INFF | Facility

INFFs and LDCs

MARCH 2023

Key messages

- The Doha Programme of Action charts an ambitious roadmap for coordinated support to LDCs through 2031; however, it cannot be achieved without an urgent and significant increase in finance in LDCs.
- Two-thirds of LDCs are developing integrated national financing frameworks (INFFs) to design and implement country-led financing strategies and reforms that drive investment towards LDC graduation, the SDGs and the objectives of the Paris Agreement.
- Halfway to the 2030 Agenda deadline, INFFs present a window of opportunity to meet the financing needs of the most vulnerable and accelerate progress towards the SDGs.

Visit www.inff.org for more information about the state of INFFs.

Context

As we come to the halfway point of the 2030 Agenda, progress in the least developed countries (LDCs) has been uneven and, in some cases, reversed. Poverty and human development indicators have declined for the first time in many years. Climate change is having devastating impacts, with disproportionately high levels of economic losses, damage to critical infrastructure and disruption of essential services in LDCs. The COVID-19 pandemic exacerbated persistent challenges in LDCs and undermined progress in implementing the Istanbul Programme of Action for LDCs.[1]

The Istanbul Programme of Action charts the international community's vision and strategy for the sustainable development of LDCs during the decade 2011-2020.

The Doha Programme of Action (DPoA)[2], adopted during the first part of the LDC5 Conference in 2022 and subsequently endorsed by the General Assembly that same year, charts a roadmap for progress during the decade 2022-2031. It lays out actions for coordinated support and solidarity for LDCs and calls on the international community to prioritise and strengthen support, including by contributing to closing the funding gap for meeting the SDGs.

Integrated national financing frameworks (INFFs) are highlighted in paragraph 29 of the DPoA for their potential to strengthen the partnership between LDCs and their development partners and to build coherent delivery of its ambitions.

70%
of LDCs

are developing INFFs to mobilise and align financing with their priorities.

14
LDCs

are currently developing integrated financing strategies.

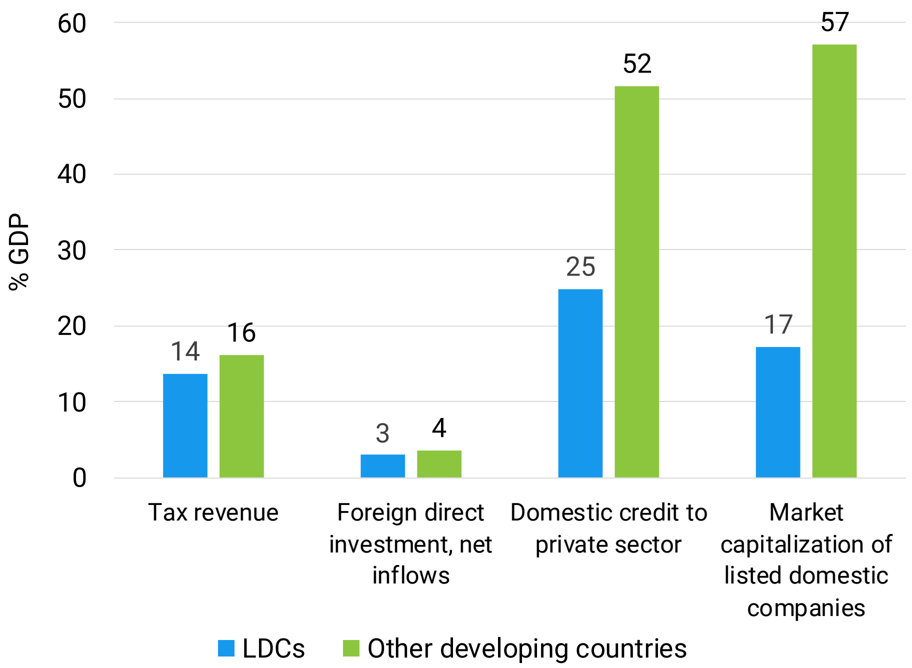
160
reforms

are being implemented to mobilise and align public and private financing with the SDGs.

Financing in LDCs

The financing needs in LDCs are significant and available financing is inadequate to meet them. Between 2021 and 2030, LDCs require investments estimated at $485 billion annually to eradicate extreme poverty (SDG 1.1), $462 billion annually to meet the growth target (SDG 8.1), and $1,051 billion annually to double the manufacturing share of GDP (SDG 9.2).[3]

Figure 1. LDCs face greater financing challenges compared to other developing countries across all aspects of public and private finance.



Source: World Development Indicators

INFF | Facility

LDCs have the lowest tax-to-GDP ratios among developing countries: 13.8% on average, compared to 16.2% in other developing countries. In more than a third of LDCs, tax revenues are less than 10% of GDP.[4] Scarce domestic public resources have resulted in a high dependence on external sources of finance, especially ODA and external debt.

More than a third of all LDCs (17 countries) are among the 54 most debt-vulnerable countries worldwide.[5] Exacerbated by the COVID-19 pandemic and its economic fallout, rising interest rates, the war in Ukraine and rising commodity prices, LDCs are confronting a major debt crisis. Interest payments as a share of revenue in LDCs have doubled in a decade, rising from less than 8% in 2012 to 16% in 2023.[6]

Foreign direct investment (FDI) remains highly focused in a few sectors.[7] Creating an enabling environment for foreign investment is critical for transitioning from concessional to commercial financing, especially for LDCs on track for graduation.

Financial and capital markets are underdeveloped, dominated by commercial banks and very few investment banks. The capacity of national development banks to raise external financing to meet the needs of businesses is low, resulting in credit constraints, especially for micro, small and medium enterprises.

In July 2021, Benin issued a €500 million SDG bond - the first SDG Eurobond issued by an African country.[9]

The use of blended finance and innovative instruments is limited. Less than a fifth (18%) of country-allocable private capital mobilised via official development finance interventions went to LDCs between 2018-2020.[8] Among the roughly 40 countries that have issued SDG and thematic bonds, there has been just one issuance from an LDC.

The cost of sending remittances to LDCs is higher than in other developing countries.[10] This remains an obstacle to exploit their full potential, considering they account, on average, for 4.6% of GDP in LDCs, compared to 1.5% in low and middle income countries overall.[11]

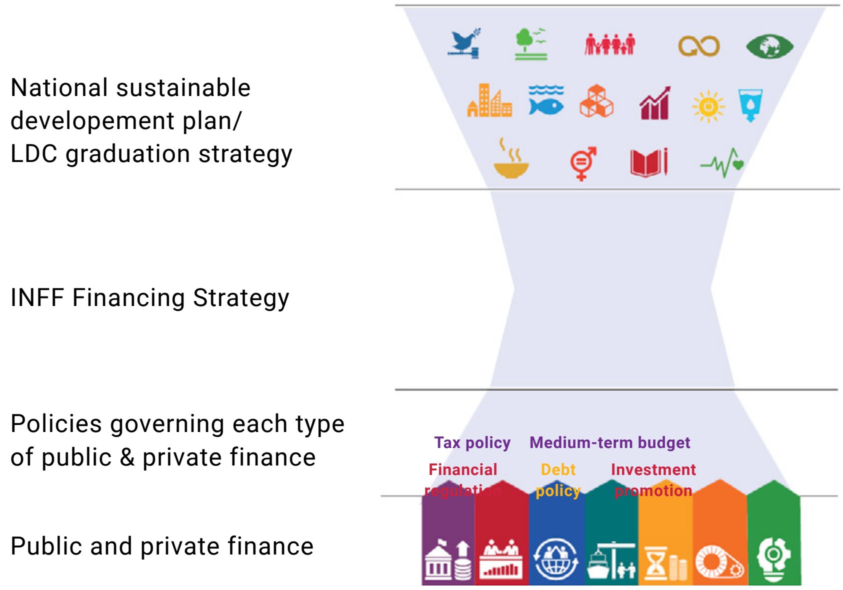
Capacity constraints in LDCs make it harder to deploy the policies and financing instruments required to overcome financing challenges and mobilise the investments needed to graduate from LDC status. Many LDCs have low institutional capacities and weak processes and systems,[12] including limited revenue capacity, low budget credibility and a lack of multi-year perspectives in macro-fiscal frameworks. Most LDCs have a limited capacity to collect, produce and use data to inform national planning and budgeting processes and to enhance coordination across different actors.[13]

INFFs in LDCs

Integrated national financing frameworks - or INFFs - help countries develop a strategy to mobilise and align financing with national sustainable development priorities and the SDGs.

LDC governments are using INFFs to mobilise and align investments that will lead toward a smooth graduation process and contribute toward sustainable development outcomes. INFFs are being used to strengthen capacities and introduce innovative instruments to diversify the financing mix, enhance the impact of financing on social, sustainable and economic priorities and ensure a smoother, more sustainable transition from the LDC category.

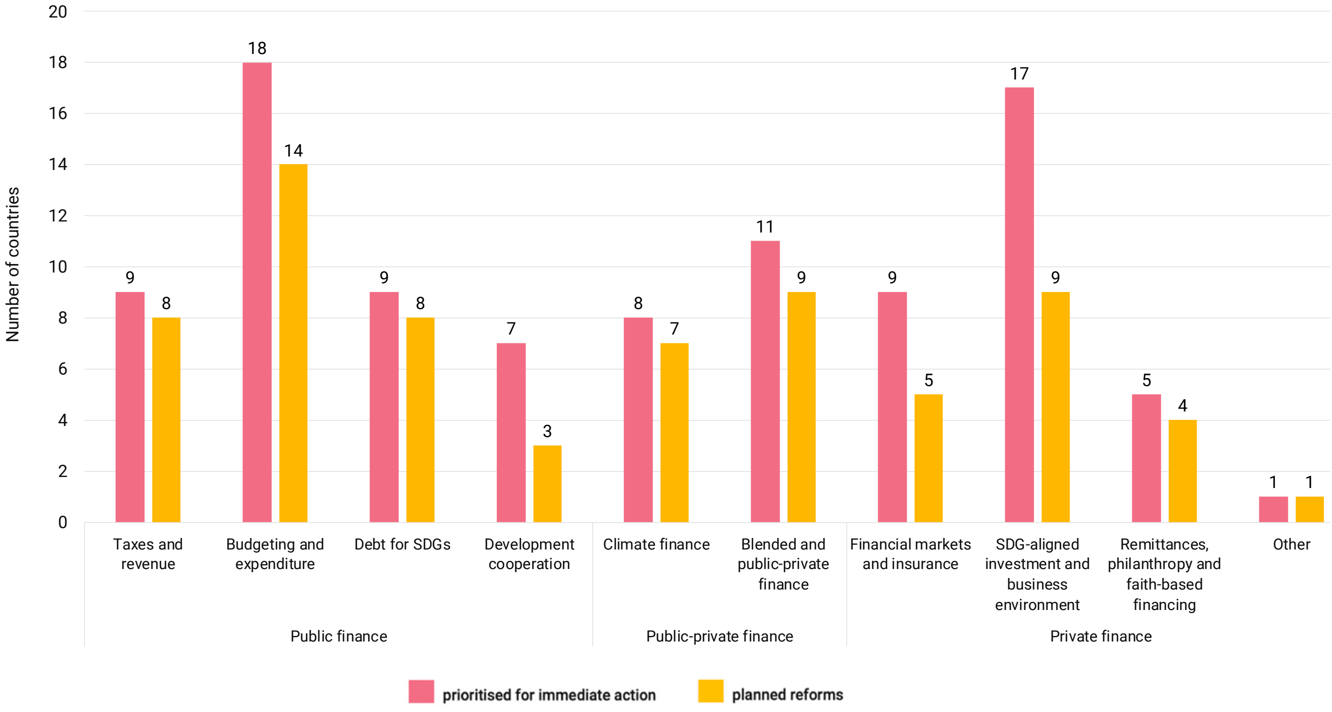
Figure 2. INFFs help countries bridge the gap between planning and financing and support sustainable LDC graduation strategies.



Two-thirds of LDCs are using INFFs to support the implementation of national development strategies and visions. Fourteen LDCs are currently developing integrated financing strategies.

Countries are using these financing strategies to articulate ambitious agendas to strengthen public and private financing in support of LDC graduation and national sustainable development priorities. The range of financing policy areas covered in such strategies spans from public to private, domestic to international (Figure 3), with reforms articulated at various levels, including laws and regulations, frameworks and standards, institutions and processes, policies and strategies and specific financing instruments.

Figure 3. LDCs are using INFFs to roll out over 160 reforms to strengthen public finance and enhance access to private finance.



Source: State of INFFs 2022

3 ways LDCs are using INFFs to strengthen financing for sustainable development

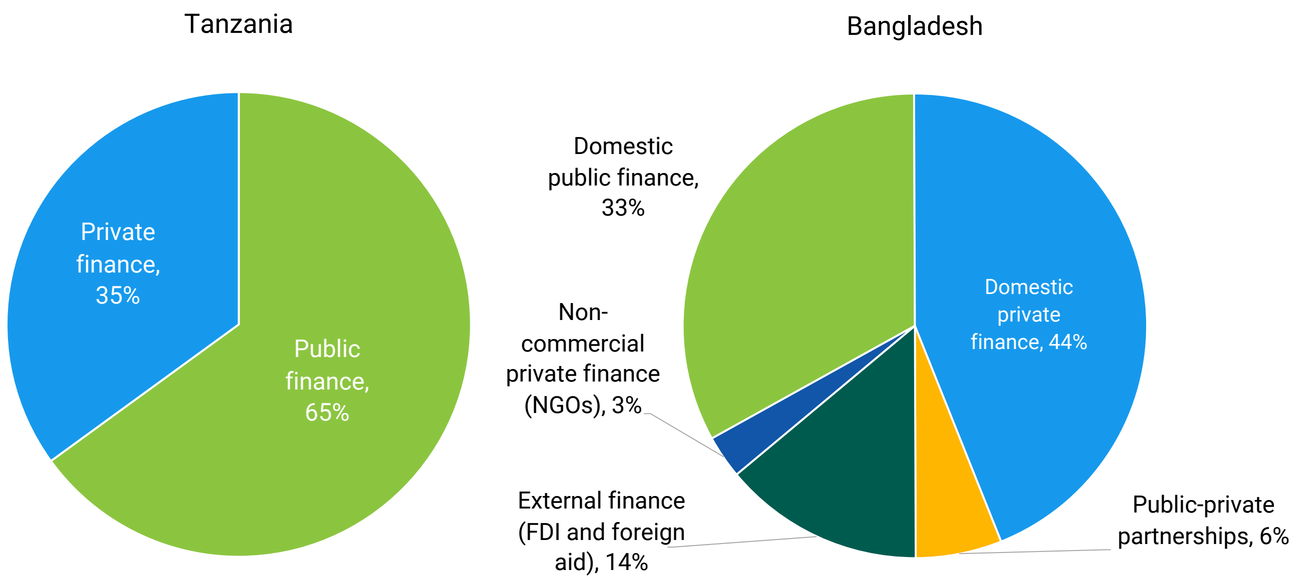
1. Diversifying away from aid and debt

Sustainable and irreversible graduation is one of the focus areas of the DPoA, with a target of an additional 15 LDCs meeting the criteria for graduation by 2031.[14] Expanding and diversifying the financing mix in LDCs away from external financing, especially aid and debt, is critical for achieving this target.

INFFs are helping governments better understand the costs of national sustainable development and the role of a broader range of financing sources. This information provides the basis for reforms that can take pressure off the budget, reduce reliance on public debt and clarify the responsibilities of different actors - ultimately helping to expand and diversify the financing mix.

- The costing of Tanzania's Third Five-Year Development Plan identifies the public and private investments needed to fulfil the total US$50 billion of estimated financing needs (Figure 4).
- In Bangladesh, the government conducted a financing needs assessment to estimate the cost of achieving the SDGs (US$1,040 billion), considering the overlap between different goals and allocating specific roles to the various providers of finance to close the funding gap (Figure 4).

Figure 4. Identifying the potential contributions of different types of finance in Tanzania and Bangladesh



INFFs are helping countries identify entry points for additional private investment that is both commercially viable and catalytic for SDG progress. Nine LDCs are doing this by systematically mapping investment opportunities areas (IOAs) in priority SDG sectors and building project pipelines.[15]

- Uganda identified 16 IOAs in sectors, including agriculture and food security, electricity access, education, health care, ICT and infrastructure. These capture a range of potential investments for the short- and medium-term, often with a high indicative return (15-20% or more in many cases), that will strengthen food security, increase the accessibility of services and improve infrastructure.[16]
- In Djibouti, incubator and start-up activities have been launched to mobilise investment in 21 IOAs across nine sectors in line

with priorities identified in the country's medium-term national development plan.[17]

Across policy priorities, governments are using INFFs to strengthen policy frameworks that mobilise and align the required investments, both public and private.

- Rwanda aims to increase tax revenues by 5.7% of GDP in the next 14 years through a comprehensive medium-term revenue strategy to boost investment in infrastructure, education and health sectors. The government integrated recommendations from the INFF roadmap in its current Medium-Term Revenue Strategy (MTRS) and plans to take forward tax reforms aimed at reducing rates, broadening the domestic tax base, improving tax compliance and administration and curbing tax evasion.
- In Tanzania, work on an SDG taxation framework is ongoing, including an initial focus on Goal 5 (gender equality). Assessments have been undertaken on the taxation of Islamic financing products and the extractive sector to strengthen policies and frameworks in these areas.
- In Burundi, the legal and institutional framework for promoting inclusive private financing and pro-SDG public-private partnerships is being strengthened.
- Timor-Leste launched its first National Diaspora Engagement Policy[18] and Remittance Mobilisation Strategy[19] to embed diaspora finance as a key contributor to national development while diversifying the country's financing mix and reducing reliance on the Petroleum Fund. The strategy promotes the use of remittances for national development and is advancing initiatives such as a digital portal to promote diaspora direct investment and a potential diaspora investment facility focused on infrastructure.

United Republic of Tanzania

For the first time, Tanzania included a financing strategy as an integral part of its medium-term development plan process. The financing strategy goes beyond public finance and incorporates alternative financing and private capital for financing the Third National Five-Year Development Plan 2021/22-2025/26.[20]

In Zanzibar, the President's Office is leading a series of financing dialogues to develop a financing strategy for the Zanzibar Development Plan 2021/22-2025/26, with a particular focus on the blue economy.[21]

The INFF is spurring innovation in key financing policies. For example, a pilot blended finance initiative with the Tanzania Agriculture Development Bank, involving grants, loans and equity, unlocked US$8 million for ten agriculture projects. From this initiative, 25 bankable projects spanning different sectors and project sizes have been identified with local government authorities. These projects are being considered as a pipeline toward a thematic bond issuance at the local level.

Both mainland Tanzania and Zanzibar have mapped investment opportunity areas (IOAs) for SDG-aligned private investments.[22]

- 13 IOAs across five sectors (agriculture, education, renewable and alternative energy, infrastructure, services/hospitality and recreation) have been identified for mainland Tanzania. Five enterprises have been identified to invest in specific projects related to these areas, including solar solutions for health clinics and schools and income-generating opportunities for rural women.
- Zanzibar identified 8 IOAs across four sectors (services/ hospitality and recreation, agriculture, renewable and alternative energy and infrastructure) and is now translating these into investable projects.

2. Channeling private investment for sustainable outcomes

Globally, innovations in financing help many countries channel investments to where they are needed most and address challenges such as unsustainable debt burdens and climate change. They also ensure that private investment is increasingly aligned with sustainable development outcomes and leaves no one behind. However, these innovations are not always accessible to LDCs. **INFFs are helping LDCs exploit the untapped potential of innovative financing instruments.**

- In the Comoros, the Central Bank is setting up a private sector support and guarantee fund to reduce systemic risk for banks and direct investments toward sustainable projects, specifically focusing on micro, small and medium enterprises. The fund

shareholders will be the State, along with private sector financial institutions and insurance companies, which will hold the guarantee capital.
- Rwanda is using the INFF process to introduce and strengthen green financing instruments through the Rwanda Green Fund (Fonerwa). These instruments will create opportunities to invest in priority sectors, programmes and specific transactions across the public-private spectrum.
- Cambodia included the introduction of green financial instruments in its economic recovery plan, and its INFF is laying the foundation for the issuance of a local currency-denominated sovereign bond.
- In Sierra Leone, the government is using the INFF to implement reforms to enable diaspora contribution to the SDGs. Establishing a Government-Diaspora Partnership Pact will facilitate and strengthen the engagement of the diaspora in national development priorities and cement the development of an institutional mechanism for diaspora dialogue. A study is underway to assess the feasibility of a diaspora bond and other SDG-aligned investment instruments.

Cambodia

As part of its INFF process, the Royal Government of Cambodia seeks to finance up to US$300 million in local currency-denominated bonds. This target builds on the country's development finance assessment recommendations toward gradually developing a domestic government credit market.[23] The bond is expected to increase funding alternatives, generate reference prices for local-currency debt instruments for the private sector, create investment opportunities for local agents with excess liquidity and reduce financial vulnerability to external shocks. More specifically, it will provide the government with additional funds to cover the expenditure needs of infrastructure development and address the unexpected financial needs originated by the COVID-19 pandemic and its economic fallout.

A feasibility study and market sounding analysis of the design and potential demand for such bonds have been completed. Recommendations were included around the incentives (both tax and non-tax) that should be established to attract buyers, as well as the risks (including crowding out effects) that must be addressed to avoid unintended consequences. As a pilot, a fixed coupon bond worth KHR 41.7 billion (approximately US$10 million) was issued in the domestic market in September 2022, with plans for further issuances.

3. Building coherent financing institutions and systems

Financing national sustainable development and the SDGs is not just about the amount and quality of finance. It is also, crucially, about the institutions, processes and systems that enable risk-informed and coherent policy-making to direct finance to where it is needed and ensure high levels of transparency and accountability across financing types. In LDCs, where such underlying elements are often underdeveloped,[24] **INFFs are embedding strong links to national sustainable development priorities and the SDGs as institutions and capacities are developed.**

Comoros will soon be the first LDC to finalise an INFF-driven financing strategy.

- In the Comoros, strengthening institutional capacities to enhance the mobilisation and alignment of finance with national objectives is a high priority. The financing strategy, which is close to being finalised, was developed through structured financing dialogues designed to break down silos between sectors, funding sources and processes and to avoid fragmented decision-making. Building on ongoing work in the health sector, the country is also working toward an SDG-aligned Medium-Term Expenditure Framework to ensure the budget is aligned with national sustainable development priorities.
- In Cambodia, a pilot SDG budget tagging exercise enabled the government to track SDG contributions of 89% of the budget of the Ministry of Education (equivalent to US$17.7 million) and 99% of the budget of the Ministry of Social Affairs, Veterans and Youth (US$342 million).
- Benin is enhancing alignment between development planning and budgeting at the national, sectoral and local levels to increase allocative efficiency in favour of the SDGs. Targeted areas include programme-based budgeting, public investment management mechanisms, budget transparency, public participation and monitoring and evaluation systems, focusing on gender and climate. A georeferenced platform for public investments is enabling the government to receive timely information about all public investment sites throughout the territory.
- South Sudan established an online dashboard for monitoring state financial and operational compliance and a public financial management dashboard for monitoring the execution of sub-national funds.

- Malawi is putting the inclusivity of marginalised people from rural areas at the core of its financing strategy. To incorporate financing needs and opportunities at the local level, the government extended the national-level development finance assessment to local-level finance assessments. As a result, the financing strategy is building on a consolidated INFF roadmap, connecting national and sub-national financing reforms.

Moving forward

In 2021, the G20 endorsed INFFs and outlined a framework of voluntary support to INFFs around the world.[25]

In February 2023, the UN Secretary-General launched the SDG Stimulus to Deliver Agenda 2030, which highlights INFFs as a critical approach for aligning finance with the SDGs.[26]

The INFF Facility brings together UNDP, UNDESA, the OECD, UNICEF, the European Union, Italy, Sweden and Spain.

LDCs are using their INFFs to finance ambitious development agendas, responding to their unique contexts and challenges, laying the foundations for forward-looking policy-making and exploiting financing innovations. With accelerated progress needed for the SDG and DPoA deadlines of 2030 and 2031, now is the time to strengthen partnerships and accelerate support for LDCs.

14 LDCs are currently developing integrated financing strategies. This year, the Inter-Agency Task Force on Financing for Development will publish deep-dive methodological guidance on INFFs in LDCs to help LDCs maximise the potential of their INFFs.

Development partners can leverage the growing momentum around INFFs to channel their technical and financial assistance toward successfully implementing integrated financing strategies.

The INFF Facility was launched in 2022 in response to the demand for support from LDCs and other countries implementing INFFs. The Facility brokers technical assistance from a growing range of partners, facilitates knowledge exchange and provides access to technical guidance.

LDCs interested in embarking on or already implementing INFFs can benefit from the Facility's offers, including focused windows of support on sustainable private finance and public expenditure to be launched in 2023.

This brief was developed by UNDP on behalf of the INFF Facility.
For further information, please contact:

- **Tim Strawson,** SDG Finance Specialist, UNDP Sustainable Finance Hub, tim.strawson@undp.org
- **Cecilia Caio,** Policy Specialist, UNDP Sustainable Finance Hub, cecilia.caio@undp.org

Endnotes

[1] Report of the Fourth United Nations Conference on the Least Developed Countries, 2011. Available at: https://www.un.org/ohrlls/content/istanbul-programme-action
[2] Doha Programme of Action for the Least Developed Countries 2022-2031. Available at: https://www.un.org/ldc5/sites/www.un.org.ldc5/files/doha_booklet-web.pdf
[3] UNCTAD, 2021. The Least Developed Countries Report. These estimates are based on assumed growth rates. There may be some overlap between them.
[4] Author's calculations based on World Bank World Development Indicators. Available at: https://databank.worldbank.org/source/world-development-indicators. For comparison among different country groupings, see Chapter III.A in Inter-agency Task Force on Financing for Development, 2022. Financing for Sustainable Development Report 2022. Available at: https://developmentfinance.un.org/sites/developmentfinance.un.org/files/FSDR2022_ChptIII.A.pdf
[5] UNDP, 2022. Avoiding 'Too Little Too Late' on International Debt Relief. Available at: https://www.undp.org/publications/dfs-avoiding-too-little-too-late-international-debt-relief
[6] Inter-agency Task Force on Financing for Development, 2022. Financing for Sustainable Development Report 2022. Available at: https://developmentfinance.un.org/sites/developmentfinance.un.org/files/FSDR2022_ChptIII.E.pdf
[7] UNCTAD, 2022. Foreign Direct Investment in LDCs. Available at: https://unctad.org/system/files/official-document/diaeia2022d1_en.pdf
[8] OECD, 2023. Private finance mobilised by official development finance interventions. Available at: https://www.oecd.org/dac/2023-private-finance-odfi.pdf
[9] Ministry of Economy and Finance, Republic of Benin. SDG Bond Issuance. Available at: https://odd.finances.bj/en/benin-is-committed/
[10] Author calculations based on World Bank World Development Indicators. Available at: https://databank.worldbank.org/source/world-development-indicators
[11] World Bank World Development Indicators. Available at: https://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS
[12] UNOHRLLS, 2022. About Least Developed Countries. Available at: https://www.un.org/ohrlls/content/about-least-developed-countries
[13] Inter-agency Task Force on Financing for Development, 2022. Financing for Sustainable Development Report 2022. Available at: https://developmentfinance.un.org/sites/developmentfinance.un.org/files/FSDR2022_ChptIV.pdf
[14] Doha Programme of Action for the Least Developed Countries 2022-2031,, paragraph 276. Available at: https://www.un.org/ldc5/sites/www.un.org.ldc5/files/doha_booklet-web.pdf
[15] This is being done using UNDP's SDG Investor Maps methodology. Available at: https://sdginvestorplatform.undp.org/methodology
[16] Details of Uganda's Investment Opportunity Areas can be found at: https://sdginvestorplatform.undp.org/market-intelligence
[17] Details of Djibouti's Investment Opportunity Areas can be found at: https://sdginvestorplatform.undp.org/market-intelligence

[18] Timor-Leste National Diaspora Engagement Policy 2023-2027. Available at: https://timorleste.un.org/sites/default/files/2022-08/Diaspora%20Policy%20Executive%20Summary.pdf

[19] Remittance Mobilisation Strategy for Timor-Leste. Available at: https://timorleste.un.org/sites/default/files/2022-08/Executive%20Summary%20-%20Remittance%20Mobilization%20Strategy.pdf

[20] The United Republic of Tanzania, National Five Year Development Plan 2021/22-2025/26. Available at: https://www.tro.go.tz/wp-content/uploads/2021/06/FYDP-III-English.pdf

[21] The Revolutionary Government of Zanzibar, Zanzibar Development Plan (ZADEP) 2021-2026. Available at: https://planningznz.go.tz/english/Downloads/current/ZADEP.pdf

[22] Details of Tanzania's Investment Opportunity Areas can be found at: https://sdginvestorplatform.undp.org/market-intelligence

[23] UNDP, 2021. Cambodia's Development Finance Assessment. Available at: https://inff.org/resource/cambodias-development-finance-assessment

[24] UNOHRLLS, 2022. About Least Developed Countries. Available at: https://www.un.org/ohrlls/content/about-least-developed-countries

[25] G20, 2021. G20 Development Working Group Outcome Document on Financing for Sustainable Development. Available at: https://inff.org/resource/g20-framework-for-voluntary-support-to-inffs

[26] UN, 2023. United Nations Secretary-General's SDG Stimulus to Deliver Agenda 2030. Available at: https://www.un.org/sustainabledevelopment/wp-content/uploads/2023/02/SDG-Stimulus-to-Deliver-Agenda-2030.pdf