



Integrated National
Financing Frameworks

GUIDANCE NOTE

INFFs and Small Island Developing States (SIDS)

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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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1. Introduction

Small island developing States (SIDS) are a diverse group of countries and territories, ranging from high income countries (e.g., Antigua & Barbuda, Bahamas, Barbados) to least developed countries (e.g., Kiribati, Sao Tome & Principe, Timor-Leste). At the same time, they share inherent vulnerabilities – small size, remoteness, narrow resource base and susceptibility to climate change and natural hazards.

These characteristics of SIDs pose special financing for development challenges, including limited domestic resource mobilization opportunities, small domestic capital markets, need for concessional finance, limited domestic resources and lack of access to affordable financing to invest in risk reduction, resilience, and adaptation, high trade dependence and debt sustainability issues which are exacerbated by disasters. Traditional measures of development cooperation do not sufficiently capture SIDSs' peculiarities and vulnerabilities and tend to narrow the scope of action. An integrated national financing framework (INFF) can help SIDS navigate these challenges.

An INFF helps countries achieve their national sustainable development objectives and the 2030 Agenda by mobilizing all types of finance (domestic, international, public and private) and by considering economic, social and environmental implications (see Box 1.). The purpose of this note is to provide guidance on the application of INFFs in SIDS (see Box 2.).¹ It is a supplement to the INFF guidance on the four building blocks (see Box 1.).

The note is structured as follows: section 2 provides a brief overview of key characteristics of SIDS; section 3 highlights key issues on financing for sustainable development in the SIDS context; section 4 discusses implementing INFFs in the SIDS context; while section 5 outlines a practical approach to each of the INFF building blocks.²

Box 1. Who is this note for?

This note is for any official in a SIDS government or statutory body who is involved in or whose work contributes to the achievement of national and/or sector goals. The note can also be used by development partners and other actors who are engaged or are interested in the implementation of INFFs in SIDS.

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. They should be aligned with and support the implementation of national sustainable development strategies, national climate change adaptation plans, and national disaster risk reduction strategies.

Four building blocks, as well as an inception phase, can support governments in putting this core approach into practice: The four building blocks are:



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 integrated financing policies and reforms).
3. **Monitoring and review** (to bring together all relevant information, 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 financing policies are in place and functional).

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

2. A Snapshot of SIDS

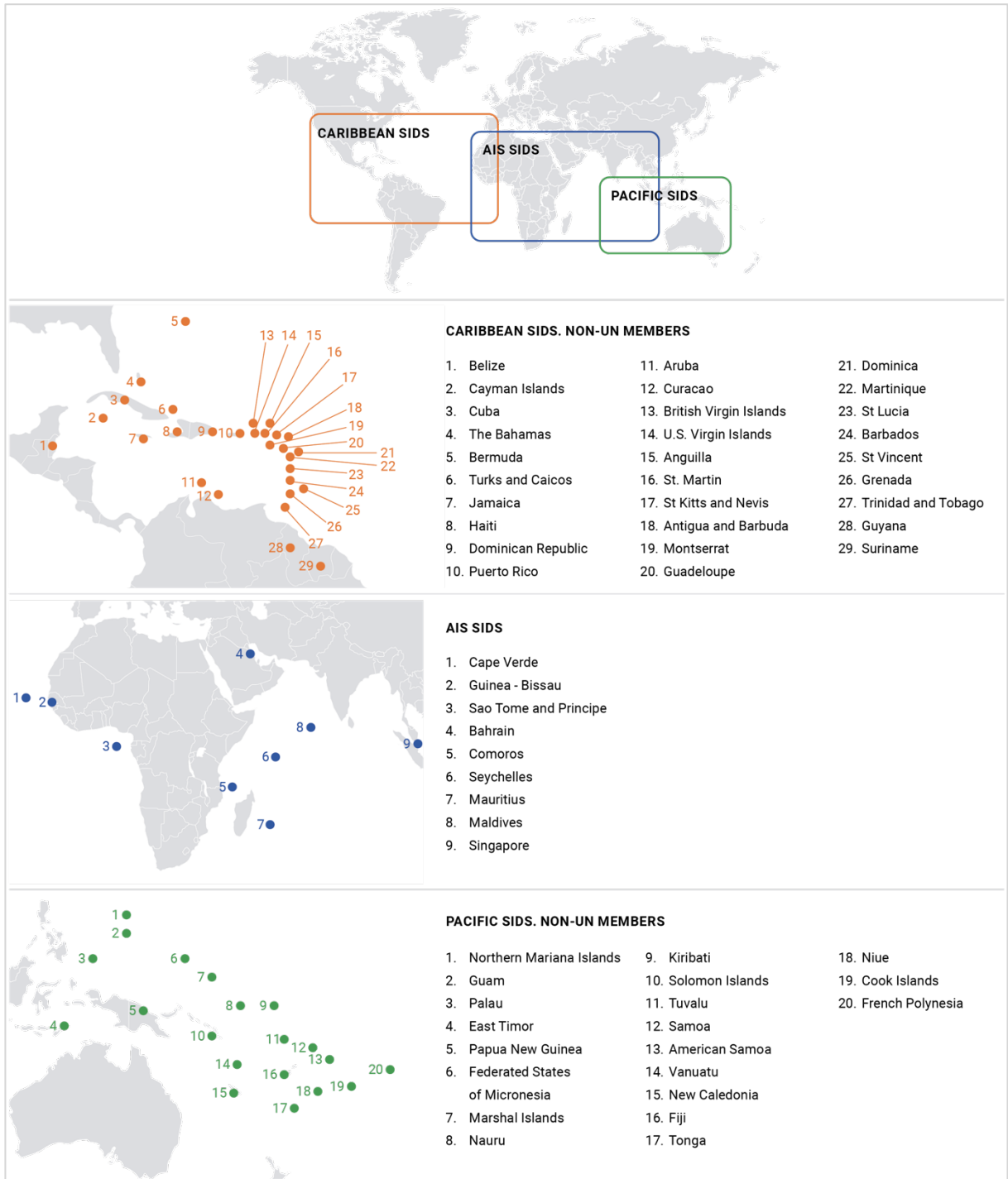
Overview: There are 58 SIDS including 38 United Nations member states and 20 non-UN members/associate members of Regional Commissions. SIDS span three geographic regions: the Caribbean; the Pacific; and the Africa, Indian Ocean and South China Sea (AIS) (Figure 1).

Population: In 2021, SIDS had a combined population of approximately 65 million, slightly less than one percent of the world's population. Cuba is the most populated with just over 11 million inhabitants while the least populated is Niue with around 1,600 inhabitants. Almost two-thirds of SIDS have populations less than 500,000.

Land: Most SIDS are relatively small countries, with average land mass around 24,111 km². However, their exclusive economic zones (EEZ) are, on average, 28 times their land mass. Some countries are archipelagos dispersed over a broad ocean area, such as Kiribati. SIDS have 26 percent of their land area 5 meters or less above sea level, with almost 30 percent of SIDS population living in the zone less than 5 meters above sea level. Many SIDS, especially in the Pacific, are among the most remote in terms of distance to the nearest international markets.

Environment: SIDS' geographical conditions – location in climate-sensitive areas or seismic zones, as well as their smallness – make them highly vulnerable to natural hazards, particularly those caused by climate change. Before the 2000s, fewer than ten major disasters triggered by natural hazards struck SIDS each year. Over the past two decades, 20 major disasters triggered by natural hazards have struck SIDS each year.³ These add to other climate-related phenomena most SIDS are prone to, such as coastal erosion, flooding and permanent land submersion resulting from rising sea levels.

Figure 1. Location of SIDS



Source: Rebecca Zitoun et al., "Review of the Scientific and Institutional Capacity of Small Island Developing States in Support of a Bottom-up Approach to Achieve Sustainable Development Goal 14 Targets," *Oceans* 1, no. 3 (September 2020): 109–32.

Economic: The majority of SIDS are high-income and upper middle-income countries, with a few lower middle-income countries and 8 least developed countries (LDCs). SIDS are considered the most economically vulnerable of all groups of developing countries, according to the Economic Vulnerability Index. This is due to their remoteness, which inhibits trade and growth by increasing transportation costs and limits the possibilities for economic diversification. As a result of their limited resources, SIDS have highly concentrated commodity exports, as well as a high dependence on the services sector, such as tourism. SIDS also have a heavy reliance on imports of fuel and food. This makes SIDS vulnerable to global shocks as well as natural hazards within their territories, which can have a significant adverse impact on growth. Their vulnerability to climate-related disasters and limited resilience with existing infrastructure systems and of critical services can also result in high GDP losses, in some cases two to three times the size of the economy. The public sector dominates, and state-owned enterprises (SOEs) are common. The private sector is small and generally made up of mainly micro, small and, to a lesser extent, medium sized enterprises. Diseconomies of scale in production, limited competition, and remoteness raises the costs and the risk of doing business and delivering services.

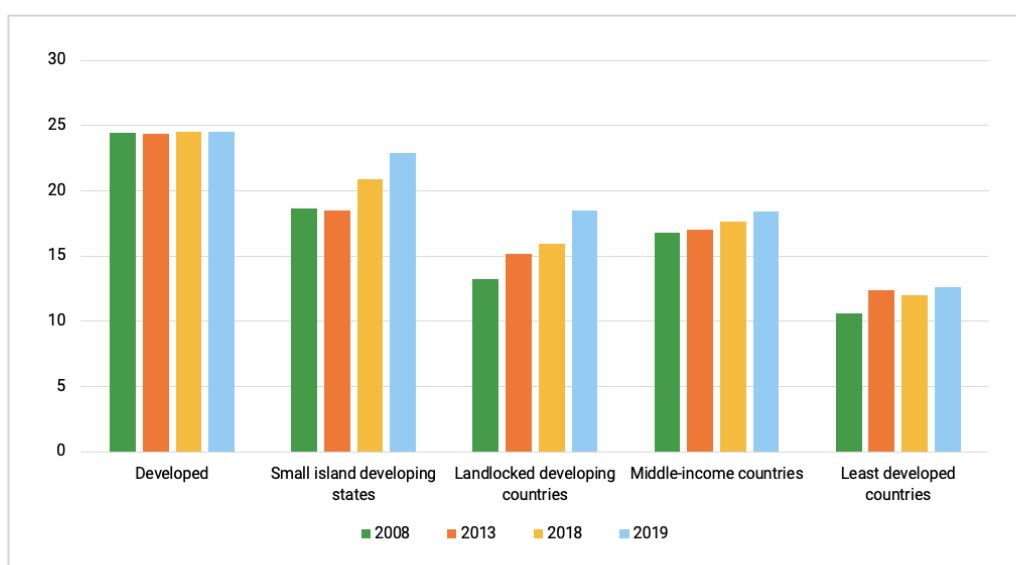
Social: Extreme poverty is rare in most SIDS, but wide variations exist. For example, in some Pacific SIDS (FSM, PNG, Timor-Leste), more than one-third of the population lives below the national poverty line.⁴ Rural areas and outer islands generally face more economic hardships. Most SIDS have achieved medium to high levels of human development based on the United Nations Human Development Index, however this Index has reversed back to levels of development in 2016 for most of the countries of the world, including SIDS. Gaps in social development, however, are apparent in the levels of access to basic services, and in education and health outcomes. There are also high levels of non-communicable diseases, and exposure to new disease vectors due to climate change. Some SIDS have also experienced political instability, coups, civil unrest, as well as localised community violence, driven by ethnic tensions, illicit trafficking, and urban exclusion.⁵

3. Financing for Sustainable Development Issues for SIDS

Overview: Although SIDS are quite diverse, they face common challenges in financing for sustainable development, disaster risk reduction, resilience building, and climate change adaptation. Having a small and narrow resource base limits domestic resource mobilization, private finance and FDI opportunities. For example, they could face increasing difficulties in accessing mitigation financing in the future, being disqualified from the climate funds' criterion of return on investment on CO2 equivalent reductions. Also, while SIDS have large needs with regard to adaptation, biodiversity, and land preservation, adaptation remains hard to finance because of the lack of technical expertise and other governance issues that have created delays in disbursements.⁶ Hence, many SIDS rely on official development assistance (ODA), while other high-income SIDS have had to accumulate external debt.

Domestic resource mobilization: The majority of SIDS collect a relatively high level of taxes, over 20 per cent of GDP, higher than the median for middle-income countries and slightly below developed countries (Figure 2). Goods and services tax is the largest contributor, with corporate and personal income and trade taxes providing similar contributions. Hence, many SIDS have little capacity to grow their economic bases, which are also not large enough anyway to generate revenues to fully finance their development needs. Some SIDS also rely significantly on nontax revenues, such as from oil (Timor-Leste, Bahrain), fishing license revenues (FSM, Kiribati, the Marshall Islands, Nauru, and Tuvalu) and citizenship by investment receipts (St Kitts & Nevis, Dominica).

Figure 2. Median tax revenue by country group, 2008-2019



Source: 2022 Financing for Sustainable Development Report

Public debt: Debt levels have been rising in SIDS and was close to 100 per cent of GDP prior to COVID-19 (see Box 3.), higher than any other developing country group (Figure 3). Many SIDS are at high risk of external debt distress, while some are in debt distress (Grenada, Sao Tome & Principe). Caribbean SIDS have long been among the most indebted countries, with a history of recurring debt crises. The impact of natural hazards and other external shocks, contingent liabilities, especially of SOEs, and poor debt management are contributing factors.

Box 3. Impact of COVID-19 on SIDS

Beginning in early 2020, the COVID-19 pandemic emerged as a global health and economic shock, hitting SIDS particularly hard. In addition to the loss of life and the burden on health systems caused by COVID-19, the crisis demonstrated the acute vulnerability of SIDS to economic shocks.

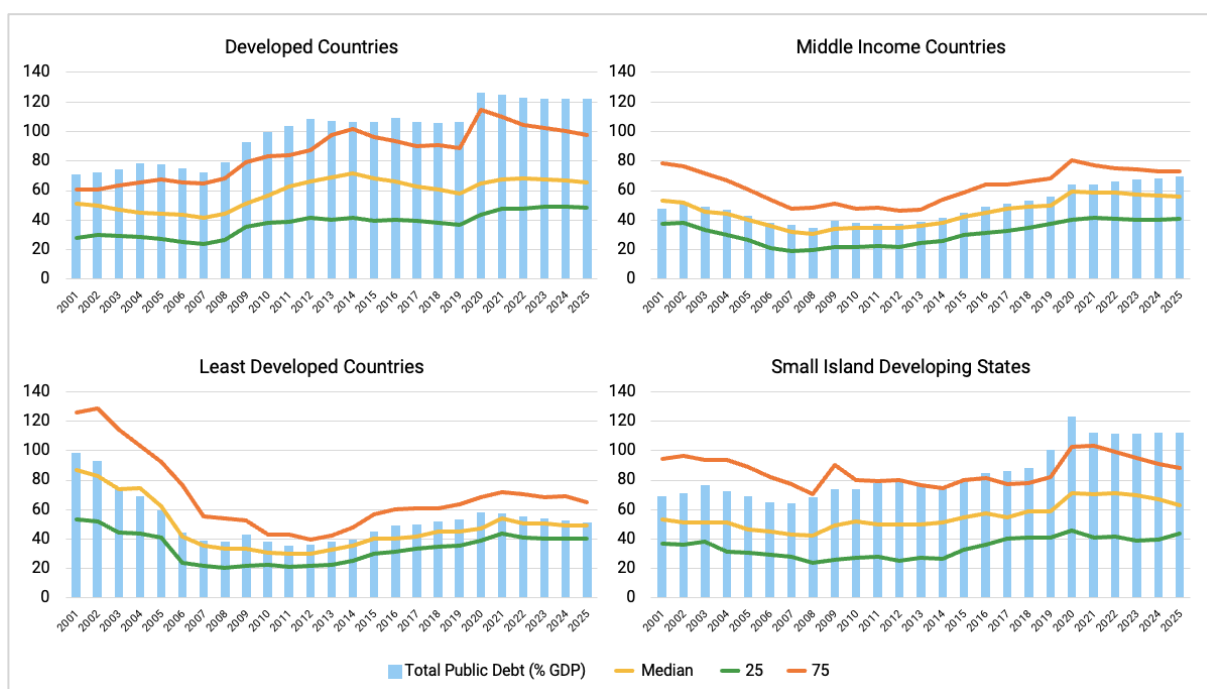
The global economic contractions impacted tourism and trade, undermining SIDS' main sources of foreign exchange, staples and employment and pitching large numbers of people into precarity and food insecurity. By the end of 2021, international tourist arrivals were still down 63 per cent from pre-pandemic levels. It is expected that it will take between 2.5 to 4 years for international tourism to return to 2019 levels.

The pandemic hit tax revenues, with the decline in the median tax revenue most severe in SIDS. SIDS also saw an increase in public debt of around 11 percentage points of GDP. Spending requirements for COVID-19, coupled with the chronic needs for adaptation, finance exacerbated a "debt hangover" in many countries. Prior to the pandemic, many SIDS already had high debt service costs, leaving them with little fiscal space to respond and plunging some countries into liquidity crises by mid-2020.

As a result of the COVID-19 shock, SIDS suffered an average contraction in GDP of -7.8 per cent in 2020, more severe than the global average (-4.4 per cent) and that of the LDCs (-2.3 per cent). Many businesses in the industrial and tourism sectors closed, with tens of thousands of workers returning to their villages to subsist on agriculture and informal employment.

Source: UNCTAD, "Revisiting Development Strategies for Small Island Developing States in the Post-Pandemic Competitive Landscape," August 15, 2022; UNCTAD, "Development and Globalization: Facts and Figures 2021," 2021; *Financing for Sustainable Development Report 2022*.

Figure 3. Public debt evolution in developed and developing countries, 2001-2025



Source: 2022 Financing for Sustainable Development Report

ODA: SIDS are more dependent on ODA than any other group of developing countries. In 2020, ODA to SIDS amounted to 14 per cent of their GDP, compared to 13 per cent to LDCs and less than 1 per cent to developing countries. Pacific SIDS are the major recipients, with six Pacific SIDS among the top ten ODA recipients in the world – Marshall Islands and Tuvalu receive ODA of over 50 per cent of their GDP. However, many high-income SIDS in the Caribbean and AIS have limited access to concessional finance with almost one-third of SIDS graduating from ODA access due to higher income per capita. SIDS have long advocated for the use of vulnerability metrics to access concessional finance.⁷

Climate finance: While climate finance for SIDS has increased markedly in the past few years, it fulfils only a small part of actual needs. Since 2015, the Green Climate Fund (GCF) has been the largest contributor to SIDS. In 2021, \$150 million was approved for projects in SIDS. Some 82 per cent of this is programmed by the GCF, which also accounts for the 12 largest projects in SIDS. The Pacific region has the largest amount of approved climate finance from multilateral climate funds (44%), followed by the Caribbean (36%), and AIS (19%) region. Approvals for the SIDS regions are mostly for adaptation activities, provided mainly through grants.⁸ SIDS’s reliance on international development assistance and remittances will be further tested as climate events increase, recessions and inflation loom, and as countries seek to recover from socioeconomic and health impacts of the COVID-19 pandemic. As a result, financing for risk reduction, resilience and adaptation in SIDS must be strategic, sustainable, should take into account the barriers that have prevented optimization of resources, and match the scale of existing and future risks.⁹

Domestic financial and capital markets: These are generally under-developed in SIDS, with commercial banks being the main source of finance for domestic firms. Banks also provide finance to government, mainly by way of treasury bills. Only a few SIDS have stock exchanges, mostly in the Caribbean, with a few in the other regions. Even for many high-income Caribbean SIDS, private credit markets are considerably shallower than for many peers at similar levels of income and development.¹⁰ Financial inclusion is also a challenge for many SIDS, with populations dispersed over small islands.

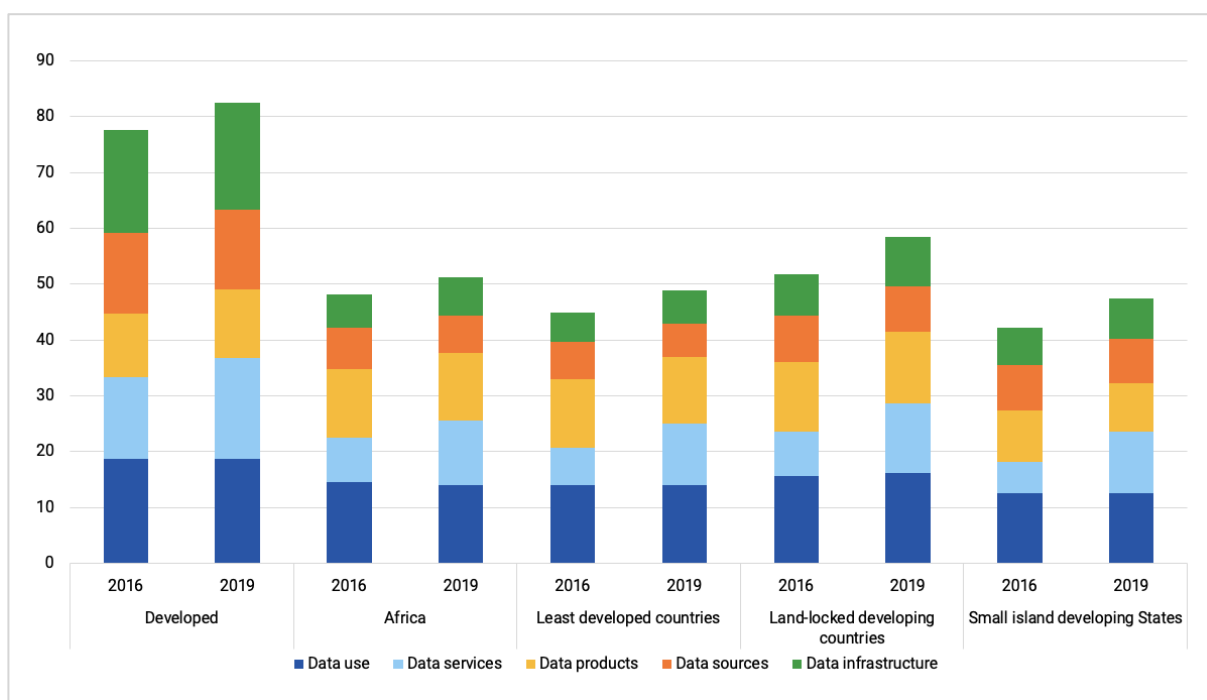
Trade: SIDS import more goods than they export, and are often highly reliant on services exports, especially tourism. Services exports by SIDS represent around 60 per cent of total exports of both goods and services, compared to 18 per cent by other developing economies. Tourism receipts make up over a quarter of the GDP of SIDS. In terms of goods trade, SIDS have some comparative advantage in maritime activities and the trade of ocean products, fish, and sea food. SIDS pay twice as much as developed countries on average for transport costs and insurance.¹¹

Foreign direct investment (FDI): FDI in SIDS is volatile and has focused on a few sectors where returns on investment are higher including financial services, oil, logging, fisheries, tourism, and energy. Mobilizing foreign direct investment is constrained by an unfavourable risk-return ratio, limited economic opportunity and national preferences for domestic private sector and indigenous business growth strategies.

Remittances: SIDS are more dependent on remittances than other developing countries. Personal remittances accounted for 8.6 per cent of GDP in SIDS, compared to 4.6 per cent in LDCs and 1.6 per cent in developing countries, with Tonga being the top recipient in the world (39 per cent of GDP). High cost of remittances fees and correspondent banking issues are areas of concern for officials. Some SIDS are exploring the potential of diaspora finance for development (Jamaica, Timor-Leste).

Data and statistics: SIDS score poorly against the World Bank's Statistical Performance Indicators (use of data, the quality of services, the coverage of topics, the sources of information, and the infrastructure and availability of resources). They have the lowest scores among developing countries (Figure 4). National statistical systems and the capacity for data collection and analysis, both in central policy offices and sector-based agencies, are generally weak. Statistical capacity may be spread thinly across agencies, silos may hinder data sharing, there may be too many monitoring points and lack of technology. It can also be difficult to produce timely monitoring reports even when indicators are reasonably and clearly defined.

Figure 4. Overall Statistical Performance Indicators scores by country group, 2016, 2019



Source: 2022 Financing for Sustainable Development Report

Regional pooling and cooperation: SIDS have a long history of pooling resources at the regional and sub-regional level to overcome their diseconomies of scale and other structural barriers. These range from service delivery (e.g., education, shipping, statistical services) to regional procurement (e.g., medical supplies) and are facilitated by regional technical agencies, such as the Pacific Community (SPC) and Caribbean Community (CARICOM). Multi-country catastrophe risk pooling was also pioneered in SIDS, led by the Caribbean Catastrophe Risk Insurance Facility (CCRIF) and has since expanded to Pacific SIDS and other developing country groups. The Parties to the Nauru Agreement (FSM, Kiribati, Marshall Is, Nauru, Palau, PNG, Solomon Is, Tokelau Tuvalu), which controls and sustainably manages the world’s largest tuna purse seine fishery, is also an example of sub-regional cooperation that has helped increase revenue from \$50 million in 2010 to \$500 million in 2021.¹²

4. Implementing INFFs in the SIDS Context

Given the many challenges and opportunities SIDS face, the INFFs offer an integrated approach to help SIDS develop their financing for sustainable development capacities through the four building blocks, i.e. assessment and diagnostics, financing strategy, monitoring and review, and governance and coordination. The inception phase is a critical part of the INFF process where the following should be considered in the SIDS context:

Understand absorptive capacity and ensure knowledge transfer: A core feature of the INFF is that it is country-led. Ideally, this would mean both the prioritization and dedication of resources, especially personnel, to actively engage and be involved in the process throughout. In the case of SIDS, this may be difficult given the limited capacity of governments (both in terms of staff numbers and expertise), the multitude of tasks they face and attention to immediately pressing issues. Staff may be spread across many sectors and have limited time; or be focused on a few high priority areas, with limited policy capacity in others. Thus, SIDS may require more technical assistance to implement an INFF. Already, central planning offices and policy makers in many SIDS ministries tend to rely heavily on external technical assistance to overcome underfunding and lack of experienced policy experts. However, in most cases, there is limited knowledge transfer, with the fly-in-fly-out consultant a common occurrence. Hence, it is critical that both the domestic government and development partner(s) consider the government's absorptive capacity; as well as try to ensure knowledge transfer in the process of implementing an INFF.

Ensure effective development cooperation and participation of various sectors: Development partner fragmentation and lack of coordination are perennial issues for SIDS. It is important that SIDS governments and implementing agencies ensure that all relevant partners are engaged to avoid duplication and explore synergies with other partner initiatives. There should also be clear asks for development partners in the INFF process. (See [INFFs and Development Cooperation](#)). Also, a greater pool of resources, including those provided by the private sector, can be involved.

Be pragmatic: Focusing on a few priorities, prioritising among existing initiatives, and/or fostering a phased approach to implementing an INFF can prevent needing overwhelming government capacity in SIDS. Building on capacities where they can be sustained and not attempting too much can also ensure country ownership.

Expect staff changes and all kinds of setbacks: This is a key lesson from decades of capacity building in SIDS and should also be expected in implementing an INFF in the SIDS context. It calls for sustained effort over the long term, with periodic review processes to mark progress and sustained improvements over political cycles, personnel changes and other shocks (global economic crises, natural disasters, pandemic etc.).

Implementing INFFs in the SIDS context should, thus, benefit from: (i) building on existing systems; (ii) prioritization; and (iii) considering a phased approach.

4.1 Build on existing systems and knowledge

An INFF is based on the premise that countries do not start from scratch – all countries, including SIDS, have policies and institutional arrangements on financing in place (see Box 4.). Many of the parts of the INFF would likely be done by some officials at some point in their own processes, albeit not in a systematic, cohesive, and integrated way, which is what the INFF aims to do. The key is to identify which part of the existing system would be the best to build on (see INFF Governance and Coordination Building Block) and to avoid creating a parallel process. This can be done in the Inception Phase of the INFF (see guidance on this).

At the institutional level: In most cases, ministries responsible for national planning that covers both public and private sectors and/or the national budget (see Box 4.) will play central roles in INFF implementation, especially if the focus is on the broad application of INFF or towards a specific financial instrument, such as blue bonds. A sectoral focus, such as on education, health, or agriculture, will also involve the ministries overseeing these areas; while other focus areas such as climate finance may involve several ministries.¹³

Box 4. Common existing practices in planning and financing in SIDS

Central policy and planning offices associated with the offices of the President or Prime Minister are generally tasked with developing and monitoring national sustainable development plans, visions, and strategies. The main link between national plans and financing is the national budget process. The budget process is generally managed by a budget office within the ministry of finance (e.g., Bahamas, Comoros, PNG) and tends to follow an annual cycle. A medium-term budget framework, including the annual budget (appropriation) plus the forward two or three years (estimates), is common although there are cases where budgets are prepared on a more limited basis. Only a few SIDS combine planning and budgeting in the same agency (e.g., Cabo Verde, Fiji).

At the start of the process a budget circular/policy statement usually issued by the Prime Minister/President's Office is issued to orient budget priorities or set ministry or sector budget ceilings. This is informed by the medium-term fiscal strategy, past years performance and macroeconomic projections. Fiscal strategy components generally include revenue, expenditure, and debt management strategy. Ministries/agencies then prepare budget proposals and performance indicators based on core legal mandates.

A budget committee selected from government agencies and sometimes including private sector/civil society representatives may work with the budget office to assess proposals and engage key players. National development councils, commissions, SDG committees and taskforces have also been formed at different levels to increase participation of the private sector and civil society to develop and oversee national plans. Consultation, however, with sub-national entities/communities can be a weakness, especially for SIDS made up of dispersed islands (Marshall Islands, FSM, Seychelles, Cook Islands) or regional/provincial governments (Solomon Islands, PNG).

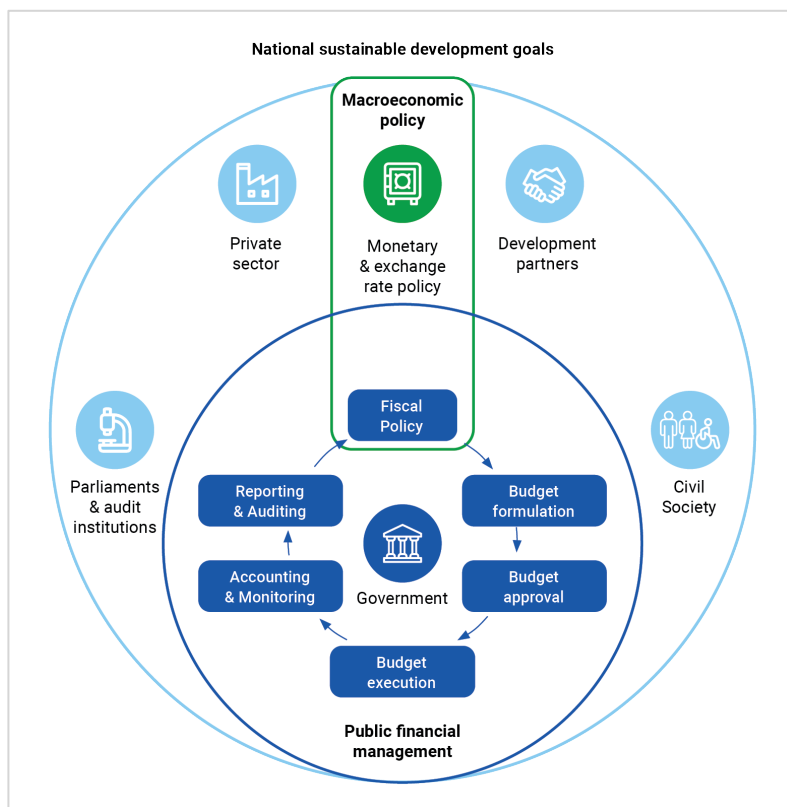
Once a budget has been negotiated within the parameters fixed by the policy statement, a draft budget will be presented to cabinet for final changes and preparation for the legislative assembly. The capacity of the legislative assembly to scrutinize budgets and assess alignment with national plans can be a weakness.

Given the increasing exposure to shocks, debt management and resilience building is a strong cross cutting theme across most national plans in SIDS. For some SIDS, budget credibility can be severely undermined by governance issues and a lack of public financial management capacity. A lack of transparency, accountability and participation can also severely limit impact public services to deliver results.

Source: Tierney, Peter S., "Adapting INFF Guidance for Small Island Developing States."

At the policy level: Policy mechanisms that mobilize all types of finance and align both the public and private finance are needed. Most governments usually have in place processes for policy design, implementation and review related to financing. The public financial management (PFM) process plays a central role in this architecture (Figure 5). As part of the PFM process, policies (e.g., on revenue, expenditure, investment, trade, and private sector development) are designed mainly with macroeconomic goals in mind (economic growth, employment, inflation). This then feeds into the budget process. However, for many SIDS, there are only casual links to broader national sustainable development goals, such as on social protection or environmental impacts. During the Inception Phase it would be important to link the objectives of the INFF focus area with the broader national sustainable development goals, as well as national disaster risk reduction strategies and climate change adaptation plans, and within the PFM process. This will help embed the INFF approach and identify early the key effects on all the dimensions of sustainable development, as well as any risks (INFF coherence checks).¹⁴ For example, applying an INFF approach to green and sustainability-linked bonds would mean checking whether this approach is consistent with debt sustainability targets (macro check), aligned with sustainable development (coherence check) and whether risks, such as from natural hazards, are considered (risk check). INFFs are also helping governments to explore, introduce, and strengthen various aspects of private finance. In the Comoros, for example, 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, with a specific focus on SMEs. The shareholders of the fund will be the State, along with private sector financial institutions and insurance companies, which will hold the guarantee capital.

Figure 5. The central role of public financial management processes



Source: DESA

At the partnership level: As SIDS receive a high level of ODA, there are many development partners operating in SIDS at any point in time. The major partners on financing for development include major bilateral partners on relevant initiatives (such as the Australian Infrastructure Financing Facility for Pacific SIDS), multilateral institutions (IMF, World Bank), regional development banks (ADB, AfDB, IADB, CDB) and UN agencies. Other partners include civil society, private sector, etc. It will be important to build on these existing partnerships for INFF implementation in SIDS, including on related capacity-building initiatives. For example, the IMF helps build capacity in many SIDS on PFM, macroeconomic policy, and debt management through their regional technical assistance centres (PFTAC, CARTAC). In most cases, the INFF focus areas will relate to ongoing initiatives so it would be good to leverage these partnerships and ongoing initiatives. Regional organizations also provide various technical assistance to many SIDS (e.g., CARICOM, SPC) and their local knowledge can help bridge gaps between global and national capacities.

4.2 Prioritize

As resources in SIDS are limited and stretched over many important and competing areas, at the Inception Phase, it would be important to prioritize:

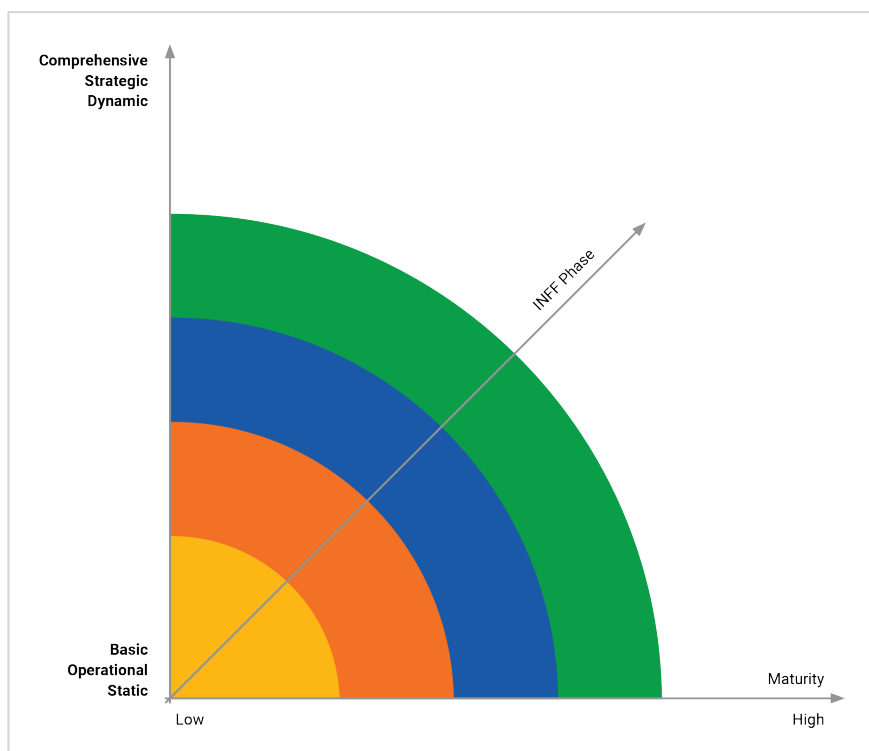
The INFF focus areas: In identifying the focus areas, consideration should be given to the timeline of expected INFF implementation, and whether it will be a new undertaking or part of ongoing initiative(s). The complexity of the undertaking, the number of staff/ministries/agencies that would need to be involved, engagement of partners, should also be assessed against existing priorities and capacity. The aim would be to focus on strategic/key areas that could be advanced through the INFF within the identified timeframe without overloading capacity. If successful, this could build political commitment for INFF expansion/deeper application.

The building blocks: The INFF building blocks are not meant to be sequential nor prescriptive. They can and should be tailored to the country's context. For example, some aspects of the assessment and diagnostics building block can be data intensive and data needed may not be available or readily accessible in many SIDS. The alternative option to using modeled data may also not be feasible for SIDS due to their unique characteristics. Authorities should then assess what the value add of having the data/analysis/costing exercise would be to INFF implementation and whether they should apply it or not. It may also be the case that governance and coordination issues are important to address first. However, taking advantage of existing data sources on different aspects of financing or surveys would be an alternative.

4.3 Phased approach

Implementing an INFF in a phased approach can help better manage the capacity constraints of SIDS, especially the immediate demands of officials. Implementing an INFF through phases could also better match resources/capacity with INFF objectives, cultivate a risk-appraisal culture and ensure knowledge transfer. A phased approach can help SIDS make incremental changes to move from an operational to a strategic focus, from static to dynamic processes and from basic to comprehensive systems. How these phases are structured depends on the maturity of current systems and will require careful sequencing (Figure 6). For example, SIDS with systems of low maturity (e.g., poor PFM capacity) may need to focus on building these foundations first before tackling more complex and expanded undertakings (e.g., medium-term revenue strategies). However, there are indeed opportunities for rapid changes and the introduction of more advanced concepts.

Figure 6. INFF phased approach



Source: DESA

5. What does this look like in practice?


5.1 Assessment and Diagnostics

Build on existing systems and knowledge: For most SIDS, immediate or short-term financing needs and sources of finance are usually known, as reflected in the national budget. Binding constraints are also likely to be well understood, many related to the unique characteristics of SIDS (see section 2 and 0). It would be important to build from these existing assessments and knowledge (see Table 1). However, there may be less attention to risk assessments, especially beyond economic considerations, which is an area that should be developed (see INFF Building Block 1). A particular weakness, though, is on financing needs to achieve more medium to long-term development goals. There may also be less attention/awareness on non-traditional sources of financing, such as blended finance and other innovative financing options. However, moving from an immediate/short-term/traditional focus to a medium/long-term/innovative focus cannot be done overnight. While these gaps may be filled by development partners, the approach should build on what exists so that INFF assessments/reports can add value and do not add to “report fatigue” that plagues many SIDS. Any development partner support should be accompanied by knowledge transfer, knowledge consolidation, and capacity building.

Prioritization: In most cases, SIDS attention is dedicated to responding to immediate challenges from various internal and external shocks. Prioritizing what assessments and diagnostics are needed is influenced by these immediate challenges and the recovery timeline, as well as dialogues with relevant stakeholders. This is also crucial even in the event of a crisis. For example, INFF initiatives in the 18 SIDS (during 2021-2022) had to consider the impact and recovery from COVID-19. Given SIDS vulnerability to shocks, multi-hazard disaster risk assessments should also be prioritized. This can guide prioritization to finance upgrades to national assets, infrastructure, and basic services that are key for sustainable development and economic growth and most exposed to disasters and the impacts of climate change for which financing could be advanced through the INFF.¹⁵ While short-term responses can be targeted, the INFFs can also be applied to pivot long-term planning to economic models. In Cabo Verde, innovations around building the blue economy as a new driver of sustainable economic development following shocks during the pandemic to tourism had been developed.

Phased approach: Incorporating medium- and long-term assessments and diagnostics can be included over phases, depending on the maturity of SIDS systems and resources/capacity available. The aim is to ensure that these assessments are done independently by SIDS officials and included systematically for policy deliberation. Moving ahead too fast without understanding whether these assessments would add value to current processes risks them not being used effectively or at all. Relying predominantly on development partners to undertake these assessments without knowledge transfer and capacity building would also jeopardise country ownership and long-term viability of INFF application.

Table 1. Assessment & Diagnostics for SIDS

INFF BUILDING BLOCK	BUILD ON EXISTING SYSTEMS AND KNOWLEDGE	PRIORITIZATION	PHASED APPROACH
 <p>1. Assessments and diagnostics</p>	<p>Consider own national budget/sectoral/thematic assessments:</p> <ul style="list-style-type: none"> • Are financing needs, sources of finance, risks and binding constraints well understood? (see INFF Building Block 1). <p>Is development partner support needed to supplement gaps? If needed, ensure knowledge transfer and capacity building.</p>	<p>Consider the impact of any immediate challenges from internal (e.g., political instability, disasters) or external shocks (e.g., global recession, food/fuel price changes).</p> <p>Focus on risk assessments (see INFF Building Block 1.3).</p> <p>Consider financing needs (see INFF Building Block 1.1) and sources of financing (see INFF Building Block 1.2)</p>	<p>Consider whether a phased approach can help in embedding medium and long-term assessments in own national budget/sectoral/thematic assessments if not done already.</p>

5.2 Financing Strategy

Build on existing systems and knowledge:

To help establish the scope and financing policy objectives identified through the INFF, as well as help identify policy options ideally aligned with national development plans, the national budget and related documents of SIDS would be a good starting point (see Table 2). These are prepared by SIDS officials and typically outline the broad financing strategy, covering macroeconomic policies (e.g., debt sustainability, financial sector stability), public finance (revenue, borrowing, expenditure, investment, international development cooperation), as well as policies to promote private finance and investments (FDI, remittances etc.), capital market development and financial inclusion. There are varying levels of depth and breadth of existing SIDS financing policies. There would also likely be more detailed financing policies for priority areas, supported by technical assistance from various partners (e.g., Fiji's national climate finance strategy supported by the World Resources Institute, Antigua & Barbuda's renewable energy roadmap supported by IRENA).

However, these may or may not be linked to national budget policy and related official processes, depending on the level of engagement of officials, knowledge transfer and capacity development. There may also be regional or sub-regional initiatives (e.g., Caribbean and Pacific regional risk insurance facilities, Pacific Regional Infrastructure Facility that helps identify infrastructure project pipelines) that should also be considered. Understanding where the gaps are and how the INFF can genuinely build on existing work will be critical. Learning from other SIDS (Box 5) that have been successful in implementing a particular financing strategy can also help (e.g., sovereign wealth fund (Timor-Leste, Tuvalu), debt-for-climate swaps (Seychelles, Belize), blue bonds (Seychelles), green bonds (Fiji), hurricane clauses (Grenada)).


Box 5. Country example of mobilizing private finance through an innovative mechanism

Cabo Verde launched its [first blue bond in January](#) of this year (2023), off the back of other four sustainable bond issuances under the INFF. The bond was launched on Cabo Verde's [Blu-X sustainable finance platform](#), a regional platform for listing and trading sustainable and inclusive financial instruments – meaning that anyone, anywhere with access to the platform can invest, including foreign investors and the diaspora. This marks the first private issuance that does not rely on a public guarantee but is solely backed by market demand. With the option of an additional US\$1 million triggered if demand for bond subscriptions exceeds the initial US\$2.5 million (of which US\$1 million will supply affordable loans to microentrepreneurs and startups in coastal communities, and US\$1.5 million will be invested in small and medium-sized enterprises operating in the maritime and fisheries sectors), the blue bond could ultimately generate US\$3.5 million in private and market-driven finance for a sustainable blue economy.

Prioritization: Immediate challenges should be considered in the policy prioritization process. For example, in the aftermath of a natural disaster, SIDS governments focus their efforts on relief measures and rebuilding. An INFF undertaken during this phase would need to link well with these efforts. Similarly, an INFF would need to account for SIDS that have recently or are soon to be graduated from concessional financing. Macroeconomic and coherence checks, resource requirements and political/institutional preconditions can help with prioritizing and sequencing policies (see [INFF Building Block 2](#) policy prioritization). Attention to climate change and disaster risk reduction strategies during policy prioritization would also help SIDS.

Phased approach: Successful implementation of financing strategies is dependent on an enabling environment that may require political will, legal frameworks, and institutional/resource capacity, among others. Given that financing systems and institutional structures in SIDS have varying levels of maturity, the financing strategy may benefit from implementation over phases. In other cases, it might also be useful to refer to the planning and financing policy cycle and seek the integration of financing strategy with it.

Table 2. Financing Strategy for SIDS

INFF BUILDING BLOCK	BUILD ON EXISTING SYSTEMS AND KNOWLEDGE	PRIORITIZATION	PHASED APPROACH
 <p>2. Financing strategy</p>	<p>Consider own national planning/budget/sectoral financing policies:</p> <ul style="list-style-type: none"> • What are the gaps in policies/strategies/frameworks, financing instruments/regulations, processes/systems? • Are all relevant actors engaged? (see INFF Building Block 2 Step-by-Step Guidance). 	<p>Consider the impact of immediate challenges on policy prioritization:</p> <ul style="list-style-type: none"> • Undertake macro, coherence and risk checks • Assess pre-conditions and resource requirements (see INFF Building Block 2 policy prioritization). 	<p>Consider implementing the financing strategy over phases depending on the maturity level of SIDS.</p>

Box 6. Embedding INFFs in national development planning and financing policy cycles

INFFs bring together the sustainable development aspirations of national planning systems with the financing policies, regulations, instruments and partnerships that government uses to mobilise, align and create incentives for investment in sustainable development. National plans – whether long- or medium- term national development plans, SDG or NDC action plans, sectoral or thematic strategies – lay out *what* needs to be financed. Governments use INFFs to determine and deliver a strategy for *how* these priorities will be financed.

The INFF approach is most impactful if it is embedded within a country's existing planning and financing policy systems and the institutions that manage them. Given the diversity of the architecture, systems and capacities of planning and financing policy institutions in different contexts, this may look quite different from one country to another.

The following questions can help governments consider how to do this, while at the same time informing the scope of the country's INFF¹:

- At which point of the planning cycle is the INFF being introduced? For example, as a plan is being developed, during implementation, or alongside a mid-term review.
- Which processes are used to design, deliver, monitor, learn from and report on national plans, and how will the INFF approach be embedded at each stage in the process?
- How is the financing aspect of the identified plan/ strategy going to be strengthened? For example, is it lacking altogether? Is there limited/no understanding of financing needs? Is it focused on public finance alone, and requires more consideration of the roles that different sources of finance could play?
- At which point of relevant financing policy development cycles is the INFF being introduced? For example, at the start of the national budget cycle, as an investment promotion policy is being articulated, during the review of a specific financing policy.
- Which institutions² exist to lead and manage implementation and monitoring of the identified national plan? How will they need to evolve to implement the INFF? What capacities exist and may be needed as the INFF develops?
- Which monitoring and review systems exist to track implementation of the identified national plan and ensure learning is fed back to policy design? How is financing treated?
- What key outputs are produced throughout the cycle of planning and financing policies (e.g. annual statements, monitoring reports, open data initiatives) and how could INFF data be incorporated into them?

Note:

¹ Scope refers to whether the INFF is going to focus on an entire national development plan or a particular objective/set of objectives therein, as well as whether it is going to focus on all financing policy areas (public, private, macroeconomic) or one/a subset of them.

² In line with the global guidance on Building Block 4 Governance and Coordination, the term 'institutions' here is used in its broader sense, with an emphasis on institutional functions and the organisations, processes and coordinating mechanisms that are in place.


5.3 Monitoring and Review

Build on existing systems and knowledge: SIDS can have various levels of monitoring and review processes in place; from a basic and high-level system to a more comprehensive and detailed one, whether at the national level (e.g., for the sustainable development plan or PFM processes), at the sector level (e.g., for health or education), or at the organisational level (Ministry-, SOE-level). These would be ideal places to start from or connect to. However, for many SIDS, data and statistics are an area of weakness. Monitoring and review systems can also be fragmented. These issues should be accounted for in establishing the baseline (see [INFF Building Block 3](#)). There is also likely to be existing or planned initiatives to support SIDS in strengthening existing systems at different levels by various development partners. To leverage of existing work and avoid duplication, existing initiatives by development partners should also be considered.

Prioritization: To strengthen existing systems, the maturity of SIDS data and statistical systems, as well as monitoring and review systems should be considered. Priority should be given to processes that enhances the financing policy design and implementation process (must-have) rather than those that may only have negligible added value vis-à-vis the resources needed to strengthen them (nice-to-have).

Phased approach: Plans to strengthen monitoring and review systems may have low priority against immediate challenges and limited resources. Adopting a phased and incremental approach to move from a basic to intermediate or advanced monitoring and review level (see illustrative levels in INFF Building Block 3) can help mitigate this. Ideally, the planning and financing policy cycle, as well as the timing and strategies of ongoing major reform programmes, should also be considered.

Table 3. Monitoring & Review for SIDS

INFF BUILDING BLOCK	BUILD ON EXISTING SYSTEMS AND KNOWLEDGE	PRIORITIZATION	PHASED APPROACH
 <p>3. Monitoring and review</p>	<p>Consider own national planning/budget/sectoral M&E and statistical systems</p> <p>Are there any existing or planned development partner initiatives to strengthen these areas?</p>	<p>Identify monitoring & review processes, that if strengthened, will enhance policy design and implementation. See INFF Building Block 3.</p>	<p>Consider a phased approach to move from a basic to advanced level.</p>


5.4 Governance and Coordination

Build on existing systems and knowledge: Identifying existing institutions, governance and oversight bodies, policy processes and development partners that support financing decisions should be a key part of the Inception Phase (see section 0). Focussing on governance and coordination at the start helps with ensuring political backing and country ownership for a successful implementation of INFFs. In addition, engagement with the private sector, civil society and academia can help support the design and review of financing policies. SIDS have varying levels of engagement with these actors, which should be considered in assessing existing governance arrangements.

Prioritization: Peace and security, political stability and the rule of law are foundations for effective governance and coordination. INFF implementation will be hampered if SIDS are/have recently been in conflict or in a period of political instability. Setting an appropriate level of ambition for an INFF and working on advancing core governance and coordination (as well as other INFF building block) components that require incremental changes can also help in a period of transition. Even in periods of stability, enhancing coherence of existing governance arrangements and closing gaps would likely be the most difficult part of an INFF without political commitment and leadership (see [INFF Building Block 4](#)).


Phased approach: Strengthening governance and coordination arrangements over phases can help with sustaining interest and buy-in, as well as mitigate capacity and resource limitations. There are likely to be several development partners supporting SIDS on different aspects of governance and coordination, including beyond those related to financing and economic governance (e.g., on corruption, rule of law). Sequencing and coordinating activities during the different phases will help with improving coherence.


Table 4. Governance & Coordination for SIDS


INFF BUILDING BLOCK	BUILD ON EXISTING SYSTEMS AND KNOWLEDGE	PRIORITIZATION	PHASED APPROACH
 <p>4. Governance and coordination</p>	Consider own institutional arrangements, policy processes and engagements with development partners, private sector, civil society and academia.	Consider peace and security, political stability and rule of law conditions.	Consider a phased approach to strengthen governance and coordination arrangements.

5.5 A TIP for practitioners

Officials at all levels and from any organization involved in an INFF (e.g., government, civil society, development partner, private sector) can use the following TIP to facilitate the process of thinking through the INFF and how it can help with the identified financing priorities:

-  • What is the **TASK**?
- Is it related to Assessment & Diagnostics, Financing Strategy, Monitoring & Review or Governance & Coordination (see Box 1)?
- Where does it fit into the PFM process and the broader strategies that involve different stakeholders (see Figure 5)?

-  • **IDENTIFY** existing work and build from there - what has been done before, what is currently being done, what are the gaps?
- **INTEGRATE** all perspectives of sustainable development - what are the economic, social, environmental, political/governance implications?
- **What-IF** risk analysis - what are the risks and will they materialize?

-  • **PRIORITIES:** what should be prioritized and does it need to be done in phases?
- **PARTNERS:** who can help or needs to be engaged within and beyond my organization?
- **PROCESS:** are there existing processes to facilitate the task or should new ones be developed?

Endnotes

¹ As of September 2022, INFFs are being implemented in 18 SIDS.

² The guidance benefited from a background paper by Tierney, Peter S., “Adapting INFF Guidance for Small Island Developing States.”

³ Paul Akiwumi, “Climate Finance for SIDS Is Shockingly Low: Why This Needs to Change,” (UNCTAD, May 24, 2022).

⁴ “A Framework for Addressing the Financing Needs of Small Island Developing States,” (ADB, November 2019).

⁵ Mathew Bishop, “Building Equitable Societies in Small Island Developing States Is More Challenging and Urgent than Ever,” (ODI: Think change, July 14, 2022).

⁶ [SIDS’ Access to Green Funds](#) (OECD, 2022).

⁷ See United Nations, Report of the Secretary-General on the Follow-up to and Implementation of the SIDS Accelerated Modalities of Action (SAMOA) Pathway and the Mauritius Strategy for the Further Implementation of the Programme of Action for the Sustainable Development of Small Island Developing States.

⁸ Charlene Watson, Liane Schalatek, and Aurélien Évéquoz, “Climate Finance Regional Briefing: Small Island Developing States,” Climate Funds Update, Climate Finance Fundamentals (Heinrich Böll Stiftung and ODI, February 2022).

⁹ Gaps, Challenges and Constraints in Means of Implementing the Sendai Framework for Disaster Risk Reduction in Small Island Developing States (United Nations Department of Economic and Social Affairs and United Nations Office for Disaster Risk Reduction, 2022).

¹⁰ Thorsten Beck and Henry Mooney, “Financial Development in the Caribbean,” in Economic Institutions for a Resilient Caribbean | Publications (Inter-American Development Bank, 2021); Katia D’Hulster, Geof Mortlock, and Owen Nie, “Financial Sector Monitoring in PIC Countries and Potential Covid-19 Impact on Financial Stability” (World Bank Group, April 2021).

¹¹ “Development and Globalization: Facts and Figures 2021,” (UNCTAD, 2021).

¹² Declan Hourd, “Parties To The Nauru Agreement: A Model For Sustainable Development – International Day Of Peace 2021,” (The Organization for World Peace (blog), September 16, 2021).

¹³ See INFFs and Education, INFFs and Health, INFFs for Agricultural Financing, INFFs and Climate Finance and other sectoral guidance.

¹⁴ See [Step 3](#) of the [suggested approach](#) in the global guidance on Building Block 2 Financing Strategy.

¹⁵ A disaster risk assessment can also help ensure all new investment decisions build resilience and reduce disaster risk over the long term. Can refer to Principle for Resilient Infrastructure (UNDRR, 2022)



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