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The Fourth International Conference on Financing for Development: Asian priorities

ETTG Policy Brief 2/2025

This Policy Brief reflects ongoing ETTG work on FfD4 preparations in the framework of a partnership with the Agence Française de Développement (AFD).

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KEY MESSAGES

1. **Re-centring the SDGs as a Global Priority**. FfD4 must restore the SDGs' centrality by integrating climate finance and development finance, ensuring they reinforce each other rather than operate in silos. Achieving this will necessitate a shift in discourse in both the Global North and South, presenting sustainable development as inclusive, equitable and intrinsically linked to climate resilience.

2. **Tackling Fragmentation in International Governance**. FfD4 should address fragmentation by fostering cross-sector and cross-ministry coordination at national levels and strengthening inclusive governance at global levels. Ministries of finance must play a more prominent role in development and climate finance discussions, ensuring alignment with fiscal realities. FfD4 must also promote policy coherence across international agendas, with particular attention to mitigating unintended consequences of unilateral legislation on developing countries' progress toward the 2030 Agenda.

KEY MESSAGES (CONTINUED)

3. **Scaling Up Public Finance for Sustainable Development**. Public finance, especially domestic resource mobilisation (DRM), remains central to Asia's sustainable development progress. FfD4 must emphasise expanding tax bases, modernising administrations and ensuring equitable public spending aligned with national goals. Official Development Assistance (ODA) should better support DRM reforms by mitigating associated political and economic risks.

4. **Recognising the Diversity of Asian Countries**. FfD4 must adopt a tailored approach to development finance, reflecting Asia's diverse economic capacities and climate vulnerabilities. Regional cooperation on tax, climate resilience and development finance should be strengthened to foster shared learning and collective solutions. National platforms that enhance donor coordination and align with credible long-term plans must be prioritised.

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BACKGROUND

The Fourth International Conference on Financing for Development (FfD4) is scheduled to take place from June 30 to July 3, 2025, in Seville, Spain. The conference will be held at a time when the world is facing the intensification of various challenges, including climate change, economic instability and escalating geopolitical tensions. These challenges have widened the global financing gap needed to achieve the Sustainable Development Goals (SDGs), making it increasingly difficult for many countries to make progress towards the 2030 Agenda. FfD4 presents a valuable opportunity for global leaders to reshape the international financial architecture (Katoka & Barchiche, 2024).

However, the wide-ranging and varying priorities across regions, sectors and countries pose challenges in identifying and advancing the most effective reforms. In response to this complexity, the European Think Tanks Group (ETTG), in collaboration with the Agence Française de Développement (AFD), has organised a series of dialogues to gather insights from key regions, including Africa, Asia, and Latin America and the Caribbean (LAC). These discussions aimed to identify regional priorities for FfD4 with a view to integrating them into a coherent European position that fosters stronger partnerships with the Global South and contributes to actionable recommendations for the FfD4 process.

The current policy brief, the last in a series of three, outlines some of Asia's priorities for the FfD4 process, drawing on insights from dialogues between ETTG and Asia-based think tanks and experts based in South Asia and the Asia-Pacific region (excluding Japan, Korea and China). It complements similar documents for Africa and LAC.

ASIAN CONTEXT

Asia faces a major shortfall in financing to meet the SDGs and climate goals by 2030, with current financial flows significantly below the $4 to $6 trillion required annually for a low-carbon transition (ESCAP, 2023). Progress is hampered by slow policy reforms, and climate finance fails to adequately support development objectives. One way this gap could be addressed would involve the acceleration of Nationally Determined Contributions (NDC) financing plans by policymakers, while multilateral development banks and local financial institutions must play a critical role in channelling capital toward sustainable projects. Achieving this level of funding requires urgent and systemic changes in policies, regulations and financial systems, yet the pace of change within the region remains too slow.

1. RE-CENTRING THE SDGS AS A GLOBAL PRIORITY

The SDGs have lost their centrality in global agendas (UN, 2023). In Asia, despite robust economic recovery in some countries, progress towards financing sustainable development is highly uneven (ESCAP, 2022). Furthermore, the increasing political traction around climate finance has been characterised by a growing disconnect with the development finance agenda, and a lack of understanding of broader development goals. This disjointed approach poses a disproportionate burden on developing countries, which face a dual challenge in financing sustainable development: limited access to both traditional development financing and climate-related financing.

To restore the SDGs as a key priority, the FfD4 process must reevaluate how climate finance and development finance are connected and how they can work together to achieve sustainable development goals. Aligning these goals creates synergies and co-benefits, especially in the Asia-Pacific region, where many SDG targets – such as poverty reduction, energy access and infrastructure development – are directly linked to climate action. Climate finance should not operate in isolation, but as a catalyst for broader socioeconomic development.

The FfD4 process must promote a co-benefit narrative, emphasising how climate and development goals can reinforce each other, drawing on successful experiences. This will require a shift in discourse across both the Global

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North and South, where sustainable development is framed as inclusive, equitable and interlinked with climate resilience. Moreover, available mechanisms, such as debt-for-climate (and development) swaps and other financial instruments, should be leveraged to strengthen the connection between these two agendas.

FfD4 should result in concrete agreements on ensuring greater transparency and accountability in how climate and development finances are mobilised and distributed. This includes highlighting the gaps between aid commitments and disbursements, as well as more clarity on private capital mobilisation measurement. There is an estimated $4 trillion in undelivered ODA, which must be addressed through mechanisms that ensure commitments are met (Reality of Aid Network, 2023).

2. TACKLING FRAGMENTATION IN INTERNATIONAL GOVERNANCE

Global governance remains fragmented, with silos in the form of separate organisations and global 'Conferences of Parties' (COPs) separating climate, biodiversity and development agendas (Ocean and Climate Platform, 2024; van Driel et al., 2022). This fragmentation is also evident within national governments, where ministries of finance, climate and foreign affairs often work in isolation, preventing the kind of coherent policy making needed to tackle global challenges effectively. The lack of a unified approach creates inefficiencies and delays in delivering meaningful progress on both development and climate goals.

A more coordinated approach assisting more structural reforms is necessary to overcome this fragmentation and create a cohesive governance framework at both the global and national levels. It starts with the national level, where greater coordination between ministries of finance, foreign affairs and environment is essential to align domestic policies with global goals. Ministries of finance, in particular, must take a more active role in partnering with other relevant ministries notably environment and MoFA in shaping climate and development finance discussions, given their pivotal role in public resource allocation, fiscal oversight and legislation linked to debt and investment facilitation. FfD4 can provide the platform to foster this cross-ministry coordination in developing countries.

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There are also concerns over the underrepresentation of developing countries in global governance, particularly in climate finance and development discussions. Representatives from developed countries, often from foreign ministries, may lack the technical expertise to navigate complex issues such as debt, climate finance and development aid. FfD4 should adopt a more inclusive approach by involving officials from finance ministries to ensure that discussions are well-informed and aligned with fiscal realities in developed countries.

International governance needs to be better orchestrated to ensure that different agendas, such as climate, biodiversity and development, work synchronously. FfD4 should provide an opportunity for various international fora to take stock of their SDG support and identify areas where coherence in international action could be strengthened.

Another key issue linked to tackling fragmentation concerns the promotion of policy coherence. During FfD3 in Addis Ababa, UN members committed to pursuing policy coherence and to promote an enabling environment at the national and international level. With many Asian states availing of considerable domestic resources for development, whilst continuing to benefit from development cooperation, the issue of policy coherence is key. From this perspective, the unilateral manner in which the EU has prepared key climate action legislation in recent years – including its carbon border tax and deforestation legislation – has led to critical engagement by experts and official representatives from various Asian states. The main concern raised is that the EU's legislation creates unintended effects that are undesired in the sense of potentially negatively affecting the countries' efforts to promote the 2030 Agenda. The EU has acknowledged this, with the President of the Commission committing to systematically assess the impact of EU laws, while providing support to its partners in adjusting to and benefiting from the legislation concerned.

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3. SCALING UP PUBLIC FINANCE FOR SUSTAINABLE DEVELOPMENT

Public finance remains the backbone of sustainable development, with both domestic reforms and international support playing crucial roles. Asia stands out for its relatively strong performance in domestic resource management (DRM), with total domestic revenue representing more than 30% of GDP in some countries (based on UNU-WIDER, 2023). Several economies in the region, however, still collect taxes below the minimum threshold of about 15% of GDP (Gaspar et al., 2016; Oppel et al., 2022).

Significant cross-country differences remain particularly in personal income and wealth taxes, as well as in improving the quality of public expenditures (Go et al., 2024). Countries must continue to focus on expanding their tax base, modernising tax administration through digital solutions, and tapping into underutilised resources like property taxes.

Political economy of fiscal reforms remains daunting. In this regard, lessons from successful tax reforms in Asia, where the average tax-to-GDP ratio has increased over the past two decades, can offer valuable insights. Fiscal reforms often face resistance due to entrenched political interests. Governments need to build societal consensus around the importance of sustainable public finance. This includes making tax systems more progressive and ensuring that public spending is aligned with national development goals. Additionally, international aid, including ODA, should better support DRM efforts by addressing the political and economic risks associated with tax reforms.

FfD4 could be an opportunity to discuss the effectiveness and coherence of ODA in supporting the SDGs, particularly in countries where the private sector is not likely to invest, including those most vulnerable to climate risks. Vulnerability to climate change should be one of the main principles guiding international public finance allocation, ensuring that support is directed toward countries with the most complex challenges.

4. RECOGNISING THE DIVERSITY OF ASIAN COUNTRIES

Asia is a diverse region, with countries facing vastly different levels of development, fiscal capacity and vulnerability to climate change. While some countries, such as China and India, have seen remarkable economic growth, others, particularly small island states, struggle with debt and climate-related vulnerabilities (IMF, 2024). This diversity complicates the task of creating a unified approach to development finance and climate action.

Development strategies must reflect the region's heterogeneity, offering tailored financing solutions that account for the specific needs and capacities of each country. While some may focus on domestic resource mobilisation and fiscal reforms, others, particularly vulnerable countries, need international support to cope with climate change and development deficits. FfD4 could add to the debate by emphasising the bottom-up approach, wherein country platforms would enhance coordination between donors and promote credible national plans, both medium and long term, that reflect country needs.

Despite their differences, Asian countries can benefit from greater regional cooperation. Enhanced dialogue on tax cooperation, climate resilience and development finance can help countries learn from each other's successes and address transboundary challenges collectively.

Although debt is not a major issue for many Asian countries, certain Pacific nations face significant debt distress due to their vulnerability to climate change. Current debt assessment methodologies must be updated to account for climate-related vulnerabilities. FfD4 should advocate for new frameworks that integrate these vulnerabilities into debt sustainability analyses.

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CONCLUSION

- **FfD4 represents a critical opportunity to address the structural barriers that prevent the SDGs and climate action from being fully integrated into development finance strategies.**
- **By reconnecting climate and development finance, addressing governance fragmentation, scaling up public finance and tailoring solutions to Asia's diverse contexts, FfD4 can help build a more sustainable and inclusive future for the region.**
- **Enhanced cooperation, both globally and regionally, and a commitment to reforming the international financial architecture will be key to achieving these goals.**

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