

**World Bank/ IMF Spring Meetings 2023**  
**Media Briefing 'False Economy' Methodology Note**

**Financing the \$27.4 trillion gap in social and climate spending in low- and middle-income countries to 2030**

The following table captures the financing gaps and revenue sources referenced in Oxfam's Media Briefing for the World Bank/ IMF Spring Meetings. Its purpose is to demonstrate that we can afford the \$27 trillion price tag to meet the development and climate challenges by 2030. That goal can be reached through a variety of policy options, and the mix shown below is presented as an illustration only.

Uses of Funds		Sources of funds	
Low-Income Countries			
Health + social protection	608	Wealth tax	0
(Education included in LDICs)		Other progressive taxes	39
		Aid and debt relief	568
Total	608	Total	608
Lower-Middle Income Countries			
Health + social protection	2,442	Wealth tax	572
Education	1,348	Other progressive taxes	1,224
		Aid and debt relief	1,993
Total	3,790	Total	3,790
Upper-Middle Income Countries			
Health + social protection	4,100	Wealth tax	2,210
Education	0	Other progressive taxes	1,890
		Aid and debt relief	0
Total	4,100	Total	4,100
Low and Middle Income Countries			
Climate loss & damage	2,800	SDRs	493
Climate adaptation	2,380	The Big Debt Swap	11,544
Climate mitigation	13,713	MDBs' lending and user fees	6,857
Total	18,893	Total	18,893
High-Income Countries			
Aid (to 0.7% of GNI)	1,420	SDRs	789
Aid (to partially pay off "aid debt")	2,513	Wealth tax	7,166
of which: MDBs' capital increase	1,371		
of which: Aid and debt relief	1,142		
Aid (to pay off "climate debt") = Servicing The Big Debt Swap	3,947		
Domestic spending	75		
Total	7,955	Total	7,955
Multilateral Development Banks			
MDBs lending	6,857	MDBs' capital increase	1,371
		Private capital leveraged by capital increase	5,485
Total	6,857	Total	6,857

Constant 2021 US\$ billion; cumulative total for 2024 to 2030

## Health care and social protection

Source: Durán-Valverd e, Fabio, José F. Pacheco-Jiménez, Taneem Muzaffar, Hazel Elizondo-Barboza (October 2020) “Financing gaps in social protection: Global estimates and strategies for developing countries in light of the COVID-19 crisis and beyond”, *International Labour Organisation Working Paper 14*. [https://www.ilo.org/secsoc/information-resources/publications-and-tools/Workingpapers/WCMS\\_758705/lang--en/index.htm](https://www.ilo.org/secsoc/information-resources/publications-and-tools/Workingpapers/WCMS_758705/lang--en/index.htm)

The financing gap for health care and social protection is taken from ILO (2020), Table 7. The seven-year total is the addition of the projections for 2024 through 2030. This reflects a gradual increase in spending in order to achieve universal health coverage and provide a social protection floor for all in 2030. However, the increase in 2024 would be sharper relative to 2023 actuals to the extent that governments have not kept pace with the increase that ILO had projected for 2000 to 2023.

The social protection floor consists of a package of universal benefits for children under five (25% of national poverty line), women with infants of four months or less (100% of national poverty line), people 65 or over (100% of national poverty line), and severely disabled people (100% of national poverty line).

## Education

Source: UNESCO (2020) “Act now: reduce the impact of COVID-19 on the cost of achieving SDG 4”. <https://unesdoc.unesco.org/ark:/48223/pf0000374163>

The financing gap to provide universal access to pre-primary, primary and secondary education in low and lower-middle income countries was estimated in 2019 at \$148bn a year between 2020 and 2030. It assumed GDP growth of 5%, an increase in the tax-to-GDP ratio, and an increase in the share of government spending going to education to the international norm of 20%.

The 2020 paper used here complements that 2019 estimate with projections of the likely impact of the pandemic on the education financing gap. The covid-related additional financing gap varies between \$15 billion and \$46 billion a year through 2030 depending on various scenarios of length of school closures and pace of GDP recovery. With hindsight, Oxfam assesses that the scenario that came about is that of “30-week school closures with double-drop of GDP”, which increases the education financing gap by \$44.5bn a year, to \$192.5 billion a year. School closures lasted on average 38 weeks across 210 states and territories.<sup>1</sup> Although the GDP of Low-Income Developing Countries fell only one year (2020), recovery in 2021 and 2022 was tepid and economic growth remained well below pre-pandemic forecasts. We multiplied the annual financing \$192.5 billion by seven years (2024 to 2030).

UNESCO does not estimate the financing gap to achieve universal access to education in upper-middle income countries. To the extent that these countries have not yet achieved universal access to education, they could do so by reprioritizing existing spending.

## Climate mitigation

Source: Intergovernmental Panel on Climate Change “Sixth Assessment Report”, Working Group 3. <https://www.ipcc.ch/report/ar6/wg3/resources/spm-headline-statements/>

There is a wide range of estimates of the cost to mitigate climate change. The Intergovernmental Panel on Climate Change – an authoritative source – estimates that annual investment needs to mitigate climate change during the 2020-2030 period are between about \$1.45 and \$2.8 trillions a year for low and middle-income countries (see chart on p.1575). Existing resources for the same countries are about \$400bn a year, making an annual financing gap of between \$1.05 and \$2.4 trillions. We have taken the middle of that range, inflated the 2015 prices to 2020 using the US’ GDP deflator,<sup>2</sup> and multiplied it by seven years (2024 to 2030). The true figure could be higher to the extent that investments between 2000 and 2023 have not kept pace with these projections.

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<sup>1</sup> [https://webarchive.unesco.org/web/20220626165014/https://en.unesco.org/sites/default/files/duration\\_school\\_closures.csv](https://webarchive.unesco.org/web/20220626165014/https://en.unesco.org/sites/default/files/duration_school_closures.csv)

<sup>2</sup> <https://fred.stlouisfed.org/series/GDPDEF>

It is important to note that the extent to which these mitigation investments in the energy, transport, water, and agricultural sectors would also help meet the Sustainable Development Goals of universal access to electricity, roads, and water and sanitation is unclear, as these estimates synthesize many studies with various methodologies.

## Climate adaptation

Source: United Nations Environment Programme (1 November 2022) "Adaptation Gap Report 2022". <https://www.unep.org/resources/adaptation-gap-report-2022#:~:text=What's%20new%20in%20this%20year's,cent%20from%20the%20previous%20year.>

The United Nations Environment Programme (UNEP) estimates that the financing gap for climate adaptation is between \$160 and \$340 billion a year through 2030 (and rising afterwards). We picked the upper bound as UNEP itself noted in its 2021 report that "the estimated annual adaptation costs in the literature are now also generally in the upper range of the 2016 estimate of the Adaptation Gap Report of \$140-300bn by 2030." We multiplied the annual financing gap by seven years (2024 to 2030).

## Climate loss and damage

### Sources:

- Songwe V, Stern N, Bhattacharya A (2022) "Finance for climate action: Scaling up investment for climate and development: Report of the Independent High-Level Experts Group on Climate Finance", Grantham Research Institute on Climate Change and the Environment, London School of Economics and Political Science. <https://www.lse.ac.uk/granthaminstitute/publication/finance-for-climate-action-scaling-up-investment-for-climate-and-development/>
- Climate Analytics. (2015). Impacts of low aggregate INDCs ambition. <https://policy-practice.oxfam.org/resources/impacts-of-low-aggregate-indcs-ambition-research-commissioned-by-oxfam-582427/>
- Markandya and González-Eguino (2018) "Integrated Assessment for Identifying Climate Finance Needs for Loss and Damage: A Critical Review". Accessible at: [https://link.springer.com/chapter/10.1007/978-3-319-72026-5\\_14](https://link.springer.com/chapter/10.1007/978-3-319-72026-5_14)

The financing gap of \$400bn a year for climate change-related losses and damages is roughly in the middle of estimates ranging from \$200bn to \$580bn a year. It is the upper bound of IHLEG's range, the lower bound of Climate Analytics' range, and near the middle of Markandya et al.'s range. We multiplied the annual financing gap of \$400bn by seven years (2024 to 2030).

## Special Drawing Rights

The table assumes two more general issuance of Special Drawing Rights (SDRs) by the IMF until 2030, one for each quinquennial review period of the Fund of SDR476 billion each (the Fund's total quota) converted to US\$ at the exchange rate as of April 4, 2023 (US\$1=SDR0.743367).<sup>3</sup> SDRs can be used in a variety of ways. Here it is assumed that low and middle-income countries use them for climate investments, while high-income countries use them as contributions to the multilateral banks' capital increase.

## Wealth tax

Source: Oxfam (16 January 2023) "Survival of the Richest". <https://www.oxfam.org/en/press-releases/richest-1-bag-nearly-twice-much-wealth-rest-world-put-together-over-past-two-years>

Oxfam estimates that an annual net wealth tax of 2% on individuals' wealth over \$5 million, 3% on wealth over \$50 million, and 5% on wealth over \$1 billion could raise \$1.7 trillion in 2022. That revenue goal could also be achieved through a combination of taxes on capital (e.g., capital gains tax, inheritance tax). We disaggregated that global total into the four income categories (the source data

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<sup>3</sup> [https://www.imf.org/external/np/fin/data/rms\\_five.aspx](https://www.imf.org/external/np/fin/data/rms_five.aspx)

for wealth from the firm WealthX being available for 66 countries including all large economies). No data was available for any low-income countries, where the wealth tax' revenues are expected to be negligible. For high-income countries, we only reported the revenue of the Development Assistance Committee (DAC) countries (\$1.1 trillion in 2022), as only those countries owe the aid and climate debt discussed in the Media Briefing.

We deflated the results to 2021 prices using the US GDP deflator index to make it comparable with the other numbers in the table. We multiplied that revenue estimate by seven years (2024 to 2030), which implicitly assumes that the stock of wealth will remain constant (e.g., the tax cancelling out wealth growth).

### **Other progressive taxes**

We posit that low-income countries would contribute to the scale-up of their social programs by improving tax collection and raising new progressive taxes to increase their tax-to-GDP ratio by one percentage point during the 2024 to 2030 period (the balance being paid for by aid), lower-middle income countries by two percentage points (the balance being paid for by aid), and upper-middle income countries by what is needed to fully fund the social sectors without relying on aid, which turns out to be one percentage point. Such increases are well within reach of medium-term revenue strategies.

### **Multilateral Development Banks' capital increase and lending**

Increasing the capital of Multilateral Development Banks (MDBs) by \$1.4 trillion would allow them to raise at least four times as much on financial markets and lend \$6.9 trillion for specific infrastructure projects in low and middle-income countries, representing 50% of the required mitigation investment in those countries. These investments would be recouped by user fees (e.g., households' electricity and water bills, toll roads), which would allow MDBs to pay back their private investors with interests.

Two sources, the International Energy Agency (IEA) and McKinsey, have concluded that the split between private and public finance for mitigation projects should be 70%-30%.<sup>4</sup> (IEA studied only clean energy projects; McKinsey made a more comprehensive assessment similar to IPCC's.) Here we use a more conservative 50-50% split considering that we focus on low and middle-income countries where user fees may be harder or ill-advised to raise. Both sources have also indicated that public finance is needed to trigger much of the private finance.

Note that the \$1.4 trillion in capital increase is an asset purchase, not a recurrent spending, and high-income countries could eventually get it back – although in the very long-term and well beyond the seven-year time frame of this plan.

### **“The Big Debt Swap”**

“Debt-for-climate” swaps are agreements whereby a creditor cancels debt in exchange for a commitment by the debtor to spend the money saved in debt service on climate-related investments. They are a good idea, although burdensome to administer on a loan-by-loan basis. What we call “The Big Debt Swap” is something different: the moral climate debt of high-income countries (i.e., the costs that low and middle-income countries incur due to the carbon that high-income countries put in the atmosphere) is swapped for a financial debt whereby high-income countries borrow – at much lower interest rates than low and middle-income countries would otherwise have to – to pay for climate investments in low and middle-income countries.

After taking out the share of mitigation investments that can be funded by private investors and SDRs, the financing needs to meet the climate challenge in low and middle-income countries is about \$11.5 trillion over seven years.

This plan assumes that high-income countries would borrow \$11.5 trillion and repay it over 80 years with a 4.76% interest rate. 4.76% is the historical average yield of 30-year US Treasury bonds and 72

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<sup>4</sup> McKinsey (2021) “Net Zero Financing Roadmaps.” <https://www.gfanzero.com/netzerofinancing>  
International Energy Agency (2021) “World Energy Outlook 2021,” p.48. <https://www.iea.org/reports/world-energy-outlook-2021/mobilising-investment-and-finance>

basis points above the prevailing yield for 30-year US Treasury bonds (as of 29 March 2023).<sup>5</sup> The corresponding annual debt service payment is \$564 billion (multiplied by seven for the 2024 to 2030 period) and represents payment for rich countries' "climate debt".

Borrowing \$11.5 trillion is in the same ballpark as high-income countries' pandemic response, when they spent an additional \$9.4 trillion and purchased \$6.3 trillion of assets. It would raise their debt-to-GDP ratio by 19 percentage points to 131%. That is only slightly above the pandemic peak of 125% in 2020.<sup>6</sup> (High-income countries' debt-to-GDP ratio fell back sharply in 2021 and 2022 thanks to a buoyant recovery.)

### **Aid to 0.7%**

Source: Oxfam calculations based on OECD data: <https://www.oecd.org/dac/financing-sustainable-development/development-finance-data/>

Aid from DAC donors alone amounted to \$185.9 billion in 2021, representing 0.33% of their Gross National Income (GNI). Meeting the 0.7% of GNI target would require an additional \$203 billion a year, which we multiplied by seven years.

### **"Aid debt"**

Source: Updated from Oxfam (23 October, 2020) "50 Years of Broken Promises: The \$5.7 trillion debt owed to the poorest people". <https://policy-practice.oxfam.org/resources/50-years-of-broken-promises-the-57-trillion-debt-owed-to-the-poorest-people-621080/>

Oxfam estimates that, to make up for missing the 0.7% target since 1970, DAC donors should pay an additional \$6.5 billion in aid.

In our illustrative calculations: \$1.4 trillion of the total would be used for the one-time MDBs' capital increase. Another \$1.1 trillion would be used to top up the aid budget above the 0.7% target or provide debt relief as needed during the seven years of this plan in order to meet the social spending needs of low- and lower-middle income countries. The remaining \$4 trillion of "aid debt" would be gradually spent down on aid or debt relief beyond 2030, in order to avoid a funding cliff in 2031. It could also be used to progress on the Sustainable Development Goals in other sectors like agriculture and water and sanitation to the extent that they are not included in the climate investments.

In total, the proportion of Gross national Income (GNI) spent by high-income countries on aid would be:<sup>7</sup>

- 0.36%: Current level (or 0.33% for DAC donors alone)
- +0.34%: To meet the 0.7% of GNI target
- +0.33%: To increase the capital of MDBs (only until 2030)
- +0.27%: To top up aid in order to meet the social sectors' SDGs
- +0.94%: To service the Big Debt Swap and meet the climate challenge (until 2103)

Total: 2.25% of GNI during the 2024 to 2030 period, gradually tapering down to 1.92% afterwards. That is roughly equivalent to NATO's 2% of GDP target of defence spending.

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<sup>5</sup> [https://ycharts.com/indicators/30\\_year\\_treasury\\_rate](https://ycharts.com/indicators/30_year_treasury_rate)

<sup>6</sup> <https://www.brookings.edu/blog/future-development/2023/02/21/government-debt-has-declined-but-dont-celebrate-yet/#:~:text=In%20advanced%20economies%20as%20a.increases%20in%20some%20large%20EMDEs.>

<sup>7</sup> <https://data.worldbank.org/indicator/NY.GNP.ATLS.CD?view=chart>