

BB1.2 Assessment and diagnostics - Financing landscape

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1. Brief overview

The financing landscape assessment paints a comprehensive picture of existing sources and types of finance and their respective contributions to sustainable development. Alongside the financing needs assessment (which focuses on the demand side), it supports the identification of financing gaps¹ to be closed by a financing strategy. It can highlight opportunities for increased and/or more aligned and effective financing, enhanced risk management, and identify leakages and under-resourced sectors and priorities.

As highlighted in the Addis Ababa Action Agenda, there are a wide range of resources, public, private, domestic and external, that can help advance national sustainable development priorities. Their roles differ and they are not usually substitutes, but they can all contribute to SDG achievement. Remittance inflows, for example, cannot make up for a decline in development assistance from a national budget perspective. But they can support household consumption, education, and health, as well as investment in SMEs, and thus help achieve sustainable development priorities.

2. The value of financing landscape assessments

Financing landscape assessments within an INFF can help policymakers:

- Gain a **better understanding of the types and volumes of finance** currently spent/ invested in the country and their respective contributions to sustainable development priorities;
- Identify **opportunities** to mobilise greater volumes of financing and/or increase sustainable development impact of existing resources;
- Assess the **sustainability of current financing**, and flag major risks or underlying constraints;
- Assess the **efficiency of current public finance** and identify potential for reallocation;

¹ 'Financing gap' refers to the difference between the amount and type of finance needed to achieve identified national development outcomes and the amount and type of finance currently being spent or invested toward them.

- Broaden the **focus of financing strategies** from public finance toward using public policy to leverage the contributions of a wider range of financing sources and instruments;
- Sensitize authorities governing different types of financing to their respective **impact on sustainable development**;
- Increase awareness and understanding of **country-specific financing issues** beyond experts and financing-focused policymakers, to non-specialists and coordinating entities.

The financing landscape analysis should be viewed in conjunction with other elements of the assessment and diagnostics building block of the INFF. Combined with findings from financing needs, risk and binding constraints analysis, a landscape assessment can help governments prioritise policy changes and reforms across different areas of financing policy.

3. Scope and limitations

Analysing the financing landscape entails (i) a comprehensive assessment of all types of finance (public and private, domestic and external) and their trends, and (ii) a disaggregated analysis of their availability for nationally identified development priorities and the SDGs.²

Table 1 sets out types of finance to be included, relevant actors, and examples of contributions they make to development outcomes. Financing flows differ in their characteristics and mandates, and Figure 1 further visualizes their respective contributions to sustainable development outcomes.

Public finance includes government revenue and taxation, public borrowing (concessional and non-concessional), and development cooperation (ODA, South-South cooperation, triangular cooperation and other relevant official flows) as sources of public finance, and public spending and investment (budgets, and beyond-budget investments, such as SOEs and national development banks). Public finance is motivated by public policy goals (such as equity, allocative efficiency and stabilization), and contributes directly toward progress in education, health, social protection, and other sustainable development priorities. Certain public finance instruments (such as green bonds) directly pledge resources borrowed to green or sustainable investments.

Private finance covers direct investments (domestic and foreign) and how they are financed (equity and debt financing from domestic and international sources). It is primarily profit-oriented. It makes vital contributions to sustainable development, e.g. through job creation, growth and payment of taxes that increase fiscal space, as well as direct investments in sectors such as agriculture, industry, technology, infrastructure, energy and others. However, private investment is not always aligned with sustainable development; public policy has a crucial role to play considering trade-offs and encouraging strong alignment with identified national priorities.

Table 1. Overview of scope – types, flows, actors, outcomes

Type of financing	Financing flow	Relevant actors/ institutions	Examples of links to sustainable development outcomes
Public finance	General government	Ministry of Finance,	<i>Leaving no one behind:</i> progressivity of tax system; Gender equality: gender burden of tax

² This approach builds on the methodology originally developed through UNDP's development finance assessments (DFA), as well as other assessment methodologies developed by the international community.

Type of financing	Financing flow	Relevant actors/ institutions	Examples of links to sustainable development outcomes
Addis Action Areas A (domestic public resources), C (international development cooperation), E (debt and debt sustainability)	public finance: revenue	Revenue Authority	system; Decent work : tax burden for SMEs and high-job creating industries; use and design of tax incentives
	General government public finance: government expenditure	Ministry of Finance, line ministries, National Audit Institutions	Leaving no one behind : provision of social security / safety nets; Gender equality : gender responsive budgeting and service delivery; Decent work : programmes to promote job-creating sectors, build skills
	Public borrowing	Ministry of Finance, Debt Management Office	Leaving no one behind : providing greater fiscal space for spending on public services; Decent work : domestic borrowing can impact financial sector development and firms' access to finance
	Public investment (beyond on-budget) and quasi public funds	SOEs, NDBs, subnational authorities, etc.	Leaving no one behind : provision of basic services such as water, energy, sanitation; Gender equality : gender equality in service provision; Decent work : investment in infrastructure conducive to economic development
	Development cooperation	Ministry of Finance, Planning, Foreign Affairs, line ministries, development partners, National Audit Institutions	Leaving no one behind : supporting service delivery, poverty reduction programming; Gender equality : women's economic empowerment and gender equality programming; Decent work : financing for infrastructure, support for business development; Climate : supporting climate mitigation and adaptation
Private sources of finance and investment	Direct investment (domestic and foreign)	Relevant ministries, investment promotion agencies, etc.	Decent work : creation of decent jobs; Gender equality : job opportunities for women; Climate : innovative climate solutions
Addis Action Areas B (domestic and international private business and finance), F (systemic issues)	Portfolio investment (domestic and international)	Central bank, financial sector regulatory authorities	Decent work : Creation of decent jobs; Gender equality : job opportunities for women
	Domestic bank lending; borrowing from international banks (financial sector)	Central bank, other regulatory authorities, relevant industry associations	Decent work : financing for firms (e.g. SMEs) that create jobs; Gender equality : financial inclusion for women

Type of financing	Financing flow	Relevant actors/ institutions	Examples of links to sustainable development outcomes
	Remittances	Central Banks; dedicated government units/ ministries; diaspora	Leaving no one behind: transfers that support spending on consumption of basic necessities
	Impact investment (domestic and international)	Fund managers, financial institutions/ banks, individual investors, foundations	Leaving no one behind and climate: investments that intend to have a positive social or environmental impact (in addition to generating financial returns)
	Philanthropic spending and voluntary giving (domestic and international)	NGOs, foundations, faith-based organisations	Leaving no one behind: delivery of key services; Gender equality: promotion of women's rights

There is a smaller component of **private finance**, including impact investors (who invest to achieve both financial returns and non-economic impacts) and philanthropy, which is **non-commercial**. Though growing, impact investment remains small compared to other financial flows³, but it still can have a significant impact, depending on the project. Philanthropy is often, though not in all cases, aligned with public policy goals and national priorities.

Blended finance, which combines public and private financing⁴, is particularly useful when private investments are not competitive on a risk-return basis but do have positive spill-overs on sustainable development, e.g. in areas of infrastructure (Figure 1), or in developing new markets.

Remittances are a source of household income but are worth highlighting in a landscape assessment because they provide access to foreign currency, and thus also support a country's balance of payments. Remittances can support household needs, including spending on education and health, and can also be used to support investment in household business ventures, such as SMEs. They are generally less cyclical than many other balance of payment flows (with the notable exception of global shocks such as Covid-19). There are

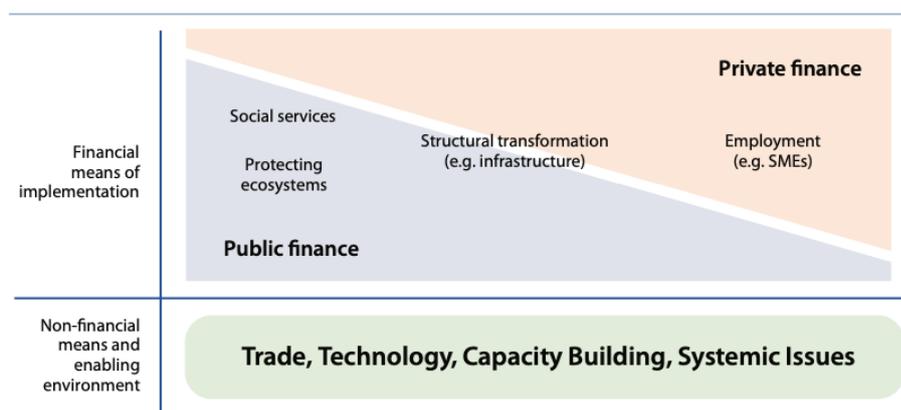
³ According to the 2020 Annual Impact Investor Survey conducted by the Global Impact Investing Network (GIIN), the impact investing market is estimated at USD715 billion.

⁴ There are several definitions of blended finance. The Addis Ababa Action Agenda (paragraph 48) refers to blended finance as the combination of "concessional public finance with non-concessional private finance" (including both domestic and international public finance for the public component and both commercial and DFI non-concessional private finance for the private component). The OECD defines it as "the strategic use of development finance for the mobilization of additional finance toward sustainable development in developing countries" (with development finance referring to external finance, whether public or philanthropy, and additional finance referring to commercial finance, whether from public or private sources). The DFI Working Group on Blended Concessional Finance for Private Sector Projects defines it as "combining concessional finance from donors of third parties alongside DFIs' normal own account finance and/or commercial finance from other investors".

also calls for diaspora bonds, which are government borrowing instruments targeted specifically to the diaspora. However, to date there have been few cases of successful issuance of diaspora bonds.

In all cases, public policies and actions (at the national and international level) set the enabling environment that determines how financing flows contribute to development priorities.

Figure 1. The continuum of public and private financing and the non-financial means for achieving sustainable development



* The figure is for illustrative purposes only and size of boxes is not representative of magnitudes of flows

Source: *Financing for Sustainable Development Report 2016*

Data coverage and comparability is a common challenge and limitation of financing landscape assessments. A comprehensive analysis requires data from a wide range of sources. However, the required data, especially on domestic private investment, investment and spending by public entities, NGOs and philanthropic funding, may be partial or unavailable. Similarly, it is not always possible to measure the impact of financing flows, i.e. to link data on financing flows to outcomes. Box 1 presents the most common challenges, Section 4.2 lays out steps that can be taken to address or lessen the impact of many of these challenges.

Box 1. Common challenges in undertaking financing landscape assessments

The most common challenges faced by countries undertaking a financing landscape analysis can be summarised as:

- Lack of data on certain types of financing – particularly domestic private investment, spending and investment by NGOs, FBOs and philanthropic organisations and, in some contexts, spending and investment by public entities; or lack of comparability with international sources of data
- Challenges linking flows to sustainable development outcomes and/or thematic priorities such as gender equality, e.g. limitations in sex-disaggregated/gender-disaggregated data
- Risk of double counting where overlaps between data from different sources cannot be accounted for
- Lack of timely data on certain types of financing, particularly during times of rapid change (such as countries are experiencing as a result of the covid-19 pandemic)
- Challenges in projecting financing trends forward

4. 'How to' – Financing landscape assessments in practice

4.1 Suggested approach

Figure 2 sets out the main steps for undertaking an effective financing landscape assessment within INFFs. They include an assessment of the aggregate financing landscape (public, private, domestic and international financing); analysis of the use of financing for different sectors and development priorities (to create a baseline of existing flows and financing gaps); and links to risk and binding constraints assessments.

Consultations with relevant stakeholders, such as those listed in Table 1 of the BB1 Overview Note, should complement quantitative data analysis, especially where data gaps exist and/or where local practical expertise can offer insight to explain trends and allocations of financing.

Figure 2. Step-by-step guidance



Step 1: Aggregate assessment of the financing landscape

Aggregate analysis assesses the scale and trends in public, private and external finance available for national priorities, and seeks to identify key financing opportunities and challenges. It helps policymakers gain a holistic picture that supports prioritisation across different areas of financing and can inform the financing strategy. Questions such as those listed in Figure 2 can help focus the analysis and present findings in accessible formats to non-specialists and coordinating entities.

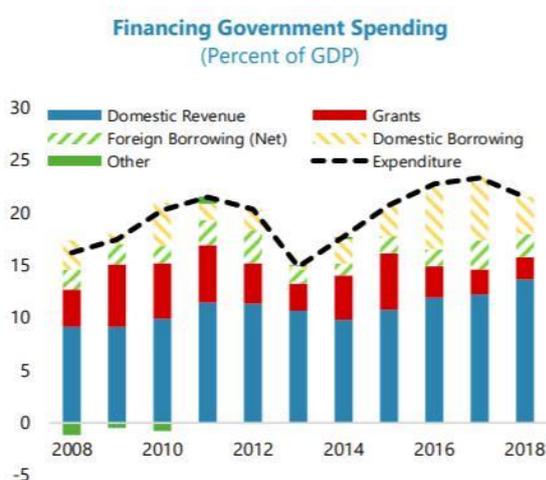
Section 4.3. and Table 3 provide an overview of tools offered by the international community to support this assessment. They include: comprehensive tools, such as UNDP's Development Finance Assessments (DFAs); more focused tools such as UNCTAD's Investment Policy Reviews or the IMF's Debt Sustainability Analysis; sector specific tools, such as the WHO's Health Financing Country Diagnostic; and cross-cutting tools, such as gender-responsive budgeting and climate financing diagnostics, and disaster risk-informed budget reviews.

Scale and mix of financing and major trends

Public finance. Public finance is under the direct control of policy makers, and can be targeted for investments in national priorities and the SDGs. The fiscal account provides a comprehensive picture of public sector revenues, expenditures and financing (borrowing), including data on major sources of public finance (e.g.: taxes; fees and other non-tax revenue; grants, such as on-budget ODA; and public borrowing from both domestic and external sources). Figure 3 shows an example of government spending and financing in Sierra Leone, based on an IMF Article IV assessment.

Beyond these resources under direct government control, other types of public finance to finance public policy goals include off-budget ODA and other development cooperation, and spending and investments of state-owned enterprises (SOEs) and national development banks (NDBs). SOEs and NDBs can be major players in key sustainable development sectors (such as energy and water and sanitation). Their financing mix, including their relation to the central government, should be considered as part of the country's financing landscape analysis. In many countries, NDBs play an important role, due to explicit development mandates and their ability to directly finance public policy goals. Data on such public institutions can be sourced from various national and/or international databases (see Table 2 in Section 4.2) and can complement fiscal account data to paint a complete picture of the public finance aspect of the financing landscape assessment.

Figure 3. Financing of government spending (in per cent of GDP): an example from Sierra Leone



Source: IMF Article IV Consultation Sierra Leone, 2019

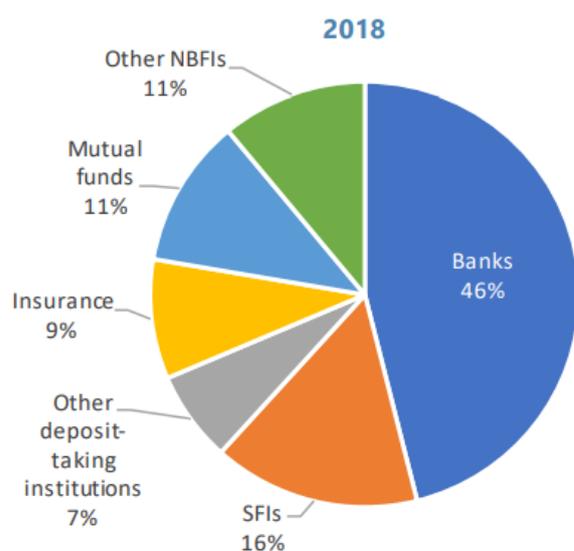
Private finance. Policy makers can also take steps to mobilize and better align existing *private investment* with sustainable development priorities and **increase the envelope of private financing**. Private finance is heavily dependent on broader macroeconomic developments, and is more complex to analyse, often with more limited data, compared to public finance discussed above. A wide range of indicators could be considered to assess financial sector development and its ability to finance investments in sustainable development.

In terms of real or direct investment, many countries do not capture comprehensive data on total investment by domestic firms, so proxies may have to be used as an estimate. Private gross fixed capital formation captures additions to the capital stock of an economy by the private sector and is commonly used as proxy for private investment. This includes both domestic direct investment and greenfield foreign direct investment (FDI).

In terms of financial flows, domestic credit to the private sector is an indicator of domestic financing sources. Domestic investment can also be financed externally through private external borrowing. FDI flows also includes a financial element, e.g. intracompany loans. (see also Figure 5). Cross-border portfolio equity flows are also quantifiable, and primarily represent secondary market transactions on domestic stock exchanges.

In addition, indicators of financial sector size (e.g. value of financial assets; bank deposits, % GDP), structure (e.g. share of assets held by banks, non-banks, financial markets as shown in Figure 4), breadth (e.g. financial inclusion) and depth (e.g. availability of long-term financing) can shed light on the role of the financial sector as a source and mechanism for channelling resources into investment. They can also flag areas of risk and/or challenges which can inform the risk and binding constraints assessments respectively – see BB1.3 and BB1.4.

Figure 4. Financial system structure (in percent of total financial assets): an example from Thailand



Source: IMF Country Report No.19/318 (October 2019) Thailand Financial Sector Assessment Program

Notes: NBFIs: Non-Bank Financial Institutions; SFIs: Specialised Financial Institution

Some types of private financing have a more explicit development mandate and can be tracked separately: they include private financing flows that are directly supported or incentivized through public finance and blending instruments, private sector impact investing, and private non-commercial financing, such as philanthropic spending and NGO activities. In some contexts, community financing also plays a role, including for example in service provision in the water sector.⁵ If data is not centrally available, foundation or NGO associations may be able to shed light on the scale and use of this type of financing, and should be consulted as part of the financing landscape assessment.⁶

Islamic finance may also play a substantial role in the financing landscape. In relevant contexts and in light of principles well aligned with the SDGs, this role should be highlighted in the assessment and can be relevant to both public and private finance analysis. For example, in February 2018, the Government of Indonesia issued the world's first sovereign green sukuk (Islamic bond) in support of the country's commitment to combat climate change.⁷ Tools such as Zakat, Sadakah and Waqf may be considered as part of the private finance analysis, for example alongside philanthropic funding.⁸

Painting an aggregate picture. Because of their unique properties and mandates, different types of public and private financing cannot be usefully added up into one overall number – they are complements and can often not substitute for each other (see Section 3 above). As noted in Section 4.2, data limitations may also increase the risk of double counting. However, comparing their scale and trends can help policymakers understand the dynamics and interconnections across public and private financing, and provide a basis for identifying the most pertinent financing challenges and opportunities. They can also provide a first approximation of financing gaps, which are spelled out at the sector level (see Step 2 below).

Figure 5 provides one illustration of an aggregate financing landscape, using Mexico as an example. It includes a panel on the public finance landscape – both government spending and sources of public finance; a macro-focused panel on the national savings and investment rate and private investment in particular, and two panels on different types of domestic and foreign private financing to fund investment. All flows are expressed as a percentage of GDP, providing a snapshot of their relative scale, showing for example the importance of domestic financing sources for private investment, improved fiscal balances due to increasing tax revenues, and steady growth in gross capital formation. Significant level of remittance inflows provide an additional potential source of financing for households and small and medium enterprises.

⁵ <https://www.unicef.org/esa/sites/unicef.org/esa/files/2019-10/UNICEF-ESARO-2019-WASH-Financing-Regional-Assessment.pdf>

⁶ E.g. Filantropi Indonesia <https://filantropi.or.id/en/>

⁷ https://www.id.undp.org/content/indonesia/en/home/presscenter/pressreleases/2018/4/indonesia-tackles-climate-change-through-the-issuance-of-green-s.html?cq_ck=1522745732024

⁸ A review of possible uses of Islamic finance in the context of the SDGs can be found here: <https://www.undp.org/content/undp/en/home/partners/islamic-finance.html>

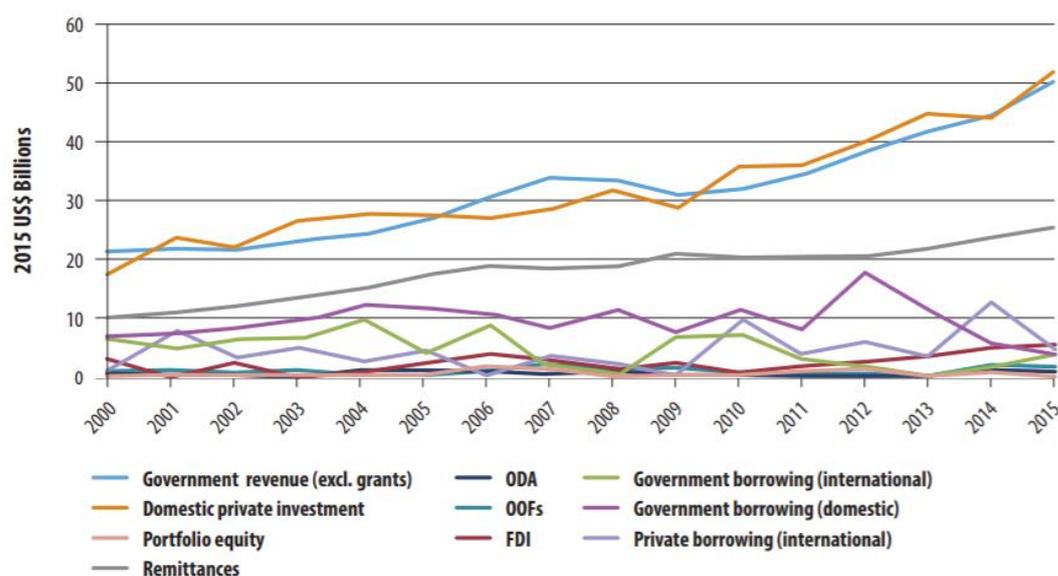
Figure 5. Aggregate financing landscape: an illustration using data for Mexico



Existing tools such as DFAs or OECD Transition Finance case studies⁹ also carry out aggregate financing landscape analysis. Figure 6, for example, from the 2017 Philippines DFA, highlights the dominance of domestic flows (public and private), low levels of international commercial finance (pointing to the need to strengthen the enabling environment for private sector investment), and the substantive role that remittances play.¹⁰

⁹ <http://www.oecd.org/dac/transition-finance-toolkit/>

¹⁰ <https://www.undp.org/content/dam/rbap/docs/dg/dev-effectiveness/RBAP-DG-2018-Development-Finance-Assessment-Snapshot-Philippines.pdf>

Figure 6. Aggregate financing landscape: an example from the Philippines DFA

Source: *Philippines Development Finance Assessment Snapshot, 2017*

An aggregate look at the financing landscape can also be helpful to **assess the effects of shocks and crises** in as close to real time as is possible, e.g. in the context of the COVID-19 pandemic. High frequency data, where available, can help facilitate real time analysis and inform crisis policy response and planning for recovery. They include in-year data on public finance budget changes and spending; remittance flows, which are often monitored on a monthly basis by the Central Bank; data from financial markets (such as lending data, exchange rates, sovereign bond yields, and portfolio investment flows); international bank lending; and some humanitarian finance flows.

Sustainability of financing

The sustainability of a country's fiscal and external position – including public and external debt sustainability, access to sufficient foreign exchange to finance vital imports – depends on net flows over time. Critical stocks (public and external debt stocks, foreign exchange reserves) and outflows (including capital flight and illicit financial flows) should also be assessed, in conjunction with a broader risk assessment (see BB1.3 guidance).

Reconciling stocks and flows. The fiscal account is routinely reconciled with key stocks, particularly public debt. Public sector balance sheets could also be interpreted more broadly to include not just gross public debt, but the full range of liabilities (including contingent liabilities) as well as public assets. Such balance sheets are often poorly understood, due to limited reporting and data gaps. But they would increase transparency and accountability, reveal risks, and shed light on hidden liabilities and public sector assets (see Box 2). The latter in particular is relevant in an SDG context – public investments in the SDGs, e.g. in sustainable infrastructure and other non-financial assets, create public wealth, increase public revenue in the long-run, and support sustainable development.

The balance of payments can be used to reconcile external financing flows and stock variables to assess the sustainability of the country's external position and its external

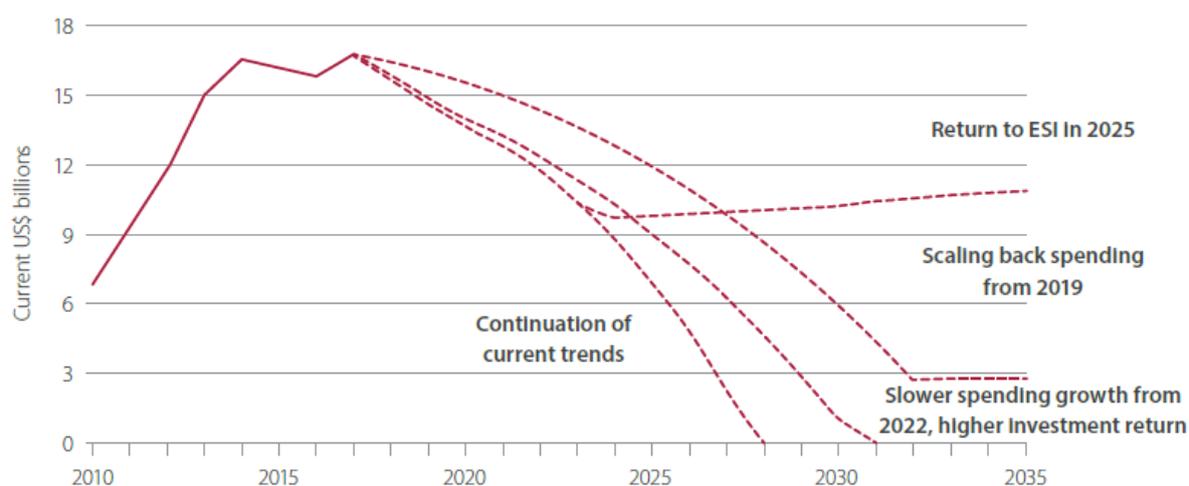
liabilities.¹¹ Financing flows captured in balance of payments data, such as direct investment and portfolio investment in the financial account, debt forgiveness in the capital account, and aid and remittances in the current account, are also incorporated in the public and private finance analyses mentioned above. However, looking at them in their own right provides a useful additional policy-relevant lens of analysis, able to shed light on potential areas of risk that may otherwise be neglected (see BB1.3 guidance).

Illicit flows. Illicit financial flows are not covered in the flows above. While estimating these is inherently difficult because of their clandestine nature, there are several ongoing attempts of quantification. The United Nations Regional Commissions measure components of illicit financial flows, such as goods-trade misinvoicing. The Task Force on the Statistical Measurement of Illicit Financial Flows, initiated by UNODC and UNCTAD in the context of the SDG indicator framework, is field testing statistical methodologies to underpin estimations of illicit financial flows at the country level.

Scenarios and forward-looking trends. Trend analysis can reveal whether critical resources are increasing, plateauing or declining. Scenarios and forward-looking trends can help governments determine whether policy interventions are required. Risks identified in the risk assessment (see BB1.3) should be considered when assessing such future trends.

The OECD's transition finance toolkit (see Table 3) for example helps to anticipate challenges that arise from growing per capita income levels and related access to different financing sources. In Timor-Leste, forward-looking scenarios were used as part of a DFA to assess potential future trajectories around the country's Petroleum Fund (Figure 7). The Fund is a key but finite source of revenue for the government; forward-looking scenarios supported discussions among policymakers about investment of its resources, wider options for sustainable domestic revenue mobilisation and improving the environment for private sector growth. Additional examples in step 2 below show how forward-looking trends can also be used to inform the estimation of financing gaps at the sector level.

Figure 7. Forward-looking scenarios: an example from Timor-Leste Petroleum Fund



Source: *Timor-Leste Development Finance Assessment, 2019*

¹¹ Balance of payments terminology used in this guidance is in line with the sixth edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6), available here: <https://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm>.

Notes: ESI: estimated sustainable income, or level of withdrawals that would be sustainable indefinitely

Box 2. Applying public balance sheet analysis

Public sector balance sheet analysis looks at the entirety of what the state owns and owes: the accumulated assets and liabilities that government controls, such as public corporations, natural resources and pension liabilities. In so doing, it offers a comprehensive picture of public wealth while also enabling the identification of mismatches and an assessment of the resilience of public finances. In addition, intertemporal balance sheet analysis – which combines current wealth and future revenue and expenditure – can provide insight into the sustainability of public finance and complement other scenario and forward-looking trends analysis mentioned above.

Only a handful of countries (including Australia, New Zealand and the UK) manage public wealth using balance sheets. It allows them to improve asset management and maximise the efficiency of, and returns on, public assets; and to identify and manage fiscal risks emanating from within the balance sheet or from external shocks (see also BB1.3 Risk Assessment). Considering both assets and liabilities more generally improves the evidence base for public investment decisions, and can also inform debt sustainability assessments.¹²

The 2018 IMF Fiscal Monitor Report presents this analytical approach in detail and applies it to a range of countries (from the US and Norway to the Gambia and Indonesia). It distils some common lessons and shows how economies with stronger public sector balance sheets experience shallower recessions and recover faster in the aftermath of economic downturns, mainly as a result of greater space for countercyclical fiscal policy.

Source: IMF (2018) *Fiscal Monitor: Managing Public Wealth*; available from: <https://www.imf.org/en/Publications/FM/Issues/2018/10/04/fiscal-monitor-october-2018>

Domestic targets and peer comparisons

Comparing current trends in public and/or private finance to specific targets that countries may have set themselves, can help identify priority areas for action – for additional resource mobilization, or more efficient use of existing resources. International comparisons can also help identify areas of financing that are underexploited, where underlying challenges may be limiting flows, and that could result in additional financing becoming available (whether via efficiency gains or via new flows).

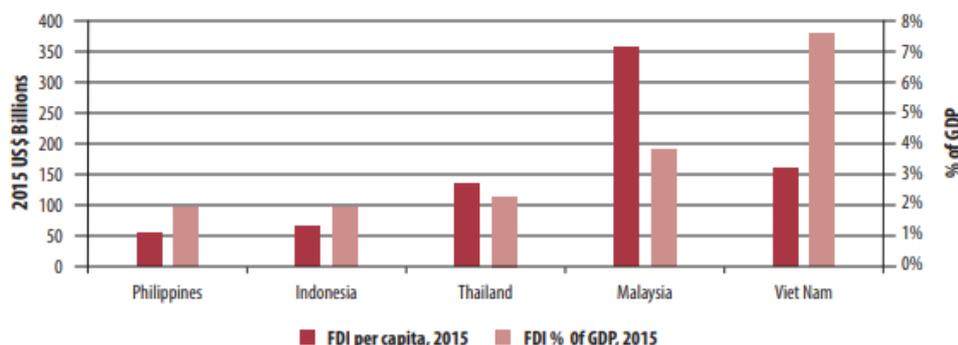
For example, within the context of the Philippines' DFA, FDI levels in peer economies were used as a basis for dialogue about potential options for strengthening the enabling environment for private investment (Figure 8a). As part of the 2019 IMF Article IV consultation in Guyana, financial access indicators in peer countries (Figure 8b) were used to consider steps to further improve financial inclusion in the country. The OECD's transition finance dashboard provides a rapid assessment of key financing flows and allows to identify suitable peer countries to benchmark national performance, using data on key statistics such as GDP, GNI per capita, population, and human capital index.¹³

¹² Section 3.2 in Chapter III.E of the 2020 Financing for Sustainable Development Report. Available from: <https://developmentfinance.un.org/fsdr2020>

¹³ <http://www.oecd.org/dac/transition-finance-toolkit/>

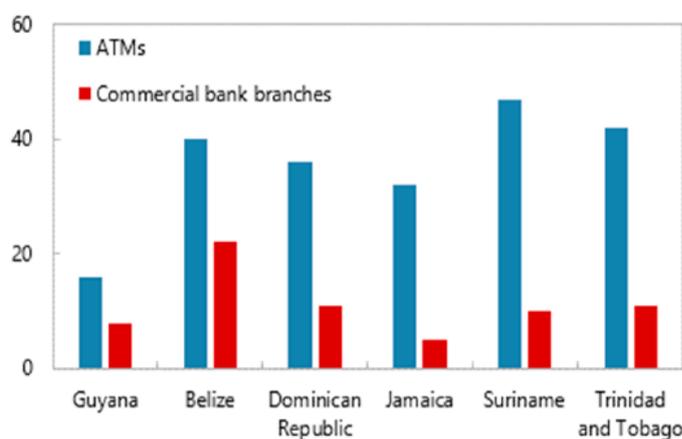
Figure 8. Peer comparison examples

8a. FDI volumes in the Philippines compared to other ASEAN-5 countries



Source: Philippines Development Finance Assessment Snapshot 2017

8a. Financial access in Guyana compared to other CARICOM countries (number per 100,000 adults)



Source: IMF, Guyana 2019 Article IV consultation staff report

Step 2: Allocation and use of financing, financing gaps and links to sustainable development outcomes

A more disaggregated picture of current financing allocations and use allows policy makers to better understand their impact and how they’re contributing to (or undermining) the achievement of identified national development priorities. It also provides a baseline for calculating financing gaps, e.g. at the sectoral or programmatic level. It helps answer the following questions:

- How aligned is current financing (both public and private) to national sustainable development priorities?
- How are key thematic priorities/ sectors/ sub-national locations resourced?
- What are the gaps in financing?
- Where could finance be better directed at national development priorities?

Tools exist to support countries’ efforts in such disaggregated analysis. Outcome-based monitoring tools, where in place, can facilitate mapping and monitoring of finance-outcome linkages, including in relation to cross-cutting thematic priorities such as gender.

Disaggregated financing data can be cross-referenced with outcomes or other descriptive data – e.g. by comparing carbon emissions by sector/industry against trends in lending or

foreign investment in those sectors. Analysing data disaggregated by sector and sub-national locations can provide insight into the extent to which key strategic areas are being left under-resourced; looking at current versus capital spending can flag potential areas of underinvestment.

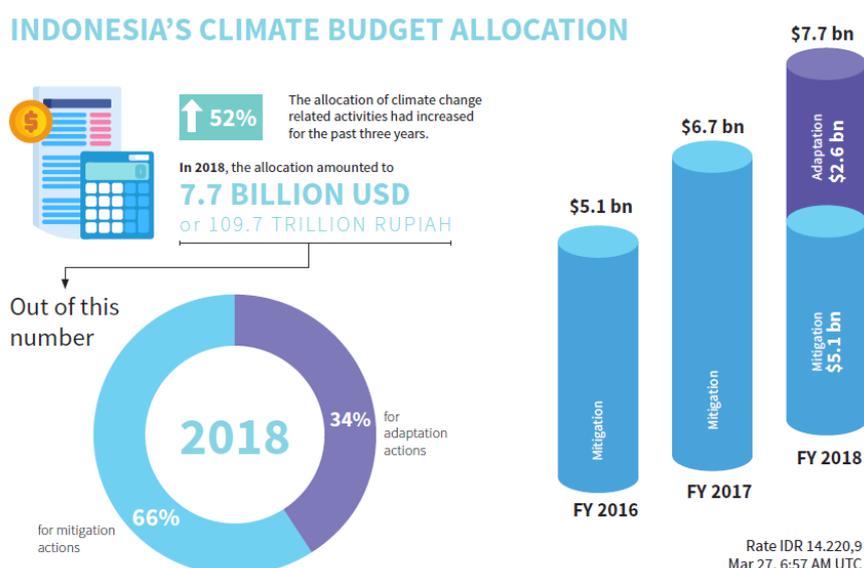
Step 2 requires in-depth data collection and analysis. Instead of a comprehensive mapping, priority areas of analysis could be determined, for example, in response to: government preferences (e.g. thematic priorities for building back better); trends in financing needs (e.g. areas where financing requirements are most significant); financing trends (e.g. outcomes to which rapidly growing types of finance can contribute); or other factors.

Using outcome-based tracking tools

Programme or performance-based monitoring structures can be used to link budgetary spending to outcome areas. Public expenditure tagging systems can shed light on spending for cross-cutting thematic priorities, such as gender or climate.

Mexico, for example, has established an SDG budgeting framework that links spending within its budget programmes to the relevant SDGs and SDG targets. Indonesia (Figure 9) and Pakistan have established climate budget tagging systems that track public spending related to climate change. UNDP’s climate public expenditure and institutional reviews can also be used to assess public budgets and their contributions to climate action. Several countries, including Ecuador and Colombia, have put in place systems to tag gender equality public spending over time and to assess the extent to which public budgets contribute to the achievement of gender priorities. UNDRR’s risk-informed budget reviews can inform assessments of gaps in public finance allocations to risk reduction across sectors based on a country’s disaster risk profile and ensure funding is in line with the disaster risk reduction and resilience objectives of the SDGs and the Sendai Framework. Commitment to Equity Assessments¹⁴ use fiscal incidence analysis to determine the extent to which fiscal policy (taxation and public spending) reduces inequality and poverty in a particular country.

Figure 9. Using outcome-based monitoring tools: an example from Indonesia



Source: Fiscal Policy Agency, Ministry of Finance, Indonesia, *Indonesia Climate Budget Tagging Report, 2019*

¹⁴ <http://www.commitmentoequity.org/whatisceq.php>

There are also tools to assess financing beyond public budgets. For example, DFAs provide guidance on analysing key priorities for building back better from the COVID-19 pandemic, such as considerations for inclusive and green recovery. Total Official Support for Sustainable Development (TOSSD) data can shed light on the SDG contributions of cross-border official resource flows (including ODA, other official flows, South-South and triangular cooperation) and of private finance mobilised by official interventions.¹⁵ With regard to private sector activities, in the Philippines, the ‘Transformational business’ initiative has mapped corporate activities vis-à-vis the SDGs, while an SDGs dashboard in Papua New Guinea has been established for similar purposes. The OECD Quality FDI Toolkit can help assess how FDI contributes to sustainable development priorities such as economic diversification or gender equality. SDG investment monitoring initiatives such as UN ESCAP’s SDG Investment Trends Dashboard can also be used to assess the contributions of different sources of finance to particular sustainable development outcome areas.¹⁶

Disaggregating data by sector

Looking at the distribution of financing by sector can help policymakers understand the types of resources invested in thematic priorities or specific SDGs. Data can commonly be disaggregated by sector, using classifications that distinguish key social sectors such as education, health and water and sanitation, and economic sectors such as agriculture, manufacturing, tourism, as well as sectors such as energy and transport. Budgetary expenditure, development cooperation, and spending and investment by SOEs can usually be broken down or classified within these sectors. Data capturing private investments such as FDI and domestic investment is often classified by economic and productive sectors, which can help build an understanding of the mix of resources invested in sustainable development priorities. Specific tools also exist to assess spending flows and financing landscapes in specific sectors (see Table 3 in Section 4.3).

Differentiating between current spending and investment in specific sectors can further help identify areas where, for example, there is underinvestment that may hinder progress in the future. This can also determine if current investments are commensurate with emerging and future risks, including disaster and climate risks. Budgetary spending and SOE activity can typically be disaggregated in this way, as can lending to the private sector.

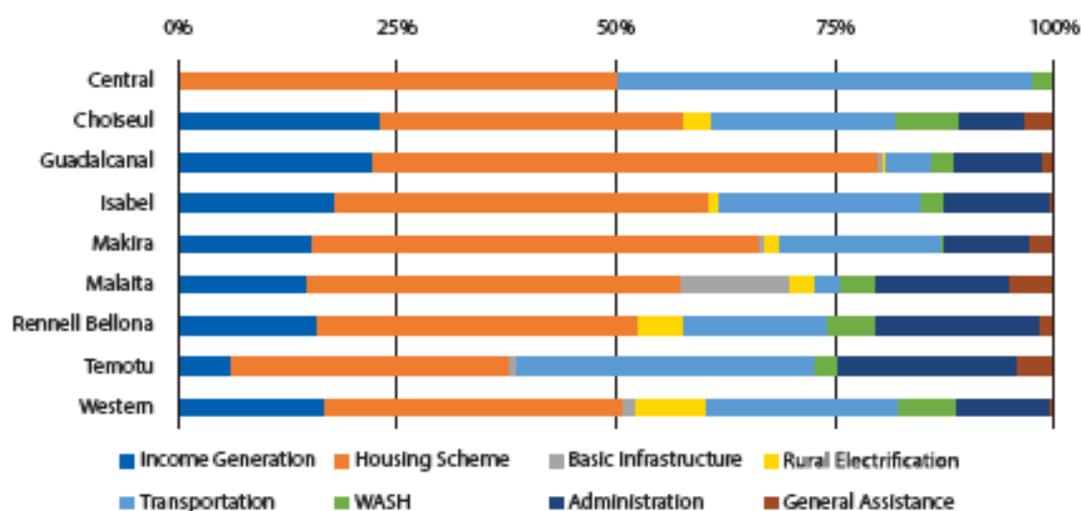
Disaggregating data by sub-national location

Sub-national level data will likely not be available for all types of financing, but to the extent possible, cutting the data in this way will complement other analysis and offer additional insight on issues such as inequality. From a public finance perspective, this is particularly valuable in highly decentralised systems where key service delivery and spending takes place at the local level. For example, in the 2018 Solomon Islands DFA, sub-national data was used to analyse the varying ways that a key public fund was allocated at the constituency level (Figure 10); this facilitated dialogue about the monitoring and management structures that were in place around the fund.

¹⁵ For more detail on TOSSD see: <http://www.oecd.org/dac/tossd/>. For information on country pilot studies see: <http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/tossd-country-pilot-studies.htm>

¹⁶ <https://data.unescap.org/data-analysis/sdg-investment-trends>

Figure 10. Considering the sub-national level: an example from the Solomon Islands

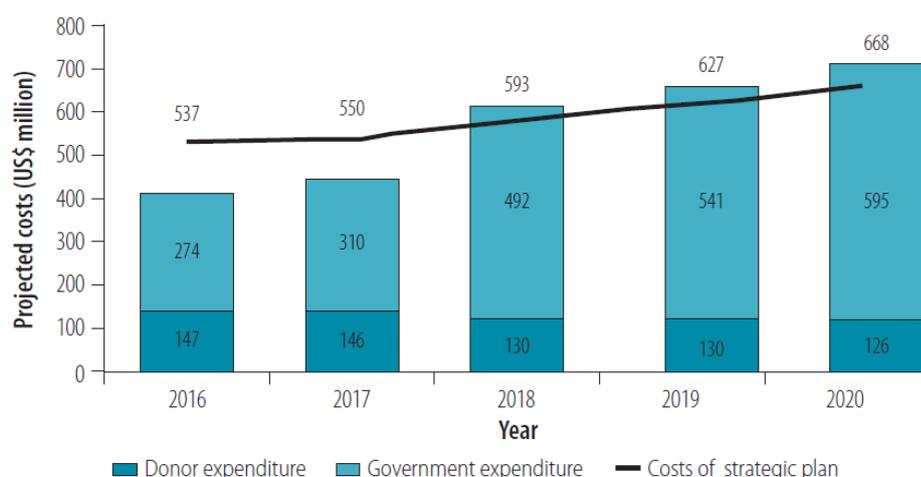


Source: Solomon Islands Development Finance Assessment, 2018

Estimating financing gaps

Analysis of current levels of financing for cross-cutting and thematic priority areas, such as climate and gender, individual sectors or sub-national locations can be combined with findings from financing needs assessments (see BB1.1) to estimate financing gaps. For example, a recent needs assessment in Nepal estimated a financing need of Rs1.8 trillion in private investment for the energy sector; this was combined with analysis of available private finance (Rs480 billion) to produce a financing gap estimate of Rs1.3 trillion.¹⁷ In Cambodia, findings from the application of the OneHealth tool to estimate the cost of implementing the national health strategic plan for 2016-2020 were compared to projected government and donor expenditure on health over the same period to identify potential gaps (see Figure 11).

Figure 11. Comparison between projected costs and projected public expenditure levels in the health sector in Cambodia



¹⁷ Nepal Needs Assessment, Costing and Financing Strategy for Sustainable Development Goals, 2018.

Source: *Estimating health plan costs with the OneHealth tool, Cambodia*. Accessed here: <https://avenirhealth.org/software-onehealthcountries.php>

Financing gap estimates can inform prioritisation of financing policies and reforms, and the articulation of the financing strategy (see BB2). For example, in the case of Cambodia, findings were used to consider alternative sources of financing (e.g. prepayment through formal sector and private insurance) for years that showed a shortfall in funding.¹⁸ In Tanzania, a similar application of the OneHealth tool, identified a range of potential funding gaps in the health sector under different scenarios, providing useful evidence for resource mobilisation from domestic and external sources.¹⁹

Step 3: Linking financing landscape analysis to other assessment and diagnostics exercises

The financing landscape analysis also sheds light on financing risks and potential constraints, and should thus inform these next steps of the assessment and diagnostics phase.

Links to risk assessment. Findings related to key financing challenges and opportunities are useful to inform the scope and focus of risk assessments (BB1.3). For example, if specific types of finance dominate the financing landscape, risks related to their volatility may warrant particular attention; or if opportunities are identified to mobilise additional private sector finance through innovative financing mechanisms, the risk assessment would have to incorporate instrument-level risk analysis to ensure that these are harnessed in an effective and sustainable manner.

Link to binding constraints diagnostics. The financing landscape assessment provides initial insight into underlying challenges hindering effective and efficient use of resources. For example, analysis of government expenditure at the central and/or local level against indicators related to particular outcome areas (see step 2) may point to underlying inefficiencies, if large volumes are being spent but little results are being observed. Analysis from steps 1 and 2 can also flag areas where underlying obstacles may be hindering the mobilisation of additional financing and/ or its effective alignment to sustainable development priorities. For example, low levels of domestic private investment may flag constraints in financial markets that limit borrowing by firms. Lending portfolios relative to industries that are more or less environmentally sustainable, or are more or less inclusive, may highlight disconnections between the incentives that financial sector firms face in their business models and national sustainable development priorities. This may motivate a more detailed binding constraints diagnostics which in turn can also facilitate the prioritisation of necessary financing policies and reforms (see BB1.4).

4.2 Typical data sources

Typical sources of data and information, both national and international, are listed in Table 2. National data will often provide more timely and more granular information. International data sources can be used to complement national sources of data and may be more suitable for making international comparisons.

Table 2. Typical data sources for financing landscape analysis

Typical data sources	Types of financing covered	Links that can commonly be drawn with sustainable development outcome areas
CROSS-CUTTING		

¹⁸ <https://www.who.int/bulletin/volumes/96/7/17-203737.pdf>

¹⁹ <https://avenirhealth.org/download/OHTCountryApplications/PDF/FINAL.TZ%20OneHealth%20report.pdf>

Typical data sources	Types of financing covered	Links that can commonly be drawn with sustainable development outcome areas
<i>National data sources</i>		
Central bank statistical publications (e.g. balance of payments, financial sector monitoring)	Cross-border financing (including FDI, remittances, ODA, international borrowing); financial market data (e.g. credit trends); headline public finance data	Financial sector data can often be disaggregated by type of lender/borrower and industry/sector, allowing links to be made to sustainable development outcome areas. Cross-border flow data: indirect.
National statistics office publications (e.g. national accounts, ad hoc surveys)	Investment or capital formation; headline data on public finance, financial markets etc; survey data on businesses, economic trends, labour force etc	Investment, capital formation and headline data from national accounts: indirect. Survey data can provide insights in particular sustainable development outcome areas – e.g. combining labour force surveys with investment data can help understand SDGs related to job creation, leaving no one behind, women's economic empowerment etc.
<i>International data sources</i>		
Total Official Support for Sustainable Development (TOSSD)	Cross-border official financing flows, including ODA, other official flows, South-South and triangular cooperation; and private finance mobilised by official interventions	Data is reported at the project level and may be disaggregated by SDG focus and sectors of intervention. ²⁰
PUBLIC FINANCE		
<i>National data sources</i>		
Ministry of Finance, fiscal accounts and budget publications	Government revenue, borrowing, spending and investment, spending and investment by SOEs	Direct links to specific outcomes in performance-based budgeting systems; otherwise sector spending data can link to sustainable development outcome areas.
Public enterprise annual reports	Spending and investment by public enterprises	Links between financing data and the sectors in which individual public enterprises are active, particularly if outcome data is included in annual reporting.
<i>International data sources</i>		
IMF government financial statistics	Public revenue and spending	Sector spending data can link to sustainable development outcome areas.
World Bank (data bank, international debt statistics)	Government revenue Public borrowing	Indirect (no sectoral disaggregation available)
OECD DAC	International public finance: official development assistance (ODA), other official flows, non-DAC ODA	Sector data; project/activity level data is fully available for ODA flows
PRIVATE FINANCE		
<i>National data sources</i>		
Ministry of Commerce publications (e.g. economic bulletins), Central Banks	Domestic investment, FDI	Investment data disaggregated by sector can link to sustainable development outcome areas

²⁰ See TOSSD Reporting Instructions and TOSSD Data Form available at: <http://www.oecd.org/dac/tossd/>

Typical data sources	Types of financing covered	Links that can commonly be drawn with sustainable development outcome areas
Central Banks	Remittances	
Foundations, philanthropic associations	Philanthropy, voluntary giving	
Local authorities, community organisations	Community financing (eg for water projects)	
<i>International data sources</i>		
World Bank (data bank, migration and remittances factbook, international debt statistics)	Domestic credit to private sector, remittances, FDI, portfolio equity, international borrowing by private sector	Indirect (no sectoral disaggregation available)
UNCTAD Stat	Foreign direct investment	Indirect (no sectoral disaggregation available)
OECD DAC (Private Philanthropy for Development database)	International private philanthropy	Direct links to sustainable development outcomes areas via sectoral disaggregation of data

Challenges may arise in relation to data quality and availability (see Box 1), both in terms of coverage of flows and ability to link financing to outcomes (e.g. with regard to gender impacts).

Some proxies may have to be used where data is unavailable, most notably for domestic commercial investment. Many countries do not capture comprehensive data on total investment by domestic firms and data capturing proxies, such as private gross fixed capital formation or borrowing by firms for investment purposes, may have to be used in its place. Data describing other flows, such as investments and spending by NGOs, faith-based or philanthropic organisations, may also be unavailable or limited within existing systems. Proactive steps may be needed to gather data describing these flows. Insight from the institutional mapping exercise in the inception phase²¹ may help identify relevant data sources.

There may be overlaps between data from different sources, raising the risk of double counting. For example, on-budget ODA may be included in government revenue (and/or spending) data and in development cooperation data. Data on domestic lending may overlap with commercial borrowing from overseas if domestic banks are financing from international capital markets. On-budget ODA can be removed from ODA totals to avoid double counting ODA that is captured within government budget figures. Monetary survey data may show borrowing by the domestic financial system from abroad which can then be removed from data on disbursements of debt from abroad to local private actors.

4.3 Existing tools

Table 3 summarizes existing tools that can contribute to a financing landscape assessment and highlights their linkages to sustainable development outcomes.

²¹ See Inception Phase Guidance at: <https://inff.org/inff-building-blocks/inception-phase>

Table 3. Key assessment and diagnostic tools for financing landscape analysis

Financing landscape analysis tools	Types of finance covered	Brief description	Related sustainable development outcome areas/ SDGs
UNDP Development Finance Assessment (DFA)	Cross-cutting: public, private domestic and external financing flows	The analytical aspect of DFAs provides an overarching picture of a country's financing landscape and helps to identify challenges and opportunities for more integrated and effective SDG financing.	Multiple. Depending on available data disaggregation by sector/ outcome area and identified priorities by the government leading the exercise
IMF Article IV consultations	Cross-cutting: domestic government revenue, budget and borrowing; aggregate financial sector and investment data	Article IV consultations are the culmination of the IMF country surveillance process. Reports include an assessment of economic and financial developments and policies, as well as analysis on domestic public finance and private investment and financial sector.	Indirect relation to specific sustainable development outcome areas/ SDGs.
OECD Transition Finance Dashboard	Cross cutting: Tax revenue, ODA, OOF, FDI, remittances	Allows users to conduct analysis on financing trends and the financing mix at the country level, with a focus on tax revenue, ODA, Other Official Flows (OOF), foreign direct investment (FDI) and remittances. Data on these flows is also used to assess the relative significance of public/ private and domestic/ external financing, and to compare the financing mix in one country to that in countries with similar structural characteristics ('peers').	Multiple. Depending on available data disaggregation by sector which can be related to SD outcome areas/ SDGs
OECD Financing for Stability Methodology	Cross cutting: public, private, domestic and external financing flows	The methodology outlines the process for developing financing strategies in fragile contexts, with the identification of current and potential sources of financing as a key step. The approach involves conducting a preliminary desk based mapping of financial flows and actors, and validating and supplementing such analysis with key stakeholders.	Multiple. Tailored to specific thematic areas relevant to countries in fragile situations.
UN ESCAP SDG Investment Trends Dashboard	Cross cutting: public and private flows	Provides a snapshot of volumes of domestic spending and investment in Asian countries across SDG areas, broken down by government, households, repayable finance and external finance.	Multiple. Data disaggregated by SDG areas: poverty and hunger (SDGs 1 and 2); health and education (SDGs 3 and 4); housing, water and sanitation (SDGs 6 and 11); clean energy and sustainable infrastructure (SDGs 7 and 9); environment and climate (SDGs 12 and 15); gender, justice and statistics (SDGs 5, 16 and 17)

Financing landscape analysis tools	Types of finance covered	Brief description	Related sustainable development outcome areas/ SDGs
UNDRR Risk Informed Budget Review	Public finance: government budgets	Used to review public budgets across all sectors against national disaster profiles to uncover gaps in allocation to risk reduction and prevention.	SDGs 1, 11 and 13/ Disaster risk reduction, as well as broader SD outcome areas that would benefit from increased resilience.
Public Expenditure and Financial Accountability (PEFA)	Public finance: government revenue and budgets	Standard methodology for public financial management (PFM) diagnostics. Can be used to assess the strengths and weaknesses of public finances, which in turn can inform the identification of key challenges and opportunities within the broader financing landscape assessment.	Indirect relation to specific sustainable development outcome areas/ SDGs.
IMF Debt Sustainability Analysis (DSA)	Public finance: public debt	Includes, among other things, an analysis of a country's projected debt burden over the next 10 years, which can inform key challenges and opportunities in its overall financing landscape.	Indirect relation to specific sustainable development outcome areas/ SDGs.
IMF Fiscal Analysis of Resource Industries (FARI)	Public finance: government revenues from extractive industries	Primarily used in advisory work by IMF Fiscal Affairs Department on fiscal regime design but can also be used for revenue forecasting allowing users to compare actual, realised revenues with model results in tax gap analysis.	SDG 9/ Industry
UN Women Gender Responsive Budgeting Diagnostics	Public finance: government budgets	Used to assess gender equality in tax laws, policies and administration and in budget allocations and spending.	SDG 5/ Gender equality
WHO Health Financing Country Diagnostic ²²	Public finance: government budgets and health financing mechanisms	Provides a comprehensive situation analysis of a country's health financing system, including the current level, mix and sources of funding for the health sector, health expenditure patterns, and institutional arrangements for health financing. It also assesses the performance of the health system against universal health coverage objectives and goals.	SDG 3/ Health.
UNICEF Public Finance for Children (PF4C) diagnostics ²³	Public finance: government revenue and budgets	Provides guiding questions for performance expenditure reviews and budget analysis to assess government spending on early childhood development activities. It also includes considerations for sub-national analysis, based on assessing financial flows at the service provision point.	Multiple. Particularly areas of health (SDG 3), education (SDG 4) and social protection (SDG 1) of importance to children.

²² https://www.who.int/health_financing/tools/diagnostic/en/

²³ <https://www.unicef.org/sites/default/files/2020-04/Guide-on-public-finance-for-children-in-early-childhood-development-Partners-edition-2020.pdf>

Financing landscape analysis tools	Types of finance covered	Brief description	Related sustainable development outcome areas/ SDGs
UNDP Climate Public Expenditure and Institutional Reviews (CPEIR)	Public finance: government expenditure	Assesses volumes of funds within national budgets that target climate actions, and identifies relevant fiscal policies contributing to climate financing, including tax incentives and subsidies.	SDG 13/ Climate.
Tulane University Commitment to Equity (CEQ) Assessment ²⁴	Public finance: government revenue and expenditure	Used to analyse the impact of taxes and social spending on inequality and poverty, based on incidence analysis and a diagnostic questionnaire to address questions around: the redistribution and poverty reduction as a result of social spending, subsidies and taxes; the progressivity of government revenue and spending; and how redistribution and poverty reduction could be increased within the limits of fiscal prudence.	SDGs 1 and 10/ Poverty and inequality
UNDP Biodiversity Finance Initiative (BIOFIN)	Public and private finance: government budgets and private finance solutions	Used to assess trends and the current state of public and private biodiversity finance, including financing instruments, biodiversity-related revenues, subsidies and spending. It also provides guidance on how to project future biodiversity expenditures.	SDGs 14 and 15/ Biodiversity.
IMF and World Bank Financial Sector Assessment Programme (FSAP)	Private finance: credit and bond markets, commercial investment	Used to paint a comprehensive picture of a country's financial sector and to analyse its structure, strengths and vulnerabilities. It is also used to provide input for Article IV consultations.	Indirect relation to specific sustainable development outcome areas/ SDGs.
UNCTAD Investment Policy Reviews (IPR)	Private finance: foreign direct investment	Involves the review of the policy, regulatory and institutional environment for investment; the identification of strategic investment priorities consistent with the SDGs and national development objectives; and concrete recommendations. It also includes an overview of the state of FDI in the country, with focus on sectors relevant to the country context.	Multiple. Depending on available data disaggregation by sector which can be related to SD outcome areas/ SDGs
IFC Country Private Sector Diagnostic (CPSD)	Private finance: commercial investment, access to credit	Assesses opportunities and constraints in private sector growth. It looks at the overall state of the private sector and the range of near-term opportunities for private sector engagement, and provides recommendations for reforms and policies to mobilise private investment. It combines economy-wide with sector-specific analysis.	Indirect relation to particular sustainable development outcome areas/ SDGs.

²⁴ <http://repec.tulane.edu/RePEc/ceq/ceq02.pdf>

5. Financing landscape assessments in different country contexts

Country contexts vary widely, and financing landscape assessments have to be adapted accordingly:

The scope of existing data systems. Coverage of national data systems and existence of data systems that connect finance flows with particular sustainable development outcomes, differ from one country to another. Where strong systems are in place, financing landscape assessments can focus financing flows' relation to sustainable development outcomes in more depth. Where they are less developed, emphasis will be on completing missing elements of the financing flows picture.

The complexity of the financing landscape. Complexity will vary depending on a country's size, the state of private sector development and the depth and development of financial markets. Larger and more developed countries entail more players and a wider array of financing types and modalities, a much greater scale and diversity in the financing flows and instruments. The role of public enterprises differs sharply between countries. Similarly, NGOs, FBOs, philanthropic organisations, and the range of active development partners will impact the complexity of the exercise. Box 3 provides an overview of the specificities of financing landscape assessments in fragile and conflict-affected states.

Government capacity to build and maintain a financing landscape assessment.

Maintaining an understanding of how financing trends evolve over time is an important part of the ongoing operations and management of an INFF. The initial assessment may draw on some of the tools highlighted in table 3 above. However, to incorporate this function within the ongoing oversight of an INFF, many governments will also want to develop in-house capacity. Its scope should be mindful of a government's capacity and resources to compile and analyse data on a regular basis. Where capacity is more limited, assessments may focus on priority issues alone, or bring in international support.

Focusing on priority financing issues. Analyses of the financing landscape can hone in on key financing sources or areas where there are particular challenges or opportunities to unlock new and/or more aligned investment. For example, the development finance assessment in the Solomon Islands focused on the country's past experience with foreign investment in the logging sector and lessons for future investment in the mining sector. A light development finance assessment in Liberia focused on the potential to engage the large Liberian diaspora, considering options such as a diaspora bond. Most governments will have a good idea upfront about key financing issues they wish to interrogate, or key challenges. They can focus the financing landscape assessments accordingly.

Box 3. Financing landscape assessments in fragile contexts

Countries in fragile and conflict-affected situations require a differentiated approach, able to take into consideration the nature of the fragility they face (environmental, political, societal, economic, security-related). For example, there is a need for conflict-sensitive, political economy analysis, as well as a more flexible approach and greater risk tolerance. Capacity development requirements are also greater and so is the need to consider realistic, incremental approaches to reform, based on the findings from the financing landscape assessment.

Specific financing issues need to be taken into account. For example, countries in fragile situations are more likely to have unsustainable debt burdens and to face greater challenges in accessing finance, due to issues such as ongoing physical security challenges or presence on lists such as the State Sponsors of Terrorism (SSTL). At the same time, fragility poses additional risks in terms of outflows, with significant volumes of net FDI outflows being the norm.²⁵ Other specific issues can

²⁵ OECD (2020), States of Fragility 2020, OECD Publishing, Paris, <https://doi.org/10.1787/ba7c22e7-en>.

include meeting the financing needs of displaced population and the challenges of transitioning away from peacekeeping operations.

Humanitarian and peace actors play a critical role in fragile contexts; financing from these actors needs to be incorporated in the financing landscape assessment – looking at both its scale and the level of coherence and coordination with other sources of finance, including development cooperation.

Note: More on how synergies between humanitarian, development and peace financing may be strengthened in the DAC Recommendation on the Humanitarian-Development-Peace Nexus (available at: <https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-5019>).

6. Lessons learned

The experience from countries that have completed assessments of the financing landscape, particularly those that have undertaken DFAs, highlights a few key lessons:

- The need to include a broad range of public and private financing trends in the analysis, to the extent possible. If actors or types of financing are excluded, there is a risk that the policies and partnerships relevant to these types of finance will also be excluded in the financing strategy. As outlined in Section 4.1, this does not imply that all types of financing should be aggregated in one picture, but rather supports the importance of a differentiated yet comprehensive analysis of all relevant flows.
- The need to engage relevant stakeholders as part of the analytical process. Engaging with stakeholders whose decisions drive trends is critical for fully understanding the context, the reasons behind those trends and identifying potential ways forward.
- The need to make analysis accessible. Operationalising an INFF is about building a more integrated approach that involves engagement with a wider array of actors. It is important to make sure that the analytical outputs and dialogue around them are accessible not only to technical specialists but to the wider constituency that will be engaged with the INFF process.