To the IMF Executive Board,

I write on behalf of the Alliance for Climate Justice and Clean Energy (ACJCE), a civil society alliance working for a just energy transition away from dirty fossil-fuels and towards clean and renewable sources in Pakistan. We have been compelled to reach out to you given the damaging nature of the recent policy reforms instituted in anticipation of the resumption of the International Monetary Fund's (IMF) Extended Finance Facility (EFF) for the Government of Pakistan (GOP). With the Fund's recent review under the $6 billion program, the **GOP has been forced to adopt a range of punishing fiscal measures that includes a devastating regime of taxes on solar panels, wind turbines, electric vehicles and related technologies. These measures are likely to cripple Pakistan's nascent renewables energy market threatening the country's ability to meet its environmental goals and international climate obligations.**

As a coalition of policy professionals, academics, lawyers, environmental activists, journalists, and various affectees of reckless energy policies, we have observed closely how the flawed programs and impositional lending practises of International Financing Institutions can instigate crises in Pakistan's energy and environmental sectors. The present tax reforms have been undertaken precisely in order to meet the Fund's "prior action" conditions to enable the release of the next $1 billion tranche under the EFF program. Instituted through a hastily put together finance supplementary bill (or "mini budget"), these reforms have been bulldozed through the Assembly by the GOP under pressure to meet its loan obligations. As part of this IMF backed budget supplement, the **GOP has now withdrawn exemptions on renewable technologies, instituting a 20% tax on solar and wind, as well as a 12% increase in sales tax for imported electric vehicles.** This policy shift comes in spite of the encouraging growth in the renewables sector under the previous tax regime – especially in solar power, which represents one of the biggest gains in the nation's efforts for a transition to clean and cheap energy.

Between 2015 and 2019, there has been an unprecedented rise in solar PV installations in off-grid and weak grid regions. This growth owes in large part to solar's suitability for powering tube wells, water purification systems, and water pumps for irrigation in remote areas. The primary beneficiaries of this boom are therefore poor farming communities in underdeveloped areas – historically one of the most vulnerable sections of the population. Solar technology, however, is still a largely import based market, and while farming communities and the residential sector are key drivers of solar PV growth, they are also price-sensitive users. This welcome boom is therefore directly linked to the GOP's earlier decision to waive off taxes on solar products. Rising costs under the new levies will hit these communities the hardest forcing the neediest users out of the market. **The tax on solar technology is therefore, not only ill suited to revenue generation but also jeopardises the goal of providing cheap and easily accessible electricity to vulnerable communities.**

These fiscal reforms are also at odds with Pakistan's existing environmental policies and its long-term energy sector plans. Pakistan's Alternative and Renewable Energy Policy, 2019 (ARE policy), for instance, aims at reducing emissions by displacing entrenched fuel sources through the integration of cheap renewables into off-grid solutions, private contracts, and rural energy services. It also prescribes a minimum of 30% renewables (primarily wind and solar) based generation in the national grid by 2030. These targets require incentivizing investments, and “buy-ins” from existing fuel-based producers and self-generating agricultural and industrial consumers. The present tariffs for utility scale solar/wind power given out by the National Electric Power Regulatory Authority (NEPRA) are suited to this task. They indicate a levelized cost of generation of Rs. 6-7/ KWh which is substantially lower than RLNG (Rs. 15/KWH) and furnace oil (Rs. 25/KWH). The 20% tax on renewables, however, hits not only the import of solar panels and wind turbines, but also inverters, batteries, and other installation equipment and machinery. This will significantly raise upfront capital expenditure for renewable projects increasing overall generation costs and reducing their competitive advantage. Under the new tax regime, users are unlikely to opt out of existing fuel-based arrangements, defeating a key mechanism for reducing emissions. The taxes will also hurt investor confidence in what is still a nascent renewables market. Under the ARE policy, future capacity additions for renewable energy (solar and wind) will be done through competitive bidding, for which, NEPRA has issued a benchmark tariff of Rs. 6/KWh (one of the lowest in the world). This tariff accounts for capital costs under the previous regime factoring in reasonable returns for investors. Under the new regime, however, margins for returns will reduce significantly if the same benchmark tariffs are used. The latter will thus need upward revision to keep investor interest intact.

Similarly, the increased tax on electric vehicles is inconsistent with Pakistan’s strategy for greening the transport sector. The National Electric Vehicles Policy, 2019 (NEV policy) prescribes a minimum 30% sales penetration of electric vehicles (EVs) by 2030. A successful meeting of this target depends heavily on robust tax incentives for developing the fledgling import-based market. As noted by the policy, “not only do governments around the world give subsidies, incentives and tax breaks for EV adoption amongst the masses,” but in the long run, these benefits also “end up paying for themselves with savings in fuel imports, reduction in emission related costs, usage of idle electricity capacity, and income from charging revenues.” The EV policy also cultivates synergies between the energy and transport sectors: EV can serve as a flexible load for the national electric grid in off season and off-peak hours thereby reducing the burden to the national exchequer posed by idle capacity payments to fuel plants. The new tax regime disrupts this integrated strategy creating obstacles for a coordinated approach to energy and environmental planning.

That such environmentally toxic and contradictory policy outcomes are directly tied to an IMF program which waxes eloquent about “stepping up to climate change,” reflects the contradictory and self-defeating nature of the IMF’s structural adjustments and the distortive effects of its lending practises. It also raises serious concerns about the sincerity of the Fund’s purported commitment to international climate goals and its professed concern for protecting vulnerable communities from the well-recognized harms of its own adjustment programs. The Fund’s staff statement on its EFF program, for instance, cites Pakistan’s vulnerability as one of “top ten countries with the largest damages from climate-related disasters, and top 20 countries with the largest greenhouse gas (GHG) emissions” as a pressing concern. It goes on to recommend policy steps such as the “wider use of renewables,” “implementation measures for meeting Pakistan’s COP26 NDC targets,” and the securing of “sufficient financing from international partners” as “critical” priorities for addressing these concerns. At the same time, it is these very policy steps that are sabotaged by the EFF’s loan conditionalities, with environmental costs extending to the global front. For instance, Pakistan’s pledge to shift to a 60% renewables-based generation, and its goal of 30% electric vehicles have both been expressed as

Nationally Determined Contribution (NDC) targets recently submitted under the Paris Agreement and COP 26 respectively. Pakistan's ability to discharge these obligations ultimately depends on the stability and accelerated growth of its solar, wind, and EV markets. The IMF's interventions are therefore subverting global efforts for emissions reduction.

As a global community, we are at a critical juncture in the effort for climate action and just energy transitions. The market and policy environments we cultivate today – both locally and globally – have impacts that will outlast many generations to come. The Fund's complicity in these dangerously flawed tax reforms betrays a callous disregard for environmental resources and the communities that depend on them for their survival. We therefore call upon your office to rectify this situation and address systemic failings in the Fund's lending practises that have led to it. In particular, **we urge the Board to ensure that the taxes on solar, wind, and EV technologies are withdrawn at the earliest, and that concrete mechanisms are put in place for ensuring that fiscal and structural reforms under the EFF and other IMF loan programs are made consistent with Pakistan's environmental policy goals and international climate obligations.** Likewise, the non-transparent, insular, and unrepresentative nature of the Fund's program development process requires urgent reform. At minimum, a policy of meaningful civil society consultation – especially with vulnerable groups and program affectees – as well as independent reviews of the proposed structural adjustments under loan programs, are imperative if the Fund's stated aims of countering "income inequality" and fostering "sustainable growth" are to progress beyond empty rhetoric. Finally, we urge the Board to play its part in upholding the Paris Agreement's goal of "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development" by developing socially just and green financing solutions for Pakistan. In particular, we ask that programs such as Debt-for-Nature swaps be developed for breaking the cycle of debt the nation has found itself trapped in over years of failed IMF interventions.

Keenly awaiting your response.

Respectfully,

Zain Moulvi
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The Following institutes, alliances, CSOs and citizens of Pakistan have endorsed this letter:

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