



## **Urgent and Decisive Action Required for an Unprecedented Combination of Crises** **The 2022 Bridgetown Initiative for the Reform of the Global Financial Architecture**

The world is facing an unprecedented set of events, that of three interconnected crises:

- a cost of living crisis stemming partly from the war in Ukraine and the COVID-19 pandemic;
- a developing country debt crisis following the COVID-19 pandemic and climate-related disasters, and;
- the climate crisis as the glaciers melt and storms and droughts intensify.

The situation is compounded by tightening monetary policies in developed countries and a strengthening U.S. dollar. One in five countries is experiencing fiscal and financial stress. Unaddressed, there will be deepening hardship, debt defaults, widening inequality, political upheaval and a delayed shift to a low-carbon world. Global leaders are now experienced in managing crises. They know what to do and have the means necessary. We must act now. We cannot be good at rescuing banks but bad at saving countries.

While addressing these immediate needs, we must also lay the path toward a new financial system that drives financial resources towards climate action and the Sustainable Development Goals (SDGs). These goals require the rapid scaling up of investment in the low-carbon transition in the energy, transport and agricultural sectors to safeguard the 1.5-degree Celsius target, providing for substantial investment in building climate-resilience and sustainability and critical investments in public health and education.

### **Step One: Provide Emergency Liquidity**

The first step is to immediately provide liquidity to stop the debt crisis in its tracks. We call upon the Board of the International Monetary Fund to:

1. Return access to its unconditional rapid credit and financing facilities to previous crisis levels;
2. Temporarily suspend its interest surcharges;
3. Re-channel at least US\$100 billion of unused Special Drawing Rights (SDRs) to those who need it, and;
4. Operationalise the Resilience and Sustainability Trust by October 2022.

At the same time the G20 should agree an ambitious Debt Service Suspension Initiative that includes all Multilateral Development Bank (MDB) loans to the poorest countries, and COVID-related loans to the middle-income. Major issuers of debt to the markets should help normalise Natural Disaster and Pandemic Clauses in all debt instruments to absorb shocks better.

### **Step Two: Expand Multilateral Lending To Governments By US\$1 trillion**

Liquidity is not enough; these crises have systemic roots. Only investment will change their course. MDB shareholders should implement the recommendations of the independent G-20 Capital Adequacy Frameworks Review by the end of 2022 and the World Bank and other MDBs must use remaining headroom, increased risk appetite, new guarantees and the holding of SDRs to expand lending to governments by US\$1 trillion. New concessional lending should prioritise attaining the SDGs everywhere and building climate resilience in climate-vulnerable countries.

### **Step Three: Activate Private Sector Savings For Climate Mitigation and Fund Reconstruction After A Climate Disaster Through New Multilateral Mechanisms**

Most climate-vulnerable countries do not have the fiscal space to adopt new debt. We must move beyond country-by-country responses that have become bogged down by issues of who should do more. We need a global mechanism for raising reconstruction grants for any country just imperilled by a climate disaster. And we need a new issuance of 500 billion SDRs (US\$650 billion) or other low-interest, long-term instruments to back a multilateral agency that accelerates private investment in the low carbon transition, wherever it is most effective.

### **A Call for Collective Action**

We aim to mobilise and co-ordinate broad support and help form a coalition of like-minded leaders that are aligned on this critical Initiative and that will support its implementation. We do not anticipate complete agreement on the detail and sequencing of the solutions above, but rather aim to support progress on this Initiative through greater understanding, focus, priority, co-ordination and unity of effort.