

Who Pays for Development?

Debt, Taxation and the Fight for Fiscal Space



By the Global Initiative for Economic,
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Who Pays for Development?

Debt, Taxation and the Fight for Fiscal Space

As development aid falls, the IMF and World Bank face a pressing question: how can countries finance public services and climate action without deepening debt and inequality?

Global Initiative for Economic, Social and Cultural Rights

Finance ministers gathering in Bangkok for the International Monetary Fund (IMF) and World Bank Annual Meetings on 12–18 October will discuss how to generate jobs, attract investment and strengthen economies against future shocks. For many developing countries, there is an unavoidable prerequisite to achieve these objectives: securing the resources to maintain schools and hospitals, respond to climate disasters and invest in the future while meeting substantial debt payments.¹

Tackling these issues is urgent, and the window for discussion is rapidly closing. The OECD's June outlook reports that development aid fell by more than 23 per cent in 2025 and projects further cuts in 2026. Governments are consequently being encouraged to mobilise more domestic revenue and attract private investment. Whether these strategies improve people's lives depends on who pays additional taxes, what type of public expenditure is financed, and how much public revenue remains available after creditors are paid.²

1 IMF and World Bank, [Annual Meetings 2026 schedule](#), subject to change; World Bank Live, [Unlocking Investment Opportunities in Emerging Markets to Create Jobs](#).

2 OECD, [ODA projections for 2026 and the near-term](#), 19 June 2026. Figures for 2025

The emerging Bangkok agenda reflects these pressures. The World Bank emphasises jobs, technology and private investment, while IMF discussions focus more heavily on debt, fiscal space and macroeconomic and financial stability. The central question is whether the solutions being advanced address the structural conditions limiting countries' capacity to invest. Both institutions have a role in examining their own contribution to these constraints, including fiscal consolidation policies that have reduced spending on essential services, and lending frameworks that have allowed countries to accumulate debt without sufficiently protecting the resources needed for long-term social and climate investment. Bangkok should therefore be about more than merely managing austerity and indebtedness: it should also consider how to prevent them.

This question is particularly important given the limits of the “billions to trillions” approach to development finance. The expectation that relatively small amounts of public finance could de-risk areas of investment and unlock private capital at the scale required to meet development needs has not materialised. Recent OECD data show that mobilised private finance remains concentrated in lower-risk markets and commercially attractive sectors: social sectors received only 6 per cent of mobilised finance, while only 8 per cent of climate-related private finance was directed exclusively to adaptation.³ De-risking can help where viable investments face specific barriers, but it cannot create commercial returns where they are intrinsically weak or difficult to capture. Health, education, care and climate action generate substantial social and economic benefits. However, those sectors in many cases do not necessarily create revenue streams that are compelling to private investors. Public and concessional finance therefore cannot simply be used as a catalyst for private investment; in many areas, it must finance those policies itself.

Domestic resource mobilisation also needs to be considered through a distributional lens. Increasing tax revenues is essential, but the question is who contributes and according to what capacity. Progressive taxation of income, wealth and corporate profits, together with international tax reforms that strengthen developing countries' ability to tax cross-border economic activity, can expand fiscal space without shifting the adjustment burden onto lower-income households. The negotiations towards a UN Framework Convention on International Tax Cooperation provide an important opportunity for the IMF and World Bank to support a fairer international tax architecture.

GI-ESCR's assessment of the 2026 Spring Meetings identified a persistent gap between institutional recognition of inequality

are preliminary; 2026 figures are projections.

3 OECD, *ODA projections for 2026 and the near-term*, 19 June 2026. Figures for 2025 are preliminary; 2026 figures are projections.

and the policies promoted in practice.⁴ For Bangkok to provide an opportunity to narrow that gap, it should broaden the solutions associated with jobs, investments, debt or resilience: revising policies that produce austerity and unsustainable borrowing; strengthening progressive tax and debt reform; protecting and expanding universal public services rather than treating commercialisation as a response to public financing gaps; and ensuring adequate grant-based and highly concessional climate finance.

The central question for Bangkok is therefore not simply how governments can do more with constrained resources, or how public finance can be used to attract private capital. It is whether the IMF and World Bank are prepared to help change the fiscal, debt and financing structures that constrain governments' capacity to invest in rights, public services and climate resilience in the first place.

When public services bear the cost of adjustment

The debt crisis is usually discussed as a question of macroeconomic stability. For people who depend on public schools, clinics and health workers, it is also a question of rights. The more a government spends on debt service, the less it has for public services including those guaranteeing health and education. IMF and World Bank programmes and advice often add to this pressure by encouraging governments to cut public spending while raising taxes that fall hardest on low-income households. GI-ESCR's recent research on Kenya,⁵ Ghana⁶ and Nigeria⁷ shows this pattern unfolding in different ways across African countries, with the same result: debt servicing taking priority over allocations to public services.⁸

In the three cases analysed, debt service absorbs a large share of what governments collect. Before Kenya entered its conditional IMF programme, debt service was already taking 56.7% of its revenue in 2019/20. In 2021, following emergency IMF financing during the COVID-19 pandemic, it agreed to a combined Extended Credit Facility and Extended Fund Facility programme that required it to cut spending and raise revenue. By 2023/24, the

4 GI-ESCR, *GI-ESCR at the IMF and World Bank Spring Meetings: Advancing Tax Justice and Climate Finance*, 23 April 2026.

5 GI-ESCR, *Prioritising People in Fiscal Policy: Challenging Austerity, Reclaiming Public Services and Upholding Human Rights in Kenya*, October 2025

6 GI-ESCR, *Prioritising People in Fiscal Policy: Challenging Austerity, Reclaiming Public Services and Upholding Human Rights in Ghana*, October 2025.

7 GI-ESCR, *Prioritising People in Fiscal Policy- Transforming Tax Reforms into Better Public Services in Nigeria*, September 2026.

8 GI-ESCR, *Prioritising People in Fiscal Policy: Challenging Austerity, Reclaiming Public Services and Upholding Human Rights in Kenya*, October 2025.

share of revenue devoted to debt servicing had risen to 58.8%. In Ghana, debt service rose from an average of 27% of revenue between 2010 and 2016 to 42% between 2017 and 2022. By 2022, the country had fallen into debt distress and began restructuring its debt. In 2023, it entered an Extended Credit Facility programme with the IMF, which required cutting spending and raising revenue. In Nigeria, according to the World Bank, debt service took 83.2% of federal revenue in 2021 and 96.3% in 2022, despite having relatively low debt compared to other regional counterparts (the IMF puts public debt at 39.3% of GDP in 2024 and 35.5% in 2025). Despite that, in 2024, to receive a USD 1.5 billion RESET budget support loan, the government had to issue an executive order that formalised the removal of the fuel subsidy.

For households, the adjustment has often been felt through higher taxes and prices established under these programmes to increase revenue. Kenya's Finance Act 2023 doubled VAT on petroleum products from 8% to 16% and introduced a mandatory housing levy. In Ghana, VAT increased from 12.5% to 15% as a prior action for its IMF programme, bringing the total tax on goods to 21%. Nigeria's experience was particularly stark. The RESET loan required an executive order formalising the removal of the fuel subsidy, and by October 2024 petrol prices had risen almost fivefold. These measures do not affect households equally. Poorer households generally spend a larger share of their income on consumption, while women are overrepresented among those with lower incomes. Higher taxes and prices therefore place a disproportionate burden on people with the least room to absorb additional costs.

These conditionalities have also meant a higher impact for public servants and public services' providers. In Kenya, the IMF advised the government to reduce its wage bill for public servants. The government froze KES 82 billion in salary increases and repeatedly failed to honour collective bargaining agreements with medical unions. In 2024, this contributed to strikes involving more than 4,000 doctors, as well as clinical officers and medical interns. At the same time, the Teachers Service Commission reported a shortage of about 98,281 teachers. Ghana similarly committed to limiting wage increases and hiring, while reducing the cap on transfers to the Ghana Education Trust Fund and the National Health Insurance Fund from 25% to 17.5% of revenue. Trained nurses and midwives waited three to four years to be posted, while more than 30,000 health professionals faced delays in recruitment.

The consequences are not limited to those already working within public services. Efforts to target social support more narrowly have also left some people without adequate assistance. In Kenya, health insurance and university funding moved towards means-tested models, which can be difficult to administer in a con-

text where much of the population works in the informal economy. Nigeria provides another example. The World Bank's own analysis warned that, without compensation, higher petrol prices could lead households to withdraw children from school or forgo preventive health care. Yet by 2025, the World Bank-financed cash transfer intended to cushion the impact had reached only 5.6 million of the 15 million households it was designed to support.⁹ The World Bank also estimated that 40 million more Nigerians had fallen into poverty since 2019.¹⁰

These examples show that, when countries face heavy debt burdens, the pattern is often the same: debt service is prioritised, while the costs of adjustment are borne through consumption taxes, cuts to the public workforce and user charges, leaving schools, hospitals and health workers as the most impacted. Under human rights law, states must use the maximum available resources to realise economic and social rights, and the UN Guiding Principles on Foreign Debt and Human Rights affirm that debt service should not undermine that obligation. These experiences show why policies need to be assessed together. A tax increase, a hiring restriction and tighter eligibility for public support may each appear manageable in isolation. Combined, these have compounded effects that can leave families paying more for services that are harder to access.

For Bangkok, this raises a question for ministers of finance and the World Bank and IMF about how governments can manage debt and build buffers to protect social spending. Different experiences across Africa suggest that this question cannot be answered without changing how debt sustainability is currently assessed. Governments and lenders should assess those consequences before agreeing on reforms, with meaningful participation by the people affected.

Raising revenue without deepening inequality

Developing countries need reliable tax revenues to finance public services. But collecting more does not necessarily mean collecting fairly.

Discussions during the Spring Meetings exposed a recurring weakness in IMF tax advice: higher consumption taxes can be justified by promises of compensatory payments to poorer households, even when those payments are difficult to access or fail to reach their intended recipients. A policy package cannot be judged fair on the assumption that compensation will work. Its delivery must be demonstrated.¹¹

9 World Bank Group, *Nigeria Development Update (2024) Staying the Course: Progress Amid Pressing Challenges*, 17 October 2024.

10 World Bank Group, *Nigeria Development Update: Building Momentum for Inclusive Growth*, 12 May 2025.

11 GI-ESCR, *GI-ESCR at the IMF and World Bank Spring Meetings: Advancing Tax*

Recent research by ActionAid, Education International and the Tax and Education Alliance reinforces this concern. Their report, *Still Cooking with a Failed Recipe*, examines 29 IMF documents across 11 countries. It finds continued reliance on consumption taxes and insufficient assessment of how tax advice affects different income groups and women. Progressive measures do appear, but their role within the broader package is often limited. The report also identifies differences between countries, including more developed analysis of distributional effects in Brazil.¹²

Alternatives include stronger taxation of high incomes, wealth, property and corporate profits, alongside the removal of unjustified tax privileges. Making these options effective requires capable tax administrations and information about who owns assets and companies, gaps also highlighted in Washington.¹³

Some obstacles require international action. Governments are currently negotiating a UN Framework Convention on International Tax Cooperation: a treaty intended to strengthen cooperation on tax matters across borders. Its relevance to public finance is practical. Countries' ability to tax international business activity and address tax abuse affects how much they can raise to propel their own development, fund public services and invest in climate action. Fairer international rules could strengthen that capacity.¹⁴

This connection also matters for climate finance. Progressive taxation can help developing countries fund their own priorities and enable wealthier countries to meet international financing commitments. It should not become a justification for withdrawing international support or postponing necessary debt relief.

Climate finance must leave countries better able to act

The climate emergency compounds the debt pressures faced by developing countries. Transforming energy systems and transitioning away from fossil fuels requires vast upfront investment in renewables, grids and clean infrastructure. Many developing countries, facing high borrowing costs and limited access to concessional finance, can only fund this by borrowing, adding to debt burdens that are already unsustainable. Climate impacts and disasters add further pressure. Floods and droughts can damage infrastructure, disrupt livelihoods and reduce tax revenues pre-

Justice and Climate Finance, 23 April 2026.

12 ActionAid, Education International and the Tax and Education Alliance, *Still Cooking with a Failed Recipe*, 2026, particularly pp. 38–49.

13 GI-ESCR, *GI-ESCR at the IMF and World Bank Spring Meetings: Advancing Tax Justice and Climate Finance*, 23 April 2026.

14 GI-ESCR, *From Scarcity to Abundance: How Tax Justice Measures Can Deliver Public Climate Finance at Scale*, 23 June 2026.

cisely when governments need to spend more. Borrowing to rebuild and adapt can then increase the debt payments that constrain future investment.

For that reason, in climate finance, quality matters as much as quantity. The terms on which support is provided determine what it costs a country. For highly indebted and climate-vulnerable countries, additional loans—even concessional ones—cannot be the principal response. A loan may fund a useful project while adding substantial repayment costs. Concessional loans ease some of that pressure, but still create debt. Grants provide resources without requiring repayment. The key question is how much additional capacity a given form of support gives a country to act over time.¹⁵

This is a central disagreement carried forward from June’s climate negotiations in Bonn. Developing countries have pressed for greater attention to developed countries’ obligation under Article 9.1 of the Paris Agreement to provide climate finance. Emphasis on attracting private investment risks obscuring the question of how that public financing obligation will be fulfilled. Reforming financial markets can support climate action, but it cannot replace the responsibility to provide resources.¹⁶

Bangkok creates a direct opportunity to confront these questions. The Xingu Finance Talks, a UNFCCC-mandated climate finance event convened under the Veredas Dialogue, will bring governments, financial institutions and other stakeholders together between 11 and 13 October, taking place alongside the Annual Meetings, but outside its formal agenda. Their focus includes expanding countries’ capacity to finance climate investment and lowering borrowing costs through guarantees and other arrangements that share investment risks.¹⁷ The Talks will continue conversations that took place in June within the Veredas Dialogue, where civil society urged consideration of tax policy. In particular, civil society emphasised the UN Tax Convention as a route to recover up to USD 492 billion a year currently lost to global tax abuse and invest in climate action.

Guarantees and similar risk-sharing arrangements require scrutiny. A government guarantee can encourage investment by promising that the public sector will cover certain losses. Whether that is a good use of public resources depends on the investment secured, the risks assumed and the benefits delivered. Mobilising private capital should not become an end in itself.

These discussions will also influence preparations for November’s COP31 climate conference in Antalya. Finance

15 GI-ESCR, *From the Hague to Belém: Synergies Between Recent Normative Developments on Climate Finance and the Path Towards 1.3 Trillion and Beyond*, December 2025.

16 GI-ESCR, *Reaction Paper: From SB64 to COP31*, 7 August 2026, particularly pp. 5–8.

17 UNFCCC, *Xingu Finance Talks: Workshop on Practical Solutions*, 11 October 2026; includes information on the 13 October high-level roundtable.

ministers should support arrangements in Bangkok that make their countries' climate commitments achievable, while preserving resources for essential services.

What would progress in Bangkok look like?

One development to watch is the revised IMF–World Bank framework for assessing debt sustainability in low-income countries. Announced in September, it seeks to better account for development and climate adaptation needs, with implementation expected in the second half of 2027. The question is whether this will lead to assessments that recognise the investment countries need, alongside the debts they must repay.¹⁸

More broadly, Bangkok should be judged against three tests. Will debt discussions produce credible routes to freeing resources for public services and climate action? Will tax advice give serious consideration to progressive alternatives and examine who actually bears the costs? And will climate financing proposals expand access to affordable resources without adding unsustainable debt?

Civil society sessions on austerity, taxation and climate finance will bring these questions into the meetings. Their influence will depend on whether the concerns raised shape institutional decisions and national policies.¹⁹

From GI-ESCR's perspective, progress means greater capacity to finance healthcare, education and a just transition, with public participation in the choices involved. Bangkok's promises of growth and resilience will be credible to the extent that they help deliver those outcomes.

¹⁸ IMF, *Executive Board Reviews the Joint IMF–World Bank Debt Sustainability Framework for Low Income Countries*, 21 September 2026.

¹⁹ IMF and World Bank, *Annual Meetings 2026 schedule*, subject to change; World Bank Live, *Unlocking Investment Opportunities in Emerging Markets to Create Jobs*.



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Executive Director: Stefan Liebich

Address: 275 Madison Avenue, Suite 2114, New York, NY 10016

Email: info.nyc@rosalux.org

Website: <https://rosalux.nyc>

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