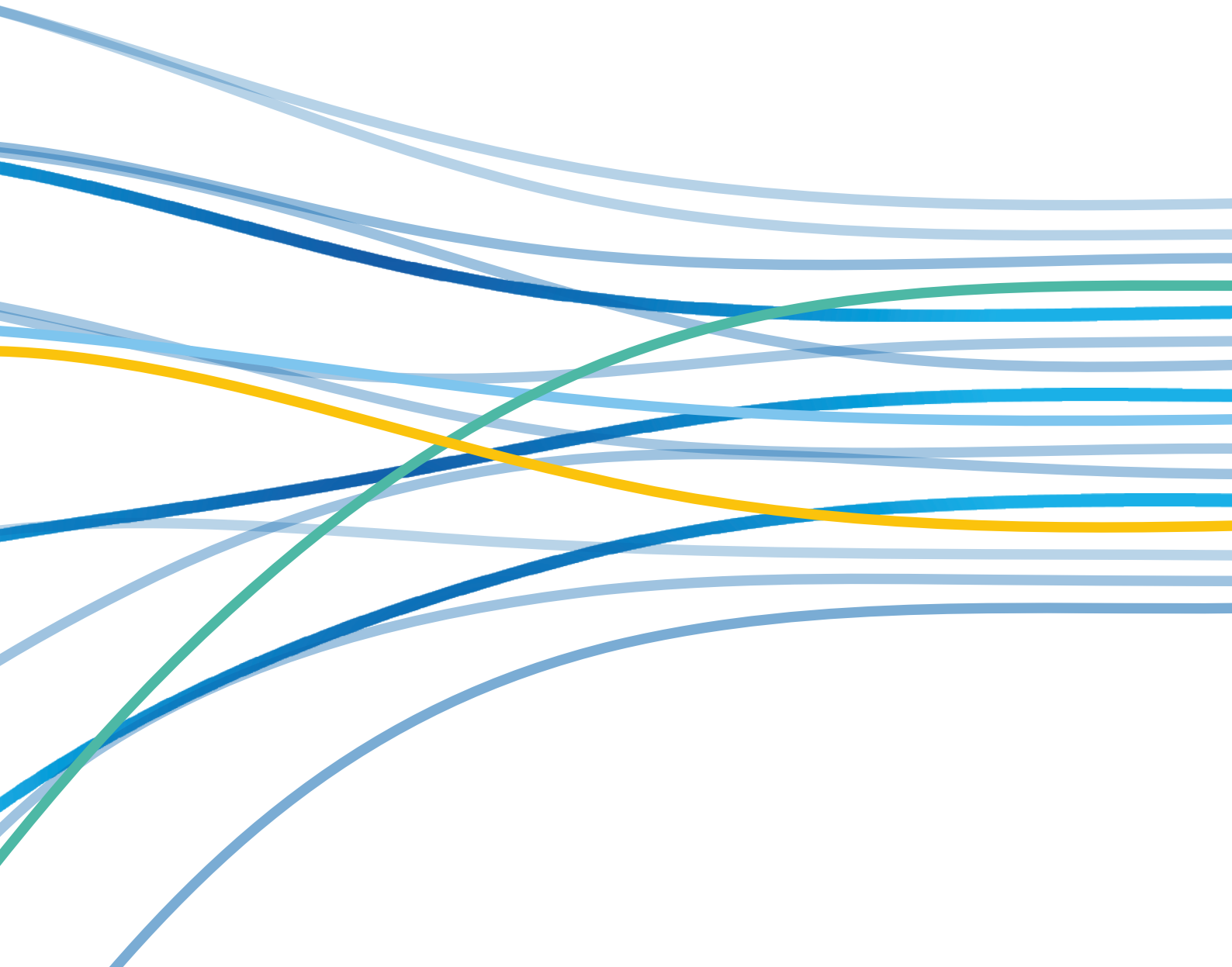
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Aligning Fiscal Policy with Development Goals

The Fiscal Policy Coherence Approach



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About this paper
This paper presents the Fiscal Policy Coherence approach. It is a UNDP product, developed by the Public Finance for the SDGs team within the Sustainable Finance Hub, Bureau for Policy and Programme Support (BPPS), with contributions from across UNDP. The paper examines fiscal policy through a public finance lens, outlining how UNDP can support governments seeking to make public finance work for the SDGs by leveraging its expertise across development outcomes for people and planet and grounding this in governance principles. The paper is written for UNDP country offices, national governments, and the partners they work with, from ministries of finance and sector ministries to parliaments, supreme audit institutions and international financial institutions. This paper presents an initial account of a new approach that will evolve as implementation and analysis expand across countries and development priorities such as climate, gender and poverty, in collaboration with international financial institutions and other partners (see section 4.2), always under government-led processes.

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Aligning Fiscal Policy with Development Goals

The Fiscal Policy Coherence approach

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Foreword

Every country that has adopted a national development plan or a nationally determined contribution has made a promise to its people about what public money will achieve. Whether that promise is kept depends less on the plan itself than on the fiscal decisions that follow it: which taxes to levy and on whom, which exemptions to grant, where to spend and how to borrow.

Too often these decisions are taken in separate processes, by different institutions and under different pressures. They end up pulling against the goals the government has set for itself. A fuel subsidy that makes it harder to meet a climate target. A health budget that is approved but never spent. A tax reform designed without regard to how it affects women. Each of these carries a cost that does not appear in the fiscal accounts but is felt by people. This paper shows that the cost can be estimated. In the four countries where it has been measured so far, provisionally and subject to validation with the governments concerned, it amounts to between about 2 and 7 percent of gross domestic product (GDP) a year.

That cost has become harder to absorb. Official development assistance is contracting, debt service takes a growing share of revenue in many developing countries, and the SDG financing gap stands at around US$4 trillion a year. As financing tightens, it becomes even more important to direct public and private resources towards the goals countries have set. The Sevilla Commitment called on countries to align their fiscal systems with sustainable development, and the G7 Declaration on Domestic Resource Mobilization asked partners to support reforms that are country-led and whole-of-government.

Public finance is a system of revenue, spending and debt, held together by oversight. The Fiscal Policy Coherence approach looks at that system as a whole. It assesses fiscal instruments against the commitments governments themselves have adopted. It also brings to the same table institutions that seldom review fiscal policy jointly: ministries of finance and sector ministries, parliaments and supreme audit institutions. In six to eight weeks, a first assessment gives the government a validated picture of where its policies diverge from its objectives, and what that divergence costs. The work then continues, under the government's lead, with a reform road map and support for implementation. It builds on the financing strategies that more than 90 countries are developing through Integrated National Financing Frameworks, and carries that integrated view into the annual budget.

The first assessments, in Bhutan, Ecuador, Kenya, Liberia and Zimbabwe, show that most of the reforms needed are already under way. What is often missing is the link between those reforms and the results they are meant to deliver. Making that link is how much of the cost can be recovered and how commitments move from paper into practice: not through new plans, but through budgets that carry the plans a country already has.

Coherent public finance is also where private investment begins. Investors, rating agencies and development finance institutions look closely at three things:

whether a budget funds what the plan promises, whether tax rules are predictable and incentives carry conditions, and whether fiscal risks, including contingent liabilities, are known and disclosed. They price a country accordingly. This is why sound public finance is the first condition for de-risking and unlocking private investment, and why fiscal policy coherence sits at the upstream end of UNDP's Investment Accelerator, which brings our support together from policy de-risking to project preparation and investor engagement. Guarantees and blended finance play an important role, but they are priced against the public finances behind them and cannot replace a credible budget. Public finance and private investment must work together as parts of one integrated financing strategy.

I am grateful to the governments that took part in this first phase of work, to Finland and Norway for making it possible, and to the partner institutions reviewing the method with us. We invite governments and partners to take this approach forward with UNDP. A ministry of finance should be able to see, beside its fiscal targets, how its country is advancing the goals it has set, and the people affected by those decisions should recognize their own priorities in them.



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Executive summary

Governments often set their development objectives and fiscal decisions through separate processes. National plans, nationally determined contributions (NDCs) and sector strategies set development goals that reflect domestic economic, social and political priorities and are informed by the country's international commitments. Governments decide on taxes, expenditure and borrowing through separate processes. As a result, fiscal instruments can end up working against government objectives, or against each other. For example, a government may offer tax incentives for activities that its own climate plan seeks to reduce, or design a tax reform without considering how it affects women and men differently.

The international agenda calls for fiscal alignment. The Sevilla Commitment calls on countries to align their fiscal systems with sustainable development. The G7 Declaration on Domestic Resource Mobilization asks for reforms built on a whole-of-government approach and grounded in political economy analysis. The Fiscal Policy Coherence approach, developed by the United Nations Development Programme (UNDP) Sustainable Finance Hub, helps governments respond to this call.

The Fiscal Policy Coherence approach aligns fiscal policy instruments with the development objectives a government has adopted. While traditional diagnostics and programmes often examine instruments or processes in isolation, the approach considers them together, reviewing fiscal policy through a development outcome lens. It assesses each fiscal instrument against the targets the country has adopted, using the country's own commitments as the benchmark.

Fiscal policy incoherence can take many forms, both explicit and implicit. It can arise between national development strategies and actual budget decisions; between revenue and expenditure policies (such as when a tax measure undermines a spending programme's intentions); or between stated public spending goals and what is actually delivered. Some inconsistencies arise within the fiscal system itself. Others originate outside the mandate of the ministry of finance, or even of the executive—for example, in legislation or in commitments made by other institutions. The Fiscal Policy Coherence approach addresses this full range.

The approach proceeds in three phases, each ending with a government-owned output:

- **Phase 1: Evidence and dialogue (6 to 8 weeks).** Government officials and UNDP technical experts conduct a qualitative review of fiscal performance and estimate the fiscal consequences of policy misalignments (the cost of fiscal incoherence). Officials who manage the fiscal system take part in the review, which examines what works, what does not and why. Phase 1 also facilitates dialogue between the ministry of finance and the institutions responsible for delivering development objectives. The analysis is grounded in reforms the government is already leading and concludes with a set of strategic reform entry points validated by government stakeholders.
- **Phase 2: Reform prioritization (3 to 6 months).** Government institutions, with UNDP facilitation, build consensus on a reform road map that contributes to the national financing strategy.
- **Phase 3: Implementation (12 to 36 months).** Lead institutions deliver the agreed technical assistance and help the ministry of finance monitor development and fiscal targets together.

UNDP convenes the dialogue and draws on existing programmes. Present in 170 countries, UNDP convenes institutions that seldom review fiscal policy together. These include finance and line ministries, gender and climate institutions, subnational governments, parliaments and supreme audit institutions. UNDP brokers dialogue among these institutions and with international financial institutions. The government leads a review of the entire fiscal system as part of this whole-of-government and whole-of-society dialogue.

The approach is designed to strengthen development impact. It gives governments a clear way forward to ensure fiscal policy strengthens, rather than undermines, the development results they have committed to. Through an inclusive process that lets

governments set the pace of reform, the approach delivers a validated assessment of fiscal misalignments and a sequenced reform road map covering revenue, expenditure and debt levers. Governments lead reforms, supported by UNDP and other development partners. Implementation frees fiscal space, embeds joint review of fiscal and development targets in the ministry of finance and builds the credibility to unlock private investment. In this way, the approach contributes to the Sustainable Finance accelerator of UNDP's Strategic Plan 2026–2029 and to the enabling environment that the Investment Accelerator flagship seeks to strengthen so that national priorities can turn into investment. Because parliaments, supreme audit institutions and civil society take part in the dialogue, it also strengthens budget oversight and citizens' trust in how public money is raised and spent.

Phase 1 has been carried out in five countries. In Bhutan, Ecuador, Kenya, Liberia and Zimbabwe, the findings were discussed with government officials and are being validated. Three common findings emerged. First, most reforms needed are already under way; what is missing is their deliberate linkage, prioritization and sequencing towards the development objectives. The Fiscal Policy Coherence approach orders reforms by how each contributes to those objectives, aligning them across revenue, expenditure and debt. It also proposes new reforms where no current measure addresses a misalignment. Second, misalignments persist mainly because of institutional and political economy challenges. Third, proposals rely on existing bodies, reports and laws.

Taken together, these findings suggest that the main challenge is not a lack of reforms but the lack of a deliberate link between them and national development objectives. This report explains how the Fiscal Policy Coherence approach can help governments identify fiscal misalignments, prioritize reforms and align fiscal decisions more closely with their development goals.

Note: All findings and figures are provisional.

1. The case for coherence

1.1 Misalignment between fiscal decisions and development goals

Governments set national development priorities, each with its own targets and indicators. These priorities are shaped by domestic economic, social and political factors, while international agreements such as the 2030 Agenda and the Paris Agreement serve as important reference points. Governments then decide on taxes, expenditure and borrowing through a separate process—one instrument at a time, across different units and under varying pressures. As a result, the national development plan may state one objective while the tax code, subsidy schedule or budget execution report points in a different direction.

Fiscal policy incoherence carries a development cost that fiscal accounts do not show. When revenue, expenditure and debt decisions work at cross purposes, public resources can be diverted from stated national development priorities. A fuel subsidy illustrates this point: its direct fiscal cost is explicitly recorded in the budget, yet it simultaneously works against the country's climate commitment under its nationally determined contribution (NDC). In other words, public funds subsidize fuel consumption that the country has committed to reducing. This misalignment carries a development cost that is not captured in conventional fiscal accounts. The Fiscal Policy Coherence approach brings this cost into the fiscal debate, enabling a ministry of finance to consider it alongside standard fiscal figures. The purpose is practical: to support the case for alignment and to help governments choose where to start.

Fiscal policy incoherence shows up in both revenue and expenditure decisions. A tax system can actively counter the objectives it is meant to finance. Examples of this misalignment include:

- excise taxes on tobacco, alcohol or sugary drinks set below the levels needed to meet health targets;
- a heavy reliance on consumption taxes when social equity objectives call for a fairer distribution of the tax burden; and
- extractive sectors taxed under regimes that reflect neither the value of resources nor the country's climate commitments.

Coherence therefore concerns not only how much revenue a government raises, but also how it raises it and from whom.

Table 1 shows four patterns that recur across countries, their global scale and findings from the pilot initiatives.

Table 1. Common fiscal policy misalignments: global scale and findings from pilot countries

Objective	Typical misalignment	Global scale	What the pilots found
Climate	Tax incentives and subsidies for fossil fuels and extractives without expiry dates or performance conditions; energy tariffs below cost recovery.	Explicit fossil fuel subsidies reached $1.3 trillion in 2022, rising to $7 trillion when unpriced environmental costs are included (Black et al., 2023).	Kenya costed its Second NDC at $56 billion, but the medium-term expenditure framework includes no line for it. Zimbabwe's NDC 3.0 Country Statement costs adaptation at $10.3 billion for 2023–2030 and mitigation at about $19 billion, but has no designated route into the budget.

Objective	Typical misalignment	Global scale	What the pilots found
Health	Approved health spending floors that are not executed; excise taxes on tobacco, alcohol and sugary drinks below World Health Organization (WHO) benchmarks; universal tax incentives based solely on economic and fiscal considerations despite some industries creating long-term fiscal burdens through worsening health outcomes.	Smoking alone cost an estimated $1.4 trillion in 2012, or 1.8% of world GDP (Goodchild et al., 2018, p. 58). The WHO's "3 by 35" initiative (2025) calls for raising the real prices of tobacco, alcohol and sugary drinks by at least 50% by 2035 through health taxes, aiming to mobilize $1 trillion over 10 years.	In Kenya, arrears to the Social Health Authority reach $588 million (KES76 billion). In Zimbabwe, the end of support from the United States President's Emergency Plan for AIDS Relief may remove an estimated $67 million to $100 million annually for services the government has committed to maintain. In Liberia, external health financing is declining sharply; the country plans to launch a Liberia Health Equity Fund, funded partly by value added tax (VAT) revenue, to narrow the gap.
Social equity	Expanded social protection alongside regressive tax systems; tax exemptions and subsidies whose benefits accrue mainly to higher-income households.	Tax expenditures cost approximately 3.7% of GDP and 23% of tax revenue worldwide (von Haldenwang et al., 2025, p. 18).[1] Since 2022, four in five countries have backtracked on progressive taxation, and about 84% have cut the budget share going to education, health and social protection (Kamande et al., 2024). Fiscal redistribution explains about three-quarters of the inequality gap between Latin America and advanced economies (IMF, 2017).	Kenya identified revenue forgone of 1.8% to 3.4% of GDP in its two latest tax expenditure reports, but no institution is mandated to act on these findings. In Zimbabwe, an International Monetary Fund (IMF) review in July 2026 noted the protected social spending target was missed. Liberia passed its Tax Exemptions Management Act in July 2026, the implementation of which will be critical to rationalizing tax expenditures.
Gender equality	Gender-responsive budgeting on the spending side, paired with tax policies formulated without assessing differential impacts on women and men.	Paragraph 27(g) of the Sevilla Commitment commits countries to gender-responsive budgeting and to advancing discussion on gender-responsive taxation. Only one-third of G20 countries publish an annual gender budget statement (Alonso-Albarran et al., 2021).	Kenya's public procurement set-aside for youth, women and persons with disabilities has a statutory floor of 30%, but actual delivery stands at 16.8%. Liberia will introduce VAT in January 2027 but has not analysed its effects by income or sex.

Note: Country figures are provisional.
Sources: UNDP (2026b and 2026c).

1. Unweighted averages over 1990–2023 across reporting jurisdictions.

Coherence is distinct from fiscal space, but the two are linked. Fiscal space concerns how much a government can raise, spend and borrow. Coherence examines whether the resources it already mobilizes and allocates advance its stated development priorities. For example, where debt service absorbs a large share of revenue, governments have little room to increase spending on development priorities. In such situations, realigning existing measures—such as subsidies or tax exemptions that work against stated objectives—offers an immediate lever to strengthen the fiscal position while advancing development goals.

On the revenue side, how resources are mobilized matters as much as the amount raised. The choice of taxes, tax bases and affected groups determines whether additional revenue supports the objectives it is intended to finance. Borrowing represents a third lever. Thematic instruments, such as green, social and sustainability-linked bonds, can mobilize resources when they are needed most while channelling them towards priority development outcomes. In this way, they can ease financing constraints while supporting national development objectives. The Fiscal Policy Coherence approach therefore considers not only revenue and expenditure policies, but also whether borrowing and debt management decisions align with the government's development priorities.

Each misalignment also represents an opportunity. In most cases, governments have already adopted development objectives and fiscal instruments across revenue, expenditure and debt to achieve them. What remains is to align these instruments, viewing the fiscal system as an integrated whole rather than assessing single instruments against isolated targets. In other cases, where no instrument yet addresses the objective, the opportunity lies in new, targeted reform.

Fuel subsidies again illustrate this potential. Reforming these frees up fiscal space while advancing climate goals. However, because eliminating subsidies may raise living costs for low-income households, reforms should include protective measures such as targeted cash transfers. Designing reforms this way requires coordinated decision-making across ministries of finance, energy and social protection, as well as parliament and the supreme audit institution. The Fiscal Policy Coherence approach facilitates this inter-institutional dialogue by looking at the fiscal system as a whole, alongside the institutions responsible for each objective. Some opportunities entail reforming instruments that actively undermine an objective; others involve mobilizing sufficient budget resources for underfunded priorities. Addressing either brings a country closer to its development objectives.

Coherence also matters for investment. The financing gap for the Sustainable Development Goals (SDGs) in developing countries stands at about $4 trillion a year (United Nations, 2025, para. 4). While global capital is available, policy uncertainty, high perceived risk and thin pipelines of investable projects prevent flows from reaching the countries that need them most.

UNDP's Investment Accelerator, a flagship of UNDP's Strategic Plan 2026–2029, responds by working across the investment cycle: strengthening the enabling environment, preparing a pipeline of investment-ready projects, and mobilizing investment and closing deals. The Fiscal Policy Coherence approach contributes at the start of that cycle, by strengthening the enabling environment for investment.

Investors, credit rating agencies and development finance institutions consider, among other factors, whether the budget funds what the plan promises, whether tax incentives carry conditions and whether fiscal risks are known (see section 2.5).

Fiscal policy coherence is essential for crisis recovery and resilience. As official development assistance and humanitarian assistance funding declines, fragile and conflict-affected contexts must increasingly

rely on domestic budgets to prevent, manage and recover from conflict and natural disasters. Yet fiscal policy frequently works against these goals. Contingency reserves fall short of expected losses, public investment is not screened for disaster risk and tax exemptions granted during recovery erode the revenue buffers needed for future shocks. In conflict-affected settings, transfers and tax policies that leave some regions and groups behind can deepen the grievances that drive instability. The Fiscal Policy Coherence approach is integrated into the UNDP Moving Beyond Crisis Action Agenda, helping ensure public spending directly supports recovery, resilience and peace.

1.2 The Fiscal Policy Coherence approach

The Fiscal Policy Coherence approach supports national and subnational governments in aligning fiscal policy instruments across revenue, expenditure and debt with their development objectives. It applies a development outcome lens to fiscal policy, assessing each instrument against the goals that governments themselves have adopted and using those commitments as benchmarks. The objective is to enable ministries of finance to monitor progress on development priorities alongside traditional fiscal indicators. In addition to tracking revenue, deficits and debt, governments can assess how fiscal policy contributes (or fails to contribute) to outcomes such as NDC implementation, health goals, poverty reduction and gender equality. While initial pilots focused on these four areas, the approach applies equally to other national priorities, including governance, inclusive growth and resilience to crises.

As operationalized by UNDP, the Fiscal Policy Coherence approach helps governments achieve greater development impact from existing domestic resources. It delivers three core results:

1. **An evidence-based assessment (Phase 1).** Within six to eight weeks, the government receives an evidence-based assessment of its fiscal system, validated by relevant institutions. The analysis identifies which fiscal instruments advance the government's development objectives, which work against them, what each misalignment costs and why it persists.

2. **A reform road map (Phase 2).** The government receives a prioritized, sequenced reform road map covering ongoing and new reforms. Reforms are evaluated based on their contribution to development objectives, feasibility and implementation timeline. For each reform, the road map identifies a lead institution, implementation partners and the technical assistance required for delivery.

3. **Fiscal and development gains (Phase 3 and beyond).** As reforms take effect, the government recoups fiscal space from instruments that undermine development objectives and achieves stronger development outcomes from existing resources. Budgets become more clearly aligned with national development plans, making them easier for parliaments, citizens and financiers to scrutinize, and fiscal risks are identified before they materialize. Together, these gains strengthen credibility with citizens and development partners, reinforce the social contract and help de-risk and unlock private sector investment.

Governments lead a whole-of-government review of the fiscal system, while UNDP convenes the review and brings a development perspective. Drawing on its country presence, institutional relationships across government and capacity to broker dialogue, UNDP brings together stakeholders that seldom review fiscal policy together. These include ministries of finance, budget offices, revenue authorities, line ministries (health, gender equality, social protection and climate and environment),

subnational governments, parliamentary committees and supreme audit institutions, alongside the private sector and civil society. This inclusive dialogue enables the government to lead a system-wide review of what works, what does not and why. Revenue, expenditure and debt are evaluated together across sectors, from the national to the subnational level, building on existing literature, diagnostics, information systems and processes.

The Fiscal Policy Coherence approach complements existing tools. Development partners already assist governments with fiscal reforms and diagnostics of revenue, expenditure and debt, relying primarily on quantitative analysis and fiscal sustainability benchmarks. The Fiscal Policy Coherence approach builds on this evidence, these recommendations and existing fiscal instruments. Table 2 outlines the value added by the approach.

Table 2. Value added by the Fiscal Policy Coherence approach to existing diagnostics and programmes

	Existing tools*	What the Fiscal Policy Coherence approach adds
Scope	Typically examine one instrument or one process in depth	Revenue, expenditure and debt reviewed together at national and subnational level
Reference point	International standards and fiscal sustainability metrics	Nationally adopted development targets (e.g. NDC, health, poverty and gender targets)
Institutional engagement	Ministry of finance and the specific institution managing the instrument under review; external stakeholders are consulted periodically	Ministry of finance, line ministries, climate and gender institutions, social protection agencies, subnational governments, parliament and the supreme audit institution
Root causes of misalignment	Addressed in some programmes for individual reforms	Political economy analysis across the entire fiscal system, examining beneficiaries, impacts and past performance
Output	Findings, recommendations or published reports	Strategic reform entry points validated by government, followed by a reform road map with assigned lead institutions and support partners
Follow-up	Tracking focuses on fiscal indicators	Fiscal changes tracked against the target indicators the country already uses

*Note: *Existing tools include tax expenditure reviews; public expenditure and debt sustainability reviews; Public Expenditure and Financial Accountability (PEFA), Public Investment Management Assessment (PIMA) and Tax Administration Diagnostic Assessment Tool (TADAT) assessments; and programmes supported by the IMF and the World Bank.*

UNDP links fiscal reforms to development objectives and connects governments with technical assistance for implementation. For government-led fiscal reforms, the approach assesses each measure's specific development contribution, showing how modifying a subsidy or introducing a tax advances or impedes an NDC target, a health goal, a poverty objective or a gender equality commitment. Where no existing reform addresses an identified misalignment, the approach proposes a new reform and assesses its contribution to the development objective in the same way. UNDP contributes knowledge of the country, its institutions and the political economy of each reform. It also draws on technical assistance already in place through the Public Finance for the SDGs (PF4SDGs) collaborative, launched under the Sevilla

Platform for Action, ensuring that reforms identified in Phase 1 receive support from the most qualified partners during Phase 3.

The Fiscal Policy Coherence approach supports the application of the principles of the G7 Declaration on Domestic Resource Mobilization. This document calls for country-led technical assistance, built on a whole-of-government approach that fosters policy coherence. It stresses that assistance should be sequenced and grounded in political economy realities, based on new and existing evidence, and coordinated at country level to avoid duplication. It also identifies inefficient tax expenditures and subsidies as reform priorities. The Fiscal Policy Coherence approach applies these principles directly.

2. Implementation of the Fiscal Policy Coherence approach

The Fiscal Policy Coherence approach is delivered in three phases: evidence and dialogue, reform prioritization and implementation. Throughout these phases, the approach builds on the initiatives, evidence and systems already supported by the government and its development partners that work towards the same objectives, bringing them together rather than duplicating them. Section 2.1 describes how each phase works.

2.1 Phases and key actors

The three phases of the Fiscal Policy Coherence approach form a cycle (Figure 1). Each phase involves different actors and ends with a product the government owns. The approach adapts to the level of government at which it is applied, national or subnational, while keeping the same structure in both. A country with recent diagnostics—for example, a current integrated national financing framework (INFF) process—can move quickly through Phase 1.

While Figure 1 shows how the approach is typically sequenced, UNDP Country Offices tailor each phase's depth and timing to the country context. For example, a government may request reform prioritization or work on a road map before evidence gathering is complete, because a reform is already under way or a policy window is opening. In such cases, phases can overlap. The cycle also has a time dimension. Technical assistance can modify a fiscal instrument within months, but its effect on development outcomes often emerges only after several budget cycles. Phase 3 follow-up therefore tracks both the initial fiscal change and the target indicator over time. Lessons learned from implementation feed directly into subsequent reviews, completing the cycle shown in Figure 1.

Figure 1. The three phases of the Fiscal Policy Coherence approach



Source: UNDP Sustainable Finance Hub.

2.2 Core activities across the three phases

Phase 1: Evidence and dialogue

Phase 1 establishes a shared evidence-based understanding of how fiscal policy instruments interact with development objectives and each other. Together with officials who manage the fiscal system, the UNDP team identifies what works, what does not and why, and where opportunities lie to better align fiscal policy with national development targets. To guide and support this dialogue, the team prepares three brief analyses that are initiated during the desk review phase and completed in-country, alongside an estimate of the cost of fiscal incoherence (section 2.3), which provides an order-of-magnitude estimate of lost revenue. These three analyses are as follows:

1. **Reform mapping: Which reforms are under way, and what objectives do they pursue?** The reform mapping provides an inventory of all ongoing and planned fiscal reforms across revenue, expenditure and debt, including those tied to specific development outcomes. It details each reform's objectives, status, lead entities and key partners, helping identify inconsistencies in the current policy landscape. This mapping grounds the dialogue in the government's existing agenda, prompting each institution to consider how its ongoing reforms could better serve an objective the government has already adopted, while identifying which objectives currently lack reform measures.
2. **Bottleneck assessment: What are the weak points in the link between finance and development objectives?** The bottleneck assessment examines the institutions and processes governing public resources, covering tax policy, budget preparation, procurement, public investment and debt management. An initial draft is prepared using existing assessments—such as PEFA, PIMA and TADAT assessments—and reports from the IMF, the World Bank and the Organisation for Economic Co-operation and Development (OECD). Officials from the ministry of finance and of the sector institutions then confirm, correct or set aside each finding. The findings recognized by the government form the basis of the strategic reform entry points.
3. **Political economy analysis: Why do misalignments persist, and what would make change feasible?** Embedded within the bottleneck assessment, the political economy analysis identifies the underlying interests each situation serves, who stands to gain or lose from reform and what measures have worked previously. This analysis allows UNDP to broker dialogue with a clear understanding of the interests involved. It also informs scheduling: rather than focusing first on the largest misalignment, discussions prioritize a feasible sequence of realistic reforms.

The scoping and validation mission is the centrepiece of Phase 1 and is prepared during the desk review. The team meets with the institutions listed in Table 3. Those responsible for cross-cutting development objectives—such as the ministry or commission for gender equality or the institutions responsible for climate and the environment, health and social protection—take part in all sector discussions. This engagement ensures that the effects of tax and expenditure decisions on women and men, climate and nature, or health and equity are considered throughout. The mission ends with a validation step in which the government reviews the findings and confirms the strategic reform entry points. These entry points represent ongoing or new reforms and upcoming policy decisions that the government prioritizes for initial action. Key opportunities include budget call circulars, finance bills or tax amendment cycles, medium-term expenditure framework updates and IMF programme reviews with which the government wants to start. They are recorded in the scoping report and provide the foundation for Phase 2.

Phase 2: Reform prioritization

During Phase 2, the strategic reform entry points are translated into an actionable reform road map through dialogue and consensus-building. The institutions concerned agree on what can be done at each entry point, who will do it, by when and with what support. Reaching this agreement requires working through the political economy of each reform, aligning them with the government's priorities. Prioritized reforms are analysed in greater depth where needed.

For each reform, the road map records:

- the bottleneck to be addressed, as validated in Phase 1;
- the action and lead institution;
- the development objective advanced by the action;
- the order of magnitude, where estimated;
- the timeline;
- the technical assistance required and the partner providing it; and
- the relationship to work by other partners in the country, including the IMF, the World Bank, other UN entities, think tanks, civil society organizations and specialized institutions.

Section 2.4 describes how the road map relates to the national financing strategy.

Phase 3: Implementation

In Phase 3, the government leads the implementation of the reforms (and concrete activities within reforms) agreed in the road map. UNDP and partners support this process through the technical assistance identified for each reform, helping the government prepare, adopt and implement each measure. Phase 3 also establishes a follow-up mechanism using the target indicators already in the national development plan, NDCs and sector strategies. Follow-up is structured across three levels: delivery of technical assistance; resulting fiscal changes (such as revised incentives, new allocations or modified taxes) and the target indicator each change contributes to. Lessons learned feed back into the dialogue. As a reform advances or an instrument changes, the reform mapping is updated, forming the starting point for the next review and closing the cycle shown in Figure 1.

Table 3 summarizes the three phases of the Fiscal Policy Coherence approach by core question, participating actors, key outputs and typical durations.

Table 3. The three phases of the Fiscal Policy Coherence approach

	Phase 1: Evidence and dialogue	Phase 2: Reform prioritization	Phase 3: Implementation
Question	Where do fiscal instruments diverge from objectives, why, what has worked and at what cost?	Which reforms does the government prioritize, and who must agree and act?	How is the agreed support delivered, and how is progress followed?
Actors	Ministry of finance, revenue authority, sector ministries, (including gender, climate, environment, health, and social protection bodies), subnational governments, supreme audit institution, parliament and partners. UNDP convenes.	Institutions owing each reform, parliamentary committees, supreme audit institution, private sector, civil society and partners. UNDP facilitates.	Lead institutions for each action; UNDP and partners provide technical assistance; ministry of finance and sector ministries monitor

	Phase 1: Evidence and dialogue	Phase 2: Reform prioritization	Phase 3: Implementation
Output	Scoping report; strategic reform entry points validated by the government	Reform road map agreed by the institutions concerned, contributing to the country's financing strategy	Agreed technical assistance delivered; development and fiscal targets monitored jointly
Duration	6 to 8 weeks	3 to 6 months	12 to 36 months

Note: The Phase 1 analyses are described in more detail in Annex A.

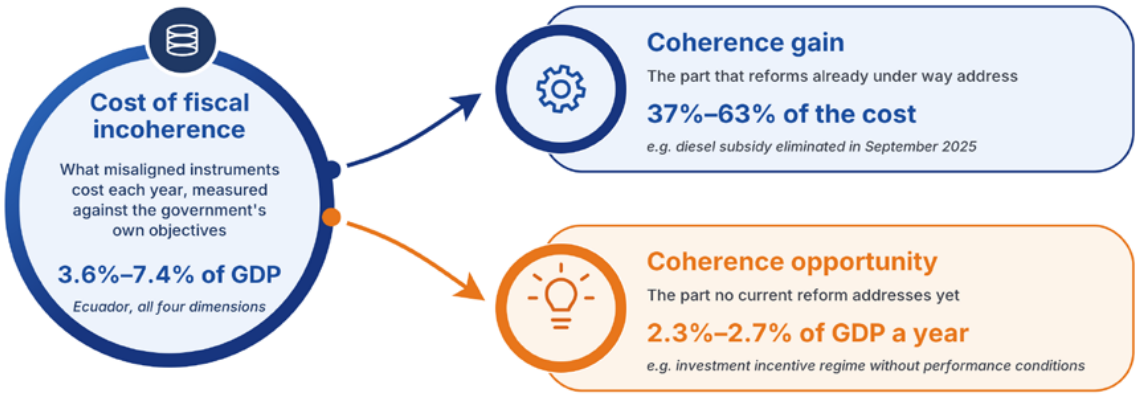
2.3 Fiscal incoherence: cost, gain and opportunity

The quantitative part of the Fiscal Policy Coherence approach is prepared in Phase 1 and supports dialogue across the three phases. It answers three questions:

- **How much do misalignments cost each year?** This is the cost of fiscal incoherence.
- **How much of that cost is being addressed by reforms already under way?** This is the coherence gain.
- **What remains to be done?** This is the coherence opportunity: the part no current reform addresses, where a new reform, an extension of an existing one or technical assistance could bring change.

Figure 2 illustrates these three dimensions for Ecuador."

Figure 2. Fiscal incoherence assessment for Ecuador: cost, gain and opportunity



Notes: provisional estimates prepared using artificial intelligence (AI)-assisted tools.
Source: UNDP (2026a).

By placing an estimated financial value on policy misalignment, calculating the cost of fiscal incoherence makes the case for reform more tangible and helps identify where coherence gains are likely to be greatest. Importantly, this estimate is not intended to provide a precise accounting of additional spending required to achieve development outcomes. Instead, the calculation serves as a diagnostic tool, indicating where contradictory policies may be generating significant financial losses and where reform efforts may warrant further attention and discussion.

The estimate informs policy dialogue in three ways. First, it states the case for coherence in the terms a ministry of finance uses. Second, it allows misalignments across different sectors to be compared, helping the government decide where to begin. Third, it shows governments the tangible value of the reforms they have already undertaken. For example, preliminary estimates for Ecuador—which remain subject to review with national authorities—suggest that ongoing reforms already address between 37 and 63 percent of the estimated cost. The order in which entry points are addressed depends as much on the political economy analysis and the policy calendar as on the figure itself.

Three rules keep the fiscal incoherence estimate credible:

1. A situation is quantified only when three conditions are met: the government has adopted a commitment; an existing fiscal instrument or budget practice works against it; and the resulting cost can be calculated using official data.
2. The estimate is presented as a range—an order of magnitude intended to inform dialogue. This range reflects uncertainty in data, assumptions and attribution, and the margin of error can be wide where official data are incomplete. The figures are therefore indicative, not budget estimates.[2]
3. The approach separates three policy challenges that require different remedies:
    a. Misalignments, where an existing instrument works against an objective;
    b. Financing needs, where the budget does not yet contain sufficient resources to fund an objective; and
    c. Delivery gaps, where policies support objectives and budget allocations are adequate but weak execution limits intended results, such as two sound interventions carried out in the wrong sequence.

All three of these challenges are opportunities to bring the country closer to its objectives: the first type is addressed by aligning existing instruments, the second by providing additional financing, and the third by stronger public financial management, in coordination with partners already working on it.

The estimate has two layers. The first covers the misalignments described above, where an existing fiscal instrument works against a commitment the government has adopted. The second draws on qualitative work to estimate what is lost in delivery gaps, when resources pass through poorly performing processes. Examples include weak budget execution, procurement, public investment management, or, on the revenue side, open-ended or poorly targeted tax exemptions that create room for avoidance. International evidence and existing assessments, such as PEFA, PIMA and TADAT assessments, give a range for each type of loss. The bottleneck assessment, validated with officials, then places the country within that range. A third layer, covering opportunity costs such as forgone private investment, is currently under development. The coherence gain and the coherence opportunity are calculated against the combined total of both layers.[3]

2. Annex B details the assumptions behind each range.
3. Annex B presents the cost of fiscal incoherence calculation methodology.

2.4 Integration with national systems and financing frameworks

The Fiscal Policy Coherence approach operates entirely within a country's existing frameworks and development partnerships. Paragraph 39(b) of the Sevilla Commitment calls on development partners to strengthen national systems rather than establish parallel ones (United Nations, 2025). Within this architecture, INFFs support a whole-of-government and whole-of-society approach. They create structured financing dialogue mechanisms—country platforms—through which ministries of finance and planning, sector ministries, subnational governments, parliament, the private sector and civil society can jointly discuss financing priorities, challenges and solutions.

Where a country has an INFF, the Fiscal Policy Coherence approach supports implementation of the public finance component and builds on existing structures. Phase 1 contributes to assessment and diagnostics. The Phase 2 road map supports the financing strategy, while the dialogue furthers governance and coordination. Phase 3 focuses on follow-up, monitoring and review. In Kenya, for example, the proposed road map includes a coordination platform that serves as the INFF's implementation arm through the national financing steering committee and its secretariat. Kenya also showed the value of starting from an existing platform: the Phase 1 mission opened with the INFF financing dialogue, which brought government, development partners and non-state actors together around the financing agenda before bilateral consultations began.

Where no INFF exists, the Phase 2 road map can serve as the starting point for the public side of a financing strategy. Experience over the past decade shows that integrating a financing strategy into the medium-term expenditure, revenue and debt frameworks takes time. Therefore, the initial aim is to contribute to the financing strategy through reforms that are agreed, owned and ready for support.

Table 4 outlines the institutional correspondence across these systems, identifies what each INFF building block requires from public finance and details what the approach delivers at each phase.

Table 4. How the Fiscal Policy Coherence approach contributes to the building blocks of an INFF, by phase

INFF building blocks	What the block requires on the public finance side	What the Fiscal Policy Coherence approach contributes, and in which phase
Assessment and diagnostics	An assessment of the public financing landscape, its risks and its binding policy and institutional constraints, read against the national plan.	Phase 1. The reform mapping identifies commitments and reforms in progress; the bottleneck assessment and political economy analysis identify constraints, interests and what has worked; the cost of fiscal incoherence estimate provides an order of magnitude for each misalignment.
Financing strategy	The public finance component: fiscal frameworks aligned with development objectives, particularly the medium-term expenditure framework, revenue strategy and debt strategy.	Phase 2. The reform road map sets out each reform, its actions, the development objective it advances, its lead institution, its implementation timeline and technical assistance required. It contributes to the financing strategy; the longer-term aim is integration into the medium-term frameworks.

INFF building blocks	What the block requires on the public finance side	What the Fiscal Policy Coherence approach contributes, and in which phase
Governance and coordination	Whole-of-government and whole-of-society ownership; coordination across the ministry of finance, the planning authority, sector ministries and other agencies responsible for development results, and subnational governments; alignment of development partners around the same reforms.	Phases 1 and 2. The dialogue brings bodies responsible for development results—such as sector ministries, the planning authority, climate and gender equality institutions, parliamentary committees and the supreme audit institution—into the fiscal discussion led by the ministry of finance. The strategic reform entry points are validated with the government, and the road map states which partner supports each action.
Monitoring and review	Indicators, a review process and a feedback loop from results to the next round of decisions.	Phase 3. The ministry of finance and sector ministries monitor reforms through the target indicators of the national development plan and the NDC; lessons learned inform the next review.

Source: UNDP Sustainable Finance Hub.

2.5 Fiscal coherence, credible public finance and investment

Paragraph 31 of the Sevilla Commitment recognizes that investment in sustainable development has fallen short of expectations. It identifies constraints such as underdeveloped financial markets, high capital costs and investment opportunities that are not always aligned with public priorities. Paragraph 32(a) calls for policy frameworks that create an enabling environment for investment (United Nations, 2025).

The **Group of Seven (G7) Declaration on Domestic Resource Mobilization (2026)** makes a complementary argument, treating sound public finance as a precondition for private investment. It holds that revenue mobilization, transparent public financial management, and efficient spending together build taxpayer trust and create ecosystems conducive to economic development that attract private investment and mobilize private capital. For this relationship to work, revenue efforts must be linked to credible budget planning, sound public expenditure and debt sustainability. The Declaration envisions a whole-of-government approach to achieve greater policy coherence and stronger domestic accountability. This approach should be anchored in nationally defined financing strategies and guarantee private-sector and broader stakeholder engagement.

In this context, credible public finance is a prerequisite for mobilizing private and blended finance in support of national development priorities. Credible budgets, national commitments with a fiscal line and transparent fiscal risks help investors and rating agencies assess investment conditions before guarantees or blended finance structures are considered. In Kenya, where debt service absorbs most ordinary revenue, more coherent and credible public finance can deliver one of the largest gains: a lower cost of borrowing.

Through Phase 1, governments identify financing gaps—development objectives for which existing budget resources are insufficient. Closing these gaps requires raising additional domestic revenue in ways that support the government's objectives, increasing public and private investment, and better aligning existing policy and financing instruments. The reforms selected through the Fiscal Policy Coherence approach can strengthen the enabling environment for investment in five ways:

- **Recovered fiscal space,** as instruments that work counter to national objectives are reformed.
- **Predictable tax policy,** with incentives that carry clear conditions and expiry dates so that investors know the rules and the government knows what each incentive delivers.

- **Better budget execution and public investment management,** such as climate screening at project appraisal, which can raise returns on public investment and make the public investment pipeline more credible.
- **Costed commitments with a fiscal line in the budget,** such as the climate investment line proposed for Kenya's Budget Policy Statement, which provide financiers with appraisable information.
- **Transparency on fiscal risk,** such as the reconciled debt position proposed in Zimbabwe (which also supports the arrears clearance and debt resolution dialogue under the Structured Dialogue Platform), the fiscal risk register proposed in Bhutan and the coherence record for investors and rating agencies proposed in Kenya.

Within UNDP's Investment Accelerator, the Fiscal Policy Coherence approach is part of the upstream enabling offer, alongside policy, regulatory and financing frameworks such as INFFs. The reforms listed above help build the investor confidence the Accelerator aims for: predictable tax rules, costed commitments in the budget and known fiscal risks. It complements the midstream and downstream work of project preparation and deal-making.

In each case, the development objective comes first: investments become easier to finance when they serve the commitments the government has adopted. The contribution is indirect and depends on the specific reforms each government chooses.

3. Phase 1 evidence and findings

Phase 1 has been carried out in five countries:

- **Bhutan:** a small economy with strong institutions and an ambitious economic transformation agenda.
- **Ecuador:** a dollarized upper-middle-income economy operating under an IMF Extended Fund Facility.
- **Kenya:** a lower-middle-income economy where debt service absorbs most ordinary revenue (approximately 71 percent in fiscal year 2024/2025) (Kenya, National Treasury and Economic Planning, 2025).
- **Liberia:** a low-income country preparing a transition to VAT after adopting the Tax Exemptions Management Act in July 2026 and facing the end of external health financing.
- **Zimbabwe:** an economy operating under a stabilization programme monitored by IMF staff with large external arrears, transitioning from stabilization to growth under its second National Development Strategy (2026–2030).

The five scoping reports and proposed road maps reveal a consistent pattern.[4]

3.1 Initial assessment findings

Each scoping mission asked where and why the link weakens between the plan and the budget, as well as between the plan and the tax system, discussing the findings with officials who run the fiscal system.

- In Bhutan, planning, budgeting, implementation and monitoring each work well independently. However, each institution is responsible only for its own stage, and the country lacks a well-coordinated approach to resource allocation to yield better development outcomes.

4. All findings and figures are provisional and are being validated with each government.

- In Ecuador, there is no clear link between planning for priority sectors and the allocation of resources, and no method to evaluate whether each tax benefit achieves its objective.
- In Kenya, the Second NDC has been costed at $56 billion, but the budget process has no mechanism to translate that costing into expenditure lines. On the revenue side, revenue forgone is measured annually, but no institution is mandated to act on it.
- In Liberia, gender-responsive budgeting guidelines exist, but gender enters the budget at the reporting stage, after allocations are decided. Meanwhile, the VAT exemption list is being finalized without evidence on who benefits.
- In Zimbabwe, the stabilization programme has restored fiscal discipline, but tax expenditures are reported only for customs duty and VAT on imports. As a result, most revenue forgone remains outside budget decisions, and the NDC 3.0 costing has no route into the medium-term expenditure framework.

The overall pattern holds across all five countries: technical analysis usually exists, but it is not yet used at the point where the fiscal decision is taken. Table 5 summarizes the evidence by country.

Table 5. Fiscal coherence in pilot countries: existing instruments, policy misalignments, financial impacts and reform windows

Country	Existing instruments	Policy misalignments	Cost of fiscal incoherence (provisional)	Next reform window
Bhutan	Goods and Services Tax; new Integrated Financial Management Information System; public investment reform; Gross National Happiness Screening Tool; macrofiscal framework and coordination committee	Screening tool not yet applied to a major fiscal decision; quarterly macrofiscal framework does not yet show whether allocations align with the plan; gender, climate and the fiscal cost of outmigration are not yet part of budget analysis	Qualitative at this stage; to be estimated with the Ministry of Finance	The FY 2027/2028 budget and medium-term expenditure framework cycle is the window to assess alignment between budget allocations and national plan objectives in the quarterly macrofiscal framework
Ecuador	Extended Fund Facility; tax expenditure report; diesel subsidy eliminated in September 2025; national growth agenda to 2040	No method to evaluate each tax benefit against its objective; weak link between sector planning and allocation	3.6%–7.4% of GDP annually, of which 37%–63% is addressed by reforms under way	Tax expenditure review under the Extended Fund Facility; Phase 2 under way
Kenya	Second NDC costed at $56 billion; annual Tax Expenditure Report; Social Health Authority; formula review by the Commission on Revenue Allocation; carbon registry live since August 2026	NDC costing has no medium-term expenditure framework line; revenue forgone is measured but not acted on; procurement set-aside for youth, women and persons with disabilities delivers 16.8% against a 30% floor; county governments' own-source revenue stands at a third of its potential	2.1%–5.0% of GDP annually across climate, health, equity and gender	Budget Policy Statement; Tax Expenditure Report 2026; Public Financial Management Amendment Bill

Country	Existing instruments	Policy misalignments	Cost of fiscal incoherence (provisional)	Next reform window
Liberia	NDC 3.0, with 54% emissions cut by 2035; VAT legislated; IFMIS; gender-responsive budgeting guidelines; a new tax exemptions management act; and a proposed Liberia Health Equity Fund to help close the health financing gap	VAT effects by income and sex are not analysed; gender enters the budget at the reporting stage; health functions that lost external financing are not yet in the budget; climate revenue is largely off budget and climate spending is not tracked	1.7%–3.7% of GDP annually across climate, health, equity and gender	Budget Call Circular 2027/2028; VAT implementation in January 2027; regulations and exemptions register under the new tax exemptions management law; Liberia Health Equity Fund allocation in the next budget
Zimbabwe	Staff-Monitored Programme with all quantitative targets met at the July 2026 review; new Public Financial Management Reform Strategy 2026–2030; revenue management system; social registry	Tax expenditures are reported only for customs duty and VAT on imports ($1.34 billion in 2023), with income tax and excise incentives unreported; protected social spending is underexecuted; debt data remains unreconciled across institutions; NDC 3.0 costing has no route into the budget	1.9%–4.1% of GDP annually across climate, health, equity and gender	Public Financial Management Act amendment; Staff-Monitored Programme reviews; design of the Public Financial Management strategy; validation workshop convened by Parliament

Note: All figures are provisional and under validation; ranges are not strictly comparable across countries.
Sources: UNDP (2026b and 2026c).

3.2 From confirmed bottlenecks to proposed actions

Each road map action links a confirmed bottleneck to proposed technical assistance, an expected fiscal change and an overarching development objective. The process begins with a bottleneck that officials confirmed during the scoping mission and the reason it persists. It then sets out the proposed action and technical assistance. It ends with the expected fiscal change and the development objective the action contributes to. Drawing on the proposed country road maps, Table 6 presents one representative example of a proposed action per country.

Table 6. From fiscal bottlenecks to development objectives in pilot countries: confirmed challenges, proposed actions, expected fiscal changes and targeted goals

Country	Bottleneck confirmed in Phase 1, and why it persists	Action and technical assistance proposed	Fiscal change expected	Development objective to which the action contributes
Bhutan	The quarterly macrofiscal framework does not yet show whether the resource envelope and allocations align with the 13th Five-Year Plan, the NDC and the gender equality commitments. Each institution is responsible only for its own stage of the planning, budgeting, implementation and monitoring cycle.	Draw up an inventory of the plan's commitments and their target indicators; present these outcome indicators alongside the quarterly macrofiscal framework; and add a standing coherence item to the existing coordination committee's agenda.	A quarterly framework in which the Ministry of Finance tracks development outcomes and fiscal risk alongside fiscal targets.	Outcomes of the 13th Five-Year Plan; NDC 3.0; gender equality commitments. Develop a fiscal coherence index.
Ecuador	Ecuador reports tax expenditure of 5.3% of GDP and 38.5% of tax collection (in 2024) across 67 corporate income tax and 44 personal income tax provisions. Officials confirmed that no method exists to evaluate whether each tax benefit achieves its objective, and that the institutions responsible for those objectives do not follow up on tax decisions.	Conduct a comprehensive review of tax expenditures that links each benefit to its development objective. The detailed analysis starts with the VAT refund for older persons and persons with disabilities (about 0.4% of GDP), aiming to increase efficiency while preserving its purpose. The review analyzes who benefits, by income and sex.	An annual report that assesses each benefit against its objective, and the redesign of initial tax benefits.	Equity and gender equality objectives of the national growth agenda to 2040; NDC 2.0; health objectives.
Kenya	The Second NDC, costed at $56 billion for 2031 to 2035, has not entered the medium-term expenditure framework or the Public Investment Programme. The costing can become an expenditure line only once Parliament has taken ownership of the underlying plan.	Convert the existing costing (of which the domestic share is about $10.5 billion, or $2.1 billion annually) into an annual investment requirement for each sector and prepare a climate investment line within the medium-term expenditure ceiling. Sequence this with steps to restore parliamentary ownership of the plan.	A costed climate commitment with a line in the medium-term framework and annual reporting on progress.	Emissions and adaptation targets of the Second NDC (2031–2035).

Country	Bottleneck confirmed in Phase 1, and why it persists	Action and technical assistance proposed	Fiscal change expected	Development objective to which the action contributes
Liberia	VAT implementation starts in January 2027, but its effects by income level and by sex have not yet been analysed. Gender considerations enter the budget process at the reporting stage, after decisions are taken.	Analyse how VAT will affect households by income group and sex, using existing household survey data, before finalizing the list of exemptions. Propose options to protect poorer households, such as zero-rating, exemptions or compensating transfers. VAT exemptions and zero-rated provisions identified through the incidence analysis should enter the exemptions register and be costed in the tax expenditure report from year one. A review date should be established to prevent the 2027 list from becoming permanent by default.	An exemption and compensation framework that reflects the analysis and is in place before VAT is implemented.	Poverty reduction and gender equality objectives of the national development agenda.
Zimbabwe	The electricity tariff remains below the cost of supply. The difference is an implicit subsidy to coal- and diesel-fired power generation, estimated at $0.3 billion to $0.5 billion a year in the Phase 1 analysis. It does not appear in the budget and works against NDC 3.0 emissions targets. Tariff increases are politically sensitive.	Support the regulator and the utility to meet the 2026 and 2027 tariff milestones of the national energy compact. Energy, finance and social protection institutions jointly design protection measures for poor households.	A tariff that recovers operating costs by the end of 2027, with protection for poor households in place.	NDC 3.0; the national energy compact; the social protection floor.

Note: The proposals are under validation with each government.
Sources: UNDP (2026b and 2026c).

These five examples, which cover both revenue- and expenditure-related reforms, share three common features that define the technical assistance provided under the Fiscal Policy Coherence approach:

1. **Connecting institutions:** each example requires the ministry of finance and the institution responsible for a development objective to take joint decisions.
2. **Protecting core policy objectives:** reforms protect the underlying purpose an instrument serves while improving its design. For instance, the VAT refund in Ecuador continues supporting older persons and persons with disabilities, while tariff reform in Zimbabwe maintains protection for poorer households.
3. **Linking fiscal changes to target indicators:** each intervention ties fiscal change directly to a development objective and the indicator the country already uses to track progress, fulfilling the three levels of follow-up required in Phase 3.

The proposed reform road maps establish a broader set of actions, each assigned to a lead implementing institution within government. Most of these actions connect an existing diagnostic or finding to the decision it should inform: an NDC costing to a budget ceiling, a tax expenditure report to a decision on exemptions, a social registry to cash transfer targeting. Other actions propose new reforms where no current measure addresses the misalignment.

Technical assistance focuses on connecting these existing tools to decisions or developing new reforms in the sequence established by the road map. Phase 2 uses these proposals to finalize road maps agreed upon by the institutions concerned.

3.3 The added value of the Fiscal Policy Coherence approach

The missions brought documented misalignments into a joint review by the institutions responsible for addressing them. In every country, the misalignments were documented in collaboration with the government and its partners. What was missing was a review that brought these elements together, engaged the institutions responsible for development objectives and explained why each misalignment persists.

Reforms are already under way, and most opportunities lie within them. The reform an entry point proposes is often one the government has already adopted or scheduled. In the pilot countries discussed here, examples include the Goods and Services Tax and the new financial management system in Bhutan; the tax expenditure review in Ecuador; the climate public investment management actions in Kenya; the VAT transition in Liberia; and the tariff milestones in Zimbabwe. Some proposals suggest a new reform or instrument where none addresses the misalignment, such as a method to evaluate each tax benefit against its objective in Ecuador or a fiscal risk register in Bhutan. However, most connect existing tools, assessments and processes to the decisions they are intended to inform. In both cases, the Fiscal Policy Coherence approach contributes by prioritizing and sequencing actions towards the development objectives.

Revenue and expenditure decisions are considered together. In Kenya, the cost of tax expenditures is evaluated against the investment they were granted for. In Liberia, the analysis of VAT's effects by income and sex is linked to options for zero-rating, exemptions or compensating transfers. In Zimbabwe, the electricity tariff reform is designed in partnership with social protection institutions, so that poor households are protected as the implicit subsidies are phased out. Existing reviews usually examine one side at a time. Under the Fiscal Policy Coherence approach, revenue-side changes are designed while keeping their effects on spending and the people they reach clearly in view.

Institutional and political economy challenges explain why misalignments

persist. In Bhutan, planning, budgeting, implementation and monitoring are sound processes, but transitions between stages are weak because each institution is responsible only for its own stage. In Ecuador, the challenges officials cited included the political cost of decisions, the tendency to prioritize urgent financing needs over assessing fiscal impacts and the lack of a methodology to evaluate tax expenditure. In Kenya, the National Treasury measures the cost of tax expenditures but has no mandate to verify whether they delivered the intended investment. In Zimbabwe, debt data are held by several institutions and are not reconciled, and tariff increases carry political costs, allowing implicit electricity subsidies to persist outside the budget. These constraints explain why an assessment alone seldom changes a fiscal decision, and why the Fiscal Policy Coherence approach orders entry points by feasibility as well as by size.

The proposals rely on existing bodies, reports and legal frameworks. In Bhutan, the Phase 1 report proposes a standing coherence item within the existing macrofiscal coordination committee, accompanied by annexes to the Cabinet fiscal briefing and the budget submission to Parliament. In Ecuador, a working group at the validation workshop proposed a coordination mechanism among the institutions concerned, ensuring technical bodies take part in fiscal policy decisions. The group ranked this proposal highest for impact and feasibility and also proposed criteria to evaluate fiscal decisions before and after they are taken. In Kenya, two steps are proposed: attaching development or performance conditions to tax expenditures through the annual Tax Expenditure Report prepared by the National Treasury, and restoring parliamentary ownership of the national plan. In Liberia, the new tax exemptions management law provides the legal basis to require each exemption to state its objective and be reviewed against it. In addition, Budget Call Circular 2027/2028 can instruct spending entities to tag gender and climate allocations at the preparation stage rather than at reporting. In Zimbabwe, a proposed amendment to the Public Finance Management Act would require a full tax expenditure statement. At the request of the Ministry of Finance, Economic Development and Investment Promotion, Parliament will convene the validation of the Phase 1 findings. In each case, the Fiscal Policy Coherence approach adds a structured step in which the development objective enters the fiscal decision.

Estimated costs, political feasibility and timing guide the selection of entry points. Scoping reports estimate the cost of fiscal incoherence, where possible, alongside the share that ongoing reforms could address. Unaddressed misalignments constitute opportunities for new policy measures. Entry points are selected based on political feasibility, timing and implementation readiness, as well as fiscal magnitude.

Upcoming policy decisions shape the reform sequencing. Several policy windows close within the year: Bhutan's FY 2027/2028 budget and medium-term expenditure framework cycle; Kenya's Budget Policy Statement (February 2027) and its Tax Expenditure Report (2026); Liberia's VAT implementation (January 2027) and Budget Call Circular 2027/2028; and the milestones of Zimbabwe's energy compact (2026–2027). Section 4 discusses these entry points, which are ordered by timing as much as by fiscal magnitude.

4. Application and next steps

4.1 Entry points for implementation

For a government, the results of the Fiscal Policy Coherence process are most useful at five points.

1. **Budget and medium-term framework preparation:** Protecting revenue and budget lines carrying development commitments during fiscal consolidation, while adjusting instruments that work against national objectives.
2. **Tax policy decisions**: Informing instruments such as the medium-term revenue strategy, the annual finance bill and the tax expenditure report, where the findings show how each tax measure contributes to development objectives.
3. **Discussions on international financial institution programmes:** Aligning opportunities with measures already agreed under programmes supported by the IMF and the World Bank, with the Fiscal Policy Coherence approach adding the specific development objective each measure advances.
4. **Design of national financing strategies:** Strengthening strategies, including where they form part of an INFF.
5. **Climate investment planning:** Providing the fiscal dimension of an NDC investment plan, and of the investment pipelines governments prepare with partners, including through UNDP's Investment Accelerator.

For sector ministries such as health, climate and social protection and for institutions responsible for gender equality, this dialogue provides an opportunity for their objectives to enter the fiscal discussion. For parliaments, the results give budget committees a way to ask whether budgets finance what plans promise. Mission consultations in Kenya and Zimbabwe highlighted parliament as the institution best placed to hold the plan and the budget.

4.2 Partnerships and the way forward

- **Phase 1: Consolidating lessons learned.** The five scoping reports are being validated with the relevant governments, and joint lessons are being consolidated. These focus on recurring bottlenecks, indicators that can be estimated from published data and methods for presenting financing needs alongside misalignments. The cost of fiscal incoherence methodology is under peer review with the OECD, the World Bank, the IMF, the International Organization of Supreme Audit Institutions and the United Nations Department of Economic and Social Affairs. In Kenya, the Kenya Institute for Public Policy Research and Analysis has designated a focal point to review the reform mapping and the cost of fiscal incoherence figures with the National Treasury before they are finalized. Phase 1 scoping missions start in Seychelles and Mauritius in November 2026, followed by Botswana and Comoros.
- **Phase 2: Translating entry points in agreed road maps.** Proposed road maps are discussed and agreed with the institutions that own each action. The estimated cost, the share addressed by ongoing reforms and the outstanding opportunity serve as a baseline for assessing the programme's contribution. Partner alignment will follow each country's coordination arrangements and draw on the joint engagements agreed with partner institutions.
- **Phase 3: Government-led road map implementation.** Once a road map is finalized, the government leads implementation with technical assistance from UNDP through the PF4SDGs initiative, connecting with the Investment Accelerator where reforms open the way

to new investment, in close coordination with country-level partners working on fiscal policy. The follow-up described in section 2.2 takes place within existing national coordination bodies.

Development partners can support this work in three ways: by financing the preparation and implementation of reform road maps in Phases 2 and 3 within pilot countries; by co-financing Phase 1 scoping in new countries; and by aligning their technical assistance with national road maps, which designate the partner best placed to support each action. In each case, the goal remains the same: enabling a ministry of finance to see, alongside its fiscal targets, how the country is advancing towards its development objectives.

Annex A. Analytical framework and tools for Phase 1

A1. Reform mapping. The reform mapping provides an inventory of all ongoing and planned fiscal reforms—including those related to specific development outcomes—and helps to identify incoherence in the current reform landscape. It covers reforms' objectives, status, lead entities and key partners of each reform. It serves as the baseline for the rest of the analysis, establishing the objectives against which fiscal instruments are assessed and identifying the ongoing reforms whose contributions are estimated. It also provides an initial view of alignment opportunities: placing a commitment alongside a conflicting instrument reveals a clear opportunity for reform even before any values are attached.

A2. Bottleneck assessment. This provides a qualitative assessment of the institutions and public financial management processes through which public resources move. It examines 35 dimensions grouped into seven categories: policy frameworks, coordination and engagement, revenue policy and systems, expenditure policies and systems, equity and inclusion, political economy and cross-cutting issues. The bottleneck assessment examines national priorities, identifies existing evidence and flags synergies and trade-offs between development goals and fiscal policies, while embedding political economy analysis throughout. An initial draft is prepared from existing diagnostics (PEFA, PIMA and TADAT assessments, alongside IMF, World Bank and OECD reports). During the scoping mission, officials review these findings to confirm, correct or set them aside. Findings confirmed by the government directly inform the strategic reform entry points.

A3. Political economy analysis. Carried out alongside the bottleneck assessment, the political economy analysis identifies the specific interests current policy serves, the stakeholders who stand to gain or lose from reform, past successes and the entry points where change is feasible. This analysis transforms a list of opportunities ordered by financial magnitude into a sequenced list ordered by feasibility.

A4. Scoping mission and report. The scoping mission and report integrate these analyses. During the mission, the team meets with institutions individually and together, and the government reviews the findings as part of a validation step. The scoping report documents, sector by sector, the commitments and ongoing reforms identified, the bottlenecks confirmed by officials, the interests involved and the estimated cost of fiscal incoherence. It concludes by presenting the strategic reform entry points validated by the government, expressed in its own policy terms.

Annex B. Estimating the cost of fiscal incoherence: methodology

B1. Rationale and objectives. Policy incoherence carries a measurable cost. When revenue, expenditure and debt decisions work at cross purposes towards developmental outcomes, public resources are diverted from stated national priorities. Preliminary estimates indicate that fiscal resources that are currently lost, misallocated or failing to achieve their intended development impact due to policy contradictions range from about 2 to 7 percent of GDP annually across the four pilot countries with quantitative estimates (Ecuador, Kenya, Liberia and Zimbabwe; see Table 5).

B2. Methodological framework. The cost of fiscal incoherence methodology estimates the annual fiscal cost of policy misalignments against a country's adopted development commitments (covering NDCs, health, gender equality and social equity). The framework has two layers, with a third under development. The first layer counts direct costs that can be traced in official documents, such as subsidies or tax exemptions that work against a development commitment. The second estimates what is lost through execution failures and uncollected revenue resulting from tax avoidance and evasion.5 A third layer, on opportunity costs such as private investment that does not materialize, is under development. Financing needs, defined as instances where the budget does not yet contain sufficient resources for an objective, are presented separately.

By attaching a concrete financial figure to policy misalignment, this methodology provides a tangible, compelling case for reform and helps governments prioritize areas where coherence gains are likely to be greatest.

B3. Inclusion criteria. A policy or fiscal situation is included in the estimate only when three conditions hold simultaneously:

1. The government has adopted a development commitment;
2. A fiscal instrument or budget practice pulls in an opposing direction; and
3. The resulting financial cost can be derived from official data.

Where the cost cannot yet be derived, the situation is recorded as a finding to be quantified in collaboration with the government. Financing needs—where an objective lacks sufficient budget but no policy actively opposes it—are presented separately.

B4. Analytical structure and layers. The first layer measures direct costs that can be traced line by line in official documents: subsidy outlays, forgone revenue, revenue gaps against adopted benchmarks, under-executed allocations and debt-related costs (Table B1). The second layer estimates losses when revenue due under current law goes uncollected or when allocated resources pass through inefficient processes. International evidence provides a range for each loss category, and the bottleneck assessment, validated with national officials, determines the country's position within that range. Each layer is reported separately alongside the combined total. All results are ranges representing annual flows for a reference year. A third layer capturing the opportunity costs of fiscal incoherence is under development and is not shown below.

5. Current calculations do not incorporate the indirect costs of tax avoidance and evasion; these dimensions will be included in future versions of the methodology.

Table B1. The cost of fiscal incoherence methodology: first-layer categories and data sources

First-layer category	Metric	Data source
Subsidies that counter commitments	Budget outlay or, for implicit subsidies, the difference between regulated price and reference prices, multiplied by volume	Budget documents; regulated price schedules; international reference prices
Tax exemptions that counter commitments	Revenue forgone by specific tax regimes that counter a documented commitment	Tax expenditure reports or revenue authority data; legal mappings of exemptions to concession and investment agreements
Revenue gaps against adopted benchmarks	Difference between actual revenue collection and benchmark levels adopted by the government	Excise schedules measured against health benchmarks; environmental levies measured against climate commitments
Gaps between approved and executed expenditure	Shortfalls in areas governed by floors or stated priority over at least three years	Budget execution reports
Debt-related direct costs	Observable costs of fiscal arrangements that depart from transparency or fiscal rule commitments	Public debt reports; debt sustainability analyses; Extractive Industries Transparency Initiative reports

Table B2. The cost of fiscal incoherence methodology: second-layer parameters and evidence ranges

Second-layer loss type	Evidence range	Applied to
Budget nondelivery within executed spending	20%–30%	Executed spending of affected programmes, net of first-layer execution gaps
Procurement overpricing	15%–25%	Executed spending passing through procurement systems in affected sectors
Low returns on unconditioned tax incentives	0.1–0.3 per unit granted	Revenue forgone under the incentive regime, net of the first-layer subset
Public investment value loss	10%–30%	Executed public investment in affected sectors
Revenue administration gap	Country-specific estimate (tax gap analysis, VAT C-efficiency or RA-GAP, depending on context and data availability)	Revenue streams for which reliable tax gap estimates are available

Note: The bottleneck assessment rating positions each country within the range.
Sources: PEFA framework (PEFA Secretariat, 2016); IMF PIMA cross-country analysis (IMF, 2018); IMF and OECD work on investment tax incentives (OECD, 2022); TADAT (TADAT Secretariat, 2019) and the IMF Revenue Administration Gap Analysis Program (RA-GAP) (Hutton, 2017).

B5. Quantifying coherence gains and opportunities. For each reform identified in the reform mapping and each corresponding misalignment, two scores are established in consultation with national officials working on the reform: a coverage score (the share of the cost the reform would address if fully implemented) and an implementation score (how far the reform has advanced, based on programme reviews, official notices and budget documents). The coherence gain is the total misalignment cost multiplied by these two scores. The opportunity is the remaining unaddressed cost.

B6. Methodological foundations. The first layer follows the accounting tradition of cost-of-inaction studies, notably the Inter-American Development Bank's estimates of the costs of crime and violence, presented as a lower bound (Perez-Vincent et al., 2024). Implicit subsidies follow the IMF price-gap method (Black et al., 2023), and tax incentives draw on IMF and OECD studies on investment incentives (OECD, 2022). The second layer draws on the public financial management literature, including the PEFA framework (PEFA Secretariat, 2016), the PIMA assessment (IMF, 2018) and IMF infrastructure governance research (Schwartz et al., 2020), combined with TADAT indicators (TADAT Secretariat, 2019) and IMF Revenue Administration Gap Analysis Program (RA-GAP) models (Hutton, 2017). The Fiscal Policy Coherence approach adds a benchmark these approaches do not usually include: governments' own development commitments. A third layer, evaluating opportunity costs such as unrealized private investment, is under development and excluded from all figures in this paper.

B7. Data and quality control. Estimates were compiled from published sources and Phase 1 documents, using AI-assisted research tools, and verified against the quality-control procedures in the Methods Paper (UNDP, 2026a). All figures are provisional and are being validated with national governments.

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