African Group Inputs for Financing for Development (FfD4)

I. Global Financing Framework

The African Group reaffirms the centrality of the Addis Ababa Action Agenda (AAAA) as a guiding framework for financing sustainable development. However, the existing international financial architecture does not meet the financial needs of African countries, particularly in times of crises. To achieve the Sustainable Development Goals (SDGs), the global financing system must address systemic challenges such as high debt burdens, trade barriers and financial market volatility. Thus, a global financing framework must include commitments based on the following principles:

- Right to Development
- Common but Differentiated Responsibilities (CBDR)
- Principle of no backtracking on previous commitments to ensure FfD4 outcome builds on previous FfD decisions.
- Clear distinction between climate and development finance and a recognition that climate finance should be distinct from new and additional to development finance. The focus in FfD4 should be on development finance.

II. Action Areas

a. Domestic Public Resources

Strengthening domestic resource mobilization is essential for development. This should be achieved, inter alia, through strengthening domestic enabling environments, and enhancing revenue administration through improving the efficiency and effectiveness of our tax systems. Africa loses an estimated USD 90 billion annually to illicit financial flows (IFFs), which weakens the continent's ability to fund sustainable development initiatives. Addressing these losses, alongside revising inefficient tax incentives, tackling tax evasion and tax avoidance are critical. African countries also face low tax-to-GDP ratios, which limit their fiscal space to fund public investments. The African Group calls for the establishment of a UN Framework Convention on International Tax Cooperation to create equitable global tax standards that supports all nations, particularly developing countries, in mobilizing domestic public resources.

b. Domestic and International Private Business and Finance

The private sector is key for driving growth, but private capital remains scarce in many regions. African countries face high borrowing costs due to biased credit ratings and underdeveloped capital markets. We call for reforms to credit rating systems to ensure they accurately reflect economic conditions in African economies, improving access to private capital markets. Additionally, multilateral development banks (MDBs) should support national capital market development and help build pipelines of viable projects in sustainable infrastructure and energy transition.

The efficacy of blended finance as a tool to de-risk investments in critical sectors like infrastructure and energy, ensuring transparency and accountability in its implementation, needs to be improved. We also call for the development of more innovative de-risking instruments such as guarantees. Additionally, financial instruments such as green bonds and impact bonds must be expanded to encourage private investment in sustainable development across Africa.

Project preparation remains a key roadblock to crowding in private sector finance into sustainable development projects in developing countries. This should be tackled in FfD 4 if we are to succeed in crowding in the necessary levels of private sector finance. More needs to be done to support the development of projects from the very early stages of the project preparation life-cycle, and to assist developing countries in developing projects at the necessary scale that are replicable.

It is also important to transform the global financial architecture for development, empowering national development banks to better serve national development needs.

c. International Development Cooperation

Official Development Assistance (ODA) remains a lifeline for many African countries. However, ODA levels have fallen short, undermining the region's ability to meet SDG targets. We urge developed countries to meet the 0.7% GNI ODA commitment and ensure that ODA funds align with national development priorities. It is important that ODA supports long-term development, rather than short-term donor-driven objectives.

ODA has to be in line with the national needs and priorities of the relevant developing countries, and it is important to address the noticeable shift of ODA resources towards addressing crises and issues which might not be a priority to the recipient country.

The fragmentation of the international development finance and aid architecture must be halted and reversed. This is affecting the size of grants, as well as the transaction costs for developing countries.

It is imperative to streamline international development cooperation mechanisms to ensure that assistance is coordinated and aligned with the specific needs of developing countries, thereby enabling the leverage of support and the achievement of sustainable development goals.

d. International Trade as an Engine for Development

Trade has long been recognized as a driver of development, but African countries face barriers such as non-tariff measures, market access limitations and limited participation in global value chains. Full implementation of the African Continental Free Trade Area (AfCFTA) can address these constraints, boosting intra-African trade and enabling the continent to participate more effectively in the global economy. AfCFTA is projected to increase intra-African trade by 34% by 2045, provided that tariff reductions and removal of non-tariff barriers are fully implemented.

The development of regional value chains, particularly in sectors like agro-food, textiles and chemicals, will help reduce Africa’s reliance on commodity exports and integrate more African businesses into global markets.

There is a rise of unilateral trade measures, including the Climate Border Adjustment Measures (CBAM), which discriminate against developing countries by unilaterally imposing sustainability standards on their exports, which threaten not only their exports but production processes within their economies. Such measures should be stopped.

e. Debt and Debt Sustainability

Africa's debt challenges continue to limit the region's fiscal space, especially given high interest rates and the scarring effects of the pandemic and external shocks. To address this issue, the African Group proposes the following:

1. **Create a multilateral sovereign debt workout mechanism** aligned with sustainable development to provide a definitive solution for debt crises. This mechanism should ensure timely, fair and transparent restructuring processes.

2. **Establish a global debt authority** to oversee the multilateral sovereign debt workout mechanism and promote statutory and contractual changes in sovereign debt management. This body should ensure that debt management policies align with sustainable development principles.
3. **Enhance the G20 Common Framework** by focusing on debt relief though cancellation, rather than merely extending maturities and reducing interest rates. It should include automatic debt service standstills during negotiations, extend eligibility to middle-income countries, clarify comparability of treatment and provide tools to incentivize or enforce private creditors' participation.
4. **Suspend IMF surcharges** for countries at high risk of or already in debt distress until a comprehensive review of this policy is carried out. These surcharges exacerbate financial challenges for struggling economies.
5. **Adopt a new approach to debt sustainability analyses** that prioritizes development, focusing on long-term sustainability goals and accounting for social and environmental needs, not just economic metrics.
6. **Revamp the credit rating system** to encourage investment in sustainable development. The current rating system disproportionately increases borrowing costs for African countries. A reformed system must accurately reflect African countries' economic realities and growth potential.

e. Addressing Systemic Issues

The global financial system disproportionately affects developing countries, with high borrowing costs and limited access to capital. The African Group calls for comprehensive reform of the international financial architecture, including greater representation for developing countries in international financial institutions such as the IMF and World Bank. These reforms must ensure that financial markets support long-term sustainable investments, particularly in vulnerable economies.

Efforts should continue to reallocating SDRs to developing countries based on their needs to enhance global liquidity, in addition to exploring ways to expedite and automate SDR issuance, especially in response to shocks.

f. Science, Technology, Innovation and Capacity Building

Technology and innovation are crucial for achieving the SDGs, yet many African countries lack the capacity to fully leverage digital transformation. The African Group calls for investments in building digital infrastructure and capacity-building programs focused on science, technology and innovation.

Africa's logistics performance, as measured by the World Bank's Logistics Performance Index (LPI), underscores the need for targeted investments in science, technology and innovation. Infrastructure gaps in logistics and transport continue to hinder trade and regional integration.

IV. Data, Monitoring and Follow-up

Effective monitoring of FfD commitments requires a strong accountability framework. The African Group proposes a Universal Financing Accountability Framework, modeled after the Universal Periodic Review process, to track progress on financing commitments. Furthermore, Regional Financing Platforms should be established to support collaboration and ensure that regional SDG targets are met through coordinated efforts. Investments in digital infrastructure are essential for improving data collection and monitoring, enabling African countries to track their progress toward achieving the SDGs.

V. Overarching Reflections

The African Group urges the international community to align the ambitions of key multilateral initiatives, to ensure coherence in development efforts. The upcoming FfD4 offers an opportunity to implement meaningful reforms that can accelerate Africa's progress toward achieving the SDGs.