September 2022

BUDGETING FOR THE SDGs

A Modular Handbook

United Nations Development Programme

The Budgeting for the SDGs modular handbook has been developed by the Sustainable Finance Hub (SFH) of the United Nations Development Programme (UNDP).

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Disclaimer:

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BUDGETING FOR THE SUSTAINABLE DEVELOPMENT GOALS

A Modular Handbook

September 2022

Sustainable Finance Hub

Financing the SDGs requires significant transformations within the global financial system, and within entities that own, manage or regulate financial flows and transactions. Fundamentally related to effective governance, financing the SDGs requires changes in the ways public and private actors interact with each other across the economic, social and environmental spheres.

United Nations Secretary-General's Financing Strategy calls for:

- Aligning global economic policies and financial systems with the 2030 Agenda
- Enhancing sustainable financing strategies and investments at regional and country levels
- Seizing the potential of financial innovations, new technologies and digitalization to provide equitable access to finance.

UNDP, having a long track record of working in public finance and private sector development, and more recently in unlocking private capital for the SDGs, is uniquely positioned to advance financing for the SDGs. UNDP has seen a growing demand from partners to scale up its work around public finance, as well as private sector engagement, development, and finance issues. Corporations are increasingly seeking UNDP's advisory services on strategic alignment with the SDGs.

In order to address these demands, UNDP established the Sustainable Finance Hub (SFH) in April 2019, aggregating UNDP's existing work and expertise on financing the SDGs. The SFH offers a comprehensive package of methods and tools in support of the organisation's SDG Integration offer to enable governments, the private sector and international financial institutions to accelerate financing for the SDGs. From supporting national strategies that deepen public-private collaboration to developing global Standards for Private Equity funds, SDG Bonds and Enterprises, and investor maps for SDG-enabling investment at global, regional and national levels, the SFH brings the best of UNDP to accelerate progress of the SDGs.

https://sdgfinance.undp.org

Sustainable Finance Hub's Service Offers

The SFH provides 4 + 1 services offers:

1. Public Finance for the SDGs: Including the sub-components of: tax, debt, risk financing, and public expenditure management (also known as Budgeting for the SDGs)
2. Unlocking Private Capital and aligning business operations for the SDGs
3. Integrated National Financing Framework and Portfolios
4. SDG Impact Management and Finance Tracking
5. SDG Finance Academy

This modular handbook has been developed to provide guidance to the Public Finance for the SDGs service offer.

Abbreviations

B4SDG	Budgeting for SDGs
COFOG	Classification of the Functions of the Government
CPEIR	Climate Public Expenditure and Institutional Review
CSOs	Civil Society Organisations
DFA	Development Finance Assessment
ECD	Early Childhood Development
IFIs	International Financial Institutions
IFMIS	Integrated Financial Management Information System
ILO	International Labour Organisation
INDC	Intended Nationally Determined Contributions
INFF	Integrated National Financing Framework
KPIs	Key Performance Indicators
MAPS	Mainstreaming, Accelerating and Policy Support
MDA	Ministries, Departments and Agencies
MTBF	Medium Term Budget Framework
MTEF	Medium Term Expenditure Framework
MTFF	Medium Term Fiscal Framework
NDS	National Development Strategy
OBI	Open Budget Index
OECD	Organisation for Economic Co-operation and Development
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PIM	Public Investment Management
PIPS	Public Investment Plans
RBM	Results Based Management
RIA	Rapid Institutional Assessment
SAI	Supreme Audit Institution
SDGs	Sustainable Development Goals
SFH	Sustainable Finance Hub
UCLG	United Cities for Local Government
UNDP	United Nations Development Programme
UNDRR	United Nations Office for Disaster Risk Reduction
UNOs	United Nations Organisations
VNR	Voluntary National Review

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Introduction

1 Background

The Agenda-2030 constitutes a watershed moment in international development. The 17 interlinked sustainable development goals and 169 targets have been designed as a '*blueprint to achieve a better and more sustainable future for all'*.[1] However, given over four trillion dollar annual deficit in financing Agenda-2030[2], a fundamental shift is required both in the way governments integrate the SDGs into their national policy, and the sustainable financing instruments and modalities they employ and how resources are allocated and tracked.

The 2015 Addis Ababa Action Agenda (AAAA) raised the bar in the way UN Member States were to think about financing development. The growing realisation that national and international public resources were insufficient to meet the SDGs led to a renewed focus on using public funds in a more catalytic manner, 'crowding-in,' not 'crowding-out,' private capital. To this extent, this guidance note also considers how Integrated National Financing Frameworks and Financing Strategies can strengthen the role that strategic budgeting plays in implementing the Agenda-2030. Moreover, given the negative macro-economic and fiscal impacts of COVID-19, this note also outlines options for Building-Back-Better (BBB) and Leaving-No-One-Behind (LNOB).

The UN Secretary-General called on all sectors of society to mobilise for a decade of action on three levels: global action to secure greater leadership, more resources and smarter solutions for the Sustainable Development Goals; **local action** embedding the needed transitions in the policies, budgets, institutions and regulatory frameworks of governments, cities and local authorities; and **people action**, including by youth, civil society, the media, the private sector, unions, academia and other stakeholders, to generate an unstoppable movement pushing for the required transformations.[3]

To finance the SDGs, however, several fundamental shifts are deemed to be necessary. The domestic budget must emerge as the primary instrument of government policy, and the private sector must emerge as either the primary engine of growth, or a significant contributor. To this end, aligning the SDGs to the national budget process, and adopting new financial instruments and partnerships to encourage private capital to play a more dominant role, have become a cornerstone of meeting the Agenda-2030.

1 https://www.un.org/sustainabledevelopment/sustainable-development-goals/
2 OECD, "Global Outlook on Financing for Sustainable Development 2021"
3 https://www.un.org/sustainabledevelopment/development-agenda/

2 Rationale and intended audience

Why are these Guidance Notes needed?

Though the United Nations adopted the Agenda-2030 and the Sustainable Development Goals (SDGs) in 2015, progress in implementing the agenda and related goals has fallen short of expectations. Even though Agenda-2030 embraced the AAAA for sustainable financing, most of the UN Member States have yet to integrate SDGs into their policies, plans, budgets and monitoring and evaluation systems. As a result, in many countries, goals are not being met. As each national authority has its own unique policy and administrative history and alternate governance structures (i.e., unitary, and federal systems), these guidance notes have been developed to allow experts to identify a starting point in any given context.

Intended audience

This guidance note that consists of several modules is aimed at different audiences. The guidance note is for economists, public finance managers, sector managers and experts from UNDP and other international agencies, as well as for counterparts in Ministry of Finance, Ministry of Economy and Planning, sector ministries, accounting and audit institutions, local governments and municipalities. Given the importance of increasing dialogue around public budgeting and integrating SDGs into the budget cycle, these notes can also be used to foster dialogue with parliamentarians, development finance institutions, official development partners and the private sector.

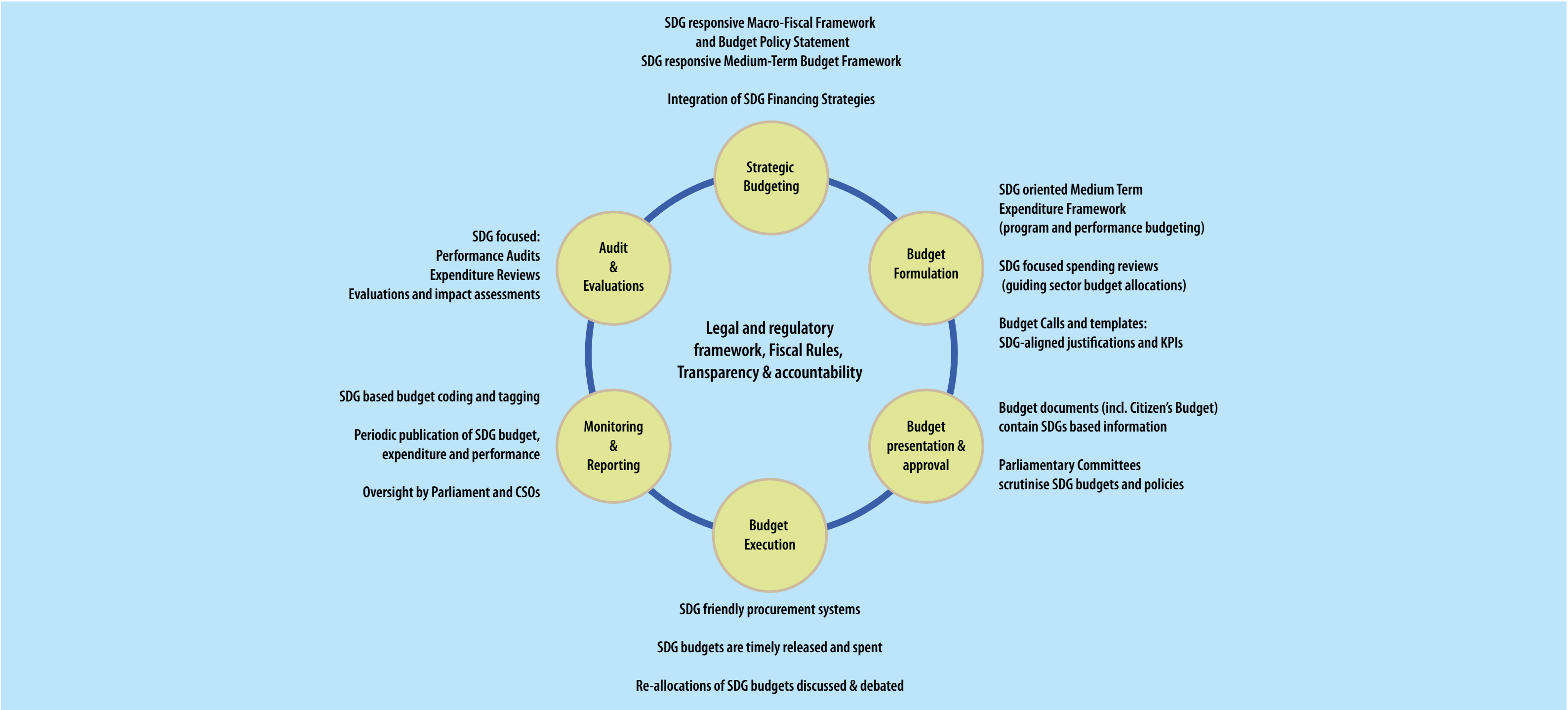
Navigating through these Notes

These guidance notes have been developed to help identify the starting point for SDG budget related reforms to sequence interventions. Whether or not the government has a national development strategy, or whether it has adopted incremental or performance-based budgeting, whether it operates an annual budget or has adopted Medium Term Expenditure Framework, is a unitary government with one budget, or a federal state with multiple budgets or a monarchy; these notes are structured in a way that allows you to locate your budget management systems against a typology, and to build approaches accordingly.

3 B4SDGs – The overarching framework

The guidance notes are designed to help link and integrate SDGs into processes, systems and decisions that are part of government's budget cycle. The framework is named '**Budgeting for the SDGs' (B4SDGs).** The main rationale is that the SDG implementation can be accelerated through the budget by improved integration, better management of resources, transparency, and participation, and by focusing on improved financing strategies. The framework takes both a 'systems approach' as well as 'policy approach' to reforms. This means that guidance notes not only suggest strengthening of systems, processes, institutions, and legislative framework, but also recommend devising and implementing SDG aligned budget policies and generating finances for SDGs. Figure 1 below provides the details of the framework.

Figure 1: Budgeting for the SDGs – The overarching framework



Modules in this Guidance Note

This note supports the primary Budgeting For Sustainable Development Goals (B4SDG) Guidebook launched in 2020 and provides more technical modules and how-to guidance supporting the B4SDG Agenda, as follows:

Module A (Sequencing the Reforms) relate to all elements and tools throughout the whole Budget Cycle and guide practitioners through the rationale, scope, and sequence of proposed reforms on integrating SDGs into budgeting. PFM practitioners and experts primarily interested in reviewing specific modules are still encouraged to also review this module that set the overarching framework, recommends a sequence of steps in formulating the most suitable B4SDG model in a country. Please also do refer to the companion piece – SDG Budgeting Origins and Practices for examples of SDG oriented budgeting across countries as well as some of the broader institutional reforms and approaches to public sector management associated with SDG oriented budgeting,

Subsequent modules are technical deep-dive guidance notes into specific elements of the Budget Cycle, such as:

1. Strategic Budgeting (**Module B: Linking the SDGs with the Strategic Budgeting**)
2. Monitoring and Reporting (**Module C: SDG budget coding and tagging**)
3. Sub-national PFM **(Module D: Local budgeting for the SDGs)**

Our review of various ongoing INFF and PFM reforms and projects indicate that these three elements of the Budget Cycle are amongst the most demanded for a technical guidance – hence UNDP FSH has started the development of these modules on a fast-track mode.

UNDP Sustainable Finance Hub (SFH) envisages at least two follow-up modules to be developed to meet the emerging demand – a **Module on Budget Transparency and the Role of Parliaments in SDG Budgeting** ("Budget Presentation and Approval" element of the Budget Cycle) and a **Module on SDG Audit** ("Audit and Evaluation" element of the Budget Cycle). Additional technical notes such as **SDG based tax policy, undertaking SDG costing, SDG financing**, etc. will also complement these notes.

A separate companion piece (attached with this document) on **Budgeting for the SDGs origins and practices** details challenges of linking budget reforms with service delivery improvements, lists selected PFM reforms that aim to improve service delivery results, explains how context plays the important role of determining and embedding PFM reforms, highlights the issue of managing the change and building capacity, and provides details of emerging budgeting for the SDGs reforms from a select number of countries.

In addition to the set of modules by elements of the budget cycle, UNDP will also compile additional modules with thematic focus by individual SDG areas to complement this Guidance Note. Unlike specialized PFM experts and finance ministry experts who focus on PFM reforms by elements of the budget cycle, there are many other stakeholders who focus by thematic area, e.g., climate change/ green budgeting, gender, children, nutrition etc. related to specific SDGs. These thematic / SDG specific modules will heavily rely on existing materials as UNDP and other UN organization as well as other Development Partners have a solid trail of existing guidance materials by these thematic areas.

As an example of such module the one on Climate Change / Green Budgeting will focus on existing instruments and common challenges that governments face in integrating climate change policies, measures, and institutional aspects across various elements of the budget cycle. In respect to Climate Change and Green budgeting the following guidance and technical notes are useful in complementing the guiding materials to the governments:

- UNDP (2019), Knowing What You Spend: A guidance Note for Governments to Track Climate Change Finance in their Budgets.
- OECD (2020) Green Budget Tagging: Introductory Guidance & Principles.
- UNDP (2021), Budgeting for Climate Change: A Guidance Note for Governments to Integrate Climate Change into Budgeting.
- IMF (2021), Climate-Sensitive Management of Public Finances - "Green PFM".
- UNITAR (2021), SDG-aligned Budgeting: Online training course developed in collaboration with UNDP.
- Inter-Parliamentary Union (2021), Guidelines for parliamentarians on budgeting for the SDGs: Making the most of public resources.

A series of guidance notes, training materials, manuals for costing thematic areas and other useful materials on budgeting for individual SDG areas are already available by UNDP and other Development Partners, such as on gender-responsive budgeting (UNWOMEN), child-focused budgeting (UNICEF), education budgeting (UNESCO), Risk-Sensitive Budget Reviews (UNDRR), poverty and social protection (ILO), Biodiversity (UNDP), etc.

Module A: B4SDGs – Entry Points and Sequencing of the Reforms

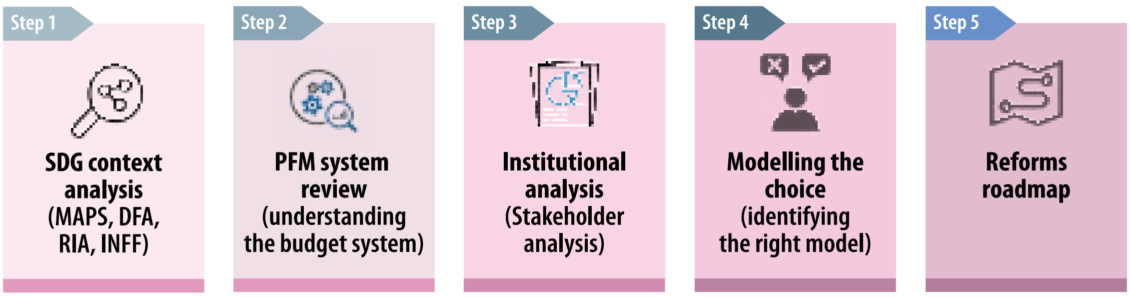
1 Analysis of context, modelling & identification of entry-points

UNDP suggests landing all the above considerations in a thorough analysis of the country context and active discussion of various steps, tools, and sequencing of the reforms to better align the B4SDG reforms with the country needs and capacities.

The UNDP B4SDGs Approach

UNDP has developed a B4SDGs Guidebook[4], that presents the overall B4SDG approach across five steps. The guidebook which builds from the initial 'Budgeting for Agenda-2030: An Introductory Note'[5], aims to facilitate discussion and present possible B4SDG solutions and models for countries to consider, while supporting the mainstreaming and accelerating of efforts of national governments as part of the SDG agenda.[6] The focus of the B4SDG Guidebook is not just justified because of the large percentage of spending that occurs through domestic and international public resources, but also because public spending has an important impact on the mobilisation of domestic and international private finance, which is critical to securing many of the 17 SDGs and 169 targets.

Figure 2: B4SDGs Approach



Findings from the Steps 1, 2 and 3 will help the national counterparts and UN country teams in matching the available toolkit with the actual demand on specific B4SDG reforms. The Step 4 is the core process of landing the B4SDG available toolkit in the country context by asking a set of

4 https://sdgfinance.undp.org/sites/default/files/UNDP Budgeting for the SDGs – Guidebook Nov 2020.pdf
5 See Budgeting for Agenda-2030: The Concept Note, UNDP, 2020
6 The UNDP Sustainable Finance Hub has also developed guidance notes on the Integrated National Financing Framework (INFF), Development Finance Assessment (DFA), budget revenues, debt instruments and impact measurement. See https://sdgfinance.undp.org.

strategic questions to identify the actual balance between the demand and capacity of a country to operationalise the B4SDG concept in a given context.

UNDP's practical experience in application of this model suggests that the five strategic questions may be further broken down into several more specific context-driven questions that will better guide the process of defining the most suitable B4SDG model for each country. **WHY?** (Why the country needs B4SDG and who are the B4SDG primary users/beneficiaries?), **WHO?** (Who will be primary body to operationalize the B4SDG reforms?), **WHAT?** (What is covered by the B4SDG?), **WHEN?** (When in the budget cycle will SDG information be used?), **HOW?** (How will the PFM business processes adapt the B4SDG?).

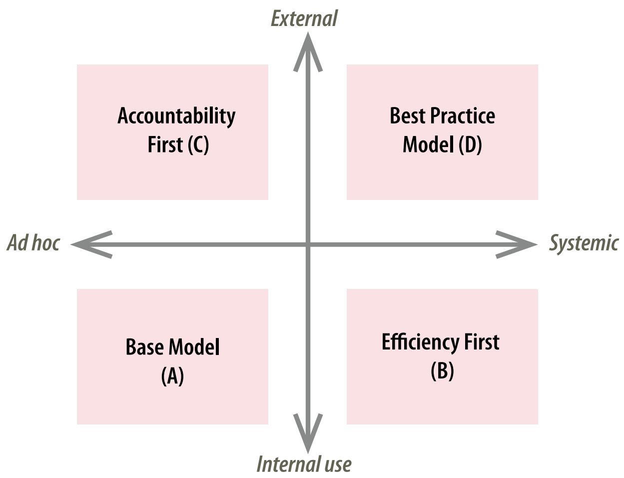
Operating Models

Results of the queries above will guide the UN country teams in designing the scope of B4SDG reforms, primary counterparts to directly work with, and areas to focus on. We tried to group the possible answers to the questions above into indicative base models to operate with.

Depending on who the primary counterpart for the UNDP/UNDG is, and what the primary objectives of the national stakeholders are in pursuing the B4SDGs agenda, there are models that are designed more for 'government insiders' (MOF, line ministry professional staff, etc.) or 'external' actors. The latter are more vocal in a domestic political agenda, and if SDGs become an integral component for the domestic politics, then 'external' characteristics of the B4SDGs model will be more applicable. The 'insiders' model' will be more applicable for countries with the executive playing a more centralised role in implementation of the Agenda-2030, with the public dialogue playing a lesser role.

At the same time, another dimension to consider is whether the counterparts prefer to keep the existing governance business processes untouched and simply applying SDG context in some ad hoc processes, or if they are open to considering more advanced solutions and governance systems reforms, including reengineering of policy and budgeting business processes.

These models are indicative of the various dimensions that need to be considered while designing the optimal model for a country. They are not prescriptive in their nature. However, presenting the four simplified models may be useful for framing the discussion within a country context.



Model A: Base Model

The cross-section of "ad hoc" and "internal" axes (lower left box in the above diagram) determines a budgeting model whereby the SDG relevant budgeting information is mostly used during internal budget decision making processes but not during the political/public accountability processes.

At the same time, the central PFM unit (MOF) does not adapt the PFM systems for the SDGs, and line ministries rely on existing business processes. Basically, the SDG-relevant budget information will be generated by line ministries in a non-systemic way, e.g., intermittent reports on budget allocations per selected SDG targets, budget execution reports on the progress and related expenditures, etc. Ideally, even under this non-systemic approach the budget execution reports must be aligned or even merged with SDG performance reports. Despite its simplicity, this model can still be operational and quite effective in some country context and PFM environments. Moreover, it could be a practical solution for countries that do not currently have capacities and resources or do not otherwise aim at more comprehensive reforms for the moment.

Estimated impact of this model is that it will not much change the existing budgeting processes but will enable governments in understanding somewhat better the alignment of budget resources with SDGs. At the same time, this model requires the least resources to be deployed by the country and is applicable in environments with the least advanced governance practices and capacities.

Model B: Efficiency First

The Model B is similar to the Model A in terms of the usage of SDG relevant information primarily by the Executive but adds on to that model a more systemic response of the central PFM unit to adapt the budgeting business processes to host SDG information.

The exact tools used in implementing the systems adaptation can vary, e.g., adaptations to the budget circulars and proposal templates with requirements on SDG relevance, priority level, bridging SDG targets with budget outcome frameworks, etc. Model B can be useful and effective in public administration environments with strong decisive roles of central units such as the ministry of finance. At the same time, MOFs must be flexible enough to make the required adjustments in budget business processes and systems.

Estimated impact of this model is a more SDG-influenced budget formulation process whereby SDG targets become part of the government's internal budget decision-making and consultations, their strategic priority allocations, and reporting over the progress. Technical assistance and technology reforms resources from the government and DPs are required for this model. The country must already have some existing technical capacities and systems environment to aspire for the Model B implementation from the very beginning of Budgeting for the SDGs process. Moving from Model A to Model B is possible as part of major PFM and SDG related reforms and will primarily be dependent on capacities of the country to adjust its budgeting practices and business processes.

Model C: Accountability First

This model is very different from the earlier models. It assumes significantly wider participatory approach in strategic planning, budget formulation, monitoring and reporting on SDGs.

The SDG-relevant budget information will circulate across various actors (including parliaments, SAI, CSOs, media, think-tanks, etc.) and all those will have an influential role in SDG Budgeting processes.

This model also assumes that there are feedback channels and consultation mechanisms in place and utilized so that budget processes are informed by all these stakeholders, either at the budget formulation and approval, or monitoring and reporting stages, or both. However, under this model, the cooperation modality and the feedback systems are not systemic in their nature, and budget business processes still operate in old fashion. SDG-related information is produced manually, ad hoc, or even by non-executive actors, including DPs. Line ministries disseminate the SDG budget-related information on ad hoc manner and the quality of the cooperation with non-executive stakeholders varies as per the capacities in line ministries. The role of the ministry of finance as the central PFM unit is limited in SDG specific aspects or similar to pre-SDG period.

Estimated impact of this model is to have a very participatory SDG governance system with many national, subnational, government and non-government stakeholders adding value to the overall process of SDG implementation. It can also be very powerful for countries with line ministry functioning in an active, autonomous, and participatory environment in policy formulation and strategic planning, as well as where cooperation of line ministries with non-executive actors is well-established (including UNDP). This is specifically relevant in the environment where participatory budgeting culture is not new, and citizens, media, CSO and parliaments have strong roles in budget scrutiny while governments show high level of accountability and is well applicable in both national and subnational levels. At the same time, the country may not have sophisticated budget classification systems and introduction of SDG aligned budget prioritization systems, classifications, chart of accounts, regular reporting and audit may face technical challenges at the initial stages of Budgeting for the SDGs. Spending time in introduction of such systems may consume significant resources while adding some value.

Model D: The Best Practice

The fourth general model is based on Model C recommendations; however, is intended for countries with a high level of technical and human capacities.

This Model is also recommended to countries that are in a process of, or aspire to, introduce modern budgeting principles with enough flexibility to re-engineer business processes to accommodate SDGs. This Model also requires stronger weight of the Agenda-2030 in the national political agenda (e.g. quality policy discourse over SDG priorities and targets between the Executive and the Legislature, e.g. during the budget hearings at the Parliament). In order to operationalize this model, PFM/budget systems and business processes must be adapted to SDG language, institutional adjustments, or at least clarity on SDG accountability must be in place, and comprehensive, timely information must be published throughout the budget cycle to enable non-executive actors (parliaments, media, CSO) to influence and monitor budget policies, execution and participation in accountability processes.

Estimated impact of this model is to run a comprehensive Budgeting for the SDGs model with budget formulation processes accommodating the spirit and essence of the Agenda-2030. Country systems will produce SDG related information, including the priorities, targets, progress in achievement of the goals and other dimensions of the SDG information. Budget cycle elements will host SDGs as part of their regular business processes. Government will show high level of accountability for the Agenda-2030. Wide range of stakeholders, primarily the Legislature and CSOs will play an active role in SDG-related policy and budget formulation, monitoring, reporting and accountability.

While the scope of this Module does not cover overall governance and PFM system reforms it is still worth mentioning that the countries may switch between and aspire running better models once the country shows positive dynamics in the areas of governance and PFM.

Sequencing the B4SDGs Reforms

Budgeting system enhancements to facilitate mainstreaming SDGs need to be sequenced in line with government capacity and context. Evidence strongly suggests that budgetary reforms that are successful in OECD countries can't be easily transplanted to developing countries, and that attempts to do this may be disruptive and chaotic. Budget reforms require political willingness to make hard choices, often going against ingrained rent seeking practices. Progress can be made in some technical areas of such as arrears prevention, structuring and management of budget data, debt reporting and sustainability analysis. Yet these technical improvements alone don't guarantee improved budget credibility and other outcomes, which likely require much longer time horizons (Allen 2007; World Bank in press). Governments can draw on appropriate experts, including ethics experts, to help manoeuvre through potential or existing policy conflicts, to agree on sequencing and paths forward, and to reinforce the dominant pro-growth messaging (Littoz-Monnet 2020).

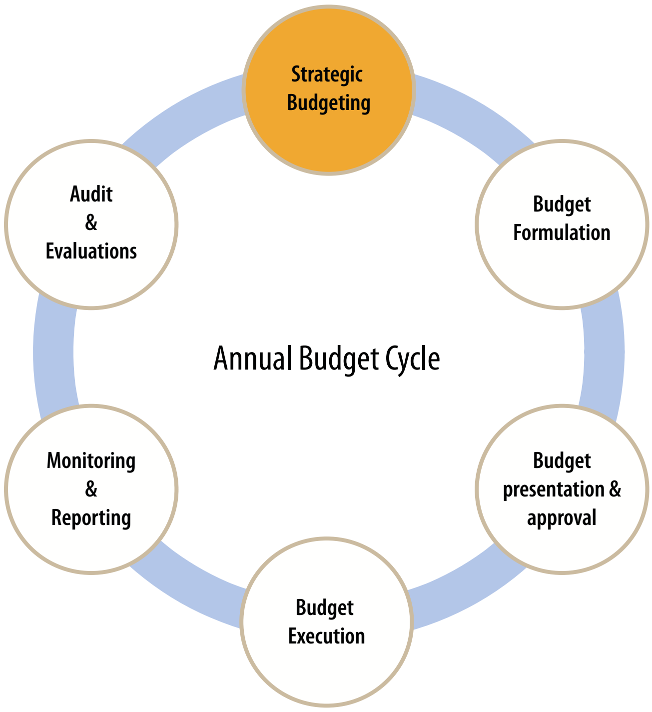
Reforms enhancing **fiscal discipline** would generally come first, particularly in developing countries with extremely weak cash management systems. As expenditure control is improved, **sectoral allocation and resource management reforms** can be more in focus. Reforms required for improving sectoral allocation and resource management form part of **Strategic Budgeting** processes. As agreements are reached on sequencing and reform paths to pursue intended results, the work of **aligning the SDGs to the budget** can proceed. Countries with programme budgeting systems could consider introducing an SDG classification that would group and bridge programmes with SDGs. Alternatively, an international partner like UNSTATS could design such a system that could be used in multiple settings (Poghosyan 2016). Countries without programme budgeting systems need to find ways of introducing or strengthening the performance orientation of the budget process, including stronger links between policy, plans and budgets, greater predictability of resource flows, and enhanced scrutiny, monitoring and oversight by Parliaments, civil society, and other bodies.

Black swan events like COVID19 require flexibility and massive supplementary budget allocations that may enhance corruption risks. There should be contingency plans maintaining public health emergency response facilities with reserve funds (fiscal buffers) set aside for unexpected emergencies. **Fiscal rules** are needed prior to these events so that emergency funds needed for containment of the pandemic and the fiscal stimulus for socioeconomic recovery can be spent based on evidence, with attention to trade-offs between public health and economic concerns, and between rapid response and proper and accountable use of resources (Kim 2020; Wu and Lin 2020; de Villiers et al 2020).

These and other national policies and indicative budget allocations can provide the starting point for budgeting at the subnational level. In some cases, it makes sense for policies to be set centrally and projected down to subnational jurisdictions and local communities to provide public goods and services. For example, during the COVID-19 pandemic, international protocols on mask wearing, hand washing, and social distancing should be projected from the highest to the lowest level. Yet there may be policies in other areas developed at the subnational level and proven successful. This may lead to a counterflow of innovations from one locality to another of successful pilot schemes to enable SDGs that might be adapted and scaled up in other jurisdictions. Some countries such as Vietnam have a rich experience in scaling up such pilots in many areas. The national government has an important role in spreading awareness and allowing experimentation, but the actual innovations are conceived and tested locally. For black swan events, rules are needed on how to divide roles between national and subnational governments to minimise overlapping and inefficient budget responses.

SDG budget tracking would follow next. This would normally start at the subnational level, drawing data from treasury single account systems or financial management information systems. Information tools such as BOOST (Open Budget Portal, World Bank) could help to analyse data and present it in forms that could be readily understood and debated by government officials, parliamentarians, civil society, and development partners (Mills and Wescott 2016). Countries can also implement **budget coding and tagging systems** to align budgets and expenditures with SDG goals and targets. SDG budget tracking provides essential foundation to gauge **efficiency** through analysis such as **public expenditure reviews, benefit incidence analysis, income, and equity analysis,** etc., and can foster public debates around budget allocation and prioritisation decisions.

Module B: Linking the SDGs to Strategic Budgeting



1 Problem statement and rationale for change

Problem Statement

With a few notable exceptions, the SDGs have not been mainstreamed into national development policy, planning and budgeting cycles, or costed and resourced, which undermines their achievement. Part of the reason for this shortcoming is a lack of awareness and capacity to link the SDGs to strategic budgeting. To assist governments in accelerating progress on the SDGs, this guidance note presents practical measures to overcome the following strategic budgeting problems, (i) how to align broad spending patterns with national priorities, including the SDGs, (ii) how to integrate SDGs into national strategies and sector expenditure programmes, (iii) how to make budget allocation decisions that will accelerate progress towards the SDGs and associated targets? and, (iv) how to identify the most optimal 'right-financing' approach for each SDG investment?

One can observe a wide range of strategic budgeting shortcomings across most countries where national authorities implement SDGs. The absence of a strategic budgeting guideline has meant that both UN member states and UN Agencies have been unsighted on how best to link the SDGs to the budgeting process. Not only will this affect the performance of each country in attaining its SDG goals and targets, but it also means that the catalytic role that an SDG financing approach could yield (i.e., improved resource mobilisation, crowding and private capital, aligning broad spending patterns with sustainable development, etc.), will remain unrealised.

Shortcomings in linking the SDGs to strategic budgeting

The points mentioned below characterise observable shortcomings in linking the SDGs to strategic budgeting. These shortcomings are drawn from a review of countries at different stages of integrating SDGs into their development strategies and plans. Some countries will be more advanced than others.

- **National Plans/Development Strategies (NDS)** may not integrate SDGs across investment pillars, failing to identify specific goals, targets, and baselines;
- **Budget Policy Statements** often do not mention SDGs, and where they do, it's only at an aggregate and narrative level;
- **SDG Financing Strategies and Integrated National Financing Frameworks (INFFs) are not developed. A Development Finance Assessment (DFA)** may not have been conducted and **SDG Costing has not undertaken**, leading to SDGs not being placed at the heart of financial systems;
- **Linkages between SDG priorities and inter-sectoral and territorial resource allocations** are often underdeveloped (e.g. in Medium-Term Budget/Expenditure Frameworks);
- **SDGs goals and targets are poorly integrated into Public Investment Plans (PIPS) and** expenditure performance frameworks, with sector ministries unaware of the global SDG indicators;
- **SDG related fiscal rules** are still to be developed, despite potential for improving Medium-Term Fiscal and Budget Frameworks (MTFF/MTBF) outlook;
- There is a **lack of government fiscal space (**discretionary finance) and an overdependence on ODA to finance the SDGs.

Rationale for Change

Humanity faces a strategic human development crisis that will take a decade or more to resolve. The level of effort and investment required to attain the SDGs, particularly in the light of the COVID-19 pandemic, should not be underestimated. A proactive approach – not reactive – to making the budget the central tool of policy and the private sector the primary engine of growth is central to building back better and leaving no one behind.

Strategic budgeting is the process of formulating a top-down and long-range budget that spans three to five years. The intention is to link development goals/plans with the annual national budget; by supporting key actions across the six stages of the budget cycle (particularly stage 1 – strategic budgeting).

Application of SDG aligned processes with Objectives of PFM

As PFM system traditionally aims to improve ***operational efficiency*** (value for money), ***allocative efficiency*** (spending in line with development priorities) and ***fiscal sustainability*** (maintaining public finances at a credible and serviceable position over the long term), linking the SDGs to strategic budgeting requires improving PFM outcomes. In this context, UNDP's primary mandate is to secure the successful attainment of the Agenda-2030 through pursuing macro-economic development and sector SDG financing in collaboration with other development partners.

PFM Objectives	Application of SDG aligned systems and processes
Fiscal Discipline	• SDG-aligned macro-fiscal framework and fiscal rules • SDG-informed fiscal space / fiscal gap analysis • Fiscal risk management for macro-fiscal parameters
Strategic Allocative Function	• Budget prioritisation using SDG framework and accelerators • Sector-specific SDG-aligned fiscal rules • Bridging policies with budget decisions, incl. using SDG costing, gap assessment, SDG financing framework • SDG-informed MTEF/budget circulars and budget negotiations processes • SDG-informed vertical fiscal transfers (conditional transfers) • Sustainable Development Financing
Effectiveness and Efficiency	• Aligning MTEF and budget performance framework with SDG indicators/targets

Moving from traditional budgeting to SDG budgeting

In the context of the above mentioned short-comings, table below provides a simplified categorisation of strategic budgeting **pathways**, from which a UNDP Country Office can get a sense of where a particular country is on the SDG integration spectrum.

Table 1: From traditional budgeting to budgeting for the SDGs

From Traditional Budgeting	To Strategic SDG Budgeting
Traditional NDS Excludes Agenda-2030	Full Agenda-2030 NDS Integration
Incremental Budgeting	Program or Performance Based Budgeting (PBB)
Traditional macro-fiscal rules	SDG-aligned fiscal rules
Annual Fiscal Projections	Rolling Three Year Fiscal Projections (MTFF)
Annual Sector Budget Allocations	Rolling Three Year Sector Budget Allocations (MTBF)
Annual Expenditure Plans	Rolling Three Year Expenditure Planning (MTEF)
Traditional National Budgeting Framework (focus on public sector financing)	Integrated National Financing Framework (INFF) - articulating policy on public and private financing
Traditional Call Circulars	SDGs Integrated Call Circulars, Guidelines and Formats
Public Investment Programs (PIPs)	PIPs Integrating SDG Goals and Targets

From Traditional Budgeting	To Strategic SDG Budgeting
SDGs Not Costed	SDG Costing / Fiscal Space Analysis
No Financing Framework	SDG Integrated Financing Framework (INFF)
No Tagging of SDG/Climate Expenditures	SDG / Climate Budget Expenditure Tagging
Un-aligned Sub-National Budgets	Sub-National Entities Align PIPs to SDG Agenda
No Review of SDG Progress	Voluntary National Review (VNR)
Traditional Public Expenditure Reviews (PER)	SDG Spending Reviews and SDG focused PERs
Standard Financial Audit	SDG Audits (Preparatory and Full)

There is no country where all the above elements should be incorporated, as adoption should be based on a value-for-money assessment and is voluntary.

For SDGs to be linked to the strategic budget process, several elements will need to be developed first including (i) SDG prioritisation, and (ii) gap assessment, costing, and financing strategy – INFF/DFA, (iii) SDG budget coding and tagging.

SDGs and Multi-Year Rolling Budgets

Strategic budgeting involves integrating government policy objectives and priorities (including the SDGs) into the multi-annual (rolling) budget, typically over a three-to-five-year period. This allows the national development strategy and aligned sector-plans to be integrated into the long-range budget through the annual budget cycle.

Diagram 1: SDGs and Multi-Year Rolling Budgets

	Year 1	Year 2	Year 3	Year 4	Year 5
Year 1	National (annual) Budget	*Forward Estimates*			
	Link SDG National Financing Framework in the MTEF				
Year 2		National Budget	*Forward Estimates*		
		Link SDG National Financing Framework in the MTEF			
Year 3			National Budget	*Forward Estimates*	
			Link SDG National Financing Framework in the MTEF		

2 Linking SDGs with Strategic Budgeting Processes

This section presents practical measures that can be adopted (and adapted) by UNDP Country Offices to accelerate the integration of SDGs into strategic budgeting processes. Four areas are covered; (i) Policy-Budget Linkages, (ii) Fiscal Space Analysis, (iii) Fiscal Rules, and (iv) Financing for SDGs.

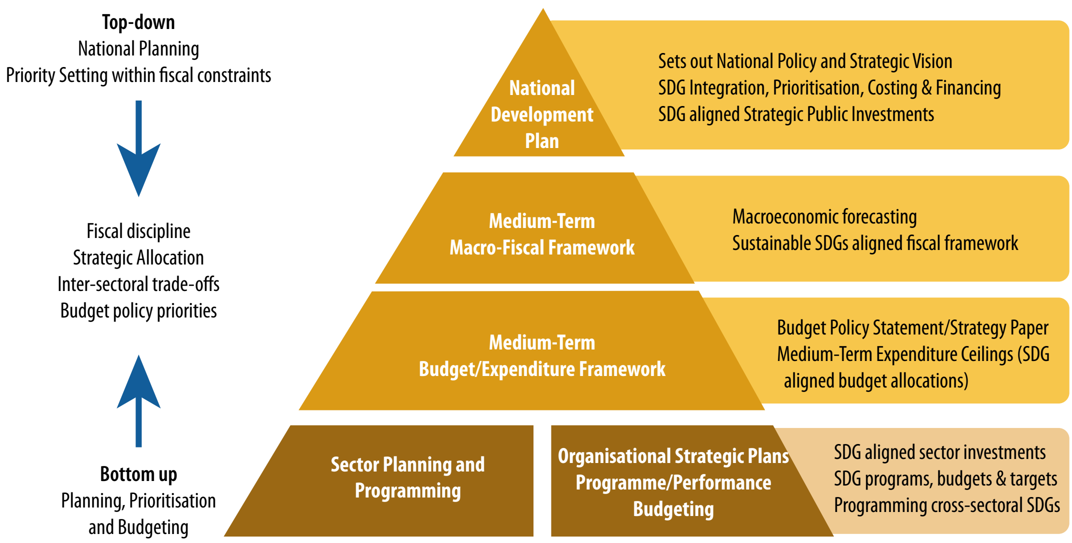
SDG Policy-Budget Linkages

Lack of progress in financing the SDGs is likely due to a disconnect between the high level national political leadership endorsing Agenda-2030 and the national policy-making and strategic budgeting and planning processes. What is required is a more coordinated effort – particularly in the light of the economic crisis resulting from COVID-19 – to link Agenda-2030 as a policy agenda to the national budgeting process. Therefore, the starting point is to work with government and international partners to ensure that the SDGs are integrated into the national policy process.

The SDG Strategic Budgeting Pyramid provided below presents an overview of the entire top-down policy making, fiscal constraint and strategic allocation process, as well as the bottom-up sector bidding process, where ministries compete for resources to execute their plans. **For countries where SDGs are not integrated into either the NDS or Sector Public Investment Plans, the process can start with overcoming that problem first.**

For countries where the SDGs are integrated into the NDS but not the expenditure programs, it might be appropriate to focus on working with national authorities to improve the strategic allocation of resources, while also strengthening SDG content in the Budget Call Circular and MTEF Guidance. At that point, support would focus on working with the sectors to build SDG responsive budgets that are linked to clearly defined SDG targets. In countries such as Bosnia and Herzegovina, where there is no NDS, a nationally owned SDG Framework document might usefully substitute for an NDS, in which case the focus is on the preparation of an SDG Financing Framework and Strategy, integrated into the MTEF process.

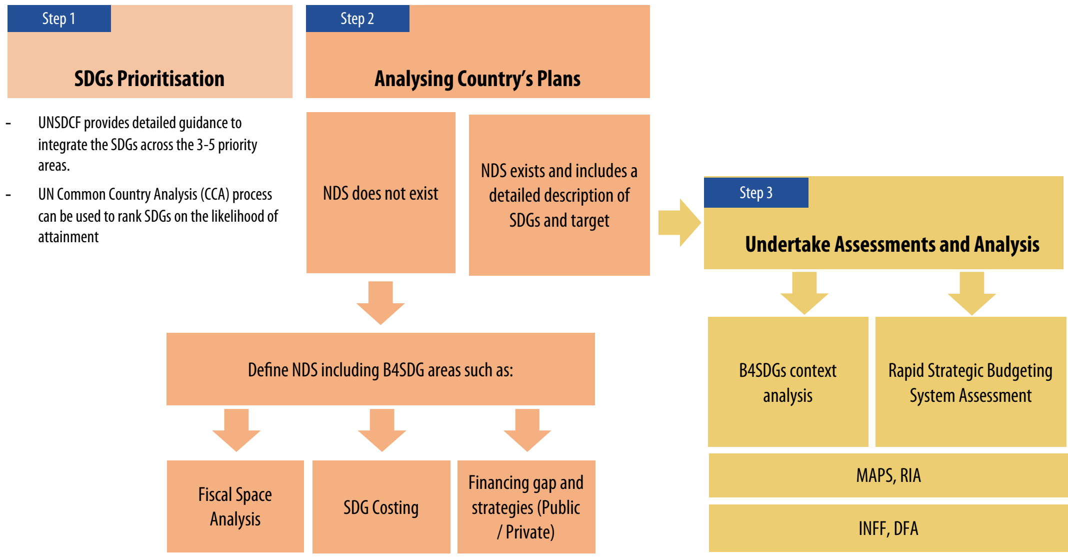
Diagram 2: SDG Strategic Budgeting Pyramid



Prioritisation of SDGs and Analysing Country's Plans/Development Strategies

As a starting point, UNDP COs can undertake an SDG prioritisation diagnostic, and analyse country's SDG plans. It is worth noting, however, that the entire foundation for identifying which SDGs are on track and which are likely to slip should be ascertained as a starting point. A two-step process can be adopted:

Diagram 3: Steps for Prioritisation of SDGs and Analysing country's Plans



If a country does not have a developed, prioritised, and costed development strategy, then a good starting point for UNDP would be to help develop a National Development Strategy (NDS). Policy notes on developing NDSs is available at UN's Department of Economic and Social Affairs (DESA)[1]. If, however, an NDS exists and it contains description of SDG goals and targets to be achieved over medium and long-term, then the next steps can be to undertake context analysis and assessments to first review a country's systems to understand how best to undertake the initial steps of linkages of SDG policies with budgets.

UNDP has developed a range of assessments, approaches, methodologies, and tools to help countries undertake the initial steps of linking SDG policies with budgets. These include:

- **B4SDGs context analysis:** Detailed guidance is provided in Budgeting for the SDGs guidebook (2020)[2] – aligning domestic budgets with SDGs;

- **Rapid Strategic Budgeting System Assessment:** Annex A provides a checklist of key questions that can be asked to under the rapid assessment. The checklist is divided into 'basic', 'normative' and 'advanced' to distinguish between countries in different stages of PFM development.

- **Mainstreaming, Acceleration and Policy Support (MAPS):** MAPS is the UN development system's common approach to supporting country implementation of the SDGs. MAPS can help governments land the Agenda-2030 at local and national levels, support analysis of synergies and trade-offs across targets, and provide coordinated policy support to countries that demand it, making the thematic expertise housed in different UN entities available in an effective and coherent way. Detailed guidance is available by UNDP[3].

- **Rapid Integrated Assessment:** The Rapid Integrated Assessment (RIA) Tool aims

1 https://www.un.org/en/development/desa/policynotes.html
2 https://sdgfinance.undp.org/sites/default/files/UNDP%20Budgeting%20for%20the%20SDGs%20-%20Guidebook_Nov%202020.pdf
3 https://sdgintegration.undp.org/maps-mainstreaming-acceleration-and-policy-support

to support countries in mainstreaming the Sustainable Development Goals (SDGs) into national and subnational planning, by helping assess their readiness for SDG implementation. Detailed guidance is available from UNDP[4].

- **Integrated National Financing Framework (INFF):** Integrated National Financing Frameworks (INFFs) are a tool to finance national priorities and operationalize the Addis Ababa Action Agenda at the national level. A country's sustainable development strategy lays out what needs to be financed. Integrated national financing frameworks spell out how the national strategy will be financed and implemented. Detailed guidance is available from the UN at inff.org as well as UNDP[5].

- **Development Finance Assessment (DFA):** Using the concept of an integrated national Financing Framework (INFF), a Development Finance assessment can help countries identify areas for strengthening their management of financing for the SDGs with integrated Financing solutions. DFA guidebook[6] can be used to understand the methodology further.

- **Voluntary National Contributions (VNR):** Voluntary National Reviews (VNR) are a national process through which countries assess and present the progress in achieving the global goals and the pledge to leave no one behind. Whether an SDG Financing Framework and Strategy has been established or not, the VNR still provides an opportunity for governments to review progress in executing new financial modalities and improving resource mobilisation performance, linked to strategic budgeting. As of 2021, some 44 countries have signed up to conduct VNRs, which helps accelerate progress through experience sharing, peer-learning, identifying gaps and good practices and mobilising partnerships.

Establishing SDG policy and budget linkage - A Step-by-Step Guide

This section provides step-by-step guidance on aligning SDG policies and budgets.

Stage 1: Aligning SDG plans/strategies with Medium-Term Macro-Fiscal Framework

Macro-Fiscal framework is a tool and a process through which macroeconomic and fiscal projections (known as Medium-Term Fiscal Framework (MTFF)) are made – usually on two scenarios – 'no policy change' to understand implications of current policy on future finances, and 'policy change' to explain impact of updated policies on governments budget to achieve desired policy objectives.

Macroeconomic frameworks are presented with information such as **macro-economic outlook** (including; economic growth, inflation, exchange rate, financing, interest rates etc.), while MTFF can include information such as **revenues** (broken into key revenue generating instruments such as tax, other than taxes, etc.), **expenditures and transfers**, **financing requirements/strategies** and **public debt.** Through the macro-fiscal framework, implications of fiscal decisions are analysed on; a) balance of payments to determine financing gap, b) economic growth (including output-gap[7]), and c) sustainability of public debts – through the review of gross-financing requirements[8]. Macro-fiscal frameworks are normally developed at the national level, led by Ministry of Finance/Economy, and

4 https://www.undp.org/publications/rapid-integrated-assessment
5 https://sdgintegration.undp.org/INFF
6 https://sdgfinance.undp.org/sites/default/files/UNDP-DFA%20Guidebook-D4-HighResolution%20%28002%29.pdf
7 The output gap is an economic measure of the difference between the actual output of an economy and its potential output. Source: IMF: https://www.imf.org/external/pubs/ft/fandd/2013/09/basics.htm
8 Overall new borrowing requirement plus debt maturing during the year.

involve other organisations and agencies, such as central bank, debt office, planning organisation, statistics, revenue authorities, etc.

Possible options of linking SDGs with the process of MTFF can include:

1. **Revenue mobilisation:** An effective tax policy can facilitate economic growth, and in doing so, support the Agenda-2030. Tax is primarily integrated into the SDGs through target 17.1, to "strengthen domestic resource mobilisation, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection". One of the policy objectives for achieving SDGs can be by creating fiscal space through increasing domestic revenues. Wide ranging tax policy design considerations can be undertaken including reducing the burden of consumption taxes and informal and nuisance taxes on the poor, strengthening taxation of income and wealth to enhance equity, rationalisation of the use of tax concessions/exemptions to provide level playing field for private businesses, and reforming the international tax systems[9]. The tax policy design options can be reviewed from SDG lens (e.g., tax can help to reduce inequalities within and between societies (SDG 10), support stronger and more accountable political institutions (SDG 16) and – as in the case of environmental taxes – steer economic behaviour in a more sustainable direction (SDGs 12 to 15)).

   Building tax audit capacity

   Tax Inspectors Without Borders (TIWB) is a joint initiative of the Organisation for Economic Co-operation and Development (OECD) and the United Nations Development Programme (UNDP) supporting countries in building tax audit capacity. TIWB Programmes complement the broader efforts of the international community to strengthen co-operation on tax matters and contribute to the domestic resource mobilisation efforts of developing countries.

2. **Expenditure estimates:** The MTFF process can include high level expenditure estimates to determine the overall size of operational and investment budgets at the time of formulation of macro-fiscal frameworks. Based on the overall limit of expenditures to be undertaken, the sectoral sub-division (including SDG-based allocations) can take place as part of MTBF process (explained below). There can be impacts of investments in a sustainable goal on other goals and economy (known as multiplier-effect). Countries can, therefore, develop macro-modelling techniques and integrate them with SDGs, and determine investment gaps and needs.

3. **Financing:** The ambitious scope of the SDGs will require financing on an unprecedented scale. New resources must be tapped, and commitments must be measured and monitored[10]. Financing the government's budget deficit requires a financing strategy which may include financing using domestic and external resources (e.g., development loans and grants). Options such as blended financing, sustainable and green bonds, access to climate change fund, etc. can be discussed in the MTFF process. Further details of financing modalities are presented in the section below.

9 https://www.brookings.edu/blog/africa-in-focus/2019/07/01/tax-to-finance-the-sdgs-but-not-to-undermine-them/

10 OECD - https://www.oecd.org/development/sustainable-development-goals.htm

Building Financing Strategies for sustainable development

A country's sustainable development strategy lays out what needs to be financed. Integrated National Financing Frameworks (INFFs) spell out how the national strategy will be financed and implemented, relying on the full range of public and private financing sources. INFFs are a planning and delivery tool to help countries strengthen planning processes and overcome obstacles to financing sustainable development and the SDGs at the national level[11]. UNDP is providing support to several countries in developing INFFs including undertaking Development Finance Assessments (DFAs).

4. **Public Debts:** Forty-four per cent of low-income and least developed countries (LDCs) are currently assessed as being at high risk of external debt distress or already in debt distress. COVID-19 and related global economic and commodity price shocks could significantly increase this number. Rising debt-service costs could diminish fiscal space for economic recovery and for investments in long-term structural transformation and the Sustainable Development Goals (SDGs). Management of public debt will, therefore, take a centre stage of fiscal frameworks over the medium-term. This situation may call for implementing effective debt sustainability measures (analysis of which can be undertaken through tools such as Debt Sustainability Analysis), creation of additional fiscal space, and incentivising the private sector for investments in specific SDGs.

Stage 2: Aligning SDGs plans/strategies with Medium-Term Budget Framework (MTBF)

The MTBF process includes formulation of the budget policy statement/budget strategy paper, and determination of multi-year expenditure ceilings/forward estimates for sector Ministries. To achieve SDGs, issues of adequacy, equity and efficiency are important considerations during the MTBF process. There can be different ways to link SDGs with MTBF process:

1. **Budget Policy Statement:** Budget strategy, pre-budget or budget policy statement (or also known as 'pre-budget statement') is a government policy note that describes macroeconomic, and fiscal projections (revenue, expenditure and financing policy policies and priorities, expenditure ceilings and fiscal risks) over the medium-term. The statement is generally endorsed by the Cabinet of Ministers and/or Legislature, usually at least a month before the budget is tabled for approval. Greater public participation and input can pave the way towards a consensus-based budget policy formulation. It would be important to present SDG based policy priorities including high-level budget allocations to SDGs, and the broader targets to be achieved over the medium-term.

11 https://inff.org

Country Examples

Out of a total of 117 countries surveyed through Open Budget Survey, 58 countries reported to have produced a Pre-Budget Statement[12].

France: The Preparatory Budget Report (Rapport préparatoire au débat d'orientation budgétaire, DOFP) is presented to the parliament before June 30th each year. It is an important milestone prior to the submission of the Budget Bill to the parliament later in the fiscal year. The DOFP announces to the parliament the main changes to the government's economic and fiscal policies, expected path of the State's finances for the next fiscal year and sets provisional ceilings on public expenditure.

New Zealand: The Budget Policy Statement (BPS) sets out the Budget priorities and wellbeing objectives that will guide the Government's Budget decisions.

2. **Evaluating the baseline expenditures in SDGs:** If a country has developed SDG budgeting coding and tagging system (Refer to Module D of this guidance note), then the baseline expenditures on SDGs can be determined using the SDG tracking methodology. However, if such a tracking system is not in place, various other methodologies can be adopted:

    - **Using GFSM classification data:** Several countries have adopted GFSM based budget classification system. One of the elements provides classification of the functions of the government (COFOG). Some SDG areas such as the health and education are amongst the main functions on which budget and expenditure data is regularly reported.

    - **Research studies:** Through the support of development partners, countries undertake studies (e.g., Public Expenditure Reviews) on baseline expenditure on specific SDGs.

    - **National surveys: Countries** often also undertake surveys such as National Health Accounts[13], National Education Accounts[14], National Nutrition Surveys, etc.

    - **International development partners tracking expenditures** (e.g., UNESCO Institute for Statistics (UIS) as a source of internationally comparable data on education, science, culture, and communication).

3. **Estimating financing requirements to achieve SDGs:** SDG costing methodologies[15] can be used to assess the public financing requirement to achieve SDGs. In this process, priority SDGs can be selected, and costing exercise can be undertaken to determine the financing needs on an annual basis. It is recognised that financing SDGs can be made both the public and private funds. Formulation of financing strategies can be part of the Integrated National Financing Framework (INFF) and Development Finance Assistance processes.

4. **Formulation of budget ceilings to sector Ministries:** Through the MTBF process sectoral/Ministerial expenditure ceilings are formulated. These are the expenditure limits

12 2019 Open Budget Survey report: https://www.internationalbudget.org/sites/default/files/2020-04/2019_Report_EN.pdf
13 WHO - https://www.who.int/health-topics/health-accounts#tab=tab_1
14 UNESCO - http://uis.unesco.org/en/news/national-education-accounts
15 https://sdgfinance.undp.org/sdg-tools/costing-methodology-guidance

communicated to sector Ministries based on which the Ministries and their departments/ agencies prepare detailed budget submissions. The method of allocation to sector Ministries can be based on SDG priorities defined in the national plans/development strategies. Where NDS provides clarity of prioritised SDG based sectoral policies, and their resource requirements, then the allocation can be made to align with the NDS process. However, if such an information is not available, then two steps can be taken; a) evaluation of the baseline expenditures, and b) estimating financing requirements to achieve SDGs. Both processes are explained further below.

Stage 3: Aligning SDGs plans/strategies with Medium-Term Expenditure Framework (MTEF)

The MTEF is a transparent planning and budget formulation process within which the Cabinet ministers establish credible contracts for allocating public resources to their strategic priorities, while ensuring overall fiscal discipline. The SDGs would be integrated into this process to guarantee that resources are allocated to meet goals and targets, and that SDGs are aligned within the budget preparation and execution systems. Specific steps to align SDGs with different processes in MTEF can include:

1. **SDG based spending reviews:** Spending reviews are widely used as a **strategic budgeting** tool in OECD countries (OECD, 2019). Spending reviews can be efficiency reviews (focused on savings through improved efficiencies) and/or strategic reviews (focused on savings achieved by reducing services or transfer payments)[16]. Spending review can help identify wasteful or inefficient spending, assess cost-effectiveness, provide rationale for diverting funds from one priority to another, bring about awareness of fiscal constraints, and may raise profile of implementation of policies (2019). Spending reviews can be focused towards improving efficiencies in spending on SDGs, and/or strategic reviews can be undertaken to find fiscal space for SDGs. However, for this to happen, strong political leadership will be required. To undertake SDG efficiency review, information base such as SDG budget coding and tagging (as explained further in the next chapter), and data on SDG performance indicators and targets can provide the baseline information. However, the efforts will be required to build causality between services delivered by organisations and the SDGs which are normally at the outcome/impact level. The process of spending reviews can ideally be a periodic (often annually) exercise, but since they require considerable public effort (data, time, dialogues, decisions etc.) a less periodic process may suit low and low-middle income countries.

2. **SDG aligned Budget Call Letter:** Once MTFF and MTBF process is complete, Ministry of Finance sends Budget Call Letter to MDAs requesting for planning and budget formulation to be initiated at the sectoral level. The call letter contains forms and specifies guidelines including budget ceilings and high-level statement of approved government priorities (which can be based on national planning documents around SDGs). Usually call letters include budget calendar specifying timelines for: a) MDAs to prepare plans and detailed budget submissions within allocated budget ceilings/forward estimates, b) Budget discussions and overview by central agencies (Ministry of Finance/ Planning and/or Prime Minister's Office), c) Budget presentation in the Cabinet of Ministers and the Legislature, d) Budget review in the Legislature, and passage.

16 OECD 2014 – OECD Journal on Budgeting, Spending Reviews https://read.oecd-ilibrary.org/governance/spending-reviews_budget-13-5jz14bz8p2hd#page1

Country Examples – SDG aligned Budget Call Letter

Armenia: Through the budget call letter, the MOF requested all Ministries to add one column to the existing budget submission templates describing the relevance of each budget programme to SDGs and their targets.

Mongolia: A separate template was introduced for new/additional funding which required explicit mention of SDGs.

In addition, to the two country examples presented above, additional choices to align SDG and Budget Call letter can include: (i) strategic guidance on SDGs, their allocations, and requests Ministries to incorporate the requirements in their strategic planning, and budget formation phase, (ii) specific budget submission templates, that require linkage of activities, programmes/sub-programmes, or spending units/projects with specific SDGs and the targets thereof, and (iii) guidance on strategic planning exercise (including definition of log-frame using SDG targets/indicators) to be undertaken by Ministries to provide justifications for budgets

Sector Planning: The MTEF process only works when bottom-up sector planning and programming (also known as strategic planning) provides sector public investment plans/ expenditure programs that are costed, includes targets and indicators linked to the financing strategies. The sector planning can undertake the study of SDG baselines (costs and targets), the key SDG implementation and monitoring issues, the revised set of policies/plans that will lead to improved acceleration, the issue of efficiency, effectiveness and equity, and the financing/budget allocations. The plans can also include targets to be achieved within fiscal constraints over the medium-term. Sector Plans may ideally be made available for public review, accountability and for undertaking evaluations/impact assessments.

Country Case Studies – Medium-Term Expenditure Framework

Afghanistan: The bottom-up costing of the Afghanistan National Education Strategic Plan (NESP) was supported by USAID and UNDP, combining both unit and total costs assessment based on the functional classification of education service provision by province, district, and school catchment area.[17] The entire costing model was built around a dashboard of assumptions covering pre-school, primary secondary and tertiary education, as well as operational and capital spending needs projected five years ahead. Student-teacher ratios were projected using demographic growth rates, allowing the quantity and quality of education to be costed, including investments in curricula updating, pre-and in-service training and improved school management. Importantly, procurement rules were modified to allow local procurement of textbooks and school construction through the private sector.

The sector MTEF costing was built around the Budget Call Circular guidance and projected budgetary needs over a five-year investment period. External ODA funds were fully integrated into the sector investment plan with operations and maintenance spending requirements for infrastructure financed outside the national PFM systems still built into forward-rolling expenditure needs. The MTEF was Excel Sheet based. The process included training for Ministry of Education staff, allowing annual updating as the dashboard assumptions (i.e., unit costs, number of schools and teachers etc.) changed.

Kosovo: Despite the 2016-2020 Kosovo NDS not integrating Agenda-2030 or the SDGs into the investment program, the UNDP Kosovo Team's work to support the government in economic recovery planning from COVID-19 led directly to a DFA. From the DFA, and because of discussion with the Office of the Prime Minister and Ministry of Finance, Agenda-2030 is now one of the 2021-2030 NDS central pillars, alongside the EU Integration Agenda. Having moved the DFA forward, in which a basket of high priority sustainable financing reforms was identified, UNDP was able to support the government in integrating the SDGs into the Kosovo National Development Strategy (NDS) while also strengthening the Strategic Budgeting Process through the following activities:

- Strengthening NDS-MTEF Linkages: Developing recommendation and entry points for strengthening the MTEF process, including a brief diagnostic on how best to improve MTEF performance in allocating public resources to strategic policy priorities.
- Develop a Framework for the Integration of Performance Targets: Designing a framework for the integration of performance targets (including SDGs) into the strategic budgeting process, through the MTEF and Budget Call Circular Process.
- Strengthening MTEF-Budget Linkages: Analyse the primary constraints to linking policy to bottom-up sector and municipal planning, with relevance to SDGs. Design basic recommendations to address the primary constraints, including laying out entry points for linking SDGs to strategic budgeting (i.e., SDG financing strategy, budget tagging etc.)

A key question is how to make sure that the INFF and MTEF are linked at the national, sub-national and sector levels. Given that the INFF aims to: (i) integrate planning and financing policies, (ii) public and private financing policies and (iii) collaboration across partners, executing the INFF successfully will lead to new guidance being provided by the Ministry of Finance to all spending MDAs in terms of how they program expenditure plans.

Policy based budgets - Programme and/or performance budgeting: While this

17 https://sdgfinancing.unsdsn.org/static/files/sdg-costing-and-finance-for-LIDCS.pdf

area is beyond the scope of the strategic budgeting process, as it is normally considered as detailed budget preparation process, there are important elements that form part of top-down budget making within sector MDAs. These include; (i) clarity of understanding the link of SDG with sector MDAs, (ii) definition of budget programmes that are aligned with SDGs targets and the overall goals to be achieved, (iii) clarity of linkage of programmes with organisational structure, (iv) presentation of programmatic budget aligned with SDGs as part of the national/sub-national budgets, (v) legal and regulatory constraints on moving funds between budget programmes, and (vi) a regular exercise of spending reviews to review efficiency, effectiveness and equity of budget programmes. The issue to note and discuss will design and implementation of budget programmes for cross-cutting policy themes such as climate change/green initiatives, gender, children, nutrition, etc.

Financing for SDGs

The UNDAF Companion Guide to Funding to Financing (F2F) contributed to laying the foundation for operationalising the Addis Ababa Action Agenda. The F2F approach outlines a stepwise approach to be integrated into the UN Common Country Analysis (CCA). This approach paved the way for moving away from the legacy Official Development Assistance (ODA) model, which is dominated by domestic and international public finances to one integrating private financial flows too. The F2F approach emerged from the UNCTAD World Investment Report (2014), which calculated that the financing gap to achieve the SDGs in developing countries is estimated to be US$ 2.5 – 3 trillion per year.[18]

In the light of COVID-19, the financing deficit has increased as government fiscal space collapses. F2F has found its best expression in the Integrated National Financing Frameworks (INFF) summarised below. The F2F concept encourages the UN to think beyond its own resources, be a smart investor, achieve greater impact, leverage larger financial flows and establish new partnerships, including with domestic and international private investors.

Adopting the 'Right-Financing' policies and Instruments

The Secretary-General's Financing Strategy and Roadmap complements the 2015 Addis Ababa Action Agenda on financing for development (AAAA) by prioritising areas of action for the Secretary-General and guiding the UN's contribution to implementing the Agenda-2030. To increase SDG investments at scale, the strategy focuses on: (i) aligning global economic policies and financial systems with the Agenda-2030, (ii) enhancing sustainable financing strategies and investments at regional and country levels and (iii) seizing the potential of financial innovations, new technologies and digitalisation to provide equitable access to finance.

The central idea behind '*right-financing*' is that alternate financing instruments should be considered for each proposed investment. For example, a government can finance infrastructure through the national revenue, or a government can finance the investment by raising debt. A government agency can execute the infrastructure project, or implementation can be procured through the marketplace. Infrastructure could be governed and maintained by a government or procured as a Public Private Partnership (PPP), of which there are more than 20 alternate PPP modalities. Moreover, infrastructure could also be provided as a public good, or users can pay, with revenues being placed into a fund to maintain or expand the network. Therefore, each SDG investment has its own right-financing strategy, which can be determined based on the considerations outlined in the table below.

18 https://unsdg.un.org/sites/default/files/UNDG-UNDAF-Companion-Pieces-5-Funding-To-Financing.pdf

Table 2: Right-Financing

Right-Financing Pillars	Objective	Considerations
Investment Prioritisation	To identify the most optimal sequence of activities for a given investment over the medium term, linked to the MTEF.	Based on fiscal space analysis and government policy priorities, SDGs goals and targets should be prioritised based on the level of urgency and impact on the principles of leaving no one behind (LNOB) or building forward better (BFB).
Source of Financing	To identify the most strategically advantageous source of financing for the proposed investment, crowding in private capital wherever feasible and desirable.	Consider domestic public, domestic private, international public and international private capital.
Financing Modality and Partnerships	Identify the preferred financing modality and strategic partnerships for the intended investment based on a ranking of variants.	Consider grants, loans, blended financing (including Public Private Partnerships), development or social impact bonds, guarantees, debt for nature swaps, catalytic first-loss capital, non-governmental organisations, philanthropic capital, vertical funds and conservation financing tools.
Sustainability	Consider the sustainability of the proposed investment, including financing costs, long-term operations and maintained costs and social, gender and environmental multipliers.	Consider the long-term sustainability of the investment once project funds are withdrawn. This would include project governance, operating costs, revenues, social cost-benefit analysis and net present value analysis as appropriate.
Monitoring Impact	To establish output, outcome and impact indicators for the investment, so that one can assess impact.	Link goals, outcomes and outputs to the MTEF process, allowing SDG investment impacts to be clearly established and the SDG dashboard to be updated based on empirical information.

Blended Financing

Blending finance (an emerging modality) is the strategic use of development finance for the 'mobilisation of additional finance towards sustainable development in developing countries.'[19] The Organization for Economic Development and Cooperation (OECD) asserts that blended finance assists in unlocking commercial finance for the SDGs. Delivering Agenda-2030 and the Paris Agreement on Climate Change will require all sources of finance - development and commercial - to be scaled up. Designing an investment project to mix public and philanthropic funds with private capital tips the risk-reward ratio in favour of investment for the private sector, allowing private capital to be deployed in areas that otherwise would not have occurred, resulting in positive results for both investors and communities. In this way, blending assists in mobilising capital that would not otherwise support development outcomes. SDG investments should consider blending wherever possible, as long as it reflects the right-financing approach in a given context.

19 https://www.oecd.org/dac/financing-sustainable-development/blended-finance-principles/

SDG Financing and Strategic Budgeting

The financing strategy supports the delivery of national development or recovery plans, responding to estimates of the scale and types of financing needed over short to long term horizons. Therefore, the SDG Financing Strategy (Building Block 2 of the INFF) needs to be reflected in the policy, planning and budgeting system, including the Budget Policy Statement and Budget Call Circular process (to be used as a guidance for MTEF). Moreover, should the NDS formulation and INFF process happen to coincide, the INFF Road Map elements will need to be fully integrated into NDS at both the national and pillar or component level. Key INFF elements are likely to include PFM reforms, strengthening the strategic budgeting processes, debt sustainability strategy as well as a host of policy documents including: (i) development cooperation and aid management, (ii) public-private partnerships, (iii) domestic and foreign investment, (iv) environment and conservation and (v) diaspora, among others. The Table below provides a short summary of INFF and strategic budget integration options.

Table 3: INFF and Strategic Budget Integration options

Integrate the INFF into the **NDS/NDP**	Where possible, make sure to clearly outline the INFF approach, vision and key elements and integrate this into the overall NDS in the financing and resource mobilisation strategy.
Integrate key INFF principles and priorities into the **Budget Policy Statement**	Integrate INFF Key Elements (Leadership and Institutional Coherence) and (Vision) into the Budget Policy Statement, including linking financing strategy and policy actions into the fiscal framework summary, medium-term budget priorities and allocations and sector priorities.
Integrate Key Elements of the INFF into the **MTEF**	Integrate INFF Key Elements (Financing Strategy) and (Financing Policies) into the MTEF medium-term Priorities and Financing Plan, including analysis of resource requirements, programs by economic classification and Key Performance Indicators and resource allocation criteria.
Integrate Key Elements of the INFF into the **Budget Call Circular**	Unpack the INFF into guidance to be integrated into the Budget Call Circular, including introducing the INFF objectives, linkages with the national, sub-national and sector programs as well as (Monitoring and Evaluation) and (Accountability and Dialogue)
Ex-Post Reporting of INFF Implementation in the Annual **Program Performance Review**	Each annual MTEF starts with a review of the preceding year's policy and spending performance, around which adjustments are made. The INFF – as an integrated component - would also be part of the annual review.

Fiscal Space Analysis

One of the biggest challenges facing government and the international community – made more challenging by the COVID-19 crisis – is fiscal space. Fiscal space is, in effect, the budgetary room that allows a government to finance its policies without compromising fiscal sustainability. Given that fiscal challenges have been increasing since the 2020 pandemic emerged, governments are already struggling to finance existing plans and do not necessarily have the resources to finance the SDGs. There can be three different types of methodologies that can be used to analyse fiscal space determined by UN, OECD and the IMF.

UN Methodology: Traditionally, UN agencies have used fiscal space analysis as an input to policy formation, alongside argumentation that investing in a particular SDG would have a positive rate of return on investment. The 2020 Financing for Sustainable Development Report of the Inter-agency Task Force on Financing for Development addresses the issue of fiscal space head-on. The report notes that 'Rising debt-service costs diminish fiscal space for counter-cyclical measures and for investments in long-term structural transformation and the SDGs. This is a major concern in light of large, unmet SDG investment needs. This calls for a range of national and global actions in three areas: (i) creating additional fiscal space, (ii) preventing debt crises and (iii) advancing the policy agenda on debt restructuring.'

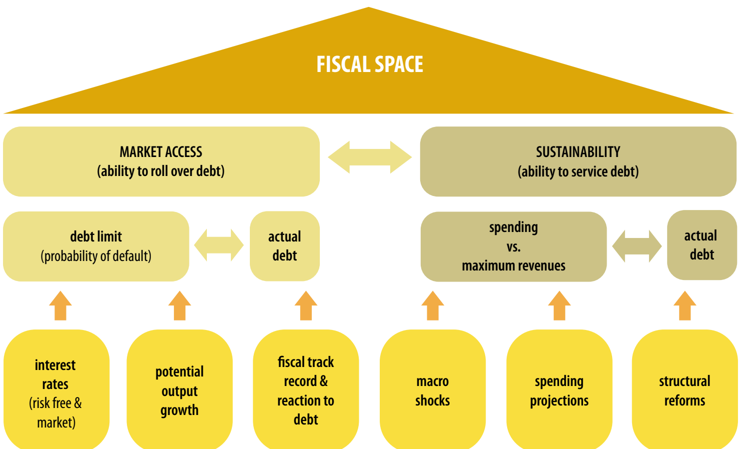
Country Case Study – Preliminary Fiscal Planning in the wake of COVID19 impacts

The **Kyrgyz Republic** faces a fiscal paradox; the emerging debt crisis is both unsustainable and unstoppable. Prior to the COVID-19 pandemic, Kyrgyzstan's macro-fiscal structure and framework had been considered relatively stable. Despite challenges to structural reform implementation, the medium-term growth outlook was deemed to be positive. In July 2019, the International Monetary Fund (IMF) reported that the Kyrgyz Republic 'has made progress toward macroeconomic and financial stability under eight successive Fund-supported programs.' However, they also noted that 'economic growth has been insufficient to significantly raise living standards and continue to reduce poverty.' (IMF, Article IV Consultation, July 2019).

Given long-term fiscal sustainability challenges – primarily caused by a growing pile of external public debt – the government requested the support of the UNDP in thinking through debt management strategy. Given UNDP's interest in securing Agenda-2030 and the SDGs, support was mobilised to: (i) undertake an overall assessment of prevailing financial flows and trends because of COVID-19, (ii) identify key macro-fiscal framework constraints, (iii) assess the key sources of the medium-term fiscal gap and (iv) break down linkages between ODA and expenditures on social infrastructure, with a view to assessing future social welfare program needs, with implications for the composition of ODA.

OECD Methodology: The methodology is presented in detailed in a document named: 'A Re-Assessment of Fiscal Space in OECD Countries' (OECD, 2017, Economics Department Working Papers No. 1352).

Diagram 4: OECD Fiscal Space Analysis



IMF's Methodology: The methodology is presented in the detailed study called 'Assessing Fiscal Space: An Update and Stocktaking (2018)'. In the piloting of the new fiscal space analysis by IMF, 6 countries had substantial, 17 some, and 11 limited fiscal space (IMF 2018).

Fiscal Space Assessment – IMF's broad How-To guide

As per the IMF's fiscal space analysis framework (IMF, 2018), following stages need to be considered in the fiscal space assessment:

a) **Macroeconomic context:** Includes assessment of context—including domestic and external conditions, and structural gaps (that can have bearing on economic impact of fiscal policy actions).

b) **The availability of financing on favourable terms** (including analysis of risk of market perceptions sharply that can increase funding costs): Includes assessment of financing, debt burdens, the fiscal adjustment needs over the next 3 – 5 years.

c) **The sustainability of the level and trajectory of public debt and deficits** over the medium and long term: Includes assessment of discretionary fiscal policy and its implications on the macroeconomy, and stocks and flows of public debts (including gross financing needs).

d) **The sensitivity of fiscal sustainability in terms of debt and financing needs.**

Some level of staff judgement is required to arrive at the final assessment of fiscal space based on the above, and any additional country-specific factors, indicators, and analyses.

Key variables used in fiscal space assessment:

a) **Financing availability:** (i) peak sovereign bond spreads in the last 12 months and 5 years ago, (ii) share of public debt in foreign currency, (iii) share of foreign debt held by non-residents, (iv) change in share of short-term debt, (v) external financing requirements, (vi) public financial assets (% of GDP)

b) **Debt burden:** (i) peak debt levels during projection period, (ii) probably of breaching debt benchmarks (as provided in fiscal rules), (iii) peak Gross-Financing-Needs (GFN) during projection period, (iv) is debt trajectory non-increasing?

c) **Fiscal adjustment:** (i) adjustment in cyclically adjusted primary balance, (ii) average level of cyclically adjusted primary balance, (iii) long-term adjustment needed.

Generating Fiscal Space for SDG financing

While increasing domestic revenue mobilisation, more effective spending, and official development assistance (ODA), can help countries scale up public investment to meet the SDGs, the DFA and INFF process can open private capital resources to meet the SDGs, reducing dependency on government spending and catalysing new financing flows. It is important to understand the potential for well-planned SDG investments – particularly if they take forward the AAAA commitments and crowd in private capital – to also be a source of new financial resources, not just a drain on existing government finances. (Kyrgyzstan, UNDP assessed the sources of fiscal gaps, which provided an understanding of the sources of fiscal stress and potential debt, and this formed part of an offer to the government to assist in smart debt management[20].)

20 A fiscal gap is an estimate of how much the government's spending and debt obligations exceed its revenues over a specified period.

From a strategic SDG budgeting point of view, the challenge for countries is how to create fiscal space for additional public investment in the SDGs, particularly for heavily indebted countries. While the DFA/INFF process provides some hope for mobilising private capital to the sectors, which in turn lowers government operating cost and increases fiscal space, the reality is that adopting new financial instruments, tools and modalities takes time.

Guidance for UNDP country offices in conduct of fiscal space analysis can be based on the following choice of options:

- Liaise with the IMF to undertake the analysis (using the macroeconomic context).
- Creation of additional fiscal space through additional financing; a) undertaking INFF, b) using blended finance on favourable terms, c) issuing Green Bonds, or using facilities such as Global Environment Facility[21]/Green Climate Fund[22], d) working with international financial institutions in initiatives such as DSSI (Debt Service Suspension Initiative) and the Common Framework for Debt Treatments, e) using 'Framework for SDG Aligned Finances' (an OECD and UNDP joint initiative).

The following fiscal space activities are proposed for UNDP to support authorities in financing the SDGs through the strategic budgeting process:

Table 4: Fiscal space activities to support in financing the SDGs

Undertake SDG Costing, Forecasting Financing Needs Over the Medium Term	Undertake SDG costing to quantify investment requirements based on the appropriate method outlined in the UNDP Sustainable Finance Hub's SDG Costing: A Guidance Note. Costing SDG targets over the medium term provides an understanding of the fiscal space required to meet goals/targets.
Strengthen argumentation for increasing fiscal space to finance the SDGs	Based on the SDG investment propositions, strengthen arguments for why: (i) new resources are needed to meet certain goals and targets - ideally crowding in private capital rather than just focusing on government spending and ODA and (ii) the fiscal space created through new flows will not jeopardise the sustainability of public finances or the economy, and in fact will be catalytic in increasing rates of return to investment.
Examination of potential for sources of fiscal space	Working with the expenditure ministries and international financing institutions, either at the national, sectoral or sub-national levels, undertaking fiscal space analysis to identify: a) the current cost structure and composition of spending, with a focus on improvements in the efficiency of public expenditures b) existing financing instruments that can be repurposed (particularly where sector disbursement rates are low) from non-priority spending c) new financing instruments or flows (i.e., debt, concessional lending, grants, private capital, guarantees etc.) to finance the expenditure proposition or d) new service delivery models (i.e., more cost-efficient digitised or automated services) that lower delivery costs, therefore generating fiscal savings.

21 https://sgp.undp.org
22 https://www.greenclimate.fund

Identify the most viable options taking fiscal resources as well as political and societal feasibility	Identify the source of finance from a range of options and deliberate over its merits and demerits with a particular focus on modelling for choice. Remember that PPPs have the potential to mobilise additional sources of financing for investment.

SDG Aligned Fiscal Rules

Securing the fiscal space to implement Agenda-2030 can only be fully achieved if fiscal policy is structured in a way to encourage inclusive and green growth. Traditionally, fiscal 'rules' have been established to institute permanent constrains on fiscal policy, enhance budgetary discipline, foster policy coordination between different levels of government and to maintain stable macro-economic conditions including debt sustainability. As such fiscal 'rules' have a fiduciary function for fiscal discipline and debt sustainability. Fiscal rules – in general – have not been established to further development policy, for example by supporting the attainment of SDGs.

Moreover, fiscal 'rules' (set during one economic period) have often been amended as the fiscal situation has been impacted by new policy measures such as fiscal decentralisation or exogenous shocks, such as COVID-19. As a result – outside of the European Union where fiscal rules are fiercely protected - fiscal rules have often been viewed with a degree of flexibility – even when codified by law. Furthermore, though most country fiscal rules are regulated by fiscal responsibility, debt limitation or fiscal stability/sustainability laws, economic crisis such as the Great Financial Crisis and COVID-19 have forced many governments to temporarily abandon such rules, by opting for what are often termed *escape clauses*.

In the light of Agenda-2030, it is time to consider a new set of 'fiscal and expenditure policy principles' to better shape, re-direct and incentivise out sustainable development future. Historically, fairly standard 'fiscal rules' have been developed to guide governments in maintaining fiscal sustainability while also achieving allocative and operational efficiency. The IMF publishes a Fiscal Rules Dataset covering the period 1985 to 2015, from which four sets of measures have been defined: budget balance rules (BBR), debt rules (DR), expenditure rules (ER), and revenue rules (RR).[23]

For the EU – which has strict fiscal rules applicable across Economic and Monetary Union member states – fiscal rules have been enshrined in law (i) as being of permanent nature (ii) as being amenable to specification in terms of an overall fiscal performance indicators (i.e., such as the government budget deficit, debt, expenditure, revenue, etc.); and (iii) being established around numerical ceiling or targets that can be easily quantified and monitored.[24]

The current focus of fiscal rules on maintaining macro-economic stability and fiscal sustainability is perhaps too narrow. It is debated that a far broader approach to setting fiscal rules can be achieved through the application of sets of both fiscal and expenditure principles. Importantly, these principles would not only seek to maintain macro-economic stability; they would also be developed at the multi-sector, sector, and sub-national level, to better enable progress towards attaining the different SDGs. Importantly, the development of the INFF would also have implications for setting fiscal and expenditure principles, determined through the national INFF/DFA dialogue process.

23 https://www.imf.org/external/datamapper/fiscalrules/map/map.htm

24 https://ec.europa.eu/info/business-economy-euro/indicators-statistics/economic-databases/fiscal-governance-eu-member-states/numerical-fiscal-rules-eu-member-countries_en

Country Examples - Expenditure Rules

France and the European Union: Fiscal rules are imposed by EU membership, leading most European countries to adopt expenditure rules as anchors to support budget formulation and execution. In France for example, expenditure rules (which substitute for fiscal rules) include local government rules - the so-called 'golden rule' that local government must fund operational expenditures out of own revenue, without borrowing. France has adopted fiscal policies for implementing both mitigation (reducing emissions) and adaptation (building resilience to climate change) strategies, in support of the Paris Climate Strategy. [25] In the 2021 national budget, France maps out Green and Brown Expenditures for climate change mainstreaming and sustainable finance. Green Budgeting principles are enforced through a rating scale of state budgeting expenses (See Figure below), and fossil fuel consumption is supressed by taxes.[26]

SDG aligned fiscal and expenditure principles

The following general fiscal and expenditure principles can be used by UNDP Country Offices to articulate principles to reflect the local context. These principles, however, are for guidance purposes only and their application and impacts will need to be thoroughly examined.

- **The principle of minimum expenditure:** This principle includes defining a minimum level of priority SDG expenditure to be carried out by the national and/or sub-national government. This principle is based on the fact that in the countries with low budget credibility, the budget is often overstated, and utilisation rates fall short due to various reasons. Setting up a minimum expenditure limit principle can allow debate around improving utilisation rates (which can be increased by timely transfer of funds to service delivery units, improving project management life cycle, strengthening procurement systems, etc.).

Country Case Study – Minimum expenditure

Pakistan: As part of the 2019 IMF Extended Fund Facility program, there has been an agreement between the government authorities and IMF on setting up a minimum expenditure limit on health and education sectors at the national level. During fiscal austerity regime in an IMF program, there was a view that fiscal consolidation would also result in lower spending on social sectors. As a result of this performance criteria, the government regularly reviews the expenditure on health and education undertaken by the federal government, provinces, and local governments/councils.

- **The principle of reducing 'negative' expenditure:** It is possible that the public expenditure may negatively contribute to SDGs. For example, investment in building coal power plants, or subsidising fossil fuel, may be considered as having negative contribution to climate change. In countries where such types of expenditures are high, fiscal rules can be enacted to reduce, for example, the 'negative' expenditures by a certain percentage overtime.

25 file:///Users/petermiddlebrook/Downloads/PPEA2019010.pdf

26 The "Paris Collaborative on Green Budgeting" is an OECD initiative launched by its Secretary-General Angel Gurría during the 2017 One Planet Summit

Country Case Study – Fiscal Rules and Green Investments

European Union: Lately[27] (September 2021) the EU finance ministers are planning to undertake a review on how to change their budget rules to deal with a huge rise in government debt during the coronavirus pandemic and how to encourage spending needed to arrest climate change. Potential options include exempting "green" investments from calculations of deficit and debt limits and temporarily forgetting existing rules that say debt must be cut every year.

- **The principle of reducing tax concessions and exemptions:** The design of tax policy with large concessions and exemptions can create economic distortions and perverse incentives leading to inequality, inequity, and low revenue generation for increasing fiscal space. This principle is based on defining a fiscal rule that limits the use providing concessions and exemptions, or at least aligning those with SDG targets, to start with.

- **The principle of adding SDG weights to the debt in calculating fiscal space:** SDGs are designed to lead to improved human development, strengthened economy and a better climate-resilient state. In this principle, SDG weights can be added to the public debt (as part of the fiscal responsibility and debt limitation frameworks) to encourage investments in SDGs without the need to breach fiscal rules.

3 Critical Success Factors

While the actions suggested above for each country status provide entry points to link the SDGs to strategic budgeting, UNDP Country Office experts must consider many additional factors. These relate to prioritisation and sequencing, sub-national differentiation and mainstreaming of cross-cutting issues and normative agendas.

- **SDG Budget Prioritisation and Sequencing:** The success of the medium-term planning process is very much determined by the selection of priorities and activity sequencing. Resist the temptation to think and plan too big and then fail to deliver.

- **Budget Principles**: PFM principles of comprehensiveness, transparency and realism are vital to making strategic budgeting an outcome and impact-driven process.

- **Sub-National Differentiation**: In a federal system, devolved unitary state or independent municipality context, don't forget the option of sub-national piloting to create a demonstration effect.

- **Cross-Cutting Policy themes**: Many of the SDGs (gender, climate, equity etc.) must be fully mainstreamed across the entire SDG investment portfolio.

- **UNCT Collaboration and New Partnerships**: Integrating the comparative advantages of different UNCT members – and engaging new strategic partnerships (i.e., SDG 17) is essential for more effective ways of working.

27 https://www.msn.com/en-xl/money/other/eu-to-mull-changes-to-budget-rules-debt-green-investment-in-focus/ar-AAOdw06?ocid=msedgntp

4 Practical Guidance for UNDP Programming

Recommended Country Approaches

Every country has a unique constellation of SDG elements, and to date, no single country has adopted a full range of all elements outlined in the Guidance Note. In this context, the recommended country approach is for each Country Office to review the various toolkits and strategic budgeting checklist provided in Annex: 2 – Checklist for SDG Aligned Budget Processes across the Budget Cycle, identifying which tools have been developed and adopted, and which have not. Subsequently, each element's quality can be assessed, allowing a set of shortcomings to emerge and enables authorities to consider possible corrective measures.

It is crucially important that individual elements are only considered for adopting if the reasons are compelling and the use case is sufficiently impactful. Strategic budgeting reforms are complex to deliver, particularly at the ministry and agency level. Ideally, reforms will be championed by the President's Office, Prime Minister's Office of the cabinet. A whole-of-government approach will be necessary for certain reforms, such as upgrading the Budget Policy Statement or Budget Call Circular. In contrast, an opportunistic approach can be adopted in other cases, such as the strengthening of sector planning, fiscal space analysis, sub-national expenditure programmes in areas where municipal leadership is exemplary.

The UNDP offer on linking SDGs to strategic budgeting is central to efforts to guarantee that the SDGs are sufficiently resourced, by combining domestic public and private and international public and private financial and non-financial resources. For each UNDP Country Office to identify its own starting point, it is important to be clear – ideally through the CCA UNSDCF process linked to a DFA and INFF (Terms of References are provided in a separate file – Annex A and Annex B) – as to what level of effort is required to meet either global or national goals and targets. Moreover, based on the overall systems diagnostics (checklists) presented in Annex: 1 - Typical SDG Budgeting Shortcomings Across the Budget Cycle covering the budget cycle, UNDP will be able to work with national authorities and partners to identify entry points, a step-by-step approach and how to measure progress. These elements are outlined below.

Entry Points

Each country context will have an array of possible entry point, depending on where the country's starting point is (Table 4). To identify entry points, it is necessary to start by identifying if Country X or Y has established: (i) basic, (ii) normative or (iii) advanced strategic budgeting systems. Depending on the outcome of this enquiry, the entry points provided below will serve as a guide for introducing new elements that improve SDG performance.

- **Basic Elements:** Basic elements are in effect the necessary pre-conditions to start strategic budgeting for the SDGs. For example, if SDGs are not integrated into the NDS and Public Investment Plans, there is a substantial amount of work to do across the entire budget cycle. Likewise, if an MTEF system is not established, then the basic building blocks of strategic budgeting still need to be established before introducing more normative or advanced.

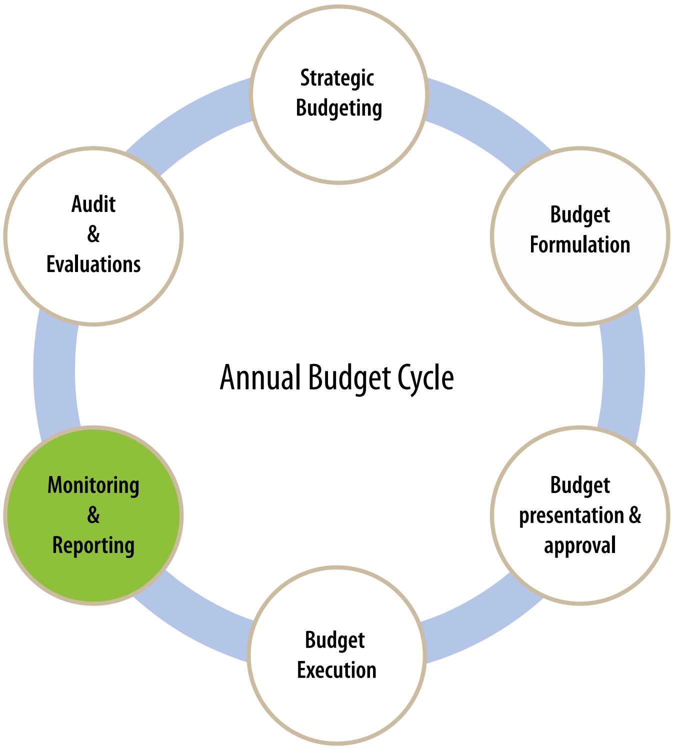
- **Normative Elements**: Normative elements include the minimum PFM and Policy-Based Budgeting Systems (NDS, Public Investment Plans, MTEF, IFMIS etc.) necessary to adequately discharge government policy. In many countries, SDGs will be integrated to varying degrees into this normative budget cycle process, though costed baselines, SDG budget tagging and SDG audits will not have been considered or even flagged in the VNR.

- **Advanced Elements**: Assuming essential and normative elements already exist, the aim of UNDP support is to introduce more advanced elements aimed at improving fiscal space for SDGs. These would include integrating DFA and INFF corrective measures into the NDS and Public Investment Plans, an SDG Financing Strategy, clear and costed SDG baselines, SDG and Climate budget Tagging and progressive VNR supported by PEIR (Public Expenditure and Institutional Review). It would also include a clear strategy for engaging the private sector, including 'right-financing' considerations for the sectors. Table below provides a set of entry points for each of the above.

Table 5: Strategic Budgeting Entry Points for UNDP Country Offices

Basic Elements - Country X	Normative Elements - Country Y	Advanced Elements - Country Z
• CCA/UNSDCF Influenced NDS • SDGs Integrated into NDS • SDGs Integrated into PIPS • Rolling Three Year Fiscal Projections (MTFF) • Rolling Three Year Sector Budget Allocations (MTBF) • Rolling Three Year Expenditure Planning (MTEF) • IFMIS **Consider developing normative elements.**	• Performance (cascading) budget and planning system • Integrated National Financing Framework (INFF) • Development Finance Assessment (DFA) Road Map • SDG Financing Strategy • SDGs Integrated into Call Circulars and Formats • PIPs Integrating SDG Goals and Targets • SDG Costing / Fiscal Space Analysis • SDG INFF • SDG base, mid and end lines • SDG Budget Expenditure Tagging • Sub-National Entities Align PIPs to SDG Agenda • Voluntary National Review (VNR) • SDG Audits (Preparatory and Full) • SDG Mainstreamed into monitoring and evaluation systems. **Consider developing advanced elements.**	• Strong and continuous dialogue across domestic and international public and domestic and international private investors • Fully integrated SDG MTEF and Budget Call Circular Templates for all levels of government (national and sub-national) • Advance PETS linked to performance outcomes • Empirical evidence for sector investments, including the economic rate of return, net present value calculations, employment multipliers, etc. • SDG Public Expenditure & Institutional Reviews (PEIR) • National CSO and Private Sector Platforms • Strong focus on LNOB and Building Forward Better across PIPs.
If these elements are not in place, this building from here would inform your starting point.	If these elements are in place, identify which advanced elements can be introduced.	If all (or most) of the above are integrated, focus on impact monitoring and improving performance metrics.

Module C: Tracking SDG budgets – Coding and Tagging System



1 Problem Statement and Rationale for Change

Classifying, monitoring, and reporting amounts spent on accelerating SDGs is vital for assessing issues such as efficiency, effectiveness, and equity – but also important to demonstrate government's policy in a transparent manner. While methodologies and notes are available for standard public budget classification system[28] (e.g., COFOG and economic classification), there is no standard methodology that exists for tracking expenditures on SDGs. Until the time a universally standard new classification system is developed to track finances on SDGs/targets and/or other 'cross-cutting' policy themes (such as climate change/green initiatives, gender, children, nutrition, etc.), the methodologies adopted by different countries may continue to differ and may not be suitable for undertaking cross-country budget comparisons. However, this provides an opportunity for countries to develop country-specific system and methodologies to suit their reporting

28 IMF's GFSM (Government Financial Statistics Manual) 2014 provides a harmonised systematic basis for reporting and analysing government finances. https://www.imf.org/external/pubs/ft/gfs/manual/aboutgfs.htm.

requirements based on the existing capacities/reporting requirements.

Different countries have experimented with different methods of budget coding and tagging systems over the past few years. This note presents examples of methodologies and key lessons that the UNDP country offices can use while discussing and designing similar expenditure tracking systems.

Expenditures on SDGs may be undertaken through public finance, ODA and through private finance. To gauge efficiency of public expenditure on certain elements of development process (e.g., health, education, climate change, poverty reduction, etc.) specific analysis in shape of **Public Expenditure Reviews (PERs)** are undertaken. Public expenditure reviews can answer questions such as[29] (i) who finances the sector and how are funds channelled? (ii) how much does the government spend and on what? (iii) is the public financial management system set up to enhance financial accountability? (iv) relative to the government's policies and standards, how much is needed now (adequacy), and what can be afforded in the medium and long term (sustainability)? (v) are public resources being used efficiently and effectively? (vi) does public spending promote equity? However, lessons from Public Expenditure Reviews suggest that they take considerable resources[30] and are generally one-off exercises undertaken to inform a government's expenditure patterns.

For determining the expenditure incurred on the public by the **private sector**, surveys are generally undertaken by government statistics organisations. An example is 'national health accounts'[31] through which health expenditure incurred by public, private and non-governmental sectors are provided. Similarly, tracking funds spent through ODA (cash or non-cash) may be part of the donor reporting systems. However, these methods have certain limitations:

Table 6: Tracking Expenditure on SDGs – Methods other than SDG coding and tagging

Expenditures on SDGs through	**Methods other than SDG coding and tagging**	**Limitations**
Public Finance (incl. government and public entities)	• Public Expenditure Reviews • Reforms (e.g., gender-based budget)	• Ad hoc (on-off studies) normally carried out by the World Bank[32], other IFIs and UN organisations to inform their country assistance strategies • Finance of public entities may not be fully captured
Private Finance	Expenditure by private sector is normally ascertained through undertaking national surveys	The surveys are normally carried out for health and education sector and that too on a periodic basis (e.g., National Health Accounts[33])
Overseas Development Assistance - ODA (on and off-budget assistance)	• Project Appraisal Documents • Databanks: e.g., AidData.org • Sustainable Bonds: Define and report on eligible expenditures	• Tagging of SDGs in PADs is not standardised across different donors • Valuation and tagging of non-cash aid (e.g., vaccines) may not be easily identifiable • Online databanks: Regular data may not be available.

29 World Bank – Education Public Expenditure Review Guideline - https://openknowledge.worldbank.org/bitstream/handle/10986/27264/116334-WP-P158328-PUBLIC-EducationPERGuidelinesfinal.pdf?sequence=5&isAllowed=y
30 World Bank – how to do a good PER? - http://www1.worldbank.org/publicsector/pe/befa05/PERs.htm
31 https://www.who.int/health-topics/health-accounts/#tab=tab_1
32 World Bank - https://documents.worldbank.org/en/publication/documents-reports/documentdetail/509221468740209997/evaluating-public-spending-a-framework-for-public-expenditure-reviews
33 https://apps.who.int/nha/database/DocumentationCentre/GetFile/55060821/en

Example: Climate Change (SDG-13) Public Expenditure Review (CPIER)

CPEIRs preparation starting in 2011 help in tracking budget allocations responding to climate change. The UNDP released a methodological guidebook in 2015[34] to help guide these reviews. UNDP has supported a number of countries in the Asia-Pacific region to undertake analysis of public expenditure spent on climate change adaptation, mitigation and support activities by national and sub-national governments. Countries such as Nepal, Bangladesh, Cambodia, Thailand, Pakistan, Samoa undertook the reviews and published their findings. Public expenditure reviews were also used by some countries to develop INDCs, report budget allocated on SDG-13 in their budget documentation to enhance transparency and developed a budget coding and tracking system.

Based on their CPEIR experiences, governments have also introduced Climate Budget Tagging system integrated with their budget information management systems, so the climate allocations and expenditures are monitored on a regular, systemic, and sustainable way. Nepal was the first country to introduce climate budget tagging back in 2012, only one year after the CPEIR was produced.

Country Experiences

A number of countries have adopted some form of budget coding and tagging systems to track either all or some of the SDGs, however, their systems and methodologies differ. Some countries such as Mexico, Colombia, Armenia, Ghana, and Malaysia have developed budget coding and tagging systems for SDGs as well as targets and are in the process of further refining and developing the system. UNDP has supported around 20 countries in establishing a climate-change budget coding and tagging system. Many advanced countries e.g., France, Ireland, Italy, Norway, and Sweden have recently implemented green-budget tagging systems (OECD 2021). Some countries only tag public investments (e.g., South Africa and Ireland), while other only tag recurrent expenditure (e.g., Philippines). There are countries that track expenditure of government as well as funding sources (e.g., Colombia), while some (e.g., Armenia) are in the process of introducing a more refined 'weighting' system to define degree of allocations to a particular SDG/target. There are also examples of countries that have mapped their national development plans/national programmes with SDGs (e.g., Thailand, Ireland).

For instance, **Mexico's** Ministry of Finance and Public Credit (Secretaría de Hacienda y Crédito Público) has partnered with UNDP to identify budget items that contribute to progress on the SDGs. For 10 SDGs there is 100% coverage of the goals and budget, and for another 6 SDGs, there is over 85% coverage. Out of 584 budgetary programs analysed, over 83% are linked to SDGs. (IBP 2017; UNDP undated). Certain issues have been highlighted (i) even though performance information is available on SDGs and other goals (through national survey data), more work is needed to ensure that this data is used to analyse spending effectiveness, and make changes as needed (ii) hundreds of extra budgetary entities and federal trust funds still need to be included in the budget, and (iii) financial information systems do not ensure consistency across information sources. To address these and related issues, reforms were launched in 2020 with the help of World Bank.

Colombia has undertaken a comprehensive exercise with the help of UNDP CO and undertook the exercise on alignment of government's FY20 budget with SDGs. Through the exercise, government, and ODA (refundable as well as non-refundable) funding is aligned with SDG targets. Around 89% of the budget is tagged (excluding items such as debt servicing) to 169 targets. The taxonomy of the tagging system has been drafted (provided below).

34 UNDP - https://www.asia-pacific.undp.org/content/rbap/en/home/library/democratic_governance/cpeir-methodological-guidebook.html

Uzbekistan's Ministry of Finance partnered with UNDP in 2019 to tag 72% of the state budget with 16 SDGs. The analysis of budgetary allocation for SDGs were presented in the published (Citizen's budget 2019 – www.mf.uz) for improved transparency and repeated the same exercise during 2021. The Ministry of Finance is currently in the process of taking the next steps to strengthen the methodology and make the reform part of the government's budget processes.

In **Nepal**, expert opinion-based mapping of budget lines with individual SDGs was undertaken in 2017. The information is also used in medium-term budget planning to inform on relevance of budgets by 17 SDGs. However, while the system is simple to follow, it needs further strengthening so that regular reporting and efficiency analysis can be undertaken, and information is used to inform the next round of planning and budgeting.

In **Pakistan**, a budget coding and tracking system was developed with the support of UNDP by Ministry of Finance and Ministry of Climate Change with the aim to improve reporting and tracking on SDG 13 (climate change). Subsequently the system was implemented in the government's computerised budgeting and accounting system with the aim to report on adaptation, mitigation and supporting activities on regular basis. The methodology included; climate change taxonomy based on the climate change policy (divided into 'main element' marked as adaptation, mitigation, and supporting activities, and 'sub-element' marked as energy, water resources, disaster preparedness, industries, carbon sequestration and forestry), the funding source (local and foreign funding), and relevance (High relevance (>75%), Medium (50% - 74%), Low (25% - 49%) and Marginal (<25%). However, the Ministry of Climate Change remained unable to recruit experts for sustainability of the reform initiative and production of regular reports for the senior management.

In **Armenia**, a simple tagging model was introduced for presentation of budgetary proposals by SDGs. The tagging model was not integrated with in the computerised IFMIS but was undertaken to present budget by SDGs to the Cabinet.

The **Mongolian** government developed SDG budgeting templates, and linked SDG targets for the health sector with the budgets. In addition, for feeding the results in the next round of budget making, expenditure trend analysis was undertaken in the health sector. In the current fiscal year 2020-21, the government plans to; rollout SDG budgeting in 3 additional sectors, align budget program structure with National Policy, SDG framework, and introduce budget monitoring for SDG performance.

The **Ghanaian** government has included 'policy-objectives' as part of their expanded Chart of Accounts. Each budget and expenditure item are marked with the relevant policy objective, based on the national development planning framework aligned with SDGs.

In **France**, Green Budgeting methodology is being applied to all public policies being finance by the state. The first edition of the green budget, which was an annex to the finance bill, took place in September 2021 and the second in October 2022 that was prepared by a working group of representatives from the Ministry of Finance and the Ministry of Ecological and Inclusive Transition. The working group applied the methodology outlined in the 2019 IGF/CGEDD report to the whole budget (including investment and operating expenditure, taxes, and tax expenditures). This methodology rated State policies into five categories ranging from an unfavourable (-1) [initiatives negatively contributing to climate change that are deducted from overall green budget] to a very favourable (+3) to environmental impact. It used a grid covering six major environmental goals [taken from the European taxonomy of sustainable activities]: (i) the fight against climate change, (ii) adaptation to climate change and prevention of natural disasters, (iii) the management of water resources, (iv) the circular economy, waste, and the prevention of technological risks, (v) the fight against pollution, and (vi) biodiversity, and protection of agricultural, forestry and other green areas. The two green sovereign bonds issued by France in 2017 and then 2021 (green bonds at 1.75% maturing June 25, 2039, and green bonds 0.5% maturing June 25, 2044) are backed by a set of expenses favourable to the environment, in line with the work carried out within the framework of the green budget.

Key lessons

Main lessons drawn from the above country examples include; (i) upfront clarity of the need and objectives of the reform initiative including dialogue with the senior level bureaucratic and political leadership, (ii) understanding of the context of PFM and the data sources currently available, (iii) capacities of Ministry of Finance in designing and sustaining the system, (iv) methodology/taxonomy of the tracking system, (v) decision on single vs multiple SDG taxonomies to run concurrently – e.g. SDGs, and climate change, (v) stages of implementation – basic, intermedia and advance (Table 7: Design considerations), (vi) transparency – presentation of the data at different stages of the budget and in different policy and budget documents, (vii) debate using the data with parliamentarians, and (viii) undertaking analysis using the coding and tagging budget data for improved policymaking.

2 Designing the tagging system – Issues & Options

Conceptualising the objectives

It is important for UNDP Country Offices to discuss and understand the key objectives behind starting a reform process with country authorities.

The main purpose of establishing a budget coding and tagging system is to track, report, monitor and review budgets and expenditures on SDGs leading up to improved budget allocations. Such a system facilitates the integration of SDG and/or 'cross-cutting' policy themes into the public planning and budget cycle. Implementation of the system in public financial management is aimed at improving budget allocation decision making, identifying which areas require additional financing, as well as carrying out **efficiency**, **effectiveness**, **benefit incidence**, and **equity** analysis. The reform will also enhance **transparency**, help in raising awareness, and strengthening **accountability** around the use of public funds. The system can also track expenditures made through a particular financing instrument – e.g., sustainable bond. If the system encompasses tracking of private finances, then it can aid in designing appropriate government policies to incentivise and/or regulate private sector around specific areas e.g., green investments.

While those are ideal objectives of a proper SDG budget coding system, countries may opt for some intermediary or transition solutions addressing most direct and required challenges in SDG budget tracking system.

Reform design considerations – different models, selections, and options

To design and develop SDG budget coding and tracking system the following selections and options and the design can be considered:

Table 7: Design considerations

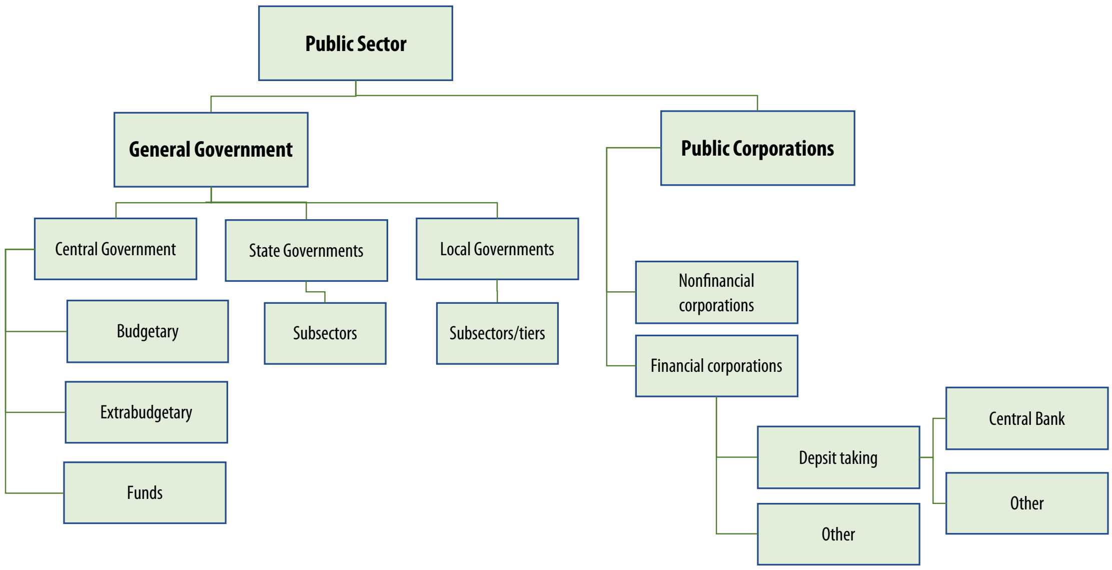
Areas	Basic	Mid-level	Advanced
Coverage	Government Ministries/ Departments	Government (national and sub-national), public entities, and ODA (on budget)	Public sector, ODA (on and off budget), and private sector
SDGs Selection	Priority SDGs	All SDGs or selected targets	All targets
Budget/Expenditure	Capital side only	Capital and operational side	Tax revenues and expenditures
Relevance	Mark most relevant only	Mark 'most relevant' and 'moderately relevant'	Weights: % contribution (based on pre-defined criteria/ methodology)
Contribution	Positive contribution	Positive and/or negative contributions	Positive and negative contribution
Budget documents	Citizen's Budget (ex-post)	Budget documents	Budget and monitoring documents
Oversight and debate	Cabinet	Parliamentary committees	Parliament, Civil society, communities, development partners
Budget Process to Influence	Budget presentation	Allocations and budget presentation	Allocations, presentation, monitoring and evaluation
Systems	Off-line	Chart of Accounts and IFMIS	IFMIS/IT based public sector, ODA and private sector classification system
Linkage with KPIs	No	Yes	Yes
Institutions	MOF/Planning	MOF/Planning and sector Ministries	MOF/Planning, Ministries and Public entities
Analysis	Financing gap	Efficiency	Efficiency and effectiveness
Cross-sectoral themes	Part of SDGs	Additional taxonomies used	Multiple-taxonomies work in parallel

Issues and Reform options

Coverage

Public sector includes both the government and public entities. Government includes tiers of the government i.e., national/federal government, state/provincial governments, and local governments. The government finance also includes on-budget donor support. While public entities include public not-for-profit organisations (e.g., public funds) and for-profit organisations (e.g., commercial entities that rely primarily on self-generated revenues but may on occasion get government investment or loan), many countries only report budget and expenditure information related to government as their reporting systems are not fully developed to cover financial information of public entities. As per the PEFA assessments of undertaken since 2016, most of the low and low-middle income countries include only the government accounts information in their financial statements and hence, financial information of public entities is not provided. The following diagram (IMF GFSM) provides further clarity.

Diagram 5: Coverage of the SDG coding and tagging system in the public sector



For designing an SDG budget coding and tracking system, as a first step, a decision may be required on the selection of the coverage of the coding and tagging system. The following table provides different selections, coverage and their benefits and discussion points:

Table 8: Benefits and Issues in Coverage

Scope	Coverage	Benefits	Issues	Decision points
Selection 1: Introduce budget coding and tracking in the **'General Government'**	System implemented at the national/**central government**	Centre takes leadership and demonstrates	Social sector expenditures on SDGs are generally at decentralised level	• Using government's Chart of Accounts or off-line coding • Use of IFMIS, or off-line tagging • Methodology/ taxonomy • Regulatory changes required
	System implemented at **sub-national level** (state/province, local governments etc.)	All governments provide SDG budgeting and expenditure data	Can prove to be a large and complex exercise requiring high levels of capacity	

Scope	Coverage	Benefits	Issues	Decision points
Selection 2: Introduce budget coding and tracking both in the **General Government and Public Corporations** (including for-profit/commercial entities and not-for-profit entities)	System implemented at General Government and Public Corporations levels	Whole of the public sector approach provides information on public sector investments in SDGs	In countries where financial reporting systems of public entities are not well developed – this exercise can prove difficult. Additional challenges in environments with different accounting standards (and charts of accounts) applied at the general government vs public corporations' systems	• Reporting system – expenditures of public entities • The issue of double counting in case of government grants • Development of a database to consolidate public sector budgets and expenditure data
Selection 3: Introduce budget coding and tracking in **'off-budget' assistance by development partners**	Request donors to provide ODA (off-budget) in a specified format	Off-budget assistance is tracked by SDGs. With funding available might be easier to implement at initial stages of B4SDG reforms	Compliance by donors. Some assistance may cut across various SDGs	• Donor assistance template

Selection of SDGs and Targets

Choice of inclusion of SDGs in the exercise of budget coding and tracking can depend on different factors (presented below). UNDP country offices will undertake analysis and dialogue with country authorities to recommend way forward.

1. **National priorities** on which government intends to increase investments for acceleration of achievement of SDGs? These can be generally available in National Development Strategies/ Visions/Plans in a country,

2. **Institutional capacities** – especially in the Ministries of Finance to allow a new element in the government chart of account,

3. **Sectoral expertise and knowledge** - certain SDGs, e.g., SDG-13 climate change may require expert opinion to develop linkages with investments related to targets of adaptation and mitigation,

4. Which SDGs are regularly discussed in the **legislative committees**?

5. Strength of **financial management information system** and its coverage in a country. A good IFMIS (integrated financial management information system) may only be available at the

central level due to which a decision can be taken to introduce the coding and tracking system at the central level only,

6. Who are the **main users of the information**? At the minimum sector Ministries, and the Cabinet can be the main users. At a more advance stage, legislature, communities, civil society, donors etc. can be included,

7. Choice of **sequencing of inclusion of SDGs** in the exercise. Options can include at a first step to include goal only and later to include goal as well as target.

Table 9: Sequencing the inclusion of Goals and Targets

	Priority SDGs		**All SDGs**	
	Goal only	**Goal and Target**	**Goal only**	**Goal and Target**
Option 1	X			
		X		
Option 2			X	
				X

Taxonomy

The goals and targets defined as part of the Agenda-2030 of sustainable development provides 17 goals and 169 targets, which can be used as the taxonomy. There is, however, no standard universally applicable taxonomy for 'cross-cutting' themes for example, green budgeting. The following are the examples for green budget taxonomies. Examples of taxonomies are also available for other policy themes (e.g., child rights, SUN nutrition markers, etc.). However, countries may like to develop their own taxonomies based on initiatives defined in their national policy/planning documents.

Table 10: Examples of taxonomies of cross-cutting policy themes

	Cross-cutting themes	Examples of taxonomies
1	Climate Change / Green Budgeting	• **European Union (EU) Taxonomy for Sustainable Finance:** The EU Taxonomy defines investments in economic activities which make a substantial contribution to one of six environmental objectives: 1) climate change mitigation; 2) climate change adaptation; 3) sustainable use and protection of fresh water and marine resources; 4) transition to a circular economy; 5) pollution prevention and control; and 6) protection and restoration of biodiversity and ecosystems, without harming any of the other activities. (EC, 2018) • **International Capital Markets Association (ICMA) green bonds:** The Green Bond Principles explicitly recognise several broad categories of eligibility for investments in green projects, which contribute to the following environmental objectives: climate change mitigation, climate change adaptation, natural resource conservation, biodiversity conservation, and pollution prevention and control. Several states have issued sovereign green bonds and green bond frameworks to define the scope of their green investment with the bonds' proceeds (Belgium, Fiji, France, the Netherlands, etc.). (ICMA, 2018) • **OECD-DAC Rio markers:** Four Rio markers – biodiversity, climate change mitigation, climate change adaptation and desertification – are used to monitor aid targeting environmental sustainability in general and the objectives of the Rio Conventions in particular.
2	Children	• UN convention on the Rights of the Child[35]
3	Nutrition	• Scaling Up Nutrition (SUN) markers

35 UNICEF - https://www.unicef.org/child-rights-convention/convention-text

Linkage with the Chart of Accounts

Chart of Accounts

To record, execute, and report the public sector budget, a system of coding and tracking called the budget classification system is used. Many countries follow the structure of chart of accounts (classification structure) that is somewhat consistent to what is advocated by the IMF as part of its Government Financial Statistics Manual (GFSM)[36] standard. The GFSM provides standard taxonomy and guidance related to (i) **Economic classification** – e.g., compensation of employees, use of goods and services, subsidies, etc., and (ii) **Classification of the functions of the government (COFOG)** – e.g., health, education, social protection, public order and safety, environmental protection, etc. In addition to these standard classification systems, government's also use additional elements: (i) **Structure of the government** – e.g., National Government/Sub-National Government(s), Ministry/ Department/Agencies etc., (ii) **Method of appropriation** – e.g., expenditure vote of Ministry of Education, (iii) **Programmes** – e.g., Immunisation, child protection, secondary education services, cash transfer programme, etc., (iv) **Projects** and (v) **Sources of funding** – e.g., domestic, or foreign funding. Some countries have also developed other classification systems such as; (i) gender, and (ii) climate-change / green budgets. It is also a good practice to have a uniform classification structure across various tiers of the government – e.g., national, sub-national, local governments, etc.

To understand the classification structure adopted by a government, PEFA assessments may be used. As per the latest data available[37], PEFA assessments in 45 countries have been undertaken since 2016. Nearly half (22) of the assessed countries have reported weak budget classification system – presented as low scores (i.e., C and D). Weak classification is categorised as having either one or two elements, non-compliance with IMF's GFSM manual, or incomplete recording of budget and expenditures. On the other hand, countries such as Indonesia, Uganda, Morocco, Paraguay, are reported to have good budget classification systems[38], categorised by having multi-element structure and compliance with GFSM reporting.

Country Examples – Assessment of Budget Classification Structure using PEFA studies

In **Rwanda**, an updated Chart of Accounts was brought into operation in May 2011, which provides for programmatic, economic and functional classifications for the budget, and also identifies sources of funding. This satisfies the requirements of the Organic Budget Law 12/2103 and is in line with the IMF GFSM 1986. (PEFA assessment Rwanda, 2017).

In **Argentina**, the National Public Sector Financial Management and Control Systems Act and its regulatory provisions are the main legal basis to regulate the budget classification system for the central government. The detailed budget classification manual is defined under government resolutions, under which the state budget is appropriated and allocated based on; organisational units (jurisdiction), five functions (30 sub-functions), programmes (activities) and economic classification. However, at the time of the assessment, the functions did not comply with GFSM 2014 standards. (PEFA assessment Argentina, 2019).

In **Georgia**, budget and expenditure information is recorded on the three main elements: economic, functional and administrative. Economic and functional classifications are used at all levels of the budget system for public accounting, which complies with the GFSM 2001. (PEFA assessment Georgia, 2018).

Aligning SDG public budget coding and tagging system with the Chart of Accounts presents certain benefits. As the budget and expenditure information is recorded on chart of accounts,

36 IMF - https://www.imf.org/external/Pubs/FT/GFS/Manual/2014/gfsfinal.pdf
37 PEFA Feb 2021 - https://www.pefa.org/global-report-2020/data/PEFA%20Public%20Database.csv
38 *Ibid*

tagging of SDGs with chart of accounts can help in regular budget and accounting information to be captured, reported, and presented in the financial statements. Case example of Ghana, which has 12 elements in its chart of accounts; institution, funding, functions of the government, organisation, policy objectives, programme/sub-programme, project, option/activity, location, natural account etc. The element called 'policy objectives' is tied with five national policy objectives – including economic development, social development, environment, infrastructure and human development, governance, corruption and public accountability, and international affairs. The national policy objectives are aligned with SDGs. Therefore, every time budget is entered, or expenses, assets, or liabilities, etc. are recorded in the books of accounts, it becomes possible to track the budget and expenditure by SDGs.

Public Budgets – Options for tagging Revenues and Expenditures

Option 1: Simple design option for tagging SDGs with public investments: In this option, only public investments (projects) are tagged with relevant SDGs. The feasibility studies or project documents are tagged on the 'most relevant' basis. This option may be most applicable in countries where reforms in Public Investment Management systems are being introduced (e.g., by a World Bank project). In such instances, integration of SDG criteria into the PIM modelling will require minimal costs while presenting significant benefits in aligning the budget system with SDGs. Once the system is in place, the investment/capital budget can be presented by SDGs in the budget documents. Tagging of the most relevant SDG can be undertaken by the agency that has prepared the project feasibility/ appraisal document. Guidelines of the types of investments and related SDGs can be provided through instructions from the central agencies e.g., Ministry of Finance/Planning.

Country Case Study: South Africa[39]

Capital projects implemented by line departments have been aligned to each of the SDGs, targets, and indicators. The following principles were used in the alignment process (i) All SDG targets and indicators were mapped to the roles and responsibilities of the different spheres of government as defined in schedule 4 and 5 of the Constitution of South Africa, and (ii) In 2017, SDG indicators which had a local government responsibility and aligned to capital project was 66 out of 98. In 2018, the number increased from 66 to 75.

Option 2: Moderate design option for tagging relevant SDGs with public investments as well as recurrent government expenditure of MDAs. This option is based on the principle that operational as well as investment budgets are the vehicles for achieving the Agenda-2030. Colombia has undertaken the exercise to tag both the investment and recurrent budgets. In case of programme budgets (e.g., as applied in France), the foundational unit becomes either a sub-programme or an activity, which normally has integrated operational and investment budgets.

Option 3: Advanced design in which revenues and expenditures are tagged. In this option, revenues are also tagged with sustainable goals. France, through the Green Budgeting initiative has also tagged specific tax policy measures with green objectives.

Public Budget System and the unit of tagging

The system in place for preparing public budgets is important to understand when discussing the design. Mostly two types of public budgeting systems are adopted by countries: input-based/line-item budgeting, and results-based budgeting. In the line-item budgeting system budget cost-centres (administrative units) and investment projects are generally tagged, while in the results-based budgeting systems, outputs, programmes/sub-programmes, and activities can be tagged. In both the cases, it is beneficial to discuss and provide specific guidelines on the tagging

39 South Africa – Voluntary National Review 2019

exercise and how it is linked with the budgeting system.

Table 11: Unit of tagging and discussion points

#	Tagging Unit	Features	Discussion points	Country Case
1	Budget cost-centre (administrative unit), commitments, and projects	Cost-centres are organisational/budget units that are provided budgets for spending Projects are part of public investments Commitments are payment obligations based on issued purchase order/contract	• Provision of government's budget and expenditure data at the spending unit and project level • Undertaking the first-time tagging exercise – as there may be thousands of cost-centres in the government (e.g., one for each primary school). • Determination of the criteria of tagging operational and investment (projects) budgets • Tagging SDGs with new cost-centres created each year including organisational responsibility and quality assurance	Colombia, Armenia, Pakistan, Nepal
2	Projects (public investments) only	Project documents/feasibility studies include tagging requirement	• Guidelines in planning/project management documents • Availability of projects data such as objectives, logical framework, and milestones • Linking cross-cutting policy themes – single or multiple (e.g., poverty, climate change, gender, children, nutrition, etc.)	South Africa
	Programmes/ Sub-programmes	Part of results-based budgeting systems	• Guideline for programme/sub-programmes tagging. Working with programme managers to understand the link between programmes/sub-programmes and SDGs • Linking cross-cutting themes	France, Mexico, Malaysia

Relevance

Relevance marker is used to ascertain degree of budget contributing to an SDG. In the 'basic' design only 'directly relevant' budgets are attributed/marked to SDGs – or one-to-one tagging system. In a more sophisticated design various options can emerge – as different countries have adopted this criterion differently. **France** has adopted 'favourable', 'neutral' and 'unfavourable' criteria in its green-budgeting marking initiative. In **Pakistan**, the climate change budget coding and tagging included percentage contribution categorised as: High (>75%), Medium (50% - 74%), Low (25% - 49%) and Marginal (<25%). In this case, a project was assigned weightage of say 50% if its contribution to climate change was considered medium, and therefore, 50% of the project budget was categorised as climate responsive. In the case of **Colombia**, two types of relevance tags are being used: 1) primary relevance (which is the main SDG target), and 2) secondary relevance (i.e., complementary SDG targets). The primary relevance is assigned 75% weightage while secondary is assigned 25% weight (further details are provided below).

Choice of Cost Allocation in Relevance Principle: It is understood that a government activity (project/spending unit or a programme) may directly or indirectly contribute to an SDG. In that case a cost-allocation criterion will need to be developed. Different choices can be made:

1. Only include the principle of 'directly' relevant and hence tag only those spending units/ projects that directly contribute to the SDG goal and target;
2. Use different tags to specify allocations. e.g., inclusion of 'highly relevant', 'moderately relevant' or 'less relevant'. Another example can be inclusion of a distinction of 'primary' (100% relevant) and 'supportive' tagging;
3. Use 'weights' such as percentages e.g. 'highly relevant' can be assigned 100% weight, while largely relevant can be assigned 75% and moderately relevant can be assigned 25% weight. In addition, the criteria can be made more complex, but which will require preparation of sophisticated **guidelines** to be able to determine the cost allocation principle.
4. Use of primary as well as secondary relevance criteria (see Colombia example below).

Country Examples: Relevance

Armenia: The methodology used for tagging implied that only primary climate objective carrier appropriations will have 100% relevance weight and then only these 100% relevant cases will be tagged as SDG13 in the SDG budget tagging. At the same time, more detailed relevance weights will still be used for climate change budget tagging and reporting processes.

Colombia: Budget line-items (operational and investment budgets) are sub-divided into two portions; specific – which are directly aligned with SDGs, and general operating expenses e.g., salaries, asset acquisition, leases, utilities, etc. For specific budgets, line-items are tagged with: (i) One main SDG target – which is assigned 75% of weight, and (ii) Up to 5 complementary SDG targets – 25% divided by weighted average differently for different sectors. For general expenses, method of extrapolation and manually determined percentages were used. Example of specific budget tagging:

Organisation	Sector	Budget item	Amount	SDG Targets (M=main, C=complementary)					
				17.14	9.1	8.3	16.3	10.2	1.5
				M 75%	C1	C2	C3	C4	C5
XYZ	Food	Project	100m	75m	5m	5m	5m	5m	5m

Examples: Assigning weights in the tagging exercise

Expenditure line-item/ Programme	SDGs	Target	Weights
ECD centre	SDG 4	4.2: Girls and boys have access to quality ECD and pre-primary education	100%
Primary School Programme	SDG 4	4.1: Girls and boys complete free, equitable and quality primary and secondary education	100%

Project: Water filtration plants	SDG 6	6.1: Universal and equitable access to safe and affordable drinking water for all	100%
Social Security Fund	SDG 1	1.1 Eradicate extreme poverty for all	100%

One-to-Many design considerations: There can be instances where one expenditure item/ programme/sub-programme can contribute to more than one SDGs. For example, a university primarily offering courses categorised under climate change, can contribute to both tertiary education and supporting climate change activities. In such cases, tertiary education programme can be tagged with two SDGs, each assigned different weights. In a country with SDG tagging intends to cover both the goals and targets and the budget data is available at aggregated level (e.g., programmes, or appropriations), using the option with cost allocation weights becomes nearly unavoidable as there will be various instances where one/many budgets programme(s)/appropriation(s) will be directly relevant to many SDG targets.

It is recommended that initially the 'relevance' criteria may be kept as simple as possible so that it becomes easy to attribute and explain the methodology to different stakeholders. For this reason, country authorities may be recommended to undertake the exercise using disaggregated budget data. A complicated 'relevance' criteria will not only be difficult to follow but also it will be difficult to explain, which may lead to confusions at the time of public debate.

SDGs and cross-cutting policy themes – single or multiple tagging systems?

The decision to implement single (SDG coding and tagging) vs multiple taxonomies (SDG as well as another cross-cutting tag - e.g., green budgeting) have certain pros and cons. The main advantage of having a single SDG budget coding and tagging is less complexity. For countries that intend to start the reform process, key considerations may include; less complexity, simple design and easy to adopt system, especially where public sector capacities are limited. However, it is likely that certain issues will emerge. For example, the climate change budget will normally be identified as SDG 13, and hence substantially lower budget and expenditures will be reported in this head, if only most relevant expenditures are tagged. There can be different ways to deal with this issue:

- Separate taxonomies are developed for SDGs and green budgets - In this option, each budget line-item (cost-centre or a project or activity) will be marked twice, one for SDG budget coding and tagging (using SDG taxonomy) and one for green budget coding and tagging (based on any other taxonomy – see Table 9).

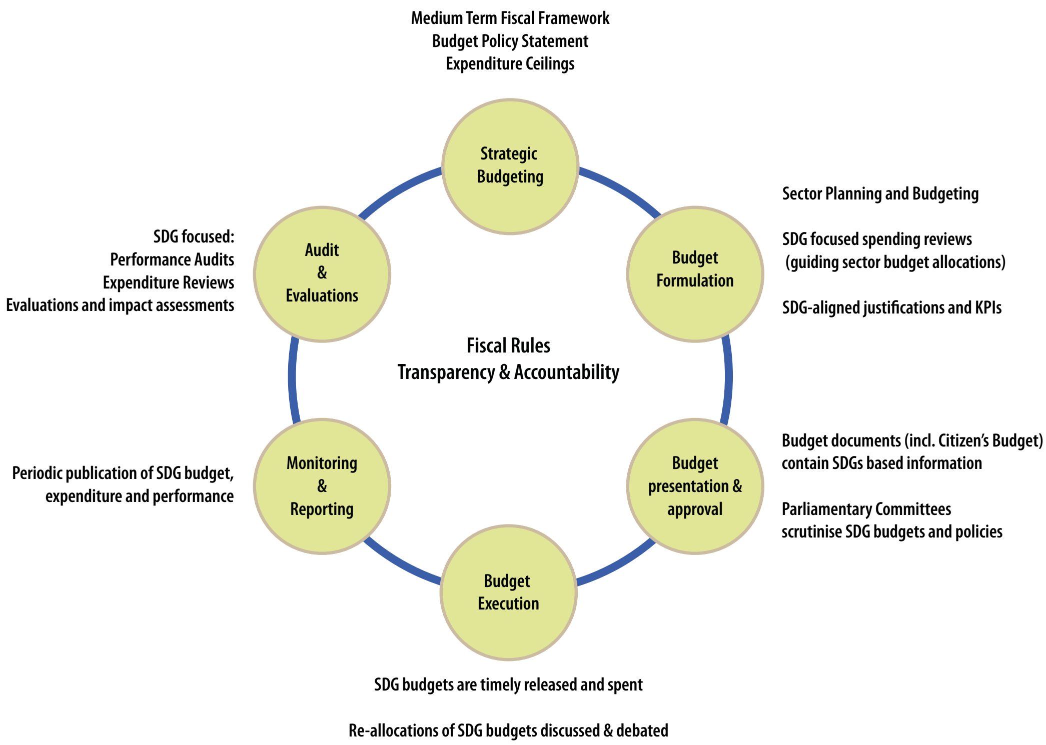
- Single system of SDGs is maintained, with an added layer of cross-cutting themes (see below):

Cost centre/ program	Budget/ Expenditure	SDG Goal	SDG Target	Relevance	Green Targets	Child Rights	Gender

Processes in the Budget Cycle to Influence through the tagging system

Ideally the budget coding and tracking system should influence all stages of the budget cycle. Examples of the types of processes can include the following diagram:

Diagram 6: Processes in the budget cycle that can use budget coding and tracking information



The following gives more detail[40] on how SDGs can be brought into different stages of the budget cycle:

- **Fiscal policy statement (also known as pre-budget statement) -** fiscal policy statement usually includes medium-term fiscal framework (MTFF) and key fiscal policies – e.g., revenue and expenditure policies. The fiscal policy statement can address issues such as fiscal space, allocations of shares for priority SDGs, public investments needed to accelerate SDGs, etc. MTFFs can be based on sector medium-term strategic plans where SDG related projects and initiatives are costed. SDG related expenditure policy proposals in the approved medium-term budget estimates can align with sector costed medium-term strategic plans. Based on the approved fiscal policy, sector ministries are provided sector/SDG priorities and forward budget estimates/expenditure ceilings.

- **Planning and budgeting** – SDG related expenditure policy proposals in the approved medium-term budget estimates can align with sector costed medium-term strategic plans. The SDG budget coding and tracking system can provide baselines of expenditures on SDGs, allow clarity of priority allocations/investments for SDGs. Additionally, through the coding and tracking information, budget information can be linked with performance information (in countries where KPIs are included in the budgetary documents – e.g., programme budgeting in South Africa includes KPIs for different government programmes.

- **Presenting SDG information in budget books tabled in the legislation** – through the SDG coding and tracking helps budget information be presented by SDGs for effective budget hearings and SDG-informed budget approval process. As explained above, examples

40 Draws on PEFA Secretariat 2020, World Bank 2021.

are available from countries that present SDG budget information in their Citizen's budget. Additionally, SDG based budget allocations for each Ministry/Expenditure Vote can help Parliamentary Committees to review budgetary allocations by SDG priorities. -

- **Transparency: periodic expenditure reporting (including in-year, mid-year, year-end financial statements) –** In countries that have developed IFMIS system, and SDG budget coding and tracking system is made part of that system, every expenditure is tagged through the system. SDG related expenditure is identified using specific budget expenditure line items, programmes codes, elements in the government's chart of accounts or markers such as Rio markers. Expenditure related to activities that are counter to SDG policy goals is disclosed in budget documents and in end-of-year budget execution reports. SDG related transfers to extrabudgetary units and public corporations in charge of implementing SDG actions, and outturn, are identified.

- **Monitoring and evaluation** – Information of SDG budgets and expenditures can be monitored on regular basis, including the extent to which SDG related expenditures reflect the amounts originally approved, as defined in government budget documentation and end-of-year reports, both at the aggregate and at the detailed level. Some countries already monitor their budgets by SDGs without using budget coding tool (e.g. Uzbekistan) but such systems are expensive to run and not sustainable. Other countries such as Nepal and Mexico have been suing budget tagging system to produce regular budget monitoring reports by SDGs.

  On less frequent basis, certain government programmes/activities can be evaluated to review efficiency, effectiveness, and equity consideration (e.g. via Public Expenditure Reviews), and analysis such as benefit incidence. Governments may carry out independent evaluations undertaken by a body that is separate from, and not subordinate to, the body that delivers the service. It could be a part of the same unit that has a separate reporting line to the CEO, or a senior management committee.

- **SDG performance audits** – Countries may initiate SDG readiness audit to assess the level of institutional and functional alignment/compliance by SDGs and inform governments on compliance gaps. Countries that have advanced auditing systems in place, like performance audits, can use budget and performance information to undertake SDG focused performance audits for gauging value for money.

- **Legislative scrutiny of expenditure and audit reports** -- Support mechanisms such as specialised legislature committees, technical and scientific support, expert advice from advocacy groups/research think-tanks, and independent Councils (e.g., climate Councils) may be called upon. A review of SDG related executed expenditure and revenue can proceed at a level comparable with the approved budget. Specific analysis of the execution of SDG related expenditure and revenue may be published. A review of audit reports or/and evaluation reports may be carried out on the performance of SDG related programs or activities in line with planned outputs and outcomes, along with a review of audit reports or/and evaluation reports of climate change impacts of the executed budget. This is followed by recommendations for actions issued by the Legislature to be implemented by the Executive and follow up on their implementation.

- **Analysing value for money, equity, and benefit incidence** – SDG based budget and expenditure information can aid in undertaking efficiency, effectiveness, equity and benefit incidence analysis to gauge the value for money and impact of the SDG budgets on target population. Such analysis may be used in the policy and budgeting deliberations on a regular basis.

- **Aligning SDGs monitoring and evaluation with the next round of budgeting** – Monitoring, evaluation and performance audits can help to inform the next round of policy planning for more informed budgetary allocations.

3 Critical Success Factors

The success of SDG budget coding and tagging can depend on various factors, as presented below for the climate tagging example. Some of the important factors to be considered include[41]:

1. **Define the objectives of the tagging initiative and consider alternatives.** This will inform decisions on whether to embark budget tagging exercise. In some circumstances, mainstreaming SDGs through the systematic appraisal of programs and projects may be considered as a preferred alternative.

2. **Define the policy scope of the tagging methodology.** Tagging can support multiple policy objectives. However, the multiplication of tags increases implementation costs and can hinder prioritisation. Tagging is normally best suited to cross-cutting policies—such as climate change—that are not captured by administrative and program budget classifications.

3. **Engage key institutional stakeholders in the design and implementation of budget coding and tagging.** Ministry of Finance, planning, and sector Ministries/Departments/Agencies, all play important roles.

4. **Ensure that line agencies are actively involved.** Line agencies are best placed to determine how resources should be applied to achieve SDG policy objectives in their area of competence.

5. **Align definitions of SDGs and expenditures with national policies and strategies.** This will generate information that can be used to monitor and steer policy implementation.

6. **Integrate tagging across the budget cycle from planning to reporting facilitates its use in resource allocation decisions.** As government activities/programmes and their spending units and projects are generally large in number, tracking would normally require automation through the integration of SDGs tags in IFMIS (integrated financial management information systems). Using information at the time of resource allocation decision-making improves policy-budgeting linkages and results in early engagement of political and bureaucratic administrations.

7. **Use complementary reporting systems to extend the principles of climate budgeting beyond the central government.** Sub-national governments and public corporations (state owned entities) are important actors in different SDGs (e.g. energy sector SOEs play and important role in climate change policy implementation). Central

41 Using World Bank's Assessment of Climate Change Budget Tagging (2021)

governments can promote reporting of SDGs by establishing standards and the use of conditional transfers.

8. **Generate information that decision makers need in formats they can use.** Information may need to be tailored to the needs of different audiences, including line agency management, central finance and planning agencies, the central government, the legislature, the public, and civil society.

9. **Undertake periodic expenditure reviews to test the alignment of plans and budgets.** Reviews should consider the policy tools—information, regulation, taxation, or public spending—that can best achieve national SDG policy goals and the policy alignment, efficiency, effectiveness, and incidence of spending. Invest in capacity building. Raise awareness among key stakeholders of the purpose of budget tagging, the policy objectives that it supports, and how to use information.

10. **Promote transparency, engagement, and debate on climate policy.** Budget tagging could inform public debate only if the information generated is publicly available. Debate on SDG policy and budgets will raise awareness of budgetary trade-offs and constraints and help mobilise support.

It is to be recognised that SDG budget and tagging information can also be a double-edged sword. Government stakeholders can always be tempted to make information an end in itself instead of a means to help policymakers design and implement the best responses to society's needs. Numerous examples of information overload have proved challenging to those involved in its production and those less capable of making good use of it. Information alone may in many cases not be sufficient to change key actors' behaviour[42].

4 Practical guidance for UNDP programming

4.1 Recommended approaches

While it is difficult to present a recommended approach to fit all different country contexts, the following general guidance can be helpful in designing/strengthening the SDG budget and expenditure coding and tracking system:

- If a country is about to embark on establishing the coding and tracking system for the first time then considerations will need to be made on quality and uniformity of budget and expenditure data, its coverage, chart of accounts across various tiers of the government, application of IFMIS system and its scope, and capacity of institutions to mainstream SDGs in different processes in the budget cycle. A country with sophisticated PFM systems (to be judged by PEFA assessments) can adopt a more sophisticated design of SDG budget coding and tracking.

- On the other hand, if a country has less developed PFM systems and capabilities then a 'basic' design can be recommended as the first step.

- For countries that have already taken the first step in mapping SDGs with government's

42 IMF (2013) – PFM and its emerging architecture

budget, then the next step of configuring the system in IFMIS, introducing regular monitoring and reporting, and inclusion of budget and expenditure in the budget allocation and policy planning processes can be recommended.

For UNDP programming, the entry points can be SDG fund proposals. Many countries in different regions of the world have included the SDG budget coding and tracking system as their PFM reform priority. However, it is important to study the PFM context in a country before service offering can be ensured. The UNDP Sustainable Finance Hub provides practical guidance on how to support country authorities in this reform agenda. However, generally consulting support will be required to guide country authorities through this reform effort (Terms of References are provided in a separate file – Annex C).

Country Examples: SDG fund proposals[43] of selected countries in the Asia-Pacific and African region

In Asia-Pacific, countries such as Nepal, Lao PDR, Cambodia, Samoa, Philippines, Malaysia and Viet Nam have suggested SDG budget coding and tagging system as their reform priorities. In Africa region, Cameroon, Uganda, South-Sudan, and Sudan have proposed SDG budget coding and tagging system as key PFM reforms for achieving the Agenda-2030.

Sequencing budget coding and tagging reforms

- **Review of Existing Budget Classification System:** This will include review of the SDG fund proposal by countries to understand the need of SDG budget tagging and coding system. In addition, review of PEFA assessments, budget and expenditure information, and IFMIS reporting can be undertaken to understand the quality of budget classification system in place. Based on this review, and the guidelines provided in this note, an initial understanding can be developed, leading to the next step of discussing and designing the reform effort.

- **Discussing and designing SDG Coding and Tagging system:** In this step discussions will be held with Ministry of Finance/Economy – both at the bureaucratic and political levels - on the SDG coding and tracking system. Points of discussion will include value addition, steps required to implement the system, embedding coding and tracking system in different processes of the budget cycle, capacities in Ministry of Finance/Economy and line Ministries, existing budget classification system and its applicability, IFMIS system, transparency and accountability, process of regular update of coding structure, institutionalisation, publication of SDG coding and tracking system etc. A sales pitch is developed and subsequently agreed with the central agencies.

- **Working with Country Authorities during Implementation:** Implementation of coding and tracking system will require close coordination with the government MDAs. Usually consulting support may be offered by UNDP. As the budgeting coding and tracking system require expertise in PFM system, it is equally important that sector expertise is coupled with the support to prepare guidelines and notes and propose a classification system and provide relevant trainings and handholding to relevant government authorities.

- **Adoption of the coding and tracking system in the wider budget cycle processes:**

43 United Nations (UN) 2021. Joint SDG Fund. https://jointsdgfund.org/

Following implementation, the UNDP can work with country authorities to undertake policy analysis and reviews and use the information for influencing policy through advocacy measures. It is important as a design consideration to propose system that impacts different stages of the budget cycle. Equally important is capacity building of the users of the system – e.g., legislature, communities, and donors to use the information to inform policy.

Module D: Local budgeting for the SDGs

1 Problem Statement and Rationale for Change

Sustainable development goals cover a wide range of public services, which are partly managed by subnational governments[44]. Many SDGs are relevant for local and regional governments (105 out of 169 SDG targets need local governments' engagement (OECD, 2020)). Beyond the typical local services, such as water management and sanitation, education, health care, transportation, there are other, more complex goals, which need orchestrated local actions. Poverty reduction, food security, gender equality, resilient infrastructure, combatting climate change, safe cities, etc. are achieved by more than one service or single sector activity. Subnational governments do not operate in isolation, they are important actors complementing national governments in a multi-tier government system.

There are numerous PFM related issues that require strengthening to enable subnational governments accelerate implementation of SDGs. These issues relate to (i) vertical and horizontal fiscal transfers – funds transferred from higher level government to subnational governments – including equalization grants – to address the issue of territorial equity, (ii) revenues collected by the subnational governments – including issues of autonomy and empowerment to promote inter-municipal cooperation and support efficient local service management for more effective implementation of SDGs, (iii) planning and public investment management systems – alignment with national policy priorities and local level planning needs – including setting priorities, funding and developing monitoring and evaluation systems, (iv) subnational budgeting systems to align with policy/SDG priorities, (v) building PFM institutions in subnational governments and capacities, and (v) managing fiscal risks.

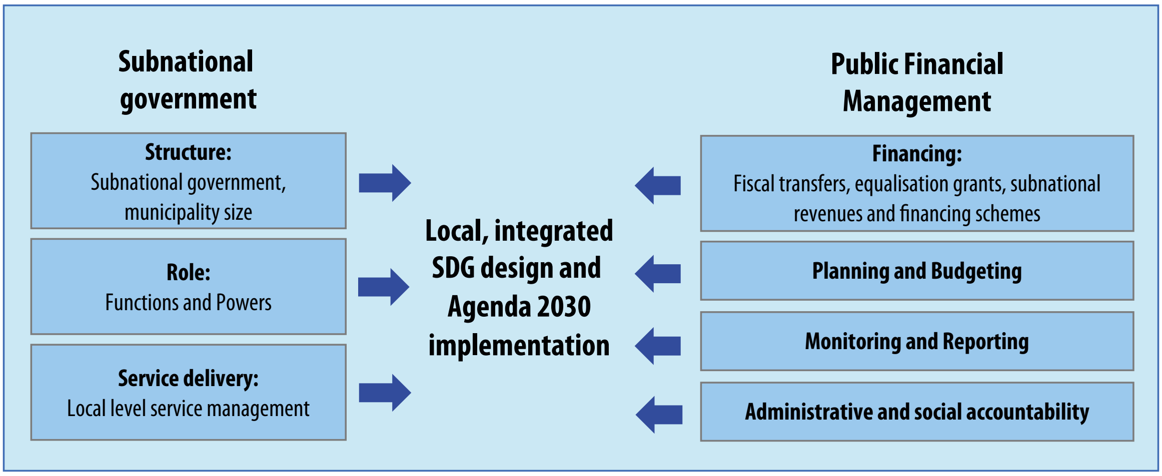
Subnational governments also offer opportunities to integrate resources vertically between central-local government tiers and horizontally, among neighbouring localities. Local and regional governments also help incorporate private funds and to establish partnerships between the public and the private sector.

This Guidance Note on local budgeting for the SDGs provides a structured framework to define those external factors, which influence fiscal planning and implementation of SDGs at subnational level.

44 The term subnational government is used interchangeable with local and regional government in this guidance note. Subnational governments include both the first (lower) government tier, such as municipalities (cities, towns, villages) and the intermediary tier governments. This latter group of government entities might take various forms: county, region, province, or state in federal systems. In most cases these local governments have some form of elected leadership (council, mayor), so they are different from the lower units of national (state) administration (districts, prefectures). However, in some countries local governments (their representatives, such as the mayor, or the finance departments) operate under dual subordination, when they report both to elected local councils and to the national administration.

They are the structural factors of governance and the components of public financial management, summarised below.

Diagram 7: Subnational structure, role, service delivery and PFM



Beyond the concepts and materials for UNDP COs to recognise the systemic issues, this Guidance Note also offers advice for design and implementation support to country authorities.

2 Subnational government – structures & functions

Local and regional governments are responsible globally for one quarter of all government budgets, on the average[45]. There are significant variations among countries and even between continental averages: subnational spending in countries of Africa (15%), Middle East and West Asia (11%) is significantly lower, than in the Asia-Pacific region (34%) or in the two North American countries (63%). The PFM systems are influenced by structure, role, and service delivery issues in the subnational governments, so the context analysis is critical initial step of budgeting for the SDGs (Figure 2: B4SDGs Approach).

2.1 Scope, structure, and size of subnational governments

These differences in the scope of decentralisation are explained by several factors. Firstly, central and subnational governments provide *fewer public services* in some regions. Measured by general government expenditures compared to GDP, the share of government spending is the lowest in Africa (26%) and in Latin America (29%). Secondly, the country specific *forms of government* and the actual types of public *functions assigned to the lower level* also cause variations in financial weight of subnational governments. Thirdly, in the *economically more developed* countries the subnational government expenditures are usually higher, than in the less developed ones. However, the scope of local functions do not always indicate the real weight of subnational governments. It depends also on

45 Data are from OECD-UCLG World Observatory on Subnational Government Finance and Investment, https://www.sng-wofi.org/data/

the *structure and size* of subnational governments.

In **federal countries** the member states have great political and administrative powers. These state (intermediary tier) governments have 2.4 times higher budgets than the local (first tier) governments, on the average. It explains the extremely high level of decentralisation in North America and partially justifies the importance of subnational governments in the Asia-Pacific region, where the three federal countries, India, Australia and Malaysia belongs to. In a country with **unitary state** usually there are two or three tier government structures below the national level. The smaller countries typically have single tier (municipal) governments (e.g., Balkan countries).

Within these federal or unitary countries, the size of lowest tier government is critical. On average the population number of municipalities is 64 thousand (119 country-sample of UCLG). But there are huge variations behind this average: in countries with small size municipalities the national average might be a couple of thousand[46]. In addition, it is noted that the number of metropolitan governance authorities have increased over the past decades.

Fragmented local government system - in countries with small size local governments the municipalities are usually closer to the people, so direct accountability mechanisms work better. The smaller units can respond on local service needs better, although the spill overs in service provision and financing have to be managed. Small municipalities have narrow economic base, *lower own revenue* raising potential and limited administrative capacities. They usually create *higher differences* among municipalities. In these fragmented systems *inter-municipal cooperation* is highly needed for sustainable development actions. (CoE-UNDP-LGI, 2010)

Amalgamated model - large size municipalities are more distant from citizens, so greater emphasis should be put on the institutionalised accountability mechanisms in the form of community level representation and participation. The larger entities have greater economic-financial base, which supports *internal equalization and* results lower territorial differentiation. Bigger local governments are usually able to follow the expanded service catchment areas. They can internalise all service costs for more efficient service provision. In the amalgamated models, effective *community representation* is critical for sustainable development. All these factors of large size municipalities help planning services, targeting budgets and support public monitoring at sub-municipal governments. (Peteri, 2008)

46 See: UCLG – 2019 - https://www.sng-wofi.org/reports/Key_Findings_2019.pdf

Assessing subnational governments size and structure

In undertaking the assessment, key questions to be asked will include: (i) what is the constitutional status of subnational governments?, (ii) how local bodies are established; is the local leadership elected or appointed?, (iii) what are the legal forms and powers of sub-municipal (community level) entities?, and (iv) how developed are the inter-municipal cooperation arrangements?

Key indicators for comparison and benchmarking include; average population size of local and regional governments, concentration of population by local government types and by regions, number of subnational governments by tiers, average area of local and regional governments, average population size, area of settlements (village, city), population density by main types of local governments.

Functions of subnational governments

Beyond the size and structure of subnational governments, the actual sharing of responsibilities and functions also influence decentralisation. Local government competencies are primarily defined by the assignment of decision making (political) power, rules of establishing local governments, role of elected councils and leadership – if they exist at all. At the global level, education, social protection, general-public services (mainly administration) and health are the primary areas of subnational spending both as a share of GDP and share of subnational expenditure[47]. Service management autonomy is determined along the public service management components including; planning, technical standard setting of services, organisational forms, employment regulations, supervisory and support mechanisms. All these components are influenced by the allocation of financial resources, including asset ownership, own-source revenues, intergovernmental transfers, and financial management competencies.

There are three basic ways how the public powers are allocated to lower tier governments.

- In a **deconcentrated** model (sub-units of region/national level government) the lower units of government only implement authorised tasks, but service responsibility lies with the central level. Lower government units have no financial decision-making powers, and they lack economic incentives.

- Under a **delegated** model the central and local service responsibilities are combined, and subnational governments manage their tasks under strict central service standards and regulations. Delegated services are financed predominantly by the national budget, but local governments have some incentives for savings and own revenue raising. They have limited autonomy in territorial planning and coordination, but the service networks, the capital investments are still decided centrally. This limited autonomy under the delegated model allows gradual accumulation of technical and human capacities in public service management. This model is typically used for basic public services, like primary education, secondary health care, social services, but might work also in the case of administrative services (e.g., environmental regulations).

- The most advanced form is **devolution**, when the central-local service responsibilities are clearly separated (e.g., Pakistan devolved social sector responsibilities to provincial governments as part of the 18th Amendment to the Constitution). Elected regional and local governments manage the assigned tasks independently, within the framework of laws and

47 UCLG – 2019 - https://www.sng-wofi.org/reports/Key_Findings_2019.pdf

technical regulations. Lower government tiers have financial and management autonomy. Nationally set financing system provides predictable transfers with local incentives in own source revenue raising. The devolved functions are typically the public services of local significance, such as water and sanitation, urban transportation and local roads, waste management and kindergartens, public education, primary health care, institutional social services, local polices, fire services and locally regulated administrative services (e.g., zoning).

The actual subnational government system is shaped by the combination of these three forms of decentralisation. Subnational government's autonomy is lower, where deconcentrated and delegated services dominate. In devolved models with higher local autonomy the wider service responsibilities are coupled with management competencies, access to proportional and predictable finances, supported by technical supervision and audit.

Standards of functional devolution

The European Charter of Local Self-Government lays down standards for protecting the rights of local authorities and requires the 47 member states of the Council of Europe - which have all ratified it - to comply with a number of subsidiary principles. The Charter provides the constitutional foundations, criteria, and basic powers of local self-government (Article 4).

Assessing local self-government real powers and functions

For evaluating the actual competencies of local self-governments, the following questions should be answered: (i) how the subnational governments' mandatory and optional functions competencies are legislated; (ii) what are the powers of higher government and national administration units over the lower (municipal) tier; (iii) how autonomous are the elected subnational governments in human resource management, in setting service standards, selecting and financing local service organisations?

Service management

Local government system is influenced by the forms of service provision and the subnational governments' management powers. They effect planning, contracting, charging and other components of service management. The choice between in-house units and outsourcing is determined by the licensing rules, the tendering and contracting regulations. Presently public service management is going through substantial transformation. Following the radical shift towards market-based service management in the early 1980s, now the 'New Public Management' driven local service provision has started to change again. During the recent decades the rights-based political movement emerged promoting nationalisation, in-sourcing of service management and re-municipalisation of local utility and communal services.

In the more centralised systems the organisational forms (structure, staffing) of subnational government administration *follow the national planning methods*. Public employment rules determine salary schemes, promotion opportunities, appointment regulations and practices. In centralised regimes supervision and audit focuses on service inputs. With decentralisation these restrictions are eased, but the service standards still have to be followed. In more decentralised systems the emphasis is on service *outputs and legality* of operation. Direct customer control over the service producers also increases with decentralisation (e.g., though information sharing, feedback, and complaint mechanisms).

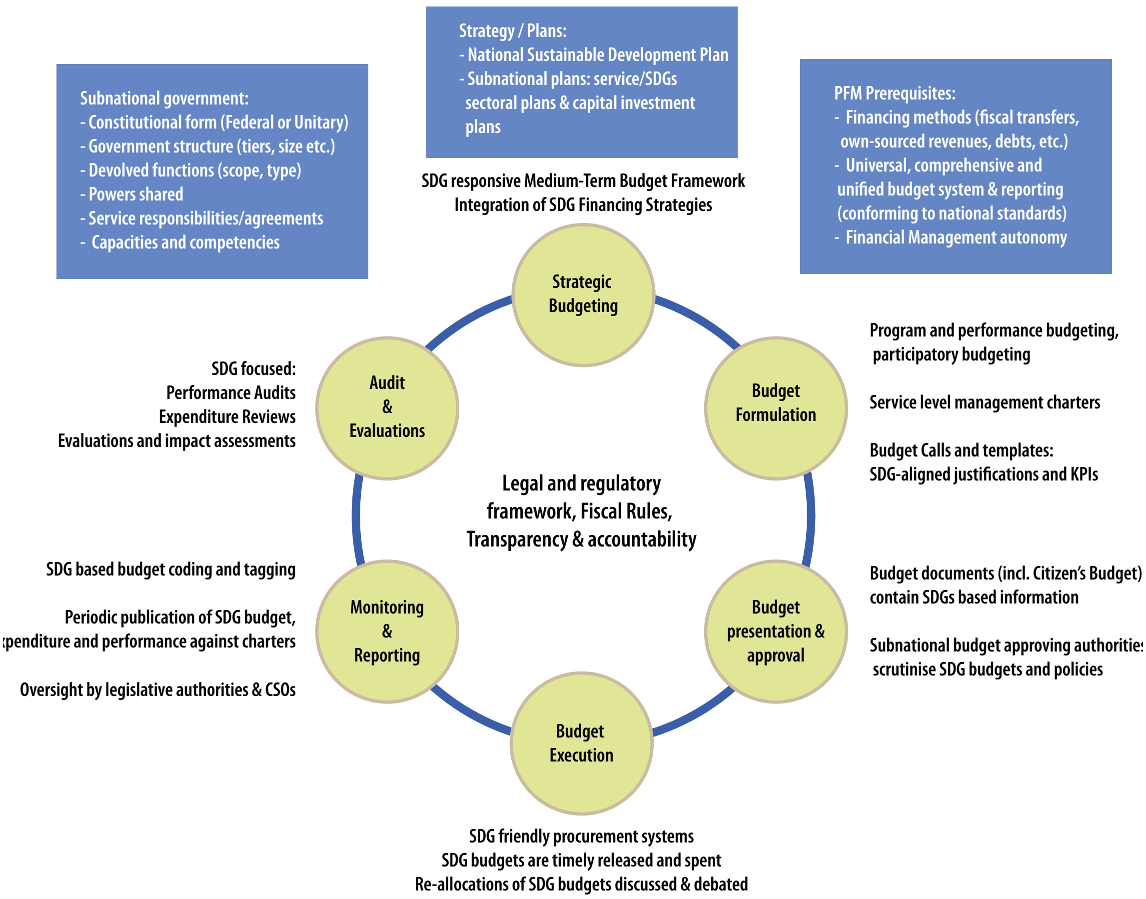
Assessing service level management

Key questions for assessment will include: (i) What are the organisational and management options in the case of subnational mandatory and voluntary services and functions? (ii) How are different types of subnational governments able to cooperate with non-governmental and private sector organisations? (iii) What are the key regulatory areas, methods of subnational government organisation and management? (iv) How subnational governments are involved in sectoral policy planning, regulation design? (v) How are public-private partnerships (PPPs) deployed to crowd in private capital?, and (vi) What type of support and technical assistance subnational government receive in local service management from the national level?

For benchmarking local level service level management, key indicators for assessment include: (i) Number of regulations by legal-administrative tiers (law, decree, resolution, circular, intervention, etc.) in local services, (ii) Scope of outsourced subnational government services, functions, (iii) Supervision of local service management: organisation, staff, frequency of regular service audits, (iv) Technical and financial benchmarking systems supporting local service management (e.g. public education, water management).

3 Subnational Public Financial Management

Diagram 8: Subnational Public Financial Management



The scope of decentralisation and service management influences subnational planning, PFM, and fiscal policymaking. Countries with wider local government responsibilities and developed economies are able to rely more on subnational governments in managing SDGs. Greater subnational powers and higher need for local choice require more sophisticated planning and budgeting methods. Step 2 of PFM systems review (Figure 2: B4SDGs Approach) identifies the options for improvement along its key components, which are summarised in the diagram above.

Budgeting for the SDGs at subnational level is determined not only by the local government system, but it is influenced by the PFM rules and practices, as well. Public Financial Management went through a transformation during the past decades. Its narrow focus on planning, public expenditure management and revenue administration widened. Beyond the core functions of budget control, resource allocation and operational performance, other institutional components of financial management became important. They are the political decision-making process and the governance mechanisms for accountability, and transparency (Allen, et al, 2016).

Subnational PFM

Assessment methods and approaches

To identify the status of more complex PFM systems, several assessment methods have been developed. These widely tested benchmarking tools include; (i) Public Expenditure and Financial Accountability (PEFA) at both national and local level; (ii) Public Investment Management Assessment (PIMA) of infrastructure governance framework – to judge the systemic weaknesses of public investment system, (iii) the standardised methods of Public Expenditure Reviews (PER) and, (iv) IMF reports on observance of standards and codes. They all contribute to the complete and comparable description of PFM from different angles.

Key fiscal indicators to gauge subnational PFM

- Vertical fiscal transfer % - how much is retained by the higher-level government & weights and indicators used for horizontal fiscal transfers i.e., between subnational governments, % of equalisation grants to total subnational revenues
- Own sourced revenues as % of total expenditure
- Expenditures: Composition of subnational expenditures by elected government tiers, Subnational government expenditures in % of general government expenditures, share of capital city/regions in local government expenditures
- Capital investment spending at subnational level in % of total public/government investments
- Expenditure by SDGs (budget coding and tagging), SDG expenditure by gender, income and marginalised communities.

Data on subnational fiscal information can be obtained from UCLG – Subnational Finance and Investment[48]

Subnational government financing

Subnational governments are funded by four main types of revenues: they are the intergovernmental fiscal transfers, shared revenues, own source revenues, and debt. The argument of this Guidance Note is that higher revenue autonomy can promote sustainable development, assuming that fiscal and expenditure rules are closely adhered to. Financially powerful subnational governments

48 https://www.sng-wofi.org/reports/Key_Findings_2019.pdf

have more options to utilise the locally available resources for integrating SDGs. Revenue autonomy is defined by the composition of the four main types of local resources[49]. Configuration of the four local revenue types influences budgeting and planning at subnational governments (see table below):

Table 12: Subnational revenues, opportunities, and requirements

Subnational revenues	Opportunities to increase local autonomy	Options for national intervention	Requirements
Inter-governmental fiscal transfers	• Total amount is linked to economic indicators (e.g., tax revenues) • Allocation by objectives, measurable indicators • Transfer by standard (average) expenditure and (estimated) revenues • General purpose grants	• Expenditure control over subsidised services • Incorporating SDG related grant allocation criteria • Earmarked and block grants • Co-financing requirements • Performance based grants	• Diverse grant allocation methods • Developed subnational statistical and financial information system • Local discretion in financial and service management • Developed audit and supervision mechanisms
Shared revenues	• Stable sharing ratio of significant revenues • Derivation (origin) based sharing • Local surtaxing power	• Formula based revenue sharing • Deduction of excess revenues • Compensation for revenue losses • Limits on local surtaxes	• Legislation on revenue sharing • Agreed sharing mechanisms • Supporting information base
Own source revenues	• Diverse revenues with significant base • Local rate setting power • Autonomy to define exemptions, tax reliefs • Local revenue administration	• Legislation on local own source revenues (base, rate) • Limits on local revenue rates • Regulations on charge setting methods and level • Centralised revenue collection	• Local revenue administration capacity • Support to local user charge design (methods, benchmarks)

49 There is a rich literature on financing local governments; two selected brief summaries are Bahl-Bird, 2018; Ebel-Peteri, 2007

Subnational revenues	Opportunities to increase local autonomy	Options for national intervention	Requirements
Debt	• Local borrowing powers • Access to diverse forms of debt (loan, bond, etc.) • Transparent insolvency rules and default procedures	• National budget lending schemes • Local borrowing authorisation • Regulated (constitutional and/ or legal) borrowing and debt limits • Special loan fund for local short-term borrowing	• Legislation on subnational borrowing • Public sector debt management regulations • Local debt register

The financing techniques influence subnational planning and budgeting methods for SDGs. The critical condition is how intergovernmental transfers, usually the largest sources of local budgets, are allocated to subnational governments. General purpose grant schemes support to modernise fiscal planning with greater autonomy, to develop medium term budget forecast, to introduce locally relevant performance indicator for budgeting and to launch results-based budgeting. Increased reliance on revenue sharing and own resource revenues claims for greater transparency and public information in budgeting and on the utilisation of these revenue sources. Local borrowing autonomy opens new financing possibilities and at the same time makes medium-term planning more important.

Increased revenue autonomy is often combined with new and enhanced forms of national government intervention. Specific transfers support national programs for SDGs. They have an impact on subnational budgeting, as earmarking focuses more on annual budgets, tend to follow traditional incremental budgeting or unified performance-based budgeting practices. Formula based revenue sharing, local own-source revenue regulations require new planning methods with detailed information base, local monitoring. Impact of local indebtedness should be planned, and citizens need information about the financial burden on the later generations.

Fiscal Transfer Formula and linkage with SDGs – Country Example

Fiscal transfer system and formula mechanisms play an important role in addressing service delivery inefficiencies and territorial inequities. The formula for vertical and horizontal transfers for sustainable development are allocated through various channels including revenue sharing, general and special purpose grants, equalisation grants, performance-based grants etc. Vertical transfers aim to finance the gap between own revenues and costs of standard responsibilities assigned to subnational governments, while horizontal transfers target differentiating factors such as size of population, backwardness, social sector investment requirements, special consideration for a particular territory (e.g., inverse population density, climate change impacts, etc.), and sub-national revenue generation capacity.

In the province of **Punjab in Pakistan**, the provincial government formulated a new grants allocation criteria (fiscal transfer system) in 2017-18 to transfer 37.5% of total revenues to local governments (vertical transfers). The fiscal transfer system included; (i) general purpose grants, (ii) development grants, and (iii) temporary transition grant. For horizontal distribution, the old formula was based on population, while the new formula was based on the following needs based objective criteria:

District education authorities: weights assigned to (i) population density, (ii) school age population, (iii) poverty rates, (iv) girls middle school enrolment rate, (v) out of school children. District health authorities: weights assigned to (i) population density, (ii) population less than 9 years and over 65 years, (iii) female population aged 15-49, (iv) poverty rates. Local councils: weights assigned to (i) population density, (ii) poverty rates, (iii) lack of access to improved water sources at premises. Data for the above was obtained from the Multiple-Index Cluster Survey.

In countries with extended local government functions the intergovernmental transfers consider several factors. For example, in **Denmark**, where local government manage wide range of public services, one type of grant allocation mechanism is based on the diverse socio-economic criteria: unemployment population, rented apartments, children in families without education, single elderly, number of immigrants, children with single parents, etc. These general or block grants guarantee high local spending autonomy, which provide more opportunities for funding locally sustainable development.

With extensive urbanisation metropolitan governance reforms become important for sustainable development. The common feature of metropolitan governance bodies is that they tend to have less responsibilities and fiscal power when compared to their member cities and municipalities (Schakel, 2019; OECD, 2019). Despite its financial and service management advantages, establishment of effective metropolitan governance remains a challenge. A notable feature of metropolitan government that is important to highlight is its limited fiscal and borrowing autonomy. In general, the fiscal capacity and budgetary autonomy of metropolitan and urban government is particularly limited, which makes them more reliant on intergovernmental transfers from the participating municipalities and cities and from higher regional and national governments[50].

50 2019 Report on World Observatory on subnational government finance and investment

Assessing "Financial Health" of local governments[51]

The "Municipal Financial Self-Assessment (MFSA)" or the "Financial Health KPIs" are two examples developed by international programs for assessing financial health of local governments. They focus on the dynamic trends of current and capital budgets' balance and consider supplementary information on local finances. The key indicator of local financial health is the operational surplus or deficit and the capacity to finance municipal capital expenditures. MFSA uses other supplementary financial information including municipal expenditures by sectors, capital investments, local tax performance, debt, liabilities and arrears, cash balance and asset maintenance. Specific ratios with benchmarks (standard values) are offered for further analysis.

Regular analysis of the core tables and the financial ratios supports the local government management to specify the areas of improvement and to plan future programmes and capital investments.

In the sustainable development context main evaluation criteria of local budgeting system are twofold:

- **How subnational fiscal planning can help to achieve one specific SDG and its targets** - In the case of a **single service** two aspects of the annual (short term) budgets are important: how future, successive, long-term expenditures evolve and what the spending decisions' revenue implications are; and

- **How can budgeting support the comprehensive design of interrelated SDGs and contribute to the integration of various sustainable development activities?** In the case of *SDG integration*, the budgets should be able to ensure the *connection among various local targets* for achieving a comprehensive objective. For example, resilient cities need coordinated actions in the field of utility services, public transportation, water management and green areas. Usually, these activities are locked in sectoral budgets, although successful development programs need integrated planning (e.g. in flood protection).

Subnational strategy design and planning

National development plans, as long-term strategies, can specify the financing objectives for implementing the Agenda-2030 for sustainable development (See section 2.1.1). At the subnational level, there can be different types of plans, (i) sectoral strategies drive government actions. They are the service-oriented development programs (on transportation, utilities, education, etc.); (ii) regional development and urban plans aim to specify the territorial-spatial dimensions of all activities related to local government activities (urban plan is also a regulatory instrument through zoning and development standards), (iii) capital investment program is a medium term-local plan, which defines sectoral investments priorities and even major project preferences. The capital investment program has the closest connection with the MTEF, because capital expenditures represent significant part of the local budget (reaching one quarter of the total budget in many developed countries). These plans can be linked with the budget through medium-term budget/expenditure frameworks (See section 2.1.2).

51 Source: Farvacque-Vitkovic, C. – Kopanyi, M. (2019): Better Cities, Better World. A Handbook on Local Governments Self-Assessments. The World Bank, Washington, DC.
CEFG (2015): Standardised Financial Reports and Financial Health KPIs for city governments in Europe. European City Economic and Financial Group (CEFG)

Country Examples: Mainstreaming SDGs in multi-annual planning to address territorial differences

The **State of Parana, Brazil**[52] established connection between the multiannual plan (2020-2023) and planning and budgeting tools with the SDGs. The actual integration was implemented by the Audit Court of the State, with the support of the national Social and Economic Development Council. The development proposals were formulated by examining the link of ongoing public policies with the SDGs; (i) evaluating SDGs related budget expenditures; (ii) generating evidence to improve decision-making on the SDGs policies; and (iii) analysing budget and planning related official indicators. The State of Parana is measuring 13 SDGs and 44 targets with 83 indicators in 399 municipalities. These indicators are produced with data from regular national survey, official registries, and regional proxies. The State established partnership agreements with the municipalities to implement the SDGs. The integrated plan also serves as financing instrument for institutional strengthening and investments in urban infrastructure.

Riga City (Latvia)[53]: The Sustainable Development Strategy of Riga until 2030 (Strategy-2030) and Development Programme of Riga for 2014-2020 (DP-2020) was adopted in 2014. The Strategy-2030 sets four long-term development objectives: 1) skilful, secure and active society; 2) innovative, open economy with export capacity; 3) convenient, safe, and pleasant urban environment; 4) Riga – internationally recognisable, important, and competitive Northern European metropolis. The ***Action Plan*** (AP) and the ***Investment Plan*** (IP) are parts of the DP-2020 developed at the same time. The AP and the IP are harmonised with fiscal planning. Municipality updates these plans at least once a year. The AP includes activities intended for the fulfilment of the tasks specified in the strategic part of the DP-2020. In parallel, a new Electronic System for updating and monitoring of the AP and IP of the DP-2027 of Riga has been developed. Mapping the four long-term development objectives and the 19 action directions of DP-2020 already show that City of Riga is contributing to the localisation of Sustainable Development Goals (SDGs).

Subnational Budgeting

Budgeting for the SDGs at subnational level requires some flexibility in budget structure design. Usually, the local budget structure serves the national government's goals and the parliamentary reporting purposes. However, there is a need for locality specific information, which is extracted from the standardised budgets and financial reports. Subnational governments should have sufficient autonomy in modifying the standard public sector Chart of Accounts, the budget classification according to the local organisational structure or by functional classification (COFOG).

The Medium-Term Expenditure (or Budget) Framework (MTEF) is a system that sets manageable fiscal targets and connect them to sustainable development goals. At the subnational level MTEF is only one of the required longer-term plans. It integrates three other local strategies: (i) sectoral strategies driving government actions of service-oriented development programs (on transportation, utilities, education, etc.); (ii) regional development and urban plans, which specify the territorial-spatial dimensions of all local government activities; (iii) capital investment program, as a medium-term local plan of sectoral investments priorities and major project preferences.

Local governments are able to prepare their own budget proposals following the approval of the detailed draft national budget. The local SDG targets can drive this local planning stage by setting development priorities and budget appropriations, with performance indicators. It generally takes additional a few months until the budget proposals of all the general government entities are completed, including the allocations affecting local governments. Several rounds of iteration might

52 OECD Programme on a Territorial Approach to the SDGs. State of Parana case: http://www.oecd.org/cfe/cities/Parana_Issue%20Note.pdf

53 Information from Riga City Council City Development Department

be needed at the local government (i) within the administration (between the service and financial departments, with the service organisations), (ii) involving the responsible committees and the council; and (iii) actively informing the general public. The SDGs and their local implementation plans should drive budget completion by providing a comprehensive framework for planning and setting performance targets for detailed budgeting.

The national and the local budget documents might need amendments during the implementation, within the fiscal year. First budget decision of local councils is the allocation of the end-year reserves carried over to the actual fiscal year. Later during the fiscal year expenditure items might exceed the appropriated amounts and revenue collection could underperform. Budget amendments influence SDG implementation, so the major reallocations have to be registered in the SDG performance indicator system, as well.

Subnational budget approval is one of the most important decisions of elected local authorities. *Openness* of the entire process and *inclusion* of the citizens are critical throughout the entire process. Public participation is especially important at the early stage of budgeting when the local spending priorities are defined. Beyond the mandatory budget hearings and optional public forums, there are other more efficient forms of surveying and testing the local needs. They are not necessarily connected to the budget cycle, but sectoral, service related, and community-based planning can provide useful information for budget preparation. Technical assistance, institutional strengthening and capacity development will support openness and inclusion in budgeting.

Participatory budgeting requires involvement of the public at the main stages of planning: when the initial planning conditions and first budget proposals are designed; later with draft budget preparation and at budget approval. Information dissemination supports inclusive budgeting at two levels. The Citizens' Budget should include simple, straightforward information on the main expenditure targets, the planned changes in service performance and the forecasted revenues. More detailed technical and financial information is needed for the active local advocacy groups, civil society organisations and think tanks. Cities also experiment with community budgeting when municipal funds are allocated for programmes and projects, which are specified by popular votes. These participatory budgets might target locally pre-defined areas, such as green area development, social assistance, digital infrastructure.

Different types of budgeting methods and their relevance with SDGs

Line-item budgeting. Also known as input-based budgeting in which budgets are allocated to inputs such as salaries and wages (generally subnational governments are important public employers), procurements, construction etc. Generally, line-item budgets are made based on increments – which means that a certain percentage is added to the previous year's budget or expenditure, are bottom-up – which means that spending units are requested to prepare budget demands (with limited strategic guidance), and generally have low incentives to integrate recurrent and capital expenditure budgets. The method has advantages of simplicity, it is easy to understand and manage by the local administration. This method is perhaps the most widely used method of budgeting. However, in this method, it is difficult to understand linkage of budgets with policies/SDGs, and whether the budget will implement the national/subnational plan) as the budget only provides information on wages, procurements and civil works based on cost centres (spending administrative units). However, specific government initiatives (e.g., girls' stipend programme to encourage enrolment, vaccination programme, etc.) and public investments (e.g., new mother and child health centre in a regional hospital) can be tagged with SDGs.

Results-based budgeting. Different types of innovations have been undertaken in budgeting systems over the past decades to address incrementalism and gauge value for money. Output-based budgeting, programme budgeting, performance budgeting, outcome-focused management, policy-based budgeting, are some of the important innovations. **Output-based budgeting systems** were initiated with the view to present budget by outputs (i.e., services delivered). **Programme budgeting** was introduced to link policies/programmes with managerial authority (organisational structure) and call for improved ownership and accountability of service providers. **Performance based budgeting** added performance information such as KPIs and targets – based on logical framework – goals, outcomes, and outputs to outputs/programmes. In these budgeting systems, important elements included the system of budget presentation and appropriation, managerial autonomy and accountability, system of incentives, and oversight by the Parliament. *As these types of reforms impact PFM systems, civil admin and politics, success stories in low and low-middle income countries have been limited.* Effective results-based budgeting system needs several factors to be in place; e.g., the functioning budget cycle, budget reliability, good design of programmes with coherent results chain and appropriate KPIs, ability to cost meaningfully the inputs needed to produce outputs and outcomes, use of programmes in budget execution, and ability to monitor outputs and outcomes.

In **France**, the annual budget targets 47 "missions" as the main programmes appropriated by the parliament. These "missions" cover the typical public functions (e.g., agriculture, foreign policy), but also specify comprehensive inter-ministerial policy areas, such as solidarity and integration, sanitary safety, media, etc. The "missions" are further structured to programmes, which should be also legislated by the parliament. Each programme has its own specific objectives and performance targets. The performance indicators measure social and economic effectiveness, service quality and efficiency. The spending units should meet these performance targets. The annual performance report is added to the budget review act, which focuses on the achieved goals and not on the spending by actions at the execution level.

Budgeting for the SDGs – implementation lessons

Political systems, power sharing, scope of decentralization, government structures and administrative traditions determine how the budget cycle with these planning stages are implemented. The main lessons to budgeting for sustainable development at local level are, as follows:

- *Several rounds* of budget coordination and harmonisation are needed among the various administrative tiers of the government.

- Subnational governments planning framework and main budgeting targets should be decided at the *early stages* of budget preparation.
- *Elected bodies*, that is parliament and local council should have the power to decide on the budget documents at all the main stages of budget preparation (initial planning conditions or pre-budget statement, budget concept and detailed budget draft).
- Fiscal planning should follow *regulated procedures* and methods agreed before the start of the budget process.
- Budget amendment regulations should allow *flexible, but controlled implementation* of the budget.
- *Participatory* and *open procedures* improve the effectiveness of budgeting at all stages.

Assessing budgeting techniques and process in subnational governments

Main questions for the assessment can include; (i) to what extent are subnational budgets in line with the general budget principles, especially being comprehensive and unified, complete? (ii) what are the major regulations over the local government fiscal planning methods?, (iii) how restricted the subnational governments are in adapting the standard budgeting techniques to the local conditions?, (iv) can subnational government access at one source of information on the innovative, untypical budging methods developed?, (v) are subnational government budget and actual fiscal data available publicly at a centralized information base for planning, benchmarking purposes?, (vi) is there a standard regulated timetable for government budgeting? If yes, is it followed? (vii) how is openness of local fiscal planning regulated? (viii) Are the open budgeting methods shared among local governments?

Local level budget monitoring

The executed budget appropriations provide information on the actual level of spending and the unmet, remaining need for financing. Performance indicators connect the medium term and annual fiscal plans with the localised sustainable development targets. These systematic measures on the implementation of localized sustainable development goals, targets and programs against the targeted key performance indicators provide two-way connection between finances and SDGs. Fiscal planning techniques and the financial reporting methods also influence how SDG implementation is monitored:

- The *input-based* budgeting approach focuses on the resources used by a service organization or by the responsible local government unit. Achievements in sustainable development is measured by the resources used: labour costs of an education program, expenditures on goods or energy consumption by an infrastructure program, etc. Mostly the *finance department* is responsible for monitoring these inputs. The service units are accountable for the implementation of the SDGs.
- Monitoring of *output-based* budgets focuses on the achieved service quantity and quality improvements. These performance targets are specified by the service providers (e.g., forestation by agricultural unit, green area program of urban services department) or they can be linked to programs, which are implemented by several entities (e.g., urban resilience

with coordinated actions of transportation, urban planning, utility service departments). Primarily these *technical units* of the local administration are responsible for the SDG targets and their implementation in the case of output-oriented planning and monitoring.

Producing management information for controlling purposes. Local elected bodies and councillors also have to develop their own information flow to control the budget implementation. This reporting for the elected bodies focuses more on the objectives achieved, the usage of aggregate budget appropriations and less on the spending details. The responsible bodies need regular information on the timely achievement of goals and targets. This controlling job of elected officials should be adjusted to the organizational structure of the local administration. In addition, reporting on specific SDG financing schemes, such as usage of conditional grants, subsidies or debt repayment require untypical financial monitoring techniques.

SDG Budget coding and tagging. The SDG tracking mechanism at local level very much depends on the overall service performance measurement system and the national accounting rules. The budget coding and tagging model is linked to the country budgeting system, public investment, and financial management information system. National governments already experimented with budget tagging initiatives for pro-poor budgeting, gender responsive budgeting and tagging MDGs. Local governments have limited autonomy in these fields because they should follow the national rules, regulations, and standards. Their own internal controlling (management information) system primarily extract information from the financial management information system and use the national service performance indicators.

Reporting on service performance and finance indicators. Monitoring the finances of complex and integrated sustainable development tasks need improved reporting forms and methods. Composite indicators of specific SDG targets, such as access to public transport or urban housing have to be disaggregated by the actions planned under these targets. Disaggregated performance indicators follow the hierarchical structure of the government actions. The expenditures are reported by the organisations managing these tasks or by the specific activities implemented.

Monitoring multiple sources of financing SDGs. As subnational governments establish active partnerships with the private sector for public service provision, the gross expenses need special reporting forms. For example, in the case of a water concession agreement, the concession fees might be accumulated in a dedicated water fund external to the local budget. Temporarily transferred government assets (e.g., the water pipes, operating equipment) are managed by the private partner, even in the case of user funded PPPs. However, the local government keeps the ultimate responsibility for service provision, which is a local contingent liability. Special reports are needed to monitor the financial implications of these outsourced services by indicating the concession fees collected, the changes in local asset value or their impact on municipal creditworthiness.

Adjusting local financial administration and Treasury. Discretionary powers of finance departments depend on the overall financial management framework. The subnational in-house regulations on authorising payments and commitment control varies greatly.

- In **deconcentrated** subnational government system, the finance department, operating as deconcentrated unit of the Ministry of Finance might have exclusive powers over expenditure authorisation, while in decentralised governments relations of functional and line departments are more balanced. The national treasury incorporates the subnational governments in the financial management system in various ways.

- In the more **centralised** systems, the treasury and its regional offices *take over commitment control* from the local government. It is exercised often in cooperation with line ministries or the national government agency responsible for subnational governments (e.g., Ministry of Local Government).

- In **decentralised** systems the national treasury provides only financial services to the subnational governments and has no discretion over their transactions. Local autonomy in public expenditure management is higher, when the role of the treasury is limited to its core functions. Subnational governments have more responsibilities in budget implementation and managing SDGs.

Internal audit. In more decentralized countries internal auditors report to local elected body and leadership. The internal audit checks internal controls, provides information on systemic weaknesses including those in procurements and recruitments, with the aim to lower any fiduciary risks and help implement plans of local governments.

Enhanced public scrutiny. Beyond these public actors of budget monitoring and expenditure control, there are the non-state organizations, which are influential at local level.

- Primarily the *single-issue civil society organizations* (CSOs) have the information and expertise to monitor the local budget spending (e.g. environment, air quality, nature conversation, poverty, housing, etc.).

- In cooperation with the *media,* CSOs promote budget transparency and this way they increase local accountability.

- *Citizen review,* as an influential local monitoring practice need active cooperation with the local government (see for example the application "DevelopmentCheck" below).

- External assistance *programs* and donor *agencies* are also influential, but their significance depends on the scope and form of their contribution to the local government budgets, services and management.

Local government association might also play an important role in monitoring the SDGs. They can link the subnational development priorities and financial needs to the national programs at the agenda setting and planning stages. The local government association can influence the evaluation of nationwide programs through information and data collection on the subnational governments[54].

54 See for example http://www.nalas.eu/ the umbrella organization in South-East Europe supporting local government association with SDGs and comparative fiscal information.

Citizen review: DevelopmentCheck by Integrity Action

DevelopmentCheck is a mobile application for citizens to monitor projects and services. It was inspired by the rise of open feedback in the commercial sector. Monitors use the app to record problems they find, solutions to those problems and what the community thinks about the project or service being monitored. The recorded information is immediately displayed on the project website to create an incentive for problems to be fixed and to make sure that citizens' voices are important in the implementation of projects and services.

DevelopmentCheck is not about the technology, it has advantages by capturing evidence, displaying it in real-time, and finding patterns in the data. It is part of a broader approach: in-depth training for monitors, provides them with skills and offers methods for engaging with key stakeholders, such as local authorities, contractors, or NGOs.

Different elements of the project are monitored and measured: (i) problems identified and fixed (fixed rate), (ii) community review, how the community feels about the project/service (awareness, satisfaction), and (iii) access to information: how easy it was to get key project documentation (contract, budget).

https://www.integrityaction.org/devcheck/

Audit and supervision

Successful sustainable development programs at subnational level require external audit and supervision. Supportive audit practices on SDGs are under development even at the national level. (INTOSAI, 2020) It was already recognized at the early stages of audit model development, that SDG program implementation should focus on performance (outcomes), which takes into account the interaction among various government units and activities. The "*whole-of-government*" approach aims to audit the coherence in the implementation of policies and the achievements, the current trends, and the adequacy of the national target in comparison with the corresponding SDG target(s).

Audit programs assess the preparedness of the government for SDGs. At this stage the complexity of SDG design is already recognized. The national governments are prepared mostly with medium term planning, voluntary national reviews, institutionalisation, and political coordination of the sustainable development agenda[55]. However, risk management, awareness building, long-term planning and reviews with national indicators are lagging behind.

Complexity of SDG auditing is shown by the diverse national government approaches and the gradual development of generally acceptable audit practices. National audit of local government SDG related activities is even more complicated, because the local-regional dimension should be added to the complex evaluation task. (Davey, 2010) Further support can be provided by the following organisations:

- National government *evaluation reports* and ministry *performance audits* usually focus on single policies or specific programs.
- *Academic, think tank and civil society organization reports* might also contribute to these sectoral or specific SDG target implementation audits.
- International organizations, blue ribbon commissions, parliamentary committees target wider SDG goals, reviewing both preparedness and implementation.

55 Good practice on State Audit Institutions to foster Agenda 2030 implementation: https://sustainabledevelopment.un.org/partnership/?p=30795, see also ACCA, 2020

Voluntary Local Review (VLR) Europe[56]

Systemic local review of SDGs aims to raise awareness and to monitor progress with the implementation of 2030 Agenda. Voluntary Local Review is an indicator driven review mechanism to sustain transformation and support inclusion of local actors. The indicators are intended to provide evidence for the review processes, they aim to contribute to decision-making and to achieve the SDGs at urban level.

The local monitoring system targeted for European cities introduced official and experimental indicators. They were designed in cooperation with the 232 indicators of the 169 SDG targets. There are also official indicators created from national and local statistics, supplemented by experimental indicators of specific locations. Data sources are diverse: European official statistics, National Statistical System, intergovernmental organizations, universities and research centres, local administrations, and NGOs.

The indicators support cities in matching their strategic plans with the SDGs. Integrating strategy review with SDG monitoring helps to map actions and development priorities. It supports to specify interlinkages of programs and to identify multiple effects of single actions. Beyond understanding the trade-offs, the indicators contribute to benchmarking, as well.

Some indicators might be used for trend analysis (with common baseline year) and the composite indices present general status of the city. Georeferenced data can help further territorial analysis within a city. Distance to the target defined by the SDG is a useful measure. Periodical collection and publication of the data supports regular VLRs.

Assessment methods of local budget monitoring and audit system

Assessment areas can include; (i) how sectoral supervision and comprehensive audit systems target subnational governments?, (ii) what is the impact of external audit on subnational governments?, (iii) what is the role of elected councils in monitoring local service provision and finances?, (iv) is internal audit mandatory at subnational governments?, (v) do specific controlling mechanisms support local leadership in service monitoring and evaluation?, (vi) are comprehensive financial assessment tools in use at local level?, (vii) how developed is the fiscal information system on local governments?, (viii) are comparable fiscal data by subnational governments publicly available in a timely manner?, (ix) how autonomous are the local governments in managing their transactions, revenues?, (x) how do non-state actors take part in monitoring subnational government activities and finances?.

Increased social accountability of SDG aligned budgets

Accountability is a crosscutting requirement of budgeting. Different components of accountability have the primary influence on each stage of the budget cycle. Improved budgeting for the SDGs at subnational level should be adjusted to these varying faces of accountability: (i) *Transparency* is especially critical at the first, strategic planning and budgeting steps. It requires regulated and open preparatory process with timely sharing of information on all areas of the budget, (ii) *Participation* is about inclusion in the budget design and when the needs are formulated during the iterative budgeting process, (iii) *Access to local information* is critical during budget implementation and in public service delivery, (iv) *Control over local service providers* is exercised mainly by the service users. The media and the civil society organisations also have important roles.

56 Source: Siraguza et al, 2020

Accountability tools in the budgeting for the SDGs

The scope and form of decentralisation influences the accountability mechanisms available at the local level. More centralised systems build on administrative instruments, while with decentralisation social accountability prevails. Social accountability can be strengthened by information sharing on government actions.

Making budget data publicly available: SDG 16 provide indicators that are important elements of budgets and planning – including promotion of comparable, disaggregated data on budget allocations and actual expenditures, and emphases on the importance of public consultations. Initiatives such as International Budget Partnership and Open Government Partnership emphasise on openness, transparency, accountability through comprehensive, timely, reliable and accessible budget information.

Provision of relevant information to citizens: Subnational governments can enhance provision of budget information to the citizens through; (i) Publication of **Citizen's Budget** – which provides easy to understand information about the sources and uses of public funds, impact that these would create on the lives of people, and quantitative benchmarks to understand government's performance – Citizen's budget can also include budgets by SDGs as well as the current state and future plans for accelerating the implementation, (ii) **Budget Briefs** – these briefs can be based on overall assessment of plans and expenditure policies, but also specific to sectors and SDGs, (iii) **Citizen's Charter** - includes local government's commitment towards the citizens and other local partners. Service performance indicators (incl. SDGs) can be published together with information on finances (both expenditures and revenues), and (iv) **Expenditure reports** are various intervals (in-year, mid-year, year-end) including information on budget and spending by SDGs, revenue sources and overall balance – can enhance transparency.

4 Practical guidance for UNDP programming

To design interventions in subnational budgeting system COs are encouraged to undertake the steps provided in the B4SDGs approach (Figure 2: B4SDGs Approach). Steps 1 to 3 include governance context analysis, PFM review, and institutional analysis, which help identify major actors and connections amongst ongoing development programmes and reforms. Steps 1 to 3 will help identify entry points and intervention options needed for improving subnational budgeting for the SDGs. For the governance context and PFM review, the following key points can be explored:

Table 13: Conditions determining subnational budgeting for the SDGs

Subnational government context	PFM systems components
• **Constitutional** form (unitary, federal) • Government **structure** (tier, unit size) • Devolved **functions** (scope, type) • Competencies, **powers** shared • Service **responsibilities** • Local management **capacities**	• Subnational budget **financing** methods • **Budget document**: universal, comprehensive, unified • Public sector **accounting** practices • **Fiscal information, reporting systems** • Local financial management **autonomy**

Following the above reviews, the next steps should focus on the reform design. These can be undertaken into two steps: (i) Step 4: intervention planning, and (ii) Step 5: road map design (Figure 2: B4SDGs Approach). Here *weak points* of the budgeting cycle and the missing links are to be identified. The *actions* respond on this demand by diverse technical assistance, institutional support, capacity development or development assistance programmes. They might target *selected stakeholders* (ministries, local governments, local NGOs and think tanks, etc.), *selected sectors/SDGs*, or support *budgeting instruments* across all these stakeholders. Consulting support may be required to undertake this assignment (Terms of References are provided in a separate file – Annex D).

For UNDP programming, the key steps in B4SDGs at the subnational level include;

Assessment of subnational governments:

- Assessment of size, functions and roles and responsibilities – including data availability and quality, systems, and capacities in government departments,

PFM review, including:

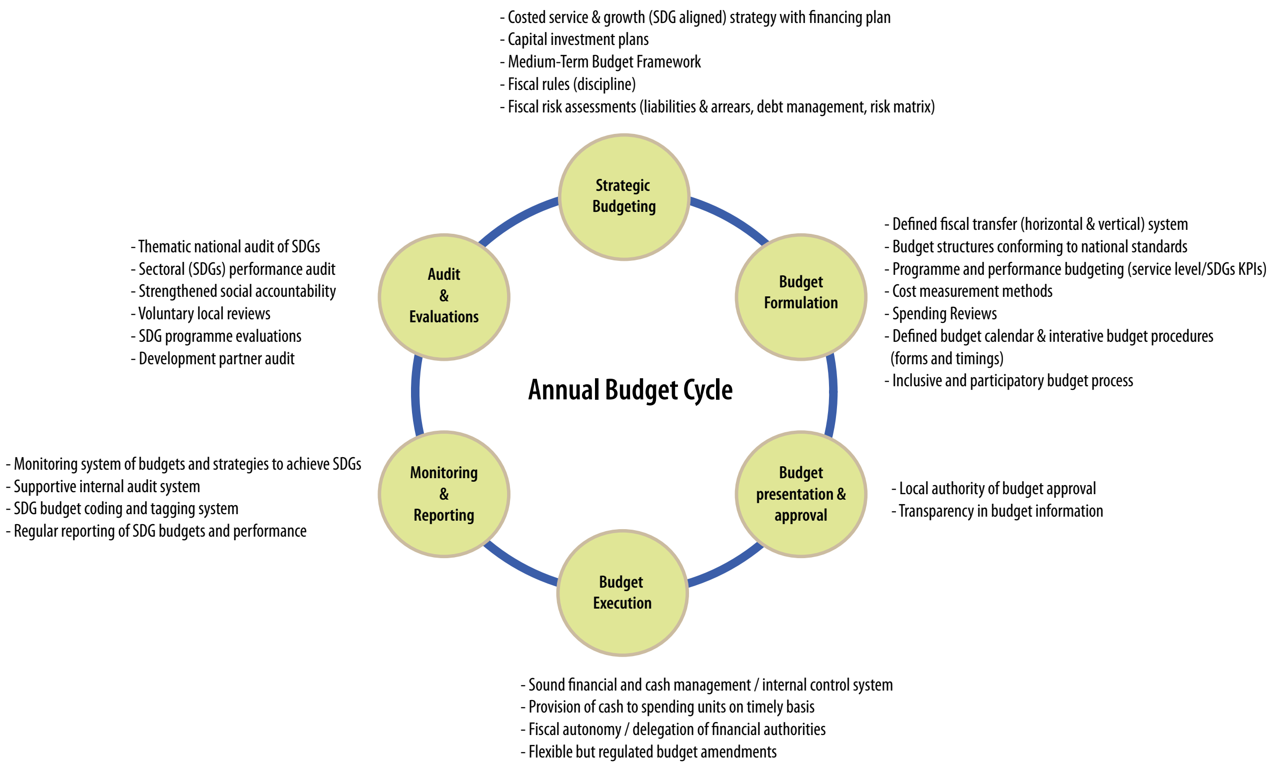
i. Review of financial and funding sources – either as part of INFF/DFA process or a separate exercise on fiscal transfers/equivalence, local taxation system (policy and administration), grant allocation policies and methods, fees and user-charges, borrowing limits and rules,

ii. Review of budgeting systems – budget frameworks, budget guidelines, forms and calendar of activities, capacities of local government planning and finance officials, fiscal risks,

iii. Identification of local financial difficulties, and

iv. Review of spending priorities including spending on SDGs and data sources – including financial and non-financial (SDGs) information. Specific areas of review and implementation support along the budget cycle are provided below:

Diagram 9: Elements of an effective subnational PFM system supporting implementation of the SDGs



Matching/alignment of SDGs with functions of the local government:

- Matching of SDGs with the functions of the local government (if not already available) and undertaking some level of analysis to judge the which SDG might require acceleration in subnational governments/regions etc.

Based on the above analysis, the following main areas of support can be explored:

- **Fiscal transfers system and provision of data for SDGs**: Fiscal transfers mechanism (vertical and horizontal transfers) can help address regional disparities and improve service levels. Hence a carefully designed formula and equalisation mechanism can help in accelerating prioritised SDGs. UNDP COs can provide support in gathering data, building cases for fiscal transfer system, develop business cases for linking fiscal transfers to SDGs and with the aim of progressing equity and incentivise efficiency, and provide country examples.

- **Own source revenue generation:** Local level revenues including policy and administration helps build fiscal capacity and brings in demands from the local level communities for improved public services. UNDP COs can assist subnational governments in design of policy and administration reforms aimed at increasing revenues, bringing equality, and targeting areas that help accelerate SDGs. For understanding detailed SDG financing strategies, initiatives such as INFF/DFA can help.

- **Strengthening of capacities in budgetary management system:** It is generally seen that subnational governments, especially local governments – municipalities, councils etc.

lack the skills to undertake costing exercises, prepare budgets, define the system in shape of budget guidelines, and forms, execute budgets (including undertaking procurements), record and report as per national accounting system (including use of IFMIS), strengthen cash management and internal controls, monitor and evaluate, enhance participations of citizen's and communities, and strengthen accountability.

- **Institutionalising systemic PFM reforms:** Tools such as PEFA assessment at the sub-national level, and transparency and accountability review (e.g., undertaken through the methodology used by International Budget Partnership) can provide the undertaking of systemic weaknesses in the PFM system.

- **Analysis of public expenditure:** Tools such defining SDG budget coding and tagging system at the local level can improve alignment of budgets and expenditures with SDGs/ targets. In addition tools such as SDG budget analysis, SDG expenditure reviews, SDG cost-benefit analysis to guide expenditure programmes, and analysis of fiscal space to find space for new priority initiatives help in review of budgets and policies from the lens of efficiency, equity, and effectiveness. Additional tools include surveys such as expenditure tracking survey (to analyse bottlenecks of funds transfer from the central organisations to spending /service delivery units), fiscal incidence analysis (to analyse incidence of taxation and public expenditure policies on different income groups), and citizen charters.

- **Defining SDG performance audit system:** Performance audits examine the efficiency and effectiveness of government programmes and functions with the goal of making them better. In this regard work with Supreme Audit Institute and provision of methodologies and guidelines to conduct SDG perfomance audits can be undertaken.

Annex 1: Typical SDG Budgeting Shortcomings Across the Budget Cycle

Strategic Budgeting	Budget Formulation	Budget Approval	Budget Execution	Monitoring & Reporting	Audit & Evaluation
National Development Strategies may not integrate SDGs across investment pillars, failing to identify specific goals, targets and baselines.	**Budget Call Circulars** often fail to either mention SDGs or SDG related priority areas for the upcoming budget cycle.	**Budget hearings** may not make explicit reference to SDG (**Budget Scrutiny**) targets and baselines while approving expenditure plans,	**SDG expenditure tracking** is not easy, is often not requested by MoF in quarterly or annual reporting formats and may not be conducted at all (with COFOG tracking for only some SDGs).	**SDG monitoring and related budget performance monitoring** are generally not developed, undermining reporting against results.	**SDG audits**, **SDG budget tagging** and **SDG Budget Classification** through the Chart of Accounts **are rarely undertaken.**
SDG related fiscal rules are still to be developed, despite potential for improving Medium-Term Fiscal and Budget Frameworks (MTFF/MTBF) outlook.	**Budget templates** often lack details, and expenditure categories are often not linked to a particular SDG, neither they allow tagging of budget initiatives to specific SDGs and targets.	**Budget Speech/Message, MTBF and MTEF development often fails to mention SDG goals** and targets in setting the composition of spending,	**SDG Budget Tagging** is generally not undertaken, undermining **Budget Performance Reporting** and **SDG audits**.	Budget and expenditure information is often not linked to **SDG Performance Information**.	**Public Expenditure and Institutional Reviews** (PEIRs) reporting on SDG related expenditures are seldom conducted.
MoF Budget Policy Statements often do not mention SDGs, and where they do, it's only at an aggregate and narrative level.	**Citizen's SDG Budgets** that prioritise SDG objectives to facilitate budget allocation towards policy targets are rarely established.	**Cabinet and parliament deliberation** around SDGs is rare, undermining the potential for improved resource allocation.	**Annual Expenditure Reports** rarely report on SDG progress.	**Voluntary National Reviews** seldom cover SDG financing or strategic budgeting issues.	
SDG Financing Strategies and **Integrated National Financing Frameworks (INFFs)** are not developed. A Development Finance Assessment (DFA) may not have been conducted and SDG Costing has not undertaken, leading to SDGs not being placed at the heart of financial systems.	**SDGs Costing** may not be undertaken even where baselines have been set, undermining resource allocation.	**Legislative Budget Committees** (civilian oversight) are often not briefed on Agenda 2030 SDGs.	**SDGs friendly procurement rules,** linked to right-financing, have generally not been considered.	**Decentralisation and privatisation** can make impact monitoring more complex.	

Strategic Budgeting	Budget Formulation	Budget Approval	Budget Execution	Monitoring & Reporting	Audit & Evaluation
Linkages between **SDG priorities** and **inter-sectoral** and **territorial resource allocations** are often underdeveloped (MTBF).	**Alternate right-financing modalities are seldom considered**, undermining value-for-money, impact and sustainability.			There is a **lack of Civil Society Organisation (CSO) and private sector involvement in SDG** monitoring.	
SDGs goals and targets are poorly integrated into Public Investment Plans (PIPS) and expenditure performance frameworks, with sector ministries unaware of the **Global SDG indicators**.	Certain **SDG goals and targets are harder to track than others**, requiring a more robust national monitoring system for setting and reporting against base, mid and end lines.				
There is a **lack of government fiscal space** (discretionary finance) and appropriate **SDG Fiscal Rules** and an overdependence on ODA to finance the SDGs.	Budget Call Circulars and MTEFs **seldom guide sub-national entities** on SDG strategic planning and budgeting.				
SDGs financing is often viewed as a UN or international cooperation **partner activity.**	The **UN Common Country Assessment (CCA)**, which reviews SDG baselines, seldom does justice to SDG financing or strategic budgeting considerations.				
Green, climate or conservation financing is often seen as a separate sub-set of SDG financing.	**Limited use of conservation financing modalities** in identifying optimal financing modalities.				

Annex 2: Checklist for SDG Aligned Budget Processes across the Budget Cycle

Strategic Budgeting

Basic	Normative	Advanced
1.1 Are the SDGs integrated into the National Development Strategy?		
There is no specific mention of SDGs in the NDS.	There is partial mention of Agenda 2030, though SDGs are not developed at the pillar or sector level, and no consideration is given to execution.	There is advanced integration of Agenda 2030 SDGs into the NSP, including overall goals related to each pillar or sector program, alongside aggregate forward cost estimates.
Progress dialogue with the Executive to ascertain the relevance of SDG integration and appetite into the next NDS. Develop UNSDCF and CCA as entry points.	Convene UNCT meetings with the MoF and Line Ministries to explore entry points.	Offer support related to SDG strategic financing, SDG budget tagging, strengthening Budget Call Circulars etc. See Figure 5 below for CCA outcome as an input into the NDS process.
1.2 Has a Development Finance Assessment (DFA) been conducted?		
Not discussed or discussed but not undertaken. See Annex 2 for a draft TOR for a DFA Consultant.	DFA has been undertaken, but the results outlined in the Road Map have not fully been executed, and actions to link SDGs to strategic budgeting need further development.	DFA has been undertaken, and the Road Map is being implemented by the government, supported by partners.
Share models from other countries and consider developing a concept note as the first stage of dialogue. UNDP DFF Guideline.	Use the process outlined in Table 5 to overcome constraints to execution. Improve communication and messaging around the rewards of implementation.	Consider graduating to a full INFF. See UNDP INFF Guideline.
1.3 Has an Integrated National Financing Framework (INFF) been developed, or is it being considered?		
A DFA has been conducted but not an INFF. See TOR in Annex 2 for INFF Consultant.	INFF has been undertaken, but the results outlined in the Road Map have not fully been executed, and actions to link SDGs to strategic budgeting need further development.	An INFF has been undertaken and is under execution.
Enter into dialogue with the government and key partners to assess the merits and demerits of deploying and INFF.	Identify the key elements on the INFF relevant to SDG strategic budgeting and identify leading change managers who can progress on the actions outlined.	Consult the additional SDG Strategic Budgeting Toolkit Checklist options outlined in Annex 3.
1.4 Have any SDG Fiscal Rules been developed to support the MTFF?		
No fiscal rules have been developed.	Overall fiscal rules have been developed, but they are not specific to the SDGs.	SDG related fiscal rules have been developed but could be more supportive of specific SDGs such as climate and gender.
Engage in discussion with the MoF, IMF and World Bank to identify relevant fiscal rules that would support the SDGs. Agree on how to support the government in making the business case for such an approach.	Consider identifying which IMF-led macro-fiscal rules can be broken down into specific SDG-related fiscal rules. Identify financial policies and regulations and fiscal policy levers.	Consider developing budget tagging – for example, from brown to green (climate) expenditures or through gender-based budgeting - to enhance the impact of fiscal policy on SDG outcomes. Consider fiscal financial incentives and right-financing to de-risk private capital.
1.5 Does the government have sufficient fiscal space / discretionary finance to execute the SDGs? [1]		

1
IMF (Nov 2016): Fiscal space is a multi-dimensional concept reflecting whether a government can raise spending or lower taxes without endangering market access and debt sustainability

Basic	Normative	Advanced
A Fiscal Space Assessment (FSA) has not been conducted.	FSA has been undertaken, but limited options plus deficit-based fiscal rules impede it.	FSA has been conducted covering key sectors (alongside an SDG Financing Strategy), and fiscal policy levers have been used.
Identify the key fiscal challenges to be overcome, the key SDGs to be targeted and the costs of the proposed action. Undertake an SDG Financing Strategy.	Consider fiscal reforms (i.e., removing subsidies, introducing levies etc.), look for expenditure savings and reallocate through an SDG Financing Strategy. Consider outsourcing service provision.	Consider full INFF execution, including F2F and right-financing, de-regulation, blending, reforming general subsidies, broadening the tax base of improving operational efficiency. Consider new tax and non-tax options.
1.6 Has an Integrated SDG Financing Strategy been developed, or is it being considered?		
No SDG Financing Strategy has been established.	A DFA has been undertaken, but no explicit SDG Financing Strategy has been agreed.	SDG Financing Strategy has been undertaken as part of the INFF.
Consider undertaking an INFF to better tap into domestic and international public and private SDG financing.	Support Implementation of SDG Financing Strategy through an INFF.	Consider further realignment of various taxes and planning and budgeting processes, establishing an inclusive SDGs financing dialogue among stakeholders to promote stronger participation.
1.7 Does the government have sufficient discretionary finance to execute the SDGs?		
No DFA, INFF, SDG Financing Strategy or FSA. The government has increased budget deficit, debt burden and lower remittances and foreign direct investment.	DFA and INFF in place, though fiscal policy levers poorly developed.	DFA, INFF and FSA have been conducted, new fiscal rules developed, and ODA is being used in a more catalytic fashion. Private capital is being crowded in.
Consider modifying fiscal rules, undertake a DFA/FSA, improve ODA alignment and harmonisation, and adopt right-financing modalities to crowd in private capital. Look for savings, lowering wage and non-wage recurrent liabilities.	Reenforce aggregate fiscal discipline, improve the strategic allocation of resources and encourage more efficient inter-temporal planning. Consider counter-cyclical spending options.	Consider counter-cyclical spending options. Improve the rate of return analysis such as Social Cost-Benefit Analysis (SCBA). Consider counter-cyclical spending options. Improve the business case for financing SDGs (i.e., Green Deal Financing / vertical funds etc.)
1.8 Have Sector SDGs been fully costed?		
SDGs have not been costed.	Aggregate SDGs costs have been estimated, though detailed budget line items forecasts have not been initiated.	Full SDG costing has been undertaken using detailed spreadsheets mapped to the MTEF process.
Undertake SDG costing based on the UNDP SDG Costing Guidebook to include: (i) unit costs based on historical averages (OPEX and CAPEX), (ii) total aggregate costs across all sectors, (iii) cost breakdown by functional classification (goals, programs, sub-programs) and (iv) fiscal requirements over the medium term.	Based on SDG priorities and sequencing, either across all SDGs or for a specific goal or target, undertake a detailed costing in line with normative national costing guidelines, as indicated in the call circular and related templates. Develop a full costing spreadsheet with a dashboard to forecast wage and non-wage recurrent and capital costs, but program and sub-program.	Calculate the SDG financing gap. Assess options for domestic revenue collection, ODA and OOF flows, identify the annual financing gap. Consider tax, non-tax and blended financing and debt financing if justified. Focus on value-for-money, right-financing and improving the catalytic impact of all expenditure classes.

Budget Formulation

Basic	Normative	Advanced
2.1 Is the overall sector adequately funded?		
Education, health, climate and the environment, social protection, gender and Leaving No One Behind (LNOB) are underfunded priorities. Government recurrent and infrastructure spending dominates.	Sector spending totals are broadly in line with international standard benchmarks; however, SDG targets are underfunded.	Sector(s) are well funded and cover the overall costs of achieving the SDGs by 2030.
In dialogue with multiple stakeholders, including parliament and CSO, undertake cross-national comparator analysis and improve the business case for increased sector allocations.	Consider alternative/blended financing, marching grants and, if justified, concessional loans for the high rate of return activities.	Look for cost savings through allocative and operational efficiency at the sector and sub-sectoral level.
2.2 Do Budget Call Circular and Template Adequately Guide SDG Planning and Budgeting?		
Budget Call Circular and templates do not outline an approach for SDG integration or guidance on how to account and tag SDG spending or report Key Performance Indicators (KPIs).	Basic guidance provided in relation to SDGs, also mentioned in the Budget Framework Paper and Preliminary Budget Estimates.	SDGs are fully provided in the Budget Call Circular, with full guidance provided in terms of SDG financing and prioritisation across the rolling budget cycle.
Engage the MoF to identify the cause of the shortcoming and consider introducing a cascading objective hierarchy system while upgrading the call circular guidance and templates, including a full list of SDGs and potentially an annex of targets.	Focus efforts at the sectoral PIP formulation level and Budget Framework Paper Submissions.	Focus efforts at the sectoral PIP formulation level, Budget Framework Paper Submissions, costing and right-financing to identify the most optimal investment mix to provide value-for-money.
2.3 Do the PIPs Fully Integrate SDGS and Deliver Performance-Based Budgets?		
SDGs are not directly mentioned in the PIPs, though certain objective, activities and targets may support SDG outcomes.	The PIPs mention the SDGs and Agenda 2030 in the introductory narrative but not in the planning details or baselines.	Fully developed PIPs with SDG fully integrated into the PIP objective, outcome, output, baseline and expenditure propositions.
UNCT support for sector ministries to integrate SDGs into the bottom-up planning and prioritisation process.	UNCT support – building from the UN SDG Dashboard, UNSDCF and CCA – for priority sectors to develop the medium-term planning goals, baselines expenditure trends and financing. Undertake SDG costing and Budget Tagging.	Estimate baselines for current policy, forecast revenue and expenditure per economic classification (for large sectors) to improve the business case and demonstrate value-for-money. Support development of SDG KPIs and results framework. Support sub-sector trade-offs.
2.4 Sub-National Government and Administration PIPs		
SDGs not integrated into regional, provincial, district or municipal level expenditure plans.	SDGs explicitly mentioned but poorly integrated into sub-national Regional Strategies, plans and budgets.	SDGs are well reflected in sub-national strategies and PIPs, including costing and forward year expenditure needs.
Identify sub-national pilot opportunities to demonstrate model SDG integrated PIP. Engage in dialogue between MoF and sub-national entities to illustrate benefits and returns.	Focus on building planning, SDG costing and budgeting, SDG tagging, SDG audit and Monitoring and reporting capacities.	Focus on building planning, SDG costing and budgeting, SDG tagging, SDG audit and Monitoring and reporting capacities. Support fiscal space improvements, including revenue diversification and fiscal incentives.

Budget Approval

Basic	Normative	Advanced
3.1 Prepping for Budget Hearings / Budget Scrutiny and Cabinet Approval.		
No budget hearings are held.	Budget hearings are held, but as closed sessions.	Open budget hearings are held and widely attended.
The absence of budget hearings undermines transparency and accountability. Under such a context, consider supporting independent CSOs to review budgets and report on SDG allocations.	Work to establish a Budget Hearing Guideline to increase transparency and to lay the foundation, should additional resources be requested for the approval of cabinet.	Under such a context, improve communication on key issues related to SDG measures proposed, their expected impact and benefits to the economy and society.
3.2 Are Parliamentarians aware of Agenda 2030 SDGs?		
Parliamentarians are not involved or aware of Agenda 2030 SDGs, or perhaps the details of the Addis Ababa Action Agenda, Paris Agreement on Climate Change or the Sendai Framework on Disaster Risk Reduction.	Parliamentarians are involved and aware at the aggregate level, but unaware of how comprehensive the SDGs are and how they can be financed.	Parliament is informed and aware and has established an SDG Committee or Caucus to deliberate over SDG financing and budgets.
Conduct parliamentary SDG Information Seminar and SDG Self-Assessment. Support localisation of SDGs to increase ownership and awareness, particularly on pro-poor, gender-sensitive, human rights-based enabling environment issues. Build parliamentary understanding, mainstreaming SDGs within parliamentary processes and financing and monitoring.	Conduct regular Parliamentary SDG Self-Assessment and support localisation efforts, while improving law making to support SDGs, engaging citizens, monitoring strategic budget execution.	Focus on supporting public policy dialogue, training for parliamentary committees and caucuses and increase focus on holding the executive accountable to international obligations. Encourage institutional debates on progress reports of local and national plans. Televise parliamentary debates. Encourage parliamentarians to reach out to their constituencies.[2]
3.3 CSO Engagement		
CSOs have limited to no engagement in budget approval.	Limited CSO public policy dialogue on budget approval,	Widespread SCO engagement in budget approval.
Facilitate improved CSO engagement, including the independent monitoring of results. Promote the Voluntary National Review (VNR) process.	Encourage the executive to formalise public policy dialogue and require consultation by law. Strengthen SCO understanding of SDGs.	Strengthen CSO understanding of SDGs, localisation and engagement around the Voluntary National Review (VNR). Identify options for mainstreaming SDGs in CSO activities.

Budget Execution

Basic	Normative	Advanced
4.1 Have SDG Procurement Friendly Procedures Been Established?		
SDG procurement standards (such as value-for-money, human and labour rights, environmental and social impacts, recycling, impact on job creation etc.) have not been developed.	Procurement rules and standards are somewhat relevant to some SDGs but designed and implemented sporadically.	SDG Procurement Guideline established and being executed.
Review national procurement guidelines and work with authorities to make guidelines SDG friendly, including local content considerations.	Upgrade existing systems by forming an SDG procurement working group to identify optimal models for key goals, as an annex to the procurement law and regulations.	Monitor the impact of the procurement guideline, identify challenges and propose new and improved modalities. Consider linking to sub-national authorities.

2 See file:///Users/petermiddlebrook/Downloads/en-_sdg-toolkit-web.pdf

Basic	Normative	Advanced
4.2 Have Right-Financing Considerations been Established?		
No right-financing strategy has been developed presenting variant / optimal and sub-optimal financing for key SDGs.[3]	There are developed variant financing modalities for the SDG sector investments, considering crowding in private capital or blending.	Right-financing has been mainstreamed, and alternative financing modalities have been piloted, and where successful, scaled up.
Look critically at the primary sectors where SDGs are to be executed and identify the full range of possible financing modalities beyond the traditional domestic public sector or ODA.	Review current sector financing modalities, identify constraints and opportunities, and outline an alternate set of financing modalities that provide greater value-for-money and expand fiscal space.	Identify detailed economic rate of return (ERR), net present value (NPV), Cost-Benefit Analysis (CBA) and economic and employment multipliers to improve investment section and financing.

Monitoring and Reporting

Basic	Normative	Advanced
5.1 Are SDG Expenditure Systems and Budget Tagging Developed?		
No SDG Budget classification systems have been developed, though qualitative reporting was generated.	Basic Budget Tagging has been introduced to the Chart of Account (CoA), though weaknesses in setting PIP performance metrics undermine utility.	SDG budget tagging has been introduced, and PIPs clearly link financial inputs to SDG outputs and outcomes.
Similar to Climate Budget Tagging (CBT) implemented in many countries, consider introducing budget tagging for the 17 SDGs (down to the target level). Start with developing a Concept Note.	Integrate SDGs into the Chart of Account (CoA) by focusing on upgrading the expenditure and ODA tracking systems, including functional and territorial allocations. Pilot budget tagging in on budget entity.	Engage Accountant General's Office. MoF, Line Ministries and sub-national authorities to improve budget tagging. Consider developing an equity classification system that uses codes aligned with specified equity classifiers to tag budgets.
5.2 Has an Impactful Voluntary National Review been Undertaken?		
No VNR has been undertaken.	A VNR was undertaken though the impact on strategic budgeting considerations was marginal.	A full and effective VNR was undertaken, highlighting structural weaknesses which are not being addressed.
Present the risks and rewards for government undertaking and VNR. Lay out the business case.	Identify strategic budgeting actions that can be incorporated into the next VNR. Engage government.	Support government in overcoming the constraints identified.

3 For example, municipal waste collection can be financed from local revenues and implemented by municipal authorities. Alternatively, a public-private partnership can be established to collect and recycle waste, paid for by citizens directly. Donors could also provide catalytic first-loss capital to provide guarantees and to finance critical infrastructure to process waste. In the energy sector, while public provision (generation and distribution) may make good sense, Independent Power Producers (IPPs) can develop off-grid systems to support rural electrification or engage via concessions. The most optimal 'right-financing' arrangement should be proposed. Moreover, if an SDG would aim to impact climate change, many variant conservation financing options could be applied (i.e., payment for ecosystem services etc.)

Evaluation and Audit

Basic	Normative	Advanced
6.1 Are SDG Related Audits Undertaken (i.e. financial or performance audits, compliance and SDG readiness audits)?		
No.	SDG Budget Tagging has not been introduced, but options have been discussed.	Yes – SDG Audits are being undertaken.
Meet the Auditor General and MoF to review the possible scope for introduction of an appropriate audit, based on the following options: ▪ Financial Audit ▪ Performance Audit ▪ Institutional SDG- ▪ readiness audit	Assuming all other SDG pre-conditions are in place (i.e., SDGs integrated into the NDS, PIPs etc.), host a workshop for audit institutions to develop a road map for the introduction.	Work with the Auditor General Offices and Line Ministry Audi Departments to implement audit findings.
6.2 Are Public Expenditure and Institutional Reviews (PEIRs) being undertaken?		
No.	Yes – dedicated SDG PEIRs have been conducted, though follow through on recommendations was compromised.	Comprehensive PEIRs have been undertaken.
Undertake PEIR to support SDG budget mainstreaming.	Work to accelerate the accountability and responsiveness of SDG budgeting by identifying the baseline of current allocations to better prioritise investments.	Support implementation of proposed corrective measures. Consider undertaking a Climate Public Expenditure and Institutional Reviews (CPEIR).

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