



Integrated National
Financing Frameworks

GUIDANCE NOTE

INFFs and Least Developed Countries (LDCs)

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About integrated national finance frameworks

Integrated national financing frameworks (INFFs) are a planning and delivery tool to help countries implement the Addis Ababa Action Agenda at the country level. INFFs lay out the full range of financing sources – domestic and international sources of both public and private finance – and guide countries in developing a strategy to increase investment, manage risks and achieve sustainable development priorities, as identified in national sustainable development strategies.

To help build cohesion and encourage knowledge exchange between countries implementing INFFs around the world, the United Nations and the European Union, in cooperation with a growing network of partners, are developing joint approaches to bring together expertise, tools and relationships in support of country-led processes. For more information about INFFs, visit www.inff.org.

Acknowledgements

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1. Introduction

Least developed countries (LDCs) are low-income countries confronting severe structural impediments to sustainable development. Home to about 40 per cent of the world's poor, many LDCs are in conflict or are emerging from one. The low level of socio-economic development in LDCs is characterized by historically weak development capacity, low and unequally distributed income, and scarcity of domestic financial resources. LDCs typically rely on agrarian economies and a few primary commodities for exports and fiscal earnings, which subsequently can be affected by a vicious cycle of low productivity and low investment, as well as making LDCs vulnerable to external terms-of-trade shocks. These development constraints underpin insufficient domestic resource mobilization, chronic external deficits, high debt burdens and heavy dependence on external financing in LDCs. An integrated national financing framework (INFF) can help LDCs navigate these challenges.

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

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

Box 1. Who is this note for?

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

Box 2. What is an integrated national financing framework (INFF)?

Integrated national financing frameworks (INFFs) help countries finance their national sustainable development objectives and the Sustainable Development Goals (SDGs). Through INFFs, countries develop a strategy to mobilise and align financing with all dimensions of sustainability, broaden participation in the design, delivery and monitoring of financing policies, and manage risk.

INFFs are voluntary and country-led. They are embedded within plans and financing structures, enabling gradual improvements and driving innovation in policies, tools and instruments across domestic, international, public and private finance.

Four building blocks can support governments in putting this core approach into practice:



1. **Assessment and diagnostics** (to provide the basis for decision making on financing – i.e. what are the needs, what financing is already available and how it is being used, what are the risks, and what are the underlying obstacles/binding constraints);
2. **Financing strategy** (to guide the design of integrated financing policies and reforms);
3. **Monitoring and review** (to bring together all information to track progress and facilitate transparency, accountability and learning on all things financing);
4. **Governance and coordination** (to ensure institutions and processes required for the formulation and implementation of financing policies are in place and functional).

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

2. A Snapshot of LDCs

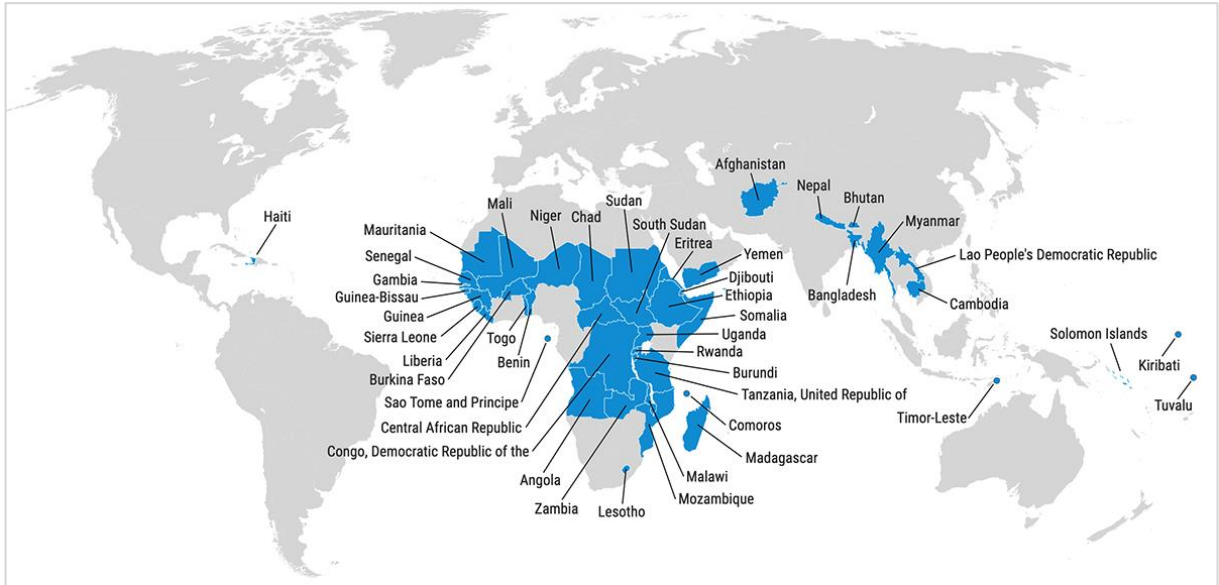
Overview: There are 46 countries categorized as LDCs, according to criteria set and reviewed by the United Nations Committee for Development Policy (CDP). The majority of LDCs are in Africa (33), with a few in Asia (9), Pacific (3) and in the Caribbean (1) region (Figure 1).

LDC category: The United Nations has recognized LDCs as a category of States since 1971. The CDP reviews the list of LDCs and makes recommendations for inclusion in and graduation from the category every three years. To be classified as an LDC, a country must satisfy all three criteria (income, human assets, and economic and environmental vulnerability) and agree to the classification.³ To be eligible for graduation, a country must reach thresholds in two of the three criteria in two consecutive triennial reviews by the CDP. Alternatively, a country may graduate based on the income-only criterion. Six countries have since graduated from the list,⁴ and there are currently 16 LDCs in various stages of the graduation process, with seven expected to graduate by 2026.⁵

Population: In 2021, LDCs had a combined population of around 1.08 billion, around 14 percent of the world's population. Bangladesh and Ethiopia are the most populous at 171 and 123 million inhabitants, respectively. The median population is 13 million. LDCs have among the world's fastest growing rates of population growth, with many projected to double in population between 2022 and 2050, putting additional pressure on resources and achieving sustainable development. While the majority live in rural areas, there has been growing rural-urban migration.

Socio-political: LDCs are home to 50 per cent of the world's extreme poor (i.e., those living on less than \$1.9 a day), with the poverty rate rising to 35.7 per cent in 2020 following the impact of COVID-19. They have low Human Assets Index (HAI) scores, measured by six health⁶ and education⁷ indicators. Three in four LDCs are also in situations affected by conflict and post-conflict situations, which exacerbates the structural impediments to their development. Weak state capacity and high levels of corruption are also common in LDCs.

Figure 1. Location of LDCs



Source: "UN List of Least Developed Countries," 2022⁸

Economic: The GNI per capita of LDCs on average is \$1,161, compared to \$5,298 of developing countries.⁹ Low levels of capital, including human assets, contribute to low productivity, which hinders economic growth and availability of jobs. There are high levels of unemployment and underemployment, with much of the labour force in the informal sector. These challenges are compounded by high population growth rates. LDCs also have high economic and environmental vulnerability due to several factors, including reliance on agriculture and a few commodity exports. Around half of LDCs are also LLDCs (17) and SIDS (8), whose remoteness and landlocked state can inhibit trade and growth. The public sector dominates, and state-owned enterprises (SOEs) are common. The private sector consists mostly of small and medium sized enterprises (SMEs), operating in mainly low-value-added and labour-intensive sectors.

Environment: LDCs are located in climate-sensitive areas, making them vulnerable to climate change. For example, African LDCs are prone to drought and floods, with events increasing in intensity and frequency due to the impact of climate change. This affects agricultural production and food security, which worsens socio-economic conditions. Many LDCs are rich in natural resources, both renewables and non-renewables. However, a significant share of these resources is used unsustainably while others are lost through illegal activities such as illicit financial flows, illegal mining, illegal logging, the illegal trade in wildlife, illegal, unreported and unregulated fishing, as well as environmental degradation and biodiversity loss.

3. Financing for Sustainable Development Issues for LDCs

Overview: With high poverty rates and low levels of income and savings, LDCs have low domestic resource mobilisation and rely heavily on official development assistance (ODA). Private finance opportunities are also muted due to under-developed markets, while foreign direct investment (FDI) is concentrated on extractive industries. Many LDCs face debt sustainability issues and specific transition challenges (see Box 3).

Box 3. Transition finance challenges in LDCs

The transition finance approach shows that the financing mix available to countries varies according to their level of development and characteristics. Overall, two major trends characterise the evolution of countries' financing mix: first, a substitution of external with domestic resources; second, a substitution of public with private resources. However, ensuring a smooth substitution between these resources requires countries to carefully plan for their transition in order to avoid negative repercussions on the country as a whole, or on specific sectors of its economy.

The transition finance country diagnostics (TFCDs) conducted in Cabo Verde, Solomon Islands and Zambia show that LDCs face specific transition challenges. LDCs are characterised by structural handicaps, such as low productivity, low economic base and high exposure to economic shocks and disasters (e.g. commodity price fluctuations, climate change, epidemics and natural disasters). As a result, these countries often struggle to diversify their financing sources and adapt their financing mix at each stage of their development. This translates into difficulties to achieve a smooth and gradual substitution of financing sources.

Throughout their development, LDCs remain highly reliant on ODA and struggle to mobilise other financing flows. The share of ODA in external flows remains higher for LDCs than for other countries across the development continuum. At the same time, many LDCs fail to attract foreign direct investments and private finance. Even when LDCs are successful at attracting FDI, these investments tend to be concentrated in a few sectors (e.g. Zambia's mining industry) or to have limited positive spillovers on the local economy (Cabo Verde's tourism sector).

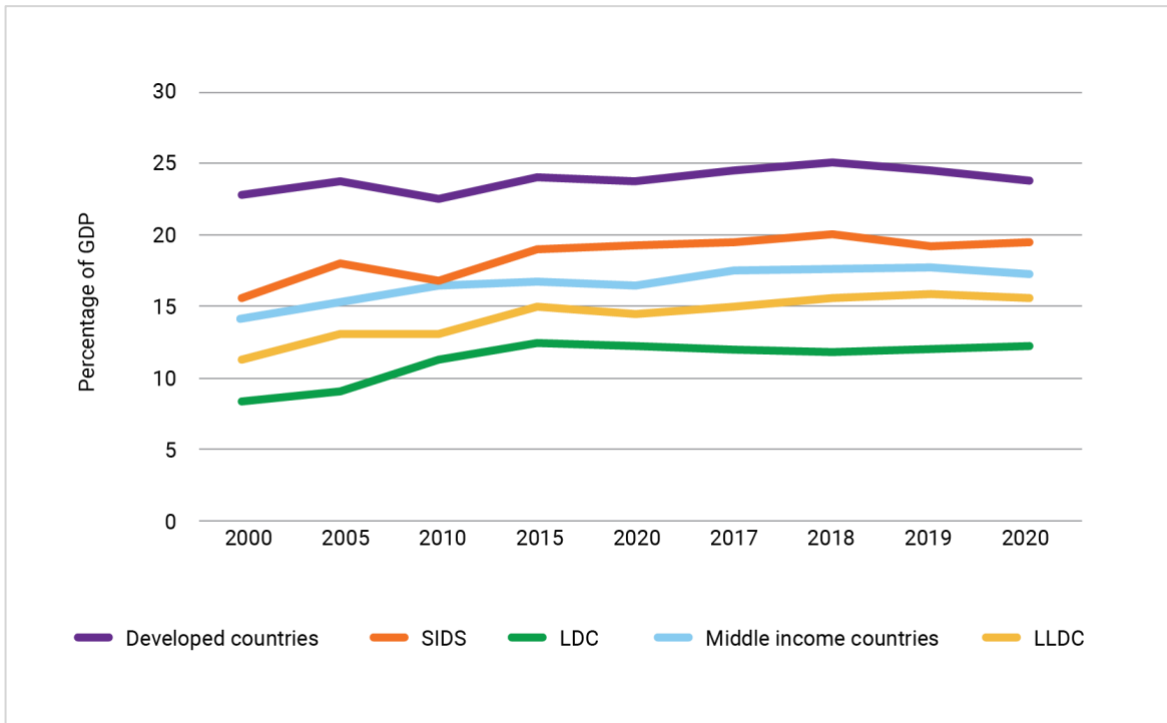
As countries reach graduation from the LDC category or other transition milestones, they can lose eligibility to specific concessional windows or support, triggering a risk of debt distress. Following LDC graduation, Cabo Verde experienced a sharp rise of non-concessional flows as well as an increase in tied aid, with negative consequences on its fiscal position. In Zambia, development partners quickly phased out their support once it achieved lower-middle income status. The experiences of Cabo Verde and Zambia show that failure to carefully manage the transition from concessional to non-concessional finance, and to properly assess the risk-return trade-off of newly available instruments, can result in increased pressure on domestic resources and lead to situations of debt distress.

This demonstrates the importance of helping LDCs anticipate and adapt to changes affecting their access to, or the terms and conditions of, their financing. Existing transition support mechanisms can help in the design of holistic and multistakeholder approaches. For example, the consultative mechanisms that graduating LDCs are invited to establish with their development and trading partners offer a chance to address some of the challenges identified in TFCDs. The holistic and integrated dimension of the INFF and transition finance approaches can also allow development stakeholders to better coordinate their efforts in support of country-owned financing strategies. All LDCs can also benefit directly from the Transition Finance guidance and tools accessible from the OECD Transition Finance Toolkit¹⁰ webpage. The Toolkit includes country diagnostics, methodological and operational guidance, as well as a Transition Finance dashboard – a publicly available tool allowing users to assess financing trends.

For many of the most vulnerable countries, there can be no sustainable access to finance without technical assistance. Ensuring that LDCs have access to sound, neutral and affordable technical advice will be important to help them improve their access to financing for sustainable development. Targeted technical assistance and capacity building (TACB) could help partner countries identify the partners and instruments best fit-for-purpose; build their capacity to access newly available funds and use innovative instruments; and help them find and negotiate the best terms and conditions to meet their financing needs at terms that do not jeopardise their creditworthiness.

Domestic resource mobilization: LDCs have the lowest levels of taxes as a per cent of GDP (less than 15 per cent) compared to other developing countries (Figure 2). They have a much higher reliance on corporate income taxes and goods and service taxes as a share of their revenue, with a lower ability to mobilize revenue from individual income taxes and social contributions because of high levels of informality and low wages, among other factors. LDCs also lose significant resources through illicit financial flows.

Figure 2. Median tax revenue, by country groups, 2000-2020



Source: 2023 Financing for Sustainable Development Report

Public debt: Debt levels have been rising in LDCs since the early 2010s from below 40 per cent of GDP to close to 60 per cent of GDP by 2020, exacerbated by the impact of COVID-19 (see Box 4) (Figure 3). In the same period, debt service as a share of revenue has also doubled to around 12 per cent in 2020. As of 2022, 20 LDCs and other low-income countries have external debt service payments of more than 20 per cent of revenue (2023 FSDR). Although most of the external debt stock is made up of traditional bilateral and multilateral creditors, the share of private and non-traditional bilateral creditors has also increased. While some LDCs are becoming increasingly reliant on commercial borrowing to finance development needs, most still lack access to international debt markets. As of November 2022, 15 LDCs were at high risk of debt distress, while 7 were in debt distress.¹¹

Box 4. Impact of COVID-19 on Least Developed Countries

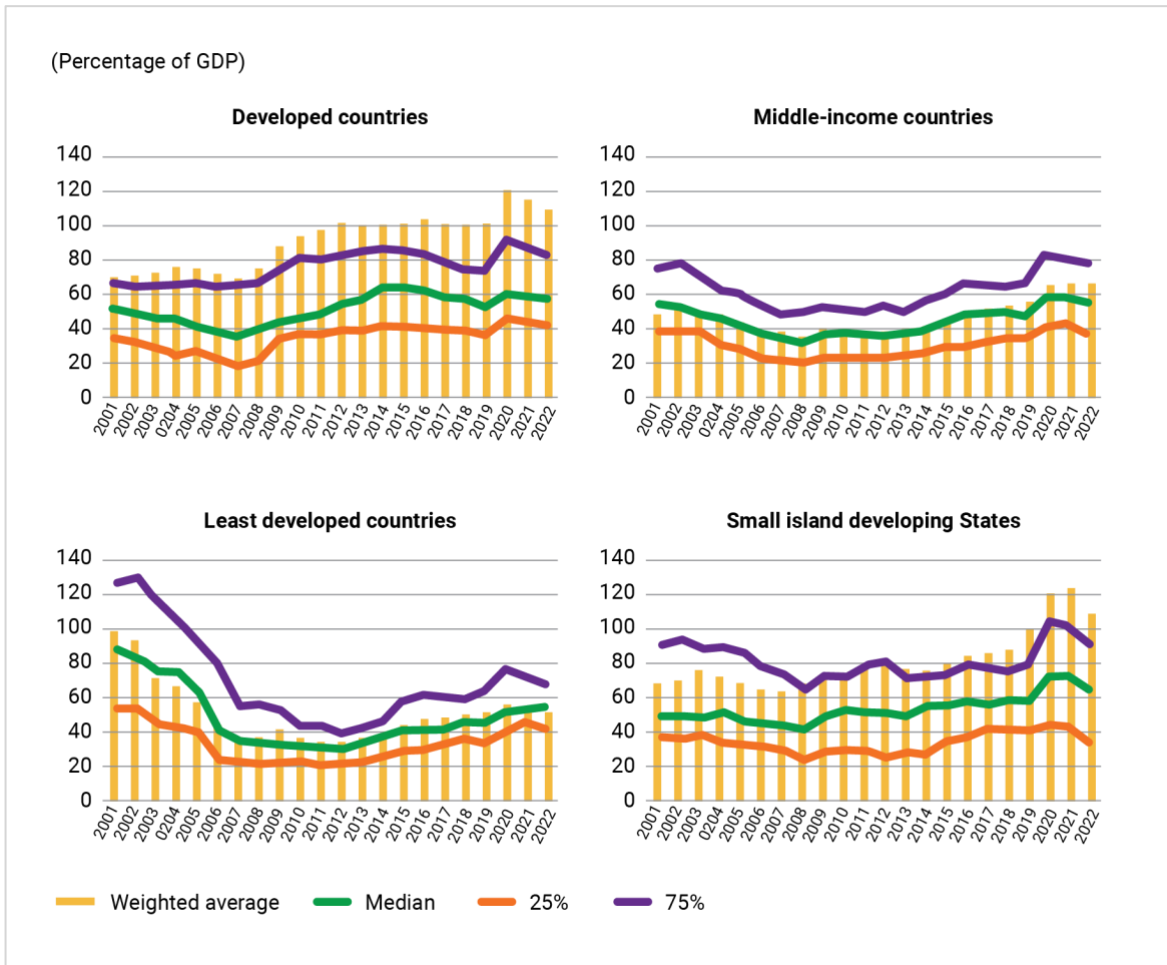
In 2020, the global recession triggered by the COVID-19 pandemic led to LDCs registering their worst socioeconomic performance since the early 1980s. Caught by a multi-layered shock to both aggregate demand and supply, and forced to impose social distancing measures in urban centres, with its associated dampening effect on activity levels, LDCs were faced with lower public revenues and a greater need for higher levels of public expenditure and social programmes. LDCs found it difficult to finance emergency spending, with average fiscal support at about 2 per cent of GDP, compared to roughly 10 per cent in developed countries. As a result of the COVID-19 shock, GDP of LDCs on average contracted by 2.3 per cent in 2020, their worst growth performance in three decades.

Moreover, the structural current account imbalances of LDCs were also exacerbated by: (i) a decline in exports, resulting from reduced global demand and disruptions along key value chains and transport corridors; (ii) a virtual paralysis in tourism flows (which play a vital role for LDCs that are also SIDS); and (iii) the drying up of FDI and remittance flows. Against this background, the relative resilience of ODA, which increased by 1.8 per cent compared to 2019 did little to address a shortage of foreign exchange among LDCs, worsened by heightened debt vulnerabilities and, in some cases, by devaluation pressures.

The COVID-19 crisis highlighted the institutional, economic and social challenges faced by LDCs, emerging at a time when development progress was already slow and unsatisfactory. Core challenges continue to persist and have become more complex and urgent: (i) the slow development of productive capacities and ensuing scant progress in growth-enhancing structural economic transformation; (ii) the persistence of several symptoms of underdevelopment, such as low levels of labour productivity, high poverty rates, low levels of human capital formation, and persistent under-performance in human well-being; (iii) a lingering vulnerability to external shocks and limited resilience due to restricted resources and policy space, and weak institutional development; (iv) a widening income and development gap between most LDCs and other developing countries; and (v) the small number of countries to have graduated from the LDC category – only six so far.

Source: UNCTAD, *The Least Developed Countries in the Post-COVID World: Learning from 50 Years of Experience*, The Least Developed Countries Report 2021 (New York: United Nations Publications, 2021); *Financing for Sustainable Development Report 2022*.

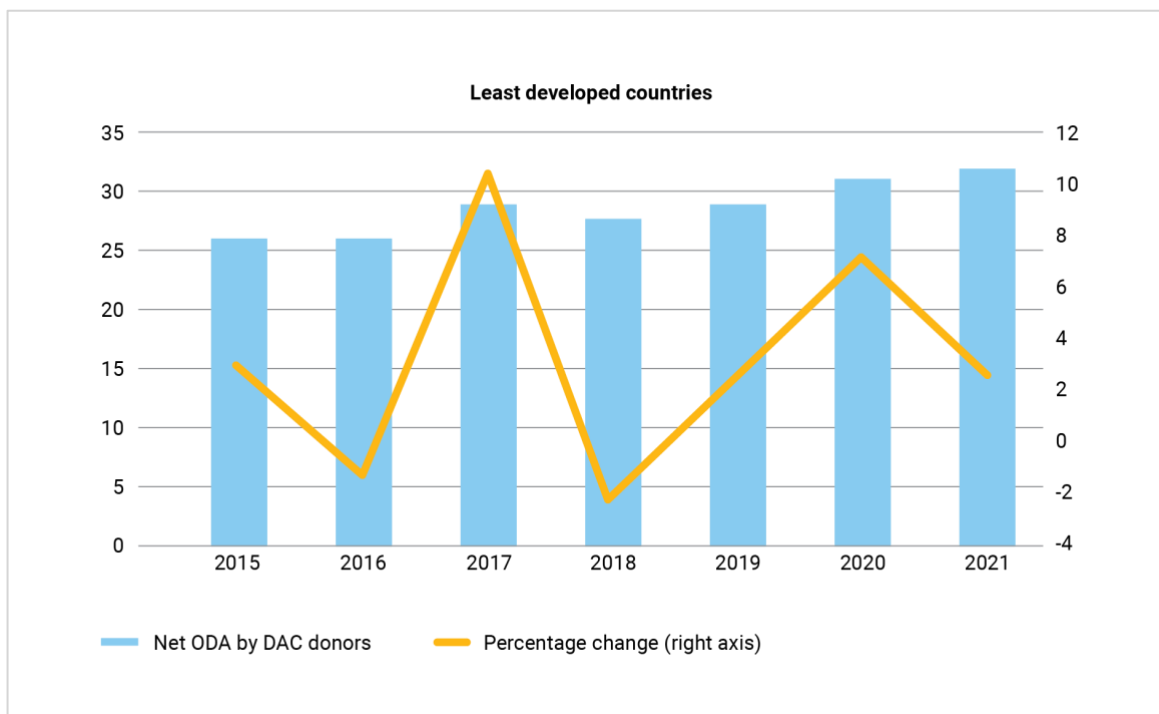
Figure 3. Public debt evolution in developed and developing countries, 2000-2022



Source: 2023 Financing for Sustainable Development Report

ODA: LDCs are heavily dependent on ODA. In 2020, ODA to LDCs amounted to 13 per cent of their GDP on average, compared to less than 1 per cent in developing countries. A few LDCs receive ODA more than one third of their GDP – Central African Republic (34%), Somalia (44%) and Tuvalu (58%). While there are international commitments by donors to prioritize ODA to LDCs as a share of their GDP (0.15-0.20), these have largely been unmet. LDCs are also receiving less favourable ODA as the average grant element has declined, interest rates on ODA loans have increased, while their maturities have fallen.¹²

Figure 4. Total net ODA to LDCs by DAC donors on a cash basis, 2015–2021 (Billions of United States dollars, 2020 constant prices)



Source: 2023 Financing for Sustainable Development Report

Climate finance: Although climate-related development finance to LDCs has increased steadily to \$15 billion, less than 20 per cent of adaptation finance received is invested in projects where adaptation is the primary objective. Flows also fall short of the identified needs that have been costed in their NDCs, estimated at around \$515 billion for LDCs. These amounts could be larger as a significant portion of identified needs are not yet costed – around 41 per cent for LDCs.¹³ Climate-related development finance to LDCs remains highly concentrated in specific sectors, with the transport and storage sector topping receipts at 24 per cent of the total.¹⁴

Domestic financial and capital markets: Markets are under-developed in LDCs, dominated by commercial banks, with very few investment banks. This results in credit constraints for households and firms, especially SMEs, and low investment rates. National development banks are also very limited in their capacity to raise enough external finance to fill the financing needs of businesses, a major obstacle to doing business and a major hindrance to business start-ups and innovation by firms.¹⁵ Although over a third of LDCs have stock exchanges, high transaction costs, lengthy listing procedures and conditions, as well as lack of knowledge of its potential, hinders their growth and potential.¹⁶ Financial inclusion also remains a challenge for many LDCs. However, uptake of digital financial services has increased, owing to the success of mobile money services, facilitated by partnerships between commercial banks and mobile network operators.¹⁷

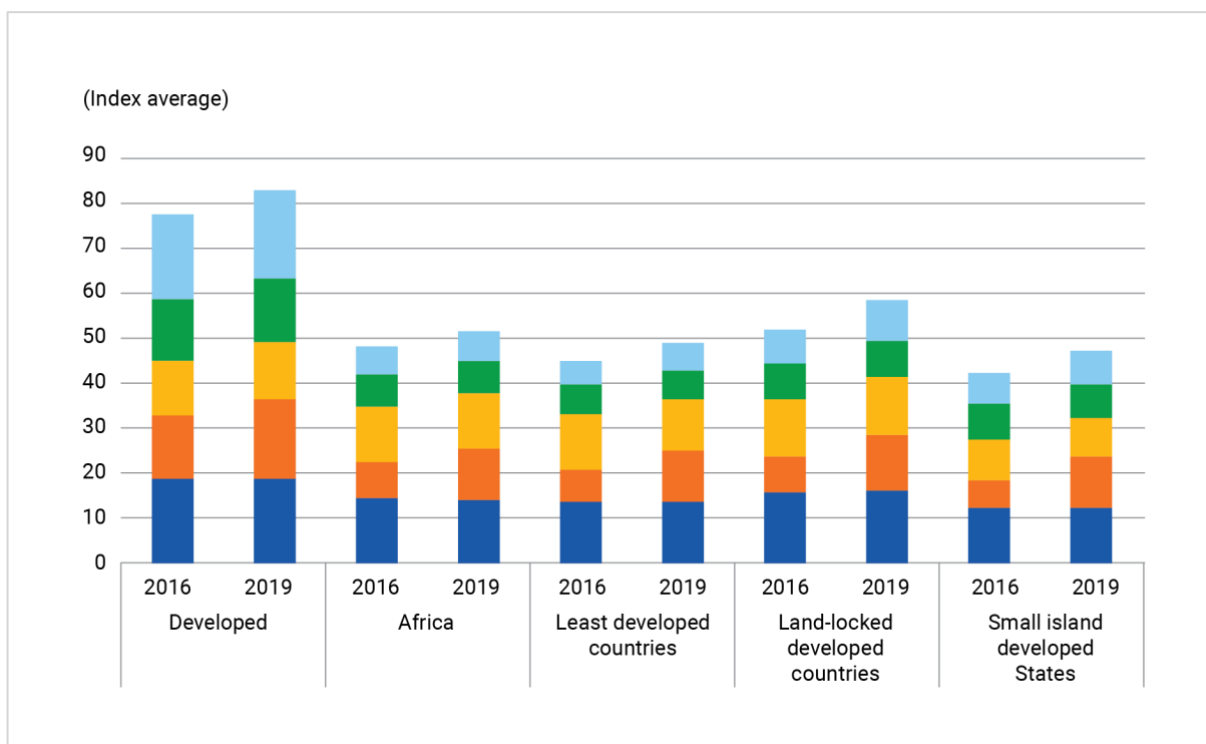
Trade: Most LDCs depend on international trade for income and growth, with imports exceeding exports by close to 20 per cent of GDP, and total-trade-to GDP ratios hovering close to 70 per cent in 2020. LDCs play mainly upstream roles in global supply chains as providers of raw materials, such as ores and metals, fuels and agricultural raw materials. When they do play downstream roles, the manufacturing and distribution activities mirror their upstream roles as commodity exporters involved in semi-processing of products in which they have revealed comparative advantages.¹⁸ High transport costs and other logistical hurdles, as well as non-tariff barriers keep LDC exports uncompetitive.

Foreign direct investment: FDI flows is an important source of external finance for LDCs. FDI inflows to LDCs has grown modestly, from \$20 billion in 2011 to an estimated \$28 billion in 2021. Their share in global FDI is below 2 per cent and their share in developing country inflows below 4 per cent. Extractive industries are the top recipient of FDI in LDCs although there has been some sectoral diversification in some LDC, such as in non-resource-based manufacturing (food and beverages, garments and electronics) and services (utilities, ICT and the financial sector). The top FDI recipient countries between 2018 and 2020 were mainly Asian LDCs,¹⁹ due to relatively stronger neighbouring economies in Asia, while a steady decline in FDI in extractive industries (especially oil and gas) had affected LDCs in Africa. In 2020, the top five sources of FDI in LDCs were China, the Netherlands, France, Mauritius and Thailand.²⁰

Remittances: Personal remittances have become an increasingly important source of external finance for LDCs. As it can be more stable than capital flows and tends to be countercyclical – especially during economic downturns, political conflict or natural disaster, when private capital flows tend to decrease – it provides an economic lifeline to the poor.²¹ Global remittances, which declined in 2019, reached a new high of \$794 billion in 2022.²² In 2020, remittances accounted for 4.6 per cent of their GDP on average, compared to 1.6 per cent in developing countries, with Haiti the top recipient (24 per cent of GDP). A major obstacle to remittances flows is the high cost of remittances fees, which is an area of concern for many recipient countries.

Data and statistics: LDCs score poorly against the World Bank's Statistical Performance Indicators (use of data, the quality of services, the coverage of topics, the sources of information, and the infrastructure and availability of resources) (Figure 4). Many LDCs are faced with weaknesses in the capacity to collect, process, manage, analyse, interpret and use statistics. There are also inadequate links between statistical systems and policy processes. Statistical production in many LDCs is also not aligned with national planning and budget timetables, and is inadequately coordinated with multiple players.²³

Figure 5. Overall Statistical Performance Indicators scores by country group, 2016, 2019



Source: 2022 Financing for Sustainable Development Report

4. Implementing INFFs in the LDCs Context

The INFF inception phase is a critical part of the INFF process (see box 2) and where the following should be considered in the LDCs context:

Consider governance conditions, as well as peace and security issues: Before embarking on an INFF, a country should consider its governance situation, political climate and security issues. For LDCs that are at high risk of or experiencing political instability and/or conflict, it may be best to postpone implementation to a more stable period, or investigate models such as the Financing Strategies called for under the DAC Recommendation of the humanitarian-development-peace nexus (OECD, 2019). The approach would also be different for those LDCs in the immediate post-conflict stage or at a relatively stable but still vulnerable stage. In addition to INFFs and HDP Financing Strategies, consideration could be given to, for example, post-conflict Transition Compact.

Understand absorptive capacity and ensure knowledge transfer: A core feature of the INFF is that it is country-led. Ideally, this would mean both the prioritization and dedication of resources, especially personnel, to actively engage and be involved in the process throughout. In the case of LDCs, this may be difficult given the limited capacity of governments, the multitude of tasks they face and attention to immediately pressing issues. LDCs will require more technical assistance to implement an INFF. Hence, it is critical that both the domestic government and development partner(s) consider the government's absorptive capacity; as well as try to ensure knowledge transfer in the process of implementing an INFF.

Ensure effective development cooperation: Development partner fragmentation and lack of coordination are enduring issues for LDCs. It is important that LDCs governments and implementing agencies ensure that all relevant partners are engaged to avoid duplication and explore synergies with other partner initiatives. The effectiveness – country ownership, results, inclusive partnerships, transparency and accountability – can help partners work together to align and leverage all sources of finance to achieve the SDGs (see Geneva Summit Declaration). There should also be clear asks for development partners in the INFF process. See [INFFs and Development Cooperation](#).

Be pragmatic: Focusing on a few priorities and/or fostering a phased approach to implementing an INFF can prevent overwhelming government capacity in LDCs. It would also be necessary for post-conflict LDCs. Building on capacities where they can be sustained and not attempting too much can also ensure country ownership.

Expect staff changes and all kinds of setbacks: Changes in government, conflict and corruption, among other issues, can make it difficult in implementing an INFF in the LDCs context. It calls for sustained effort over the long term, with periodic review processes to mark progress and sustained improvements over political cycles, conflict episodes, personnel changes and other shocks (global economic crises, natural disasters, pandemics, etc.).

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

4.1 Build on existing systems and knowledge

An INFF is based on the premise that countries do not start from scratch – all countries, including LDCs, have policies and institutional arrangements on financing in place (see Box 5). Many of the parts of the INFF would likely be done by some officials at some point in their own processes, albeit not in a systematic, cohesive, and integrated way, which is what the INFF aims to do. The key is to identify which part of the existing system would be the best to build on (see [INFF Governance and Coordination Building Block](#)) and to avoid creating a parallel process. This can be done in the Inception Phase of the INFF (see [INFF Inception Phase](#)).

At the institutional level: In most cases, ministries responsible for national planning and/or the national budget will play central roles in INFF implementation, especially if the focus is on the broad application of INFF or towards a specific financing strategy, such as debt policy. A sectoral focus, such as on education, health, or agriculture, will also involve the ministries overseeing these areas; while other focus areas such as climate finance may involve several ministries.²⁴ The INFFs can also help countries strengthen institutional mechanisms. Burundi, for example, is using the INFF to strengthen the legal and institutional framework for promoting inclusive private financing and pro-SDG PPPs.

Box 5. Fiscal planning and budgeting in LDCs

Generally, preparation of strategic plans is led by the Planning Ministry, which in many LDCs is separate from the Ministry of Finance. This institutional set-up can result in parallel processes for recurrent/operating (Finance) and development/capital expenditure budgeting (Planning), although the consolidated budget is usually prepared by the Ministry of Finance.

Limited scope and coverage of budget documents: Most of the countries consolidated budget documents as well as financial reports cover only the central government. Budgets of other government entities such as local governments, state-owned enterprises, extra-budgetary units, and some special funds, are formulated and/or reported separately. The budget information is generally available by economic and administrative classification, but not by program, project, and geographic classification.

Challenges in medium-term budgeting and revenue strategies: Most LDCs have medium-term estimates at the macro level. However, these are not linked to the business and/or project plans, as the latter are not costed. Medium-term estimates are also not linked to the annual budgeting exercise. Most LDCs also do not have multi-year perspectives in their macro-fiscal framework, or multi-year revenue strategies.

Low budget credibility/fiscal discipline: Fiscal rules are not strictly followed due to overriding procedures. High-level political decisions can lead to significant increases in budget adjustments. Supplementary budgets as well as major budget reallocations are allowed in general, and in some countries even without legislative approval.

Weak revenue administration: Revenue administration is relatively weak partly due to the absence of structured audits and management of revenue arrears. Assessments and arrears are not regularly reconciled. Lack of risk analysis and monitoring, and limited capacity in forecasting are key challenges.

Poor cash management: Many LDCs face challenges of: (i) inadequate cash-flow forecasting capabilities; (ii) day-to-day cash and expenditure management systems between and within central agencies, including due to infrastructure limitations; (iii) misalignment with borrowing plans; (iv) consequent unnecessary borrowing, constrained liquidity and related delays; and (v) delays in and insufficient fund disbursements. This is due to inadequate forecasting capacity and lack of a single Treasury account.

Donor funding fragmentation: Many LDCs receive significant development-partner funding, which is often extrabudgetary. Given complicated country systems, development partners often work with individual agencies. This leads to fragmentation in external financing flows, which can make budget preparation complex. In LDCs facing crises or fragility, a high proportion of aid may be humanitarian, entirely outside the government system.

Weak debt management: Documented policies and procedures to provide guidance to borrow, issue new debt and undertake debt related transactions, issue loan guarantees, and monitor debt management transactions by a single debt management entity are usually not available. Summary information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structured financing instruments are not routinely reported.

Source: Marzan, Chita, "Inputs to the Development of the INFF Technical Guidance for Least Developed Countries."

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

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

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

The following questions can help governments consider how to do this, while at the same time informing the scope of the country's INFF:¹

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

Note:

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

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

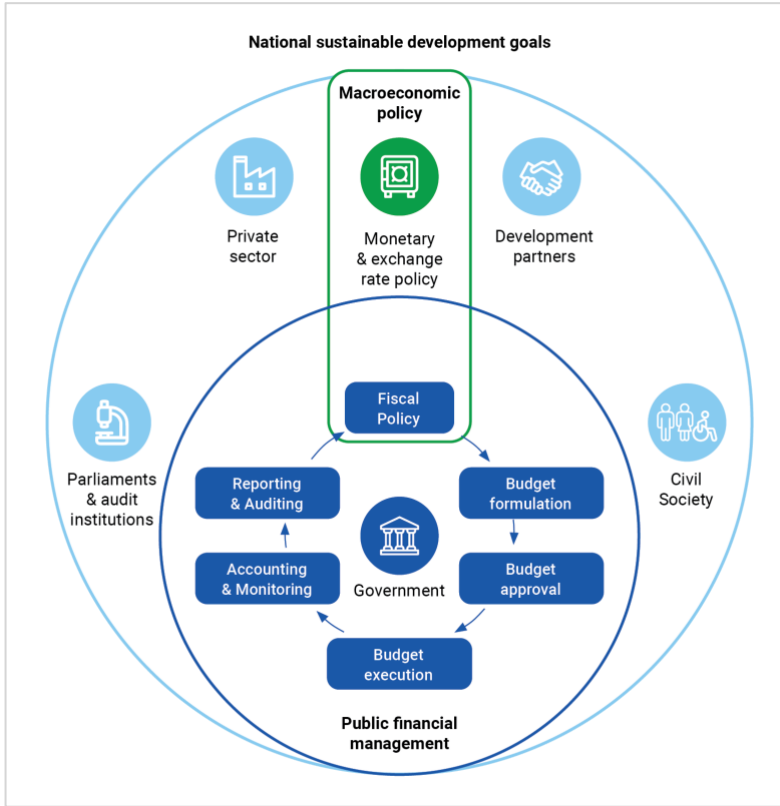
At the policy level: Policy mechanisms that mobilize all types of finance and align both the public and private finance are needed. Most governments usually have in place processes for policy design, implementation and review related to financing. The public financial management (PFM) process plays a central role in this architecture (Figure 5). As part of the PFM process, policies (e.g., on revenue, expenditure, investment, trade, and private sector development) are designed mainly with macroeconomic goals in mind (economic growth, employment, inflation). This then feeds into the budget process. However, for many LDCs, there are only casual links to broader national sustainable development goals, such as on social protection or environmental impacts.

During the Inception Phase it would be important to link the objectives of the INFF focus area with the broader national sustainable development goals, as well as national disaster risk reduction strategies and climate change adaptation plans, and within the PFM process (see Box 6). This will help embed the INFF approach and identify early the key effects on all the dimensions of sustainable development, as well as any risks (INFF coherence checks).²⁵ For example, applying an INFF approach to blended finance would mean checking whether this approach is consistent with debt sustainability targets (macro check), aligned with sustainable development (coherence check) and whether risks, such as from natural hazards, political stability or conflict, are considered (risk check). INFFs are also helping governments to explore, introduce, and strengthen various aspects of private finance. See Box 7 for examples of private finance involvement through IOA mapping.

Box 7. Examples of mobilizing private finance aligned with the national plans

Nine LDCs are using INFFs to identify entry points for additional private investment that is both commercially viable and catalytic for SDG progress. They are doing this by systematically mapping SDG-aligned investment opportunities areas (IOAs), and by building a pipeline of projects in each area. In Tanzania, for example, 13 IOAs across five sectors (agriculture, education, renewable and alternative energy, infrastructure, services/hospitality and recreation) have been identified, and five enterprises have been selected to invest in specific projects related to these areas, including solar solutions for community systems such as health clinics and schools, and creating income-generating opportunities for rural women through edible oil crop farming for value addition. In Djibouti, incubator and start-up activities have been launched to mobilise investment in 21 IOAs across nine sectors, in line with priorities identified in the country's medium-term national development plan.

Figure 6. The central role of public financial management processes



Source: DESA

At the partnership level: As LDCs receive a high level of ODA, there are many development partners operating in LDCs at any point in time. The major partners on financing for development include major bilateral partners on relevant initiatives (such as France’s support for improved domestic resource mobilization for African LDCs in the Sahel region), multilateral institutions (IMF, World Bank), regional development banks (ADB, AfDB, IADB, CDB) and UN agencies. It will be important to build on these existing partnerships for INFF implementation in LDCs, including on related capacity building initiatives. For example, the IMF helps build capacity in many LDCs on PFM, macroeconomic policy, and debt management through their regional technical assistance centres (AFRITAC, PFTAC, CARTAC). In most cases, the INFF focus areas will relate to ongoing initiatives so it would be good to leverage these partnerships and ongoing initiatives. Regional organizations also provide various technical assistance to many LDCs (e.g., SADC, COMESA and ECOWAS) and their local knowledge can help bridge gaps between global and national capacities.

4.2 Prioritize

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

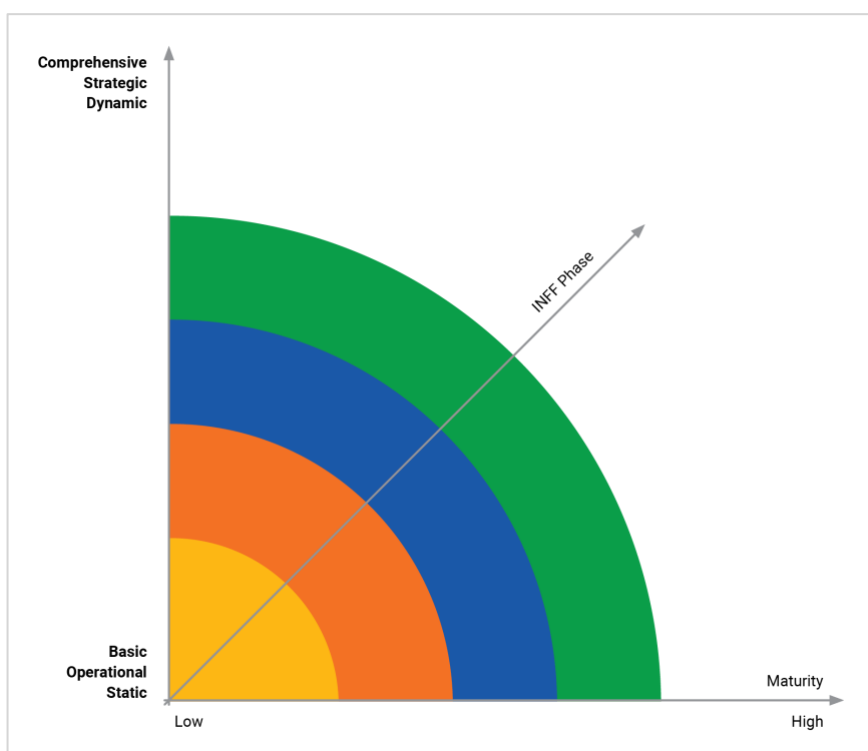
The INFF focus area: In identifying the focus area, consideration should be given to the timeline of expected INFF implementation, and whether it will be a new undertaking or part of the ongoing initiative(s). The complexity of the undertaking, the number of staff/ministries/agencies that would need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

The building blocks: The INFF building blocks are not meant to be sequential or prescriptive. They can and should be tailored to the country context. For example, some aspects of the assessment and diagnostics building block can be data intensive and data needed may not be available or readily accessible in many LDCs. The alternative option to use modelled data may also not be feasible for LDCs. Authorities should then assess what the value add of having the data/analysis/costing exercise would be to INFF implementation and whether they should apply it or not. It may also be the case that governance and coordination issues are important to address first.

4.3 Phased approach

Implementing an INFF in a phased approach can help better manage the capacity constraints of LDCs, especially the immediate demands of officials. It can also help INFF implementation through cycles of political instability and conflict, as well as through LDC graduation stages (preparatory period and transition).²⁶ Implementing an INFF through phases could also better match resources/capacity with INFF objectives, cultivate a risk-appraisal culture and ensure knowledge transfer. A phased approach can help LDCs make incremental changes to move from an operational to a strategic focus, from static to dynamic processes and from basic to comprehensive systems. How these phases are structured depends on the maturity of current systems and will require careful sequencing (Figure 6). For example, LDCs with systems of low maturity (e.g., poor PFM capacity) may need to focus on building these foundations first before tackling more complex and expanded undertakings (e.g., medium-term revenue strategies).

Figure 7. INFF phased approach



Source: DESA

5. What does this look like in practice?


5.1 Assessment and Diagnostics

Build on existing systems and knowledge: For most LDCs, immediate or short-term financing needs and sources of finance are usually known, as reflected in the national budget. Binding constraints are also likely to be well understood, many related to structural impediments to sustainable development (see section 2 and 3). It would be important to build from these existing assessments and knowledge (see Table 1). However, there may be less attention to risk assessments, especially beyond economic considerations, which is an area that should be developed (see [INFF Building Block 1](#)). A particular weakness, though, is on financing needs to achieve more medium to long-term development goals. There may also be less attention/awareness on non-traditional sources of financing, such as blended finance and other innovative financing options. However, moving from an immediate/short-term/traditional focus to a medium/long-term/innovative focus cannot be done overnight. While these gaps may be filled by development partners, the approach should build on what exists so that INFF assessments/reports can add value. This support should be accompanied by knowledge transfer and capacity building.

Prioritization: In most cases, the attention of LDC officials is dedicated to responding to immediate challenges from various internal and external shocks. Prioritizing what assessments and diagnostics are needed are influenced by these immediate challenges and the recovery timeline. For example, INFF initiatives in the 21 LDCs (during 2021-2022) had to consider the impact and recovery from COVID-19. Given LDCs vulnerability to shocks, risk assessments should also be prioritized.

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

Table 1. Assessment & Diagnostics for LDCs

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

5.2 Financing Strategy

Build on existing systems and knowledge: To help establish the scope and financing policy objectives of an INFF, as well as help identify policy options, the national budget and related documents of LDCs would be a good starting point (see Table 2). These are prepared by LDCs officials and typically outline the broad financing strategy, covering macroeconomic policies (e.g., debt sustainability, financial sector stability), public finance (revenue, borrowing, expenditure, investment, international development cooperation), as well as policies to promote private finance and investments (FDI, remittances etc.), capital market development and financial inclusion. There are varying levels of depth and breadth of existing LDCs financing strategies. There would also likely be more detailed financing strategies for priority areas, supported by technical assistance from various partners (e.g., Bhutan’s smooth transition strategy supported by UNCTAD)²⁷. However, these may or may not be linked to national budget policy and related official processes, depending on the level of engagement of officials, knowledge transfer and capacity development. There may also be regional or sub-regional initiatives (e.g., African Risk Capacity, Southeast Asia Disaster Risk Insurance Facility) that should also be considered. Understanding where the gaps are and how the INFF can genuinely build on existing work will be critical. Learning from other or former LDCs that have been successful in implementing a particular financing strategy can also help (e.g., medium-term revenue strategy (Rwanda), sustainability-linked bond (Benin), sovereign wealth fund (Botswana, Timor-Leste, Tuvalu) (Box 8).

Box 8. Country examples of INFF helping with diverse financial resource mobilization


In **Tanzania**, a pilot blended finance initiative with the Tanzania Agriculture Development Bank, involving grants, loans and equity, unlocked US\$8 million for 10 agriculture projects. Off the back of this initiative, 25 bankable projects spanning different sectors and project sizes, have been identified with local government authorities and are being considered as a pipeline toward a thematic bond issuance at the local level. This also relates to ongoing efforts by the governments (in both mainland Tanzania and Zanzibar) to develop a framework for the issuance of thematic bonds, starting with Sukuk bonds.

Timor-Leste launched its first ever National Diaspora Engagement Policy²⁸ and Remittance Mobilisation Strategy²⁹ with the view of embedding diaspora finance as a key contributor to national development, while diversifying the country’s financing mix and reducing reliance on the Petroleum Fund. It promotes the use of remittances for national development and is advancing initiatives such as a digital portal to promote diaspora direct investment and a potential diaspora investment facility focused on infrastructure.

Prioritization: Immediate challenges should be considered in the policy prioritization process, balanced with long-term development needs. For example, in the immediate aftermath of a conflict, LDCs governments discussion with donors would include the question of balance between immediate relief measures, rebuilding, de-escalation and reintegration of combatants, and starting early on long-term development needs (see for example the important of multi-dimensional analysis and approaches included in (OECD, 2022)). An INFF or similar process undertaken during this phase would need to link well with these efforts, including identification of comparative advantages between the different actors. Similarly, an INFF would need to account for LDCs that are in the process of graduation, whether at the preparatory or in transition stage. Macroeconomic and coherence checks, resource requirements and political/institutional preconditions can help with prioritizing and sequencing policies (see [INFF Building Block 2 Policy Prioritization](#)). Attention to climate change and disaster risk reduction strategies during policy prioritization would also help LDCs.

Phased approach: Successful implementation of financing strategies is dependent on an enabling environment that requires peace and security, political stability, political will, legal frameworks, and institutional/resource capacity, among others. Given that financing systems and institutional structures in LDCs have relatively low levels of maturity, the financing strategy may benefit from implementation over phases.

Table 2. Financing Strategy for LDCs

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


5.3 Monitoring and Review

Build on existing systems and knowledge: Although they may vary in robustness, LDCs would ideally have monitoring and review processes in place; whether at the national level (e.g., for the sustainable development plan or PFM processes), at the sector level (e.g., for health or education), or at the organisational level (Ministry-, SOE-level). If they are not already established, monitoring and review mechanisms could be developed as part of the INFF process. These would be ideal places to start from or connect to. However, for many LDCs, data and statistics are an area of weakness. Monitoring and review systems can also be fragmented. These issues should be accounted for in establishing the baseline (see [INFF Building Block 3](#)). There is also likely to be existing or planned initiatives to support LDCs in strengthening existing systems at different levels by various development partners. To leverage of existing work and avoid duplication, existing initiatives by development partners should also be considered.

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

Phased approach: Plans to strengthen monitoring and review systems may have low priority against immediate challenges and limited resources. Adopting a phased and incremental approach to move from a basic to advanced monitoring and review level (see illustrative levels in [INFF Building Block 3](#)) can help mitigate this.

Table 3. Monitoring & Review for LDCs

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


5.4 Governance and Coordination

Build on existing systems and knowledge: Identifying existing institutions, policy processes and development partners that support financing decisions should be a key part of the Inception Phase (see section 4). Focusing on governance and coordination at the start helps with ensuring political backing and country ownership for a successful implementation of INFFs. In addition, engagement with the private sector, civil society and academia can help support the design and review of financing policies. LDCs have varying levels of engagement with these actors, which should be considered in assessing existing governance arrangements.

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

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

Table 4. Governance & Coordination for LDCs

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

5.5 A TIP for practitioners

Officials at all levels and from any organization involved in an INFF (e.g., government, civil society, development partner, private sector) can use the following TIP:



- What is the **TASK**?
- Is it related to Assessment & Diagnostics, Financing Strategy, Monitoring & Review or Governance & Coordination (see Box 2)?
- Where does it fit into the PFM process? (see Figure 5)?



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



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

Endnotes

- ¹ As of July 2023, INFFs are being developed in 29 LDCs.
- ² The guidance benefited from a background paper by Marzan, Chita, “Inputs to the Development of the INFF Technical Guidance for Least Developed Countries.”
- ³ See UNDESA, “LDC Identification Criteria & Indicators,” United Nations Department of Economic and Social Affairs, 2022.
- ⁴ Botswana (1994), Cabo Verde (2007), Maldives (2011), Samoa (2014), Equatorial Guinea (2017) and Vanuatu (2020).
- ⁵ 2023 (Bhutan), 2024 (Angola, Solomon Is, Sao Tome and Principe), 2026 (Bangladesh, Lao PDR, Nepal). Other LDCs in the graduation pipeline include Kiribati, Tuvalu, Myanmar, Timor-Leste, with Cambodia, Comoros, Djibouti, Senegal and Zambia meeting the criteria for the first time in 2021.
- ⁶ Under-five mortality rate, prevalence of stunting, maternal mortality ratio.
- ⁷ Gross secondary school enrolment ratio, adult literacy rate, gender parity index for gross secondary school enrolment.
- ⁸ UNCTAD. “UN List of Least Developed Countries,” 2022. <https://unctad.org/topic/least-developed-countries/list>.
- ⁹ World Bank, World Development Indicators.
- ¹⁰ OECD Transition Finance Toolkit <https://www.oecd.org/dac/transition-finance-toolkit/>
- ¹¹ As assessed by the IMF/World Bank Debt Sustainability Framework, 15 LDCs that are at high risk of debt distress are Afghanistan, Burundi, Cameroon, Central African Republic, Comoros, Djibouti, Ethiopia, Gambia, Guinea-Bissau, Haiti, Kiribati, Lao PDR, Mauritania, Sierra Leone, South Sudan, Tuvalu, while the 7 in debt distress are Chad, Malawi, Mozambique, Sao Tome & Principe, Somalia, Sudan and Zambia.
- ¹² Yasmin Ahmad and Eleanor Carey, “Development Co-Operation during the COVID-19 Pandemic: An Analysis of 2020 Figures and 2021 Trends to Watch,” Development Co-Operation Profiles (OECD, 2021).
- ¹³ 2022 Financing for Sustainable Development Report.
- ¹⁴ UNCTAD, The Low-Carbon Transition and Its Daunting Implications for Structural Transformation, The Least Developed Countries Report 2022 (New York: United Nations Publications, 2022).
- ¹⁵ United Nations Economic Commission for Africa, Economic Report on Africa 2020: Innovative Finance for Private Sector Development in Africa, Economic Report on Africa (United Nations, 2021).
- ¹⁶ Issouf Soumaré et al., “Capital Market Development in Sub-Saharan Africa: Progress, Challenges and Innovations,” The ODI Research Series on Financial development in Africa, May 2021.
- ¹⁷ International Financial Corporation, “Digital Access: The Future of Financial Inclusion in Africa,” 2018.
- ¹⁸ UNCTAD, The Low-Carbon Transition and Its Daunting Implications for Structural Transformation.
- ¹⁹ Cambodia, Bangladesh, Ethiopia, Mozambique and Myanmar were the largest recipients, totalling to 46% of FDI inflows to LDCs ([UNCTAD 2022](#))
- ²⁰ UNCTAD, “Foreign Direct Investment in LDCs: Investment Trends and Policies since LDC IV and the Way Forward,” 2022.
- ²¹ Dilip Ratha, “Remittances: Funds for the Folks Back Home,” IMF, accessed December 18, 2022.
- ²² FSDR 2023
- ²³ Wilbrod Ntawiha, “Improving African National Statistical Systems Will Change Lives,” Development Initiatives, November 18, 2015.
- ²⁴ See INFFs and Education, INFFs and Health, INFFs for Agricultural Financing, INFFs and Climate Finance and other sectoral guidance available at <https://inff.org/resource/inff-technical-guidance-documents>.
- ²⁵ See [Step 3](#) of the [suggested approach](#) in the global guidance on Building Block 2 Financing Strategy.
- ²⁶ See Committee for Development Policy (CDP) and United Nations Department of Economic and Social Affairs (UNDESA), Handbook on the Least Developed Country Category: Inclusion, Graduation, and Special Support Measures., Third (United Nations, 2018).
- ²⁷ United Nations Conference on Trade and Development, Towards a Smooth Transition Strategy for Bhutan (United Nations, 2022).
- ²⁸ [National Diaspora Engagement Policy](#)
- ²⁹ [Remittance Mobilisation Strategy](#)



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