BAROMETER IN CONTEXT

OPEN SOCIETY FOUNDATIONS

DEBT, DEVELOPMENT & CLIMATE

October 2023

FOREWORD

When the house is on fire, there is no time to stop and argue. And our global house is a blazing inferno. The vast majority of the Sustainable Development Goals targets are either off-course, stagnating or sliding backwards. Over recent months successive superlatives—heat records smashed, devastating rains and flooding—have sounded the alarm once again on an accelerating climate crisis. Inequality, hunger, and conflict are on the march. And yet argument, not action, is the primary response as powerful states drag their feet on the necessary change, often distracted by their own domestic and geopolitical considerations.

Enough. The world cannot wait any longer. Action must come now. As it stands, the global financial architecture has inequality and injustice embedded in its very core. It is structurally biased towards the rich world and debt crises continue to intensify that power imbalance: the borrowing costs of African countries, for example, can be as much as eight times those of high-income ones.

It was encouraging to hear once again leaders from some high-income states profess their intolerance of these realities at the United Nations General Assembly on the heels of the Summit for a New Global Financial Pact in Paris and the Africa Climate Summit in Nairobi. Now, in the upcoming Annual Meetings of the World Bank and the International Monetary Fund in Marrakech, the moment to deliver has arrived. If your neighbor's house is burning and you help them douse the flames, that is solidarity. But if you contributed to starting the fire in the first place, it is more than that: it is restitution, a step towards justice.

We write as heads of government from two quite different states on different continents. One of us chairs the Climate Vulnerable Forum, a coalition of 68 countries representing 1.7 billion people whose economies have already lost over $525 billion due to man-made global warming between 2000 and 2019. The other is the founder of the Bridgetown Initiative, forging an alliance to break the deadlock on climate and development financing and secure a sustainable future for all.

The momentum is building for serious reforms to a global financial architecture designed without the developing world in mind. This study from the Open Society Foundations outlines how that momentum has grown, why it commands the support of people around the world, and what steps are needed from the Annual Meetings for justice to prevail. This is the time to extinguish the fire before it burns down our homes. The moment for action is now.

The Honourable Mia Amor Mottley, Q.C., M.P.
Prime Minister of Barbados

His Excellency Nana Akufo-Addo
President of Ghana

INTRODUCTION

In September 2023, Leaders of the Group of Twenty-One (G21)[1] recognized that we are experiencing a "defining moment in history where the decisions we make now will determine the future of our people and our planet." As the World Bank and International Monetary Fund convene in Morocco for their Annual Meetings in October 2023, the institutions, their shareholders (the member countries)—and the global financial system that they control—are being tested in their ability to make concrete progress on much-needed decisions concerning the global economy.

In the aftermath of the COVID-19 pandemic, momentum has been building for significant reforms of the Global Financial Architecture. Several proposals have been put on the table, including the Bridgetown Initiative, the V20 Accra-Marrakech Agenda, the UN SDG Stimulus, and the African Leaders Nairobi Declaration. Reform processes including the World Bank Evolution Roadmap have begun, bringing with them concrete measures like lowering the Bank's minimum equity-to-loan ratio to 19% to boost the volume of resources which can be loaned to countries in need.

However, reform implementation is dragging, the most important decisions continue to be postponed, international institutions—and the states that govern them—fail to show courage and rich countries evade requests for additional financial commitments.

For example, the implementation of the recommendations of the then Group of Twenty (G20) Independent Review of Multilateral Development Banks' (MDBs) Capital Adequacy Frameworks (CAF) has proven to be lethargic at best. Low-income countries continue to be concerned that CAF's "squeezing of the MDB balance sheet"—that is, getting more money out of existing resources—is acting as a substitute for *additional* financing from high-income countries when such extra resources are critically needed. The ambitions of the Volume 1 report of the G21 MDB Independent Experts Group was dampened by the G21 Leaders' weak proposal that "MDBs may choose to discuss these recommendations as relevant and appropriate, within their governance frameworks, in due course."

1 Following the decision in September for the African Union (AU) to join the existing Group of 20 (G21) as a permanent member, this group has now expanded to form the G21. Where reference is in this document to the G21, it reflects decisions or processes relevant to the configuration prior to AU membership. References to the G21 refer to the group, post September 2023.

The hesitancy in international action in the face of a polycrisis belies the demand for change: to upgrade the global financial architecture and increase financing to countries in need.

The *Open Society Barometer* (a recent poll of 30 countries, 36,000 individuals, representing a population of 5.5 billion and carried out in May and June 2023) reveals that citizens all around the world care about the global economy and the institutions that govern it. A clear majority of overall respondents—and majorities in nearly all countries polled—support the reforms that are needed to make the global financial architecture more just and more able to support countries in delivering for their populations and addressing the climate crisis. This brief offers a snapshot of those public concerns and appetite for action and proposes some key steps that could be taken at the Annual Meetings, while looking ahead to other key upcoming moments, like COP28.

GRAPHIC 1

MEETING GLOBAL CLIMATE AND DEVELOPMENT TARGETS

WE NEED TO TRIPLE TOTAL ANNUAL INVESTMENTS

Domestic resource mobilization:
$236 billion → $417 billion

Overseas development assistance:
$12 billion → $84 billion

Multilateral development bank non-concessional finance:
$27 billion → $99 billion

Bilateral non-concessional finance:
$4 billion → $31 billion

Private capital:
$69 billion → $326 billion

But we are already losing
$7 TRILLION
every year on subsidies for the fossil fuel industry.

And more than
$1 TRILLION
globally in corruption, smuggling, and tax avoidance.

Sources: G21 Independent High Level Expert Group on Climate Finance; IMF; Global Financial Integrity

A WORLD IN CRISIS

The error alerts are flashing on the global dashboard. The World Food Programme warned in September 2023 that a further 24 million people could face emergency levels of hunger over the next 12 months. More than three years since the onset of the COVID-19 pandemic, only 32% of people in low-income countries have received at least one vaccine dose, compared to 79% in high-income states.

Over 3 billion people live in countries that spend more on interest payments to service their debt than on education or health. Around one quarter of the world's population (2 billion people) did not have access to safe drinking water. One third of the world's children face the double threat of poverty and high climate risk.

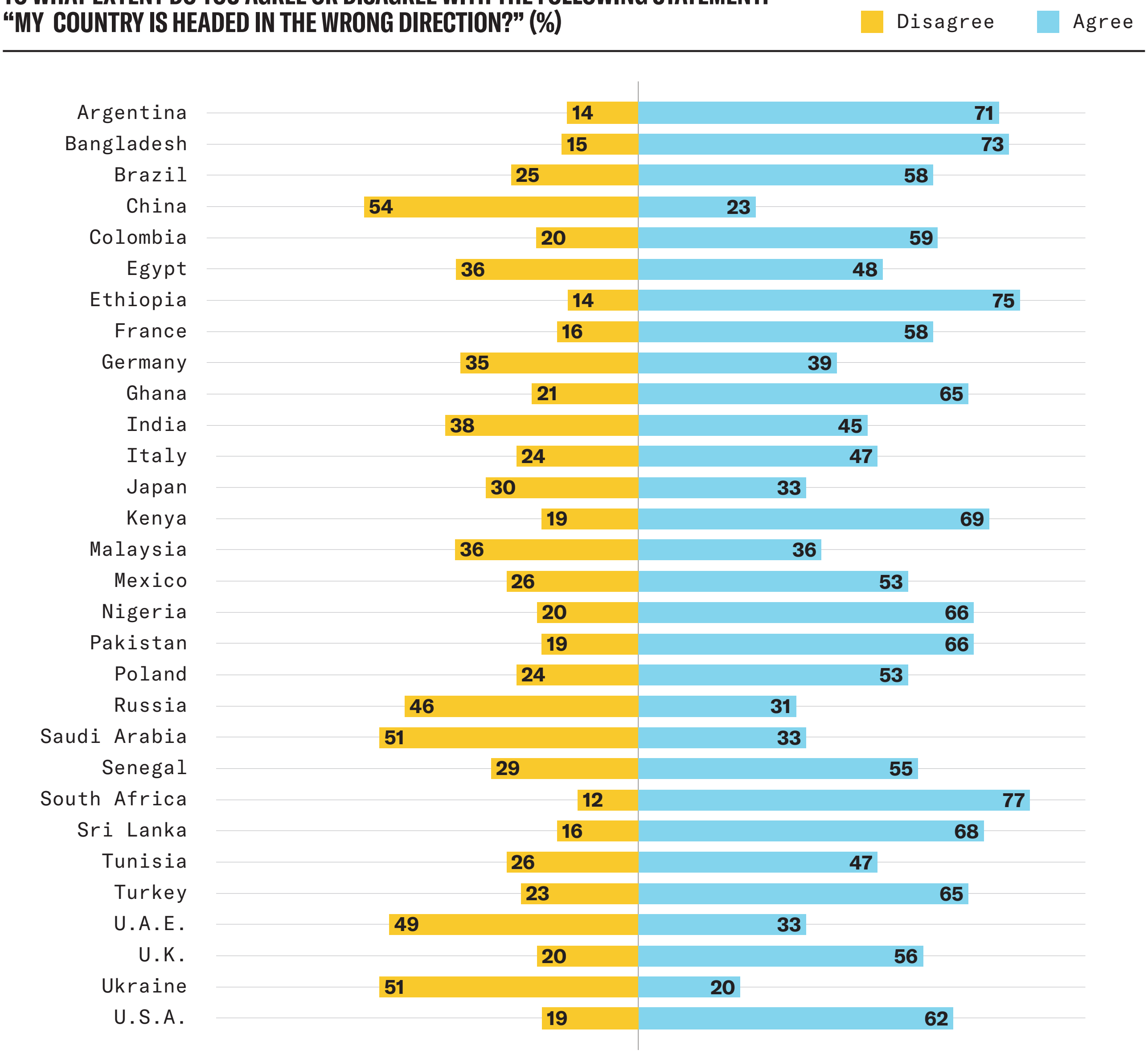
In 2023, the world experienced a "summer from hell" that saw floods, rain, and landslides cost lives and wash away livelihoods from China to Libya while wildfires ravaged Canada and Greece. One month before the WB and IMF annual meetings, an earthquake in their host country—Morocco—laid bare the fragility of people's lives.

Meanwhile, Russia's full-scale invasion has devastated lives far beyond Ukraine, while people from Sudan to Syria, Myanmar to Nagorno-Karabakh are suffering violence and atrocities.

Amidst this polycrisis, 59% of those surveyed for the *Open Society Barometer* think the world is heading in the wrong direction.

GRAPHIC 2

TO WHAT EXTENT DO YOU AGREE OR DISAGREE WITH THE FOLLOWING STATEMENT: "MY COUNTRY IS HEADED IN THE WRONG DIRECTION?" (%)



The *Open Society Barometer* also shows that people are worried about poverty and inequality in their own lives and in the world. Out of all respondents, 49% have struggled to feed themselves or their families and 69% see economic inequality between countries as a growing challenge.

This is not merely a perception. The pandemic resulted in the largest increase in global inequality in three decades, according to World Bank figures. The latest World Inequality Report confirms that across the world the richest 10% own around 60-80% of wealth, and the poorest half owns less than 5% of wealth.

Now more than ever, the fight against poverty and inequality, integrated with sustainable climate transition, should be at the core of the World Bank and the IMF, which are the global institutions predisposed and mandated to ensure shared prosperity and economic stability.

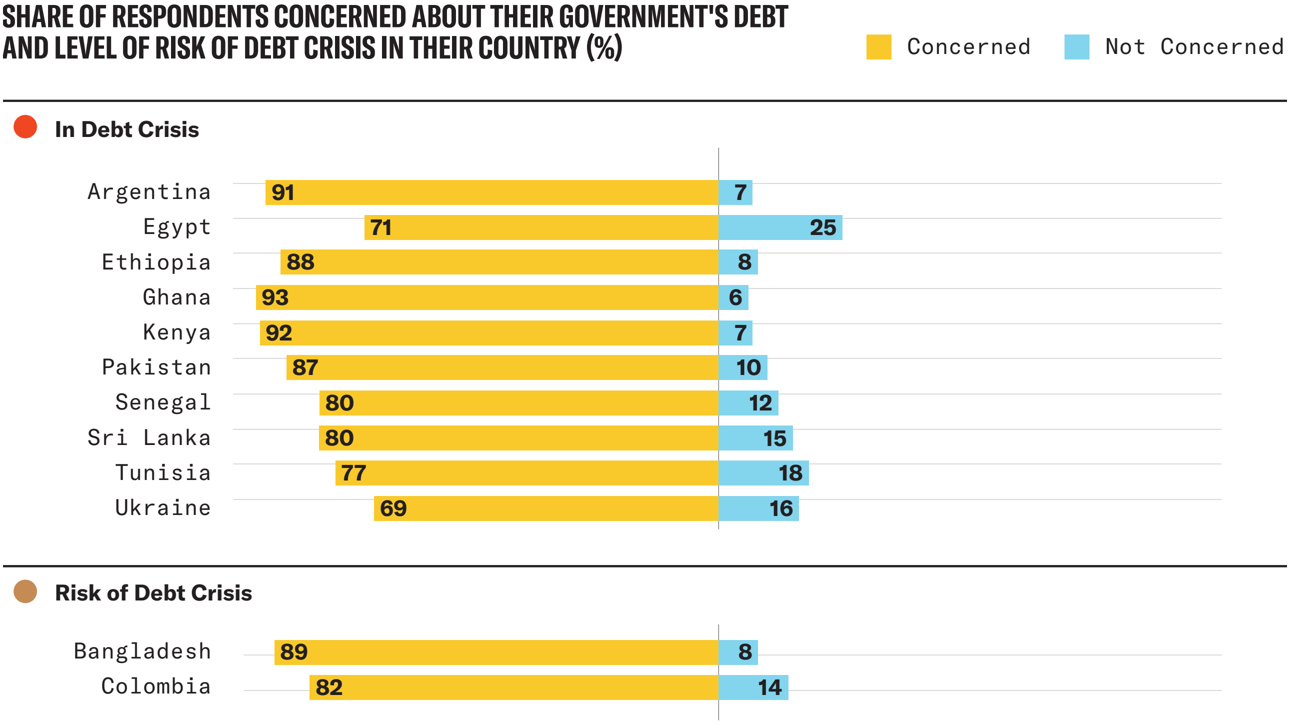
TRAPPED BY DEBT

An increasing driver of this inequality is the unsustainable debt burden facing many countries. The most recent IMF data indicates that over 50% of low-income countries are already in debt distress or are at high risk. With high-debt levels comes the risk that such debt not only is unsustainable, but also that default and prolonged debt restructurings can produce irreparable harm. As research supported by Open Society Foundations showed earlier this year, delays in resolving debt defaults cause a decline in a population’s health and with it, life expectancy.

It is no surprise that an average of 74% of those polled in the *Open Society Barometer* are concerned about their country’s debt.

GRAPHIC 3

SHARE OF RESPONDENTS CONCERNED ABOUT THEIR GOVERNMENT'S DEBT AND LEVEL OF RISK OF DEBT CRISIS IN THEIR COUNTRY (%)



Unsurprisingly, these figures are particularly high for countries where populations are feeling the worst impacts of debt servicing. Pakistan, where 87% of those polled are concerned about debt levels, is facing historic levels of debt servicing, with all federal revenue receipts amounting to less than what is needed to pay for servicing domestic and international debt. Even countries not currently at risk, concern is high. In Nigeria, 92% of respondents said they were worried about the country's debt. Last year, the IMF warned the government that it would be spending all of its revenue on debt interest payments by 2026.

A MANDATE TO ACT

The last time the Annual Meetings were held in Africa was in Kenya in 1973. Since then, the world has changed fundamentally. There is a need to radically and visibly upgrade the global financial architecture to: operate beyond the design and interests of its original founders; serve both a more diverse and a more complex world; and deliver on critical development and climate financing.

Reforming the global financial architecture was a strong theme at this year's UN General Assembly (UNGA). During the General Debate, calls for action on development finance, climate finance, and debt treatment featured in more speeches, more prominently and with more details than in previous years. This included President Biden's focus on scaling up World Bank financing, Colombia President Petro's emphasis on Special Drawing Rights (SDRs), and Timor-Leste President Ramos-Horta's calls for debt alleviation.

This imperative for greater international action is popular. With leaders already identifying solutions, the *Open Society Barometer* indicates that voters support action. There is a well of good will to be tapped into. Furthermore, people are likely to support measures that involve international organizations. On average, more people (45%) trust the leaders of those institutions to work in their best interest than national politicians (30%).

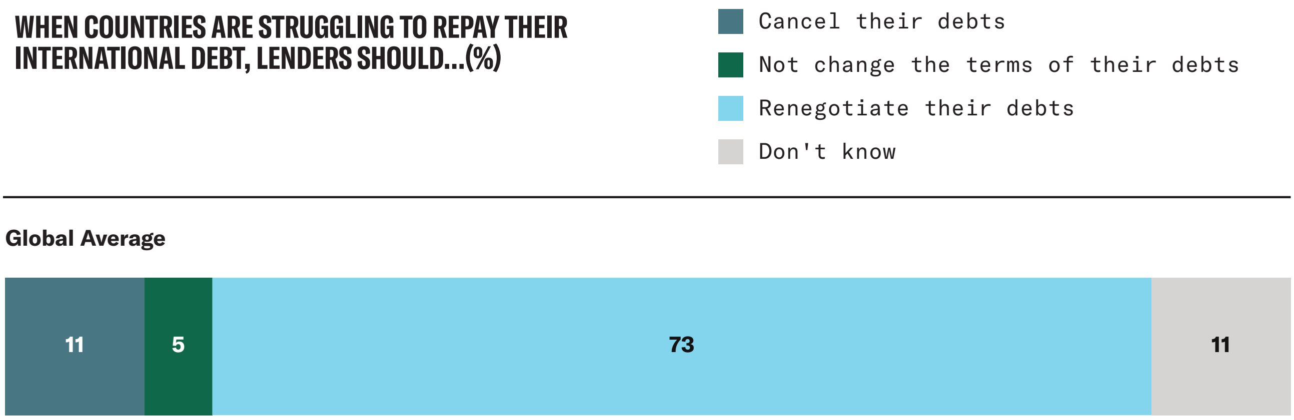
UNLOCKING THE DEBT TRAP

People want to see the end of harmful debt cycles and securing of sustainable debt deals. Debt can also contribute to low levels of trust in politicians. Leaders of low- and middle-income countries facing debt distress have little or no fiscal space to address citizens' immediate needs, let alone long-term development and climate mitigation and adaptation

Reflecting the significant concern about debt levels, there is support for a range of reforms. The *Open Society Barometer* found there is majority support across G21 countries for reforming the way sovereign debts are managed. Of those polled in the *Barometer,* 84% think lenders should help countries struggling by cancelling debt or renegotiating repayment terms.

GRAPHIC 4

WHEN COUNTRIES ARE STRUGGLING TO REPAY THEIR INTERNATIONAL DEBT, LENDERS SHOULD...(%)



Respondents also appear to have a preference for lending within an international framework. International institutions (29%) and regional banks (15%) topped the list of preferred lenders, then the European Union (EU) and United States each at 11%, China at 10%, and private creditors at 6%. However, the proportion of low-income country debt held by multilateral lenders has fallen from 30% in 2010 to 24% in 2021. By 2021, private creditors held 62% of external public debt, an increase from 47% in 2010, while China is now the largest bilateral creditor to low-income countries. Against this backdrop, continuing challenges to secure timely, comparable debt relief commitments from all types of creditors must be addressed.

People also suffer when their countries declare default and are faced with long and difficult renegotiations of their debt with creditors without the support and agreed rules of an international mechanism. In Ethiopia, which is still waiting for a debt resolution under the G21 Common Framework, 88% of people expressed concern for their country's debt, a sentiment shared by 80% of people in Sri Lanka, which has been relegated to renegotiate with its creditors outside of a multilateral framework.

At a minimum, the IMF should apply more actively its lending into arrears policy to prevent select creditors from holding up debt relief while seeking to continue to profit from their loans; and commit with bilateral creditors to vigorously and transparently apply metrics to ensure comparable treatment in relief provided by all of a country's creditors.

If the IMF and bilateral lenders did this, more sustainable deals could be achieved. At present, the deal with Sri Lanka may see pensioners with few assets bear a greater cost of debt relief than the country's foreign private creditors. Meanwhile, the debt restructuring deal achieved in Suriname sees country creditors (and their taxpayers) providing a much larger share of relief than private creditors and the latter continuing to benefit from the country's continued exploration of fossil fuels.

Instruments such as debt-swaps and climate resilient debt clauses can help countries create fiscal space for the energy transition and climate action. However, they cannot replace more effective debt resolution mechanisms and the provision of no or low-interest liquidity (through grants and concessional loans) that can permit economic recovery without falling into debt traps.

THE NEED TO SURGE RESOURCES

Resolving the existing debt burden is insufficient without increasing access to and levels of finance for countries in need. The reality is that while crises have grown in recent years, official development assistance (ODA) to developing countries has been declining.

GRAPHIC 5

2022 BILATERAL DEVELOPMENT ASSISTANCE

		Decline vs. 2021
Africa	$34B	↓ 7.4%
Sub-Saharan Africa	$29B	↓ 7.8%
Least Developed Countries	$32B	↓ 0.1%

Source: OECD

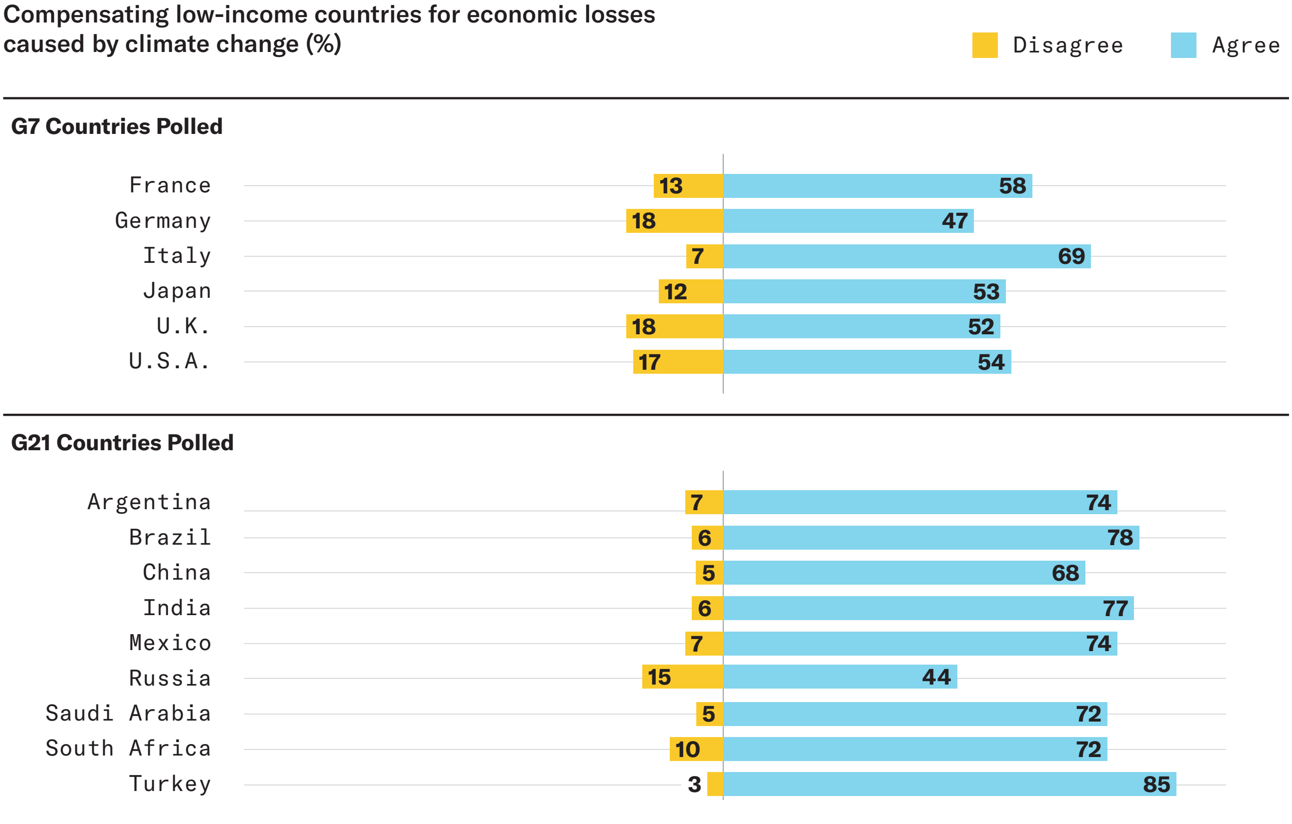
Yet, the *Open Society Barometer* revealed strong support for high-income countries increasing development assistance for low-income countries, including support for these measures from populations *in* high-income countries.

- On high-income countries compensating low-income countries for economic loss due to climate change, there was majority support in all of the Group of Seven (G7) and G21 countries polled, bar Germany.
- On support for high-income countries funding the solutions for climate change, there was majority support in all polled G7 and G21 countries.
- Majorities in all polled G7 and G21 countries, bar Germany, supported high-income countries increasing overseas aid to support the development of low-income countries.
- Amongst polled G7 and G21 countries, the majority of them demonstrated support for high-income countries increasing funding to the World Bank to support other countries.

GRAPHIC 6

HIGH-INCOME COUNTRIES SHOULD TAKE THE LEAD ON:

Compensating low-income countries for economic losses caused by climate change (%)

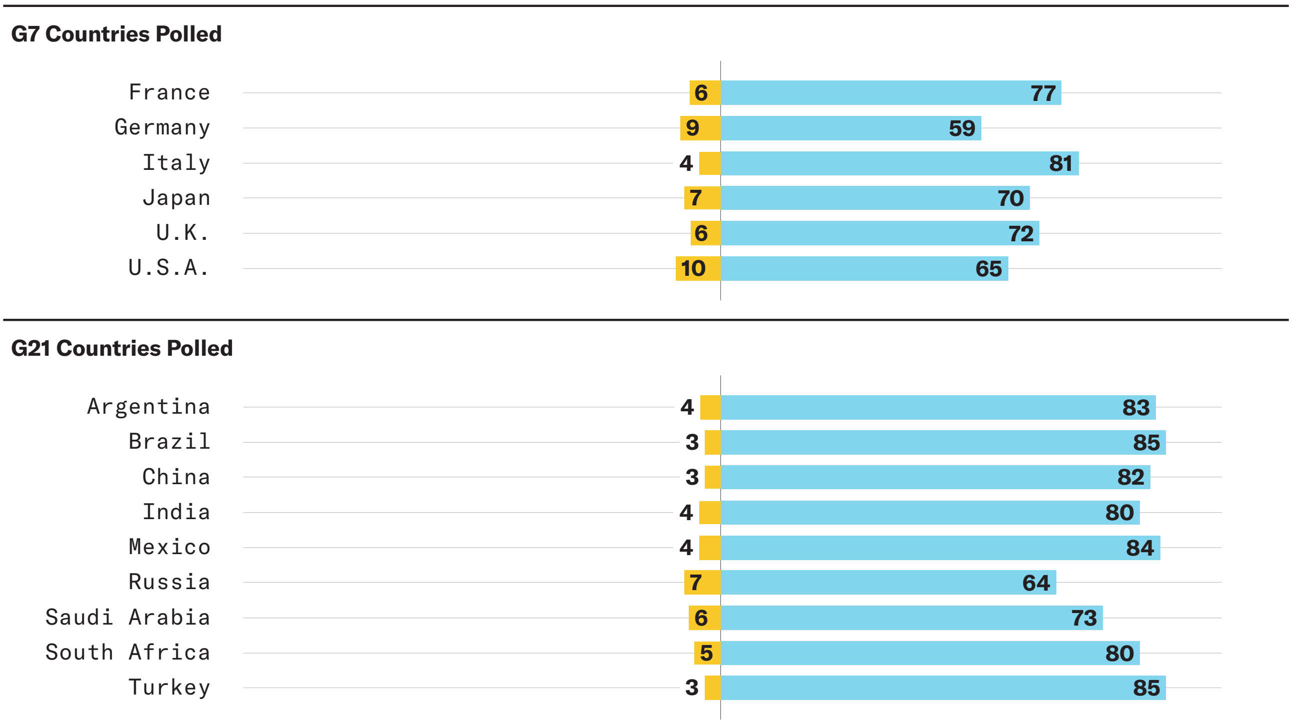


GRAPHIC 7

HIGH-INCOME COUNTRIES SHOULD TAKE THE LEAD ON:

Reducing global greenhouse gas emissions (%)

Disagree Agree

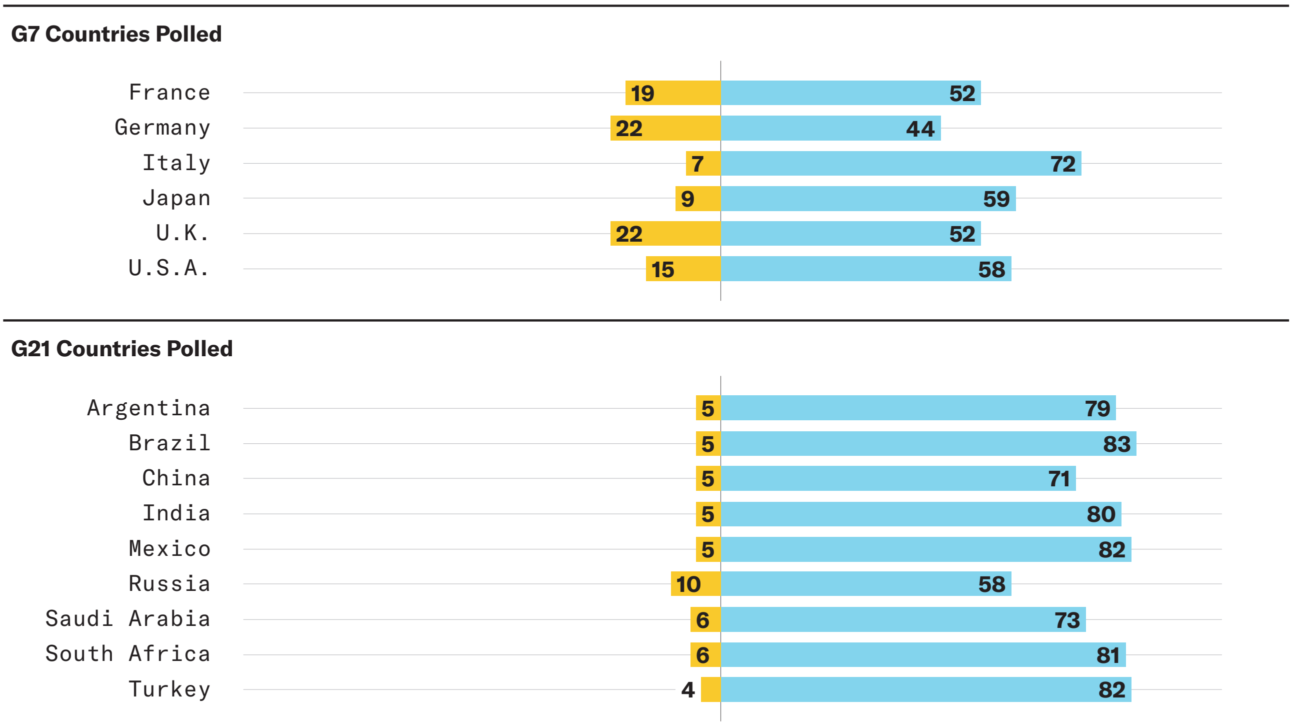


GRAPHIC 8

HIGH-INCOME COUNTRIES SHOULD:

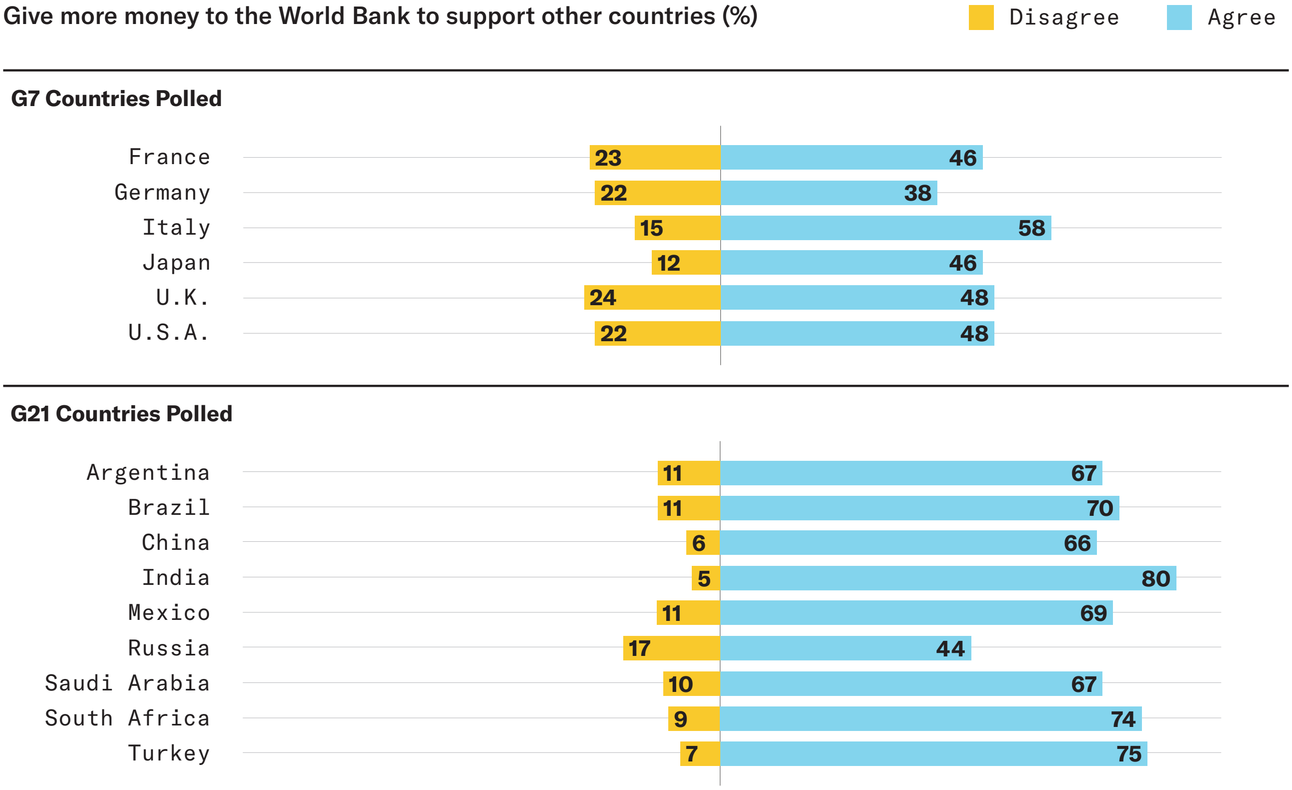
Increase their overseas aid to support the development of low-income countries (%)

Disagree Agree



GRAPHIC 9

HIGH-INCOME COUNTRIES SHOULD:
Give more money to the World Bank to support other countries (%)



This aligns with other research that has identified support amongst the G7 for those countries to spend 3.2% of GDP on climate change and 3.1% on poverty and hunger.

Importantly, amongst the outgoing Presidential troika[2] of G21 countries and the incoming troika (India, Brazil, South Africa, and the United States), there was majority support across all of these reforms, laying the groundwork for those countries to lead this agenda in the coming years. How these issues are taken up in 2024 by the Italian government in its G7 Presidency or the Brazilian government in its G21 Presidency will be closely scrutinized in the coming months.

2 Each troika is made up of the predecessor Presidency, the current Presidency and the successor Presidency.

In cases like Germany, where there is not majority support for some of these measures, further work is needed to ensure that the country retains its strong track record of ODA—where it has often been one of the top donors exceeding the international target of contributing 0.7% of national income. Germany can also continue to lead on reforms of the World Bank, especially proposals to make it more effective in addressing global challenges.

IMPROVING THE CURRENT SYSTEM

To further sustainable development and climate transition, additional funding must be complemented by reforms to make better use of new and existing resources. The G21 recently affirmed their support for the "[multilateral development banks] to undertake comprehensive efforts to evolve their vision, incentive structures, operational approaches and financial capacities so that they are better equipped to maximise their impact."

The World Bank remains one of the key institutions in addressing global financing needs and, under the new leadership of Ajay Banga, the opportunity exists to build a better, bigger, and more effective bank. Across the *Open Society Barometer*, an average of 68% of those surveyed said that high-income countries should give more to the World Bank, indicating a continued recognition of the role and potential of the institution.

Further action on the G21 CAF recommendations and the World Bank's own Evolution Roadmap remain urgent. Management and shareholders (countries) must build on popular support for additional resources for the World Bank, whether increasing International Development Association (IDA) resources by 2030 or general capital increases, and not limit ambitions to "squeezing the balance sheets" through CAF recommendations. In particular the recent recommendations of the Independent Experts Group on Strengthening Multilateral Development Banks offer a path forward to significantly increase ambitions for reform and the volume of finance.

Attention must also extend beyond the traditional players in the global financial architecture, including to the wider community of public development banks (PDB). PDBs manage around $2.5 trillion in annual investments, in comparison to the World Bank's financing commitments of around $104 billion in 2022. Ensuring that the wider PDB community is mobilized to deliver on sustainable development should therefore be prioritized.

UPGRADING THE SYSTEM, INCLUDING ADAPTING TO NEW PLAYERS

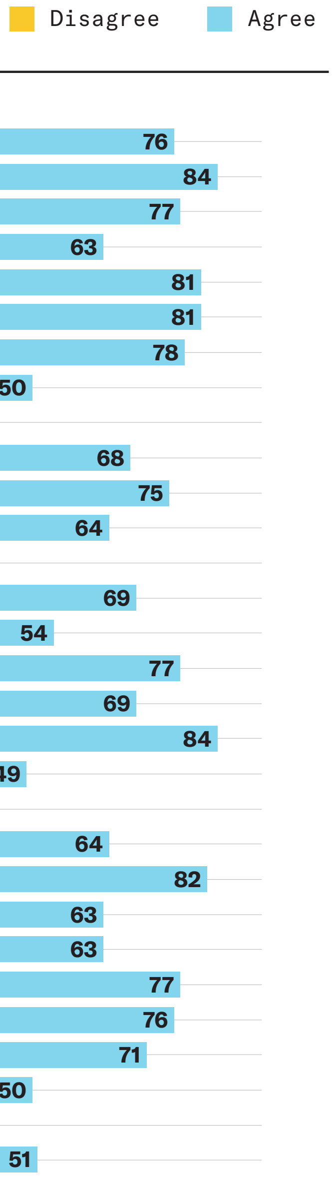
Updating the governance model of the global financial architecture—including who drives decision-making—is a core element of many reform agendas. This was also reflected in leaders' speeches at the 2023 UN General Assembly.

The IMF and the World Bank were established almost 80 years ago, with an original 38 (World Bank) and 44 (IMF) member countries. Their governance is now outdated and fuels concerns about equity and representation. For example, the World Bank is governed by 25 Executive Directors. The U.S., Japan, China, Germany, France and the U.K. each appoint a single director, while the 19 remaining seats are shared among the rest of the 184 member countries. Africa represents nearly 20% of the world's population and has more IMF programs than any other region, but its 54 countries share only 6.5% of the Fund's voting shares.

According to the *Open Society Barometer*, 65% of those polled support a greater say for low-income countries in decisions about international finance.

GRAPHIC 10

HIGH-INCOME COUNTRIES SHOULD:
Give low-income countries a greater say in decisions about international finance (%)



This kind of support should lay the groundwork for global governance reforms, such as changes this year to the current IMF quota formula. Such reform is needed to increase the share of IMF's permanent, quota-based resources so as to increase its lending power (especially towards vulnerable countries) and the borrowing capacity of low- and middle-income countries, while providing for a more equitable redistribution of voting powers among IMF members. In order to remain legitimate, the Fund must do more to increase borrower voice, regardless of the size of their economies.

As the primary forum for global economic policymaking, the then G20's recent decision to give membership to the African Union to form the G21 is a welcome measure and should sow the seeds for further governance reform to the global financial architecture. Similarly, there is a need to understand and shape the growing influence in this landscape of the BRICS group which, with the expansion to six new members, (Argentina, Egypt, Ethiopia, Iran, Saudi Arabia, and the United Arab Emirates) now accounts for 37% of global GDP.

A COLLECTIVE WIN WITHIN REACH

There is increasing consensus on the factors precipitating the current polycrisis and that piecemeal solutions will not address them. In his address to the Summit for a New Global Financing Pact in June 2023, Brazil's President Lula da Silva captured the fundamental paradigm shift that is needed in the global financing landscape:

> *"We need to stop, at the international level, proselytizing with resources... I'm going to help this little thing here, I'm going to help this little thing over there,' when in fact we need to take a leap in quality, and invest in structural things that change the lives of countries."*

The Summit for a New Financing Pact established two principles: that no country should have to choose between fighting against poverty and fighting for protecting the planet, and that the world needs a financial stimulus with more resources to support vulnerable economies seeking to do both. Technical solutions are plentiful, political leadership is growing, and it is clear from polling results that populations are demanding change.

A win-win to reverse the grave trends of debt, poverty, inequity, and insecurity is possible. At the 2023 Africa Climate Summit in Nairobi, Kenya President Ruto said that Africa holds the key to climate action through clean energy minerals and renewable energy sources, the development of which supports energy transition and economic development. Investing in long-term climate resilience projects in developing countries also has the potential to provide jobs, energy security, food security, and future stable prosperity in both developing and developed economies.

The messages on the global dashboard will not be resolved by piecemeal solutions or only acting from self-interest. As climate damage grows, inequalities deepen and past wrongs are left unaddressed, the *Open Society Barometer* findings and reccent UNGA speeches indicate that neither the public nor decision-makers in low- and middle-income countries will accept a financial settlement that fails to offer solidarity and justice.

AN AGENDA FOR MARRAKECH

In a world that continues to grapple with geopolitical fracture and the emergence of a multipolar not multilateral future, it is imperative that the calls for reform made by leaders at the UN General Assembly in September 2023 do not fall on deaf ears. Political leaders gathering for the Annual Meetings of the World Bank and IMF in Marrakech should recognize there is public support for reform if they are brave enough to deliver on those promises.

A number of short-term actions can be taken at the World Bank/IMF Annual Meetings, including:

- The World Bank and its shareholders demonstrate clear and undeniable progress in implementing the recommendations of the G21Independent Panel for Review of Multilateral Development Banks Capital Adequacy Framework, including in relation to callable capital and offer a response to the recommendations of the G20 Independent Experts Group report on Strengthening MDBs.
- Building on the G21 Leaders' Summit, donors commit to an increase in International Bank for Reconstruction and Development funding and provide additional resources to the IDA Crisis Response Window.
- Commit to identifying by the IDA20 Mid-Term Review in Tanzania in December 2023, substantial increases in donor contributions to the replenishment of IDA21.

- Close the finance gap of the IMF's Poverty Reduction and Growth Trust through additional contributions.
- Recognize the V20 (representing 68 of the world's most climate threatened developing economies), as an official group of the World Bank and IMF.
- Meaningfully strengthen the voice of emerging markets and developing countries within the IMF Executive Board as an outcome of its 16th quota review and through the creation of a Third Chair for Sub-Saharan Africa.
- Increase borrower country inclusion in the Global Sovereign Debt Roundtable and accelerate implementation of its recommendations.
- As part of the IMF/WB 2023 review of the Low-Income Country Debt Sustainability Framework, clarify not only stakeholder input processes for the review, but also IMF/WB intentions to include climate vulnerability costs and positive economic impacts of country climate actions (including investment in climate resilience) in Debt Sustainability Analyses (DSA) and commit to earlier public disclosure of DSAs.
- Commit to apply the IMF lending in arrears policy going forward where hold-out creditors delay sustainable debt deals past an agreed time frame.
- Announce agreed steps to rechannel SDRs to the African Development Bank by COP28, and further advance such mechanisms for other development banks.

Momentum should continue to be built beyond October around the following proposals:

- Full implementation of the recommendations of the G21 Capital Adequacy Framework, including by regional MDBs.
- Implementation of Volume 1 of the G21 Independent Expert Group on Strengthening MDBs, including preparation for a General Capital Increase.
- Normalize the implementation of climate resilient debt clauses across multilateral and bilateral and private sector lending.

The world's population is asking: When and how will 20th century global financial institutions do what is needed to address the systemic challenges of the 21st century? In Morocco, leaders must answer that question with concrete measures and resolve.

ABOUT THE OPEN SOCIETY BAROMETER

The Open Society Foundations surveyed 36,344 respondents across 30 countries between May 18, and July 21, 2023. The countries were chosen to reflect the following considerations: A mix of country income levels with the majority in the lower middle-income category; balanced geographic spread; and a mix of countries in important international institutional groupings. e.g., the G21, BRICS, as well as "non-aligned" countries, including groupings such as the Vulnerable 20 (V20) countries. There were some limitations on country selection based on: where it was possible to reach a nationally or urban center representative sample, good online coverage, and a possible sample size of 1,000 people; and where our fieldwork partners had local providers on the ground able to conduct robust research.

The full 2023 *Open Society Barometer* can be found online here: osf.to/OpenSocietyBarometer

The policy recommendations and analysis in this policy paper are entirely the responsibility of the Open Society Foundations.

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