



# RELEVANCE OF THE BRIDGETOWN INITIATIVE

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A VIEW FROM CARIBBEAN CIVIL SOCIETY

JUNE 2024

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| <b>AOSIS</b>   | Alliance of Small Island States   |
| <b>A2M</b>     | Accra/Marrakech Agenda  |
| <b>CAF</b>     | Capital Adequacy Framework  |
| <b>CARICOM</b> | Caribbean Community   |
| <b>CCRIF</b>   | Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company                                |
| <b>CPDC</b>    | Caribbean Policy Development Centre   |
| <b>COP</b>     | United Nations Framework Convention on Climate Change – Conference of Parties (Climate Change Conference) |
| <b>CVF</b>     | Climate Vulnerable Forum  |
| <b>DAC</b>     | Development Assistance Committee  |
| <b>DSSI</b>    | Debt Service Suspension Initiative  |
| <b>GDP</b>     | Gross Domestic Product  |
| <b>IDA</b>     | International Development Association   |
| <b>IFIs</b>    | International Financial Institutions  |
| <b>ILO</b>     | International Labour Organization   |
| <b>IMF</b>     | International Monetary Fund   |
| <b>MDB</b>     | Multilateral Development Bank   |
| <b>RSF</b>     | Resilience and Sustainability Fund  |
| <b>RST</b>     | Resilience and Sustainability Trust   |
| <b>SDGs</b>    | Sustainable Development Goals   |
| <b>SDRs</b>    | Special Drawing Rights  |
| <b>SIDS</b>    | Small Island Developing States  |
| <b>UNCTAD</b>  | United Nations Conference on Trade and Development  |
| <b>UNFCCC</b>  | United Nations Framework Convention on Climate Change   |
| <b>V20</b>     | Vulnerable Group of Twenty  |
| <b>WTO</b>     | World Trade Organization  |





# BACKGROUND

For the past few years, Global South countries, including Caribbean Small Island Developing States (SIDS), have been grappling with interlinked polycrises such as the COVID-19 pandemic, Russia's war on Ukraine which triggered international food and fuel price shocks, and the most aggressive monetary tightening in the Global North since the 1970s. The World Bank estimates that these combined crises pushed an additional 75-95 million people into extreme

poverty in 2022. The urgency of responding to the escalating climate crisis has presented an added pressure, especially for Caribbean SIDS which contribute little to global warming but are on the frontlines of climate change, as their economies endure significant loss and damages caused by more frequent and powerful hurricanes, resulting in the accumulation of more debt.

As a result, developing countries are in urgent need of adequate and predictable financial support to tackle unsustainable debt, eradicate poverty and achieve the other Sustainable Development Goals (SDGs). According to the United Nations Conference on Trade and Development (UNCTAD), nearly half of all humanity, or 3.3 billion people, now live in countries that are spending more resources on debt servicing than on funding health or education. At this pace, only 15 per cent of the SDGs will be achieved by 2030. In particular, many developing countries, including Caribbean SIDS, lack the necessary finance to protect their populations against climate-related disasters while supporting the transition to low-carbon development in line with the 2015 Paris Agreement. The Songwe, Stern and Bhattacharya report estimated the climate finance gap for developing countries at an annual US\$2.4 trillion by 2030.

However, the latest figures for 2022 reported by the Development Assistance Committee (DAC) suggested that the Global North provided US\$85 billion to assist Global South countries with climate adaptation and mitigation. Apart from this volume of climate finance falling woefully short of the US\$100 billion commitment made by Global North countries, most of the funds have been given as loans, adding to the debt burdens of already stressed developing countries, while the distribution of funds prioritised mitigation, left adaptation substantially underfunded and ignored loss and damage, an area which is most critical to Caribbean SIDS. This untenable situation has led to many calls by civil society organisations, including the Caribbean Policy Development Centre (CPDC), to reform the global financial architecture that was established since World War II so that it is 'fit-for-purpose' in order to respond to the scale of these multiple, interwoven global challenges.



Against this backdrop, in July 2022, the Honourable Mia Mottley, Prime Minister of Barbados, convened a high-level retreat comprising a broad cross section of stakeholders from philanthropic organisations, governments, global governance representatives and civil society in Bridgetown, Barbados. The CPDC was the sole voice of Global South civil society at this meeting, which engaged in substantive dialogues to:

- ***Take stock of the current international financial system and examine whether and why it works for the needs of middle - and low-income countries.***
- ***Consider the current financial landscape, and as a first step towards long term reform, discuss the opportunities for immediate action (including ways to expand resources available to countries to meet the SDGs, climate adaptation, mitigation and loss and damage).***
- ***Agree on the next steps, decide on a division of labour, and collectively identify upcoming opportunities and events to build upon the outcomes of the meeting.***

These deliberations resulted in the Bridgetown Initiative: a set of ambitious policy asks to address immediate financial needs of countries facing debt distress and liquidity challenges, to facilitate the accomplishment of SDGs, while also starting to address systemic issues requiring transformation of the international financial architecture.

In this policy brief, we discuss the key policy areas of the Bridgetown Initiative and how this Global South initiative is evolving as a global movement for transformative change by building a coalition of various stakeholders. We then discuss the relevance of “Bridgetown 2.0” to the debt and climate change challenges facing Caribbean SIDS, outlining some key concerns about the reform proposals. The brief concludes by looking forward at a possible near-term iteration, “Bridgetown 3.0”, while warning about the need to retain the Global South character of the initiative.

# BRIDGETOWN INITIATIVE 1.0



EXPAND MULTILATERAL LENDING TO GOVERNMENTS BY US \$1 TRILLION FOR SDGS AND CLIMATE RESILIENCE

PROVIDE EMERGENCY LIQUIDITY

ACTIVATE PRIVATE SECTOR SAVINGS FOR CLIMATE MITIGATION AND FUND RECONSTRUCTION AFTER A CLIMATE DISASTER THROUGH NEW MULTILATERAL MECHANISMS

# BRIDGETOWN INITIATIVE 1.0



At COP27, held in Sharm-El-Sheikh, Egypt in November 2022, Prime Minister Mottley unveiled the Bridgetown Initiative, which at that time centred around three key policy action areas designed to leverage concrete steps to support all developing countries. These action areas were as follows:

## 1. PROVIDE EMERGENCY LIQUIDITY

- *Return access to IMF's unconditional Rapid Credit and Financing facilities to previous crisis levels.*
- *Temporarily suspend IMF's interest surcharges.*
- *IMF should re-channel at least US\$100 billion of unused Special Drawing Rights (SDRs) to those countries which need it, and operationalize the Resilience and Sustainability Trust (RST) by October 2022.*
- *G20 should agree on an ambitious Debt Service Suspension Initiative (DSSI) that includes all Multilateral Development Bank (MDB) loans to the poorest countries, and COVID-related loans to middle-income countries.*

- *Major issuers of debt to the markets should help normalize Natural Disaster and Pandemic Clauses in all debt instruments to absorb shocks better.*

## 2. EXPAND MULTILATERAL LENDING TO GOVERNMENTS BY US \$1 TRILLION FOR SDGS AND CLIMATE RESILIENCE

- *MDB shareholders should implement the recommendations of the Independent Experts Group Review of Capital Adequacy Frameworks by the end of 2022.*
- *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.*

### 3. ACTIVATE PRIVATE SECTOR SAVINGS FOR CLIMATE MITIGATION AND FUND RECONSTRUCTION AFTER A CLIMATE DISASTER THROUGH NEW MULTILATERAL MECHANISMS

- *Establish a global mechanism for raising reconstruction grants for any country imperilled by a climate disaster.*
- *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.*

In summary, the Bridgetown Initiative proposed the creation of new instruments and the reform of existing global financial institutions to finance climate resilience and the SDGs. It suggested several all-embracing mechanisms to make funding available to Global South countries by increasing liquidity, lending and private sector investment.



## HOW HAS THE BRIDGETOWN INITIATIVE EVOLVED?

Since its initial presentation at COP27 in November 2022, the “Bridgetown Initiative” has seen a few iterations and updates, including an overview presented by Prime Minister Mottley at the United Nations in April 2023. In May 2023, a “Bridgetown 2.0” document was published, reflecting an updated set of more detailed reform proposals based on feedback from diverse stakeholders, and was shared to seek further constructive input and advice in the hope that interested parties can work together to advance the shared agenda.

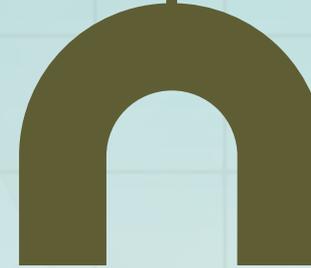
Bridgetown 2.0 identifies six main policy reform areas with specific action calls to key global players including UN Member States, the IMF, MDBs and G20 creditor countries. These specific action calls are as follows:

# BRIDGETOWN INITIATIVE 2.0

PROVIDE IMMEDIATE  
LIQUIDITY SUPPORT

MOBILIZE PRIVATE SECTOR  
INVESTMENT TO OVER US \$1.5  
TRILLION PER YEAR FOR GREEN  
AND JUST TRANSFORMATIONS

ENSURE THAT THE  
MULTILATERAL TRADING  
SYSTEM SUPPORTS  
THE GREEN AND JUST  
TRANSFORMATION



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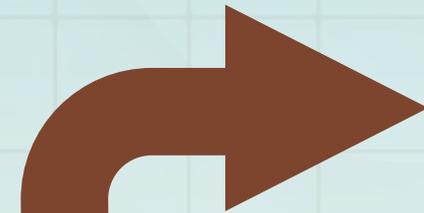
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RESTORE DEBT  
SUSTAINABILITY

INCREASE OFFICIAL SECTOR  
DEVELOPMENT LENDING  
FOR SDGS TO US\$500  
BILLION PER YEAR

REFORM THE GOVERNANCE  
AND OPERATIONS OF  
INTERNATIONAL FINANCIAL  
INSTITUTIONS (IFIS)



## 1. PROVIDE IMMEDIATE LIQUIDITY SUPPORT

UN Member States to:

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

## 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.**

The IMF to:

- **Encourage the restructuring of unsustainable private debt through IMF programmes 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 to new international resources (whether taxes, charges, or other sources) to fund the UNFCCC Loss and Damage Fund to US\$100 billion per year.**

## 3. MOBILIZE PRIVATE SECTOR INVESTMENT TO OVER US \$1.5 TRILLION PER YEAR FOR GREEN AND JUST TRANSFORMATIONS

IMF and MDBs to:

- **Cut the excessive macro-risk premia on developing countries with US\$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 US\$500 BILLION PER YEAR

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

- *Fully implement the Capital Adequacy Framework (CAF) Review recommendations, including on callable capital and SDRs.*
- *Put an additional US\$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 International Development Association (IDA) balance sheet, fully fund the Crisis Response Window (US\$6 billion) by the end of 2023, and implement a phased scale up of IDA to US\$279 billion in IDA 22.*
- *Raise the access limits for the Poverty Reduction and Growth Trust and the Resilience and 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 International Financial Institutions (IFIs), increase front-line support to countries accessing loans, and finance country-led national resilient development plans and multi-country programmes that protect the global commons.*

#### 5. ENSURE THAT THE MULTILATERAL TRADING SYSTEM SUPPORTS THE GREEN AND JUST TRANSFORMATION

World Trade Organization (WTO), International Labour Organization (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.*



## RELEVANCE OF BRIDGETOWN 2.0 TO CARIBBEAN SIDS

The reform proposals of Bridgetown 2.0 are directly relevant to Caribbean SIDS which are caught in a vicious, middle-income country debt-climate change trap. The resources these small island states need to invest in climate resilience are increasingly being diverted to repay debts while their borrowing costs are rising, partly due to climate-related vulnerabilities, leading to more debt. At the end of 2023, six of the fourteen Caribbean countries which are members of CARICOM ranked in the top 10 of the world's most highly indebted SIDS, with their public debt stock beyond 80% of GDP. One key factor that has contributed to the unsustainable debt situation of Caribbean SIDS is the destructive impacts of hurricanes due to the unique geographical location of many of these small islands

in the North Atlantic hurricane basin. In the Caribbean, the top 10 climate extreme events in terms of losses as a percent of GDP have been from more frequent and powerful tropical storms and hurricanes between 1998 and 2017, six of which took place between 2015 and 2017. Dominica is in the top spot after Hurricane Maria devastated the island in 2017, causing damages estimated at around US\$1.3 billion or over 225% of the country's GDP. In Grenada and St. Kitts and Nevis, the damage was also equivalent to more than one year of economic activity, after the passage of Hurricane Ivan and Hurricane Georges, respectively. In 2019, Hurricane Dorian caused loss and damages equivalent to 25% of the Bahamas GDP.



In the aftermath of these destructive hurricanes, Caribbean governments with already limited fiscal space have little choice but to borrow heavily (mainly from the private sector and China) to fund emergency response, economic recovery and longer-term reconstruction efforts. This justifies the need for a loss and damage facility to provide financial support to countries in the wake of natural disasters. After intense lobbying over the past three decades by the Alliance of Small Island States (AOSIS), which includes Caribbean Governments, the international community agreed at COP28, held in Dubai in 2023, to establish and operationalize a Loss and Damage Fund, although the amounts pledged to the Fund (circa US\$660 million at end-March 2024) are still tiny in relation to the huge needs of climate vulnerable Caribbean countries.

This unjust situation reflects the inequalities embedded in the global financial architecture. For Caribbean SIDS, breaking free from their vicious debt-climate change trap calls for a multi-faceted response from the international community, similar to the Bridgetown Initiative, comprising a transformed global debt architecture, debt relief and more grants and concessional multilateral financing. With a greater volume and mix of concessional financial support, highly indebted climate-vulnerable Caribbean SIDS will have more resources to invest in quality education, better health care, cleaner renewable energy, and more resilient infrastructure, all of which are key to ending extreme poverty in the region. Nevertheless, given the nature of the debt and climate finance challenges facing Caribbean SIDS, there are some concerns associated with the reform proposals contained in Bridgetown 2.0. These concerns are as follows:

# OVER-RELIANCE ON DEBT PAUSE CLAUSES

A shortcoming of the global financial system is the absence of a comprehensive and consistently applied mechanism to suspend debt payments when a country is hit by a climate extreme event or other crisis. This means that in many cases, countries must continue servicing their debt when a climate extreme event strikes, diverting vital resources away from emergency response efforts. Antigua and Barbuda, for example, had to make a US\$3 million debt payment to the IMF one day after Hurricane Irma nearly completely wiped out the smaller, sister island of Barbuda to the tune of US\$152 million in loss and damages. Among the many asks to provide immediate and adequate liquidity to countries at a time of crisis, the Bridgetown agenda pushes for the inclusion of natural disaster and pandemic clauses in all loans issued by major lenders, to ensure automatic suspension of debt service payments in the event of climate or other major disruptions. These debt pause clauses are meant to provide breathing space for a debtor country so that it can redirect financial resources towards critical areas such as response and recovery efforts in the aftermath of a natural disaster instead of servicing debt payments. They build on the introduction of a “hurricane clause” by Grenada as part of its 2015 debt restructuring and a similar natural disaster clause by Barbados as part of its 2018-2019 debt restructurings.

Debt pause clauses, however, do have limitations. A major drawback is that debt servicing remains and keeps on rising due to accumulated interest and extended repayment periods, while debt pause clauses may widen the risk premium impacting the country’s creditworthiness. As a result, Caribbean SIDS may wish to give due consideration to the use of parametric insurance for sovereign debt as an alternative financial mechanism. Unlike the case of a debt pause clause, parametric insurance for sovereign debt ensures that debt repayments continue as normal in the aftermath of a natural disaster, without jeopardizing a debtor country’s credit ratings. From an investor perspective, parametric insurance for a debtor country’s sovereign debt can provide a measure of stability and certainty, providing support to the debtor country’s credit worthiness. However, the insurance premium costs for parametric insurance are rising with every natural disaster and may prove prohibitive, especially for countries with higher credit risks. Although it is not directly parametric insurance of sovereign debt, the experience of Caribbean SIDS with Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company (CCRIF), the regional sovereign catastrophe risk insurance pool, is instructive. CCRIF offers affordable parametric insurance products for earthquakes, tropical cyclones and excess rainfall.

## HEAVY DEPENDENCE ON PRIVATE SECTOR FINANCING

Emphasizing the private sector even more than the first iteration, Bridgetown 2.0 calls for mobilizing US\$1.5 trillion in private investment “in the green transformation.” However, this overreliance on the private sector may prove too optimistic. So far, the private sector has been lukewarm, at best, in mobilizing private climate finance for developing countries. The initial experience of Caribbean SIDS with the IMF’s newly created Resilience and Sustainability Fund (RSF) is useful, even though the Bridgetown Initiative is not proposing a sole reliance on the RSF, which provides concessional financing to low- and middle-income countries to deal with prospective balance of payments shocks arising from climate change. In December 2022, Barbados became the first Caribbean SIDS to enter into an RSF arrangement, followed by Jamaica in March 2023. RSF arrangements have an overwhelming reliance on the IMF’s catalytic effect to unlock external financing, especially substantial private climate flows. In the past, this catalytic finance nature of IMF programmes has been questioned and now there are concerns regarding the Fund’s unproven dependence on private climate finance flows to fund countries’ climate resilience programmes. At the end of 2023, Barbados and Jamaica had not attracted any private climate finance flows related to their RSF arrangements, despite having a programme for 12 months and nine months, respectively.

## OVER CONFIDENCE IN SOVEREIGN DEBT RESTRUCTURING

Bridgetown 2.0 refers to debt sustainability and sovereign debt restructuring within the context of the G20’s Common Framework, which has not worked. In fact, the existing international financial system offers very few options to undertake an orderly, predictable and equitable restructuring of sovereign debt for developing countries, much less to link debt to climate change. This significant weakness in the global financial architecture is of critical concern to Caribbean SIDS which have initiated sovereign debt restructuring operations, but they have not been able to lock in the durable gains of debt relief, leading to repeated restructuring in a few countries while others remain highly indebted. Between 2000 and 2021, eighteen episodes of sovereign debt restructuring operations were concluded in seven Caribbean SIDS. At the end of March 2023, Suriname is still engaged in debt restructuring negotiations with its external creditors, a process which it started since September 2020.

For this reason, CPDC has been advocating for the international community to deliver comprehensive debt relief for Caribbean SIDS, through debt cancellation, debt forgiveness or debt restructuring, as a main form of climate reparations. G20 nations have a moral responsibility to help Caribbean SIDS escape the debt and climate change trap. This is because historical cumulative emissions from the developed countries spanning



colonialism to the Industrial Revolution to the present day have contributed the most to the climate crisis which is impacting the Caribbean region. This call by Caribbean civil society goes beyond the core demands of the Bridgetown Initiative, which focuses on providing additional financial support to countries and helping with debt restructurings. Debt relief must be seen as a main form of climate reparations to compensate the Global South for the destruction and harm that the Global North caused them from colonialism to the Industrial Revolution to the present day. CPDC has developed 'Caribbean Emancipation 2030', a sovereign debt and climate justice initiative which seeks to remove the onerous debt overhang of Caribbean SIDS, free up resources to boost climate resilience actions aligned with the 2015 Paris Agreement, and support sustainable development.

At the same time, Caribbean civil society recognizes the possibility that even after debt is cancelled, Caribbean countries may end up back in an untenable debt situation over time. For this reason, there may be merit in calling for an improved governance enabling environment that accompanies debt cancellation. Supporting guardrails may include mandatory enactment of Freedom of Access to Information laws, enhanced Integrity in Public Office legislation, whistleblower legislation and possibly even effective constitutional limits on annual borrowing.

# LOOKING FORWARD

The Bridgetown Initiative outlines transformative proposals for systemic reform of the global financial architecture, with significant implications for both the climate and development landscapes. As a Global South, small island state championed agenda that speaks the language of the international financial institutions, the Bridgetown Initiative has been opening policy space for debates about whether global economic and financial governance arrangements in the context of the climate crisis are indeed still fit for purpose after being in existence for 80 years or that major systemic changes are required for countries to escape their debt, development, and climate crises.

In June 2024, Prime Minister Mottley will assume Chairmanship of the Vulnerable Twenty (V20) Group of Finance Ministers, a dedicated dialogue and action-oriented platform of the Climate Vulnerable Forum (CVF). As of 2023, the V20 Finance Ministers represent 68 nations systematically vulnerable to climate change, 1.74 billion people and US\$3.8 trillion in gross domestic product. Seven Caribbean SIDS are members of the V20 Group. These are Barbados, Dominica, Grenada, Guyana, Haiti, Saint Lucia and Trinidad and Tobago. The V20 has developed the Accra to Marrakech (A2M) Agenda, which seeks to immediately and fully align the global financial system with climate science, while

advancing critical improvements, including those identified in the Bridgetown 2.0 such as reform of the international financial architecture to make debt work for the most vulnerable countries. In this respect, when Prime Minister Mottley assumes the Chair of the V20 Group there is likely to be synthesis of Bridgetown 2.0 and the A2M agenda, creating a Bridgetown 3.0 in the near future. At the recently concluded United Nations SIDS4 Conference held in Antigua and Barbuda in May 2024, Prime Minister Mia Mottley unveiled a draft Bridgetown 3.0 which has been put out for public consultation. The final 3.0 version will be launched at the Summit of the Future which will be held in New York in September 2024.

As the Bridgetown Initiative continues to be discussed in global policy spaces and its orientation continues to evolve, it is important that its policy reform agenda remains one that favours the Global South and is not hijacked by Global North governments, creditors and other power brokers. The leadership and moral authority of Prime Minister Mottley as a forceful proponent of global financial reform must be maintained. In the meantime, Caribbean civil society, especially through the CPDC, will continue to advocate for a sovereign debt and climate justice initiative that benefits the people of all Caribbean SIDS.



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