INFF | Integrated National Financing Frameworks

GUIDANCE NOTE

INFFs and Development Cooperation

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About integrated national finance frameworks

Integrated national financing frameworks (INFFs) are a planning and delivery tool to help countries implement the Addis Ababa Action Agenda at the country level. INFFs lay out the full range of financing sources – domestic and international sources of both public and private finance – and guide countries in developing a strategy to increase investment, manage risks and achieve sustainable development priorities, as identified in national sustainable development strategies.

To help build cohesion and encourage knowledge exchange between countries implementing INFFs around the world, the United Nations and the European Union, in cooperation with a growing network of partners, are developing joint approaches to bring together expertise, tools and relationships in support of country-led processes. For more information about INFFs, visit www. inff.org.

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Contents

1. Introduction

An integrated national financing framework (INFF) can help governments better incorporate financing into development planning processes (see Box 2). The purpose of this note is to provide additional guidance on the link between INFFs and development cooperation. More specifically, it aims to answer the following questions: how can recipient countries and development cooperation providers make use of an INFF to further enhance the effectiveness of development cooperation? What are the benefits of adopting an INFF? What are the implications at the operational level?

In line with the Addis Ababa Action Agenda, development cooperation (DC) is intended to cover all international public finance and capacity support that can complement domestic efforts in support of nationally identified sustainable development objectives, i.e. traditional aid as well as South-South cooperation (SSC), concessional as well as non-concessional resources.

There are many reasons why strengthening the link between INFFs and DC is important. First, DC remains an important source of finance in many contexts; for example, in low-income countries ODA accounts for 11.6% of GNI,1 and in middle-income countries it has the potential to crowd-in/de-risk investment through contributing to the use of blended finance approaches. Second, INFFs can be used to strengthen adherence to processes and principles aimed at making DC more effective, as well as long-standing commitments on the quantity and allocation of DC flows. Third, INFFs can increase the effectiveness of DC by making explicit the links between DC and other financing policy areas (such as domestic resource mobilisation and private investment), with large potential to enhance integration and coherence. They can also be used to enhance coherence and complementarity between humanitarian and long-term development finance. Finally, the increasing momentum and attention toward INFFs by development partners has mainly focused on the potential value and implementation of INFFs in developing countries, with little discussion on what adopting an INFF from a development partner perspective would imply; this note is also an opportunity to begin rebalancing the conversation.

Section 2 provides an overview of typical country level processes related to DC; typical challenges from both the domestic government and development partner perspectives; and potential misalignments between DC and other financing policy areas, highlighting the need for a more integrated approach when it comes to the delivery and use of DC. Section 3 dives deeper into the INFF building blocks and reflects on key roles and responsibilities to make policy-making on DC more integrated and coherent. A summary matrix of roles and responsibilities is provided in Annex 1.

Box 1 - Who is this note for?

This note considers INFFs in the context of development cooperation for both recipients and providers of development cooperation.

Recipients of development cooperation (domestic governments) can use this note to formulate coherent development cooperation policies, and to ensure more coordinated and needs-driven interventions by development partners – enhancing overall control over development cooperation in their countries.

Providers of development cooperation (development partners) can use this note to understand the implications of INFFs on their ways of working in partner countries – facilitating the fulfilment of existing commitments, including on national sovereignty and country ownership, effectiveness and policy coherence. Development partners can also use this note to understand the implications of INFFs when designing development cooperation policies and strategies and when formulating broader national policies at home.

Box 2 - What is an integrated national financing framework (INFF)?

Integrated national financing frameworks (INFFs) help countries finance their national sustainable development objectives and the Sustainable Development Goals (SDGs).

Through INFFs, countries develop a strategy to mobilise and align financing with all dimensions of sustainability, broaden participation in the design, delivery and monitoring of financing policies, and manage risk.

INFFs are voluntary and country-led. They are embedded within plans and financing structures, enabling gradual improvements and driving innovation in policies, tools and instruments across domestic, international, public and private finance.

Four building blocks can support governments in putting an INFF into practice:

1. **Assessment and diagnostics** (to provide the basis for decision making on financing – i.e. what are the needs, what financing is already available and how it is being used, what are the risks, and what are the underlying obstacles/binding constraints);
2. **Financing strategy** (to guide the design of financing policies and reforms that can mobilise financing in line with national priorities and all dimensions of sustainability);
3. **Monitoring and review** (to bring together all relevant data and information to track progress and facilitate transparency, accountability and learning on all things financing);
4. **Governance and coordination** (to ensure institutions and processes required for the formulation and implementation of coherent financing policies are in place and functional).

Note: Global guidance on each of the building blocks can be found at inff.org.

2. The need for a more integrated approach

An INFF can help countries strengthen three dimensions of integration. First, it can help consider who should be involved in the policy making process, and how different actors may be brought together more effectively (stakeholder integration). Second, it can help enhance linkages between financing and identified national sustainable development priorities (vertical integration). Third, it can help identify linkages across financing policy areas to maximise synergies and minimise incoherencies (horizontal integration).

Sections 2.1-2.3 reflect on these three dimensions with regard to development cooperation processes and practices, highlighting the potential value of adopting an INFF in this area.

2.1 Development cooperation in practice

A wide range of stakeholders is involved in delivering development cooperation and in designing related policies – including Ministries of Finance, Planning, Foreign Affairs, line ministries, development partner agencies, development banks, civil society, and private sector organisations. Below, typical processes for policy making and coordination are described as a way of providing a baseline for how development cooperation unfolds at the country level, and how different actors are involved.

Policy making processes

At the country level, government processes for developing DC policies and strategies are usually led by Ministries of Foreign Affairs and Development Cooperation. They are not always considered alongside the annual budget cycle, or in close collaboration with the Ministry of Finance, and can be fragmented, with different ministries considering DC needs and asks in silos.

In some donor countries, high-level DC policies are often formulated by the Ministry responsible for development cooperation without systematic involvement of other Ministries or development agencies operating in recipient countries. These policies are used to guide DC operations and in some cases are complementary to legislation that sets out in law the guiding principles and foundations for the country's DC programmes. Thematic, regional and/or country specific strategies are used to distill specific objectives and additional detail about activities, reflecting, in most cases, partner countries'own development priorities and needs. Box 3 highlights specific principles that guide engagement of members of the OECD Development Assistance Committee (DAC) in countries in vulnerable situations.[2]

Coordination and donor engagement processes

Different countries have different processes in place to engage and coordinate with development partners. These tend to be related to the annual budget cycle and are often organised around thematic areas, such as public financial management or private sector engagement, or by sector, such as health, education, or agriculture.

In addition to government-led processes for coordination and donor engagement, development partners have their own internal processes for ensuring coordinated action at the country level. For example, the UN Resident Coordinator system brings together different UN agencies and coordinates their respective operational activities. European Union delegations often play a coordinating role among the EU bilateral donors active in the country. International financial institutions and multilateral development banks have systems in place to coordinate their respective activities in common areas of operation.[3]

Sector-specific or thematic arrangements are also used by the UN system for improved coordination. For example, the UN Food Systems Coordination Hub brings together food systems knowledge and expertise in support of national progress.

Box 3 - Donor engagement in countries in vulnerable situations

This note considers INFFs in the context of development cooperation for both recipients and providers of development cooperation.

The Humanitarian-Development-Peace Nexus DAC Recommendation provides guiding principles for engagement by international actors in countries in vulnerable situations, with the aim of enhancing complementarity and coherence.

Programming principles stress the importance of inclusive, joined-up, people-centred approaches, that prioritise prevention, ensure collective outcomes, align with risk, and contribute to strengthening local capacities. Good practices include:

- Austria makes training on conflict sensitivity available to all staff and local partners;
- The Finnish Fund for local co-operation, managed by Finland's embassies, provides support to local civil society organisations in crisis contexts;
- Iceland supports district budgets and uses district systems to monitor projects.

Coordination principles focus on joint analysis, backed by relevant political engagement, and on empowering leading actors to coordinate across and within organisations. Good practices include:

- Belgium's Fragility Resilience Assessment Management Exercise (FRAME) is used for common risk and opportunity analysis;
- Sweden has a Nexus advisor in its Embassy in the Democratic Republic of the Congo who facilitates a donor group that covers a range of activities from information sharing to practical processes;
- Canada, Portugal and the United Kingdom use cross-departmental task teams for particular crises, building on different expertise across government.

Source: OECD (2022) Development Cooperation Fundamentals: Engaging in Fragile Contexts

2.2 Typical challenges

There are long standing efforts and commitments to ensure DC can effectively contribute to national development priorities. The Addis Ababa Action Agenda reiterated the principles of DC effectiveness, including aligning donor activities with national priorities and national systems, untying aid, promoting country ownership and channelling resources through budgets where possible, strengthening partnerships, and increasing transparency, predictability and mutual accountability. It also highlighted the efforts of the Development Cooperation Forum (DCF) of the UN Economic and Social Council and of the Global Partnership for Effective Development Cooperation (GPEDC) with regard to the implementation of these principles. However, common challenges have meant that progress in putting existing principles into practice has been slow. INFFs can help revitalise momentum in efforts to strengthen development cooperation effectiveness (in both donor countries and developing countries) and in addressing the key challenges.

Issues from the domestic government perspective

When it comes to the allocation and implementation of DC, the biggest challenges domestic governments face include fragmentation and issues related to monitoring, transparency and visibility of development cooperation resources.[4]

Development partners present in the country do not always coordinate among themselves and can present similar offers to governments. They may have different government counterparts (e.g. sector-specific) and not all DC is on budget. In addition, their national budget cycles may be different from those of the partner country. This, combined with the limited forward visibility of DC flows, makes coordinating support from donors and painting a full picture of DC in a country a difficult task. Intra-government inefficiencies, such as Ministries of Finance and Ministries of Foreign Affairs working in silos, exacerbate the challenge.

Burdensome reporting requirements, additional to those governments may have in place as part of existing national processes, continue to characterise DC from some donors, notwithstanding global principles that call for use of country systems. This not only undermines country ownership and stretches already thin administrative capacities, but also poses additional challenges to governments' ability to plan, track and compare resources from different donors.

Issues from the development partner perspective

Lack of coherent country DC policies and strategies, which results in unclear asks or frequent changes to asks, are common challenges that development partners grapple with when operating at the country level. The intra-governmental coordination issues mentioned above, also affect the ability of development partners to effectively engage with domestic governments, especially when roles and responsibilities of different Ministries are unclear. More systemic issues, such as corruption, which INFFs will not be able to solve but can contribute to address on the margin, also represent impediments to effective DC.[5]

Challenges related to adequate resourcing (both financial and human) of donor institutions responsible for DC in capitals as well as field offices can further hinder effective allocation and use of resources. Scepticism about aid in donor countries compounds these challenges, especially during periods of economic adversity at home, when sustaining public and political support for DC becomes even more difficult.

Competing national interests (such as trade, geopolitics, security) pose challenges to the optimal functioning of DC within overall national policy, as short-term pressures risk jeopardising long-term sustainable development objectives. Geographical and sectoral allocations driven by domestic (donor country) political priorities and legislative initiatives can result not only in short-term and ad hoc interventions in partner countries, but also undermine the development of aid programmes based on the comparative advantage of each donor.

Box 4 - Typical policy making and coordination challenges in countries in vulnerable situations

In addition to the challenges presented in section 2.2, governments and development partners in crisis-affected contexts face additional, distinctive challenges. These include:

- Frequent and rapid changing financing needs (and priorities);
- Weak government leadership and consent, and limited/ lacking governance structures and processes;
- Analytical, operational and cultural siloes across humanitarian, development, and peacekeeping actors;
- Climate change that undermines economic and societal development and increases uncertainty.

From the development partner perspective, consistent underinvestment in context-specific analysis to inform entry points for country interventions is also an issue, as are barriers to collaborative working among partners such as competition for funds and across operational mandates, which hinders the ability to leverage the comparative advantage of different actors.

Source: OECD (2018) Financing for stability in the post-2015 era; OECD (2018) Financing for Stability: Guidance for Practitioners

2.3 Development cooperation and other financing policy areas

Development cooperation can support action across financing policy areas. Ongoing efforts related to specific areas of financing include the Addis Tax Initiative and the Platform for Collaboration on Tax (to support domestic resource mobilisation); the Alliance for Financial Inclusion (to expand peer learning on increasing access to financial services for the poorest populations); Aid for Trade (to support countries' trade capacities); and the Paris Forum initiative (to foster dialogue among sovereign creditors and debtors on debt issues).

However, development cooperation does not exist in a vacuum. All governments have a wide range of interests to respond to national concerns and priorities. These are reflected in government policies and practices that go far beyond DC. At times, these policies and practices can be in direct contrast to DC objectives. Figure 1 illustrates possible incoherencies between the objectives of DC and those in other areas of financing policy including domestic revenue mobilisation, private finance, and debt sustainability.

While efforts to enhance policy coherence for sustainable development have increased in recent years, scope remains to encourage a more integrated approach to national policy formulation in donor countries – one in which the potential impact on the ability of developing countries to finance their own development is widely acknowledged and addressed.

Figure 1. Examples of possible incoherencies between development cooperation and other financing policy areas

3. Adopting an integrated approach to development cooperation: roles and responsibilities

There are two angles to consider when thinking about INFFs and DC. First, how DC can support partner countries in designing, implementing and sustaining an INFF. This includes, for example, how development partners could support various assessment and diagnostic exercises, the identification of potential policy solutions, and the establishment of adequate monitoring systems and governance arrangements for effective policy making across different financing areas.

The second angle is how an INFF can strengthen DC. This includes, for example, how taking a more integrated approach can support the formulation of DC asks and of national DC policies that are risk-informed and coherent with national sustainable development priorities, and how such an approach can ensure the right systems and processes are in place to monitor and govern related efforts and actors.

Sections 3.1-3.4 outline the roles and responsibilities of domestic governments and of development partners in relation to both these angles, organised around the INFF building blocks. They do not repeat the global guidance on each building block, but rather highlight aspects of the guidance that are particularly relevant to policy making on DC. They are written from the perspective of recipient countries. Box 7 is an attempt to begin to explore the implications of adopting an INFF from the donor country perspective.

The overarching guiding principle for integrated policy-making on development cooperation is **national governments lead, development partners follow**.

Box 5 - Roles and responsibilities of governments and development partners in the INFF inception phase

The inception phase of an INFF brings together relevant information that creates the foundations for an INFF. When INFFs are focused on specific themes or financing policy areas, the inception phase will be narrower in scope compared to INFFs that support entire national development plans and cover several financing policy areas.

Domestic governments applying INFFs to development cooperation can use the inception phase to identify and review existing development cooperation policies and strategies, as well as any assessments or evaluations on the effectiveness of development cooperation in the country. They can also identify the mechanisms that exist to communicate and coordinate with donors, with the view of establishing whether existing ones are serving their purpose, and whether any additional ones may be needed to fill any gaps in governance.

Domestic governments can also use the inception phase to map relevant stakeholders, especially development partners, along with their key areas of focus and main activities in the country. This will help when formulating specific development cooperation asks (see Building Block 1 below) and establishing who could support INFF implementation, if required.

Development partners play a supporting role in INFFs. During the inception phase, on a demand basis, they can provide guidance to governments on how to navigate the INFF global guidance, and highlight its relevance in the specific country context. They can also share lessons and insight from the application of INFFs in other countries, and support the process as requested.

3.1 Assessment and diagnostics

Purpose of the building block
To establish the need for development cooperation, how much and in what form.

Roles and responsibilities at a glance

	To enhance clear asks for development partners	To support INFF design and implementation
DOMESTIC GOVERNMENTS	Establish clear asks for developing partners	Set aside adequate resources and capacity
	Identify issues that DC policies should address	If gaps, determine type of support needed
DEVELOPING PARTNERS	Provide input/ participate in national assessments	Support government as requested

Building block 1.1 Financing needs assessment

DOMESTIC GOVERNMENTS

Governments may consider DC as a potential source of funding either in the context of entire national development plans, or more narrow development objectives (e.g. sectoral[6]). This will determine the scope of the financing needs assessment (e.g. covering several sectors/ thematic areas or single ones).

In cases where costings have already been carried out, the global guidance on building block 1.1 can be used to ensure existing estimates are 'sustainable development proof' – i.e. that they take into consideration different scenarios, risks, and potential financial returns; sustainability in all its dimensions, including the leave no one behind principle; and synergies across outcome areas, sectors and activities.[7] In cases where there are no costings, the global guidance on building block 1.1 can provide the basis for estimating needs.

To the extent possible, and to ensure ownership and sustainability of the exercise, domestic governments should set aside own resources to undertake financing needs assessments. However, if support is needed, governments may seek capacity support and/or financial resources from development partners. In addition, the international community has a multitude of costing tools to offer;[8] governments may also identify, with the help of development partners, whether any existing tools fulfil their needs, and seek support, where needed, in implementing and/or adapting them to their country contexts.

DEVELOPMENT PARTNERS

The role of development partners in financing needs assessments is to support governments as requested, and in line with the principles laid out in the global guidance on building block 1.1. This would mean, for example, starting from the desired purpose of the costing exercise (as established by government) and determining whether the expertise exists to employ the relevant methodology. The objective should be to fulfil the needs of government and transfer knowledge, not to calculate cost estimates based on own methodologies irrespective of the demand and desired use by government. This will ensure that development partner support contributes to cost estimates that will be used by government.

Building block 1.2 Financing landscape assessment

DOMESTIC GOVERNMENTS

Combining cost estimates with estimates of current resources, governments can establish financing gaps,[9] and use them as basis for DC asks. Not all identified gaps will be filled by DC; some will be best filled by other types of finance, while for some, trends and projections in volumes and allocation of DC may show the potential of DC to contribute. Once this is established, governments can formulate specific asks for different development partners. For example, Nepal's SDG costing exercise, which combines costing estimates with an overview of available and projected resources, gives ODA the role of filling identified government shortfalls especially in relation to poverty and inequality policies.[10]

The financing landscape assessment can also be used to lay out trends and allocation of DC flows. For example, how are volumes changing? What is DC funding? Is it aligned with country needs and development priorities? Is it concentrated in specific sectors, while there are gaps in others that development partners could be filling? Do actual volumes reflect projected ones? Data on this can inform the formulation of DC policies, as well as dialogues with development partners with the view of strengthening the overall effectiveness of their support.

While undertaking financing landscape analysis, gaps or weaknesses in existing data and information systems will be unearthed. Where appropriate, these may also be used to inform DC policies as well as specific asks for development partners (see more under building block 3 below).

As for the financing needs assessment, governments should set aside adequate resources to undertake financing landscape assessments. This will ensure, in addition to ownership and sustainability, that the exercise can be undertaken on a regular basis. If assistance is required, governments can seek advice and/or resources from development partners, who can draw on a variety of tools in this area.[11]

DEVELOPMENT PARTNERS

Similar to the financing needs assessment, development partners have a supporting role in financing landscape analysis. They can assist governments as requested, and mindful of the principles and suggested approach presented in the global guidance on building block 1.2. This includes mapping and analysing not just volumes of financing, but also the sustainability of financing, forward-looking trends, domestic targets, and allocations vis-à-vis domestic priorities.[12]

Development partners can also, as requested, support the strengthening of data systems on which financing landscape analysis relies, with the view of fulfilling government needs and of being able to use such country systems themselves, in line with longstanding commitments on development effectiveness (see also Building Block 3 below).

Further, crucially, development partners have a responsibility to provide timely data on development cooperation flows, both current and forward-looking estimates. This should be done in line with national analytical requirements and national data systems, as required by the government.

Building block 1.3 Risk assessment

DOMESTIC GOVERNMENTS

Countries applying the INFF to DC can make use of the risk assessment in two ways. First, based on the analysis of the country's risk landscape and on the prioritisation of risks for policy action,[13] the risk assessment can help governments formulate related DC asks. Because development cooperation can be used to help prevent, reduce, and manage both economic and non-economic risks, governments can use a comprehensive risk assessment to present the country's risk picture to development partners and ask for specific support across a range of areas (e.g., in covering insurance premiums, or in investing in resilience infrastructure).

Second, domestic governments can use the risk assessment to determine any risks related to DC flows specifically. These may include, among others, risks related to volatility, predictability of funding, and to changes in access to concessional resources (for countries graduating to middle income status). Governments can use findings from this analysis to ensure DC policies and strategies are risk-informed, and can address potential vulnerabilities in the national DC landscape.[14]

As above, governments should rely on own resources to the extent possible to undertake risk assessments. If support is needed, they can seek support from development partners, who can rely on a multitude of tools to assist.[15]

DEVELOPMENT PARTNERS

Development partners have three key roles when it comes to INFF risk assessments.
First, they can complement national risk assessments with regional and global ones to support domestic governments in painting as full a picture as possible of its risk landscape. As stated in the global guidance on building block 1.3, "national risk assessments can guide domestic policy action, but they cannot reduce all risks faced by a national economy, nor reduce globally systemic risks. Risk assessments at the national level must be complemented by regional and global systemic risk assessments and measures, with an emphasis on the needs of the poorest and most vulnerable countries."[16]

Second, they can fulfil and/or amplify asks resulting from the national risk assessment, in line with step 3 of the suggested approach in the global guidance, which includes, among other things, an analysis of what is needed from the international community to complement domestic efforts in strengthening risk management capacity and investing in resilience to safeguard the country's ability to finance its national sustainable development priorities.

Third, development partners can provide support to governments, as requested, to undertake national risk assessments, mindful of the suggested approach presented in the INFF global guidance. Notably, this includes linking identified risks to the country's ability to finance sustainable development, identifying relevant transmission channels and incorporating a leave no one behind perspective in the analysis.[17]

Building block 1.4 Binding constraints diagnostics

DOMESTIC GOVERNMENTS

Similar to risk assessments, governments undertaking an INFF with a focus on DC, can use the binding constraints diagnostics in two ways. First, to guide the articulation of DC asks. As stated in the global guidance on building block 1.4, no government will be able to address all identified constraints – in part because it may not be desirable to remove some of them,[18] and in part due to resource and/or capacity limitations. Development partners can help with the latter.

Second, governments can use binding constraints diagnostics to identify any underlying obstacles to the effective deployment and use of DC in their country. This can inform DC policies, ensuring they can be used to address the root causes of existing inefficiencies, as well as broader practices in relation to engaging with, and managing, development partners.

As for the other assessments, governments should set aside own resources to undertake binding constraints diagnostics to ensure ownership, sustainability and iteration. However, they can seek support from development partners to fill any gaps in expertise and/or resourcing, with the view of building in-house capacity overtime.

DEVELOPMENT PARTNERS

Development partners can support governments in reviewing and collating results from existing international assessments of binding constraints related to financing in the country.[19] Typically, international financial institutions and other development partners undertake numerous assessments in countries where they operate. These can be used to inform the binding constraints analysis, and may require development partner assistance to identify and access them.

As with the other assessments, development partners can also provide support as requested to undertake binding constraints diagnostics – whether in terms of expertise, resources, or both. This should be done mindful of the suggested approach described in the global guidance on Building Block 1.4, which includes an assessment of whether removing identified constraints would be desirable and/or feasible from the government perspective. Overall, an important role for development partners in binding constraints diagnostics is related to their convening power, which they could use to help facilitate required dialogues and involvement of all relevant stakeholders in the identification of potential binding constraints.

3.2 Financing strategy

Purpose of the building block
To design integrated development cooperation policies that can guide mobilisation and effective use of development cooperation.

Roles and responsibilities at a glance

	To enhance development effectiveness	To support INFF design and implementation
DOMESTIC GOVERNMENTS	Enhance / develop DC policies	Set aside adequate resources and capacity If gaps, determine type of support needed
DEVELOPING PARTNERS	Participate in national policy making process Use resulting DC policies to guide interventions	Support government as requested

DOMESTIC GOVERNMENTS

Building block 2 of the INFF global guidance covers the core of the policy making process – i.e. how to identify and prioritise possible policy options and reforms with the view of formulating integrated financing strategies for sustainable development. As outlined in Box 2, INFFs can be tailored to country needs and priorities; for example, an INFF can be applied to develop financing strategies spanning several/ all financing policy areas, as well as to single financing policy areas, such as development cooperation. The role of government with regard to the latter is to review and strengthen relevant policies or develop new ones if none exist.

Distinctive elements of the suggested approach, which are highly relevant for articulating integrated DC policies, include:

- Starting from findings of the assessment phase to establish what the need for DC is and thus where it should be focused;
- Identifying the strengths and weaknesses of existing DC policies to ensure any updates or new policies are informed by what has worked and what has not worked to date;
- Exploring policy options and potential DC instruments via a participatory approach that involves practitioners (i.e. implementers of DC projects at the local level, such as local governments and CSOs) and peers (i.e. countries with similar administrative contexts and donor contexts);
- Undertaking coherence checks to ensure trade-offs, unintended consequences, and potential impacts of DC policy choices on other financing policy areas, and on all dimensions of sustainability are explicitly considered and corrective measures identified where needed (see Figure 1 in Section 2.3 for examples of potential incoherencies that would need to be addressed).

Context-specific issues will need to be considered in the formulation of DC policies. For example, Box 6 outlines some key issues that policymakers in countries in vulnerable situations will need to keep into account (along with related good practices from the development partner perspective).

Governments should set aside adequate resources, capacity and time to ensure these elements are implemented and integrated into ongoing policy-making processes. Development partners may be called upon to assist, especially when the process is being first established, but should not be relied upon for its ongoing implementation and sustainability overtime.

DEVELOPMENT PARTNERS

Development partners have three key roles and responsibilities when it comes to supporting integrated policy-making on development cooperation.

First, they should engage as requested in government-driven consultations about policy options, to ensure that these reflect their perspectives and insights and to ensure buy-in from the outset. In contexts where governments may not have the required convening power, development partners may support efforts to bring together relevant stakeholders and feed their input into the policy-making process (see also Section 3.4).

Second, they should be guided by resulting policies in their interventions, i.e. they should use government DC policies to inform the focus of their interventions and to shape their ways of working in the country. DC policies may identify specific constraints to financing sustainable development that development partners could help address. Once such constraints are identified and prioritised, development partners can provide capacity support and/or resources to address those that can be dealt with at the country level. They can also help amplify domestic issues in global fora, especially for those binding constraints that are outside the country's control.

Third, development partners may provide support, as requested, to fill capacity and/or resource gaps in setting up the process outlined above (e.g. by sharing good practices from other countries on how trade-offs and unintended consequences are considered in the policy-making process), and to implement specific policy solutions (e.g. if government wants to explore the potential of a new DC instrument in their context).

Box 6 - Guiding coherent interventions in countries in vulnerable situations

Specific considerations when thinking about policy making on development cooperation in countries in vulnerable situations include:

- **Humanitarian-development-peacekeeping nexus and climate change challenges**. Development cooperation policies need to guide interventions by a highly fragmented set of actors;
- **Flexibility**. They should enable rapid responses to changing circumstances by development partners (e.g. through the use of specific instruments and adequate governance mechanisms);
- **Localisation**. They should support locally-led action for more effective crisis responses, and in line with commitments, most recently expressed in the Grand Bargain 2.0.

The DAC Recommendation on the Development-Humanitarian-Peace Nexus outlines two key principles for coherent financing by international actors in these contexts:

- Develop financing strategies across the Nexus, including Multilateral Development Banks;
- Use predictable, flexible, multi-year financing.

Examples of good practices in putting these principles into practice are:

- New Zealand has the option of carrying over planned disbursements over the three-year government budget, avoiding disbursement pressure;
- The United Kingdom has no fixed humanitarian budget, providing flexibility to respond to needs;
- Ireland channels a large share of bilateral ODA to and through CSOs and makes highly flexible humanitarian financing available to them.

Source: OECD (2022) Development Cooperation Fundamentals: Engaging in Fragile Contexts

Box 7 - Applying an INFF in development partner countries

While to date, INFFs have been applied mostly in developing countries, they may be used to help enhance coherence of financing policies in all countries. In the area of international development cooperation, development partners can use an INFF to formulate development cooperation policies and strategies at home. Adopting an INFF can help strengthen policy coherence (in line with SDG 17.14) and concretely support country ownership in developing countries (in line with long standing commitments on development effectiveness).

The INFF global guidance can guide efforts in this regard, with some adjustments to the recommended steps:

- **Building Block 1**: Financing needs would have to be considered across all areas of focus of the development partner programme. This will go beyond specific country-level interventions, and require consideration of needs that DC could contribute toward at the global and regional levels too. Needs would then be considered alongside an analysis of current DC disbursements and allocations to flag challenges and opportunities in deployment and use of own DC resources and to guide the identification of a desired role and comparative advantages in the development partner space. (Norway, for example, has set up a Knowledge Bank to increase partner countries' access to support

- role and comparative advantages in the development partner space. (Norway, for example, has set up a Knowledge Bank to increase partner countries' access to support in its areas of niche expertise). The global guidance for risks and binding constraints assessments may be followed with a particular focus on risks and constraints directly related to DC.
- **Building Block 2**: Following the global guidance on integrated financing strategies, development partners would anchor their DC policies and strategies on areas emerging from the assessments outlined above. In formulating them, incoherencies between DC and other policies (such as trade or security policies) would become explicit and corrective measures would have to be considered, or at least trade-offs and unintended consequences acknowledged and explained to taxpayers. Development partners can make use of a variety of tools and approaches to do this. For example, in Sweden, an annual report on the extent to which all policy areas of governments implement existing guidelines on global development is presented to Parliament and acts as a trigger for attention to, and action on, issues of policy coherence.[20] (See also point on Building Block 4 below and Box 8).
- **Building Block 3**: While aggregate level data on DC may be reported according to existing global standards,[21] development partners should rely on country systems for tracking the quantity and quality of country level interventions. For the latter to materialise, development partners could engage in dialogue with national governments to determine short-term solutions in cases where country systems need to be strengthened, with the medium- to long-term aim of relying solely on those.
- **Building Block 4**: A wide range of stakeholders should be involved in the design of DC policies and strategies, including ministries of foreign affairs, finance, trade/business, environment/ climate, as well as CSOs and partner country representatives. Participation should be at a decision-making level, not just technical, so that coherence checks and any corrective measures can be adequately considered and addressed as part of the process. In Italy, for example, an inter-ministerial committee on development cooperation exists to facilitate coherence of development policies vis-a-vis other related policies. The voices of all stakeholders should be considered and different insights used to bring innovative ideas into the discussion. For example, in New Zealand, youth plays a concrete role in shaping development cooperation through its Young Enterprise Scheme (YES) which gives students a platform to suggest potential solutions to development challenges.

Box 8 - Reconsidering tax exemptions on aid

In the Addis Ababa Action Agenda (paragraph 58) member states agreed to "consider not requesting tax exemptions on goods and services delivered as government-to-government aid, beginning with renouncing repayments of value added taxes and import levies". Following this, in 2021, the UN Tax Committee issued guidelines on the tax treatment of government-to-government aid, with the view of facilitating discussions of tax issues between donor and recipient countries and of promoting consistency in this area.

While requesting tax exemptions remains a practice for many important donors, some have changed their policies in this regard, in line with the widely agreed notion that domestic resource mobilisation is the backbone of the financing for development agenda. Norway, for example, has refrained from requesting tax exemptions on official development assistance (ODA) since 2017. Greece only requests tax exemptions on humanitarian emergency aid (through project specific agreements). Sweden, in addition to humanitarian aid, requests tax exemptions only in cases of high levels of corruption, serious restrictions on democracy, human rights and violations of international law, and in states where the host government is involved in an armed conflict, as these represent instances in which tax revenues could be used for objectives counter to Sweden's development cooperation goals. The Netherlands (including FMO, its development finance institution) has stopped requesting exemptions for import levies or custom duties and Value Added Tax since 2016; however, this does not apply to humanitarian aid, income tax, and aid through multi-donor trust funds and co-funding agreements where rules in this respect may be different.

In support of the UN Tax Committee guidelines, the OECD launched a first-ever ODA tax transparency hub[22] in 2022 which includes 20 donor profiles that detail the approaches taken by participating donor countries to claiming tax exemptions on goods and services funded by ODA and provides links to additional resources. The hub is updated on a rolling basis and all donors are encouraged to publish information to increase the transparency and further advance the discussion on the taxation of ODA.

3.3 Monitoring and review

Purpose of the building block
To ensure adequate tracking of development cooperation and timely learning about what works and what does not, as well as transparency and accountability of all relevant parties.

Roles and responsibilities at a glance

	To enhance development effectiveness	To support INFF design and implementation
DOMESTIC GOVERNMENTS	Enhance / establish M&R systems	Set aside adequate resources and capacity
	Encourage use by development partners	If gaps, determine type of support needed
DEVELOPING PARTNERS	Use country systems	Support government as requested

DOMESTIC GOVERNMENTS

The primary role and responsibility for governments in monitoring and review is to strengthen or establish systems to track both volumes and impact of DC, with the view of enhancing both donor accountability and visibility of DC (on and off budget). Crucially, as highlighted in the global guidance on building block 3, the starting point should be existing systems, which can be gradually enhanced depending on available resources, capacity, buy-in from relevant stakeholders and an appropriate level of ambition.

Once adequate systems are in place, governments should encourage their use by development partners to avoid the emergence of parallel systems. Samoa's development cooperation policy for example lays out several principles that should be adhered to by both government and development partners, including the use of common reporting and monitoring and evaluation systems and as far as possible government systems and processes specifically.

The resourcing of adequate monitoring and review systems should be primarily borne by governments; this will maximise country ownership and sustainability over time. Adequate resources and capacity should thus be set aside by government to facilitate the setup and maintenance of monitoring and review systems. If needed, DC resources may be sought to support the initial setup phase, but to the extent possible should not feature as an ongoing funding source for these efforts.

DEVELOPMENT PARTNERS

If requested, development partners can play a supporting role in enhancing existing national monitoring and review systems. This should be done in line with the approach presented in the global guidance on building block 3, which fundamentally relies on using what is already in place as basis, rather than promoting own tools and systems[23]. This is crucial for country ownership and for the sustainability of monitoring and review efforts over time.

In line with longstanding commitments on effectiveness, development partners have a responsibility to use country systems, and not create new ones, to track volumes and allocations of their development cooperation in the country. If existing systems do not fulfil own reporting requirements, development partners are encouraged to work with government to find short-term solutions, rather than creating parallel systems that risk undermining country ownership.

3.4 Governance and coordination

Purpose of the building block
To have in place structures and processes that i) facilitate the development and implementation of integrated development cooperation policies, and ii) support effective deployment and use of development cooperation resources.

Roles and responsibilities at a glance

	To enhance development effectiveness	To support INFF design and implementation
DOMESTIC GOVERNMENTS	Use / establish relevant structures and processes	Seek advice from peers on good practices if needed If gaps, determine type of support needed
DEVELOPING PARTNERS	Participate in government structures and processes Use convening power to complement government efforts	Enhance intra-donor coordination

DOMESTIC GOVERNMENTS

INFF governance refers to the institutions and processes responsible for the formulation and implementation of financing policies. For countries focusing their INFFs on DC, there are two main roles for governments.

One relates to the formulation and implementation of DC policies. Governments have a responsibility to involve all relevant stakeholders throughout the process. They should identify and make use of governance structures and processes to support broad-based participation in assessing needs, risks, and binding constraints; in identifying and prioritising DC policy options; and in facilitating access to the data and information required to monitor the quantity and quality/impact of DC, to review implementation of DC policies and to support learning on what works and what does not.

The second role relates to donor coordination and accountability. Governments should identify and make use of structures and processes to communicate and coordinate with development partners when needed, and to hold them accountable. These can involve regular donor coordination meetings, development cooperation fora, as well as rules, norms, codes of conduct, and the use of specific financing instruments (such as joint funds). Box 9 illustrates Samoa's Aid Coordination mechanism.

Should there be gaps in these structures and processes, governments can use the global guidance on building block 4 to establish necessary ones,[24] and seek advice from peers on good practices and success factors. If further support is needed, such as financial and technical advice, development partners may also be able to assist, drawing on their experience of what may have worked (or not) across different countries.

Box 9 - National coordination of development partners in Samoa

In Samoa, development partners are centrally coordinated through the Aid Coordination mechanism. This comprises the Cabinet Development Committee (CDC) and the Aid Coordination Committee (ACC). Both are chaired by the Prime Minister and have their Secretariat in the Ministry of Finance, the CDC in the Economic Planning and Policy Division, the ACC in the Aid Coordination/ Debt Management Division. The Ministry of Foreign Affairs acts as the diplomatic window particularly for development partners who do not have resident representation in the country.

Operationally, the CDC appraises all new proposals, approves policy frameworks, and monitors implementation. The ACC coordinates allocations and use of development cooperation. Its Secretariat acts as the focal point for all development partners as well as the line ministries, government corporations and non-government organisations involved in development cooperation; it facilitates the signing of all legal agreements with development partners and international organisations (by the CEO, Ministry of Finance); and it leads cooperation among line ministries and institutions in resource mobilisation.

At the sector level, all proposed externally funded projects and programmes must be endorsed by relevant sector-level steering committees, in which all stakeholders with interests in the sector are represented. Where appropriate, a Coordinating Development Partners may be put in place to facilitate dialogue, coordination and harmonisation among partners contributing to the particular sector.

Samoa's development cooperation strategy explicitly discourages development partners from entering into agreements with individual government ministries and agencies, NGOs or private sector organisations without prior coordination through the Aid Coordination mechanism.

Source: Government of Samoa (2010) Development Cooperation Policy, Partners in Development: Promoting Aid Effectiveness

DEVELOPMENT PARTNERS

Development partners should actively participate and provide input in government-driven consultations for assessment, policy making and monitoring processes. They can also make use of their convening power to ensure participation of all relevant stakeholders in these processes, in instances where government efforts may need to be complemented by external support.
Second, they should actively participate in government-driven donor coordination efforts. In addition, they can enhance coordination among development partners. For example, EU delegations provide a convening and coordinating platform for European bilateral donors in the country. UN Resident Coordinator Offices (RCOs) provide a leadership and coordinating role for interventions of all UN Country Team agencies. In countries in vulnerable situations, development partners conduct joint analyses, and make use of governance arrangements such as cross-departmental task teams and donor groups covering a range of activities including information exchange and practical processes to map and track resources against needs.

If requested, development partners may also support the strengthening of relevant national institutional arrangements. The global guidance on building block 4 provides a useful reference point to direct efforts in this regard, with the view of ensuring country ownership and sustainability overtime.[25]

Annex 1.

Summary matrix of roles and responsibilities for integrated policy making on development cooperation

[quadrants are about enhancing development effectiveness; centre square is about supporting INFF design and implementation]

DOMESTIC GOVERNMENTS

- Establish clear asks for development partners
- Identify issues that DC policies should address

DEVELOPMENT PARTNERS

- Provide input/ participate in national assessments
- Complement national assessments with regional/ global ones

DEVELOPMENT PARTNERS

- Engage in govt-driven consultations
- Use resulting DC policy to guide interventions in country
- Amplify govt asks / domestic issues in global fora

DOMESTIC GOVERNMENTS

- Review and strengthen/ develop DC policy
- Facilitate a participatory approach to explore, identfy and prioritise policy options and instruments (including practitioners and peers)

DOMESTIC GOVERNMENTS

- Set aside adequate resources and capacity; if gaps, determine type of support needed

DEVELOPMENT PARTNERS

- Fill govt resource and/or capacity gaps, as requested and according to own expertise

DOMESTIC GOVERNMENTS

- Enhance/ establish M&R systems to track both quantity and quality of DC
- Encourage use of national M&R systems by development partners

DEVELOPMENT PARTNERS

- Support strengthening of national data and monitoring systems, with the view of avoiding the creation of parallel ones
- Once in place, use country systems

DEVELOPMENT PARTNERS

- Participate in govt governance structures and processes
- Use convening power to complement govt efforts where needed
- Enhance intra-donor coordination

DOMESTIC GOVERNMENTS

- Identify and make use of (or establish) relevant governance structures and processes to: i) support the formulation and implementation of integrated DC policies, and ii) strengthen donor coordination and accountability
- Seek advice from peers if needed

Endnotes

[1] See the World Bank data on net ODA received (% of GNI) for 2020
[2] The term "countries in vulnerable situations: is used to refer to countries facing a wide range of vulnerabilities that affect their ability to effectively finance sustainable development priorities, such as conflict, environmental disasters and other economic, political and societal risks.
[3] For example, see IMF and MDBs (2018) Coordination Between International Monetary Fund and Multilateral Development Banks on Policy-Based Lending: Update on the Implementation of the G20 Principles.
[4] For a more comprehensive overview of issues related to development cooperation, see the 2022 Financing for Sustainable Development Report, the 2022 Development Cooperation Forum Survey Study, the 2020 Secretary General Report on Trends and progress in international development cooperation, and the 2019 Global Partnership for Effective Development Cooperation Progress Report.
[5] Ibid.
[6] For example, National Pathways to sustainable food systems represent potential hooks for INFFs in the agriculture sector, and an area in which an integrated approach to estimating financing needs would be particularly relevant.
[7] See Step 3 in the suggested approach laid out in the global guidance on Building Block 1.1 Financing needs assessment.
[8] See Section 4.3 of the global guidance on Building Block 1.1 Financing needs assessment.
[9] See Step 2 of the suggested approach in the global guidance on Building Block 1.2 Financing landscape assessment.
[10] For more detail, please see Box 9 in the global guidance on Building Block 1.1 Financing needs assessment.
[11] See Section 4.3 of the global guidance on Building Block 1.2 Financing landscape assessment.
[12] See Section 4 of the global guidance on Building Block 1.2 Financing landscape assessment.
[13] See Section 4.1 of the global guidance on Building Block 1.3 Risk assessment.
[14] The 2022 Development Cooperation Forum Survey Study underscored the need for national development cooperation policies that are risk-informed and agile enough to respond to uncertainties, and highlighted the importance of regularly reviewing risks and the effectiveness of existing risk mitigation measures, and to identify new and emerging risks – all things that the INFF risk assessment can help do.
[15] See Section 4.2 of the global guidance on Building Block 1.3 Risk assessment.
[16] See Section 3 of the global guidance on Building Block 1.3 Risk assessment.
[17] See Section 4.1 of the global guidance on Building Block 1.3 Risk assessment.
[18] See Section 4.3 of the global guidance on Building Block 1.4 Binding constraints diagnostics.
[19] See Section 4.4 of the global guidance on Building Block 1.4 Binding constraints diagnostics provides an overview of the most common ones, such as PEFA, TADAT, DeMPA.
[20] Such as those used by the OECD DAC.
[21] See Box 3 in OECD (2008) Effective Aid Management: Twelve Lessons from DAC Peer Reviews
[22] OECD, Tax treatment of official development assistance
[23] See Section 5 of the global guidance on Building Block 3 Monitoring and review.
[24] See examples in Tables 3 and 4 in Section 5.1 of the global guidance on Building Block 4 Governance and coordination.
[25] For example, box 3 in Building Block 4 Governance and Coordination outlines common lessons that can inform donor support to strengthening centres of government in countries in vulnerable situations.

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