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UN DESA

INFFs and resilient PFM systems

Dr. Yanis Kuehn-Von Burgsdorff, UNDESA

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Agenda

1. Global context
2. What are INFFs?
3. INFFs and PFM

1 Global context

Risks tilted to the downside...

- There is a risk of a sharply diverging world. If left unaddressed, a “great finance divide” will translate into a lasting sustainable development divide

- SDG financing needs are growing, but PFM systems are not keeping pace. The war in Ukraine, sharp increases in food and energy prices, and rapidly tightening financial conditions have increased pressure on PFM systems and reversed progress on the SDGs

- Delays in moving ahead with policy adjustments and structural reforms….

...But...

- Crisis response creates opportunity to reform and “future-proof” the policy and institutional architecture, at all levels

- At the national level, PFM systems needs to be at the core of those efforts

- Ensure that proposals on taxation in the context of a digitalizing economy, a new generation of sustainable industrial policies, debt management and sustainable debt policies are fully aligned with the 2030 Agenda, etc

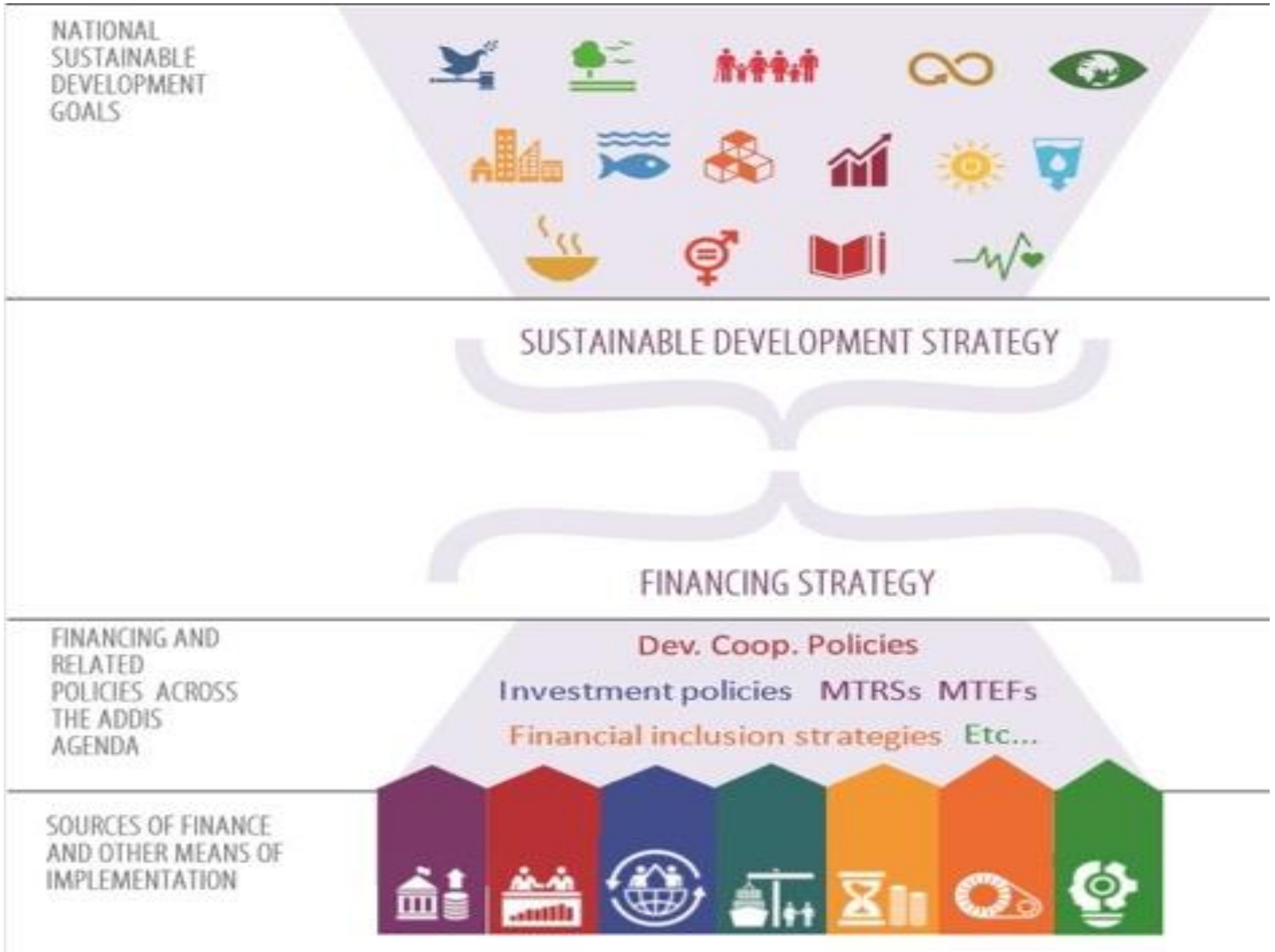
- INFFs as a guiding framework

2 What are INFFs?

Integrated National Financing Frameworks (INFFs): An Overview

❖ A framework to better incorporate financing into national planning processes

❖ Docking station' for national financing policies, building on what is already there



Inception phase

The inception phase starts the process and brings together relevant policymakers and stakeholders.

Assessment & Diagnostics

Assessments and diagnostics provide a complete picture of financing: i) needs; ii) sources; iii) risk factors; and iv) binding constraints/challenges.

Financing Strategy

Financing strategies set out a set of sequenced actions to finance national development strategies and goals, and mobilise and align financing with national priorities.

Monitoring & Review

Monitoring and review helps governments track progress and draw lessons for policy design and implementation.

Governance & Coordination

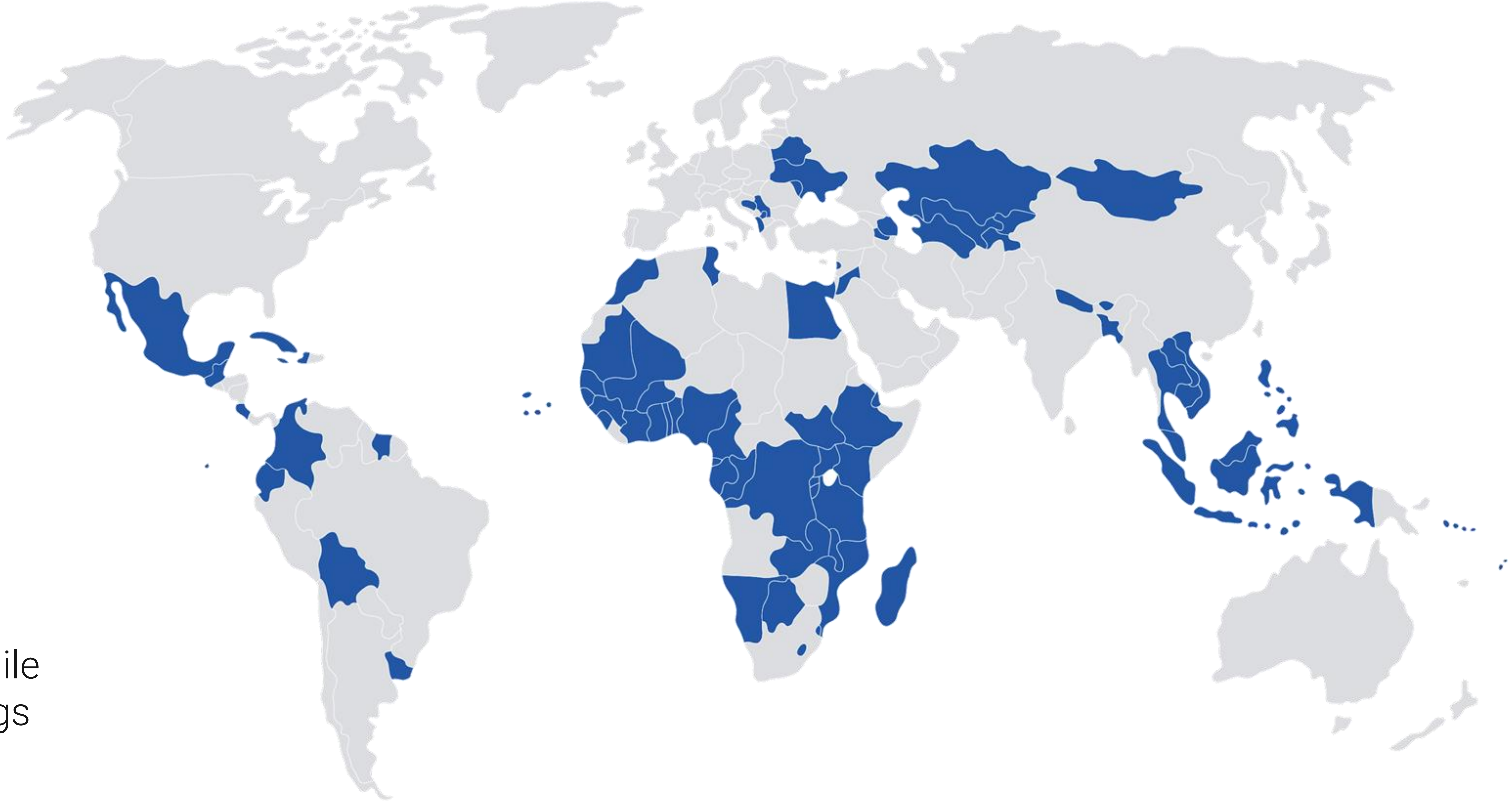
Governance and coordination mechanisms guide the process and enhance coherence across government.

More than 85 countries are using the INFF approach to build a more sustainable financing architecture at the national level

31 LDCs

21 SIDS

31 in fragile settings



3 INFFs and PFM

INFFs for PFM Challenges

Challenges

- Fiscal space and resource mobilization
- Debt sustainability
- Budget credibility and strategic capital investments
- Risk-informed policy choices
- Good governance and coordination
- Integration across sectors, and national development and financing policies

The need for an integrated approach

- An INFF can help bring together these dimensions of integration:
    i. PFM policy areas and stakeholders
    ii. Sustainability considerations and national level frameworks and plans
- And ensure they are carefully considered in national policymaking processes

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Building Block 1: Assessment & Diagnosis

01 Financing needs

- Offer learning for costing efforts
- Estimate the costs of national actions
- Identify priority policy areas

02 Financing landscape

- Identify existing and projected financing support
- Considering all available financing, public and private, bilateral and multilateral

03 Risk

- Asses risks that may affect financing of national goals over time
- Assess how they will affect PFM/financing system

04 Binding Constraints

- Highlight the most relevant structural challenges to countries' efforts for financing national goals

Building Block 2: Financing Strategy

Ensuring prioritised financing reforms are sustainable and risk-informed

- Align financing policies with national development goals
- Highlight trade-offs/ unintended consequences

Designing an integrated PFM strategy

- Designing an integrated financing strategy (e.g., debt strategy, revenue strategy, etc)
- Identify policies, legal or regulatory measures, financing instruments, and processes

Example: Climate Policy Trade-Offs and Corrective Measures

PROPOSED POLICY MEASURE	TRADE-OFFS	POTENTIAL CORRECTIVE MEASURES
Carbon pricing measures (effects on individuals)	• Distributional impacts and equity implications (e.g., through increases in fuel prices or increased prices of carbon-intensive goods and services).	• Revenue recycling and increased and targeted social spending • Supportive fiscal policies, including reductions on other taxes (e.g., value-added tax or income tax) • Introduction of luxury carbon taxes
Carbon pricing measures (effects on firms)	• Higher costs of production for firms if costs cannot be passed onto consumers • Reduction in competitiveness for domestic firms and effects on trade	• Output-based rebates – Reallocating carbon tax revenues collected from a sector to the firms within the same sector based on their share of domestic production • Supportive fiscal policies, such as reductions on corporate income taxes • Carbon Border Adjustment Mechanisms (CBAM) albeit challenges include administrative burden, technical feasibility, data availability, shifting emissions intensive production and risking retaliation from other countries • Consumption-based taxation (CBT) – Carbon tax is levied on domestic consumers, and products are taxed on their carbon-intensity regardless of where they are produced.
Feed-in-tariff schemes	• Effects on electricity affordability and equity implications	• Targeted flat payments for affected groups • Supportive fiscal policies, including tax reductions on income taxes and tax payment refunds
Decarbonisation of the power sector	• Loss of fiscal space because of increased public investment and aggregate economic costs	• Front-loading the decarbonisation of the power sector • Decarbonizing the power sector early allows phasing out expensive subsidies sooner and thus, while generating short-term marginal losses, it is less costly in the long-run than delayed decarbonization. It also lessens the cumulative emissions and, as such, has positive environmental impacts from the onset.
	• Labour displacement	• Supportive fiscal policies to cushion the impact of the most geographically concentrated effects and to facilitate the reallocation of labour (potentially through interventions to support the acquisition of new skills, move geographically and incentivize hiring).

Implementing INFFs: Guiding principles

1. Understand absorptive capacity and ensure knowledge transfer.

2. Ensure effective development cooperation and participation of various actors.

3. Be pragmatic.

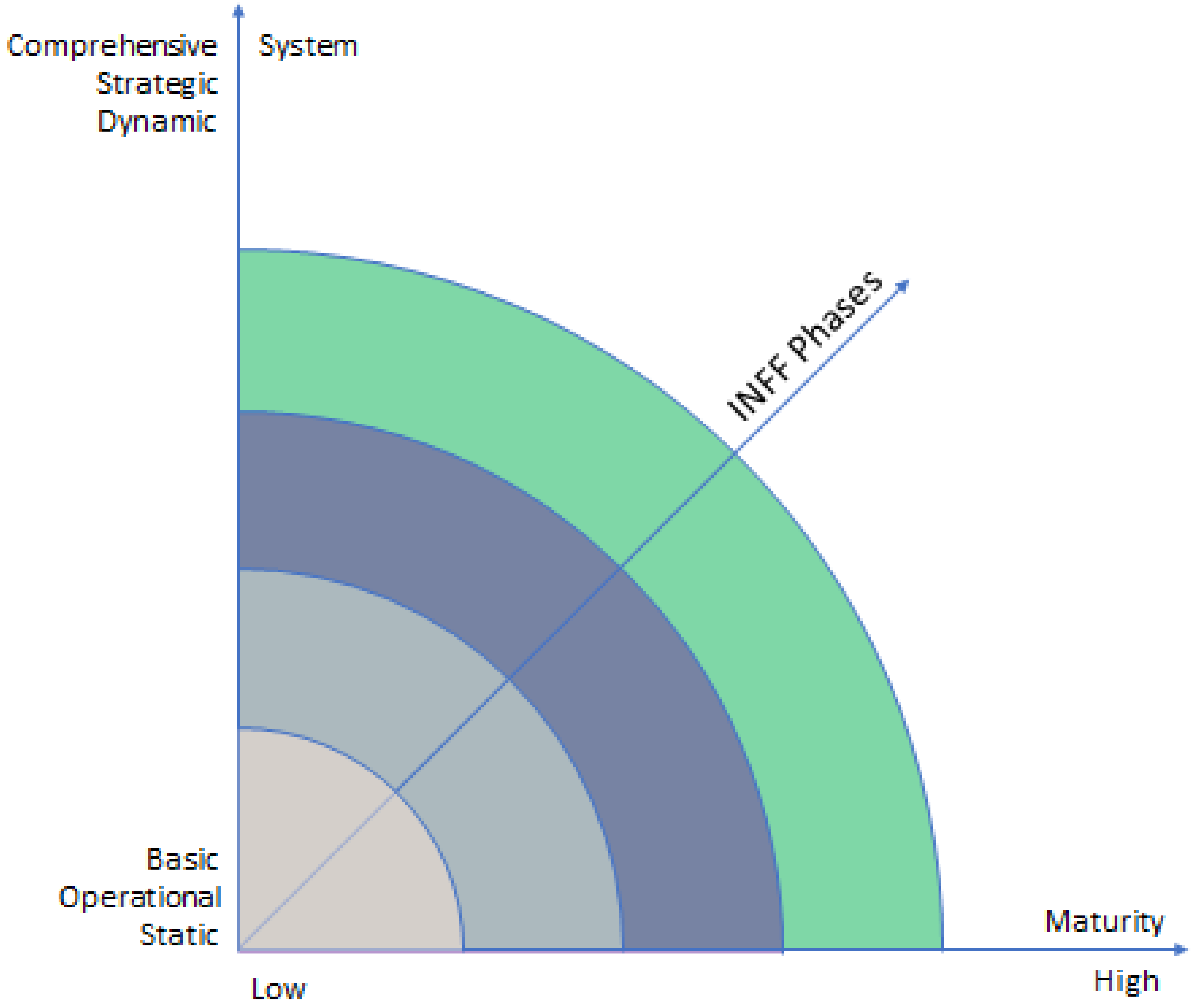
4. Expect staff changes and all kinds of setbacks.

Implementing INFFs: Guiding principles (2)

1 Build on existing systems and knowledge

2 Prioritize

3 Phased approach



Thank you.

For more information, visit www.inff.org

The INFF Facility is strengthening the international architecture for supporting country-led INFFs.

The Facility works in three important ways:

1 brokers country demand and supply of technical assistance

2 deepens cooperation between public, private, and civil society actors, helping national institutions deliver reforms

3 provides a platform for countries to share, connect & learn from one another and access innovative tools, knowledge and guidance.

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