

CONCEPT NOTE

Real Economy Approaches to Financing Sustainable Development and Climate Action

April 24, 2025 | 1:00 – 4:00 PM

ActionAid, 1220 L St NW, Washington, DC 20005

Background

Historically, development economists have emphasized the importance of mobilizing real (rather than purely financial) resources by expanding domestic production and leveraging trade. Public finance has a crucial role in this process, as many essential investments involve high risks and low expected returns, making them unattractive to private capital. Thus, the state must assume a central role in such investments, necessitating a robust fiscal strategy to generate the required purchasing power. Even where private investment is viable, financial intermediation is needed to channel surplus resources into productive investments.

The insufficient financial commitments from advanced economies mean that developing countries will need to rely significantly on domestic resources to finance climate action. While mitigation efforts may be postponed, the escalating frequency of extreme weather events necessitates urgent investment in adaptation and Loss and Damage compensation. Additionally, substantial domestic financing is required to achieve the Sustainable Development Goals (SDGs), particularly for critical social and physical infrastructure.

Despite the urgency, developing country governments face significant constraints in mobilizing domestic resources. Public discourse and even some academic analyses tend to oversimplify the issue, reducing it to merely “finding the money.” This perspective often assumes rigid limits on government borrowing, warning against inflation, current account deficits, and financial instability. Consequently, there is a misplaced reliance on private investors and financial markets to fund climate-related investments, even though such investments—particularly in adaptation and compensation—often yield minimal or no financial returns.

A Broader Perspective

The prevalent focus on financial capital often diverts attention from real economic constraints that shape financing for development. Key challenges include:

- Overcoming the wage goods constraint, particularly ensuring adequate food supplies.
- Expanding physical capital stock, often hindered by underdevelopment and foreign exchange shortages.
- Aligning investment allocations with both current and future supply-side constraints to sustain growth.

Objectives of the G24-IDEAs Side Event

This event will explore the real economy challenges and structural constraints to SDGs and climate action. The discussions will focus on structural constraints, investment allocation strategies, and policies to strengthen domestic production and trade.

Event Structure

The side event will feature two panel discussions, each lasting 90 minutes. Each panel will include three speakers delivering 15-minute presentations, followed by an open discussion.

Panel Themes

Session 1: Real and Financial Challenges to Mobilizing Domestic Resources for Sustainable Development and Climate Action: Examining structural constraints, investment allocation strategies, and policies to strengthen domestic production and trade.

- Real Constraints to Financing Sustainable Development.
- Investment Allocation and Coordination to Relax Supply Constraints.
- Building and Strengthening Dynamic Comparative Advantage.

Session 2: External Constraints on Domestic Resource Mobilization and the Role of Economic Policy:

- Global currency hierarchy, the current account and the government's fiscal constraint
- Foreign capital as a constraint on domestic taxation
- Volatile capital flows and the room for fiscal maneuver.
- Strategic policies

Through these discussions, the event aims to generate concrete policy recommendations to strengthen the capacities of developing countries in addressing climate challenges and achieving the SDGs.

TENTATIVE AGENDA

April 24, 2025 | 1:00 – 4:00 PM
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PANEL 1: Real and Financial Challenges to Mobilizing Domestic Resources for Sustainable Development and Climate Action

<i>Time</i>	<i>Description</i>
<i>1:00-1:05 PM</i>	<i>Welcome and Opening Remarks</i>
<i>1:05-1:50 PM</i>	<i>Speakers' intervention</i>
<i>1:50-2:00 PM</i>	<i>Q and A</i>
<i>2:00-2:10 PM</i>	<i>Response by Speakers</i>
<i>2:10-2:15 PM</i>	<i>Wrap-up by Moderator</i>
<i>2:15-2:25 PM</i>	<i>Closing Remarks</i>

Coffee Break from 2:25 to 2:35 PM

PANEL 2: External Constraints on Domestic Resource Mobilization and the Role of Economic Policy

<i>Time</i>	<i>Description</i>
<i>2:35- 2:40 PM</i>	<i>Welcome and Opening Remarks</i>
<i>2:40- 3:25 PM</i>	<i>Speakers' intervention</i>
<i>3:25- 3:35 PM</i>	<i>Q and A</i>
<i>3:35- 3:45 PM</i>	<i>Response by Speakers</i>
<i>3:45- 3:50 PM</i>	<i>Wrap-up by Moderator</i>
<i>3:50- 4:00 PM</i>	<i>Closing Remarks</i>