EQUITY MATTERS. FINANCING THE INTERNATIONAL ENVIRONMENT FUND (I.E.F.) THROUGH G7 SDRs QUOTAS

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Abstract

The impacts of ungoverned globalisation and Global Climate Change (GCC) represent a crucial modern-day matter of concern. Thus, there is a need for international instruments offering concrete solutions, especially in the most vulnerable contexts, and the International Environment Fund (I.E.F.) meets these requirements. This paper defines an alternative funding channel for the I.E.F., intended as a "compensation fund and regulator of environmental balance between nations", which can guarantee its operativity in the long term and which - potentially - provides greater financial availability. Following the 2021 IMF's large-scale General Allocation, an almost unrepeatable opportunity has arisen for financing the I.E.F. through portions of SDRs quotas belonging to countries in debt in environmental terms, guaranteeing respect for the principle of equity and international justice.

Keywords: climate change, ecological footprint, SDRs, climate finance

1. Introduction

This article is part of the broader debate on alternative uses of the Special Drawing Rights (SDRs) following the International Monetary Fund (IMF) General Allocation of August 2021, more specifically in the context of financing responses tackling Global Climate Change (GCC). This research intends to highlight the fundamental aspects that a possible reallocation of SDRs resources from developed states to an International Environmental Fund (I.E.F.) could entail. The purpose is to inform political strategies capable of bringing this necessary and far-sighted long-term climate financing tool into the heart of the international agenda.

During the last months, several suggestions for the reallocation of SDRs have been contemplated, some of them come from international organizations and states leaders, others from researchers and think-thanks. To date, no concrete initiatives, aimed at a definite reallocation of most developed countries' SDRs resources to a specific climate-focused finance mechanism have been put on the table. Too much space has been left to the political will of the richest countries, but it is fundamental to channel these resources to most in-need countries with a long-term perspective reinforcing mitigation, adaptation, and ‘losses and damages’ (L&D) policies, but also local institutions and governments.

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The vantage point of having been part of the research group "For a European Union - African Union Plan on the New Allocation of the IMF's SDRs"[1] was decisive for acquiring professionals' advice and sharing knowledge on SDRs related issues. The already promoted measures of the IMF concerning SDRs reallocation seem not sufficient to address the challenges of the GCC, especially in a context of high uncertainty due to the pandemic and considering the chronic climate finance 'fatigues'.

Considering that the use of SDRs quotas depends on country-specific decisions and strategies, the IMF General Allocation of $650bn in SDRs to the 190 countries belonging to the organization could be considered an exceptional opportunity not to be missed for shaping both the Earth's and next generations' future. Nevertheless, political factors, countries' debt conditions, conflict and pandemic uncertainties may act as crucial obstacles. Disregarding the evidence coming from climate policy history, it seems reasonable to state that one of the main difficulties for the full implementation of the I.E.F. could be the political will of the main stakeholders involved: the IMF and member states' governments (especially the most influential ones), alongside MDBs and other relevant private actors. They could constitute an obstacle when the implementation of such a fund would call into question their strategic prerogatives, be they financial, economic or more generally political.

Alongside these considerations, it cannot be overlooked that technical problems are a major issue when considering the possibilities of an SDRs reallocation, especially if this activity requires changes in the statute of the IMF or an 85% majority in the IMF Executive Board. We expect that even considering the above-mentioned possible impediments, if there is a strong conviction on the part of even a small group of willing developed states the I.E.F. may take shape.

Starting from the reason why it is necessary to set up such a climate finance instrument according to expected and already well-known effects of GCC, it is subsequently necessary to establish the principles to adopt to define the funding shares of the I.E.F. The mechanism for reallocating SDRs must guarantee that resources from already developed states will flow to the most affected by GCC ones, thus the Fund could ensure compliance with the principles of equity and international justice.

Considering the complexity of GCC impacts, the inadequacy of actual climate funding, and the necessity of more coordinated and decisive actions to ensure sustainable development worldwide, this paper will provide a short overview of the current global environmental situation and needed strategies to implement according to the IPCC and other relevant scientific research. Analyses of IMF, SDRs and 2021 General Allocation associated issues help in finding partial solutions to climate finance lack. Thanks to these reflections, the characteristics and functions of a new mechanism to finance the I.E.F. could be defined.

This introductory section is followed by the corpus of the article, organised into three sections: the first one concentrates on the GCC, climate finance and international inaction; the second one explores IMF and SDRs related issues associated with the last General Allocation; the third one defines the characteristics and functions of a new mechanism to finance the I.E.F. The last section is devoted to conclusions and recommendations.

2. State of the (E)art(h)

[1] Research project coordinated by the Centro Studi sul Federalismo (CSF) with the Robert Triffin International Foundation (RTI) and the Centre Studies on European and Global Governance (CesUE), admitted to the funding by the Italian Ministry of Foreign Affairs and International Cooperation.

The following investigations are rooted in the literature and scholarly debates in the field of climate change, international political economy, climate finance and development assistance. Starting from the proposal and analysis of Adamo (2017) this paper proposes a funding mechanism for the I.E.F. based upon the reallocation of SDRs quotas adapting what was suggested by Masini (2022) and Casano (2022) for the implementation of a "Next Generation Africa". The data coming from IMF and other economic research teams will be flanked by data provided by the Ecological Footprint Explorer open data platform. The aim is to define principles for climate funding taking into account ecological aspects, in particular, the so-called Ecological Footprint.

2.1. The global environmental situation in the frame of the GCC

Recent IPCC reports issued between 2021 and 2022 warned that global warming is occurring much faster than in the past, moreover, it underlines that the consequences of this temperature rise are expected to be far worse than those predicted previously. Compared to the pre-industrial era, the global average temperature has already risen by 1.09°C. Among the countless warnings of the Report: since 2000, we observe 75% increase in the areas subject to fire risk; ice sheets are daily losing 8 billion tons of water thus contributing to the sea level rise; many countries have suffered intense heat waves even for prolonged periods; as well, we observe a general increase in the frequency of violent typhoons and hurricanes worldwide; on the other hand, severe droughts and desertification are spreading in some of the most vulnerable regions of the planet (IPCC, 2022). These are just some of the many worrying findings; the studies produced so far have, once again, underlined the close relationship between human activity and climate change. It is therefore considered necessary, among countless other actions, to reverse the trend in global CO2 emissions and define trajectories for real sustainable development, but also to identify tools capable of ensuring adaptation, mitigation and recovery from losses and damages, particularly for those states that are most vulnerable.

In 2019, the richest 10% of the global population (771 million individuals) emits nearly 48% of global CO2 emissions in a year, the top 1% emits 17% of the total, whereas the poorest half (3.8 billion individuals) of the global population emits 12% of global emissions (WIB, 2022). From the historical perspective, regional emissions inequality is major: Europe and North America are responsible for around half of all CO2 emissions since the Industrial Revolution; Chinese emissions represent only 11% of the historical total and Sub-Saharan Africa is just 4% (WIB, 2022). As presented in the World Economic Outlook 2017, most of the negative effects of GCC related disasters are felt in tropical countries where we find almost all low-income countries (IMF, 2017). This means that the most exposed countries have to implement the strongest adaptation policies and pay the most in terms of L&D (Eckstein, Künzel, & Schäfer, 2022).

Thus considered, the IMF called the international community to "play a key role in supporting these countries' efforts to cope with climate change – a global threat to which they have contributed little" (IMF, 2017, p. 117). This statement reflects the principle of 'common but differentiated responsibility and respective capabilities' that have been at the core of the Kyoto Protocol, the Paris Agreement and the UNFCCC. Despite countless efforts to make this principle a driving force in the fight against the GCC and lead to concrete action, climate finance has never reached the desired levels, thus complicating the possibilities of responding adequately at the global level to GCC and greatly reducing the

chances of creating resilient communities for those countries most vulnerable in both environmental and economic-financial terms.

2.2. Current climate finance situation

In order to understand the relevance of the creation of an I.E.F., it is necessary to understand the very nature of the current characteristics of so-called 'climate finance'. According to the UNFCCC, this latter refers to:

> "(…) local, national or transnational financing—drawn from public, private and alternative sources of financing—that seeks to support mitigation and adaptation actions that will address climate change". (UNFCCC, 2022).

Even if the principle of 'common but differentiated responsibility and respective capabilities' has been established and remarked in the most significant international documents about how to cope with GCC, climate finance still largely relies on gifts and voluntary contributions. Furthermore, until now, a great part of climate finance has been focused on mitigation, but it is becoming increasingly evident that it is necessary to deal with adaptation and loss & damages (L&D) actions, too (Chowdhury & Jomo, 2022).

Furthermore, the main challenge is to define sustainable strategies of funding to help disadvantaged states in all these three fields of action. This task's results are even more relevant while considering the 'bittersweet' reality of the financial system for the less developed countries which are very often the most affected by GCC too: loans for them are, on average, more expensive than for developed countries (Financial Times, 2018). Countries with greater sensitivity to climate impacts tend to have higher sovereign borrowing costs, for every sum paid in interest by developing countries, an additional 10% will be spent due to climate vulnerability, which means that their financial burden exacerbates and is expected to rapidly increase (Imperial College Business School and SOAS University of London, 2018). This undesirable effect has been depicted as the climate debt trap (Bassetti, 2019). According to the OECD, in 2019, the total climate finance reached only US$79.9bn and for 2020 results are not expected to be enhanced (OECD, 2021). These poor results are even worse considering that during COP15 in 2009, wealthy nations pledged to collectively mobilize US$100bn annually for climate finance by 2020 to help vulnerable nations dealing with GCC. Action has not been up to speed with declarations of intent.

2.3. Need for international efficient instruments to tackle GCC

It has become universally accepted that substantial investments in adaptation are required to prevent the most unpleasant climate change outcomes; nevertheless, not enough attention has been devoted to the fact that boosting adaptation efforts can reduce negative impacts not only from social, ecological and economic points of view but also from the fiscal one. Investments that enhance resilience in climate-vulnerable countries are "crucial to not only helping vulnerable countries deal with the consequences of climate risks, but also bring down their cost of borrowing" (Imperial College Business School and SOAS University of London, 2018, p. iv). Reducing the probability of the occurrence of a 'climate debt trap' is in everyone's interest.

The 'climate debt trap' emphasises the need for international efforts to contribute to global attempts for resilience building and consequently prevent climate-related natural disasters leading to the debt trap. This undesirable condition highlights the need for international efforts to contribute to global efforts for resilience building and hence stop climate-related

natural disasters leading to it. This is important for the whole Earth's community for two main reasons: first, it will help with the development of low-income countries; secondly, it will also contribute to reaching the UN's Agenda 2030 goals globally. The climate debt condition and the lack of sufficient resources for climate finance are not just moral issues of compensating climate change most affected societies, but also collective interests concerning international development and climate change impacts mitigation.

According to the findings of the Briefing Paper of the Global Climate Risk Index 2021, the international climate policy process needs to:

> "a) (*provide*) a decision on how the need for support for vulnerable countries concerning future loss and damage is to be determined on an ongoing basis; b) (*define*) the necessary steps to generate and make available financial resources to meet these needs; and, c) strengthening the implementation of measures for adapting to climate change" (Eckstein, Künzel, & Schäfer, 2022, p. 5).

This research, describing how to implement and fund the I.E.F., will try to provide a framework and a concrete instrument capable of addressing the concerns expressed above. Furthermore, the I.E.F. principles would guarantee the respect of equity and international justice. Nonetheless, it remains a question of political will. As we will show later, the financial resources exist and the modalities of their management and allocation can be defined even in a relatively short-term timeframe.

3. The SDRs General Allocation and the National Ecological Footprint

3.1. The IMF and SDRs resources

To define how to use the resources provided by the IMF through a General Allocation of $650bn in Special Drawing Rights (SDRs) to the 190 countries belonging to the organization is an interesting effort. Synthetically, we can say that SDRs are promissory notes issued by the IMF to member states on the basis of quotas associated with their relative strength in the world economy. According to Triffin, SDRs were conceived as a tool to make the rich even richer (Triffin, 1968). Members that receive these notes may either hold them or exchange a part of them over time for hard currency, through the IMF itself and central banks.

SDRs General Allocation aims to supplement existing official reserve assets of member countries and the decision of its implementation is based on the finding that there is a long-term global need to supplement existing reserve assets (in our case, the Covid-19 pandemic). Participating members and Prescribed Holders[2] can buy and sell SDRs in the voluntary market. To date, 15 organizations obtained the status of Prescribed Holders. SDRs may be used by IMF members and the IMF itself in accordance with the Articles of Agreement and decisions adopted by the Executive Board and Board of Governors (IMF, 2022). Specifically for smaller countries that may find it complex to gain access to foreign currency on the regular market, SDRs trading provides a crucial opportunity, especially in times of crisis.

As presented by several authors[3], technical problems are a major issue when considering the possibilities of an SDRs reallocation from most developed States to the most in need ones

[2] The IMF has the authority to prescribe other holders of SDRs, nonmembers, member countries that are not SDR Department Participants, institutions that perform the functions of a central bank for more than one member, and other official entities (IMF, 2022).

[3] See, for example, (Andrews, 2021), (Plant, 2021) & (Viterbo, 2021). For an exploration of past proposals on alternative use of SDRs and related challenges see: (Aryeetey, 2004).

considering the impacts of GCC, especially if this process requires changes in the statute of the IMF or an 85% majority in the IMF Executive Board. Despite these technical challenges, the main difficulty the funding and management of the I.E.F. may face is the political will of the main stakeholders involved: the IMF and its most powerful members, MDBs, national/regional Central Banks and other relevant financial, economic and political actors. As said before, States' availability - to invest part of their SDRs quotas for a climate-related action which would benefit most developed countries not immediately but over a longer period - should not be taken for granted. Political reasons, debt conditions and pandemic uncertainties may act as an impediment.

During the last months, several suggestions for the reallocation of SDRs have been contemplated, many of them coming from international organizations and leaders. Nevertheless, it is fundamental to remember that the use of SDRs quotas depends on country-specific decisions and strategies. An article signed by Kristalina Georgieva and Félix Tshisekedi[4] underlines that:

> "To tackle the climate crisis in Africa and put the continent on a new sustainable growth trajectory requires concerted efforts across national governments, the private sector, and the international community" (Georgieva and Tshisekedi, 2021).

What has been declared for Africa regarding tackling climate change and achieving sustainable development is valid for almost all regions of the world, with differences of course. Nevertheless, it remains imperative to recognise that global problems need global solutions.

In contemporary discussions, attention has often turned to the existing instruments put in place by the IMF; however, the measures – such as the reinforcement of the Poverty Reduction and Growth Trust and the institution of the Resilience and Sustainability Trust - seem not sufficient to address the challenges of GCC impacts and the difficulties of climate finance worldwide, especially in a context of high uncertainty due to the pandemic and the Ukrainian war.

An interesting UNDP Global Policy Network Brief underlines how it could be crucial to channel SDRs to target climate vulnerabilities:

> "This would make sense not only because it would adhere to a global fairness principle, but also because debt and climate-vulnerabilities are highly correlated, climate change will intensify in the future, and because of the transmission channels from climate risk to financial and economic stability risk" (Jensen, 2021, p. 1).

Our analysis is in the same vein as that expressed above by the UNDP, resources of the last General Allocation are considered a great opportunity for funding the International Environmental Fund, ensuring compliance with the principle of 'common but differentiated responsibility and respective capabilities'.

3.2. Linking the 2021 IMF General Allocation and the National Ecological Footprint

The $650 billion General Allocation has disproportionately benefited developed countries (64.4% of the total SDRs allocation), the paradox is even more evident when considering that richer countries have a lower utilization rate of SDRs relative to developing ones and that they do not face the same financial constraints as developing countries (ECA-ECLAC, 2022). According to the data provided by Jensen, there is a high correlation between debt-

[4] Kristalina Georgieva is Managing Director of the International Monetary Fund; Félix Tshisekedi is President of the Democratic Republic of the Congo and Chairman of the African Union.

vulnerable and climate-vulnerable countries; thus, nine of the top ten most climate-vulnerable countries in the world are highly debt-vulnerable developing economies, and more than 75% of countries that "score high on the IMF's climate vulnerability index are highly debt-vulnerable*"* (Jensen, 2021, p. 6).

The ECA-ECLAC Report suggests that "the rate of SDR utilization can be used as a benchmark for determining the value of SDRs that developed countries can channel to developing countries" (ECA-ECLAC, 2022, p. 2). This could be a sufficient parameter to consider if we want to overcome discrepancies in terms of levels of development and take into account SDRs utilization rates. Although, in our vision, it is only one of the elements to consider while defining an alternative use of SDRs resources 'in line with the time'. As proposed by the 2021 UNDP Global Policy Network Brief, the IMF's climate vulnerability index could be considered while providing financial support for climate mitigation and adaptation. Furthermore, according to us, it is necessary to not neglect the unequal distribution of emissions worldwide and considering a quite comprehensive index like the Ecological Footprint[5], as it has been developed by the Global Footprint Network, could be meaningful.

For our purposes, the Ecological Footprint is considered at the country level and it is measured in 'planet equivalents'[6]. As widely explained in the book "Ecological Footprint. Managing Our Biocapacity Budget", the Ecological Footprint is a metric that permits us to compare overall human demand on nature with what our planet can renew (its biocapacity). The Ecological Footprint directly reflects the use of natural resources and it is a measure of the impact of human society on the exploitation of those natural resources. When a population's ecological footprint exceeds the biocapacity of its territory, it runs a biocapacity deficit. This means that to balance the deficit it is necessary either receive biocapacity from elsewhere or to enhance the so-called 'ecological overshoot' that refers to national resources overuse. To date, humankind has already exceeded with its activities the regenerative capacity of the Earth during the 1970s (Wackernagel and Beyers, 2019).

We believe the Ecological Footprint is a trusted sustainability metric because of its increasing use in the academic, public and private environment. Furthermore, the processes of control and assessment of the related methodology ensure the quality and relevance of this metric at the international level. Thus considered, this paper proposes a reallocation method that considered the Ecological Footprint of states in order to reduce the existing gap between countries both in terms of SDRs allocation and countries' impacts on the environment. As explained by several authors[7], the Ecological Footprint could be used as an

[5] The consumption Footprint includes the area needed to produce the materials consumed and the area needed to absorb the carbon dioxide emissions. The Ecological Footprint is usually measured in global hectares (a global hectare is a biologically productive hectare with world average biological productivity for a given year). The consumption Footprint of a nation is calculated in the National Footprint and Biocapacity Accounts as a nation's primary production Footprint plus the Footprint of imports minus the Footprint of exports, and is thus, strictly speaking, a Footprint of apparent consumption. The national average of per capita Consumption Footprint is equal to a country's Consumption Footprint divided by its population. In other words, it measures how much area of biologically productive land and water a national population and activities are required to produce all the resources they consume and to absorb the waste they generate (Wackernagel and Beyers, 2019).

[6] Every country's Ecological Footprint has a corresponding planet equivalent, or the number of Earths it would take to support humanity's Footprint if everyone lived like those residents of a given country. It is the ratio of an country's per capita Footprint to the per capita biological capacity available on Earth (1.6 gha in 2019). In 2019, the world average Ecological Footprint of 2.7 gha equals 1.75 planet equivalents.

[7] For an analysis of the literature on the topic, see for example: (Matustík and Kocí, 2020).

indicator of environmental impact. We propose to redefine the allocation of SDRs following the Ecological Footprint indicator because it could be a suitable way to find resources for the implementation of the I.E.F and other mechanisms of support for less developed and vulnerable countries.

To redefine SDRs' resource allocation for each country, we simply divided the current resources received from the IMF through the 2021 General Allocation by the national Ecological Footprint expressed in terms of 'planet equivalents' used. By doing so, it was possible to reallocate resources to those countries that impact less on the environment (i.e. those that are not in environmental deficit), and to reduce SDRs allocated accordingly and proportionally for those that impact more. Ideally, each country should be able to consume at most the equivalent of one planet, which is why we have estimated a reallocation of SDRs from the deficit countries to the surplus countries. In the event this compensatory measure be opted for, it would still be necessary to take into account the progress made by those countries that are implementing virtuous policies despite a lower level of wellbeing.

The idea is to reward those states whose Ecological Footprint is less than a unit and, consequently, to reduce allocated SDRs for countries in environmental deficit proportionally to the number of 'planet equivalents' to their Ecological Footprint. Considering that most countries have already been in an environmental deficit and many of the most developed ones (e.g. Qatar, Australia, the United States...) consume much more than the average IMF member country (2 planet equivalents on average), it is normal that a significant amount of unallocated resources would result. Operating this redefinition of quotas, as if each country had a national footprint of 1 'planet equivalent', it could be possible to obtain a 'treasury' of over 250 billion SDR.

Without neglecting that it would be almost impossible to benefit from the whole amount of the 'treasury', it seems at least conceivable to compensate virtuous countries (those with an Ecological Footprint inferior to 1 'planet equivalent') because it means a reallocation of approximately 13,6 billion SDR only. This operation could be made voluntarily by the most developed and ecologically in-debt countries, nevertheless, this would be a preliminary and not sufficient action to reduce the SDRs gap between countries without changing the IMF treaties and looking at (even if only partially) the Ecological Footprint of member countries. The proposal presented here below wants to go further and explain how to mobilise SDRs resources for the implementation of the I.E.F.

4. Defining a new instrument to finance the I.E.F through G7 SDRs quotas

Recent analyses concerning how to use SDRs from the 2021 General Allocation have proposed several different paths: funding directly the Poverty Reduction and Growth Trust (PRGT) and the Resilience and Sustainability Trust (RST) of the International Monetary Fund (IMF, 2022); or finally the Liquidity and Sustainability Facility (LSF) launched by the Economic Commission for Africa (ECA, 2022); alternatively, deploying SDR resources to enhance the lending capacity of development banks and bolster regional and inter-regional financing institutions.

One of the first concrete proposal to create a 'Green Fund' with an initial capital injection including SDRs was presented in an IMF Staff Position Note providing a wide explanation of opportunities and challenges that this type of projects may entail (Bredenkamp and Pattillo, 2010). Recently, an interesting and relevant proposal comes from the 2021 UNDP Global Policy Network Brief that suggests: on the one hand, that part of the rechannelled

SDRs quotas would be used to offer differentiated debt-relief support to countries (issues of solvency or liquidity); on the other, that portions of SDRs quotas would be used for financial support for dealing with climate vulnerabilities according to a climate vulnerability assessment (Jensen, 2021).

Our proposal follows the second path proposed by Jensen and partially support the IMF Staff Position Note. We think that a hypothetical availability of 250 billion SDR (the above-mentioned 'treasury' calculated considering global neutrality in terms of Ecological Footprint) has many alternative uses but, considering the GCC contingencies, the primary opportunity is not to be employed through the mechanisms and modalities already defined by the IMF. Therefore, defining new parameters and less coercive conditionalities compared with IFM is the key to ensuring sustainable and long-term perspectives both for recipients and ecosystems worldwide. Furthermore, the I.E.F. could be an instrument not only available to states, but also to other actors involved in mitigation, adaptation and resilience-generating activities (public and private, for-profit and not-for-profit).

If there were political will, even only 20% of these resources (around 50 billion SDR) could be sufficient to finance the I.E.F in order to easily reach the 100 billion $ annual requirement that the GCC fight is supposed to globally require. The remaining share of the 'treasury' would remain in the member countries' hands according to national quotas within the IMF. This first proposal of a general reallocation of 20% SDRs quotas does not consider three main points that are crucial for the aims and purposes of the I.E.F. while deciding who and in which measure has to contribute:

(1) If we want to ensure the respect of principles of equity and international justice, it is necessary to consider national development trajectories and exploitation of resources over time;

(2) developed countries have much more resources and means to cope with the impacts of GCC in comparison with less-developed and more vulnerable countries, but also are very often those contributing the most to the ecological footprint at the planet level;

(3) a general request cannot be made to voluntarily reduce all countries' own SDR availability, but a few pilot states need to be chosen amongst those that can carry out this reallocation with less difficulty in financial, economic and political terms.

In our vision, the more the Ecological Footprint is elevated the more countries have to contribute to funding the I.E.F. After multiple analyses of who should contribute based on factors such as available SDR resources, Ecological Footprint, development trajectories over time, economic-financial situation and international political weight, it was concluded that targeting the G7 countries might be the best way to start the I.E.F. financing journey. Thus, if the G7 members provide the I.E.F. with 25% of their SDRs quotas we will raise more than 49,5 billion SDRs and, even if they don't have the 7 most relevant Ecological Footprint by far, they represent those countries that have the most beneficiated in the time from world biocapacity. Moreover, these countries share 43,5% of the SDRs quotas and it is a substantial demonstration of the overall unequal distribution of resources. Furthermore, relying on G7 countries ensures that the I.E.F. could receive a strong credit rating granting to issue debt at low funding costs to overcome the 'debt trap' afflicting less developed and more vulnerable countries[8].

[8] For further analyses about challenges related to setting up a new climate fund funded through SDRs see: (Jensen, 2021).

G7 - Member Countries	IMF SDR ALLOCATION (In billions of SDR)	ECOLOGICAL FOOTPRINT (N° Earths)	REVISED SDR ALLOCATION (SDR Allocation / N° Earths)	SDR SURPLUS (SDR Allocation - Revised SDR Allocation)	I.E.F. ALLOCATION (25% SDR Allocation)
Canada	10.565,90	5,1	2.071,75	8.494,15	2.641,48
France	19.317,80	2,79	6.923,94	12.393,86	4.829,45
Germany	25.527,90	2,95	8.653,53	16.874,37	6.381,98
Italy	14.443,90	2,72	5.310,26	9.133,64	3.610,98
Japan	29.540,10	2,91	10.151,24	19.388,86	7.385,03
United Kingdom	19.317,80	2,64	7.317,35	12.000,45	4.829,45
United States	79.546,20	5,13	15.506,08	64.040,12	19.886,55
Tot.	**198.259,60**		**55.934,14**	**142.325,46**	**49.564,90**

Table 1: G7 Member Countries. SDR General Allocation 2021, Ecological Footprint and I.E.F. Allocation.

These resources in SDR could be leveraged in capital markets to increase I.E.F. funding capacity through the mobilisation of private capital, too. Following in some ways, similar to what has been proposed by Masini for the "Next Generation Africa" (Masini, 2022) and according to the suggestion coming from the IMF Staff (Bredenkamp & Pattillo, 2010), the most plausible configuration to provide the I.E.F. with at least 250 billion $ is the combination of a partial SDR allocation from the G7 members (49,5 billion SDR) and private investment leveraged from the market, with an implicit leverage ratio between four and five. This initial capital provision would be the basis to ensure, at least, 100 billion $ annually available for the I.E.F. purposes, this 49,5 billion SDR has to be considered non-returnable, thus granting "a reserve account, and possibly also a subsidy account to further reduce interest costs for the poorest and most climate vulnerable borrowers" (Jensen, 2021, p. 8).

The I.E.F. resources might be allocated through both loans and grants, according to the type of action implemented. For adaptation and mitigation actions it would be preferable to accord loans, whereas for L&D operations grants are the most appropriate. Further discussions on this point are needed, especially considering the strategies that the I.E.F. would implement according to specific needs and climate change impacts uncertain nature. A key attribute of the I.E.F. has to be a sustainable mechanism "mobilizing resources quickly, providing a bridge to longer-term sources of funds" (Bredenkamp & Pattillo, 2010, p. 10).

Despite the undeniable opportunity that funding the I.E.F. thanks to a reallocation of SDRs quotas represents, there remain difficulties and obstacles in its implementation that should not be underestimated. First and foremost, the question of obtaining the status of Prescribed Holder from the IMF for the I.E.F., suddenly the maintenance of the reserve-assets character of the SDRs resources committed to the Fund. Many of the technicalities related to SDRs and their employment had been analysed by Aryeetey (2004), Actionaid (2010), Bredenkamp and Pattillo (2010), Flor (2019), Andrews (2021), Plant (2021) and Viterbo (2021), to cite a few. As it has been clearly explained by Andrews, the first step to ensuring the feasibility of an I.E.F. funded through SDRs is to determine its "purpose, terms, country coverage, conditionality framework, and other risk mitigation processes for new lending supported by contributions of SDRs" (Andrews, 2021, p. 5).

As said before, for the I.E.F. the most crucial action to undertake would be to obtain the status of Prescribed Holders from the IMF. According to the IMF Articles of Agreement (Art. XVII, section 3), "the Fund may prescribe as holders, non-members, members that are non-participants, institutions that perform functions of a central bank for more than one member, and other official entities", in order to obtain this status an 85% majority of the total voting power is required. As a prescribed holder, the I.E.F. can acquire and receive SDRs, but it is not entitled to receive direct allocations from the IMF. Even in the event that Prescribed Holder status is granted to the I.E.F., it is necessary to obtain a positive opinion from the Executive Board of the IMF regarding both the transactions that would involve rechannelling part of the states' shares in SDRs to the I.E.F. and the financing transactions that the latter would undertake. It should be borne in mind that, notwithstanding the IMF's willingness to explore other options for voluntarily rechanneling SDRs, the I.E.F. would envisage a substantial change in the way SDRs would be used, and therefore a positive opinion by 70% of the Executive Board is required.

5. Conclusions and Recommendations

This article contributes to the debate on how to cope with GCC impacts, considering environmental depletion and development inequalities. Thus, we sustain the statement of Persaud:

> "we need to reach a settlement that treats climate change as if equity matters. And that requires a new financial instrument that gets us the scale we need while tying together the changing geography of current emissions, the historic contributions to the stock of greenhouse gasses, and the need for climate adaptation for frontline states" (Persaud, 2021).

In our vision, one of the most interesting solutions to overcome the chronic 'climate finance fatigue' (exacerbated by the Covid-19 pandemic), guaranteeing that less developed and more vulnerable to GCC states, but also more virtuous ones in terms of Ecological Footprint, could benefit from financial resources enabling them to reinforce mitigation, adaptation, and 'losses and damages' (L&D) actions according to an equity principle. Recognizing the value of global common responsibility and underlining the leading role in environmental justice of most developed countries, we urge in particular the governments of the G7 member countries (but also all other countries, continental organizations, international institutions, MDBs, private actors and civil society) to consider using part of the SDR resources allocated by the IMF in August 2021 to finance the implementation of the I.E.F. that respects the principles and objectives first described by Adamo in 2017.

In the event of the I.E.F. implementation, it is of primary importance to establish rules that enable its sustainability over time through measures that guarantee adequate resources and effective monitoring of the use of funds. This can only take place if clear rules and precise objectives are established. These must primarily take into account environmental variables (e.g. vulnerability to the impacts of the GCC) and seek to reduce the negative effects due to disadvantaged economic and financial situations of most disfavoured countries. Concerning the modalities of resource redistribution, the Climate-driven INFORM Risk Index[9] promoted by the IMF is considered relevant. Moreover, given the complexities involved in the use and monitoring of SDRs, it is desirable that the I.E.F. should be defined in agreement with the IMF. This latter should play a supporting role, particularly in the area of monitoring, without, however, envisaging the same conditionalities that characterise the IMF's instruments, towards which many criticisms have been raised for decades.

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[9] It is an adaptation of the INFORM Risk Index, adjusted by IMF staff to distill and centralize on climate-driven risks. It has three dimensions: climate-driven hazard & exposure, vulnerability, and lack of coping capacity (IMF, 2022).

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