



**Recent experiences in
implementing integrated
national financing
frameworks for
Latin American and
Caribbean countries**

Elisa Araneda | Ignacio Ruelas | Tomás Gálvez



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Introduction

In recent years, there has been growing interest in adopting measures to achieve the Goals of the 2030 Agenda for Sustainable Development. However, channelling resources into development strategies that aim to achieve these goals remains a challenge nationally, regionally and globally. This situation has served as the backdrop for the emergence of the concept of integrated national financing frameworks (INFF). These frameworks are designed by the countries themselves to take into account their financial situation and deploy different types or channels of financing, adapted to the specific characteristics and risks of each country.

National development strategies are key tools for guiding national policy priorities. However, for the policies in question to become catalysts for change and promote sustainable economic growth, along with social inclusion and a better quality of life, they should be accompanied by a cost estimate and an associated budget. They also need to be aligned with medium- and long-term investment plans and financing strategies. In this context, INFFs can play a crucial role by providing a conceptual visualization of financial flows and relevant institutions, as well as a set of potential solutions to the problems identified.

Aside from financing requirements, INFFs can also address a variety of challenges, such as inequality, the increase in vulnerabilities, digitalization and growing market concentration. By mapping the key issues and offering alternative ways to address them, INFFs are a valuable tool for ensuring that fiscal, labour, social protection, competition and trade policies are aligned with new and emerging realities (United Nations, 2019).

In Latin America and the Caribbean, INFFs have been deployed to achieve general targets for economic growth and sustainable development through collaboration in dialogue mechanisms, identification of financing gaps, promotion of innovative financing methodologies and governance strengthening. They have also targeted specific objectives such as combating child malnutrition, promoting the blue economy¹ or improving forestry management.

¹ The blue economy is an economic approach that aims at the sustainable use of ocean resources for economic growth, improved livelihoods and job creation, while preserving the health of marine ecosystems. It addresses key areas such as sustainable fisheries, renewable marine energy, sustainable tourism, aquaculture, ocean conservation and sustainable shipping.

Considering that INFF is a flexible tool, this initiative has underpinned the design of territorial planning proposals aimed at supporting local management and budgeting in Colombia and elsewhere.

In many of the region's countries, subnational governments have assumed a major share of responsibility for the provision of public goods and services; and they are playing a crucial role in the implementation of policies to achieve the Sustainable Development Goals (SDGs). This makes it essential to analyse national development strategies in depth, focusing on the role of subnational governments in the provision of public services and in reducing social and economic disparities. It would also be essential to assess the strengths and weaknesses of the coordination that exists between the different levels of government, to ensure that the available resources are allocated appropriately and that the various policies are implemented effectively.

Moreover, as the labour market has a direct influence on the income of the vast majority of households, it is crucial to understand the role that decent employment plays in achieving the SDGs and in reducing physical and social inequalities. The region faces the challenge of tackling high rates of informality and advancing women's inclusion in the labour market, by closing the gaps that exist in participation, wages, posts, responsibilities and social protection. In addition, an improvement in labour performance is needed to raise productivity. In this context, performing a comprehensive diagnosis through an INFF can develop a road map for decent work and have a considerable impact on the achievement of multiple objectives, generating a virtuous cycle that embraces training, worker integration and the reduction of inequalities.

Premised on the foregoing, this document is structured as follows. Section I explains the key objectives and general structure of INFFs and describes their application in the region and the main related issues. It then outlines a number of regional experiences of INFF implementation, drawing on examples for Colombia, Ecuador, Costa Rica and the Dominican Republic. Section II analyses the role that INFFs could play in supporting subnational governments in the design of financing strategies, while also considering a series of characteristics, issues and challenges faced by these levels of government in fulfilling the SDGs and their local priorities. Lastly, section III discusses the role that INFFs could play in the labour market, particularly in promoting decent work, as well as the main problems and challenges they face in the region.

I. Integrated national financing frameworks and their recent implementation in the region's countries

A. What are INFFs?

An integrated national financing framework (INFF) is a tool for designing strategies to finance a country's sustainable development priorities. It provides a framework for identifying different public and private funding sources, both domestic and international. Thus, INFFs focus on strengthening planning related to financing, ensuring that all dimensions of sustainability (economic, social and environmental) are taken into account when selecting financing policies, instruments and reforms. They also address the potential trade-offs and unintended consequences in each area of financing policy (public, private, macro-systemic).

Integrated national financing frameworks help identify the gaps in development indicators, and in the financing needed to achieve the respective objectives. Thus, while a country's sustainable development strategies set policy priorities, INFFs contribute to a vision of how that strategy will be financed and implemented. Key elements in this regard involve recognition of the following: (i) the main sources of financial and non-financial means of implementation; (ii) a national financing strategy that brings together various financial policies and instruments; and (iii) the key institutions and processes that underpin these relations, for effective coordination among the actors involved (United Nations, 2019).

Thus, INFFs support the strategic targeting of resources to finance sustainable development objectives through social, economic and environmental investments. Their implementation entails considering various elements across four building blocks:

- (i) Assessments and diagnostics, which foresee financing needs and gaps, as well as risks in the country's capacity to finance long-term sustainable development, and the underlying constraints that could hinder the mobilization of financing and its alignment with the nation's sustainable development objectives.

- (ii) Financing strategy, which can assist policymakers in the coordination of policies and programmes, and in the identification of financing instruments to improve the mobilization and alignment of all funding sources, or else in the consideration of more specific issues, while maintaining an integrated approach in decision-making on policies and instruments.
- (iii) Monitoring and review systems, to support dynamic policymaking, strengthening capacity to track financing flows (in terms of both volumes and their contribution to sustainable development), and to evaluate the effectiveness of financing policies and strategies and draw lessons to feed back into policy design.
- (iv) Governance and coordination mechanisms to establish and maintain the necessary political support and leadership, guarantee ownership by the country, facilitate the participation and inclusion of all stakeholders, improve transparency and accountability, and overcome barriers between sectors and areas of financing policy, to foster more consistent financial decision-making.

Although a proposed structure exists, consisting of the four blocks listed above, the detailed composition and scope of each block varies according to the characteristics of the country in question, reflecting its capacities and priorities. For example, the most vulnerable countries may prioritize contingency financing as a strategy to respond effectively to shocks. Those that rely more heavily on concessional financing may prefer to align development cooperation with their national priorities. Countries with major capacity gaps may need to prioritize strengthening their basic institutional capacities before trying to implement more complex tools (United Nations, 2019).

While increasing domestic resource mobilization is a priority for most countries, the INFF approach varies according to the specific competencies and constraints in each case. This enables INFFs to be flexible, versatile and applicable both to broad reforms, which examine all sources of financing, and to others focused on specific areas of financial policy, such as government finance, public-private partnerships (PPPs), and access to finance for micro, small and medium-sized enterprises.

B. Key experiences of INFFs in the region's countries

Some of the INFFs implemented in Latin America and the Caribbean have chiefly pursued broad growth and sustainable development objectives, as in the cases of Cuba, Haiti, Mexico and Uruguay. However, other recent cases have also pursued more specific aims, such as child malnutrition in Ecuador and Guatemala, the blue economy in Barbados, or sustainable forest management in Suriname.

In Colombia, a financing study was conducted to estimate the country's investment aimed at achieving the SDGs, considering public, private and international cooperation resources. In addition, a roadmap was designed for implementing a long-term financing strategy to mobilize additional resources for development. In this context, the Government of Colombia, with support from the United Nations through INFFs, performed an exercise to tag the entire national budget and international cooperation for 2020 and 2021, focused on the 169 global SDG targets. In addition, the United Nations Development Programme (UNDP) and the Government of Colombia have developed and implemented two tools to align contributions from the private sector with the SDG financing frameworks: the SDG Investor Map and the SDG Corporate Tracker.

In April 2024, an event was held in New York to exchange INFF experiences in the region. The case of Colombia was presented at this event, highlighting progress in identifying SDG-oriented financing. An additional presentation considered the case of the Dominican Republic, which was just starting its process of designing an INFF. It also took the opportunity to describe the challenges identified in terms of medium- and long-term financing for its national development strategy aimed at achieving the SDGs along with its national priorities (see box 1).

Box 1**Workshop on experiences with integrated national financing frameworks in the region**

On Thursday, 25 April 2024, the 2024 ECOSOC Forum on Financing for Development event in New York held a workshop on regional experiences of integrated national financing frameworks (INFFs). This provided an opportunity to share experiences gleaned from the INFF projects implemented in the Dominican Republic and Colombia, emphasizing the flexibility that these frameworks provide to consider different approaches depending on each country's requirements. There was also discussion of the importance of generating financial, political and institutional viability to enable development strategies to generate tangible results.

Presentation of the Dominican Republic

The Dominican Republic's presentation commented on the importance of INFFs in terms of the financing needs of national policy priorities and Sustainable Development Goals (SDGs) in the country. Along these lines, for the formulation of the National Pluriannual Plan of the Public Sector 2021–2024, the SDGs were linked to the 2020–2024 Government Programme, such that the basis of the General State Budget is SDG-aligned. Thus, 33 SDG-related policies are aligned and prioritized, with short- and medium-term financing. However, the need for a long-term perspective was also emphasized—such as a national development strategy, aligned with a financing strategy.

Participation in the INFF project was based on the following rationale: (i) to link spending with the development planning priorities; (ii) to estimate the costs of the long-term development vision; (iii) to better estimate the functional distribution of spending; (iv) to optimize a combination of different funding sources; and (v) to promote higher-quality spending. In addition, emphasis was placed on the importance of generating appropriate policies to achieve the prioritized policy objectives and their corresponding financing, through coordination among stakeholders.

Presentation of Colombia

Colombia's presentation defined the main objectives of its INFFs as follows: (i) to recognize the nature and scope of the financial flows that support the SDGs; (ii) to design a tagging system for the national budget that identifies the funding sources that are impacting the SDGs; and (iii) to automate the aforementioned instruments. The budget tagging that was implemented proved to be simple and accurate, starting in 2020 and producing its first results in 2021. In 2022 the model was refined and for 2023 it was automated. The next step involves integrating the model into the information systems.

The expenditure identification and classification exercise reveals how much expenditure is being allocated to the SDGs and defines the starting point, that is the baseline, for estimating the size of the financing gap. In addition, an analysis was performed to identify which of the Goals can be improved with greater resource mobilization, and which are predominately dependent on tackling outstanding structural issues.

Source: Prepared by the authors on the basis of presentations at the "Workshop on Latin American experiences and lessons in INFF implementations".

1. Colombia

Colombia has made progress on INFFs in different areas, covering all four building blocks. In 2021, a programme funded by the Joint SDG Fund (INFF-COL) supported the government in strengthening existing systems and processes. The objective of the activities planned under that project was to complement INFF efforts, by helping the National Administrative Department of Statistics (DANE) to develop a methodology for identifying and tracking public and private financing flows that could be used to finance the sustainable development priorities.

The methodology drew on national accounts data to report on the scope and direction of public spending and its long-term sustainability. In terms of the INFF building blocks, the planned activities would fall under the first block on "INFF assessment and diagnosis", providing a mapping of resources. The data and information collected would be fed into policy design processes in the second building block and support the creation of robust monitoring systems for the third block.

Thus, as part of the INFF project, Colombia implemented a budget tagging system for the SDGs, which enabled it to access more detailed information on the distribution of public resources allocated to

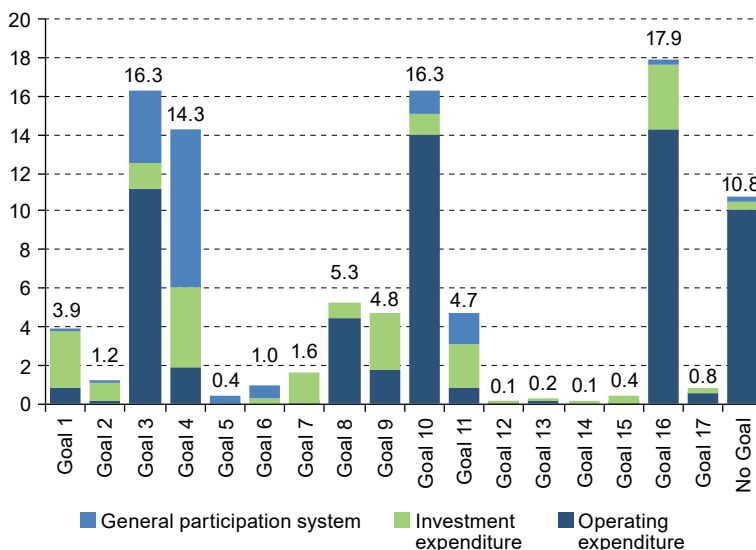
the fulfilment of these Goals. This system monitors the alignment of relevant expenditure lines with the 169 SDG global targets. The development of this tool enables Colombia to identify expenditure related to four cross-cutting priorities: gender equality, children, the planet and the peace agreement (UNDP, 2022a).

The specific SDG categorization adapted to the local context of Colombia, is a valuable input in guiding and supporting strategic public policy decisions. The methodology developed to assess the alignment of public budgets affords an overview of SDG financing, thus providing a better understanding of budget allocation relative to the national priorities and quantifying the responsiveness of development indicators to public expenditure. This makes it easier for the government to make strategic financing decisions based on updated diagnostics (Castañeda and Guerrero, 2022).

Another potential benefit of mapping public financing to the SDGs is making the use of fiscal resources and public sector management more transparent. In the recent context of fiscal and political pressure, government accountability for the use of public resources is fundamental, especially if the efficiency, sustainability and equity of spending are stressed (Guerrero and others, 2022).

Thus, based on budget tagging, 89.2% of the 2023 General Budget of the Nation was allocated to achieving the SDGs. Those that received the most funding were: Goal 16 (Peace, justice and strong institutions) with 17.9%; Goal 10 (Reducing inequalities) with 16.3%; Goal 3 (Good health and well-being) with 16.3%; and Goal 4 (Quality education) with 14.3%. It is notable that the largest share of the budget corresponds to operating expenses. In addition, in the health and education areas, much of the financing is allocated to the General System of Participations, which directs resources to subnational governments. Although investment is much less than current (operating) expenditure, it is especially important in areas such as ending poverty, quality education, industry, innovation and infrastructure, sustainable cities and communities, and peace, justice and robust institutions (see figure 1).

Figure 1
Colombia: General Budget of the Nation, by SDG pursued and type of expenditure, 2023
(Percentages of the general budget)



Source: Y. Durán Bobadilla, "Estimando el financiamiento de los ODS: la experiencia de Colombia en el etiquetado de productos", presentation at the "Workshop on Latin American experiences and lessons in INFF implementations", April 2024 [online] <https://webtv.un.org/en/asset/k1f/k1fjin5nz3>.

In addition, a policy priority inference model has been implemented to help identify the impact of budget decisions on the SDGs. This budget tagging system has also made it easier to identify expenditure

lines and projects that are relevant for thematic bond issuance. Thus, as the government considers further thematic issues, the system can underpin monitoring and reporting on the use of the corresponding proceeds (UNDP, 2024).

Supported by this SDG financing framework, in September 2021, the Republic of Colombia issued sovereign green bonds for a total of 750 billion Colombian pesos (C\$), equivalent to US\$ 195 million, which were traded in the domestic market. Additionally, three tranches of C\$ 1.72 trillion each, equivalent to US\$ 423 million, were issued (UNDP, 2023).

In a second stage, this system has contributed to the development of a set of territorial planning initiatives to support subnational management and budgeting, with an initial deployment in four municipalities thus far. Thus, the results of applying the SDG perspective were reported to determine the degree of alignment of the proceeds of royalties that are executed at the subnational level (UNDP, 2022b). This approach to subnational financing can be considered as a baseline for SDG territorial financing.

Lastly, as part of this project, UNDP and the Government of Colombia have developed and implemented two instruments to align private sector contributions with the SDG financing frameworks: the SDG Investor Map and the SDG Corporate Tracker. The SDG Investor Map for Colombia identifies 22 investment opportunities in seven priority sectors. These opportunities include information and communications technology applications in agriculture, health and education. An additional area is set to be added in the future, focused on closing gender gaps. The SDG Corporate Tracker is a tool for monitoring the private sector's contribution to the SDGs. Its main objectives are to compile relevant data on the contribution made to the 17 SDGs by firms operating in Colombia, to analyse and publish information on sustainable corporate practices, and to issue reports with aggregate data by economic sector and firm size, as an input to strengthen policy discussions on impact investments.

2. Ecuador

Another example of INFF implementation in the region is the case of Ecuador, where various evaluations and diagnostic studies have been performed for the purpose of implementing its financing framework, with a focus mainly on combating chronic child malnutrition. The experiences incorporated include calculation of SDG-related costs, an assessment of the fiscal situation, and an analysis of private finances.

The programme to finance the SDGs and tackle chronic child malnutrition aims to create an enabling environment to improve the management of sustainable development financing in Ecuador, and leverage both public and private resources to achieve the Goals. Specifically, INFF was applied to one of the health problems prioritized by the Government of Ecuador, chronic child malnutrition, which is aligned with Goal 3 (Good health and well-being), but with the expectation that this contribution would generate multiplier effects on other SDGs (UNDP and others, 2022a).

Thus, the financing framework in Ecuador is designed to support an inclusive and sustainable economic growth strategy, with a specific focus. To achieve this, there are two objectives: to design and implement INFF for sustainable development, and to apply this framework to the chronic child malnutrition reduction policy, which will enable a feedback loop between the two elements to improve the INFF impact.

The design of INFF in Ecuador includes: (i) the development of a roadmap on its applicability in the country; (ii) a descriptive analysis of all SDG financial flows, considering different sources, mechanisms and destinations; (iii) linkage of the policies prioritized in the national development plan with the SDG targets; (iv) alignment of the results-based national budget with the national development plan and SDGs; (v) prioritization of policies with greater multiplier effects for achieving the Goals; (vi) estimation of the costs and financing gaps of the prioritized public policies; (vii) identification of potential innovative solutions to the financing challenges; and (viii) establishment of an INFF governance mechanism to expedite its implementation by the authorities (UNDP and others, 2022b).

3. The Dominican Republic

In the case of the Dominican Republic, the Ministry of Economy, Planning and Development, with support from the Economic Commission for Latin America and the Caribbean (ECLAC), designed its INFF as an action plan anchored to the 2030 National Development Strategy and the SDGs. The collaboration aimed to identify the tools and mechanisms needed to finance the country's development priorities. In this framework, the policies prioritized by the authorities were: (i) quality education; (ii) higher education, science and technology; (iii) universal access to health; (iv) access to water and improvement of water resources; (v) territorial and municipal public policies for change; (vi) formal employment; (vii) rural development; (viii) environmental sustainability and climate change; (ix) transportation and; (x) citizen security.

On the basis of the prioritization as defined, an analysis was made of costs and physical and financial gaps, as well as an identification of the sources and potential mechanisms associated with their financing. To this end, a first step involved reviewing the available indicators to assess the degree of progress made in the prioritized policies and their evolution over time. Then, various estimation methodologies were reviewed for each of these policies. These included unit costing methods based on simulation models; costing for each specific intervention; and unit costing according to the necessary inputs based on indicators; in addition to other tools developed by international organizations such as the United Nations Educational, Scientific and Cultural Organization (UNESCO), the World Bank and the International Monetary Fund. Of the 10 prioritized policies, costing exercises were performed for three of them: (i) quality education (pre-university education coverage and literacy); (ii) health; and (iii) access to water and improvement of water resources.

Next, a set of innovative financing tools were identified that could be used to mobilize resources for the National Development Strategy and the SDGs, analysing the feasibility of their implementation in the country. The instruments evaluated included: (i) thematic bonds linked to either social or environmental objectives, or both; (ii) debt-for-nature swaps; (iii) financing from the diaspora (individual, collective, philanthropic remittances, equity participation); (iv) payments for environmental services; (v) public-private partnerships for sustainable development; and (vi) carbon credits.

The current legal framework for innovative financing tools was also analysed, along with its alignment with the prioritized policy objectives and SDGs, the actors involved, some cases of use of the instrument in the country, and the legal and institutional requirements to implement them effectively. For each financing initiative it has also been possible to recognize the application opportunities, disadvantages, risks and preconditions related to these instruments.

Particularly noteworthy is the analysis of thematic bond issuance (green, social or sustainable bonds). The advantages of implementing instruments of this type in the country include their capacity to promote investments and expenditures aligned with sustainability objectives, facilitate more efficient public expenditure execution, and strengthen transparency and accountability. In addition, these bonds improve the visibility and credit reputation of their issuers, and can help reduce financing costs.

Nonetheless, their implementation also entails certain risks and associated constraints. These include the need for greater efforts in terms of their planning and issuance, a potential reduction in their financial convenience as the volume of emissions increases, and transparency and monitoring requirements, which can be complex owing to the lack of suitable indicators.

In light of the foregoing, in June 2024, the Dominican Republic issued a US\$ 750 million sovereign green bond, mainly to promote low-carbon transportation projects and, on a complementary basis, to finance initiatives promoting efficient and resilient water management, renewable energy generation, and the protection and sustainable use of water and soil resources. Lastly, an assessment was made of the financial and non-financial risks that could affect the country's capacity to finance the prioritized policies and related SDGs. This involved generating a risk matrix that includes an analysis of the regulatory ecosystem and identifies potential financial and non-financial risks for the integration of the different policies and funding sources for the prioritized policies and SDGs (see table 1).

Table 1
Dominican Republic: main risks identified in the government financing system

Financial	Economic	Fiscal	Climate-related	Health-related	Political	Institutional
Crisis of the national financial system	Contagion effect on the Dominican economy or financial system	Bailouts of private non-financial firms or PPPs	Environmental degradation	Health crises	Political instability	Non-compliance with requirements for use of funds or reporting of green bonds and projects
Reliance on external markets for financing	Reduced remittances	Legal cases or litigation requiring compensation from the government	More frequent natural disasters		Discontinuity of government policies	Reputational shock or deterioration of the country's credit rating
Miscalibration of international monetary policy	Slowdown of the local economy	Sustained fiscal deficit			Geopolitical tensions	Poor implementation of the 2030 Agenda by the relevant authorities
Foreign exchange risk (abrupt depreciation of the exchange rate)	Adverse inflationary shock	Government inability to reduce subsidies to the electricity sector				Disputes in the implementation of PPP contracts
Rise in global interest rates	Slowdown in global demand for goods and services	Risks related to the pension system				
	Stalling of the growth of the tourism sector	Variable rate risk				
		High levels of public debt				
		Tax reform does not materialize				
		Bailouts of local and regional governments and State-owned enterprises				
		Refinancing risk				

Source: Consultants' presentation at the event "Financing for development: challenges and opportunities for advancing achievement of the National Development Strategy and Sustainable Development Goals. Dissemination of results", Ministry of Economy, Planning and Development/Economic Commission for Latin America and the Caribbean (ECLAC), Santo Domingo, 8 November 2024.

To counteract the potential effects of the risks identified, mitigation policies were proposed to comprehensively address the financial, fiscal, climate, health, institutional and political challenges. Priority measures include coordinating fiscal and monetary policy effectively, maintaining sound international reserves, and ensuring liquidity and stability in the financial system. On the fiscal front, it is essential to implement comprehensive structural reforms that increase revenue collection, reduce tax evasion, promote transparency and strengthen public institutions, while also managing the public debt responsibly and fostering a competitive business environment. To confront climate and health risks, it is essential to invest in resilient infrastructure, regulate land use, promote reforestation and strengthen public health systems. It is also necessary to consolidate governance through consensus-based long-term strategic plans, improve technical training, and put effective oversight and auditing mechanisms in place. Active participation by civil society, the private sector and local communities are likely to be crucial to the effectiveness and sustainability of these strategies.

To conclude the collaboration between the Ministry of Economy, Planning and Development and ECLAC, the progress of the INFF project was shared in an event titled “Financing for development: challenges and opportunities for advancing achievement of the National Development Strategy and Sustainable Development Goals”, held on 8 November 2024 in the city of Santo Domingo. During the event, the project consultants presented costing mechanisms for several prioritized policies and innovative financing options to mobilize resources for the National Development Strategy and the SDGs. In addition, ECLAC presented *Fiscal Panorama of Latin America and the Caribbean, 2024*; and representatives from the United Nations Department of Economic and Social Affairs reported on experiences in implementing INFFs in some of the region’s countries.

4. Costa Rica

Lastly, another country with experience of INFFs in the region is Costa Rica, where the government conducted a development finance assessment in 2018, which led to progress in building a strategic and integrated vision of financing for sustainable development, with a focus on mobilizing public and private resources as needed to achieve the SDGs. The assessment analysed financial flows, planning and budgeting processes, as well as institutional responsibilities; and it identified key areas of intervention to improve development financing in the country. The strategies proposed include increasing the availability and impact of public financing, expanding public-private investment opportunities through innovative financing mechanisms, and increasing the volume and quality of financing for private investment (Ministry of National Planning and Economic Policy, 2023).

The specific objectives of this evaluation include several key issues. First, it sought to provide insight into the trend of the main flows of development financing, assessing their allocation and impact on the nation’s priorities and targets. It also examined the role of the planning and budgeting process in linking public and private finance to the desired SDG-related outcomes. Lastly, the role and responsibility of national institutions in the management and development of financial flows was analysed, along with the interrelationships and synergies between the different sources of development financing.

The analysis considered the consistency between short-, medium- and long-term planning instruments, ensuring their alignment with the development and sustainability objectives. It also reviewed the main strategies of financing mechanisms, especially the national budget, and their capacity to satisfy development needs. In all cases, opportunities were explored for improving coordination between the different planning and financing instruments over various time horizons.

The problems identified included the different degrees of influence that the government has over the financial flows that need to be mobilized. Specifically, it considered the difficulties involved in managing the interests and competencies within the State, and its capacity to coordinate the various levels of public administration efficiently. It was also found that, although the government can promote and facilitate private co-investment in partnerships with the public sector, the policies needed to encourage these investments sufficiently have not yet been developed; and the specialized capacities to adequately manage the costs and risks associated with this type of financing are considered inadequate.

One of the issues that the reports highlight is the positioning of private financing as a key variable for achieving the SDGs. The United Nations Conference on Trade and Development estimates the developing countries' SDG financing gap at approximately US\$ 2.5 trillion per year. These estimates indicate that public funding is unlikely to be sufficient to cover this need, so a large proportion of the gap will have to be covered by the private sector. In fact, it is estimated that private participation could contribute up to US\$ 1.8 trillion, equivalent to 72% of the gap. The areas identified where this investment should be most intensive include energy, climate change mitigation, transportation and telecommunications (United Nations, 2021).

The search for development financing in Costa Rica is supported by a variety of mechanisms that draw on both domestic and external resources. In the context of INFFs, the key elements needed to strengthen financing include the following: (i) expand fiscal space through tax reform and implement measures to reduce evasion; (ii) manage public borrowing more efficiently; (iii) improve the quality and coverage of information on official development assistance, South-South Cooperation and triangular cooperation; (iv) implement comprehensive environmental policies including consideration of mechanisms such as carbon markets and investment bonds, and also strengthen international cooperation; (v) build capacities for customs and corruption control to mitigate illegal flows; (vi) foster competition in the financial sector, and promote the development of securities markets; (vii) expand access to financial services for all, especially for women and small and medium-sized enterprises (SMEs), to stimulate economic growth; (viii) address the disconnect between supply and demand for foreign direct investment, improve capacity building in key areas, and evaluate the free trade zone regime; (ix) consolidate learning and improve the management of PPPs, by strengthening the legal framework and management capacity; (x) improve legislation and the generation of information on the financing of civil society organizations; (xi) draw on the experiences of corporate social responsibility to attract differentiated foreign investment; (xii) deploy family remittances through policies that encourage investment and savings in the country (United Nations, 2021).

In particular, the INFF project supported the Government of Costa Rica in reinforcing key issues for moving towards more sustainable development financing, such as constructing a framework for the issuance of sovereign thematic bonds, particularly with a sustainability focus. In this way, ECLAC provided key guidance for aligning national aspirations with the SDGs and ensuring that the proceeds of bond issuances are deployed efficiently and transparently. The results of the consultancy were evidence of a fruitful collaboration that integrated international best practices and standards in the issuance of thematic bonds, making it possible to finance priorities in renewable energy, energy efficiency, sustainable transport, essential services and other areas.

5. Experiences with sovereign thematic bonds in the region

Thematic bonds are fixed-income financial instruments that are issued for the purpose of raising capital and using the proceeds to pursue sustainable development priorities, such as addressing climate change or facilitating environmental and social solutions. This facilitates access to private capital at preferential rates, while ensuring that the proceeds are directed towards sustainable development. For the issuance of such bonds, the International Capital Market Association recommends the use of a comprehensive framework that encompasses the regulations as well as relevant information for investors, and its review by an external provider. In this context, some countries have engaged the United Nations, through an INFF project, to support the design or review (or both) of such a framework.

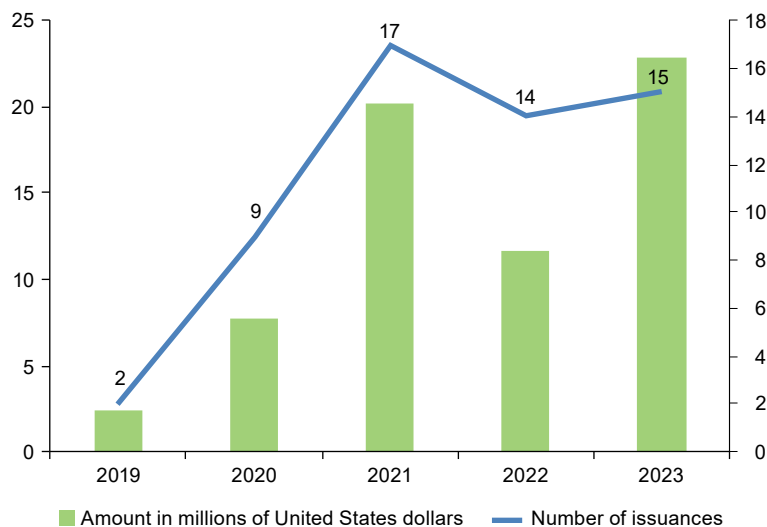
The main types of thematic bonds include:

- Green bonds, which are intended to finance climate change mitigation and ecosystem protection projects, such as investment in energy efficiency or renewable energies.
- Social bonds, aimed at funding initiatives that benefit vulnerable populations or mitigate a specific problem that harms societal welfare, such as investment in basic infrastructure or access to essential services.

- Sustainability bonds, which encompass both environmental and social objectives, such as investment in waste management programmes or infrastructure projects in vulnerable communities affected by climate change.
- Blue bonds, which finance initiatives that contribute to the conservation of aquatic ecosystems and the mitigation of water-related environmental problems.
- Sustainability-linked bonds, which are tied to the achievement of specific environmental or social targets, based on performance indicators. In these bonds, certain financial characteristics, such as the interest rate, may vary according to the degree to which the targets are met. If the issuer fails to meet the targets, for instance for reducing greenhouse gas emissions, financial penalties, such as a higher interest rate, may be applied.

The issuance of international thematic bonds has been designed as an innovative tool to mobilize resources in Latin America, thus contributing to the financing of national sustainable development priorities and the SDGs, while also helping to refinance imminent obligations. In June 2019, Chile issued the region's first sovereign green bond on international markets. Since then and up to late 2023, nine countries (the Bahamas, Brazil, Chile, Colombia, Ecuador, Guatemala, Mexico, Peru and Uruguay) had issued sovereign thematic bonds (green, blue, social, sustainable or sustainability-linked) on the international market (ECLAC, 2024c) (see figure 2).

Figure 2
Latin America (9 countries): sovereign thematic bond issuance on international markets, 2019–2023
(Millions of dollars and number of issuances)



Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), *Capital flows to Latin America and the Caribbean: 2023 year-in-review and early 2024 developments* (LC/WAS/TS.2024/1), Santiago, 2024; *Capital flows to Latin America and the Caribbean: 2022 year-in-review and early 2023 developments* (LC/WAS/TS.2023/1), Santiago, 2023; *Capital flows to Latin America and the Caribbean: 2021 year-in-review and first four months of 2022* (LC/WAS/TS.2022/1), Santiago, 2022; *Capital flows to Latin America and the Caribbean: 2020 year-in-review in times of COVID-19* (LC/WAS/TS.2021/1), Santiago, 2021; and *Capital Flows to Latin America and the Caribbean 2019 Year-in-Review* (LC/WAS/TS.2020/2), Santiago, 2020.

In 2019, Chile issued two green bonds totalling almost US\$ 2.400 billion; and in 2020, it issued a further six thematic bonds (two social and four green). Ecuador, Guatemala and Mexico also became thematic bond issuers in that year. Ecuador issued the first sovereign social bond in Latin America, for US\$ 327 million, aimed at financing access to affordable housing for middle- and low-income families. Guatemala placed a US\$ 500 million social bond to finance social projects related to prevention and response to the coronavirus disease (COVID-19) pandemic, as well as other social endeavours, such as ensuring the

continuity of free education. Mexico, one of the global pioneers in innovative SDG financing, was also among the first countries to adopt SDG budget tagging, mapping its federal budget and developing a national platform oriented to these Goals. In this context, in September 2020, it issued a 750 million euro (US\$ 889 million) SDG-related sovereign bond. Between them, these five countries made placements totalling almost US\$ 7.650 billion (ECLAC, 2021; UNDP 2023).

In 2021, three countries (Chile, Mexico and Peru) issued a total of 17 sovereign thematic bonds for approximately US\$ 20.234 billion. Chile accounted for 82% of that amount, through eleven social bonds, two green bonds and one sustainable bond. Mexico followed with a sustainable bond for 1.250 billion euros (US\$ 1.483 billion), using the same approach as in the previous year, but applying geospatial eligibility criteria to ensure that only expenditures that directly contribute to the SDGs and target municipalities with the largest development gaps were considered eligible (UNDP, 2023). Lastly, Peru issued a 1 billion euro (US\$ 1.157 billion) social bond and a US\$ 1 billion sustainable bond, the proceeds of which were intended to fund green projects and social programmes, including renewable energy, healthcare and education (ECLAC, 2022).

In 2022, four countries (the Bahamas, Chile, Mexico and Uruguay) issued sovereign thematic bonds totalling approximately US\$ 11.667 billion, 42% less than in 2021. Mexico issued six sustainable bonds, along the same lines as in previous years and denominated in various currencies, including Japanese yen. The Bahamas issued two blue bonds and plans to use the proceeds to fund the preservation of its ocean and marine life through a blue economy programme. (ECLAC, 2023c).

In addition, Uruguay issued a sovereign bond linked to environmental sustainability, with a stepped interest rate structure (increase/decrease) based on the fulfilment of specific objectives. The rate is conditional on the achievement of quantitative targets for 2025, as specified in Uruguay's national contributions to comply with the Paris Agreement. The adjustments will be triggered by performance against two key performance indicators: (a) reduction in greenhouse gas emissions (% of GDP) and (b) preservation of natural forests (a proxy for the country's carbon capture capacity). (UNDP, 2023).

In 2023, Latin America and the Caribbean issued a total of US\$ 22.921 billion in sovereign thematic bonds on international markets, an amount similar to that recorded in 2021. This total represents 74% of the total thematic bonds issued in the region, while the remaining 26% corresponds to corporate and supranational bonds. Thematic bonds also represented 34.9% of the total of bonds placed in the region on international markets (ECLAC, 2024c).

Of the total number of sovereign thematic bonds issued in 2023, seven were sustainability-linked bonds issued by Chile and Uruguay, which generated 38% of the proceeds; four were sustainable bonds issued by Mexico, Peru and Brazil, also accounting for 38% of total issuance proceeds; three social bonds issued by Colombia and Chile accounted for 21% of the total; and lastly, a blue bond issued by Ecuador generated 3%.

In 2023, both Colombia and Brazil issued their first sovereign thematic bonds on the international market. In November, Colombia raised US\$ 2.500 billion in a two-tranche social bond sale, and Brazil issued a sustainability bond with the lowest sovereign coupon in almost a decade (ECLAC, 2024c).

II. INFFs from the subnational government perspective

In many of the region's countries, subnational governments have assumed a large share of the responsibility for providing public goods and services. Accordingly, subnational governments play a fundamental role in the implementation of policies to achieve the SDGs. Although intermediate and local governments have taken on additional responsibilities within the public sector, this has not been accompanied by a commensurate allocation of resources, in the form of financing and technical and legal capacities. In terms of revenue, subnational governments in most countries have drawn on funding sources other than their own tax revenues and transfers, such as PPPs, borrowing or the involvement of non-governmental organizations (NGOs).

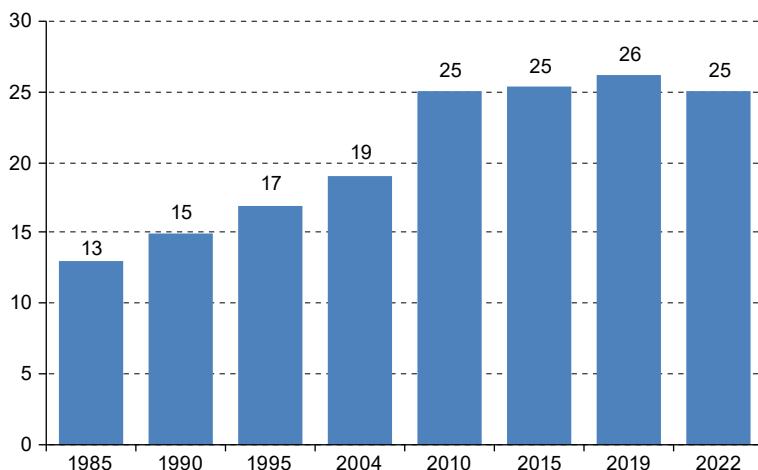
It is important to analyse national development strategies carefully, to identify the role played by subnational governments in the provision of public services and the reduction of social and economic disparities. It is also crucial to assess the advantages and disadvantages of the coordination that currently exists between the different levels of government.

Therefore, given the growing importance of subnational governments, the socioeconomic diversity that exists within the same country and heterogeneous intergovernmental coordination structures, INFFs could be used as flexible tools to map the sustainable development financing landscape and outline a financing strategy, from a regional perspective, adapted to the specifics of each country.

A. Fiscal relevance of subnational governments

The share of subnational governments in the aggregate public spending of Latin American and Caribbean countries has increased over the last forty years (Radics and others, 2022), rising substantially from 13% to 25% of general government expenditure between 1985 and 2010. In the last decade, spending has remained relatively stable around that level (see figure 3). It is important to note that this share varies greatly among the countries of the region, owing to their respective historical trajectories and their geographical and population size.

Figure 3
Latin America (12 countries): public spending by subnational governments, 1985–2022
(Percentage of aggregate government expenditure)

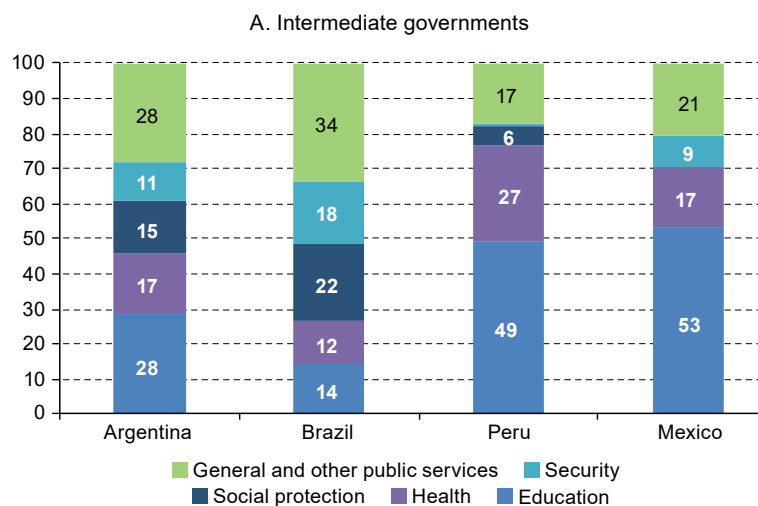


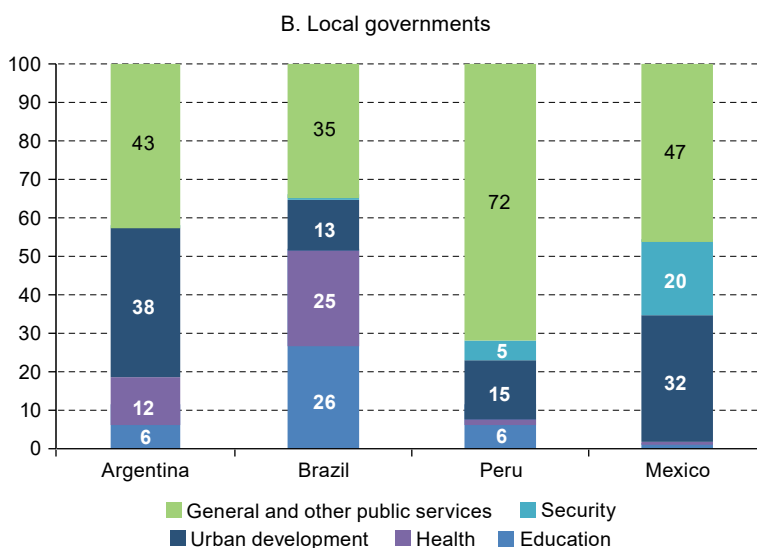
Source: A. Radics and others, *Panorama de las relaciones fiscales entre niveles de gobierno de países de América Latina y el Caribe* (LC/TS.2022/4), Economic Commission for Latin America and the Caribbean (ECLAC)/Inter-American Development Bank (IDB), 2022; Inter-American Development Bank (IDB), *Subnational Governments Sector Framework*, 2024.

In decentralized financing systems, the adaptation of INFFs reflects three main factors: (i) a gradual increase in the subnational share in the public sector structure; (ii) highly varied socioeconomic realities within the same country; and (iii) the different institutional structures that shape intergovernmental coordination in each country.

Decentralization processes in the countries of the region have meant that subnational governments’ social responsibilities have gradually increased, with issues such as education and health becoming key functions of these levels of government. Social spending has thus become one of the priorities of the countries, at both the national and the subnational levels. This component is essential for making progress in overcoming poverty and achieving other SDGs. For example, at the intermediate government level, health and education absorb about 45% of total expenditure by the provincial authorities in Argentina, more than 70% of spending by State governments in Mexico, and around 76% of regional government expenditure in Peru (see figure 4).

Figure 4
Latin America (selected countries): distribution of functional expenditure by intermediate and local governments, 2015–2019
(Percentages of total public expenditure in each country)





Source: Prepared by the authors, on the basis of A. Radics and others, *Panorama de las relaciones fiscales entre niveles de gobierno de países de América Latina y el Caribe* (LC/TS.2022/4), Economic Commission for Latin America and the Caribbean (ECLAC)/Inter-American Development Bank (IDB), 2022; Inter-American Development Bank (IDB), *Subnational Governments Sector Framework*, 2024.

B. Territorial heterogeneity and inequality among subnational governments

Although referenced in general terms, Latin American countries have adopted institutional designs and types of political organization that make it difficult to adapt mechanisms to improve intergovernmental fiscal coordination. Based on their degree of financial autonomy, the region's countries can be divided into four categories: (i) large federal countries (Argentina, Brazil and Mexico); (ii) unitary countries with greater decentralization (Colombia, Ecuador, Peru and the Plurinational State of Bolivia); (iii) unitary countries with less decentralization (Chile, Paraguay, Uruguay and several Central American countries); and (iv) unitary countries with incipient decentralization, such as those in the Caribbean (Fretes, Radics and Eguino, 2018).

Most countries have tapped funding sources other than their own tax revenues and transfers, especially through debt and bond issuances. Table 2 illustrates the main institutional challenges faced by subnational governments in terms of: (i) boosting productive investment; (ii) reducing reliance on central government transfers; and (iii) leveraging other sources of financing, as well as adapting fiscal responsibility mechanisms.

Table 2
Latin America (selected countries): distinctive features of subnational governments in terms of aggregate revenue and expenditure, fiscal indicators and financing frameworks

Country	Expenditure (Percentage of GDP)			Revenue (Percentage of GDP)			Share of capital expenditure (Percentages)	Vertical imbalance (Percentages)	Access to debt	Fiscal responsibility framework
	Current	Capital	Total	Own resources	Transfers	Total				
Argentina	14.7	2.0	16.7	8.0	9.0	17.0	11.9	52.8	Yes	Yes
Bolivia (Plurinational State of)	4.6	3.0	7.5	3.8	4.0	7.7	39.3	51.3	Yes	Yes
Brazil	19.6	2.2	21.9	12.1	9.0	21.1	10.2	42.5	Yes	Yes
Chile	3.9	0.2	4.2	2.5	2.0	4.6	5.1	44.7	No	No
Colombia	12.0	0.6	12.6	5.2	6.4	11.6	4.8	55.2	Yes	Yes
Ecuador	2.7	1.9	4.7	1.5	3.4	4.9	41.4	69.4	Yes	Yes
El Salvador	1.1	0.5	1.6	1.2	1.8	3.0	29.0	59.3	Yes	Yes

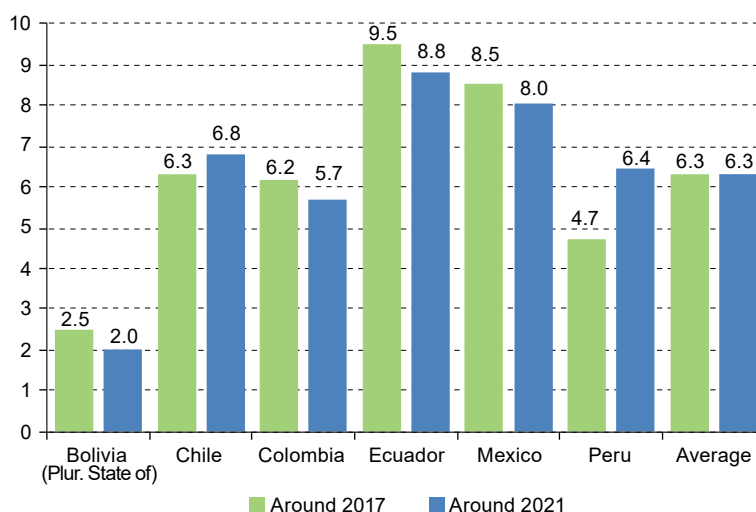
Country	Expenditure (Percentage of GDP)			Revenue (Percentage of GDP)			Share of capital expenditure (Percentages)	Vertical imbalance (Percentages)	Access to debt	Fiscal responsibility framework
	Current	Capital	Total	Own resources	Transfers	Total				
Guatemala	0.7	1.7	2.4	0.8	1.7	2.5	69.7	67.8	Yes	Yes
Mexico	9.7	0.7	10.4	2.0	8.7	10.6	6.9	81.5	Yes	Yes
Peru	5.3	3.3	8.6	0.9	7.7	8.7	38.0	89.1	Yes	Yes
Paraguay	1.0	0.3	1.3	0.3	1.2	1.5	22.0	80.0	Yes	Yes
Uruguay	2.5	0.4	2.9	2.1	0.8	3.0	13.7	27.7	Yes	Yes

Source: Prepared by the authors, on the basis of A. Radics, A. Muñoz and J. P. Jiménez, "Una nueva institucionalidad fiscal para reducir la desigualdad regional vinculada a industrias extractivas en América Latina", 2022 [online] <https://dev.focoeconomico.org/2022/10/19/una-nueva-institucionalidad-fiscal-para-reducir-la-desigualdad-regional-vinculada-a-industrias-extractivas-en-america-latina/>.

In this regard, Sustainable Development Goal 10, which aims to "Reduce inequality within and among countries", is particularly relevant. In addition to the heterogeneity between countries, the disparity in development levels between different locations in each country is a key manifestation of the high levels of inequality prevailing in Latin America and the Caribbean. This phenomenon is described as "territorial heterogeneity, caused by uneven settlement patterns and major disparities in the distribution of wealth and of opportunities for material well-being" (ECLAC, 2017, p. 59). This scenario deepens inequalities of origin, by disproportionately affecting the inhabitants of socioeconomically deprived territories. As a result, there is high demand for public goods and services, which increasingly goes unsatisfied because of economic conditions that generate meagre tax bases and low capacities for tax revenue and other sources of financing at the subnational level. Territorial inequality has traditionally represented a challenge for the subnational sector in Latin America and the Caribbean (Andrian and others, 2024; Brosio, Jiménez and Ruelas, 2019; Muñoz, Pineda and Radics, 2017; Radics and others, 2022).

On average, the gross geographic product (GGP) of the intermediate jurisdiction with the highest per capita income is 6.3 times larger than that of the jurisdiction with the lowest, in both 2017 and 2021. This shows that territorial gaps have not narrowed in recent years. In terms of territorial inequality by country, Ecuador and Mexico display interjurisdictional GGP gaps of 8.8 and 8 times, respectively, in 2021. In both cases, territorial inequality has decreased since 2017. In contrast, the Plurinational State of Bolivia had an interjurisdictional GGP gap of 2 times in 2021 (see figure 5).

Figure 5
Latin America (6 countries): territorial gaps between the intermediate jurisdiction with the highest per capita income and the jurisdiction with the lowest, 2017 and 2021
(Number of times)



Source: Prepared by the authors, on the basis of A. Radics, A. Muñoz and J. P. Jiménez, "Una nueva institucionalidad fiscal para reducir la desigualdad regional vinculada a industrias extractivas en América Latina", 2022 [online] <https://dev.focoeconomico.org/2022/10/19/una-nueva-institucionalidad-fiscal-para-reducir-la-desigualdad-regional-vinculada-a-industrias-extractivas-en-america-latina/>.

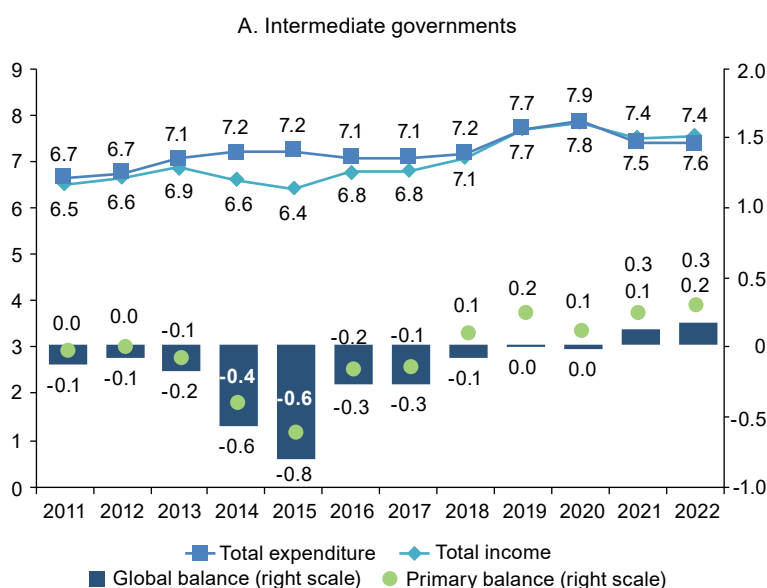
Another challenge stems from the exponential agglomeration of population that has occurred in the region in recent years, driven by the concentration of population around capital cities and by the growing number of cities with more than 500,000 inhabitants. On average, 8 out of every 10 inhabitants in Latin America live in cities (Radics, Muñoz and Jiménez, 2022). Similarly, the number of inhabitants per municipality has also grown. This generates pressures to increase and diversify the subnational financial structure, in order to deliver public services in the cities with the highest population concentration, while seeking not to widen service provision gaps in territories with smaller populations owing to these demographic pressures.

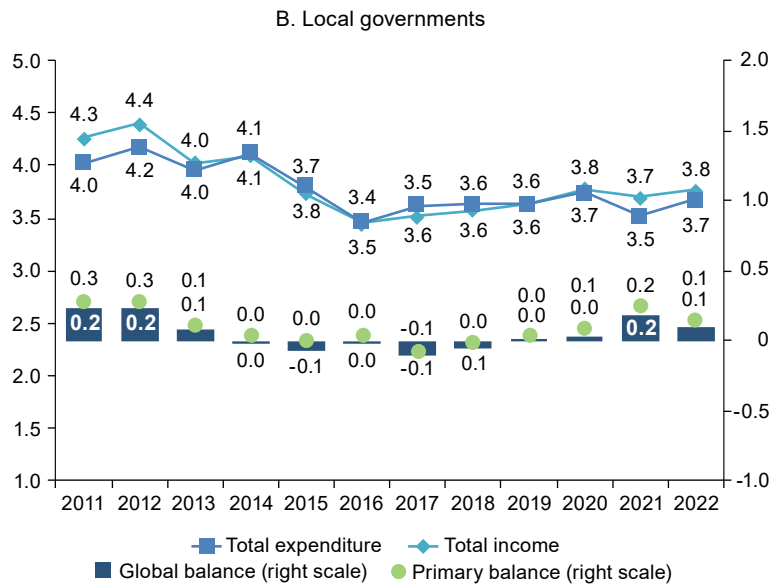
C. Fiscal aggregates, vertical imbalance and subnational debt

At the end of 2022, subnational governments in the region had succeeded in keeping their fiscal accounts in balance, and intermediate government public expenditure was cut even to below pre-pandemic levels. In contrast to previous years, when the share of capital expenditure retreated, these adjustments mainly targeted current expenditures other than wages and salaries. Local governments experienced a recovery in public expenditure that was more than matched by revenue growth. Increases in local spending were led by capital expenditure (see figure 6).

Since the publication of *Panorama de las relaciones fiscales entre niveles de gobierno de países de América Latina y el Caribe* (Radics and others, 2022), the need to promote public investment has been emphasized as a strategic tool not only for local development, but also for building an adequate infrastructure to meet present and future challenges, especially those related to climate change.

Figure 6
Latin America (13 countries): intermediate and local government public accounts, 2011–2022
(Percentages of GDP)

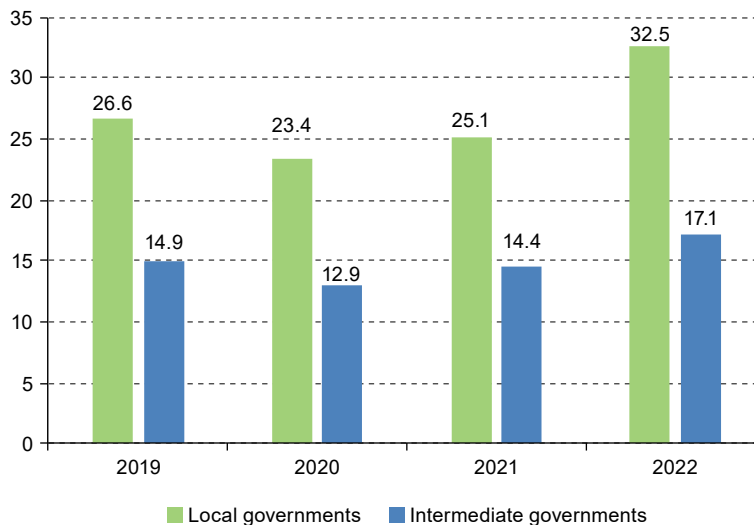




Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of official figures. The sample includes Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Panama, Peru and the Plurinational State of Bolivia.

After making significant adjustments to underpin current expenditures on health care and poverty relief during the COVID-19 pandemic, subnational governments have since reprioritized public investment. The pandemic posed major challenges in terms of spending adjustments to sustain, and even increase, the flow of resources in crucial areas such as health care, economic recovery and transfers to the poorest households. This entailed an opportunity cost, evidenced in the declining share of capital expenditure by intermediate and local governments, particularly in 2020. Subsequently, there was an effort at both levels of government to regain or exceed the pre-pandemic levels (see figure 7).

Figure 7
Latin America (13 countries): relative share of intermediate and local government capital expenditure, 2019–2022
(Percentages of total expenditure)

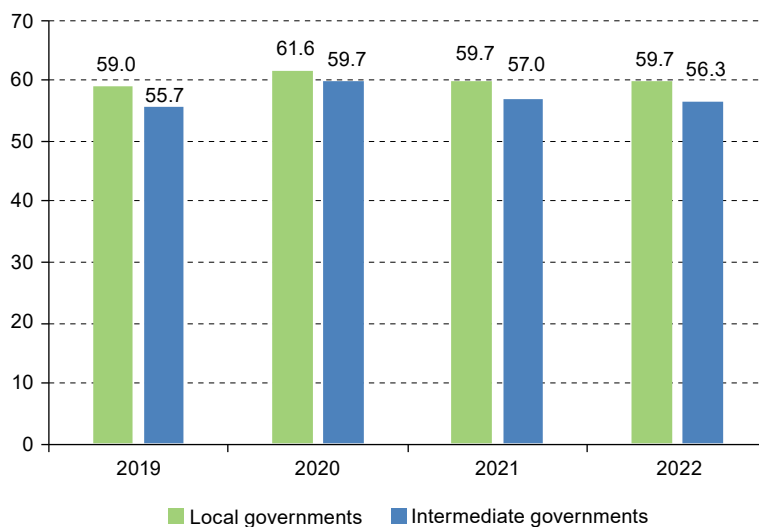


Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of official figures. The sample includes Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Panama, Peru and the Plurinational State of Bolivia.

In Brazil, both local and State governments have generated a major boost to public investment, which depends less and less on transfers from the federal government and credit operations (Tesouro Nacional, 2023). Colombia is also taking steps to strengthen public investment, although this may be related to a more granular accounting breakdown that makes it possible to identify infrastructure expenditures and non-financial assets that previously were not disaggregated.² Lastly, Peru has boosted investment financed mainly by transfers and credit operations.³

During the pandemic, local and intermediate governments in the region attained levels of vertical imbalance⁴ equivalent to approximately 60% of their total revenue. By 2022, this dependency had declined marginally, suggesting incipient efforts to increase internally generated revenues at both levels of government (see figure 8). In that sense, the pandemic prompted the strengthening of intergovernmental coordination mechanisms to confront future crises, mobilize internal resources by leveraging available tax bases, and reorganize transfer systems, which lack compensatory criteria (ECLAC, 2023a and 2024a).

Figure 8
Latin America (13 countries): vertical imbalance, 2019–2022
(Percentages of total revenue)



Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of official figures. The sample includes Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Panama, Peru and the Plurinational State of Bolivia.

In general, the share of tax revenues in the region's local and intermediate governments remained stable. This suggests that, given the (albeit marginal) reduction in the share of transfers, the improvement in overall revenues was due to non-tax revenues. In Argentina, royalties received by the provinces increased and, in Brazil, State and local governments saw their capital revenue grow. In the case of transfers, only Peru's regional governments became more reliant on these "ordinary resources", terms and which come mainly from national tax revenues and other items, and represent freely programmable funds available to finance the budgetary appropriations approved in the Annual Budget Law for each level of government.

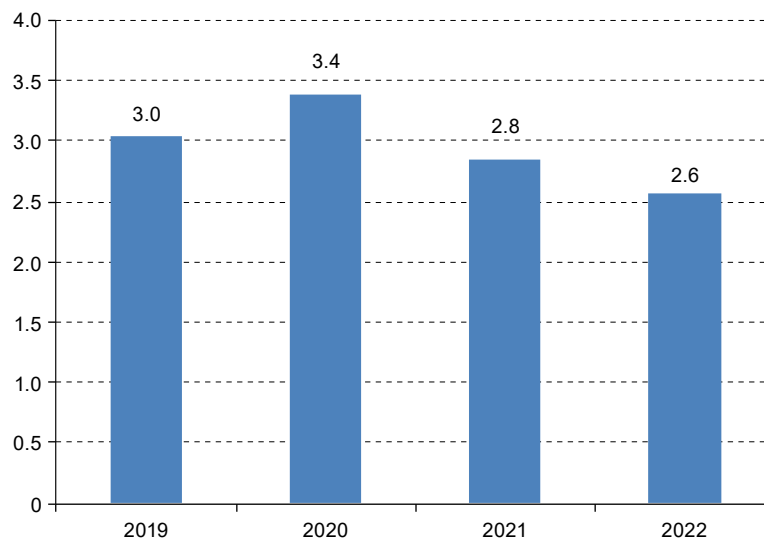
² See: https://www.dnp.gov.co/LaEntidad/_subdireccion-general-descentralizacion-desarrollo-territorial/direccion-descentralizacion-fortalecimiento-fiscal/Paginas/informacion-fiscal-y-financiera.aspx.

³ See: https://www.mef.gob.pe/es/?option=com_content&language=es-ES&Itemid=100996&lang=es-ES&view=article&id=594.

⁴ A **vertical imbalance is generated** when subnational governments have spending responsibilities that exceed what they can finance with their own revenue, such as local taxes. This makes them dependent on transfers or subsidies from the central government to balance their budgets.

The budget balance achieved in the last two years following the pandemic has been accompanied by a gradual reduction in subnational public debt. After subnational governments were forced to increase their financial liabilities to gain additional fiscal headroom to meet needs generated by the pandemic, the outstanding debt of local and intermediate governments has declined in the last two years (see figure 9). Various factors explain this. In the case of the Argentine provinces, whose debt is mainly in foreign currency, it is due to variations in nominal domestic product (ECLAC, 2024a). In the Plurinational State of Bolivia, the reduction is due to changes in credit conditions linked to improvements in the financial sustainability indicators of the autonomous municipal and departmental governments, and to a generalized boost to public investment. In Mexico, meanwhile, the reduction in debt, of both States and municipalities, is associated with the regulations and restrictions established in the Financial Discipline Law for States and Municipalities since 2016, and which is now having considerable effects on debt management and sustainability (see box 2).

Figure 9
Latin America (11 countries): subnational debt, 2019–2022
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of official figures. The sample includes Argentina, Brazil, Chile (financial leases), Colombia, Costa Rica, the Dominican Republic, El Salvador, Mexico, Peru, the Plurinational State of Bolivia and Uruguay.

Box 2

The case of Mexico and the effects of the Financial Discipline Law for States and Municipalities on debt management and sustainability

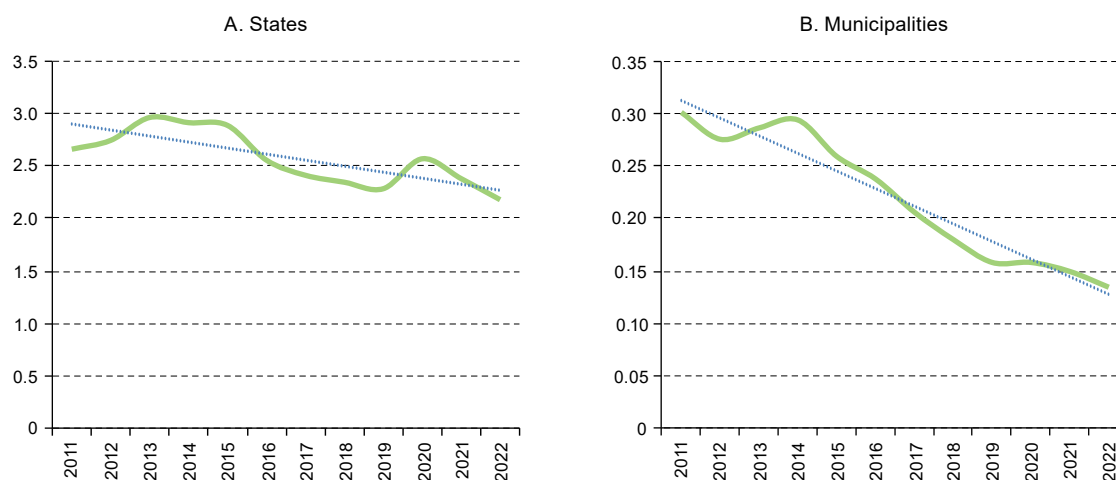
In 2016, the Congress of the Union approved the Financial Discipline Law for States and Municipalities, with the aim of balancing the public accounts, controlling the growth of the debt and putting transparency and accountability mechanisms in place. This law sets limits on current spending (wages and salaries) and debt, as well as financing ceilings linked to sustainability indicators, which are published periodically by the Ministry of Finance and Public Credit. The design and implementation of the law reflect a centralist standpoint, which makes it an event that is exogenous to the specific conditions and needs of each State and municipal government. This makes it easier to evaluate its impact on the fiscal aggregates, at both the State and the municipal levels.

The initial impacts of the law can be evaluated by constructing two comparison groups according to the level of government. The treatment group consists of municipal and State governments that, based on the indicators specified in the law, displayed a pattern of fiscal behaviour that exposed them to the regulations. The control group

comprises governments that would not be exposed to the law, given their previous fiscal behaviour. To compare potential differences associated with the law, governments were deemed to be exposed if their level of debt spending relative to unearmarked revenue (own resources plus unrestricted transfers) exceeded 5%. The comparison group consists of governments whose level of debt spending was below this threshold.

Based on a difference-in-difference estimation, Ruelas and Pérez (2023) suggest that implementation of the law was followed by an improvement in the management of debt levels, among both States and municipalities. This improvement is associated with a change in public debt decisions and management, especially in governments deemed to be exposed to the law. The graphs below show a gradual reduction in debt balances over the last decade, which accentuates from 2017 onward.

Mexico: subnational government public debt balances, 2011–2022
(Percentages of GDP)



Source: I. Ruelas and N. Pérez, "El impacto de las reglas fiscales en el manejo de las finanzas públicas subnacionales: el caso de México y la ley de disciplina financiera", XII Jornadas Iberoamericanas de Financiación Local, 2023.

These findings show that the law has contributed to consolidating a subnational public debt market, which in the case of Mexico is mainly bank-based. Governments have strengthened their debt sustainability mechanisms, in order to enhance their credibility and gain access to better financing conditions. Nonetheless, a wide gap still needs to be addressed: funding for municipal and State governments located in deprived areas, which for this reason would be excluded from the debt market as a financing alternative and, consequently, left even further behind in terms of mobilizing fiscal resources to meet their spending needs.

Source: I. Ruelas and N. Pérez, "El impacto de las reglas fiscales en el manejo de las finanzas públicas subnacionales: el caso de México y la ley de disciplina financiera", XII Jornadas Iberoamericanas de Financiación Local, 2023.

D. Strategies for financing from subnational governments

Having identified the main challenges faced by subnational governments in the region, it is possible to associate the role of INFFs, which support the construction of a financing strategy that is consistent with the challenges of sustainable development, according to their institutional and management capacities. Here it is important to identify the actors, both public and private, as well as the potential sources of financing. Subsequently, national development plans need to be specified, so as to identify the role played by subnational governments in providing public services and addressing social and economic disparities, and to assess the advantages and disadvantages of current intergovernmental coordination.

One of the main problems that has dogged decentralization, especially in Latin America and the Caribbean, is the inadequacy of funding for providing goods and services, compounded by insufficient

technical and legal capacities to manage those responsibilities. This problem mainly involves two actors: national or central government institutions (central government, national congresses and other authorities) and subnational (intermediate and local) governments. From a policy perspective, addressing allocation problems requires the following conditions to be considered: (i) defining the political competencies and spending functions that correspond to each level of government before transferring funding sources; (ii) assigning to each level of government the functions that it can fulfil most efficiently; (iii) ensuring that the distribution of competencies is as clear as possible and that spending functions overlap as little as possible; and (iv) the sizes and institutional capacities of subnational governments to effectively and efficiently exercise their functions (Ter-Minassian, 2016).

1. Own revenues

The theory of fiscal federalism is based on the decentralization of expenditure allocations and taxation tasks, with the aim of distributing public goods and services more efficiently (Oates, 1999). In terms of financing, subnational governments take responsibility for raising their own revenues to finance services that are demanded at the local level, thus aligning with local preferences and community needs (Tiebout, 1956). In practice, this means defining the types of taxes that correspond to each level of government, and deciding which level should establish the tax bases, set the tax rates, and designate the entity responsible for administering and controlling these taxes (Ambrosanio and Bordignon, 2006). Once these issues have been defined, intermediate and local governments become the main actors.

In theory, local tax collection should: (i) maintain low tax base mobility; (ii) coincide with local needs; (iii) be stable and predictable over time; (iv) affect local residents only; (v) have visible tax bases to ensure accountability; (vi) be fair in charging citizens; (vii) be easy to administer (Bird, 2002; Ter-Minassian, 2016). Table 3 summarizes the main characteristics of the taxes that are often used by subnational governments.

Table 3
Main local taxes

Local tax	Characteristic
Property tax	These are taxes levied on the ownership of real estate, such as land, houses, buildings, or stores. They are one of the main instruments for generating own-source revenue in subnational governments. However, they may involve high administrative costs and, owing to usually outdated cadastral records, tend to undervalue the taxable base.
Tax on economic activity	These are generally implemented through two types of tax: (i) on sales or retail turnover, and (ii) on multiple non-cumulative stages, as in the case of value added tax. They can generate significant revenue with a relatively low tax rate. However, they may pose challenges such as double taxation, regressivity or distortionary effects, that often require compensation.
Vehicle tax	These taxes can be applied directly to vehicle owners or users of public roads, representing a recurrent tax. They can also be levied on the transfer of vehicles between individuals. While they are simple to administer and represent a steady source of revenue, collection is significant only in some countries.
Income tax	These are considered a good alternative, especially for jurisdictions with a broad tax base. However, their effectiveness is often limited by vertical and horizontal tax competition. It is important to bear in mind the challenges the region faces in taxing income, even at the central government level.
Environmental taxes and charges	These are considered a good alternative, especially for jurisdictions with a broad tax base. However, their effectiveness is often limited by vertical and horizontal tax competition. It is important to bear in mind the challenges the region faces in taxing income, even at the central government level.

Source: Prepared by the authors, on the basis of J. C. Gómez Sabaini and J. P. Jiménez, "El financiamiento de los gobiernos subnacionales: un análisis de casos", *Macroeconomics of Development Series*, No. 111 (LC/L.3336), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2011; and T. Ter-Minassian, *Fiscal and Financial Issues for 21st Century Cities: Background and Overview*, Brookings, 2016.

2. Intergovernmental transfers

Intergovernmental transfers are designed as a fiscal coordination mechanism aimed at closing the gaps between subnational spending responsibilities and own revenues (vertical imbalance), and the inequities arising from the different capacities of subnational governments to deliver the services for which they

are responsible (horizontal imbalance) (Oates, 1999). These mechanisms represent the main source of revenue in most subnational governments in Latin America (Radics and others, 2022; ECLAC, 2024a). Thus, the key actors would be central governments and the relationship they establish with intermediate and local governments; along with intermediate governments and the relationship they establish with their respective local governments. Table 4 below presents the main types of transfer.

Table 4
Main types of intergovernmental transfer

Type of transfer	Characteristic
Revenue sharing	These may encompass one or more specific revenue sources or be a percentage of general revenue.
Conditional transfers	These may be block transfers, used to finance spending programmes in broad functional areas such as health and education; or else special-purpose transfers, intended for the financing of specific programmes. Conditional transfers are most appropriate to fund subnational spending with spillovers.
Capital transfers	These are used to finance (or co-finance) subnational investment spending in areas such as housing, social infrastructure, transportation and productive infrastructure.
Discretionary ad hoc transfers	These are often motivated by political considerations, including to bail-out subnational jurisdictions in difficulty.

Source: T. Ter-Minassian, *Fiscal and Financial Issues for 21st Century Cities: Background and Overview*, Brookings, 2016.

3. Public-private partnerships

One financing alternative involves using PPPs, in which the government contracts a private company to build, improve, maintain, and operate infrastructure works for an extended period of (Engel, Fischer and Galetovic, 2014). As compensation, the firm receives a revenue stream during the life of the contract. Generally, part of this revenue comes from user charges. In other cases, such as hospitals, users do not pay directly, and the government makes periodic payments to the firm. This infrastructure financing scheme allows for a combination of user payments and government transfers.

Engel, Fischer and Galetovic (2014) provide an extensive discussion on when and how to use PPPs, specifically from a fiscal perspective. They conclude that PPPs, as public projects, can add to the deficit and public debt, which affects intertemporal budget constraints. They, therefore, recommend that PPP investments be accounted for as government expenditure and included in public debt. In this way, if a concessionaire makes an investment, the current deficit and public debt would increase by an amount equivalent to the sum invested. The authors' specific proposal is to compute the annual implicit debt amortization and include the difference between any transfer to the concessionaire and the debt amortization in each year's deficit. The key actors would be subnational governments and private firms that have capacity to undertake large-scale projects, such as those related to infrastructure investment.

4. Borrowing

The need to finance social programmes and productive infrastructure has led subnational governments to borrow locally, in modalities ranging from bank loans to general or specific bonds. They may also borrow externally, either directly or else through the central government or with its guarantee (Jiménez and Ruelas, 2016; Ter-Minassian, 2016).

While borrowing offers multiple benefits in terms of fiscal headroom, intergenerational equity and domestic capital market development, there are also several risks, such as the potential for subnational fiscal stress fuelled by debt and interest payments, or even a debt crisis. Ultimately, these crises can adversely affect the public services of the subnational jurisdiction in question, with potential repercussions on other subnational governments. To avoid this, most countries have a strict regulatory framework governing subnational loans. Examples of such regulations include the following:

- Primary or exclusive reliance on the financial markets. The sustainability of subnational loans requires several preconditions, including: a record of no bailouts by higher-level governments; well-developed and competitive financial markets; and no privileged channels of access to credit.
- Discretionary agreements, whereby subnational borrowing limits are either negotiated among the different levels of government or imposed by the higher level. This type of agreement provides room for political negotiations or for easing budgetary constraints.
- Fiscal rules. The most common combination among countries is that of fiscal balance rules or debt ceilings. However, others have also been adopted, such as balanced budget rules, expenditure caps, tax limits or borrowing restrictions.

5. Non-profit organizations

Conceptually, NGOs can play a substantive role in the provision of local public goods and services (Young, 2006). The relationship between NGOs and governments can be classified in three types:

- Supplementary:** This relationship is justified by government shortcomings in the provision of local public services. In this situation, NGOs can take on strategic tasks to satisfy unmet demands for local goods and services. Given the diversity of needs and preferences, when governments focus on serving the needs of the median voter, voluntary and collective efforts are required to serve the populations that are neglected by local or intermediate governments.
- Complementary:** This relationship involves a partnership between governments and NGOs, in which the two institutions combine their comparative advantages to meet local demands and needs. Governments usually assume financing and monitoring functions, while NGOs focus on the direct provision of local goods and services, leveraging their greater knowledge of the local context.
- Adversarial:** The adversarial relationship manifests itself in two opposing ways. On the one hand, NGOs exert pressure, raise questions and engage in deliberation in favour of more equitable and higher-quality provision of local public goods and services. On the other hand, governments, in addition to facing these pressures, monitor and regulate NGOs. The actors in the relationship between NGOs and governments include all levels of government (central and subnational), as well as private institutions committed to the common good.

The following table summarizes the five mechanisms analysed as part of a subnational financing strategy, as well as the key actors and their main responsibilities.

Table 5
Financing strategies and main actors

Financing strategy	Key actors	Tasks
Own revenues	Subnational governments	Leverage tax bases and rates.
Transfers	Central and subnational governments	Leverage and improve intergovernmental fiscal coordination systems, in order to address territorial gaps and distribute resources more efficiently.
Public-private partnerships	Subnational governments and private firms	Design and implement financing plans for strategic local development projects.
Borrowing	Central government, subnational governments and financial sector	Expand opportunities for subnational governments to obtain financing.
NGO involvement	Central government, subnational governments and NGOs	Leverage the comparative advantages of each sector to meet local demands.

Source: Prepared by the authors.

E. Information systems and monitoring of subnational governments

Monitoring is essential in the implementation of a financing strategy, especially to evaluate its effectiveness. Accordingly, countries have adopted various tools to control the use of public resources and strengthen their credibility vis-à-vis alternative funding sources, such as commercial bank loans, bond issuance and public-private partnerships. An initial challenge in monitoring the use of public resources at the subnational level is the production and systemization of fiscal data. In Latin America and the Caribbean, progress has been made in terms of reporting on subnational government public accounts, in which the implementation of integrated financial management systems has been essential (Radics and others, 2022).

Key cases in the region include Brazil, which has made significant progress in setting up an institutional framework that requires States and municipalities to maintain the information needed to publish the fiscal indicators required by the Fiscal Responsibility Law. In Peru, the Transparency Portal and the General Account of the Republic make it possible to monitor the execution of subnational government budgets on a daily and monthly basis. In particular, the General Account provides disaggregated budget data in different forms that are useful for political decision making —such as execution by government function, by geographical region and by economic category, as well as by source and use of funds.

In Colombia, the National Planning Department has implemented a system that produces an annual fiscal performance index for territorial entities (municipalities and departments). The index evaluates aspects such as the generation of own revenues, fiscal space, borrowing, investment capacity and financial management. In Chile, both the Office of the Comptroller General of the Republic and the Ministry of Finance generate municipal data that make it possible to monitor the performance of local governments periodically. In Mexico, the Financial Discipline Law for States and Municipalities includes a system of alerting and monitoring of fiscal sustainability indicators, which is supervised by the Ministry of Finance and Public Credit to control the use of loan proceeds. In Central America, countries such as El Salvador and Guatemala also publish detailed information on the subnational government budget line, encompassing both intermediate and local governments

Although significant progress has been made, information quality challenges persist. The data presented are often incomplete, and there are difficulties in standardizing information and making it comparable. Moreover, information is often published with a general two-year delay. Few countries publish reports on budget execution classified by function or purpose, which makes it difficult to monitor spending in relation to the public policy objectives. There is also a diversity of criteria in the accounting classification of investment spending. Lastly, few countries provide complete and timely information on the assets and liabilities of their subnational governments.

In short, effective implementation and exploitation of INFFs at the subnational level in the region requires strengthening the information production systems needed to effectively monitor the use of resources allocated to achieve the SDGs. Certain cases warrant a detailed review and evaluation of their potential adoption, such as those of Colombia, Peru, Brazil and Mexico, where information systems are linked to various institutional mechanisms that require monitoring and evaluation indicators to be produced systematically.

F. Issues relating to INFFs applied to subnational governments

The implementation of INFFs requires, first and foremost, clear identification of the role played by subnational governments in national development plans. This means recognizing that such plans often leave territorial challenges unaddressed, which requires local authorities and stakeholders to maintain constant channels of communication with the national authorities. The fulfilment of national goals should not be allowed to widen existing territorial gaps, which would not only harm the territories, but also hamper the achievement of SDGs.

The implementation of INFFs provides an opportunity to reconsider the frameworks for allocating expenditure and revenue-generating responsibilities at the subnational level. This means reviewing the allocation of spending responsibilities and taxing powers delegated to subnational governments, in order to strike a balance that enables them to better address the SDGs and prioritized policies, and also to meet future social, economic, technological and environmental challenges.

INFFs should be designed with a territorial approach, which implies strengthening local management capacities to make better use of tax bases and rates. Fulfilment of the SDGs requires increasing internally generated revenues, to reduce reliance on central government funding. In many cases, such reliance becomes a constraint for local and intermediate governments, preventing them from addressing local challenges that do not coincide with the national targets.

In addition, INFFs encourage greater involvement by different stakeholders in the provision of quality public services. Success in achieving the SDGs will depend on the degree to which citizens and governments collaborate in building a stronger and more inclusive civil society, creating opportunities for dialogue and redistributing responsibilities for the delivery and financing of local goods and services.

INFFs also provide an opportunity to promote and leverage alternative and equitable sources of financing, such as the expansion of subnational debt markets to finance productive capacity building and local infrastructure, as well as the issuance of green bonds.

Thus, as documented in this section, the implementation of INFFs in the region also has comparative advantages, especially in terms of the fiscal accountability frameworks and monitoring systems adopted by the countries. These strengths should be leveraged and adapted to achieve a more efficient and equitable management of domestic and international resources.

III. The role of INFFs in the labour market

The region faces a variety of labour market challenges (ECLAC/ILO, 2023), including high rates of informality; the need to improve the labour inclusion of women, reducing gaps in participation, wages, posts, responsibilities and social protection; and the need to improve worker performance to increase productivity. However, addressing these challenges—which, in turn, will contribute to improving families’ quality of life and enhance countries’ economic performance—requires not only better education, wages and legislative reforms, but also a change in approach geared towards meeting the SDGs. This change will make it possible to develop public policies for the labour market that will have a significant impact on the region’s economies.

In this context, a cross-cutting political commitment is needed to address the financing required for development and the implementation of the 2030 Agenda for Sustainable Development, which explicitly includes the goal of decent work. To this end, the Addis Ababa Action Agenda was adopted to “address the challenge of financing and creating an enabling environment at all levels for sustainable development” (General Assembly resolution of 17 August 2015). This agenda provides practical financing guidelines and covers a wide variety of issues for pooling efforts to achieve the Goals. These include the mobilization of national resources through fiscal policies, under the principle of leaving no one behind. In addition, the agreement underscores the importance of policy consistency to ensure effective linkages between decent work, and its financing and development (ILO, 2015).

A. The importance of decent work in the INFF context

As noted above, INFFs were introduced in the Addis Ababa Action Agenda as a tool enabling governments to develop strategies to mobilize and align financing with all dimensions of sustainability; broaden participation in the design, implementation and monitoring of financial policies; and manage risk.

To this end, in September 2015, the General Assembly of the United Nations defined the following four key elements: job creation, social protection, rights at work and social dialogue.⁵ These factors were constituted as essential components for that institution’s 2030 Agenda for Sustainable Development, which includes Goal 8: “Promote inclusive and sustainable economic growth, employment and decent work for all”. There is, therefore, a clear guideline towards promoting improvements for workers.

⁵ See ILO: Decent work, available online at <https://www.ilo.org/topics/decent-work>.

Along these lines, Goal 8, “Decent work and economic growth”, calls for the development of comprehensive public policies that cover more than one specific aspect of the labour market. The concept of decent work encompasses a more complex and integrated idea than just income level, access to social security or the eradication of discrimination. According to the United Nations system, “*Decent work sums up the aspirations of people in their working lives. It involves opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for all, better prospects for personal development and social integration, freedom for people to express their concerns, organize and participate in the decisions that affect their lives, and equality of opportunity and treatment for all women and men.*” In other words, it means improving the quality of life of both workers and their families.

To achieve these objectives, an agenda has been developed for the labour community, represented by its tripartite constituents (government, employers and workers), which analyses job creation, rights at work, social protection and collective dialogue. Gender equality and environmental sustainability are cross-cutting objectives. The decent work agenda represents an integrated programmatic approach to pursuing the goals of full and productive employment and decent work for all, aligned with Goal 8, at different levels: global, regional, national, sectoral and local.

While a country’s sustainable development strategy defines what should be financed, INFFs collaborate on how that strategy can be financed and implemented. Thus, in the context of the region’s labour markets, one possible avenue for managing national employment policies could emerge from this approach, using a framework to assess, adapt, align, and enhance the complementarity of all specific tools and agreements under an INFF. This process should be adopted by countries in all of their phases and requires the following: (i) determination of the existing information and its scope; (ii) identification of the institutional home; and (iii) production of a roadmap.

Many of the region’s countries have developed specific policies to address socioeconomic problems such as social protection systems, the measurement of informality, programmes to promote gender equity and youth employment programmes. These endeavours represent some progress, but they are still insufficient to achieve the targets set for 2030.

The programmes developed by the region’s countries in the INFF framework do not include any that are associated directly with decent employment. Some of them focus on social issues that will indirectly lay a better foundation for decent work. However, achieving a significant impact requires diagnostic indicators, resources to implement these indicators and the necessary public policies, as well as continuous processes of review and governance of these policies to sustain them through time.

In this context, the formulation of national employment policies should aim ultimately to increase decent work, so they are directly aligned with this SDG. The decent work agenda, established by the General Assembly of the United Nations, pursues full and productive employment and decent work for all globally, recognizing that decent work is the most effective way to reduce poverty and economic inequalities.

While addressing the multiple labour market challenges by deploying INFFs will directly impact Goal 8 – Decent work, it will also affect other related goals. These include Goal 1 – No poverty, Goal 4 – Quality education, Goal 5 – Gender equality and Goal 10 – Reduced inequalities. Thus, policies in favour of decent work, or national employment policies, can influence the achievement of multiple goals, by acting as a cog in a virtuous circle that spans training and worker integration to the reduction of inequalities.

In this context, the region faces numerous labour market challenges, including problems of informality, youth employment, low skill levels, low productivity, gender inequalities and lack of opportunities (ECLAC, 2023b and 2024b). Accordingly, there are opportunities for significant improvements on many fronts.

According to ILO reports, Argentina, Brazil, Chile, Paraguay and Uruguay currently have formal programmes related to decent work. However, the final objective involves not only public policy design, but also achievement of the results of its implementation, an aspect in which governance is crucial to ensure its long-term sustainability.

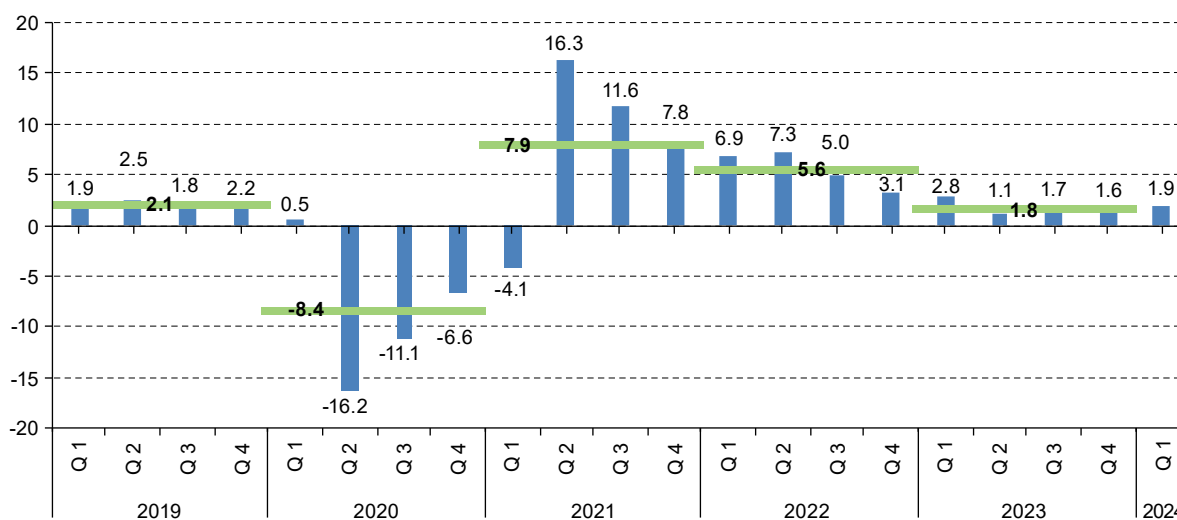
B. Main labour market challenges in the region

In recent years, Latin America has faced a number of labour market problems, including sluggish job growth, high rates of informality, widening gender gaps, deteriorating youth labour indicators and others. These problems were compounded by the COVID-19 pandemic. However, all of them are linked to decent work in one way or another, so they can be addressed by INFFs. In turn, INFFs recognize the need to develop a more people-centred socioeconomic recovery strategy that promotes full, productive and decent employment for all.

1. Number of employees

The region's population has undergone changes in recent decades. Although the number of persons employed continues to grow, it is doing so at a slower rate (1.8%) than in 2019 (2.1%). Year-over-year growth rates by quarter since 2018 are evidence that, post-pandemic, there is a sustained downward trend in the growth of the number of persons employed (see figure 10).

Figure 10
Latin America and the Caribbean (14 countries):^a year-on-year change in the number of persons employed, first quarter of 2019–first quarter of 2024
(Percentages)



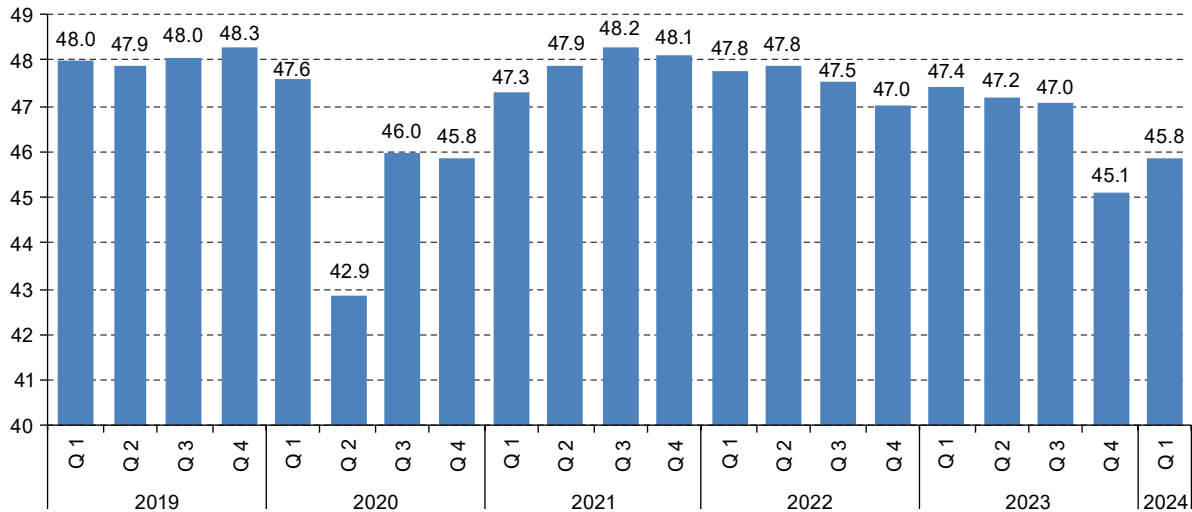
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a The countries considered are Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Jamaica, Mexico, Nicaragua, Paraguay, Peru, the Plurinational State of Bolivia, Trinidad and Tobago and Uruguay.

2. Informality

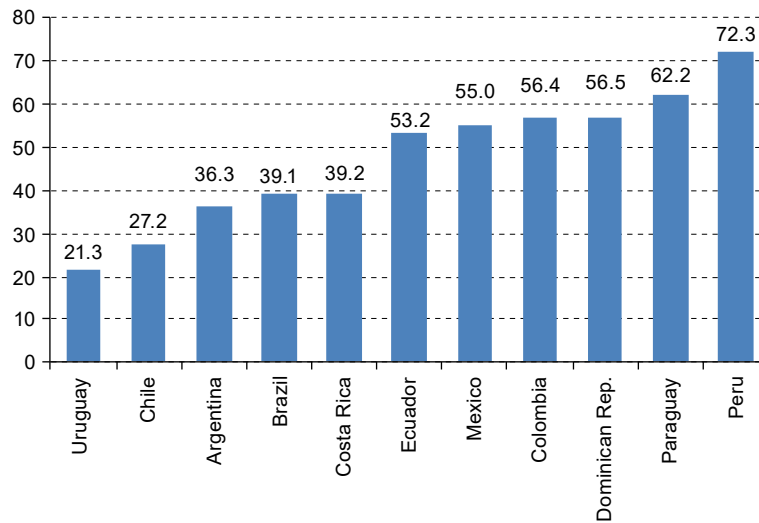
Informality is associated with low or insufficient levels of social protection, low incomes, precarious working conditions, job instability and poor access to vocational development opportunities. It also contributes to personal tax evasion and difficulty in making social security contributions, which harms both workers and the national economy. Accordingly, the pursuit of decent work is closely related to reducing labour informality. In recent quarters, the informality rate (measured as the number of informal workers relative to the employed population) has improved slightly, receding from levels close to 48% in 2021 to approximately 46% in the first quarter of 2024 (see figure 11). Analysis of the results by country reveals a high degree of heterogeneity: while countries such as Uruguay and Chile have informality rates below 30%, others such as Paraguay and Peru report rates above 60% (see figure 12).

Figure 11
Latin America and the Caribbean (11 countries):^a informal employment rate,
first quarter of 2019–first quarter of 2024
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
^a Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Mexico, Paraguay, Peru, and Uruguay.

Figure 12
Latin America and the Caribbean (11 countries): informal employment rate, 2023
(Percentages)

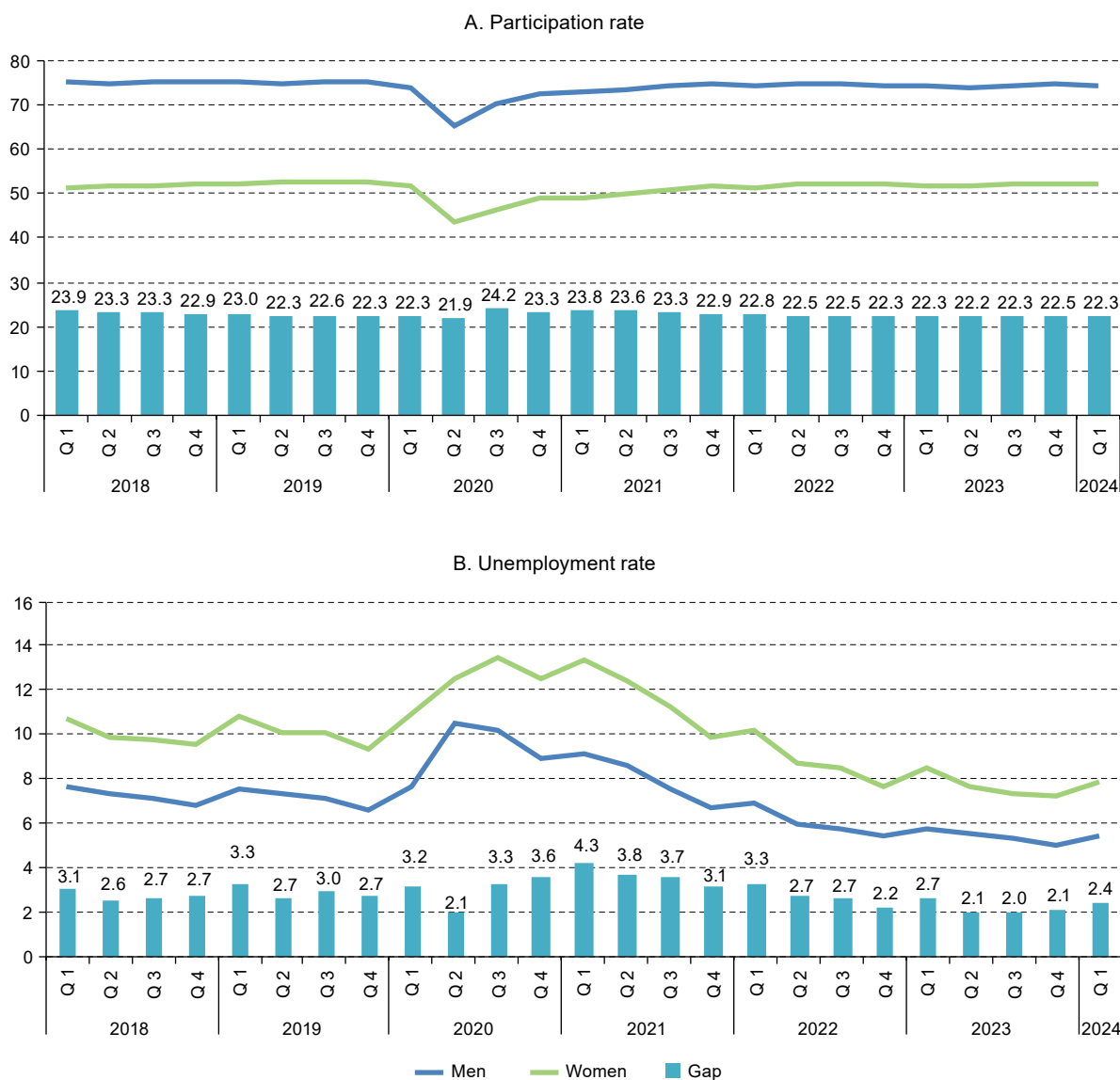


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

3. Gender gaps

The gender gap in labour market participation has hovered around 23% since 2018, which suggests that no significant improvements in terms of women’s engagement and equality have been achieved in the region. Moreover, unemployment averaged 2.2% more among women than among men in 2023 and 2024 (see figure 13).

Figure 13
Latin America and the Caribbean (15 countries):^a gap in participation and unemployment rates
between men and women, first quarter of 2018–first quarter of 2024
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Jamaica, Mexico, Nicaragua, Paraguay, Peru, the Plurinational State of Bolivia, Trinidad and Tobago, and Uruguay.

4. Youth

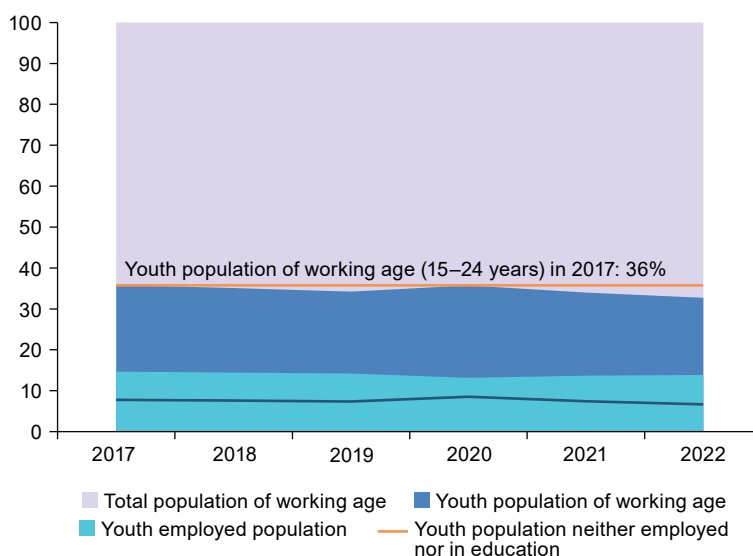
In 2022, 33% of the working-age population consisted of young people between 15 and 24 years old (approximately 89.7 million individuals out of a total of 274.6 million over the age of 15). Figure 14 shows that employed youth represented 14% of the total working-age population (33.1 million in 2022), or 42% of the young working-age population (youth employment rate).

The proportion of young people who are not working has diminished in recent years. This could be explained by multiple factors, including the demographic change that the region is undergoing,

which affects the number of persons of working age. In addition, young people are spending longer in the education system (additional years of schooling), which delays their entry into the labour market. However, consideration should also be given to individuals who are neither working nor in any type of education or training, in other words inactive youth who could potentially be active.

In 2022, 7% of the working-age population, representing approximately 18.3 million young people, were neither working nor studying. This is a population group that could contribute to the active labour force or receive education to improve their future employment trajectory. It follows that the region has the potential to increase or to up-skill its labour force.

Figure 14
Latin America (15 countries):^a distribution of youth population in the region, 2017–2022
(Percentages of total working-age population)



Source: Prepared by the authors, on the basis of information from International Labour Organization (ILO), ILOSTAT [online] <https://ilostat.ilo.org>.

^a Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Panama, Peru, the Plurinational State of Bolivia and Uruguay.

C. Regional initiatives to boost decent employment: the global employment accelerator

The Global Accelerator on Jobs and Social Protection for Just Transitions, a multilateral body involving governments, funding agencies, civil society and the private sector, has been in place since 2022. Its focus is to create a virtuous circle to foster a resilient, sustainable and inclusive world and to promote decent work for all.

The Global Accelerator's basic strategy is to help countries achieve decent work and social protection, founded on the cross-cutting idea that economic development cannot be sustained without social progress (ILO and others, 2024).

The Global Accelerator operates through three complementary and mutually supportive pillars: (i) integrated and evidence-based national strategies and policies; (ii) integrated financing that combines national resources and international financial support; and (iii) increased multilateral cooperation.

Thus far, the Accelerator has been operating in a pioneering phase with a group of countries selected from all continents, with Colombia and Paraguay participating from Latin America and the Caribbean. In the selected countries, the Accelerator has supported the implementation of national development strategies, securing high-level political commitment, establishing government coordination mechanisms and starting the design and development of roadmaps for the implementation of employment-related policies. All of this is taking place under the auspices of the Accelerator, which provides technical support mechanisms through specialized teams, experts and cooperation activities.

In the case of Paraguay, government officials forged an agreement to speed up progress towards the SDGs and decent employment. Specifically, the roadmap envisages the creation of half a million jobs. Colombia joined the initiative in early 2024, with one of the main objectives being the definition of a roadmap for a universal social protection system.

By promoting INFFs and the Employment Accelerator, the United Nations System makes a significant contribution by providing technical cooperation to countries for the development of national employment policies, specifically those that are SDG-aligned. Although decent work is the central theme of this section—linked directly to SDG 8: Decent work and economic growth—it has become clear that the region's labour challenges and the quality of life of families also encompass other extremely important areas, such as the reduction of gender gaps, incentives for youth employment and the formalization of a large proportion of the region's jobs.

As noted in the previous section, the region has more than 18 million young people who are neither working nor studying. It also displays gender gaps that have not improved significantly in recent years, involving higher unemployment and lower participation rates for women. Latin America and the Caribbean also faces alarming levels of labour informality, with more than 45% of regionwide employment being informal, and rates in countries such as Peru and Paraguay exceeding 60% in 2023. This is being compounded by stalling job creation.

Integrated national financing frameworks require commitment from governments and a clear and specific roadmap. Accordingly, the countries must take the lead in using these technical and financial resources in benefit of their working-age population, in order to improve the quality of life of the country's total population. This applies both to INFFs in general, and to the Global Accelerator on Jobs and Social Protection for Just Transitions in particular.

IV. Final remarks

The implementation of INFFs in the region is notable for its flexibility in designing strategies to finance the SDGs and other national priorities. This flexibility makes it possible to address specific targets, such as the eradication of child malnutrition, and broader objectives that encompass comprehensive national development strategies. The adaptability of INFFs makes it easier for governments and other key actors to mobilize resources and align public policies with national needs, thus contributing effectively to fulfilment of the 2030 Agenda and the reduction of social and economic gaps in their respective contexts.

Key regional experiences include the cases of Colombia, Costa Rica and the Dominican Republic. In Colombia, a financing study was performed to estimate the investment needed to achieve the SDGs, considering public, private and international cooperation resources. Within this framework, the Government of Colombia implemented a tagging of the national budget and international cooperation focused on the global SDG targets. In addition, in collaboration with UNDP, two key tools were developed and implemented to align the private sector with the SDG financing frameworks: the SDG Investor Map and the SDG Corporate Tracker.

In Costa Rica, the framework developed by INFF has served as a valuable input in discussion on the implementation of financial instruments, especially green bonds. In the Dominican Republic, progress was made in identifying the physical and financing gaps in the development indicators of the prioritized policies, and innovative financing tools were proposed to finance the National Development Strategy and the SDGs, analysing the feasibility of their implementation in the country.

In different countries of the region, subnational governments have assumed a major share of responsibility for the provision of public goods and services, playing a crucial role in the implementation of policies aimed at achieving the SDGs. However, the increasing burden of responsibilities falling on intermediate and local governments has not been matched by an adequate allocation of resources, whether in terms of financing or of technical and legal capacities.

On the revenue side, subnational governments in most countries have diversified their sources of financing beyond their own tax revenues and central government transfers. To mitigate potential vertical imbalances, they have deployed alternative mechanisms, such as PPPs, borrowing and collaboration with

NGOs. In this context, INFFs can play an important role in the design of local development strategies that involve the integration of various funding sources and explore innovative options that enable subnational governments to respond more effectively to their specific challenges.

Lastly, this document considers the potential labour market role of INFFs in facilitating the implementation of strategies to promote decent employment, which is an essential component of sustainable development. This is particularly relevant in contexts such as Latin America and the Caribbean, which faces major challenges including labour informality, gender gaps, low productivity and youth unemployment.

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This document analyses the contributions made in the region by integrated national financing frameworks (INFFs). It highlights their potential to make it easier to finance the SDGs and other national priorities, expediting resource mobilization and the alignment of public policies. Examples in the region include Colombia, where budget tagging was implemented and tools were created to engage the private sector; Costa Rica, where support was provided to develop a framework for issuing sovereign sustainable bonds; and the Dominican Republic, where efforts have been made to identify financial gaps and design innovative tools for implementing its national development strategy. The document also highlights the potential of INFFs in subnational governments, which play a crucial role in providing public services and could benefit from innovative financing alternatives and public-private partnerships. Lastly, it addresses the main labour market issues in the region and how INFFs could contribute to decent employment, tackling challenges such as labour informality, gender gaps and youth unemployment.

