Briefing Note Fourteen (July 2023)

The Bridgetown Initiative: An international financial architecture fit-for-purpose for climate finance?[1]

1. Background

The urgent goals for climate justice for people and planet are being undermined by a challenging global economic environment affecting the capacities of many countries to meet the challenges of the climate crisis. This environment has been compounded by an unprecedented polycrisis – a multiyear global pandemic, a war of aggression in Europe, geopolitical polarization and fragmentation, and a growing north/south divide in climate diplomacy.

In this environment inequalities are expanding dramatically. Agenda 2030 and its 17 Sustainable Development Goals are significantly off track. Extreme poverty is growing again. Many developing countries are facing a renewed debt crisis – one third of developing countries and two thirds of low-income countries are at high risk of debt distress, according to the International Monetary Fund. Servicing debt is severely constraining the fiscal capacity of these countries to meet the basic needs of their populations and address impacts of the climate crisis. The climate and debt crises are magnifying each other and rapidly spiraling out of control.

In this alarming context, the Prime Minister of Barbados, Mia Mottley, and her climate finance envoy, Avinash Persaud, convened a high-level meeting in Bridgetown in July 2022 with academics, IMF executives, and the U.N. deputy secretary-general among others. At this meeting, they set out a series of ambitious proposals aimed at dramatically scaling up international climate finance and making access easier for those developing countries most vulnerable to climate change. Arguing that the current International Financial Architecture is "entirely unfit for purpose in a world characterized by unrelenting climate change, increasing systemic risks, extreme inequality" these proposals became known as the 'Bridgetown Initiative.' They have informed discussions at all high-level meetings since then, and have evolved accordingly over this past year. A Bridgetown 2.0 was published in May 2023.[2] (See **Annex One** for details of Bridgetown 2.0)

Prime Minister Mottley first presented the Initiative at the UN General Assembly in September 2022 and she galvanized attention for the Initiative at the November COP27 in Sharm El-Sheikh, Egypt. Since then, there have been calls for urgent fundamental reform of the global financial architecture coming from many

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[1] This Briefing Note was research and written by Brian Tomlinson, AidWatch Canada, in July 2023. It will be updated regularly. It has been prepared on behalf of the Canadian CSO Coalition on Climate Change and Development (C4D).

[2] See the first iteration of the Bridgetown Initiative (September 2022), which is summarized as a three-step call for action in a one-page document accessed at https://gisbarbados.gov.bb/download/the-2022-barbados-agenda/#. In May 2023 the Bridgetown Initiative evolved into a 2.0 version with six main areas of action, which is accessible at https://www.globalpolicy.org/sites/default/files/Bridgetown2.0-1page%20(2).pdf. This analysis focuses on the 2.0 version.

quarters. Responding to a parallel process in the G20, in January 2023, the World Bank set out a modest "Evolution Roadmap" "to better address the scale of development challenges such as poverty, … inequality, and cross-border challenges including climate change, pandemics, and fragility, conflict and violence, that all affect the Group's ability to achieve its mission."[3]

The most climate vulnerable countries have also been vocal with their own proposals. The V20 (58 of the most climate-threatened developing countries) launched its *Accra-Marrakech Agenda* in April 2023.[4] Similar to Bridgetown, their focus is unsustainable debt, transforming the international and development financial system, and "revolutionizing risk management for our climate insecure world economy." (See **Annex Two** for the details of this V20 Agenda) The V20 built on this Agenda for the June 2023 Macron Summit for a New Global Financing Pact, with a more detailed Statement for an *Emergency Coalition for Debt Sustainability and Climate Prosperity*.[5]

More broadly, India, currently holding the G20 Presidency, in March 2023, launched a G20 Expert Group on Strengthening Multilateral Development Banks (MDBs). Its purpose is to assess the scale of financing required from the MDBs to achieve the SDGs and "transborder challenges," such as health and climate change and to propose a roadmap for an updated ecosystem for the 21st century.[6]

All of these proposals align with the UN Secretary General's recent call for international financial architecture reform, which forms part of his appeal for an SDG Stimulus Package of at least US$500 billion per year in additional finance to achieve Agenda 2030.[7]

There is a high level of synergy in the proposals emanating from the global south with the Bridgetown Initiative. Given the recent attention to the latter, this Briefing Note sets out and assesses its main areas for action, highlights some civil society reactions as well as the Canadian Government's known positions.

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[3] See https://www.worldbank.org/en/news/statement/2023/01/13/world-bank-group-statement-on-evolution-roadmap. This Roadmap has been substantially critiqued by a coalition of 74 CSOs and individuals from around the world in July 2023, which can be accessed at https://www.eurodad.org/civil_society_calls_for_rethink_of_world_banks_evolution_roadmap?utm_campaign=newsletter_13_07_2023&utm_medium=email&utm_source=eurodad

[4] See https://www.v-20.org/accra-marrakech-agenda.

[5] See https://www.v-20.org/our-voice/statements/group/v20-statement-on-emergency-coalition-for-debt-sustainability-and-climate-prosperity. In March 2023 African Ministers of Finance also called for decisive action on debt to enable the needed investments in development and climate adaptation in their countries. See https://www.uneca.org/stories/african-ministers-call-for-a-reformed-global-debt-architecture.

[6] See https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1911378

[7] See https://www.un.org/sustainabledevelopment/wp-content/uploads/2023/02/SDG-Stimulus-to-Deliver-Agenda-2030.pdf

2. What are the Key Policy Proposals for the Bridgetown Initiative?

The Bridgetown Initiative is intended to be an integrated development and resilience strategy to achieve both Agenda 2030 and the SDGs as well as the goals of the Paris Agreement for Climate Change. It calls for both a massive scaling up of development finance as well as a more inclusive and equitable global economic governance. It has six main areas for action:

a) Provide immediate financing liquidity to developing countries

The scale of financing required to transform the economies of developing countries to cut emissions and deal with the impacts of climate change is US$1.8 trillion annually. These amounts are far beyond what could be expected from ODA. According to Avinash Persaud, the estimate is US$1.4 trillion a year mobilized from the private sector for green energy transformation, US$300 billion a year for adaptation, and US$100 billion annually for loss and damage action.[8] These numbers are consistent with the June 2023 recommendations from the G20 Expert Group. This scale of finance implies a compete rethink of the nexus of climate, debt and development.

The Bridgetown Initiative's proposal in this area relies on the facilities of the International Monetary Fund:

- **Fast track the re-channeling of US$100 billion of Special Drawing Rights (SDRs)** to developing countries through the IMF-managed Poverty Reduction and Growth Trust (PRGT) and the Resilience and Sustainability Trust (RST). In response to the COVID-19 pandemic, the IMF agreed to allocated an additional US$650 billion in SDRs to its members. SDRs are an international currency asset that members can translate into their own currency for investment and development, but are allocated based on the member's wealth-based voting share in the IMF.

  As part of this earlier distribution of SDRs, developed countries agreed to allocate US$100 billion of their share of SDRs to capitalize these Trust Funds, which would be accessed by developing countries urgently in need of new financing. Not all developed countries have contributed, although the Director of the IMF reported at the end of June 2023 that the US$100 billion had been committed, with lingering uncertainty about the US's share, which is dependent on Congress. Canada reported that it had channeled almost 40% of its new SDRs to both Trust Funds – Cdn$1 billion to the PRGT and Cdn$2.44 billion to the RST.[9]

  SDRs provide an excellent avenue to increase fiscal space for developing countries as they create new money and not a debt instrument. The current arrangement for allocating these SDRs

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[8] Fiona Harvey, "Countries are drowning: Climate expert calls for urgent rethink on scale of aid for developing world," Guardian, June 18, 2023, accessed at https://www.theguardian.com/environment/2023/jun/18/countries-are-drowning-climate-expert-calls-for-urgent-rethink-on-scale-of-aid-for-developing-world

[9] Statement by the Honourable Chrystia Freeland to the 47th Meeting of the International Monetary Fund and Financial Committee, April 2023, accessed at https://www.canada.ca/en/department-finance/news/2023/04/statement-by-the-honourable-chrystia-freeland-deputy-prime-minister-and-minister-of-finance-canada.html. However, out of that 40%, more than half (22%) was earmarked for Ukraine and the rest (18%) was available to all other low and lower-middle income countries.

however through the Trust Funds unfortunately turn the SDRs (as capitalization) into concessional loans to recipient countries, often accompanied by IMF policy conditionalities.

- **No new SDR distributions** The original Bridgetown Initiative 1.0 had a proposal for the IMF to allocate an additional US$650 billion in SDRs as a financial guarantee for a multilateral agency (a Climate Mitigation Trust) to accelerate (de-risk) private sector investment in low carbon transitions in developing countries. This proposal has been dropped in the 2.0 version, in favour of accelerated concessional lending by the MDBs, likely as a result of reluctance to increase SDRs by the high income developed countries that control the IMF. It also brings the Bridgetown proposals for finance in line with the UN Secretary-General's proposal of an "SDG Stimulus Package" (US$500 billion annually for the sustainable development agenda).

b) Restore debt sustainability

Proposals for debt sustainability are a critically important addition to Bridgetown 2.0. Sixty percent (60%) of low-income countries are in, or on the edge of, debt distress; these countries are currently spending five times more on debt servicing than on climate adaptation each year.[10] More broadly, public debt has been accelerating in developing countries mainly due to growing development needs, exacerbated by the pandemic, rising interest rates and climate change, with limited access to alternative financing sources. Developing countries are relying much more on private sector creditors and China, making credit more expensive and debt restructuring complex.

Mounting debt is constraining developing country capacities to meet basic health and education needs of their population and to finance development and climate initiatives. According to the International Institute for Environment and Development, in 2021, 59 countries paid US$33 billion in debt repayments to creditors and received only US$20 billion in new climate finance from developed countries.[11] More than 55 countries pay more than 10% of their public revenues in debt service. In Africa the amount spent on interest payments is higher than spending on either education or health! In total 3.3 billion people live in countries that spend more on debt interest than on health.[12] Debt relief is therefore a critical issue for climate finance and development progress.

The Bridgetown Initiative call for creditor countries,

- **To redesign the G20's Common Framework for Debt Treatment** by speeding up debt relief and cancellation and to allow middle-income countries to make use of the Common Framework. To date, the Common Framework has focused on a few debt-distressed low-income countries, and at

[10] Richard Kozui-Wright, "A Climate Finance Goal that Works for Developing Countries," UNCTAD, June 14, 2023, accessed at https://unctad.org/news/climate-finance-goal-works-developing-countries.

[11] Quoted in Carbon Brief, "Does a new 'global pact, accelerate climate finance for developing countries?," July 4, 2023, accessed at https://www.carbonbrief.org/qa-does-a-new-global-pact-accelerate-climate-finance-for-developing-countries/.

[12] UN Global Crisis Response Group, "A World of Debt: A growing burden to global prosperity," United Nations, July 2023, accessed at www.osgmisc_2023d4_en.pdf.

best, has extended terms for existing debt during the peak of the Covid-19 pandemic. It is not an avenue for debt cancellation or debt sustainability. CSOs argue for a more fundamental reform of debt architecture including an independent UN Debt Authority or a multilateral legal framework for debt restructuring.

- **To implement debt service standstills** and to adopt zero cost natural disaster clauses in all lending instruments for when a county experiences climate induced loss and damage. At the June 2023 Macron Summit, the World Bank announced it was implementing a climate resilient debt clause, but only for new loans and with case-by-case approvals by the Bank.[13]
- **To agree on new international resources to fund the UNFCCC Loss and Damage Fund** to US$100 billion per year.

c) Mobilize private sector investment to over US$1.5 trillion per year for green and just transformation; and **d) Increase official sector development lending for SDGs to US$500 billion per year**

As noted above, there is an urgent need for US$1.8 trillion in investment in mitigation for a green and just energy transformation, for adaptation, and for loss and damage finance.[14] While separate Bridgetown proposals, mobilizing private sector investment and increasing official sector lending are closely linked in donor efforts to meet these financing needs. The Bridgetown proponents acknowledge the need for grant financing for adaptation and loss and damage. But the proposals largely revolve around increasing loan finance on better terms than market rates, focusing on "derisking" private sector investment in developing countries, and improving access to this finance for all developing country partners, whether low-income or middle-income countries. Other than expressing its need, there are no proposals to increase grant finance at scale and in the short term.

The Bridgetown Initiative call for providers,

- **To ramp up concessional loans and grants available for all developing countries**, many of whom face very high borrowing costs in private financial markets. African countries on average pay four times more for borrowing than the United States, and eight times more than the wealthiest European countries.[15] Bridgetown supports measures to increase donor callable capital for MDBs to significantly expand lending by these MDBs. (Callable capital is only paid into the MDB if loans

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[13] See this analysis of Debt Suspension Clauses: C. Landers and Rakan Aboneaaj, "Debt Suspension Clauses to the Rescue," Center for Global Development, June 16, 2023, accessed at https://www.cgdev.org/publication/debt-suspension-clauses-to-rescue.

[14] Persaud breaks this amount down to $1.4 trillion mobilized from the private sector for a green energy transformation, $300 billion for adaptation, and $100 billion annually for loss and damage action. The G20 Experts Group reported in July 2023 documenting the need for $3 trillion annually for the SDGs by 2030, including $1.8 trillion for climate action (noted above) and $1.2 trillion in additional spending for other SDGs. See Harvey F.,. "Countries are drowning: Climate expert calls for urgent rethink on scale of aid for developing world," Guardian, June 18, 2023, accessed at https://www.theguardian.com/environment/2023/jun/18/countries-are-drowning-climate-expert-calls-for-urgent-rethink-on-scale-of-aid-for-developing-world

[15] UN Global Crisis Response Group, op. cit.

default and the Bank requires this capital to cover losses. It does not appear as an expenditure in donors' budgets but has to be set aside.)

- **To expand project preparation support, risk reduction instruments, blended finance**, and viability gap funding in order to strengthen the pipeline of bankable development and climate projects.
- **To re-channel SDRs not just to IMF Trusts but also to MDBs**, starting with the African Development Bank.
- **To expand the eligibility of developing countries for concessional finance to capture vulnerability in the MDB eligibility criteria by moving beyond the sole reliance on 'GDP per capita'.** They call on donors to provide 50-year low-cost loans to vulnerable countries (including currently ineligible middle-income countries). As noted below, low-income countries have raised serious concerns about the implications of this proposal for LDCs who face multiple vulnerabilities and limited access to finance, except through grants and low-cost loans from the World Bank's International Development Association (IDA) window.

e) Ensure that the multilateral trading system supports the green and just transformation

Clearly, the current structure and unequal terms of trade can have a major impact on developing countries' resources to tackle the climate emergency. While important, this new addition to the Bridgetown Initiative 2.0 has not been fully developed. With no specifics, it calls on the WTO, the ILO, UNCTAD and major trading partners to ensure supply chains become resilient and raw material producing nations benefit.

Yet Bridgetown makes no mention of a UN Tax Convention, whereby taxation measures might allow developing countries to more fully capture revenue from raw material resource extraction, including metals essential to renewable energy sources and batteries. African countries have led this initiative for a Convention in the UN General Assembly, but with strong resistance from developed countries, who prefer to work with the OECD, a body they control, on international tax reform.[16]

f) Reform the governance and operations of the International Financial Institutions (IFIs)

A key Bridgetown proposal has been for reform of the IFIs "to be more inclusive and equitable in governance, voice, representation and access to finance." While again no details have been elaborated, this call for a more inclusive financial architecture echoes proposals from the G20, other developing countries and civil society.

The World Bank has responded to these calls with its "Evolution Roadmap," which can be viewed as modest institutional level reform, not a transformative approach to multilateral governance.[17] A focus for

[16] See for example, Eurodad, "Growing support for a UN Convention on Tax," April 2023, accessed at https://www.eurodad.org/growing_support_for_a_un_convention_on_tax.

[17] World Bank, "Evolving the World Bank Group's Mission, Operations, and Resources: A Roadmap," December 2022, accessed at

this Roadmap is an expansion of the Bank's mandate beyond poverty reduction, towards one that also addresses inter-linkages with "global challenges," such as climate change, pandemic risks, and fragility conflict and violence. The latter is also a key aspect of the Bridgetown Initiative.

Developing countries and civil society have called for more inclusive governance reforms. These reforms must enhance Bank shareholding for emerging and developing countries, breaking the stranglehold of the United States and other developed countries over Bank decision-making. Many see such reform as a precondition for a credible role for the Bank in a "fit-for-purpose" international financial architecture going forward.

Climate justice also requires a rights-based, people-centered approach to international economic and financial governance.[18] The Bank currently lacks a human rights policy, one that mandates ex-ante assessments of the human rights impacts of loans and policy recommendations for human rights. It should require full gender monitoring of all Bank approaches to lending, including its overwhelming reliance on private sector instruments and the Bank's policy lending (which is currently not covered by the Bank's Gender Strategy).[19]

3. What are the main issues of concern for civil society?

Civil society has welcomed the leadership of Prime Minister Mina Mottley in galvanizing global attention to the urgent need for financing reform and innovation to address climate crisis now. The impacts of the climate emergency are compounding as they affect billions of people, particularly in the most vulnerable countries. Emphasizing the importance of practical and rapid initiatives, Mottley has succeeded in putting specific proposals at the centre of key global policy arenas, ranging from the UNFCCC COP process, to the G7 and G20, the World Bank, and the UN General Assembly. Given the power of IFIs in international financial architecture, the IMF and the World Bank in particular are seen by the proponents of Bridgetown to be central actors in solving the climate crisis.

Responding to its critics, Persaud has emphasized that Bridgetown is bold but pragmatic, oriented to shaping change in the global financial system *in the next twelve to eighteen months*. Its focus is "practical

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https://documents1.worldbank.org/curated/en/099845101112322078/pdf/SECBOS0f51975e0e809b7605d7b690ebd20.pdf. Stephanie Derlich and Polina Girshova, "Rebranding or reshaping the global financial architecture? MDBs reform, Bridgetown Initiative and the New Global Financing Pact: Key webinar takeaways," Eurodad, June 15, 2023, accessed at https://www.eurodad.org/key_takeaways_rebranding_or_reshaping_the_global_financial_architecture_mdbs_reform_bridgetown_initiative_and_the_new_global_financial_pact

[18] WEDO, "Unpacking the Bridgetown Initiative: A Systemic Feminist Analysis & Critique," Feminist Action Nexus for Economic and Climate Justice, June 2023, accessed at https://wedo.org/unpacking-the-bridgetown-initiative-a-systemic-feminist-analysis-critique/.

[19] Eurodad, et. al., "Civil Society calls for rethink of World Bank's Evolution Roadmap as part of wider reforms to highly unequal global financial architecture," July 2023, accessed at https://www.eurodad.org/civil_society_calls_for_rethink_of_world_banks_evolution_roadmap?utm_campaign=newsletter_13_07_2023&utm_medium=email&utm_source=eurodad

measures" within the scope of the current international financial architecture. In his words, action is urgent: "climate vulnerable countries are burning up".[20]

Urgent action is undoubtedly needed. Adopting the Bridgetown Initiative proposals would certainly assist some countries in the short and medium term. But, as a recent CSO webinar asked, "Is Bridgetown fit for climate justice?"[21] From this latter perspective, it is essential to be clear about what can and cannot be delivered with these proposals. It is essential not to lose sight of the need for a broader systemic reform of international finance. The failure to do so may ultimately undermine many of the intended benefits from Bridgetown.

Bridgetown has already made an important contribution by drawing attention to the imperative for measures that broadening equitable access to concessional finance for all developing countries facing the climate crisis. As noted, it makes essential links between "debt sustainability" and the climate crisis for developing countries; it roots its proposals in a comprehensive and realistic picture of the financing required for mitigation and adaptation as well as loss and damage, taking account different country realities; and it situates these overarching proposals within the need for reforming IFI governance and decision making. Nevertheless, civil society commentators have highlighted some major concerns:

a) Bridgetown conflates development and climate risks. While clearly related in solutions on the ground, this conflation undermines the notion that climate finance should be "new and additional," as well as potentially challenging the Paris Declaration's principle of "common and differentiated responsibilities". Development challenges are profound and are compounded by climate risks. But unlike development finance, providing finance to address these climate risks is the acknowledged obligation of industrialized countries (in the Paris Agreement), and is driven by irreversible climate physics arsing from their historical emissions.[22] In the heavy reliance on loan finance currently and in Bridgetown, developing countries are in effect paying for measures for adaptation and mitigation in a climate emergency in which they bear little historical responsibility.

b) Bridgetown as a process operates completely outside the framework of multilateral agreements (UNFCCC and the UN Agenda 2030). Its proponents suggest, with much evidence, that these more democratic multilateral processes are not working. But there is little focus on strengthening the latter to be fit for purpose by donors meeting their obligations and reducing political polarization. Rather Bridgetown diverts attention to institutions (IFIs) that are highly undemocratic, where the rich countries wield disproportionate power. In the interests of pragmatism, its proposals give even more power to these

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[20] Steve Herz, "The Global Climate Breakdown: A Reform agenda for the World Bank and the IMF, A conversation with Professor Avinash Persaud," Sierra Club, May 1 2023, accessed at https://www.sierraclub.org/sierra/global-climate-breakdown-reform-agenda-world-bank-and-imf.

[21] Bridgetown Initiative – Fit for Climate Justice, Side Event Webinar, Bonn Climate Meetings, June 14, 2023, accessed at https://www.youtube.com/watch?v=Uw0xHqxmCIY&list=PLBcZ22cUY9RL6ptbdJJzqbaZn62ZPOha_&index=120&t=3810s

[22] WEDO, op. cit.

industrial countries in shaping priorities and approaches, and then in allocating climate finance to those in the global south, with the least responsibility for their circumstance. Meaningful and inclusive governance reforms in these financial institutions have been discussed for decades, with little progress. They are highly unlikely in the near future. The Bridgetown Initiative side-steps the essential role by developing countries in the governance of the Green Climate Fund or in the Adaptation Fund, and potentially the Loss and Damage Fund, which operate within the framework of the UNFCCC. Bridgetown's IFI approach could be seen as a "practical" necessity, but it seems yet another challenge to an already weakened multilateralism.

c) Bridgetown puts the World Bank and the IMF at the centre of climate finance, calling for an expansion of the mandate of the World Bank to address "global challenges," potentially at the expense of its focus on poverty reduction. Civil society has a decades-long history of documenting and challenging the failure of the World Bank and the IMF as "development actors," for their destructive policy conditionalities. World Bank projects have marginalized people living in poverty and exacerbated inequalities and fragility in the global south for decades. By relying on unreformed MDBs, implementing the Bridgetown proposals may exacerbate the unequal power relations and unsustainable debt that already deeply disadvantages those countries most affected by climate change impacts.

Is the World Bank part of the climate solution or complicit in the problem? While the World Bank is the largest single source for climate-related development finance,[23] it has still provided $16 billion in finance for fossil fuels since the 2015 Paris Agreement. It continues to resist measures that would end all support for fossil fuels in its lending and policy advice.[24] Less than 30% of the Bank's climate finance has been directed to LDCs. While the Bank now claims that 48% of its climate finance is directed to adaptation, recent studies of Bank "climate projects" found that hundreds had little to do with climate adaptation or mitigation.[25] With its long history of severe austerity measures accompanying its lending, the Bank has reduced state capacity and legitimacy through enforced privatizations and slashing state budgets. Many in civil society fear new "green conditionalities" accompanying this expanded mandate.[26] Strong public institutions will be essential for social protection and adaptation measures as well as strengthening resilience in the face of inevitable loss and damage from climate crisis in the coming decades. They have been weakened by decades of Bank and IMF "policy advice."

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[23] See Alyssa Leng, "Climate Finance from the World Bank: pluses and minuses," DevPolicy Blog, July 13, 2023, accessed at https://devpolicy.org/climate-finance-from-the-world-bank-pluses-and-minuses-20230713/.

[24] Eurodad, et al, Evolution Roadmap, op. cit.

[25] See Guido Núñez-Mujica, Vijaya Ramachandran and Scott Morris, "What Counts as Climate? Preliminary Evidence from the World Bank's Climate Portfolio," Center for Global Development, June 14, 2023, accessed at https://www.cgdev.org/publication/what-counts-climate-preliminary-evidence-world-banks-climate-portfolio and Jason Farr, James Morrissey, and Christian Donaldson, "Unaccountable Accounting The World Bank's unreliable climate finance reporting," Oxfam Briefing Paper, October 2022, accessed at https://oxfamilibrary.openrepository.com/bitstream/handle/10546/621424/bp-world-bank-unreliable-climate-finance-reporting-031022-en.pdf?sequence=4

[26] There is long standing evidence that policy conditionalities largely fail in their purpose to direct development priorities and approaches in recipient countries. They contradict the well-established development effectiveness principle of "local ownership".

Bridgetown and the World Bank both rely on mobilizing private sector resources in a market-based approach. These are approaches that have been strongly endorsed by Canada and other donors in its climate finance. But according to the OECD, to date, developed countries have had limited success in mobilizing private finance, which has been "lower than anticipated, with most mobilized in middle-income countries."[27] Mobilizing the private sector, while important for some renewable energy initiatives, will not lead to the economic transformations needed in addressing the climate crisis. The expectation of the Bridgetown proponents is that using concessional finance to reduce investment risk will result in the scale of investment needed in the global south, particularly for mitigation. But low-income countries are likely to be even further side-lined in this approach, which will strongly bias new climate finance towards mitigation efforts not adaptation.

Peter Sands, the head of the Global Fund to Fights AIDS, Tuberculosis and Malaria, and a former banker, is skeptical. In a recent interview, he notes that "there is a limit on how far private firms can pursue [public goods] in light of their fiduciary duty to shareholders to seek profits."[28]

Finally, despite reassurances by Avinash Persaud,[29] low-income countries are very wary of the Bank's shift to use concessional resources to address "global challenges," with much wider access to such resources for vulnerable middle-income countries. As noted earlier, Low Income Countries are highly reliant on World Bank concessional resources for their development finance. The June Marcon Summit demonstrated strong support for these shifts among major donors such as the United States, Germany and France, but also countries such as India from the global south.[30] The history of the Bank's climate finance over the past ten years suggests that the shift to global challenges may well further marginalize the Bank's mandate to reduce poverty in Least Developed and Low-Income Countries.[31]

d) Bridgetown importantly emphasizes alternative sources of climate finance, particularly for loss and damage finance. Persaud has emphasized the importance of new sources of finance "for financing things that do not result in profits, such as the loss and damage driven by climate change."[32] But will this emphasis divert attention from the obligations of industrial countries to fulfill their obligations for public finance under the Paris Agreement? As Peter Sands observes "some of the enthusiasm for innovation is basically a proxy – When you don't actually want to give money, you talk about innovative finance."[33]

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[27] Carbon Brief, op. cit.

[28] Vince Chadwick, "Global Fund chief warns innovative finance 'a proxy' for actual giving," Devex, June 21, 2023, accessed at https://www.devex.com/news/global-fund-chief-warns-innovative-finance-a-proxy-for-actual-giving-105774

[29] Steve Herz, op. cit.

[30] Karen Mathiasen, "Key Takeaways for the Paris Declaration on Multilateral Development Banks," Centre for Global Development, June 28, 2023, accessed at https://www.cgdev.org/blog/key-takeaways-paris-declaration-multilateral-development-banks.

[31] Alyssa Leng, op. cit.

[32] Carbon Brief, op. cit.

[33] Vince Chadwick, op.cit.

Participants in the June 2023 Marcon Summit highlighted a number of possible international taxes:[34]

- A **carbon tax on international shipping** could raise US$60 to US$80 billion annually. While subsequently there has been an agreement on new climate goals for shipping (July 2023), discussion on an emissions tax has been resisted and postponed.
- A carbon **levy on airline tickets** could raise between US$6 billion and US$150 billion depending on its scope. Implementation would have to overcome resistance by the airlines and the tourist industry, which includes some developing countries.
- A **financial transactions tax** (FTT) has been promoted by CSOs for decades (the Tobin Tax). While some countries have implemented an FTT (Belgium, France, Italy, Colombia, India among others), the revenue has been directed to domestic purposes. There has been little discussion or support to apply such a tax globally for climate finance purposes.
- A **windfall profit tax** on fossil fuel and other companies. Such a tax has been promoted by the UN Secretary General and CSOs, as well as several governments, including within the EU. A fossil fuel windfall tax could raise between US$200 and US$300 billion a year. According to a recent Oxfam study, 722 of the world's biggest corporations together had over $1 trillion in windfall profits each year for the past two years (2021/2022). 45 energy corporations made on average $237 billion a year in windfall profits in 2021 and 2022.[35] Yet these same corporations exercise tremendous power and influence in major developed countries where tax measures would have to be enacted.
- A **tax on the wealthy 1%** has been recently promoted by a coalition of 150 economists and policy experts in an open letter. According to this analysis, a progressive tax on extreme wealth starting at 2% could raise between US$2.5 and US$3.6 trillion a year.[36]

While all new sources of climate finance must be vigorously pursued in the coming years, at best, these sources are long term options, clearly facing strong political resistance by elites and those affected, and not a substitute for a major ramping up official donor resources for climate finance post-2025.

[34] See also the powerpoint presentation by Thomas Hirsch & Martin Gueck, "Shortlist: New and innovative funding sources for international climate finance," Climate & Development Advice, Climate Action Network Europe workshop, May 10, 2023.

[35] Oxfam, "Corporation Windfall Profits Rocket to $1 Trillion a Year," July 6, 2023, accessed at https://www.oxfam.org.uk/media/press-releases/corporation-windfall-profits-rocket-to-1-trillion-a-year/#:~:text=Analysis%20by%20Oxfam%20and%20ActionAid,average%20(2017%2D2020)..

[36] See https://priceofoil.org/2023/06/19/open-letter-global-north-governments-can-redirect-trillions-in-fossil-debt-and-super-rich-harms-to-fix-global-crises-the-paris-summit-must-be-about-building-the-roadmap-to-do-so/.

4. What has been the response by the Canadian Government?

Despite sharing the co-facilitation of the UN Sustainable Development Goals Advocates, whose goal is to accelerate action for the SDGs,[37] the Prime Minister and the Canadian Government has been largely silent on the main proposals for the Bridgetown Initiative. In February 2023, Prime Minister Trudeau stated that "Canada would continue to champion the interests of CARICOM and Small Island and Low-Lying Coastal Development States (SIDS), particularly on shared interests such as climate resilience and access to concessional finance."[38]

Consistent with the Bridgetown Initiative, Canada has contributed substantial levels of support through its re-allocation of its SDRs to both the IMF's Poverty Reduction and Growth Trust and the Resilience and Sustainability Trust (although directing a major portion for Ukraine). Canada has supported the inclusion of Climate Resilient Debt Clauses in the Bank's lending agreements. In her statement at the Bank's 2023 Spring meetings, Minister Freeland stated that

> "Furthering the [World Bank's] Evolution Agenda, as well as implementing the recommendations of the CAF Review, would also help achieve the aims of the Bridgetown Initiative by strengthening support for developing countries as they face overlapping crises. The Bridgetown Initiative is an important call-to-action that has re-energized the conversation on reforming international financial institutions, and is complementary to our collective efforts to evolve the World Bank."[39]

At the same time, she pointed to "the scarcity of official development assistance" and the corresponding importance of facelifting private capital for development. However, Canada has not commented or promoted Bridgetown's more ambitious financing proposals for ramping up both public and private finance, for broader country access to the Bank's concessional resources, or for fundamental reform of the current governance of the International Financial Institutions.

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[37] See https://www.pm.gc.ca/en/news/news-releases/2022/04/06/prime-minister-co-chair-united-nations-sustainable-development-goals and https://www.un.org/en/desa/advocates-appointed-build-widespread-support-sdgs.

[38] Prime Minister Justin Trudeau meets with Prime Minister of Barbados Mia Mottley, February 16, 2023, accessed at https://www.pm.gc.ca/en/news/readouts/2023/02/16/prime-minister-justin-trudeau-meets-prime-minister-barbados-mia-mottley.

[39] Statement by the Honourable Chrystia Freeland to the 107th Meeting of the Development Committee, April 2023, accessed at https://www.canada.ca/en/department-finance/news/2023/04/statement-by-the-honourable-chrystia-freeland-to-the-107th-meeting-of-the-development-committee.html

Annex One
Bridgetown Initiative 2.0[40]
Consultation Document, May 2023[41]

Urgent and Decisive Action to Reform the International Financial Architecture

Designed at a time when most of today's member states were not independent and when climate risks or social inequalities, including gender equality, were not considered pre-eminent development challenges, the International Financial Architecture (IFA) already had structural deficiencies at the time of its conception. These have become increasingly at odds with the reality and needs of the world today, making the IFA entirely unfit for purpose in a world characterized by unrelenting climate change, increasing systemic risks, extreme inequality, highly integrated financial markets vulnerable to cross-border contagion, and dramatic demographics, technological, economic, and geopolitical changes.

We call for an integrated development and resilience strategy to achieve the SDGs, including actions to address liquidity and debt sustainability, massively scale up of development finance, mobilize private capital, and build a matching trading system. We also call for inclusive and equitable global economic governance. Together with the SDG Stimulus, the Bridgetown Initiative can accelerate progress towards the SDGs and the Paris Agreement. Below we highlight priority actions of the Bridgetown Initiative that we can undertake now.

1. Provide immediate liquidity support

UN Member States to:

- Fast track the re-channeling of $100 billion of Special Drawing Rights (SDRs) to the Poverty Reduction and Growth Trust and the Resilience & Sustainability Trust.

The IMF to:

- Immediately suspend surcharges for two to three years.
- Restore the enhanced access limits established during the pandemic for the Rapid Credit Facility and Rapid Financing Instruments.

2. Restore debt sustainability

G20 Creditor Countries, (either through the Common Framework for Debt Treatments or otherwise) to:

- Redesign the Common Framework, including by speeding up debt relief and cancellation with reliable timelines, debt service standstills, and 'most favoured creditor clauses', and allow debt-distressed middle-income countries to make use of the Common Framework.

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[40] This document, reflecting an updated set of reform proposals championed by diverse stakeholders, is being shared to seek constructive input and advice in the hope that constituencies can work together to advance our shared agenda. It is vital that we achieve success in meeting these urgent global challenges with focused, specific, effective responses.

[41] Bridgetown 2.0, Consultation Document, May 2023, accessed at https://www.globalpolicy.org/sites/default/files/Bridgetown2.0-1page%20(2).pdf.

The IMF to:

- Encourage the restructuring of unsustainable private debt through IMF programs that are consistent across countries and have more locally driven fiscal sustainability plans.
- Refine the Debt Sustainability Analysis, including adopting changes that enable investments that create future savings to have a lower weighting than other debt.

Public, multilateral, and private creditors to:

- Adopt zero-cost, net-present-value neutral natural disaster clauses in all lending instruments to make them more shock-absorbing.
- Refinance high-interest and short-term debt with credit guarantees and longer maturities.

UN Member States to:

- Agree new international resources (whether taxes, charges, or other sources) to fund the UNFCCC Loss and Damage Fund to $100 billion per year.

3. Mobilize private sector investment to over $1.5 trillion per year for green and just transformations

IMF and MDBs to:

- Cut the excessive macro-risk premia on developing countries with $100 billion per year of foreign exchange guarantees for just green transition investments.
- Expand project preparation support, risk reduction instruments, blended finance, and viability gap funding in order to strengthen the pipeline of bankable development and climate projects.

4. Increase official sector development lending for SDGs to $500 billion per year

The G20, shareholders of the World Bank, Multilateral Development Banks and IMF to:

- Fully implement the CAF Review recommendations, including on callable capital and SDRs.
- Put an additional $100 billion of paid-in capital contributions into MDBs and re-channel SDRs to the MDBs, leading with the African Development Bank by September 2023.
- Increase the leveraging of the IDA balance sheet, fully fund the Crisis Response Window ($6 billion) by the end of 2023, and implement a phased scale up of IDA to $279bn in IDA 22.
- Raise the access limits for the Poverty Reduction and Growth Trust and the Resilience & Sustainability Trust.
- Move ‘beyond GDP per capita’ to capture vulnerability in funding eligibility criteria and provide low-cost, 50-year loans for vulnerable countries to invest in climate resilience, anti-fragility, pandemic preparedness, food and water security, renewable energy access, and bridging the digital divide and other forms of greater resilience.
- Streamline and harmonize loan procedures across MDBs and IFIs, increase front-line support to countries accessing loans, and finance country-led national resilient development plans and multi-country programs that protect the global commons.

5. Ensure that the multilateral trading system supports the green and just transformation

WTO, ILO, UNCTAD, and major trading partners to:

- Work with governments to ensure supply chains become resilient, benefit raw materials producing nations and protect the vulnerable.

6. Reform the governance and operations of International Financial Institutions (IFIs)
Shareholders of IFIs to:

- Update the 1945-based institutions to be more inclusive and equitable, including issues of governance, voice, representation, and access to finance.

Annex Two
V20 Accra – Marrakesh Agenda

The V20 Group, representing 58 of the world's most systemically climate-threatened economies, under Ghana's presidency of the Group, has outlined four fundamental priority areas to ensure a world economy fit-for-climate and supportive of its most vulnerable groups. This includes the need to mobilize an ambitious share of world GDP to secure a sustainable future for the global economy amid an escalating climate emergency, and a downscaling of financial resources that undermine the fight against climate change. This re-wiring of the global financial system must happen as soon as possible within the current decade. Against the backdrop of a global climate emergency, and launching this roadmap with the Accra V20 Senior Officials' Meeting in the spring of 2023, the V20 will collaborate throughout the year including in Paris for the New Financial Pact and Nairobi for the Africa Climate Action Summit, culminating in engagements at the Marrakech IMF and World Bank Annual Meetings, to cement an international coalition behind a fit-for-climate global financial system at COP28 in Dubai.

#1 MAKE DEBT WORK FOR THE CLIMATE- it is urgent that we make debt work for the most vulnerable and that we overcome the cost of capital hurdles.

What is needed:

- A reform of the Common Framework that enables all debt distressed climate vulnerable developing economies to obtain the necessary debt relief in a predictable, efficient and timely manner, so that that V20 countries can leverage new financing to pursue their Climate Prosperity Plans.
- Guarantees and other incentives such as debt service standstills to encourage the participation of all creditor classes for speedy resolution of debt negotiations.
- Credit enhancement should accompany debt restructuring (including shock resilient debt and swaps) to attract new investment for development-positive climate action, and incentives for existing creditors to participate early.
- Given the climate insecure future for economies, debt treatment should support the enhancement of climate resilience and the transition to climate-smart development, and inclusive debt-sustainability analysis considering the investment needs of national climate strategies and plans such as Climate Prosperity Plans.

#2 TRANSFORM THE INTERNATIONAL AND DEVELOPMENT FINANCIAL SYSTEM - there is more than sufficient financial resources in the world economy to transform economies. However, a decisive shift of financial flows is required to unlock the potential of the system. For as long as public international and development finance continue to support brown (carbon-intensive/climate-heating) and risky (non-climate future adapted) investments instead of green and resilient ones, the transformational potential of the transition is undermined.

What is needed is:

- A complete pre-2030 shift of public development and international finance from brown to green, and from risky to resilient, that begins now, shifting public financial support away from climate-incompatible investments to renewable energy, resilient infrastructure and nature-based solutions underpinned by development strategies into evolving Nationally Determined Contributions and Climate Prosperity Plans.

- Optimize the use of capital of MDBs/DFIs, adding momentum behind this shift by enabling higher lending ratios to capital for new investments that are green and resilient, and lowering lending ratios to capital for brown and risky investments, justified by the now evident reality of the different overall risk profiles that pertain to each class of investment.
- Increase the utilization of IMF Special Drawing Rights (SDRs) and Administered Accounts for development-positive climate action especially in most vulnerable economies, including through wrap-around guarantees and enhanced access to the Resilience and Sustainability Trust (RST).
- Recognition of Climate Prosperity Plans and other development-positive climate action investment plans to unlock beneficial SDR/RST access and rechanneling of SDRs through DFIs and MDBs.
- Support for development-positive climate investments in most vulnerable economies to have access to global capital markets through dedicated listing boards on major stock exchanges.
- Capital increases in multilateral development banks.

#3 A NEW GLOBAL DEAL ON CARBON FINANCING - we need a new global deal on carbon finance to realize the goal of the Paris Agreement in the near-term, prior to 1.5ºC overshoot lock-in. This demands substantial strengthening of 2030 climate targets of major polluting economies that can be enabled through the promotion of ambitious development-positive climate action in low-emitting developing economies. Win-win carbon-finance exchanges can help meet global goals, deliver fair-share action, and provide crucial financial support for ambitious climate action that would otherwise not be viable.

What we need:

- All major polluting economies whose 2030 Paris Agreement emission targets fall short of its central goal - the 1.5ºC limit - on a fair-shares basis (accounting for past emissions, per head pollution, and wealth disparities) must strengthen targets, starting in 2023, until full and equitable compliance is achieved.
- Make full use of the Paris Agreement's international emissions exchange instruments, and rapidly scale-up public cooperation with low-emitting developing economies, and especially most vulnerable economies, aimed at providing crucial financial support for development-positive climate action, such as Climate Prosperity Plan projects, in exchange for internationally transferred mitigation outcomes, thus enabling major polluting economies to meet more ambitious and equitable national emission targets.
- Alongside an upscaling intergovernmental global carbon exchange, link major polluting markets with low polluting markets so as to enable the private sector to exchange emissions outcomes and finance independent of public level cooperation, in order to achieve net zero or carbon negative pathways.

#4 REVOLUTIONIZE RISK MANAGEMENT FOR OUR CLIMATE INSECURE WORLD ECONOMY- we must double down on efforts to accept and address the new climate insecure reality of the world economy and put in place with anticipatory finance (pre-arranged and trigger-based funds) for loss and damage and mainstream surveillance and monitoring of climate risks of all kinds (physical, transition, spillover) in IFI finance and credit rating practices, including through the landmark G7-V20 Global Shield against Climate Risks.

What we need:

- Scale-up of pre-arranged financing options to tackle climate impacts and shocks especially for most vulnerable economies, improving the access, management, and delivery of resources ahead of time, instead of post-disaster responses underscored by efforts under the G7/V20 Global Shield.
- Increase the utilization of trigger-based design in relevant public and private financial instruments[42], leveraging latest data and science to eclipse the prevailing practice of after-the-fact assessments[43].
- Addition of a dedicated OECD DAC marker for climate-related loss and damage, in order to better track development finance contributions focused on addressing growing climate impacts and shocks among most vulnerable economies.
- Systematically make universal surveillance of all climate risks inclusive of physical risks, transition risks and spillover risks for every economy in IMF Article IV surveillance a reality by 2025.
- Financial regulators should ensure that all leading credit rating agencies fully account for climate risks (physical, transition, spillover) in their assessment methodologies of public and private economic entities and capital/debt instruments and securities (inclusive of derivative markets) in order to incentivize climate action and penalize climate incompatible businesses and investments in the near-term (by 2025 at the latest).

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[42] Such as shock resilient social protection, parametric and forecast-based financing for anticipatory action, risk transfer for regional or municipal risk sharing, climate-resilient debt structuring, natural disaster clauses for debt payment suspension or relief, , shock-resilient loans, and business liquidity protection, slow-onset risk pools, etc.

[43] Experience and evidence show that after-the-fact assessments in practice are inefficient and requires the most vulnerable have the burden of proving convincing evidence of their losses and damages while in distress. At least 55% of crises, from floods to droughts and disease outbreaks, are predictable, and funding can be arranged in advance and released at the moment it is needed.