



Development Finance Assessment Guidebook

Supporting governments to build
forward better through integrated
national financing frameworks



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The Development Finance Assessment is a key tool among the services offered by UNDP's Finance Sector Hub. The Hub offers a comprehensive package that enables governments, the private sector and international financial institutions to accelerate financing for the SDGs. It provides services across seven action areas and through three flagship initiatives. The Development Finance Assessment is an important tool offering support under the first action area and

flagship initiative on Integrated National Financing Frameworks, and provides linkages with many other action areas and services. The Development Finance Assessment approach was originally developed as part of the Asia-Pacific Development Effectiveness Facility (now the Asia-Pacific SDG Financing Facility, APFIN), and continues to benefit from close engagement with the APFIN leadership and network. APFIN is a country-led platform for regional dialogue, cooperation, and sharing of country knowledge on SDG financing in Asia-Pacific, supported by Australia's Department of Foreign Affairs and Trade.

Disclaimer: The views expressed in this publication are those of the authors and do not necessarily represent those of the United Nations, including UNDP, or the UN Member States or development partners.

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Acronyms

AAAA	Addis Ababa Action Agenda	OECD	Organisation for Economic Co-operation and Development
B4SDGs	Budgeting for SDGs	OOF	Other official flows
CSO	Civil Society Organisation	PEFA	Public Expenditure and Financial Accountability
DAC	Development Assistance Committee of the OECD	PFM	Public Financial Management
DFA	Development Finance Assessment	PIMA	Public Investment Management Assessment
DFI	Direct Foreign Investment	PPP	Public-private partnership
ESG	Environmental, Social and Corporate Governance	RC	(UN) Resident Coordinator
FBO	Faith-based Organisation	SDGs	Sustainable Development Goals
FDI	Foreign Direct Investment	SMEs	Small and Medium Enterprises
FSH	Finance Sector Hub (UNDP)	TADAT	Tax Administration Diagnostic Assessment Tool
GDP	Gross Domestic Product	TOR	Terms of reference
GIFT	Global Initiative for Fiscal Transparency	UN	United Nations
GPEDC	Global Partnership for Effective Development Co-operation	UNCDF	United Nations Capital Development Fund
IATF	Inter-Agency Task Force on Financing for Development	UNCT	United Nations Country Team
IBP	International Budget Partnership	UNDP	United Nations Development Programme
IFI	International Financial Institution	UNECE	United Nations Economic Commission for Europe
ILO	International Labour Organisation	UNEP	United Nations Environment Programme
IMF	International Monetary Fund	UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
INFF	Integrated National Financing Framework	UNESCO	United Nations Educational, Scientific and Cultural Organization
IFC	International Finance Corporation	UNICEF	United Nations Children's Fund
IOM	International Organization for Migration	UNODC	United Nations Office on Drugs and Crime
LDC	Least-developed Country	WEF	World Economic Forum
LIC	Low-income Country	WHO	World Health Organization
MTEF	Medium-term Expenditure Framework		
NGO	Non-governmental Organisation		
NRGI	National Resource Governance Institute		
OC	(INFF) Oversight Committee		
ODA	Official Development Assistance		
ODI	Overseas Development Institute		

How to use this guidebook

The Development Finance Assessment (DFA) is a tool developed by UNDP to support governments as they respond to COVID-19, and establish integrated national financing frameworks, to finance the agenda of building forward better with greater sustainability, resilience, and inclusivity.

This updated guidebook is designed to present guidance on the process and substantive analysis of a Development Finance Assessment (DFA), as well as the outcomes that it leads to. It can be used by governments, UNDP country offices, and UNCTs; to plan, set the scope, and initiate the process of undertaking a DFA to support (or explore the potential for) the larger process of operationalising an Integrated National Financing Framework (INFF). This updated DFA Guidebook links explicitly to [INFF guidance](#) from the Inter-Agency Task Force on Financing for Development (IATF), and is particularly designed as a tool to the inception phase for an INFF.¹

The DFA may often be implemented whilst being linked to other financing services offered by UNDP, other UN Agencies, or other actors; such as the International Financial Institutions (IFIs). The DFA guidebook will be used by DFA technical teams to shape and guide the analysis that they undertake, and the dialogue that they facilitate, with stakeholders across government

and the wider financing landscape. It provides guidance about how to carry out the full DFA process, from the outset to the culmination in the drafting and agreement of a set of recommendations for moving forward, often as part of an INFF Roadmap.

This guidebook can be read as a reference document. The main body of text in the guidebook outlines the scope of the analysis and the approach, and steps of the process to facilitate the set-up of the DFA. Boxes are used throughout to give further detail on key aspects of the DFA process, as well as guidance on how it can complement or be used in partnership with other services. Tables provide additional detail on technical aspects of the analysis as well as information about many more of the related services and assessment tools that the DFA can draw from or provide an entry point for.

A series of annexes at the end of the guidebook provide more in-depth guidance for technical teams as they conduct the analysis and substantive dialogue, particularly in relation to public finance and private finance policies. A selection of examples of the contributions that DFAs have made in the past are also included, as well as templates for key documents that can be used and adapted to set-up and shape an assessment.

¹ See the sections below titled 'The DFA as a tool to support the INFF inception phase' and 'Modular DFA process' for more on this.

Using the DFA Guidebook to plan and carry out a DFA

1. Governments and UNDP country offices can use the introductory sections to understand the added-value of a DFA, and the role that it can play in the process of operationalising an INFF and financing COVID-19 recovery (or in exploring whether an INFF is a good fit for the context).
2. The DFA process section can be used to understand the approach and steps of the DFA, to consider how this fits within larger INFF processes, and alongside other ongoing assessments.
3. The DFA analytical framework section can be used by government and UNDP country offices to understand the substantive analysis of the DFA and the government-led, consultative nature of this approach. For countries that will undertake a DFA, the range of potential topics that could be covered can be reviewed and narrowed down to focus on a prioritised set of issues, be they particular types of financing or particular thematic priorities. Scoping phase questions are provided within the Financing strategy chapter below, to help determine part of the focus. The analytical framework section also provides guidance that can be used to plan how to use the DFA alongside other financing services within a portfolio approach. Technical teams will also need to familiarise themselves with the guidance in the analytical framework, including the more detailed guidance in the annexes. This guidance provides a basic structure for the substantive analysis while allowing flexibility in the way that structure is applied and on the specific issues that are prioritised.
4. The contact information can be used to reach out to the DFA support team within the Finance Sector Hub at the regional and global levels. Support can be provided to set up a DFA and provide ongoing inputs and quality assurance through the process.
5. Template terms of references (TORs) can be provided and adapted to make preparations to undertake an assessment.

Introduction

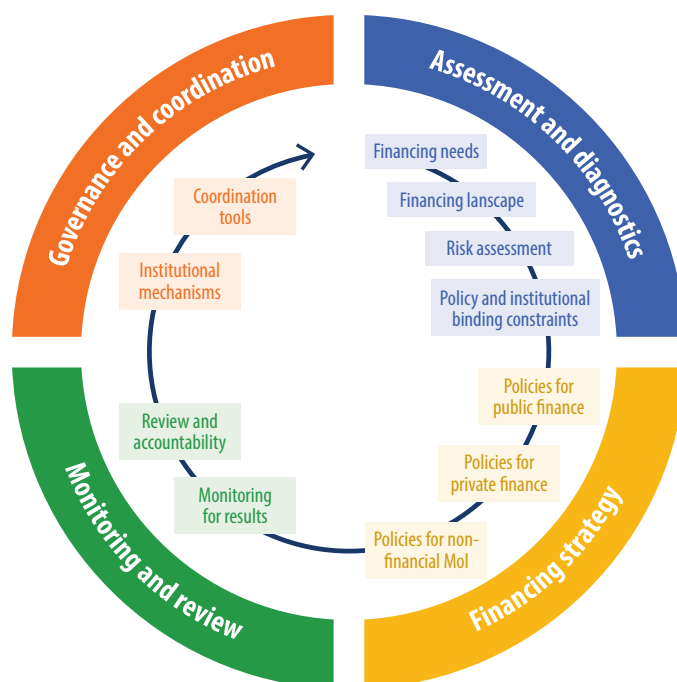
The 2030 Agenda for Sustainable Development (2030 Agenda) presents a complex and ambitious vision for the economic, environmental, and social development that countries around the world can achieve. While progress has been made in achieving many aspects of the 2030 Agenda since 2015, there has also been retrogression in many others.

At the start of 2020, just as the ‘Decade of Action’ for accelerated progress toward the 2030 Agenda was beginning, the COVID-19 pandemic has brought a once-in-a-lifetime shock that has affected every country around the world. Initially a health crisis, it has triggered significant impacts across many social, economic, and environmental outcomes, amplifying

pre-existing inequalities and leading to wholesale shifts in the public and private financing outlook. Its impacts could spark protracted crises lasting several years in many countries.

Realising the vision of the 2030 Agenda and achieving the Sustainable Development Goals (SDGs) was always going to be a complex task. The Addis Ababa Action Agenda (AAAA), which outlines a framework for financing the 2030 Agenda, highlighted the wide range of resources that would be needed; the public and private investments that would need to be mobilised, and the many ways in which public and private financing would need to become more inclusive, more sustainable, and more resilient.

Figure 1. The Building Blocks of an INFF



Source: IATF, 2019 Financing for Sustainable Development Report

At the heart of national efforts to finance the 2030 Agenda is the Integrated National Financing Framework (INFF). The AAAA called for the adoption of these frameworks to support nationally owned sustainable development strategies. INFFs help governments and their partners to build more integrated approaches to financing that strengthen the alignment between public and private investments with longer-term sustainable development objectives, build greater coherence across the governance of public and private financing policies, and promote greater collaboration among actors in each area of financing. The Inter-Agency Task Force on Financing for Development (IATF) has developed guidance (see box 2 below) on the concept and building blocks of an INFF: (i) assessments and diagnostics; (ii) financing strategy; (iii) monitoring and review; and (iv) governance and coordination (Figure 1).²

As countries around the world face the setbacks to social and economic outcomes that have been triggered by the COVID-19 pandemic, they are also looking ahead to how they can build forward better in the future and transition to stronger, more resilient, and inclusive sustainable development paths. Many countries will have to, initially at least, do more with less. National socio-economic impact assessments are revealing the extent to which the sustainable development outlook has deteriorated. At the same time, shocks across the financing landscape have reduced the public and private resources available in many contexts; revenues have declined, private investment has fallen, debt instability has risen, international capital withdrawn, and flows of remittances decreased.

Building forward better within the context of rapid changes across the financing landscape that have been triggered by COVID-19 means the need for an integrated approach to financing is greater now than it has ever been. Many countries are reassessing their medium-term priorities with a focus on interconnected investment areas that can deliver multiple long-term benefits for greener, gender-equitable, more inclusive,

and more resilient development. Thematic priorities such as climate and environmental issues, equality, gender equality and inclusivity, job creation, health and social protection, among others, are emerging in many national contexts.

Implementing the new generation of national plans that can advance these priorities and build forward better will require robust financing strategies. They must simultaneously address the challenges of the new financing landscape, manage complex risks, and deliver reforms across many aspects of public, private, domestic, and international financing, in order to mobilise the necessary investments. Designing and operationalising effective INFFs can strengthen national efforts to build forward better. The Development Finance Assessment (DFA) is a tool to help countries shape the inception phase in the process of operationalising an INFF which will support efforts to build forward better through a new generation of national development plans.

Developed by UNDP³ following the AAAA, the DFA offers a unique country-owned, government-led process for determining the steps which will be taken to operationalise an INFF in the national context. It responds to the demand expressed by countries for support in building a holistic analysis of the context and existing structures, and identifying ways forward that can be articulated in an INFF Roadmap.

The DFA is structured around a series of Financing Dialogues. Under the guidance of a government-led national oversight team these dialogues bring together government officials, private sector, and other stakeholders to facilitate discussion on how to operationalise a more integrated approach to financing through an INFF. They are embedded, wherever possible, within an existing dialogue platform to support stronger dialogue on financing beyond the timeline of the DFA. They aim to build a broad constituency for reforms and leverage the innovations and collaboration of this wide group of stakeholders

² [IATF guidance](#) on the process of operationalising an Integrated National Financing Framework, 2020.

³ The DFA approach was originally developed as part of the Asia-Pacific Development Effectiveness Facility, a UNDP regional initiative.

in order to forge a way forward for bringing together the building blocks of the INFF. These are articulated in the key outcome of the DFA process, an agreed INFF Roadmap of the steps that will be taken subsequently to operationalise an INFF.

The DFA financing dialogues are informed by a comprehensive analysis of the financing policies, institutions, and capacity that are in place and are needed to operationalise an INFF through the DFA analytical framework. As a tool designed for aggregation and collaboration, this analytical framework draws together information from a wide range of existing sources and assessments. This includes government policy research, as well as assessments and diagnostics from national research institutes and other national initiatives. It draws from a range of assessments by IFIs and development partners, such as Public expenditure and financial accountability (PEFA) and Public investment management (PIMA) assessments, SDG costing and International Monetary Fund (IMF) macroeconomic financial frameworks. It captures analysis and information from private sector initiatives in areas such as Environmental, Social, and Corporate Governance (ESG) reporting, SDG Impact Standards, and insurance risk modelling.

The emphasis in the DFA is to demystify otherwise technical analysis and to facilitate an accessible process of dialogue that supports wide participation in the inception phase of the INFF process. As a tool within UNDP's Finance Sector Hub, the DFA is closely connected with, and draws information from, a range of other UNDP support including [COVID-19 socio-economic impact assessments](#), [COVID-19 Global Gender Response Tracker](#), and support for developing socioeconomic response frameworks; as well as tools focused on SDG costing, SDG budgeting, the SDG Investor Maps, digital finance, and others. The process whereby the DFA can be informed by, or work alongside, these tools is described within boxes throughout this guidebook.

Across all of these areas, and others, the DFA brings together the existing knowledge and facilitates collaboration in support of building a more integrated, public and private, approach to financing for building forward better.

This version of the DFA guidebook, version 3.0, responds to the demands that countries have expressed since version 2.0. It provides guidance on how the DFA can support governments and their partners as they deal with the challenges caused by the COVID-19 pandemic and look ahead to building forward better.

It aligns the DFA analytical framework to the IATF's [guidance on Integrated National Financing Frameworks](#), and grounds it in the suite of tools and services offered through the UNDP [Finance Sector Hub](#). It also offers greater detail on how to assess and develop solutions in key areas such as:

- public and private debt;
- public policy for private financing;
- risk management;
- tailoring the DFA for a variety of national, subnational and thematic priorities; and,
- using forward-looking scenarios to assess potential financing trajectories for building forward better.

In all of these changes, the updated approach builds on the experiences and lessons from more than 40 countries that have undertaken DFAs to date (Box 1), and aims to support many more countries to utilise the tool in the future, as they build more integrated approaches to financing.

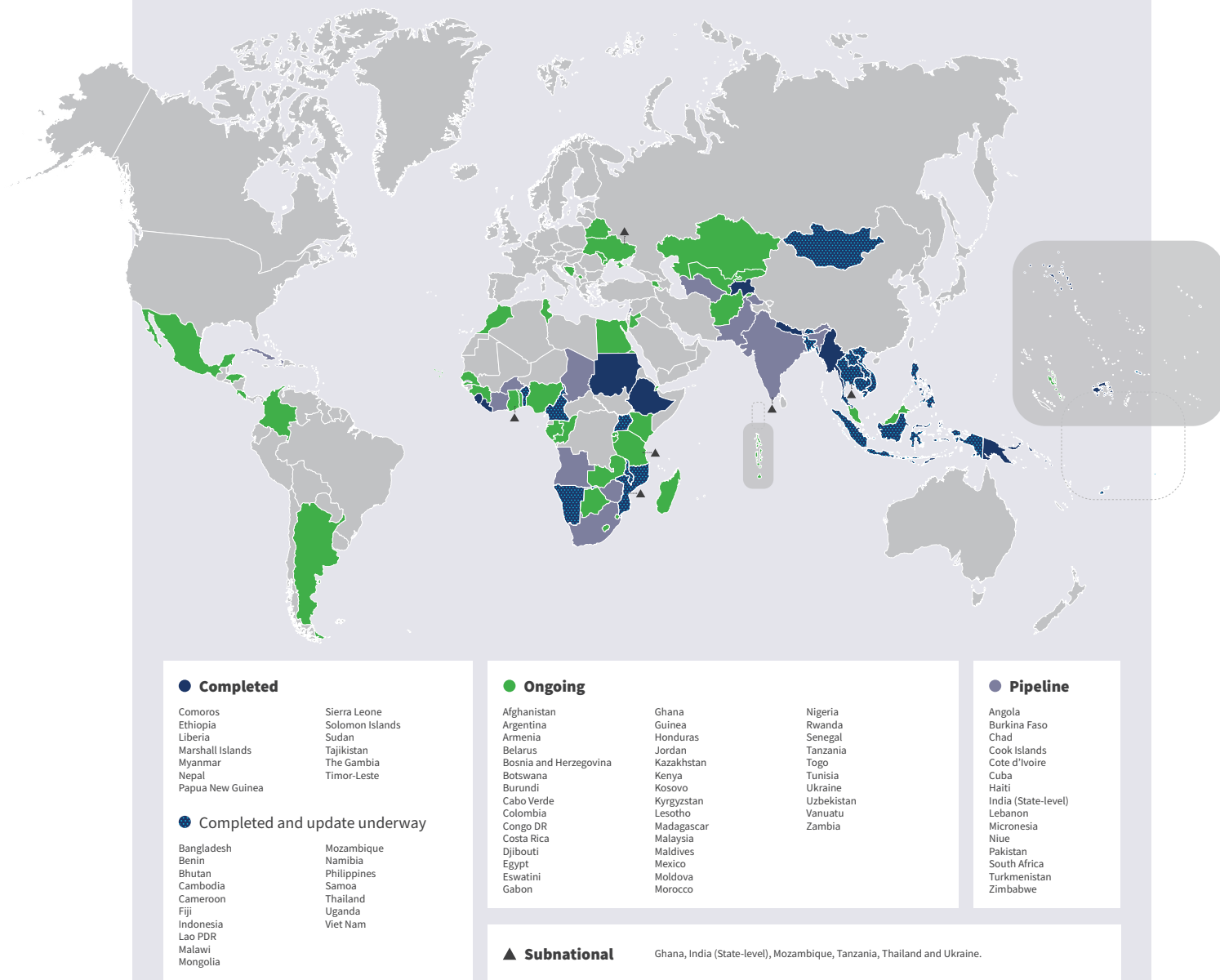
The guidebook begins with an overview of the DFA as a tool for shaping the inception phase of the larger process of operationalising an INFF, including discussion on the financing dialogues and INFF Roadmap. It then presents the analytical framework that sits at the centre of the DFA process, looking at the policies, institutions, capacity, and analysis that are in place, the reforms underway, and the opportunities to move forward in relation to the INFF building blocks.

The guidebook outlines how all these questions can be applied throughout the DFA process, considering the sources and stakeholders to be consulted and the established tools in each area that the DFA may connect with or lead on to. The main body of the text presents the core guidance with further, more technical guidance on core parts of the analytical framework

Box 1. Development Finance Assessments Worldwide

The Development Finance Assessment (DFA) was originally developed in the Asia-Pacific region, but has since been used by countries around the world. At the time of publication, DFAs had been completed or were ongoing in almost 50 countries, with more than 40 further assessments in the pipeline (Figure 2).

Figure 2. Development Finance Assessments around the world:



Map correct at the time of publication, September 2020.

presented in the annexes. These annexes include guidance on how the DFAs can focus on specific thematic issues that the government is prioritising.

Questions are outlined for six thematic issues as examples of the kind of issue that may be prioritised,

in order to demonstrate how the core DFA analytical framework can be focused to meet these demands. The guidebook details how the analysis of each INFF building block can be brought together to inform financing dialogues with policymakers, the private sector, and other stakeholders.

Finally, the guidebook provides guidance on how to facilitate and support the government as an INFF roadmap is articulated. The final section of the guidebook details the DFA process and the steps that can be considered from the initial scoping of a DFA, through the process itself, to the development of an INFF roadmap.

The DFA is an assessment process. Its ultimate value is in the support it offers to governments and their partners as they determine and take steps to strengthen existing processes and policies, deepen dialogue and build a more holistic, integrated approach to financing national priorities. Its impact

will be felt through the realisation of these important, sometimes subtle, changes to the governance of financing and the application of an integrated approach to financing for building forward better. The guidance offered throughout this guidebook is designed to help the teams undertaking a DFA process to ensure that it can play this role and fulfil its potential in supporting governments and partners across the financing landscape in this endeavour.

Box 2. IATF Guidance on Operationalising INFFs and the DFA Process

In 2019, the Inter-Agency Task Force on Financing for Development (IATF) included a thematic chapter on INFFs in the 2019 Financing for Sustainable Development Report (FSDR). This standardised guidance about the main elements of an INFF, centred around four building blocks for operationalising an INFF: (1) assessments and diagnostics, (2) financing strategy, (3) monitoring and review, and (4) governance and coordination. At the 2019 FFD Forum, the IATF was tasked with developing toolkits and guidance material to further support countries' efforts to operationalise INFFs.⁴

The IATF guidance and DFA process are designed to offer strong, coherent support for countries as they embark on the process of operationalising an INFF. Together, they offer guidance on how to carry out this process as a whole, through the IATF INFF guidance, as well as practical support for the inception phase leading to the agreement of an INFF Roadmap, through a DFA following the approach outlined in this guidebook.

The INFF guidance provided by the IATF offers a central reference for the key issues, policy and methodological considerations, and steps in the process of operationalising an INFF. It covers the entire process of operationalising an INFF, from initial government interest and scoping (the inception phase), covering each of the four building blocks and how they come together. It provides guidance on the kinds of tools that countries may wish to utilise as they carry out these processes – and the DFA is one of the tools it highlights.

The DFA is a country level process to support the inception phase within the larger process of operationalising an INFF at the national level. For countries that wish to undertake a more in-depth INFF inception phase, the DFA can help to shape this part of the process. It can also be used as a tool within the assessments and diagnostics phase of the process for countries that are undertaking a lighter inception phase, often following a modular approach to the DFA process.

⁴ E/FFDF/2019/3, paragraph 4: https://www.un.org/ga/search/view_doc.asp?symbol=E/FFDF/2019/3

1.

The Contribution of the DFA to the Larger Process of Operationalising an INFF

The DFA as a Tool to Support the INFF Inception Phase

The DFA is designed to support countries to build a more integrated, public and private approach to financing through an INFF. There are three distinct phases in the process of operationalising an INFF: the inception phase, development phase, and on-going operations.⁵

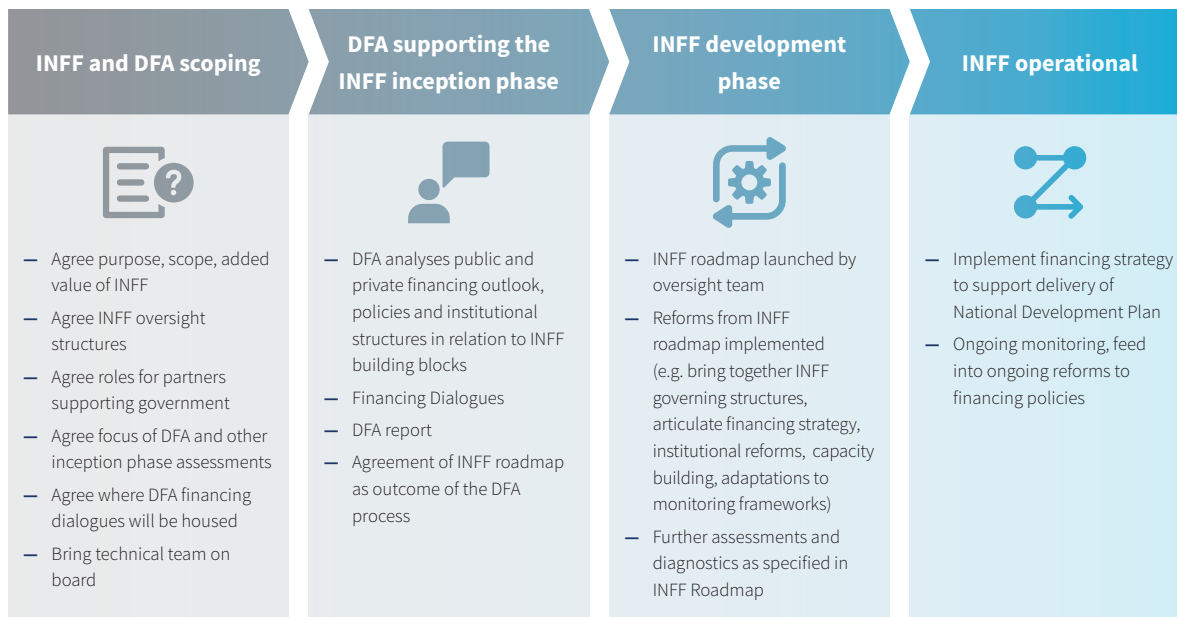
The DFA is designed to support the government and its partners through the inception phase of the process. It offers a mechanism that can form the backbone of this phase, assessing and building

consensus on the key issues that need to be considered, while drawing in the findings and recommendations of other processes that are run in parallel during the inception phase. The culmination of the DFA is the articulation of an INFF roadmap that shapes the steps to be taken subsequently in the INFF development phase (see the INFF Roadmap section below). An alternative to this approach is when the government wishes to undertake a lighter inception phase, whereby the INFF Roadmap is developed earlier in the process, followed by a more in-depth assessments and diagnostics phase (see more on this in the Modular DFA process section below).⁶

Figure 3 highlights a common approach to using the DFA to shape the inception phase within the larger process of operationalising an INFF.

⁵ For more on this see the [IATF guidance](#) on operationalising an INFF.

⁶ For more on this see the [IATF inception guidance](#) which highlights examples from Kyrgyz Republic (example of a more in-depth inception phase with the DFA leading to agreement of the INFF Roadmap) and Cabo Verde (example of a lighter inception phase).

Figure 3. Typical role of the DFA within the larger process to operationalise an INFF

Source: adapted from documents from joint INFF and DFA scoping missions in a selection of countries

The sequencing of the DFA relative to other processes during the INFF inception phase is an important consideration. While there are no fixed requirements or mandatory precursors to the DFA, the process will be able to support governments and their partners to go further and be more specific in the articulation of an INFF Roadmap if certain information is already available. Conversely, governments will be better placed to prioritise and carry out other reforms if they can benefit from the analysis, consensus and prioritisation developed through the DFA process.

Financing need assessments would often be carried out either before a DFA, or in parallel to it, as this will allow the DFA to be more specific about key issues such as financing gaps.⁷ At the same time, processes that go into greater detail in specific areas of financing will often be undertaken in follow up to a DFA, or in parallel where the issue they address is one that has already been prioritised by the government. This includes processes such as SDG budgeting, SDG Investor Maps, Digital Finance Ecosystem Assessments, Sustainable finance diagnostics, and others. Nevertheless, the DFA offers a flexible approach that can be tailored to the

priorities and sequencing of other processes so can be adapted to add value in relation to these and other processes even under alternative sequencing.

Facilitating Financing Dialogues

A series of Financing dialogues form the centrepiece of the DFA. These are a central forum where the evidence and analysis gathered through applying the DFA analytical framework are brought together, socialised, weighed up, and refined. The DFA is as much a process as it is a technical assessment, and the Financing dialogues, alongside ongoing dialogue with the INFF Oversight team and bilateral consultations, host the dialogue that is central to this process.

The Financing dialogues are designed to fulfil a number of purposes, outlined below:

The dialogues will socialise and refine the DFA analysis with the aim of building consensus among a wide group of stakeholders – first, regarding priority

⁷ This may happen in the INFF inception phase, if all the information is available, or during the INFF assessment and diagnostic phase. See [IAF guidance on the assessments and diagnostics phase](#) for further information on assessing financing gaps.

challenges and opportunities in terms of financing for building forward better; and second, on the ways forward in terms of addressing those challenges and building a stronger system of governance of public and private finance for building forward better. Through these discussions, the dialogues will draw out the contributions and innovations of this diverse group of actors in applying the INFF.

The Financing dialogues will make an important contribution toward deepening dialogue on financing issues between public and private actors. Dialogue between the government, private sector, civil society, development partners, and others, is an important part of the INFF (see the Governance and coordination section below). To this end, the DFA financing dialogues will be embedded, wherever possible, in an existing platform for public-private dialogue (see the scoping and set-up phase section below). The DFA team will work closely with the managers of that platform to design a series of dialogues within the DFA that both inform the DFA as part of the larger process of operationalising an INFF, and strengthen the capacity and focus with the platform for ongoing dialogue on financing issues.

The financing dialogues can also be an important forum for bringing together the DFA and other concurrent financing processes that are ongoing during the INFF inception phase. The financing dialogues will provide a forum where the evidence, analysis, and recommendations emerging from other processes can be brought into discussions leading up to the INFF Roadmap. They may also be able to host the central dialogue of both the DFA and certain other processes, including SDG Investor Maps, services on digital financing, and others, where these processes happen in parallel (see boxes on the complementarity between the DFA and these services below⁸).

The INFF Roadmap

The INFF Roadmap is the key outcome of the DFA process and marks the culmination of the INFF inception phase. It articulates the purpose and added value of the INFF, along with the agreed steps that the government and partners will take to operationalise the INFF in the subsequent development phase, after the DFA process has finished.

The INFF Roadmap will set out the governing structures to take the INFF forward, and detail the steps that will be followed to operationalise each INFF building block. It will cover the process and steps that will be taken to articulate a financing strategy, including recommendations about the structure of, and priorities for, the financing strategy that have been agreed through the DFA.⁹ Steps that need to be taken in order to bring together and strengthen existing monitoring frameworks to inform the ongoing management of the INFF will also be detailed by the Roadmap. It will also specify the steps that will be taken to coordinate and strengthen existing institutional structures for designing and delivering financing policies in line with national priorities, as well as platforms for public-private dialogue. The INFF Roadmap will also specify future assessments and diagnostics to be completed, both those that will be undertaken during the operationalisation process and those that will be carried out on a regular basis to inform the ongoing operations of the INFF.

Crucially, across all of these building blocks the INFF Roadmap will lay out a plan for strengthening or building the necessary capacity within the government and, where relevant, other national actors. In all of these areas the INFF Roadmap will outline the timelines, milestones, responsibilities and any services or support that will be used to take each action forward.¹⁰

⁸ E.g. Box 7 on SDG Investor Maps and the DFA.

⁹ For countries that are undertaking a lighter inception phase with a modular DFA process this detail may be developed after the INFF Roadmap is agreed.

¹⁰ This section on the content of the INFF Roadmap is based on the approach outlined by the IATF. Further guidance can be found in the IATF [INFF inception guidance](#).

The primary role of the DFA is to support the INFF Oversight committee by compiling and undertaking the technical analysis, and facilitating the dialogue necessary to identify, refine, and agree the steps and recommendations that will be articulated in the INFF Roadmap.

Principles for an impactful DFA

There are a number of key principles that characterize the DFA and ensure that it has an impact in terms of strengthening financing for building forward better and sustainable development. The ultimate value of a DFA is in the contribution it makes toward strengthening existing financing systems, processes and policies, deepening dialogue on financing and facilitating steps toward a more holistic, integrated approach to financing national priorities through the INFF Roadmap. DFAs are designed to be flexible to national institutions, policy cycles and priorities in order to achieve these objectives, and the DFA offers a process and approach that can be tailored to the context and demand from the INFF Oversight committee. Yet while there are therefore aspects of the DFA that may look quite different from one assessment to another, there are a number of key principles that should characterise all DFAs. These draw from the functions and building blocks of an INFF and are critical for ensuring that the DFA makes a tangible contribution toward strengthening financing through the process of operationalising an INFF:

- The exercise is led by the INFF Oversight committee, including key decision makers from the government ministries with responsibility for each area of financing.
- The DFA is embedded within, and designed to strengthen, existing national processes, institutional structures, and platforms.
- The exercise convenes and facilitates dialogue among a wide group of stakeholders, bringing together government policymakers and representatives of key non-state groups such as the private sector, civil society, development partners, IFIs, and other stakeholders. It demystifies technical financing issues and guides a series of Financing Dialogues about building a more holistic, integrated approach to public and private financing for national sustainable development. It promotes equitable representation of women, men and different social groups.
- The DFA process supports the operationalisation of an Integrated National Financing Framework for building forward better. It supports the inception phase of this larger process by facilitating analysis, dialogue and decisions about how the INFF will be brought together.
- The process is designed to maximize the participation and buy-in of government policymakers, private sector representatives, and other stakeholders to an INFF roadmap.
- The DFA is not an isolated process but can support governments to bring the analysis and recommendations arising from multiple concurrent financing processes into one aggregate frame and as inputs to an INFF Roadmap.

Box 3. UNDP Finance Sector Hub – services to support public and private financing in response to COVID-19

The [Finance Sector Hub](#) was created in 2019 to bring together UNDP's expertise and portfolio of services across public and private financing and to support implementation of the UN Secretary-General's Roadmap for financing the 2030 Agenda. The Finance Sector Hub provides a comprehensive package of tools in support of the organization's [SDG Integration offer](#) to enable governments, the private sector and International Financial Institutions to accelerate financing for the SDGs.

The Finance Sector Hub supports public and private actors through four Flagship initiatives and seven action areas (Figure 4).

Box 3. UNDP Finance Sector Hub – services to support public and private financing in response to COVID-19 (continued)

The Finance Flagships are global initiatives designed to bring the SDGs into the heart of the global and national financial systems. They focus on Integrated National Financing Frameworks, SDG Impact¹¹ (impact management, impact intelligence¹² and impact facilitation), insurance and risk financing¹³, and digital finance.¹⁴

The seven action areas (summarised by the segments in the financing wheel in Figure 4) capture the range of interconnected services offered by UNDP across each area of public and private financing. The first action area is focused, in line with the first Flagship, on Integrated National Financing Frameworks – this recognises the need for governments to have robust, holistic strategies for financing sustainable development, and provides a framework for the connections with services in each other area of financing. Action areas 2, 3 and 4 focus on public finance, offering services related to budgeting, revenue and debt, and international public finance. Action areas 5 and 6 focus on private financing for sustainable development, offering services to mobilise new private financing, and to enhance the sustainable development impacts of commercial investment and business models. The final action area focuses on support to public and private actors in monitoring and reporting on their development impact, feeding into financing for sustainable development policymaking.

Underpinning the flagships and services across the seven action areas is recognition of the fundamental importance of strong governance, and of bringing public and private players together to shape the system of governance in a way that advances development with sustainability and inclusivity at the core. The services offered across the seven action areas focus on strengthening key elements of governance of financing: policy and regulatory reform, institutional strengthening, enhancing financial instruments, broadening access to knowledge and innovation, and promoting transparency and accountability.

The Finance Sector Hub offers this comprehensive package of services, with countries drawing down on an appropriate mix of services that responds to the demands and needs at the country level. An important function of the DFA, which sits within the first Flagship and action area, is to help governments and their partners determine the priorities for building a more integrated approach to public and private financing for building forward better through the INFF Roadmap. Guidance is given throughout this guidebook on how the DFA can explore the potential and lay groundwork for more specialised support through follow up services from the Finance Sector Hub, as well as a range of other actors.

Figure 4. UNDP Finance Sector Hub – SDG Financing Wheel



2.

The DFA Analytical Framework

The DFA is structured around a process of financing dialogues that will discuss the overarching financing landscape and the policies, institutions, and capacity that are in place. The dialogues are designed to support consensus on the next steps and reforms needed to operationalise an INFF. These dialogues are informed by the DFA analytical framework, which draws together analysis and data across public and private financing in relation to the four building blocks of an INFF (Figure 5).

The analytical framework asks three overarching questions about each INFF building block: (i) what is already in place?; (ii) what ongoing initiatives are underway?; and (iii) what further opportunities exist? In each of these questions it considers policies, institutions, and capacity; as well as analysis of the current context and outlook, in relation to each building block. These questions are used to facilitate discussion through the financing dialogues that informs the agreement of an INFF Roadmap.

In applying these questions, the DFA will develop a comprehensive map of the policies and initiatives that are in place and that are ongoing, in relation to each of the INFF building blocks (Figure 6). It will capture the systems and initiatives across government, the private sector, civil society, and international partners in relation to financing for the national development or recovery plan. This comprehensive mapping forms a basis for discussion through the Financing dialogues about how to bring together the existing elements of an INFF, supplement and strengthen them where necessary, and address any gaps or opportunities that exist.

Figure 5. DFA analytical framework

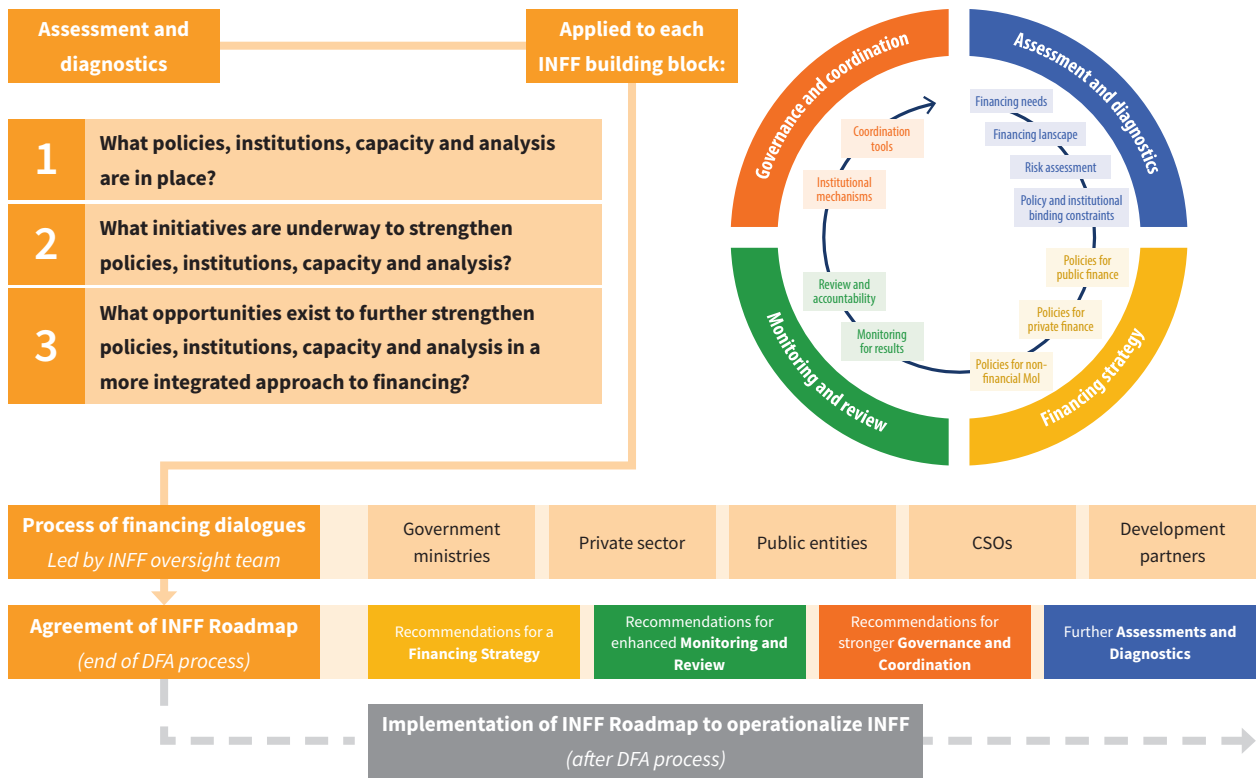
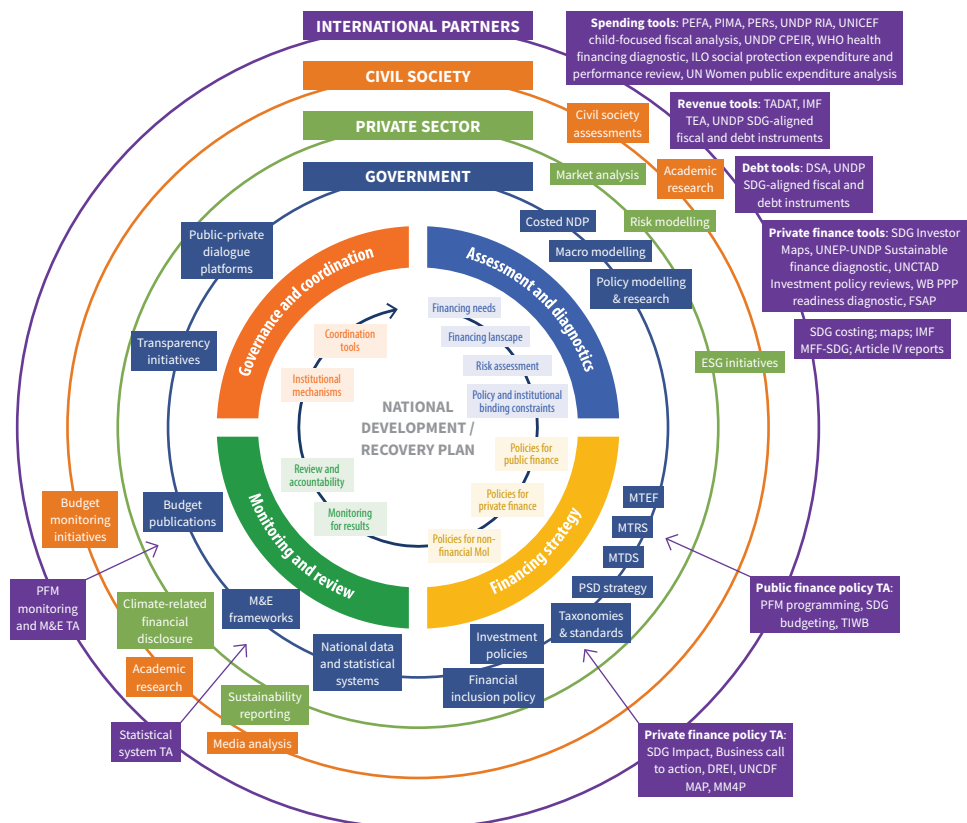


Figure 6. The DFA as a tool for mapping the INFF building blocks



Notes. CPEIR = Climate Public Expenditure and Institutional Assessment; DREI = Derisking Renewable Energy Investment; DSA = Debt Sustainability Analysis; ESG = Environment, Social and Corporate Governance; FSAP = Financial Stability Assessment Program; MFF-SDG = Macro-financial Framework for SDGs; MM4P = Mobile Money for the Poor; MTDS = Medium-term Debt Strategy; MTEF = Medium-term Expenditure Framework; MTRS = Medium-term Revenue Strategy; PEFA = Public Expenditure and Financial Accountability; PER = Public Expenditure Review; PFM = Public Financial Management; PIMA = Public Investment Management Assessment; PSD = Private Sector Development; RIA = Rapid Integrated Assessment; TA = Technical Assistance; TADAT = Tax Administration Diagnostic and Assessment Tool; TEA = Tax Expenditure Assessment; TIWB = Tax Inspectors Without Borders; UNCDF MAP = Making Access possible.

The following sections provide guidance on each aspect of the DFA analytical framework, looking in turn at each INFF building block.

A series of questions that can be asked to shape the analysis and substantive discussions is outlined in each section.¹⁵ These apply the three overarching questions of the DFA to each INFF building block. For simplicity, questions are grouped into two categories: *Understanding the Context* (which applies the first two overarching questions), and *Deeper Analysis* to identify potential ways forward (which applies the third).

The first group of questions in each section will help the DFA build a clear understanding of what is already in place and what reforms are underway. The second group of questions will interrogate this in more depth to identify where there may be potential to further strengthen existing policies, institutions, capacity and analysis, or to bring in new approaches. Links to key sources of information, as well as related services that the DFA can either draw from (where they have been

undertaken recently), or potentially act as an entry point for (in relation to issues that are prioritised in the INFF Roadmap), are provided within each section.

The analysis generated through the analytical framework will be used to inform discussion through the financing dialogues and shape priorities for the INFF Roadmap and the chapter ends with guidance on how to bring the analysis of each building block together. It outlines how the Financing dialogues can be used, under the leadership of the INFF Oversight committee to build consensus and shape priorities for the INFF Roadmap.

Given the prominence of debt issues triggered by the COVID-19 pandemic, debt is likely to be a prominent focus in many DFA processes. As such, guidance on debt specifically is provided in a series of short boxes within each section (see box 4).¹⁶

Box 4. Debt: a key focus of DFAs within the covid-19 context

The COVID-19 pandemic has radically altered the debt position and outlook for many countries, with acute changes across public and private debt. Many countries have moved in, or close, to positions of debt distress.

Sovereign debt costs are rising sharply with debt service costs growing and future access to debt potentially more limited and costly for many governments. Among the private sector, debt positions may also be deteriorating as the ability to service debts falls with the decline in economic activity, and is coupled with rising costs of borrowing. The risk of future financial crises, where defaults, bankruptcies and rising costs of borrowing cause financial institutions to constrain the flow of credit, is real for many countries.

At the same time, debt is a major priority within the response of the international community to COVID-19, with potential debt relief, restructuring and future access to concessional borrowing possible for many countries, and many Multilateral Development Banks (MDBs) implementing significant response and recovery packages. The UN Secretary General has called for a three-phase approach that involves an across-the-board debt standstill, comprehensive assessments of options toward debt sustainability, and efforts to address structural issues in the international debt architecture.¹⁷

¹⁵ Note that in relation to the financing strategy, the section below provides headline guidance on the analysis, with more in-depth guidance on each aspect of public and private finance policy detailed in annexes.

¹⁶ Potential implications of changes in the debt context and outlook on financing needs are considered within the risks section so there is no box within the financing needs section below.

¹⁷ United Nations, 2020, Debt and covid-19: A Global Response in Solidarity.

Box 4. Debt: a key focus of DFAs within the covid-19 context (continued)

Given the prominence of debt issues triggered by the COVID-19 pandemic, DFAs in many contexts will place a special focus on helping governments as they consider their options regarding debt. DFAs will compile and build on the existing evidence and analysis from a range of actors, drawing from sources such as the IMF debt sustainability assessments. By facilitating discussion about the outlook and options for managing debt sustainably within the holistic perspective of the INFF, and by bringing a strong focus on the role and uses of debt financing for sustainable development priorities, the DFA can bring a fresh perspective on debt discussions. Debt is a topic on which there is often much ongoing activity and dialogue at the country level.

The aim of debt analysis within the DFA is to complement these ongoing discussions and add value to them in three ways. Firstly, the big picture perspective that the DFA provides for analysing debt within the financing policy context as a whole can help to link debt management policy with other financing policies to advance dialogue about the synergies and trade-offs that exist.¹⁸ Secondly, it can help to connect the discussion about core debt management strategies with the way that debt financing is invested in relation to sustainable development priorities for building forward better.¹⁹ Thirdly, the DFA can bring together a wider constituency of actors together to build a shared understanding and consensus about debt management priorities, through the Financing dialogues.

The emphasis on debt and the particular issues that are analysed in any country assessment will respond to the context and priorities of the Oversight committee. In many countries this will include a focus in the DFA on both public and private debt. It may consider issues such as sovereign debt sustainability, capacity to service debts, managing the outlook for future access to public debt from domestic and international markets, as well as issues related to debt relief, moratoriums access to international concessional debt and deploying innovative debt mechanisms such as debt swaps or thematic bonds. Simple scenarios may be used to inform dialogue on when and how to tighten fiscal spending and stimulus measures. On the private side, issues such as debt sustainability, access to credit, and de-risking capital market debt issues may feature prominently, with the DFA facilitating dialogue around policy options related to, for example, reducing defaults and bankruptcies, and continuing the flow of credit within financial markets.

Given the prominence of this topic for many countries that will be undertaking DFAs, guidance on how to analyse debt specifically, and the range of sources and common ongoing activities to draw from and connect with, is pulled out within boxes in the key sections below.

¹⁸ For example, considering public debt from domestic markets vis-à-vis financial sector development and private sector access to credit, the importance of debt positions vis-à-vis sovereign risk perceptions and investment promotion objectives and other issues.

¹⁹ For example, including analysis of the use of debt financing vis-à-vis green investments or investments in fossil fuels, mechanisms for channelling debt into facilities that provide bottom-of-the-pyramid financing, and other issues.

INFF Building Block 1: Assessments and Diagnostics

Building forward better and national sustainable development priorities

As countries face and respond to the impacts of COVID-19, many are also looking ahead at how they can build forward better. There is a desire in many contexts to ensure that the paths out of the crisis to recovery is characterised by greater resilience, inclusivity, and sustainability.

The first part of the analytical framework looks at the existing vision for national sustainable development. It looks at what national plan is in place and the extent to which there is a clear, comprehensive financing strategy underpinning it. Crucially, it considers how the pandemic has affected national planning.

Development plans may be re-evaluated, adjusted to new realities, and a different outlook for sustainable development progress established over the medium term. Priorities within development plans may also shift, with a new or strengthened emphasis on realising resilient, inclusive, sustainable development paths. The DFA will analyse these questions at the start of the process as they will provide a foundation against which much of the financing analysis will be related.

Understanding the context

1	What policies, institutions, capacity and analysis are in place?
2	What initiatives are underway to strengthen policies, institutions, capacity and analysis?

- How is the national vision for sustainable development articulated? How are the vision and strategies for realising it spread across long- and medium-term planning frameworks? To what extent does it localise the 2030 Agenda and SDGs?

- To what extent does the vision for national sustainable development include the articulation of a financing strategy? What is the scope of this financing strategy – does it consider the public and private investments that will be needed to realise the vision?
- How is progress toward the vision monitored? How are investments in the vision monitored? To what extent is a national development plan accompanied by a robust results-framework?
- How has the vision for medium- and longer-term sustainable development been affected by the impacts of the COVID-19 pandemic? Has a socio-economic impact assessment been carried out? Have the effects of the pandemic on pre-existing inequalities and vulnerabilities been evaluated?²⁰ What measures have been put in place to respond to the pandemic and to what extent are the included financing measures designed to be temporary or longer-lasting? To what extent are these measures cognisant of promoting inclusivity, sustainability and resilience?
- How are the priorities for national sustainable development shifting as a result of the pandemic? To what extent is there a commitment to build forward better through the recovery?
- What does building forward better tangibly mean in the country context? Is there a prominent focus on inclusivity, gender equity, sustainability, resilience, or other defining principles for recovery? How will existing thematic strategies such as a national gender strategy or environmental action plan be adapted and used to shape recovery? Which thematic issues or cross-cutting areas of innovation (such as digitalisation) will be prioritised? What does this imply about priorities for financing? Are there aspects of the pre-COVID development path that will need to significantly change?²¹
- What strategic framework will the government use to shape and drive national recovery? Will the national development plan be revised and adjusted in light of the effects of the pandemic?

²⁰ For example using sex-disaggregated data.

²¹ For example, a reliance on fossil fuels where sustainability is being prioritised within the vision of building forward better.

Collating estimates of financing needs

Understanding financing needs is a key part of the foundation on which a financing strategy is built. Identifying the most significant financing gaps, and prioritising policy responses, requires an understanding of the scale of resources that are needed to build forward better and achieve national sustainable development priorities.

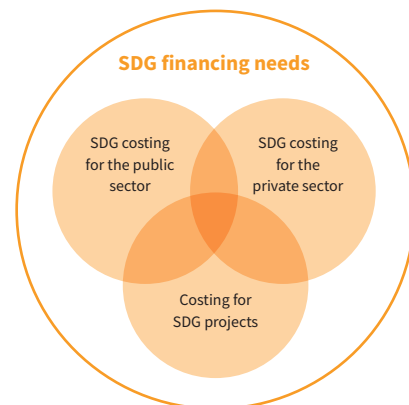
Delivering a financing strategy that adapts and evolves over time as circumstances change and progress is made will require a dynamic understanding of how financing needs evolve over time. This means that estimating financing needs is not a one-time exercise as the INFF is established, but an ongoing function that can be incorporated within national financing policy processes.

The DFA does not itself undertake an exercise to estimate financing needs but, in line with the IATF methodology,²² will collate the estimates that already exist,²³ drawing from existing national systems and initiatives as well as exercises such as IMF SDG Costing.²⁴ In many cases, DFAs may be undertaken in parallel or in combination with a financing needs or costings exercise. Crucially, the DFA goes beyond only asking about financing needs at the time of operationalising an INFF, to look at how financing needs estimates are, and could be, used within the policy processes of the INFF in the future as circumstances change. It will analyse how these quantitative estimates guide policymaking, target setting, and monitoring of progress. It will consider the capacity that government has to be able to undertake, maintain, and utilise financing needs estimates within financing policy processes.

There are various types of financing needs exercises that are undertaken for a variety of purposes and follow different approaches (Figure 7). At the macro-

level, top-down SDG financing needs assessments can be completed to gauge the scale of public, private, domestic, and international resources needed to achieve a national development plan, COVID-19 recovery plan, or the SDGs. Bottom-up approaches can be used to cost programming for the budget as a whole, for certain sector or thematic strategies (SDG costing for the public sector), or to cost individual projects by governments, development partners or other actors (costing for SDG projects). Finally, assessments of the cost or ‘burden’ of regulatory changes on firms or households can be used to gauge the impact and wider cost of policy reforms. Though these approaches apply varying methodologies to home in on different aspects of costs, they can relate to one another, and macro-level SDG financing needs assessments in particular will often draw from a range of other approaches as it builds up an overall picture.

Figure 7. Types of SDG costing



Source: UNDP, 2020, *SDG Costing: A Guidance Note*

The DFA will look at the existence and experience with these approaches to understanding different aspects of financing needs and the costs associated with realising national sustainable development objectives. It will collate the estimates that have been produced and present, as far as is possible, what is known about the scale of financing needs associated with national sustainable development priorities and building forward better.

²² See the costing section of the IATF’s guidance on the [INFF assessments and diagnostics phase](#).

²³ Completing a financing needs assessment is beyond the scope of a DFA itself, however the relationship between a DFA and parallel or pre-existing financing needs assessments is important. Where a financing needs assessment is being done alongside a DFA, or where the results of a recent financing needs assessment are available to the DFA then it will enable the DFA to support the government to make greater progress toward developing a more specific and detailed understanding about quantified financing gaps, which in turn can inform more precise dialogue about weighing up different potential financing priorities. Nevertheless, while financing needs assessments are very relevant to the DFA, they are not a mandatory precursor. DFAs can add significant value and support the government to articulate an INFF Roadmap in contexts where current estimates of financing needs are unavailable. In these situations, discussion about the value of a financing needs assessment will be an important feature of the Financing dialogues, and in many cases the DFA may lay the groundwork for a subsequent exercise or the strengthening of national capacity to undertake financing needs assessments locally.

²⁴ IMF, 2019, *Fiscal policy and development: human, social and physical investments for the SDGs*.

Understanding the context

1 What policies, institutions, capacity and analysis are in place?

2 What initiatives are underway to strengthen policies, institutions, capacity and analysis?

- In which areas of sustainable development planning have estimates of financing needs been completed? Has the national development plan been costed? Has a COVID-19 response and/or recovery plan been costed? How is the budget costed? Which sector strategies have been costed? To what extent have estimates of financing needs been developed for cross-cutting priorities such as addressing climate change, gender equality, the digital economy, and the FinTech sector?
- How are sustainable development financing needs likely to be affected by the impacts of the COVID-19 pandemic? In which areas of social, economic, and environmental development, as well as humanitarian needs, are financing needs rising? How are these financing needs likely to be distributed across demand for additional public spending and the need to mobilise additional private financing?
- What capacity exists within key government institutions to undertake estimates of financing needs? Is there capacity to monitor financing needs in relation to cross-cutting priorities such as addressing climate change, gender equality, resilience and digitalisation? Are financing needs exercises typically done in-house or by external experts? How frequently are financing needs assessments undertaken?



Deeper analysis to identify potential ways forward

3 What opportunities exist to further strengthen policies, institutions, capacity and analysis in a more integrated approach to financing?

- Are there opportunities to enhance existing approaches to estimating financing needs? To what extent do existing approaches to estimating

financing consider and distinguish between public and private financing from domestic and international sources? To what extent can overlaps or synergies be accounted for when collating financing need estimates for different sector and thematic priorities?

- What challenges limit the extent to which comprehensive, accurate estimates of financing needs can be made? Are there areas where improvements in data, capacity, or other factors could enhance the quality and usability of financing needs estimates?
- To what extent do existing approaches consider risks or alternative scenarios for the scale of financing needs, depending on policy choices, exogenous shocks, systemic risks such as climate change or other factors?
- How are existing financing needs estimates used within policy cycles as a whole? Are there examples of these estimates informing the setting of targets? Are financing needs estimates monitored over time as circumstances change? Is progress toward closing financing gaps monitored?

Analysing financing trends

Understanding trends across the landscape of public, private, domestic, and international financing is an essential part of building a more integrated approach to financing for building forward better through an INFF. Delivering a financing strategy that adapts to progress and changes in the context over time will require maintaining a current understanding of these trends. As such, the government systems and capacity to undertake and maintain analyses of trends across the financing landscape will become an integral part of the structures of the INFF.

The DFA will carry out a holistic analysis of the public and private financing landscape, applying the methodology articulated in IATF guidance.²⁵ This approach entails four steps:

1. Compiling the necessary data

²⁵ See the financing landscape section of the IATF's guidance on the [INFF assessments and diagnostics phase](#). The IATF's approach builds on that developed through earlier iterations of the DFA Guidebook and on the experiences of applying the DFA in more than 40 countries.

Table 1. Estimated number of people

Policy areas	Key stakeholders to consult	Common policy documents	Country assessments and capacity development
Estimating financing needs for national development plan, recovery plan or SDGs as a whole	Ministry of Finance, Ministry of Planning	National Development Plan	UNDP SDG costing IMF SDG cost estimates UNDP COVID-19 socio-economic impact assessments (where costed)
	<i>Further methodological guidance:</i> UNDP: SDG Costing: A guidance note IATF: INFF Assessments and Diagnostics Guidance (Financing Needs chapter) IMF: Fiscal Policy and Development: Human, Social, and Physical Investment for the SDGs UNESCAP: Economic and Social Survey of Asia and the Pacific 2019 (chapter 3 covers SDG financing needs)		
Estimating costs for specific SDGs, sectors and thematic priorities	Ministry of Finance, relevant line ministries, relevant development partners	Relevant sector and thematic priority strategies	ILO Rapid social protection calculator for covid-19 UN Women gender equality cost estimates UNDP-UNCDF digital finance ecosystem assessment tool ²⁶ WHO OneHealth tool WHO SDG Health price tag tool UNESCO SimuED cost estimates for education BioFin biodiversity cost estimates
	<i>Further methodological guidance:</i> IATF: INFF Assessments and diagnostics guidance (Financing Needs chapter) UNICEF: Water and sanitation SDG costing tool UN Women: Handbook on costing gender equality UNFPA & UNIFEM: Gender Responsive Budgeting in practice: a training manual UNDP: BioFin Biodiversity Finance Initiative Workbook UNESCAP: Guidebook on SDG Costing- Estimating the Investment Needs to Achieve the Sustainable Development Goals in Asia and the Pacific (June 2020)		

2. Conducting an aggregate assessment of the financing landscape
3. Analysing the allocation and use of financing, and links to sustainable development outcomes
4. Linking findings to other assessments and diagnostics exercises, and to the findings and emerging recommendations from other components of the DFA analytical framework

A key feature of the financing trends analysis is its comprehensiveness. It will compile an analysis of trends, the current context and future outlook across as wide an array of the public and private financing landscape as possible. To compile this analysis the DFA collates data from a range of sources on a wide

variety of financing resources, flows, and instruments. It considers financing across the domestic public sector as a whole, as well as the role of international public finance. It looks at domestic and international private financing in relation to various public policy priorities for the roles of private finance in advancing sustainable development.

Figure 8 highlights the typical range of flows to be considered while Figure 9 highlights two examples from previous DFAs of what the outputs of the aggregate financing landscape historic trends analysis may look like. The analysis builds links where possible between financing flows and the sustainable development outcome areas to which they contribute,

²⁶ Under development at the time of publication.

with a view to turning financing data into sustainable development financing data.

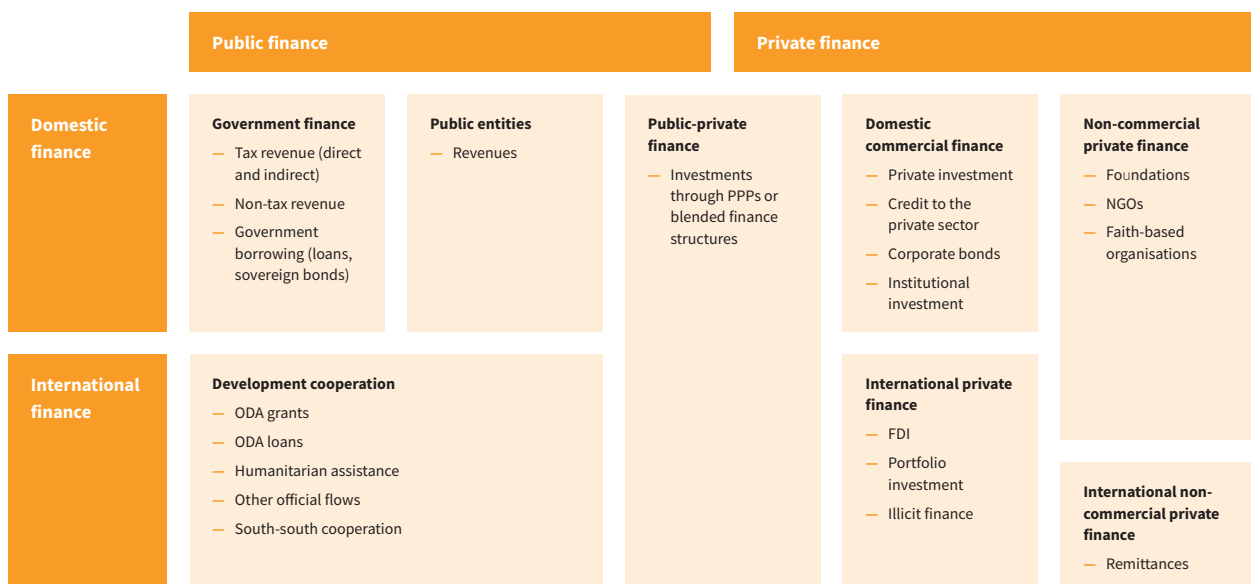
This quantitative analysis shows the trends and trajectories in each area of financing, highlighting opportunities and challenges that can be considered as priorities for the financing strategy are developed (see below). It provides grounding for discussions throughout the DFA process about the relative importance and urgency of issues in different areas of the financing landscape.

The process of compiling data from national sources will connect closely with the assessment of the monitoring and review building block and can inform the recommendations developed there (see below). Throughout the DFA process, the technical team will work closely with the actors that are responsible for monitoring financing trends, and will take up responsibility for these functions within the INFF once it is operational.

Identifying ways to build capacity for maintaining up-to-date analysis of trends across the financing landscape will be an important part of the INFF Roadmap (see also box 12 on integrated COVID-19 & SDG financing dashboards and the DFA below). The DFA can also work closely with other processes, such as SDG Investor Maps, with potential for data and analysis to be shared across processes where they are happening in parallel (see boxes 6, 10, 11 and 12 below).

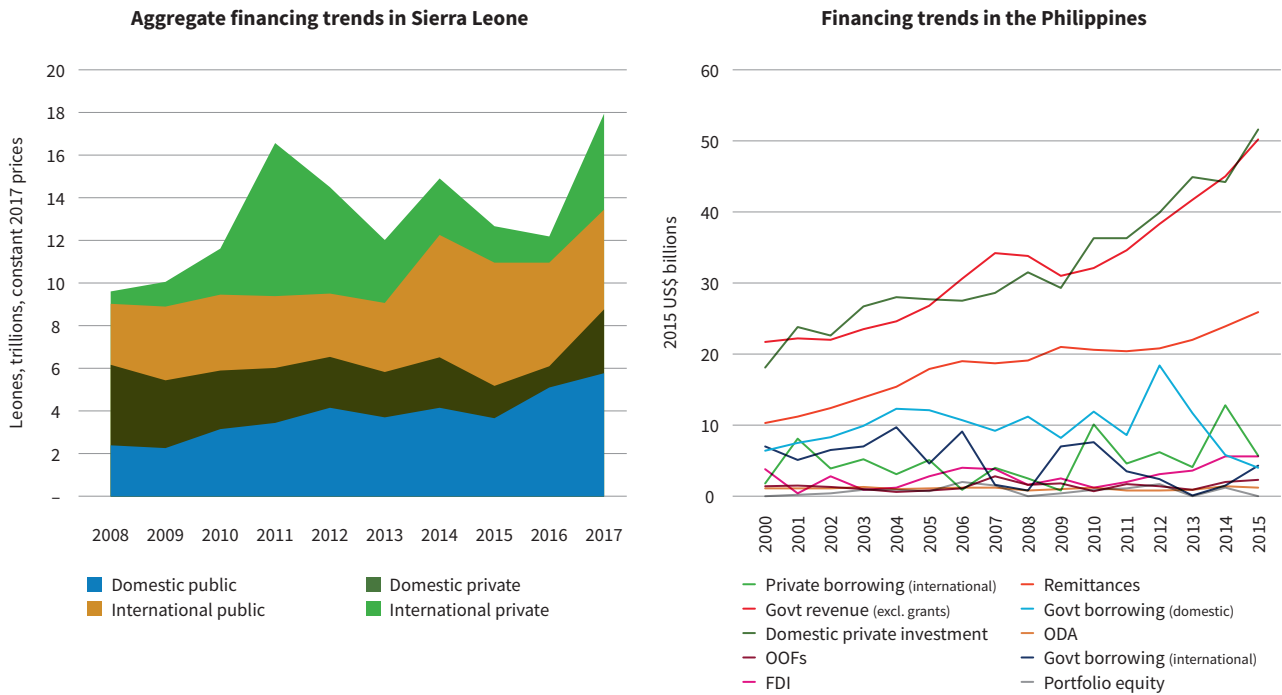
The effects of the COVID-19 pandemic have triggered wholesale shifts across many aspects of the financing landscape that have affected every country. The financing outlook in many contexts looks radically different than it did in pre-pandemic years. Many governments face the prospect of significant declines in revenue and rising risks of debt distress, while private sector investment has fallen, international capital withdrawn, and remittances dried up. A range of potential secondary impacts may bring further shocks across the financing landscape.

Figure 8. Public, private, domestic and international resources across the financing landscape



Note: See IATF [INFF Assessment and diagnostics guidance](#) for further details. This diagram presents an overview of the wide range of financing types that can be covered when mapping the financing landscape. Not all flows fit neatly into one of these boxes – some flows, for example, are a mixture of public and private sources of finance; others mix domestic and international resources. It is also important to note and take steps to address the potential overlaps between many flows listed here – see IATF guidance. FBO = Faith-based Organisation, FDI = Foreign Direct Investment, NGO = Non-governmental Organisation, ODA = Official Development Assistance. Institutional investors include private pension funds, mutual funds, insurance companies, private equity, and venture capital funds.

Figure 9. Aggregate financing landscape analysis examples



Note. While steps can be taken to address many of the overlaps between flows in different parts of the financing landscape, it will not always be possible to address all of them. Where significant overlaps are known or thought to remain it may be wise to present analyses in ways that do not add together different flows (i.e. more like the right-hand chart above). See IATF [INFF assessments and diagnostics guidance](#) for more details.

For governments to be able to develop and deliver an effective financing strategy in this context requires maintaining a picture of trends across the financing landscape in as close to real time as is possible, as well as the ability to look ahead and consider the future trajectories that financing may follow under different scenarios.

The DFA meets these needs for ongoing monitoring of financing trends and forward-looking scenarios in a number of ways. The financing trends analysis described below will compile a current picture of financing trends using the most up-to-date data available. Within a DFA process that under normal, non-crisis, circumstances takes 6 or 9 months to complete, this will be updated as new monthly or quarterly data is published, in order to keep the financing dialogues through the DFA process informed of current developments. The analysis will also develop a range of accessible, straightforward scenarios²⁷ to look at the future evolution of financing trends (see scenarios section below).

In these ways, and with an emphasis on identifying opportunities to build domestic capacity for financing landscape analysis (see also monitoring and review section below), the DFA can provide the starting point for more effective and holistic tracking of financing trends within the INFF.

Understanding the context

- 1 What policies, institutions, capacity and analysis are in place?**
- 2 What initiatives are underway to strengthen policies, institutions, capacity and analysis?**

— What are the historic trends across the financing landscape? What is the current mix of public and private finance being spent and invested? What is the balance between domestic and international resources?

²⁷ I.e. based on relatively straightforward, often linear, assumptions as opposed to more sophisticated econometric modelling.

- What is known about the sustainable development outcome areas that different types of public and private finance contribute toward?
- What is known about areas of spending and investment that are not contributing to, or are even undermining, sustainable development progress? Can these aspects of financing be isolated and separated within the data?
- What opportunities exist to mobilize new finance? What opportunities exist to realign and sequence flows, increase efficiency, or reduce costs for greater impact?
- What are the trends in innovative, impactful niche types of financing?³¹ Have innovative mechanisms or instruments for sustainable development financing been introduced in recent years? To what extent have they become established and is there potential to scale up or introduce new mechanisms?
- To what extent are climate considerations and risks factored into public and private investment decision-making? To what extent are gender equity considerations and gender risks factors (both direct and unintended) into public and private investment decision-making?
- How have other countries in similar contexts successfully mobilized new finance flows?³² What examples are there of policy changes or new instruments in other countries that have unlocked new financing that could support building forward better?
- Looking ahead, what risks³³ or trends³⁴ could significantly affect trends in each type of financing? (see also the risks section below)



Deeper analysis to identify potential ways forward

3

What opportunities exist to further strengthen policies, institutions, capacity and analysis in a more integrated approach to financing?

- How has the COVID-19 pandemic affected public, private, domestic, and international flows across the financing landscape? Has it triggered or exposed critical pressures on any areas of financing²⁸ at either the aggregate level or within individual flows?²⁹ What are the likely medium- and longer-term effects on each type of financing?
- What key current trends could have a bearing on the design and prioritisation of financing policies? Which types of financing have been hard hit by the effects of the COVID-19 pandemic? Considering what is known about priorities for building forward better, which key types of financing are growing, plateauing, or declining?³⁰
- What financing has been mobilised in response to the pandemic? How has public finance been used to support the health response and mitigate its socio-economic impacts, through spending or tax tools? Are there examples of private actors channelling financing for the response?

28 Such as, for example, triggering or raising the risk of a sovereign debt crisis, causing dramatic reductions in government revenues, leading to reduced access to finance for firms such as SMEs, or significantly reducing access to foreign currency.

29 For example, regarding public revenues, distinguishing between total revenue streams and the individual streams of each type of tax and non-tax revenue stream.

30 This can be analysed both in absolute terms and relative to other key markers, for example looking at changes in government revenue or lending to the private sector relative to GDP.

31 For example, responsible, sustainable or impact investing; investment in digital finance and FinTech; or use of mechanisms such as development impact bonds or thematic bonds.

32 Regional hubs can play an important role supporting DFA teams to answer these questions.

33 Both those related to the effects of the covid-19 pandemic as well as other risks that the country may face, such as climate or environmental risks, economic risks and others.

34 For example, demographic trends, transition from LDC or LIC status or other trends.

Box 5. Analysing debt flows and stocks within the financing landscape

In many contexts the COVID-19 pandemic has triggered significant changes in debt positions, and a shift in the debt outlook across public and private debt. Debt issues will feature prominently in many DFAs, being a key feature in the Financing dialogues and with steps on how to move forward with policies, regarding both public and private debt becoming an important part of the INFF Roadmap.

Given the importance of debt issues within many DFAs, it is important that the financing landscape component of the DFA provides a sound basis for understanding the current context, the challenges, risks, and opportunities that it presents, and uses it as a basis for considering potential ways forward. The DFA will draw together data and existing analysis from sources such as IMF debt sustainability assessments to compile a picture of access to debt, debt sustainability, debt costs, the sources of debt financing³⁵ and effects of the pandemic on these factors in the immediate term and the future. It will use this as a baseline to analyse key questions about the role and outlook for debt financing for building forward better:

- How sustainable are public and private debt positions in the short- and medium-term? To what extent have the effects altered this position?
- How has debt financing historically been used in relation to sustainable development priorities? Has it been used to invest in areas that undermine priorities for building forward better?³⁶ What potential exists to tighten the mechanisms between mobilisation of future debt and its use in financing inclusive, sustainable, resilient investments?
- What evidence exists about the relationship between public borrowing from domestic markets and financial sector development³⁷, as well as private sector access to credit?

Analysis of these issues will combine the findings and analysis of debt sustainability assessments or related analysis (for example from the IMF, World Bank, local think tanks, and other actors) with additional analysis that draws from the data listed above (see table 2). The analysis will provide a foundation for assessing future risks and identifying options to move forward with sustainable debt management in support of building forward better (see further boxes on debt below).

Considering risks

When developing a financing strategy, the range of risks that can affect either future financing needs or the availability of financing, or both, must be considered. This consideration of these risks is vital for the strategy to be effective, and as with the considerations of needs and available financing, maintaining a dynamic understanding of risks over time will also become an essential part of the INFF once it is operationalised. Therefore, it is important to consider the capacity and

structures through which risks can be modelled and assessed from the outset of the process.

There are many types of risk that can affect financing, including economic, fiscal, political, financial and security risks, environmental risks, climate risks, natural disasters, health crises and pandemics, and gender risks and social cohesion risks; as well as the risks associated with other factors that affect people and sustainable development progress such as demographic trends. Some of these risks are

³⁵ Considering key breakdowns such as domestic and international sources, concessional, and commercial sources of financing.

³⁶ For example, if debt financing has historically been used for high-carbon investments in a context where green recovery is being prioritised.

³⁷ Considering issues such as the breadth and depth of credit markets as well as the range and maturity of financing instruments available.

associated with significant, often sudden, shocks – such as the abrupt arrival of the COVID-19 pandemic (a public health crisis),³⁸ or an earthquake or tsunami, for example. Other risks may play out over a longer period – such as the risks associated with a rapidly ageing or burgeoning younger population (both putting stresses on economic, social and governance systems), the risks associated with increasing gender inequality (for example decreasing labour force participation by women with associated impacts on economic growth and sustainable development), the breakdown of social cohesion (which may happen over time due to widening inequality and socioeconomic disparities, or political upheaval), or the wider impacts associated with damaging business practices over time (such as overuse of natural resources over time), for example. Where multiple concurrent risks exist, their combination may amplify the potential impacts.

The COVID-19 pandemic has brought a heightened focus on risk and, with the changes it has triggered across the financing landscape, highlighted the need to think carefully about how to mainstream risk management throughout financing strategies. Different risks have implications for different parts of the financing landscape, and will affect the need for and availability of public and private financing from domestic and international sources in a variety of ways. It is important, therefore, that risk-informed financing strategies respond to the risk profile of the country and consider the mechanisms that can be used to mitigate these risks.

A wide range of risk management measures can be considered when it comes to mainstreaming risk management throughout a financing strategy. Many options exist at the level of particular flows or instruments. This includes measures to introduce risk protection for sovereign assets, such as utility or transport infrastructure, for example, or measures to adapt instruments for accessing certain types of financing. Many Caribbean countries have, for example, negotiated ‘hurricane clauses’ that suspend their debt repayments in the event of a natural disaster.

Considering macro-level risks is also important. For example, some Southeast Asian countries adopted rules regarding the overall levels and sources of debt that they would utilise in order to reduce debt risks, following the financial crisis in the late 1990s. Countries may also consider the vision for insurance sector development within the new generation of risk-informed national development plans, on the basis that households and firms in contexts where insurance cover is more widespread will fare better in the face of shocks.

The DFA will look at the processes and systems for assessing and managing financing risks in line with the methodology outlined by the IATF.³⁹ It will look at the capacity that exists within government institutions for monitoring risks and incorporating this information into the design and implementation of financing policies. It will also look at the capacity that exists beyond the government, among private sector actors (for example, in the insurance industry) and at the potential that may exist for better sharing of information about risks that can inform the operation of an INFF into the future.

To complement and build on the quantitative analysis of financing trends, the DFA will also draw together the available information on a variety of risks and assess what is known about their potential effects on financing needs and availability. This will include the risks associated with the COVID-19 pandemic as well as other pertinent risk factors at the national level.

Importantly, the DFA also introduces some straightforward scenario modelling which applies these potential risks, as well as other assumptions, to the trajectories of financing flows and estimates of financing needs into the future. These simple scenarios will be used to prompt discussion about the policy choices that can be made now, as the financing strategy and INFF are shaped, to prepare for and mitigate potential future risks. Guidance on scenarios is outlined in the following section.

³⁸ The arrival of the pandemic was a sudden shock, though it is not a discrete event in that its effects may continue to trigger subsequent shocks over multiple dimensions of sustainable development.

³⁹ See forthcoming guidance in the risks section of the IATF INFF assessments and diagnostics guidance.

Understanding the context

1 What policies, institutions, capacity and analysis are in place?

2 What initiatives are underway to strengthen policies, institutions, capacity and analysis?

- What major risks does the country face, both regarding the COVID-19 pandemic and recovery, as well as longer-term and underlying financial, socio-economic, environmental, conflict, governance and other risks?
- What past shocks has the country experienced and how has this affected development planning and financing? Are there examples of adaptations to financing policy in the past that have helped to mitigate risks and shocks?

Deeper analysis to identify potential ways forward

3 What opportunities exist to further strengthen policies, institutions, capacity and analysis in a more integrated approach to financing?

- What risks exist associated with the immediate or secondary⁴⁰ effects of the COVID-19 pandemic? What risks could affect the recovery from the effects of the pandemic? Are there risks of secondary effects in the future that could harm the recovery or financing for recovery?
- What risk management measures are built into government's financing policies? Are there assets or aspects of financing that could be better protected through sovereign risk products?

Table 2. Sources and related services – Risk management

Policy areas	Key stakeholders to consult	Common policy documents	Country assessments and capacity development
Risk modelling	Ministry of Finance, Ministry of Planning, insurance industry actors/networks, think tanks, supreme audit institution		IMF and World Bank Debt Sustainability Analysis UNDP Crisis Risk Dashboard UNDP Conflict Analysis and Risk Assessment
	<i>Further methodological guidance:</i> Insurance development forum: The development impact of risk analytics IMF: Assessing country risk – selected approaches		
Risk-informed financing instruments	Ministry of Finance, Ministry of Planning, insurance industry actors/networks, think tanks, supreme audit institution	Policies regarding the use of particular instruments (for example, PPP policy)	UNDP Risk mitigation through insurance diagnostic ⁴¹
	<i>Further methodological guidance:</i> UNDP: Risk-informed finance for development UNDP: Mobilizing Insurance Investment in Sustainable Infrastructure		
Risk-informed financing instruments	Ministry of Finance, Ministry of Planning, insurance industry actors/networks	Insurance sector development strategy	
	<i>Further methodological guidance:</i> UNDP: Mobilizing Insurance Investment in Sustainable Infrastructure		

⁴⁰ For example, risks of currency devaluation, future debt crisis, financial crisis, or foreign exchange crisis.

⁴¹ Forthcoming at the time of publication.

- What government capacity exists to manage risks with regard to financing policy? How is risk modelling or scenario modelling used to inform the design and delivery of key strategies?
- What is the state of market development for risk finance and insurance?
- What capacity for risk modelling exists outside the government?⁴² Is there potential to draw on this expertise as priorities and ways forward for the INFF are determined?

Financing scenarios

The financing needs, trends, and risks analysis above provide a foundation, alongside existing policies and binding constraint analysis, for considering many of the key decisions about the approach, focus, and priorities within a financing strategy. Yet, though the financing strategy is forward looking, aiming to shape the trajectory and impacts of financing into the future, these analyses are largely based on historic and current trends.

While the future is uncertain, forward looking scenarios can help policymakers to explore some of the possible trajectories that may play out. This can prompt and help policymakers to consider the policy choices that can be taken in the short term to prepare for potential future developments.

The DFA both considers the capacity within national institutions to compile and maintain forward-looking scenarios through the ongoing operation of the INFF and utilises scenarios within the substantive analysis of the first INFF building block.

Most governments have units responsible for macro-economic forecasting, often housed in the Ministry of Finance, Planning or Economic Development. They generate projections for key macroeconomic variables, looking ahead over the medium- to long-term at issues such as projected economic growth rates and revenue collection. These projections play an important role in the budget process; for example, informing decisions about budget ceilings and borrowing, and feeding

into calculations around risks in areas such as debt management. The DFA will consider the capacity of these units, the scope of existing forecasting and scenario-building processes, and the models and data that they utilise. It will identify and make recommendations about opportunities to strengthen the ability to maintain and use forward-looking scenarios in relation to the range of financing policies that will be managed through the INFF.

The DFA will also use scenarios within its substantive analysis of the first building block. In line with the general approach across the DFA, it will present accessible analysis designed to prompt dialogue on the key financing issues. As far as possible, the DFA will work with and draw from the models and analysis maintained by national macro-forecasting units, building on their data to develop and analyse straightforward scenarios of financing trends into the future. The DFA does not itself deploy advanced econometric techniques, though can often act as an entry point for these more technically sophisticated approaches, such as IMF macroeconomic financial frameworks, that model scenarios about specific high priority issues.

The DFA can analyse a range of scenarios, the choice of which can be informed on the basis of the risks and existing financing trends identified in the sections above, from wider analysis, such as COVID-19 socio-economic impact assessments, the fiscal and economic responses to COVID from governments collected in the [COVID-19 Global Gender Response Tracker](#)⁴³, macroeconomic modelling, or sector level analysis, and in discussion with the Oversight committee. Examples include analysing the future trajectory of financing flows based on assumptions about their speed of growth, the rate at which they may rebound after shocks associated with the COVID-19 pandemic, their growth relative to macroeconomic projections, or progress toward a stated policy target.⁴⁴ Scenarios can also focus on issues or policy decisions in certain areas of financing, such as modelling potential changes in fiscal space, to prompt discussion about the effects and decisions that may be needed on budgetary allocations.

⁴² For example, among insurance or risk modelling firms, or insurance industry networks.

⁴³ The Tracker gathers all policy measures and analyses them from a gender perspective.

⁴⁴ For example, modelling the outcomes if a target (such as reaching a certain level of tax or FDI to GDP) is fully or partially reached.

The scenarios build on the financing trends analysis in the section above, and carry forward data on the volume of each type of financing based on assumptions about the rate of growth into the future. They will draw from existing macroeconomic modelling, utilising data published by actors such as the Ministry of Finance, Central Bank, IMF, or World Bank; incorporating projections for the potential future path of economic growth and other key macroeconomic variables. They can be configured to adapt to varying assumptions about how the economy will rebound and develop, to analyse potential rates of growth in each type of financing, or their constituent flows, either relative to GDP or in their own right.

Assumptions about the speed with which flows will return to pre-crisis levels can also be modelled.

Template spreadsheets can be made available to the DFA technical teams undertaking the analysis, in order to help them shape the scenarios analysis within the assessment.

The scenarios in the DFA can lead on to more advanced, in-depth modelling of particular issues which may draw from the support of other international actors. Some of the relevant services that countries may draw from, building on the DFA analysis, include Macroeconomic financial frameworks (IMF) and Fiscal trend modelling (UNDP), among others.

Box 6. Analysing debt risks and scenarios

The early effects of the COVID-19 pandemic triggered significant shifts in debt positions for many countries and, looking ahead, the DFA can help policymakers to consider many further risks associated with both public and private debt. The analysis of risks associated with debt, and modelling of simple future debt scenarios, will be an important added value for many DFAs. The DFA will draw together the existing evidence from sources such as IMF debt sustainability assessments and ask a number of key questions about current and future debt risks:

- Do the effects of the pandemic, or underlying debt dynamics, raise the risk of public debt crises now or in the future?⁴⁵
- What are the risks and potential implications of reduced future access to debt, if perceptions of sovereign risk rise? What are the risks and budget implications of future rises in debt service costs?⁴⁶ How may these combined factors put pressure on fiscal space and certain types or areas of expenditure?⁴⁷
- To what extent does government use, or could use, risk-proofed debt mechanisms⁴⁸
- What risks exist for debt-triggered business defaults and bankruptcies among the private sector?
- What risks exist for reduced lending to firms from the domestic financial sector and of future credit crunch or financial crisis?

The examination of these issues can draw from the analysis and findings of other actors (such as research units within the Ministry of Finance and Central Bank, insights and analysis from insurance industry actors, as well as the IMF, World Bank, local think tanks and others) and develop simple forward-looking scenarios to explore and prompt dialogue about these issues and the priorities among them. It will inform discussions during the financing dialogues and help to identify risk-informed solutions related to public and private debt within the INFF Roadmap recommendations for the financing strategy.

⁴⁵ Considering sovereign debt as well as public entities.

⁴⁶ For example, as lenders build in higher risk premiums to their credit or, regarding foreign-denominated debt, if exchange rates depreciate over time)

⁴⁷ For example, reduced fiscal space may mean reductions in development expenditure or constraints to investment in certain sector or thematic areas.

⁴⁸ For example, the so-called hurricane clauses negotiated by some Caribbean countries mentioned above.

Identifying binding constraints

The earlier elements of the first INFF building block have summarised national sustainable development priorities and looked across the financing landscape at what is known about financing needs; past, current and future financing trends; and risks that may affect them. The next building block will look at the policies government uses to interact with and govern each type of public and private financing within that landscape, in line with national sustainable development objectives. Before turning to these financing policies, it is important to collate the existing evidence on one critical foundational factor: the capacity and systems within government for administering financing policies.

The strengths of government institutions and their capacity determine the scope for effective delivery of financing policies, as well as the constraints to these institutions and their capacity limiting the ability to effectively deliver existing and new financing policy measures.

In line with IATF guidance, the final element of the assessments and diagnostics building block collates the existing evidence on binding constraints for the delivery of financing policies within national capacity and institutions.⁴⁹ To be able to effectively operate an INFF, and deliver policies and instruments that mobilise new resources, and promote greater impact from public and private resources on sustainable development outcomes, overcoming capacity constraints and developing new capacity over time will be required.

Binding constraints are the factors that would have the most significant impact on financing for sustainable development, if lifted. While every country will have numerous hurdles to overcome in its development path, the binding constraints are those which represent the most significant blockages to current progress.⁵⁰

Identifying these binding constraints can help prioritise and sequence reforms, and is therefore an important input into the financing strategy. For example, some contexts may be characterised by both low government revenues and limited capacity to effectively spend existing public finance. Low revenues limit fiscal space and will constrain the ability to be able to expand service delivery and public investment in line with medium- and long-term development objectives. Yet, limited capacity presents the most immediate binding constraint as it prevents the government from effectively absorbing its existing resources and then delivering services, and public investment in the present. In this kind of context revenue mobilisation will be an important objective, but if it is not combined with prioritised action to expand government's absorption and delivery capacity, then fiscal space may grow while service delivery and public investment remain stagnant. Understanding of all these elements and their interrelations with one another is imperative for arriving at a prioritised, sequenced financing strategy.

The DFA compiles what is known about binding constraints in order to inform the prioritisation and sequencing of reforms, including capacity development, to be discussed through the financing dialogues. It will consider both the constraints that bind progress in financing for sustainable development now, as well as factors that may become binding constraints in the future.⁵¹ It will draw from a range of analytical literature, as well as consultations, with policymakers, the private sector, development partners, and other actors.

⁴⁹ See forthcoming guidance in the binding constraints section of the IATF's guidance on the [INFF assessments and diagnostics phase](#).

⁵⁰ IATF, [INFF inception phase guidance](#).

⁵¹ In recognition of the fact that it can take a significant amount of time to build effective capacity.

Understanding the context

1 What policies, institutions, capacity and analysis are in place?

2 What initiatives are underway to strengthen policies, institutions, capacity and analysis?

- What does the available analytical literature identify as the strengths and weaknesses in government systems and capacity for financing?
- What do government actors and other stakeholders identify as the most significant capacity constraints for mobilising financing and delivery of financing policies?
- What capacity development reforms are currently underway, or planned for the future?

Deeper analysis to identify potential ways forward

3 What opportunities exist to further strengthen policies, institutions, capacity and analysis in a more integrated approach to financing?

- What are the strengths and constraints within existing public financial management structures? Is there evidence that capacity constraints limit the ability of revenue authorities to effectively enforce and collect tax and non-tax revenue? Is there evidence of capacity constraints limiting the ability for government to absorb and effectively spend public finance at the national or subnational levels?
- Is there evidence that capacity constraints within the private or financial sector are limiting the potential for new investment and growth?
- Are there any recent examples of the successful deployment of a new financing instrument or policy measure – and what steps were taken to develop the necessary capacity?

Table 3. Sources and related services – Binding constraints

Policy areas	Key stakeholders to consult	Common policy documents	Country assessments and capacity development
Public institutions and capacity	Ministry of Finance, Ministry of Planning, Line ministries, Development partners	Public finance reform programme, ministries' strategy documents	<p>Public expenditure and financial accountability (PEFA) reports (including supplementary frameworks such as the gender responsive framework)</p> <p>IMF Public Investment Management Assessment</p> <p>Tax Administration Diagnostic Assessment Tool (TADAT)</p> <p>IMF Article IV staff reports</p> <p>UNDP Rapid integrated assessment</p>
<i>Further methodological guidance:</i>			
IATF: INFF Assessments and diagnostics guidance (Binding constraints chapter) ⁵²			
Capacity among the private sector and non-state actors	Ministry of Commerce, Central Bank, Stock exchange, Chamber of Commerce, Industry federations, Banking associations, NGO umbrella organisations	Private sector development strategy, financial sector development strategy, relevant development cooperation programme documents	Regional Development Bank Private Sector Assessments ⁵³
<i>Further methodological guidance:</i>			
IATF: INFF Assessments and diagnostics guidance (Binding constraints chapter) ⁵⁴			

⁵² Forthcoming at the time of publication

⁵³ For example the Asian Development Bank has undertaken a series of country level private sector assessments.

⁵⁴ Forthcoming at the time of publication

INFF Building Block 2: Financing Strategy

The financing strategy sits at the heart of the INFF. It provides a strategic framework detailing how government will implement an integrated, public and private, approach to financing the priorities articulated in a development plan. This is most commonly a national development plan or COVID-19 recovery plan, though financing strategies can also be developed to support implementation of subnational development plans and sector or thematic plans.

The financing strategy articulates how government will use the policies and instruments at its disposal to mobilise, invest and influence public and private financing from both domestic and international sources (Figure 10). It is grounded in the sustainable development priorities of the development plan. The starting point of the financing strategy is therefore the investments that are needed to achieve the priorities articulated in that plan, considering both public and private resources. There are both quantitative and qualitative dimensions to this, considering both the scale of investments needed to realise NDP objectives and the contributions that those investments will have on sustainable development outcomes.

On this basis, the financing strategy seeks to strengthen the vertical and horizontal integration of financing policies with the development plan, and in alignment to it. Vertically, the financing strategy will articulate steps for deepening integration between the sustainable development objectives of the national plan and the individual policies that govern each type of public and private finance. This may include adjustments to existing policies and the introduction of new policies and instruments, and will help to tighten the links between financing and development results. Horizontally, the financing strategy will detail steps for building greater alignment and coherency across financing policies, addressing synergies and trade-offs between policies governing different types of finance – as well as greater collaboration across actors in each area of financing.

Three integrations of a financing strategy and INFF:

INTEGRATING PLAN AND FINANCING POLICIES

The starting point is the investments needed to achieve the national plan

INTEGRATING PUBLIC AND PRIVATE FINANCE POLICIES

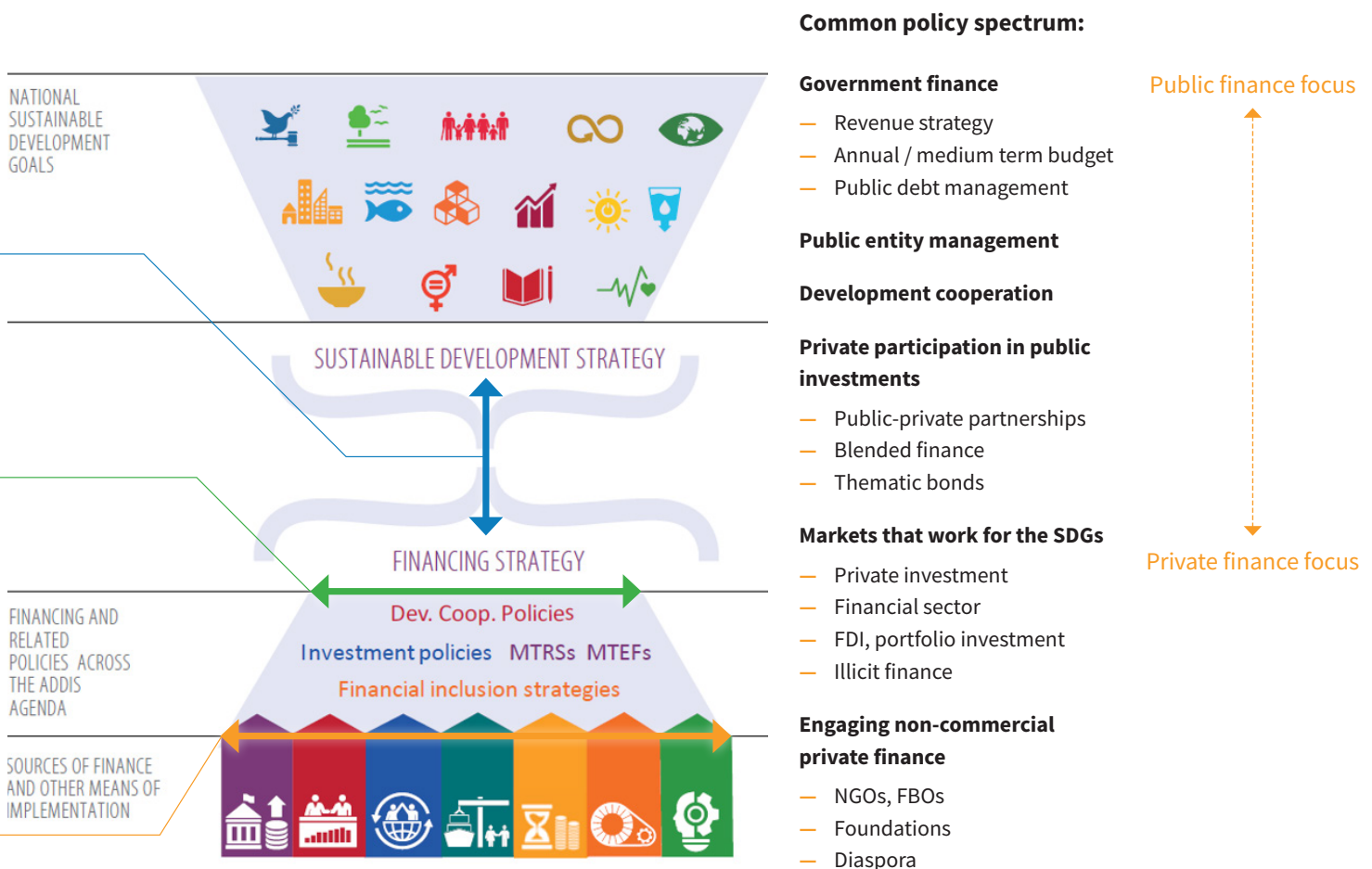
INTEGRATION AND COLLABORATION ACROSS GOVERNMENT & PARTNERS

These vertical and horizontal integrations are represented in Figure 10 by the connections between the aspirations of the sustainable development plan at the top of the diagram, and the policies governing each type of financing as well as the sources of financing and responsible actors across the bottom of the diagram. A financing strategy will bring together public and private financing policies within a single, coherent framework and detail a prioritised, sequenced set of actions that

will be used to strengthen those policies and deepen integration across the three axes in order to mobilise the investments needed to achieve the objectives of the development plan.

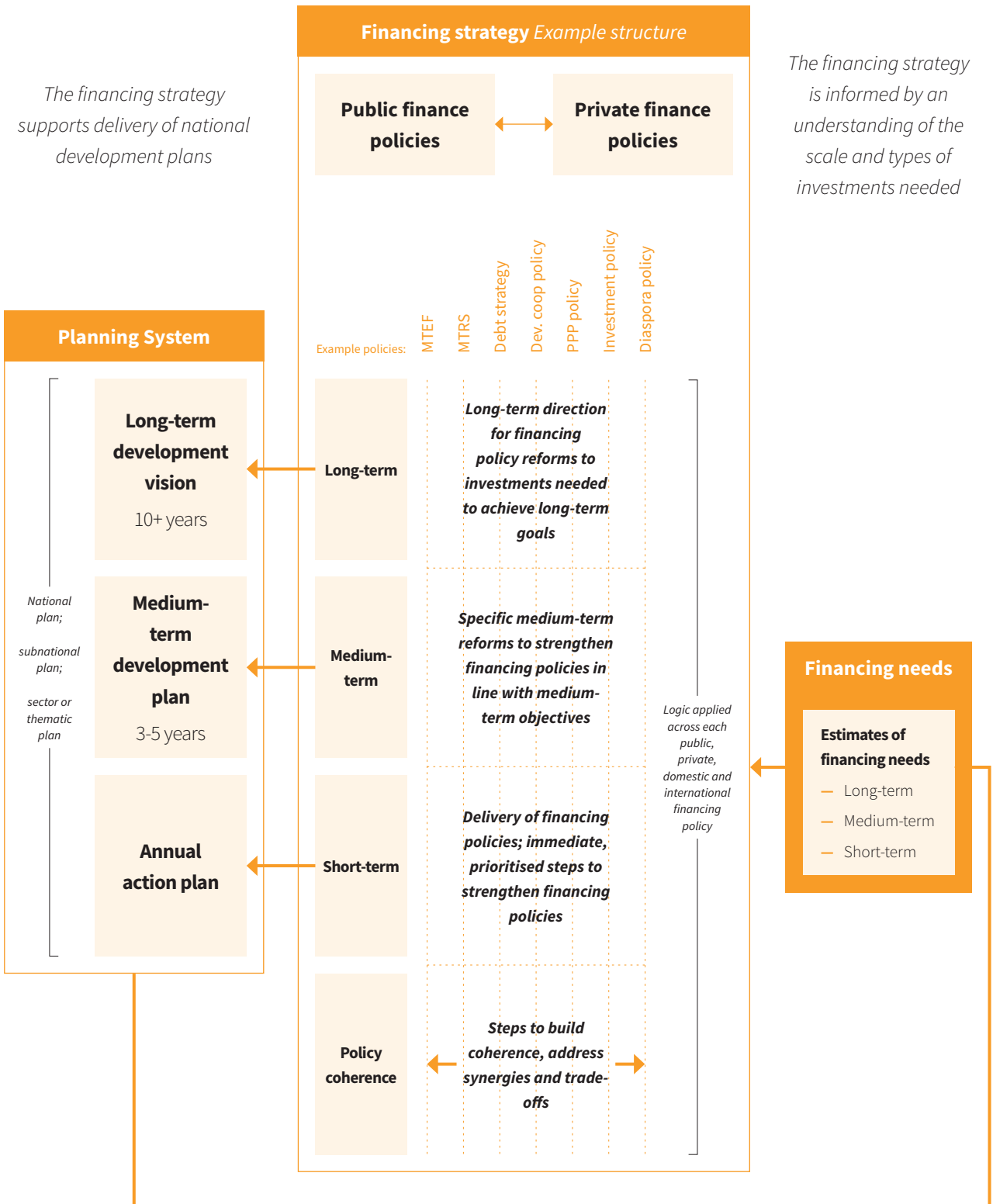
In this way it will provide a robust strategy for mobilising the necessary scale of, and impact from, public and private financing needed to achieve the development plan.

Figure 10. Three integrations of a financing strategy at the heart of an INFF



Adapted from a figure presented in the IATF 2019 Financing for Sustainable Development Report.

Figure 11. Example structure for a financing strategy integrated with the national planning system



The effects of the COVID-19 pandemic have amplified the need for this kind of holistic, integrated approach to financing. As countries move from response to recovery, development aspirations will be revisited and adjusted, and a new generation of development plans will be articulated to shape national recoveries. Implementing this new generation of plans requires addressing all aspects of the public and private financing landscape and a financing strategy provides a framework for governments to design and deliver this kind of holistic, integrated approach.

The structure, approach, and content of a financing strategy will vary from one country to another, although there are some general principles that can be considered in any context. The financing strategy will be clearly associated with the implementation of a development vision or plan and grounded in an understanding of the investments required to achieve that plan. It will be as comprehensive as possible in its coverage of the policies and instruments that government uses to influence public and private finance. It will also match different types of financing to the outcomes prioritised in the development plan, and will aim to maximise the impact of this financing in advancing those sustainable development priorities. And it will articulate the linkages between short-term policy choices and longer-term aspirations as well as the connections between policy areas, addressing synergies and trade-offs.

Figure 11 presents shows how a financing strategy can connect with the planning system and be built on an understanding of the necessary scale and type of investments needed.⁵⁵ It shows how the financing strategy can build vertical integration between each financing policy and long-term sustainable development objectives, via reforms over the short-, medium- and long-term. It also highlights a structure that addresses the synergies and trade-offs between different financing policies, and seeks to build coherence between them.

While some countries may decide to follow a structure similar to that in Figure 11, others may tailor or add to this kind of approach, or decide on a different approach that suits the country and governance context.

The DFA supports government and its partners to look systematically across the policies, institutions and capacity that govern each type of public and private finance. It asks how existing policies and the institutional structures and capacity for delivering them can be brought together and strengthened to deliver an effective, holistic financing strategy for building forward better in support of the development plan.

This section of the DFA analytical framework analyses the existing financing policy context, ongoing reforms, and opportunities to strengthen policies across the public and private financing landscape.

Within the first section on public finance it provides a framework for analysing policies for budgeting, government revenue, public debt, public entities, and development cooperation in relation to development plan priorities.

The second section looks at the elements of an integrated approach to public policy for private finance, considering private participation in public investments, building markets that work for the SDGs, and engaging non-commercial private finance in relation to development plan priorities. This section of the guidebook presents an overview of the issues, questions, and sources that the DFA can use to analyse public and private financing policies.

More detailed guidance on each individual area of public finance policy and private finance policy is provided in the annexes. This builds on the headline questions asked in this section and will be of particular use to the technical teams undertaking DFA processes.

⁵⁵ Note that this diagram shows the long-term plan as the starting point: in many contexts governments may choose the medium-term plan as the starting point, either because this is the primary planning vehicle, or because there is no long-term plan in place.

Policies for public finance

Public finance is a key driver of sustainable development progress. The resources that governments mobilise, spend, and invest are essential for the provision of public services and investment in the national development plan, and indirectly influence the way that private actors invest and operate. International public finance plays an important role in many contexts supporting services and investment aligned to sustainable development priorities.

Public finance has been central to the response to the effects of the COVID-19 pandemic as governments and the international community have sought to mitigate its social and economic impacts. Looking ahead it will continue to be a key investor in the new generation of national development plans that seek to drive national recoveries that build forward better, to advance sustainable development well into the future.

The public sector encompasses a range of actors and public finance policy areas that each influence and impact on different aspects of social, economic, and sustainable development. The most prominent instrument is the national budget, which governs the spending and investment of the government as a whole on services and public investments. Strong alignment between the budget and the development plan is a critical driver of progress toward national sustainable development priorities.

Yet, public finance as a whole stretches some way beyond the budget alone, and there are a number of elements of public finance at large that can be considered within an integrated approach to financing overall. The way in which government revenues, debt, public entities, as well as fiscal decentralisation within the budget and cooperation with development partners are managed all have a significant influence on issues such as inclusivity, gender equality and sustainability, that are at the heart of mitigating the impacts of the pandemic and building forward better. All play important roles in advancing progress toward the priorities of the national development plan.

Many countries have adjusted spending and revenue policies as part of short-term responses to the pandemic, including by significant virements on the expenditure side as well as tax holidays. International public finance also plays important roles in many contexts, from supporting service delivery and public investments, to catalysing innovation and leveraging wider investments in sustainable development. Building a holistic, integrated approach that brings together these elements of public finance at large, as well as international public finance, is central to the integrated national financing framework concept and will support more effective public finance for building forward better and delivering national development plans.

COVID-19 has brought rapid changes to the public finance outlook in many countries. Revenues in many countries will have fallen sharply with declines in business activity and, for resource exporters, sharp drops in commodity prices. Meanwhile, many countries have scaled up and adapted their spending, diverting resources from parts of the budget to health, social protection, and other aspects of the response to COVID-19, many of which rely on local government.

Debt positions have changed rapidly. Many countries find themselves suddenly in positions of debt distress, as revenues have fallen and, in the case where debt is foreign-denominated, currencies have depreciated. At the same time, there may be debt moratorium, restructuring, or relief options available to countries, as well as potential to access new international concessional debt. For many public entities, revenues may have fallen along with the decline in economic activity and the risks of financial distress may be heightened.

Yet, public entities in many sectors will also have important roles to play in the public investment programmes that are likely to feature prominently in efforts to build forward better, and which play an important role in delivering national development plans. While international public finance has been scaled up in many contexts, and resources have been reprogrammed toward pandemic response, the medium-term outlook could be one of lower overall ODA budgets as the economic effects of the pandemic affect the budgets of OECD DAC countries.

The DFA can play an important role facilitating dialogue among policymakers as they shape the new generation of national development plans, determine the roles that various components of public finance will play in implementation, and work to strengthen the linkages between public finance policy and sustainable development objectives.

This section builds on the public finance analysis in the first building block of the analytical framework and focuses on the governance of public finance through the budget and across the public sector as a whole. This part of the DFA will generate recommendations that can ultimately inform the shape of the public finance components of a financing strategy for national recovery and the new generation of national development plans.

The section provides headline guidance on how to analyse the components of public finance listed above, beginning with some scoping phase questions that can be used at the outset of the DFA process to focus the analysis in each country context. More detailed guidance that looks at each of the five aspects of public finance, including detailed questions and sources, policy documents and other tools and assessments, is provided in Annex B. Together, these can be used to shape the DFA analysis and identify and develop recommendations for public finance within a financing strategy.

Scoping phase questions

There is a spectrum of policy areas across public finance as a whole that will play important roles in building forward better and driving various aspects of longer-term sustainable development progress. The relevance of these policy areas will vary from one context to another, as will the priorities between them.

In some contexts, there will be the potential to develop a broad, coherent approach within national recovery plans that brings together and aligns all or many of these elements. In others, the impetus may be to focus (or continue focusing) primarily on a smaller number

of critical priorities. This may be especially true in contexts where core budgeting or revenue systems are underdeveloped, or where the pandemic has exposed a need for significant restructuring. In these instances, the DFA should give careful consideration about how to reinforce core reforms that are ongoing, avoiding diluting them by diverting attention away to other aspects of public finance.

In order to focus the DFA analysis, and to ensure that the DFA is complementary to other activities focused on public finance, the part of the analytical framework related to public finance policies starts by asking some initial questions during the scoping phase that help to determine the most relevant direction and priorities for deeper analysis and dialogue:⁵⁶

- What is the context, strengths, and key issues in each element of public finance at large:
 - What does the evidence say about the overall strength of the budget, considering its effectiveness and whether it represents an accurate picture of how public resources are ultimately spent?
 - What is the context regarding public revenue? Do tax and non-tax revenue streams provide a sustainable stream of funding that provides adequate fiscal space for public spending? How progressive are revenue streams? How resilient are they to shocks? Does informality affect the potential to collect revenue and engage citizens as taxpayers? To what extent is the tax and non-tax system digitized?
 - What is the overall public debt position and how has it been affected by the pandemic? Is there potential for debt relief, restructuring or standstills, or for the country to access new flows of international concessional debt now or in the future?
 - How prominent is the role of public entities in delivering services and investment in sectors that will be key to building forward better? What is their envisaged role in any recovery public investment programme? Do their roles differ at national, provincial and municipal levels?

⁵⁶ These can be discussed with the Oversight committee during the set-up phase of the DFA (see DFA process section below).

- How prominent is the role of development cooperation and humanitarian assistance overall, and in relation to services and investment that are key for response and building forward better? What is the context regarding government-development partner coordination and its effectiveness for improving alignment and impact?
- What reforms are underway to support improvements in the budget, revenue policy and administration or other aspects of public finance at large?
- To what extent do the structures used to govern and influence decision making around public finance represent the interests of women and men, and of different groups within society?
- Where do the government and other organisations that are active in the Public Financial Management (PFM) space see the potential added value of the DFA, in complement to other activities that are already ongoing?

It will be important to discuss these issues with the Oversight committee as well as key stakeholders at the start of the DFA exercise (see scoping phase section in the process chapter below). This will shape decisions about which of the issues, and sections below, the DFA will look into in more depth and which are less relevant for the country context.

Questions for public finance⁵⁷

1	What policies, institutions, capacity and analysis are in place?
2	What initiatives are underway to strengthen policies, institutions, capacity and analysis?
3	What opportunities exist to further strengthen policies, institutions, capacity and analysis in a more integrated approach to financing?

Budgeting

- What mechanisms and steps in the budget process are used to align the budget to the national plan and priorities for building forward better? Is the national plan used to inform decision making on how the budget will be allocated? To what extent is sustainable development information and data used in the budget process?⁵⁸ Do targets from the national plan feature in budget monitoring and reporting outputs?
- How effectively do budget structures provide a link between annual spending and medium- to longer-term development aspirations?⁵⁹ Do systems exist for managing public spending and investment on cross-cutting priorities such as inclusivity (e.g. gender budgeting) and sustainability (e.g. climate budgeting)?
- What effects has the COVID-19 pandemic had on the way the budget is spent? How are future allocations likely to be affected?
- What is the context regarding fiscal decentralisation? How do the mechanisms governing fiscal transfers to local governments incorporate and promote alignment with sustainable development priorities? To what extent are needs or performance criteria used to determine allocations?
- Are there instruments and mechanisms available to track the revenue, debt, and expenditure patterns in relation to the response and recovery from the pandemic (e.g. budget tracking mechanisms)?
- Have the effects of the pandemic created new potential for measures⁶⁰ that can enhance the effectiveness of spending in thematic priority areas? Is there potential to enhance the systems that government uses to manage spending in areas such as climate, equality (e.g. reducing income inequality), gender equality (e.g. with gender tagging systems), health, job protection, and creation and social protection?

⁵⁷ These questions provide an overall guide as to the topics that a DFA can analyse in each aspect of public finance, combining context and key questions. More detailed guidance, for use by DFA technical teams, is provided in the annexes.

⁵⁸ i.e. output or outcome data, either linked to the indicators and targets of the national development plan or to the SDGs (or both).

⁵⁹ For example, through a multi-year budget or expenditure framework.

⁶⁰ For example, new tools for budget management in relation to cross-cutting priorities such as climate or gender equality, or the incorporation of digital technology and systems within budget structures.

Revenue

- How does the scale of annual revenues compare historically to estimates of the fiscal space needed to deliver public services? What are the historic trends in revenue buoyancy⁶¹ and revenue gaps? Does government have formal or informal revenue targets?
- What are the root causes of low revenue mobilisation levels? What potential exists to increase revenue through changes in tax policy, administrative and institutional reforms, capacity development, systemic changes, digital taxation and revenue collection, or efforts to increase compliance?
- How have revenues been affected by the COVID-19 pandemic and what is the future outlook?
- How actively does the government manage the impact of revenues on equality (including gender equality) or use tax instruments to price externalities in relation to climate, health, or other aspects of sustainable development? Do equity or other aspects of sustainable development feature strongly in the revenue authority's mandate and strategy?
- To what extent have tax instruments (such as exemptions or tax breaks) been used as a tool to mitigate the immediate effects of the COVID-19 pandemic, or are planned to be used as a tool to promote building forward better? What potential is there to strengthen the structures used to monitor, manage, and report on these tax instruments?
- To what extent does the development of digital finance infrastructure expand or constrain opportunities to increase revenue mobilisation?

Public debt

- What strategy does the government have in place to govern management of public debt? Are there any debt rules in place? What have been the effects of government's debt strategy and any debt rules?⁶²

- To what extent is government's debt strategy connected with other sustainable development financing priorities?⁶³ What impact has it had on issues such as domestic financial sector development or access for private firms to domestic credit?
- How sustainable are government's debt stocks and payments? How has this position been affected by the COVID-19 pandemic? What are the implications for future borrowing?⁶⁴
- What innovative debt instruments⁶⁵ have been adopted in the past or could be used to support building forward better?

Public entities

- How engaged are public entities in the development planning and financing process? How do they participate in the structures for designing, implementing, and monitoring national plans?
- In which sectors are public entities active, and how do these relate to the sectors or thematic areas being prioritised for building forward better?
- Where public entities are active in commercial sectors, how do their operations differ from those of commercial actors?⁶⁶ What mechanisms are in place to ensure inclusivity/sustainability in the way public entities offer services?⁶⁷
- What is the financial sustainability position of public entities? How has this been affected by the impacts of the COVID-19 pandemic?

Development cooperation

- What policy does the government use to engage with providers of development cooperation? Which institution within government oversees this policy? What mechanisms are in place to facilitate government-development partner collaboration?

⁶¹ i.e. the responsiveness of revenue to economic growth.

⁶² For example, have they restricted the funds available for investment in social systems or public goods (one way of gauging this may be to look at the portfolio of unfunded projects)? Or have they prevented the build-up of debt positions that would have been rendered unsustainable with the impacts of the COVID-19 pandemic?

⁶³ For example with a national gender action plan or green investment strategy.

⁶⁴ For example, where a government has been pushed into a position of debt distress there may be implications in terms of the potential and cost of accessing debt from commercial markets beyond the length of the crisis itself.

⁶⁵ E.g. green, blue, SDG or other thematic bonds; diaspora bonds or faith-based debt mechanisms.

⁶⁶ For example, regarding development banks or state-owned banks, how do patterns of lending differ from commercial banks? E.g. are they offering credit to actors that would otherwise be unable to access it?

⁶⁷ For example, mechanisms such as community service obligations.

- What is the current and potential role of development cooperation in relation to key priorities for building forward better? How can development cooperation contribute more effectively to the achievement of key priorities?
- How are development partners responding to COVID-19? Are there shifts in the substantive focus of development cooperation? How may they alter the modalities and types of support that they offer? What coordination is there between humanitarian and development assistance? How will these changes impact the effective utilisation of development cooperation? Is there potential for new grants, concessional lending, or debt restructuring/relief?
- Are there examples of innovative models or new instruments that development partners have piloted in the past that could be scaled up as part of building forward better?⁶⁸

Table 4. Sources and related services – Public finance

Policy areas	Key stakeholders to consult	Common policy documents	Country assessments and capacity development
Budgeting	Ministry of Finance, Ministry of Planning, World Bank, IMF, other international partners active on PFM issues	Medium-term budgets/frameworks, national budget and supporting documents; PFM reform strategies	UNDP Budgeting for the SDGs Public expenditure and financial accountability (PEFA) reports IMF Public Investment Management Assessment Public expenditure reviews by World Bank and others IMF Article IV staff reports World Bank Public investment management reports UNDP Rapid integrated assessment UNDP Mainstreaming, acceleration and policy support (MAPS)
	<p><i>Further methodological guidance:</i></p> <p>UNDP: Budgeting for the Sustainable Development Goals: aligning domestic budgets with the SDGs Guidebook</p> <p>UNDP: SDG budgeting: choosing the right model</p> <p>UNDP: SDG budgeting: opting for the right model</p> <p>World Bank: Public investment management reference guide</p> <p>UNFPA and UNIFEM: Gender Responsive Budgeting in Practice – A training manual</p> <p>UN Women: Gender responsive budgeting resources</p>		
Revenue	Ministry of Finance, Revenue authority, World Bank, IMF, other international partners active on fiscal issues, think tanks, CSOs	Revenue strategy, public finance reform programme, Medium-term budgets/frameworks, national budget and supporting documents	Tax Administration Diagnostic Assessment Tool (TADAT) UNDP tax expenditure management service ⁶⁹ IMF Tax Expenditure Assessment (TEA) UNDP FSH SDG-aligned fiscal and debt instruments UNCDF Inclusive Digital Economy Scorecard UNDP-UNCDF Digital Finance Ecosystem Assessment ⁷⁰ IMF Fiscal analysis of resource industries
Public debt	Ministry of Finance, IMF, World Bank, banking association, stock exchange	Debt Management Strategy, Medium-term budgets/frameworks, national budget and supporting documents	IMF and World Bank Debt sustainability analysis IMF Financial Sector Assessment Program
Public entities	Ministry of Finance or other ministries responsible for public entity oversight, public entities	Budget documents, public entities' annual reports, sustainability reports	
Development cooperation	Ministry of Finance, Ministry of Planning, relevant line ministries; development partner cooperation forum, key development partners	National Development cooperation policy/strategy, UN Development Assistance Framework, country programme documents of other development partners	GPEDC Monitoring country profiles
	<p><i>Further methodological guidance:</i></p> <p>Global Partnership for Effective Development Co-operation (GPEDC): Enhancing effectiveness to accelerate sustainable development – a compendium of good practices</p>		

68 The question can consider models/instruments that have been piloted within the country context, or which the development partner has successfully piloted in other similar country contexts.

69 Under development at the time of publication.

70 Under development at the time of publication.

Box 7. Budgeting for the SDGs and the DFA

UNDP's Budgeting for SDGs (B4SDGs) service⁷¹ supports governments to strengthen the alignment of national budgets with national plans and policy priorities. It supports stronger integration of national planning and budgeting systems, a central pillar of an integrated national financing framework.

B4SDGs works with governments to incorporate the explicit, measurable presentation of SDG targets in budget allocations and reports (as well as various elements within the budget cycle), and to strengthen the use of those targets in budget decision-making. It focuses on adapting the systems and practices through which the executive, legislature, audit institutions, and the public are informed about the government's SDG-related budget policies and implementation, and also are closely engaged in accountability processes throughout the budget cycle.

B4SDGs follows a five-step process. An initial SDG context analysis is followed by a review of the PFM system and institutional analysis. These steps are then used to model the choice of the most appropriate tools for strengthening budgeting within the national context. A range of tools that respond to a variety of demand, supply, and capacity challenges may be considered, offering various automated or manual solutions that cut across either specific SDGs or the sustainable development agenda as a whole. This leads on the agreement and implementation of a roadmap of budget reforms.

There is a strong interconnection between the DFA and B4SDGs, given the central focus of both tools on linking national plans with financing policies. In the case of the DFA this takes a broader focus across all public and private financing policies within an INFF, while B4SDGs focuses more narrowly and in more depth specifically on budgeting. A key aim of many DFA processes will be, within the context of ongoing PFM reform initiatives, to help government develop ways to strengthen planning-budgeting linkages, and so in many cases the potential for accessing follow-up services through B4SDGs will be an important consideration as the INFF Roadmap is developed.

B4SDGs can be carried out in parallel with a DFA or, in contexts where strengthening budget-planning linkages are identified as a priority for the INFF Roadmap, the DFA may act as an entry point for follow-up B4SDGs support. In these instances, the DFA may be able to lay the groundwork for many of the earlier parts of the B4SDGs process, completing much of the B4SDGs context analysis and components of the B4SDGs PFM system review and institutional analysis.

Policies for private finance

Responding to the social and economic effects of COVID-19 and charting recoveries to build forward better will require a diverse mix of both public and private investments.

Economies will need to restart, and jobs be reopened or created anew. Many countries will not want to go

back to business as usual but change course and move forward, transitioning to greener, more sustainable, gender equitable, more inclusive models that build resilience and offer a firmer foundation for sustainable development progress into the future.

Private finance – from domestic and international sources, considering both commercial capital and investment as well as the contributions of a range of

⁷¹ For more detail see UNDP, [Budgeting for the Agenda 2030 – Opting for the right model](#)

other private actors – will have a key role in driving the speed and nature of recovery. The industries and regions in which capital is invested, and the sustainable development alignment of those investments – the scale and quality of job creation, the services offered, the sustainability of business models, the degree to which innovation and new pathways for development are catalysed, the taxes paid, and other factors – will be more important than ever as these investments help to shape national paths through and out of the COVID-19 pandemic.

Governments have an important role in creating the conditions and incentives that can unlock domestic and international private financing, and promote business strategies and operations that are aligned with priorities for recovery and sustainable development. Mobilising both new commercial investment and greater SDG alignment in commercial business models will be critical for driving recovery and building forward better for a more sustainable, inclusive, resilient future development path. Government policies have a significant influence over the business environment and affect the decisions that local and international private sector firms take about if and how to invest.

Unlocking private capital for SDG related investments requires policy and regulatory shifts, better access to information on investment opportunities, and clear standards on the criteria for identifying SDG aligned investments.⁷² Adjusting business models to integrate calculations of sustainable development returns requires changes in government policy and regulation, as well as innovations in business practices.⁷³

As countries move from COVID-19 response to look toward recovery, public policies and instruments will play a critical role in rebuilding confidence and encouraging firms to invest, funds to flow through the financial sector, and the attraction of international capital. The incentives that governments offer and that their policies create, both directly and indirectly,

can have a powerful influence over these business decisions. As such, public policy will play an important role in steering the scale and nature of the private sector recovery and its alignment to the sustainable, inclusive principles of building forward better and advancing the SDGs.

Beyond the commercial private sector, a range of other private, but non-commercial, actors play important roles in relation to various parts of the 2030 Agenda and will be key players in the recovery from COVID-19. This includes NGOs, faith-based organisations, philanthropic foundations, as well as members of the diaspora. The environment within which these actors operate and the extent to which policies and partnerships are in place to promote their contributions toward building forward better have a significant influence on their potential impacts.

Developing an integrated approach to public policy for private finance is at the heart of the innovation of the integrated national financing framework concept and will be critical for effective national recoveries from the COVID-19 pandemic. Governments do not have direct control over the decisions that domestic or international private actors make about how they spend and invest their resources.

Many, even most, private actors are motivated by concerns that are distinct from those of national sustainable development. This is why sustainable development planning in many contexts has historically been separated from governance of private finance and the private sector as a whole. Yet, these private actors, nevertheless, have important contributions to make toward sustainable development – and the speed and magnitude of the changes that countries have experienced in private finance as a consequence of the pandemic highlight the need to incorporate private finance policy tools into national recovery plans.

⁷² See Finance Sector Hub, [Unlocking private finance for the SDGs](#).

⁷³ See Finance Sector Hub, [Aligning business strategies and operations for the SDGs](#).

The DFA can play an important role facilitating a process among national policymakers, private sector representatives, and other private actors, about how to bring together and build a more integrated approach to public policy for private finance. This section of the DFA builds on the private finance components of the first building block above, and focuses on governance of private finance. It looks at the policies, partnerships, instruments, and mechanisms that are, or could be, in place to promote domestic and international private finance that contributes to national sustainable development objectives and building forward better. This component of the DFA will generate recommendations that can ultimately inform the shape of the private finance aspects of a financing strategy for building forward better through the new generation of national development plans.

The section starts by outlining what an integrated approach to public policy for private finance may look like (box 8). This structure is used to guide the scope and focus of the DFA analysis of policies for private finance. In some contexts, the emphasis may be on a subset of these issues, on certain policy areas, or certain types of private finance. The section provides some initial scoping phase questions that can be discussed upfront to identify the most relevant issues, as well as headline guidance, on how to analyse these components of private finance.

More detailed guidance that looks at each aspect of public policy for private finance, including detailed questions and sources, policy documents, and other tools and assessments, is provided in Annex B. Together these can be used to shape the DFA analysis, and identify and develop recommendations for private finance within a financing strategy.

Box 8. What does an integrated approach to public policy for private finance look like?

An integrated approach to public policy for private finance considers how government can use the full range of policy⁷⁴ tools and instruments at its disposal to influence the scale and nature of domestic and international private financing. Many public policy tools directly or indirectly influence the decisions made by private actors about how to invest their resources. These policy tools can be deployed and calibrated to coherently and more effectively unlock private investments and promote alignment in business models to drive recovery and building forward better.

All governments have policies that they use to influence the business environment or to promote certain kinds of private sector development and investment. Many have deployed new instruments or made policy changes to support businesses in order to mitigate the effects of COVID-19 on social and economic outcomes. An integrated approach to private finance considers how to bring together these policy tools within a coherent overall package.

It provides a common foundation that aligns the design and implementation of each policy and instrument with national objectives for building forward better. The aim is not to direct private decisions, which are and should be outside the control of government. It is rather to consider the mix of policies that can create an environment in which private actors are incentivised to invest in ways that will build forward better, with greater resilience, inclusivity and sustainability.

⁷⁴ The term policy is used to capture both strategies and policies as well as the laws and regulations that influence private financing.

Box 8. What does an integrated approach to public policy for private finance look like? (continued)

In bringing together an integrated approach to public policy for private finance governments can consider a range of different policy areas that promote various types of sustainable, inclusive private sector investment, from both domestic and international sources. The typology used by the DFA analytical framework distinguishes between three key policy objectives regarding private finance:

Promoting private participation in investments of a public nature: deploying instruments that mobilise private financing (and in some cases delivery capacity) for investments that are of a public nature, i.e. that provide public services or public goods. Public-private modalities may play an important role in the public investment programmes that will feature prominently in many national recovery plans.

Building markets that work for the SDGs: there are two groups of policies that can be used by governments to promote recovery and building forward better in commercial markets. Both consider how to unlock new private capital and promote greater SDG-alignment in business strategies and operations:⁷⁵

- **Building an enabling environment:** measures that are conducive to commercial investment and resilient, sustainable, inclusive private sector development, which are designed to influence the private sector and private capital overall
- **Targeted measures:** policy measures and instruments that promote specific types of investment because of their strategic importance for building forward better

Engaging non-commercial private finance: governance, partnerships, and instruments to engage two distinct groups of private actors beyond the commercial private sector:

- **Engaging the diaspora and remittances:** measures to promote engagement by the diaspora in national sustainable development, or to leverage investable resources from the flow of remittances
- **Engaging NGOs, foundations, and faith-based organisations:** measures and partnerships to promote the involvement of altruistic organisations in the delivery of services and investment that promote recovery and sustainable development

Figure 12 highlights examples of many of the common policies and instruments that feature in each of these policy objectives. It can be used during DFAs to identify the potential to adapt existing policies, introduce new policies or adopt new instruments. It can prompt dialogue with national policymakers about how to build greater coherence across governance of private financing for greater integration with the vision of building forward better.

⁷⁵ The distinction between the two categories under the building markets that work for the SDGs heading is that the enabling environment captures policies and interventions designed to influence the private sector as a whole while the targeted measures are focused on promoting specific, select types of investment. Unlocking new private resources and to promoting greater business alignment with sustainable development priorities are mainstreamed across the two categories.

Figure 12. Common policies within an integrated approach to public policy for private finance

Integrated approach to public policy for private finance				
Typology and examples of key policies				
Promoting private participation in public investments and recovery packages	Building back better: markets that work for the SDGs		Engaging non-commercial private finance	
	Building and adapting the basic enabling environment	Targeted measures for private sector recovery and building back better	Engaging NGOs, foundations and faith-based organisations	Engaging the diaspora and remittances
<ul style="list-style-type: none"> Public-private partnerships Blended finance models Thematic bonds: SDG, green, blue, etc Bonds targeting specific subscribers Development impact bonds Works for taxes schemes 	<p>Enabling environment for business:</p> <ul style="list-style-type: none"> Access to credit Obstacles to investment <p>Financial sector development:</p> <ul style="list-style-type: none"> Financial sector depth and maturity Access to finance FinTech and digital infrastructure Regulation and standards Public debt policy Role of SOEs, NDBs <p>Insurance and risk-financing</p> <p>Platforms for effective public-private dialogue</p>	<ul style="list-style-type: none"> Investment promotion and facilitation Fiscal and financial incentives Targeted lending and guarantees Tax policy (e.g. sin and carbon taxes) Subsidies Regulatory measures (e.g. ESG, gender reporting etc) Frameworks for impact investing, social enterprises, FinTech etc Land value capture 	<ul style="list-style-type: none"> Partnerships and collaboration with non-governmental organisations Governance of the philanthropic sector Partnerships and collaboration with faith-based organisations 	<ul style="list-style-type: none"> Diaspora bonds and future flow securitisation Targeted investment promotion for diaspora entrepreneurs Promoting diaspora engagement in local community projects

This summary gives examples of key policy areas within each element of the typology and is not exhaustive.

Scoping phase questions

The typology above talks to a wide spectrum of policy areas and private finance modalities that can drive recovery from the COVID-19 pandemic and contribute toward longer term sustainable development progress. Not all will be relevant in all contexts. In order to focus the DFA analysis, this component of the analytical framework can start by asking some general questions which will help to determine the most relevant areas for deeper analysis and dialogue:⁷⁶

- In which areas of private financing are the most significant needs, constraints, and actionable opportunities, for greater investment and impact perceived to exist?
- Which types of domestic and international private financing have experienced significant shifts as an effect of the COVID-19 pandemic? How has domestic investment and lending to the private sector been affected? How has foreign direct investment been affected? Within the current context, where is there known potential to unlock

or re-boot flows of private finance that can contribute to building forward better?

- What actions are private sector networks, associations, and firms taking to respond to and support recovery from the pandemic? Are there areas of potential collaboration with government?
- Which aspects of public policy for private finance are well established and actively being used by government (or does government have plans to introduce) – and which are not? Where certain policy areas, or types of financing, are not a focus of current government efforts, what are the reasons for this? Are there opportunities to introduce new instruments or mobilise new types of financing including in national responses to COVID-19?
- Are there aspects of public policy for private finance that are actively used by the government, but which are siloed from core efforts to advance sustainable development?⁷⁷ What opportunities exist to bring in or strengthen the focus on inclusivity, resilience, and sustainability within public policies for private finance?

⁷⁶ These can be discussed with the Oversight committee during the set-up phase of the DFA (see DFA process section below).

⁷⁷ This may occur when certain policies are being used to actively promote a narrow subset of sustainable development objectives. For example, in many contexts tax incentives are used actively to promote investment in line with economic targets, but may not be designed or managed in a way that is aligned to social and environmental concerns.

- What is the context regarding the potential for private investment to be both commercially attractive and sustainable and inclusive? To what extent is this idea well established among different segments of the private sector and public policymakers, and how widespread are examples of its application in real investments?
- Do development partners actively engage the private sector in their development co-operation modalities with a view to leveraging additional finance and expertise, including for the COVID-19 response?

Questions for public finance⁷⁸

1	What policies, institutions, capacity and analysis are in place?
2	What initiatives are underway to strengthen policies, institutions, capacity and analysis?
3	What opportunities exist to further strengthen policies, institutions, capacity and analysis in a more integrated approach to financing?

Private participation in investments of a public nature

- What policies and strategies are in place to govern and promote public-private collaboration through instruments such as PPPs, blended finance, innovative debt instruments, development impact bonds, or innovative tax instruments?
- Are there particular headline priorities for recovery, national targets, or identified financing gaps to which these public-private instruments are well matched? What potential is there to scale up the use of existing instruments, or introduce new instruments, to increase financing for building forward better?
- Are regulatory frameworks well established and is there sufficient government capacity to manage/oversee the deployment of these instruments? Will there be sufficient capacity to manage any planned scaling-up as part of national recovery plans?
- What mechanisms are in place to align the design and impact of these instruments in relation to priorities for sustainable, gender-equitable, inclusive, and resilient recovery and development?

Building markets that work for the SDGs – the enabling environment

- What strategies are in place to enhance the enabling environment for domestic and international businesses? How do these strategies promote sustainability, gender equality, inclusivity, and resilience in private sector development? How do they balance objectives regarding unlocking new commercial investment and promoting greater business alignment with sustainable development?
- What factors have firms historically identified as the major obstacles to investment? What factors present key obstacles to sustainable, gender-equitable, inclusive, resilient investment?⁷⁹ To what extent had financing issues been a major constraint to private sector investment before the pandemic? Are there variations between different types of firms?
- How accessible is financing for different firms and actors? What is the context regarding access to credit for SMEs and more vulnerable or lower income communities?
- What standards are in place to facilitate the flow of capital into SDG-aligned investments?
- Are there examples of past changes, or innovations in other contexts, that have unlocked new flows of private investments or greater business alignment with sustainable development? What opportunities exist to deepen innovation ecosystems⁸⁰ around impactful private capital? What potential is there to replicate or scale up similar initiatives from other contexts?
- How developed is the domestic digital economy and digital infrastructure? What potential exists to unlock new flows of private finance through digital mechanisms, or by improving digital infrastructure?

⁷⁸ These questions provide an overall guide as to the topics that the DFA can analyse in each aspect of private finance. More detailed questions are provided in the annexes.

⁷⁹ Considering either investments in relevant sectors (e.g. renewable energy) or the nature of the investments and business models (e.g. considering the number and quality of jobs created or links with local value chains).

⁸⁰ Considering particularly the role of actors such as start-ups, incubators, accelerators and venture capital funds.

Building markets that work for the SDGs – targeted measures

- To what extent does government actively use policy and instruments⁸¹ to promote certain types of investment or business practice? Do these tools differentiate between domestic and international actors? How is their use changing in response to the effects of COVID-19?
- What evidence is there about the effectiveness of these tools in promoting the desired kinds of domestic and international investment? What systems are in place to ensure effective management and accountability about their use?
- What systems are in place to identify and promote commercial investment opportunities that are aligned to sustainability or inclusivity (e.g. women's economic empowerment or financial inclusion) priorities? Have there been past attempts to map investment opportunities in these areas?⁸²
- What role do actors such as the stock exchange, chambers of commerce, FinTech associations, development partners and others play in promoting certain types of investment? Are their initiatives implemented in partnership with the government?
- To what extent are these tools and instruments linked to strategies that promote sustainability, equality, and resilience? How is the design and delivery of these tools adapted to promote investment aligned to these priorities? Are there opportunities to strengthen this alignment?

Box 9. Analysing private debt policy issues

The COVID-19 pandemic has triggered significant economic and financial shifts affecting the debt that is held and accessed by the private sector. Large numbers of companies, and in many cases a significant proportion of companies within a given industry or region, will be dealing with high debt liabilities, rising debt costs, and reduced access to new credit within the context of reduced economic activity and suppressed revenues. In many contexts there is a real risk, if defaults and bankruptcies grow, of financial crisis that would further suppress the financing available to support economic recovery and building forward better within the private sector.

As countries take steps to mitigate the economic impacts of the pandemic in their response and as they look ahead to recovery and building forward better, policy choices regarding debt and access to credit among the private sector will be an important issue in many contexts. DFAs will bring together existing analysis, drawing from sources such as the IMF debt sustainability assessments, and facilitate dialogue on key aspects of public policy regarding private debt. This analysis can ask key questions including:

- What measures were in place prior to the COVID-19 pandemic to promote enhanced access to finance among firms?⁸³ What evidence exists of the impacts of these policies in relation to sustainable development progress?
- Do the government, financial authorities, stock exchange, or other actors have strategies and measures in place to promote greater sustainability and inclusivity in debt markets, for example through green bonds or gender equality bonds? What systems and infrastructure⁸⁴ are in place to support sustainable private debt?

⁸¹ Such as investment promotion and facilitation, fiscal and financial incentives, targeted lending and guarantees, tax policy, regulatory measures, land value capture or other policy tools and instruments.

⁸² See SDG Impact, [SDG Investor Map](#).

⁸³ Including considering measures designed to promote access to credit for certain types of firms (e.g. SMEs), promoting the channelling of credit to certain industries, or promote certain types of debt (for example longer-maturity debt).

⁸⁴ For example, agreed standards and typologies, accreditation systems.

Box 9. Analysing private debt policy issues (continued)

- What impact does public debt management have on financial sector development and private sector access to credit?
- What interventions have been made within the response to COVID-19 to mitigate the short-term challenges for private sector debt and shore-up lending within the financial sector (including FinTech)? Are these interventions designed to be temporary or sustained? What effects may they have in shaping future private debt markets over the medium and longer term?
- What role could private debt play as a driver of private investment for building forward better? What opportunities exist to introduce or scale up new instruments or innovations to promote the channelling of finance in ways that are more sustainable, gender equitable, inclusive, and resilient?

Analysis of these issues will draw from that of other actors (such as research units within the Ministry of Finance and Central Bank, as well as the IMF, World Bank, local think tanks, and others). It will inform discussions during the Financing dialogues focused on identifying solutions for current private debt challenges and options for policies that can promote certain forms of private debt as a driver of building forward better among the private sector.

Engaging non-commercial private finance – NGOs, foundations and faith-based organisations

- What role do actors such as NGOs, philanthropic foundations, and faith-based organisations, as well as members of the diaspora, play in delivering or supporting services that support sustainable development progress?
- How actively is public policy used to encourage or support service delivery and financing by these non-state actors? Does government systematically or occasionally partner with these actors in service provision?
- How have these actors responded or been affected during the COVID-19 pandemic? Have the services they offer been scaled up? Have platforms for collaboration been created or strengthened as part of the response to the pandemic and how could these be used to strengthen future collaboration?

- Are there opportunities to adapt policies or regulation to unlock new financing and service delivery by these non-commercial private actors?

Engaging non-commercial private finance – the diaspora and remittances

- What evidence exists about the role of remittances in supporting sustainable development at the local and national levels?
- Are there mechanisms in place at the micro or macro levels to channel or leverage the flow of remittances to support investment in sustainable development? How does the impacts of the pandemic on the diaspora affect the potential for their future engagement with national sustainable development?

Box 10. SDG Investor Maps and the DFA

UNDP's [SDG Investor Maps](#) are a means for mobilizing private capital, both domestic and foreign, by providing concrete and actionable market intelligence on investment opportunity areas where national SDG priorities and business interests coalesce. Around 40 countries will have used the Investor Maps service by the end of 2021.

Box 10. SDG Investor Maps and the DFA (continued)

The SDG Investor Maps process involves an in-depth assessment of investment opportunity areas based around 17 key data points across the economic, enabling environment; and highlights risk factors that investors need to understand in order to make an investment. The Investor Maps provide a key bridge between private capital in search of impactful investment opportunities and the need to mobilise new private investments at national levels. They translate opportunities into investment-friendly language and meet data gaps that are commonly identified by investors as a key barrier to investment, while also identifying needed policy and regulatory changes. The SDG Investor Maps serve as the basis for Impact Facilitation events – Investor Convenings and Policy Dialogues – to bring the knowledge to decision-makers and direct investment capital where it is needed most.

There is a strong interconnection between the DFA and SDG Investor Maps in informing the private finance policies component of the INFF and financing strategy. SDG Investor Maps provide valuable information to feed into the DFA process and Financing Dialogues. A key aim of many DFA processes will be to help government build a more holistic public and private approach to financing sustainable development priorities, and supporting the development of tangible steps forward.

An Investor Map can make an important contribution in this shift by identifying concrete investment opportunity areas and providing market intelligence data to enable private investors to direct capital towards investments that advance the SDG-outcomes the government is prioritising. This information will also be useful to relevant actors within government such as a Ministry of Commerce or Investment promotion and facilitation agency, as will the insights that an Investor Map provides on impactful private-public or blended finance investment opportunities or gender-lens investment opportunities.

SDG Investor Maps and DFAs can happen in parallel or in any chosen sequence, depending on the country context and identified needs. Specifically, the SDG Investor Map, INFF process, and DFA can add value to each other in the following ways:

- **Secondary data collection and analysis:** As both SDG Investor Maps and DFAs analyse similar data and evidence, there are opportunities for synergies between the two. Where an SDG Investor Map has been completed prior to a DFA, it can provide essential evidence that can fast-track the private finance components of a DFA. Conversely, if a DFA exists before a SDG Investor Map is conducted, the DFA may be able to lay some of the groundwork for the Investor Map by forming the basis for steps 1 and 2 in the SDG Investor Map process.⁸⁵ Where a SDG Investor Map and DFA run in parallel, they can share evidence, data, and analyses for stronger, faster results.
- **Financing dialogues and impact facilitation:** the information and insights SDG Investor Maps produce can feed into dialogues on private finance policies through the Financing Dialogues. The Impact Facilitation events that Country Offices organize after an SDG Investor Map is completed, and the DFA Financing Dialogues can act as platforms for each other, or be combined, to undertake both the core DFA dialogue and discussions of the SDG Investor Map findings with policymakers and the private sector.
- **DFA as entry-point for SDG Investor Map:** The DFA may also act as an entry point for the government and partners to consider an SDG Investor Map where one has not been undertaken already. In contexts where the DFA identifies the need to mobilise new or more impactful private investment, and to strengthen government policies and structures for investment promotion, it can facilitate initial discussion with the government about the potential for follow-up support with the SDG Investor Map.

⁸⁵ See the SDG Investor Map Handbook for a full description of the 8-step SDG Investor Map process

Table 5. Sources and selected services – Private finance

Policy areas	Key stakeholders to consult	Common policy documents	Country assessments and capacity development
Private participation in public investments	Ministry of Finance, Ministry of Commerce, Ministry of Infrastructure, agencies responsible for diaspora affairs, IFIs, development partners	Public-private partnership policy, infrastructure development strategy, budget documents	World Bank Country readiness diagnostics for PPPs Public-Private Infrastructure Advisory Facility
	<p><i>Further methodological guidance:</i></p> <p>UNECE: People-first PPPs</p> <p>World Bank: PPP handbook</p> <p>UNDP: Integrated financing solutions report</p> <p>GPEDC: Kampala Principles on effective private sector engagement in development co-operation⁸⁶</p>		
Enabling environment for investment	Central Bank, Ministry of Finance, Ministry of Commerce, stock exchange, banking associations, chamber of commerce, IMF, World Bank, UNEP, UNCTAD	Private sector development strategy, Economic strategy, Financial sector development strategy, Financial inclusion strategy	World Bank Doing Business reports World Bank Enterprise Surveys UNDP Inclusive business ecosystem development SDG Impact Standards for private equity, bonds and enterprise UNEP-UNDP Sustainable finance diagnostic
	<p><i>Further methodological guidance:</i></p> <p>Finance Sector Hub: Unlocking private finance for the SDGs</p> <p>Finance Sector Hub: Aligning business strategies and operations for the SDGs</p> <p>UNEP Financial Inquiry: Making waves: aligning the financial system with sustainable development</p>		
Targeted measures	Ministry of Finance, Ministry of Economy, Ministry of Commerce, Ministry of Trade, investment facilitation agency, Chamber of Commerce, Stock exchange	Investment promotion strategy, Private sector development strategy, Budget documents, Strategies for specific investment areas (e.g. impact investing, social enterprises, FinTech etc)	UNDP Supporting impact through investment UNDP Engaging and enabling investors UNDP Encouraging the growth of SDG-relevant businesses UNDP Growing value chains UNDP tax expenditure management service ⁸⁷ UNEP-UNDP Sustainable finance diagnostic
	<p><i>Further methodological guidance:</i></p> <p>Finance Sector Hub: Unlocking private finance for the SDGs</p> <p>Finance Sector Hub: Aligning business strategies and operations for the SDGs</p> <p>UNCTAD: Investment Policy Framework for Sustainable Development</p> <p>World Bank: Investment policy and promotion diagnostics and tools</p>		
Engaging non-commercial private finance: NGOs, foundations and faith-based organisations; and the diaspora and remittances	Ministry of Planning, relevant line ministries, NGO networks, large foundations and NGOs, faith networks, Office or division responsible for diaspora affairs, diaspora networks, IOM	National plan, relevant sector and thematic strategic plans, diaspora engagement strategy	GPEDC Monitoring country profiles CIVICUS: Enabling environment national assessments
	<p><i>Further methodological guidance:</i></p> <p>UNDP: Integrated financing solutions</p> <p>World Bank: Innovative financing for development</p> <p>UNDP: Financing solutions platform: remittances (diaspora financing)</p>		

⁸⁶ The GPEDC's Kampala Principles provide guidance on effective private sector engagement in development cooperation that ensures alignment with national priorities, inclusivity, transparency and accountability, focus on results and leaving no one behind.

⁸⁷ Under development at the time of publication.

Box 11. UNEP-UNDP Sustainable Finance Diagnostic and the DFA

Following the [UNEP Financial Inquiry](#) into the design of a sustainable financial system, UNEP and UNDP have partnered to support countries as they take more strategic approaches to scaling sustainable finance for the private sector at the national level.

The [Sustainable finance diagnostic](#) is designed to be used at the start of national processes working toward the development of Sustainable finance roadmaps that promote the internalisation of social, environmental, and economic factors into decision making across the financial system. These Sustainable finance roadmaps focus on banking, capital markets, insurance, and investment; as well as wider aspects of the financial system within the country context, identifying steps that can be taken to enhance the sustainability of the national financial system. Sustainable finance roadmaps have been completed by a wide range of countries including China, Indonesia, Mongolia, Nigeria and others.

The Sustainable finance diagnostic is used to build agreement and understanding about the goals and scope of a Sustainable finance roadmap. It analyses the current context considering financing needs and trends across financial sectors, and asset classes as a whole, and in relation to sustainable finance. The toolkit considers eleven elements to the diagnostic framework⁸⁸ which is used to build a shared narrative about ways forward in sustainable financing, promote agreement on key definitions, and identify potential innovations and interventions that can be considered moving forward toward a Sustainable finance roadmap.

There is a strong interconnection between the INFF and Sustainable finance roadmap, and between the DFA and the Sustainable finance diagnostic. Sustainable finance roadmaps are designed to promote greater sustainability within key types of commercial financing. Where countries are moving forward with both an INFF and Sustainable finance roadmap, there will be a strong connection between the ways forward outlined in the Sustainable finance roadmap and the policies for private finance section of a financing strategy. As key diagnostic tools to support the process of developing an INFF or Sustainable finance roadmap, the DFA and Sustainable finance diagnostic would also have strong connections, notably between the private finance components of the assessments and diagnostics and financing strategy components of the DFA and corresponding elements of the Sustainable finance diagnostic.

DFAs and Sustainable finance diagnostics can be carried out in parallel, or in any chosen sequence (DFA first or Sustainable finance diagnostic first), depending on the country context and identified needs. The two processes can add value and mutually reinforce one another by sharing their analyses of trends and policies within the commercial finance system, and building linkages between their respective dialogue processes and the stakeholders engaged within them. Depending on the priorities identified through either process, there may be potential for either to act as an entry point for the other, facilitating initial discussion with government and other actors about the potential for follow up support.

⁸⁸ These are: building the narrative, defining sustainable finance, sustainable finance needs, sustainable finance stocks and flows and investment gap, barriers to sustainable finance, international experience, mapping the national financial structure, mapping the national financial architecture, drivers of sustainable finance, stocktaking and progress to date, and innovations and interventions.

INFF Building Block 3: Monitoring and Review

Mechanisms for effective monitoring and review of financing, and financing policies, are essential for the functioning of an integrated national financing framework that can support building forward better.

To deliver an effective, responsive financing strategy requires maintaining a current understanding about the issues addressed in the first INFF building block, and about the effectiveness and impact of the financing strategy and policies it brings together in the second building block. Monitoring systems that enable policymakers to regularly examine how financing needs, trends, risks and constraints are evolving, and how public and private financing policies are performing, can inform and guide decisions about how to adapt and alter the INFF over time.

This is conducive to greater effectiveness and contribution toward advancing national development priorities, and will enable responsiveness in the design and implementation of financing policies to changes in circumstances or shocks. Robust monitoring systems will also facilitate stronger accountability around financing policies, ensuring greater ownership over the financing framework as a whole and further supporting its effectiveness through scrutiny (see INFF building block 4: governance and coordination below).

There are a number of monitoring functions within an INFF that will draw from and feed into management structures within government as well as engagement with non-state stakeholders. This includes the tracking of ongoing financing trends, monitoring of financing policy implementation, and monitoring of sustainable development progress. More comprehensive and effective monitoring of these trends – and the more they can be monitored in a way that enables an understanding about how they relate to one another – the stronger and more responsive the INFF can be to changing circumstances, innovation, and effectiveness.

The DFA will analyse the existing monitoring systems and structures that are in place across government, in

line with IATF guidance.⁸⁹ It aims to identify and build agreement on ways to connect these structures, and to strengthen and supplement them in support of monitoring and review within the INFF.



Understanding the context

1 What policies, institutions, capacity and analysis are in place?

2 What initiatives are underway to strengthen policies, institutions, capacity and analysis?

- What data and statistical systems are in place to track public and private financing? Where do gaps in data limit the timely understanding of financing trends?
- To what extent do systems for monitoring public finance provide comprehensive data on how public resources are being spent and invested?⁹⁰ To what extent can spending be linked to outputs and outcomes? To what extent do existing systems capture spending and investment in cross-cutting thematic areas such as gender equality or climate change?
- What structures are in place to monitor the investments and sustainable development outcomes of private sector development? How does government monitor sustainability and inclusivity within the private sector?
- What systems are in place to monitor development cooperation? What is known about development partners' future spending plans? Are tags for cross-cutting priorities such as gender equality and environment used to monitor development cooperation in these areas?
- Which institutions will be responsible for monitoring financing once the INFF is operational? Is there sufficient human and technical capacity to maintain a current picture of financing trends? What capacity exists to maintain estimates of financing needs and to assess and monitor risks with regard to financing policy?
- To what extent is a national development plan accompanied by a robust results-framework including specific metrics and supported by robust data collection systems?

⁸⁹ See forthcoming IATF guidance on the monitoring and review building block.

⁹⁰ Considering the whole of the public sector, including national government, local government and public entities.

- What reforms and capacity building initiatives are underway regarding monitoring and review systems?



Deeper analysis to identify potential ways forward

3

What opportunities exist to further strengthen policies, institutions, capacity and analysis in a more integrated approach to financing?

- To what extent do monitoring systems systematically capture comprehensive data on trends across the full spectrum of public and private financing?
- To what extent are, or can, the data systems that track each aspect of financing be connected within one another? What challenges are there in bringing together different data sets and are there any gaps? Is there any underutilised data that is produced, or could be produced, through the statistical system to maintain a more comprehensive or granular understanding of financing trends?
- To what extent have the effects of the COVID-19 pandemic created demand for greater effectiveness that could be channelled into strengthened monitoring, review, and accountability structures?
- What opportunities exist to strengthen the way that government monitors sustainability and inclusivity within the private sector? Are practices such as sustainability reporting, or other initiatives to collect and report on private financing and its impact on sustainable development,⁹¹ well established? How does and how could the government encourage private sector actors to put in place mechanisms to monitor and report impact?
- Are there any private sector initiatives designed to promote the collection and reporting of information on private financing?
- What national capacity exists outside the government to monitor financing trends, estimate financing needs and monitor risks to financing? What capacity for risk modelling exists outside the government?⁹² Is there potential to draw on this expertise to inform more detailed ongoing monitoring of certain risks?
- How are, or could, digital tools and infrastructure contribute towards more comprehensive and effective monitoring, transparency and accountability?

Box 12. Integrated COVID-19 & SDG finance dashboards and the DFA

As the effects of the COVID-19 pandemic trigger sharp changes across public and private financing, many countries are seeking solutions to better track, monitor, and synchronise data on financing to support response and recovery efforts.

UNDP has established a service, the integrated COVID-19 & SDG finance dashboards, which supports governments to strengthen monitoring of financing around the COVID-19 pandemic. This helps Ministries of Finance or INFF Oversight committees to establish unified platforms for monitoring both the effects of the pandemic on financing trends, and the deployment of financing, mapping how they change in a timely manner in order to aid overall management of the response and recovery.

DFA teams undertake an analysis of the same financing trends covered by the integrated dashboard (for the time period prior to and during the DFA process) and develop recommendations about how monitoring of financing can be continued systematically within the INFF on an ongoing basis.

In many instances, DFA teams will want to consider whether follow-on support through the Integrated dashboards service could be a way to support the establishment of a robust unified monitoring framework that would be embedded within the INFF to support its monitoring functions.

⁹¹ See UNDP, Integrated financing solutions, for examples.

⁹² For example, among firms or networks in the insurance and risk modelling sector.

Table 6. Sources and selected services – Monitoring and review

Aspects of monitoring	Key stakeholders to consult	Common policy documents	Country assessments and capacity development
Monitoring financing trends and sustainable development outcomes	Ministry of Planning, National statistics office, Central Bank, Office of President or Prime Minister, Ministry of Finance; Monitoring and Evaluation unit ⁹³	National development plan, national statistics strategy	<p>UNDP Strengthening systems for monitoring and reporting SDG-related expenditures</p> <p>UNDP SDG and climate budget tagging</p> <p>UNDP Tracking public and private contributions to the SDGs</p> <p>UNDP Incentivising private sector reporting for SDGs</p> <p>Business call to action Impact lab</p>
<p><i>Further methodological guidance:</i></p> <p>IATF: INFF monitoring and review guidance ⁹⁴</p> <p>Paris 21: Assessing the capacity of national statistical systems</p>			

Box 13. Monitoring debt

Debt is likely to be an important topic within many DFAs, given the large changes in public and private debt positions, and outlooks triggered by the effects of the COVID-19 pandemic. Within the context of an INFF it will be important for governments to consider, alongside the potential policy options regarding public and private debt, the systems that are in place to monitor debt and inform the evolution of debt policies over time.

Building on the available analysis and evidence from sources such as the IMF debt sustainability assessments on debt monitoring frameworks, the DFA will ask a number of key questions about debt within current monitoring systems:

- What systems are in place to monitor public and private debt? What is the focus of these monitoring systems?⁹⁵ What systems are in place to monitor risks associated with public debt (including contingent liabilities) as well as private debt? How are these monitoring systems used to adapt public debt management and policies influencing private debt?
- To what extent do existing monitoring systems capture the ways that debt financing is used, in relation to sustainable development priorities?
- Are there opportunities to strengthen monitoring in ways that could provide access to new forms of debt?⁹⁶

Analysis of these issues will combine the findings and analysis of debt sustainability assessments and related analysis (for example from the IMF, World Bank, local think tanks and other actors) with consultations across the relevant public and private actors. The analysis will provide a foundation for identifying ways that monitoring of debt, regarding both risk management and sustainable development financing, can be strengthened within the INFF Roadmap.

⁹³ Where a dedicated unit or office for monitoring and evaluation exists, it is often housed within the Executive Office or Ministry of Planning.

⁹⁴ Forthcoming at the time of publication.

⁹⁵ For example, many monitoring systems will focus on managing the risks associated with debt.

⁹⁶ For example, Indonesia was the first country in the world to issue a sovereign green sukuk. The issuance came after the Ministry of Finance had established a strong climate budget tagging system which provided a strong evidence base and mechanism to show investors how their financing would be invested in green projects.

INFF Building Block 4: Governance and Coordination

The INFF provides a framework for bringing together the range of policies and instruments used to govern public and private finance and for strengthening engagement between government and non-state stakeholders.

The institutional mechanisms that will be used to manage and operate the INFF are key for ensuring effective, coherent delivery of the financing strategy, and the policies that it brings together. Effective governance mechanisms that are participatory, inclusive, gender equitable, transparent, and accountable will ensure that the INFF is responsive to needs and priorities across society and reinforces a strong social compact between government and citizens around development planning and financing.

Internal mechanisms within government will be used support effective management of the INFF and to deepen coordination and integration across the design and delivery of financing policies. These mechanisms will ensure that the information gathered through the monitoring and review building block (see previous section) is used to inform responsive, effective management of the financing strategy as it is delivered. They will promote alignment between each area of public and private financing policy with long term sustainable development objectives, and build coherency across them, providing a forum to address trade-offs and synergies. Often the body or committee charged with overseeing the delivery of the national development plan will take on responsibility for this coordination and oversight over financing policies.⁹⁷

There are a wide range of mechanisms that contribute toward effective, accountable governance of the INFF. This encompasses issues such as transparency and the open sharing of information and data on financing

trends, policies and effectiveness. It includes the mechanisms and platforms that are in place for regular, ongoing dialogue with non-state actors including the private sector, civil society and others, and to systematically promote participatory policy making. It considers the mechanisms for meaningful scrutiny over the design and delivery of financing policies, by actors such as parliament and civil society, as well as the existence and effectiveness of institutions such as supreme auditors, watchdogs, and ombudsperson.

The existence, scope, and effectiveness of these mechanisms, and the way they promote inclusivity, human rights and sustainability, will support the overall effectiveness of the INFF and the degree to which it delivers inclusive, gender equitable, sustainable, resilient financing policies.

The DFA will support the Oversight committee to analyse existing governance and coordination structures in line with these functions of an INFF, following IATF guidance.⁹⁸ It will consider how these structures can be brought together to support management, coordination, and effective governance through the INFF and identify areas where structures can be strengthened or supplemented.

Understanding the context

1 What policies, institutions, capacity and analysis are in place?

2 What initiatives are underway to strengthen policies, institutions, capacity and analysis?

- To what extent has the body responsible for delivering the national sustainable development plan historically played a role in actively shaping financing policies?
- To what extent do the ministries and agencies responsible for each area of public and private financing policy⁹⁹ engage with the planning system and the mechanisms charged with delivering the national development plan?

⁹⁷ For more on this, see the sections regarding the INFF Oversight team in the [IATF INFF inception phase guidance](#).

⁹⁸ See forthcoming [IATF guidance](#) on the Governance and coordination building block.

⁹⁹ i.e. the public and private financing policies covered in the financing strategy section above.

- To what extent do the ministries and agencies responsible for each area of public and private financing policy engage with the line ministries responsible for advancing key sustainable development priorities in the design and delivery of financing policies that directly and indirectly contribute toward achieving those priorities?
- What does the available evidence say about transparency and accessibility in information on financing policies? Are there particular areas of financing where transparency is lacking?
- What mechanisms are in place for public reporting on financing?¹⁰⁰ How broad is the coverage of these mechanisms, across the public sector as a whole and across private financing?
- To what extent are the relationships between the government and private sector, and government and civil society, characterised by mutual trust and accountability, close dialogue and exchange of information?
- What platforms or institutional mechanisms exist for ongoing dialogue between public and private actors? What is the scope of these mechanisms and to what extent do they routinely discuss financing policy issues?
- To what extent are the processes used to develop public and private financing policies¹⁰¹ designed to engage the participation of parliament, the private sector, civil society and other actors? What opportunity for input do non-state actors have during the design, implementation, and review stages of these processes?
- What role do institutions such as the supreme auditor, watchdogs, anti-corruption, and ombudsperson play in reviewing and catalysing adaptations to financing policies? What does the available evidence say about the effectiveness of their oversight over public financing policies?



Deeper analysis to identify potential ways forward

3

What opportunities exist to further strengthen policies, institutions, capacity and analysis in a more integrated approach to financing?

- To what extent do policymakers highlight issues such as siloed policymaking or unaddressed trade-offs and synergies between delivery of different policies as major challenges in implementing the national plan?
- How has the response to the COVID-19 pandemic altered coordination across government on financing issues? Are there new mechanisms, or greater use of existing mechanisms, that could be a catalyst to deeper coordination on financing issues for the future?
- Is there any kind of central secretariat providing technical support to enhance coordination and delivery of reforms associated with implementation of the national plan? To what extent has this focused on financing issues in the past? Are there opportunities for technical capacity building that could strengthen coordination and delivery of reforms in financing policy?
- Are there opportunities for existing transparency mechanisms to incorporate wider information on financing trends and the effectiveness and impact of the INFF? What opportunities are there to strengthen existing mechanisms for accountability on financing policies?
- What examples do stakeholders reference about how public-private dialogue or scrutiny by Parliament, civil society, and audit or watchdog institutions have shaped and strengthened financing policies in the past? What were the key drivers behind these examples and do they highlight any lessons for further strengthening dialogue, participation and accountability?
- What role can the DFA Financing dialogues play in helping deepen dialogue on financing issues between government, the private sector, civil society, development partners and others?

¹⁰⁰ For example, through the annual budget cycle or key financial, economic, or statistical publications.

¹⁰¹ This question can consider the budget process as a key public finance policy, alongside the processes used to design, implement and review other public finance policies (e.g. revenue strategy) as well as the policies used to govern private financing.

Table 7. Sources and selected services – Governance and coordination

Aspects of governance and coordination	Key stakeholders to consult	Common policy documents	Country assessments and capacity development
Monitoring financing trends and sustainable development outcomes	Office of President or Prime Minister, Ministry of Finance, Ministry of Planning Line ministries	National development plan	UNDP Rapid integrated assessment
	<i>Further methodological guidance:</i> IATF: INFF governance and coordination guidance ¹⁰² UN Women: Guidance Note - Mainstreaming Gender Equality in Integrated National Financing Frameworks ¹⁰³		
Transparency	Ministry of Finance, Ministry of Planning, National Statistics Office, Central Bank, CSOs, Parliamentary committees, Supreme audit institutions	National budget publications, Public finance management act	International Budget Partnership (IBP) Open budget survey Global Initiative for Fiscal Transparency (GIFT) Fiscal transparency country reports Natural Resource Governance Institute (NRGI) Resource governance index
	<i>Further methodological guidance:</i> GIFT Fiscal transparency guidance		
Public-private dialogue	Ministry of Finance, Ministry of Planning, Ministry of Commerce, Chamber of Commerce, NGO networks, development partners	Private sector development strategy; national development cooperation policy	IBP Open budget survey GPEDC Monitoring country profiles
	<i>Further methodological guidance:</i> World Bank: Public-private dialogue platform GIFT Guide on public participation in fiscal policies		
Accountability over financing policies	Ministry of Planning, National statistics office, Office of President or Prime Minister, Ministry of Finance, Parliamentary committees, Supreme audit institution, CSOs	National development plan, budget documents, reports from relevant Parliamentary committees, annual reports from Supreme audit institution, reports from watchdog and ombudsperson institutions	IBP Open budget survey PEFA Public expenditure and financial accountability reports UNDP Improving accountability and impact measurement for budgets GPEDC Monitoring country profiles
	<i>Further methodological guidance:</i> IATF: INFF governance and coordination guidance ¹⁰⁴ UNDP: Citizen's SDG budgets UN Women: Guidance Note - Mainstreaming Gender Equality in Integrated National Financing Frameworks ¹⁰⁵		

Building consensus and shaping priorities for the INFF Roadmap

The sections above describe the analysis that will be compiled and undertaken within the DFA analytical framework, covering public and private financing policies, institutions, and capacity. This analysis will generate a comprehensive map of existing policies, institutions, and capacity, as well as ongoing reform initiatives (see Figure 6 above). The mapping

and analysis will highlight a wide range of issues, challenges, and opportunities across many aspects of the public and private financing landscape and governance framework in relation to the INFF building blocks. Figure 13 describes the range of findings that this will bring together and the kinds of opportunities that can be identified.

Under the close guidance of the INFF Oversight committee, the issues and potential ways forward identified within each INFF building block will be brought together, weighed up, and prioritised for

¹⁰² Forthcoming at the time of publication.

¹⁰³ Forthcoming at the time of publication.

¹⁰⁴ Forthcoming at the time of publication.

¹⁰⁵ Forthcoming at the time of publication.

Figure 13. Bringing together findings and potential ways forward: overview

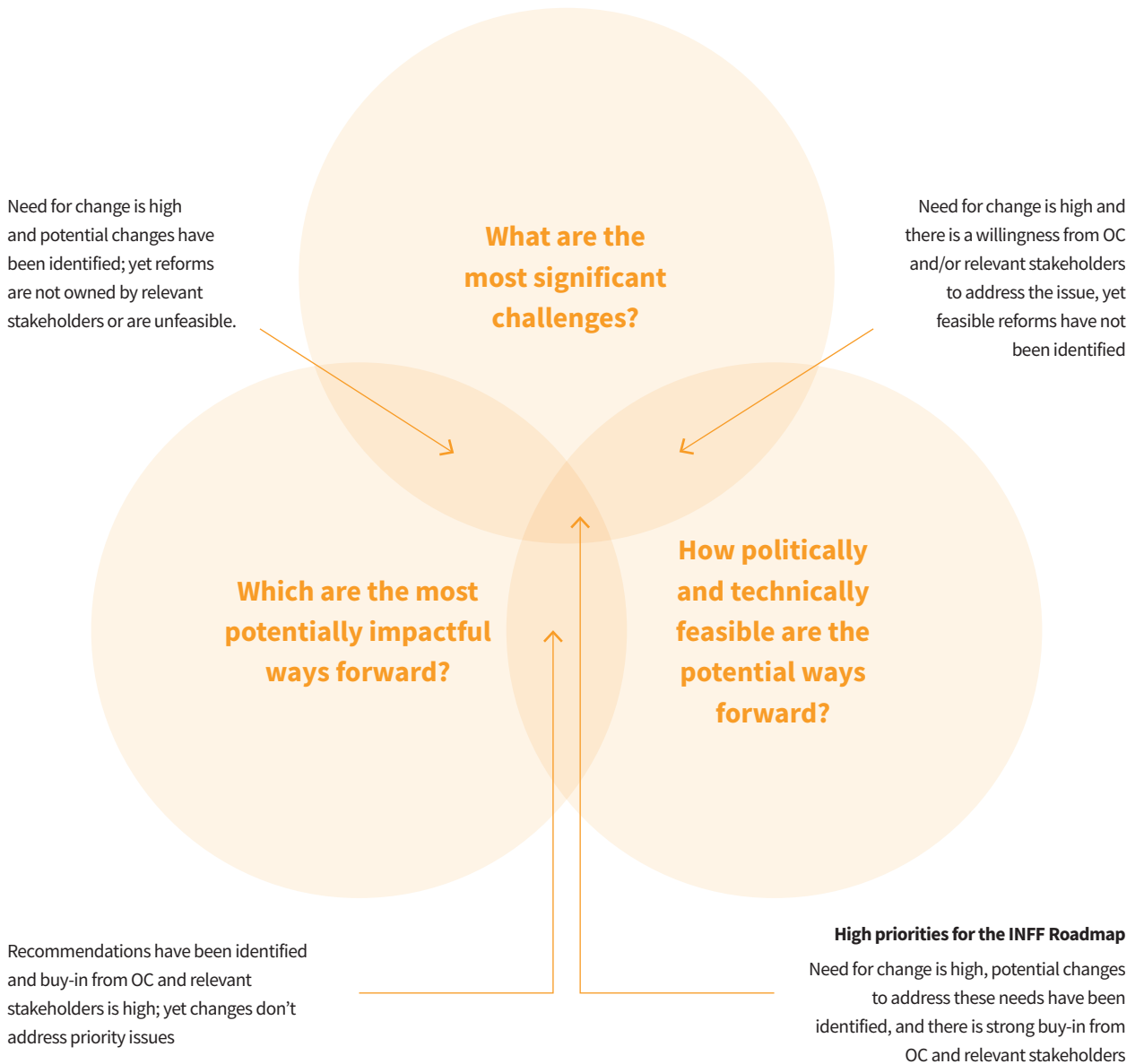


inclusion in the INFF Roadmap. Dialogue on the most significant priorities and ways forward across the INFF will be a major feature of the Financing dialogues.

To inform the dialogue on prioritising and sequencing ways forward within the INFF roadmap there are a number of substantive and practical questions that the DFA can raise through the Financing dialogues (Figure 14). Substantively these can be used to help identify the ways forward for each building block that address the most significant challenges, have the potential for the greatest impact and are politically and technically feasible.

Practically, they can prompt discussion on how each recommendation will be sequenced, the key timelines, distribution of responsibilities, and the resources and assistance that can be accessed to take the INFF Roadmap forward. In line with the objective of the DFA to build capacity and strengthen the institutions that will operate the INFF, it will be important for the Financing dialogues to be designed in a way that builds the capacity of the platform within which they are hosted to continue to ask and assess these questions beyond the DFA process, as the INFF becomes operational (see Facilitating financing dialogues toward the INFF Roadmap section below).

Figure 14. Facilitating prioritisation: ways forward for the INFF Roadmap



Practical questions to consider			
Sequencing	Timelines	Distribution of responsibility	Resources and support
How can steps be best sequenced to take advantage of synergies or necessary precursors to each reform?	What timelines related to policy cycle, government commitments or other external factors need to be met?	Are steps and reforms shared out appropriately across ministries, agencies and other actors?	What resources and assistance may be available to support action on each potential reform?

Notes. OC = Oversight committee.

3.

The DFA process

The DFA is a government-led process designed to convene and engender the buy-in of key decision makers, private sector actors, and wider constituencies in a way that supports and builds agreement on how to build a more integrated approach to financing through an INFF. The analysis and DFA report inform a dialogue, but the primary outcome of the DFA overall is an agreed set of actions that can be taken forward to operationalise an INFF, articulated in an INFF Roadmap.

It is critical, therefore, that the process is led by government and carefully designed to ensure the necessary participation, consultation, and dialogue are completed. It is also important to ensure that the DFA process is setup in a way that does not place unnecessary burden on government and partners, but aligns to, and strengthens, the platforms and structures that already exist and will be used within the INFF.

There are a number of unique features of the DFA process which are designed to facilitate agreement on tangible reforms that will subsequently be taken forward to operationalise an INFF.

The DFA process is led by a government-led INFF Oversight committee and embedded, as much as possible, within existing structures. The Oversight committee determines how to focus the analysis and dialogue of the DFA, prioritising the issues most relevant to the context. Ideally, this function will be incorporated into the workplan of an existing governance structure or platform, using the same structures that are, or will be, used to oversee the INFF.

The financing dialogues that run through the DFA process aim to foreshadow and strengthen the structures that will be used in the INFF, once it is operational, to promote dialogue among public and private actors on financing. Wherever possible, the financing dialogues will also therefore be embedded within existing structures that will continue to facilitate public-private dialogue on financing beyond the DFA, as the INFF becomes operational.

The DFA process brings together key decision makers from across government, the private sector and other actors who play a key role in building forward better and advancing sustainable development outcomes. This includes the ministries that lead policymaking on finance and planning as well as those responsible for other areas of financing policy – governance of the private sector and financial markets, investment promotion, management of public-private partnerships, collaboration with development partners, engagement with the diaspora, and others.

It also includes the actors in each of these areas of financing, including representatives of the private sector, civil society, parliamentarians, development partners, IFIs and others. The DFA analysis is intended to demystify otherwise technical financing issues and engage the participation and inputs of this wide group of stakeholders through accessible dialogue.

The DFA process is designed to build a shared understanding and consensus, across government and among the broad constituency of actors that it engages, on financing priorities and ways forward for a more comprehensive, integrated approach to financing through an INFF. The main outcome of the DFA is typically the articulation and finalisation of an agreed INFF Roadmap. This is its contribution to the larger process of operationalising an INFF.

This section presents an overview of the DFA process, offering a general guide to support countries to design a DFA process that fit within national structures and other ongoing processes.

Overview of a Typical DFA Process

There are three distinct phases in the DFA process (Figure 15).

During a set-up phase the purpose and focus of the DFA is agreed, the oversight and working structures are put in place and a stakeholder mapping exercise is completed.

This is followed by a phase that applies the analytical framework described above, focusing on what exists, the reforms that are underway and opportunities to strengthen governance of financing in relation to the four building blocks of an INFF. An initial multi-stakeholder workshop is held but consultations in this phase are primarily bilateral, with a focus on research.

As the findings and initial ideas about ways forward in each of these areas start to emerge, they are brought together to weigh up priorities and shape the steps and ways forward that will be articulated in the INFF Roadmap. Whereas the previous analysis using the analytical framework is characterised by research and bilateral consultations, the emphasis in this phase is multi-stakeholder discussion through a series of financing dialogues, alongside close ongoing dialogue with the Oversight committee.

The financing dialogues convene actors from across public and private financing and bring together the key challenges, priorities, and policy issues. They aim to build a shared understanding of the key priorities and consensus about ways forward in operationalising an integrated national financing framework. These dialogues help to shape the draft DFA report and refine the steps that will be included in the INFF Roadmap.

These steps, which speak to each of the building blocks of the INFF, are developed to the point where there are clear actions and agreed responsibilities, so that they can be taken forward in the INFF development phase after the DFA is completed. They are incorporated into the INFF Roadmap which lays out the actions, process, and substantive recommendations for the rest of the process of operationalising an INFF.

The finalisation of the INFF Roadmap marks the completion of the DFA process and the culmination of its role in the larger process of operationalising an INFF. Further support and follow up will often be provided, by UNDP and other international partners, in accordance with the INFF Roadmap.

Figure 15. Overview of the typical DFA process

Modular DFA Process

In some instances, countries may wish to adapt the typical DFA process in order to expedite the analysis and dialogue on a selection of specific issues or questions or to phase different segments of the process over time.

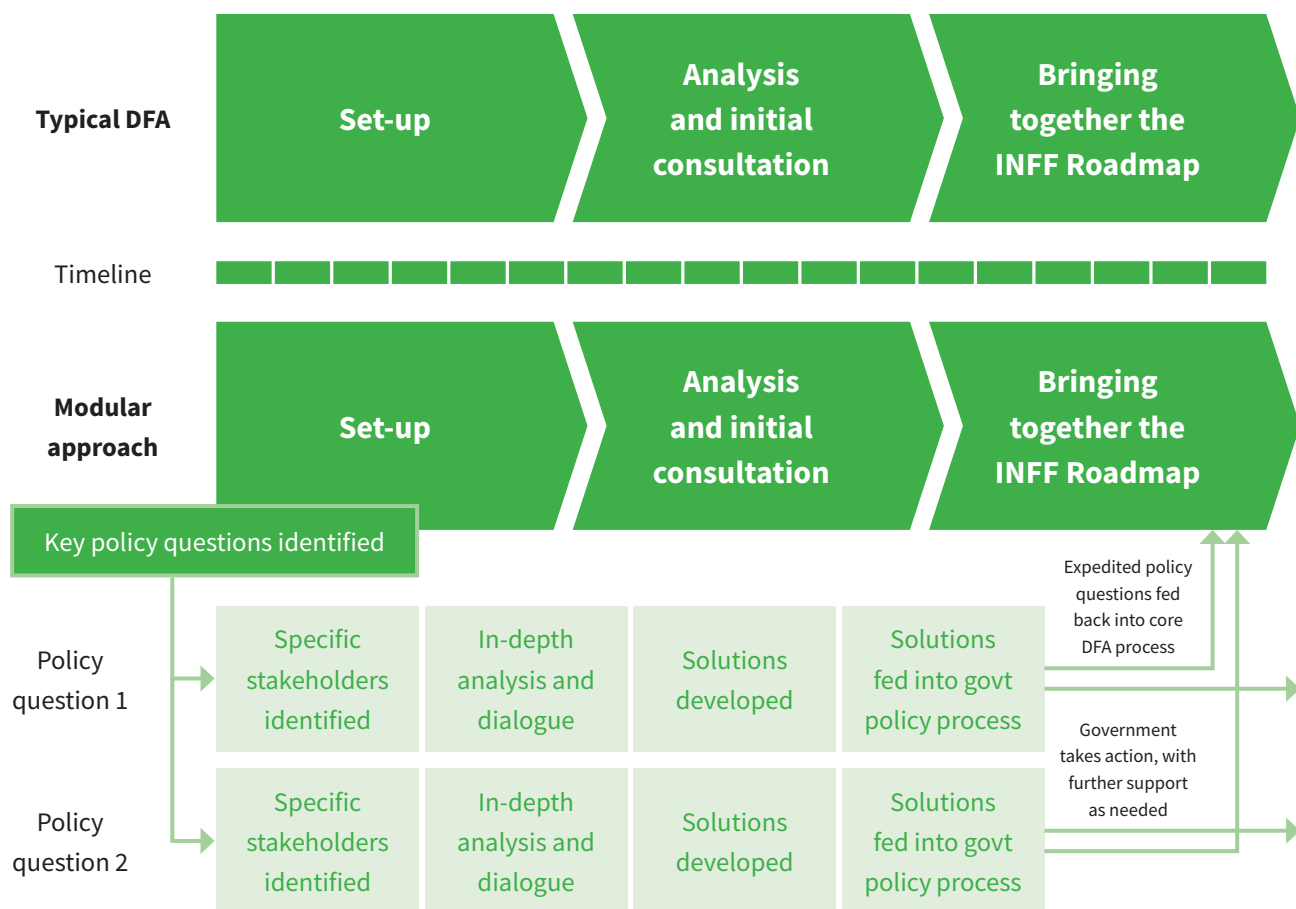
This may happen where there are issues that are particularly pertinent to the government and an urgency in the timelines to respond to these issues. For example, during the COVID-19 response and transition to recovery phase, government may want to explore the use of a certain instrument or policy issue, and may wish to expedite analysis and dialogue on that instrument or policy issue within the DFA process.

A more modular approach to the DFA can be followed, whereby the specific policy questions that will be

expedited are separated from the rest of the analysis and follow their own distinct timelines. Typically, a small, focused group of stakeholders would be involved and engaged in the analysis and development of these policy questions. In order to maintain the integrity of the DFA process and approach overall, it is recommended that only a small number – perhaps 2 to 3 at most – of these specific policy questions are separated out from the core DFA analysis and process. The rest of the DFA remains unchanged and the findings and recommendations from the expedited policy questions will be incorporated back into the DFA report and INFF Roadmap in the core process as it develops.

Figure 16 highlights how the modular approach may work in comparison to a more typical DFA approach.

Figure 16. Comparing processes for a typical and modular approach to the DFA



A modular approach to the DFA may also be appropriate in contexts where the government decides on a lighter INFF inception phase.¹⁰⁶ In these instances the INFF Roadmap may have a narrower focus on process issues, with deeper analysis of financing solutions and reforms undertaken subsequently. A modular DFA can be used to sequence the DFA process accordingly, feeding into the relevant questions within the inception phase, with deeper substantive analysis and dialogue carried out after the lighter INFF Roadmap has been agreed, in an assessments and diagnostics phase.

DFA Update

For some countries, the DFA may be an update or repeat of an earlier assessment. In these instances, particularly where the previous DFA is relatively recent, the approach of the new DFA can be adapted to meet the needs of the country and make best use of existing analysis and dialogue.

There are various reasons why countries may wish to update or repeat a DFA exercise. The DFA exercise may be repeated in line with a new policy initiative. For example, some countries that undertook earlier DFAs have since adopted the integrated national financing framework concept and use a second DFA to help shape the inception phase of this process. Some countries may

¹⁰⁶ For more on this see the [IATF inception phase guidance](#) which highlights examples from Kyrgyz Republic (example of a more in-depth inception phase with the DFA leading to agreement of the INFF Roadmap) and Cabo Verde (example of a lighter inception phase).

be updating or revising the national development plan – in either a planned update or as a once-off initiative (e.g. linked to COVID-19 recovery) and wish to revise the financing strategy for that plan. Others may wish to re-evaluate the financing policy outlook following major changes in circumstances or priorities, while others may have undertaken a partial initial assessment and now wish to complete a fuller DFA process.¹⁰⁷

In most instances, the purpose of a DFA update will be to update the analysis and dialogue or to develop additional analysis related to parts of the framework outlined above that were not covered in the earlier assessment¹⁰⁸ – therefore reaching a comprehensive current understanding of all INFF building blocks by the end of the process. To avoid unnecessary duplication, the Oversight committee may wish to design a narrower DFA update that focuses on a selection of the full process and analysis described above.¹⁰⁹ For example, a DFA update may focus on:¹¹⁰

- *Updating existing analysis only where needed.* Rather than undertaking a new, comprehensive analysis, a DFA update may update only the areas of the previous assessment that are no longer current. This would typically include the financing landscape component as well as updating other aspects of the assessments and diagnostics building block and other building blocks to reflect any major policy or institutional changes that have occurred since the original assessment.

- *Addressing gaps in earlier analysis.* DFA guidance has evolved since earlier versions, notably aligning to the four building blocks of an INFF and providing more structured guidance on policies for public and private finance. As such, there may be specific areas of analysis detailed in the guidance above that did not feature in an earlier assessment: an update may focus specifically on these areas without needing to repeat earlier analysis that remains current.

There may be strong reasons for a country to repeat or update an earlier DFA. Moving forward, as an integrated national financing framework is adopted and operationalised, it is important to build capacity to assess the questions that the DFA asks, within national institutions and as part of the ongoing policy cycle. As such, this version of the DFA Guidebook places a stronger emphasis on identifying capacity development priorities throughout the analytical framework above and building agreement and ways forward to develop this capacity within the INFF Roadmap.

Scoping and Set-up Phase

At the outset, a DFA will be requested by government. There are a range of reasons why governments may wish to undertake a DFA; some of the most common entry points are summarized in Box 14. The request will typically come from a Ministry of Planning or Finance, often following dialogue with UNDP or UN country team. The ministry that requests the DFA will often also chair the Oversight committee to provide overall leadership in the process (see below).

¹⁰⁷ A small number of earlier DFAs were, for example, linked to regional initiatives and followed a lighter version of the approach and methodology. These are often referred to as ‘snapshot DFAs.’

¹⁰⁸ Earlier versions of this guidebook preceded IATF guidance on the INFF building blocks so DFAs that followed them may not have addressed the full range of issues covered in the guidance above.

¹⁰⁹ Country offices can also access support from the regional or global counterparts in the Finance Sector Hub team on how to adapt the process.

¹¹⁰ Note that in contexts where the previous DFA was carried out many years earlier and there have been substantial changes across the financing landscape, policies and institutions, it may be beneficial to undertake a full assessment rather than a more focused one.

Box 14. Common entry points for a DFA

DFAs are initiated for a variety of reasons, often in relation to policy cycles within the national planning process or priorities related to specific types of financing. Common rationales include:

- To initiate the process of operationalising an integrated national financing framework
- To explore the potential value, utility, and workings of an integrated national financing framework
- To support the drafting of a new long-term or medium-term national development plan with enhanced means of implementation or financing strategy
- To support the incorporation of the SDGs and AAAAA into national planning processes
- To address the need for resource mobilization and to identify new sources of financing
- To respond to or prepare for changes in the development finance landscape, such as a decline or anticipated decline in the availability of a key resource
- To support increased engagement with the private sector in development finance dialogue and policymaking
- To build consensus around and help shape reforms in particular areas of financing policy
- To prepare for a change in status in income group or graduation from Least Developed Country status
- To better understand the development finance landscape as a whole and the opportunities for financing sustainable development
- To support the mainstreaming of key thematic priorities (such as addressing gender equality or climate change) across financing policies

Following the request for a DFA, a set-up phase facilitated by UNDP or UNCT, under the guidance of the requesting ministry, will be carried out. The aim of this phase is to undertake initial scoping analysis work, including the completion of a stakeholder, institutional and political economy mapping exercise, operationalise the necessary oversight, working and dialogue structures for the DFA, make stakeholders aware of the forthcoming process and, critically, to agree the specific focus of the DFA and role within the larger process of operationalising an INFF. This includes any specific policy questions that will be prioritised within the process, if a modular approach is to be followed.

Scoping analysis during the set-up phase will include preliminary analysis of financing trends and priorities. It will draw together initial analysis using key available data and a selection of key literature. It will also analyse

the availability of data.¹¹¹ The aim of this scoping analysis is to facilitate dialogue with the Oversight committee about the specific areas and priorities that the DFA will focus on. In some cases, it may be compiled in an inception report.

Oversight committee

The oversight team plays a critical role leading and guiding the DFA process within the larger process of operationalising an INFF. Depending on the sequence of steps in the INFF inception phase (see above), INFF oversight structures may have already been agreed and institutionalised prior to the set-up of the DFA.¹¹²

In other cases, the DFA oversight function may act as a precursor to the larger INFF oversight function. In either case, as the DFA is typically used by governments to

¹¹¹ The aim of analysing data availability is to identify areas where access to data needs to be requested, further inquiries need to be made or where lack of data may constrain certain aspects of the analysis. Decisions on which currency or currencies to use in the analysis are particularly important where there have been significant exchange rate fluctuations that could affect the analysis of historic trends.

¹¹² See the 'Institutionalising INFF working structures' section of the [IATF INFF inception phase guidance](#).

shape the inception phase of the INFF process, the DFA should be overseen by the same body that oversees the larger INFF, i.e. the INFF Oversight committee.¹¹³

Wherever possible, the Oversight committee function should be incorporated within or taken on by an existing governance structure or platform, such as an oversight committee for the national development plan, or an SDG implementation committee.¹¹⁴

The role of the oversight team in the DFA is to oversee and guide the process of analysis and dialogue in the DFA. It will provide guidance on the findings and shape the substantive recommendations made through the DFA. It will convene and facilitate dialogue among the government, private sector, and other stakeholders that are engaged through the financing dialogues. Also, a key factor of the DFA is that it will champion the ways forward articulated in the INFF Roadmap.

The list below outlines actors that are commonly engaged as members of the oversight team. It distinguishes between those that are centrally involved in most or all oversight teams and those that may be included depending on the focus of the DFA. These lists are meant to assist thinking about which actors to involve – they are not prescriptive and should be adapted to the context in question.

Core members: Common to most DFAs

- Ministry of Planning, Ministry of Finance, Prime Minister or President's Office (the Chair of the oversight team would typically be from one of these three ministries).
- Ministry of Commerce, Trade and Industry, Ministry of Infrastructure
- Revenue Authority
- Central Bank
- National Statistics Office
- Private sector representatives: e.g. Chamber of Commerce, Stock Exchange
- UNDP Country Office representative

Other representatives that may be included, depending on the focus of the DFA:

- Line ministries and agencies relevant to the substantive focus of the DFA
- Leadership of key public entities
- Parliamentarians
- State or provincial administration
- Wider private sector representatives: industry federations, MSME networks, banking associations, insurance industry representatives, venture capital, and private equity associations
- Development partners, including International Financial Institutions and Multilateral Development Banks
- Representatives of civil society, NGOs, or faith-based organizations

During the set-up phase the Oversight committee function will be agreed and formalised. Annex F gives a template TOR for the Oversight committee that can be adapted to the country context.

Stakeholder, political and institutional mapping

A stakeholder mapping exercise will be completed during the set-up phase. The aim is to identify, at the outset of the process, the key stakeholders and relevant platforms that will be engaged during the DFA, notably including identification of a dialogue platform into which the DFA financing dialogues can be embedded (Figure 17).

The mapping can inform an engagement plan for the DFA process as a whole. If a stakeholder mapping exercise has been carried out for the larger process of operationalising an INFF, this can be used and adapted as necessary for the DFA. If not, it is possible that the DFA stakeholder mapping could feed into this larger stakeholder mapping for the INFF as a whole.¹¹⁵

¹¹³ In some cases, the INFF oversight committee may delegate DFA oversight to a select group within the committee.

¹¹⁴ See IATF, [INFF inception phase guidance](#).

¹¹⁵ See IATF, [INFF inception phase guidance](#).

The mapping exercise entails identifying all relevant stakeholders within the country context. This includes identifying relevant actors from across government, including ministries, agencies, public entities and subnational entities, as well as representatives of the private sector (such as a Chamber of Commerce or industry federations), civil society and NGOs, development partners, think tanks, and other relevant actors.

The exercise will also identify relevant institutional structures and platforms.

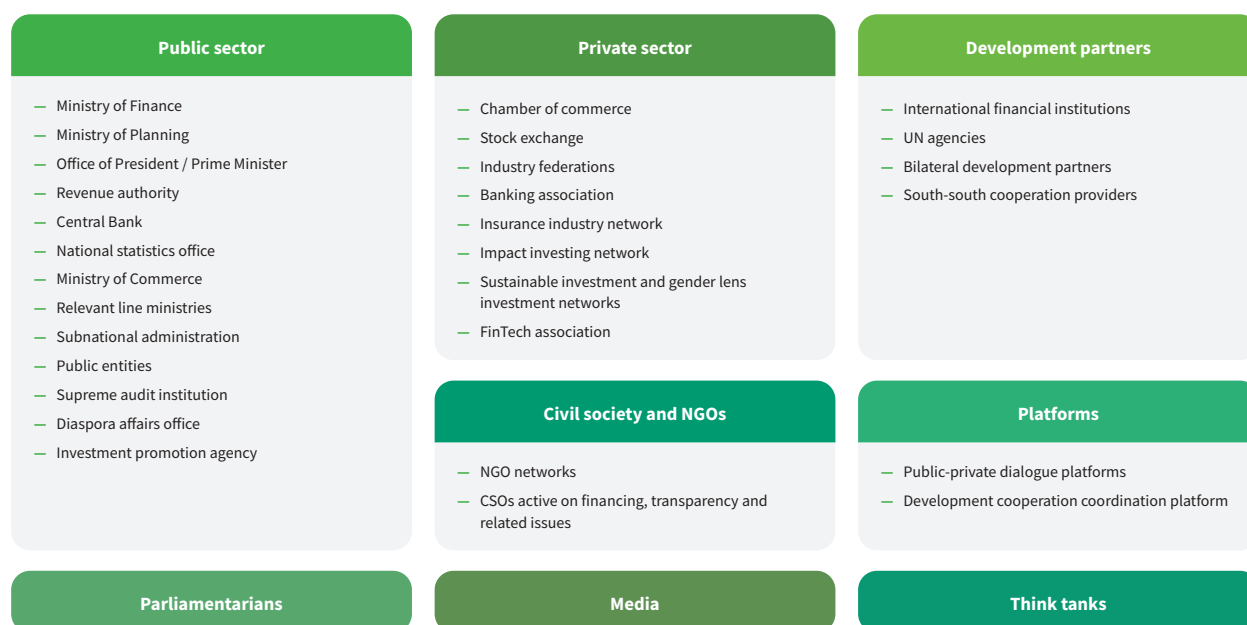
The first aim is to identify whether there is an existing platform for dialogue between the public and private sectors into which the DFA financing dialogues can be embedded. Finding such a platform will both reduce the transaction costs of the DFA and can help to strengthen dialogue on financing beyond the DFA process itself. This will be an important contribution of the DFA overall, as public-private dialogue on financing is an important function of the INFF.¹¹⁶

The mapping exercise should identify any existing platforms that have the scope and participation of relevant actors to accommodate the financing dialogues. Discussions with the management of this dialogue platform, facilitated by the Oversight committee, should be held to agree how the financing dialogues will be embedded.

Secondly, the institutional mapping will identify other relevant platforms and institutional mechanisms that the DFA will engage with. This includes platforms and mechanisms within government (e.g. national sustainable development committees), between government and other stakeholders (e.g. other relevant forums for public-private dialogue), and among non-state actors (e.g. a development partners working group).

The mapping exercise should be grounded in an understanding of the political context and cognisant of sensitive issues, as well as areas where there may be opportunity for reform. This will include identifying existing or planned policy processes that the DFA may

Figure 17. Common stakeholders



¹¹⁶ For more on this see guidance from the IATF.

be able to feed into. Some of these may be cyclical and structured (such as the annual budget process or renewal of a national development plan), while others may be linked to ongoing policy debates within government. The mapping exercise should also identify processes among international actors that it can draw from or feed into.

Following an initial mapping of the relevant stakeholders and platforms, an engagement plan can be developed. Stakeholders can be grouped into those that should be actively involved in the DFA process, those that should be consulted at key points, and those that should be kept aware of it. This will form the basis for a plan that lays out who will be engaged in the process and how they will be engaged, throughout each phase of the DFA.

The mapping and development of an engagement plan should be developed in close collaboration with the Oversight committee and UNDP/UNCT. While there may be some changes throughout any DFA process as the analysis and findings develop, it is important that the initial engagement plan is as comprehensive as possible. The earlier and more involved that key stakeholders are in the DFA, the more opportunity there is for the analysis and recommendations to be shaped by them, and the greater the sense of ownership they will feel over the process.

Set-up phase activities

A key aim of the set-up phase is to narrow down the focus of the DFA and agree the priority issues that it will focus on. The nature of the DFA is that it can be tailored to focus on any of a wide range of issues related to different aspects of financing.

It is important that decisions on how to focus are taken during the set-up phase so that there are shared expectations about the types of outcomes that the process will lead to by all involved parties. This will also identify which substantive issues, among the full range laid out in the analytical framework sections above, will be prioritised, and which are less relevant

for the context. It will also identify any specific policy questions that can be expedited within the full DFA process, if a modular approach is to be followed.

Close dialogue between the Oversight committee and UNDP/UNCT will be vital in agreeing the scope of the DFA in this way. Discussions, informed by initial scoping analysis, can focus on the ‘scoping phase questions’ highlighted in the sections on public and private finance policies in the analytical framework section above.

Another key priority of the set-up phase is to initiate engagement with stakeholders beyond the Oversight committee who will play an important part in the DFA process. Actors identified through the stakeholder and institutional mapping should be made aware of the forthcoming process and asked for their participation and support as appropriate (e.g. for consultation or participation in key inception or validation workshops).

During the inception phase, terms of references for the technical team and the DFA exercise as a whole will be produced and oversight of the DFA by the INFF Oversight committee agreed (see Annexes C and D).

A technical team will be recruited during the set-up phase. There are various models for the structure of the technical team, which will vary from country to country. It may be led by a national or international consultant, or an international consultant supported by a national consultant.

Embedding a consultant in the ministry chairing the Oversight committee has proven successful in some past DFAs. Staff from the chairing ministry may also dedicate some of their time to be part of the technical team. A technical team for a DFA will often include two or three core members though in some cases, where the DFA is a larger exercise or where staff from the chairing ministry participate in the technical team, it may be larger.

In all cases, UNDP will play an important role in maintaining quality assurance over the work and providing inputs to ensure that the process, analysis,

and recommendations will meet the needs and request of the government Oversight committee.

The set-up phase is complete once the terms of reference for the DFA exercise have been finalized, oversight is agreed, the technical team has been recruited, and the stakeholder mapping has been completed, with an engagement plan in place. It is advisable to convene discussions with the Oversight committee, DFA technical team and UNDP at the completion of the set-up phase. This can facilitate any necessary handover of the scoping analysis to the newly established technical team. A workplan for the technical team should also be developed, detailing the milestones and timelines to be worked towards.

Analysis and Initial Consultation Phase

The analysis and initial consultation phase is where the majority of the information gathering and initial research happens. During this phase the technical team will collate the data and information, and undertake the initial analysis within the analytical framework (see chapter 2 above).

An initial multi-stakeholder workshop will typically be held in the early stages of this phase, to bring stakeholders together to express their perspectives on the key issues and direction of the analysis, and to continue building a sense of shared ownership over the process from the outset.

The research undertaken in this phase builds on any preliminary scoping analysis undertaken in the inception phase. The preliminary analysis in this phase is desk-based, involving a review of key policies and literature as well as compilation and analysis of data on finance trends – noting that in many contexts the

collection of data and policy literature will require active outreach to the relevant ministries and partners.

As the preliminary analysis develops, and key issues start to emerge, there will be a series of consultations, often bilateral, with the relevant ministries, partners, and other actors to gather inputs, and then shape and refine this initial analysis in each dimension of the first phase of the analytical framework. Consultations during this phase can aim to:

1. Validate the desk-based data analysis, policy, and literature review
2. Gather outstanding data,¹¹⁷ information, policies, and literature
3. Discuss and refine emerging key issues and potential areas where recommendations will be developed
4. Maintain awareness and participation in the exercise with core and peripheral stakeholders

Where the technical team is led by an international consultant, a research mission is typically undertaken part way through the research phase. This normally entails one, or two one to two week missions, though the set-up and schedule of missions is flexible and can be tailored as necessary.¹¹⁸

As the initial analysis comes together, a set of key issues and potential recommendation areas will start to emerge within each aspect of the analytical framework. At this point, the process moves forward to the phase centred around Financing Dialogues to shape the INFF Roadmap.

¹¹⁷ In instances where data and other information are not widely available online, there may be a need to adapt the process so that more time is spent upfront sourcing data and relevant documentation.

¹¹⁸ For example, in some instances a significant amount of information gathering and preliminary analysis may have been completed during the scoping mission, thereby reducing the scope of the research mission. In other instances, it may require more time and engagement to access the data and policy literature, thereby increasing the scope of the research mission(s). A schedule should be agreed as part of the workplan and defined at the end of the scoping phase.

Facilitating Financing Dialogues toward the INFF Roadmap Phase

The previous phase has analysed each aspect of the DFA analytical framework and in this phase, the analysis is brought together, weighed up and prioritised, and solutions are developed for inclusion in the INFF Roadmap. Whereas the previous phase was characterised by research and bilateral consultation, in this phase the emphasis is on a series of multi-stakeholder financing dialogues that provide a platform for building a shared sense of the major priorities and shaping ways forward.

There will be multiple dialogues during this phase in the process. These will follow and shape the development of the substantive analysis, from the emergence of initial findings and potential ways forward, to the drafting of the DFA report (see box 15) and the prioritisation and shaping of specific solutions that will be included in the INFF Roadmap.

The financing dialogues allow space for the issues identified in the DFA to be socialised and refined, to draw out innovations from this wide group of stakeholders and for a shared understanding and consensus around the priorities to be built. They will be guided by the INFF Oversight committee, who retain ultimate leadership over the process, and will in some contexts be complemented by the formation of small dedicated working groups.

These working groups can focus on specific key priorities, typically involving close ongoing discussions with officials in the ministries and partners most relevant to the recommendations that are being developed. They will be a common feature in a modular approach to the DFA, but may be used in DFAs that follow the typical process.

The exact format of the financing dialogues can be determined in discussion with the INFF Oversight committee and based on a thorough mapping of where dialogue is taking place and where there may be opportunities to strengthen this. The financing dialogues will be articulated as part of the plan for implementing the DFA or the broader INFF inception plan.

Wherever possible, these dialogues will be embedded within existing processes related to finance and planning. This is critical as the aim of this aspect of the DFA is to strengthen existing dialogue on financing to support the ongoing operations of the INFF. This will also help reduce any additional transaction cost associated with the DFA.

Whatever format is used, and however frequently the multi-stakeholder dialogues are convened¹¹⁹, they will help to build the momentum and participation of a wide group of stakeholders and ensure their involvement as the substantive findings and recommendations are shaped. This is critical for the development of an INFF Roadmap, and ultimately an INFF, that has broad ownership across government and among partners at the national level.

As this part of the process progresses, the INFF Roadmap will be drafted. This is an official document, fully owned by the government as represented by the Oversight committee. The Oversight committee may request the technical team to prepare a draft of the document or may take forward its preparation themselves.

The INFF Roadmap captures all that has been agreed in the INFF inception phase as a whole and lays out the steps, and substantive recommendations, for the development phase in the process of operationalising an INFF. It includes steps outlining how each of the INFF building blocks¹²⁰ will be brought together and recommendations to strengthen and enhance existing policies.

¹¹⁹ Typically, there will be at least two significant multi-stakeholder forums, one near the beginning of the process as the findings are starting to emerge and one toward the latter stages of the process as the recommendations for the INFF roadmap are taking shape – though these will be often supplemented by additional convenings during the middle phases of the process.

¹²⁰ i.e. the financing strategy, monitoring and review frameworks, governance and coordination, and further assessments and diagnostics

Box 15. Content of a typical DFA report

The DFA report presents the findings and analysis of the DFA process, and will act as the evidence base and rationale that underpin the steps agreed in the INFF Roadmap. As such it will ordinarily be published by the government.¹²¹ The structure of each DFA report will be tailored to the context, findings, and recommendations of the DFA process, though a typical report may use something like the following structure:

- Executive summary
- Introduction
- **Part 1: The current context.** *The chapters in part 1 will present the analysis and findings in relation to each of the INFF building blocks. The focus in each chapter is on presenting what already exists (or is already known), what reforms are underway and where there are gaps or opportunities to strengthen existing structures.*
- Chapter 1: Assessing the financing context
 - What is known about financing needs
 - Financing trends
 - Risk analysis
 - Policy and institutional binding constraints
- Chapter 2: Elements of a financing strategy
 - Policies for public finance
 - Policies for private finance
- Chapter 3: Existing monitoring and review systems
 - Monitoring systems
 - Review systems
- Chapter 4: Governance and coordination mechanisms
 - Intra-government coordination mechanisms
 - Platforms for public-private dialogue
 - Intra-governmental mechanisms for coordinating coherent financing policies
- **Part 2: Recommendations for the INFF Roadmap.** *Part 2 details the recommendations for the INFF Roadmap. There will be some overlap with the content of the INFF Roadmap itself, though this part of the DFA will go into more detail, presenting the thinking, key considerations and rationale behind each of the items that are included in the INFF Roadmap.*
 - Recommendations for the financing strategy
 - Recommendations for monitoring and review systems
 - Recommendations for governance and coordination mechanisms
 - Recommendations for further assessments and diagnostics

¹²¹ DFA reports are often official publications though presented as a collaboration between the government and UNDP.

The way in which each individual recommendation is developed will vary depending on the issue. Some may be sufficiently developed in order to be actioned immediately following the DFA. For others the next step may be to carry out a more focused assessment which will determine the actions to be taken. In either case, the general rule is that the follow-up steps for each prioritised recommendation should be sufficiently developed in order for a terms of reference (TOR) or workplan to be drafted and agreed by the relevant parties – and in some cases the DFA technical team may be requested to assist with or facilitate the drafting of such a TOR.

As the recommendations and their next steps are refined and agreed, they will be incorporated into the INFF Roadmap. This will be drafted in close collaboration with the Oversight committee and, given the official nature of this document, it will typically go through a high-level approval process within government, for example being formally reviewed and signed-off by the Cabinet.

The final agreement of the INFF Roadmap marks the end of the DFA and the culmination of its role in the larger process of operationalising an INFF.

Roles and Responsibilities

The delivery of the DFA will involve a number of different actors. It is overseen by the INFF Oversight committee comprised of government, private sector representatives, and other key national actors. A technical team undertakes the research, analysis, and drafting; and the UNDP country office provides support to and facilitates the process. UNDP regional teams and the Finance Sector Hub provide backstop support and quality assurance, as well as pointers on potentially useful information from other countries. Table 8 outlines the key responsibilities of each actor.

Table 8. Typical roles and responsibilities within the DFA process

Actor	Role
INFF Oversight committee chair (or co-chairs ¹²²)	<ul style="list-style-type: none"> — The Chair is the member of the Oversight committee and leads and drives the process; this role is often held by the ministry that initially requested the DFA — The Chair will play an active role shaping, overseeing and championing the process, convening stakeholders, providing access to necessary information and data and shaping the recommendations and INFF Roadmap — The Chair will play a key role driving forward the larger process of operationalising an INFF — In some instances, staff from the Chair’s ministry will be part of the technical team
INFF Oversight committee	<ul style="list-style-type: none"> — Determines the scope and specific objectives of the DFA within the larger process of operationalising the INFF, including linkages with key policy priorities and wider planned or ongoing reforms — Oversees and provides input into the development of a stakeholder map and engagement strategy for the DFA process — Provides access to policy documents and data and convenes and facilitates outreach to a broad constituency of stakeholders — Provides oversight and feedback on the analysis as it develops — Facilitates discussions during the financing dialogues, with support from UNDP — Provides direction and inputs to shape the recommendations in the INFF Roadmap — Uses authority to promote commitment by the relevant actors to take forward the recommendations collectively developed through the DFA — Champions the INFF roadmap among wider government actors and stakeholders — Implements and oversees the implementation of the INFF Roadmap within the larger process of operationalising the INFF

¹²² Often the Oversight committee will be co-chaired by two ministries (for example the Ministry of Finance and Planning Ministry). This structure can be very useful for building shared ownership of the process across government.

Table 8. Typical roles and responsibilities within the DFA process (continued)

Actor	Role
UNDP country office	<ul style="list-style-type: none"> – Supports the Oversight committee throughout the process, working with other UN agencies and the political leadership of the UN Resident Coordinator – Leads organization of the scoping phase – Supports the Oversight committee in determining the scope and specific objectives of the DFA, including linkages with the services and projects of other national and international partners – Supports the Oversight committee to develop TORs¹²³ and recruit experts for the process – Ongoing convening and facilitation of dialogue throughout the process to support the Oversight committee – Ongoing quality assurance to support the Oversight committee – Provides guidance about sources of data, stakeholder mapping and engagement plan – Provides inputs and feedback on the analysis and recommendations as they develop, including quality assurance – Supports the Oversight committee to facilitate discussions during the financing dialogues – Advises on linkages between the INFF roadmap and ongoing and potential programming, by UNDP, UN and other partners – Champions the INFF and INFF roadmap among stakeholders, particularly development partners
Technical team	<ul style="list-style-type: none"> – Undertakes the analysis of the DFA, using the DFA analytical framework and reporting to the Oversight committee and UNDP – Leads technical discussions during the financing dialogues – Facilitates technical discussions to shape the recommendations for the INFF Roadmap, and often drafts the INFF Roadmap under the leadership of the Oversight committee – Writes up analysis, findings and recommendations in the DFA report
UNDP regional hub / Finance Sector Hub	<ul style="list-style-type: none"> – Supports the UNDP country office with quality assurance – Supports the identification of potential case studies or policy innovations from other contexts that could inform the development of the INFF Roadmap, including lessons from other DFAs in the region – Provides guidance on the methodology

¹²³ Building on templates that are available in line with the IATF Guidance on operationalising INFFs.

Annexes

Annex A: Technical Guidance for Example Thematic priorities

In many instances the INFF Oversight committee may articulate a desire to focus part of the development finance assessment on certain thematic issues that the country is prioritising. The DFA is designed to provide a flexible approach and can be adapted to meet these demands.

While there are a wide range of thematic issues that countries may decide to prioritise, this annex presents guidance on six specific issues to highlight the kind of approach that can be taken to adapt the core guidance for a specific thematic topic. It presents questions that can be asked, in addition and in complement to the questions articulated in the core guidance above, about these six examples of potential thematic priorities in relation to each aspect of the INFF.

These questions are optional and can either be applied directly (if the Oversight committee indicates a preference for a DFA to focus specifically on one of the issues listed here), used as inspiration to determine the questions to be asked of another topic (where the Oversight committee wishes to focus on a thematic priority not listed among these examples), or left aside (where the DFA will not focus on specific thematic issues).

INFF Building Block 1: Assessments and Diagnostics

Collating estimates of financing needs

Climate and environmental issues

- Have estimates of the costs associated with climate adaptation and mitigation been undertaken? How are these being used to inform climate financing policy?

Equality

- Have estimates of the financing needs associated with key dimensions of equality, such as access to services, income inequality, gender inequality, digital inclusion, and others, been undertaken? To what extent do these consider public and private financing needs? How are they being used to inform financing policies?

Gender equality

- Has a gender analysis been integrated into the approach to estimate financing needs? Are financing needs, priorities and interventions evaluated considering the unique impacts on and needs of women?
- Has the national gender strategy or action plan been costed?

- Is data disaggregated by sex available to inform estimates of financing needs? Are current systems able to collect sex-disaggregated data? Is there capability to evaluate sex-disaggregated data and use this information in the generation of financing needs estimates?
- How have the gendered impacts of the covid-19 pandemic been considered when estimating future financing needs?

Health

- Have estimates of financing needs in the health sector been completed? How are financing needs for health likely to be affected by the impacts of the pandemic?
- Have the disproportionate impacts that the pandemic has had on specific groups such as women (for example considering women's jobs and care responsibilities) been considered when costing any job protection or job creation interventions?

Job protection and creation

- What are the costs¹²⁴ of any job protection or creation interventions that have been made in response to the COVID-19 pandemic? Are these interventions planned to be temporary? How may costs evolve in the future?
- Have the disproportionate impacts that the pandemic has had on specific groups such as women (for example considering women's jobs and care responsibilities) been considered when costing any job protection or job creation interventions?

Social protection

- What estimates exist regarding financing needs for different elements of social protection?
- How is the need for social protection financing likely to be affected by the impacts of the COVID-19

pandemic? Are these financing needs likely to diminish or remain high over the medium-term?

Analysing financing trends

Climate and environmental issues

- What is known about trends in public and private spending and investment in climate adaptation and mitigation as well as nature-based solutions?
- Are systems in place to monitor public spending in this area?¹²⁵ What trends do they show? Where are there opportunities to increase investment on climate issues, nature and biodiversity, or to boost the sustainability of other areas of spending? Are there areas of public spending that directly or indirectly support high-carbon energy or economic activities?¹²⁶
- What is known about the scale and trends in green investments? What are the trends in financing for key green sectors and industries? What are the trends in bank lending for sustainable or high-carbon investments? Is there a green bond market and what do the trends indicate?
- Are there examples of key financial instruments and innovations to support the up-scaling of nature-based solutions being used?¹²⁷
- Are there likely to be areas of spending and investment on climate and environmental issues that are not covered by the data?

Equality

- What is known about spending and investment related to key aspects of equality, such as access to basic services, income inequality, women's empowerment, and addressing the digital divide?
- What are the trends in public spending in these areas?
- What is known or can be inferred¹²⁸ about private investment in relation to equality?
- What bearing are the financing shocks that have been triggered by the pandemic likely to have on

¹²⁴ Considering both immediate costs (e.g. for grants or subsidised loans) as well as potential costs (e.g. for guarantees, which do not require an immediate outlay but may do so if drawn down in the future).

¹²⁵ For example, climate budget tagging or climate public expenditures and institutional reviews.

¹²⁶ For example, fossil fuel subsidies.

¹²⁷ For example, [debt-for-nature swaps](#), insurance etc)

¹²⁸ i.e. utilising data that explicitly tracks investment to promote equality where this is available, or assessing proxy data where it is not. Proxy data could include, for example, analysis of investment in industries in which women's participation is high, or investment in economically deprived regions.

dimensions of equality such as access to services, income inequality, and women's empowerment?

Gender equality

- What is known about areas of spending and investment that are adversely impacting women and girls, and marginalised groups, or not contributing to the advancement of gender equality, women's economic empowerment and women's rights? Can these aspects of financing be isolated and separated within the data?
- Have new and emerging gender lens vehicles and instruments been considered or used to attract investment specifically targeted at advancing gender equality initiatives?

Health

- What are the historic trends in health spending and investment? How has the COVID-19 pandemic affected health spending by the government as well as development partners?
- Is private sector investment a major feature in the health sector? What are the historic trends and potential to mobilise new private investment to support health sector development as part of building forward better?

Job protection and creation

- What interventions has the government made to protect jobs in response to the economic effects of the COVID-19 pandemic? What are the direct, indirect, and potential outlays associated with these interventions?¹²⁹ What effects has it had across the financing landscape, beyond public finance alone?¹³⁰
- Over what time horizon are these interventions likely to be maintained? How may financing trends will be affected beyond the lifetime of the initial interventions?¹³¹

- What is known¹³² about the impacts of the pandemic that firms have already felt and may yet incur in the future – what are the likely future impacts on private financing and future public revenues?

Social protection

- What are the trends in spending on key components of social protection?¹³³ What coverage does existing social protection spending provide across the population?
- How has social protection spending been affected by the COVID-19 pandemic? Have emergency cash assistance or other programmes been put in place? Are these designed to be temporary? What are the likely future trends in social protection spending?
- What role have digital technologies played in social protection programmes before the pandemic? Have new digital mechanisms been implemented as part of the response?

Considering risks

Climate and environmental issues

- What climate or environmental risks does the country face? To what extent is there a rigorous evidence base about these risks and their economic and financial implications?
- To what extent are climate risks being priced into investment assets and financial markets?

Equality

- How have the effects of the COVID-19 pandemic amplified existing inequalities, of income, access to services, gender, or other dimensions of inequality? What risks associated with secondary impacts or the recovery process could further affect these dimensions of inequality?

¹²⁹ For example, considering direct outlays such as grants, subsidies and loans, indirect outlays such as tax breaks and holidays, and potential outlays such as guarantees.

¹³⁰ For example, considering the effects on bank lending and private sector borrowing or bond issuance through public interventions designed to protect jobs.

¹³¹ Considering, for example, the impact as support is withdrawn from aspects of financing that have been propped up by public intervention or the longer-lasting effects of interventions such as tax breaks, which may affect future government revenues.

¹³² Utilising available analyses, for example, socio-economic impact assessments.

¹³³ For example, social assistance, social insurance, labour market policies

¹³⁴ For example, micro insurance, countercyclical targeted spending, safety nets, including basic income.

- What other risks does the country face that could exacerbate inequality? What measures are in place or could be in place to mitigate these risks?¹³⁴

Gender equality

- Have the risks of not addressing gender inequality over the short and longer term been considered, both in terms of social impact, economic cost and investment? How have these considerations been incorporated within financing policies?
- What are the medium and longer-term risks associated with the gendered impacts of the COVID-19 pandemic to date? How may different scenarios of the future trajectory of the COVID-19 pandemic impact gender equality? What gendered impacts may arise in relation to job losses and job creation, health, social protection and other factors?

Health

- What effects might different scenarios of the trajectory of the COVID-19 pandemic have on financing needs and the financing landscape?
- What is the vision for health sector development within the context of building forward better? What is the scope for promoting universal access to basic health care? What implications does this have in terms of financing for health?

Job protection and creation

- What future risks associated with the COVID-19 pandemic might affect the labour market and employment? How are the risks of future job losses spread across different segments of the labour market and society? What may be the implications for future financing needs in employment-relation public interventions and social protection?

Social protection

- How have existing social protection schemes performed as a mitigator of the impact of the shocks associated with the COVID-19 pandemic or other significant shocks?

- What is the outlook for social protection in the short- and medium-term?¹³⁵ What potential exists to scale up the scope and benefits of social protection schemes?
- What is the vision for the development of social protection in the future, within the context of building forward better? What potential is there for the use of digital finance innovations to support greater reach, targeting, and effectiveness of social protection schemes?

Identifying binding constraints

Climate and environmental issues

- Are there examples of capacity constraints that limit the ability of government to invest in climate adaptation and mitigation, or to promote green private investment?
- What new capacity may need to be developed in order to deliver government plans around green growth, sustainability, and climate finance?

Equality

- Do capacity and technical constraints among household and micro firms from low income communities constrain access to financing and the potential for inclusive investment and growth?

Gender equality

- Are there capacity or capability constraints in assessing, understanding and evaluating the impact of financing policies on gender equality?
- Is there evidence of capacity constraints that limit public spending and investment to advance gender equality?
- Are there capacity and technical constraints in government about the gender lens investing sector and about which public investments can potentially attract investments that have a gender lens mandate?

¹³⁵ For example, are there significant pressures on funding due to rising uptake of social protection schemes as a result of the pandemic?

Health

- Is there evidence of capacity constraints that limit spending and investment in health?
- What capacity for health financing may need to be developed in order to achieve government objectives for health care provision?

Job protection and creation

- Is there evidence of any capacity or system constraints that limit the ability to deliver effective labour market and job protection interventions?

Social protection

- Is there evidence of any capacity or system constraints that limit the ability to spend on and invest in social protection?

INFF Building Block 2: Financing Strategy

Questions for each policy area within the policies for public finance and policies for private finance components of the financing strategy are listed within those sections in the annex below.

INFF Building Block 3: Monitoring and Review

Climate and environmental issues

- To what extent is there ongoing monitoring of climate and environmental risks and their potential economic and financial implications?
- To what extent are systems in place to monitor public spending and investment in climate adaptation and mitigation across the budget and public sector at large?
- To what extent do private sector firms report on the sustainability of their investment and operations?

Equality

- To what extent does monitoring of government revenues and government spending track and account for the impacts on inequality?
- Are systems in place to monitor public spending on cross-cutting equality issues such as women's empowerment?

Gender equality

- To what extent have key indicators been identified to measure gender equality outcomes for public and private investments?
- Do current tracking systems collect and evaluate sex-disaggregated data to inform against investment outcomes? Do tracking systems collect, measure and evaluate data for gender equality allocations?
- How are sex-disaggregated data and statistics used to inform the design, implementation and review of financing policies?
- To what extent is civil society – including women's organizations – holding the private sector accountable for directing its financing towards gender equality?

Health and social protection

- What systems are in place to track spending and investment in the health and social protection sectors? To what extent do monitoring systems connect data on spending with outcomes in these priority areas?

Job protection and creation

- How are interventions designed to protect jobs from the economic impacts of the COVID-19 pandemic monitored? What systems are in place to monitor their impact terms of protecting jobs as well as their costs?

Annex B: Technical Guidance on Public Finance and Private Finance Policy Analysis

This annex builds on the headline guidance given in the financing strategies section above about how to assess public and private finance policies within the DFA. The section above provides overall guidance, while this section provides guidance about each key area of public financing and private financing policy.

The guidance here should be used by DFA technical teams to shape the substantive analysis and dialogue during the DFA process, following discussions at the start of the process about which specific aspects of public and private financing policy will be prioritised (see the scoping phase questions in each section above).

Public Finance Policies

This section expands the headline guidance given in the policies for public finance section above, providing guidance for the technical team to use on: budgeting, government revenue, public debt management, public entities and development cooperation.

Budgeting

The budget is the government's most prominent tool for ensuring the delivery of public services and investment. Public spending has been central to the response to the COVID-19 pandemic and will be a core driver of the new generation of national development plans that seek to build forward better and advance sustainable development progress.

The effects of the pandemic on public spending – it has triggered reductions in fiscal space for many countries, as well as large shifts in spending patterns between and within sectors – mean that there will be a heightened demand to ensure impact from scarce public resources in many countries.

There may be new opportunities to strengthen budgeting systems and their focus on sustainable development outcomes. The alignment of the budget with national planning processes remains a central issue, and the importance of integrated structures that ensure the vision for building forward better is reflected in the way public resources are used will be critical.

Given its prominence, the budget sends a very powerful signal to actors across society. Perceptions about the impact of spending affect many issues – tax morale, partnerships with private actors, and the efficacy of policies designed to influence the private sector – that are vital elements of an integrated approach to financing.

The DFA will look at key aspects of the budget and public financial management system, with careful consideration about the value that it can add in complement to existing and ongoing public finance initiatives:

- The strength of the core public financial management system
- The integration of the budget with national planning
- The use of sustainable development information in the budgeting process (including systems for collecting and using data on cross-cutting priorities such as gender equality and climate change)
- Spending effectiveness and opportunities to enhance the impact of the budget
- The relationship between national and subnational spending

Understanding the context

1 What policies, institutions, capacity and analysis are in place?

- What key strategy documents does the government have in place to strengthen budgeting systems? Is there a public financial management reform programme underway?
- What mechanisms are used to align the budget to national plans? What steps exist in the budget process to ensure coherency with national priorities for sustainable development and building forward better?
- Does the budget process include a medium-term outlook for expenditure? Are programme based and/or performance based budgeting structures used?
- What effects has the COVID-19 pandemic had on the way the budget is spent? How has the budget been used to respond to and address the disproportionate impacts of the pandemic on particular groups? How are future allocations likely to be affected?

Deeper analysis to identify potential ways forward

3 What opportunities exist to further strengthen policies, institutions, capacity and analysis in a more integrated approach to financing?

- What are the strengths and gaps in core public financial management structures? What do key indices and PFM assessments identify as the steps that can be taken to further strengthen budget and expenditure systems?
- To what extent does the budget generally represent an accurate picture of how public funds will be spent?¹³⁶ Are large variations between budgeted and actual spending data common? How is this monitored? Is off-budget expenditure significant?

- To what extent is sustainable development information and data¹³⁷ used in the budget process? Is it used to inform decision making on how the budget will be allocated? What opportunities exist to increase the use of sustainable development data (including digital data and gender data) in the budget process? To what extent is data on cross-cutting priorities such as gender equality and climate change used within the budget process?
- What structures are used to channel financing to subnational (state or municipal) government? To what extent are transfers determined by need or performance-based criteria? What evidence exists regarding the extent to which decentralised responsibilities for services and public investment are matched by budgetary resources?
- What role have subnational administrations played in the response to the pandemic and has it triggered any changes, or potential for changes, in the approach toward subnational transfers?
- Have the effects of the pandemic created new potential for measures that can enhance effectiveness (and/or accountability) of spending in thematic priority areas?
- Are there opportunities to enhance spending effectiveness through digitalisation reforms? How can digitalization best support both allocation and deployment of spending?
- What do the government and international partners identify as the potential added-value of the DFA in complement to ongoing initiatives in this space?

Example thematic priority questions

Climate and environmental issues

- Are there systems in place that enable the government to monitor and manage expenditure related to climate change?¹³⁸
- What does the available information show about the prioritisation of and trends in climate-relevant spending and investment? How does this align to national priorities for sustainable development and sustainably building forward better?

¹³⁶ i.e. in normal rather than extraordinary circumstances. It is likely that budgets in many countries will have changed in response to the covid-19 pandemic, for example. This question is asking about the general trend, so may focus on historic data.

¹³⁷ i.e. output or outcome data, either linked to the indicators and targets of the national development plan or to the SDGs (or both).

¹³⁸ For example, climate budget tagging systems.

Sources and related services

Table 9. Sources and related services – Budgeting

Policy areas	Key stakeholders to consult	Common policy documents	Country assessments and capacity development
Core PFM system, budget-planning integration and spending effectiveness	Ministry of Finance, Ministry of Planning, World Bank, IMF, other international partners active on PFM issues	National budget and supporting documents; PFM reform strategies	UNDP Budgeting for the SDGs
			Public expenditure and financial accountability (PEFA) reports Public expenditure reviews by World Bank and others IMF Public Investment Management Assessment IMF Article IV staff reports World Bank Public investment management reports UNDP Rapid integrated assessment UNDP Mainstreaming, acceleration and policy support (MAPS)
<i>Further methodological guidance:</i>			
UNDP: Budgeting for the Sustainable Development Goals: aligning domestic budgets with the SDGs Guidebook			
UNDP: SDG budgeting: choosing the right model			
UNDP: SDG budgeting: opting for the right model			
World Bank: Public investment management reference guide			
Subnational budgeting	Ministry of Finance, Ministry of Planning, World Bank, IMF, UNCDF, other international partners active on PFM issues	National budget and supporting documents; PFM reform strategies	Public expenditure and financial accountability (PEFA) reports Public expenditure reviews by World Bank and others IMF Article IV staff reports
Spending on key priorities	Ministry of Finance, relevant line ministries, international partners active in each area	Relevant sector strategies	UNDP Budgeting for the SDGs
			UNDP Climate public expenditure and institutional reviews Climate change budget integration index WHO Health financing country diagnostic ILO Social protection expenditure and performance review UN Women Public expenditure analysis
<i>Further methodological guidance:</i>			
UNDP: SDG budgeting: choosing the right model			
UNDP: SDG budgeting: opting for the right model			
UNFPA and UNIFEM: Gender Responsive Budgeting in Practice – A training manual			
UN Women: Gender responsive budgeting resources			

Equality

- What evidence exists about the progressivity or pro-poor nature of budget expenditure?
- What systems are in place to manage spending on key aspects of equality? What new opportunities can digitalization bring to harness equality-related data to inform budgeting decisions?

Gender equality

- Is sex-disaggregated data collected and used to inform budget allocations? Is a gender tagging system in place?
- To what extent have the principles for gender-responsive budgeting been applied within the budget allocation process? How do budget

allocations in support of gender equality and women's economic empowerment compare to the costs articulated in the national gender action plan?

- Do targets from the national gender action plan feature in the budget?
- How is the budget being adjusted and used to mitigate the disproportionate effects of the pandemic on women?

Health and social protection

- How have spending on health and social protection been affected in response to the pandemic?
- How has the vision for the development of the health sector and provision of social protection in the medium term been affected by the pandemic and what implications does this have for government spending in the future?
- What opportunities exist to strengthen the structures for spending in health and social protection during the response or recovery from the pandemic? Is there potential for digitalisation to support gains in efficiency and service delivery?

Job protection and creation

- What on-budget interventions have been made to protect employment in the face of the effects of the COVID-19 pandemic?
- What are the costs of these measures? To what extent have resources been diverted from other areas of spending to finance them?
- What is the time horizon for these measures?
- What role may on-budget job creation measures play as part of recovery from the pandemic? Are there examples of successful job creation initiatives in the past that could be replicated or scaled up?

Government revenue

Government revenues provide the bulk of resources available to most governments. Tax and non-tax revenue streams create the fiscal space, alongside borrowing and any grants received, to fund public services and deliver public investments. As such,

domestic revenue mobilisation (DRM) has long been an important priority in many contexts, and many governments have articulated targets for the volumes of revenue that they would like to raise, often expressed relative to GDP, in order to raise sufficient resources for public spending.

Many have been pursuing tax policy reforms, strengthening tax administration, including through the use of digital platforms, and working to boost taxpayer morale and compliance, in order to increase revenue mobilisation. Yet, the economic and financial effects of the COVID-19 pandemic have severely affected government revenue streams in many contexts, with sharp declines in the short term and an uncertain outlook about the extent and speed with which revenues may rebound.

Beyond the scale of government revenues, the way in which they are mobilised has important implications for many sustainable development priorities. The distribution of the 'burden' of taxation across higher and lower income groups, across sectors and across different types of firms can affect equality, access to essential goods and services, and growth.

A growing number of countries are also using tax policy as a more active policy instrument for influencing behaviour and investment patterns, by pricing externalities with carbon taxes or sin taxes, and many offer tax breaks or incentives to promote investments in certain sectors and/or regions. Within a context of heightened pressure on fiscal space, there may be opportunities to build revenues back better, by reforming tax and non-tax revenue policies and instruments to build greater alignment with national sustainability and inclusivity objectives.

The DFA will look at key aspects of revenue policy and administration:

- Revenue mobilisation and the current and future effects of the COVID-19 pandemic
- Opportunities to boost tax and non-tax revenues through policy changes and enhanced administration

- The use of digital tools in the tax system and the potential of digitalisation to enhance the effectiveness of revenue collection and generate cost savings
- The progressivity or regressivity of tax and non-tax revenue streams
- Use of tax policy to influence behaviour
- Tax incentives and ‘tax expenditure’
- Tax avoidance and evasion

To assess these issues, the DFA will ask a range of questions about the context, the effects of the COVID-19 pandemic and opportunities to move forward with a sustainable revenue system that is aligned to sustainable development. It will do this in close dialogue with the ministries and any international actors that are actively implementing reforms to the revenue system to ensure that the analysis and recommendations of the DFA complement existing and planned work.

Understanding the context

1 What policies, institutions, capacity and analysis are in place?

2 What initiatives are underway to strengthen policies, institutions, capacity and analysis?

- What strategies does the government have in place regarding the development of the revenue system? Is there a medium-term revenue strategy?
- Which are the key institutions responsible for developing and administering revenue policy? Which partners and stakeholders are active in this area of financing?
- How does the scale of annual revenues compare historically to estimates of the fiscal space needed to deliver public services? Historically has there been significant volatility in receipts from one year to the next? What are the causes of these fluctuations? Does government have any formal or informal targets for the desired level of revenues?

- What is the breakdown between different types of tax and non-tax revenue?
- What evidence exists about the impact of the tax system on equality?
- What reforms or changes to tax policy are ongoing or planned for the future?

Deeper analysis to identify potential ways forward

3

What opportunities exist to further strengthen policies, institutions, capacity and analysis in a more integrated approach to financing?

- What potential exists to increase revenue through changes in tax policy, administrative and institutional reforms, capacity augmentation, systemic changes or efforts to increase compliance?
- To what extent is the potential to increase revenue mobilisation limited by wider issues such as the informal economy or government-citizen trust? What measures have or could be taken to address informality? Have the effects of the COVID-19 pandemic amplified these issues?
- How have revenues been affected as a result of the effects of the COVID-19 pandemic? What is the future outlook? What factors will affect how revenues recover in future years?
- To what extent is revenue collection decentralised? What evidence exists about the balance between decentralised service delivery and investment responsibilities and subnational administrations’ revenue streams?¹³⁹
- Are there examples of revenue streams which are protected against shocks?¹⁴⁰ How have these mitigated the impact of current or past crises? Are there opportunities to protect other important revenue streams from future shocks?
- To what extent have tax instruments been used as a tool to mitigate the immediate effects of the COVID-19 pandemic? How does government plan to phase out any temporary measures or extend

¹³⁹ Considering both budgetary transfers (see section above) and the ability of subnational administrations to raise revenue.

¹⁴⁰ This may apply more to non-tax revenue streams, for example receipts on transport or utility infrastructure or assets may have insurance protection against financial, economic, health or other shocks.

and bring in new measures as part of recovery that builds forward better?

- How actively does the government manage the impact of revenues on equality? Does equity feature strongly in the revenue authority's mandate and strategy? Are there opportunities to adapt tax or revenue policies to make them more progressive?
- Does the government use any tax policy instruments to price externalities in relation to climate, health, gender, or other aspects of sustainable development?
- To what extent does government use tax breaks or incentives as an active policy to support households and promote private sector investment? Are these 'tax expenditures' reported in the budget?¹⁴¹ What systems are in place to ensure they remain cost effective? Is the design of incentive schemes aligned to wider sustainable development objectives?¹⁴² What evidence exists about the impact of incentive schemes in terms of mobilising investment?
- What is the context regarding digitalisation of the tax system? Are there opportunities to improve revenue mobilisation through digitalisation reforms?
- What evidence exists about the scale of illicit financial flows? What steps have or could be taken to address tax avoidance and evasion? What role can digitalization play?

Example thematic priority questions

Climate and environmental issues

- Are there any carbon taxes in place?¹⁴³ If so, how are rates determined and what evidence exists about their impact on emission outcomes? If not, what potential exists to introduce carbon taxes or other carbon pricing mechanisms as part of building forward better?

Equality

- *See questions above*

Gender equality

- Are systems in place to monitor and manage the effects of tax and non-tax revenues on gender equality?
- Have tax instruments been considered or used as a tool to address the disproportionate impacts that covid-19 has had on women? For example have progressive taxation initiatives or tax exemptions been considered to support women?

Health

- Are sin taxes used to influence consumption of goods that are damaging to health? If so, what evidence exists about their impact on health outcomes? If not, how strong is the need and potential to introduce such instruments?

Job protection and creation

- What revenue measures have been used to support the protection of employment in response to the effects of the pandemic?¹⁴⁴ What is the likely impact of these measures on public revenues? How may revenues be affected in the future, beyond the timeline of the initial intervention?
- What further revenue tools may be available to support job creation as part of the recovery? Are there examples of past initiatives that could be replicated or scaled up?

¹⁴¹ These questions can be analysed in close connection with related parts of the private finance policies section below and in box 16. The DFA aims to build a holistic analysis of tax instruments used to promote private sector investment, considering costs to public finances and effectiveness in unlocking impactful investment.

¹⁴² For example, the criteria for investment incentive schemes offered by some countries requires or offers greater benefits if investments can be shown to support women's economic empowerment or be beneficial to the environment.

¹⁴³ Note that tax policy is one common carbon pricing instrument though many countries opt for other mechanisms such as emissions trading schemes (see also the private finance policies section below).

¹⁴⁴ For example, tax breaks, tax holidays, removal of fees associated with certain public services etc.

Sources and related services

Table 10. Sources and related services – Government revenue

Policy areas	Key stakeholders to consult	Common policy documents	Country assessments and capacity development
Revenue policy and administration	Ministry of Finance, Revenue authority, World Bank, IMF, other international partners active on fiscal issues, think tanks, CSOs	Revenue strategy, public finance reform programme	UNDP-OECD Tax Inspectors Without Borders Tax Administration Diagnostic Assessment Tool (TADAT) UNDP FSH SDG-aligned fiscal and debt instruments IMF Fiscal analysis of resource industries
Revenue and inequality	Ministry of Finance, Revenue authority, international partners active on fiscal issues, think tanks, CSOs	Revenue strategy	Commitment to equity institute
Carbon taxes	Ministry of Finance, Ministry of Environment, relevant international partners, CSOs	Revenue strategy, budget publications, national climate strategy	Partnership for Market Readiness Building blocks of market readiness
<i>Further methodological guidance:</i> Partnership for Market Readiness: Carbon tax guide: a handbook for policymakers UN Committee of Experts on International Cooperation in Tax Matters: Carbon taxation handbook, Designing a carbon tax handbook and Practical application of a carbon tax			
Sin taxes	Ministry of Finance, relevant line ministries, relevant international partners, CSOs	Revenue strategy, budget publications, relevant sector strategies (e.g. health)	
<i>Further methodological guidance:</i> WHO: Health taxes: a primer			
Tax incentives and tax expenditure	Ministry of Finance, investment promotion agency, IMF	Budget publications ¹⁴⁵	UNDP tax expenditure management service ¹⁴⁶ IMF Tax expenditure assessment
<i>Further methodological guidance:</i> IMF: Tax expenditure reporting and its use in fiscal management: a guide for developing countries UNDP: Integrated financing solutions UN DESA: Design and assessment of tax incentives in developing countries UN Committee of Experts on International Cooperation in Tax Matters: Tax incentives and the oil industry			
Risk financing	Ministry of Finance, relevant public entities, insurance associations		UNDP Risk mitigation through insurance diagnostic ¹⁴⁷
<i>Further methodological guidance:</i> UNDP: Risk-informed finance for development			
Tax avoidance and evasion	Ministry of Finance, revenue authority, anti-corruption commission, IMF, World Bank, UNODC	Revenue strategy	
<i>Further methodological guidance:</i> UN DESA: Practical manual on transfer pricing for developing countries			

¹⁴⁵ If tax expenditure reporting systems are in place.

¹⁴⁶ Under development at the time of publication.

¹⁴⁷ Under development at the time of publication.

Public debt management

Effective debt management is key for governments to resource their spending and investment in public goods and services whilst maintaining sustainability. In recent years, many governments have increased the extent and range of debt instruments that they use, and it is an area in which there has been much innovation.

The advent and take up of a range of thematic debt instruments such as green, blue, and SDG bonds, as well as subscriber-specific instruments such as diaspora bonds and faith-based debt mechanisms¹⁴⁸, has unlocked new streams of finance for investments in sustainable development. These have often attracted private capital, tapping into the growing private finance interest in sustainable and responsible investing.

At the same time, debt is an issue that has become much more urgent and prominent for many countries as a result of the effects of the COVID-19 pandemic. Declining revenue and depreciating currencies have meant that many governments have suddenly and unexpectedly moved into positions of debt distress or unsustainability. Responses to this debt shock are prominent in the support being offered by the global community, with the potential for countries to access debt standstills, restructuring, or forgiveness to help mitigate the effects of the pandemic.

The DFA will look at key aspects of public debt management¹⁴⁹:

- Sustainability of debt stock and payments, including access to concessional debt
- The use of thematic and innovative debt instruments
- The systems and capacity for channelling debt into productive investments

- The approach toward domestic debt vis-à-vis financial sector development, FinTech and private sector financing¹⁵⁰

Understanding the context

1 What policies, institutions, capacity and analysis are in place?

2 What initiatives are underway to strengthen policies, institutions, capacity and analysis?

- What strategy does the government have in place to manage public debt? Are there any debt rules in place?¹⁵¹
- Which public sector institutions are able to take on debt and which institution is responsible for approval and ensuring alignment with the overall debt strategy? Which partners and stakeholders are active in public debt management issues? Are there reform initiatives underway?
- What are the trends over recent years in public borrowing? Has borrowing increased and if so, what types of debt has the government prioritised?¹⁵²
- How sustainable are government's debt stocks and payments? How has this position been affected by the COVID-19 pandemic?
- To what extent is the ability to take on public debt centralised or decentralised?
- Does government use any innovative, thematic, or subscriber-specific bonds or debt mechanisms?
- To what extent has government's debt strategy been connected with other aspects of sustainable development in the past? What impact has it had on issues such as domestic financial sector development and access for private firms to domestic credit?¹⁵³

¹⁴⁸ Such as sukuk or instruments, such as sovereign green sukuk, that combine many of these instruments.

¹⁴⁹ Note that these questions look at debt from general government; debt taken on by public entities is considered in the management of public entities section below.

¹⁵⁰ This overlaps with aspects of the private finance policies component of the analytical framework – see below.

¹⁵¹ For example, regarding the maximum stock of public debt or the balance of domestic and international debt.

¹⁵² For example, some governments have prioritised accessing debt from international capital markets, including in some cases reducing concessional borrowing, as part of a wider strategy for increasing access and interaction with global markets more generally. Others have prioritised public borrowing to support domestic financial market development, or to limit exposure to currency risk.

¹⁵³ For example, considering the extent to which government borrowing from the domestic financial sector has either supported the deepening of financial markets or has crowded out access to finance for other borrowers.



Deeper analysis to identify potential ways forward

3

What opportunities exist to further strengthen policies, institutions, capacity and analysis in a more integrated approach to financing?

- Has public borrowing increased in order to fund the response to the COVID-19 pandemic? What implications do the shocks precipitated by the COVID-19 pandemic have for borrowing in the future?¹⁵⁴
- What have been the historic effects of government's debt strategy and any debt rules? For example, have these rules restricted access to funds which could have been used for investment in social systems or public goods?¹⁵⁵ Or have they prevented the build-up of debt positions that would have been rendered unsustainable with the impacts of the COVID-19 pandemic?
- How effective are the systems in place for channelling debt into productive, priority public investments? Is there any evidence of limited capacity to effectively manage debt and oversee the way it is used?
- What opportunities exist to strengthen the management of public debt in relation to wider financing for sustainable development priorities such as financial sector development and access to credit?
- Where new debt instruments have been adopted in the recent past, what infrastructure and capacity was developed to enable and effectively manage these new forms of debt?¹⁵⁶ What lessons could this experience carry forward for other forms of debt or financing solutions in the future?



Example thematic priority questions

Climate and environmental issues

- Has government deployed green debt mechanisms, such as green bonds, in the past?
- What potential is there to develop or expand green debt mechanisms in the future? What systems and capacity would need to be developed? Are there opportunities to use innovative digital finance solutions to support green bond market development?

Equality

- Are there any examples of public debt mechanisms designed specifically to finance services or spending that will address issues of inequality?
- To what extent do the systems for channelling public debt into spending and investment consider equality in the criteria for project selection?

Gender equality

- To what extent is debt used to drive initiatives towards gender equality?
- Has the government deployed gender equality bonds in the past? Is there capacity within the government to leverage and deploy gender bonds?

Health and social protection

- Are there any examples of debt mechanisms linked to investment in health or social protection?

Job protection and creation

- Has public borrowing been used to fund interventions designed to protect employment in the face of the effects of the COVID-19 pandemic?
- What potential is there for public debt to play a role in funding mechanisms designed to support job creation as part of building forward better?

¹⁵⁴ For example, where a government has been pushed into a position of debt distress there may be implications in terms of the potential and cost of accessing debt from commercial markets beyond the length of the crisis itself.

¹⁵⁵ One way of assessing this may be to look at the stock of unfunded projects.

¹⁵⁶ For example, countries such as Indonesia and Kenya have established climate budget tagging processes within their public financial management systems and used these as a basis to issue green bonds.

Sources and related services

Table 11. Sources and related services – Public debt management

Policy areas	Key stakeholders to consult	Common policy documents	Country assessments and capacity development
Overall debt strategy	Ministry of Finance, IMF, World Bank, banking association, stock exchange	Debt strategy	IMF Debt sustainability assessment UNDP FSH SDG-aligned fiscal and debt instruments
Use of thematic and innovative debt instruments	Ministry of Finance, relevant line ministries, IMF, World Bank, stock exchange, FinTech associations, UNCDF, UNEP	Debt strategy, relevant sector or thematic strategies	UNDP FSH SDG-aligned fiscal and debt instruments
Debt management systems	Ministry of Finance, state/municipal governments, ¹⁵⁷ IMF, World Bank	Debt strategy	IMF Debt sustainability assessment IMF Public Investment Management Assessment
Debt strategy in relation to financial sector and access to finance	Ministry of Finance, IMF, World Bank, banking association, stock exchange, chamber of commerce	Debt strategy, financial sector development strategy	IMF Financial Sector Assessment Program

Public entities

Public entities are an important part of the public sector at large and often play key roles providing services and infrastructure in relation to a number of the SDGs. Though the number, scale and range of sectors in which public entities operate varies widely from one country to another, they are often significant actors in sectors such as energy, water and sanitation, transport, infrastructure, financial services, among others.

The mandate that these public entities have, the way they raise resources, invest and deliver services, the way they engage with development planning processes and are held accountable by government, all have an important bearing on the contributions that they can make to sustainable development.

The effects of the COVID-19 pandemic on public entities has varied, depending on the sectors in which they are active, their financial position before the crisis

and other factors. For many, revenues have declined and new or amplified financial stresses have arisen.

Looking ahead, in many contexts public entities may become important actors in the implementation of national recovery plans. Public infrastructure programmes are likely to be a common component of these plans and public entities in the infrastructure and financing sectors are likely to play important roles.

DFAs can consider a range of issues related to public entities:

- The role of public entities vis-à-vis priorities for building forward better
- The systems and approach toward government oversight of public entities
- Opportunities to enhance the inclusivity and sustainability of public entities' operations, and strengthen their contributions toward building forward better

¹⁵⁷ This may be relevant in contexts where the ability to take on debt is decentralised.

Understanding the context

1 What policies, institutions, capacity and analysis are in place?

2 What initiatives are underway to strengthen policies, institutions, capacity and analysis?

- What strategy, if any, is in place regarding the overall role and management of public entities?
- Which institution(s) are responsible for oversight and management of public entities? Which partners and stakeholders are active in public entity reforms?
- In which sectors are public entities active, and how do these relate to the sectors or thematic areas being prioritised for building forward better?
- How engaged are public entities in the development planning and financing process? How do they participate in the structures for designing, implementing and monitoring national plans?
- What is the financial sustainability position of public entities? How has this been affected by the impacts of the COVID-19 pandemic?
- Are there clear dividend policies in place? What are the historic trends regarding payment of dividends to central government?

Deeper analysis to identify potential ways forward

3 What opportunities exist to further strengthen policies, institutions, capacity and analysis in a more integrated approach to financing?

- How does the mandate of public entities relate to the sustainable and inclusive dimensions of national sustainable development? Through what mechanisms does central government hold public entities accountable for their sustainable development impact as well as their financial performance?
- Where public entities are active in commercial sectors, how do their operations differ from those

of commercial actors?¹⁵⁸ What mechanisms are in place to ensure inclusivity/sustainability in the way public entities offer services?¹⁵⁹

- What role is envisaged for public entities in national recovery plans? Are there opportunities for public entities to increase their participation in national planning and implementation?
- Have the effects of the COVID-19 pandemic increased the case for reform in any areas of public entity oversight?
- Are there examples of public entities that have protected their major revenue streams against shocks?¹⁶⁰ How have these mitigated the impact of current or past crises? Are there opportunities to protect other important revenue streams from future shocks?
- Are there digital transformation plans underway in public entities? Are public entities harnessing digital finance capabilities?

Example thematic priority questions

Climate and environmental issues

- What evidence is there of public entities prioritising sustainability in their business operations? For example, are environmental sustainability criteria an important consideration in public entity investments in infrastructure, or in lending by state-owned financial institutions?
- To what extent are public entities held to account by central government for their environmental impacts?
- Do public entities publish sustainability reports?
- What opportunities exist to enhance the environmental sustainability of public entities' spending and investments?

Equality

- What evidence is there of public entities prioritising accessibility in the services they deliver? Are there dedicated mechanisms in place to provide

¹⁵⁸ For example, regarding development banks or state-owned banks, how do patterns of lending differ from commercial banks? e.g. are they offering credit to actors that would otherwise be unable to access it?

¹⁵⁹ For example, mechanisms such as community service obligations.

¹⁶⁰ For example, through insurance protection for their major assets or revenue streams.

enhanced access to vulnerable groups?

- To what extent are public entities held to account by central government for the accessibility of their services?
- What opportunities exist to enhance the accessibility of public entities' services and investments?

Gender equality

- What mechanisms are in place to ensure gender responsiveness in the way public entities offer services?
- To what extent are public entities equipped to evaluate and address how gender equality issues cut across their services and areas of activity?

Health and social protection

- What is the role of public entities in the health and social protection sectors?
- What role can they play in strengthening health and social protection as part of building forward better? What opportunities exist to increase their impact through health and social protection services?

Job protection and creation

- What role may public entities play in initiatives designed to create jobs as part of recovery from the pandemic?

Sources and related services

Table 12. Sources and related services – Public entities

Policy areas	Key stakeholders to consult	Common policy documents	Country assessments and capacity development
Management and oversight of public entities	Ministry of Finance or other ministries responsible for public entity oversight, public entities	Budget documents, public entities' annual reports	
	<i>Further methodological guidance:</i> IMF: How to improve the financial oversight of public corporations		
Management and oversight of public entities	Ministry of Finance or other ministries responsible for public entity oversight, public entities	Budget documents, public entities' annual reports, sustainability reports	SDG Impact: Impact management

Development cooperation

The cooperation that development partners provide offers important support for services and investment that advance sustainable development in many contexts. In many countries development cooperation accounts for a significant proportion of overall financing in key social or environmental sectors.

It can bring innovation, introduce new instruments, and offer increased access to credit on concessional terms. There has been a growing emphasis in recent years on using development cooperation to catalyse new forms of financing through blended and leveraging approaches.

Development cooperation can also be very responsive to crisis and many development partners provide emergency assistance and are helping governments to address the effects of the COVID-19 pandemic and mitigate its impacts. A significant aspect of the global response to COVID-19 is the emphasis on debt relief and restructuring and the provision of new flows of concessional finance that many countries may benefit from.

DFAAs can consider a number of aspects of development cooperation:

- The thematic areas in which development cooperation is prominent, vis-à-vis priorities for building forward better
- The role in bringing innovation and leveraging new flows of financing
- The role of development cooperation in the response to and recovery from COVID-19
- Collaboration between government and development partners around how development cooperation is invested

Understanding the context

1 What policies, institutions, capacity and analysis are in place?

2 What initiatives are underway to strengthen policies, institutions, capacity and analysis?

- What policy does the government use to engage with development cooperation? Which institution within government oversees this strategy? What mechanisms are in place to facilitate government-development partner collaboration? How do these mechanisms address issues related to quality, effectiveness, and impact of development cooperation?
- In which sectors and thematic areas is development cooperation particularly prominent?
- Through which modalities is development cooperation provided? What proportion of development cooperation is delivered on-budget or through government systems?
- To what extent does government involve development partners in shaping key plans and strategies for how they will be financed?

Deeper analysis to identify potential ways forward

3 What opportunities exist to further strengthen policies, institutions, capacity and analysis in a more integrated approach to financing?

- What is the current and potential role of development cooperation in relation to key priorities for building forward better? How can development cooperation contribute more effectively to the achievement of key priorities? How can it leverage and support capacity building for financing for development?

- How are development partners supporting the response to COVID-19? Are there shifts in the substantive focus of development cooperation? How may they alter the modalities and types of support that they offer? What coordination is there between humanitarian and development assistance? How will these changes impact the effective utilisation of development cooperation? Is there potential for new grants, concessional lending or debt restructuring/relief?
- What is known about development partners' future spending plans?¹⁶¹
- Are there examples of innovative models or new instruments that development partners have piloted in the past that could be scaled up as part of building forward better?¹⁶²

Example thematic priority questions

Climate and environmental issues

- What are the historic trends in development cooperation investments in climate adaptation and mitigation?
- Are there new opportunities for investment in green recovery that development partners can help to drive forward?

Equality

- How have development partners focused on equality and leaving no-one behind through past and current programming?
- What new opportunities exist for development partners to collaborate with national actors on and invest in inclusive recovery?

Gender equality

- To what extent are development cooperation projects, climate finance and MDB lending aligned with the national gender equality priorities?

Health

- What role has development cooperation played in supporting health sector development in the past? How can this role be scaled up or adapted in the future to support stronger development of the national health system?

Job protection and creation

- How have development partners supported government in response to the COVID-19 pandemic with initiatives designed to protect jobs?
- Are there examples of successful development-cooperation supported job creation initiatives from the past, or from other contexts, that could be replicated or scaled up to support building forward better?

Social protection

- To what extent are development partners engaged in supporting the government to provide and deliver social protection schemes?
- Are there innovations or new approaches that development partners may be able to assist with, in order to improve the efficiency and effectiveness of the social protection system?

¹⁶¹ See also questions on this in the Monitoring and Review section above.

¹⁶² The question can consider models/instruments that have been piloted within the country context, or which the development partner has successfully piloted in other similar country contexts.

Sources and related services

Table 13. Sources and related services – Development cooperation

Policy areas	Key stakeholders to consult	Common policy documents	Country assessments and capacity development
Government-development partner cooperation	Ministry of Finance, Ministry of Planning, relevant line ministries, Development partners coordination committee, UN RCO, key development partners	National Development cooperation policy	GPEDC Monitoring country profiles
	<i>Further methodological guidance:</i> GPEDC: Enhancing effectiveness to accelerate sustainable development – a compendium of good practices		
Role of development cooperation, innovation, leveraging etc	Ministry of Finance, Ministry of Planning, relevant line ministries, Development partners coordination committee, UN RCO, key development partners	National development cooperation policy, UN Development Assistance Framework, country programme documents of other development partners	GPEDC Monitoring country profiles
	<i>Further methodological guidance:</i> GPEDC: Enhancing effectiveness to accelerate sustainable development – a compendium of good practices		

Private Finance Policies

This section expands the headline guidance given in the policies for private finance section above, providing guidance for the technical team to use on: private participation in investments of a public nature, building markets that work for the SDGs, and engaging non-commercial private finance.

Private participation in investments of a public nature

There are a range of policies and instruments that governments can deploy to attract private finance to deliver investments that are public in nature, i.e. that provide public goods and services. These mechanisms support investment in the provision of public infrastructure, public services, and other public goods.

They are perhaps most commonly used to deliver public infrastructure although a range of modalities have also increasingly been used by countries to support investment or service delivery in social and environmental sectors. As governments develop

plans to drive the social and economic recovery from COVID-19, it is likely that major public investment programmes will be a prominent feature in many contexts, and public-private modalities can play an important role in driving these forward.

Common instruments deployed to mobilise private participation in public investments include:

- Public-private partnerships
- Blended finance mechanisms
- Innovative debt instruments, including:
 - Thematic bonds, for example SDG bonds, green bonds, blue bonds and gender equality bonds
 - Bonds targeting specific subscribers, for example through diaspora bonds or faith-based debt mechanisms (such as sukuks)
 - Bonds designed to support response and recovery from COVID-19
- Development impact bonds
- Innovative tax instruments, for example works for taxes schemes

To assess the current situation and potential, the DFA will ask a range of questions about how these kinds of instruments can mobilise financing for recovery and building forward better within the national context.

Understanding the context

1 What policies, institutions, capacity and analysis are in place?

2 What initiatives are underway to strengthen policies, institutions, capacity and analysis?

- What policies and strategies are in place to govern public-private collaboration through the instruments listed above?
- Which institutions are responsible for governance of these public-private mechanisms? Which partners and stakeholders are active in supporting development or reform in these areas?
- What mechanisms are in place within government to oversee the use of these instruments in relation to implementing national sustainable development objectives?
- Are regulatory frameworks to govern these instruments well established and is there sufficient government capacity to manage and oversee their deployment?
- How are the delivery and outcomes of investments made through these mechanisms monitored and reported?
- What evidence is there of the historic impact of existing instruments in mobilising new investment? Have evaluations of their impact been carried out? Are there prominent examples of significant successes or failures (in terms of economic, social, and environmental outcomes)?
- Have existing instruments, or the investments they have funded in the past, been adversely affected by the pandemic (or other crises)? Are they sufficiently protected against risk?

- Do the effects of the pandemic create any space to introduce new innovations in existing instruments that could enhance their impact?¹⁶³
- Do the policies and strategies for promoting private sector engagement in public investments consider how digital finance instruments or developments may enhance existing private sector engagement and open up for new innovative ways to crowd in private capital? Are there any examples of digital finance instruments, such as private-public digital platforms, that have been deployed for such purpose?
- Do development partners actively engage the private sector in their development co-operation modalities with a view to leveraging additional finance and expertise, including for the COVID-19 response? If so, is this done in line with effective development co-operation principles?¹⁶⁴
- Are there examples of any outcome-based contracting modalities?

Deeper analysis to identify potential ways forward

3 What opportunities exist to further strengthen policies, institutions, capacity and analysis in a more integrated approach to financing?

- Are there particular headline priorities for recovery, national targets or identified financing gaps¹⁶⁵ to which the public-private instruments listed above are well matched? Will there be sufficient capacity to manage any planned scaling-up of existing instruments, or introduction of new instruments, as part of national recovery plans?
- Can the regulatory or policy frameworks within which existing instruments operate be adapted to promote greater resilience, sustainability or inclusivity moving forward?¹⁶⁶

¹⁶³ For example, if there is a heightened focus on delivery efficiency there may be stronger demand from government for mechanisms, such as better monitoring, greater accountability or new modalities such as outcome-based contracting, that can enhance the effectiveness of existing instruments.

¹⁶⁴ The GPEDC's Kampala Principles provide guidance on effective private sector engagement in development cooperation that ensures alignment with national priorities, inclusivity, transparency and accountability, focus on results and leaving no one behind.

¹⁶⁵ For example, if sectors such as infrastructure are a major priority of a national development plan or recovery plan, or if explicit targets have been set / financing gaps identified regarding the level of investment in relevant sectors or thematic priorities. This could include, for example, sectors such as infrastructure, or thematic priorities such as climate adaptation or ocean management in relation to instruments such as green or blue bonds.

¹⁶⁶ Considering, for example, the extent to which regulations governing project development require environmental or social impact studies to be completed, the criteria for approving or prioritising projects in relation to sustainable development priorities, or the extent to which local communities are involved in project prioritisation and design.

- What potential exists to introduce new instruments to mobilise the kind of funding that will be needed to support national recovery plans? Which instruments offer the greatest potential?
- Do government or other partners (such as development partners) already have plans to introduce new instruments? Have these plans been prompted by the effects of the COVID-19 pandemic or were they already in place? How developed are they?
- What aspects of the design of any new instruments will be critical in determining their contribution toward greater resilience, sustainability, and inclusivity?
- What capacity is in place or would need to be developed in order to effectively oversee the design and management of any new instruments? Are there other investments that may need to be made before new instruments can be successfully introduced?¹⁶⁷

Example thematic priority questions¹⁶⁸

Climate and environmental issues

- To what extent do (or could) public-private modalities prioritise low-carbon investments?
- To what extent is the country tapping into the international sustainable capital that may be available to it?¹⁶⁹

Equality

- To what extent is the use of these instruments linked with national strategies for reducing inequality,¹⁷⁰ as opposed to only being grounded in economic development?
- To what extent do measures such as the criteria for project selection promote investments that will benefit the most vulnerable members of society?

Gender equality

- Has gender lens investment and its role in financing public initiatives been considered?
- Has a gender analysis been conducted of the government's public investment strategy? What systems are in place to monitor the gender responsiveness and impact of public-private investments?
- Are there current public-private partnerships directing financing to gender equality and women's empowerment?

Health

- Have public-private instruments been used to provide services or investment in the health sector? What impacts have these had?
- What potential is there to scale up or introduce new public-private instruments to expand health investment and services in the future?
- What are the factors that need to be put in place to mitigate risk and ensure that any public-private investments in health are impactful and cost-effective for the government and citizens in the short and longer-term?¹⁷¹

Job protection and creation

- What role have public-private mechanisms played in past job creation initiatives? Are there successful examples that could be replicated or scaled up as part of building forward better?

Social protection

- Are there examples of public-private mechanisms being used in the provision of social protection? How can such mechanisms be adopted, scaled up or enhanced to support greater inclusivity and resilience for building forward better?

¹⁶⁷ For example, Indonesia established a robust climate tagging system within its national budget that the government used to show investors its capacity to manage green capital effectively as a foundation for the successful issuance of sovereign green sukuk (Islamic bonds) in 2017 and 2019.

¹⁶⁸ Note that social protection is not covered here as public-private modalities are unlikely to be a prominent part of social protection programmes in many contexts.

¹⁶⁹ This can refer to both the growing volumes of ESG and responsible private capital on global markets and/or increasing volumes of international public climate finance.

¹⁷⁰ Such strategies may be framed as inequality reduction strategies, or framed to promote regional development or development for certain communities or groups of people.

¹⁷¹ Recognising that there is a mixed history in terms of the use of public-private modalities in the health sector internationally. While these instruments can increase health investment and service delivery there are also many examples of longer-term adverse effects, such as unequal risk sharing between partners and high long-term costs for the public sector.

Sources and related services

Table 14. Sources and related services – Private participation in public investment policy options

Instruments	Key stakeholders to consult	Common policy documents	Country assessments and capacity development
Public-private partnerships	Ministry of Finance, Ministry of Commerce, Ministry of Infrastructure	Public-private partnership policy, infrastructure development strategy, budget documents	World Bank Country readiness diagnostics for PPPs Law Reviews The PPP law review
	<i>Further methodological guidance:</i> UNECE: People-first PPPs World Bank: PPP handbook GPEDC: Kampala Principles on effective private sector engagement in development co-operation		
Blended finance mechanisms	Ministry of Finance, Ministry of Commerce, Ministry of Infrastructure, IFIs, bilateral development partners	Public-private partnership policy, infrastructure development strategy, development cooperation policy, budget documents	
	<i>Further methodological guidance:</i> GPEDC: Kampala Principles on effective private sector engagement in development co-operation OECD: Blended finance principles Southern Voice: Is blended finance trending in the LDCs? Development Initiatives: How blended finance reaches the poorest people Convergence: The state of blended finance 2019 ODI: Blended finance in the poorest countries: the need for a better approach Oxfam and Eurodad, Blended Finance: What it is, how it works and how it is used		
Innovative debt instruments: <i>e.g. thematic bonds, bonds targeting specific subscribers or leveraging specific flows</i>	Ministry of Finance, relevant line ministries ¹⁷² , agencies responsible for diaspora affairs and religious engagement	Debt management policy, relevant thematic strategies, diaspora engagement strategy	IMF and World Bank Debt sustainability analysis SDG Impact bond standards
	<i>Further methodological guidance:</i> UNDP: SDG-aligned fiscal and debt instruments UNDP: Financing solutions platform: green bonds World Bank: Development finance via diaspora bonds UNDP: Integrated financing solutions report UNDP: Financing solutions platform: remittances and diaspora financing		
Development impact bonds	Ministry of Finance, relevant line ministries	Thematic or sector strategies	
	<i>Further methodological guidance:</i> Center for Global Development: Development Impact Bonds UNDP: Financing solutions platform: social and development impact bonds		
Innovative tax instruments (<i>e.g. works for taxes</i>)	Ministry of Finance, Ministry of Infrastructure	Revenue strategy, Infrastructure strategy	
	<i>Further methodological guidance:</i> IFC: Works for taxes (example from Peru)		

172 For thematic bonds, see the line ministry and thematic strategy relevant to the thematic area of focus of the bond in question.

Building forward better: markets that work for the SDGs

The decisions that private sector actors take about how to invest and move ahead with their business models will be important drivers of building forward better, and progress toward national sustainable development plans.

Public policy toward markets can be broken down into two groups of policy objectives; those that promote private sector recovery and investment that is aligned to sustainable development in general; and those that promote specific types of investment that are seen as particularly important or catalytic for building forward better and sustainable development.

While policies and interventions within the first category has an influence across the private sector as a whole, the second group targets specific, selected types of investment that have been prioritised by the government. Mainstreamed within each of these categories are objectives to both mobilise new capital and to promote greater sustainable development alignment in commercial strategies and business models.¹⁷³

An integrated approach to public policy for private finance will combine policies across these areas in order to create the conditions for private sector recovery while promoting specific types of investment that can catalyse investment for building forward better. The DFA will assess both policies and opportunities across these areas.

(i) Building markets that work for the SDGs – the enabling environment

Efforts to promote private sector investment, in general, focus on building an enabling environment that is conducive to sustainable, inclusive, resilient

private sector investment and the recovery of private financing. The key policy areas include:

- The business environment, considering factors such as access to credit and measures to address other major obstacles to private sector investment and to ensure market predictability
- Financial sector development, considering factors such as access to finance, deepening financial sector development, including the development of longer-maturity financing options, as well as public debt practices¹⁷⁴
- Insurance and risk financing
- Platforms for effective public-private dialogue

To assess priorities and policy options in these areas the DFA will ask a range of questions about how these areas of policy can be brought together and refined to promote private finance recovery for building forward better.

Understanding the context

1 What policies, institutions, capacity and analysis are in place?

2 What initiatives are underway to strengthen policies, institutions, capacity and analysis?

- What strategies are in place to enhance the enabling environment for domestic and international businesses? How do these strategies promote sustainability, inclusivity and resilience in private sector development? How do they balance objectives regarding unlocking new commercial investment and promoting greater business alignment with sustainable development?
- Which institutions are responsible for governance of the enabling environment? Which partners and stakeholders are actively engaged in supporting enabling environment reforms?

¹⁷³ Therefore, for example, guidance and services through the Finance Sector Hub action areas [Unlocking private finance for the SDGs](#) and [Aligning business strategies and operations for the SDGs](#) are mainstreamed across both the enabling environment and targeted measures categories used in the DFA typology.

¹⁷⁴ Considering the public sector at large, i.e. central government as well as state-owned enterprises, banks and other public entities, in terms of borrowing from domestic markets vis-à-vis overall financial sector development and access to credit for other actors.

- What factors have firms historically identified as the major obstacles to investment? What factors present key obstacles to sustainable, inclusive investment?¹⁷⁵ To what extent have financing issues been a major constraint to private sector investment before the pandemic? Are there variations between different types of firms?
- How developed are domestic bank credit, bond and equity markets? To what extent does access to capital vary between different types of firm? To what extent is there access to a wide range of financing options, including credit of varying maturity?
- Do patterns of lending indicate restricted access to credit for certain parts of the economy or types of actors (for example, to the agricultural sector or to SMEs) that are important in relation to national priorities? Do investments that could undermine key aspects of building forward better¹⁷⁶ feature prominently in lending portfolios? What are the incentives and reasons behind these trends?¹⁷⁷
- How accessible is financing for different firms and actors? What is the context regarding access to credit for SMES, women-led SMEs and more vulnerable or lower income communities?
- What range of financing options is available to firms that want to invest and grow? Is access to finance dominated by bank lending or are options such as venture capital, private equity or raising capital through the stock market commonplace?
- What is the position of public debt (general government as well as public entities) in the domestic financial sector? Does public debt reinforce or undermine objectives related to financial sector development and private sector investment?
- Were reforms planned, or underway, to improve the business environment and financial sector development before the pandemic? To what extent do these reforms emphasise sustainability and inclusivity?

- What is the context in terms of insurance sector development and insurance coverage against major risks and shocks? How does this vary across different private sector actors?



Deeper analysis to identify potential ways forward

3

What opportunities exist to further strengthen policies, institutions, capacity and analysis in a more integrated approach to financing?

- Considering recovery for building forward better, how have the obstacles to investment been altered by the effects of the COVID-19 pandemic?¹⁷⁸
- What are the major causal factors behind any lack of access to credit or financial sector underdevelopment before the crisis?
- How has government promoted firms' improved access to credit/finance in the past and how successful have these interventions been? To what extent have they enhanced inclusivity and sustainability in private sector development? Are there models or initiatives that can be reinstated or scaled up to encourage the flow of credit to fund private sector recovery and investment for building forward better?
- How have government strategies to increase private sector investment in specific areas affected investments in other sectors?
- How has government promoted financial inclusion in the past? What evidence exists about the impact of these policies? What opportunities exist to deepen financial inclusion in the future?
- What opportunities are there to implement governance reforms across the business environment or financial sector that would unlock new investment or new access to funding for investment? What governance reforms could promote more sustainable, inclusive investment? Are there models that can be adapted from other countries?

¹⁷⁵ Considering either investments in relevant sectors (e.g. renewable energy) or the nature of the investments and business models (e.g. considering the number and quality of jobs created or links with local value chains).

¹⁷⁶ For example, if high-carbon investments feature prominently in contexts where green growth is prioritised.

¹⁷⁷ For example, considering issues such as collateral requirements for SMEs to be able to access credit.

¹⁷⁸ For example, if heightened risk perceptions in the financial sector may lead to reduced access to credit, even if access to credit was not a major constraint to investment in the past.

- What standards are in place to facilitate the flow of capital into SDG-aligned investments? What standards are in place to facilitate flow of capital to gender equality investments and other investments that also achieve gender equality outcomes (e.g. climate adaptation initiatives that are gender responsive)?
- To what extent did, or could, insurance coverage among firms mitigate some of the economic and financial effects of the pandemic? What are the implications in terms of promoting insurance sector development as part of a more resilient future development path?
- Has the response to the pandemic catalysed any public-private collaboration that could be leveraged to promote stronger collaboration around a national recovery plan?
- What is the context regarding digitalisation in key aspects of private finance, such as financial sector development? What opportunities exist to enhance the efficiency of financing, or unlock new resources, through digital reforms?

Sources and related services

Table 15. Sources and related services – Private sector enabling environment

Policy areas	Key stakeholders to consult	Common policy documents	Country assessments and capacity development
Enabling environment for business	Ministry of Economy, Ministry of Commerce, Ministry of Trade, stock exchange, Chamber of Commerce, World Bank (IFC), UNIDO	Private sector development strategy, Economic strategy	World Bank Doing Business reports World Bank Enterprise Survey WEF Global competitiveness report RDB Private Sector Assessments ¹⁷⁹
Financial sector development	Central Bank, Ministry of Finance, Ministry of Commerce, stock exchange, banking associations, state-owned banks, UNEP, IMF, World Bank	Financial sector development strategy, financial inclusion strategy, public and state-owned enterprise debt policies ¹⁸⁰	Central bank policy and research literature ¹⁸¹ IMF Financial Sector Assessment Program UNCDF Making access possible UNCDF Mobile money for the poor UNDP-UNCDF digital finance ecosystem assessment tool ¹⁸²
<i>Further methodological guidance:</i> UNEP-UNDP Sustainable Finance Diagnostic Toolkit SDG Impact: SDG Impact standards			
Insurance and risk financing	Central Bank, regulatory authority, insurance association	Private sector development strategy, Economic strategy	UNDP Risk mitigation through insurance diagnostic ¹⁸³
<i>Further methodological guidance:</i> UNDP: Mobilizing Insurance Investment in Sustainable Infrastructure Insurance Development Forum: Practical guide to insuring public assets			
Platforms for public-private dialogue	Ministry of Economy, Ministry of Commerce, Ministry of Trade, Ministry of Finance, Stock Exchange, Chamber of Commerce	Private sector development strategy, Economic strategy	
<i>Further methodological guidance:</i> World Bank, CIPE: Public-private dialogue platform			

¹⁷⁹ For example, the Asian Development Bank has undertaken a series of country level private sector assessments.

¹⁸⁰ These may be particularly relevant in contexts where government borrowing accounts for a significant proportion of domestic credit vis-à-vis issues such as crowding out access to finance for other actors.

¹⁸¹ Including, for example, annual surveys, regular bulletins on financial and economic issues, and research papers on issues relating to financial sector development and inclusion

¹⁸² Under development at the time of publication.

¹⁸³ Under development at the time of publication.

(ii) Building markets that work for the SDGs – targeted measures

Beyond public policy that aims to create the conditions conducive to private sector recovery and investment in general, governments have a range of policy tools available to them that can be used to promote specific types of investment. These tools can be configured to promote types of investment and business models that are strategically important, or which can catalyse new approaches and innovation within the private sector.

Many of these instruments have been deployed in the initial response to the COVID-19 pandemic to mitigate its social and economic impacts. Many can also play pivotal roles in the new generation of national development plans as mechanisms through which government influences the nature of private sector recovery in its efforts to promote building forward better. Common policy tools to target sustainable, inclusive investment include:

- Investment promotion and facilitation¹⁸⁴
- Fiscal and financial incentives¹⁸⁵
- Targeted lending and guarantees
- Tax policy, for example measures such as sin taxes or carbon taxes
- Subsidies
- Regulatory measures, for example regarding:
 - Promoting certain practices, such as clarifying fiduciary duty with respect to responsible or sustainable investment
 - Restricting certain practices, for example investment in or production of harmful products
 - Pricing certain externalities, for example introducing a carbon price (whether through a carbon tax or establishment of an emissions trading scheme)

- Reporting on certain practices, for example requirements regarding gender pay reporting or sustainability reporting
- Mandating that a certain percentage of government investments and funded projects consider thematic priorities such as gender equality and social inclusion in alignment with the relevant plans and strategies
- Dedicated strategies for promoting certain types of impactful investment, for example impact investment, social enterprise and gender-lens investment approaches
- Partnerships or joint initiatives with actors such as a stock exchange, chamber of commerce or development partners, to promote certain types of investment

To assess priorities and policies in these areas the DFA will analyse a range of contextual and key questions about how these policy measures are and could be used in order to identify changes that can strengthen government's approach toward promoting sustainable, gender equitable, inclusive and resilient private sector recovery.

Understanding the context

1

What policies, institutions, capacity and analysis are in place?

2

What initiatives are underway to strengthen policies, institutions, capacity and analysis?

- To what extent does government actively use the policy tools listed above, or others, to promote certain types of investment or business practice? What strategies are in place regarding these policy tools?

¹⁸⁴ Which can prioritise the promotion of particular types of investment, for example in certain industries locations or certain types of businesses. It can sometimes involve the development and marketing of a pipeline of specific investment opportunities.

¹⁸⁵ Questions on fiscal incentives can be analysed in close connection with questions in the public finance policies section above on tax incentives and tax expenditure. The DFA should aim to build a holistic analysis of tax instruments used to promote private sector investment, considering costs to public finances and effectiveness in unlocking impactful investment.

- Which institutions are responsible for managing each of these policy tools? Which partners and stakeholders are engaged in supporting the use and improvement of these policy tools?
- How have the initial effects of the pandemic either (i) affected the demand for these instruments; or (ii) caused government to scale up/down their use, as part of the response to the pandemic?
- What evidence is there about the effectiveness of the tools that government has used to target certain kinds of investment in the past?
- Are there particular sectors or industries where investment has grown rapidly? What is known about the wider impact¹⁸⁶ of investment in these sectors? What role did government policy tools play in supporting or influencing the nature of this growth?
- Are there typologies in place that provide clear definitions for key types of investment (such as green investment)?
- What role do actors such as the stock exchange, Chambers of Commerce, development partners and others play in promoting certain types of investment? Are their initiatives implemented in partnership with the government?
- adapted to strengthen the promotion of these types of investment?
- To what extent have the policy tools that government uses been designed to promote sustainable, inclusive investment?¹⁸⁸ What potential exists to alter the design of these policies to strengthen the promotion of sustainable, gender equitable, inclusive, and resilient investment as part of building forward better?
- Are there new policies, or adaptations to existing policies, that could be put in place to strengthen efforts to mobilise investments in priority areas, or promote more sustainable, inclusive business practices?
- What evidence exists about the barriers that have historically existed to mobilising investments that are seen as strategically important for sustainable development? How have the effects of the pandemic impacted these obstacles? Can any of the policy tools that governments use, or could use, be adapted or adopted to overcome these challenges?
- Are there constraints to effective implementation of targeted policies that the government is using?¹⁸⁹
- Are there examples of outcome-based policies in place to promote commercial investment?¹⁹⁰
- Is there effective transparency and scrutiny over the tools used by government to promote particular types of investment? Do the major changes caused by the pandemic create any new demands or potential to enhance transparency and accountability to support greater effectiveness?¹⁹¹
- Has the response to the pandemic catalysed or strengthened new partnerships that could be leveraged into the recovery phase, to promote building forward better?



Deeper analysis to identify potential ways forward

3

What opportunities exist to further strengthen policies, institutions, capacity and analysis in a more integrated approach to financing?

- Which types of investment are being prioritised as part of national recovery and building forward better?¹⁸⁷ Which policy tools does the government plan to use to promote these types of investment? Are there other policy tools in place that could be

¹⁸⁶ e.g. on job creation, women's economic empowerment, skills development, the environment or other factors. The DFA should aim to highlight both positive and negative impacts in order to facilitate dialogue about lessons for policy in other areas.

¹⁸⁷ For example, investment in specific industries or value chains, investment in specific types of firm (e.g. SMEs), or investment in particular locations.

¹⁸⁸ For example, are the criteria for fiscal or financial incentives, or concessional lending, designed in a way that rewards the promotion of gender equality or environmentally sustainable practices? Are the investment opportunities marketed by an investment promotion agency prioritised against economic objectives alone, or are they cognisant of social and sustainability considerations? Where a government is actively using a wide range of these policy areas, technical teams can prioritise their focus on particular instruments under the guidance of the oversight team and with consideration of the importance of the policy instrument, availability of data and information and potential for positive reforms.

¹⁸⁹ e.g. capacity within relevant institutions to implement a policy (i.e. government) or adhere to it (i.e. among the private sector), under-developed regulations or other factors.

¹⁹⁰ For example, incentives that directly reward a targeted outcome measure (for example, number of jobs created for employees from economically deprived backgrounds) as opposed to proxy measures (for example, investment in economically deprived regions).

¹⁹¹ This may be particularly relevant for the instruments that bear a significant cost to government finances. For example, tax incentives are often used widely but may not be reported in the same way as budgetary spending. Within contexts of constraints on fiscal resources, there may be new demand to ensure effectiveness over these and other similar instruments.

- Regarding resilience as a priority for building forward better, what is the context regarding investment in the insurance sector? How might the future development of this sector look under a new generation national development plan that emphasises resilience? What instruments can the government consider deploying to provide appropriate support?
- To what extent does government monitor and assess the cost-benefits of policies that incur a cost to public finance (e.g. tax incentives,¹⁹² concessional lending, guarantees)?

Example thematic priority questions

Climate and environmental issues

- Have patterns of investment and lending been historically dominated by high-carbon assets?
- Are there policies in place that support high-carbon investment?
- Are there any carbon pricing mechanisms in place? If so, what evidence exists about their effectiveness? If not, what potential exists for carbon tax or emissions trading schemes to be established?
- What systems are in place to identify and promote green commercial investment opportunities? Have there been past attempts to map investment opportunities in this area?¹⁹³
- Are there policies in place that support the transition to sustainable growth paths (especially with respect to sectors such as energy and transport)? What potential exists to scale up policies to support this transition within national recovery packages?
- Have government or regulatory policies been put in place to influence sustainable financing, and if so, what impacts are they having?

- Are there clear green finance typologies and standards in place?

Equality

- To what extent is the design and use of these policy instruments linked to strategies designed to promote equality and the priorities they articulate?¹⁹⁴ For example:
 - How do the policies in place to promote commercial investment incentivise investment in economically-deprived communities or promote investment that will provide quality jobs for individuals from economically deprived backgrounds? How much evidence is there of the impact of these policies?
 - How do patterns of investment and lending by industry or firm type compare to women's participation by industry / firm type?
 - What policies are in place to support investment or greater access to finance for women or firms led by women? Are the policies that are in place to promote investment in general configured to reward women's economic empowerment?¹⁹⁵ What evidence is there of the impact of these policies?

Gender equality

- Have gender analyses been conducted to analyse private financial flows and the extent to which they contribute toward gender equality outcomes either directly or indirectly? How do patterns of investment relate to what is known about women's participation in different economic and productive sectors?
- To what extent has a gender analysis been conducted and information used to inform response interventions as well as to assess secondary impacts and risks of the pandemic?

¹⁹² See also box 16 below.

¹⁹³ See SDG Impact, [SDG Investor Map](#)

¹⁹⁴ For example, women's empowerment or gender equality strategies or regional development strategies.

¹⁹⁵ For example, in some countries the criteria for accessing tax incentives or concessional lending favours firms that can show they are contributing toward women's economic empowerment.

- To what extent has a gender lens been applied to develop appropriate and innovative instruments to support private capital flow to women led businesses or initiatives supporting women?
- Are there policies or support measures in place to promote gender lens investment approaches?

Health

- To what extent does the private sector play a role in delivering services and investment in the health sector?
- How can the contributions of private finance be appropriately scaled up or adapted to support stronger development of the national health system in the future?
- What do government and international partners say about the potential and priorities for private participation in healthcare?

Job protection and creation

- What interventions have been used as part of the response to the COVID-19 pandemic to protect jobs within the private sector? What evidence exists about the impact of these initiatives? What risks remain from secondary impacts of the pandemic, or as labour-market interventions are withdrawn?
- Are there examples from the past or other similar contexts of successful, targeted interventions to support job creation in certain strategically important areas? What potential exists to replicate or scale up such interventions as part of building forward better?

Social protection

- What role do private sector actors play in the provision of social protection? How can the contributions of the private sector be scaled up or adapted to support greater inclusivity and resilience for building forward better?

Box 16. Analysing tax incentives within the DFA

Tax incentives are a widely used tool for promoting commercial investment in certain sectors, locations, or business models by lowering the upfront or ongoing costs that firms making those investments will face. They cut across the public and private financing spheres, as the taxes foregone by supporting new investments have a direct impact in lowering the volume of revenue collected by government.

Nevertheless, in many contexts they are managed in relative isolation from other aspects of financing policy, and are often subject to less transparency and scrutiny than other budget-side financing policies.¹⁹⁶ As such they are a good example¹⁹⁷ of the kind of policy that the DFA may focus on and may feature prominently in dialogue about an integrated approach to financing policy.

To highlight the kind of dialogue that the DFA can facilitate, this box presents some more focused questions specifically about tax incentives. These can be applied directly where tax incentives feature prominently within a DFA, or can be taken as indicative of the kinds of questions that can be asked of other similar policy tools and instruments that the DFA focuses on.

Focused questions on tax incentives:¹⁹⁸

- How important are tax incentives as a tool for implementing private sector development and investment promotion priorities?
- What evidence exists about the costs of tax incentives? How significant is the foregone revenue relative to total revenue?
- What is known about the outcomes that tax incentives contribute toward? What evidence exists about the investments that they have supported, the sustainable development outcomes those investments contributed toward and the importance of tax incentives in promoting those investments?¹⁹⁹
- To what extent is eligibility for tax incentives rule-based or discretionary?
- To what extent is the design of tax incentives aligned to different national objectives? For example, do the criteria used to determine which investments are eligible require or reward alignment with principles such as inclusivity or sustainability?²⁰⁰
- What systems are in place to routinely monitor the costs and benefits of tax incentives?²⁰¹
- What public reporting and information sharing systems are in place to promote transparency and accountability around this area of policy?²⁰²
- Have the effects of the pandemic amplified the demand or opportunity for reforms that could strengthen the management of tax incentives within a more integrated approach to financing?²⁰³
- What opportunities are there to strengthen the management and design of tax incentives to enhance their effectiveness as a policy instrument for promoting sustainable, gender equitable, inclusive, resilient investment?

¹⁹⁶ UNDP, *Integrated financing solutions*.

¹⁹⁷ This box aims to highlight how the DFA can home-in on certain policy instruments, using the example of tax incentives, rather than

¹⁹⁸ Note that the indicative questions listed here cut across all four INFF building blocks.

¹⁹⁹ i.e. would the investments that were supported by tax incentives have gone ahead if those incentives were not in place?

²⁰⁰ For example, eligibility criteria may require or offer greater benefits to investments that create jobs for lower-income communities, where female staff account for a higher proportion of senior leadership or that deploy more environmentally friendly business models.

²⁰¹ For example, systems to generate estimates of tax expenditure within the budget process, or periodic cost-benefit analyses of the outcomes and impact of specific tax incentive schemes.

²⁰² For example, is data on tax expenditure included in annual budget publications? What degree of disaggregation is given within these data (e.g. does it breakdown the costs associated with individual incentive schemes)?

²⁰³ For example, where the effects of the pandemic have put significant pressure on fiscal space, there may be heightened willingness to address issues such as tax incentives that may offer savings with stronger management and greater effectiveness.

Sources and related services

Table 16. Sources and related services – Targeted measures for private sector

Policy areas	Key stakeholders to consult	Common policy documents	Country assessments and capacity development
Investment promotion and facilitation	Ministry of Economy, Ministry of Commerce, Ministry of Trade, investment facilitation agency ²⁰⁴	Investment promotion strategy, Private sector development strategy	UNDP SDG Investor Maps UNCTAD Investment Policy Reviews Regional Development Bank Private Sector Assessments ²⁰⁵
	<i>Further methodological guidance:</i> Business and Sustainable Development Commission: Better business, better world UNCTAD: Investment Policy Framework for Sustainable Development World Bank: Investment policy and promotion diagnostics and tools		
Fiscal and financial incentives	Ministry of Finance, Ministry of Economy, Ministry of Commerce, Ministry of Trade, investment facilitation agency	Investment promotion strategy, Private sector development strategy, budget documents ²⁰⁶	
	<i>Further methodological guidance:</i> UNCTAD: Investment Policy Framework for Sustainable Development World Bank: Providing incentives for investment: advice for policymakers IMF: Tax expenditure reporting and its use in fiscal management: a guide for developing countries		
Tax policy (e.g. sin and carbon taxes)	Ministry of Finance, relevant line ministries ²⁰⁷ , Chamber of Commerce	Revenue strategy, thematic or sector strategy	World Bank Partnership for market readiness
	<i>Further methodological guidance:</i> UNDP: Financing solutions platform: carbon markets, taxes on fuel IMF: How to design and enforce tobacco excises		
Targeted lending and guarantees	Ministry of Finance, Ministry of Economy, Ministry of Commerce, Ministry of Trade, State-owned banks, Chamber of Commerce, IFIs	Investment promotion strategy, Private sector development strategy	UNDP AltFinLab
	<i>Further methodological guidance:</i> UNDP: Financing solutions platform: public guarantees IMF: How to strengthen the management of government guarantees		
Regulatory measures (e.g. fiduciary duty, ESG reporting, gender pay reporting etc)	Central Bank, Ministry of Economy, Ministry of Commerce, Ministry of Finance, Stock exchange, Chamber of Commerce	Investment promotion strategy, Private sector development strategy, Financial sector development strategy, Sustainable finance roadmap	UNDP Business Call to Action UNEP-UNDP Sustainable Finance Diagnostic UNDP Derisking renewable energy investment
	<i>Further methodological guidance:</i> UNDP: Financing solutions platform: voluntary standards (finance sector)		
Strategies for priority types of investment	Ministry of Finance, Ministry of Commerce, Stock exchange, Chamber of Commerce	Investment promotion strategy, Private sector development strategy, Sustainable finance roadmap	
Challenge funds	Ministry of Finance, Ministry of Commerce, Chamber of Commerce	Investment promotion strategy, Private sector development strategy	
	<i>Further methodological guidance:</i> UNDP: Financing solutions platform: challenge funds		
Partnerships to promote investment	Ministry of Finance, Ministry of Commerce, Stock exchange, Chamber of Commerce	Investment promotion strategy, Private sector development strategy, Financial sector development strategy, Sustainable finance roadmap	
	<i>Further methodological guidance:</i> UNDP: Financing solutions platform: impact investment		

²⁰⁴ In many contexts investment promotion and facilitation is led by a dedicated agency that reports to the Ministry of Economy, Commerce, Trade or equivalent.

²⁰⁵ For example, the Asian Development Bank has undertaken a series of country level private sector assessments.

²⁰⁶ In contexts where tax expenditures are included in budget documents.

²⁰⁷ i.e. the line ministries related to the issue in which the tax aims to internalise a cost and/or alter behaviour, e.g. carbon tax (M. Environment), tax on cigarettes or alcohol (M. Health) etc.

Engaging non-commercial private finance: NGOs, foundations and faith-based organisations

Beyond the commercial private sector there are a range of other private, non-commercial, actors that can play important roles in national recovery and building forward better. In many contexts non-governmental organisations, foundations and faith-based organisations offer key services and have scaled up their activities in response to the COVID-19 pandemic.

From a governance perspective, the regulatory and enabling environment within which these actors operate, as well as the extent and nature of formal partnerships between the state and these non-state actors, has a key bearing on the contributions they can offer in response and building forward better.

The DFA will ask a range of questions about the contributions that these actors make in supporting sustainable development, their role in the COVID-19 response and recovery and the policy and enabling environment within which they operate.



Understanding the context

1

What policies, institutions, capacity and analysis are in place?

2

What initiatives are underway to strengthen policies, institutions, capacity and analysis?

- What roles have actors such as NGOs, philanthropic foundations, and faith-based organisations historically played in delivering services to support sustainable development progress?²⁰⁸
- How actively is public policy used to encourage or support service delivery by these non-state actors? What strategies are in place to govern activities by and partnership with NGOs, foundations, and faith-based organisations in support of sustainable

development? Does government systematically or occasionally partner with these actors in service provision?

- To what extent does the government actively engage the diaspora in financing and advancing national development priorities? Are there formal mechanisms in place to channel the financial and human resources of the diaspora?²⁰⁹ Is there a diaspora engagement strategy in place and if so, to what extent does financing feature within it?



Deeper analysis to identify potential ways forward

3

What opportunities exist to further strengthen policies, institutions, capacity and analysis in a more integrated approach to financing?

- What barriers exist that limit the participation of non-commercial private actors in service delivery for sustainable development? Are there opportunities to adapt policies or regulation to unlock new financing and service delivery by these non-commercial private actors?
- How have these actors responded during the COVID-19 pandemic? Have the services they offer been scaled up?
- Has the response to the COVID-19 pandemic involved the strengthening or creation of mechanisms for collaboration with these actors that could be used in the recovery to support building forward better?



Example thematic priority questions

Climate and environmental issues

- What role have non-commercial private actors played in delivering services or making investments that promote more sustainable development?

²⁰⁸ This question is asking about their roles in providing and directly supporting services and investment that contribute toward sustainable development progress. Other important roles in advocacy and accountability are covered in the section on the monitoring and review building block.

²⁰⁹ For example, mechanisms to channel financing into public investments (e.g. diaspora bonds or future flow securitisation), mechanisms to promote diaspora investment in community projects, or mechanisms to promote commercial investment by members of the diaspora.

- What potential is there for these actors to strengthen the sustainability of national plans for building forward better? What do they highlight as the necessary changes, for example in policy, regulation or partnership?

Equality

- What role do non-commercial private actors play in delivering services to the most vulnerable or marginalised communities? What engagement do they have with the public sector in delivering these services?
- What potential is there for these actors to strengthen the inclusiveness of national plans for building forward better? What do they highlight as the necessary changes, for example in policy, regulation or partnership?

Gender equality

- What role have women's organisations played in responding to the impacts faced by women from the pandemic?
- What current policies and government budget allocation support these groups? Is there scope to improve policy and budget allocation to improve the effectiveness of these groups in supporting women and girls?

Sources and related services

Table 17. Sources and related services – NGOs, foundations and faith-based organisations

Policy areas	Key stakeholders to consult	Common policy documents	Country assessments and capacity development
Engagement and partnership with NGOs, foundations and faith-based organisations	Ministry of Planning, relevant line ministries, NGO networks, large foundations and NGOs, faith networks	National plan, relevant sector and thematic strategic plans	GPEDC Monitoring country profiles CIVICUS: Enabling environment national assessments

Health

- What role do non-commercial private actors play in the provision of healthcare and services? What engagement do they have with the public sector in delivering these services?
- What potential is there for these actors to play a role in strengthening the health system as part of building forward better?

Job protection and creation

- What role have non-commercial actors played in supporting job creation initiatives in the past?²¹⁰ Are there successful examples that could be replicated or scaled up to support building forward better?

Social protection

- What role do non-commercial private actors play in the provision of social protection? What engagement do they have with the public sector in delivering these services?
- What potential is there for these actors to play a role in strengthening social protection systems as part of building forward better?

²¹⁰ For example, in areas such as training and skills development.

Engaging non-commercial private finance: the diaspora and remittances

Many countries have large overseas diasporas that hold human and financial capital, and send remittances, which offer potential to make important contributions to national sustainable development. Investing in public engagement with the diaspora, and developing mechanisms and instruments to promote their direct or indirect participation in sustainable development financing can offer an effective means of boosting support for national development.

The DFA will ask a range of questions about existing engagement between the diaspora and national sustainable development, the effects of the pandemic on the diaspora and their potential role moving forward.

Understanding the context

- 1** What policies, institutions, capacity and analysis are in place?
- 2** What initiatives are underway to strengthen policies, institutions, capacity and analysis?

- What evidence exists about the role of remittances in supporting sustainable development at the local²¹¹ and national²¹² levels?
- How have the effects of the pandemic impacted the diaspora? For example, have emigrants returned

home; how has the flow of remittances been affected? What is the outlook for the future and what are the key factors²¹³ on which this hinges?

- What mechanisms exist to promote the direct or indirect engagement of the diaspora with financing for national sustainable development? For example, are there micro level initiatives that promote the engagement of diasporan entrepreneurs as commercial investors, or members of the diaspora as altruistic supporters of community projects? Do macro level initiatives exist to directly (e.g. with a diaspora bond) or indirectly (e.g. through a future flow securitisation mechanism) leverage resources from the diaspora or flow of remittances for investment in national sustainable development?

Deeper analysis to identify potential ways forward

- 3** What opportunities exist to further strengthen policies, institutions, capacity and analysis in a more integrated approach to financing?

- What potential exists to introduce new mechanisms to deepen the engagement of the diaspora with financing for building forward better and national sustainable development?
- How has the potential to introduce new diaspora or remittance-based measures been altered by the impacts of the pandemic?

Sources and related services

Table 18. Sources and related services – the diaspora and remittances

Policy areas	Key stakeholders to consult	Common policy documents	Country assessments and capacity development
Diaspora engagement	Ministry of Planning, Ministry of Finance, Office or division responsible for diaspora affairs, diaspora networks, IOM	Diaspora engagement strategy	
	<i>Further methodological guidance:</i>		
	UNDP: Integrated financing solutions		
	World Bank: Innovative financing for development		
	UNDP: Financing solutions platform: remittances (diaspora financing)		

²¹¹ For example, supporting basic consumption and access to education, healthcare and other basic services.

²¹² For example, by providing regular access to foreign currency or having provided a counter-cyclical source of financing in past crises.

²¹³ For example, does it depend on the speed and extent of economic recovery in particular countries (e.g. if the diaspora are concentrated in a small number of locations)?



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