CONCEPT NOTE

The Challenge of Domestic Resource Mobilization to Finance the SDGs and Climate Action: Perspectives from the Global South

April 23, 2025 | 2:00-3:30 PM
MC 13-400, World Bank HQ

Background

Discussions on climate finance have, and rightly, centered on the scale and structure of financial flows from advanced nations to developing countries. These transfers are justified given the disproportionate share of cumulative carbon emissions from developed countries and the internationally accepted principle of "common but differentiated responsibilities and respective capabilities."

Estimates of the required climate finance for developing countries range widely, from over $1 trillion to as much as $3-4 trillion annually. A 2021 report by the UNFCCC arrives at an estimate of approximately $5.8–$5.9 trillion cumulatively by 2030, based on the financial needs outlined in countries' Nationally Determined Contributions (NDCs). Similarly, the UNCTAD (UN Conference on Trade and Development) estimates that annual finance flows need to reach $1.55 trillion by 2030. The Independent High-Level Expert Group on Climate Finance (IHLEG) suggests that emerging markets and developing countries—excluding China—will need to invest and spend nearly $2.4 trillion annually by 2030 to meet climate and nature goals. Of this, IHLEG indicates that around $1 trillion per year must come from international sources. After significant delays, COP29 in Baku, Azerbaijan, was designated as a 'Finance COP,' intended to define the magnitude and structure of the New Collective Quantified Goal (NCQG). This goal was meant to determine and build consensus on the level of financial commitment from developed countries to support mitigation, adaptation, and Loss and Damage compensation in the Global South.

However, the outcomes from Baku have fallen far short of expectations. Officially committed transfers are set at $300 billion per year by 2035, a figure that not only fails to meet the needs of developing countries but also represents a meager real increase, considering inflation, over the $100 billion annual commitment made at the 2009 Copenhagen Summit. To bridge this gap, the Baku outcome document calls for mobilizing at least $1.3 trillion per year from a mix of public, private, bilateral, and multilateral sources, with contributions expected from both developed and developing countries.

The Domestic Resource Mobilization Imperative

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.

An alternative approach has redefined public policy to create incentives for private sector investment. However, this strategy also requires substantial public resources, and the effectiveness of such incentives remains uncertain. Furthermore, domestic resource mobilization capacities vary significantly across the Global South, reflecting differences in economic structures and development levels. In each context, however, there exists untapped potential that must be maximized.

Objectives of the Seminar

In the margins of the 2024 IMF World Bank Annual Meetings, the World Bank Group Office of Executive Director EDS25, the Intergovernmental Group of Twenty-Four (G-24) and the International Development Economics Associates Limited (IDEAs), plan to convene a seminar that will explore strategies for enhancing domestic resource mobilization to finance SDGs and climate action. The discussions will focus on actionable policy measures tailored to the diverse contexts of developing countries. In this regard, this side event aims to:

- Identify the fiscal policy innovations, the role of private returns and social benefits, and the relationship between public and private investment.
- Discuss the financing of state action through redistributive taxation.
- Debate external constraints on domestic resource mobilization and the role of policy.

Through these discussions, the event aims to generate concrete policy recommendations that strengthen the capacity of developing countries to address climate challenges.

Event Structure

The side event will feature a 90-minute panel discussion. The panel will include four speakers delivering 10-12-minute interventions, followed by an open discussion.

TENTATIVE AGENDA

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Time	*ITEMS*
2:00-2:05 pm	***Introduction and Opening Remarks***
2:05 -3:00 pm	***Speakers' intervention***
3:00 -3:10 pm	***Q and A***
3:10-3:20 pm	***Response by Speakers***
3:20 -3:25 pm	***Wrap-up by Moderator***
3:25-3:30 pm	***Closing remarks***