

THE  
**BIG**  
SHIFT  
GLOBAL

Paying for a Just Energy Transition:

# FOSSIL GAS DEBT TRAP IN THE GLOBAL SOUTH



# Table of Contents

<b>Executive summary .....</b>	<b>1</b>
<b>1. Introduction .....</b>	<b>2</b>
1.1. Global debt trends in fossil fuel production and import in the Global South.....	2
1.2. Introducing circular debt.....	3
<b>2. Understanding circular debt in energy and fossil gas.....</b>	<b>4</b>
2.1. Circular debt in energy and fossil gas.....	4
2.2. The role of IFIs in fossil gas circular debt.....	4
2.3. MDBs, circular debt, and a just energy transition.....	6
<b>3. Case studies.....</b>	<b>7</b>
3.1. Ghana's Sankofa Gas Project.....	7
3.2. Vaca Muerta: debt and fracking.....	8
3.3. Pakistan's fossil gas trap .....	9
<b>4. Recommendations.....</b>	<b>11</b>

# Executive summary

Countries in the Global South are facing multiple crises including escalating debt, worsening climate impacts and energy poverty. Fossil gas, widely promoted as a “transition fuel” by multilateral development banks (MDBs) and international financial institutions (IFIs), sits at the centre of this storm, as fossil gas-dependent energy systems are often characterised by a financial mechanism known as circular debt, through which systemic inefficiencies create a loop of unpaid obligations between state-owned utilities, fuel suppliers, power producers, and governments.

Fossil gas-related circular debt contributes to sovereign debt burdens in a number of Global South countries. These countries are experiencing debt and energy crises simultaneously, negatively impacting their economies, livelihoods, and people’s access to services. Women bear a disproportionate burden of these energy poverty and debt crises.

Advice from MDBs and IFIs is leading countries to further entrapment in this debt/fossil fuel cycle. Through direct and indirect financing, including via loans and policy advice combined with unfair debt arrangements with private creditors and fossil fuel companies, MDBs and the IMF have contributed to fossil gas circular debt in the Global South. This dynamic is preventing Global South countries from pursuing a just energy transition by laying down a path that traps them in more fossil fuel extraction and consumption, and more debt.

The cases of Ghana, Argentina, and Pakistan illustrate the impacts of fossil gas-related circular debt on people and communities. These countries are trapped in a downward spiral: rising fossil gas investments fuel rising debt, which in turn drives further fossil gas investment

in an attempt to service that debt. A just transition to sustainable renewable energy in these cases is impeded by the country’s debt burden and the conditions imposed on how this is paid off.

This briefing lays out eight key recommendations to put an end to the gas and debt trap.

1. **MDBs and other IFIs must stop supporting fossil gas in their lending and policy advice.**
2. **MDBs and the IMF must align their climate and lending policies.**
3. **Debts accrued from fossil fuel projects should be recognised as illegitimate and cancelled.**
4. **Ambitious debt cancellation should be implemented for all countries that need it, across all creditors, free from economic conditions.**
5. **New laws in key jurisdictions, including England and New York, should be introduced to ensure private creditors' participation in debt restructuring processes.**
6. **Debt cancellation should be provided free from economic conditions.**
7. **Beyond debt cancellation, governments around the world must agree to a UN framework convention on sovereign debt to reform the global debt architecture which is not fit for purpose.**
8. **Climate finance, including finance provided by MDBs, the IMF, and other IFIs, must be grant-based and not add to the debt levels of Global South countries.**

# 1 Introduction

## 1.1. Global debt trends in fossil fuel production and import in the Global South

Across the Global South, countries are navigating a dangerous convergence of crises: escalating debt burdens, deepening energy poverty, and worsening climate impacts. Fossil gas, widely promoted as a “transition fuel” by multilateral development banks (MDBs) and international financial institutions (IFIs), sits at the centre of this storm. Far from enabling a pathway to sustainable energy, fossil gas investments have entrenched structural vulnerabilities, driving up public debt, undermining fiscal stability, and delaying a just transition. The financial architecture supporting fossil gas, through sovereign loans, guarantees, and power purchase agreements (PPAs), has saddled many countries with long-term liabilities.

Fossil gas-related debt is becoming an increasingly visible obstacle to sustainable development across the Global South. These countries are now confronting a polycrisis: rising external debt, intensifying climate impacts, and continued reliance on fossil fuels, particularly fossil gas as a so-called transition fuel. These challenges are mutually reinforcing, and together they threaten the ability of states to deliver essential public services or invest in clean energy alternatives, as sovereign debt levels continue to rise at an alarming rate.

According to the International Monetary Fund (IMF), over 50% of low-income countries are either in, or at high risk of, debt distress.<sup>1</sup> Across the Global South, countries are spending more on debt servicing than on climate action. In 2025, 3.3 billion people live in Global South

countries that spend more on interest payments than education, health or climate spending.<sup>2</sup> For African countries alone, external debt payments are projected to average 18.5% of government revenues in 2024, up from 8% a decade ago.<sup>3</sup> This debt squeeze has come alongside a significant rise in fossil gas investments, many of which are backed by MDBs and export credit agencies under the pretext of the energy transition.

Fossil fuel investments have typically relied on a mix of concessional loans, sovereign guarantees, and public private partnerships (PPPs) – financial arrangements that often shift risks onto states. In many African and Asian countries, this has created debt liabilities tied to volatile fossil gas markets. In Bangladesh, fossil fuel subsidies, especially for LNG, increased by 44 per cent between 2018 and 2022, due to spiking global gas prices and import dependency.<sup>4</sup> In Ghana, “take-or-pay” contracts with fossil gas suppliers and independent power producers (IPPs) have added over USD 1.5 billion annually to the fiscal deficit.<sup>5</sup>

Meanwhile, oil and gas producing nations are under increasing pressure to use fossil fuel revenues to service external debt, even as global decarbonisation reduces long-term demand. Nigeria, Africa's top fossil gas producer, spent over 90% of its revenue on debt servicing in 2023, a level that severely constrains investment in essential sectors like energy access, health, and education.

In Pakistan, circular debt in the energy sector surpassed PKR 4.7 trillion (approximately USD 16.8 billion) by early 2025, driven largely by capacity payments to fossil gas-fired power

<sup>1</sup> World Bank Group. (2025). *Debt and Fiscal Risks Toolkit*. <https://www.worldbank.org/en/programs/debt-toolkit/dsa>

<sup>2</sup> UNCTAD (2024) *A World of Debt: A Growing Burden to Global Prosperity*. <https://unctad.org/publication/world-of-debt>

<sup>3</sup> Christian Aid & Debt Justice. (2024). *Between Life and Debt: How Africa is Facing the Worst Debt Crisis in a Generation*. Bond. <https://www.bond.org.uk/news/2024/05/between-life-and-debt-how-africa-is-facing-the-worst-debt-crisis-in-a-generation/>

<sup>4</sup> Centre for Policy Dialogue (CPD). (2023). *Volatile Global LNG Market and Its Impact on Public Spending in Social Sectors: Case of Bangladesh*. <https://cpd.org.bd/wp-content/uploads/2023/01/Volatile-Global-LNG-Market-and-Its-Impact.pdf>

<sup>5</sup> SOMO (2025) *Gas Lighting Ghana How World Bank-backed Projects Drive Crippling Energy Debt and Fossil Fuel Dependency in Ghana* Retrieved from <https://www.somo.nl/gaslighting-ghana/>



producers and fuel import bills. In Ghana, debt to independent power producers<sup>6</sup> has grown alongside LNG take-or-pay contracts,<sup>7</sup> which oblige the government to pay for unused fossil gas, contributing to a fiscal crisis. In Nigeria, gas sector inefficiencies have led to mounting debts within the energy value chain, despite the World Bank-backed reforms aimed at liberalisation and cost recovery.<sup>8</sup>

These examples are not isolated. They reflect a structural pattern in which fossil gas dependency – supported by IFIs' technical assistance (policy advice), development policy lending, and debt-financed infrastructure – creates new financial liabilities that burden public budgets. The resulting debt traps undermine the fiscal space needed for renewable energy investments and deepen inequalities, especially for women and marginalised communities most affected by energy poverty.

This paper explores how fossil gas investments are generating unsustainable debt; how MDBs and IFIs have enabled this trajectory; and what a people-centred, fiscally-just energy transition should look like.

## 1.2. Introducing circular debt

Circular debt – a recurring feature in fossil gas-dependent energy systems – is a financial mechanism through which systemic inefficiencies create a loop of unpaid obligations between state-owned utilities, fuel suppliers, power producers, and governments. This phenomenon is particularly pronounced in fossil gas-heavy economies where power sectors operate under subsidised tariffs, volatile import costs, and complex contractual arrangements. In such contexts, the inability of one actor to pay its

dues triggers arrears throughout the energy value chain, ultimately requiring government bailouts or additional sovereign borrowing to keep systems afloat.

In Pakistan, the circular debt crisis in the power and gas sectors reflects a chronic misalignment between generation costs and revenue collection. By December 2024, the circular debt in Pakistan's energy system had reached PKR 4.7 trillion, with delayed payments to fossil gas producers and private generators fuelling liquidity shortfalls across the system.<sup>9</sup> Similarly, in Nigeria, legacy debts in the gas to power sector, combined with non-payment by distribution companies, have stalled investments and led to regular blackouts despite significant gas reserves.<sup>10</sup>

Circular debt is more than a technical anomaly; it is a structural outcome of policies that prioritise fossil fuel investments while neglecting financial sustainability and equity. MDBs and IFIs have at times reinforced this cycle by promoting liberalised markets and tariff reforms without addressing affordability, governance, or currency risk. Fossil gas infrastructure, often financed through foreign denominated loans or public guarantees, creates liabilities that are hard to manage when energy revenues are collected in depreciating local currencies.

As governments divert public resources to manage circular debt and service sovereign loans, less fiscal space remains for clean energy investments, social services, and climate adaptation. Thus, circular debt not only reflects existing energy injustices but also reproduces them, deepening the economic and social crises it claims to resolve.

<sup>6</sup> Reuters. (2025, May 13). Ghana aims to reduce \$2.5 billion debt owed to power producers by year-end. *Reuters*. Retrieved from: <https://www.reuters.com/world/africa/ghana-aims-reduce-25-billion-debt-owed-power-producers-by-year-end-2025-05-13>

<sup>7</sup> Farand, C. (2023, August 4). Will Ghana's gas gamble perpetuate a cycle of fossil-fuel related debt? *The Guardian*. <https://www.theguardian.com/world/2023/aug/04/ghana-lng-imports-fossil-fuel-debt>

<sup>8</sup> Christian Aid Nigeria (2023) *The Role of Private Creditors in Nigeria's Debt Crisis and the Human Cost*. [https://www.christianaid.org.uk/sites/default/files/2024-01/the-role-of-private-creditors-in-nigerias-debt-crisis-and-the-human-cost\\_christian-aid-nigeria-and-cislac\\_november-2023\\_0.pdf](https://www.christianaid.org.uk/sites/default/files/2024-01/the-role-of-private-creditors-in-nigerias-debt-crisis-and-the-human-cost_christian-aid-nigeria-and-cislac_november-2023_0.pdf)

<sup>9</sup> Pakistan Ministry of Finance. (2025, March). *Fiscal Risk Statement: March 2025*. Government of Pakistan. [https://www.finance.gov.pk/publications/Fiscal\\_Risk\\_Statement\\_March\\_2025.pdf](https://www.finance.gov.pk/publications/Fiscal_Risk_Statement_March_2025.pdf)

<sup>10</sup> The Electricity Hub. (2024, December 10). *Gas Supply to GenCos Halted Over N2 Trillion Debt Crisis*. <https://theelectricityhub.com/the-nigerian-midstream-and-downstream-petroleum-regulatory-authority-has-ordered-gas-producers-to-stop-supplying-gas/>

## 2 Understanding circular debt in energy and fossil gas

### 2.1. Circular debt in energy and fossil gas

Circular debt in fossil gas-based energy systems arises from the mismatch between the high costs of fossil gas generation and limited revenue recovery, amplified by policy distortions, currency volatility, and inflexible contracts. At its core, this form of debt reflects a structural imbalance: public utilities and distribution companies cannot recover their costs due to subsidised tariffs or inefficient billing, while still being obliged to pay IPPs and fossil gas suppliers under rigid financial agreements.

Gas projects typically involve high capital costs, foreign exchange denominated fuel contracts, and long-term PPPs with guaranteed capacity payments. When demand projections fall short or foreign exchange reserves are strained, governments often resort to subsidies or sovereign borrowing to fill payment gaps. These payments become recurring fiscal liabilities. In Ghana, for example, excess fossil gas supply combined with take-or-pay clauses in power contracts led to the underutilisation of infrastructure and annual losses exceeding USD 1 billion to the state.<sup>11</sup> In Bangladesh, fiscal pressure resulting from imported LNG reached new heights by the end of 2022 with the government spending more on energy subsidies than health and social welfare, as global gas prices surged and public revenues remained insufficient.<sup>12</sup>

The circular nature of these debts stems from cascading non-payment. Distribution companies are unable to collect full payments from consumers, especially in low-income or informal settings. In turn, they fail to pay transmission

operators and generators, which then delay payments to fossil gas suppliers. Governments step in to bridge the gap, often by taking on additional debt or diverting funds from essential services.

The result is a cycle of dependency: fossil gas projects are financed through debt, maintained through subsidies, and eventually require new loans to manage arrears. This cycle disincentivises investment in distributed renewables, which offer lower life cycle costs and fewer systemic liabilities, but are deprioritised in favour of fossil gas-centric models promoted by MDBs and IFIs.

### 2.2. The role of IFIs in fossil gas circular debt

The circular debt crisis in many Global South countries is not simply the result of domestic mismanagement. It is also the outcome of decades of policy frameworks and financial instruments promoted by IFIs, particularly the World Bank Group (WBG), the IMF, and regional development banks such as the Asian Development Bank (ADB) and the African Development Bank (AfDB). Through technical assistance (TA), policy-based loans (PBLs), guarantees, and lending via financial intermediaries, IFIs have consistently pushed for energy sector reforms that favour private fossil gas infrastructure while exposing public budgets to long-term liabilities.

A cornerstone of these reforms has been the unbundling of state utilities and the introduction of market-based structures to attract private capital. MDBs encouraged governments to shift from direct public provision to models based on

<sup>11</sup> Norvan Reports. (2020). Ghana losing \$1.2 billion annually in payments for excess power and gas. Norvan Reports. <https://norvanreports.com/ghana-losing-1-2-billion-annually-in-payments-for-excess-power-and-gas/>

<sup>12</sup> Centre for Policy Dialogue (CPD). (2023). Volatile Global LNG Market and Its Impact on Public Spending in Social Sectors: Case of Bangladesh. <https://cpd.org.bd/wp-content/uploads/2023/01/Volatile-Global-LNG-Market-and-Its-Impact.pdf>

IPPs and PPPs. These were often embedded in donor-led “sector reform roadmaps” and supported by TA and PBLs. To ensure bankability, take-or-pay contracts and sovereign guarantees were standardised, effectively insulating private investors from demand and currency risks, while transferring those risks to governments.

In Mozambique, the World Bank provided technical and financial support for the development of the country’s gas sector and advised on regulatory frameworks that helped enable the USD 20 billion Mozambique LNG project, backed by export credit agencies and private financiers.<sup>13</sup> The IMF, meanwhile, supported subsidy removal and fiscal consolidation, contributing to a context in which public financing for fossil gas expansion was justified to “boost growth”.<sup>14</sup> In Nigeria, World Bank programmes supported power sector privatisation and IPP procurement, but the result was a liquidity crisis: by 2023, over USD 1.6 billion was owed to fossil gas suppliers and power producers, with daily load shedding due to underutilised capacity and payment arrears.<sup>15</sup> Bangladesh has similarly faced rising debt due to LNG imports and underused gas infrastructure.

The World Bank advised on the use of PPPs and enabled sector reforms through PBLs. At the start of 2025, Bangladesh’s Petrobangla continued to owe nearly USD455 million in arrears to LNG suppliers.<sup>16</sup> In Indonesia, ADB technical assistance facilitated fossil gas development, and through the use of TA loans

and sovereign financing, it supported private investment risk guarantees while pushing for power market liberalisation.<sup>17</sup> In Argentina, the IMF’s standby agreement (2018 to 2022) explicitly called for the elimination of energy subsidies and the enforcement of cost recovery tariffs, accelerating fossil gas dependency while exacerbating inflation and fiscal pressure.<sup>18</sup>

Across these examples, MDBs have also used guarantees (for example, the World Bank’s IBRD (International Bank for Reconstruction and Development) and IDA (International Development Association) Partial Risk and Partial Credit Guarantees), blended finance, and loans through financial intermediaries to support fossil gas infrastructure while maintaining an arm’s length approach that obscures accountability. What unites these strategies is a consistent method: enable private investment by using public funds to de-risk fossil energy projects, often gas, while constraining government spending on universal energy access or distributed renewables. These same institutions often require governments to raise tariffs, reduce subsidies, and pursue fiscal discipline, without considering the long-term cost implications of fossil gas lock-in or the social fallout from energy price hikes.

By reinforcing contractual norms like take-or-pay and prioritising private capital returns, IFIs have helped institutionalise a model where circular debt is not a failure of the system, but an expected and recurring feature.

<sup>13</sup> World Bank, Independent Evaluation Group (IEG). (2023). Mozambique Mining and Gas TA Project (P129847): Implementation Completion Report (ICR) Review. <https://documents1.worldbank.org/curated/en/099030224152540636/pdf/P12984718e4ba20e319af711230571dfa85.pdf> and Ieefa. (2025, February). List of reasons not to finance TotalEnergies’ Mozambique LNG project grows. Retrieved from: <https://ieefa.org/resources/list-reasons-not-finance-totalenergies-mozambique-lng-project-grows>

<sup>14</sup> IMF (2024). IMF Executive Board Concludes 2024 Article IV Consultation with Nigeria. <https://www.imf.org/en/News/Articles/2024/05/08/pr-24144-nigeria-executive-board-concludes-2024-art-iv-consultation>

<sup>15</sup> World Bank. (2020). Nigeria – Power Sector Recovery Performance Based Loan: Project Appraisal Document. Report No. PAD3880. <https://documents1.worldbank.org/curated/en/471151589840085797/pdf/Nigeria-Power-Sector-Recovery-Program-for-Results.pdf>

<sup>16</sup> Rahman, M. A. (2025, February 8). Overdue payments to LNG suppliers mount to \$455m. *The Financial Express*. <https://thefinancialexpress.com.bd/economy/overdue-payments-to-lng-suppliers-mount-to-455m>

<sup>17</sup> Recourse. (2025, May). Asian Development Bank technical assistance: Prolonging reliance on fossil gas under the guise of energy transition. [https://re-course.org/wp-content/uploads/2025/05/ADB-technical-assistance\\_briefing\\_digital\\_final.pdf](https://re-course.org/wp-content/uploads/2025/05/ADB-technical-assistance_briefing_digital_final.pdf)

<sup>18</sup> International Monetary Fund. (2018). Argentina: First Review Under the Stand-By Arrangement; Press Release; Staff Report; and Statement by the Executive Director for Argentina. IMF Country Report No. 18/297. <https://www.imf.org/en/Publications/CR/Issues/2018/10/26/Argentina-First-Review-under-the-Stand-By-Arrangement-Inflation-Consultation-Financing-46309>

## 2.3. MDBs, circular debt, and a just energy transition

The interaction between circular debt, unfair financial arrangements with private actors, and the policy frameworks promoted by IFIs creates structural barriers to a just energy transition. These mechanisms do not operate in isolation, they reinforce one another, effectively locking countries into cycles of fossil fuel dependency and sovereign indebtedness. Circular debt reflects the downstream impact of upstream decisions: when governments enter into take-or-pay contracts or PPAs under the guidance of IFIs, they take on repayment obligations that persist regardless of energy usage.

This has direct implications for energy transitions. In the Global South, there are currently 54 countries in debt crisis,<sup>19</sup> and many more in a critical debt situation. Debt payments are now at their highest levels in 30 years.<sup>20</sup> High

levels of debt mean that countries lack the resources to meet the needs of people, including addressing the climate emergency and transitioning to clean energy. Global South countries are currently spending five times more on debt payments than on addressing the climate crisis.<sup>21</sup> Moreover, IFIs have been slow to support grant-based or non-extractive climate finance options, instead favouring blended finance or private sector-led models that mirror fossil fuel investment structures.

In effect, MDBs and the IMF have enabled a system that incentivises fossil gas extraction and consumption, protects private capital, and transfers financial risk to the public. A just energy transition, one that centres equity, public ownership, and clean energy access, cannot proceed under these conditions without fundamental reform of international public finance.

<sup>19</sup> United Nations. (2022, October). UN Development Programme calls for debt relief now for 54 countries. *UN News*. <https://www.un.org/en/information-centre-caribbean/un-development-programme-calls-debt-relief-now-54-countries>

<sup>20</sup> Debt Justice. (2024, December). Lower-income country debt payments hit highest level in 30 years. *External debt service: Latest World Bank figures*. <https://debtjustice.org.uk/press-release/lower-income-country-debt-payments-hit-highest-level-in-30-years>

<sup>21</sup> Debt Justice. (2021, October). Lower income countries spend five times more on debt than dealing with climate change. <https://debtjustice.org.uk/press-release/lower-income-countries-spend-five-times-more-on-debt-than-dealing-with-climate-change>



## 3 Case studies

### 3.1. Ghana's Sankofa Gas Project

Ghana historically met its energy needs through the development of its hydro resources for electricity generation, while from the 1990s it increasingly relied on imported crude oil and petroleum products to meet the country's transportation and thermal power needs. In this context, prior to 2007, the lack of oil or fossil gas production meant Ghana's economic performance was vulnerable to sharp and unpredictable swings in international oil prices. However, the discovery of a number of commercially viable oil and fossil gas deposits in offshore waters that year presented the country with a new prospect: lower cost, domestic oil and gas supply to meet a significant share of its growing energy needs while simultaneously enhancing energy security.

One of the discoveries, the Sankofa oil and gas field, was expected to produce 30,000–45,000 barrels per day of oil on average from 2017–2022, equivalent to approximately USD 5 billion (at 2020 World Bank Group oil price projections). In addition, non-associated gas production from Sankofa was expected to start in the first half of 2018, continue for 15 years at average production levels of 170 million standard cubic feet per day, and displace imports of higher cost liquid fuels. The World Bank supported the development of the project.<sup>22</sup>

The Sankofa Gas Project is located in the Western Region of Ghana in the Gulf of Guinea, around 60 kilometres south of the Sanzule village where the onshore component of the project is sited. The local economy is predominantly based on fishing and farming, and

the region is often referred to as "Coconut City" due to its abundant coconut plantations. However, the standard of living and the natural environment have experienced a decline since the project's construction.

Local communities have faced significant issues including sleep impacts due to the brightness of gas flaring, low fish harvests due to the disturbance of surrounding waters, economic difficulties as the plant has not increased local employment, biodiversity losses, and insufficient methods to pursue consultation or grievances.

The World Bank's commitment of USD 1.2 billion to the Sankofa Gas Project has locked Ghana into payments of USD 600 million a year regardless of gas demand,<sup>23</sup> with take-or-pay contracts leaving a shortfall in revenue and increasing the country's debt. Rather than delivering the economic promise of domestic production, fossil fuel projects in Ghana have resulted in more expensive, foreign-led power production contracts that exhaust over USD 1 billion of Ghana's public funds each year.<sup>24</sup>

In 2024, Ghana's debt stood at 92.4% of GDP.<sup>25</sup> The advice and technical support provided by the World Bank played a role in driving this debt. Indeed, by providing financial backing for the Sankofa Gas Project, the World Bank enabled money to flow to foreign investors while seemingly ignoring its own commitments to align with the Paris Agreement and to deliver affordable, clean energy.

<sup>22</sup> World Bank. (2020, June). *Implementation Completion and Results Report: The Sankofa Gas Project*. <https://documents1.worldbank.org/curated/en/601881593704591424/pdf/Ghana-Sankofa-Gas-Project.pdf>

<sup>23</sup> SOMO. (2025, April). *Gaslighting Ghana: Predatory investments and the role of the World Bank Group in driving fossil fuel debt*. <https://www.somo.nl/gaslighting-ghana/>

<sup>24</sup> Ibid.

<sup>25</sup> erlassjahr.de. (2024). *Global Sovereign Debt Monitor 2024*. <https://erlassjahr.de/wordpress/wp-content/uploads/2024/04/GSDM24-online.pdf>

## 3.2. Vaca Muerta: debt and fracking

The Vaca Muerta oil and gas project has been a major focus for Argentina's development policy for over a decade. Located in the south of the country in Patagonia's Neuquén Basin, Vaca Muerta is the world's second largest fossil gas reserve.<sup>26</sup> This fact led it to be heralded as a solution to Argentina's debt and energy crises – an opportunity to bring in foreign currency to pay the country's external debt while producing new levels of energy to meet the population's needs. With oil extraction at Vaca Muerta reaching record levels and gas production rising year-on-year,<sup>27</sup> promises of economic prosperity and job creation have been widely expressed. However, the seeming success of Vaca Muerta comes with economic, social and environmental costs.

The sheer magnitude of Vaca Muerta is such that it represents 11.4% of the remaining global carbon budget in a 1.5°C-aligned climate scenario.<sup>28</sup> As a shale gas production project, extraction at Vaca Muerta involves fracking, meaning it is responsible for a litany of impacts: seismic activity, water conflicts, waste management problems, air and soil contamination, destruction of agricultural land, threats to local livelihoods and food sovereignty, and the systematic exclusion of affected communities – particularly women and Indigenous Peoples – from environmental decision-making processes, in addition to the subjugation of Indigenous communities.

Economically, Vaca Muerta is extremely costly to operate, with each new well costing millions,

requiring the industry to seek financial assistance for development. Argentina is a highly-indebted country with almost 53% of the population living in poverty, meaning it is mainly foreign companies investing (with significant subsidies) and therefore profiting.<sup>29</sup>

In 2024, Argentina's estimated debt stock was equivalent to 84.7% of its GDP. In turn, the ratio between debt service and annual export revenues was 31.8%, which indicates that external debt service is so high that exports cannot, at present, generate enough foreign currency to repay interest and principal owed.<sup>30</sup>

Among the public banking institutions that have granted financing to projects in Vaca Muerta are the Inter-American Development Bank (IADB) and the International Finance Corporation (IFC, part of the World Bank Group). Moreover, Vaca Muerta's exploitation has been recommended by the IMF<sup>31</sup> – the IMF has explicitly supported Argentina's large-scale export of fossil fuels as a way to balance accounts and repay its debt.<sup>32</sup> But this locks Argentina into a pathway where debt repayments rely on more fossil fuel extraction – while more fossil fuel extraction in turn generates more debt. The high dependence on international financing limits Vaca Muerta's capacity to bring in foreign currency to repay its debt and instead sees profits flowing overseas. All while these approaches for purported economic stability take no account of the climate commitments made by the financial institutions or Argentina itself.

<sup>26</sup> U.S. Energy Information Administration. (2013, June). *Technically Recoverable Shale Oil and Shale Gas Resources: An Assessment of 137 Shale Formations in 41 Countries Outside the United States*. <https://www.eia.gov/analysis/studies/worldshalegas/pdf/fullreport.pdf>

<sup>27</sup> Reuters. (2024, November). Argentina's Vaca Muerta region hits record oil production in Q3, Rystad says. <https://www.reuters.com/markets/commodities/argentinas-vaca-muerta-region-hits-record-oil-production-q3-rystad-says-2024-11-29/>

<sup>28</sup> 350.org. (2022) Argentinian "Carbon Bomb" Jeopardizes Climate Efforts. Retrieved from <https://350.org/press-release/vaca-muerta-is-a-carbon-bomb-that-could-eat-up-more-than-11-of-the-global-co%E2%82%82-budget/>

<sup>29</sup> The Guardian (2024) Everything is so bad': Argentina's poor hit hard by Milei's 'chainsaw' measures. <https://www.theguardian.com/world/2024/dec/18/argentina-javier-milei-chainsaw-measures>

<sup>30</sup> erlassjahr.de. (2024). Global Sovereign Debt Monitor 2024. <https://erlassjahr.de/wordpress/wp-content/uploads/2024/04/GSDM24-online.pdf>

<sup>31</sup> FARN. (2021, November). *International Financial Institutions and their role in Vaca Muerta (Spanish)*. [https://farn.org.ar/wp-content/uploads/2021/10/DOC\\_VACA-MUERTA-Inst-Financieras-FINAL-links.pdf](https://farn.org.ar/wp-content/uploads/2021/10/DOC_VACA-MUERTA-Inst-Financieras-FINAL-links.pdf)

<sup>32</sup> Recourse. (2023, April). CSO letter to the IMF: Fiscal costs of the climate crisis in the fourth review under Argentina's Extended Fund Facility arrangement. <https://re-course.org/newsupdates/cso-letter-to-the-imf-fiscal-costs-of-the-climate-crisis-in-the-fourth-review-under-argentinas-extended-fund-facility-arrangement/>

### 3.3. Pakistan's fossil gas trap

As of the end of January 2025, Pakistan's power sector circular debt stood at PKR 2.4 trillion, equivalent to 2.1% of the country's GDP.<sup>33</sup> In addition, the total accumulated gas circular debt was estimated at PKR 2.8 trillion at the end of 2024 (approximately 2.7% of GDP).<sup>34</sup> This brings the total energy sector circular debt to over PKR 5.2 trillion, representing a significant burden on the national economy.

The circular debt is often attributed to factors like price mismatches, inefficient subsidies, low recovery from consumers, and delayed government payments and price adjustments. However, the root cause lies in the influence of IFIs on Pakistan's energy policies. With the support of the IMF and the World Bank, Pakistan entered power sector reforms in the 1990s that introduced fossil fuel-based IPPs into the system.<sup>35</sup> As a result, Pakistan became locked into fossil fuel dependency. Even today, many thermal IPPs run on expensive imported fuels like regasified liquefied natural gas (RLNG) and imported coal, which continue to drive up circular debt in the energy sector.<sup>36</sup>

LNG is bought in dollars under long-term contracts – making the country extremely vulnerable to global price spikes, spot market shocks, and currency devaluation. Rising LNG dependence in Pakistan is a recipe for high costs, financial instability, and energy insecurity | IEEFA<sup>37</sup> These contracts, heavily influenced by

the World Bank and Asian Development Bank through their so-called 'technical assistance' in 2015, have trapped Pakistan in a cycle of debt and energy insecurity.<sup>38</sup> Now, as the public turns to solar energy to escape unaffordable electricity tariffs, LNG demand is collapsing, and the government is being forced to delay shipments – wasting billions on unused fuel while ordinary people suffer with capacity payments – the charges paid to IPPs regardless of actual electricity use.<sup>39</sup>

In 2019, when Pakistan entered its 22nd IMF programme under the Extended Fund Facility (EFF), the primary objectives were stated thus: "reduce public debt and build resilience while social spending will be expanded and the most vulnerable supported".<sup>40</sup> However, the measures implemented painted a very different picture. These measures included withdrawal of consumer subsidies and hikes in electricity tariffs to cover capacity payments.<sup>41</sup> By 2022, consumers were paying for 54% of unused generation capacity from these dollarised IPPs, many of which were established under the privatisation reforms promoted by the IMF and World Bank in the 1990s.<sup>42</sup> This trend is projected to worsen in the 2025 financial year: capacity payments are expected to account for 70% of the electricity tariff, while only 30% will reflect the actual cost of energy, further deepening the affordability crisis for the public.<sup>43</sup>

<sup>33</sup> Business Recorder (2025, May) Pakistan commits to clear Rs2.4trn circular debt by end of FY25. <https://www.brecorder.com/news/40363405/pakistan-commits-to-clear-rs24trn-circular-debt-by-end-of-fy25>

<sup>34</sup> Business Recorder (2025, May) IMF delineates steps to address gas circular debt. <https://www.brecorder.com/news/40363406>

<sup>35</sup> Recourse (2024, October) Off track: The long road to mainstreaming climate action into IMF lending. [https://re-course.org/wp-content/uploads/2024/10/Off-track\\_mainstreaming-climate-action-into-IMF-lending\\_October-2024\\_Recourse.pdf](https://re-course.org/wp-content/uploads/2024/10/Off-track_mainstreaming-climate-action-into-IMF-lending_October-2024_Recourse.pdf)

<sup>36</sup> IGCEP (2024) IGCEP 2024-34 Report. <https://nepra.org.pk/Admission%20Notices/2024/05%20May/IGCEP%202024-34%20Report.pdf>

<sup>37</sup> IEEFA (2022) Report LNG Energy Security Energy Policy Pakistan. <https://ieefa.org/resources/rising-lng-dependence-pakistan-recipe-high-costs-financial-instability-and-energy>

<sup>38</sup> Recourse (2022, June) The Trouble with Gas in Pakistan. [https://re-course.org/wp-content/uploads/2022/06/The-Trouble-with-Gas-in-Pakistan-2\\_compressed.pdf](https://re-course.org/wp-content/uploads/2022/06/The-Trouble-with-Gas-in-Pakistan-2_compressed.pdf)

<sup>39</sup> The News Pakistan (2024, November) Qatar bails out Pakistan by deferring 5 LNG cargoes to 2026. <https://www.thenews.com.pk/print/1248670-qatar-bails-out-pakistan-by-deferring-5-lng-cargoes-to-2026>

<sup>40</sup> IMF (2019, July) Pakistan: Request for an Extended Arrangement Under the Extended Fund Facility-Press Release; Staff Report; and Statement by the Executive Director for Pakistan. <https://www.imf.org/en/Publications/CR/Issues/2019/07/08/Pakistan-Request-for-an-Extended-Arrangement-Under-the-Extended-Fund-Facility-Press-Release-47092>

<sup>41</sup> FPCCI (2024) Impact of the IMF Programs: A Context of Pakistan. <https://fpcci.org.pk/wp-content/uploads/2024/01/Impact-of-IMF-Programs-A-Context-of-Pakistan.pdf>

<sup>42</sup> NEPRA (2022) State of Industry Report 2022. <https://nepra.org.pk/publications/State%20of%20Industry%20Reports/State%20of%20Industry%20Report%202022.pdf>

<sup>43</sup> Tribune Pakistan (2024, May) Capacity payments to haunt power users. <https://tribune.com.pk/story/2468045/capacity-payments-to-haunt-power-users>

Serious flooding in 2022 affected 33 million people, destroyed 1.7 million homes, and killed more than 1,700 people in Pakistan.<sup>19</sup> The IMF's response included deep cuts to social spending, complete removal of fuel and electricity subsidies, sweeping tax hikes, and policies that further devalued the local currency. Further 2023 fiscal consolidation measures ended in increased energy and food inflation that pushed over 4 million people into poverty.<sup>20</sup>

Pakistan's progress towards a clean energy transition was additionally hindered when the IMF-approved 2023 budget imposed a 20% tax on solar and wind technologies and increased the sales tax on imported electric vehicles by 12%.<sup>21</sup> Recently, in 2025, the IMF also refused to allow sales tax exemptions on electric vehicles, including their parts.<sup>22</sup>

The IMF and MDBs' push for fossil fuel projects and energy policies have deeply harmed vulnerable communities in Pakistan. Women, who are primarily responsible for securing food, water, and fuel for their families, faced greater hardships as energy prices rose and environmental degradation worsened.

Addressing the deep-rooted influence of IFIs and cancelling illegitimate debt are essential to breaking Pakistan's fossil fuel dependency and energy debt crisis. Debt arising from capacity payments to fossil fuel-based IPPs – established under policies influenced by IFIs – should be considered illegitimate and cancelled. Without debt relief, a fossil fuel phase-out in Pakistan will remain unfeasible, as rising capacity payments continue to drive the energy sector's circular debt crisis.

<sup>19</sup> World Bank (2022, October) Pakistan: Flood Damages and Economic Losses Over USD 30 billion and Reconstruction Needs Over USD 16 billion - New Assessment. <https://www.worldbank.org/en/news/press-release/2022/10/28/pakistan-flood-damages-and-economic-losses-over-usd-30-billion-and-reconstruction-needs-over-usd-16-billion-new-assessme>

<sup>20</sup> World Bank (2023, June) Pakistan: World Bank Approves \$200 million in support of Citizen-Driven Rural Investments and Post-Floods Rehabilitation for Khyber Pakhtunkhwa Province. <https://www.worldbank.org/en/news/press-release/2023/06/12/pakistan-world-bank-approves-200-million-in-support-of-citizen-driven-rural-investments-and-post-floods-rehabilitation-f#:~:text=Pakistan%20has%20been%20a%20member,%2C%20inclusion%2C%20and%20service%20delivery>

<sup>21</sup> Recourse (2023, October) How Are the IMF and The World Bank Shaping Climate Policy? Lessons from Pakistan. <https://re-course.org/newsupdates/new-report-shows-that-imf-and-wbgs-policy-support-is-undermining-climate-and-development-goals-in-developing-countries/>

<sup>22</sup> ARY News (2025, February) IMF objects over sales tax relief on EVs in climate financing talks. <https://arynews.tv/imf-objects-sales-tax-relief-evs-climate-financing-talks/>

## 4 Recommendations

In light of the findings linking fossil gas, escalating debt burdens, deepening energy poverty, and worsening climate impacts, the following recommendations are vital to stop the circular debt crisis:

1. **MDBs and other IFIs must stop supporting fossil gas in their lending and policy advice.** Instead, they must facilitate the just transition to renewable energy that meets the needs of people, particularly women and marginalised communities, ensuring that all financing is aligned with a 1.5°C climate scenario.
2. **MDBs and the IMF must align their climate and lending policies.** Policies and recommendations must respond to science, not just the short-term needs of the largest creditors.
3. **Debts accrued from fossil fuel projects should be recognised as illegitimate and cancelled** so that countries are not forced to make repayments for activities that have caused harm to people or locked countries into climate-harmful activities.
4. **Ambitious debt cancellation should be implemented for all countries that need it, across all creditors, free from economic conditions.** This will free up resources at a national level to address multiple crises, and mean Global South countries are not reliant on revenues from fossil fuels to repay debt.
5. **New laws in key jurisdictions, including England and New York, should be introduced to ensure private creditors' participation in debt restructuring processes.** A key barrier to current debt relief processes has been the lack of a robust

mechanism to ensure that private creditors participate on a fair and equitable basis. As a result, they have been able to stall, delay and seek maximum profit within restructuring negotiations. The introduction of such laws would help to speed up negotiations, provide clarity, and strengthen the hand of countries seeking debt restructurings.

6. **Debt cancellation should be provided free from economic conditions** so that governments and people have fiscal and decision-making space to determine where freed-up resources can best be allocated, including in the transition to clean energy.
7. **Beyond debt cancellation, governments around the world must agree to a UN framework convention on sovereign debt to reform the global debt architecture which is not fit for purpose.**<sup>48</sup> This would encompass reforms that address inequalities in the debt system, prevent irresponsible lending and borrowing that perpetuate debt crises, and introduce a multilateral sovereign debt resolution mechanism to ensure just and fair debt resolution when crises do occur.<sup>49</sup>
8. **Climate finance, including finance provided by MDBs, the IMF, and other IFIs, must be grant-based and not add to the debt levels of Global South countries.** Global North countries should not hide behind MDBs and additional debt-creating mechanisms to avoid their responsibility in delivering climate finance for the Global South.

<sup>48</sup> Eurodad. (2024, October). *UN framework convention on sovereign debt: Building a new debt architecture for economic justice*. [https://assets.nationbuilder.com/eurodad/pages/4688/attachments/original/1729260399/01\\_debt-architecture-briefing-EN-oct18.pdf](https://assets.nationbuilder.com/eurodad/pages/4688/attachments/original/1729260399/01_debt-architecture-briefing-EN-oct18.pdf)

<sup>49</sup> Ibid.





## Acknowledgements

Big Shift Global would like to thank Izzah Batool of Indus Consortium, Rajneesh Bhuee of Recourse, Gloria Kafui Kuzo of Strategic Youth Network for Development - Ghana, Guillermina French of Fundación Ambiente y Recursos Naturales, Marjorie Pamintuan of Recourse, Sophie Richmond of Big Shift Global, and Tess Woolfenden of Debt Justice for their work in writing this briefing, and to all the members of the coalition who provided their insights and expertise.

Cover image by Andrew Zarate, created under the principles of fair dealing, quotation, and public interest use. Resemblance to any images is incidental or representational.

Published June 2025