Governance and Public Finance Portfolio-Theory of Change

SDG 16: Peace, Justice and Strong Institutions,
SDG 17: Global partnership
SDG 10: Reduced Inequality
SDG 5: Gender Equality

Problem statement

The financing gap for the SDGs has never been wider.[i] Global economic decline and instability severely affect low-income countries and increase the financing gap. The economic situation is characterized by stagnation in tax revenues, a dramatic reduction and fragmentation of ODA funding[ii], increased cost of debt servicing, and financial imbalance.[iii] Domestic resources are a vital part of financing sustainable development in low-income countries. The tax to GDP-ratio for most African countries is below 15 per cent, which is low relative to middle and high-income countries.[iv]

Lack of public resources directly impacts governance and creates capacity constraints that impact countries' ability to effectively finance and deliver development commitments.[v] Corruption and illicit financial flows drain developing countries of much needed resources and divert public funds from development purposes[vi] Many lower income countries often fail to effectively protect public funds from elite capture, enabled by ineffective management and accountability mechanisms in national and international systems.[vii] Corruption, lack of transparency and predictable policies and regulations are listed among the main obstacles to increase investment from the private sector.

Restrictions to the independence of state and non-state accountability actors, as well as threats to civic space and basic freedoms, further compounds this[viii]. Statistical systems and use of administrative data to inform decisions tend to be underfunded and underused, weakening the basis for policy decisions. This, coupled with increased availability of information with little or no integrity, creates uncertainty about which facts and information to trust, and can undermine confidence in the system.

Globally, financial secrecy and impunity for illicit financial flows facilitates corrupt practices and impedes countries' ability to implement effective domestic reforms to increase revenue. The significant advances made in international tax cooperation over the past years have not yet translated into increased revenue for low-income countries, due to systems and capacity constraints on the part of countries, and technical requirements not adapted to these countries' needs and capacities.[ix] Fragmentation of development cooperation creates obstacles in delivering a whole of government reform of public sector.

Pathways for change

To support developing countries in financing their own development, it's essential to address these challenges in an integrated manner. Research shows increasing tax revenues above 15 percent of GDP can stimulate inclusive growth. When domestic revenues rise, countries often prioritize social investments like education and health, especially in lower-income nations.

Increased domestic revenues come from better tax systems and reducing losses through controlling corruption. Efficient use of public resources requires a transparent public financial management system and accurate data for targeting resources effectively.

Capacity development in public sector agencies is crucial for policy and administrative implementation. There's a need for continued support due to limited public funding for staffing institutions. Regional cooperation and peer-to-peer support have shown positive results.

Global and national systems must interact effectively to ensure standards meet developing countries' needs and capacities for mobilizing resources and improving finance. Norway plays a unique role internationally in taxation, corruption, and illicit capital flows, leveraging partnerships and knowledge to drive results.

Objectives

The overall goal of the portfolio is improved revenue and governance of public finance in developing countries while at the same time enabling the increased fiscal space to be used for national development plans in support of the SDGs.

The portfolio consists of four interconnected and mutually reinforcing outcomes at country level and one outcome for corresponding processes at the global level.

1. **Revenues**: Countries have improved and more just domestic resource mobilisation
2. **Public finance:** Countries have improved public financial management that supports equity outcomes and gender equality
3. **Statistics**: Countries have improved national statistical systems that produce and use statistics for policy
4. **Financial integrity:** Countries have improved systems to prevent and prosecute corruption and illicit financial flows
5. **Global standards**: Global standards for public finance and financial integrity adapted to developing countries' needs and capacities

Strategic focus areas

Across the five outcomes, five focus areas have been identified based on potential to unlock additional revenues and partnerships for improved results.

Information sharing: Information exchange between government entities have been identified as a core challenge for development planning, revenue and prosecuting economic crime.
Environmental crime: With clear linkage to corruption and illicit financial flows and the important role of tax administrations and customs this focus area can both unlock partners in other sectors and identify mutually reinforcing reforms between public finance, climate and environment.
Extractive sector: Potential for significant revenue increases[x], especially for Africa, and a critical part of the green transition, but with significant risks.[xi]
Gender Equality: Increasing state tax revenues through progressive tax policy and administrative reform agendas can increase the state's fiscal space for investments in inclusive policies and services that promote gender equality, while simultaneously advancing tax equity.[xii]

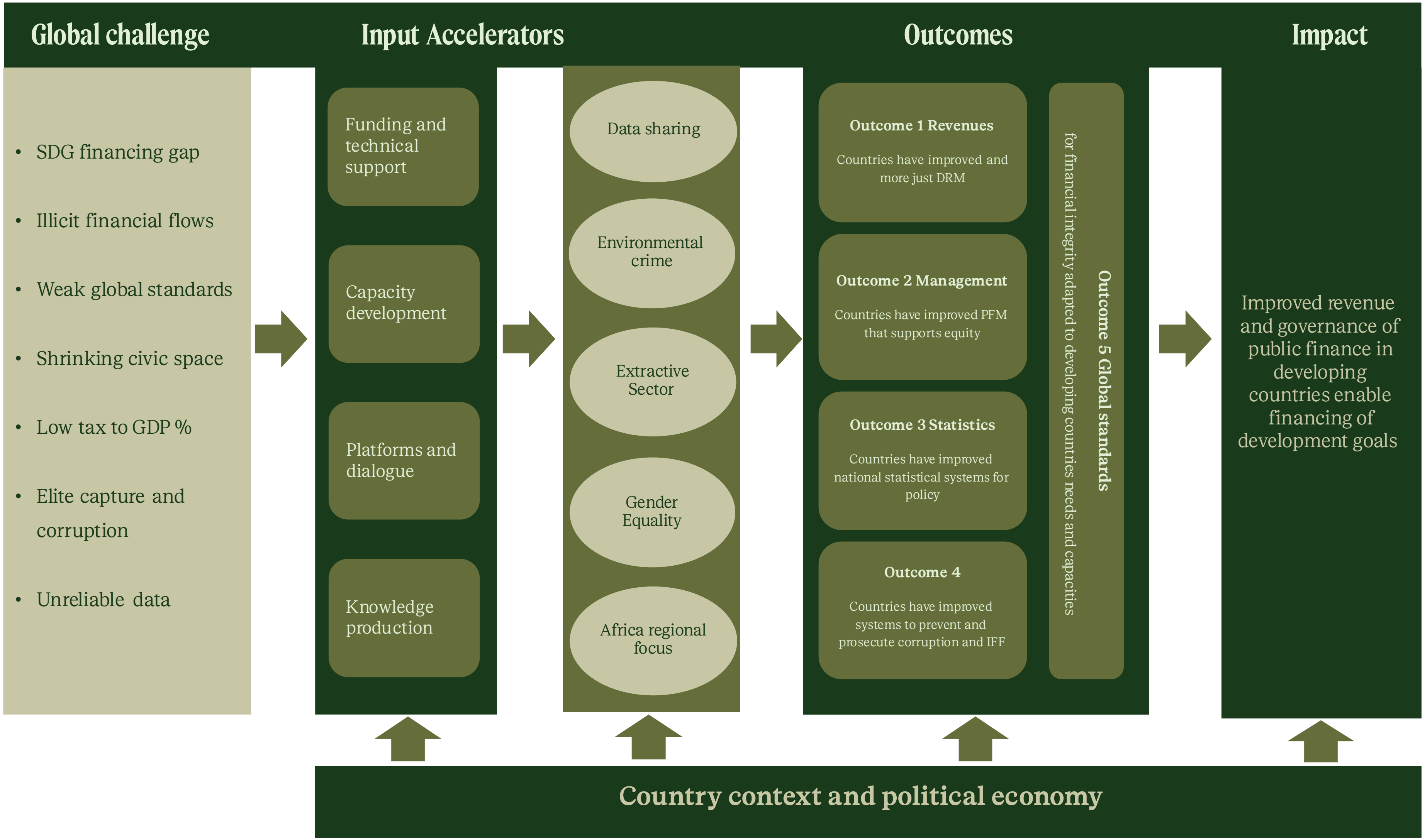
Africa focus: Africa as a region is prioritized for new partnerships and for the orientation of existing partnerships at the country level and at the regional level, preferably with interactions between the two levels. African regional organizations that have shown good results, are cost-effective and in line with the Norwegian Africa Strategy are of particular relevance.

Partnerships

The portfolio covers partnerships with a broad set of actors with diverse mandates and entry points, at the global level and at the country and regional level, and include multilateral and regional organisations, public sector agencies, civil society and research organisations. Partners that have good contextual knowledge of the countries they operate in and has sufficient flexibility to engage and respond to opportunities that may arise, are prioritzed. Norad's partnerships include grants, technical cooperation, policy dialogue, networking and convening partners and processes.

Interventions

The investments are made on four interventions either through funding partnerships, engagement of Norad technical experts in processes og procuring external support for evaluation or independent knowledge production: i) Support to capacity development ii) support to and engagement in advocacy and public dialogue iii) building partnership platforms and dialogue iv) knowledge production.


Global challenge
Input Accelerators
Outcomes
Impact
SDG financing gap
Illicit financial flows
Weak global standards
Shrinking civic space
Low tax to GDP %
Elite capture and corruption
Unreliable data
Funding and technical support
Capacity development
Platforms and dialogue
Knowledge production
Data sharing
Environmental crime
Extractive Sector
Gender Equality
Africa regional focus
Outcome 1 Revenues
Countries have improved and more just DRM
Outcome 2 Management
Countries have improved PFM that supports equity
Outcome 3 Statistics
Countries have improved national statistical systems for policy
Outcome 4
Countries have improved systems to prevent and prosecute corruption and IFF
Outcome 5 Global standards
for financial integrity adapted to developing countries needs and capacities
Improved revenue and governance of public finance in developing countries enable financing of development goals
Country context and political economy

Risks and assumptions

To ensure the ToC is realistic, context-sensitive, and adaptable the **underlying risks** and **critical assumptions** have been identified:

1. Political and Institutional Context

Assumptions:

- Partner governments have sufficient political will to pursue public finance reforms and transparency.
- There is space and willingness within governments to engage civil society, allow scrutiny, and share data.
- Public institutions have a baseline level of functionality and legitimacy that enables reforms to take root.

Risks:

- **Political resistance** to reforms, especially where elite interests are threatened by increased transparency or anti-corruption efforts.
- **Weak state capacity** may hinder the implementation of complex reforms.
- **Shrinking civic space** or repression of independent accountability actors (media, CSOs, whistleblowers).
- **Turnover of leadership** or political instability disrupts reform continuity.

2. Capacity Development and Institutional Reform

Assumptions:

- Capacity gaps in DRM, PFM, statistics, and anti-corruption can be effectively addressed through training, peer learning, and technical support.
- Reforms in systems (e.g., tax administration or data infrastructure) will lead to behavior change and improved outcomes.

Risks:

- High staff turnover and low retention in public institutions due to inadequate remuneration or career incentives.
- Training doesn't translate into systems change if incentives and organizational structures remain weak.
- Fragmented or duplicated efforts by donors weaken institutional coherence.

3. Global Norms and Systemic Dynamics

Assumptions:

- International institutions and high-income countries are willing to reform global norms (e.g., tax rules) to be more equitable.
- Developing countries have sufficient voice and influence in shaping global standards.

Risks:

- Global resistance to meaningful change in financial secrecy and tax cooperation frameworks.
- Dominance of donor-country interests may result in standards poorly suited to low-income country contexts.
- Asymmetry in technical capacity undermines negotiating positions of low-income countries.

4. Financing and Development Cooperation

Assumptions:

- Increased DRM will lead to greater fiscal space and domestic spending on SDG-aligned priorities (e.g., health, education).
- Aid and technical support will remain available and aligned with national priorities.

Risks:

- Revenue increases are offset by debt servicing or macroeconomic shocks (e.g., inflation, conflict).
- Donor funding becomes more fragmented or shifts away from governance towards other global crises (e.g., climate, humanitarian aid).
- Conditionalities or misalignment between donor priorities and national plans limits effectiveness.

5. Data, Statistics, and Evidence Use

Assumptions:

- Improved data systems will lead to better decision-making and resource targeting.
- Governments and institutions are willing to base policies on data and share information.

Risks:

- Data integrity and trust issues (e.g., politicized statistics, misinformation) undermine credibility.
- Lack of demand for evidence-based policy from leadership or the public.
- Digital and infrastructure constraints slow down data systems reform.

6. Partnerships and Implementation

Assumptions:

- Partners have contextual knowledge, flexibility, and alignment with the portfolio's goals.
- Peer-to-peer learning and regional collaboration can accelerate national reform.

Risks:

- Partner misalignment with national needs or lack of local ownership.
- Overreliance on few partners could limit adaptability or resilience to change.
- Regional institutions may face coordination and funding challenges.

Cross-Cutting Risks

- Corruption or misuse of funds undermines legitimacy and effectiveness of public investments /services.
- Gender-blind reforms could exacerbate inequality if differential impacts aren't considered.
- Climate and environmental shocks disrupt revenue generation, service delivery, and social stability.

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[i] *Financing for Sustainable Development Report 2024. Financing for Development at a Crossroads*. Inter-agency Task Force on Financing for Development.

[ii] Over the past decade, there has been a marked fragmentation of the overall ODA donor effort (WB IDA 2024, etc.) and a reduction in assistance to strengthen domestic resource mobilisation, despite the ATI commitments.

[iii] IDA countries spend approximately 7.5 percent of GDP on interest and debt repayments, which is more than public expenditures on health, education, and infrastructure in these countries (WB IDA report October 2024).

[iv] Average tax ratios for African countries around 13 % of GDP in 2020, FSDR 2024 (p.47); Stepping Up Domestic Resource Mobilization: A New Joint Initiative From the IMF And WB, June 2024

[v] PEFA reports; TADAT

[vi] Illicit financial flows from African countries have been estimated at USD 50 billion annually, Report of the High Level Panel on Illicit Financial Flows from Africa (2015)

[vii] E.g. Khan, M., and Roy, P. (2022). Making anti-corruption real: using 'Power Capabilities and Interest Approach' to stop wasting money and start making progress. SOAS-Anti-Corruption Evidence Synthesis Report. SOAS University of London.

viii Parliament and supreme oversight functions are assessed as the weakest areas in public finances, according to the Global Report on global PFM, PEFA 2022. See also INTOSAI Development Initiative SAI Global Stocktaking Report 2023; Civicus State of Civil Society Report 2024

[ix] FSDR 2024 (p. 51-55)

[x] [x] Taxation of minerals in Africa varies between 10-80 per cent (WB, Event GTP sept 2024).

[xi] Addison, Tony and Allan Roe (2024) Resources Matter. Ending Poverty while Protecting Nature. Oxford University Press. UNU WIDER.

[xii] Grown, C. and Mascagni, G. 2024 *Towards-Gender-Equality-in-Tax-and-Fiscal-Systems.pdf (brookings.edu)*