A "Brisbane Solution"
How the G20 Can Break the Climate Change Financing Deadlock

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"We need creativity in order to break free from the temporary structures that have been set up by a particular sequence of experience." Edward De Bono

Preface

The climate change debate is mired in quicksand at the UNFCCC. Billions of dollars will be required for climate change mitigation and adaptation. Last November, at the eighteenth meeting of the UNFCCC "Conference of the Parties", their concluding report included euphemisms for failure, stalemate, and deadlock, highlighting decisions that governments:

- "Strengthened their resolve…"
- "Streamlined the negotiations…"
- "Emphasized the need to increase their ambition…"
- "Launched a new commitment period…"
- "Made further progress…"

There will be no global agreement on binding national emission targets. The Kyoto protocol is dead. All the bottom-up policies to counter global warming – imposition of carbon taxes; agreements to invest in R&D and share the results; cooperation on rigorous product and process standards; indirect complementary policies like changing consumption patterns, secondary education for girls to lower global population, or public health anti-obesity campaigns – all will be watered down and will be too little too late. In the current political and legal context, there is no apparent solution to the problem of financing environmental global public goods.

Only an incurably naïve optimist can believe there will be hundreds of billions of dollars transferred from developed countries to developing countries for their mitigation and adaptation efforts. Carbon taxes - the solution supported by most economists – face insurmountable and unremitting political opposition. Prospects are no better for financial transaction or Tobin taxes. Implementing excise taxes based on carbon content or border tax adjustments may be tried in some jurisdictions, but WTO litigation and sanctioned retaliation will limit their effectiveness for years.

If we are to break the deadlock on financing global public goods, something has to give. Some policies, rules, or interpretations will have to change. None of the options on the table – internationally coordinated taxes (airline, billionaires, carbon, currency exchange or financial transactions) seem reliable bets to deliver billions of dollars targeted on climate change. Leadership is required. This paper argues that of all the unlikely solutions, the least unlikely option is for the G20 to promote a novel interpretation of the existing IMF Articles of Agreement. It explains the pros and cons and describes a way the initiative might be handled by the G20.

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"If at first the idea is not absurd, then there is no hope for it." Albert Einstein

Introduction:

There is no silver bullet or single global solution for tackling climate change. Many different but complementary initiatives will eventually have to be done - carbon pricing, border tax adjustments, global standards on carbon content and energy efficiency, R&D collaboration, secondary school education for girls (decreasing population growth), public campaigns - even if there were to be a global binding agreement limiting emissions. Mobilization of financial resources is a critical piece of the puzzle.

A recent precedent indicates that innovative IMF initiatives are possible. In 2009, after years of opposition by Germany and others, the IMF's Executive Board approved the sale of 400 metric tons of gold, one eighth of the Fund's total holdings at that time. The resources linked to the gold sales were used indirectly to provide concessional loans to low-income countries, through the Poverty Reduction and Growth Trust (PGRT) (IMF, 2009). Due to the requirement of uniformity of treatment of all IMF member countries, it was not possible to simply remit the proceeds of the gold sales to low income countries. The IMF used an indirect approach to finesse its lack of authority. Making profits linked to gold sales available for the PRGT therefore required first distributing reserves attributed to a part of gold windfall profits to all IMF member countries in proportion to their quota shares, followed by "Voluntary transfers by members of their share directly to the PRGT or otherwise new subsidy contributions to the PRGT."[1]

What are the prospects for a future innovative IMF initiative? If countries holding 85% of the voting shares agree, they can arrange for a new allocation of Special Drawing Rights (SDRs) for an innovative use, creating liquidity for a specified purpose. This is not a new idea[2]. What would be "new" is, first, the requirement that the proceeds of a new SDR allocation be ultimately expended in the country to which they are allocated in proportion to quota; second, that before the proposal for a new SDR allocation is brought to the IMF Board, there be a well-defined plan describing how the proceeds would be disbursed, clearly identifying the beneficiaries of (and future lobbyists for) the expenditures; and third, that approval of the US Congress may not be required. The second "new" element follows from the premise that the necessary votes for an

[1] "In February 2012, the Executive Board approved the distribution to all IMF members of SDR 700 million (about US$1.1 billion) from the general reserve attributed to a portion of the windfall profits from recent IMF gold sales, with the expectation that members would transfer their share or otherwise make a new contribution of an equivalent amount to support concessional lending to low-income countries. The distribution will be effected only after the Fund has received satisfactory assurances from members of PRGT subsidy contributions equivalent to at least 90 percent of the amount distributed—i.e. SDR 630 million (about US$1 billion)." See http://www.imf.org/external/np/exr/faq/goldfaqs.htm

[2] Soros, 2009; European Climate Foundation, 2009; Hugh Bredenkamp and Catherine Pattillo, 2010. James Boughton reminded that the idea emerged with the lengthy discussion about "The Link" [to development needs] in the 1970s (on which, see de Vries (1986) – "The IMF in a Changing World, 1945-85 http://www.imf.org/external/pubs/cat/longres.cfm?sk=80.0). Soros's 2009 proposal for "green funds" was a successor to his 2002 proposal to use post-allocation distribution of SDRs to help finance progress toward the Millennium Development Goals.

allocation would not be forthcoming unless powerful constituencies in major countries, motivated by substantial self-interest, lobbied for the mobilization of incremental funding. No serious attempt will be made by powerful constituencies to support the new SDR allocation unless the benefits of new funding would accrue to them. With respect to Congressional approval, Congress must give its assent before the United States may vote for any amendment to the IMF Articles of Agreement or for any new quota increase. If the increased SDR allocation is within the existing US quota, then Congressional approval is not required.[3]

This paper presents the idea for a dedicated SDR allocation, lists the objections that would be raised, provides potential responses to each of the objections and presents some conjectures of a future G20 process that could make it happen. A companion paper provides an example of the key ingredient, the front end of the proposal, providing a description of how the money would be spent (and by whom). Then there will be a constituency for the details of a dedicated special SDR Allocation. The front end proposed expenditure budget would rally the necessary support for the allocation - influential interests would be mobilized to lobby in favour of the required interpretation of the IMF Articles of Agreement.

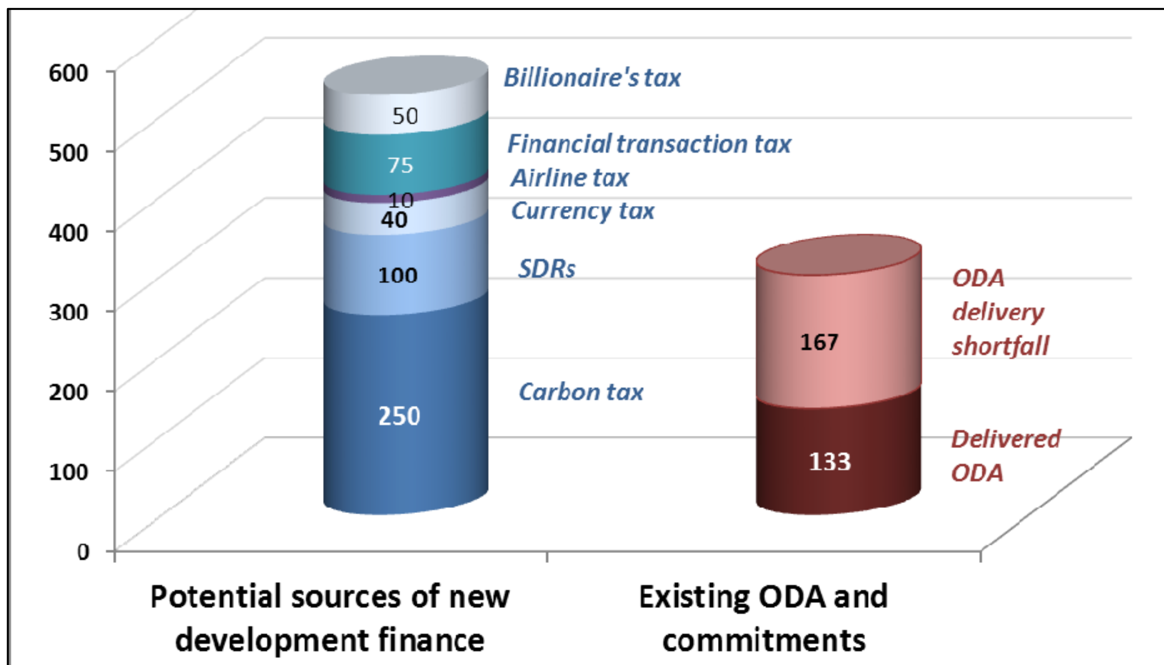
[3] The Bretton Woods Agreements Act, P.L. 79-171 (22. U.S.C. 286, et seq.),

The Context

"When you come to a roadblock, take a detour."
Mary Kay Ash

The G-20 faces a challenging environment. The reputation of the G-20 itself is at stake. Recent summits have paled in comparison to the accomplishments of the 2009 London Summit. The G-20 appears to have lost the "fellowship of the lifeboat". Global growth is anemic, fiscal situations grim, and the UNFCCC appears unable to gain agreement on dealing with climate change challenges. The international community has agreed on limiting temperature increase to 2 degrees centigrade from pre-industrial levels. This translates into an apparently unreachable target of limiting atmospheric CO_2 to 450 ppm (itself criticized as inadequate[4]). Concentrations were reported at 398 ppm in March 2013, trending to reach 450 before 2035. The Global Climate Fund (2013) pledges of $100 billion are yet to be delivered as the fund is not operational. Developed countries report that they had delivered more than the $33 billion in Fast Start Financing they pledged at Copenhagen, but questions on accounting and how much was new and additional remain (Fransen, 2012).

The UN summarized the potential for new sources of financing in 2012; the chart below presents estimates for annual proceeds of each source.[5]



**Units in billions of dollars

The UN's annual report on development, *World Economic and Social Survey*, suggested how to finance global environmental public goods (WESS, 2012). The list included:

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[4] See http://350.org/
[5] www.un.org/en/development/desa/policy/wess/wess_current/2012wesspr_en.pdf

- A tax on carbon dioxide emissions in developed countries: a tax of $25 per tonne would raise an estimated $250 billion in the first year, collected by national authorities, but earmarked for international cooperation;
- A currency transaction tax of one half of a "basis point" (0.005 per cent) on all trading in four major currencies. (The dollar, euro, yen and pound sterling), which could yield an estimated $40 billion per year for international cooperation;
- Extending and earmarking a portion of the proposed European Union financial transaction tax (which is expected to raise up to $75 billion per year) for international cooperation.
- Innovative uses of IMF Special Drawing Rights (SDRs) to lever financing.

None of these innovative financing ideas have generated widespread momentum. They face entrenched political and popular opposition and appear infeasible.

This paper argues it may be possible to create and allocate SDRs to be used for climate change mitigation and adaptation projects in member countries in proportion to their own quota. It notes it will be easier to secure agreement on a new allocation of SDRs, if from the beginning, it is well-defined how the proceeds would be disbursed and the beneficiaries of the expenditures clearly identified. It explains the reasoning behind an approach that may finesse the legal, administrative and political obstacles to create and disburse the resources. If it were to be pursued, the first step would be to draft proposals for how the proceeds of the allocation would be spent, i.e. to draw up the budget, identifying, by major country, the institutions and projects that would be funded.

The "SDR Idea"

> "The man with a new idea is a crank - until the idea succeeds." Mark Twain

The premise of the paper is that this SDR idea, despite its improbability, is more credible than all of the other implausible ideas for mobilizing funds in environmental global public goods. If the G20 is seized by the existential nature of the global warming issue, it could propose a new SDR issue, an allocation worth, say $400 billion, with the shares of G20 members transferred to a new G20 "Trust Fund". The "Trust Fund" then exchanges the SDRs for currency from foreign exchange reserve authorities. Donors to the "Trust Fund" pay interest on the transferred SDRs. The "Trust Fund" provides the currency proceeds to countries in proportion to their quota[6] to invest in climate change related projects. Positive economic returns could be substantial. McKinsey has outlined a large range of "no regrets" investments, where lifetime energy savings are estimated to outweigh the cost of upfront investment (Ackerman and Bauer, 2011). One estimate of building efficiency retrofits in the United States offer a $279 billion dollar investment opportunity, leading to energy savings over 10 years of more than $1 trillion, mitigating more than 0.6 $GtCO_2$ per year, about 10% of U.S. emissions in 2010 (Rockefeller Foundation & DB Climate Change Advisors, 2012).

(i) New SDRs are Allocated and transferred to a "Trust Fund".

Significant legal and political hurdles confront a new issue and allocation of SDRs. First, there will have to be a widespread consensus that the existing Articles of Agreement authorize the initiative.[7]

Second, issuance of SDRs above a certain threshold needs legal authority from the US Congress. But Congressional action is not required if the total amount of SDRs allocated to the United States is smaller than the current U.S. quota in the fund. The current US quota in April 2013 was about $64 billion, (SDR 42.1 billion) to be doubled to $128 billion under proposed legislation to conform to the 14th General Review of Quotas, already agreed by G20. US SDR holdings were about $53 billion in US dollars in March 2013 (US Treasury, 2013; and IMF, 2013a). Then it appears that we can have a new SDR allocation without US Congressional approval if U.S. receipts in the proposed new allocation are less than $75 billion.

To surmount the first hurdle, the G20 could choreograph a global consensus that interprets the proposal as consistent with present legal purposes – citing section 1(a) of Article XVIII that the new allocation meet "the long term global need"[8]. Then the Articles of Agreement need not be amended.

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[6] The idea is distinct from the Bredenkamp-Patillo plan, the SDR proposal from George Soros or Action Aid International's suggestion. These three ideas were doomed from the beginning in pragmatic terms, because the proceeds were to be disbursed to developing countries, rather than being directed to the "donors" for expenditure in their own countries.

[7] Amendment of the IMF Articles is a nonstarter, because it would require legislation in virtually every member country. See the US Bretton Woods Agreement Act. http://www.house.gov/legcoun/Comps/bretton.pdf.

[8] Article XVIII: Allocation and Cancellation of Special Drawing Rights Section 1. *Principles and considerations governing allocation and cancellation* (*a*) "In all its decisions with respect to the allocation and cancellation of special drawing rights the Fund shall seek to meet the long-term global need, as and when it arises, to supplement

The G20 holds just under 80% of voting shares. Several non-G20 countries will have to support a new SDR allocation. The Articles of Agreement of the IMF for SDRs require an 85 percent majority of the total voting power to take the decision[9]. To achieve 85%, Switzerland, Singapore, Norway, Malaysia, Thailand, Nigeria, UAE, Philippines, Egypt, Ukraine, Kuwait, Israel, and New Zealand could be convinced to vote in favour of the allocation. Countries not members of the G20 or EU would have no conditions applied to their increased allocation.

An allocation of SDRs is justified under Article XVIII on the basis that there is a global need to expand reserve assets, due to climate change exigencies. In 1967, a Presidential Commission on Budget Concepts recommended that U.S. payments to the IMF should not be treated as budget outlay but rather they should be counted as an exchange of assets which is matched by transfers of equivalent value to the United States from the IMF. Since that time, payments to the IMF have been deemed to have no impact on the Federal budget or on the Federal budget deficit (Sanford and Weiss, 2009). The G20 may have to devise a scheme that warrants that countries that transfer their SDRs to the "Trust Fund" can be "deemed" to have retained the SDRs as reserves.[10] This could involve receiving an "equity stake" in the "Trust Fund" in exchange for the SDRs. To characterize investment in the "Trust Fund" as an equity stake, the G20 could establish a custom tailored insurance scheme or enhanced currency swap agreement that guarantees availability of SDRs in the event of their being required.

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existing reserve assets in such manner as will promote the attainment of its purposes and will avoid economic stagnation and deflation as well as excess demand and inflation in the world."

[9] According to Section 4d of Article 18

[10] As Bredenkamp and Patillo (2010) point out in their scheme, SDRs sit in a new green loan fund's balance as capital to provide leverage:
"Contributors may find it easier to participate if their Green Fund equity stakes could be structured to have the character of reserve assets, so that the transaction is "purely an exchange of reserve assets. Such a transaction would not typically have an upfront budgetary cost for the contributors. Since the equity in the Green Fund must be liquid and unencumbered to qualify as reserves, this would require an arrangement among contributors that would allow a Green Fund shareholder encountering liquidity needs to encash its equity stake in the fund."

Percentage of G20 Voting Shares after 14th General Review:[11]

Country	Vote Share (%)
EU (all 27 members)	29.366
United States	16.479
Japan	6.138
China	6.071
India	2.629
Russia	2.587
Canada	2.214
Brazil	2.218
Saudi Arabia	2.01
Mexico	1.796
Korea	1.731
Australia	1.332
Turkey	0.953
Indonesia	0.951
Argentina	0.661
South Africa	0.634
Total	77.77

(ii) The "Trust Fund" then exchanges the SDRs for currency

There will be no problem finding buyers of this SDR issue. Foreign exchange authorities will agree to hold more SDRs despite their apparently offering a rate of return less than other assets, for diversification reasons. SDRs are less risky than other assets. Forecasts for gold for example were that with more production coming on line, gold prices could fall. In any case, there are 13 trillion dollars of reserves – so foreign exchange authorities will have to increase the proportion of reserves held in SDRs by less than 4%. This is unlikely to be difficult if the G20 sponsor the concept. China, Japan, Saudi Arabia, Russia, Taiwan, Brazil, Switzerland, Hong Kong and South Korea together hold over half of the world's foreign exchange reserves. The G20 foreign exchange authorities could easily absorb the entire issue themselves.

(iii) Donors to the Trust Fund pay interest on the SDRs

There is no completely free lunch - there is an ongoing interest expense, along with a budget outlay. The cost of the proposal is that donors of the SDRs to the "Trust Fund" must pay interest to the ultimate SDR purchasers to provide the incentive for foreign exchange authorities to exchange hard currency for SDRs. This should not prove to be difficult, if the proceeds are spent in each country according to the SDRs that were provided. So for example, in a SDR allocation worth $430 billion, the Trust Fund would be obliged to spend roughly $75 billion in the US (according to its quota share). The US Congress would have to appropriate some $2.5 billion a

[11] See www.imf.org/external/np/sec/pr/2010/pdfs/pr10418_table.pdf

year to pay interest (perhaps indexed to prevailing money market rates) to the foreign exchange authorities who held the SDRs.[12]

(iv)The Trust Fund allocates the currency proceeds in proportion to countries' quota

Each country would run its own tender call and award the funds to be expended – so that domestic spending decisions on adaptation and mitigation could not be portrayed as subservient to the decisions of a supranational fund[13]. The funds would be disbursed to domestic entities deemed eligible by national governments - universities, research labs, firms, municipalities. There is a need for a watchdog to ensure probity and accountability. Oversight could be provided by a new independent Green Climate Agency. It could provide impartial third-party monitoring and reporting on climate actions by corporations and governments. The new agency could be mandated to track contributions to international climate funds and to energy and climate-relevant research. It could do more than surveillance and monitoring; perhaps it could also be tasked to collaborate on data collection and policy research.[14] Of course, the idea would have more traction if the required functions could be embedded into an existing international organization. Perhaps after canvassing options like the United Nations, the World Bank and the Global Environmental Facility, the new Green Climate Fund might be the preferred option.

Obstacles and Objections

The G20 will have to prepare counterarguments to the objections that will be raised. In addition they will need to devise a communications strategy, crafting custom tailored arguments for each major G20 country. If it were necessary, American congressional approval will be difficult to obtain. The US Congress has still not approved the relatively uncontroversial increases agreed in the last quota review. Ideological opposition of the Bundesbank and the German Ministry of Finance, which control the German IMF Executive Board chair, will have to be overcome; it took more than three years to gain their acquiescence to the program of directing profits from IMF gold sales to contributions to support concessional lending to low-income countries ("It was hell to get them to agree"). The Germans argued that the gold sale idea was a non-monetary use. Another major concern will be that distributing funds according to quota instead of investing funds in developing countries is not efficient - marginal abatement costs for greenhouse gases are lower in developing countries. If the SDRs were allocated in proportion to existing quotas, the poorest countries, most in need of adaptation funding, will not be helped. The development lobby will object to the lack of a concessionary element- the bulk of the funds will be directed to

[12] The SDR interest rate is determined weekly and is based on a weighted average of representative interest rates on short-term debt in the money markets of the SDR basket currencies.

[13] The presumption is that most of the money would be spent on mitigation, because the funds would primarily go to developed and big emerging economies, who have lots of potential for mitigation of emissions from existing or new infrastructure. It will be easier to allocate funds on the basis of an agreed metric – perhaps tonnes of CO2 equivalent saved per million dollars. At the same time, mitigation is the type of expenditure with global public good characteristics (not exclusively, since research on eg drought resistant seeds would have international public goods potential as well). Recipients would be free to allocate money to adaptation projects. Funding for developing countries would have to be generated separately.

[14] This is an idea of Birdsall and Leo, who would give the GCA additional responsibilities such as supervisory and regulatory functions to undergird private markets in emissions rights at national, regional and global levels; and the organization and facilitation of third-party financing of technology transfers to low-income countries.

institutions and projects in the G20 countries. The G20 could emphasize that, realistically, timely transfers to developing countries are **not** going to happen at the rate needed. The G20 will have to emphasize the fact that the global atmospheric sink is indifferent as to the source of CO_2, that the poorest countries would suffer most from climate change, and that the imperative is immediate action that does not come at the expense of financing for development. The G20 could also stress that the R&D components of the disbursements will have major external effects – especially to the degree that research proposals submitted promised to make their results patent-free and license-free.

The idea will be denounced as an inappropriate use of SDRs, like any suggestions for anything other than as a reserve asset to protect liquidity. It will be opposed as excessively ambitious in scale. [15] The creation of "off balance sheet" liabilities will be condemned for a lack of transparency. It will not be difficult to prepare rejoinders to objections that the SDR scheme could interfere with the current voluntary SDR trading arrangements, or that there will be confusion with the Global Climate Fund, to be located in Songdo, Korea. The G20 could remind that the costs of failing to deal with climate change are likely to be of a larger order of magnitude. (Stern, 2006)

Other objections that are anticipated include:

1. The G20 has no legitimacy to impose and deliver a solution.
2. The idea stretches the definition of official reserves. Since SDR's form part of the official reserves of a country, even though they could be "lent", they need to be able to be liquidated quickly if required; otherwise, they don't qualify as reserves.
3. The SDR interest rate, a weighted average of representative interest rates on short-term debt in money markets, will be insufficient incentive for foreign exchange authorities to increase their holdings of SDRs. There is also the issue of the exchange risk involved, especially for currencies not in the SDR basket. In particular, why would the US pay interest to the SDR holder at a rate above what they can borrow in US dollars, especially given the exchange risk implicit in long term likely changes in the composition of the SDR basket - if indeed it is still around?
4. Some Americans would see the idea as a conspiracy to replace the dollar as the prime reserve currency. The US Treasury would be adversely affected because the demand for US bonds held as foreign exchange reserves would decrease, constraining to a degree the US ability to run trade deficits.
5. The added liquidity would be inflationary.

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[15] In a private communication, James Boughton writes "Several major countries, led by Germany, have consistently viewed the SDR as an inappropriate mechanism for financing anything other than global liquidity. It is true that German officials have occasionally softened their view on the near impossibility of a global shortage of liquidity, but it would take a seismic upheaval to shake their disdain for allocating SDRs to solve non-liquidity problems. Moreover, the Fund's Legal Department holds the view that the Articles cannot be stretched for this purpose. And many economists on the Fund staff argue that such allocation schemes are nothing more than a way to get around a political roadblock; are non-transparent schemes to hide the real costs of resource transfers; and are inconsistent with the purposes of the Fund in general and the SDR in particular."

6. There may be a misapprehension that an international body is awarding the funds.
7. The process of choosing the governing Board and the Trust Fund management, and the decision making process would be contentious.
8. Creating the impression of doing an end run around Congress could be a problem for the US Government.

One argument against a new monitoring agency is the view that the G20 does not have the legitimacy to be an implementation agency. “The task of implementing agreements made by G20 Leaders falls to international organizations endowed with formal rules of membership, decision-making, and a formal authority to implement…. G20 leaders will need to find ways to ensure that as a group they do not ride rough-shod over the interests of non-members”(Woods, 2010:13). The response is that participation in the G20 “Trust Fund” would be voluntary for non-G20 countries. Each country would approve the package of expenditures for its own projects funded by the resources provided by the SDR allocation.

With respect to the claim that the proposal distorts the definition of reserves, the response could be that the G20 consensus interpretation characterizes the transfer of the SDRs as an “equity stake” in the “Trust Fund”. The interpretation would be defensible if there is a parallel swap or insurance scheme to guarantee availability of SDRs in the event of their being required in a member country. Note that the sums involved are an insignificant percentage of reserves of most countries.

SDRs holdings must generate interest to provide foreign exchange authorities the incentive to hold them. In general, the interest rate cannot be too low to entice authorities to hold them, nor too high to discourage the borrowers (or in the case of this proposal the donors). The presumption is that the prevailing SDR interest rate would be applied, while US dollars, Euros or Yen can be swapped for SDRs. This leaves the question of where would the Trust Fund obtain the currencies for spending in countries which have other currencies. The answer is the open market, leading to the query of who holds the exchange risk involved which is impossible to forecast; the response is that the risk can be hedged like any other foreign exchange transaction.[16]

Some Americans may worry about the impact on the privileged position afforded by the US dollar being the world’s premier reserve currency. The preeminence of the dollar will not be challenged. The long-term trend has been a gradual decline. Foreign exchange authorities have been diversifying their reserve holdings. The share of U.S. dollar holdings of reserves peaked at 71.5% at the end of 2001. It declined steadily to the range of about 62% in the 2010-2012 period. The long-term prospect is for further gradual declines, because of the relatively more rapid growth of emerging economies and their propensity to hold a lesser share in US dollars. The share of US dollars in reserve holdings of advanced economies was 66.3% in 2011; in emerging and developing economies it was 57.6% (a drop of more than 16 percentage points since 2001).[17] The objection will be that notwithstanding the trend, the SDR scheme would be accelerating the decline. The rejoinder could highlight the continued significance of the US dollar despite this

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[16] For non-convertible currencies, two risks would have to be hedged – one between the SDR and the convertible currency and a second between the convertible and the non-convertible currency.

[17] https://www.google.ca/search?q=us%20dollar%20share%20foreign%20exchange%20reserves&ie=utf-8&oe=utf-8&aq=t&rls=org.mozilla:en-US:official&client=firefox-a&source=hp&channel=np

trend. Given that current SDR holdings by foreign exchange authorities are close to zero, the proposal would not seriously challenge the dollar role.

With respect to the risk of generating inflation, the G20 could note that the annual $75 billion envisaged for the US compared to the $85 billion **monthly** infusion by the Federal Reserve's "quantitative easing" program in the name of economic stimulus in 2012. Similar programs were instituted in Europe and Japan. The probability of any significant inflationary impact seems unlikely. Japan and Switzerland are suffering from a modest deflation, rates in Taiwan and Hong Kong were under 3%, and the proposed SDR issue is relatively so small as to be a rounding error in the US and China. If the US Congress insists on "scoring" the "risk" associated with the new allocation of quota, against the tiny risk that they would be "called", an additional margin of a couple of percent could be appropriated.[18]

Any hint that an international body is involved in awarding funds would not resonate very well in the US or other countries. The G20 would have to make clear that national authorities alone would decide on the allocation of funds within their own country – that any monitoring provided would be a peer review process analogous to longstanding existing practice in the IMF, WTO and OECD.

For multilateral organizations in general, setting up the governance structure and selecting the management personnel is a bed of nails. Unseemly competitions have plagued the selection process for Leaders at the WTO, the OECD, UNEP and others. The G20 could finesse the problem, by identifying the leadership cadre before establishing the "Trust Fund". A widely respected former Minister of high caliber could be selected to lead the entity. The G20 troika could arrange with the Chinese, American and German authorities to have them each nominate an experienced administrator to be part of the senior management team.

While the proposal is technically be possible without the US Congress' approval as long as the increase in the US allocation did not go above their existing quota, the impression of end running Congress may be too much for the US Administration to swallow. There is a tradition of finessing Congress, as recess appointments show. The question is whether the Administration's calendar of trade-offs would make introducing another end run problematic.

Marketing the Idea

> "When you talk about changing the rules, that takes time. And it takes more than a committee." Al Edwards

Whether or not there is be a global agreement limiting emissions, most of the initiatives contributing to addressing climate change will require resources. Most economists suggest an

[18] There is a debate over budgetary treatment in the US. "Since 1980, contributions to the IMF had been handled as an exchange of assets, which required increases in budget authority but no outlays. In 2009, it was decided that the new U.S. commitments to the IMF would be treated as lines of credit. Congress had to appropriate funds as a potential loan-loss reserve, consistent with the treatment of federal loans under the Federal Credit Reform Act of 1990 (P.L. 101-508), but also adjusted for market risk. The Congressional Budget Office determined that $5 billion needed to be appropriated for the approximately $108 billion in new commitments to the IMF." (Nelson and Weiss, 2013: 10).

appropriate price on carbon. But, sensitive to the polling data[19], the G20 is likely to preclude a G20 carbon tax initiative. The G20 will be reluctant to touch taxes given the poor result of their initiative on inefficient fossil fuel subsidies.

The way forward would be for the 2014 G20 Troika to enroll the support of the US and China. The pitch could be that it would demonstrate G20 leadership on a critical problem and that the access to financing arrangements would be very favourable to each of them – almost a "free lunch". The plan could ultimately prove feasible, if the beneficiaries of the proceeds are identified early and help mount an effective lobby. The campaign could highlight the stimulus and multiplier impacts, the lack of an inflationary effect and the very beneficial external consequences.

To convince the Chinese, the Troika must first get the Americans on board. With China as the 3rd largest member country in the IMF after the 14th General Review of Quotas significantly realigned quota shares, the Troika could emphasize the urgency of getting the Americans moving. President Obama's 2013 State of the Union address signalled an opening. In addition, to a modest extent, the SDR scheme provides a painless way to help diversify China's reserve holding away from a potentially depreciating US dollar. The proposed "Brisbane Solution" would clearly be in China's selfish national interest.

To convince the US, the Troika could arrange for bipartisan proponents for the idea. They could approach Senator John McCain, who has a history of calling for alternative fuel research and tax incentive proposals for those who implement or use alternate forms of energy or fuel, and former Senate Majority Leader Tom Daschle, one of the founders of the Bipartisan Policy Center, a non-profit organization that encourages civil political discourse between the political parties. McCain and Daschle, both savvy and well-connected operators may agree to work together to promote the SDR idea. They could make the pitch to the US Sherpa team and arrange for White House support.

The G20 team, expanded to a quintet (the troika of Australia, Russia, Turkey, joined by China and the US), could formulate a comprehensive strategy to sell the idea. Instead of a single one-size-fits-all approach, they could develop a sophisticated set of custom-tailored messages for each major G20 country, to be delivered by a different respected "messenger", trusted in that country.

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[19] See Hanson (2012) *The Lowy Institute Poll 2012: Public Opinion and Foreign Policy*
Take Australia, the 2014 G20 presidency, for example. An analysis of the most recent polling data on attitudes towards climate change shows that most Australians are in favour of a future Coalition government removing the Emissions Trading Scheme:

- 63% of Australians said they were against the federal legislation 'introducing a fixed price on carbon that will then lead to an Emissions Trading Scheme', with 45% 'strongly against'.
- Half agreed the climate change legislation 'will result in job losses'.
- However 55% said they had not changed their mind and were concerned re global warming, while 38% say they have become 'more concerned'.
- 38% per cent said 'it is not necessary to act before other countries'.
- Given three options, 45% supported the intermediate proposition that 'the problem of global warming should be addressed, but its effects will be gradual, so we can deal with the problem gradually by taking steps that are low in cost'. More aggressive and do nothing options received less support.

To convince the Russians, the Troika could publicly credit the initiative with Russian parentage. The 2013 G20 St Petersburg Summit will feature "Financing for Investment" as one of the Russian signature priorities. Australians could present the SDR idea as a natural continuation of Russian 2013 efforts. The Australians could ensure that appropriate language is included in the forthcoming St Petersburg's communiqué.

Other G20 countries that the quintet could bring on board are among the top ten of foreign exchange reserve holders: Saudi Arabia, Brazil, Hong Kong and South Korea. The Americans could lobby the Saudis and China could enroll Hong Kong. Brazil, a proponent of climate action after Rio+20, could climb on board. The South Koreans could see the initiative as complementary to their Green Growth priority. Korea may support the initiative hoping the "Trust Fund" would have a presence in Songdo, South Korea, which had been selected as the location for the Global Climate Fund.

A sweetener may have to be offered to non-G20 members to reach the 85% threshold and to mute any opposition that might insist that the scheme requires amendment of the IMF Articles of Agreement. There is a need to explore avenues where low-income countries, given their poverty statistics and size, might get more than their modest quotas implied under the "Brisbane Proposal". One initiative congruent with emerging economies' interests would be a serious G20 discussion of the idea of a centrally collected currency transactions tax (CCCTT)[20]. The G20 could commission a High Level Task Force to suggest options on how the money from a future tax would be allocated and under what administrative structure. Countries like Nigeria and Bangladesh, big and poor and outside G20, would be more likely to support the SDR idea if packaged with a promise for a serious look at the CCCTT.

The SDR approach will reduce pressure on national donors' development assistance and climate adaptation budgets. To convince the environmental lobby and the proponents of supporting the most vulnerable poorest countries, the G20 could array the evidence that the most vulnerable to climate change are the poorest developing countries. They could cogently demonstrate that in terms of mitigation, the poorest benefit from CO_2 reductions irrespective of where the reductions are effected. The G20 could remind environmentalists that "the perfect is the enemy of the good".

Conclusion

"It always seems impossible, until it's done."
Nelson Mandela

It is almost a certain bet that nothing will come from efforts to meet the financing commitments for the Green Climate Fund. The recent meeting of Finance Ministers produced the usual diplomatic euphemisms for inaction with regard on to achieving the goal of mobilizing $100 billion by 2020 (US Department of State, 2013).[21] It is time to demystify SDRs and cut through

[20] See Birdsall and Leo (2011) paper proposing allocation rules for any available funds for adaptation.
[21] They noted that leveraging private funds was important and agreed to meet again.

the opacity of the IMF Articles of Agreement and the distinction between voting shares and quota shares.

The G20 could propose a new SDR issue, an allocation worth, say $400 billion, distributed to members in proportion to quota. They transfer the shares to a new G20 "Trust Fund", which exchanges the SDRs for currency from foreign exchange reserve authorities. Donors to the "Trust Fund" pay interest on the transferred SDRs. The "Trust Fund" provides the currency proceeds to member countries, again in proportion to quota.

Interpretations of the IMF Articles of Agreement and a structure that construes the process as an exchange of assets which is matched by transfers of equivalent value minimize the costs, hence do not affect national fiscal deficits. A "marketing strategy" can explain the win-win dimensions and effectively refute any objections. The road is clear for a substantive G20 contribution to catalyze funding of a key global public good and each still be able to assure their voters that the benefits accrued to their own country.

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