in its systems, institutions, practices, and policies, that have been holding the country back from achieving its vision of equitable and sustainable growth for all” (WBG, 2022b).

However, in a near mirror image replay of the approach taken with PACE, the CCDR completely skips over the diagnostic task of clarifying the historical sources of Pakistan's elevated climate risks. A read through the 80-page document reveals this shortcoming in scope and methodology: the report is primarily focused on ‘what’ the climate risks are and how to quantify their impacts —the more important question of ‘why’ those risks exist and how not to repeat historical errors is conspicuous in its absence. In its opening section on climate and development, the CCDR's overwhelming focus remains on the problems of “macro-fiscal fragility” revolving around the standard litany of factors singled out in most IFI-led reforms: Poverty, low investor confidence, fiscal expenditures, and excessive subsidies, poor revenue collection, etc.

The CCDR’s discussion of growth, equity, and the financial implications of climate risks in chapter 2, discloses the limitation of this methodological focus. The CCDR attempts to assess the economy-wide impacts of damage induced by climate-related extreme events. Here the entire focus is on how ‘climate change phenomena’, such as global warming and extreme droughts can affect economic activity resulting in “lost economic growth, worsening poverty and longer-term threats to human capital and productivity” (WBG, 2022b). The WBG employs two macro models to carry out this assessment: The MFMod and E3ME – both of which chart climate impacts modelling three scenarios of precipitation and temperature severity: Optimistic-wet, intermediate-dry, and pessimistic-hot. Impacts on labour productivity, GDP, household poverty, water insecurity, and crop yield for the three scenarios are then mapped. The modelling exercise however, is a one-way-street. Neither of the two models are designed to chart the interplay and impact of specific policy frameworks of economic development or developmental infrastructures on elevating or decreasing climate risks.

The modelling exercise therefore reduces climate analytics to a formulaic account of the impact of a variable (climate-change related weather events) on a pre-given set of fiscal markers, without any evaluation or analysis of the role of historical developmental choices and approaches in causing or exacerbating climate change in the first place. The analysis is therefore non-diagnostic and unilinear:



This conceptualisation reduces climate risk analysis to a surface level account of how specific weather change scenarios can impact economic and developmental activity without attention to the interactive relationship between developmental choices and climate change impacts.

For instance, the report opines that “Pakistan ranks among the top 10 countries in the world most impacted by the loss of biodiversity and ecosystem services (BES)” and goes on to identify a list of contributory factors including “loss of vegetation cover has exacerbated soil degradation and diminished its water retention capacity; unmanaged grazing has put stress on rangelands; the expansion of crop areas has destroyed ecosystem services and its ability to mitigate floods; and the excessive use of chemical

fertilisers and pesticides has damaged soil fertility and biodiversity and contaminated groundwater” (WBG, 2022b, p.4). It then notes that “All of these issues are compounded by extremely high levels of environmental pollution due to a lack of waste management infrastructure, unplanned urban sprawl, and unchecked pollution from industrial processes” (WBG, 2022b, p.4). Finally, it notes that “As a result, Pakistan's high pollution levels exerts a significant drag on human health and economic performance equivalent to approximately 10% of GDP” (WBG, 2022b, p.4).

This weak approach to the real causes of the problem combined with an obsession with productivity metrics reduces the climate challenge to an issue of managing and mitigating existing economic practices rather than undertaking a rigorous, fully informed, and evidence based interrogation of the underlying paradigms of growth and development responsible for entrenching them in the first place. As with PACE, the report is silent on the WBG's role in promoting these developmental paradigms over the decades.

Similarly, the report identifies the reduced availability of water and longer more frequent droughts as an effect of the more intensified periodic heatwaves. It warns that “Climate change and deposits of anthropogenic black carbon (BC)” will “hasten the melting of the Himalaya, Hindu Kush, and Karakorum (HKHK) glaciers, leading to changes in the flow of the vital Indus River system and seriously affecting Pakistan's economy and ecology.” An increasingly variable monsoon regime and more intense storm and cyclone events are also cited as risk factors for floods and landslides and sea-level rises will cause the ocean to “encroach on coastal settlements and infrastructure and commit low-lying coastal ecosystems to submergence and loss.”

At no point, however, does the report question the anthropogenic activities and underlying developmental practices governing the unsustainable approaches to growth in the water and agricultural sectors that are tied to these negative climate outcomes.

In particular, the WBG and ADB's support for large-scale hydraulic infrastructures on the Indus River system receives no mention at all. Aside from the ecological impacts discussed earlier, the water projects pushed by the WBG and ADB are also tied to several cross-sectoral knock-on effects compromising water security, interprovincial harmony, land use, and food security.

According to the World Commission on Dams, for instance, 20% of the earth's land irrigated by large dams has been lost to salinization and waterlogging which in turn affects crop yields and soil qualities. There has been no attempt to study this connection in the CCDR. The exacerbation of water scarcity for lower riparian communities also remains unstudied. The effects of Tarbela and associated barrages

are monumental in this regard– the diversions for irrigation and water supply in the upper riparian areas have meant that only 21% of the historical dry season flow of the Indus reaches the delta (World Commission on Dams, 2000).

Large dams are also linked to sediment loss in the delta and coastal water intrusions which can compromise mangroves and local fish populations. Recent data shows that the extensive damming has led to a progressive shrinking of the Indus delta due to sediment loss which is now a primary cause of sea level rise (ADB, 2017). Aside from the geomorphic changes to the delta and coast and associated biodiversity losses, these effects also carry extensive social impacts. The rapid ecological changes to the river, coastal, and delta systems have forced a number of fisherfolk communities to abandon traditional livelihood practices and disperse inland leaving them more vulnerable to perpetual displacement and hotter weather⁹. These connections remain unexplored by the CCDR.

The WBG's response to these negative externalities has generally been to prescribe more of the same developmental programs and failed policies. Its flagship Left Bank Outfall Drain (LBOD) project (see box set below) is a good example of the cure proving worse than the disease.

Failures of Methodology and the Consultation Process

In large part, these counterproductive outcomes and analytic shortcomings come down to an excessively insular approach to knowledge in a post-climate change world. The CCDR claims to provide a “strong analytical base at the global and country level” in order to “address the interplay between climate and development” (WBG, 2022b). It also claims to “build on data and rigorous research to identify concrete, priority actions to support the low-carbon, resilient transitions”. However, there is no discussion on the appropriate methodologies or knowledge sources needed for this task in either the Climate Change Policy or the CCDR documents. It appears that the WBG undertook no attempt to analyse the suitability of its existing disciplinary and methodological expertise in tackling the climate question. More telling is the absence of any engagement with local knowledge and experience among climate-affected communities in Pakistan.

The WBG rhetoric on the CCDR's methodology celebrates the ‘participatory’ nature of its process. The WBG claims that the CCDRs are based on extensive engagements with “multiple audiences” including academics, CSOs, and NGOs. It also insists that the “CCDRs are deliberate about centering people and communities in their approach” (WBG, 2023c).

Local CSO experiences with the Pakistan CCDR, however, belies these claims. Over the course of consultations, the WBG received multiple inputs from representatives of

⁹ Interview with members of the Pakistan Fisherfolk Forum.

several climate-affected communities – including communities based in the flood-hit delta of Sindh, fisher folk in lower riparian regions, affectees of failed canal projects in the Waseb, and affectees of Thar Coal amongst others. A coalition of over 20 CSOs raised a number of shared concerns in writing. This input was unanimous in questioning the limitation in scope, analytic framing, and data sourcing of the CCDR (ACJCE, 2022). None of this feedback, however, found a place in the final report.

As earlier noted, this lacuna relates directly to the non-transparent and narrowly technocratic nature of the WBG’s analytic and operational practices, in particular the WBG’s consultation practices. Rather than viewing consultations as a process of necessary deliberation for discovering just, and meaningful pathways to climate action that are representative of the interests of local stakeholders, the Bank has tended to approach them as tick-box formalities. As with its preparation of data sources, and analytic methodologies, its incorporation of feedback remains opaque and selective. Climate change as a phenomenon is inherently unsuited to top-down analytic or prescriptive processes and without a larger more inclusive table representative of other important stakeholders – especially affected communities.

This top-down and insular approach of the WBG is also reflected in the CCDR’s calls for strengthening NbS (nature-based solutions). The WBG conceptualises NbS as a local community-based solution for climate resilience but neglects to study the local community and ecology-based adaptive cultures that pre-exist the WBG’s own interventions and have historically managed natural resources successfully. Examples of such indigenous practices include the communally administered “rowed kohi” system of irrigation in the Koh-e-Suleman range – a practice locally recognized as an effective method for regulating the impacts of flash floods in the rainy season (ALC, 2005). Typically, it is these very cultural practices that IFI projects have helped dismantle over years of failed infrastructural intervention.

The failure to engage these local resources to draw on their values, wisdom, and problem-solving approaches ultimately compromises the WBG’s ability to develop a systematic, reliable, and locally informed approach to adaptive action. Like PACE, the CCDR makes no concrete recommendations for adequate land protections, appropriate compensation, resettlement, and rehabilitation, or measures for rationalising the quantum and type of land acquired for public projects.

Box 4: **Left Bank Outfall Drainage (LBOD) project**

The WBG's 1997 Left Bank Outfall Drainage (LBOD) project illustrates the dangers of limitations in the WBG's consultative practices. The notorious LBOD project, was part of a larger National Drainage Program (NDP) introduced as the World Bank's flagship modern solution to Pakistan's irrigation and agricultural sector problems. Launched in 1997, the partly funded by the International Development Association (IDA, WBG's arm focused on lower income countries) NDP consisted of a combination of infrastructure investment, institutional reform, and sectoral research and planning meant to address the longstanding problems of waterlogging, salinity and pesticide leaching in the Indus Basin. The LBOD involved a northward extension of concrete drainage infrastructure to facilitate the flow of effluent water into the sea. The border NDP programme was approved with an estimated cost of \$785m, with a World Bank share of \$285m.

The LBOD has since been implicated in a series of devastating floods in Badin, Sajawal and other areas in Sindh for more than two decades. Residents were hit severely during the rains of 2003 and again in 2008, 2010, and 2014. The impacts of its by now famous design flaws has left thousands homeless and led to damages and losses estimated in billions. During the 2022 floods, the LBOD made headlines once again as a key stress factor exacerbating the disaster (Ameen et al., 2023). This massively flawed project effectively dismantled the natural hydrology, habitats, and socio-cultural ecology of the entire region in one fell swoop. The fall out has left the region permanently vulnerable to flooding, food crises, and ecological destitution. The astounding failures of this project are a well-known historical fact – extensively documented by Pakistani civil society, academia, and policy experts alike (Ameen et al., 2023).

The LBOD was also made the subject of investigation by the WBG's own Inspection Panel which was eventually forced to admit a number of design failures and acknowledge the WBG's responsibility. The panel found (Inspection Panel, 2006):

- “substantial inherent risks” in the project design noting that construction had gone ahead “without adequate provisions to minimize the risks that the structures would give way” , a failure that was tied to heightened flooding risks for the locals of Badin;
- that the project had caused “major harm to the indigenous dhands ecosystem, wildlife and fisheries, upon which many people depend for their livelihoods” along with “serious problems of drinking water and a loss in grazing lands.” It went on to say that it was “technically and environmentally risky”, noting that “the overall morphology of the region is being changed.”;

- At the conclusion of the inspection panel investigation, the World Bank President Paul Wolfowitz promised that the WBG's "future work will be strengthened by the lessons learned from the LBOD and NDP projects".

It is worth examining how central the absence of a meaningful and effective consultation process was to the failure of the LBOD project. At the time the project was being put into motion, several CSOs and local community-based groups had raised concerns, writing to the WBG and organising peaceful protests to call attention to what they recognised as serious flaws in the proposed project. Drawing on their local knowledge, customary practices, familiarity with the region, and cultural embeddedness in the broader socio-natural ecologies, these local voices diagnosed and predicted the very environmental and structural problems that technocrats, experts, and bureaucrats now routinely identify in the LBOD with the benefit of hindsight. These same locals had also diagnosed underlying systemic failures in the WBG's operations including:

"a serious lack of institutionalised mechanisms for information sharing and consultation with the affected people. The project planning process remained the business of few bureaucrats and donors...[was] non-transparent and hence failed to obtain informed consent since the outset..." (SACW, 2008).

For the CCDR report to be truly effective as a diagnostic exercise and as a framework for guiding future climate-responsible development, a thorough analysis of the historical interplay between the WBG's development policy finance operations, its advisory and technical assistance services, and its paradigms of development (and associated knowledge practices) and their connection to the present climate change crisis appears to be a sine qua non. Any conversation on "integrating climate change and development considerations" must begin from this place of self-reflection and accountability so that history is not condemned to repeat itself.

2.2. IMF and Climate Crisis in Pakistan: The EFF Review, SBA and Climate Conditionalities

The disruptive impacts of DPF lending observed in the case of PACE are also fully visible in the case of the IMF's \$6 Billion Extended Fund Facility (EFF) and the more recent \$3 billion Stand By Arrangement (SBA) programs. The 2019 EFF program was designed to achieve “a decisive fiscal consolidation to reduce public debt and build resilience while expanding social spending; a flexible, market-determined exchange rate to restore competitiveness and rebuild official reserves; eliminate quasi-fiscal losses in the energy sector” (IMF, 2019b). The IMF explicitly recognized Pakistan's climate vulnerability during the sixth review of the arrangement under the EFF, claiming to centre climate positive action in the program design.

Its approach to a climate-impacted Pakistan raises serious questions about whether the institution can go beyond its existing frameworks, and undertake a self-accountability process that could allow it to play a critical role in a climate resilience future. This section addresses the climate impact of the IMF's EFF review in Pakistan, and raises questions about the IMF's role in building climate resilience in Pakistan going forward.

A derailed arrangement under the Extended Fund Facility

The 2019 EFF programme was designed to achieve “a decisive fiscal consolidation to reduce public debt and build resilience while expanding social spending; a flexible, market-determined exchange rate to restore competitiveness and rebuild official reserves; eliminate quasi-fiscal losses in the energy sector” (IMF, 2019b). In the preamble for the July SBA the IMF maintains that there was ‘positive sentiment’ (IMF, 2023, p. 6) around the EFF programme until at least February 2022. The evidence belies these claims.

In January 2022, a couple of months before the 2022 floods and during the sixth review of the arrangement under the EFF, the IMF explicitly recognized Pakistan's precarious climate vulnerability. The IMF claimed that it was now centering climate-positive action in the EFF's programme design. However, under the sixth review, a number of climate-averse tax reforms were pushed through in order to meet the IMF's “prior actions” conditions to enable the release of the \$1bn tranche of the EFF loan. Instituted through a hurriedly put-together finance supplementary bill (or ‘mini budget’), these reforms were bulldozed through the National Assembly by the GOP which was under pressure to meet fiscal targets by scaling up revenue mobilisation. (Dawn, 2022).

As part of this IMF-backed budget, the GOP ended up withdrawing long-standing exemptions on renewable technologies, instituting a 20% tax on solar and wind technologies, as well as a 12% increase in sales tax for imported electric vehicles. The policy shift ended up reversing the growth in the renewables sector achieved under the previous tax regime – especially in solar power, which represented significant gains in the nation’s efforts for a transition to clean and cheap energy (Recourse, 2022). The shift was met with dismay and widespread resistance by local producers and consumers alike – especially poorer off-grid sections of the population dependent on solar panels for cheap energy.

In March 2022, in the midst of a global fossil fuel price hike linked to the Russian war in Ukraine, the Pakistan Tehreek-i-Insaf (PTI) government decided to introduce a fuel price subsidy to mitigate some of the impact on a population and economy that had been reeling from the recession since the prior actions for the 2019 EFF began to be imposed in mid-2018 and following the impact of the 2020 COVID pandemic. These stressors pushed global demand even lower leading to a decline in exports and remittances.¹⁰

While EU countries invested billions in fossil fuel subsidies to protect vulnerable consumers in the wake of these challenges, the IMF effectively refused to release the next tranche under the EFF loan citing Pakistan’s deviation from the programme reforms (Moazzem, 2022). The new package proposed by the PTI government was challenged by the IMF (Shahzad, 2022). The next month, the government was removed by the National Assembly following a no-confidence vote.

2022 floods

In the summer of 2022, barely a year into its post-COVID recovery, Pakistan was hit by the devastating floods described by many as the worst in the nation’s history. After an unusually hot spring with temperatures rising to more than 50°C in some areas, communities across the nation were already suffering from extensive livestock loss and a poor wheat yield, forest fires, and numerous health issues. The severe heat wave was then followed by record breaking rains between mid-June and late August. The lower riparian regions of Sindh and Balochistan in particular, were hit hardest with rainfall measuring up to 790% and 590% the usual monthly averages.

The flooding affected over 33 million people, destroying 1.7 million homes, and killing 1500 people and over 750,000 heads of cattle (NDMA, 2022). The scale of the damage dwarfed all initial estimates – around 6700 kilometres of road, 269 bridges, 1460 health facilities, 18590 schools and over 18000 square kilometres of cropland were destroyed (OCHA, 2022). Losses have been estimated at \$40 billion, including damages worth \$15 billion, losses to the GDP in the amount of \$15.2 billion, and rehabilitation costs of up to \$16.3 billion (Government of Pakistan et al., 2022).

¹⁰ More information on the energy subsidies question during the arrangement under the EFF can be found in Recourse (2022).

Studies have since shown a clear link between the 2022 floods and the global temperature rise. The evidence suggests that rains were 75% more intense than they would have been had the climate not warmed by 1.2C. A similar pattern of heavy rainfall is now a virtual certainty in the coming years. The data also reveals the exacerbatory role of developmental factors such as the risky Indus Basin hydraulic infrastructure, underlying vulnerabilities of poorer populations and women and children, and increased socio-economic stressors, in amplifying the negative impacts of the floods (Otto et al., 2023). Ultimately, the anthropogenic provenance of both the floods and its elevated impacts suggests that the disaster could have been avoided or minimised with more climate responsible macroeconomic policies and developmental choices.

The 2022 floods coincided with the 7th and 8th reviews of the Extended Finance Facilities (EFF). The IMF's subsequent handling of these reviews in the immediate aftermath of the humanitarian disaster, not only questions the institution's ability to provide sound climate advice, but also raises questions about its complicity in exacerbating the ongoing climate crisis. Instead of mobilising resources to support Pakistan's climate recovery, the IMF mission repeatedly pushed its traditional cocktail of austerity measures adversely impacting climate recovery. These measures included massive cuts in social spending, blanket reversals of fuel and electricity subsidies, wide ranging tax reforms, and a further weakening of the local currency.

Despite copious references to the dire impact of the 2022 floods and the adverse price effect of the war in Ukraine, the IMF Board ended up prescribing a fiscal consolidation of 2.5% of GDP for the fiscal year of 2023 through "sharp spending cuts." In 2022, the weakening exchange rate, together with the high energy and commodity prices as well as an overheating economy – all outcomes of the Fund's previous fiscal consolidation had already raised annual inflation to an 11-year high of 12.1%. Public debt had risen to more than \$200 billion – more than three-quarters of the annual GDP (WBG, 2022b).

Under the new round of fiscal consolidation in 2023, consumer price inflation shot up to a multi-decade high of 25%. Energy and food inflation ballooned to 42% and 37%. With electricity prices increasing by 47% and petrol by 74% within a matter of weeks, the cost of living spiralled upwards uncontrollably with a sharp drop in economic activity. Health, education, and mobility of vulnerable groups – especially women and children – have been hit the hardest. The austerity measures of 2023 effectively pushed an additional 4 million vulnerable peoples into poverty in under a year (WBG, 2023b).

Aslam, a resident of Badin, reports that “Floods are a permanent part of our life since the LBOD [was constructed]. We learned to adapt through our own resources. Before the monsoon, we would sell a camel and migrate to another location. This year, the IMF negotiations increased petrol prices so much that we had to take loans just to put food on the table. We no longer have the option to migrate and are left with hoping there are no floods again this year,”

Allah Baksh, a resident of Sajawal, notes, “I got a loan for a solar panel and sewing machine to allow me to stitch cloth at night and earn on the side. Then there was a shortage and rise in solar panel prices. I had already bought the machine though and now we are drowning in both debt and flood waters” Pakistan’s own indigenous efforts, including those in the public and private sectors, to initiate a transition to renewable energy have stuttered. Instead, fossil fuel based power projects, such as the Chinese-funded Gwadar coal power plant, have gained new life after appearing to have been shelved in the midst of foreign exchange shortages.

Uncertainty between the EFF and the SBA

Even as Pakistan struggled to secure multiple bilateral agreements to supplement the funding support the IMF had promised at the Climate Resilience Pakistan Conference co-hosted by the GOP and the United Nations in early 2023, the Fund continued postponing the disbursement of the ninth tranche of the arrangement under the EFF. The said conference was organised under desperate circumstances to secure support from reluctant funders awaiting the IMF’s approval of its economic policy program (Reed et al., 2023).

The inordinate delay effectively scuppered the country’s efforts to raise the \$40bln required in flood-related finance needs. As against this actual need, the country could only raise \$10bln in post-flood recovery commitments. The IMF (2023) noted that of “pledges of about \$10.9bln for humanitarian assistance and projects to rehabilitate the damage caused by the flood (...) only very limited disbursements can be expected in FY23.” According to the WBG, the “delays in the completion of the 9th review of the EFF and associated external financing accounted for a net outflow of \$2.2 billion pushing foreign exchange levels to the absolute brink (WBG, 2023b).

Box 5: **Debt and climate in Pakistan**

As 62% of IMF borrowers are part of the most climate vulnerable countries, it is crucial that creditors can provide relief rapidly in the light of extreme events as the climate crisis progresses (Recourse, 2023).

According to the IMF (2023, p.92), “current projections suggest that with the policies outlined in this MEFP, the gross external financing needs for FY24 will amount to approximately US\$28.4 billion (including the current account), of which about US\$14.5 billion is amortisation to multilateral and bilateral official as well as commercial creditors. To close this gap, we have secured US\$10 billion as rollovers and refinancing of maturing debt and US\$5.6 billion in additional financing commitments from bilateral, multilateral, and commercial partners, including some of the funds pledged at the time of the combined seventh and eighth EFF reviews, at the International Conference held in Geneva in early 2023, and other sources”.

This means efforts to receive more international finance in the light of the catastrophe will not be used for investments but for debt servicing.

The IMF fails to advance an appropriate debt restructuring that could free up resources in line with the institution’s recommendations to scale up investments in adaptation¹¹. The debt sustainability analysis included in the SBA includes climate impacts as one of the long-term risks, and adaptation investments are recognised as beneficial as they “can range as high as 100–1,000 percent—possibly avoiding up to 50–80 percent of climate damages” (IMF, 2023, p.57).

Debtor countries are highly vulnerable to international financial actors’ decisions. In the middle of the floods, the United Nations Development Program (UNDP) called for the suspension of debt repayment to allow for investments in reconstruction (UNDP, 2022). However, this triggered a huge slump in the face value of the countries’ bonds as creditors feared not being repaid (Reuters, 2022).

Stand by Arrangement - July 2023

The new SBA was finally approved by the IMF Board in July 2023. In the SBA, the IMF mentions Pakistan’s need to adhere to the WBG’s CCDR, undertake a C-PIMA process, and develop a National Adaptation Plan (NAP). On surface level appearances, climate is at the heart of the Pakistan July 2023 SBA agreement. The very first box set is focused on ‘Pakistan’s Climate Vulnerabilities’ (IMF, 2023, p. 4). In doing so, the IMF appears to have positioned this document as an attempt to present a template for what its climate interventions will look like in vulnerable countries of the Global South.

¹¹ “Without adaptation, the adverse humanitarian, social, and macroeconomic costs of intensifying climate stresses will likely continue to increase—potentially even at an accelerating pace.” (IMF, 2023, p.56).

The SBA however, utterly fails to account for climate impacts and obligations in its debt sustainability analysis. Although the SBA acknowledges that Pakistan's growing fiscal pressures are "mostly due to large debt service payments," and recognizes the loss of \$8.2 billion to the exchequer in the post-flood months due to such payments, it fails to evaluate the sustainability or fairness of such debt burdens in the presence of existing and anticipated climate vulnerabilities. The role of the IMF's fiscal consolidation strategies from 2019–2022 in exacerbating the impacts of the floods and raising climate vulnerabilities receives no diagnostic analysis either. Instead, the SBA blames the EFF's failure on 'policy reversals' (IMF, 2023, p. 5) in the third phase of the programme sparked by the Ukraine war and 2022 floods.

In fact, evidence-based climate action is not substantively an area the SBA intends to intervene. The overt attention climate receives in the planning conditionalities and in extensive annexures on climate risks are therefore misleading. The SBA's own focus is a narrow fiscal one revolving around four key items: "(a) an appropriate FY24 budget to support needed fiscal adjustment; (b) a return to a market-determined exchange rate and proper functioning of the FX market to absorb BOP and eliminate FX shortages; (c) adequately tight monetary policy to support disinflation and anchored expectations; and (d) continuation of structural efforts to strengthen energy sector viability, SOE governance, and the banking sector, while supporting efforts to build Pakistan's climate resilience" (IMF, 2023, p. 10).

However, the IMF's true priorities and narrow "approach" to climate are visible in the 'fiscal' strategies it recommends for enhancing climate resilience. According to this approach, there is no contradiction between programme objectives aiming at short-term macroeconomic stability and climate resilience. The fund in fact envisions a synergy as "this [structural reform agenda] will provide the basis for facilitating private sector participation in the country's climate adaptation efforts and for gradually incorporating specific climate considerations in the structural agenda (...). The IMF clarifies that "only a strong PFM can help ensure that fiscal risks are properly managed before gradually incorporating climate considerations in PFM tools and institutions, and before significantly scaling up adaptation investment or entering public-private partnerships (PPPs)" (IMF, 2023, p.58).

It is highly uncertain that the private sector can, in fact, finance adaptation needs, something that the IMF itself recognizes (2022, p.24): "Private sector involvement in adaptation finance has been low". This is even more complicated in a context where "financing risks remain exceptionally high, arising from large public sector external rollover needs, a sizable current account deficit, a difficult external environment for Eurobond issuance given recent downgrades and high spreads, and limited reserve buffers to help cover the financing needs in case of delays in scheduled inflows" (IMF, 2022, p.26).

Box 6: **Climate Impact of 2023/2024 Pakistan budget**

The IMF admits its significant influence in determining the 2023/24 budgeting process, which is confirmed by government officials and independent media reports (Shahzad, 2023). Given the IMF's insistence that the SBA takes climate into account, it contains a range of paradoxical measures, such as (Finance Minister, 2023):

1. Incentives for local coal: 'Indigenous' coal production continues to remain a strategic priority for the state. Incentives for local coal-based power plants include Rs 12bln to be allocated to 1,200MW Jamshoro coal fired Power Plant – itself an ADB project.
2. Continued investment in risky hydel: Rs 19bln has been allocated to transmission upgrades from the Suki Kanari, Kohala, Mahal, and Dasu hydropower projects.
3. Confused solar policy: The government has exempted raw materials for solar panels, inverters, and batteries from customs duties. Rs30m has been allocated to switch 50,000 agricultural tube wells to solar. However, the present caretaker government has indicated that it intends to reduce incentives to household solar consumers.
4. Contradictory tax policy for other green technologies: Electric vehicles, wind, and other renewable technologies have not been zero-rated
5. Oppressive electricity tariffs: Electricity pricing remains a serious concern, with the focus remaining on abolishing subsidies and passing the cost to consumers, rather than fixing structural issues such as onerous contracts with fossil fuel-based private power producers
6. Weaker social protections: The so-called "space to strengthen support for the vulnerable" mentioned in the SBA is simply without evidence. Inflation remains at record high levels, with energy and petrol prices being significant stressors. Proposed mitigatory measures however have failed to address the growing economic crisis which is pushing even middle classes into poverty (HRW, 2023).

The impact of the IMF-approved budget and other measures to comply with the SBA has been a hike in electricity prices across the board, which has sparked protests about energy prices across Pakistan in August and September 2023. The unrest has included street protests by salaried classes as well as shutter down strikes by traders. Even the Human Rights Watch has had to issue a statement calling out the IMF for undermining the right to electricity for Pakistanis and treating economic and human rights and tackling climate change as a 'zero-sum' game (HRW, 2023). In September 2023, the IMF rejected a relief plan by the interim government and proposed payment in instalments instead (The Nation, 2023).

The IMF refers to the potential of investments in “no-regret” measures, which include (a) initiating a Climate PIMA, (b) prioritising resilience boosting policies, which includes flood safety projects and ‘transforming the agri-food system’ (p. 24) and (c) identifying the critical needs of vulnerable sectors, such as agriculture, power and transport and developing strategies to address these. Recommendations (b) and (c) expand the IMF and WBG’s role in the energy, transport, and agriculture sectors for climate adaptation. These sectors have already been restructured after IMF and WBG policy reforms since the 1980s and find themselves in a more vulnerable position today (as noted earlier in the study). In the very same section, the Fund, in fact, admits that during the years under its recent EFF programme (FY21-FY22), climate spending in fact decreased by 25% (IMF, 2023, p.24).

Given the IMF’s assessment of climate as a serious risk for Pakistan’s economy, including reduced yields in key food and cash crops, and a loss of up to 20% GDP loss per year by 2050, the Fund’s interventions in the years between 2022 and 2023 paint a dismal picture of counterproductive and aggravated impact. Rather than mitigating risks, its strategies for reform have in fact exacerbated the climate crisis created by the 2022 floods. This role includes actively impeding climate solutions for just transition through its policy conditionalities focused on short-term fiscal solvency, limiting fiscal space for adaptation, eroding capacity for community-based resilience; and refusing to apply proper climate diagnostics on its own actions.



SECTION 3

Mapping the interactions between the IMF and WBG's climate action frameworks and assessing their implications for Pakistan

A compromised RST

Limitations in climate analytics and the weak 'reform agenda' of the IFIs carry deep implications for the future of climate action in Pakistan. As earlier noted, given the WBG's broader developmental mandate, its country reports and climate action frameworks assume significance as key input shaping the climate conditionalities and financing design of not just the WBG's but also the IMF's loan programmes. The Fund's conventional approach to fiscal reforms is also likely to continue shaping the WBG's interventions. The PACE programme for instance was designed such that "the timing of [its] operation aligned with the IMF's EFF program" and complemented the Fund's "policy framework to secure macroeconomic stability" (WBG, 2021b).

Under the ongoing IMF's Climate Macroeconomic Assessment Program (CMAP) review, the collaboration in diagnostics between the IMF and the WBG will escalate. IMF Staff has proposed to discontinue CMAP altogether relying on WBG's tools, despite recognising that CMAPs and CCDRs have a different focus. The RST paper notes that "as per agreement" the WBG's staff must also engage counterparts at the IMF in the preparation of CCDRs, particularly in "macro-fiscal areas."

The effect of this enhanced coordination is already visible in the CCDR's narrow framing of the climate and debt relationship, which mirrors its limited approach to the climate and development question. By restricting the climate and debt stress testing

task to a unilinear measure of the impact of climate change events on a narrowly conceived set of macro-fiscal variables, the RST and CCDR are likely to work together to prevent a more holistic assessment of how debt can exacerbate climate risks contributing to increased vulnerabilities in the future.

A coordinated framework is already in place with the Fund's SBA loan programme (IMF, 2023). The programme is heavily reliant on the World Bank and ADB's questionable climate analytics for assessing climate risks and designing conditionalities. The scope of this coordinated action is only set to increase as a loan programme under the RST looks ever more likely for Pakistan in 2024.

For economically fragile and climate-vulnerable nations like Pakistan, it is therefore imperative to understand the developmental assumptions underpinning the IMF and the WBG's operations and to test their compatibility with local climate needs. In the Pakistani case, there is a need to understand how the IMF's EFF and SBA programs, as well as the WBG's PACE loan program, CCDR, and technical assistance, can work together to entrench an inherently flawed climate action framework.

As noted earlier, despite the well-documented failures of the privatisation-led approach to energy reforms, the PACE program looks precisely towards this approach for integrating renewables and transitioning to cheap electricity. The WBG performs little more than a 'tweaking' of the old model pushing "competitive bidding" for renewables as a solution for scaling up private investments in clean generation while also lowering tariffs. PACE's proposed strategy is supplemented by the WBG's VRE Competitive Bidding Study as well as the CCDR. Both documents advocate for stronger guarantees and enabling policies to facilitate private investments. The CCDR recommends that "investment in new RE capacity should be led by the private sector, especially through FDI, under a competitive bidding regime, with public financing targeted toward larger, "strategic", hydropower projects" (WBG, 2022b). It also calls for setting up "shared infrastructure for RE parks" through government-backed land guarantees.

None of these documents conduct any assessment of the just transition factors implicated in this privatisation-based land-intensive solution. There is similarly no attempt to gauge how suitable a privatisation-based paradigm is for broader climate action that responds to local needs in a just and inclusive fashion.

Pakistan's ill-fated attempts to encourage renewable investments under the advised competitive bidding regime in 2023 demonstrate the flawed nature of this climate strategy. The country failed to attract even a single bid for solar plants under the new competitive bidding regime that was designed on the reverse auction model using a benchmark tariff and reduced dollar indexations to keep costs low (The News, 2023).

Eventually, the government was forced to revise the framework removing the benchmark tariff, increasing dollar indexations, and offering more concessions (Ghumann, 2023). This has led experts to fear a decrease in competitive advantage of solar as well as a rise in generation costs (SDPI, 2022). Meanwhile, in the absence of a socio-ecologically grounded vision for a just transition and concrete policies for facilitating local community ownership and participation in RE projects, a number of private agricultural farms, protected forest areas, grazing lands, and public commons lands stand threatened by RE parks, compromising the integrity of the proposed energy transition.¹²

Similarly, IMF-led electricity tariff reforms guided by short-termism and fiscal solvency concerns are unlikely to resolve structural issues in a manner consistent with climate needs. The perpetual crises with the energy subsidies question is a good example of this. Despite the World Bank and the IMF pushing for energy and gas sector subsidy reforms for over three decades, the on-ground impacts of these reforms continue to wreak havoc on vulnerable populations.

Under the SBA loan, the IMF envisions reforms to be overseen by the WBG's multi-year subsidy reform plans to promote a system of targeted subsidies for reducing public expenditure while also protecting vulnerable populations. In practice however, the WBG and IMF's strategies for replacing the inbuilt electricity bill subsidies with tax-financed social assistance targeted to the poorest have largely failed. The removal of subsidies in the absence of comprehensive social security nets coupled with the negative economic impacts of fiscal consolidation has meant that vulnerable populations are inevitably hit the hardest. The data suggests that even if executed well, targeted solutions based on cash transfers remain too weak to protect the rights of the poorest (HRW, 2023b). The evidence also shows that the indirect negative effects of subsidy removal in terms of rise in the costs of everyday goods and inflation far outweigh any assumed benefit in reduced spending (Ilya et al., 2022).

According to the WBG's Pakistan Development Update for 2023, price increases linked to the subsidy and tax reforms were largely "broad-based" with nearly "all categories of goods and services recording double-digit inflation" (WBG, 2023b). As documented by a recent HRW report, despite acknowledging the social harms of loan programs and their disproportionate impact on the poor and vulnerable, the IFIs have consistently failed to include any analysis of these impacts in their programs. They have also neglected to test any alternative approaches that are more protective of rights (HRW, 2023b).

This neglect is plainly evident in the PACE program document which recognizes the social risks of subsidy reforms and admits that "implementation of tariff increases, and

¹² Interview with Director of the CSO CIKP Fazal-e-Rabb Lund (to be published).

subsidy retargeting is at risk if the protected groups are large, and the main burden must be taken by only a small portion of consumers". Neither PACE nor the CCDR however, suggest any suitable alternative strategy sufficiently accommodating the energy and social needs of vulnerable communities. Despite the mounting evidence on the failure of this approach to subsidy reforms, the IMF and the WBG have continued to jointly pursue this failed strategy which as Pakistan's SBA and CCDR programmes suggest has only intensified under the guise of 'climate reforms.'

There is also considerable evidence to suggest ongoing support for fossil fuels by both the IMF and the WBG. While the CCDR does include a vague call for a "significant reduction in gas and oil compared to BAU" it fails to provide any stronger more concrete recommendations on phasing out gas. Taking its cue from the WBG, the IMF's SBA programme encourages the "GOP to work on gas reforms with WBG" – these reforms involve only a limited focus on price reforms and the mitigation of gas losses and include nothing on scaling down or curtailing financial support for gas infrastructures (IMF, 2023).

This outcome follows from the IFIs' insistence on gas as a transition fuel. The Paris Alignment instrument methodologies and sector notes proposed by the WBG in 2023 are clear evidence of this support. "The inclusion of fossil gas as a transition fuel in the WB PA fundamentally undermines the integrity of achieving the Paris Agreement 1.5°C goal" (Recourse, 2023). It bears noting, for instance, that the ADB's ongoing pre-feasibility Study for an energy transition for Pakistan presently excludes gas projects from the purvey of the study.

This is also the case for the coal support included in the FY23/24 budget which is endorsed by the IMF as a prior action to the SBA. While the CCDR notes benefits from reduced coal burning, it presents a vague and ambiguous approach to the pressing issue of Pakistan's increasing reliance on local coal¹³.

The CCDR remarks in passing that the share of coal has "grown rapidly in recent years due to a number of new coal-fired power plants" – it does nothing to test the climate impacts related to this trend nor does it propose alternative solutions. The CCDR also acknowledges Pakistan's coal-related NDC commitments including the "ban on imported coal, the shelving of plans for two new coal-fired power plants in favour of hydro-electric power, and a focus on coal gasification and liquefaction for indigenous coal" but declines to offer any clear stance on these plans.

This suggests an implicit endorsement of the coal-for-hydro swap and the coal-to-gas strategy. In fact, the CCDR ends up offering only two concrete suggestions on coal: first, a weak call for reducing industrial reliance on imported coal (with economic benefits dominating the discussion); second, a highly problematic endorsement of the

¹³ For more information on the WBG's role in coal in Pakistan read Urgewald (2021).

IGCEP's plans to not pursue further fossil fuel capacity additions "aside from already committed plants." This ambition is plainly out of sync with Pakistan's ARE policy which aside from prescribing minimum shares for RE, also calls for the "displacement of expensive electricity generated using fossil fuels" (Government of Pakistan, 2019).

The CCDR also recommends "building on the existing moratorium on imported coal projects." Here too, the ambition appears restricted to ending 'imported' coal rather than coal as a whole. The PACE programme takes a similarly curious stance on the Thar coal projects quipping that "despite a slight increase" in coal's share of the energy mix, "coal consumption per capita will remain an order of magnitude lower than in neighbouring India." It prescribes no measures for displacing coal either (WBG, 2021b, p.21).

The case of the ADB-funded Jamshoro coal-fired plant is illustrative of this confused, contradictory, and narrowly fiscal approach to addressing coal power. The ramping up in public budgetary support for the Jamshoro project noted earlier, also coincides with upcoming private investments for switching the plant to local coal. The planned investment itself comes from AsiaPak, a private investment firm that acquired majority shares in KE in 2023, to go with its substantial holdings in Block-1 of the Thar coal mines. The planned investment is expected to generate up to 5 billion units of Thar coal-based electricity for supply in the KE service areas (The News, 2023).

Similar concerns abound in the water sector. The CCDR repeats a glaring error from the PACE project by implicitly including large hydropower as a renewable source in its recommended target of 70% renewables by 2030. The CCDR's solution to the water crisis is to "modernise irrigation and drainage to provide climate-resilient" services. A closer scrutiny of what the WBG imagines a 'modernisation' of the irrigation and drainage system to be, however, discloses the very same erroneous approach promoting large infrastructural investments on the Indus Basin that stand implicated in Pakistan's flooding, water security, and soil quality risks. Mirroring the similar water reforms proposed by the IMF in 2015 (IMF, 2015), the CCDR stresses water pricing reforms to manage demand, and prescribes increased investments in "storage infrastructure" together with "development and maintenance of drainage infrastructure, especially in low-lying and flood-prone areas of the lower Indus Basin." Essentially the very same approach to water management that motored the disastrous LBOD and the large hydro-based development now stands re-packaged as a "climate solution."

The climate challenge for Pakistan is simply too great for short-term tweaks such as balancing an RE enabling privatisation policy with tariff controls and subsidy reforms, or merely 'improving' on inherently flawed water infrastructures and agricultural practices. There is certainly a role and a place for such tactics. As a short-term

emissions mitigation strategy, for instance, enabling policy environments and market ecosystems to scale up private investments in renewables may well function as a part of the solution. Similarly, if properly executed, targeted subsidies can help reduce inefficiencies in the energy sector. Better pricing and management of water resources also carry obvious benefits. However, none of these measures are in themselves sufficient or even appropriate for meeting Pakistan's specific local climate requirements which are overwhelmingly dominated by its vast adaptation, loss and damage, and development needs – a fact recognized by both the SBA and the CCDR.

A closer look to the scope of Pakistan's adaptation and L&D needs helps explain why these strategies are insufficient. The WBG cites an estimated average of over \$3.8bln in annual climate related losses incurred between 1996 and 2015 (WBG, 2022b). This figure is set to rise to \$5.8bln by 2030. The nation's estimated loss and damage needs within this 34-year period alone amounts to a whopping \$150bln. Adaptation needs are expected to range from \$7 to \$14bln annually (ADB, 2017), adding another \$112bln in climate costs between 2023 and 2030. This is in addition to the \$40bln in abatement costs for cutting GHG emissions by 20% by 2030 in keeping with the country's NDC commitments.

There is a question mark on the private sector's suitability for raising these amounts or leading climate action under adaptation. In particular, public private partnerships (PPP's) and market-based solutions are simply not equipped to provide the kind of finance and locally targeted action required to meet these challenges. The CCDR and SBA's confused and contradictory approach to the adaptation question reflects some of these difficulties. The IMF characterises adaptation as the most "urgent and existential challenge" but noting Pakistan's "limited fiscal space" it ultimately prescribes an incoherent mix of solutions involving more of the same austerity measures such as removals of subsidies, enhanced taxation, private adaptation investment, domestic policy reforms and higher international support (IMF, 2023, p. 57).

The WBG-IMF approach built around narrow fiscal consolidation and reliance on private finance is not evidence-based in light of global trends in climate finance. The data shows for instance that the growth rate in private finance has lagged behind public sources by more than half, even in Global North countries (Climate Policy Initiative, 2022). Adaptation and resilience have received abysmally low private sector interest while rising investments in renewables and mitigation have depended on considerable public sector support. Studies have also noted data and knowledge gaps as well as issues with climate finance reporting in the private sector (Climate Policy Initiative, 2022).

Current IFI wisdom also flies in the face of the IPCC AR6 group's findings which note that "the poor have fewer resources to invest, so in poorer countries, greater public

investment is needed. Climate interventions must not amplify existing inequalities, create new inequalities, or reduce future adaptation options” (IPCC, 2022). The local experience with the IMF’s fiscal reforms on the other hand provides evidence of precisely this exacerbation of inequalities and the closures of local adaptive capacities.

The WBG and IMF’s interventions analysed by this report reveal a shared structural failing in the underlying analytic and developmental logic currently driving their climate-related operations. These institutions have generally followed an ahistoric and siloed approach that fails to recognize the interactive and dynamic interlinkages between their fiscal and macroeconomic policies, and the broader everyday realities of economic exploitation, gender inequality, and climate change – in both the short-term and longer-term time frames (Eurodad et al., 2022).

Without a nuanced understanding of the inter-relationship between these different areas, climate action is bound to reproduce socially unjust and ecologically harmful patterns of development and will likely repeat historical errors.

The WBG’s approach to the energy transition in the backdrop of fossil fuel reliance, the circular debt crisis, and the thorny challenge of IPP contracts is a good example of this. Proper attention to the WBG’s own historical role in creating the crisis could have disclosed important lessons about inherent limitations in market-based solutions. Such an analysis could also point towards more fruitful corrective strategies that the WBG and IMF could have pursued – such as leveraging their political and institutional power to re-negotiate onerous IPP contracts or financing their buy-out displacing existing fuel plants through non-debt-creating instruments. Such a strategy would be more likely to lower electricity costs and reduce emissions without withdrawing subsidy support and burdening vulnerable consumers with tariff hikes. Similarly, attention to interactive cross-sectoral effects and sustainability over longer-term horizons may reveal greater savings and growth from scaling up non-debt creating adaptive finance and L&D arrangements for Pakistan.

The Pakistan experience shows that tackling the climate emergency will require far more than a repurposing of “traditional economic tools aimed at nothing more than smoothing out business cycles” (Stiglitz, 2008, p.1). When placed within the broader backdrop of Pakistan’s anticipated climate finance needs the debate on public vs. private investments or the focus on macroeconomic stabilisation appears to be little more than red herrings. The more pressing question is the need for fair and just financing arrangements in which the Global North and IFIs acknowledge and pay the climate-related damages owed to the South under an inclusive process rooted in accountability for past and present wrongs.

IFIs will have to look towards debt cancellation strategies and provide sufficient new monies in non-debt-creating conditionality-free arrangements for Global South

countries to meet their adaptation needs and increase NDC ambitions while leaving these countries free to develop localised solutions to reflect the best strategies contextually. Special Drawing Rights are a key instrument to this end, but they must be accompanied by a reform in the allocation mechanism and quota reform along with more fundamental changes to the global financial and trade architecture. There are various proposals by civil society in this regard (Third World Network, 2022). Returning to Mia Mottley's address in Paris, the view from Pakistan makes it clear that nothing short of a complete transformation of the IFIs will help achieve this goal.

To be effective, climate finance must address challenges on multiple time scales through targeted, properly timed, and coordinated interventions. For instance, catastrophic emergencies, and slow-onset changes call for different approaches and mitigative and adaptive action measures require distinct sets of enabling conditions and actors. In particular, for a nation like Pakistan, the IMF will need to assess the RST's strategies for both their short-term and long-term impacts on adaptive investments and local resilience-building practices.



CONCLUSION

This report aimed to characterising the nature and objectives of WBG and IMF interventions relevant to climate by analysing some of their recent interventions in Pakistan in the last few years, the objectives under which they were designed, and the need to drastically recourse the trajectory of their work in order to respond to the various development challenges interlinked with the climate crises.

Our analysis identifies a number of interrelated impediments preventing both the WBG and the IMF from having a meaningful climate-compatible future under present institutional arrangements. These impediments span a laundry list of concerns including limitations in their mandate, weaknesses in their programme development process (especially in their consultative practices), inadequate conceptualisations of climate in their analytic tools, the inherent contradiction between short-term fiscal objectives and addressing long-term challenges, and correlations between their debt-based financing models and increased climate stress in Global South nations.

The IFI interventions studied in this report point to a central conundrum related to the future of the Bretton Woods Institutions (and the global community) in the post-Paris context. On the one hand, as the most prominent multilateral bodies shaping policy and market environments in climate-vulnerable countries of the Global South, the IFIs are obligated to not only keep their operations consistent with climate-safe outcomes but also undo decades of harmful practices by the Global North by actively supporting equitable climate action in the Global South. On the other hand, their mandates appear both limited and ill-suited for this task, and the underlying premises, paradigms, and strategies of development driving their operations are arguably beholden to the very models responsible for the global climate crisis in the first place.

Narrow monetary metrics driving the evaluation criteria for the WBG and IMF i.e., the twin goals, miss the point on how climate effects manifest on the ground and how vulnerabilities are exacerbated by the system-wide effects of reforms and fiscal conditionalities in real terms.

The IMF's review process under the EFF loan makes clear how a restrictive mandate can hamstring climate action, with the climate being approached simply as a 'tack-on' topic within the narrow framework of macroeconomic stability analytics. The design and impact of the SBA loan also provide ample evidence that a mandate restricted to ensuring short-term fiscal stabilisation is fundamentally incapable of responding meaningfully to the climate challenge. The concept of macroeconomic stability must be transformed altogether. Long-term fiscal stability will only be achieved by building resilience, and as a third of the world's countries face debt distress, the world economy needs to provide a response to overcome the trade-off between short-term and long-term stability.

Similarly, the case of the WBG's PACE programme and CCDR demonstrates that a wider mandate viz climate and economic development does not necessarily promote climate-positive outcomes unless the WBG's analytics are "de-linked" from BAU methodologies and standard developmental assumptions. The challenge of overcoming 'institutional insularity' is in some sense a more pressing propaedeutic concern: it is worth asking for instance, whether the IMF and the WBG's operations can ever truly chart a climate-friendly pathway without being held accountable to the broader consensus of climate experts, local communities, and Global South thinkers.

The limited and weak 'reform' agenda of the IFIs coupled with their expanding interventionist power under the guise of climate action, raises serious concerns for Global South nations struggling to chart an effective climate-compatible developmental path. Given that there is little change in the old developmental thinking underpinning IFI operations (or in the global financial architecture as a whole), their mainstreaming of climate and ramping up of coordination carries a very real and ironic danger of deepening the climate crises in Global South nations.

With Global South countries spending up to five times more on debt servicing than on climate action and shrinking fiscal space under IFI austerity measures compromising the phaseout of fossil fuels and sapping the resilience of local populations, the enhanced power of the IFIs under the emergent climate paradigm can condemn countries like Pakistan to climate incompatible developmental outcomes (Debt Justice, 2023).

It is clear that steering the trajectories of IFI work to a just and climate-safe future requires a more sustained and historically grounded reflection on the "whole system"

functioning of the IFI's within the broader context of an extractive, predatory, and ecologically ruinous global financial and economic architecture. At a minimum, such a reflective exercise must sit squarely within a framework of inclusive diagnostics and accountability-based analytics. The following steps would be central to advancing transformation rather than mere reform:

1. Institutionalise a 'do no harm' methodology to monitor and assess existing and future programmes and to ensure that at the very least, IFI operations do not negatively impact Global South countries' policy frameworks or compromise their fiscal space to lead green and just transitions.
 - a. Enhanced accountability: In the case of the IMF and WBG this would include responding to the calls for setting up an independent accountability mechanism and conducting thorough social and environmental impact assessments of loan programs and technical assistance;
 - b. Historical review of social and environmental outcomes of both institutions' programs, and an overarching analysis of systemic factors negatively impacting Global South countries;
 - c. A proper review of public participation in the design and implementation of IFI programs and other operations, "which should include heterodox economists and academics across different scientific, social scientific, and humanitarian disciplines at a national and international level, as well as participation and representation of marginalised groups that are directly impacted by IMF advice and operations" (Eurodad et al., 2021);
 - d. Act on the recognition of the cross-cutting nature of the development crises we are facing, ensuring a proper assessment of trade-offs in gender justice and inequality.
2. Governance reform within the IMF and the WBG. All countries should have an equitable say on the direction of these institutions. The current framework is highly likely to be influenced by Global North countries.
3. A proper review of the toolkit the institutions rely on. This must involve:
 - a. Revising the Paris Alignment methodologies proposed by the WBG to ensure they are 1.5C aligned (and therefore exclude fossil gas), and compatible with local adaptation needs (and therefore exclude large hydro projects in countries like Pakistan) and to ensure that they allow for adequate financing for renewables;
 - b. A review of debt sustainability frameworks to properly account for countries' SDG and climate financing needs, which can be a good basis for fast and effective debt restructurings;

- c. Independent audit of the debt servicing burdens on Global South nations to determine debt cancellation needs compatible with 1.5°C and local adaptive requirements;
 - d. Broader definitions of socio-natural well-being not limited to narrow technocratic metrics like monetary outcomes like GDP and poverty lines;
 - e. Review of the policies for consumer end fossil fuel subsidies phaseout;
 - f. Review of support for producer-end fossil fuel subsidies including countries' prioritisations of investments in fossil fuel infrastructure;
 - g. A comprehensive review of privatisation, liberalisation, and market-based and private finance-led solutions (including PPPs) to test their compatibility with the principles of just transition and to assess their suitability for meeting the adaptive needs of Global South countries.
4. Application of CSO's SDR rechanneling principles and changes to the RST design to include non-conditionality-based and non-debt-creating financing solutions. Eligibility under the RST must also be expanded to include those countries without IMF programs (Latindadd, 2021).
 5. Providing adequate and sufficient compensation to affected communities for losses and damages sustained by them due to climate-averse policies and projects supported by the WBG and the IMF. As a preliminary step, the WBG should finance remedial measures for projects like the LBOD and arrange payments for affected communities based on principles of restitution.
 6. Immediate amendments to the SBA, CCDR, and PACE loans.

To positively support countries besides doing no harm we recommend that the IMF and WBG:

- Issue SDR annually to ensure liquidity provisions are not linked to existing quota formulas but are genuinely needs-based
- Advance international taxation and trade reforms that can scale up countries' possibilities of industrial policy that scale up just energy transitions
- Make their knowledge and expertise transparent and available for communities and local governments in Global South countries through open access fora to facilitate democratic home-grown macroeconomic policymaking.
- Echoing President Ruto's calls for a new financial model where power is not in the hands of the few, there is a need for a global civil society-wide dialogue on the degree to which the IFIs are suitable for properly addressing the climate crisis given their current mandates, and an assessment of alternative financial architectures and instruments.

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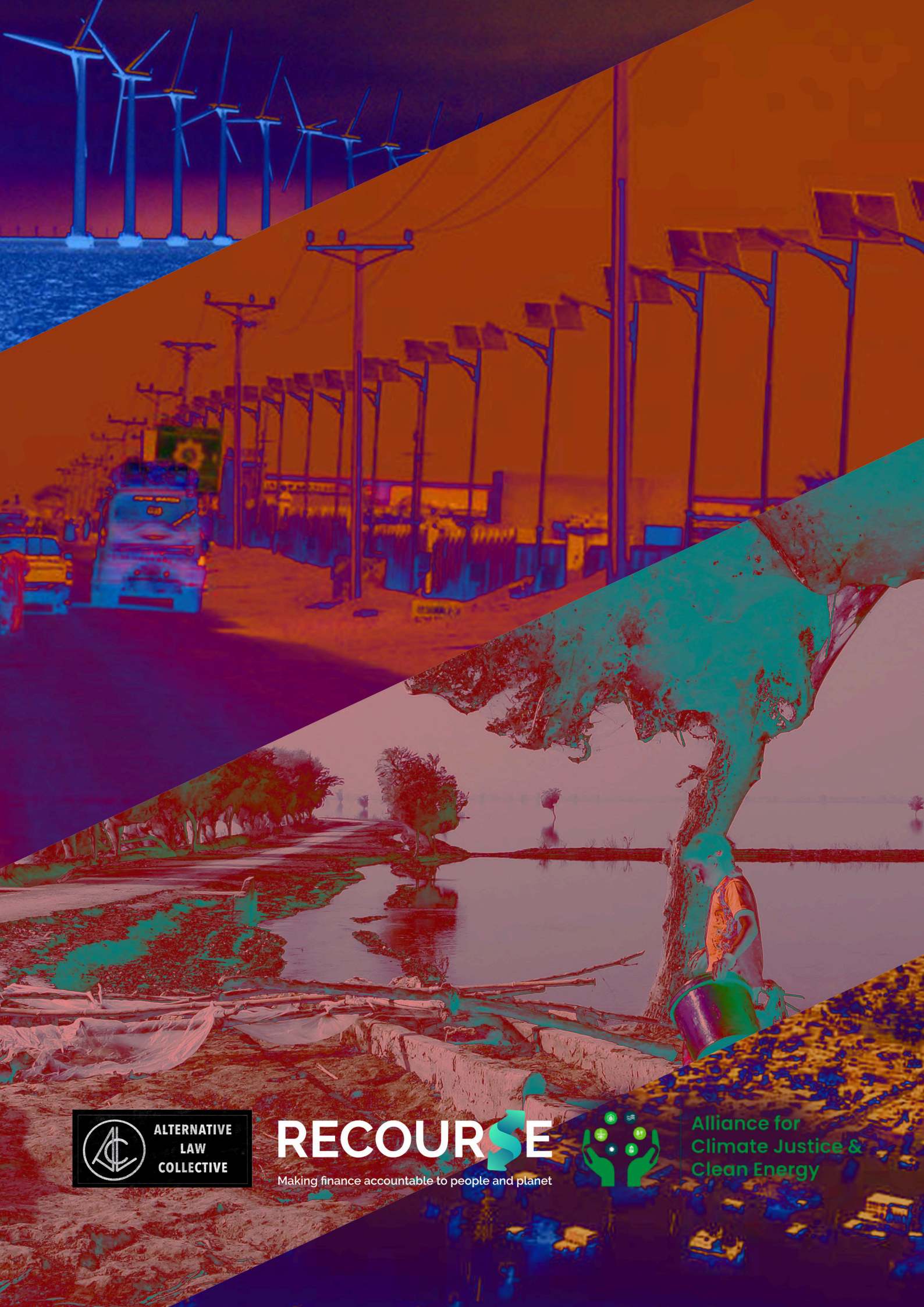
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