

# Comments on Bridgetown Initiative 3.0

## Consultation Draft 28<sup>th</sup> June 2024

We applaud the Government of Barbados for the release of the Bridgetown Initiative 3.0. The proposals put forward by the initiative are essential to enhance the equity of the global financial system, remove underlying biases, and enable all countries to invest in a climate positive, low carbon, climate resilient and nature rich future.

We fully support all points made and stand ready to support the Government of Barbados and all its partner with advocacy and analysis in the realization of the proposed measures. We also take the liberty to propose a number of additions to the “rules of the game” and provide arguments for scaled financing that takes into account the value of unique ecosystems as global public goods.

### SPECIAL CONSIDERATIONS FOR HIGH-INTEGRITY FORESTS

Development finance instruments should enable countries to finance development while achieving climate change adaptation and mitigation, biodiversity conservation, and Sustainable Development Goals. Reforming and scaling development finance and opening fiscal spaces for governments involves tailored country support, debt restructuring, grant-based support, and concessional loans. However, development finance instruments should also account for climate and nature outcomes. We therefore propose to ensure that financial instruments value countries’ natural assets. If the global community agrees that essential natural ecosystems, such as high-integrity tropical forests, are to be preserved, then it must ensure that the financial system creates development incentives linked to protecting – not disappearing – forests.

#### 1. Changing the rules of the game: Valuing high-integrity forests and other critical ecosystems

Since the protection of tropical forests (and other critical ecosystems) involves safeguarding a global asset, the global community should agree to assign a monetary value to tropical forests to establish continued incentives to protect such forests for the benefit of the global community. Where the value of tropical forests is considered by sovereign debt markets, countries gain fiscal space. We therefore argue that the IMF and World Bank consider the value of such ecosystems in a country’s Debt Sustainability Analysis (DSA).

There are two ways how tropical forests can be considered in countries’ debt management frameworks that would significantly increase the fiscal space of tropical forest countries:

- i) **Consider the economic risks associated with forest loss:** Since 2018, the DSA module for low-income countries has included a climate stress test. However, the test focuses primarily on physical risk, such as climate-induced natural disasters, and fails to consider the risk of loss of nature.<sup>1</sup> The consideration of forest value and risks to GDP of forest loss would be a step towards considering natural capital in financial markets.
- ii) **Consider forests as national assets:** Even more advantageous for Congo Basin countries would be the use of a balance-sheet approach in DSAs, which would consider forests as national assets. So far, most countries ignore their assets when formulating their budgets, which limits their fiscal space.<sup>2</sup>

<sup>1</sup> Kraemer, Moritz, & Volz, Ulrich. (2022). *Integrating Nature into Debt Sustainability Analysis*. Retrieved from <https://eprints.soas.ac.uk/id/eprint/37715>.

<sup>2</sup> Wang, Y., & Xu, Y. (2022). *Debt Restructuring in Africa*. Retrieved from [https://www.bu.edu/gdp/files/2022/11/GCI\\_WP\\_020\\_FIN.pdf](https://www.bu.edu/gdp/files/2022/11/GCI_WP_020_FIN.pdf).

Considering forests as assets could not only positively influence the DSA but increase countries' net worth and resulting bond yields.

A change in sovereign debt management frameworks could be combined with (i) the establishment of fund in support of the conservation of tropical forests; and (ii) a debt-relief and debt-restructuring program that addresses the challenges of the current debt crisis.

## 2. Scale finance linked to high-integrity forests and other critical ecosystems

We further propose the establishment of one or several Sustainable Forest Trust (SFTs) for the benefit of critical ecosystems. SFTs could combine the benefits of budget support and performance-based financing. Funding would go to government budgets to enable them to implement green growth and climate policies. Disbursements to governments would be linked to the achievement of specific policy milestones or results (performance-based). The SFT could also make available long-term concessional finance to support regional investment projects. All funding would be contingent on established national forest conservation commitments, which could be monitored and verified independently (e.g., forest coverage monitored by spatial data). The proposed SFT would, in contrast to existing forest funds, provide general development and policy support and not limit programs to forest-related investments.

The STF could be set up as a window of the IMF's Resilience and Sustainability Trust Fund (RSTF), which seeks to mobilize funds for climate resilience at scale. Like the RSTF, the SFT could raise funds through reallocation or reissuances of Special Drawing Rights. The SFT would scale-up performance-based financing to forest-rich countries that are committed to implementing policy reforms that support their transition to sustainable and climate-resilient economies.

## FINAL REMARKS

We are confident that these friendly amendments to Bridgetown 3.0 further strengthen its value for countries' development prospects while allowing to achieve national and global climate and biodiversity goals. We have developed these proposals in the context of an analysis conducted for WWF and Commission des Forêts d'Afrique Centrale (COMIFAC) on how to increase the flow of finance for the benefit of countries and ecosystems of the Congo Basin.<sup>3</sup> The report can be accessed [here](#). While the report has been written with a view of mobilizing finance towards the countries of Central Africa, the proposals are valid for all high-forest countries.

We are grateful for the opportunity to submit comments as well as for your kind consideration.



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<sup>3</sup> Climate Focus for WWF and COMIFAC: *Increasing International Finance Flows for Sustain the Congo Basin's Forests* (November 2023), Retrieved from: [https://wwfint.awsassets.panda.org/downloads/wwf-congo-basins-forests\\_discussion-paper-2023\\_eng\\_nov\\_2023.pdf](https://wwfint.awsassets.panda.org/downloads/wwf-congo-basins-forests_discussion-paper-2023_eng_nov_2023.pdf)