Integrated national financing frameworks stocktake

For the G20 Development Working Group
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Introduction

Integrated national financing frameworks (INFFs) were introduced in the Addis Ababa Action Agenda, where countries called for INFFs to support the implementation of nationally owned sustainable development strategies.

At the 2019 UN General Assembly 16 countries committed to pioneering the approach. Over 2020 the number grew and now 71 countries worldwide – including LICs, MICs, HICs, LDCs, fragile states, SIDS and others – are pursuing INFF (Figure 1).

Under the Saudi Arabian G20 Presidency in 2020 a focus on INFFs was brought into the Development Working Group’s (DWG) Financing for sustainable development framework and support for covid-19 response and recovery. The Italian Presidency in 2021 has picked up and further developed the examination of INFFs, including commissioned this INFF stocktake, carried out by UNDP’s Finance Sector Hub, to inform discussions and recommendations developed through the DWG.

Figure 1. More than 70 countries are operationalising INFFs

In the context of the recovery from Covid-19 and the Decade of Action countries are developing INFFs to strengthen the links between medium term development plans and financing strategies that mobilise and align public and private finance with sustainable development.

As a voluntary, country-led approach, INFFs are being tailored to national contexts and priorities including gender equality, youth empowerment, social protection, green growth and NDCs, education, health, and territorial development. INFFs offer a flexible approach for strengthening financing for these priorities within national institutions, bringing together existing elements within a more integrated, holistic financing framework.

The majority of countries are still in the inception phases of their INFF processes and this stocktake offers a timely review of progress to date, the direction of travel and opportunities as INFFs move forward. The stocktake has been informed by a quantitative survey of progress in INFF countries as well as consultations with a broad set of stakeholders at both the country and international partner level. It focused on three core issues: the expected impact of INFFs, country ownership and stakeholder alignment.

The stocktake has developed five recommendations for the G20 DWG members in supporting INFFs – (i) investing in knowledge exchange, technical assistance and training for INFFs; (ii) aligning international support for INFFs; (iii) engaging constituencies to support INFFs; (iv) prioritising the integration of economic, social and environmental sustainability within INFFs; and (v) conducting an annual INFF stocktake. The following sections present the findings of the stocktake in relation to impact, ownership and alignment in turn, closing with details of the recommendations and how they can be operationalised.
Ownership

Headlines
Country ownership and leadership is the hallmark of the INFF and it is seen as imperative that they remain a voluntary endeavour, with any form of conditionality avoided.

Countries are taking ownership over INFF processes through diverse mechanisms appropriate to national contexts, with Ministries of Finance typically in the leading role. Elements of the INFF are in place already in all countries and on-going reforms are taking as a starting point.

As frameworks designed to influence public and private financing INFFs are seen as most effective when built around a whole-of-society approach that connects with existing dialogue platforms and brings public and private stakeholders into the process of operationalising and operating an INFF.

Stocktake consultations emphasised the voluntary principle of INFFs and that they can only be truly effective if they remain country owned and led. INFFs are designed to be embedded within government planning and financing policy systems and partners emphasised the need to avoid any kind of conditionality associated with countries pursuing INFF approaches. The principle of broad, whole-of-society ownership is seen as the hallmark of the INFF approach.

INFF oversight committees
Most countries pursuing INFFs have formalised or are in the process of formalising government-led national oversight committees that will guide and embed the INFF process within national institutions (Figure 2).

Almost two-thirds of INFF oversight committees are led or co-chaired by Ministries of Finance. Offices of the Prime Minister or President, Ministries of Planning or Ministries of Economy lead oversight committees in other settings.

These oversight committees bring together the policymakers responsible for each aspect of public and private financing policy, including Central Banks, Revenue Authorities, Ministries of Commerce and others as members in a typical setup. In many countries line ministries responsible for the thematic priorities being addressed through an INFF are also members of the committee: Ministries of Education, Health and Environment are formal members of one-third, one-quarter and one-fifth of oversight committees respectively. Key non-state actors are also formal members of oversight committees in a number of countries: chambers of commerce are members in 22% of countries and CSO representatives in a quarter of countries.

This leadership of INFF oversight committee from key central government ministries, combined with the participation of the ministries responsible for the aspects of financing policy that INFFs are bringing together provide the basis for effective country leadership over national INFF processes.

Half of INFF Oversight Committees are embedded within existing mechanisms. In many contexts the INFF approach is being incorporated within the established structures and processes that governments use to deliver national plans and govern financing. In other cases, often where there is no appropriate mechanism already in place, governments have determined to put a new mechanism in place.
While there is some commonality among the members of a typical oversight committee, the mechanisms through which these committees operate varies more widely as countries have adopted or embedded the function within mechanisms that suit national institutions and ongoing processes. Some oversight committees are embedded within the structures responsible for delivering the national sustainable development plan. In Tajikistan, for example, oversight has been embedded within the National Development Council under the President’s Office while in the Solomon Islands it sits with the National Development Strategy Implementation Oversight Committee. In Sierra Leone the financing framework was initially put in place through the clusters that developed the medium-term national development plan, and an ongoing institutional structure associated with the plan is under development. In other cases, a variety of structures are being used. In Benin, for example, oversight has been taken on by the Resource Mobilisation Committee, chaired by the Ministry of Planning, and approved by Decree law. In Mongolia oversight is led by the Ministry of Finance, with the support of a multi-stakeholder working group that is supporting the technical development of the INFF. And in Timor-Leste the INFF process is being embedded within and used to expand the scope of an ongoing public financial management reform programme.

**Example: Ukraine**

The Ukrainian Government has recently launched its National Economic Development Strategy 2030 (NEDS) and is using the INFF approach to strengthen and develop a more holistic approach to financing for NEDS.

The INFF is championed in the country at the political level by the Deputy Prime Minister and led at the senior technical level through the Secretariat of the Cabinet of Ministers of Ukraine (SCMU). As the NEDS 2030 was developed there was a desire to build on recent reforms in public finance, such as the introduction of a budget declaration, to develop a broader approach to financing the objectives of the strategy. The SCMU brings together key central and line ministries and an Inter-Agency Task Force on INFF was established within the SCMU. The task force is being used to build awareness and understanding among policymakers across government about the INFF, the policy areas it brings together and opportunities it offers to shape a more holistic approach to financing. Ukraine is still in the early stages of determining how the INFF will be applied within existing institutions and the task force is overseeing an initial series of diagnostic exercises including national and subnational development finance assessments, SDG budgeting assessment and rapid integrated assessment, that will be used to inform the way forward.

**INFF dialogue**

During stocktake consultations partners highlighted the importance of, and support for, inclusive county ownership of both national plans and the financing frameworks to implement those plans. This is seen as critical for ensuring that the design and prioritisation of reforms within an INFF reflects and is informed by the perspectives of the public and private actors whose investments and efforts it seeks to mobilise and align.

Building a whole-of-society approach both ensures that the strategic and policy responses developed through the INFF reflect these stakeholders’ needs and provides opportunity to build a shared sense of ownership over the INFF.

The INFF oversight committee are drawing from and providing inputs to other connected dialogue processes. Around 40% of countries pursuing an INFF have formalised a platform for dialogue during the process and in two-thirds of these countries it is embedded within an existing platform. A variety of existing platforms have taken on this function. For example in Djibouti and Tanzania dialogue is embedded within the multi-stakeholder dialogues associated with the national development plan in
each country. In Cuba the National 2030 Agenda Institutional Group hosts dialogues to inform the INFF. In Uzbekistan dialogue is housed within the FfD Working Group while in Malawi it is embedded within the Economic Governance Sector Working Group. In other countries a new dialogue mechanism has been setup.

Consultations highlighted the importance of facilitating a central dialogue process, overseen by the oversight committee, to inform the INFF. Dialogue processes can be designed to engage a wider range of stakeholders by connecting with other existing dialogue platforms (see more in the alignment section below).

Most countries are in the inception phase of the INFF process and these dialogue processes are designed to build a shared understanding of the existing elements of an INFF within the country context and agreement on the steps that will be taken to operationalise the INFF. Many are following the inception phase guidance set out by the IATF, often incorporating some or all elements of the assessment and diagnostics building block. The majority of countries pursuing an INFF are using a development finance assessment (DFAs) to facilitate and inform dialogue in the early stages of the INFF process. 18 countries have completed DFAs while 25 are in progress with a further 24 planned to start this year. These DFAs are typically embedded within the agreed INFF oversight structures and used to provide an analytical framework and sequence of dialogue to shape inception phase discussions across the oversight committee and wider public and private stakeholders.

**Knowledge exchange, technical assistance and training**

During INFF stocktake consultations partners highlighted the value and demand that exists for exchange between countries pursuing INFFs. Given the early stage and similar timelines that many countries are following in their INFF processes, there will be many lessons and experiences that can be shared between countries.

Countries highlighted the desire to understand the approaches and solutions being developed by their peers. There is particular interest in dialogue and peer-to-peer at the regional level between neighbouring countries and between countries in similar contexts – for example between large middle-income countries or SIDS. Although most countries are at an early stage in their INFF processes, some country exchange is already beginning: 37% of countries report that they have already held discussions with counterparts in another country. In some regions bilateral consultations between governments and clusters of supporting agencies have been held, often facilitated by international partners that are active across the participating countries, or by regional platforms such as the Asia-Pacific SDG Financing Facility (APFIN). In addition, multi-country INFF training programmes have been held in two regions, with attendance by officials from more than 30 countries pursuing INFFs, with further programmes planned elsewhere.

**INFF Roadmaps**

For many countries an early milestone in the INFF process is the agreement of an INFF roadmap. These roadmaps set out the steps that will be taken to operationalise the INFF in practice. They cover the steps that will be taken to develop or enhance a financing strategy and to bring together the other building blocks through which the financing strategy will be delivered and monitored.

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**Figure 3. Four countries have already launched their INFF Roadmaps while 14 are in the process of developing theirs**
INFF roadmaps are government-owned plans for operationalising the INFF. They build on and reflect the dialogue and assessments that have happened during the inception phase of the process.

Four countries report that they have launched or are already implementing their INFF roadmap (Figure 3). Another fourteen countries are in the process of developing theirs, while others plan to develop and agree an INFF roadmap later in 2021 or early 2022.

Example: Kazakhstan

Kazakhstan is in the process of developing its INFF roadmap, following an inception phase that has been informed by a two-phase development finance assessment process. The DFA was carried out with the technical leadership of the Economic Research Institute (ERI), a subsidiary of the Ministry of National Economy that also acts as the secretariat for the government-wide SDG Coordination Council. This ensured government guidance over the process, which has also been supported by the Asian Development Bank and UNDP.

While the Government of Kazakhstan has a longstanding public financial management reform programme the DFA examined and presented a range of suggestions about wider aspects of financing. It looked across the quasi-public sector and at private financing with a focus on how these important elements of the financing landscape at large could be better monitored and understood in relation to the SDGs. A number of companies have developed their own reporting systems and there are opportunities to bring the information generated into public policy decision making to inform an integrated approach to financing overall.

At a January 2021 meeting of the SDG Coordination Council, chaired by the Deputy Prime Minister, the government formally reviewed the DFA findings and recommendations. A process has been set out to finalise the steps that will be taken forward and the creation of an action committee to take these forward is underway.

Impact

Headlines

The level of ambition and perceived potential for INFFs to transform financing for sustainable development is high. Drawing from experiences in PFM reform as well as experience in private sector alignment, INFFs are seen as a medium- to long-term endeavour. Financing strategies, which sit at the heart of an INFF, are themselves typically being linked to the medium-term planning cycle.

Countries are pursuing INFFs to realise impact at the strategy level, policy level and financing outcomes level in terms of mobilising, leveraging and aligning finance with national development priorities. INFF processes are being used to develop financing strategies in 58 countries and to explore, sequence and take forward hundreds of policy reforms across public and private financing.

Countries are identifying intermediate impacts within INFFs that will demonstrate progress in resource mobilisation and / or alignment, whilst maintaining a focus and building momentum for longer term reforms.
Many countries have high ambitions about the ultimate impacts that INFFs can generate and contribute toward. These targeted impacts cut across three levels:

(i) **Strategy**: putting in place financing strategies that bring together policies governing public and private finance within a holistic framework

(ii) **Policy and institutions**: implementing reforms to specific aspects of public and private financing policies, regulations, instruments and institutions

(iii) **Financing outcomes**: financing mobilised, leveraged and aligned with sustainable development objectives

Across these levels INFFs are helping countries put in place more robust frameworks for mobilising, leveraging and aligning public and private finance with national sustainable development priorities. While mobilising and leveraging financing are concerned with unlocking new resources that can fund new investments, alignment is concerned with promoting changes in the way existing resources are invested and business models operate, to enhance outcomes in relation to national sustainability and inclusivity priorities. Each country will have its own context-specific mix of priorities across these financing outcomes in relation to each type of public and private finance. INFFs are providing countries with a systematic approach for determining this mix and putting in place a strategy and series of policy reforms designed to meet their financing needs.

INFFs are viewed by many countries as offering an ambitious agenda for transforming sustainable development financing, with recognition that this will come to full fruition over a medium to long term horizon. During consultations, partners noted the length of horizon that many public financial management reform programmes, with some countries planning reform agendas over periods covering of 5 to 10 years or more. INFFs are seen as attempting similar, if not more, ambitious shifts in the mindset, approach and tools for financing across not only the budget but public and private finance as a whole.

While the horizon for realising the full transformative potential of INFFs at the financing outcome level is a medium to long term one, countries are already using INFFs to prioritise key reforms and target initial impacts over the short to medium term, in many cases within the next two years.

*Figure 4. Countries around the world are using INFFs to strengthen integration of plans and financing policies at three levels*
INFFs are helping governments determine how to unlock new investments and unlock greater impact from existing investments in relation to the needs of national sustainable development agendas. Three key financing outcomes terms used throughout this stocktake report can be defined as follows:

**Align**: the generation of new or enhanced impacts from existing investments, typically in relation to national social and sustainability priorities; for example, creating a requirement or incentive for portfolio managers to allocate a higher proportion of existing funds to green investments.

**Leverage**: the generation of new resources which are invested by an external party; for example, creation of a public-private partnership mechanism where a private partner invests capital in delivering a public good or service.

**Mobilise**: the generation of new resources which accrue directly to the entity mobilising them; for example, domestic revenue mobilisation that boosts fiscal space for government.

**Financing strategies for a new generation of national development plans**

Around the world many countries are putting in place new or revised medium-term sustainable development plans to drive recovery from the effects of the covid-19 pandemic and build forward better toward their long-term sustainable development visions.

The financing contexts in which this new generation of national development plans will be implemented are characterised by high financing needs, major recent or ongoing shocks across the public and private financing landscape and heightened uncertainty about the medium-term outlook. In Bangladesh, for example (see box below), the investment requirements for the new 8th Five Year Plan are estimated at $750 billion, equivalent to $150 billion a year. 75% of this is targeted to come from the private sector.

Within these contexts, countries are using INFFs to structure and bring together robust financing strategies that articulate the measures to be taken to mobilise, leverage and align the financing needed to realise their national development plans. These financing strategies bring together existing policies with opportunities for innovation and reform within a holistic, integrated framework. They aim to enable government to use and align the full range of policy tools (both existing and new) at its disposal for mobilising, leveraging and aligning investments in national priorities.

**A total of 58 countries are developing financing strategies (Figure 5)**. 31 countries are using INFFs to establish such a financing strategy for the first time. This includes countries from all income groups, with varying degrees of technological advancement, as well as 12 least developed countries (LDCs), 9 small island developing states (SIDS) and 10 fragile contexts. A further 27 countries are strengthening existing financing strategies, typically moving from a public-finance centric approach to implementing a national plan to one that considers the broader spectrum of policies across public and private finance.
Figure 5. More than 55 countries are using INFFs to put in place or strengthen a financing strategy

During INFF stocktake consultations, partners emphasised the high strategic importance of financing strategies. They noted the value of building a more systematic approach to prioritising and sequencing government efforts for reform on only the most impactful priorities, bringing order to what may otherwise be a chaotic marketplace of uncoordinated financing innovations. Partners also highlighted the utility of a more comprehensive perspective on the trends and outlook across the financing landscape for informing strategic decisions in relation to fiscal, budgetary, debt policy and more.

Knowledge exchange, technical assistance and capacity building
Countries noted the value of sharing experiences and need to develop new expertise as financing strategies are developed. As noted above, financing strategies are new endeavours in many contexts and even where financing strategies are already in place, their scope and objectives are broadening significantly. Developing and operationalising these strategies will require new capacities and countries noted the demand to learn from one another, receive capacity development support and undertake training to support their national processes.

Example: Bangladesh
In Bangladesh, the government has been implementing INFF to mobilize resources to address the SDG financing gap by 2030 and strengthening the financing for its 8th Five Year Plan (FYP), aligning with the country’s strategies recovery towards COVID-19 recovery and the graduation from LDC status.

The financing required for the 8th FYP implementation amount to a total of $750 billion, and 75% of these resources are targeted to come from the private sector. Meeting these financing needs, the plan calls for the operationalisation of an INFF, centred on the development of a Financing Strategy (FS). The process will be informed by a revised Development Finance Assessment (DFA), with INFF oversight planned to be embedded within the National SDG Implementation and Review Committee of the Prime Minister’s Office and linking public and private stakeholders under the same umbrella.

To cater to the financing needs set out in the 8th FYP, the initial stages of the INFF process have been designed to prioritise the mobilisation of private capital investment in three SDG priority areas: water and sanitation, renewable energy and climate finance (SDG 6, SDG7, and SDG 13). To move from high level targets of the previous DFA and FS, to a ‘how to reach the target’ approach, the revised versions
of DFA and FS will include financing roadmaps for each of the three SDG priority areas, with a strong gender analysis applied throughout. The revised versions would also incorporate strategies towards strengthening and accelerating inclusive digital economies and SDG anchored Digital Finance Ecosystems. Building on previous DFA and FS, the revised version will highly emphasize on private engagement, its challenges and opportunities.

A process of public-private engagement and dialogue is being undertaken to both inform and shape policy responses for these roadmaps and the larger financing strategy, and to promote alignment in existing private sector business models and exploring new business opportunities that will enhance contributions to these priorities. The process aims to close the loop from assessment and investment impact measurement to the development, marketing and ultimately investment into in bankable projects. To do so more than 60 companies and financing institutions from a wide range of industries have been engaged to assess the state of market analytics and financing instruments available for the SDG investment priority areas. In parallel, national priority SDGs have been mapped against mainstream business impact management standards and indexes leading to the release of the first industry-based consolidated impact management report targeting initial 47 factories in the leading export sector, Ready-Made-Garment (RMG) or Apparel Industry. The scaling-up of the initiative will broaden factory participation and will provide a platform for ongoing work to institutionalise an SDG investment taxonomy. This process will further reinforce market analytics and the development of a pipeline of SDG aligned investments through high level investment mapping, while a project specific digital trade platform will promote blended finance based on data transparency and project phasing linked to the best form of capital for each phase. As part of bankable projects, one of the UN Secretary General Digital Finance Task Force’s recommended pathfinder project on Mobilising domestic savings for investing in SDG infrastructure is being implemented. Last but not the least, each of these efforts are targeting stakeholders engaged in both supply and demand of investment opportunities, facilitating curated networking to increase the likelihood of successful partnerships.

**Policy and institutional reform**
INFFs provide a holistic approach that looks across the financing landscape as a whole, in relation to national sustainable development objectives.

Countries are using the comprehensive perspective of the INFF to assess their financing tools – the policies, regulations, instruments and institutions that they have in place – to identify gaps, opportunities to introduce new approaches and reforms and to address trade-offs and synergies.

**INFF processes are being used to explore and take forward hundreds of innovations to mobilise, leverage and align financing for national sustainable development priorities.** Among 44 countries that shared details on the specific areas of financing that are being taken forward, more than 220 reforms to financing policies, regulations, instruments and institutions are being explored (Figure 6). Across diverse development contexts these reforms cut across the full spectrum of public and private finance, with an average of five reforms currently being explored per country and potential for this to rise further as INFF processes progress.
The reforms being explored through INFF processes touch on all aspects of public and private financing with targeted outcomes to both mobilise and leverage new financing and to promote enhance impact by aligning financing with sustainable development priorities.

Public finance reforms
More than 60% of countries are using INFF process to take forward reforms designed to mobilise, leverage or better align public finance with national priorities.

Around half of the public finance reforms are centred on alignment, on strengthening the integration of budgets with national plans. Many reforms aim to adapt the budget structure to align more directly or in greater depth with national plan objectives, or adjust steps in the pre- and post- budget cycle to place a stronger emphasis on evaluation of budget plans and execution in relation to national plans. In Mongolia, for example, an SDG budgeting methodology has been developed and a new template put in place for formulating new budget programmes and requests in relation and including targets aligned to the national development plan. To date this approach has been operationalised across five line ministries and is being rolled out more widely on an incremental basis, expanding to a new sector each year. More than twenty countries have a focus in their INFF processes on gender budgeting. The interventions vary with some countries establishing new gender responsive budgeting or budget tagging systems. Others are strengthening and expanding existing systems, for example undertaking training programmes to enhance capacity across ministries, bringing established practices at the national level to local budget processes or introducing tools such as gender auditing practices. As these budgeting reforms move ahead, they will bring a new standard that boosts efficiency and effectiveness for an increasing proportion of spending that has been allocated through these enhanced budget mechanisms in these countries. Beyond the budget, countries are also aligning wider elements of public finance at large. In Timor-Leste, for example, the INFF is being used to explore a pro-health tax
that would nudge behaviour toward healthier lifestyles by taxing products with negative health impacts (there is also a mobilisation element to this reform as any revenues raised will be used to fund greater investment in health services). In Uzbekistan the INFF process is being used to better align the country’s Eurobonds programme with the SDGs, following successful Eurobond issuances of $555 million and 2 trillion Soums in 2020. Capacity for impact measurement and monitoring is being developed, and an SDG impact framework will be developed to align the use of future Eurobond proceeds to SDG investment.

Many countries are using INFF processes to mobilise and leverage additional financing to support increased fiscal space and public investment. In Sierra Leone, for example, the INFF process is supporting reforms designed to build taxpayer trust and capacity for SME tax filings, and to build capacity in the National Revenue Authority for tax collection and auditing including through digitisation. These reforms are designed to help bolster tax revenue collection over the medium and longer term. They aim to contribute toward an increase in revenue collection in the first two years of almost one percentage point of GDP, equivalent to over $80 million a year, which is more than 10% of the identified financing gap for the country’s medium-term plan in 2022. Governments are also looking to leverage new resources into public investments and many countries are using INFFs to explore innovative debt instruments such as green, blue, sustainability, SDG or other thematic bonds.

Example: Colombia

In Colombia, the INFF is being used to bring together and advance innovations that will deepen the alignment of public and private financing with national priorities and promote further investment.

Building on the alignment of Colombia’s national development plan with the SDGs, there is a drive to deepen the understanding of the alignment between budgetary expenditure and the SDGs. 98.2% of the indicators in the national development plan are linked with one or more SDGs. An exercise has been completed to map the more than 4,300 budget lines of the 2020 budget with the 169 SDG targets. Each budget line was assigned up to 1 main SDG target and 5 secondary targets in order to understand the breakdown of operating and capital expenditure in relation to the goals and targets of the SDGs. This initial exercise was completed manually and designed as a proof of concept feeding into ongoing discussions about how to monitor and manage budget-SDG alignment moving forward.

Processes are also underway to promote the alignment and investment of private capital with national sustainable development priorities. The Government of Colombia has developed an SDG Corporate Tracker which captures information on the contribution of the private sector in Colombia to the SDGs. It utilises the information that many companies are already reporting through their sustainability reports and impact measurement practices to understand their contributions in relation to eight priority topics across five SDGs. 137 companies provided information in the latest round of voluntary reporting. An SDG investor map process has been completed to identify investment opportunity areas that are both commercially attractive and catalytic in relation to national priorities. Twenty-two investment opportunity areas have been identified, and commitments made by the country’s largest financial conglomerates to both boost investment in these areas and support businesses that enter them. Work is also underway to develop SDG impact standards that will support alignment in the portfolio of public and private banks, and the possibility of an SDG bond is being explored.
Private finance reforms

During INFF stocktake consultations partners emphasised the potentially transformational shifts that can be realised if countries are able to effectively promote private financing for sustainable recovery and development. There is wide recognition of the scale of capital that exists which could potentially be channelled toward sustainable development, and of the growing interest and readiness of many investors and companies at the global, regional and national levels. INFFs are seen by many governments and international partners as a platform that can help to catalyse the shifts needed to mobilise, leverage and align this capital with sustainable recovery and development.

More than three-quarters of countries are using the INFF to explore reforms in at least one area of private financing, rising to 90% when mechanisms for mobilising private capital into public investments are included.

Many countries are using INFFs to explore the most effective ways to mobilise new private capital for investments in national sustainable development objectives. Sustainability-linked innovative financial instruments, including green, social and sustainability bonds, can play a strategic role in mobilising additional private capital and become a long-term source of financing for sustainable development in many contexts. Countries are taking forward these and other mechanisms including public-private blended finance mechanisms, diaspora funds, Islamic financing and others, as well as business and financial sector reforms to unlock commercial private capital. In Cambodia, for example, the INFF is focusing on blended finance for infrastructure, the potential for creating an ASEAN gender asset class and the setup and piloting of a credit guarantee scheme for women-led businesses and SMEs. These reforms are designed to mobilise and leverage new flows of capital to support investment in national priorities.

INFF processes are being used in many countries to promote alignment in business models and private investments to drive more sustainable, inclusive private sector development. Sustainable finance taxonomies are being developed in a number of countries to better align and monitor private sector investments in relation to sustainable development priorities (see below). Other reforms including gender seals, green agreement standards and others are being explored across a wide range of countries. Rwanda, for example, is using its INFF process to uplift and build further momentum around an existing gender seal programme that promotes the integration of gender equality considerations into corporate plans, processes and procedures (see more on Rwanda in the box below).

Knowledge exchange, technical assistance and training

As countries take forward an array of reforms across public and private finance they will face decision points, challenges and requirements for new capacities and processes in order to fully operationalise and institutionalise many of these reforms. Stocktake consultations highlighted the high demand that exists to learn from and share experiences with counterparts in other country contexts as these reforms move forward. Facilitating effective knowledge exchange, through regional and cross-country platforms for dialogue, engagement and peer-to-peer learning between countries, will be an important mechanism for informing the implementation of reforms and accelerating the dissemination of new innovations among contexts.

Example: Rwanda

In Rwanda the National Strategy for Transformation (NST) set an ambitious target of achieving 9.1% per year up to 2024, leading toward the longer-term objective of becoming an upper middle-income country by 2035. Achieving these targets will require significant increases in financing, with a particular emphasis on mobilising domestic savings to fund investment and boosting foreign private
investment. Resource requirements for the NST total RWF 41,735 (around US$ 41 billion), with 59% to come from public sources and 41% from private financing.

Within this context the INFF is being used to bring together, bolster and pilot a diverse array of initiatives designed to boost private-aligned SDG financing in line with NST targets and guided by the NST Steering Committee.

The INFF is being used to create a framework to promote private investment in NST priorities that enhances the sustainable development impacts of existing sources while also exploring new models of financing. There is a major focus on corporate responsible investing, building on the country’s small but rapidly growing capital markets and linked to the 10-year capital market development strategy. The INFF is being used to identify, bring together and put in place frameworks, regulations and compliance procedures for responsible, green investments that will position Rwanda for new investment and asset management vehicles. A green investment facility is being explored, feasibility studies have been completed for a blended financing facility and work is underway to develop an inaugural private green bond. A sustainable finance roadmap is being developed within the larger Kigali International Finance Center initiative. The aim of these initiatives to pioneer, provide proof of concept and ultimately lay the foundations for growth of new markets in these areas. Systems for tracking private and public expenditure in relation to NST targets are also being strengthened and put in place. This includes, for example, the development of climate tagging and tracking systems that will monitor relevant public spending and climate finance flows in the private sector. The INFF is also being used to uplift and build further momentum around existing initiatives such as the Gender Equality Seal, which uses a certification programme to promote women’s empowerment in private companies in collaboration with the private sector foundation.

While there is a major focus on boosting private finance that is aligned to NST objectives, these efforts are taking place alongside work to boost fiscal space through a medium-term revenue strategy supported by the IMF and strengthen capacity for management and accountability of budgetary expenditure in relation to NST priorities.

In these ways the INFF is helping the government to bring together and uplift a range of existing initiatives and introduce and pilot new market-building activities. These reforms will make a significant contribution toward mobilising, leveraging and aligning the private and public investment needed to meet the financing needs of the NST.

**Financing outcomes: mobilising, leveraging and aligning financing**

The ultimate outcome that INFFs are working toward, via intermediate impacts in strengthening financing strategies and policies, is enhanced investment in sustainable recovery and development. This encapsulates both the quantity of financing mobilised and leveraged, as well as the ‘quality’ of these investments in terms of their alignment to sustainable development priorities.

Countries are using INFF processes to align budgets and move toward more performance-oriented systems. Almost 30 countries are implementing SDG budgeting reforms to deepen connections throughout the budget cycle with national plan objectives. Within these reforms many are prioritising key economic, social and environmental sustainability priorities. They plan to use stronger budgeting systems to safeguard, strengthen efficiency and ultimately mobilise greater spending on these priorities.

While the scale of financing outcomes in these areas is difficult to quantify, examination of two thematic priorities – climate financing and social spending – give some insight into the potential scale of financing that INFFs can help countries tap into. Among responses to the INFF survey, these two
issues were among those prioritised by most countries. Almost two-thirds of countries indicated that climate finance and renewable energy will be mainstreamed in their financing strategies and social protection, health and education – the three key elements of social spending – are each being mainstreamed in between 48% and 57% of countries (Figure 7).

Many countries are using INFF processes to safeguard social spending in times of short-term fiscal constraint, with a view to promoting increased investment over the medium and longer term. The scale of existing financing is significant. The latest published figures across countries pursuing an INFF shows current social spending of almost $650 billion, of which $300 billion is on social protection. Yet many of these countries are facing declining fiscal space as a result of the pandemic: IMF figures show that 48 countries pursuing an INFF experienced falling revenues in 2020 with an average decline of 16% from the previous year. An ILO-OECD-World Bank briefing note for the DWG found that countries worldwide have implemented thousands of social protection measures in the wake of the pandemic, despite declines in tax revenue over 2020 and early 2021. Yet in most cases these were temporary and if the proportionate decline in revenues were to be carried across to social spending in these 48 countries moving forward, it would result in a more than $65 billion reduction, or a $25 billion reduction in social protection spending alone.

Many countries are using INFFs to strengthen the management of green spending. There are 28 countries pursuing an INFF which either have undertaken an assessment of public spending on climate finance in recent years or have some form of climate budget tagging system in place. Looking across the available data, these governments collectively spent more than $50 billion in the most recent year covered for each country, although the true figure may be much higher. Strengthening the systems for monitoring and managing this spending has the potential to unlock significant efficiencies and may bolster the case for increasing allocations toward green priorities in many contexts.

Beyond budget allocations on green priorities many countries are using their INFF processes to take forward the development of innovative debt instruments – six African countries are exploring green bonds through INFF processes, for example. Globally, green bond issuances have grown an average 36% a year over the last five years and maintained 9% growth during 2020 despite the pandemic. As countries prioritise reforms through their INFF processes that can tap into this capital, the potential to mobilise new resources capital to support green public investments is significant.

In many cases governments are using INFF processes to go beyond mobilising private capital for public investments, to taking forward reforms, such as the development of sustainable finance taxonomies, which are designed to unlock green commercial investment. The Development Bank of Mongolia, for example, is putting in place impact measurement systems and a taxonomy to monitor and manage its investments in relation to the national Vision 2030 and to provide a benchmark for financial markets. In Bangladesh (see box above) and Mexico, plans to develop a sustainable finance taxonomy are underway. These taxonomies provide a foundation for common understanding of
financing in relation to sustainable development priorities and can be used to identify, promote and mobilise capital into relevant investments.

Example: Ghana
Ghana has taken a unique bottom-up approach to applying the INFF approach. Five local assemblies are operationalising Integrated Assembly Financing Frameworks under the guidance of local oversight committees. These district-level local frameworks build from and expand the existing local resource improvement action plans, to establish a more comprehensive approach to financing the sustainable development objectives of each Assembly. Building on local development finance assessment exercises they identify opportunities to consolidate existing revenue streams, attract and sustain both private sector investments and development partner activities, and consider the potential of philanthropic and diaspora finance. Financing strategies are being developed for each assembly.

While the INFF approach has been pioneered at the local level, there is also a national element to the process. The experience of the five assemblies is being used to inform plans to rollout the approach across the other 255 Assemblies in the country. A national oversight committee is being established and collectively the local financing frameworks will contribute toward the national covid-19 Alleviation and Revitalization of Enterprises Support (Ghana CARES) plan. At the same time the INFF process overall is also supporting national level innovations in financing, notably including exploration of a potential SDG-linked bond issuance, potentially in the region of $300-500 million.

The unique bottom-up approach that Ghana has followed highlights the potential of local integrated national financing frameworks and strong connections between national plans and local financing agendas within an INFF.

Alignment

**Headlines**

Aligning different reforms processes and the agendas of different stakeholders and constituencies behind a common agenda of linking national policy and development priorities to finance has been highlighted as an ambition for INFFs. Building connections between INFF dialogues and existing platforms as well as ongoing initiatives is critical in that regard.

A growing number of international partners are also considering how to align international support for INFFs at the level of partner country strategies, institutional reporting processes, assessment tools, technical assistance and capacity development initiatives, as well as financing instruments. Development cooperation partners are also considering the opportunities for engaging their own constituencies to support country-led INFFs.

Building alignment among stakeholders around the INFF is central to its added value of the INFF and potential to mobilise, leverage and align financial resources. Stocktake consultations highlighted the importance of building common foundations as well as effective mechanisms for ongoing engagement as critical factors for building alignment among partners. The core INFF dialogue processes which countries are using to shape their INFF inception phases, as well as the taxonomies mentioned above and the SDG budgeting systems being developed can all contribute toward a shared understanding of financing priorities and ways forward for the INFF.

During consultations for the INFF stocktake partners emphasised the importance of connecting central INFF dialogue with other existing dialogue platforms. The social dialogue platforms that exist in many countries highlight the value of connecting INFF processes with wider existing structures. These platforms bring together representatives of government, employers and employees to discuss
and inform policy regarding labour market management and issues. Within current contexts, where many jobs have been lost because of the pandemic, job protection and creation are a high priority in many of the new generation of national development plans that seek to drive a more inclusive recovery. Social dialogue platforms are playing an important role informing many of the policy decisions in this space and can also connect with INFF processes that are considering the financing implications and options for inclusive recovery.

Consultations highlighted the importance of connecting INFF processes with existing platforms and networks for gender equality and women’s empowerment, youth entrepreneurs and other young leaders and civil society more generally. This is important for ensuring that the issues these actors face in terms of access to finance and differentiated impacts of the covid-19 pandemic or other issues such as climate change is brought into the design and prioritisation of the INFF.

To facilitate these connections with existing platforms a number of countries indicated that they are undertaking processes to comprehensively map existing dialogue platforms. In Cameroon, for example, a process to map existing platforms for dialogue and participatory policy making across government, with the private sector, civil society, development partners and others is being undertaken. In advance of beginning development of the INFF financing strategy this mapping will inform decisions about the architecture for financing dialogue within the INFF on an ongoing basis.

Where there are existing development cooperation platforms or country platforms, there is the potential to bring these into INFFs and ensure coherence with government wider vision and dialogue for financing national development priorities.

Alongside connecting INFF dialogues with existing platforms, a number of governments are building connections between their INFF processes and existing initiatives across the private sector, civil society and beyond. In many contexts private sector actors such as stock exchanges, chambers of commerce, financial sector or industry associations are taking forward initiatives designed to strengthen governance, investment and transparency within the private sector in relation to sustainable development. Governments are looking at how these initiatives, in areas such as sustainability reporting, can be scaled up and how the information published through these practices can be aggregated and used to inform public policy making. Governments are also looking to harness the support of key international actors and coalitions in this regard including for example the World Economic Forum.

CSOs in many contexts are actively engaged in scrutiny of public finances as well as sustainability and inclusivity in the private and financial sectors. In some contexts, INFF processes are providing a platform to connect these initiatives with public policy priorities and reforms. For example, at least seven countries pursuing an INFF are explicitly utilising the open budget survey administered by the International Budget Partnership and targeting improvements in budget transparency as measured by the index within their INFF programmes.

International cooperation
During INFF stocktake consultations governments and international partners highlighted various levels at which partners can and are aligning their activities with national INFF processes.

At the strategic level partners are considering how to align their partner country strategies with the phases and priorities coming out of national INFF processes. INFFs offer a platform to engage with the highest levels of government on financing and tailor the offerings within partner country strategies to fit within the government-led approach.
Partners are considering how to feed in and adapt a wide range of diagnostic tools to support the inception and assessment and diagnostic phases of INFF processes. Diagnostics tools focused on financing needs, public financial management and public spending, tax policy, private sector development, financial market regulation and others are being used and adapted by international partners to feed into the dialogues about INFF roadmaps and financing strategies. Situating assessments focused on particular areas of financing or specific challenges within the INFF platform provides opportunities to embed and raise the prominence of these assessments within the larger systemic policy INFF process.

Partners are also adapting the technical assistance and capacity building support that they offer in relation to INFF processes and priorities in a number of contexts. Targeting technical assistance directly in response to the areas of need and capacity gap prioritised through an INFF process can enhance its impact and contribution toward sustained reform.

Partners indicated that as INFF monitoring and review building blocks are developed they will consider how to align their institutional reporting processes. Partners also highlighted the value in strengthening country-based monitoring systems that track and report on different finance flows.

At the level of financing instruments and modalities a number of partners highlighted the potential to adapt their offerings as clear priorities come through national INFF processes. As financing strategies are articulated they will in many cases prioritise the development and deployment of particular financing instruments, offering an opportunity for international partners to respond in line with government demand.

Consultations highlighted the importance of coordination among international actors supporting INFF processes, including through development partner forums at the national level. Greater coordination will help development partners align their support to and find niche areas of added value within INFF process at various levels, in relation to other donors’ activities. Consultations also highlighted the value of targeted exercises to map the activities that partners are engaged in as a platform for identifying synergies and further collaboration in support of INFF processes. The EU, IMF, UNDP and UNDESA have established a ‘scorecard’ approach to map their respective activities which has been applied across a number of countries pursuing INFFs across the Africa and Asia-Pacific regions. GIZ and UNDP have undertaken a similar mapping exercise of their respective activities in seven African countries that are pursuing INFFs.

International partners can also play an important role in facilitating knowledge exchange. Partners who are supporting INFF processes in different country contexts or working with regional platforms, can support the exchange of experiences and lessons between countries. The stocktake found that these country exchanges are already underway in some instances and that there is likely to be high demand into the future.

Finally, bilateral partners highlighted the potential for engaging their own constituencies in INFF processes in the countries where they operate. Many international partners actively engage private companies looking to invest in the SDGs, as well as other actors from their home country as part of their international cooperation. Partners highlighted the potential to enhance the impact of this support by aligning with the priorities that are articulated as INFF processes progress.

Example: Cabo Verde
In Cabo Verde an INFF approach is being taken forward to support the new medium term Strategic Plan for Sustainable Development (PEDS) as well as the longer-term Ambition 2030.
At a strategic level the INFF approach will be used to inform the articulation of a new financing strategy for the medium-term plan, with an emphasis on the agreement of a specific, sequenced roadmap of reforms. While the process of articulating the PEDS is, at the time of writing, still in its early stages a development finance assessment has been carried out to inform and identify potential policy options to be considered in the planned financing strategy and roadmap. At the same time, processes are underway to pioneer new mechanisms designed to help the country pivot toward the recovery path that the PEDS will target.

Two innovations in private financing in particular are designed to support inclusive, sustainable recovery.

Fundo levanta, or the rise up fund, has been established to support youth and female entrepreneurs. It offers small grants that will channel financing toward strong business propositions from these groups who have been disproportionately impacted by the effects of the pandemic. The fund will use an integrated enterprise portal to connect investors with businesses within a scalable mechanism and is designed to diversify engagement with the private sector beyond only larger firms and connect with inclusivity dimensions of the PEDS.

The second component aims to scale up funding for blue economy investment. Through collaboration with the stock exchange a platform for sustainability linked bonds and funds, and innovative impact financing has been created – the world’s first sustainable financing platform dedicated to blue economy. The platform builds on recognition of the blue economy as the next driver of national growth for Cabo Verde and builds from regional integration objectives in Ambition 2030 which aims to establish Cabo Verde as a sustainable finance hub for Africa.

Recommendations and operationalising support for INFFs

The INFF stocktake has undertaken a review of country progress in operationalising INFFs and consultations at the country level and with international partners who are supporting national INFF processes. Looking across the key issues of ownership, targeted impact and alignment, the stocktake has identified five recommendations for the G20 DWG members’ consideration towards the definition of a G20 policy framework in supporting INFFs — (i) Investing in knowledge exchange, technical assistance and training for INFFs; (ii) Aligning international support for INFFs; (iii) Engaging constituencies to support INFFs; (iv) Prioritising the integration of economic, social and environmental sustainability within INFFs; and (v) Tracking trends in international support. These recommendations, and the steps that G20 DWG members can consider to operationalise them are summarised as follows.

**Investing in knowledge exchange, technical assistance and training for INFFs**

The stocktake found that many countries are in the early stages of operationalising INFFs and investment in knowledge sharing and innovation will accelerate progress in this regard. Countries highlighted the value of learning from the experiences, lessons and innovations of their peers in similar country contexts and of support as they build the necessary capacity to operate an INFF approach. The stocktake identified three priorities for G20 DWG members to consider:

- Invest in regional platforms for knowledge-sharing and south-south exchange of experience and expertise across stakeholders developing INFFs
- Invest in a global knowledge platform to enable country access to different financing solutions and training opportunities
- Invest in technical assistance that promotes innovation to mobilise and align finance for national development priorities, including exploring the potential for a joint technical assistance facility
Aligning international support for country-led INFFs

The INFF stocktake highlighted the critical role that international partners can play in support country-led INFFs. Development cooperation is critical to INFFs, particularly in Low Income Countries (LICs), crisis-affected and Small Island Development States (SIDS). The stocktake identified three priorities for G20 DWG members to consider to further strengthen their contributions toward country-led INFF processes:

- Align relevant assessment and diagnostics work with the assessment and diagnostic building block of the INFF
- Align relevant elements of partner country strategy documents, technical assistance and capacity development initiatives and financial instruments/programming modalities with the financing strategy building block of the INFF
- Align institutional reporting processes with the INFF building block on monitoring and review by using and strengthening country-based monitoring systems that track and report on different finance flows

Engaging constituencies to support country-led INFFs

The stocktake highlighted how countries are engaging a wide range of public and private, as well as international and domestic stakeholders, in developing broad ownership and commitment to INFFs. International partners can reinforce this approach, by engaging their own domestic constituencies as international partners to country-led INFF processes, and by engaging actors across government, business and civil society, including social partners, within the assistance and programming they provide. Likewise, governments and their constituencies from G20 countries may learn from the experience of other countries in taking forward INFFs. The stocktake identified three priorities for G20 DWG members to consider:

- Engaging technical experts from Ministries of Finance, Trade, Economy etc. to bring their own experience and expertise in supporting relevant reforms, to other countries taking forward INFFs, and in turn to take back learn from these engagements
- Engaging domestic and international business with other countries’ INFF processes, focusing on investment opportunities, innovations in sustainable, inclusive business models, market analytics, private sector capacity building and other areas
- Engaging broader domestic and international constituencies including civil society, social partners, universities, and others INFF process to broaden ownership and engagement across society including in relation to strengthening transparency and accountability.

Prioritising the integration of economic, social and environmental sustainability within INFFs

Many countries are using INFFs to integrate the three dimensions of sustainable development - economic, social and environmental – within their financing of national development plans, particularly in the context of the pandemic. Investing in economic, social and environmental sustainability will be critical to reducing vulnerability, whilst increasing resilience to future shocks. Within the focus on financing for sustainable development overall countries are using INFFs to strengthen financing for specific national economic, social and sustainable priorities. The stocktake highlighted how there has been an acceleration in developing financing instruments and mainstreaming approaches in this regard. The stocktake identified priorities for G20 DWG members to consider:

- Identify and prioritise INFF methodological development for using INFFs to strengthen financing policy in areas such poverty eradication, gender equality, youth empowerment, social protection,
green growth and NDCs, decent work and economic growth, education, health, and territorial development, in response to country demand.

**Conduct an annual stocktake to inform DWG of INFF progress and trends in international support**

Maintaining a current understanding of progress in national INFF processes and support from international partners can provide a basis for ongoing discussion in the DWG about enhanced cooperation. This year’s stocktake, with its focus on ownership, impact and alignment can provide a foundation and structure for follow up on these issues as INFFs progress in future years.

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1 LICs: low income countries; MICs: middle income countries; HICs: high-income countries; LDCs: least developed countries; SIDS: small island developing states.

2 Contacts: Tom Beloe, SDG Finance Advisor, tom.beloe@undp.org; Tim Strawson, SDG Finance Specialist, tim.strawson@undp.org

3 The UNDP INFF survey, which was conducted in early 2021. Full data is available at https://inff.org/inff-dashboard.

4 Consultations have been held with thirteen DWG members – Argentina; Australia; Brazil; European Union; Italy; Germany; Mexico; Republic of Korea; Saudi Arabia; South Africa; Turkey; UK and the USA; - as well as two of the G20 engagement groups – L20 and Y20 - and stakeholders involved in INFF processes in six countries – Bangladesh; Cabo Verde; Colombia; Kazakhstan; Rwanda; Ukraine

5 UNESCAP, UNITAR, UN-DESA and UNDP co-organised INFF training programmes for North and Central Asia in January 2021 and the Asia-Pacific region as a whole in March 2021.

6 Using the countries covered by the OECD States of Fragility report to define fragile contexts.

7 Author’s calculations based on data published by the IMF as well as financing gap figures published in Sierra Leone’s Medium Term National Development Plan 2019-2023.

8 https://www.ods.gov.co/es/sdg-corporate-tracker

9 The five SDGs are clean water and sanitation (SDG 6); affordable and clean energy (SDG 7); sustainable cities and communities (SDG 11); responsible consumption and production (SDG 12); and life on land (SDG 15). These were prioritised in relation to national priorities and the indicators frequently reported by companies through GRI frameworks.

10 Progress report to the Joint SDG Fund.


12 Unpublished UNICEF analysis of the latest figures published by each country for government spending on social protection and total social spending (which includes education, health and social protection).

13 Author’s calculations based on figures published in the IMF World Economic Outlook, April 2021 database.


15 Author’s calculations.

16 Data is taken from climate public expenditure and institutional reviews for 19 countries, published data from climate budget tagging systems in three countries, climate citizens budgets in two countries, and other ad hoc reports in four countries. Data is from 2015 or later in 17 countries and from between 2010 and 2014 in 11 countries.

17 Author’s calculations based on data published by Climate Bond Initiative on the total scale of green bond issuances each year between 2016 and 2020. Source data available at: https://www.climatebonds.net/market/data/

18 It is noted that this reform is very close to the first recommendation of the forthcoming OECD stocktake on Sustainability-linked innovative financial instruments for the Development Working Group. The first recommendation of that stocktake proposes prioritising SDG alignment in the mandate of public development banks in order to support bond issuance in wider local financial markets.