June 15, 2023

Dear President Biden and Vice President Harris,

On behalf of our development, faith-based, environmental, science, foreign policy, and other organizations, we urge the Biden-Harris Administration to fully embrace a targeted set of actions to reform the international financial institutions (IFIs) for strengthened climate action. IFI reforms have taken on increased urgency as the mounting climate crisis collides with the emerging market debt crisis, pushing many millions further into poverty and hardship. The Biden-Harris Administration has a generational opportunity to deliver the needed reforms to simultaneously address global climate inequities, channel resources for climate-resilient development and mitigation efforts in developing countries, and unlock tens of billions of dollars per year for climate-smart development investments. The United States can and must champion these essential reforms.

As a major shareholder in all the IFIs that are critical to unlocking reforms and as a significant influencer in global capital markets, the U.S. must rally the international community with greater urgency and ambition. We therefore urge the Biden-Harris Administration to champion delivering three priority reforms and underpinning actions in the near-term political window while it remains open.[1, 2] Broader systemic changes to the international financial system, and delivering on the U.S.'s international public climate finance commitments and drawing on additional sources of funds[3] are essential complements to these actions in order to make it possible to keep global temperatures below 1.5°C and meet the U.N. Sustainable Development Goals.

1. Transform the Multilateral Development Banks (MDBs) for greater and better climate action. The MDBs are already a significant financier of climate mitigation and adaptation in developing countries, including for the most vulnerable.[4] However, it is necessary for the MDBs, and the World Bank Group (WBG) in particular, to implement additional reforms to increase the quantity and quality of its climate finance, including providing more grants-based funding. The Biden-Harris Administration should use its voice and vote to:

- *Aggressively implement the recommendations of the G20 Capital Adequacy Frameworks (CAF) review* while continuing to protect IBRD's triple-A rating and long-term financial

[1] It is important to note these reforms do not encompass all actions the U.S. could undertake over the medium-term. Instead The proposed recommendations set out essential steps that the U.S. can and should carry out in the short-term without requiring new Congressional authority that can make a significant difference in beginning to deliver critical reforms.
[2] This includes proposals from the Bridgetown Initiative (https://pmo.gov.bb/wp-content/uploads/2022/10/The-2022-Bridgetown-Initiative.pdf) and the Accra-Marrakech Agenda from the V20 (https://www.v-20.org/wp-content/uploads/2023/04/AMA-Agenda_April-16_compressed.pdf).
[3] This should include a particular focus on fossil fuel companies, and wealthy individuals, among other sources.
[4] Total climate finance from eight MDBs (the African Development Bank, the Asian Development Bank, the Asian Infrastructure Investment Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the Inter-American Development Bank Group, the Islamic Development Bank and the World Bank Group) to low- and middle-income economies was $50.7 billion in 2021, according to their reporting. Finance from the MDBs to UNFCCC-defined developing countries was $58.9 billion in 2021. See: https://www.nrdc.org/experts/joe-thwaites/good-bad-and-urgent-mdb-climate-finance-21

sustainability.[5] The U.S. should push the WBG to change its equity-to-loan ratio target to at least 17-18% for the International Bank for Reconstruction and Development (IBRD) – down from the recently adopted 19%.[6, 7] Each percentage change in equity-to-loan ratio can increase annual lending capacity by roughly $4 billion, so revising to 17-18% can unlock an additional $4-8 billion per year, $1.4-2.8 billion of which would flow to climate activities.[8] This move by the WBG should be leveraged with similar reforms at the other MDBs to unleash significant new investments using existing capital.

- *Enable MDB concessional investments in adaptation and loss and damage in a broader range of vulnerable countries.* Some of the most climate-vulnerable countries aren't eligible for MDB concessional financing, as their per capita incomes are too high. As a result, these countries can only access less concessional MDB resources for investments in adaptation and to address losses and damages from climate impacts. This is unfair and unjust – these countries have contributed little to the emissions fueling climate impacts that are causing rising adaptation needs and loss and damage costs. The MDBs provide some flexibility to address these issues, but the process is not transparent, expedited, or widely understood. The U.S. should push for MDB reforms and specific criteria so that all climate-vulnerable countries can access temporary WBG concessional financing for "external shocks" such as extreme weather events, and support an "adaptation carve out" at the MDBs so the most vulnerable countries can access more concessional finance for adaptation investments before disasters hit. This concessional financing cannot come at the expense of low-income countries. The U.S should ensure ambitious aid contributions to the World Bank's IDA and other concessional finance that would benefit LICs and MICs.
- *Ensure the quality of WBG financing is fully aligned with the Paris Agreement 1.5°C goal.* The WBG has committed to "fully align" its financing with the Paris Agreement, but its methodology leaves numerous and significant gaps.[9] The U.S. should push the WBG to not only uphold the principle of "do no harm" but to also develop an affirmative financing strategy that leverages the maximum climate benefit from every dollar it invests in line with the Paris Agreement's goals.

2. Support broader and additional use of Special Drawing Rights (SDRs). As an international reserve asset, SDRs can provide much-needed financial liquidity for countries facing economic challenges due to the compounding climate, debt, energy, food, and public health crises and other acute challenges. While many developed countries do not need their SDRs and they would

---

[5] https://www.dt.mef.gov.it/export/sites/sitodt/modules/documenti_it/news/news/CAF-Review-Report.pdf
[6] Researchers at the Center for Global Development have proposed that the equity-to-loan ratio for IBRD could be lowered to 15%: https://www.cgdev.org/blog/half-trillion-dry-powder-time-mdb-financial-reform-now
[7] The actual IBRD equity-to-loan ratio has been around 22-23%, well above the minimum target of 20%, see: https://www.cgdev.org/blog/half-trillion-dry-powder-time-mdb-financial-reform-now. In FY22 the ratio was 22%, see: https://thedocs.worldbank.org/en/doc/f3508084cc8eae0e08c432b2427b6946-0340022022/original/IBRD-Information-Statement-FY22.pdf
[8] In line with the World Bank Group's Climate Change Action Plan for 2021-2025 that includes a target to deploy an average of 35% of the institution's financing in support of climate action. https://openknowledge.worldbank.org/handle/10986/35799
[9] See analysis from NRDC, E3G, and Germanwatch: https://www.nrdc.org/bio/jake-schmidt/world-bank-group-paris-alignment-draft-methodology-needs-work

go unused without action, allocations of SDRs help developing countries tap into extremely low-cost finance to meet urgent needs, including those caused by climate-fueled disasters. While the Biden-Harris Administration continues to support efforts to re-channel a portion of the U.S. allocation of SDRs issued in 2021, they should also:

- *Encourage countries to re-channel unused SDRs.* The U.S. should support voluntary SDR channeling to IMF trusts and/or the multilateral development banks.[10] The U.S. should also support the development of innovative proposals for prescribed holders to absorb re-channeled SDRs in a way that passes along the extremely low interest rate and flexibility of SDRs to recipient countries.[11]
- *Support another round of SDR issuance.* This will create fiscal space developing countries can use to invest in resilient infrastructure that reduces emissions and supports economic development. According to the Treasury Department, a "$650 billion SDR allocation would directly provide about $21 billion worth of SDRs in liquidity support to low-income countries and about $212 billion to other emerging market and developing countries (excluding China)."[12] It also enables other developed countries to undertake another round of voluntary re-channeling of their unused SDRs. The U.S. can green light a new issuance of up to $650 billion in SDRs without requiring Congressional approval.[13]

3. Champion debt reforms for climate action. Almost 60% of low-income countries are at high risk of debt distress or already experiencing it.[14] The Climate Vulnerable Forum – a group of 58 countries particularly vulnerable to climate change – will be required to make almost $435.8 billion in debt payments to various creditors between 2022-2028.[15] Many developing countries are forced to pay punishingly high interest rates for borrowing compared with richer nations like the U.S. This long-standing inequity in the global financial and economic system is now exacerbated by increasing climate disasters. Developing countries often need to take out new debt to address the impacts of climate disasters, further increasing their debt distress. As a recent report for the V20 stated: "When scarce public finances are mostly spent on paying debt service rather than making the necessary investments to build a more resilient economy, the most vulnerable countries will be locking themselves in a cycle of unsustainable debt further fueled by climate impacts."[16] While broader debt sustainability efforts are undertaken to help avoid a cascading debt crisis and create greater fiscal space, the Biden-Harris Administration should:

---

[10] Currently there are 15 prescribed holders, including the major MDBs: https://www.imf.org/en/About/FAQ/special-drawing-right

[11] Such as SDR denominated bonds: https://www.cfr.org/blog/how-sdr-denominated-bond-could-work and hybrid capital facilities: https://www.afdb.org/en/news-and-events/interviews/leveraging-power-special-drawing-rights-how-developed-countries-can-help-boost-africas-development-51910

[12] https://home.treasury.gov/news/press-releases/jy0095

[13] 43 members of Congress have urged an issuance of a second tranche of SDRs and have emphasized it does not require additional Congressional approval: https://progressives.house.gov/_cache/files/f/3/f3aa15fe-cca2-40da-a68b-937e3d8646f9/15748EFE144F03BA67ADE35DF1A98155.7-12-22-jayapal-warren-sdr-issuance-letter.pdf . See also Treasury Department fact sheet: https://home.treasury.gov/news/press-releases/jy0095.

[14] https://openknowledge.worldbank.org/bitstream/handle/10986/38045/9781464819025.pdf

[15] See analysis from Boston University Global Development Policy Center, https://www.bu.edu/gdp/files/2022/09/V20-BU-Debt-Review-Sept-20-FIN.pdf

[16] Ibid

- *Deliver debt restructuring.* President Biden must deliver on his campaign pledge to "provide green debt relief for developing countries." The current G20 Common Framework process to restructure sovereign debt is not delivering, and needs to provide more efficient, predictable and clear processes to accelerate restructuring. The Common Framework should be expanded to include all climate vulnerable economies. The U.S. should support a guarantee facility that provides a "Brady-type deal"[17] and other measures[18] to incentivize or require private sector participation in debt restructuring.
- *Spearhead scalable solutions debt for climate/nature swaps.* The U.S. should leverage the tools of the U.S. government and IFIs to scale debt for climate/nature swaps.[19]
- *Spur the inclusion of natural disaster clauses in all debt instruments.* The Bridgetown Initiative proposes normalizing the inclusion of specific clauses in all sovereign debt instruments that "suspend the debt service for two years when an independent agency declares a natural disaster of a certain threshold has hit and extends the instrument's maturity for two years at the initial interest rate."[20] This provides developing countries hit by climate impacts, which they did little to cause, the fiscal space to prioritize vital investments in disaster response and recovery. Pausing debt repayment – while nowhere near sufficient to address the full scale of the resources needed to address the climate challenge – can unlock considerably more resources than humanitarian aid for emergency response. The U.S. should support efforts to include such provisions in all debt instruments, including MDB and IMF loans and push private sector debt to include such provisions.

Sincerely,

350.org
Bread for the World
C2ES
Center for American Progress
Clean Energy Action
Climate Advisers
CO Dem Party - Energy & Environment Initiative
Earth Action, Inc.
Elders Climate Action
E3G
Empower our Future
Foreign Policy for America

---

[17] For more details on the "Brady-type deal" proposal see: https://drgr.org/files/2021/06/DRGR-Report-2021-Securing-Private-Sector-Participation.pdf
[18] For example, this could include supporting binding legislative efforts such as the New York Taxpayer and International Debt Crises Protection Act, see: https://www.jubileeusa.org/nylegislation
[19] These are not a replacement of broader debt reform efforts or the need to scale-up concessional finance to support climate and nature protection goals.
[20] https://geopolitique.eu/en/articles/breaking-the-deadlock-on-climate-the-bridgetown-initiative/

Global Citizen
InterAction
Justice is Global
League of Conservation Voters
Maryknoll Office for Global Concerns
Natural Resources Defense Council
Oxfam America
Passionist Solidarity Network
Pennsylvania Interfaith Power & Light
Sierra Club
Union of Concerned Scientists