A Real Mosaic of Solutions to Respond to Loss and Damage from Climate Change

Reform of the International Finance Architecture

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Introduction

This publication is part of a series of briefs unpacking the pieces of a fit for purpose "mosaic of solutions" to respond to loss and damage from climate change. This series expands on our earlier work, which presented a five-year vision for Loss and Damage under the United Nations Framework Convention on Climate Change (UNFCCC) to look beyond the international climate regime at catalysing a wider mosaic of solutions.

In the flagship paper of the series, we unpack the pieces of the mosaic. In these thematic briefs, we dive deeper into existing solutions and how they can be strengthened. We also consider any reforms needed and explore emerging solutions.

This brief unpacks the relationship between loss and damage response and the reform of the international financial architecture with a focus on Special Drawing Rights (SDR). It provides a basic overview of the problems developing countries face as a result of current inequalities within the international financial architecture and the reforms needed to address them. The paper also unpacks the reforms needed to ensure that SDRs are allocated in the hundreds of billions yearly, are easily accessible to developing countries as grants, and flow directly to multilateral development banks (MDBs) and funds —including the Fund for Responding to Loss and Damage (FRLD).

In a forthcoming paper, due later this year, we will dive deeper into the wider reform of the international financial architecture as part of the launch of a new workstream on system change.

What is the problem?

Established in 1944 at a conference held in Bretton Woods, New Hampshire, US, the International Monetary Fund (IMF) and World Bank are collectively known as the Bretton Woods Institutions.

Despite the escalation of the triple planetary crisis of climate change, pollution, and biodiversity loss,[1] the Bretton Woods Institutions are failing to disincentivise high carbon and environmentally destructive activities[2] and are increasing vulnerability to climate change in developing countries. They do so by promoting policies that increase debt,[3] reduce fiscal space, and increase dependence on fossil fuels[4] and the extraction of other natural resources (e.g. minerals and timber).[5]

Since their creation, both the World Bank and IMF have been governed by a highly undemocratic system that privileges countries with economic power and underrepresents developing countries (i.e. the Global North).[6] Despite some reforms, including to the voting power of countries', profound democratic deficits, power asymmetries, and neocolonial governance continue to plague the Bretton Woods institutions.[7]

What are the existing solutions?

The World Bank's Evolution Roadmap and the Bridgetown Initiative both aim to reform elements of the Bretton Woods institutions. However, both initiatives fail to go far enough. Table 1 unpacks why this is the case.

Table 1: **Proposed Bretton Woods reforms and their inadequacies.**

CURRENT SOLUTIONS	HOW DOES IT WORK?	WHAT ARE THE ISSUES?
World Bank's Evolution Roadmap	The Evolution Roadmap is a strategic reform process initiated in late 2022 to reposition the Bank to better address global challenges like climate change, pandemics, and fragility, alongside its core mission of poverty reduction.[8]	The Evolution Roadmap overrelies on private sector finance and fails to address systemic inequality. It prioritises profit-driven, high-risk "de-risking" over public investment,[9] and fails to adequately address debt distress and promote climate justice. The Roadmap also fails to address the need for fundamental governance reforms that can rebalance asymmetrical power relations away from developed nations.[10]
Bridgetown Initiative 3.0	The Bridgetown Initiative is a framework proposed by Barbados, with a vision of reforming the global financial architecture to better support developing countries facing increasing loss and damage and unsustainable debt. It is led by the Prime Minister of Barbados, Mia Mottley. The draft of the Bridgetown Initiative has reached its third iteration (3.0).	Bridgetown Initiative 3.0 relies heavily on mobilising loans for developing countries rather than grants. and therefore, it has potential to worsen debt distress. The third iteration also does not offer a comprehensive mechanism for debt restructuring and cancellation.[11] It also does not include any binding commitments for developed countries.

What do we need to see?

To ensure that developing countries can respond to loss and damage, the Bretton Woods institutions must be profoundly transformed to ensure a more responsive, democratic, accountable, and sustainable development oriented international finance system.[12] A key opportunity to enhance responses to loss and damage in developing countries within this broader transformation is by increasing the issuance of SDRs to developing countries.[13]

SDRs are an international reserve asset created by the IMF to supplement member countries' official reserves. The SDR itself is not a currency, but an asset that holders can exchange for currency when needed.[14] Under certain conditions, the IMF can allocate SDRs to its member countries in proportion to their quota shares at the IMF.[15] To date, there have been four general allocations of SDRs.[16]

Most recently in 2021, the IMF's Board of Governors approved a general allocation of approximately 456 billion SDR[17] (equivalent to 650 billion USD), to help countries to respond to the COVID-19 pandemic.[18] This was the largest SDR allocation in the history of the IMF. Another notable allocation followed the financial crash of 2008, when, in 2009, 161 billion SDR (equivalent to 250 billion USD) was allocated to boost global liquidity.[19]

However, SDRs in their current form are ill equipped to support developing countries facing loss and damage. The reasons why this is so include the fact that developing countries receive fewer SDRs than developed countries due to their lower quotas, SDRs are trapped on the balance sheets of developed countries and China, and the way in which SDRs are currently channeled to developing countries.

In the 2021 allocation, low-income countries received just 2.4 percent of the SDRs allocated compared to developed economies receiving 64 percent.[20] Although wealthier nations pledged to redirect 100 billion USD in SDRs in 2021 to support developing countries after COVID-19, only about 23.6 billion USD had been actually disbursed by mid-2025.[21] These SDRs were channelled through the IMF's Poverty Reduction and Growth Trust (PRGT) and the Resilience and Sustainability Trust (RST), both of which provide loans which come with conditionalities to developing countries, risking increasing debt distress.[22] [23] While more than 100 billion USD was pledged, some countries failed to finalise contribution agreements with the IMF.[24] A substantial portion of the redirected SDRs also went into accounts and buffers that are essential to the workings of the PRGT and RST, thereby reducing the loanable amount.[25]

When looking at the current global stock of SDRs, as of 2025 there were a little under 660.8 billion SDR (1 trillion USD), with more than two-thirds of these are "trapped" in the balance sheets of developed countries and China, where they have largely remained unused.[26] Therefore, the way SDRs are allocated and channeled must fundamentally change.

The decision taken at the Fourth International United Nations Conference on Financing for Development (FfD4) calls on the IMF to develop an "SDR playbook" to provide operational guidance and strengthen the role of SDRs during crises and shocks.[27] This playbook provides a critical opportunity to change how SDRs can be used to respond to loss and damage. The following table explores the reforms needed to ensure that SDRs can be used effectively by developing countries to respond to loss and damage.

Table x: Making SDRs work for loss and damage response.

REFORM	WHAT WOULD CHANGE?	WHY IS IT NEEDED?
Automatic and/or Regular Allocations in the Hundreds of Billions	Instead of infrequent SDR general allocations, the IMF would make automatic allocations based on triggers (e.g. a financial crash) and/or yearly allocations.[28] Oxfam argues that regular allocations should be at least 200 billion USD a year, adjusted every five years based on demand.[29]	Regular allocations would enable a consistent provision of global liquidity. Once allocated to developing countries, SDRs can be used in a variety of ways including held in reserve and used to pay off debt. SDRs could also be transferred to a government's general budget to support sustainable development and climate action,[30] including responding to loss and damage.
Adopting a Needs-Based SDR Issuance Distribution	SDRs must be allocated based on countries' needs, not their IMF quotas. At present, the majority of the SDRs go to wealthy nations that have little need for, and cannot readily use, their SDRs.[31] To make this change, the IMF's Articles of Agreement would need to be amended. Alternatively, a practice would need to be developed whereby developed countries voluntarily abstain from receiving their SDR allocation to ensure that future SDR issuances target countries in need.[32]	This would significantly increase the share of SDRs that developing countries receive, enabling to increase responses to loss and damage.

REFORM	WHAT WOULD CHANGE?	WHY IS IT NEEDED?
Re-Channeling SDRs from Developed Countries / Leverage MDBs	A system should be created to allow developed countries to re-channel SDRs to developing countries without jeopardising their primary function as a reserve asset.[33] This includes allowing SDRs to be channelled through MDBs and funds including Fund for Responding to Loss and Damage (FRLD) as well as United Nations agencies and related institutions including the Santiago Network.	Even if a needs based approach to SDR allocation was taken, developed countries would still hold SDRs they could not spend. Putting in place a re-channeling system could allow them to re-channel SDRs to developing countries through MDBs at no cost or via other avenues such as the FRLD. This could raise significant funds for loss and damage responses, but must ensure that MDBs provide funding in the form of grants, and not loans, to avoid debt crises.[34]
Focus on Grants, not Loans	The vehicle disbursing SDRs funding must focus on grants rather than loans like the IMF's PRGT and RST do.	Many developing countries are already facing debt crises, loans will further exacerbate this.
Reform Accounting Rules	Current rules restrict using SDRs as fiscal resources or MDB capital. These must change to allow SDRs to be counted as net assets for governments.[35]	This is needed to enable SDRs to be used by developing country governments to expand their fiscal space so that they have more capacity to respond to loss and damage.
Using SDRs to cope with Trade Shocks	SDRs should be allowed to be used to respond to trade shocks.[36]	This would enable developing countries impacted by trade shocks in the aftermath of a loss and damage event to use SDRs to prevent debt crises.

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