INFF | Integrated National Financing Frameworks

African Economic Conference 2021
Side Event Report

The integrated national financing framework (INFF): a transformational approach for consistent development financing in Africa

2 December 2021,
14h30 - 16h00 (GMT)

Event page | Agenda | Concept note | Watch again

AEC AFRICAN ECONOMIC CONFERENCE

UNDP FINANCE SECTOR HUB

Table of Contents

Introduction

❝ The pandemic reinforced other crisis world-wide, especially the climate, energy and global transport crisis. In this challenging context, we need to make the best with available resources and explore the possibilities of catalysing finance from other sources, including through innovative pathways. INFF aims to analyse these flows: current and potential and to define a financing strategy based on each country priorities for sustainable development."

Ms. Ana Graça, UNCR Cabo Verde (Moderator)

Integrated National Financing Frameworks (INFFs) are a valuable tool in helping countries to formulate a comprehensive national financing strategy for a sustainable recovery and prepare for future risks. The concept was introduced in the Addis Ababa Action Agenda 2015 by UN Member States to support countries better align their financing policies with long term development plans, the SDGs, the Paris Agreement, and create an enabling environment for both public and private actors' contribution. The INFF helps countries strengthen their existing planning processes and overcome impediments to financing their National Development Plan, including its COVID-19 response and recovery ambitions. It brings together public and private actors, as well as the full range of financing sources – domestic and international sources of both public and private finance; and allows countries to develop an integrated financing strategy to increase investment, improve governance, manage risks, and achieve sustainable development priorities.

Background

The COVID-19 pandemic has triggered the deepest recession in nearly a century. In Africa, the pandemic has led to a 2% contraction in GDP in 2020, with per capita incomes falling by almost 5%. The decline in trade affected especially primary commodity exporters, with an estimated loss of 17% in merchandise trade and a concomitant drop of 5% in public revenues. The combination of health and economic shocks together with lower prices for energy commodities have led to a 16% decrease in FDI. Remittance flows to the SSA have also gone down by 12.5% in 2020. At the same time, debt vulnerabilities have increased on the continent as a result of stagnant ODA and a rise in debt levels, that is expected to rocket up to 56 % of the GDP in 2021.

This has led to the first decline in global human development in 30 years. In 2020, an additional 43 million Africans were pushed into extreme poverty. Job losses in Africa were estimated to around 29 million, leading to a 9.4% loss in labour income. The pandemic has reversed gains in many areas. Africa recorded an increase in the number of people without electricity, a rising unemployment rate and an increase in the proportion of youth not in education, employment, or training. These new challenges triggered by COVID, along with the climate crisis, are causing increased human displacement, migration and famine, raising the cost of attaining the SDGs.

The need for an integrated and sustainable approach to financing is greater now than it has ever been. The challenge is not just a financing gap but the alignment of the finance system. The catastrophes surrounding climate change and the collapse of biodiversity make it all the clearer that the current financial system is driving the world towards an unsustainable future. Recognizing that it's impossible for public domestic resources alone to meet the current investment, financing, and funding needs to restore that balance is a crucial step towards the solution. Building forward better will require an integrated vision of financing, where every actor must play its part to achieve results in the three dimensions of sustainable development: economic, social and environmental.

The Africa region has been leading on the rolling out and setting up of the Integrated National Financing Frameworks. The approach marked a global departure in the way countries bring new actors and perspectives into the process of designing and operationalizing a holistic national financing strategy. Currently, over 35 countries across sub-Saharan Africa are operationalizing an INFF. Some of them are in the inception phase of their INFF, having undertaken in most of the cases a Development Finance Assessments (DFAs); others are already working at the design of their national integrated financing strategies. The INFF is not a one-size-fits-all approach. The process involves iterations, continuous learning, and benefits from the expanding collaboration on the continent. Despite the effects of the Covid-19 pandemic, many countries are making tangible progress in adapting the INFF approach to national priorities and institutions and determining how it will be used to inform and shape robust policies for financing recovery and medium to longer term sustainable development.

On the African continent, UNDP is providing programmatic support to the governments in using INFF to implement the Addis Ababa agenda recommendations. Through the SDG Financing Facility, a package of regional support is being provided to African countries at the technical and political level for the development of an integrated approach of development financing in the region. It not only helps fostering regional level dialogue on SDG related financing areas, but also aggregate evidence-based analysis, introduce policy and institutional reforms for strategies to finance national development plans, and share country knowledge and experience. A country level consultation Survey on Technical Assistance Needs for the SDG Financing Facility has been launched to map out specific areas of further technical assistance needs from host countries of UNDP country offices in implementing the SDG Financing Agenda, as part of UNDP efforts in Africa to bring integrated financial solutions to the achievement of the sustainable development goals.

This dialogue explores to what extent the INFF is aligning planning with budgeting, is opening new financing opportunities across Africa and can further benefit from the collaboration on the continent. It will be an opportunity to understand what the African countries' technical assistance needs are to finance sustainable development, how INFF champion countries have integrated private finance sources in their financing model and how the INFF approach helped to increase efficiencies of existing coordination, monitoring, budgeting, and other processes related to the financing system. The countries' insights will highlight how differences in each context pertaining to the application of an INFF may not only allow stakeholders to achieve INFF implementation, but also to adopt innovative practices along the way that can offer solutions to structural or systemic challenges. In addition, African HL experts will address financing challenges and opportunities on the continent, including the debt sustainability, the potential of using diaspora investments and remittances to finance development in Africa and how to strengthen economic governance through INFF. More information on the **INFF** can be found here and here.

Objectives:

- Build a shared understanding of the added value of Integrated National Financing Frameworks in the Financing of the Sustainable Development agenda in Africa.
- Facilitate knowledge sharing and showcase the achievements of countries champions adapting the INFF approach to national priorities and institutions so far for scaling up.
- Generate Regional and sub-regional level dialogue discussion around key themes of the financing for development agenda and encourage a common position and understanding for global level advocacy in economic governance.

Target Audience

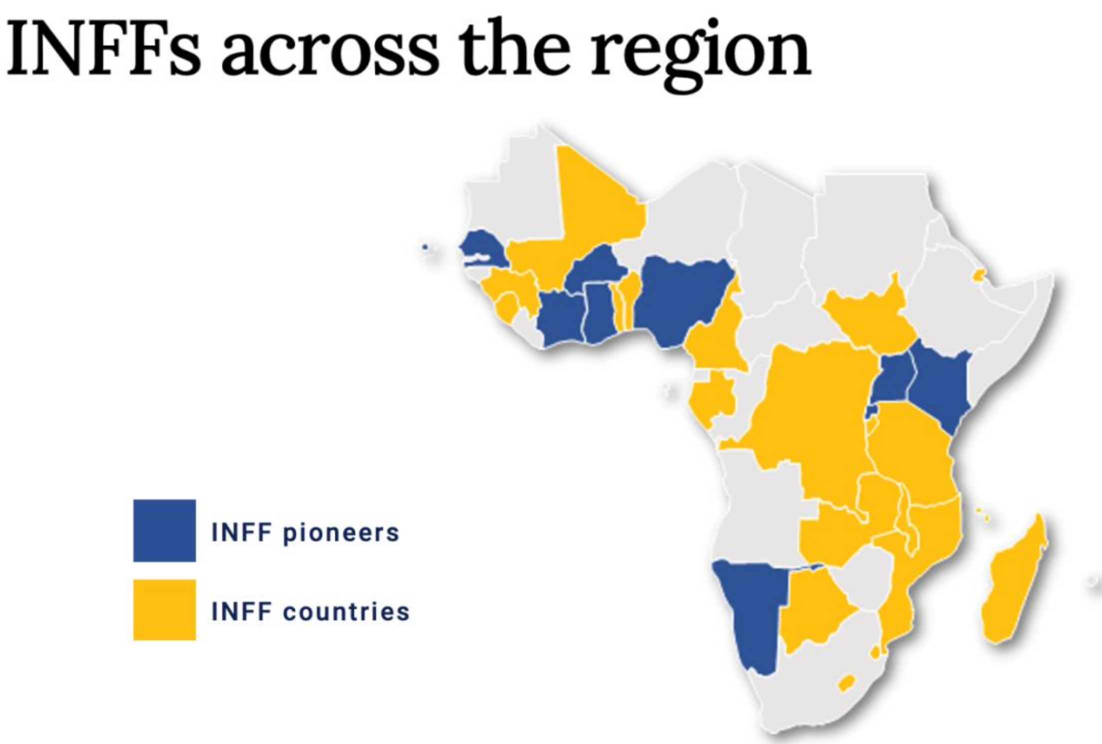
The target audience is inclusive of relevant government officials and policy makers (Ministries of Finance, Economy, and Planning, selected line ministries, agencies responsible for the implementation of the SDGs, relevant Parliamentary Committees), financial institutions, private sector, international development partners, regional and international organizations, civil society, academicians and researchers, and other stakeholders and partners within the country or regional level.

Opening remarks

"The global policy response to this crisis presents an opportunity to adopt a coordinated approach to tackling finance for SDGs - to bring private and public sector together and to design integrated, sustainable and inclusive national financing frameworks."

Ms. Ahunna Eziakonwa, UNDP Assistant Administrator, Director Regional Bureau for Africa

For SDG financing to be truly effective, it must go beyond the traditional approach and be integrated in more comprehensive processes, including policy and multi-stakeholder dialogues, and anchored in local dynamics and realities of the African continent. INFFs have been placed at the center of ***how*** to finance the SDGs as emphasized by the 2015 Addis Ababa Action Agenda (AAAA). Beyond strengthening the connection between planning processes and both the budget and private sector policy, it highlights innovations related to different aspects of private finance policy, from improving business regulations and using incentives to promote strategic private investments, to collaborating with the private sector on strategic projects and promoting social impact investment. It also seeks to develop data integrated systems for evidence-based decision making and to build platforms for deeper and more systematic public–private dialogue. Currently, over 35 countries across sub-Saharan Africa are operationalizing an INFF. Despite the disruption of the pandemic, tangible progress has been achieved in laying the foundations and tailoring INFFs within different development contexts in the region.



This event aims to shine a light on innovations that countries on the African continent are making as part of efforts to develop more integrated, holistic approaches to financing the SDGs. It presents the reforms to which African countries have committed to in their INFF journey, covering a range of financing policy areas, which can inspire policymakers with ideas about the kinds of solutions that could be applicable in their contexts.

The value added of the INFF and the related TA needs in Africa

" The INFF is working to solve a long-standing problem across government: the gap between planning and finance."

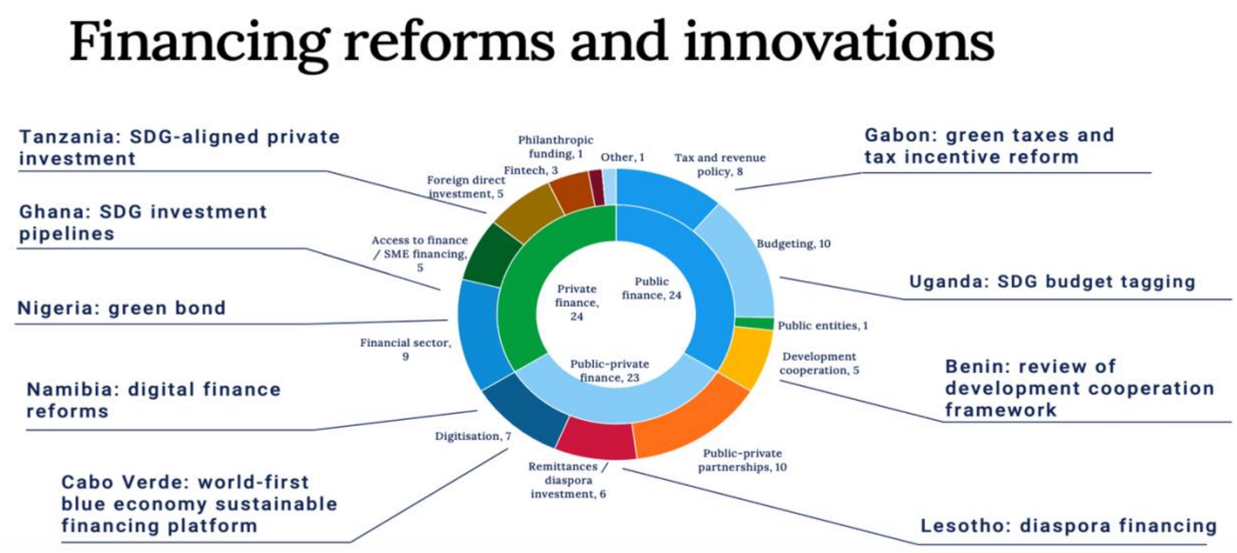
Marcos Neto, the Director of the Finance Sector Hub, UNDP

The value added of the INFF

Governments know what their priorities are, but there is always a historical separation between the planning exercise and the financing exercise. The INFF is trying to close the gap by connecting finance to the planning process. It also brings public and private stakeholders at the same table to talk how much the development plan will cost, where the money will come from and how each can contribute. Answering these questions will help developing a financing strategy. The value added of the INFF comes therefore at 3 levels: shifting from a public to a public-private approach to finance sustainable development (1), mobilizing new resources and aligning investments with national priorities (2) and promoting participation, dialogue and transparency in the process (3).

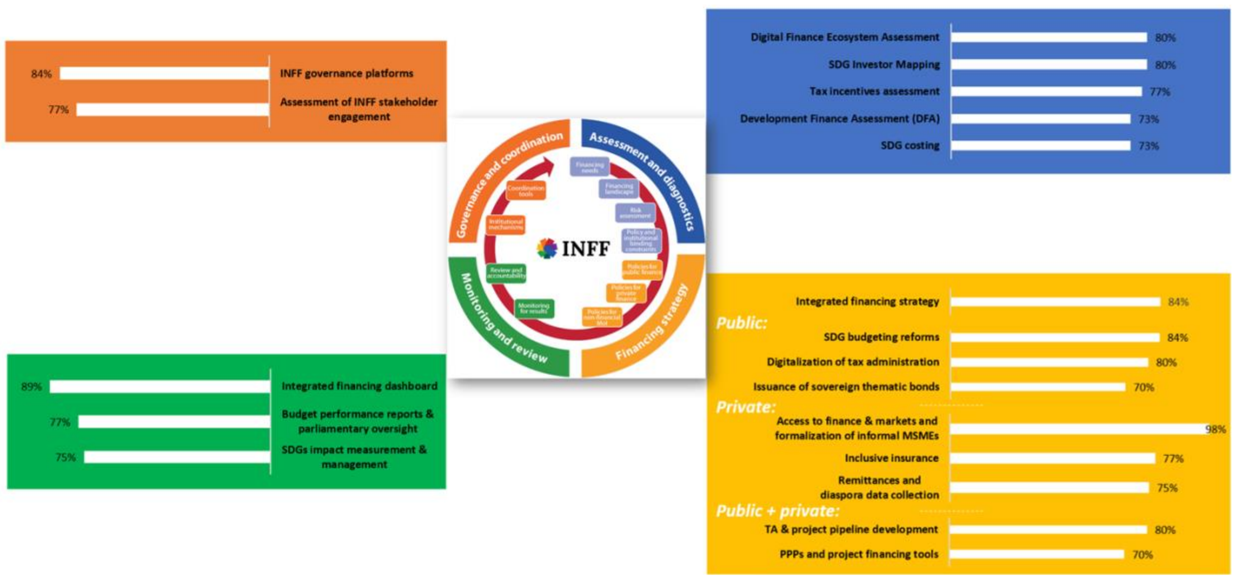
The INFF was launched by UNDP, UN DESA, with support from EU, but gained a massive global support from other development partners and G20, as potential providers of technical assistance to governments to put in place the integrated financing strategies. The INFFs are quickly expanding on the African continent. As Financing strategies are being developed, a series of policy reforms are being put together:

- In Gabon, the country is exploring the opportunity for green taxation, looking into reform of the tax incentives linked with the brown to green transition.
- In Cabo Verde, the country set up the word's first blue economy sustainable finance platform.
- In Namibia, a digital finance ecosystem has been integrated into the SDG aligned fintech strategies with the broader financial strategy.
- In Ghana, the government decided to start the INFF not at the central, but at regional level and then put it together into a central INFF. The country also did an SDG's investors map, which concretely transformed the national development priorities into investment opportunities at sub sector levels.



How is UNDP supporting the INFFs across the continent?
There is a need to support with technical system all countries across the world that are doing an INFF. In August 2021, UNDP, UNECA, UN DESA and UNITAR provided a [regional training on INFF] in Africa where more than 650 participants from 49 governments in the region attended. UNDP, UNDESA and other stakeholders are now planning to launch a global INFF facility that will facilitate access to appropriate technical assistance from different stakeholders (IMF, WB, etc) to the areas that governments need. The Facility, which is going to be consolidated, is already operating in a few countries. In Africa, we are creating an African version of this Technical Assistance facility, as part of the African SDG Finance Facility that we are supporting globally. In October, UNDP conducted in Africa the **Technical Assistance Needs Survey** for the SDG Financing Facility, in collaboration with UNDP country offices and the relevant government counterpart (one third of respondents), with a positive outreach of 40 countries in the Sub-Sahara Region that we cover as the Bureau of Africa. The areas of technical needs in the survey are organized around the four modules of the INFF. The demand for technical assistance is most pressing in the following areas:

Technical Assistance Needs (per UNDP FSH service office) in INFF



Country presentations

Cabo Verde

“In Cabo Verde, the INFF highlighted the infrastructure that existed within the Stock Exchange for impact financing and created the environment that was needed to unlock this new form of resource mobilisation. As a result, we launched the first social bond a month ago that was very successful and even exceeded the amount initially planned.”

Dr. (Mrs.) Adalgisa Barbosa Vaz, Secretary of State for Business Development of Cabo Verde

As an INFF pioneer, the Ministry of Finance and the National Planning Directorate of Cabo Verde launched the Integrated National Financing Framework in 2019. It came at a time when local resources became very limited because of the pandemic; but also at a strategic time, when we started to prepare the new development plan that will begin in 2022. It’s within this framework that, together with UNDP, we have identified a new modality for mobilizing funding for impact investments in the blue, green and social economy - the Blu-X platform, in cooperation with Cabo Verde Stock Exchange.

With a territory covered 99% by the ocean, the advantages of investing in the blue and green economy were not a novelty to Cabo Verde. The government even adopted a strategy by the past to diversify its economy and ensure the energy transition. However, it’s the INFF process that highlighted we have the needed infrastructure for impact financing within the Stock Exchange and made us aware of this new form of resource mobilization. It also helped us to build the right environment that was needed to successfully introduce this new mechanism for financing and mobilizing private sector resources. To that end, the UNDP offered the technical assistance needed to launch green, blue and social bonds on the Stock Exchange. Partnerships have also been established between public and private entities and development partners. The coordination between these actors and the capital market regulatory agency allowed to immediately create the conditions and legal framework for the issuance of these bonds. In addition, a specialized unit has been created within the Stock Exchange and its executives have been trained.

Initially, when the platform was created, it aimed to mobilise resources for the blue economy. Given the context of the country, this platform has been consolidated to accomodate social bond issues in favour of micro and medium enterprises; bonds that could be issued by micro-finance institutions and green bonds. As a result, the first social bond was launched a month ago (November 2021) at the Cabo Verde Stock Exchange in favour of 22 municipalities, with an interest rate close to the public bond rate. It was the first time that a grouped bond issuance has been launched in Cabo Verde. The initiative has been very successful, exceeding the amount initially planned. We are already planning to issue a new grouped bond in the next few days for private companies that perform public works in municipalities, with a social development purpose.

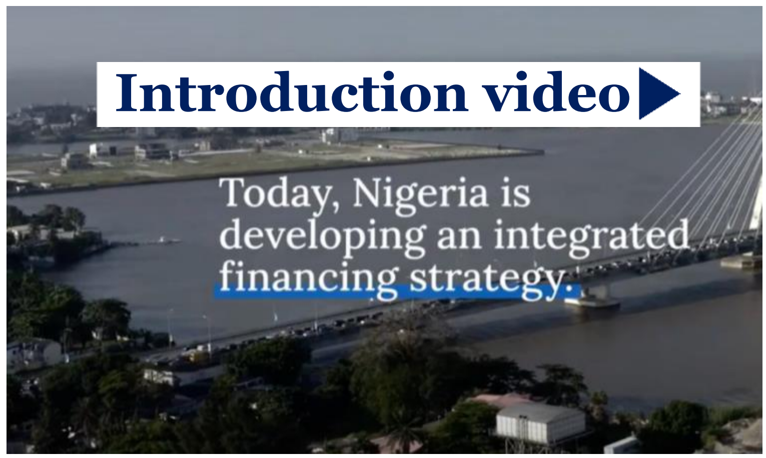
Cabo Verde has the ambition to position itself in the coming years as a regional reference for the issuance of blue, social and green bonds. The INFF has been key in guiding us towards this solution to finance municipalities, as well as aligning investments and other funding sources with the SDGs.

Nigeria

"Operationalizing the INFF will help us to strengthen national and state level planning processes and strategically identify and mobilise resources that are required to finance our development plans and fill the SDG financing gap."

Mrs. (Dr.) Zainab S. Ahmed, Hon. Minister of Finance, Budget and National Planning of Nigeria

Nigeria has an extensive SDG architecture and a strong institutional platform not just at the federal level, but also at the regional level. We have incorporated the SDGs into our federal and state level strategic plans and budgetary frameworks and established a dedicated office, with specific budget lines. In the process of planning our next generation development plan, at the national and regional level, we saw the INFF as an opportunity to strengthen national and state level planning processes and strategically identify and mobilise resources that are required to finance our development plans and fill the SDG financing gap, estimated at 100 billion dollars by 2030.



When the pandemic broke out, Nigeria was able to leverage the INFF process as part of its commitment and recovery process. The country conducted a Development Finance Assessment (DFA) that identified the bottlenecks and opportunities in terms of financing policies, strengthening the link between planning and financing, strengthening the coordination between the public and private sector, enhancing monitoring and review of our programmes and projects, as well as increasing transparency and accountability. The operationalisation of the INFF boosted collaboration, not just across government, but with the private sector, development partners and International Financial Institutions, including the World Bank, IMF and several others. To engage all relevant stakeholders, including federal state governments, private sector participants, but also civil society organisation, we conducted a set of workshops, where commissioners of finance and commissioners of planning gathered inputs from the regional level. As a next step, we are currently developing a **financing strategy** and framework towards better integration of national plans with budgeting processes, while also aligning financing policies and regulations through an in-depth analysis and review of the financing sources and relevant policies informed by the DFA. We are also committed to ensuring gender responsiveness in our INFF process, including reforms that are aimed at mainstreaming gender across fiscal policies and public financial management. The holistic framework will allow us to continuously prioritise, coordinate, and supervise a multidimensional recovery agenda and accelerate the implementation of the SDGs.

Some of the key aspects that have been critical in the process are:

- The design and implementation of an INFF strategy must be a process that is inclusive, yet government led, with ownership at several levels of government: both state and regional authorities. The government must be fully engaged in the INFF process.
- The INFF process benefits and results in richer analysis and better outcomes where private sector, development partners and civil society organisations and all state actors are sitting at the table learning and prioritising together. We have a process that is multi stakeholder driven, with a very high-level steering committee.
- Leveraging existing structures, processes and mechanisms at the federal and state level to ensure that INFF complements rather than takes away resources from existing national development plans on SDG implementation structures.

Tanzania

"Developing bankable projects, creating structures that can bring confidence and having in place a good monitoring and evaluation system to track progress is critical for the success of innovative financing approaches."

Dr. (Mr.) Charles Ambele Mwamwaja, Commissioner - Financial Sector Development, Ministry of Finance and Planning of the United Republic of Tanzania

The SDG Financing gap for the next five-year development plan is estimated at about 114 trillion Tanzanian shillings, with 74.3 trillion Tanzanian shillings to be covered from public resources and with 40.6 trillion expected to come from the private sector. To align long term planning with long term financing, in 2020, Tanzania prepared a 10-year financial sector development masterplan that explores how the financial sector can contribute to resource mobilization and address the financing gap. Furthermore, as we were seeking to bring on board a set of innovative financing instruments such as bonds of various types, including infrastructure bonds, green bonds, PPPs, equity financing, etc and adopt the enabling regulatory reforms, we started to prepare a separate strategy to help us tap into these useful instruments that can finance the gap. The process involved working together with various actors, including financial institutions, banks, pension funds, insurance companies, the private sector and other relevant stakeholders that expressed interest in the new financing instruments. Given the size of the country, we have a parallel strategy both for local government authorities and ministries, government departments and agencies. We are planning to start the implementation of the strategy with the issuance of municipal revenue bonds, which can be used to finance development projects at the local level; as well as infrastructure, green and blue bonds.

In the development and implementation phase of these policies, during which we have been supported by UNDP, we found that the following aspects are key:

- Developing bankable projects: this involves feasibility studies, research, and attractive presentations for the investors, proving that the project is viable. To that end, investment is needed to ensure that local government authorities can prepare bankable projects.
- Creating structures that can bring confidence and support the innovative financing modalities. For instance, we are planning to adopt the SPV approach: special purpose vehicles as independent investment companies to address issues related to governance, to efficiency and to accountability.
- Having in place a good monitoring and evaluation system to track progress and results it's critical to the success of this innovative financing approach.

Insights from high-level African experts

“Diaspora finances are countercyclical: it will keep coming even when older forms of capital take flight. Tapping in the billions of the first-generation savings of the African diaspora is an important source to meet the funding needs.”

Prof. Gibril Faal, Director of GK Partners & LSE Visiting Professor in Practice, United Kingdom; African Union Lead Consultant on Diaspora Finance

There are four main types of diaspora finance: diaspora remittance (1) - on which important sets of data are available; and diaspora philanthropy (2), diaspora direct investment (3), diaspora portfolio investment (3) - on which the data is not disaggregated. However, we know that Africa gets 3% of the global flow in FDIs and about 1-2 % of the global flow in portfolio investment. Furthermore, according to the World Bank criteria that track the flows through formal means, pre-covid, remittances were estimated at $85 billion. African Union however estimates that almost as much goes through informal means, in addition to the remittances in kind. The actual amount is therefore estimated at $200 billion. Another area that is not tapped at all in Africa on diaspora resources is diaspora savings, that represent about 34 billion annually or 17 million first generation migrants, with savings on average of 2000 $. In May 2021, African Union had given provisional endorsement for the setting up of a continental African Diaspora Finance Corporation to offer: 1. an innovative finance mechanism on remittance funding, which would be effective as a grant-based instrument; 2. diaspora bonds at the continental level; and 3. a diaspora mutual fund, which in essence would be an equity instrument. Diaspora finances are countercyclical: it will keep coming even when older forms of capital take flight. Tapping in the billions of the first-generation savings of the African diaspora is an important source to meet the funding needs, as it was the case during the Covid crisis. The 6% drop in remittances that has been reported on the continent arises out of the reassessment under calculation of the numbers for Nigeria. Beyond that, in all of the countries where remittances per capita is more important, we have seen an increase in remittances: be it Lesotho, Djibouti or the Gambia.

“We only look down into the well when the water has run dry. I think that this project is coming in at a wonderful time when we are in very dangerous ground, but the well is not yet dry.”

Prof. Attiya Waris, UN Independent Expert on Foreign Debt, Kenya

One of the positives I see out of the INFF is that it is linking SDGs with the financing resources. At the same time, it is important to closely examine in the process who the stakeholders are and how inclusive it is of stakeholders? How many domestic researchers are involved in these projects? Are governments leveraging this resource? The problem with a lot of the financial flows, whether it is remittances or other types, such as illicit financial flows, is that we are not actually collecting the granular data ourselves in our countries. We are therefore relying on what is compiled, without examining more closely. At the same time, across the African continent, academic researchers and universities conduct research and generate granular data on financing flows, but the government doesn't always tap into it. Using local researchers in the INFF process can bring a lot of value, especially in the monitoring and evaluation phase.

Also, it is important to domesticate the INFF and always adjust it to the local contexts. Furthermore, while INFF can help with the bigger project of financing, it is important to keep in mind that INFF is about “finance for a purpose”. The way governments go about with these partnerships must be mindful of the access and inclusivity rights to make sure that finance serves people’s interests.

This report has been edited for clarity and length.