Financing for Sustainable Development Report 2019

Inter-agency Task Force on Financing for Development

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This report is a joint product of the members of the Inter-agency Task Force on Financing for Development (a full list of members can be found on page x). The Financing for Sustainable Development Office of the United Nations Department of Economic and Social Affairs serves as the coordinator and substantive editor of the Financing for Sustainable Development report.

The online annex of the Task Force (http://developmentfinance.un.org) comprehensively monitors progress in implementation of the Financing for Development outcomes, including the Addis Ababa Action Agenda and relevant means of implementation targets of the Sustainable Development Goals. It provides the complete evidence base for the Task Force's annual report on progress in the seven action areas of the Addis Agenda (chapters III.A–III.G). The report is by necessity more concise and selective and should thus be read in conjunction with the online annex.

The online annex also covers several key cross-cutting initiatives that build on the synergies of the Sustainable Development Goals:

- Delivering social protection and essential public services
- Ending hunger and malnutrition
- Closing the infrastructure gap
- Promoting inclusive and sustainable industrialization
- Generating full and productive employment for all
- Protecting ecosystems
- Promoting peaceful and inclusive societies
- Gender equality
- Investing in children and youth
- Addressing the diverse needs and challenges faced by countries in special situations
- Global partnership

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INTEGRATED NATIONAL FINANCING FRAMEWORKS FOR SUSTAINABLE DEVELOPMENT

Chapter II

Integrated national financing frameworks for sustainable development

1. Introduction

The Sustainable Development Goals (SDGs) are comprehensive, complex and interrelated. Because of their synergistic nature, implementation of the 2030 Agenda for Sustainable Development has revived interest in national development strategies. However, most national strategies do not spell out in detail how they will be financed. Mobilizing sufficient resources remains a key challenge.

Member States of the United Nations recognized this challenge in the Addis Ababa Action Agenda. They decided to put in place ***integrated national financing frameworks*** to support their sustainable development strategies.[1] Such country-owned financing frameworks bring together financing and related policies most relevant to addressing a country's financing challenges. They look at the full range of financing sources and non-financial means of implementation that are available to countries, and lay out a financing strategy to raise resources, manage risks, and achieve sustainable development priorities. In short, integrated national financing frameworks are a tool to implement the Addis Agenda at the national level.

There are several benefits to an integrated approach. By connecting financing and related policies with longer-term objectives, integrated financing frameworks can help overcome short-term oriented decision-making. They allow policy makers to exploit synergies and manage possible trade-offs across different policies. They help countries manage an increasingly complex financing landscape, and help mobilize different types of financing appropriate for country specific characteristics and risks.

Adopting integrated national financing frameworks is a challenging endeavour. In many countries, capacities are limited and policy reform is costly; long "to-do" lists of needed reforms will therefore not be helpful. Existing financing policies may be misaligned due to underlying political constraints, which cannot be ignored. Yet, many elements exist that countries can build on.

All countries have a variety of financing policies in place. If they have already begun implementing a national sustainable development strategy, they should also have governance and coordination mechanisms in place. The integrated financing framework will not need to reinvent the wheel; it is a tool to identify and implement targeted policies and reforms to increase their effectiveness, coherence and alignment with sustainable development. There is clearly scope to do so in both developed and developing countries.

This chapter aims to provide guidance to Member States as they design and implement integrated national financing frameworks. It presents four main building blocks for their operationalization: (i) assessments and diagnostics; (ii) design of the financing strategy; (iii) mechanisms for monitoring, review and accountability; and (iv) governance and coordination mechanisms.

As interest in more integrated and strategic approaches to sustainable development financing is growing, more detailed lessons are emerging for their design and implementation. These lessons inform the analysis put forward in this chapter, and will guide the Inter-agency Task Force on Financing for Development (Task Force) as it continues to refine its methodology and its work in this area through, for example, further elaborations of policy toolkits most useful for different types of countries.

2. Identifying the gap

Interest in national planning was revived with the adoption of the Millennium Development Goals (MDGs), and appears to have picked up pace with the advent of the SDGs. The number of countries with national development plans almost doubled between 2006 and 2016.[2] National strategies and plans are also increasingly well aligned with the 2030 Agenda. Among the 46 countries that presented a Voluntary National Review (VNR) to the High-level Political Forum (HLPF) in 2018, almost all have taken steps to incorporate the SDGs into their planning documents, or have carried out mapping exercises and coherence checks.[3]

However, financing is often the weakest component of national plans. A majority (79 out of 107 plans analyzed in one recent study) do not provide specific costings or details about how they would be financed.[4] Strategies and plans that do contain a financing component often focus on the annual government budget as a source of investment, sometimes incorporating on-budget development assistance or public-private partnerships. Most plans lack explicit guidance on how to link broader policies, such as those targeting private investment, with planning processes.

This weakness is mirrored to some extent in the VNRs provided to the HLPF. A few more countries provided some information on costing or financing sources in 2018 than in previous years, but the information was generally limited and incomplete, and very few carried out costing and identified specific sources of finance or the range of necessary financing policies.[5] Similarly, climate finance strategies are often limited to identifying financing instruments for specific projects and/or aligning funding proposals with requirements of international climate funds, rather than formulating a comprehensive strategy that would assess how the entire financial system can be aligned with and support sustainable investments.[6]

One central lesson from these reviews is that financing plans often focus solely on items that can be budgeted, without incorporating the broader financing landscape. This lack of a comprehensive financing component has sometimes impeded the ability of plans to effectively guide policy. There is evidence that when policy objectives or specific investments are not costed and budgeted, and not linked to investment plans and policy strategies, the development plan risks remaining a vision, rather than becoming a vehicle for change.[7]

3. What are integrated national financing frameworks?

A country's sustainable development strategy lays out ***what*** needs to be financed. Integrated financing frameworks spell out ***how*** the national strategy will be financed and implemented.

Ongoing work by members of the Task Force, including UN/DESA, UNDP, the OECD and the World Bank, have highlighted key elements of such frameworks and their relations (see figure 1 for a schematic visualization):

i. **The main sources of financial and non-financial means of implementation**. All financial and non-financial means of implementation—public, private, domestic and international finance, technology and capacity building—need to be mobilized to support sustainable development. The evolving financing landscape, including new actors and a wider range of instruments, have added complexity to the financing challenge and put a premium on strategic approaches to actively manage financing flows and other means of implementation.

ii. **A national financing strategy.** The financing strategy brings together various financing policies and instruments in an integrated manner. As noted above, a wide range of such national policies are already in place. However, existing policies, which develop over time and often in an ad hoc fashion, may not be well aligned with the sustainable development strategy. A financing strategy promotes upward coherence by aligning financing policies with the national sustainable development strategy. It also promotes lateral coherence between different public and private financing policies and instruments, and it can support prioritization of financing policy actions that best respond to national goals, needs, and constraints.

iii. **The institutions and processes that underpin these relations**. Successful policy design and implementation is conditional on institutions and actors that have the capacity and the political clout to do so effectively. The concrete ***form*** these institutions take will differ from country to country. The breadth of the agenda suggests a role for a high-level government coordination mechanism, which could be played by the same body that oversees the national sustainable development strategy. In addition, platforms for dialogue and engagement with non-state actors help ensure that all relevant actors have ownership of the process.

4. Why should countries adopt an integrated financing framework?

Integrated national financing frameworks are a powerful tool, which can help overcome many of the existing impediments to financing sustainable development. For example, by assessing the full range of financing sources and their respective characteristics and risks, financing frameworks allow countries to more strategically manage a complex financing landscape. Financing deci-

Box 1

Frameworks, strategies, policies: what's in a name?

Different terminology is often used to describe countries' integrated efforts to implement the Addis Ababa Action Agenda. Concepts such as financing frameworks or strategies are not always easy to distinguish and labels are often used interchangeably.

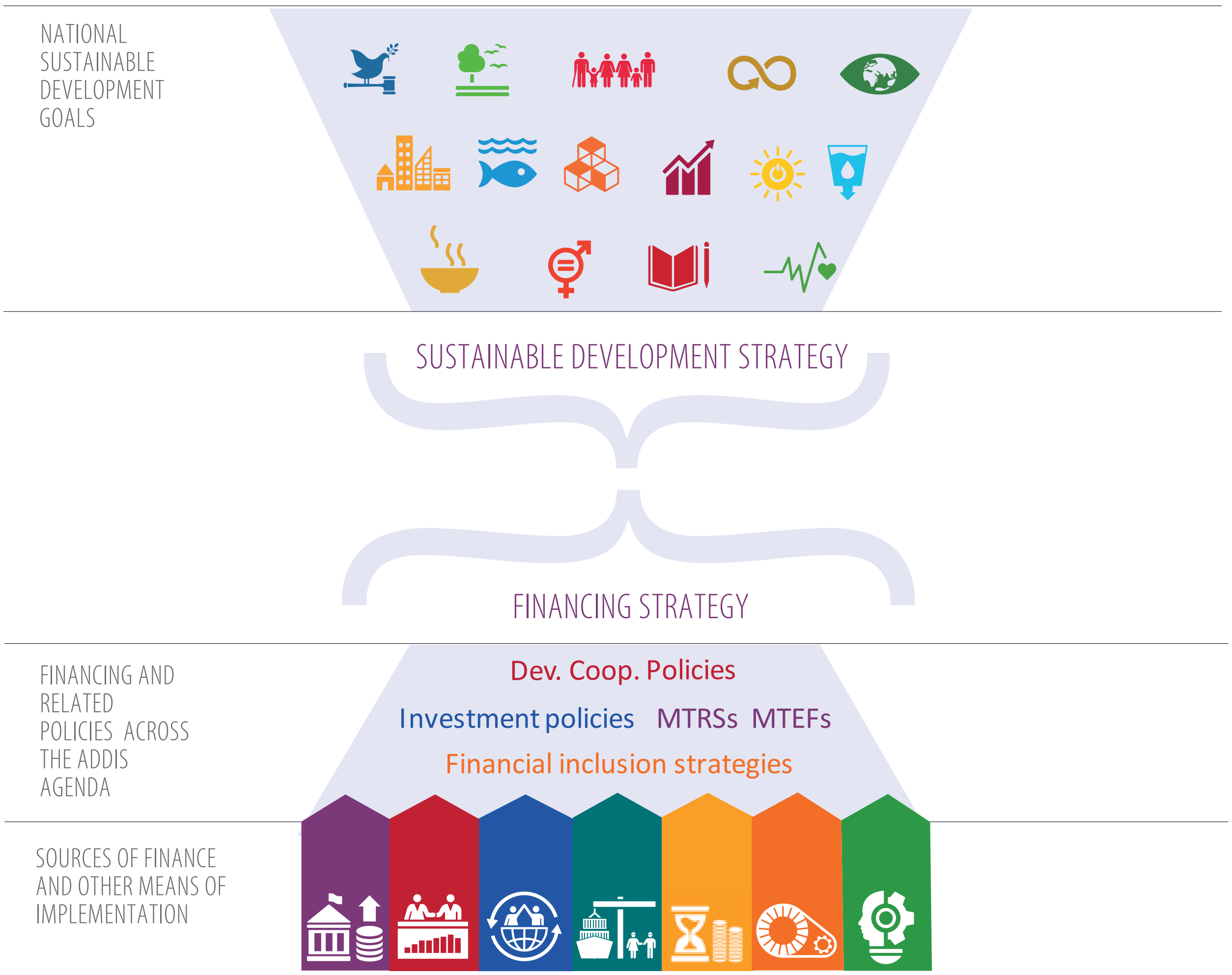
The focus of analysis in this report lies on their ***function***—the role they are intended to play and under which circumstances they can do so effectively. In doing so, the chapter makes clear distinctions between the various terms, even if this may not always match terminology by all agencies or in all countries.

Frameworks identify the relationship between the main components of a policy area (e.g., the objectives, policy actions, and institutions that support financing sustainable development).[a]

Strategies prioritize actions and resources to achieve long-term goals. ***National financing strategies*** bring together the full range of policies in support of financing sustainable development in an integrated manner. They are the heart of the integrated national financing framework. They can take the form of a process, a document that puts actions to paper, or a less formal approach.

a Ostrom Elinor, Understanding institutional diversity (New Jersey, Princeton University Press, 2005).

Figure 1
Schematic of functional relations in an integrated national financing framework



Source: UN/DESA.
Note: Schematic depiction using examples of financing policies and actors for illustrative purposes.

sions are often guided by short-term considerations and taken in silos. Integrated frameworks formulate long-term objectives that are interrelated and connected. By linking financing policies more explicitly to long-term objectives, financing frameworks can help overcome short-termism. By seeking financing solutions for integrated and interrelated policy objectives, and setting incentives for greater collaboration, they help promote coherence. They also can help in the difficult task of prioritizing financing reforms.

4.1. Managing a complex financial landscape

The financing landscape is growing in complexity due to new actors, instrument, and an increasingly challenging global environment. Development assistance has long been characterized by fragmentation, putting administrative burdens on recipient countries. Along with greater donor coordination, the imperative that countries better manage these flows to reduce transaction costs is a long-standing objective. Recently, a wider range of international public financing sources has become available. Southern partners today play a bigger role in the provision of finance and capacity building. Private financing is inherently dispersed, but investment and trade relations have also become more geographically diversified. At the same time, financing instruments continue to grow in complexity. Instruments for the mobilization of private funds, such as blended finance and guarantees, are growing in use in development cooperation. Over 1000 instruments or modalities are available, representing a small but growing share of official development assistance (ODA).[8] Other innovative instruments—from green bonds and impact bonds to non-standard forms of securitization — have become more widely available.

This complexity puts a premium on strategic approaches to managing financing flows. In an integrated financing framework, different flows and instruments can be assessed and compared for their potential impacts and risks. Building Block I in section 5 on the operationalization of integrated frameworks presents assessments and diagnostics. Managing flows goes beyond mobilizing sufficient volumes. It needs to consider the characteristics of different types of finance. For example, development cooperation has a development mandate and is more appropriate for public goods, while for-profit investments are more suited for investments that generate returns. Within private flows, short-term capital could generate liquidity risk if used to finance long-term illiquid investment such as infrastructure projects. Blended finance, which brings together developmental and profit-oriented flows, might be best suited for investments with development impact and non-competitive financial returns.

The greater diversity of flows also increases the urgency for the international community to better track resources and make information available in a more accessible and transparent manner. This includes better measurements of official concessional and non-concessional financing flows from different providers and of private investments and financing flows; and better tracking and understanding of their impact on national development priorities and the SDGs.[9] (See also Building Block III below on monitoring and review.)

4.2. Aligning financing with long-term priorities

Both public and private actors are often faced with short-term incentives that are difficult if not impossible to reconcile with the long-term objectives of sustainable development. Policymakers operate within political cycles. Narrowly defined value for money measurements, while helping to improve efficiencies, can also introduce a focus on short-term results. And investors and other private actors, such as managers of publicly traded companies, often respond to short-term incentives of capital markets. By connecting current financing policies with longer-term objectives, integrated financing frameworks can strengthen the case for addressing longer-term structural policy challenges, providing an impetus to help overcome short-term political bottlenecks. Building Block II below, on the ***financing strategy***, sets out some policy tools that support alignment of financing policies with the long-term objectives in a national sustainable development strategy.

4.3. Increasing the effectiveness of financing policies by strengthening coherence and overcoming siloed behaviour

An integrated financing framework can facilitate coordination between different financing policies and provide a space to consider trade-offs and synergies. For example, if a country identifies financing for infrastructure as one of its priorities, environmental, social and other policies, as well as financial market regulations, tax policies, debt management, and other areas can be geared towards this objective.

Financing frameworks can also support cooperation and coordination among different areas of government —ministries, regulatory bodies, and other relevant public actors—and facilitate dialogue with the private sector and other non-state actors. Building Block IV, on governance and coordination, addresses these issues.

4.4. Translating priorities into strategic action

Integrated national financing frameworks ground the ambition expressed in national sustainable development strategies in the realities of constrained budgets, incomplete financial markets and macroeconomic volatility. Financing frameworks can inform budget allocations, prioritization of financing policy reform efforts, and policy asks of the international community. One of the innovative features of integrated financing frameworks is that they incorporate diagnostics to identify binding constraints. These diagnostics provide an analytical basis that can help Governments be more deliberate in policy choices and prioritization, as discussed in Building Block I below.

5. How can countries operationalize integrated financing frameworks?

There are four main building blocks for the design and operationalization of financing frameworks (see Box 2): (i) assessment and diagnostics; (ii) the financing strategy; (iii) monitoring, review and accountability; and (iv) governance and coordination.

However, the specifics of these building blocks differ by country, reflecting country capacities and priorities. For example, vulnerable countries might emphasize the importance of contingency financing options to be able to respond to shocks. Countries more reliant on provision of concessional finance might address alignment of development cooperation with national priorities. Countries with significant capacity gaps may need to prioritize steps to strengthen their basic institutional capacities in key financing areas, before trying to implement more complex tools. Increasing domestic resource mobilization is a priority in most countries, but the approaches taken differ, reflecting existing capacities and constraints.

The building blocks of integrated national financing frameworks need to be developed in an iterative process, with each step informing the others. The priorities expressed in the sustainable development strategy provide the basis for the needs assessment. But this assessment is impacted by type of financing. For example, the costs of private and public finance differs, due to different financing rates. The financing strategy also influences the needs assessment. For example, policies that stimulate economic activity might raise public resources, lowering the financing gap. Monitoring and review gives feedback, which can inform the assessments and lead to different priorities. On the other hand, weak monitoring and review can undermine policy effectiveness, raising financing needs and affecting future policy decisions by leaving lessons unlearned. This also underscores the importance of a strong governance and coordination mechanism that guides this process throughout all its stages.

A growing number of countries are developing such integrated approaches to financing sustainable development strategies. Boxes 3 and 4 present some experiences from early movers. The country examples highlighted below present a diverse set of countries faced with different financing needs and challenges. They include least developed countries, small island developing States, countries affected by conflict, and middle-income countries.

The remainder of this section discusses these building blocks in more detail, presents select examples and case studies to illustrate implementation experiences, and also lays out available tools and support that the international community provides to countries.

Box 2

Four building blocks for the design and operationalization of financing frameworks

i. **Assessment and diagnostics**: There are four main types of assessments and diagnostics. An assessment of financing and resource needs and an assessment of flows create a baseline understanding of the financing gap. The third element is an assessment of risks. The final element is the diagnostic to identify policy, institutional and capacity binding constraints.

ii. **Financing strategy**: The financing strategy brings together priority financing policy actions. Experience shows that these need to be comprehensive in scope, going beyond public finance and budgets to cover the full range of action areas across the Addis Ababa Action Agenda. At the same time, they need to be focused and carefully sequenced, taking capacity constraints into account, based on the assessment and diagnostic exercise.

iii. **Mechanisms for monitoring, review and accountability**: Monitoring the impact of different financing flows and policies provides the basis for informed policy making, facilitates learning, adaptation of instruments and policies to enhance their impact, and can help mitigate risks;

iv. **Governance and coordination frameworks**: Integrated financing frameworks need to have strong political backing and broad ownership. This lesson emerges consistently from experiences with sustainable development strategies and financing policy reform efforts. This calls for high-level government coordination mechanisms and engagement of all stakeholders.

Figure 2
Building blocks to operationalize integrated financing frameworks

Source: UN/DESA.

Box 3

Experiences from early movers

The Solomon Islands launched its National Development Strategy (NDS) in 2016. To support its implementation, the Government has established a Solomon Islands Integrated Financing Framework (SIIFF), which draws together public and private financing policies. It is based on the recognition that "when it comes to the NDS, it's everyone's business," and that all actors – from Government to private companies, NGOs, faith-based organisations and others – have a role to play in the delivery of the NDS. The SIIFF is used to improve efficiency and coordination of financing policies, and build stronger partnerships with all stakeholders involved in financing the NDS.

The SIIFF was developed by the cross-governmental NDS Implementation Oversight Committee, which also holds overall responsibility for implementation. The Committee brings together all key ministries, consults regularly with representatives of non-state actors, and is responsible for reporting on progress towards the NDS objectives to the Cabinet. The Committee led a wide-ranging consultative process, facilitated through a development finance assessment (DFA), to diagnose the challenges and opportunities for financing the investments needed to achieve the NDS. These consultations also helped build a shared understanding and ownership of priority reforms.

The SIIFF acts as a bridge between the NDS and shorter-term policies across 11 areas of public and private financing. It is rooted in an assessment of the types of investment that will be needed to achieve the NDS, and the various types of public and private finance that can fund those investments. On this basis, it articulates a vision of desired trends in each area of financing and compares these with current trends. To link the two, it sets the strategic direction for policy in each area, and puts forward specific, tangible steps in the short and medium term. For example, to realize stronger private sector investment, it considers steps such as improving public-private dialogue, cross-government coordination around improving the business environment, and tackling priority issues such as tax reform and infrastructure. It also identifies short-term steps, such as establishing a private sector advisory group, and initiating a programme of strategic trade and investment missions.

Bangladesh developed a Perspective Plan for mobilizing finance for the seventh five-year plan and Vision 2021. It covers a wide range of public and private resources and articulates the contributions that they can each make to sustainable development. The framework put forward in the Perspective Plan tightens the link between planning and financing processes; provides a basis for guiding the objectives and design of operational financing policies in the short term; and aims to stimulate deeper dialogue between public and private actors. As the eighth five-year plan is being developed, a joint public-private process has been put in place to assess how to unlock financing for future development.

Elements of the plan include linking financial and non-financial means of implementation to national goals. For example, remittances are important elements for Bangladesh, due to their potential to support poverty reduction in recipient communities and as a source of foreign currency. The Perspective Plan outlines a range of strategic actions to enhance their contribution toward national development objectives. The Perspective Plan also identifies strategic sectors for foreign direct investment, and identifies actions and instruments to encourage investment. In addition, it outlines desired outcomes, such as technology transfer.

Box 4

Financing for Stability: Guidance for development finance strategies in fragile contexts [a]

The OECD Development Assistance Committee's subsidiary body, the International Network on Conflict and Fragility, has developed and field-tested a methodology, which presents an example of how financing frameworks can be applied in fragile contexts.

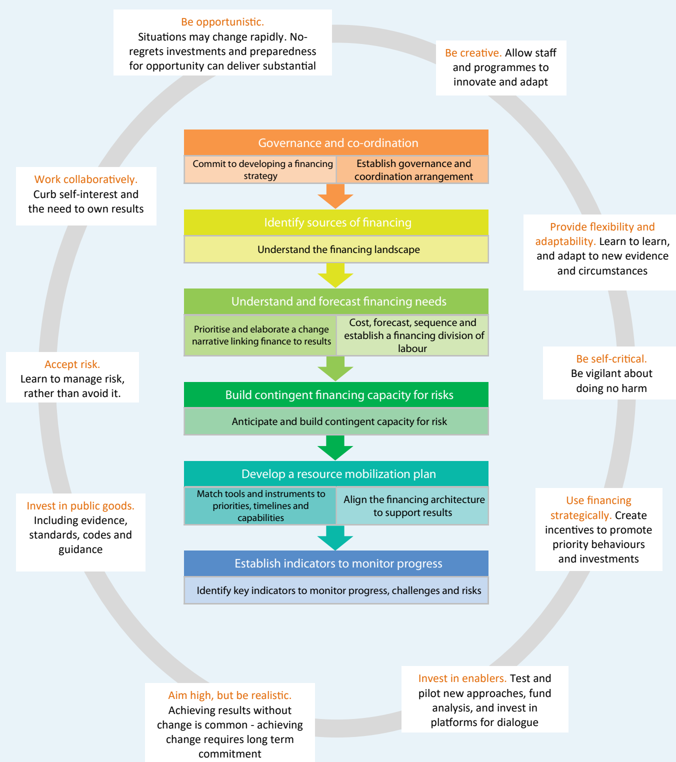
The methodology aims to support better results by raising the right amount of finance, using appropriate financing tools at the right time, and ensuring that the financing mix delivers incentives for stability. It includes steps to deliver a financing strategy, accompanied by financing principles, alongside tactical investments that allow financing actors to incentivize behaviours and priority investments, and to invest in enabling conditions and public goods (see figure 3 below).

Lessons from field-testing include:

- The imperative to increase development finance expertise on the ground, including through the United Nations;
- How financing provides incentives and disincentives, and the necessity of ensuring that the way financing is provided and used does not inadvertently provoke new conflicts over resources, or reinforce existing conflict drivers, such as corruption and the exclusion of vulnerable groups;
- The importance of including contingency financing options in all financing plans for inevitable natural or conflict-related shocks, and to provide a buffer should new opportunities arise;
- The need to phase in and sequence the development financing mix over time, for example by planning for the gradual decrease of official development assistance, as domestic resource mobilization improves and private sector investment grows.

Field-testing has also identified challenges and opportunities, including: the financing of transitions when peacekeeping missions wind down; access to climate finance which is often difficult to obtain in such contexts; minimizing the fallout from debt distress; financing for forced displacement and improving capacity for domestic resource mobilization.

Figure 3
Financing for Stability: Country Level Strategies



a Rachel Scott, Team Leader, Crisis and Fragility, Global Policy and Partnerships Division, OECD Development Co-operation Directorate. This contribution builds on Poole L. and R. Scott, Financing for Stability: Guidance for Practitioners (2018). The additional opinions expressed and arguments employed herein do not necessarily reflect the official views of the member countries of the OECD.

5.1. Building Block I: Assessment and diagnostics

Assessments and diagnostics entail several steps, including a needs assessment for priorities identified in national sustainable development strategies; a mapping of resources; a risk assessment; and a diagnostic of key binding constraints.

Assessments of financing needs and costing

Needs assessments played a prominent part in efforts to achieve the MDGs.[10] Because they require an understanding of the interventions to be undertaken, they helped identify knowledge gaps in implementation strategies for specific goals, in addition to determining public spending needs and financing gaps.

Several agencies have estimated financing needs and investment gaps for the SDGs at global and regional levels, including most recently the IMF and ESCAP (see box 5 for more details and methodology). Costing exercises have also been carried out for other SDG priorities. The expenditure reviews and costing in biodiversity strategies carried out by BioFin are one example.[11]

Needs estimates have significant limitations however. Costing methodologies rely on estimates of unit costs of inputs. Changes to production technologies and the policy environment are not knowable for the relevant medium-term time horizons but may significantly impact costs. They often do not capture possible synergies and trade-offs between different policy objectives. The financing gap they help determine depends significantly on the macroeconomic environment. Alternative growth paths significantly affect spending needs: with higher growth, countries could see a large reduction in their spending needs; with lower growth, needs could increase significantly.[12] In addition, the production function for many policy objectives—particularly those that rely less on direct investment and more on broader policy change—is poorly understood. Objectives that call for concerted global action would also not be captured in national needs assessments.

Even if a full costing is not feasible, costing exercises provide an approximation of future spending needs to inform resource mobilization targets, engagement with development partners, and appropriate sequencing of planned investments. They are particularly useful in public budgeting, including public projects that might involve the private sector. But they should be seen as a first step that will need to be revaluated periodically.

Box 5

Global and regional costing exercises for the Sustainable Development Goals

Both the IMF and ESCAP have carried out needs assessments for several SDG investment areas.

The IMF assessed annual spending needs in five areas—education, health, roads, electricity, and water and sanitation for 155 developing countries, and estimated total needs of $2.6 trillion by 2030.[a] Emerging markets face additional spending of 4 percentage points of their GDP by 2030, on average, or $2.1 trillion, with spending needs varying between 0 and 21 per cent of GDP. Low-income and developing countries face additional spending of 15 percentage points of their GDP by 2030, on average, or $ 0.5 trillion.

These estimates were based on an input-outcome approach which establishes key inputs for each performance area (e.g. teachers and other current and capital spending in education), sets benchmark cost levels for these inputs, drawing on well-performing countries with similar levels of development, and then calculates total spending in 2030. The additional spending estimate as a percentage of GDP in 2030 is the difference between the estimated total spending and the current level of spending.

ESCAP used sectoral models to identify needed interventions to reach goals, and estimates the associated resource requirements to reach specific populations. It finds that the Asia-Pacific region would need to invest an additional $1.5 trillion per year, on average, during the period 2016-2030 in SDG areas ranging from education, health and social protection to infrastructure, climate action and environmental conservation to reach the SDGs by 2030.[b] This is equivalent to approximately 4.1 per cent of the region's annual average GDP for 2016-2030. Across the region, the investment gap varies significantly, rising to 16 per cent of GDP in least developed countries and 10 per cent in South Asia, where investments in people account for more than two thirds of the total gap. In comparison, clean energy and climate action make up the bulk of the additional investment needs in East Asia. For the Pacific Island developing States, investment need in climate-resilient infrastructure is relatively high. Going forward, these estimates could be further developed to (i) allow for more flexible scenario-based approaches; (ii) include more forward-looking assumptions that reflect new technology options, e.g. for online learning or renewable energy, as well as changes to consumption and production patterns envisaged in the SDGs; and (iii) take better account of synergies and co-benefits across SDGs and sectors.

a Gaspar Vitor and others, "Fiscal Policy and Development: Human, Social, and Physical Investment for the SDGs", ***IMF Staff Discussion Note*** 19/02.

b United Nations Economic Commission for Asia and the Pacific, "Economic and Social Survey of Asia and the Pacific 2019" (Bangkok, forthcoming).

Assessment of the development financing landscape

An assessment of trends across public and private financing flows and instruments allows policymakers to identify opportunities and challenges in mobilizing investment. It can provide the basis for selecting priority financing policy actions.

The assessment of the financing landscape goes beyond quantifying financing flows to include the different roles that different types of finance play. The different objectives and characteristics of public and private finance make them more or less suitable in different contexts and sectors. Understanding these characteristics, and the risks associated with different instruments' modalities, is important to making the best use of the growing and increasingly complex set of resources available.

Remittances are one pertinent example. A lot of attention has been paid to remittances because they exceed other forms of cross-border flows at the global level. However, remittances, as wages of migrant workers, are private sources that cannot be compared to public development finance or private investment flows and should be viewed more like domestic wages, albeit with currency implications, than foreign investment or development finance (see chapter II.B).

Assessments also need to be mindful of data gaps. While international flows can be estimated from balance of payment data, domestic private financing flows, in particular, are often difficult to estimate, but no less important than foreign flows.

To get a detailed overview of financing trends and future trajectories, a growing number of countries are using diagnostic tools such as the UNDP's development finance assessments (see box 6). Such exercises not only provide an overview of financing flows, but also point to the effectiveness of policies and capacities of institutions that regulate and manage them.[13]

Assessing risk

All financing policies, regulatory frameworks, and institutions should be designed to prevent and manage financial and non-financial risks. Indeed, at its core, financing is about being compensated for taking risks. This applies to private investment decision-making but is also critical in public borrowing and budgeting.

Assessing risk is challenging, but financing frameworks can lay out a country's biggest risk factors, along with relevant tools to help measure those risks. They can also incorporate alternative risk management

Box 6

The Development Finance Assessment process

A Development Finance Assessment (DFA) is a country-level process that supports Governments and their partners in identifying and building consensus around policy reforms that support more integrated financing of the SDGs.[a]

DFAs have been completed or are underway in more than 35 developing countries. They analyse financing trends and four aspects of government systems: (i) the integration of planning and financing within government; (ii) public-private collaboration; (iii) monitoring; and (iv) review and transparency and accountability (see figure below).

The DFA process brings together a wide constituency of actors to develop and build consensus around a set of recommendations. They focus on strengthening the link between planning and financing, strengthening multi-stakeholder participation in financing dialogues, mobilizing financing for the SDGs and strengthening finance policy to promote greater SDG impact. DFAs have contributed to reforms in different country contexts, from the development of integrated national financing frameworks and stronger financing strategies for national development plans, to the consolidation of planning and budgeting systems, the development of policies focused on specific types of financing, and various capacity building initiatives.

a For more on DFAs, including a more in-depth overview of the kind of questions that can be covered by a diagnostic assessment of financing trends, challenges and opportunities, see the DFA guidebook, UNDP, 2019

Figure 4
Dimensions of the DFA analytical framework

Source: UNDP DFA Guidebook

tools, such as financial instruments, including insurance and innovative debt instruments. Sometimes even "plain vanilla" financial instruments can play this role. For example, during the recent period of low interest rates, many countries borrowed in floating rate debt to take advantage of low capital costs. With global interest rates now rising, debt risks are increasing (chapter III.E.), due in part to rising refinancing risks. With a risk-based approach, borrowing costs would have been weighed against interest rate volatility and the risks of rising interest rates. Countries may have instead opted for long-duration fixed interest debt, even at higher short-term cost. Adopting this perspective requires a long-term horizon for decision making, which integrated financing frameworks could help strengthen.

Beyond financial risks, investing in and prioritizing disaster risk reduction in national budgeting will reduce future expenditure due to losses avoided when a hazard hits, while preserving the development investment made and the resources allocated for the achievement of the SDGs. To this end, assessments should incorporate financing needs and available resources to build resilience, including to the impacts of climate change. This will then inform the financing strategy. For example, public project pipelines should account for all aspects of risk, including disaster risk. Tax and regulatory incentives on the other hand can increase private sector investment in disaster risk reduction.

Many risks cannot, however, be managed at the national level alone. Creating a more enabling international environment remains a key responsibility of the international community. Integrated frameworks can inform policy asks of development partners and global policy processes.

Identification of binding constraints for financing, sequencing and prioritization

Countries face a range of constraints, such as capacity or institutional weaknesses, market failures, or policy gaps, which impede financing for sustainable development. But all these issues cannot usually be addressed at once, since it is unlikely that more than a few major reform efforts can successfully be completed at a time.[14]

The challenge is to identify ***binding constraints***—those factors that, if lifted, would have the most significant impact on the availability of resources. For example, the introduction of medium-term expenditure frameworks (MTEFs) (see also box 9 below) did not initially lead to sustained positive change in many developing countries because preconditions, such as credible annual budgeting processes and macro and fiscal forecasting capacities, were not in place.[15] The latter were the binding constraints. Identifying these early would have led to a more gradual approach. Indeed, in the case of MTEFs, reforms that then took initial capacity constraints into account have shown better results.

Sequencing and prioritization are among the most challenging aspects of policy reform. It is not only about taking existing capacity constraints into account in a specific area (horizontal sequencing); it is also about which financing policies should be addressed first across the action areas in the Addis Agenda (vertical sequencing). This is why an integrated approach to examining constraints is so important. Ultimately, prioritization is a political process. However, the growth diagnostics methodology, which has been used for a long time to provide an analytical basis to inform prioritization, provides some pointers on how countries can make informed decisions. (See box 7 for experiences from the World Bank's Systemic Country Diagnostic.)

Since constraints cannot usually be observed directly, the goal of this approach is to find other indicators that might signal bottlenecks in the economy.[16] For example, if firms are investing heavily in generators and other expensive forms of self-generated (and often highly-polluting) power, this suggests that investments in electricity infrastructure should be a high priority in national investment plans. If sectors highly dependent on debt financing, such as textiles, are underdeveloped, while activities that can be financed from cash flows are comparatively well developed, financial sector development and access to credit emerges as a key priority. Sovereign risk premiums that diverge significantly from comparable countries indicate a perception of heightened macroeconomic risks and suggest putting emphasis on macroeconomic stability and risk perceptions. Box 8 lays out sample questions that can be used to inform this process in the context of integrated financing frameworks.

Box 7

World Bank Group Systematic Country Diagnostics

Since 2014, the World Bank Group (WBG) has prepared Systematic Country Diagnostics (SCD) for client countries to inform the Bank's country programmes in consultation with country partners. The SCD presents an evidence-based assessment of the constraints a country would need to address and the opportunities it can embrace to accelerate progress towards ending extreme poverty and promoting shared prosperity. SCDs, which are publicly available upon completion, have been a valuable input into governments' own development planning processes in some countries. They have been completed for 89 countries as of December 2018 and are under preparation in 17 more.

While SCDs are tailored to country contexts, they all include a few interrelated themes: taking stock of recent performance of the country on key development goals, such as poverty reduction, growth and inequality; identifying the critical factors driving or constraining economic growth and its inclusiveness and sustainability (environmental, social and fiscal); and narrowing down the list of identified constraints to a set of priorities. This last step, prioritization, is critical and the most challenging part of an SCD, where evidence must be complemented by a crucial element of judgment. Given the enormous diversity of countries, no one-size-fits all methodology is applied to prioritization. Instead, a few principles provide a broad framework. *Transparency and contestability* are the most critical principles, which require articulating the rationale (evidence and judgment) for the choices made, the underlying theory of change, and the limitations of evidence and knowledge. This in turn requires clearly defining the *criteria and methodology* that have been adopted for assessing constraints and identifying priorities.

Among the criteria for prioritizing across constraints, each constraint's impact on the goals— the size and sustainability of impact on welfare of the less well off—is typically the most important. Other criteria include whether the constraint addresses essential preconditions for mitigating other constraints; whether addressing the constraint will have important complementary effects on other constraints; and the strength of the evidence used to identify a constraint. Benchmarking a country's performance against carefully chosen comparators and against its own historical performance provides a useful starting point for prioritizing.

Box 8

Examples of questions to support prioritization

- How do different financing flows compare with well-performing (aspirational) peer economies?
- What are key constraints and the most significant opportunities in mobilizing additional resources (e.g., tax revenues, foreign direct investment, domestic investment, etc.) for priority investments, particularly in areas in which the country performs poorly compared to peers?
- Are the associated costs of investments similar to those of successful peers? Are expected returns and risks similar? Are there low-cost solutions to address these differences?
- What instruments have countries facing similar contexts used to mobilize additional sources of financing for sustainable development?
- Which sectors have (partially) succeeded in raising financing versus those that have not; what are the risk/return characteristics of those sectors; have they raised public or private finance; which tools/ mechanisms/ policies have they employed? For example, have development partners used country systems and programme-based approaches in one sector, but not in others, and why?
- Does the needs assessment point to actions that are low cost but have high returns?
- Which investments target goals most directly? Which reach those most in need?
- Will removing constraints have knock-on effects in other areas, and for other SDGs?
- Which areas will have the highest impact in the medium term and on the country's long-term development, versus short-term results?

5.2 Building Block II: The financing strategy

The financing strategy is at the heart of the integrated national financing framework. It brings together financing policies from across the action areas of the Addis Agenda. It matches financing policies to priorities in the sustainable development strategy. The financing strategy has two distinct but related elements. First, mobilizing resources for specific investments often takes a central place in discussions on financing for sustainable development. Existing financing plans often focus on this aspect. Countries match needs assessments to resources, such as public revenues, aid, and sometimes private financing (e.g. project finance). The second element comprises financing policies, regulatory frameworks, and other aspects of the enabling environment—which aim to align financing and behaviour with sustainable development. These policies will also impact and can reduce funding needs, as discussed in section 5.1.

The range of policy options is extremely wide, and the ultimate policy mix will depend on national circumstances and thus differ greatly between countries. But in all cases, the financing strategy aims to increase upward and lateral coherence of financing policies, instruments and flows, and of non-financial means of implementation (e.g., ensuring that tax and investment policies are not conflicting, or that macroeconomic, trade and technology policies jointly reinforce overarching development priorities).

Below are some examples of policies that countries can and have used to raise resources or better align financing with sustainable development. The examples highlight why these policies can be important elements of integrated financing frameworks and its financing strategy, and how incorporating them into the frameworks can strengthen a country's overall financing landscape. Medium-term expenditure frameworks and revenue strategies are highlighted under domestic public resources because they align public financial management with long-term planning. Case studies of investment policies show how countries bring together different financing flows (public and private) and a range of financing and related policies to support specific national priorities (e.g. clean energy and job creation). They also provide examples of institutional collaboration mechanisms and public private dialogue (Building Block IV). The case study on small and medium-sized enterprises (SMEs) financing reports on an effort to identify and address binding constraints, and use the diagnostics to prioritize policy action. National development cooperation policies are an example of managing a more complex landscape. They also demonstrate the importance of monitoring and follow-up (Building Block III).

In addition to select initiatives presented in the report, the Task Force also collected a wide range of technical assistance, capacity development, diagnostic tools and other measures that the international community offers. A survey of members of the Task Force, in which they were asked to highlight key initiatives they undertake at country level, elicited about 180 such initiatives. It is available in the online annex of this report.[17]

Policy actions to mobilize and align domestic public financing with national priorities

See chapter III.A. on domestic public resources for additional details

Aligning public expenditures with sustainable development strategies, and raising additional public resources is often a central aim of integrated financing frameworks. Many countries prioritize efforts in this area, and a wide range of existing experiences can inform them. A challenge in public policymaking can be short-term decision-making. MTEFs, which have been introduced in many countries since the 1990s, and medium-term revenue strategies (MTRS), a much more recent concept, both facilitate multi-year budget planning.

MTEFs integrate policy, planning and budgeting within a medium-term perspective. Annual budgets typically modify the previous year's budget in an incremental manner, making it difficult to reprioritize policies and spending. MTEFs take a forward-looking approach to allocating resources and require policy makers to restructure spending for policy objectives formulated in national strategies and plans. MTEFs have helped address key challenges in public financial management, including improving linkages between national development commitments, planning and funding and prioritization of expenditures (box 9).

Box 9

What are medium-term expenditure frameworks and what can they do? [a]

Medium-term expenditure frameworks (MTEFs) are prepared in three stages. First, the Ministry of Finance, in conjunction with other economic ministries and usually the central bank, uses a macro-fiscal framework and forecasting models to assess the availability of total resources. These are translated into initial allocations for spending agencies, based on past spending, new priorities and policies to reach a countries' national development priorities. Second, line ministries prepare spending plans based on sector strategies and estimated costs, which are translated into multiyear budget requests. Third, expenditure allocations and finalizing the annual budget are reconciled. Multiyear allocations are agreed based on discussions with spending agencies and consideration of tradeoffs.

MTEFs have not always lived up to expectations, particularly when key aspects of budget management remain weak, or when there is weak coordination across the ministries involved. In response, more gradual approaches have been considered, which aim to enhance effectiveness and functionality step by step—for example, putting in place a medium-term fiscal framework first, which specifies the aggregate resource envelope and the allocation of resources across spending agencies, and a medium-term budgetary framework, which reconciles the resource envelope with a bottom-up determination of spending agency needs.

Success factors have included political commitment to a new approach to budgeting through, for example, linking reform efforts to broader strategies and plans; organizational adaptability and technical capacity; appropriate macro-fiscal institutions; and sound budget and public financial management systems. Incorporating the MTEF in an Integrated Financing Framework with a strong governance mechanism can help build support for the process, as well as strengthen coordination across ministries.

a Adapted from World Bank, Beyond the Annual Budget: Global Experience with Medium Term Expenditure Frameworks (Washington, D.C., The World Bank, 2013).

In addition to realigning public spending, many countries will need to mobilize additional tax revenue, and will hence require substantial reforms in revenue policy and administration. The success of revenue reform benefits from a medium-term perspective, which can anchor reform in a broader vision of where the tax system should be heading, and from a reform strategy that clearly identifies priorities and sequencing.[18]

Recognizing the need for a more forward-looking revenue generating approach, the Platform for Collaboration on Tax is promoting the concept of MTRS, consisting of four key elements: (i) broad agreement on the level of revenue mobilization effort for the medium-term (5-10 years); (ii) a comprehensive reform plan for the tax system; (iii) political commitment to a steady and sustained implementation; and (iv) secured financing for capacity development. A stocktaking and gap analysis of the current state of these elements stands at the beginning of the reform process. Some countries are now taking steps to introduce MTRS. For example, Indonesia is transitioning its existing revenue reform into an MTRS, with the goal of achieving a revenue raising target of about 5 percentage points of GDP for critical public investments over the next 5 years. The MTRS also provides a framework for coordinating assistance by development partners.[19]

Aligning private finance and investment with national priorities

See chapter III.B. on private business and finance for additional details

Many priorities expressed in national sustainable development strategies will require private action, including additional long-term private investments and greater alignment of private business practices with sustainable development. Countries have adopted a wide range of policies to channel private investments in priority areas—investment policies to incentivize and attract foreign investment, reforms to improve the overall enabling environment for business development, and many others. Alignment of these policies with the broader sustainable development strategy has emerged as a key success factor in implementation. Integrated financing frameworks provide an opportunity to assess and if necessary increase policy alignment and coherence.

In Rwanda's Vision 2020, which set out key public policy objectives to achieve over a period of 20 years, private sector-led development was identified as a key pillar of transformation. The Government created the Rwanda Development Board and cabinet-level coordination mechanisms to oversee reform efforts. It also engaged with private sector representatives and development partners. As a result, a wide range of concerted reforms were implemented, including the establishment of a one-stop center for investors, streamlined property registration, customs reforms, and post-investment support through the Rwanda Development Board.[20]

In Uruguay, national energy and environmental targets were successfully advanced by sharing the risks of private investment throughout energy subsectors. Policy measures included regulatory changes, predictable tariffs, and showcase windfarms (see box 10).

Box 10

Facilitating investment in energy in Uruguay

Uruguay's long-term energy plan, the National Energy Policy 2005-2030, was established to diversify the country's energy mix, reduce dependency on fossil fuels and increase the use of the country's resources. It set a target of 50 per cent primary renewable energy by 2015. The project incorporated public and private finance, development cooperation, incentives, and regulations, bringing together a range of actors and exemplifying the strengths of an integrated approach.

With support of the UNDP Derisking Renewable Energy Investment Initiative (DREI) and the Global Environment Fund (GEF), the Government adapted regulations to promote private involvement in the wind sector, put in place an auction system, and committed to predictable tariffs. The DREI and GEF programme also established a showcase wind farm and created infrastructure for monitoring wind speeds to identify the best locations. The Government introduced incentives to promote rapid development of capacity, with higher tariffs paid in initial years of operation. It also linked the development of the sector with wider national development objectives by requiring that 20 per cent of components for wind energy investments were made within Uruguay.

These policy reforms rapidly transformed the sector. Over $ 2 billion in investment has been mobilized in wind energy. Wind energy is substantially lower in cost than many alternatives and is replacing the most expensive fossil fuel sources within Uruguay's energy mix. Wind farms generating over 1.2 gigawatts in energy were operational by the end of 2016.[a]

a Yannick Glemarec, Wilson Rickerson and Oliver Waissbein, "Transforming on-grid renewable energy markets" (UNDP-GEF, 2017).

Many countries have also adopted financial sector development strategies and financial inclusion strategies. These strategies are key to identifying and overcoming financing gaps and binding constraints, such as the lack of access to finance for SMEs (see box 11). In the assessment phase, Governments need to understand impediments to financial sector development. Policymakers could then consider what types of instruments, institutions, and regulations could help fill the gap. For example, cooperatives and savings banks (see chapter III.B) and national development banks could be useful complements to commercial banks due to their mandates to pursue economic viability rather than profit maximization, along with social, development, and sometimes environmental impacts. Fintech can also be leveraged to address market failures in SME and other lending and to reach out to previously unbanked populations (see chapter III.G).

Box 11

Access to finance for micro, small and medium-sized enterprises: the UNCTAD Entrepreneurship Policy Framework

Micro, small and medium-sized enterprises (MSMEs) create the vast majority of jobs in most countries. For the Gambia, key constraints to MSME and start up finance were identified during the formulation of an integrated entrepreneurship policy, based on the UNCTAD Entrepreneurship Policy Framework. Constraints included insufficient coverage and distribution of credit information, low levels of competition and product diversification in the financial sector, and low levels of financial literacy. Policy recommendations to respond to these constraints included the development of public guarantee schemes, the establishment of information points on access to finance, and the establishment of a national business angels network, easing access to finance for women and youth including through financial education campaigns or programmes and training.[a]

a UNCTAD, "The Gambia: Formulating the National Entrepreneurship Policy" (UNCTAD/DIAE/2017/1).

Aligning development cooperation with national priorities

See chapter III.C. on international development cooperation for additional details

Many countries have adopted national development cooperation policies to increase the coherence and effectiveness of development cooperation. They are increasingly covering a broader scope of resources, beyond ODA, underscoring the need for coordination with other areas of finance. By enhancing coordination between different ministries and different levels of government, integrated frameworks could further facilitate the active engagement of all parts of government in the implementation of development cooperation policies.

Development cooperation providers can also take steps to better support integrated national financing frameworks. As integrated financing frameworks address the full range of financing sources, they are a tool to better understand the role that development cooperation and concessional finance can play versus other sources of finance. They thus inform national development cooperation policies, which can help guide providers' allocation decisions of ODA and other concessional finance. The chapter on international development cooperation highlights the concept of transition finance as one example to strengthen the effectiveness of external financing provided by the OECD Development Assistance Committee (DAC) in cases when countries increasingly rely on resources beyond ODA, but remain vulnerable to socio-economic setbacks (see box 2, chapter III.C).

At the same time, country experiences with national development cooperation policies hold important lessons for integrated financing frameworks. Box 12 summarizes some of the key lessons learned on their design, implementation, and monitoring and review.

Box 12

Lessons learned from National Development Cooperation Policies

The National Development Cooperation Policies (NDCP) experience shows that political will and leadership at the highest level is critical. Multi-stakeholder participation in the design, implementation and monitoring and review of NDCPs is equally important. NDCPs that have emerged from inclusive, participatory and transparent political processes with strong public dialogue platforms, have proven to be more successful than policies conceived in a narrow technical exercise.

Setting clear financing and non-financial targets is critical for success. Where NDCPs have set clear targets for all actors, not just Governments, they have been particularly effective in securing support and alignment with country priorities. In addition to financial targets, NDCPs will need to increasingly include non-financial targets in support of the SDGs.

The experience with the NDCPs also demonstrates the importance of an effective monitoring and evaluation system. Monitoring and evaluation increases accessibility and transparency of information to the public and enables countries to learn from past practice and make improvements based on emerging evidence.

The NDCP experience also shows that capacity gaps have proven to be a key bottleneck in implementing successful NDCP processes. This suggests that any effort to put in place integrated financing frameworks should not only include a mapping of existing financing needs and resources, but also needs to include capacities at the national, regional, and local levels in constraint diagnostics.

Enabling environments and non-financial means of implementation

See chapters III.D through III. G. for additional details

The global enabling environment shapes and confines financing options for national Governments, and thus has a significant impact on integrated financing frameworks. Addressing the challenges in the global enabling environment requires first and foremost multilateral action, as discussed throughout this report.

Nonetheless, there are a range of actions that Governments can take, within the framework of the financing strategy, to better manage external risks. This does not replace the need for global action, but it does allow Governments to better plan within an increasingly challenging global environment. Policy actions include trade and technology policies, debt management strategies, science, technology and innovation roadmaps, capital account management techniques, regulatory frameworks for the financial sector, and commodity stabilization funds.

5.3 Building Block III: Monitoring, review, and accountability

Monitoring and review is a key component of an effective integrated national financing framework. Monitoring delivery and use of relevant financial and other resources helps to track progress, feeds lessons from policy implementation back to policy design and thus supports iterative policy reform, and provides a basis for dialogue among governments, partners and stakeholders.

In the context of an integrated financing framework, monitoring and review could consist of several layers: monitoring of progress in different financing flows and policy areas, building on existing exercises; bringing these exercises together to strengthen coherence among them; and assessing whether the financing strategy itself is succeeding in increasing overall coherence and alignment of financing and related policies.

Monitoring and review starts with tracking changes in different financing flows. Such tracking can use a wide set of data, such as SDG-relevant expenditure in public budgets. Monitoring systems then assess the impact of these flows on national priorities. For example, some countries have integrated SDGs into the budgetary performance evaluation system.[21] Similarly, country results frameworks allow Governments to review the impact of development cooperation with agreed, country-specific indicators for development results. There is often less understanding of the impact of private investments on sustainable development.

Currently, these different tracking and monitoring systems are distinct and may not be coherent in many countries. An integrated financing framework could serve as a vehicle to strengthen coherence among the existing systems and to close gaps in the architecture. For example, results frameworks for national budgets might not be aligned with results frameworks used in development cooperation. Bringing different monitoring systems together can also reveal redundancies and overlaps. In other cases, such as with private investment, there are gaps. The holistic perspective of an integrated framework can give further momentum to ongoing initiatives to better measure and report on the sustainability impact of private sector behaviour (see chapter III.B. for a detailed discussion).

Lastly, there is a need to understand whether the financing strategy itself adds value. The focus could be on whether alignment and coherence of financing policies with national priorities is increasing; whether coordination among relevant stakeholders to this end is improving; and ultimately whether the integrated approach has raised additional resources for implementing a national sustainable development strategy. This review would solicit feedback from key stakeholders, both within Government and from non-state actors. It can support ongoing dialogue among all relevant actors, allowing them to share lessons on what does and does not work.

Monitoring and review lays the groundwork for greater transparency and accountability. Accountability mechanisms can help ensure that Governments are responsive to all stakeholders, including civil society, private sector, parliamentarians and others. Such mechanisms can provide transparency to the policy process, facilitate mutual learning and thus help improve its effectiveness (see Box 13 for the role that supreme audit institutions can play). They can also help build partnerships, create political constituencies for reform processes and thus propel political momentum for change.

Box 13

Supreme audit institutions

Supreme audit institutions are one important element of national accountability mechanisms. A significant number of supreme audit institutions have integrated SDG considerations into their strategic planning. This has resulted in assessments of preparedness for SDG implementation,[a] as well as broader consideration of public financial management practices. These audits have identified some common issues relevant to sustainable financing strategies—insufficient adjustment of national budgetary mechanisms with the SDGs and national development strategies; insufficient coordination within government and among stakeholders; and availability and quality of data. Through annual audit practices, supreme audit institutions can continue to assess and report on institutional capacities to operate effective, accountable and transparent institutions.

a Le Blanc, David, and Aranzazu Guillan Montero, 2019, The role of external audits in enhancing transparency and accountability for the Sustainable Development Goals, DESA Working Paper 157.

5.4 Building Block IV: Establishing governance and coordination mechanisms

Integrated financing frameworks need to be demand driven, have strong political backing, and broad-based country ownership. Experience from early movers in implementing integrated financing frameworks shows that such ownership was often present because the financing framework was developed jointly with a national development strategy or plan. Accordingly, governance and coordination was also tasked to the body that oversees the national sustainable development strategy. This also helped ensure that financing policies were closely tied to the overarching strategy. National efforts to finance climate action provide further examples of institutional mechanisms such as a national steering committee or cabinet-wide coordination mechanism. This mechanism can provide leadership, facilitate a whole-of-government approach and promote policy coherence.

The governance and coordination mechanism should also lead a consultative process that engages all relevant stakeholders, including parliament, civil society, the private sector and other non-state actors. Such platforms for public dialogue can generate broad-based support, while helping to better inform policymakers of stakeholders' needs and priorities. (See box 14 below for experiences from climate finance and box 12 above on national development cooperation policies.)

The governance and coordination mechanism guides the entire process—from the assessment and diagnostics to policy formulation and implementation and monitoring and review. This can help create accountability and facilitate capacity building and learning. It also needs to be appropriately resourced. Governance mechanisms often rely on a technical secretariat, which requires expert staff and funding. Technical inputs will be needed throughout the process and must be budgeted for.

Institutional mechanisms provide 'top-down' coordination. A range of additional tools—safeguards, screening tools, coherence checks, mainstreaming and incentives for inter-ministerial coordination, for example—can also facilitate better coordination and coherence of financing policies and support effective delivery.

Safeguards are a minimal form of policy coordination, that is, they ensure that policies and investments do not harm or undermine specific policy objectives. While they do not, by themselves, facilitate systemic changes called for by the 2030 Agenda, safeguards can ensure that individual policies and investments are aligned with, and do no harm to, overarching policy objectives by being applied by all policies.[22]

Screening tools that assess policies for their positive contribution to national development objectives go one step further. Bhutan for example has introduced a 'policy screening tool' that assesses all new policies against their contribution to the country's overall policy objective to increase gross national happiness. Only if a policy is found to be at least neutral to a range of indicators linked to gross national happiness can it be adopted.[23]

Coherence checks ask institutions to assess rules, standards, regulations and policies for consistency with national priorities. This approach has been used in the context of climate action in some countries. It can serve as a basis for strengthening financing frameworks, especially if incentives are well-aligned.

Mainstreaming entails the integration of a specific perspective (e.g. gender equality) into the entire policy process. To address the differential impacts of policies and financing decisions on women and men, gender equality and women's empowerment have to be fully integrated into formulation, implementation, monitoring and evaluation of sustainable financing strategies. Many countries have adopted a National Gender Policy with corresponding National Action Plans, providing information on financing needs to achieve gender equality targets. Together, they can serve as a starting point to bring gender equality dimensions into the financial mapping process.

Incentives can be put in place for greater inter-ministerial coordination and cooperation. For example, allocation of funding for planning and activities can be made conditional on cooperation and joint implementation across several ministries. Rewarding performance with larger budgets can also incentivize and make joint efforts attractive in cases where they deliver better results. However, such performance-based budgeting requires significant administrative and analytical capacity, and will be suitable only in countries where basic budgeting processes are well established.[24] In addition, incentives can be used to align government behaviour with the sustainable development strategy. For example, environmental shadow prices could be introduced on investments and activities with negative externalities. Line ministries could be asked to remit this tax on externalities to the treasury, aligning their incentives with sustainable development priorities.

Box 14

Lessons on governance and institutional coordination from climate finance

Colombia: The climate response of the Government of Colombia focuses on designing long term policy frameworks to embed climate action and green growth into its national agenda. It is governed under its National System of Climate Change (SISCLIMA), which coordinates climate and climate finance efforts across all government agencies and oversees integration of climate considerations into policy at the national, sectoral and regional level.

Institutionally, SISCLIMA comprises an intersectoral commission on climate change, with four permanent committees (focused on sectoral, territorial, international affairs and research) and a Climate Finance Committee (ENPCC). Among other functions, ENPCC serves as a platform for inter-institutional and public-private dialogue, formulates and updates a national climate finance strategy, and supports the generation of policy guidelines for inclusion of climate criteria in the budget cycle. The Committee is supported by a Monitoring, Reporting and Verification system, which facilitates the tracking of inflows and outflows of different sources of climate-related funding.

By establishing an integrated governance structure around the country's climate response, SISCLIMA has focused its efforts on long term planning processes, intergovernmental coordination and created systems for learning by doing. It helped build awareness, created space for dialogue with key actors, led to the emergence of a community of experts, and guided engagement with development partners.

Cambodia: Cambodia was one of the first countries to have developed a national climate change financing framework (CCFF). The CCFF was endorsed by the Ministry of Economy and Finance. However, overall institutional coordination in Cambodia was led by the Ministry of Climate Change to help support the integrated planning and financing among different line ministries.

The CCFF identifies scenarios for climate financing needs and projections for future funding from various sources, including international climate funds and official development assistance. A National Climate Change Action Plan, developed in parallel to the CCFF, supported prioritization and a clearer costing of actions.

The CCFF continues to evolve to sustain initial reforms. Climate change has been introduced in the budget circular. The macro-fiscal impacts of climate change are incorporated as fiscal risk into macroeconomic and budget planning, and to inform potential fiscal reforms. For example, the Ministry of Finance projected that under a scenario of an additional 2 degrees of global warming, national gross domestic product could be 9.8 per cent lower than anticipated in 2050. These findings led to the inclusion of climate change in the priorities of the new "Rectangular Strategy 4", which will guide macro-fiscal planning for the next five years.

The Ministry of Finance is also supporting institutional capacity building to develop climate change investment screening and appraisal. To reinforce implementation of the strategy as part of routine planning and budgeting processes, sector ministries are also trained on cost benefit analysis and climate responsive budgeting.

Endnotes

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