Development Finance Assessment (DFA): Linking Finance and Results to Implement the SDGs at Country Level

A Guide

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Acknowledgements

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Drawing on the experience and lessons learned from undertaking Development Finance Assessments (DFA) so far (see map below), both in terms of methodology and processes, the Guide proposes an improved framework to assess the links between finance and results. As such, this guide aims to provide stakeholders and experts involved in a DFA with the background on the context, purpose, process and tools for undertaking a DFA. The methodological guidelines included in this Guide draw on a review of lessons learned from implementing DFAs in five countries in the Asia-Pacific and consultations during a workshop on Realising the Addis Ababa Action Agenda at Country Level: Using Development Finance to Achieve Country Results, hosted by the APDEF in Bangkok, on 5-6 October 2015.

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Source: UNDP Bangkok Regional Hub (situation as of October 2015)
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About AP-DEF - UNDP’s Bangkok Regional Hub is the Secretariat for AP-DEF, a country-led regional platform, chaired by the Government of Bangladesh, which supports Asia-Pacific countries to implement their national agendas on development finance and cooperation. The Facility is a platform for regional dialogue, cooperation, and sharing of country knowledge and experiences. It is responding to the growing demand from countries in the region to establish evidence and analysis, and introduce policy and institutional reforms for managing the increasing complexity of domestic and international sources of finance for development.

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<tr>
<td>AIMS</td>
<td>Aid management information systems</td>
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<tr>
<td>AP-DEF</td>
<td>The Asia-Pacific Development Effectiveness Facility</td>
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<tr>
<td>CPEIR</td>
<td>Climate Public Expenditure and Institutional Review</td>
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<td>DFA</td>
<td>Development Finance Assessment</td>
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<tr>
<td>FDI</td>
<td>Foreign direct investment</td>
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<td>FfD</td>
<td>Financing for Development</td>
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<td>GCF</td>
<td>Green Climate Fund</td>
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<tr>
<td>GDP</td>
<td>Gross domestic product</td>
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<td>GNI</td>
<td>Gross national income</td>
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<td>GPEDC</td>
<td>Global Partnership for Effective Development Cooperation</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>INFFs</td>
<td>Integrated National Financing Frameworks</td>
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<td>LDCs</td>
<td>Least developed countries</td>
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<td>MDGs</td>
<td>Millennium Development Goals</td>
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<td>MfDR</td>
<td>Managing for development results</td>
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<td>MTEF</td>
<td>Medium-term expenditure framework</td>
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<td>NGOs</td>
<td>Non governmental organisations</td>
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<td>ODA</td>
<td>Official development assistance</td>
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<td>OECD-DAC</td>
<td>Organisation for Economic Cooperation and Development – Development Assistance Committee</td>
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<td>OOF</td>
<td>Other official flows</td>
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<tr>
<td>PEFA</td>
<td>Public Expenditure and Financial Accountability</td>
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<td>PER</td>
<td>Public Expenditure Reviews</td>
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<td>PEIR</td>
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<td>PETS</td>
<td>Public Expenditure Tracing Survey</td>
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<td>PFM</td>
<td>Public financial management</td>
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<td>PPPs</td>
<td>Public-private partnerships</td>
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<td>SDGs</td>
<td>Sustainable Development Goals</td>
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<td>SSC</td>
<td>South-South Cooperation</td>
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<td>SOEs</td>
<td>State-owned enterprises</td>
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<td>TOSSD</td>
<td>Total official support for sustainable development</td>
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<td>UNDP</td>
<td>United Nations Development Programme</td>
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<td>UNFCCC</td>
<td>United Nations Framework Convention on Climate Change</td>
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1. Introduction

1.1 Context for Development Finance Assessments

The Agenda 2030, with its ambition of being transformational, presents significant challenges for governments, in particular for their fiscal planning and budgeting capacity. At the same time, many developing countries are facing an increasingly complex landscape of development finance to manage at the national level, as domestic public and private resources increase, and the sources of external resources diversify.

The Third International Conference on Financing for Development held in Addis Ababa in July 2015 opened the discussions on how to mobilise the unprecedented amounts of financial resources that will be required to achieve the Sustainable Development Goals (SDGs). The Addis Ababa Action Agenda assumes that countries will use their own national development strategies and plans to respond to the SDGs and calls for the adoption of Integrated National Financing Frameworks (INFFs). Governments are now increasingly requesting for support from UNDP Country Offices to take forward policy and institutional reforms that enable a more integrated management of a broader set of finance flows to support the implementation of their national priorities and the SDGs.

UNDP’s Bangkok Regional Hub has been developing the Development Finance Assessment (DFA), a tool to respond to the growing demand from countries in the region to establish evidence and analysis, and introduce policy and institutional reforms for managing the increasing complexity of domestic and international sources of finance for development. DFAs were introduced as the very first development finance studies of their kind, seeking to bring together fragmented approaches on the use of the different sources of funds that may not all be primarily dedicated to address development. The DFA provides planning and finance ministries with data and analysis on the quality of their national development strategies/plans and country results frameworks, changing trends in development finance and their alignment with national priorities and results. It also helps formulate recommendations for how institutions and systems might be adjusted to ensure that different sources of development finance are managed within a coherent framework, which better supports the implementation of the SDGs.

UNDP is already supporting a number of countries to implement the DFA methodology. The findings emerging from DFAs provide useful data and analysis for discussing reforms at country level, and stimulating evidence-based dialogue and exchange among countries in the region that face similar change processes. Examples of DFA’s impact in this area include: i) the restructuring of government departments to take a more integrated approach to managing finance for development across institutions or bringing closer together the planning and budgeting processes; ii) the development of new integrated policy frameworks that seek greater coherence across external financial flows; and iii) proposals for new policy dialogue structures for governments and their partners, providing a multi-stakeholder platform that could be used to review SDG implementation.

As an action oriented diagnostic tool, the DFA provides both the baseline and the road map for implementing reforms needed for countries to adopt INFFS as referred to in the Addis Ababa Action Agenda. To stimulate further learning on what challenges will need to be addressed in developing INFFs, UNDP can build on on-going discussions in several countries in the region and beyond having embarked in a process towards localizing the SDGs, and exploring different avenues of mobilizing more resources to finance development. In taking forward the DFAs in the Asia-Pacific, UNDP Bangkok Regional Hub will consider a range of other tools when assessing how best to support governments to translate the 2030 development agenda into their own plans and to strengthen the management of their development financing resources.
Box 1.1 Integrated National Financing Frameworks

To move ahead on the 2030 Agenda, countries will need to consider their current and future financing frameworks for delivering the SDGs. This Agenda requires both significant increases in resources as well as changes in the way existing resources are prioritized, calling for more integrated approaches to managing public and private finance to achieve sustainable development. Integrated National Financing Frameworks, as referred to in the Addis Ababa Action Agenda, can help governments develop “a holistic vision of fiscal planning and management that transcends traditional public financial management” by developing instruments to integrate private sector development in the national budget process and identifying incentives to align resources of private nature. As such, INFFs provide government with a comprehensive overview of the various entry points and options available as well as an understanding of how to use them strategically.

Establishing INFFs represent an ambitious long-term endeavour. While such frameworks do not exist so explicitly in most countries, a number of on-going policy and institutional reforms in the area of public finance and results-based management provide countries with a good starting basis to build upon. An Integrated National Financing Framework can be seen to include the following building blocks:

- A national development strategy / plans with well-articulated set of priorities and results, including costed targets and indicators
- Integrated planning and budgeting processes, that enable to link national priorities and results with medium term expenditure and budget frameworks and monitor progress
- A resource mobilisation strategy to meet the costs required by the national development strategy / plans
- Financial management systems that allow government to better harmonise domestic and international public finance, as well as to leverage private sources of finance
- Institutional arrangements in place that facilitate coherence among various policy areas and coordination across government for resource mobilisation and prioritisation of policy and institutional reforms
- An enabling environment in which a range of stakeholders can engage in the debate over the effectiveness and impact of finance in delivering the SDGs, thereby supporting transparency and accountability

With its long-standing experience in capacity development, UNDP is well-positioned to play a catalytic role in supporting country efforts in establishing their INFFs, ensuring stronger links between finance and results through more integrated fiscal planning and budgeting processes. Such an approach focuses on policy development, strengthening institutions and systems needed to mobilise resources and maximise their use for development impact (see graph below). UNDP can also play a critical role in supporting evidence-based dialogue, bringing in regional perspectives and facilitating experience sharing across countries. In contrast to some other international agencies focusing on specific flows, UNDP’s comparative advantage lies in looking at how the interface among different flows can make a difference for sustainable development and ensure that the potential of each critical flow of resources can be harnessed to support the implementation of the SDGs when matched with adequate policy and institutional reforms.
1.2 Objectives of the DFA Guide

This DFA Guide aims to provide governments and experts with information on the objectives, process – including roles and responsibilities of various stakeholders involved in the process, methodologies and tools for undertaking a DFA, pointing out to the key challenges typically faced during their implementation.

The DFA Guide proposes a framework to conduct DFAs, drawing on the experience and lessons learned from undertaking DFAs so far, both in terms of methodology and processes. The DFA process is still evolving: where they have been undertaken, DFAs have already played an important role in stimulating more comprehensive reflections and inclusive dialogue on development finance than had taken place previously. The type of analysis proposed under the DFA is designed to provide countries with a broader perspective on how to link finance with results and stimulate evidence-based dialogue to identify the policy and institutional reforms needed to make the best use of resources available to finance the SDGs.

The scope, content and process for DFAs will naturally differ between countries and should be adapted to their needs and national circumstances. The DFA Guide, therefore, does not aim to be prescriptive in terms of the scope of analysis, content of the report or the process for undertaking a DFA. It does aim, however, to provide the basic components of a DFA, guidance on good practices and other practical advice for those who are responsible for implementing a DFA. When it comes to the actual methodology proposed to conduct the analysis (see section 4 of the DFA Guide), and the key steps to follow (see section 6 of the DFA Guide), it would be important for countries engaging in the process to work towards adopting a standard approach that would help for comparing findings across countries and promote mutual learning across countries. Introducing a minimum of standardisation in using a common analytical framework and following some key elements of the proposed approach would also help to consolidate the quality assurance of the process and its credibility, particularly in light of the growing interest from countries in the Asia-Pacific region and beyond to undertake a DFA.
1.3 Structure of the DFA Guide

The contents of this Guide are organised in four sections, namely:

Section 2 outlines the purpose and general objectives and answers the question ‘what is a DFA?’, describing the overall DFA approach and associated analytical framework

Section 3 describes the overall methodology in undertaking the DFA analysis. This includes the main contents of the DFA report, together with an overview of typical challenges

Section 4 details the six steps of a typical DFA process and provides guidance for oversight arrangements and quality assurance
2. What is a DFA – Overall approach and framework

2.1 Purpose and objectives of the DFAs

The DFA’s general purpose can be formulated as:

Assist governments to establish Integrated National Financing Frameworks for the achievement of their development priorities and results, in the context of the Sustainable Development Goals.

As such, the DFA is a useful tool for governments to identify opportunities and gaps towards establishing INFFS, as such frameworks. Being an action-oriented diagnostic tool, the scope of DFAs is as follows:

- establish a baseline for assessing the extent to which an INFF or some of its building blocks are in place
- provide a roadmap for implementation to help governments put in place the building blocks of an INFF, building on on-going policy and institutional reforms to take forward the DFA findings and recommendations
- Identify the specific roles and responsibilities of the government entity commissioning the DFA in taking forward some of the recommendations coming out of the process that may fall beyond its mandate.

Specific objectives of the DFA include:

**Assessment objectives**

- Provide an overview of the evolution of the flows of financing for development and their allocation and contribution to national priorities and results
- Assess the links between finance and results through the relations between the national planning and budgeting processes
- Assess the roles and responsibilities of national institutions in managing or influencing the development of individual financial flows
- Analyse the interface between different flows and the complementarities between the different sources of development finance in contributing to achieve sustainable development

**Improvement objectives**

- Propose practical ways of strengthening the alignment of development finance with national priorities and results through relevant policy and institutional reform recommendations
- Help governments mobilise the capacities needed to implement their national plans and strategies through evidence-based dialogue, results-oriented policies, and sound institutional solutions and systems
- Draw together existing resource mobilisation projections and scenario analysis around selected priority flows and consider policy and institutional reform options to maximise the alignment of these flows with national priorities and results
- Provide opportunities for country stakeholders to exchange experiences and ideas with other countries in the region
- Set in motion the strengthening of cross-government coordination
2.2 Overall approach

The DFA approach and analytical framework are guided by the following principles:

- **Use of existing data and policy analysis**: the DFA does not involve primary data collection and research, but aims to aggregate existing data and analysis around different flows of development finance, focusing on the coherence and complementarity between different flows in the way they align with national development priorities. Rather than duplicating such assessments when they exist or making an assessment within some of highly technical areas beyond the boundaries of the DFA methodology (see Annex 3 for a list of relevant sources), the DFA team should attempt to:
  - identify the main actions emerging from existing assessments or analytical gaps when such assessments are not available that would add value for the development of INFFs
  - assess the convenience and cost-effectiveness of following-up on the recommendations emerging from these assessments or producing these assessments to bridge any gaps
  - include follow-up to these assessments or their implementation in the DFA roadmap

- **Focus on linking finance with results**: the DFA is not interested just in mapping resources flows and providing policy recommendations to government for mobilising resources. Building on existing data and analysis of flows, as well as policy diagnostic assessments, the DFA proposes an assessment of the state of play and proposes policy options for government to consider to maximise the use of existing resources to finance their development priorities in the context of the SDGs. Such an assessment includes aspects of efficiency and equity in using resources available, and how finance leads to results, particularly through the quality of policy and institutional underpinning specific flows and the way different flows of resources align with the overall national priorities and results in a country.

- **An action-oriented diagnostic tool**. Establishing an INFF is an ambitious long-term endeavour. The DFA is a useful tool contributing to establish the baseline for developing an INFF and the roadmap for implementing the recommendations emerging from the assessment to strengthen alignment of various finance flows with national priorities towards establishing an INFF. It also look into the roles and responsibilities of the government entity who has commissioned the DFA and its potentially changing role and responsibilities in taking forward such an agenda.

In the context of implementing the SDGs, the DFA aims is a useful tool to provide the baseline and roadmap for aligning development financing with results through INFFs. This alignment is a difficult task, particularly for flows which are not under direct government control such as those of private nature. Figure 2.1 below illustrates how the DFA helps governments to get an overview of their development finance, including flows of both public and private nature, taking into account the extent to which the government can influence such flows through the current policy and institutional set up.\(^1\) In the case of private flows, their primary purpose is not development but the DFA can looking some policy options which the government can consider to ensure they contribute to finance sustainable development through better alignment with national priorities and results.

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\(^1\) In this figure, the size of the balls would be proportional to the size of the flows, where their relative position on each axis would show the extent to which government can control/align the flow with country priorities. Recommendations from the DFA can envisaged policy options needed to change the size and the relative position of the flows.
2.3 Analytical framework

DFAs provide finance and planning ministries with data and analysis on the changing trends in development finance and provoke dialogue on how institutions and systems might be adjusted to ensure that development finance is delivered in a coherent way across Government, and in support of nationally defined development results. The DFA analytical framework is built upon four key pillars:

i) **Assessment of national planning and budgeting systems and their results orientation.** The DFA focuses on the potential means to finance the country’s national development priorities. These priorities may be formulated in National Development Strategies, SDG Action Plans, sector plans or similar documents. The DFA analyses the quality of the results frameworks associated with these strategy and planning documents, including in terms of whether they include targets which are costed; how results frameworks function in practice, the linkages between sector and national plans; and the extent to which multiple stakeholders are involved in the planning and monitoring process. It is central to find out if there are financial estimates associated with the results framework and if these estimates are translated into Medium Term Expenditure Frameworks or other types of fiscal planning documents which are associated with the national budgeting process. An overall question for the agencies dealing with development planning and finance is whether there is a results oriented culture in their respective organisations. Options for improving the results-focus of national development strategies and plans are provided.

ii) **Mapping and analysis of financing for development flows and associated policy and institutional frameworks.** Development finance flows are analysed according to two main categories: by source (domestic/external) and distinguishing them by public or private nature (see Annex for a list of the main flows according to the classification proposed and relevant institutions and policy documents).
The DFA identifies untapped sources of development finance the country may access in the near term and may also find duplications and overlapping sources that might be useful to take into account. This analysis will recommend institutional, policy development and coordination solutions to improve the future evolution of each of the selected flows.

**iii) Prospective analysis of selected priority flows and main policy and institutional reform options.**
When sufficient quantitative evidence is available, the DFAs will discuss the evolution of a prioritized list of development finance flows in the next 5-10 years, identifying which potential resource flows may contribute to accelerate progress. On the basis of existing studies and scenarios analysis assessing the feasibility and capacity to generate additional resources in the next 5-10 years, the DFA will look into strategies and propose policy and institutional reform options to make the best use of these resources for financing the SDGs. When possible the DFA is also going to check how the system is responsive to shocks of various kinds.

**iv) Roadmap for implementation.** Being an action-oriented diagnostic tool, the DFA provides governments with policy and institutional recommendations for strengthening the alignment of development finance flows with national priorities and results. Part of the dialogue embedded in the DFA process aims at agreeing on a roadmap to support the government to: i) implement the main recommendations of the DFA analysis; ii) visualise the next logical and feasible steps to develop an Integrated National Financing Framework (INFF); and, if needed iii) to identify the basis for an INFF development support programme. Developing the Roadmap for Implementation is the most important part of the DFA and will require consultation with a range of stakeholders throughout the process to generate buy-in for any follow-up envisaged. Discussions both of formal and informal nature will also play an important role to identify how the government, particularly the part commissioning the DFA (typically in the Ministry of Finance of Planning), can take the process forward and mobilise key actors to support the process, particularly development cooperation partners.
3. DFA analysis

3.1 Overview of the main contents of a DFA report

The box below shows the proposed list of contents for a standard DFA report. The following descriptions attempt to provide guidance to the DFA teams, enabling them to focus the analysis on key individual topics that are covered in each of the sections.

Table 3.1

<table>
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<tr>
<th>Standard content for DFA studies</th>
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<tr>
<td>1. Introduction</td>
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<tr>
<td>2. Socio-economic and political context</td>
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<tr>
<td>3. Linking finance and results: relations between planning and budgeting processes</td>
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<tr>
<td>4. Public finance: institutional and policy context flow analysis</td>
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<td>5. Private finance: institutional and policy context flow analysis</td>
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<td>6. Prospective analysis: projections and main policy and institutional reform options for selected priority flows</td>
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<tr>
<td>7. Conclusions and roadmap for implementation</td>
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3.2 Section I: Introduction

The focus of this section is to present: i) the overview of the development financing landscape (see example of Vietnam below for a graphic presentation) and the potential implications that the changes at the global level may have at the country level (including, if specialized studies are available, issues of volatility and vulnerability and the extent to which national systems are able or not to respond to shocks); and (ii) the specific objectives and scope of the assessment, including a short description of the assessment process, the composition of the DFA team, the role of government stakeholders, including for oversight, and the role of UNDP in supporting the process.

Key questions to be addressed
- What are the main challenges presented by the 2030 development agenda at the country level?
- Are there regional or other implications, positive or negative, that may affect the country’s perspectives towards financing the national development priorities?
- What are the main development finance flows that support the medium- and long-term development plan(s)?
- Purpose of the DFA and specific objectives.
- Institutional arrangements for the DFA: role of the oversight team, composition and background of the assessment team, main steps and milestones for undertaking the DFA, stakeholder participation and validation of the study.

Known difficulties and potential challenges
This section should not present major challenges for the DFA teams.
Figure 3.1. Overview of a country’s selected flows of financing for development

3.3 Section II: Socio-economic and political context

The focus of this section is to provide a succinct summary of economic, social and political development, including progress on MDGs, human development and governance indicators relevant to understand some of the factors driving the changes in the development finance landscape at country level and inform the analysis of development financing requirements. The DFA study should analyse the following areas:

- **Overall social and economic context**: Provide an overview of the economic and social outlook (last 10 years) focusing on key general challenges and opportunities (as stated in available specialised studies) such as: poverty eradication, human development and social inclusion, as well as prospects regarding sustainable development.

- **Long-term development vision**: Provide an overview of the country’s long-term strategy and associated plans/strategies to translate the vision into longer-term development targets as well as medium-term implementation plans. Also include a description of any costing of targets and investment needs to implement medium-term plans, if available, and sources of financing.

- **Economy**: Provide an overview of the macro-economic outlook (last 10 years), focusing on aspects such as (as stated in available specialised studies): inclusive economic growth, income level classification and prospects for graduation, domestic resource mobilisation and tax base structure, overall structural change and economic transformation, private sector development trends.

- **Economic governance**: Describe the country’s major trends in institutional development and reforms aiming at strengthening the rule of law and economic governance in areas key for achieving sustainable development and implementing national plans. Governance aspects to be considered include, for example: status of core state functions, including parliamentary oversight and judiciary mechanisms supporting accountability, space for voice and participation.

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2 See Annex XX for a sample of standard graphs to be included in each DFA report to allow for comparison across countries
of civil society, private sector and media, progress in reforming public service, strengthening local government and decentralisation, and fighting corruption.

Key questions to be addressed

- **What are the country’s main economic and social opportunities and challenges during the last decade?**
  - Progress and challenges in reducing poverty and inequality
  - Gains or loss in human development as measured by the Human Development Index
  - Progress in achieving the MDGs and prospects for implementing the SDGs

- **What is the government’s long term vision for the country?**

- **What are the country’s key macroeconomic developments in the last decade?**
  - Economic growth, sources of growth, investment (public and private/domestic and external), macroeconomic shocks, inflation, exchange rate
  - Natural resource endowment
  - Government expenditure as a share of GDP,
  - Headlines on major trends in financing for development landscape, including the changing role of ODA

- **What are the main characteristics of the country’s economic governance context?**
  - Recent governance reforms
  - Budget and public financial management reforms
  - Tax base structure, main sources of finance (how progressive / pro-poor is the system?)
  - Decentralisation process
  - Governance and public financial management indicators

**Known difficulties and potential challenges**

Assessment of the macro-economic and governance context: In these highly technical topics, the DFA should not attempt to emulate the type of assessments made by Public Expenditure Reviews (PER), Public Finance Management Analysis (PEFA) and other specialized studies. Instead, the DFA teams should focus on mapping the availability and relevance of existing analysis and use their results. When needed, the DFA should point out to the need for undertaking some of these studies (as for example CPEIR studies for Climate Finance) and recommend the use of these tools to inform the future formulation of the INFFs.

### 3.4 Section III: Planning and budgeting processes

This section looks at how finance can lead to better results through integrated planning and budgeting processes. Given the imperative to harness multiple sources of finance for the SDGs, the budget will continue to be a central instrument of effective governance for delivery, and accounting for the use, of resources. In addition, sustainable development issues of poverty and exclusion, gender equality, climate change, biodiversity and ecosystems, as well as disaster proofing development and dealing with non-communicable diseases, all cut across the scope of different policies and the mandate of different ministries. The budget will also continue to be central to enabling a whole of government approach to sustainable development as well as serving as a platform from which to create the right incentives and disincentives for non-government actors to align their resources.

The starting point for this part of the assessment is to review the quality of national development strategies/plans and their associated results frameworks. This includes reviewing how they include social, environment and economic objectives in an integrated manner. In addition, for alignment between finance and results to take place through integrated planning and budgeting processes, national development strategies and plans need to have realistic targets which are costed. This involves reviewing the government overall financial projections and targets to meet the demands of
the national development plan and its main assumptions, as for example, the ones listed in the example from Bangladesh (see Box 4.1).

DFAs will also explore the introduction of a stronger performance orientation in budgeting and the successful development and implementation of medium-term budget frameworks (MTBFs) in public financial management. The DFA should analyse the strategic phase of the budget development process that focuses on the implications of strategic policy priorities for the allocation of resources under the budget. This strategic process could be strengthened in the future to allow the analysis of other sources of finance that are also important to develop, but that are not necessarily under the direct control of the government. Such a multi-year integrated planning and budgeting process could eventually lead to the development of INFFs.

**Box 3.1: Bangladesh: Financing requirements for the Seventh Five-Year Plan**

The financial estimates provided in the table below show that: (i) public finance (domestic + external) should only represent 22% of the total financial requirements of the plan; and that private sector investment should account for 78% of it; (ii) domestic resources (private + public) should account for 91% and external resources only for 8.9% of the total finance required by the plan.

<table>
<thead>
<tr>
<th>Item: BDT in Billions</th>
<th>Total</th>
<th>Share (%)</th>
<th>Public</th>
<th>Share (%)</th>
<th>Private</th>
<th>(Share %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Investment</td>
<td>31,902.8</td>
<td>100.0</td>
<td>7,252.3</td>
<td>100.0</td>
<td>24,650.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Domestic Resources</td>
<td>28,851.0</td>
<td>90.4</td>
<td>6,384.6</td>
<td>88.0</td>
<td>22,466.4</td>
<td>91.1</td>
</tr>
<tr>
<td>External Resources</td>
<td>3,051.8</td>
<td>9.6</td>
<td>867.6</td>
<td>12.0</td>
<td>2,184.1</td>
<td>8.9</td>
</tr>
</tbody>
</table>

Source: Government of Bangladesh’s Planning Commission - GED 7th Five year Plan, 2015

The projections in the above table are based on the following assumptions made for the next five years: i) an increase of the overall growth rate of 7.4% of GDP from the average level of 6.3% recorded under the previous plan; ii) total government revenue to be raised from 10.7% of GDP to 16.1%; iii) A marked expansion of tax revenue from 9.3% to 14.1% of GDP almost tripling current revenues in nominal terms; (iv) Tripled growth of net aid loans from US$ 1.53b to US$ 3.16b; v) A steady participation of foreign grants as 0.4% of GDP (doubling in nominal terms); vi) a substantial growth of FDI from 0.9% to 3% of GDP which will demand an almost six-fold expansion of the present volume; vii) an overall expansion of the manufacturing sector to 21% of GDP by FY20; vili) a steady share of remittances as 8 % of GDP (increase of 67% in nominal terms); and vii) a substantial increase of private sector infrastructure investment driven by Public-Private Partnerships (PPPs), which in the infrastructure sector alone should grow from 0.2% to 1% of GDP.

The DFA should assess the following aspect of a country planning and budgeting processes, including at sub-national levels, to the extent feasible and depending on country context:

- **National development strategies/plans:** Quality of national development strategies/plans in terms of: i) links between national development strategies/ plans, including key sector strategies and availability of results frameworks/targets and indicators and their adaptation to include the SDGs ii) availability and accuracy/realisticness of their costing and integration into MTEFs; iii) if (how) costing estimates are used for strategic programming of external finance resources; iv) evolution and status of national/sector planning; and v) existing systems and procedures for monitoring the achievement of national development results and their relative performance, including that of the institutions that have a role in this process and opportunities to strengthen their capacity.

- **Scope for alignment:** Use of national/sector results framework by development partners. How do the national priorities and results as defined in the overall national development strategy / sector plans drive alignment of other financial flows, particularly beyond public policies? How can the national budget process better integrate private sector development and provide incentives for private sector to align with national development priorities?
• **Linkages between the national planning and budgeting processes:** Overview of the existing decision making process for translating national plans into budget allocations and expenditures. Assessment of the budgeting and planning process of the country under review and the institutional arrangements for coordination of national development policy formulation and budget submissions, including at sub-national levels. Nature of fiscal/financial planning system (yearly, multi year?) and coverage of sources to finance for the NDS/Plans. Cooperation and coordination between planning and financing functions at national and sector level. Performance of the institutions that have a role in this process and opportunities to strengthen their capacity.

• **Effectiveness of the results-oriented performance review/monitoring and evaluation systems and readiness for the SDGs:** Key successes/failures of the national planning system measured by the accomplishment or not of the expected targets (for example, using reviews of the country’s performance to achieve the MDGs or other major plan implementation assessments). Plans to map the SDGs and identify gaps, including how prioritisation, costing and trade-offs are considered when integrating the SDGs in the national development framework.

**Key questions to be addressed**

• What are the main characteristics of the country’s planning process and its links with the budgeting process?
  o What is the budgeting and planning process of the country? How has the process been adapted to integrate the 2030 Agenda or what are the plans underway to integrate the SDGs into the planning and budgeting process of the country?
  o Relation between planning and national budgeting: Is there an institution which is in charge of reconciling the development results expressed in national plans with the fiscal framework and budget framework?
  o Evidence-based planning and budgeting: does the government have access to use all necessary data/evidence for planning and budgeting? Assess present systems and procedures for working with evidence-based policy making
  o Assessment of the costing of the national and sector development plan: do the relevant ministries/institutions have the necessary capacity to do the costing for the national development strategies/plans? How do they manage trade-offs in prioritising the SDGs? Are there differences between costing, allocations and expenditures in the programmes under review?

• How are the national priorities and results as defined in the overall national development strategy / sector plans drive alignment of other financial flows, particularly beyond public policies? What are the measures within the national budget relevant for private finance flows and private sector development? How does the government track different flows of resources and use findings to coordinate overall resource allocations: e.g. budgeting that takes into account all the resources available including potential private sector financing? What is the institutional setting that can enable policy coherence across different flows?

• What is the country’s overall system to assess performance in achieving its development results?
  o Assessment of previous national development plan formulation and implementation
  o Are there visible sector differences in planning and implementation quality?
  o What institutions are currently ensuring accountability of policy implementation and government spending?
  o Monitoring and evaluation of achievement of national results: how does the government monitor and evaluate that budget implementation is conducive to the achievement of the desired development results?

**Known difficulties and potential challenges**
Availability of costed national development plans and financing requirements: If the DFA team finds that the national development strategies and plans do not have financial estimations associated with it, then a major task of the DFA is to work with government counterparts to identify how best to develop an initial assessment of the funding requirements. This is a key contribution that the DFA can make. This need must be detected early on in the DFA process (when the Concept Note is drafted – see Section XX) so it will be possible to identify the extent to which such a task can be programmed as part of the DFA process and ensure that the teams put in place possess the technical capacity to support it. This task must not be performed in isolation by the DFA team and should be carried out together with the leading government agencies (Ministries of Planning, and Finance, Central Bank, etc.) to ensure broad buy-in around the process of costing development targets and financing requirements emerging from the DFA process. If during the planning stage of the DFA the process of costing such financing requirements goes beyond scope of the DFA, the DFA will need to identify how such a process can be included in the road map for implementing the DFA and recommendations.

Assessment of national development strategies and plans: analysis of the quality of a country’s planning process should not be the product of a subjective opinion of the DFA team. It should be based on rigorous evaluations and assessments available at the national/sector level.

Assessment of costing national development strategies and plans: analysis should use official data and documents. Special consideration must be applied to the availability (or lack of) of PEFA analysis especially when it comes to assessing Policy-Based Budgeting and Predictability and Control in Budget Execution.³

3.5 Overview of flow analysis
The availability and quality of finance for development will be decisive to materialise the implementation of the national development strategies and plans in the context of the 2030 Agenda and the SDGs. The DFAs is an important tool to support governments in mobilising public and private resources both domestically and externally and using them to leverage action for development. This requires a stronger emphasis on the analysis of the quality and complementarity of different sources of financing, in terms of how individual flows align with national priorities and the coherence of policies across different flows.

The DFA looks at a range of flows of finance which government can use to finance sustainable development (see figure XX in section XX for an overview of relevant flows), using a standard analysis to ensure that the assessment is carried out with the same level of depth for each flow (see box 3.1).

Alongside the standard analysis, the DFA looks at some specific aspects pertaining to various flows of public and private finance as described in sections 3.5 and 3.6 and proposed list of indicative questions (see boxes 3.2 and 3.3). The assessment distinguishes between public and private finance flows as governments can influence public flows more directly than private flows to deliver on the SDGs through national planning and budget processes. This means that for private flows, which may not always have development as a primary purpose, governments may need to consider a different set of policy and institutional options to have a stronger influence in aligning these flows with national priorities.

It should also be noted that each source of finance has different characteristics which should be factored in into the assessment. For instance, different sources of finance may take time to access depending on the pre-qualification and application criteria while others may be quick to leverage.

### Box 3.2 Standard flow analysis

The DFA provides a comprehensive assessment of development finance available in a country. For each flow the DFA team completes the ‘Flow Analysis Fiche’ (see Annex 1), aggregating existing data and analysis covering the following areas:

- **Recent evolution and trends**: quantitative importance of each individual flow and recent trends (last 10 years according to pre-established data series), other relevant characteristics depending on flows (e.g. concessionality: short or long-term nature; on- or off-budget; predictability; procyclical or countercyclical nature; flexibility in use; conditionality)

- **Relevance and complementarity of each flow in financing development goals**: government’s preferences/priorities against each flow, sector allocation, and – where applicable – by level of government (national and sub-national), coherence across policies governing different flows, linkages with national development strategies/plans and results frameworks as well as the measurability of their contribution to achieve results.

- **Policy and institutional setting governing and affecting the development of the flow**: institutional arrangements; policies in place and coordination set up to regulate, oversee and manage these flows; degree to which government can control these flows and influence their alignment with national priorities; potential barriers in accessing them.

- **Availability of data and information to support policy decision making**: availability and quality of evidence, including tools to record data and compatibility among differing management information systems as well as ease to collect information from a range of stakeholders.

The DFA report should provide a summary of the key elements requested for each flow in the flow analysis fiches. The Oversight Team (see section 4.2) plays a critical role in facilitating access to data across the government. The required information about some individual flows is usually not widely known, shared or used to feed more holistic policy reviews. This is one area where the DFA generally adds value to government decision-making, providing a comprehensive assessment of the current status of development finance, bringing together existing quantitative and qualitative data and analysis.

A recurring theme emerging from DFA studies is that data, information and knowledge are of strategic value and key enablers of more advanced government management systems. The following issues have been identified in almost all DFAs: i) critical data is usually confined in different government areas, hard to find or not collected at all; ii) silo production of knowledge and analysis obstructs its effective use and integration into strategic decision making levels; and iii) stronger technical capacity will be required for Governments to be able to integrate all available information and produce the type of knowledge that is needed to inform policy decisions. Availability and access to data is a key component of the Flow Analysis Fiche, while specific recommendations can be included in the roadmap for further action.

The comprehensive analysis of all flows presented in the report can be enriched with complementary assessments of the potentiality for growth of specific flows based on regional benchmarks or individual comparison with selected countries. For this purpose, the DFA teams should use as a reference information available in the regional repository that UNDP is establishing (see section 4.9) and existing specialised reports from other organisations (see list in Annex 3).
The characteristics associated with various flows may impact their suitability for financing different types of investments. The government may also need specific capacity development support to access some of these sources (e.g. climate finance resources) and ensure greater alignment with national priorities (e.g. FDI and PPPs). Accessing some of these sources may require governments to develop investment strategies (e.g. green and blue economy financing).

3.6 Section IV: Public Finance

Focus: This section analyses public finance flows according to the two dimensions (domestic and external sources). In addition to the proposed standard analysis for each flow (see Box 3.2), the additional guidance for public finance suggests a number of topics for consideration, including a set of indicative questions to be used, and points to possible challenges that may be associated with specific flows. Notwithstanding the range of possible areas to be considered, the choice of specific issues to review should be determined by domestic policy considerations and country specific context. The analysis of public finance attempts to cover the following topics:

Public sector expenditure efficiency and effectiveness and effectiveness: Domestic resource mobilisation is rapidly increasing in most countries, even in those countries where ODA still plays a major role. There is room for strengthening taxation capacity and reforming tax structures to increase the ratio of tax revenues, as well as curb illicit tax evasion including through trade mispricing. Sustainable development will depend not just on the expansion of domestic finance but also on achievements in improving the quality of public expenditure in terms of efficiency and effectiveness. This includes how the cross-cutting economic, social and environmental dimension of the 2030 Agenda are being addressed. Therefore, this part of the DFA analysis should also attempt to review evidence describing the main areas that governments could explore to do this, such as: 4

- Eliminating inefficient public subsidies which may not be environmentally-conscious or socially-inclusive (such as, for example, fuel subsidies)
- Rationalising or eliminating losses from State Owned Enterprises
- Strengthening public financial management systems to improve budget execution and service delivery and increase value for money in public procurement
- Improving the quality of public spending, including in terms of reducing poverty and addressing social equity through adequate sector and geographic targeting as well as investment in human capital and social safety nets

Managing revenue from natural resources strategically. In many developing countries, an important share of public revenues originate from extractive industries. Experience suggests an effective strategy for managing the revenues from natural resources is crucial for countries to take advantage of the wealth of their natural resources. Such resources can be a curse if macro-economic management factors are not being addressed, in terms of productivity in public investment, absorptive capacity, Dutch disease effects, and volatility in natural resource revenue. Another important aspect is to ensure greater transparency and accountability for revenue flows from extractive industries. The DFA can stimulate a discussion in this area, focusing on how interaction with other flows and associated policies be mutually reinforcing.

Mobilising additional resources for sustainable development through sovereign wealth funds. Developing countries are increasingly looking at the creation of sovereign wealth funds to make use

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4 This should not be done by replicating more specialized PFM analyses such as Public Expenditure Reviews (PER) or other. The DFA should either analyse their findings or point out the need to implement recommendations coming out these processes.
of balance of payment surpluses, official foreign currency operation, the proceeds of privatisation, fiscal surpluses and/or receipts resulting from export. Once operating, such funds can generate significant flows of financing for development, with the ability of taking higher risk than any other investment vehicle given their low level of liabilities.

The DFA can stimulate a discussion on the advantages of establishing such funds, including for mobilizing more resources to financing the SDGs and ensuring inclusive and accountable investment.

**Sustainable debt management.** Public borrowing is an important tool that governments can use to close fiscal gaps in financing national development priorities and the SDGs. As many developing countries experience remarkable economic growth, an increasing number of them are being categorised as middle-income countries. As such, they face a situation of rapidly decreasing ODA flows as they are no longer able to access concessional loans from multilateral development banks while bilateral OECD/DAC members tend to increasingly focus ODA on least-developed countries. At the same time, they have better prospects to access international capital markets for borrowing. In the context of the DFA, it is important to consider key elements of the country’s debt strategy, particularly in terms of targets for external financing and preference regarding levels of concessionality. The DFA can help to stimulate a discussion on the ways of financing fiscal gaps and advantages and disadvantages of various flows of resources.

**Evolving role of ODA:** for many countries, ODA may no longer be the main resource to finance the national development plan and 2030 development agenda but it can be used to achieve key strategic results.\(^5\) With the on-going discussions around modernising the definitions of ODA and adopting a measure to capture broader development efforts\(^6\), the DFA helps governments to assess how to envisage a more catalytical role for ODA to meet national development priorities and assesses the potential benefits and the present challenges to access and manage this source of finance. For this purpose, DFAs may explore the following aspects:

- Priorities for ODA and use in areas where it has comparative advantages depending on the country context: focus on social sectors to fill fiscal gaps versus financing infrastructure development and leverage of private sector resources through blending finance and other innovative mechanisms; decision making process for balancing trade-offs between use of ODA for mobilising domestic resources and leverage private sector development and imperative of demonstrating tangible impact in terms of high-level development outcomes
- Support to institutional development and key strategic public reform areas, as well as results-oriented public sector management
- Use of ODA to develop government’s capacity to expand specific flows (domestic and external) and strengthen their management through accelerating policy development and reforms
- Focus of government-led multi-stakeholder policy dialogue and coordination at national, sector, and decentralized levels, with a view of strengthening the complementarity between ODA vis-à-vis different sources of development finance

**A more diverse range of actors.** South-South cooperation is a long-standing feature of collaboration among developing countries which support the exchange of resources, technology and knowledge.

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\(^5\) In countries affected by conflicts or emerging from a conflict, humanitarian finance and support to peacekeeping can be an important part of external public finance flows as well as philanthropy/NGOs. DFA is however not emphasizing such finance given its short-term and un-predictability nature. However, in countries regularly affected by natural disasters, the DFA may need to look into how the regular need for emergency relief is being integrated into national plans and resilience to shocks is being factored in.

\(^6\) ToSSD
Recent years have seen the financial engagement from several middle income countries gaining prominence in the development cooperation landscape. Although still a relatively low share of international public finance globally, their contribution is significant in some countries and plays a critical role to meet needs not addressed, particularly in terms of financing infrastructure. In many countries, information on south-south cooperation is still scattered and the DFA can point to the strategic importance of collating data more systematically on the full range of international public finance and reviewing more systematically the impact of south-south cooperation.

Growing opportunities to access climate finance. Climate finance is expected to significantly increase in the coming years with the creation of the Green Climate Fund (GCF), committed to provide up to US$100 billion annually by 2020. Beyond public sources of climate finance, the green/blue economy financing is opening new opportunities which governments may wish to consider in their climate change strategy as an additional potential source of funding.

The DFA can contribute to analyse the main opportunities and difficulties for accessing and managing climate finance at the country level, focusing on the national policy, institutional and public expenditure issues that usually affect climate finance availability and performance.

7 Until now, climate finance was marked by a number of vertical funds established by the UNFCCC: the Global Environment Facility Trust Fund, the Least Developed Countries Fund, the Special Climate Change Fund and the Adaptation Fund
Box 3.3 Public Finance – Key questions to address

Overall resource envelope for public spending
- Estimates for the largest sources of development finance to support medium-term development plans; main sources of financing and key characteristics, preferences for financing the fiscal gap beyond public revenues and external official flows (e.g. advantages and disadvantages of innovative finance mechanisms, south-south partners, public borrowing); any special /extra-budgetary funds (e.g. experience with Sovereign Wealth Funds)
- Patterns of public expenditure – past allocation of public expenditure by sector and by levels of government; evolution over time and any foreseeable policy shifts in the allocation of public expenditure in the next 5 years
- Evolution over time of the functional classification of government expenditure?
- Analysis of rates of budget execution and absorption of external public finance by sectors and by levels of government.
- Main PFM reforms implemented in the last 20 years and effects on improving efficiency in public spending

Public revenues
- Policy and institutional setup: main features and changes in fiscal policy over time; taxation policy in the mining sector; implications from decentralisation on revenue collection (if applicable)
- Volume and trends: breakdown by tax and non-tax, royalties, external assistance/grants; comparative advantage of the different sources: e.g. predictability, fit with strategy, size of commitment, concessional terms; flows related to SOEs and ways dividends, recapitalisation and liabilities are recorded in government accounts

Public borrowing
- Policy and institutional setup: debt management strategy; process of deciding whether to take on new loans, including criteria and government departments involved; process for initiating, negotiating, approving and monitoring loans; difference, if any, for different partners (e.g bilateral providers, international financial institutions, south-south partners)
- Volume and trends: Outlook for domestic borrowing including prevailing conditions and change over time, volumes and trends of loans, including sources, level of concessionality, sector and level of governments

ODA and other official flows (non-concessional funding)
- Policy and institutional setup: Existence of development cooperation policy/strategy setting priorities, division of labor, preferences for different modalities; coordination set up and role of central government agencies vs line ministries/local governments for initiating, negotiating, implementing and monitoring externally funded programmes; distinct responsibility and process for negotiating grants and loans; achievements and challenges in strengthening multi-stakeholder dialogue and coordination with the government and among different partners (e.g. engagement with SSC partners, philanthropies and private sector)
- Volume and trends: including breakdown by instrument [grant, concessional/non-concessional loans, blending finance/guarantees, credit lines] and source [bilateral and multilateral agencies, climate funds, GF and GAVI], sector and geographic allocations; alignment with national priorities and results, on/off budgets, integration in planning and budgeting at national, sector, and local levels; availability of forward looking plans

South-South Cooperation
- Policy and institutional setup: Guiding principles and priorities for south-south cooperation; Government department(s) involved and coordination with Ministries of Finance and Planning;
- Volumes and trends: Alignment with national priorities and geographic allocations; on/off budgets and use of country systems; predictability and availability of forward-looking plans; engagement with country-level policy dialogue and coordination processes; reviews and evaluation of impact

Climate finance
- Policy and institutional setup: Main features of the climate change policy regarding management of climate finance; Government department responsible for managing climate-related finance; coordination with Ministries of Finance and Planning; specific arrangements if different from those for other public external flows, particularly ODA;
- Volume and trends: Main sources of climate finance, volumes, modalities (grants/loans), on/off budget and use of country systems, sectors and levels of government targeted, prospects and forward-looking planning; coordination mechanisms between government and partners; reviews and evaluation of impact
Known difficulties and potential challenges

Tax structure and evolution of the tax revenue system: the DFA aims to analyse if there are opportunities for improving not just the volume but also the nature of the taxing system to tackle inequality and improving inclusive growth. The DFA scopes if there is room for improvement in the implementation of progressive tax systems (and pro-poor and gender-sensitive redistribution systems) and the gradual reduction of regressive tax structures that have disproportionate negative impacts. As this is a highly specialized area, the DFA may suggest the need for further analysis.

Illicit Flows. Evidence for these measurements are usually hard to find. Most of the tax revenue losses in the Asia Pacific region are generated by trade mispricing and other tax evasion practices from private companies. Aggressive transfer pricing (or mispricing) - the practice of inflating profits in low-tax jurisdictions and lowering profits in high-tax jurisdictions - is a problem affecting developed and developing countries alike and falls in a grey area, as many of the practices applied are not illegal and exploit national and international legal loopholes. This is, in many cases, directly related with FDI taxation and the capacity of the national customs and revenue boards to estimate, monitor or track these problems.

Climate finance: If insufficient information is available in this area, the DFAs scopes for the opportunity for developing a Climate Public Expenditure and Institutional Review (CPEIR) in the country. If a CPEIR is already available, the DFA builds on the CPEIR recommendations and further review opportunities to improve public expenditure and institutional capacities to manage climate finance.

Some flows prove to be much harder to analyse: experience from previous DFAs show that data and aggregate information for some external flows are either non-existent or very hard to compile. This is typically the case of off-budget ODA grants and South-South Cooperation activities. Rather than gathering anecdotal information based on informal sources, it is more useful in those cases to focus the analysis on reviewing: i) the convenience of developing, or strengthening national management information systems to collate existing data from various government sources (e.g. information systems from line ministries, debt management records), ii) stronger compliance from partners with existing national information systems (for example AIMS); and iii) better use of international data sources as for example IATI (for international NGO and donor flows).

3.7 Section V: Private Finance

Focus: This section analyses private finance flows according to the two dimensions (domestic and external sources). In addition to the proposed standard analysis (see box 3.2), the additional guidance for private finance proposes a range of topics including a set of indicative questions to be used and point to possible challenges that may be associated with specific flows. Notwithstanding the range of possible areas to be considered, the choice of specific issues to review should be determined by domestic policy considerations and country specific context. The analysis of private finance attempts to cover the following areas:

Private investment. Private sector is growing rapidly in the developing world and accounts for an increasing proportion of economic activity in many developing countries. Private sector capital formation is one of the fastest growing source of finance. In many countries, the financial sector is still underdeveloped and not easily accessible for small and medium enterprises (SMEs), with the World Bank estimating that fewer than 30% SMEs globally use external financing, of which half are underfinanced. In this context, it is useful to look at the access to credit for private sector in

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8 Private capital formation includes both domestically funded and foreign funded investments (see definition in Annex XX).
developing countries as credit from financial institutions could represent a more important source of external financing to finance their investment.

The DFA can stimulate a discussion on the extent to which efforts to strengthen the enabling environment for private sector development take into account sustainable development imperative. This can include, for examples, whether the regulatory framework for private sector development includes incentives rather than disincentives for private investment better aligned with national development priorities.

Inclusive finance: There is a strong consensus that increased levels of financial inclusion – through the extension of savings, credit, insurance, and payment services – contributes significantly to sustainable economic growth. Financial inclusion is achieved when all individuals and businesses have access to and can effectively use a broad range of financial services that are provided responsibly, and at reasonable cost, by sustainable institutions in a well-regulated environment. Because of its direct focus on poverty reduction, micro-finance has attracted a lot of attention from government and support from a range of development agencies.

The DFA can bring to the attention areas for further leverage where private sector initiatives complement government action to expand outreach and the range of financial products and services.

Corporate social responsibility (CSR) linked to development: CSR offers real opportunities for the governments in developing countries to change the way they engage with private sector, promote more sustainable and ethical business practices better aligned with public policy priorities throughout the supply chain and to leverage additional resources for sustainable development. There is increasing evidence of CSR good practice although there may be a broader range of activities by the private sector in developing countries not having just profit as the main purpose which may have not always be visible and labelled as CSR. However, there is a growing demand within civil society for promoting private sector activity which achieve sustainable profit together with social and environmental benefits for the communities. Some countries are taking steps towards adopting CSR guidelines. However, the lack of data to inform policy making in this area is an important limitation to streamline CSR guidelines and support more systemic regulatory approaches.

The DFA can contribute to document and disseminate good practice in businesses being socially responsible and stimulate further dialogue on ways to explore policy instruments which help promote CSR goals and approaches for harnessing CSR.

Foreign Direct Investment (FDI): FDI has propelled much of the accelerated growth in access to finance from international sources for developing countries. However, FDI generally is heavily concentrated in a few key countries and in general, does not reach countries that need such investment most like least developed countries or fragile states. Quality is also an issue: FDI is predominantly concentrated in low value-added sectors, may not lead to job creation and can also deteriorate the environment. It has been also hard for governments to attract foreign investment into higher productivity industries targeting both large-scale projects integrated into global value chains and smaller scale projects that respond to local needs.

The DFA can help government to identify the range of legal and institutional reforms and improvements in the enabling environment which are likely to attract quality FDI and maximise its development impact through alignment with national priorities in the context of the SDGs.

Private-public partnerships (PPPs). PPPs are a useful instrument that governments can use to mobilise private sector funding for critical sectors, notably to finance their large investment needs for infrastructure. In addition to being an alternative source of funding to meet funding gaps in specific sectors, PPPs may bring a number of other benefits such as: better public services through improved operational efficiency, supplementing limited public sector capacity to meet up growing demand for infrastructure, risk transfer to the private sector, technology transfers, local private
sector development opportunities through sub-contracting and joint ventures. PPPs are, however, also bringing some costs and challenges which government need to bear in mind when considering to use this instrument and require a strong regulatory framework. Some of these include: long-term nature of projects and associated complexity, management of overall project oversight and reporting from private sector, social and environmental impacts.

The DFA can help governments look into the benefits and opportunities of using PPPs to leverage greater investment in critical areas for sustainable development.

**International remittances.** Resources from migrant workers and diaspora are an integral component of the development process in many developing countries, bringing in remittances for millions of individuals often from low or marginal social and economic background. Remittances play an important role in supporting the incomes of the poor in recipient countries and are usually used to fund consumption expenditures and occasionally they also fund investments in homes or improvements to family farming. Despite high and rising levels, the potential for remittances to be directed towards productive investments and contribute to finance sustainable development remains limited.

The DFA can help governments to assess ways of harnessing remittances, focusing on how to: i) reduce transaction costs, ii) promote the use of remittances to develop productive activities or boost greater financial inclusion or iii) uncap the potential of diaspora bonds.

**Philanthropy and NGOs** (both domestic and international): Foundations, NGOs, including CSOs and religious organisations from both developed and developing countries make an important contribution to development. Philanthropies in many developing countries are mobilising increasingly more funds from private sources and wealthy people than is commonly realised which are likely to be directed to provision of basic services and poverty reduction. NGOs in developing countries raise their funding privately through earnings from services, philanthropy, and international NGOs, allocating the bulk of this funding to social sectors. They also increasingly get funding from their own government through a variety of outsourcing arrangements and grant schemes for activities having a clear public service focus. Beyond mobilising funds and delivering services, non-state actors play a critical role as independent development actors in shaping development policies and overseeing their implementation but also in enabling people to claim their rights and promoting right-based approaches. It should be noted that some ODA may be channelled through both international and domestic NGOs either to finance their own community-based or advocacy activities or to implement some activities directly related to support national programmes, as part of an agreement with the government.

The DFA can help government to identify how to get more information on such flows for mapping purposes and changes in the tax system to create incentives for companies and individuals to increase charitable giving.
Box 3.4 Private finance: key questions to be addressed

**Private investment**
- **Policy and institutional set up**: policy and institutional framework to promote better business environment, including government agency in charge, overall opportunities and challenges for private sector development
- **Volume and trends**: overall investment trends and sectors including change in trends; overview of sectors/activities, types of private actors; as a proxy, access to banking services and volume/trends in credit

**Inclusive finance**
- **Policy and institutional set up**: policy and institutional framework, including government agency in charge; evaluation of impact
- **Volume and trends**: volume of lending and sources of capital, including change in trends; overview of portfolio, including types of customers and sectors/activities

**FDI**
- **Policy and institutional set up**: policy framework, including priority setting and targeting sustainable development; institutional setting and coordination mechanisms across government
- **Volume and trends**: trends including both key sectors of investment and country of origin;

**PPPs**
- **Policy and institutional set up**: regulatory framework for PPPs and institutional set-up to oversee and manage PPPs; coordination between government and private sector; existence of data repository on PPPs projects; reviews and evaluation of impact
- **Volume and trends**: amount of resources expected to be raised, including by sector and geographic areas; examples of PPPs;

**International remittances**
- **Policy and institutional set up**: policy, institutional setting and government support services to promote overseas opportunities and protect rights of migrant workers and ease transfers through banking sector
- **Volume and trends**: trends including major sources; any national surveys undertaken to determine how households spend/invest remittances received;

**Philanthropy (both domestic and external)**
- **Policy and institutional set up**: availability of information on volumes and sources; reviews of activities and evaluation of impact
- **Volume and trends**: Main activities and sectors; volume and sources of financing; main partners for channeling resources (i.e. government, international organisations, NGOs); when resources channelled through governments, types of contractual arrangements and on/off budget;

**NGOs (both domestic and external), including faith-based organisations**
- **Policy and institutional set up**: availability of information on volumes and sources; coordination and collaboration with government and other non-government actors (private sector and/or philanthropy); reviews of activities and evaluation of impact
- **Volume and trends**: main activities; volume and sources of financing and changes in composition over time (incl. through south-south cooperation and philanthropy); allocation of funding across sectors/programmes;

**CSR linked to development**
- **Policy and institutional set up**: role of government in promoting private sector and existence of dedicated agency; willingness of private sector actors to share information with government agencies for mapping purposes; coordination mechanisms with other partners (either official or private).
- **Volume and trends**: in the absence of data, examples of private sector organisations working towards social and environmental goals (as well as, or instead of, profit orientation); examples of corporate social responsibility activities and existence of repository/database

**Known difficulties and potential challenges**

*FDI/borrowing/credit/investment.*

*FDI/PPPs.*

*Remittances.* Information is not always readily available or accessible although in central banks in most monitor the main flows of overseas remittances of all non-resident nationals. It may be difficult to track remittances in the case of illegal migration, which may not be channelled through the formal financial sector. For some other countries, with a large overseas diaspora, remittances may not be
accounted for in case those transferring funds back to their home countries have changed citizenship.

Some flows prove to be much harder to analyse. Experience from previous DFAs show that data and aggregate information for some private flows are either non-existent or very hard to compile. This is the case for Corporate Social Responsibility investments, philanthropy and NGOs, particularly for domestic companies, foundations and organisations. Rather than gathering anecdotal information based on informal sources, it would be more useful in those cases to focus the analysis to review the convenience of developing, or strengthening national information sources to monitor these flows (for example, the MIS from the Ministries of Social Development or Social/NGO Affairs).

3.8 Prospective analysis

The main purpose of this section is to present options that will help governments analyse and visualise the potential impact that selected priority finance flows could achieve in the near future, through maximising their alignment national priorities and results. While proper projections and scenario analysis would require work beyond the scope of DFAs, the assessment in this section draws together existing resource mobilisation projections and scenario analysis around selected priority flows reflecting on the following aspects:

- adequacy of the current policy and institutional framework for the flow, looking at its potential contribution to meet the financial requirements to achieve targets from the national results framework and alignment of policy objectives with the priorities establishing in the national results frameworks
- degree of government ability to control or influence the development of the flow, looking also at how a change of policy may affect the flow and contribute to greater mobilisation of resources and alignment with national priorities
- linkages and complementarities across flows, including how interaction among different flows may maximise development impact through greater alignment with national priorities and results

This part of the DFA does not focus on strategies to mobilise additional resources as such but strategies to make the best use of resources available, particularly from flows with a strong potential to grow in the future, with the view of maximising development impact through alignment with national priorities and results. This assessment should mainly focus on a sub-set of the prioritised list of flows selected by the government for review under the DFA (see sections 3.6 and 3.7). There are two main reasons for working with a priority list. Firstly, it would be technically very challenging to do this exercise for all flows with a reasonable level of quality. Secondly the DFAs should provide governments with a manageable agenda to operate in the short term. The DFA looks for ‘good enough’ solutions that are practical and feasible to implement. The prioritisation must identify the flows that are more strategically important to develop to address the country’s future development needs taking into account current country strategies.

The assessment of the current size of each flow and their potential contribution to meet the financial demands of the national results framework is important. This analysis should build on information obtained about each particular flow (national projections) and available regional benchmarks / comparative information about selected country experience.

The mere description of the historical evolution of each flow and some basic projections are not sufficient to achieve the main goals of the DFA. The assessment of existing scenario analysis and flow projections should also take into account the most relevant policy options identified and define the scope of the policy options analysed for each flow. For example: FDI development usually demand reforms to improve the business climate and this usually involves several areas such as:
competition policy, consumer protection, property and creditor rights, trade facilitation, judicial reform, fiscal transparency, market reforms and education policy. It may also require the creation or strengthening of FDI promotion agencies. This analysis should reflect also on the issue of vulnerability of flows and risks and how the system is able to adapt to the reduction of certain financing flows.

Another important aspect to assess in this context is the extent to which the government can control or influence these flows. In fact, not all of these flows are under direct government control, and for some of them, particularly those of a private nature, the government can only aspire at influencing how such flows can better align with national priorities. It is important to show the degree of alignment of these flows with national sustainable development priorities looking at the economic, social and environmental dimensions. This is especially important as flows that should be under closer control of the government (for example ODA) are often not properly aligned with national priorities. Also private flows (as for example FDI) can even undermine environmental or social priorities of the country. The resulting analysis can be represented in Figure 3.1.

**Figure 3.2 Illustrative DFA scenarios and projections for external flows**

Additionally, the assessment will, when possible, attempt to analyse the inter-linkages and coherence between these flows, their interface and the overlapping and complementarities between them. The inter-linkages between flows and the potential synergies that can be achieved by promoting and influencing them with an integrated strategic approach are also an important part of the assessment.

For example, the development of FDI often depends on the good quality of the national transport and energy infrastructure. These are usually the targets of the PPP policy that may or may not be strategized to adequately reflect the requirements of the projected FDI expansion within a certain timeframe. In this context, rethinking on how to use ODA more strategically could help to develop the national capacities to achieve these goals. In the same vein, ODA could be used to develop an integrated national infrastructure development plan that correctly reflects all FDI development priorities and that can be used as the main guideline to promote PPPs.

**3.9 Section VI: Conclusions and Roadmap for implementing DFA recommendations**

This section describes how the DFA policy options could be implemented, including policy and institutional adjustments, key government actors that should be involved and the leadership roles and responsibilities for implementing them.
The DFA is a tool that sets in motion or supports an already on-going process of institutional change towards improved country development financing. The DFA process starts with the government’s decision to conduct a DFA and ends with an agreement on a road map for implementing key improvements. This road map does not only provide the strategic direction for the overall policy and institutional framework for financing development but also indicate the role that the government will need to play in taking the process forward. This includes specific attention for the role of the ministry which has commissioned the study (typically the Ministry of Finance or Planning), which is well positioned to identify and mobilise the resources for the reforms to be undertaken, particularly from various partners of development cooperation.

An important consideration to keep in mind is that the implementation of the recommendations of a DFA may require high-level political discussions to agree on solutions that can work in the country. Bringing together coherent policies for the different development finance flows and aligning them with national priorities and results require a range of institutional reforms, from economic governance to public administration as well as strengthening the management capacity of central government agencies, line ministries and local governments. Most of such reforms are away from the mandate of a single ministry or government agency.

Achieving institutional reforms will require effective change management. Three conditions for change will need to be addressed during the DFA: i) capacities will need to be built to ensure that institutions are able to change (e.g. data management; performance based budgeting approaches); ii) performance incentives and reward structures should be put in place so that people want to change; and iii) laws and policies (e.g. investment laws, NGO laws) will need to be established to ensure that institutions and staff have to change.

The roadmap consists of the following components:

- Outline of the process towards an integrated framework for country development finance to support the implementation of the SDGs. In most cases, the DFA can provide sufficient evidence to develop a 2-3 year programme that guides the Ministry of Finance or the institution that will be in charge of developing the Integrated National Financial Framework. This programme will bear in mind the technical and political feasibility of the suggested actions.
- Priority list for institutional and policy reforms. The DFA recommends a priority list of reforms that would have the greatest impact in developing specific flows and to ensure greater efficiency of available resources.
- Additional assessments to inform the development of INFFs. The DFA may identify the need for the country to perform new (or repeat existing) Public Expenditure Reviews (PER), Public Finance Management Analysis (PEFA), Climate Public Expenditure and Institutional Review (CPEIR), institutional/organisational capacity assessments or similar reviews to better inform the development of the INFFs.
- Main components of programmatic support to develop and implement an INFF. In most cases, the DFA could provide sufficient evidence to develop a 2-3 year programme to support the Ministry of Finance or the institution that will be in charge of developing the Integrated National Financial Framework. This support programme should provide adequate TA support to the government for this purpose.

Given the potential scale of the agenda of creating a coherent framework for development financing and linking finance with country results, entry points for initiating reforms, and sequencing of actions is required. On-going processes, such as institutional reforms in Ministries of Finance aimed at integrated management of ODA, climate finance and South-South Cooperation or high-level multi-sectoral policy process, such as the development of Green Growth strategies, may provide good opportunities for governments to include them in this Roadmap.

Through this roadmap, the DFA provides the government with an intermediate milestone that visualises the sequencing of logical next steps and provide them with actionable suggestions for
implementing the DFA findings. This may lead to further dialogue, perhaps with a wider range of stakeholders, focused on broadening country ownership for more coherent development finance management.
4. The DFA Process

This section describes the specific process and milestones for undertaking a DFA, including the role of governments in overseeing the process. It also specifies the support provided by UNDP both at country and regional level, particularly in terms of quality assurance and mutual learning and dialogue across countries.

Government leadership and ownership of the DFA is essential. Therefore, describing the standard process and oversight responsibilities throughout the DFA process is important. Such a description also provides a useful basis to identify ways of enhancing quality assurance and the role of UNDP in this process.

4.1 Main steps and milestones

Each country will define the most suitable process for the DFA and its implementation schedule. The estimated duration of a DFA includes the time for preparing the Concept Note, engaging the DFA Team with the Oversight Team and other stakeholders, and making data available, analysing it and generating improvement suggestions. It takes a minimum of six to nine months between the start of the assessment and the submission of the draft report. Another three months is required for validating and finalising the report. It is important that all stakeholders are aware of and agree to the proposed process and time-frame.

The typical process for undertaking a DFA involves the steps listed in Table 4.1 below. However, as national circumstances vary, these steps should be considered indicative.

For smooth DFA implementation, some of the key elements of the proposed sequencing of the DFA process include:

- The Oversight Team must be established first (and its Chair) in order to appoint the DFA Team Leader
- The DFA Team Leader plays a key role in defining the Terms of Reference and selecting and hiring experts who will integrate the DFA Team, including national and international consultants
- An Inception Workshop is needed to level up the teams, define the customization needs in the analysis and confirm the definitive scope of the DFA study
- A Validation Workshop is needed to discuss the outcomes of the draft DFA report and approve the implementation roadmap with government and other relevant stakeholders.

4.2 Step 1: Decision to embark on a DFA and institutional arrangements

The decision to start a DFA should be formalised with an official response to a country’s request. An initial dialogue between the country and the DFA funding agency is needed to define the key elements and leadership of the DFA process. In particular, the scope of the analysis and any prioritisation of specific finance flows to be reviewed in the DFA is one of the important issues to be discussed and addressed from the outset.

An important precondition for starting the DFA is that the political leadership supports the aim of overall policy coherence in the alignment of development finance with country results. The development of Integrated National Financing Frameworks across a range of institutions, and the implementation of the necessary reforms to manage or influence multiple finance flows (private/public, domestic and external) for sustainable development, will all require engagement and strong leadership.
The initial dialogue should be used to carry out discussions with relevant government ministries, to identify their needs and define the main issues to be addressed in the DFA. Typically, the key implementers of the DFA are the Ministries of Finance and the Ministries of Planning or the Prime Minister/Presidential Office. Initial consultation with other line ministries (Foreign Affairs, Women Affairs, Energy, Infrastructure and Transport, Agriculture and Rural Development, etc.) would also facilitate their buy-in and cooperation during the DFA implementation process.

Essential Institutional arrangements should be also defined in this first stage. These should include:

**Establishment of an Oversight Team.** The Oversight Team plays the leadership and governance role in the assessment process. The members of the OT are drawn from the leading government entity in the assessment—typically from the Ministry of Finance— and other government agencies involved or other stakeholders, such as the Ministry of Planning or National Planning Commission, Presidential/PM Office and lead development partners.

The stakeholder that takes the lead in steering the assessment process should chair the oversight team. Given the strategic importance of DFAs, it should be a high-ranking official from the leading government agency – at the political level (e.g. the Minister of Finance) or administrative level (e.g. the Permanent Secretary). Highest level involvement is important to ensure active government’s role in the assessment and ‘buy-in’ from the decision making levels of the final results.

**Appointment of the DFA Team Leader.** The Oversight Team should appoint a Team Leader, who undertakes the day-to-day management of the DFA process and proposes the following essential features of the assessment for approval by Oversight Team:

- **The composition of the DFA Team,** its skill mix, sourcing, qualifications and briefing requirements.
- **The DFA timetable and meetings schedule,** covering preparatory work, the actual assessment process and any follow up arrangements. Adequate time to carry out the assessment (partly a function of the scope of the DFA and availability and access to data, existing studies and policy documents), agreement on definitions and thus information requirements, and adequate organisation in terms of arranging meetings with the right people and accessing relevant data, documents and sources of information.
- **The technical definitions** (e.g. Public-Private Partnerships, FDI, OOFs, South-South Cooperation), and the information requirements based on these definitions, and likely sources of data.
- **The quality assurance process.**

The DFA Team Leader would be recruited preferably from one of the key government institutions responsible for the DFA.

**Main output: DFA Concept Note**

This document formalises the agreement of the following aspects:

- General objectives of the study
- Overview of potential financial flows to prioritise and general scope of the DFA
- Institutional and political leadership for conducting the DFA
- Definition and establishment of the Oversight Team
- Objectives of the Oversight Team, including roles and responsibilities of its chair and main stakeholders
- Key tasks, frequency of meetings and timeframe of operation
- Appointment of the DFA Team Leader
Table 4.1 Steps and key milestones in undertaking a DFA

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<td></td>
<td>• General Objectives of the Study</td>
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<td>• Preliminary overview of Available Financing and general scope of the DFA</td>
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<td></td>
<td>• Establishment of the Oversight Team</td>
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<td>• Objectives of the Oversight Team, roles and responsibilities, including of its chair and main stakeholders</td>
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<td>• Links with other assessments in progress (e.g. PFM, PEFA, PERs, etc.)</td>
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<td>• Agreed agenda for follow-up action and further studies</td>
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4.3 Step 2: Mobilisation of the DFA Team

The DFA Team Leader is responsible for selecting and appointing the team that will provide the technical support and propose its composition, sourcing, qualifications and briefing requirements. The scope and nature of the work involved will typically require the mobilisation of external experts.

Mobilising a DFA team can be challenging. First, the analysts must be able to produce realistic assessments of the interaction of high-level policy areas such as: the quality of the national development plans and their current results frameworks and financing strategies, the analysis of the national budgeting processes as well as monitoring and evaluation systems in place. For each particular flow, the experts must review and assess their policy frameworks and the effectiveness of the government policies in place. Furthermore, the DFA team must be able to review a range of concepts for which a sound assessment requires to draw on highly qualified and often specialised technical inputs or studies (PFM, Results-based Management, Development Effectiveness, Climate Finance, Foreign Direct Investment, Public-Private Partnerships). The DFA team should also be able to understand how to incorporate the information emerging from the DFA to transform it into a long-term integrated national financing strategy.

Ideally, the members of the DFA Team should bring a combination of the following skills and experience:

- **Solid background in at least one of the following DFA core disciplines, with country level experience in advising governments on relevant reforms or assessing public policy performance:** Public Finance Management, Strategic Planning, and Development Effectiveness. As the DFA is a relatively new process involving a relatively complex process, there are not many ‘DFA Experts’ yet in the market. Most suitable experts are likely to be recruited internationally. National consultants may provide additional knowledge in some of the core disciplines and insights into the country’s main policy and institutional aspects.
- **Specialist expertise, depending on the prioritisation defined with the government, to support the DFA team in some specific areas (for example Public-Private Partnerships or Climate Finance)**

**Main Outputs: Terms of Reference of the DFA Team**

**Key Activities:**
- DFA Team composition
- Approval of ToR for national/international consultants
- Indicative work plan for the DFA Team and budget
- Selection, recruitment of the DFA Team
- Indicative work calendar of the DFA Team

4.4 Step 3: Inception and start-up of the DFA

As DFAs involve a new way of working, bringing together various sources of analysis, this inception stage is a very important part of the process as it is an opportunity to:

- **Level-up the available knowledge of the experts participating in the DFA team as well as and the national government staff who participate in the Oversight Team.**
- **Generate a common view on the many possibilities that a DFA can offer and produce more informed discussions to define the final orientation and customisation of the DFA study**
- **Share key ‘baseline knowledge’ to accelerate the DFA team’s understanding and positioning about a number of key issues that should be used as starting point for their country work.**
An important expected outcome of the DFA process is to situate country policy makers in the evolving development finance context and to help them interpret the results emerging at the country level using regional or other comparative international benchmarks.

The assessment team should focus their analysis on the things that (i) are country specific (ii) add value to bridge governments needs and (iii) might be unique from a regional perspective and that could add value for sharing with other countries. To ensure that DFA teams have access to existing resources, UNDP is planning to create and update a regional data set on financing for development for real time access and use by countries in the region (see section 5.2).

**Main Outputs: Inception Workshop and DFA Inception Report:**

Key Activities:
- Reviewed key concepts to be analysed in the DFA
- DFA customisation needs and key issues to be addressed by the DFA
- Links with other assessments in progress (PFM, PEFA, CPEIR, etc.)
- Links with other relevant platforms that are discussing development finance and results
- Approved objectives, scope, expected outputs, methodology
- Work plan for the DFA and key milestones
- Management arrangements

**4.5 Step 4: Review of the DFA Fieldwork Outcomes**

The DFA analysis might take several months to complete. During this step, the DFA team will gather existing data and analysis, undertake the assessment following the main themes of the DFA, generate and discuss improvement suggestions, report on progress and seek guidance from the Oversight Team. The tools and methodologies in undertaking the DFA Analysis are covered in more detail in Chapter 4.

Organising an Interim Workshop at this stage can be useful in the DFA process. It provides an opportunity for the DFA team to share with the Oversight Team the initial findings from the analysis (the overview of Socio Economic and Political Context, the review of the Planning and Budgeting processes and the situation of Public and Private Finance). This workshop is an opportunity to check if the team is coherently addressing all the areas and if all potential sources of information have been used. It also allows the DFA team and the Oversight Team to discuss main ideas about the way forward that are emerging from the assessment and to explore possible solutions when moving forward in preparing the DFA Roadmap for Implementation. On the basis of feedback received, the team will adjust and deepen the analysis as required and move on to the preparation of the prospective part of the DFA.

**Outputs: DFA First Draft: Main Findings**

Key Activities:
- Background analysis
- Stakeholder mapping and interview results
- Overall gathering of exiting data and analysis (formal and informal)
- Finance Flow Data Collection and Analysis (FF Analysis Fiches)
- Interim meetings with the Oversight Team to seek strategic directions and feedbacks, especially when facing significant challenges such as scope changes etc.
- Interim workshops to seek feedbacks from government ministries and other relevant stakeholders (focus groups with development partners, private sector associations and other consultations agreed by the government)
- Draft Chapters 2, 3 and 4: Socio Economic and Political Context, Planning and Budgeting Processes Public and Private Finance
4.6 Step 5: DFA validation and finalisation

Once the DFA draft report has been prepared, it needs to be presented to the Oversight Team for validation and finalization. An important element in this step is a Validation Workshop where the DFA team will seek the acceptance from the Oversight Team of the DFA conclusions and the team’s improvement suggestions. This workshop will also need to review together the recommendations made in the roadmap and the ways for implementing them.

The consolidation of the recommendations in a roadmap or plan should be a useful tool for the government to gather and organize the necessary technical assistance to implement the recommendations of the DFA.

The roadmap for implementation is the most important part of the DFA and may take time to formulate, particularly considering the need to consult a range of stakeholders throughout the process, not the least to ensure buy-in from all the actors potentially involved in taking forward the roadmap. Consultations may take place formally through discussions with the Oversight Team or other consultation mechanisms available in the country, and informally via ad hoc talks among stakeholders. In some cases, the Oversight Team may need to decide how to balance the positive benefits of a wider consultation with the possible risk of undermining the evidence-based nature of the assessment and the need for some rigorous independent analysis, particularly when it rests on information that may not be available for public disclosure and may be considered confidential as it analyses critical aspects of the government institutional and coordination mechanisms.

Outputs: Validation Workshop and DFA Draft Report
Key Activities:
- DFA results presented to the OT for approval
- Government buy-in to the DFA suggested improvements/recommendations
- Endorsement of the Implementation Roadmap
- Final Feedback and corrections to the DFA
- Preface/foreword to the report to be formulated by the OT
- Translation of the DFA into national languages
- Summary of the DFA for communication purposes

4.7 Step 6: Follow-up on the assessment

The DFA analysis and Roadmap for Implementation will provide the basis and evidence for recommendations to further strengthen the national systems in ways that can measure the potential for up scaling access to and delivery of development finance at the national and local levels. The improvement suggestions may cover different timeframes: short to medium and longer terms. The follow-up process of the assessment is directly linked with the nature of the main outcomes: i) the need to carry out further studies to inform the development of INFFs; ii) consolidating programmatic support to develop an INFF; iii) implementing the priority list for institutional and policy reforms.

Outputs: DFA Final Report
Key Activities:
- Agenda for further studies
- Draft note to help government gather support to further develop an INFF
4.8 Role of UNDP

**Overall guidance**

At the country level, UNDP country office work closely with the governments in conducting the DFA, providing advisory and technical support as needed, including backstopping from the Bangkok Regional Hub. Country level support can include financial support to mobilise the necessary external expertise for the DFA team. More importantly, the UNDP country office can play a key role in identifying with the government any programmatic support that may be necessary to take forward the DFA recommendations and the role that different development partners can play in this respect.

**Regional Observatory /Hub for evidence-based dialogue on effective financing for the SDGs**

To track and monitor financing for development and its links to the SDGs will require data sets and evidence to be brought together in new ways. UNDP Bangkok Regional Hub is planning to develop this function and operate as a regional observatory in this regard, through the already established South-South Platform, the Asia-Pacific Development Effectiveness Facility (APDEF).

APDEF is planning to produce periodic reports on Financing for Development (add link) which can be used as a basis for providing access to comparators. As such, these reports will be used to compile and update on a regular basis a regional data set on financing for development and its links to development results and the SDGs - for real time access and use by countries in the region. Such reports also provide with a more precise framework for discussing the institutional and policy background issues that affect the development of the specific flows and can be used to guide the work of the DFA team as a reference for baseline knowledge in the production of DFA outputs:

- Entry points to available research, analysis and knowledge about each of the different flows in the Asia-Pacific region, including: i) their potential and known limitations, ii) legal and fiscal environment needs, and iii) the challenges they pose to government management capacity
- Comparative data about these flows from UNDP regional research and other sources showing regional benchmark data to help analysts develop realistic relative references to what they find in the in-country data analysis
- Overview on the expected inputs provided by key analytic studies (PER, PEFA, MTEF, PETS, etc.)
- Overview of the SDGs and the emerging discussions about the challenges for their implementation and monitoring

APDEF, as a platform for south-south exchange and mutual learning, organises periodic peer-learning events to share experience horizontally across countries. These events can also be used to support consultations among countries in the region to prepare for major global debates on financing for development and effective development cooperation to ensure that these global are informed by country experience.

**Quality assurance**

The definition of a quality assurance system is crucial to ensure the future expansion of the DFA, the credibility of these assessments and the adoption of their recommendations. While a more robust and systematic approach may need to be developed in the future, depending on the expansion of use of DFA as a tool, including in regions beyond the Asia-Pacific, the UNDP Bangkok Regional Hub considers the following elements of a basic quality assurance process:

- Review the Concept Note, the ToR of the Oversight Team and the DFA Report. The formalisation of peer reviewing initial draft reports would be recommended, through the formal mobilisation of a selected group of independent reviewers with a mix of expertise relevant for the DFA methodology
• Check for both accuracy and quality of supporting evidence (especially the data used in the flow analysis) and for compliance with the DFA methodology
• Provide guidance in formulating and reviewing recommendations for the Roadmap
5. Annexes

<TO BE COMPLETED>

REVIEW ALL ANNEXES

ADD 2 ANNEXES

- Annex 5 – Draft TOR for consultancy support

- Annex 6 – Key graphs to be included for comparison across countries

Note: this is an indicative list, based on preliminary review of existing DFAs. It is proposed to review and update this list, once the DFAs for Cambodia, Fiji, Mongolia, Myanmar, Nepal are completed at the end of 2016.
Annex 1: Guidance on DFA content standardisation

While differences in country priorities and contexts call for flexibility in the DFA approach, further efforts towards content standardisation may help to facilitate the process in individual countries. Such standardisation would also provide a better basis for mutual learning and exchange of experience among countries. Standardisation can focus on two aspects:

**Length and conciseness of the reports.** The areas that the DFA describes are very broad and therefore, an important capacity of synthesis and a concise language is required to ensure a reasonable length for the general report. To produce a quality summary of all of the individual blocks in a relatively short space is a tough challenge. The proposed list below provides guidance to help the DFA teams to keep a concise presentation of the findings from the analysis.

**Proposed standard length for DFA contents**

<table>
<thead>
<tr>
<th>Sections</th>
<th>Maximum length</th>
</tr>
</thead>
<tbody>
<tr>
<td>0. Executive Summary</td>
<td>4-5 pages</td>
</tr>
<tr>
<td>1. Introduction</td>
<td>1-5 pages</td>
</tr>
<tr>
<td>2. Socio-economic and political context</td>
<td>5-10 pages</td>
</tr>
<tr>
<td>3. National planning and budgeting systems and their result orientation</td>
<td>5-10 pages</td>
</tr>
<tr>
<td>4. Domestic Finance: Institutional and policy context flow analysis</td>
<td>10-15 pages</td>
</tr>
<tr>
<td>5. External Finance: Institutional and policy context flow analysis</td>
<td>10-15 pages</td>
</tr>
<tr>
<td>6. Prospective analysis: Main policy and institutional reform options analysis of selected flows</td>
<td>5-10 pages</td>
</tr>
<tr>
<td>7. Conclusions and roadmap for implementation</td>
<td>5-10 pages</td>
</tr>
</tbody>
</table>

**Proposed maximum length of a standard DFA report**

45-80 pages

To achieve these targets the DFA team should avoid to:

- Attempt to cover space in areas where not much data/information is available with examples based on anecdotic experiences that may not be representative of the overall reality.
- Develop case studies that do not add value to the main purpose and specific objectives of the DFA report. Examples may be summarized and further detailed in an annex.
- Make lengthy descriptions about regional trends or other particular issues about the flows that will be provided in AP-DEF regional reports (see Section 4.8 on UNDP role) which can be used as quotable reference material in the DFA report

**Use and availability of standardised datasets.** There may be value in pursuing a more internationally consistent methodology for defining the datasets used in a Development Finance Assessment. Some standards to be followed in all reports could involve, for example:

- Use of the same economic measurements, data systems and work with coherent data sets (see Annex 2)
- Preparation of statistical annexes, providing all the data used for the different charts and graphs that are presented in the core of the report and their official sources
- Completion of Flow Analysis Fiches (see Annex 1) for all flows, delivered either as an annex of the DFA or in a separate report
Annex 2: FLOW ANALYSIS FICHE

OBJECTIVES OF THE FLOW ANALYSIS:
The purpose of the flow analysis is to systematically gather comprehensive and relevant information for each flow (public and private, external and domestic) knowledge about:

1. **Recent evolution and trends**: quantitative analysis of the last 10 years using comparable, pre-established data series
2. **Alignment with national priorities**: sector allocation of the flow, and – if possible – by area of priority (national or sub-national) as defined in the national development strategies/plans
3. **Governance/policy and coordination setup**: thorough understanding of the institutional and policy context governing and affecting the development of the flow (institutional arrangements, policies in place, coordination mechanisms, etc.).
4. **Availability of data and information to support policy decision making**: The quality and availability of evidence and information to support decision making about this flow.

1. FLOW EVOLUTION AND TRENDS
This part of the analysis should attempt to gather information about the following areas:

1.1 Flow evolution: basic data sets
For each flow, the analysis should include at least the following basic data sets:
- **Total Volume (in constant national currency)** from the last available fiscal year back to 10 years
- **Total Volume (in constant USD)** from the last available fiscal year back to 10 years
- **Total Volume (as a % of GDP)** from the last available fiscal year back to 10 years

1.2 Data analysis
In all cases it is important to provide comparative references with appropriate regional benchmarks (for example, comparing country performance as a % of GDP and/or speed of evolution). For this purpose, the UNDP regional hub will provide appropriate regional benchmarks for all flows.

It is also relevant to highlight if there are discrepancies between programmed and real figures. This is especially important for public (domestic and external) flows where the focus would be to analyse possible gaps between flow allocation and expenditure. Discrepancies are also usual for many private flows (for example PPPs or FDI) where the analysis should attempt to assess the reasons behind the differences between expected and real investments.

1.3 Data formats and minimum quality requirements
**Format**: All data sets must be compiled in a single excel file using separate sheets for each flow

**Formulas**: If calculations were made with basic official data sets, all formulas and data sources used must be made explicit (for example, the data and formulas used to calculate GDP or other figures in relative terms using a FY reference etc.)

**Data sources**: Exact references must be provided of the official source used for each data set. Note: Government official sources must be used for all data presented.

**Data availability**: The study must report if the basic data is not available, or if no official sources are available for the data presented. This sometimes happens for some flows, especially private (for example, for CSR or NGO donations), in those cases, alternative but comprehensive sources must be used and the lack of information duly noted (see Section 4 below).

2. ALIGNMENT WITH NATIONAL STRATEGIC PRIORITIES
An additional effort must be made to describe the principal characteristics of the flow allocation in the country context. This may vary depending on the nature of each flow. The following are the most useful flow expenditure distributions for the DFA analysis:
• **Sector allocations/expenditure**: distribution and use of the flow by key sectors (as defined in the national budget).

• **Allocation/expenditure by level of government**: where applicable, allocation/expenditure by provinces and other national and sub-national levels

• **Alignment with national priorities**: allocation/expenditure according to main priority areas as defined in the National Development Plan/Strategies (for example: comparison of real PPP investment in energy compared to strategic plan estimates)

• **Effectiveness**: contribution of flow to finance development goals? i.e. how can these flows be assessed in terms of their contribution to results? In particular for external public flows, how can they be assessed in terms of development effectiveness principles?

A key consideration to keep in mind is that not all flows are under direct government control, and for some of them, government can only aspire at influencing their development to better align them with national priorities. The analysis should show the degree of alignment of these flows with national development priorities looking at the economic, social and environmental dimensions. This is especially important as it often happens that flows that should be under closer control of the government (for example ODA) are not properly aligned with national priorities while private flows (as for example FDI) can even be in opposition to environmental or social priorities of the country. It is also important to assess the degree of difficulty that the government will have to control or influence the development of each flow with the current policy, institutional and coordination setup (see Section 3 below).

### 3. Governance/Policy and Coordination Setup

#### 3.1 Institutional and policy context

This part of the analysis should outline and review institutional arrangements (government department or non-government agency responsible and actors involved) and policies in place. The analysis should find information to answer the following questions:

- What are the institutional arrangements governing this development finance flow? (i.e. who does what and when in terms of initiation phase, negotiation, guarantee/insurance, implementation, M&E)?
- What are the main policies implemented for this development finance flow?
- How does this development finance flow enter into the fiscal planning and budget process?

#### 3.2 Institutional and policy coordination mechanisms

Coordination is a key issue that the analysis should research to provide answers to the following questions:

- Is there a formal coordinating agency for this flow? If not, which agency is (informally) assuming that role at the moment? If yes, what is/was the reasoning for appointing such agency as the formal coordinating agency?
- Is there clarity in the mandates and jurisdiction of the entities tasked with coordinating policy design for this flow? What is the capacity and level of resources allocated to the coordinating agency (if formally mandated) in order to take up their responsibilities?
- Does the coordinating agency have the leverage to convene other key stakeholders?
- Does the coordinating agency have a presence at the sub-national level?
- Is there a formal cross-agency institutional arrangement? At which level, ministerial and/or technical working group level? How are finance and planning ministries involved in such institutional set-up?
- What is the level of engagement and oversight from the top leadership such as the President Office or Office of the Prime Minister?
- When applicable: what is the level of awareness of this flow’s issues at line ministries and other relevant institutions? Similarly, do they have the capacity and resources allocated to use it in
sectoral policies? Is there any capacity building program for line ministries to understand how to use this flow and link it to their work?

The study should also attempt to compare the country’s institution, policy and governance context with international benchmarks of good practice. For this purpose it is important to find if there are available expert studies carried out at the country level that compare legal, fiscal and regulatory framework with internationally recommended practices for this flow. It would be convenient to analyse if there are any challenges that good management of this flow may pose to existing government management capacity.

3.3 Minimum quality requirements
Accurate, academic style quotes are mandatory for this part of the analysis concerning the assessment of government’s performance, institutional and coordination mechanisms. The DFA should avoid by all means conveying the subjective opinions without evidence or proof and also all forms of plagiarism of existing studies or analysis that are not widely diffused. The main purpose of this study is, precisely, to find and diffuse the existence of this knowledge and their findings.

4. Availability of Data, Information and Knowledge for this Flow
In DFA studies, data, information and knowledge are considered of strategic value and key enablers of more advanced government management systems. For each flow, the analysis must address several problems identified in almost all countries:

- Critical data usually confined in different government areas, hard to find or not collected at all
- Silo production of knowledge and analysis obstructing its effective use and integration at more general levels
- Technical capacity limitations hindering Governments to integrate all available information and produce the type of knowledge that is needed to inform policy decisions.

If evidence and data is fully available for the flow: the main focus of the research team should be to find and integrate all available data, information and knowledge about the particular flow as requested in the fiche.

If evidence and data is not fully available: the main focus of the research team should be to find and document what’s missing and why, and who could be responsible for addressing these problems.

Assessment in this area should include:

- Mapping availability (and lack of), existing and potential sources, issues that should be addressed to resolving them
- Data management issues: availability/quality and actors involved in data collection and information processing (What are the data sources used for planning and management of different flows and how are these linked together?)
- Performance of existing management information systems (is the information contained in them accurate and useful to support decision making? How do different MIS link with other relevant MIS? Who uses the databases?)
- Current efforts to develop new MIS: are there any plans to develop new MIS? Are these efforts sufficiently coordinated to make sure that there are no duplications and that there will be data/information coherence and compatibility with existing systems? Key stakeholders, including both producers and users of data and responsible parties.

5. Final Delivery Requirements
The results emerging from the Flow Analysis Fiche must be presented in a report format. A justification must be presented if some of the required sections/subsections are not completed. The total desired length of the Flow Analysis Fiche should be about 5-8 pages, plus the additional excel files and list of references. The information contained in the Flow Analysis Fiches will be summarised in the DFA Report, while the full set of Fiches will be presented to the government separately.
## Annex 3: Data sources for major finance flows

### PUBLIC FINANCE

#### Fiscal resources (including resource allocation)
- **Tax revenues**
- **Non-tax revenues**
- **Mineral related revenues (if applicable)**

**Tentative list of stakeholders**
- Ministry of Finance: macro-economic and budget divisions
- Treasury, Revenue and Custom Authority
- Line ministries/agencies
- Sub-national levels of government/Local revenue authorities

**Data**
- Existing and projected tax revenues
- National Government Finance Statistics
- Article IV reports
- Existing statistics and projected revenues from resource extraction
- IMF World Economic Outlook
- WB World Development Indicators
- IMF Government Finance Statistics

**Documents**
- Research and analysis on taxation policy and trends
- Public finance analysis (PEFA and World Bank Public Expenditure Review)
- Medium-term development strategies
- Medium-term expenditure framework (by line agency)
- Development effectiveness reports/M&E report

#### Sovereign debt:
- Domestic and external borrowing (non-concessional)

**Tentative list of stakeholders**
- Treasury (Budget and debt management office)
- Development partners

**Data**
- Analysis of funding leveraged from non-concessional lenders
- Debt sustainability assessment will provide indications as to how much governments have space to raise new resources through non-concessional sources of funds
- WB World Development Indicators

**Documents**
- Debt and fiscal strategies

#### Official Development Assistance (ODA)
- (concessional loans and grants) from DAC countries, multilateral, and vertical funds

**Tentative list of stakeholders**
- Development partners
- Donor coordination at Planning/Finance
- Line agencies
- Budget Office at Treasury
- Debt management Office at Treasury

**Data**
- OECD DAC data and analysis (including Country Programmable Aid)
- Loan portfolio analysis and debt servicing
- OECD Creditor Reporting System
- IATI
- Projected aid flows and commitments, including analysis at decentralized level (by province and district where possible?)

**Documents**
- Paris Declaration survey chapters
- Country evaluation of the Paris Declaration
- Donors’ reports and analyses (by Planning/Treasury)
### South South cooperation

| Tentative list of stakeholders | • South south cooperation partners (local embassies)  
• Ministries of Foreign Affairs  
• Debt management office at Treasury  
• Line agencies |
| Data | • Grant and loan agreements |

### Climate Finance

| Tentative list of stakeholders | • Treasury/Planning Department  
• Line agency  
• Development Partners |
| Data | • Current climate finance and projected potential including REDD, Adaptation Fund, Green Climate Fund, carbon markets etc. including to decentralized levels  
• Climate funds update |
| Documents | • Climate change strategy |

### PRIVATE FINANCE

#### Domestic private investment

| Tentative list of stakeholders |  |
| Data |  |
| Documents |  |

#### Foreign direct investment

| Tentative list of stakeholders | • Investment promotion agency  
•  
• Private sector coordinating agencies (Chambers of Commerce, Manufacturing, Mining)  
• Central Bank |
| Data | • WB World Development Indicators/UNCTAD |
| Documents | • UNCTAD FDI country note  
• World Bank Development Indicators |

#### Public-private partnerships

| Tentative list of stakeholders | • Treasury  
• Private sector coordinating agencies (Chambers of Commerce, Manufacturing, Mining) |
| Data | • Existing partnerships in sectors and different localities.  
• Analysis of proportion of finance directed to development  
• Policies and institutional arrangements |
<table>
<thead>
<tr>
<th>Documents</th>
<th>• PPP policy</th>
</tr>
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<tbody>
<tr>
<td><strong>International remittances</strong></td>
<td></td>
</tr>
<tr>
<td>Tentative list of stakeholders</td>
<td>Central Bank</td>
</tr>
<tr>
<td><strong>Data</strong></td>
<td></td>
</tr>
<tr>
<td>Documents</td>
<td>World Bank Migration and Remittances Country Note</td>
</tr>
<tr>
<td><strong>Philanthropy and NGOs (both domestic and international)</strong></td>
<td></td>
</tr>
</tbody>
</table>
| Tentative list of stakeholders | • Domestic and international NGOs  
• High net worth individuals  
• Faith-based organisations  
• Large companies active in CSR |
| **Data**           |             |
| Documents          | • Corporate websites and annual reports |
| **CSR linked to development** |             |
| **Innovative finance and blended finance: insurance, tourism levies, air fuel levies etc. to be explored and assistance from Development Finance Institutions** |             |
| **Data**           | • Analysis of benefits from existing innovative financing mechanisms  
• Analysis of potential for implementing new innovative financing instruments  
• Development Initiatives Investments to End Poverty Initiative |
| Documents          | • World Bank publication series on innovative finance  
• IFC, EIB websites |
## Annex 4: Glossary

<table>
<thead>
<tr>
<th>Source</th>
<th>Definitions</th>
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</table>
| **BLENDING FINANCE** | The lack of an internationally-acknowledged definition of what qualifies as climate finance, or even more narrowly what qualifies as a climate project, presents a major challenge to understanding the scale of financial flows; there is no established basis for a methodology or measurement system for tracking climate finance flows. Discussions with many experts in the area have indicated that the meaning of climate finance is continually evolving, and captures the following aspects:  
- Financial support for mitigation and adaptation activities, including capacity building and R&D, as well as broader efforts to enable the transition towards low-carbon, climate-resilient development  
- Public, private, and public-private flows  
*Source:* CPI (2012) The Landscape of Climate Finance |
| **CLIMATE FINANCE** | A measure of the "softness" of a credit reflecting the benefit to the borrower compared to a loan at market rate. (cf. Grant Element). Technically, it is calculated as the difference between the nominal value of a credit and the present value of the debt service as of the date of disbursement, calculated at a discount rate applicable to the currency of the transaction and expressed as a percentage of the nominal value. |
| **CORPORATE SOCIAL RESPONSIBILITY** | CPA is the portion of aid that each provider (bilateral or multilateral) can programme for each recipient country. CPA is a subset of ODA outflows. It takes as a starting point data on gross ODA disbursements by recipient but excludes spending which is: 1) inherently unpredictable (such as humanitarian aid and debt relief); or 2) entails no flows to the recipient country (administration, student costs, development awareness and research and refugee spending in donor countries); or 3) is usually not discussed between the main donor agency and recipient governments (food aid, aid from local governments, core funding to international NGOs, aid through secondary agencies, ODA equity investments and aid which is not allocable by country). Finally: 4) CPA does not net out loan repayments, as these are not usually factored into aid allocation decisions  
*Source:* Benn et al. 2010, Getting closer to the core - measuring country programmable aid, OECD |
| **DEVELOPMENT EFFECTIVENESS** | Aid is only part of the solution to development. Broadening the focus and attention from aid effectiveness to the challenges of effective development calls for a framework within which:  
a) Development is driven by strong, sustainable and inclusive growth.  
b) Governments’ own revenues play a greater role in financing their development needs. In turn, governments are more accountable to their citizens for the development results they achieve.  
c) Effective state and non-state institutions design and implement their own reforms and hold each other to account.  
d) Developing countries increasingly integrate, both regionally and globally, creating economies of scale that will help them better compete in the global |
<table>
<thead>
<tr>
<th>Source</th>
<th>Definitions</th>
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<tbody>
<tr>
<td></td>
<td>Development effectiveness is the achievement of sustainable development results related to MDGs that have country level impacts that have discernable effects on the lives of the poor and the capability of States and other development actors to transform societies in order to achieve positive and sustainable development outcomes for its citizens.</td>
</tr>
<tr>
<td></td>
<td>Source: The Paris Declaration on Aid Effectiveness and – Evaluation of the Paris Declaration</td>
</tr>
</tbody>
</table>
| FOREIGN DIRECT INVESTMENT | Direct investment is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy. As well as the equity that gives rise to control or influence, direct investment also includes investment associated with that relationship, including investment in indirectly influenced or controlled enterprises, investment in fellow enterprises, debt. (a) Immediate direct investment relationships arise when a direct investor directly owns equity that entitles it to 10 present or more of the voting power in the direct investment enterprise.  
  - Control is determined to exist if the direct investor owns more than 50 present of the voting power in the direct investment enterprise.  
  - A significant degree of influence is determined to exist if the direct investor owns from 10 to 50 present of the voting power in the direct investment enterprise. (b) Indirect direct investment relationships arise through the ownership of voting power in one direct investment enterprise that owns voting power in another enterprise or enterprises, that is, an entity is able to exercise indirect control or influence through a chain of direct investment relationships. For example, an enterprise may have an immediate direct investment relationship with a second enterprise that has an immediate direct investment relationship with a third enterprise. |
<p>| DEVELOPMENT FINANCE | |
| ILLICIT FLOWS | |
| INCLUSIVE FINANCE | Capital that supports the creation, growth, and sustainability of entrepreneurs, small holders, and small enterprises, whom were previously excluded from the financial markets. |
| ODA | Incl. ref to TOSSD |
| ODA LOANS (ALSO CREDITS) | Transfers for which repayment is required. Only loans with maturities of over one year are included in DAC statistics. Data on net loans include deductions for repayments of principal (but not payment of interest) on earlier loans. This means that when a loan has been fully repaid, its effect on total net ODA over the life of the loan is zero. |
| OTHER OFFICIAL FLOWS (OOF) | Transactions by the official sector with countries on the DAC List of ODA Recipients which do not meet the conditions for eligibility as Official Development Assistance, either because they are not primarily aimed at |</p>
<table>
<thead>
<tr>
<th>Source</th>
<th>Definitions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>development, or because they have a grant element of less than 25 per cent.</strong></td>
<td></td>
</tr>
<tr>
<td><strong>PUBLIC-PRIVATE PARTNERSHIPS</strong></td>
<td>Public-private partnerships (PPPs) are a collaborative arrangement between a government authority or public corporation and a private entity regarding the provision of public infrastructure or services. These partnerships are defined and mediated by legally-binding contracts, which clearly establish and allocate responsibilities, risks and rewards between the different parties. PPPs are increasingly seen as a new development finance model, and several countries have used them to scale up investments in economic infrastructure. PPPs frontload finance enabling large scale public projects to take place. However, PPPs are complex and require appropriate legislation, regulatory frameworks and technical skills. Finally, a key concern is that fiscal accounting rules tend to keep most PPPs off-budget. Since PPPs usually involve a future obligation by the government (contingent debt) this should be appropriately captured.</td>
</tr>
<tr>
<td><strong>RESOURCE-RELATED TAX REVENUES</strong></td>
<td>The resource income includes revenues from upstream exploration-to-processing activities in oil, gas and mining, i.e. principally royalties and corporate income taxes on resource extraction activities.</td>
</tr>
<tr>
<td><strong>SOVEREIGN WEALTH FUNDS</strong></td>
<td>Sovereign Wealth Funds (SWFs) are state-owned investment funds that allow domestic and international investments in a wide range of financial products. SWFs are usually funded by the proceeds from the sale of natural resources (i.e. foreign exchange) with the purpose of saving financial resources for future generations. They can therefore enable a more efficient allocation of resources across countries (from resource-rich to resource-poor) and enhance market liquidity.</td>
</tr>
<tr>
<td><strong>WORKERS’ REMITTANCES</strong></td>
<td>Remittances represent household income from foreign economies arising mainly from the temporary or permanent movement of people to those economies. Remittances include cash and noncash items that flow through formal channels, such as via electronic wire, or through informal channels, such as money or goods carried across borders. They largely consist of funds and noncash items sent or given by individuals who have migrated to a new economy and become residents there, and the net compensation of border, seasonal, or other short-term workers who are employed in an economy in which they are not resident. Diaspora bonds?</td>
</tr>
</tbody>
</table>