

Development Finance Assessment and Integrated Financing Solutions

Achieving the Sustainable Development Goals in the Era of the Addis Ababa Action Agenda



*Empowered lives.
Resilient nations.*

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Purpose of this Brief

This Brief has been developed to provide an overview to decision makers who wish to develop a more integrated approach to implementing the Sustainable Development Goals (SDGs). Using the concept of an Integrated National Financing Framework (INFF), a Development Finance Assessment can help countries identify areas for strengthening their management of financing for the SDGs with Integrated Financing Solutions.

In providing an overview of key concepts and support available, the Brief draws on and summarises aspects of several related resources made available by UNDP; it should be read in conjunction with the following in particular:

- *Methodological Guidance Note: Development Finance Assessment and Integrated Financing Solutions for Strengthening Integrated National Financing Frameworks*
- *Building Integrated National Financing Frameworks: Country Experiences*
- *Financing Solutions for Sustainable Development*

Given the interconnected and complex nature of the 2030 Agenda for Sustainable Development, support to strengthening financing frameworks at country level should be taken forward as part of broader efforts to support countries on SDG-related reforms. As such, UNDP's support to countries on INFFs through the Development Finance Assessment and Integrated Financing Solutions is already being implemented as part of the United Nations Development Group's (UNDG) overall approach- the Mainstreaming, Acceleration and Policy Support (MAPS)- to supporting member countries to implement the 2030 Agenda.

Initially developed by the Asia-Pacific Development Effectiveness Facility (AP-DEF), a country-led regional platform hosted by UNDP's Bangkok Regional Hub, the DFA and this Brief are now globally applicable and designed.

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 the AP-DEF and its development partners.

Design and layout: Inis Communication
www.iniscommunication.com

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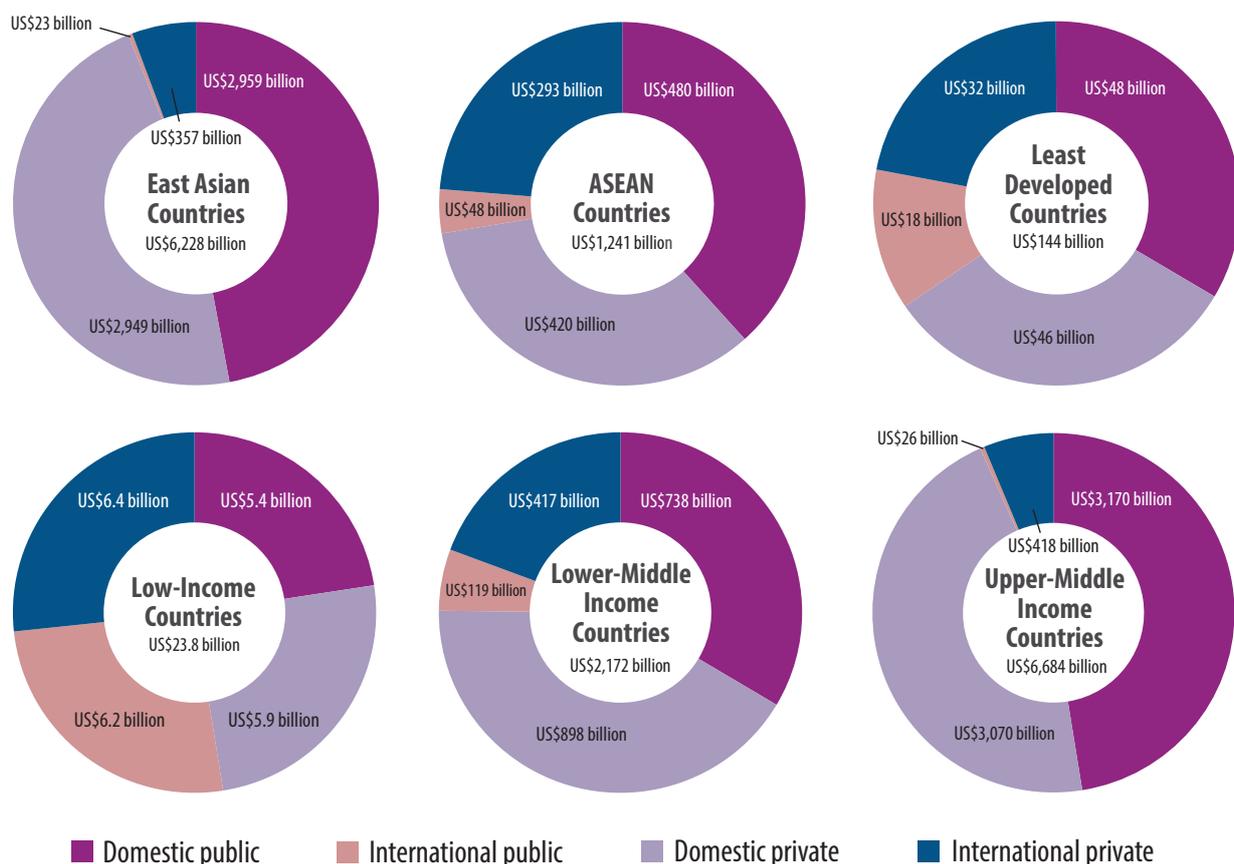
1. Introduction

1.1 Context for Development Finance Assessments and Integrated Financing Solutions

Agenda 2030, with its ambition of being transformational, will present significant challenges for governments, in particular for their traditional fiscal planning, budget capacities and performance. The Third International Conference on Financing for Development held in Addis Ababa in July 2015 opened the discussions on how to mobilise the unprecedented amounts of financial resources that will be required to achieve the Sustainable Development Goals (SDGs). It is expected that countries are facing an increasingly complex landscape of development finance to manage at the national level, as domestic public and private resources increase, and the sources of external resources diversify. The SDGs will demand both significant increases in capacity and resources as well as changes in the way existing resources are used and prioritised. It is also recognised that financing the SDGs will not happen through global financing agendas alone but instead be built from a bottom-up, holistic country-level approach.

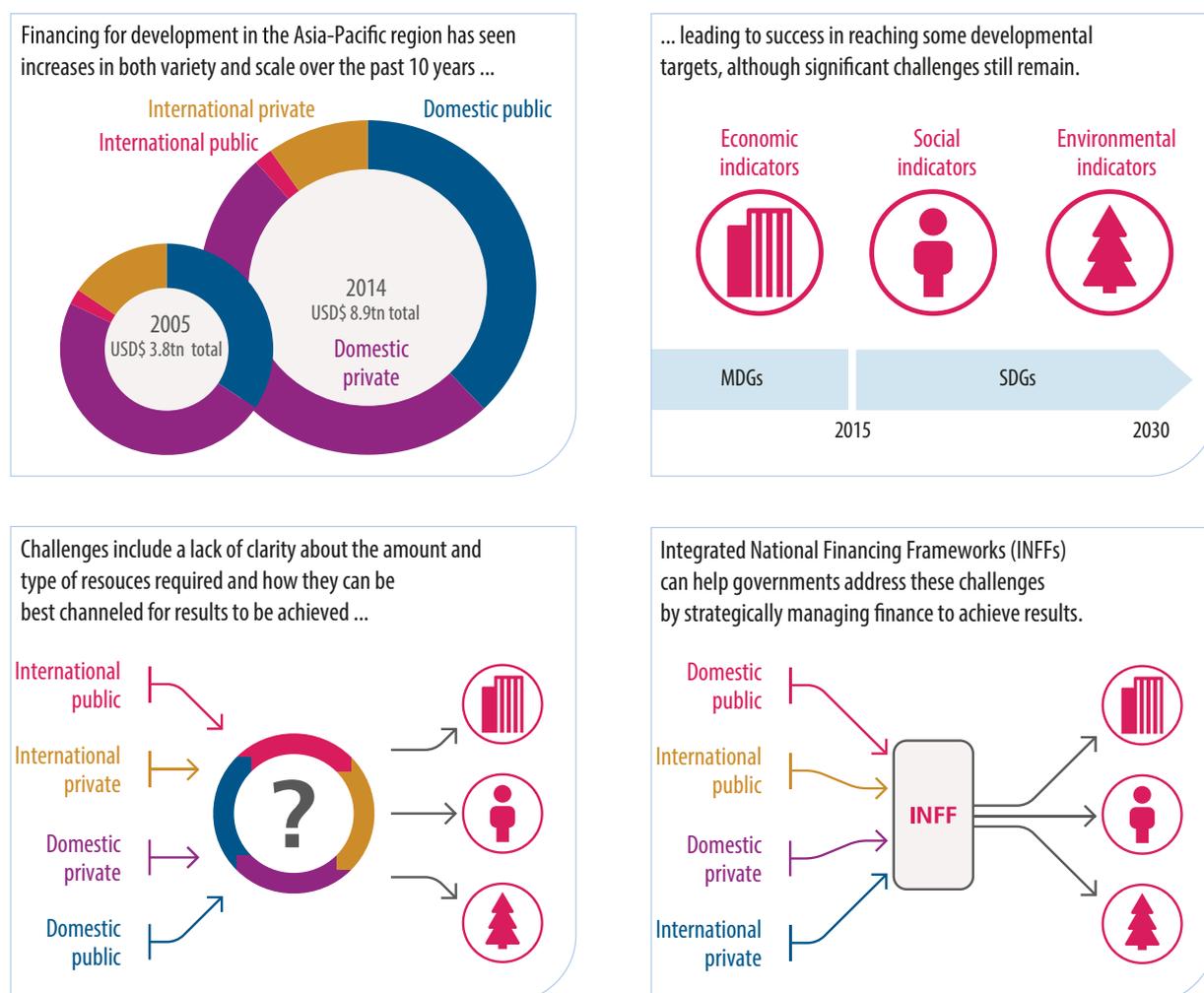
Financing is growing and diversifying rapidly. This opens up opportunities to meet the scale of the sustainable development challenges ahead with greater volumes of financing that can be channelled into rising levels of investment. It also presents opportunities to respond to the breadth of the sustainable development agenda with a wider and more diverse pool of financing types, each of which has varying characteristics and comparative strengths in contributing to different result areas. Greater volumes of finance offer more potential to address the scale of the challenges; greater diversity of finance offers more potential to address the integrated, interconnected nature of sustainable development challenges. As an example, the financing landscape across the Asia-Pacific region is rapidly evolving as evidenced in the 2016 AP-DEF regional report, *Achieving the Sustainable Development Goals in the Era of the Addis Ababa Action Agenda* which highlights the dramatic variations in different country contexts (Figure 1.1).

Figure 1.1: Variety in the mix and scale of financing for countries in Asia-Pacific



To address these challenges and achieve sustainable development, countries will need to develop new, more effective and integrated approaches to managing public and private finance. The Addis Ababa Action Agenda assumes that countries will use their own national development strategies and plans to respond to the SDGs and calls for the adoption of *Integrated National Financing Frameworks (INFFs)*. These frameworks provide a structure and prompt for governments to assess their financing frameworks as a whole, and guide thinking about reforms that are needed to strengthen them to implement a strategic, holistic, results-driven approach to financing their development objectives (see Figure 1.2).

Figure 1.2: How integrated national financing frameworks help governments link finance with results



What are the Development Finance Assessment and Integrated Financing Solutions?

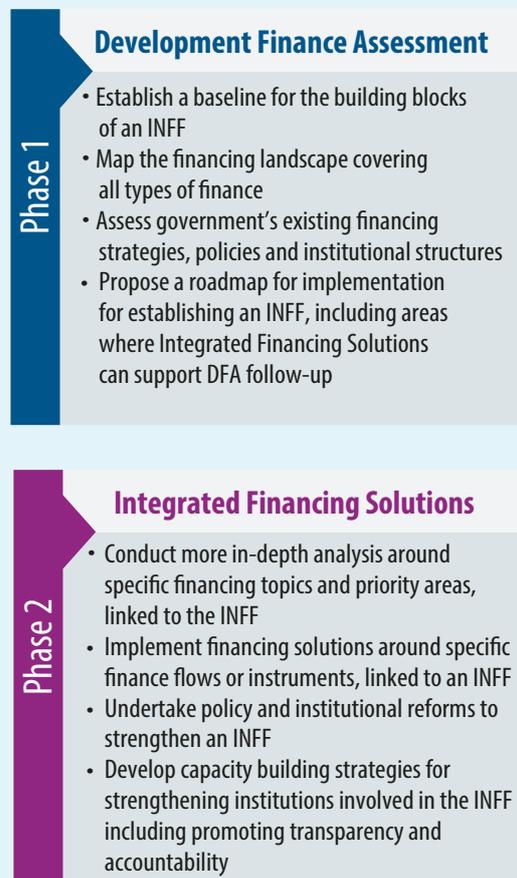
UNDP's Bangkok Regional Hub has been developing the Development Finance Assessment (DFA) and Integrated Financing Solutions, to respond to the growing demand from countries to establish evidence and analysis, and introduce policy and institutional reforms for managing the increasing complexity of domestic and international sources of finance for development.

The DFA and Integrated Financing Solutions supports governments to use the concept of the INFF to help strengthen policies and actions for mobilising different types of finance for economic, environmental and social results into a single, coherent framework.

The DFA and Integrated Financing Solutions approach has two phases, illustrated in Figure 1.3 and described in more detail in later sections of this document. Both phases are framed by the concept of an INFF. Phase 1 (DFA) focuses on establishing the baseline of an INFF, through both quantitative (mapping of finance flows) and qualitative (analysis of policy and institutional context) assessment of the financing landscape and the strength of the government's existing financing strategies, policies, and institutional structures to meet key financing challenges.

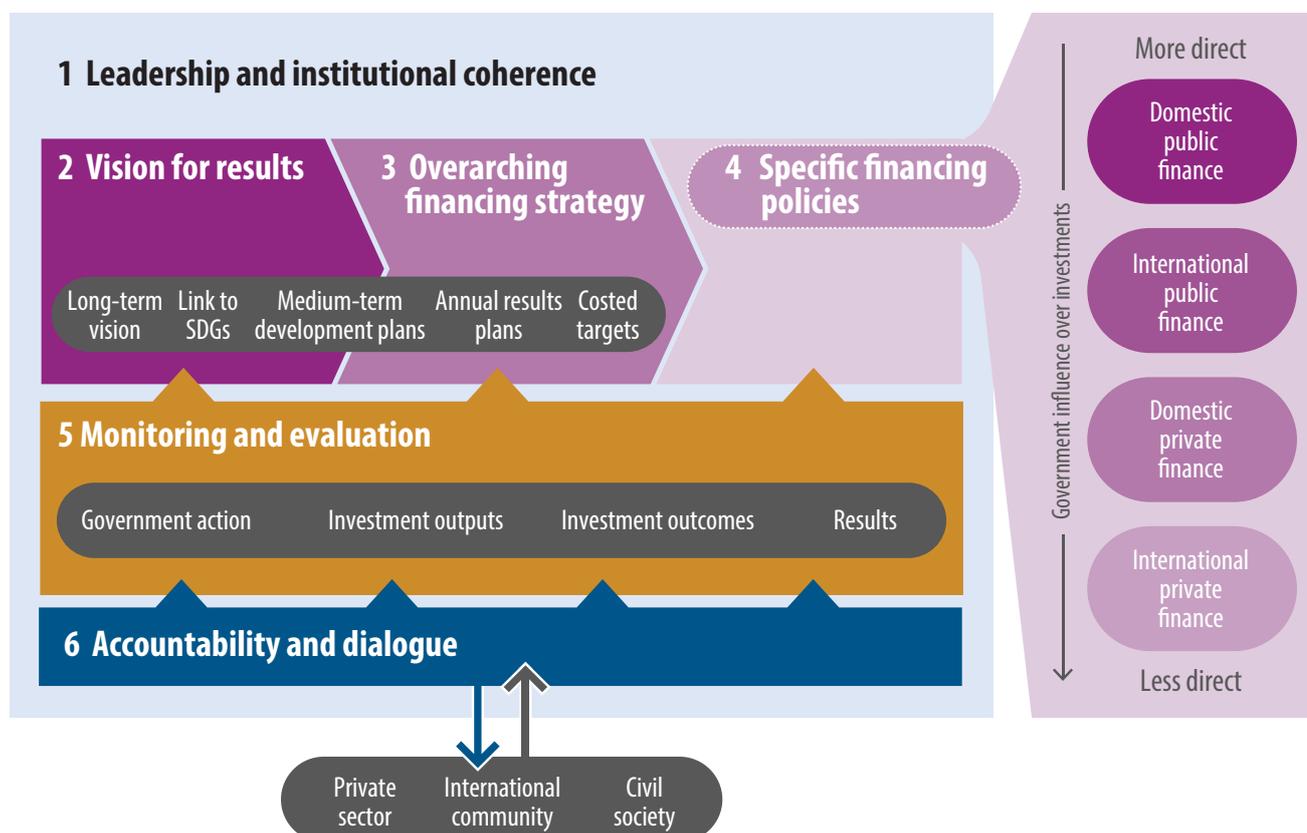
Following the DFA, and building on its findings and recommendations, in Phase 2 (Integrated Financing Solutions), action-oriented support is provided towards strengthening the INFF. This may entail deeper analytical work around specific areas of the INFF, capacity building support, and implementation of specific financing solutions as linked to the INFF.

Figure 1.3: From Assessment to Action: A Phased Approach to Establishing an Integrated National Financing Framework



1.2 Development Finance Assessments and Integrated Financing Solutions in the context of Integrated National Financing Frameworks

Figure 1.4: How Integrated National Financing Frameworks help governments link finance with results



Together these building blocks outline a conceptual model for an integrated national financing framework. This conceptual model can prompt governments to assess their financing frameworks as a whole and guide thinking about reforms that are needed to strengthen them.

A conceptual model for understanding and assessing INFFs has been developed in detail, together with illustrative country examples, in *Building Integrated National Financing Frameworks: Country Experiences*. The concept covers six building blocks and, critically, the way that they interact and work together in a single, integrated system:

- 1. Leadership that facilitates institutional coherence** is essential for bringing together actors across and outside government to build an integrated approach to meeting financing challenges, ensuring alignment in policies and providing overall results-oriented direction for leveraging and utilising finance in support of sustainable development priorities.

2. **A clear vision for results** that the country wants to achieve is the foundation of an integrated national financing framework on which financing plans and targets are built. It sets out the sustainable development outcomes and impact that the country wants to realise and is typically articulated in a national development plan or long-term vision. It should set out a realistic formulation to consider the affordability and financial resources needed to achieve the goals, and therefore needs to include reference to the costs of achieving the vision.
3. **An overarching financing strategy** takes the long-term vision for results and develops proposals for the types of investments needed to meet the costs. It provides the framework within which specific financing policies to mobilise resources can be developed and operationalised, and should also take into account issues of the absorptive capacity of government institutions to deliver finance to achieve the vision for results. For many countries, the overarching financing strategy would be a significant extension of existing medium-term financing framework approaches.
4. **Specific financing policies** are articulated to mobilise different types of finance¹, in a scale and manner consistent with the overarching financing strategy. They govern the mobilisation and use of different types of finance, and cover a range of policies such as medium-term expenditure frameworks, tax revenue strategies, and national aid policies.
5. **A robust monitoring, evaluation and learning system** is an essential ingredient of a results-focused financing strategy. Systems that can effectively monitor progress from government efforts to mobilise financing, to the outcomes of investments mobilised and the results they contribute toward can inform more effective approaches to the use of finance.
6. **An enabling environment for accountability and dialogue** is essential to build the trust necessary to mobilise financing from stakeholders outside government, to make sure policies are being designed and delivered effectively and to ensure a voice for citizens, civil society, business, development partners and other actors in development.

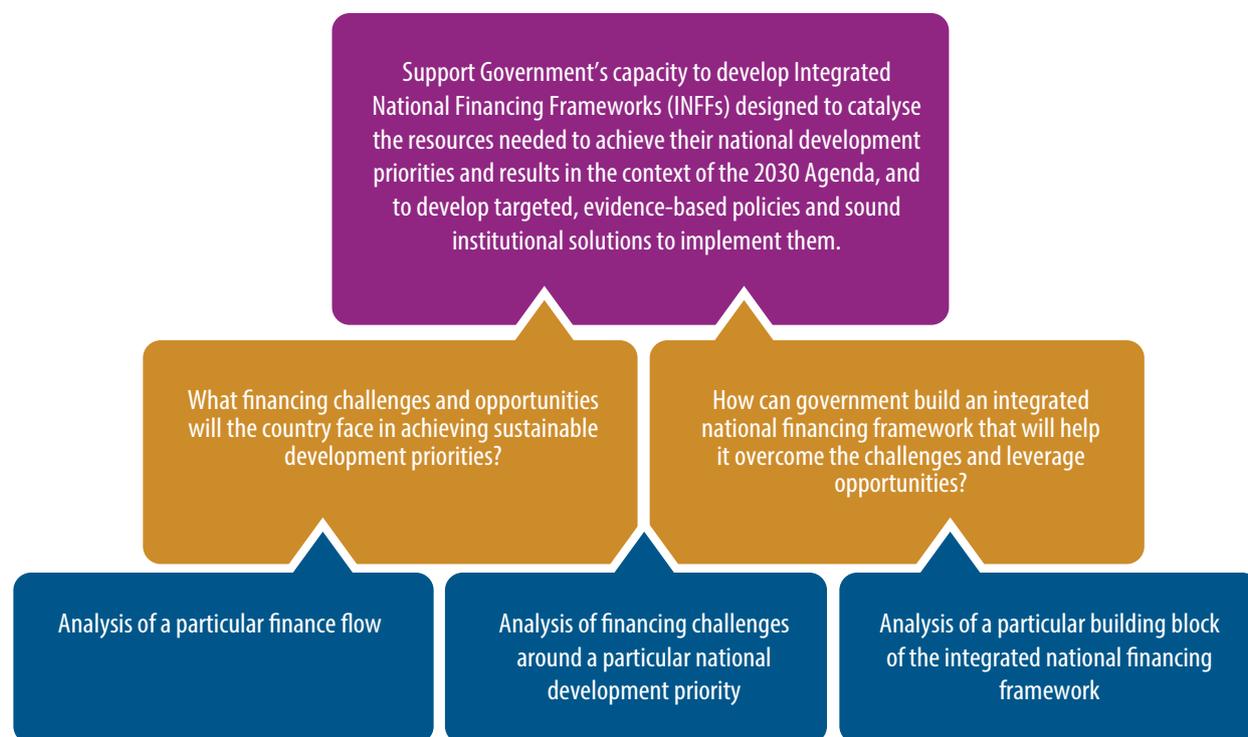
¹ Figure 1.4 highlights the broad categories of finance that would be covered by a financing strategy and financing policies, and the general degree of direct or indirect influence government has over the way they are invested. It is intended to make the point that the government's overarching financing strategy must balance approaches toward resources over which government is the decision maker with resources in which it is a partner and those in which it is not involved in decision making but can influence indirectly through policy and other factors such as regulating the business environment. There are exceptions to this where government has more or less direct influence over particular flows within these categories.

As illustrated in Figure 1.5, the DFA helps government to answer two key questions:

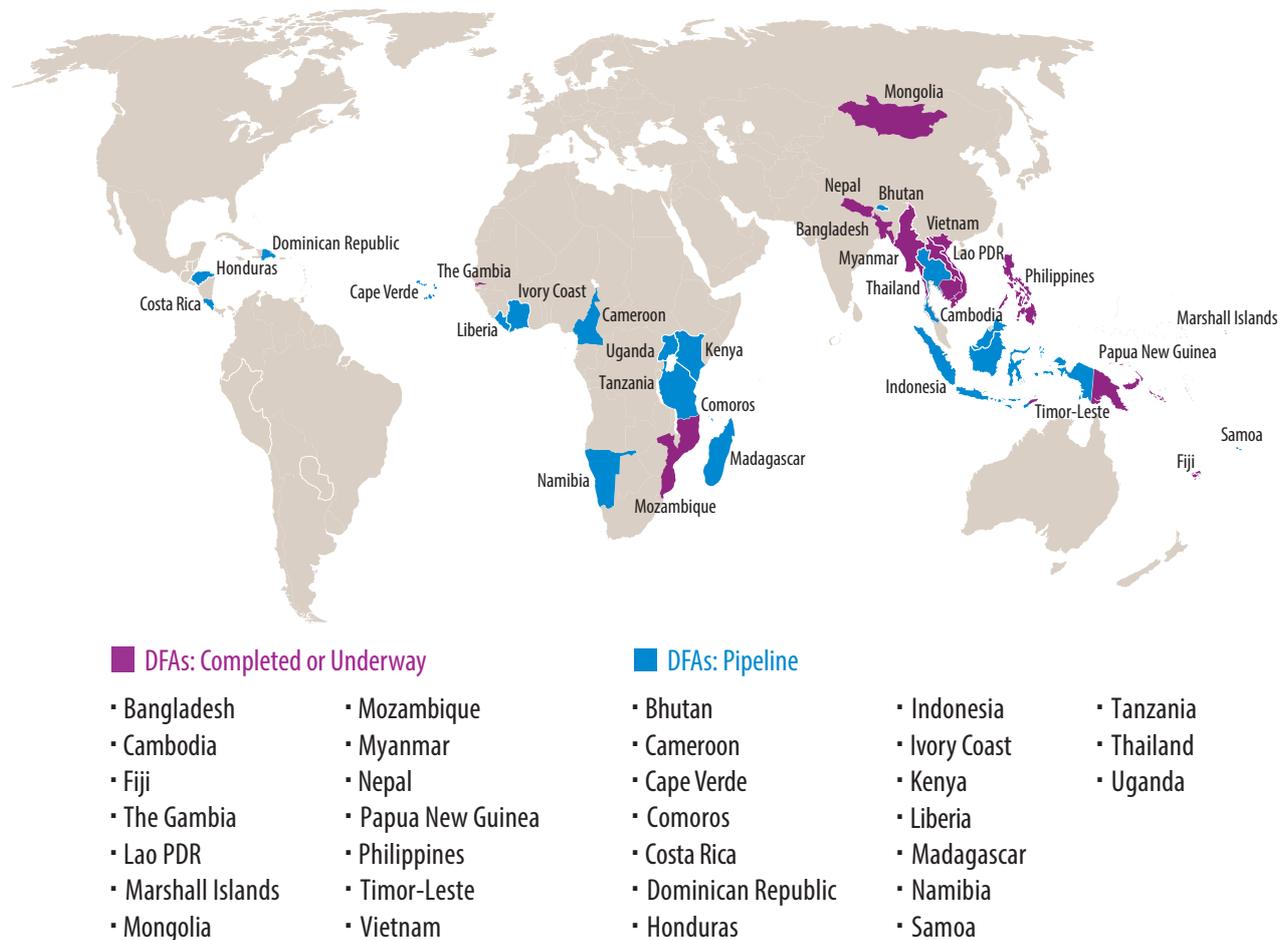
- What financing challenges and opportunities will the country face in achieving sustainable development priorities?
- How can government build an integrated national financing framework that will help it overcome the challenges and leverage opportunities?

Taking direction from the DFA government oversight team, the DFA also identifies one or two areas for more in-depth analysis, which could be analysis of a particular finance flow; analysis of financing challenges around a particular national development priority; or analysis of a particular building block of the INFF.

Figure 1.5: Analytical Entry Points of the Development Finance Assessment



Critically, DFAs are government-led and are tailored to the context and priorities of the country, under the guidance of a national oversight team. A core added value of the DFA is that it brings together diverse actors around a collective assessment of the financing challenges and opportunities faced by a country. These actors may include different parts of government, private and public sector actors, and experts, practitioners and development partners with various roles related to financing sustainable development.

Figure 1.6: Where are Development Finance Assessments taking place now?

Note: This map is current as of the time of publication but changes regularly due to country demand for DFAs

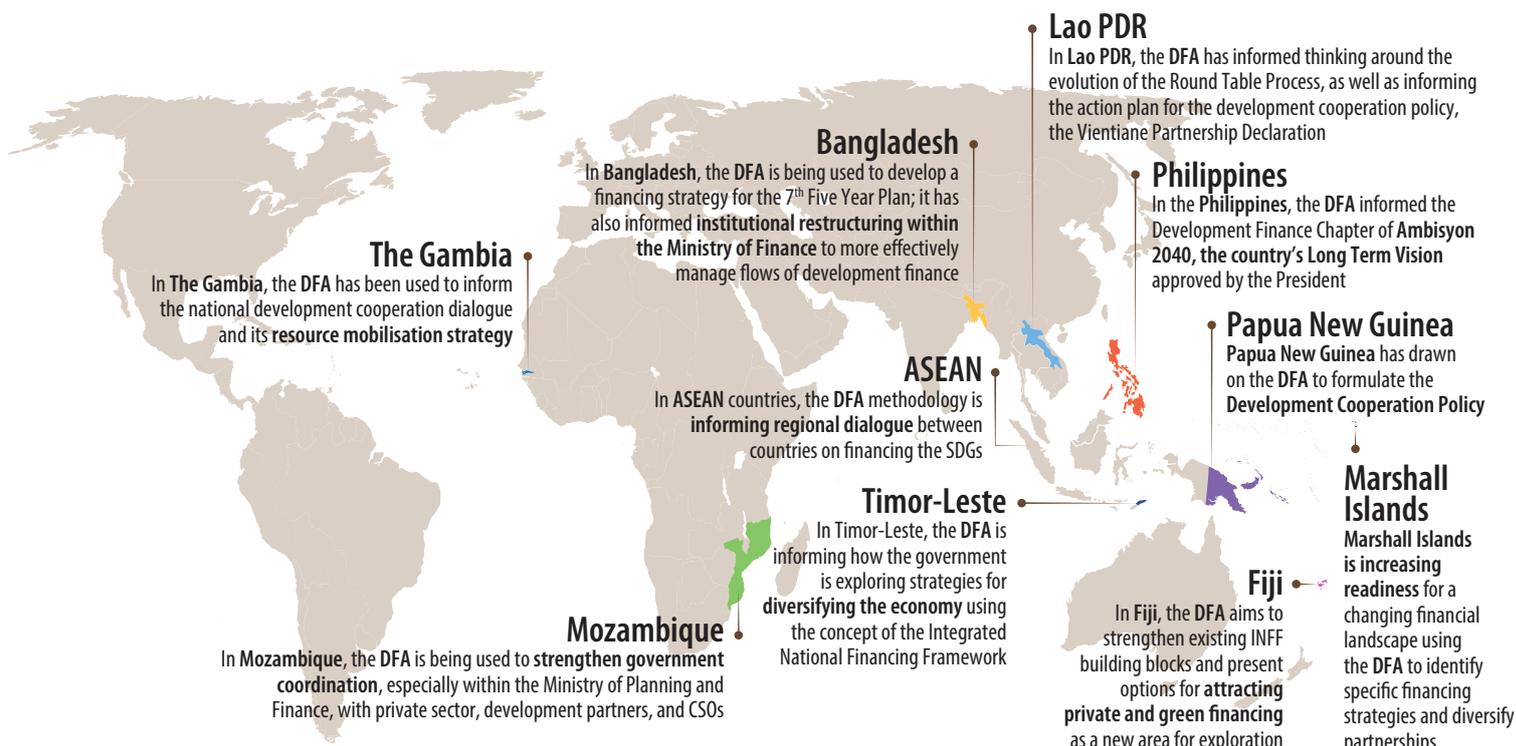
UNDP is already supporting a number of countries to implement DFAs (Figure 1.6) and take forward Integrated Financing Solutions², with the use of a full detailed Methodological Guidance Note published separately by UNDP³. The findings emerging from DFAs provide useful data and analysis for discussing reforms at country level, and stimulating evidence-based dialogue and exchange among countries in the region that face similar change processes. Examples of impact in this area include:

- i. the restructuring of government departments to take a more integrated approach to managing finance for development across institutions or bringing closer together the planning and budgeting processes;
- ii. the development of new integrated policy frameworks that seek greater coherence across external financial flows; and
- iii. proposals for new policy dialogue structures for governments and their partners, providing a multi-stakeholder platform that could be used to review SDG implementation.

² See UNDP Toolkit for Financing Solutions for Sustainable Development here: <http://www.undp.org/content/sdfinance/en/home.html>

³ UNDP DFA Methodological Guidance Note found here: <http://www.asia-pacific.undp.org/content/rbap/en/home/ourwork/democratic-governance-and-peacebuilding/ap-def.html>

Figure 1.7: How countries have benefited from DFAs



Just as important as the DFA (which is Phase 1, as illustrated in Figure 1.2) are the actions taken forward as determined by relevant government actors based on the recommendations. In order to support governments in devising financing solutions to attract and direct investments to areas where greatest results can be achieved, and ensuring attendant institutional structures and policy frameworks are in place, the DFA is a starting point. Developing targeted approaches and tools for ensuring finance links with results, within the framework of an INFF, will be key. Examples of action-oriented tools and support that are included in Phase 2 (Integrated Financing Solutions):

- **UNDP Financing Solutions for Sustainable Development toolkit:** This toolkit is a compass to navigate across financing solutions for investments in the SDGs. It describes their potential advantages, disadvantages, risks and characteristics and offers solutions according to desired results (avoid future expenditures, deliver better, generate revenues, or realign expenditures)
- **Financing Agenda 2030 – UNDP Handbook:** advice and information on financing for development, and the tools and services that UNDP currently offers in this area (forthcoming)
- **Impact investment:** Blended finance offers the opportunity to scale up commercial financing and channel such financing toward investments with development impact, such as through the UN Social Impact Fund
- **Budgeting for the SDGs:** UNDP offers services to governments to reform their budget processes to take more integrated approaches, given the cross-cutting nature of the SDGs
- **Management Information Systems (MIS) for the Changing Development Cooperation Landscape:** UNDP has developed guidance for governments to strengthen MIS to inform policy decisions on the allocation of diverse public, private, external, and domestic development resources

1.3 UNDP's Role in Supporting Country SDG Implementation with the Development Finance Assessment and Integrated Financing Solutions

The Development Finance Assessment and Integrated Financing Solutions approach was developed by UNDP in response to demand from governments for support on establishing integrated national financing frameworks to manage different sources of finance towards achieving the SDGs. In addition to supporting implementation of DFAs and Integrated Financing Solutions at the country level, UNDP plays a critical role in fostering evidence-based dialogue, bringing in regional perspectives and facilitating experience sharing across countries. In contrast to some other international agencies focusing on specific finance flows, UNDP's comparative advantage, in addition to its approach to sustainable development, lies in looking at how the interface among different finance flows can make a difference for sustainable development and ensuring that the potential of each critical flow of resources can be harnessed to support the implementation of the SDGs when matched with adequate policy and institutional reforms. Such an approach focuses on policy development, strengthening institutions and systems needed to mobilise resources and maximise their use for development impact.

In taking forward DFAs and Integrated Financing Solutions in the Asia-Pacific and now in Africa and Latin America, UNDP will consider a range of other tools when assessing how best to support governments to translate the 2030 Agenda into their own plans and to strengthen the management of their development financing resources. Importantly, the DFA and Integrated Financing Solutions approach has been developed not only as a part of UNDP's broader offer of support to governments on Agenda 2030, but also within the context of the UN Development System's overall framework for engagement, the MAPs.

The DFA and Integrated Financing Solutions can be usefully linked to MAPs support and specific assessments related to the SDGs, such as the Rapid Integrated Assessment (RIA), by focusing on the specific financing challenges and opportunities that a country will face in planning for and implementing the SDGs.

MAPs, which stands for Mainstreaming, Acceleration and Policy Support, frames the UN Development System's support to UN Country Teams' (UNCT) engagement in the implementation of the 2030 Agenda, through their respective UN Development Assistance Frameworks (UNDAFs). The MAPs provides a shared resource for the UNCT's substantive engagement with governments and partners on the SDGs, paying special attention to the crosscutting elements of partnerships, data and accountability:

Frameworks (UNDAFs). The MAPs provides a shared resource for the UNCT's substantive engagement with governments and partners on the SDGs, paying special attention to the crosscutting elements of partnerships, data and accountability:

- **Mainstreaming** means landing the new post-2015 agenda at the national and local levels, and integrating into national, sub-national, and local plans for development; and subsequently into budget allocations.
- **Acceleration** means targeting national (and UN) resources at priority areas identified in the mainstreaming process, paying special attention to synergies and trade-offs across sectors (reflecting the integrated nature of the agenda), bottlenecks, financing and partnerships, and measurement.
- **Policy Support** means making sure that the skills and expertise held in the UN Development System is made available in a timely way and at the lowest cost possible.

The DFA and Integrated Financing Solutions can be a useful approach to complement MAPs, including MAPs missions. The value of the DFA being integrated into the MAPs approach and support is already recognised, specifically in the cases of Cambodia and Timor-Leste.

2. About the Development Finance Assessment and Integrated Financing Solutions

Development Finance Assessment (Phase 1)

2.1 Purpose and Objectives

The purpose of the DFA can be defined as:

To support Government's capacity to develop Integrated National Financing Frameworks (INFFs) designed to catalyse the resources needed to achieve their national development priorities and results in the context of the 2030 Agenda, and to develop targeted, evidence-based policies and sound institutional solutions to implement them.

The DFA helps government answer two key questions:

- What financing challenges and opportunities will the country face in achieving sustainable development priorities?
- How can government build an integrated national financing framework that will help it overcome the challenges and leverage opportunities?

Overall DFA objectives	
<ul style="list-style-type: none"> • Establish a baseline for assessing the extent to which an integrated national financing framework or some of its building blocks are already in place • Provide a roadmap for implementation to help governments put in place the building blocks of an integrated national financing framework, building on on-going policy and institutional reforms to take forward the DFA findings and recommendations • Identify the specific roles and responsibilities of the government entity commissioning the DFA in taking forward some of the forthcoming recommendations that may fall beyond its mandate 	
Assessment objectives <ul style="list-style-type: none"> • Analyse the financing landscape covering all public, private, domestic and international resources • Analyse 1 or 2 focus areas (around a particular finance flow, national development priority, or INFF building block) that will affect the country's ability to achieve results across the economic, environmental and social dimensions of sustainable development • Assess the strength of government's existing financing strategies, policies and institutional structures to meet key financing challenges • Assess the existence of the building blocks of an integrated national financing framework • Identify constraints that hinder government attempts to mobilise financing for sustainable development results, where <i>Integrated Financing Solutions</i> support could be offered in follow-up to the DFA 	Improvement objectives <ul style="list-style-type: none"> • Propose recommendations for establishing an integrated national financing framework • Propose practical policy and institutional reform recommendations to strengthen the building blocks of an integrated national financing framework • Help governments develop the capacities needed to implement their national plans and strategies through evidence-based dialogue, results-oriented policies, and sound institutional solutions and systems • Provide opportunities for stakeholders to exchange experiences and ideas with other countries in the region • Set in motion the strengthening of cross-government coordination

2.2 Analytical Framework and contents of the Development Finance Assessment

Figure 2.1: The DFA report structure



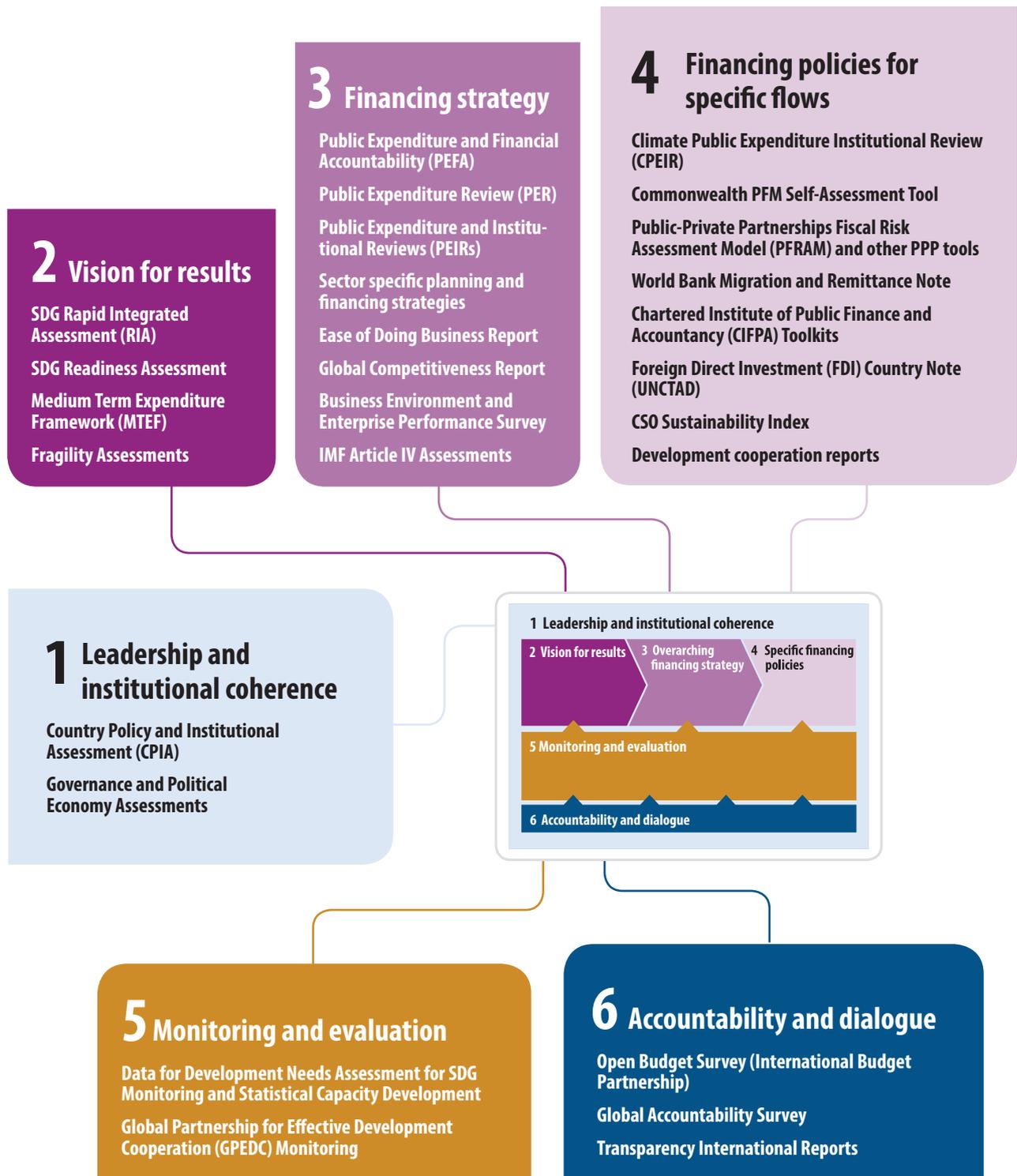
2.3 Overall approach

A DFA helps a government to understand and adapt its policies, institutions and strategies for the financing challenges the country will face in realising results across the economic, environmental and social dimensions of sustainable development. It supports government to establish and strengthen an integrated national financing framework. **The approach and analytical framework for the DFA are guided by the following principles:**

- i. Use of existing data and policy analysis:** The DFA does not involve primary data collection and research, but aggregates existing data and analysis around different flows of development finance. Rather than duplicating highly technical assessments that are beyond the boundaries of the DFA methodology, the DFA draws on existing assessments, data, and studies which are relevant to aspects of the integrated national financing framework and to the objectives of the DFA (see Figure 2.1).
- ii. Focus on linking finance with results:** The DFA develops policy options and institutional reforms for government to consider maximising the use of existing resources to finance their development priorities. As such, the DFA introduces the integrated national financing framework as a practical and conceptual framework that will help governments work through the complexities of managing and effectively using different types of finance to meet national results and the SDGs.
- iii. An action-oriented diagnostic tool:** Establishing an integrated national financing framework is an ambitious long-term endeavour. The DFA is a useful tool that helps government establish a baseline for developing an integrated national financing framework and roadmap for implementing the recommendations emerging from the assessment, drawing on various resources and support available, including that of Integrated Financing Solutions, which is a second phase of support following the DFA.
- iv. Focus on the role of both the public and private sector in an integrated national financing framework:** The DFA is unique among complementary tools and processes related to finance in that it considers, using the INFF concept, the need for coherence between public and private sources of finance in achieving development results. For example, the DFA focuses on analysing the degree to which the private sector development strategy it is integrated into the government's overarching financing strategy.
- v. Emphasis on stakeholder engagement:** In addition to being a robust assessment tool, the DFA is also a process which brings together different stakeholders and partners, under the overall leadership of the government oversight team, and encourages dialogue and engagement around the concept of an INFF.

Building on these principles the DFA establishes an analytical evidence base of the financing challenges and opportunities the country will face. It undertakes an assessment of the government's existing financing strategy and the policies and institutional structures used to implement it. It assesses these using the integrated national financing framework concept and provides recommendations to help government develop and deliver an integrated overall financing strategy.

Figure 2.2: Sources of Data and Analysis Linked to INFF Building Blocks



Note: Some of these tools may be relevant to more than one building block as the above is indicative to illustrate that the DFA draws on such existing assessments and can be complementary to other ongoing assessments related to a country's efforts to strengthen their INFF. Sources of data and analysis need to be tailored to individual country contexts.

A unique feature of the DFA is that it looks across the (potential) contributions of all resources to the economic, environmental and social dimensions of sustainable development. As such it builds up as comprehensive a picture of the overall financing landscape in the country as can be developed. The financing landscape in most countries is one characterised by increasing complexity, with a diverse range of flows and instruments from public and private sources at the domestic and international level (Figure 2.3).

The DFA would include a range of analyses covering recent trends, current status and potential future trajectories of the levels and mix of financing flows and instruments, data on the ways that these flows are invested and available information on their effects on different components of sustainable development. The mix of financing flows, and the availability and quality of data describing those flows, will vary widely depending on the country context.

Figure 2.3: The DFA comprehensively maps the financing landscape in the country

	Public	Private
External	<ul style="list-style-type: none"> • ODA grants • ODA loans • Other official flows • Public or publicly guaranteed borrowing (international lenders) • Multilateral development banks • South-south and triangular cooperation • Climate finance • Vertical funds 	<ul style="list-style-type: none"> • Foreign direct investment • Portfolio equity • Remittances • International NGOs, foundations and philanthropists • Private borrowing (international lenders) • Corporate social responsibility
Domestic	<ul style="list-style-type: none"> • Direct, indirect and other tax revenue • Mineral related taxation • Non-tax revenue • Public-private partnerships • Public or publicly guaranteed borrowing (domestic lenders) • Sovereign wealth funds 	<ul style="list-style-type: none"> • Domestic investment • Private borrowing (domestic lenders) • Domestic NGOs, foundations and philanthropists • Corporate social responsibility

Note: The primary focus of the quantitative component of the DFA is on financing flows, though in some circumstances analysis of stocks, such as debt stocks, foreign reserves or FDI stocks, may be relevant. This diagram presents an overview of the wide range of financing types that should 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.

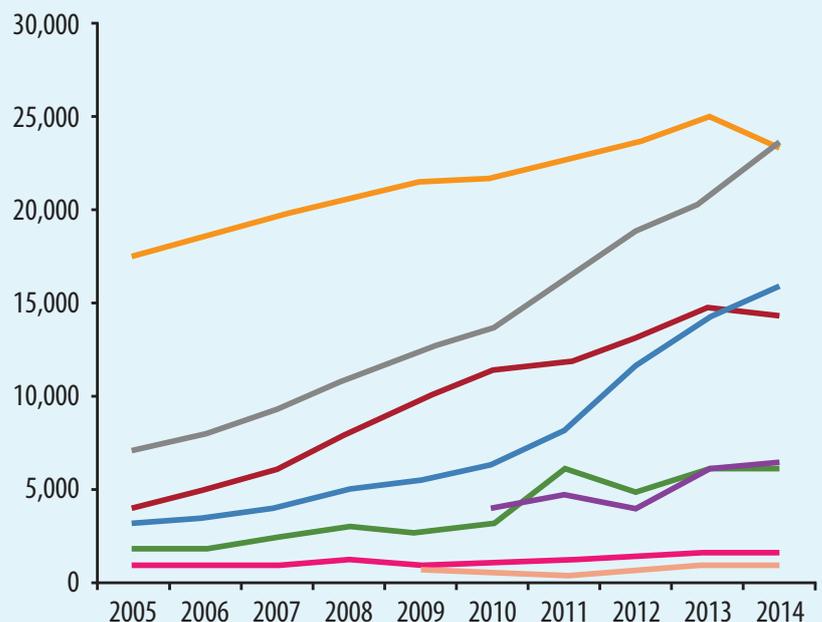
For each of the finance flows, the DFA aggregates existing data and analysis covering the following areas:

- **Recent evolution and trends:** quantitative importance of each individual flow and recent trends (last 10 years according to pre-established data series)
- **Relevance and complementarity of each flow in financing development goals:** government's preferences/priorities against each flow, sector allocation, and – where applicable – by level of government (national and sub-national), coherence across policies governing different flows, linkages with national development strategies/plans and results frameworks as well as the measurability of their contribution to achieve results
- **Policy and institutional setting governing and affecting the development of the flow:** institutional arrangements; policies in place and coordination set up to regulate, oversee and manage these flows; degree to which government can control these flows and influence their alignment with national priorities; potential barriers in accessing them
- **Availability of data and information to support policy decision making:** availability and quality of evidence, including tools to record data and compatibility among differing management information systems as well as ease to collect information from a range of stakeholders

Findings from Bangladesh DFA: trends and finance flows

Figure 2.4 provides an example of the type of mapping of the financing landscape which can be produced; it shows the trends in financing flows in Bangladesh, as presented in the Bangladesh DFA report. The 7th Five Year Plan (2016-2020) aims to develop strategies, policies and institutions that will allow Bangladesh to further accelerate job creation and reduce poverty and meet the new commitments made in the SDGs. The plan has clear resource targets, where a targeted 78% of resources will come from private investment. The DFA provided evidence of trends of different types of finance, contributing towards policy discussion, in response to the Government's interest in articulating an integrated approach to managing finance in support of the 7th Five Year Plan and the SDGs.

Figure 2.4: Findings from Bangladesh DFA: trends and finance flows (in USD millions)



Source: Bangladesh Development Finance Assessment report

- | | |
|----------------------|-----------------------------------|
| — Tax Revenues | — Foreign Direct Investment |
| — Public Debt | — Official Development Assistance |
| — Private Investment | — Domestic Climate Change Finance |
| — Remittances | — South-South Cooperation |

Government leadership and ownership of the DFA is essential. Therefore, outlining the process responsibilities involved in undertaking a DFA process is important. Such a description also provides a useful basis to identify ways of enhancing quality assurance and provide clarity on the roles of different actors in the process. The constitution of a formal inter-ministerial Oversight Team (OT) is a key aspect of consolidating the government's leadership and governance role in the assessment process.

The OT, in playing the overall governance and leadership role in the DFA process, would ideally support in the following ways:

- **Support the DFA fieldwork.** Facilitating the work of the research team by ensuring access to key decision makers and government documents, and removing any obstacles that may delay the DFA process.
- **Oversee quality and accuracy of the assessment.** The OT can ideally guide the research team by reviewing the DFA intermediary and final outputs produced by the team and ensuring that the assessment is accurate and provides the necessary depth to be useful for government decision-making.
- **Ensure government buy-in.** The OT will lead the discussion with government, development partners and other relevant stakeholders about the DFA findings, as well as on implementation of the recommendations and Roadmap.

The DFA is as much about the process as it is the final document – the process of developing and refining the recommendations should itself help engender the buy-in and consensus of key stakeholders about possible ways forward as coordinated by the OT. Recommendations emerging from the DFA are framed around the overall objective of strengthening an INFF; this can include proposed actions at a number of levels, such as:

- Priority areas for reform in the government's existing financing strategy, financing policies and institutional structures, to establish an integrated national financing framework. Example: developing an overarching financing strategy. This may be larger recommendation that requires the buy-in of actors beyond the oversight team, at the highest levels of government.
- Recommendations for reform within individual building blocks. Example: develop indicators for monitoring private investment and job creation in sectors relevant for poverty reduction.
- Recommendations for reform in coordination / alignment mechanisms between building blocks. Example: establish ministerial committee with responsibility for reviewing the financing policies for specific flows to ensure complementarity and coherence between policies.
- Recommendations to feed into ongoing reform processes.



Integrated Financing Solutions (Phase 2)

2.4 Taking Forward Recommendations from a DFA through Integrated Financing Solutions

Given the ambition of achieving the Sustainable Development Goals, governments face significant challenges not only in attracting adequate financial resources, but also in using different types of finance to their respective comparative advantages and in an integrated manner which reflects the interconnected nature of the sustainable development agenda. In considering options for improving approaches to financing development results, equally important is the fact that the financing landscape and enabling environment for making and implementing policy decisions around finance is different in each country context. **The *Development Finance Assessment and Integrated Financing Solutions* approach reflects this, as the DFA (Phase 1) focuses on producing an evidence-based common understanding of a particular country's financing context, leading to the formulation of action-oriented solutions (Phase 2) for strengthening an Integrated National Financing Framework (INFF).**

Indeed, it is important to emphasise that both Phase 1 and Phase 2 of the approach are built around the analytical lens of the INFF concept and the six building blocks which have been identified. However, and critically, both the guiding principle and the practical approach for Phase 2 is to maintain a focus on *coherence*- across different INFF building blocks, across different types of finance, and between different institutions and stakeholders within and outside government. While a particular financing strategy or solution may be quite specific to a finance flow or a development result, its relationship with other building blocks of the INFF will need to be considered.

Phase 1

Development Finance Assessment

- Establish a baseline for the building blocks of an INFF
- Map the financing landscape covering all types of finance
- Assess government's existing financing strategies, policies and institutional structures
- Propose a roadmap for implementation for establishing an INFF, including areas where Integrated Financing Solutions can support DFA follow-up

Phase 2

Integrated Financing Solutions

- Conduct more in-depth analysis around specific financing topics and priority areas, linked to the INFF
- Implement financing solutions around specific finance flows or instruments, linked to an INFF
- Undertake policy and institutional reforms to strengthen an INFF
- Develop capacity building strategies for strengthening institutions involved in the INFF including promoting transparency and accountability

UNDP has developed an online platform and toolkit on Financing Solutions for Sustainable Development, which provides guidance for policy makers on how to devise financing solutions, and weigh various financing options and instruments, to direct investments to those areas with the greatest co-benefits and multiplier effects to make progress on sustainable development. It offers guidance on financing options specific to a particular sector, Sustainable Development Goal, or financing instrument. It also discusses financing solutions through the lens of a particular (financing) result, as seen in Figure 2.5. This framework recognises that while there is an interest and a need in many countries to *mobilise* additional finance, governments also have other strategies available to widen the fiscal space to finance sustainable development. These strategies include options to *realign* resources such as by prioritising allocations to align with social and environmental goals; *avoid* future expenditures such as health-related expenditures; and *deliver better* by reducing inefficiencies such as those associated with public procurement. Attention to *strengthening accountability and transparency* in the use of all types of finance is also a critical area which needs attention in many countries.

The DFA, as an input to devising financing solutions, also contributes the important aspect of ensuring - through the role of the government Oversight Team during the DFA process- the requisite ownership and participatory engagement across the government to ensure that the implementation of recommendations and integrated solutions for strengthening an INFF following the DFA has the best possible chance of being successful and garnering traction with relevant stakeholders. For this reason, following the DFA, during Phase 2 with the implementation of Integrated Financing Solutions, there may be value in continuing the role of the inter-ministerial Oversight Team (OT). The continued involvement of the OT can help ensure that the implementation of financing solutions which may be in the remit of a particular sector or branch of government are still considered from a holistic perspective in terms of how they may relate to or impact other policies, reform initiatives, or finance-related efforts.

Figure 2.5: Examples of Integrated Financing Solutions for Strengthening an INFF



Note: UNDP's online platform and toolkit on Financing Solutions for Sustainable Development can be found here: <http://www.undp.org/content/sdfinance/en/home.html>

Blended Financing solutions with the UNDP Social Impact Fund

Due to the mandate and position of the United Nations, UNDP-UNSIF positions itself as a specialized platform that seeks to position itself as a catalytic investor - identifying and facilitating blended financing towards SDG-aligned investment projects that have the potential to produce above market social and economic returns.

The United Nations Social Impact Fund (UNDP-UNSIF) is a unique and transparent co-investment platform where the entrepreneurs, philanthropists, grant contributors and capital market investors can use blended financing models to create both economic and social dividends while facilitating the transition from grant-only project-based development to blended financed market-based development. As part of the ongoing operational and strategic engagement with portfolio companies to achieve both social and financial returns, UNDP-UNSIF takes an active approach to helping its investees perform by mentoring and offering strategic advisory, organisation building, operational and development effectiveness projects, and reporting and review.



Realign resources

Prioritise and sequence investments, minimise negative expenditures, integrate and prioritise social and environmental expenditures such as through gender-responsive budgeting, climate-related budget reforms, SDG-related budget reforms



Avoid future expenditures

Amend or eliminate counter-productive policies or expenditures; financing solutions include taxes on fuel, tobacco, and renewable natural capital



Deliver better

Favor a more equitable distribution of resources, prevent inefficiencies such as by strengthening public procurement risk mitigation, utilising solutions such as enterprise challenge funds, climate credit mechanisms, and biodiversity offsets



Strengthen transparency & accountability

Integrate Sustainable Development into Financial Management Information Systems, strengthen parliamentary oversight of the budget and other financial flows, engage with Civil Society, etc.

3. How to get started

Government leadership and ownership of the DFA and Integrated Financing Solutions is essential. The development of an INFF across a range of institutions, and the implementation of the necessary reforms to manage or influence multiple finance flows (public and private, domestic and international) for sustainable development, will all require engagement and strong leadership. The following steps are suggested as a starting point:

- Define the Host Institution. The strategic and holistic nature of the reforms proposed through the DFA and Integrated Financing Solutions will always exceed the mandate of a single ministry or government entity. The assessment will typically recommend reforms in areas that are beyond the individual jurisdiction of the Ministry of Finance, the Ministry of Planning /National Planning Commission and other Line Ministries.
- Establish an Oversight Team. An Oversight Team should play the leadership and governance role in the assessment process. The members of the OT are drawn from the leading government entity in the assessment -typically from the Ministry of Finance- and other government agencies involved or other stakeholders, such as the Ministry of Planning or National Planning Commission, Presidential/Prime Minister's Office and lead development partners.

The Development Finance Assessment is a tool that has been developed by UNDP and is implemented at country level under the overall leadership of the government, and with support from UNDP Country Offices in partnership with other organisations. An early step in initiating a DFA should be to contact the relevant UNDP Country Office and/or UNDP Regional office.



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