BRIDGETOWN INITIATIVE 3.0, CONSULTATION DRAFT (28th May 2024)

"We are living in the season of superlatives on a scorched Earth. To have any chance of reversing this trajectory, we must build a more responsive, fairer and more inclusive global financial system to fight inequalities, finance the climate transition, and accelerate the achievement of the Sustainable Development Goals."

~ H.E. Mia Amor Mottley, Prime Minister of Barbados

The global economic and financial system continues to fail us.

At a time when only 15% of the Sustainable Development Goals (SDGs) are on track, governments in the world's poorest countries are devoting more resources to debt service than to health, education, and infrastructure combined. **In the last four years, 165 million people have fallen into poverty.**

In 2023, the global average near-surface temperature was 1.45C above the preindustrial baseline and average temperatures temporarily breached the critical 1.5C threshold. The impact is especially devastating in climate vulnerable countries, which are home to 4.5bn people, half of whom live in poverty. **This can no longer be ignored. The voices of the people can no longer be left behind.**

Tinkering at the margins of a broken system is akin to rearranging deck chairs on the Titanic**. It is time to act in solidarity for people and planet.**

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Unveiled in 2022, **the Bridgetown Initiative has led a paradigm shift in the global discourse on scaling capital flows and reshaping the financing system** to achieve the SDGs and spur climate action.

Some progress has been made. The International Monetary Fund (IMF) has created the Resilience and Sustainability Trust (RST). The G20 has committed to re-channeling $100 billion in Special Drawing Rights (SDRs). A Loss and Damage Fund was launched at COP28 with an initial $700 million in commitments. The Inter-American Development Bank (IADB), World Bank and other official sector lenders are including natural disaster clauses across a broad range of new and existing loan agreements. The Asian Development Bank has unlocked $100 billion of additional lending through reforms to its Capital Adequacy Framework. The African Development Bank (AfDB) is increasing lending by raising hybrid capital from private investors. The Multi-lateral Investment Guarantee Agency has committed to tripling its capacity. Currency hedging solutions and early-stage project pipeline facilities are being announced in several markets.

Still, this falls woefully short of what is required.

There is much unfinished business from Bridgetown 2.0. Global efforts to facilitate the restructuring of unsustainable debts have proven slow, passive, and insufficient. While Multi-lateral Development Bank (MDB) reforms have momentum, we are a far cry from the $500bn a year in additional official lending that the world requires. Efforts to align private capital to sustainable development are too small scale. A more equitable governance of the International Financial Institutions remains elusive. Despite progress in expanding liquidity support, high interest rates have combined with maturing debt to create a wall of debt service over the next three years. Rather than supporting a green and just transition, our trading system is at risk of being subverted by geopolitical tensions over control of the market for green energy and transport.

We need a different way of measuring progress other than Gross National Income (GNI). **We need to rethink production and consumption patterns and trade systems**, eschewing extractive and exploitative practices in favor of those that are regenerative and equitable. **We need financing to flow to where it is required and at a sufficient scale** to meet the ambition of the SDGs, climate mitigation and adaptation without compromising debt sustainability. **We need that financing to be provided on affordable terms**, and countries to be given the **headroom to borrow. We need country commitment to establish frameworks that preserve debt sustainability** while scaling up spending to reduce poverty, promote inclusive and equitable growth together with climate resilient development. We need **to invest in Global Public Goods (GPGs)**—including climate resilience, fragility and conflict, pandemic prevention, renewable energy access, food security, water security, digitalization, and protecting biodiversity and nature—recognizing that our societies and economies are deeply interlinked. **We need a system that is fundamentally just, including providing funds to cover losses and damages** from shocks not of their making. **We need a viable insurance market**, as a precondition for governments, businesses and individuals to invest in assets—be that infrastructure or homes.

Small island developing states, like other low and middle-income vulnerable countries, understand this acutely. We can neither afford to choose between tackling development or climate; these are two sides of the same coin. Many of us have graduated out of concessional finance yet have only superficial market access given the unsustainable cost of today's borrowing. Our greater exposure to weather disasters prices us out of insurance, leaving us prone to endless cycles of shocks, with inadequate financing for recovery or programmes that significantly strengthen institutions and national capacity.

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<u>Closing the financing gap for people and planet.</u>

An additional $1.8 trillion is needed to address the climate crisis in emerging markets and developing countries and $1.2 trillion annually to achieve the SDGs. Of this $3 trillion, the Independent High-level Expert Group on Climate Finance estimates that $2 trillion must come from domestic sources, and the remaining $1 trillion from external sources. And of the external sources, half would come from public and half from private sector mobilization.

I. The rules of the game must change:

1) **Developing countries must be given a stronger voice through better and greater representation in the governance structures of the international development finance institutions**.

2) **The IMF and World Bank must reform the Debt Sustainability Assessment (DSA) framework,** and their own financing programs, to be based on a country's plan for productive and climate adaptation investments and long-term growth potential (as reflected in an Integrated National Financing Framework).

3) **Alongside these reforms, Credit Rating Agencies must play their part and overhaul their methodologies** to end the current systemic rating biases against small, poor and vulnerable countries, and specifically to capture longer term financial health.

4) **World Bank and finance providers must expand and go beyond per capita GNI as the criterion for determining eligibility for concessional financing to include climate vulnerability, natural capital and biodiversity conservation**, addressing the inequity of countries being graduated on a GNI per capita basis while being among the most climate vulnerable countries globally.

5) **All governments must establish a carbon price taking into account the Paris principles and their level of development.** Governments should further support the development of a **Global Carbon Pricing Framework that is just and equitable** and task the International Institutions to deliver on this.

II. We must shock proof economies:

6) In a world of fragmented central bank currency swaps, **the IMF must act as a liquidity provider of last resort at the center of the Global Financial Safety Net, providing financing at below market rates**.

7) **Countries must have access to early intervention for liquidity support free from onerous conditionalities**:
   a. With the recent approval by the IMF Board that enables SDRs to be used as hybrid capital, **contributing countries must urgently deliver on their commitments to ensure the expansion of scope and scale of re-channeling SDRs through MDBs**, leading with the AfDB and IADB.
   b. **The IMF and its shareholders must achieve agreement on a new $500bn issuance of SDRs.**

8) **IMF must improve, and reduce the cost of, lending** by allowing countries to access the Resilience and Sustainability Facility (RSF) on a stand-alone basis, overhaul surcharges and tenors for middle-income countries, and extend the Extended Fund Facility repayment period, last reformed in 1979, to match the newly-agreed RSF.

9) **All debtors and public and private creditors must introduce natural disaster clauses and regular principal amortizations in all lending instruments by COP29** to make public debt stocks resilient to climatic shocks and reduce refinancing risk.

III. We must commit to dramatically increase financing:

10) **Donor countries must replenish IDA21 by at least $120 billion**, with significant increases in contributions from new and existing donors to maintain current grant and concessional finance levels and a view to **tripling IDA by 2030 in line with the G20 Independent Expert Group recommendation.**
11) **MDBs must demonstrate a credible path to delivering at least $300bn annually in affordable, longer-term—** e.g. 30-50-year—**financing** for the SDGs, including climate action.
12) **MDBs must fully implement the G20 Capital Adequacy Framework (CAF) recommendations**, including on risk management, callable capital, portfolio guarantees and hybrid capital to significantly increase lending.
13) **At least $500bn annually of private capital must be mobilized and catalyzed—including in local currency—** into mitigation and adaption by **international and regional development banks** by working to remove barriers, including by scaling 10x project development support, 5x de-risking products, partnering with pioneer funding from philanthropy, and **innovating robust solutions to the growing challenge of uninsurable assets.**
14) **New sources of finance must be secured to fund solutions to key global challenges affecting people, planet and stability:**
    a. Countries must establish a levy on fossil fuel company windfall profits, financial transactions, and emissions on shipping and aviation to help finance GPGs, and define a governance framework for their use.
    b. Philanthropic organizations must agree to a Global Compact through which a defined portion of their financing would go to GPGs.
15) Fully capitalize and effectively operationalize the Loss and Damage Fund.

If this agenda is not showing real progress on the ground at country level by the end of 2025, then the world will have failed to address the most critical issues of our time, putting the SDGs in jeopardy. This will result in unthinkable costs to lives, livelihoods and our planet. We can and must do better.

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We are launching Bridgetown 3.0 for consultation at the 4th International Conference on Small Island Developing States in Antigua on 28th May 2024. Comments are welcome by June 30th 2024 and should be sent to: bridgetown.initiative@barbados.gov.bb. The document will be finalized during July 2024, after which time we formally launch and engage with decision-makers to translate asks in to action. Progress will be shared at the Summit of the Future, United Nations General Assembly (UNGA), Annual Meetings of the IMF and World Bank, G20 and COP29 to deliver tangible outcomes at 4th International Conference on Financing for Development and COP30.