September 2022

BUDGETING FOR THE SDGs

Origins and Practices

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). This document is a companion piece of the modular handbook and presents origins and practices of Budgeting for the SDGs.

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BUDGETING FOR THE SUSTAINABLE DEVELOPMENT GOALS

Origins and Practices

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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.

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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.

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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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Origins and Practices

1 Rationale and intended audience

Rationale

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.

Based on the reviews of various evaluations and studies from different countries, this background note documents challenges, provides lessons based on different contexts and how to manage change and the issues of capacity building, and lists the emerging Budgeting for SDG practices from various cases studies. This document is to be read in combination with the the modular handbook on Budgeting for the SDGs (attached separately).

Intended audience

This background note is for economists, public finance managers, sector managers and experts from UNDP and other international agencies, as well as for counterparts in finance, economy and planning, sector ministries, accounting and audit institutions, and municipalities. As this background note lists country examples, and evaluation studies, it would be particularly important to understand what has and hasn't worked based on different country contexts. The note can be used to initiate dialogue around challenges faced and lessons learnt, and types of emerging Budgeting for SDGs reforms that countries are initiating around the world.

2 SDG implementation challenges

The logic of the SDGs goes back to a reform model 'New Public Management' first introduced in the United Kingdom and New Zealand in the 1980s, as well as to earlier attempts on introducing policy objectives and performance criteria in budgeting. The New Public Management model is based on economic and managerialist approaches with the goal of a greater focus by governments on performance and results.

- It draws tools from the private sector in giving managers responsibility and incentives for achieving results as efficiently and effectively as possible.

- It focuses on the needs of citizens through more responsive delivery of public services (Hood 1991; Aucoin 1990; Schedler (in press)).

- It has been widely promoted by international organizations, notably the OECD (OECD PUMA 1997, 2001).

- It was branded in Germany as the "New Steering Model" (Klages & Loffler, 1998); the USA as the "National Performance Review" (Gore, 1993); and Switzerland as "Outcome-oriented Public Management" (Schedler & Proeller, 2010).

The SDG approach is based on a stylised, pro-growth theory that economic growth will produce economic resources, including new technologies, that promote social and environmental and governance goals, and in turn reduce poverty. There is also some reverse causation, where social, environmental and governance goals contribute to economic growth. For example, education and health helps build a productive workforce that contributes to economic growth. Likewise, good governance enhances public service delivery and rule of law, that helps to achieve goals in all other areas.

This stylised theory helps as a first step, but the devil is in the politics. There are four broad political questions that each country needs to answer. First, how can economic growth be achieved? Second, how to balance growth against social goals? Third: how to balance growth and environmental goals? And fourth: what are the background conditions of society and governance for achieving all these goals?

Another challenge for policy formulation follows from the presentation of the SDGs themselves. In some cases, the means are clearly stated for achieving the goals. For example, economic growth is to be achieved through industrialisation, technological upgrading, focusing government spending to sharply reduce poverty and to improve conditions for the lower 40 percent. In comparison, the social development goals are mainly focused on ends rather than on means: stating a number of concerns, but not how to address them. Likewise, environmental goals focus on ends, and leave out mention of controversial possible means such as reducing meat consumption and ending subsidies on fossil fuels. The proposals on good governance also lack details on how to achieve the desired ends, particularly in the fragile and conflicted affected states.

A further challenge is in measuring achievement of SDGs. SDG indicators are divided into Tier I where data are regularly produced for at least 50 percent of countries where the indicator is relevant, and Tier-II where data are not regularly produced by countries. There are 130 Tier-I indicators, 97 Tier-II indicators, and 4 indicators where different components of the indicators are classified into different tiers. For the latter two groups of indicators (about 40% of the total), countries should consider adopting regular data collection so that achievement can be measured (UN 2020a).

A different type of challenge comes from "black swan" risks such as the COVID19 pandemic which has been termed "a systemic human development crisis" (UNDP 2020). One could argue that the pandemic falls within SDG 3.3 (end epidemics) and 11.5 (reduce impact of disasters), but the speed and scale of the required responses go well beyond normal planning and budgeting.

For SDGs that don't specify means, and on which data aren't regularly collected, further work will

be needed by the countries to define them based on a combination of context and international experience. Once the means of attaining and measuring goals are specified, then policies and linked budget allocations can be derived.

Whether or not the SDG agreement advises on means, there is likely to be intense debate in countries on how best to sequence the SDG work, and whether the recommended paths to achieve a particular goal are practical. For example, during the COVID-19 pandemic, infections have been reduced in some jurisdictions by closing or restricting businesses where large groups of people congregate together, but this can have severe economic costs. Other jurisdictions have minimised business disruptions and the cost on the economy but suffer higher infection rates. Another debate in many jurisdictions has been over when and how to close and reopen schools during the pandemic. Reopening schools may help to spread infections but keeping them closed sets back learning outcomes. In the long run, economic growth, open schools, and control of infections are all needed to achieve SDGs, but in the short run one area may be prioritised over the other.

3 Challenges in linking budget reforms to service delivery improvements

The stylised theory of change is that timely and predictable resource flows to service providers, in line with both policy objectives and fiscal discipline, contributes to sustainable achievement of public service delivery, sector outcomes, and SDGs. One way to improve service delivery is adopt international public financial management standards embedded in assessment tools and framework (e.g., Public Expenditure and Financial Accountability (PEFA) assessments). However, there are several challenges to adopting this method:

- First, assessment tools such as PEFA do not directly measure improvements in service delivery performance.
- Second, there can be a risk of reforms being implemented based on their success in other countries without adequately evaluating the country context.
- Related to this is the risk of following external advice without building up the reform's strategy from within the government. This distracts recipients from the real work needed in the local context and may lead to a less functional setup than before the work started, once the donor funding is ended (Andrews, Pritchett and Woolcock 2017; Krause 2013).

A further challenge with the theory of change is the presumed link between B4SDG practices and service delivery. Budgeted expenditures may be tagged to SDGs, but this information may not be used to analyse spending effectiveness, and to enhance value for money. Public services linked to SDGs may be funded by the budget, but SDGs can also be incentivised through tax credits, regulation, co-production, and local institutional fit.

Governments with highly rated budget and control practices may fall short of service delivery due to inadequate staff skills and motivation, or lack of public cooperation. To assess the links between B4SDG and service delivery, some analysts look at public service outcomes such as personal safety, infrastructure quality, health and learning results (Mo Ibrahim Foundation 2017; Rotberg et al, 2014). The advantage in this approach is that such indicators measure results that government programs are seeking to achieve. Among the disadvantages are that some of these measures are controversial (exam scores to measure learning outcomes, or rate of case clearance for rule of law), and that outcome measures are subject to a variety of factors such as family situations and overall levels of economic progress, making it hard to estimate the attribution of results to B4SDG reform programs.

Conditions in developing countries are clearly more challenging, yet some analysts argue these reforms in such countries do lead to improvements in service delivery and efficiency (World Bank 2004 and 2012b; Fozzard 2001; Krause et al 2012) . If PFM systems can credibly forecast, track and report on revenues and expenditures, these processes will provide information and data to decision-makers on available funds and on the costs of competing priorities to inform budget policy to better achieve performance goals. Good PFM supports well-informed decision-making on resource allocation and permits judgements about welfare-maximising (i.e., efficient) allocations. Most research acknowledges that while these links between improved PFM and improved service outcomes are plausible, there are other factors influencing these outcomes, so the link to improved PFM is partial and indirect. There is work in progress on designing tools to identify PFM bottlenecks to service outcomes (PEFA Secretariat 2020a and 2020b; Hadley et al 2020).

Other research takes a different perspective: comparing countries based on average spending and results. Ethiopia and Malawi spend about the same on primary education, but school completion rates in Malawi were much better. Thailand spent more than Peru, but completions increased in Peru and decreased in Thailand. Indeed, research looking at both education and health show little or no relationship between higher spending and results controlling for a country's per capita income level. Spending more doesn't improve outcomes unless spending efficiency also improves including getting funds to front-line service providers in poor communities, improving incentives for service providers to deliver services effectively, and eliminating the gratuities and bribes that many students and patients have to pay [SDG4: quality education] (World Bank 2004, p. 11, 24, 36).

With these methodological challenges in mind, there is some evidence that countries have pushed their public finance reforms to deliver on results, showing some evidence of a causal link between better budgeting and better public service outcomes. The examples in the below table show progress is not always even and how other factors beyond budgeting reforms play a role in the level of achievements made.

Country Examples - Public Finance Reforms and Service Delivery Results

Enhanced budgetary allocations and results-based budgets

Guatemala: Satisfactory execution of social expenditure in 2006 and increase in 2007 allocation; and results-based budgets prepared for Education and health Ministries for 2007. The result was an increase in social sector expenditures as planned, but no evidence that the resources were better targeted towards the poorer regions, as had been intended (IEG 2009).

Poland: Reforms such as medium-term fiscal planning and performance-based budgeting have likely contributed to the enhanced allocation of funding to social spending, despite adoption of a restrictive fiscal rule and deficit reduction. For example, social benefits have increased from 16.1 percent of GDP in 2008 to an estimated 17.7 percent of (a much larger) GDP in 2018 (IEG 2019). Enhanced spending translates to better outcomes: for example, in education, Poland's performance on PISA examinations is well above the OECD average. Oxfam's scorecard on government commitment to shared growth gives Poland the highest rating of 157 countries in social spending (Oxfam 2018).

Improved budget execution

Madagascar: Policy reform leading to improved reconciliation at least every two months the budget execution status of key sector ministries (health, education, transport, public works, environment, and agriculture) with the Ministry of Finance. The result was significant improvement in budget execution through 2008, but a major downturn in 2009 due to the political situation (IEG 2013).

Sierra Leone: The government, through its Public Sector Reform Unit, its Ministry of Education, Science and Technology; and its Office of Accountant General, collectively, completed the teacher verification exercise and updated human resource records and the teacher's payroll, respectively, … (World Bank 2013). The reform supported an increase in the ratio of number of teachers with HR records to number of teachers on payroll which improved from 35 percent in 2010 to 76 percent in 2014, (although short of the target of 98 percent) (World Bank 2016).

Performance Contracting

Senegal: The government adopted a new financial regime for public agencies and establishments and entered with five additional public health institutions into performance contracts whose objectives were to increase service supply, improve billing process and control general costs [SDG3: Healthy lives]. The result using a hospital efficiency index (the difference between a hospital's combined inputs and outputs, and an efficiency frontier estimated with a data envelope analysis – a standard technique for assessing technical efficiency in data-poor environments) - the efficiency index was 90 percent, compared to a target of 85 percent and a baseline of 79.5 percent. The target was met. Using birth attendance by a health provider as an indicator of resources released for pro-poor health services, only 53 percent of births were attended, compared to a target of 70 percent for 2015, and a baseline of 65 percent. The target was not met, but the result is likely to have been influenced by a number of other factors beyond financial constraints (IEG 2018).

Decentralisation

Burkina Faso: Reforms covered both PFM and decentralisation, which were vehicles for achieving efficient, equity and effective service delivery. However, neither objective was achieved. In terms of decentralisation, the government met the target of transferring 5 percent of the national budget to local governments in 2014, but then reversed the policy in 2015 [SDG6b: Local Participation in Water and Sanitation]. In terms of equity, the public finance program lacked typical measures found elsewhere, such as providing adequate allocation to priority expenditures (e.g., social sectors) and ensuring budgetary releases protected such expenditures (IEG 2018).

4 Context driven approaches to budget reforms

Many of the public sector challenges faced by governments involve doing things with many contextual unknowns, different interests, and multiple transactions that enhance risk. Facing these challenges requires addressing a range of motivational problems, allowing solutions to emerge through trial and error, and seeking authorisation for teamwork with highly varied functional roles and skill sets (Andrews et al 2017). Governance conditions may vary even within countries based on the interests of rulers in deploying different degrees of limited governing resources (Nasseemullah and Staniland 2016).

In order to increase focus on achievement of the Agenda-2030, different countries are emphasising on strengthening different elements of the public financial management, such as; increased resources for SDGs (domestic revenue mobilisation, utilising private sector finances, and development finance), strategically allocating resources mobilised to highest SDG priorities – through linking planning and budgeting system, strengthening operational capabilities through transparent and efficient procurements and developing reliability of the budgets, modifying budgeting systems to track budgets and spending on SDGs to gauge value for money and monitor policy outcomes, finding fiscal space to increase investments in SDGs while remaining fiscally sustainable.

We analysed in the previous section some risks of starting with a model of good practice, identifying deficits against the model, defining these deficits as the problem, and then solving the problem by adopting the good practices.

A different methodology starts with the way institutions work, including their flaws, and then builds on their actual strengths to achieve whatever outcomes are possible. Some scholars call this approach "good enough governance", where states achieve the minimal conditions of governance to keep order within their borders, allow economic development to occur, and provide some basic services, while enabling key supporters to extract the resources they require to continue supporting the regime in power (Krasner 2015; Grindle 2007; Thomas 2015).

Country Examples - Context driven approaches

Afghanistan: The Afghan context is distinctive in that it has gone through nearly 50 years of continuous conflict, fuelled by a web of ethnic rivalries, geographical barriers, and tensions arising from its location at the intersection of many geopolitical interests. Given this challenging context, development partners have supported improvements in public administration and financial management in order to enhance the delivery of public services. This, along with strengthened accountability mechanisms, is intended to enhance the legitimacy of the regime in the eyes of citizens, thus gaining the support from citizens that enables the regime to survive. To move ahead on this ambitious agenda, development partners adopted two key innovations in response to the unusual context to enable PFM improvements:

- On budget grants from donors (16 percent of GDP in 2016) are disbursed promptly through the Afghanistan Reconstruction Trust Fund (ARTF) and other on-budget mechanisms to cover salaries and to scale up national programs (Scanteam 2012). The World Bank administers the ARTF, which is the largest source of on-budget financing for the government. Pooling of resources increases leverage and accountability, and the ARTF has been very successful in mobilising and using resources effectively. It also allows the scaling up of programmes piloted with Bank resources through support for on-budget programmes, increasing country ownership. Due to security concerns, the Bank contracts field monitoring to local consultants, without onsite supervision by Bank staff.

- The Bank has supported a short-term incentive programs to attract a second civil service of skilled Afghans and compensate them for the opportunity cost of leaving jobs overseas. This scheme is aimed to compete with pay levels offered in Afghanistan by international agencies and NGOs for staff with similar skills. These staff are employed both by Government ministries (using donor funding to top-up normal salaries) and by partner organizations. While these highly skilled staff are able to put in place high performing systems, most capacity has been built among the contracted staff of donor-funded projects, rather than in the core civil service.

- These innovations have supported many achievements. Afghanistan's PFM framework today is much better than would be expected for a low-per-capita-income country that started virtually from scratch in 2002. The rating on the Country Policy Institutional Assessment (CPIA - World Bank 2015) on budget management improved from 3.0 in 2008 to 3.5 in 2009 (on a scale of 1 to 6, where 6 is the highest). The rating has been maintained up to 2016, the latest year rated. Only 9 of 82 IDA countries with ratings had higher scores (mostly 4.0 for mainly middle-income countries) in their latest CPIA assessments. The country's financial management information system was rated and given the highest possible score in a comparative study of systems in 23 countries, based on coverage of: payments handled by the MOF, financing sources, and geographical and sectoral scope. Fiscal transparency has the second highest quality rating in South Asia; only Nepal is rated higher (IBP 2017). Salaries are paid in a timely and reliable manner, sometimes using innovative mobile pay platforms.

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These and other public finance improvements have enabled much improved public services, leading in turn to sharp improvements in literacy and access to safe drinking, education for women and reduction in infant and maternal mortality. However, there are many shortcomings with the adopted approach as well. There is concern that ARTF's innovative monitoring is missing key aspects and may be allowing for example payment for ghost workers in the civil service. The Kabul Bank crisis beginning in 2010 was a major blackmark with losses of $825 million due to fraud and corruption, only 1/4 of which has been recovered. The reliance of most PFM systems on a second civil service of contracted staff also raises concerns of sustainability [SDGs 3, 4, 5, 6, 16] (Wescott 2019).

Honduras: Reforms in 2011 sought "to strengthen the management of public finances and to establish a more efficient, effective and transparent public procurement system through: (i) upgrading the public financial management system; (ii) upgrading the procurement platform; (iii) enhancing the internal control systems over personnel expenditures; and (iv) building capacity of the Central Administration." A Bank project supporting this effort was unsuccessful, with an IEG Unsatisfactory outcome rating, and with the Government cancelling most of the loan. The three lessons IEG derived, however, are useful. These point to the need to provide more time for an FM investment project to succeed (possibly 8 years, not the four-year time frame of the project); to contain ambition, with a focus on fewer outputs; and to elevate the level of authority overseeing the project (from a low level PCU to a higher-level coordinating committee).

Those lessons resonate with the experience in 2014 which also sought to strengthen PFM. This time, however, strong Government interest in fiscal consolidation provided a new context that possibly elevated the priority assigned to FM efforts, which now appeared more focused. Efforts targeted the wage bill (creating a staff registry, conducting payroll audits, and implementing a functional review of target institutions). The registry is now also cross-referenced with monthly payment data (SIAFI) and with the integrated Human Resources System to validate benefit payments and control against ghost workers. IEG's review concluded that these actions helped reduce the wage bill. Furthermore, actions to allow three new procurement methods yielded savings to the Government.

Sustaining and broadening these efforts are likely to result in an improved FM quality and rating. Possibly the most decisive factor associated with the overall PF success after 2013 in Honduras was the rebuilding of government commitment to fiscal consolidation, following the unsustainable fiscal conditions that resulted from expansionary policies from 2007 to 2013.

Tonga: Tonga's First Economic Reform Support Operation shows that strong government commitment to and ownership of reforms ensures continued progress even in in a low-capacity context, characterised by frequent staff turnover. This operation also highlights the importance of civil service reform to help mitigate the risks arising from frequent staff turnover. The follow-on inclusive growth series in Tonga contains measures to strengthen remuneration in the civil service, which could facilitate staff retention, but more direct and targeted civil service technical assistance and reform may also be needed. In this regard, it will be important to consult and engage the key service sectors to ensure service delivery is not compromised in the process. Engaging these sectors in the Joint Budget Support Committee will also help promote their ownership.

5 Managing change and capacity building

Achieving success in B4SDG reform entails helping country staff to understand the need for change, and providing sufficient incentives for them to take action, including the necessary skills required (Van der Voet 2014, Kuipers et al 2013, World Bank 2015). Effective PFM requires both transactions/fiduciary and developmental skills. It requires effective coordination between core PFM units such as the Ministry of Finance, line ministries, and sub-national authorities. PFM reform also requires coordination between government staff, and staff from other development partners.

Building support among operational staff, and fitting reforms within the broader cultural context are also reportedly key factors in problem solving and ensuring sustainability (Diamond 2003, OECD 2006). Coaching can be part of these processes, including setting measurable goals in line with values and motivation, and using behavioural tools to build individual and group competencies (Skeffington and Zeus 2003). Capacity development needs to build on existing skills and is more successful when there is clear strategic direction and political leadership willing to properly use and incentivise critical capacity (DFID 2009: 45-6). A key part of this is public financial accounting and reporting should be part of the professional curriculum in leading educational institutions in each country, and that they offer a dedicated public sector professional qualification.

Another approach to capacity development is for development partners to channel their financing through recipient treasury and financial systems. There is evidence that working with country systems will help strengthen them. For example, a study of general budget support found that in the 5 of the 7 countries with established track records, channelling aid through country systems has strengthened budget processes, including comprehensiveness and transparency. There are at least three reasons for this: (i) development partners and sector ministries are more likely to put financing on-budget to comply with program agreements; (ii) development partners pay closer attention to the quality of a country's fiduciary controls and systems to protect their own resources passing through these systems; and (iii) by adopting the government standard, development partners can avoid multiple procedures and reduce transaction costs (IDD and Associates 2006).

Another crucial aspect is to incentivise change management and capacity development. There are a variety of incentives that can be drawn on to meet contextual needs. When employees feel as if they are meaningfully engaged in their work, they are more likely to be creatively productive (Amabile & Kramer, 2011; Grant 2007). Management can play a critical role in fostering this motivation. Motivating public servants is a challenging but important part of improving public sector productivity and outcomes. Changing management strategy is a low-cost way for institutions to maximise their agent capacity (Amabile & Kramer 2011). It is easily replicable and scalable across public-sector institutions and organizations that display similarly motivated bureaucrats. Other incentives that have worked in various settings include increased contact with constituents (Grant 2007; Lipsky 1980), increased community accountability mechanisms (Reinikka & Svensson 2005), more autonomy/local control (Azis 2008), nonmonetary incentives/awards for good performance (Ashraf, Bandiera & Jack 2014), transfers (Khan, Khwaja, & Olken 2016), and pay for performance (Gneezy & Rustichini 2000; Frey 2017).

Evaluation results of accountability support are limited by the fact that there is little systematic research or rigorous impact analysis on the effectiveness of measures taken. However, project evaluations point to the following lessons:

- **Parliaments:** Progress may require a long-term effort over 3 or 4 electoral cycles and 8-20 years. Focused assistance on key issues such as budgeting and audit has achieved results, for example helping legislators to adopt a public investment law that supports budgeting reforms led by the Ministry of Finance.

- **Supreme Audit Institutions (SAI):** Improving independent oversight requires all parties to do their part. For example, an SAI depends on quality inputs that it does not control, such as timely and accurate financial reports and timely responses from auditees to audit recommendations. Civil society organizations (CSOs) and the media can publicize discrepancies and push for improvements. Auditing can improve only in step with more general enhancements in the public financial and governance system.

- **Ombudsman and other non-executive accountability institutions:** These bodies are often underfunded by governments to keep them under control; DP support should work with governments to see the benefits of these bodies and increase their funding.

- **Demand side of accountability:** Since 2007, the World Bank has taken a much greater focus on supporting PFM as a means for increasing accountability, including support to SAIs, and has sharply reduced its focus on demand side work supporting CSOs . This is largely explained by the increased use of DPOs, and the decline in use of investment project facilities (IPFs) typically used to fund demand side work. While increased budgetary disclosure and participation are associated with improved budget quality and development outcomes, only a few studies identify causal effects such as improved resource allocation or electoral accountability. There is little evaluative evidence on holding the state to account to provide answers linked to natural resource revenue or procurement transparency (de Renzio and Wehner, 2017). There is evidence that demand side work can enhance coalition building and access to knowledge, and that support to CSOs can raise citizen trust in government, and willingness to pay taxes and service fees (IEG 2018j: 43-44; Migliorisi and Wescott. 2011).

Country Case Studies

1 Public Finance reforms in SDG-important sectors of Energy, Health and Education

Further research into SDG-sectors has been undertaken to understand the linkages between public finance reforms and improvement in SDGs. Three important sectors; Energy, Education and Health have been selected with the view to discuss PFM and SDG outcomes.

Energy

Mozambique: Policy reforms in SOEs can lead to important SDG achievements. Electricidade de Moçambique (EdM) and other government bodies worked to increase access to electricity and modern energy services in peri-urban and rural areas in Mozambique in a sustainable and affordable manner, building on power sector reforms supported by the World Bank, Denmark and the African Development Fund to separate EdM into several business units, with private sector participation in distribution and supply, and a separate corporate public entity for transmission. The broad objective of increasing access to modern energy was clearly stated, and broad enough to encompass changing priorities and emerging investment needs. Thus, original targets of providing improved wood fuel stoves and enhancing use of biomass were overtaken by the need for new power transformers and respective switchgear at the Mocuba and Pemba substations, and solar water heaters for hospitals. The project was successful in improving electricity access from 10.5 percent at appraisal to 26 percent at project closing, including more schools and health clinics than were initially targeted. However, EdM's revenues aren't high enough to cover its costs, limiting its ability to continue with grid expansion and connecting new customers [SDG7: Sustainable Energy] (IEG 2018i). (IEG 2018i).

Uzbekistan: designed and established a financing mechanism to support energy efficiency standards. As a result, more than 90 enterprises (mainly SOEs) introduced energy efficiency strategies, and a financing mechanism was implemented to support these strategies. Energy prices were aligned closer to cost recovery levels, and energy prices to companies that don't use energy saving technologies were increased. Presidential decrees and regulations were passed to provide clearer guidance for SOEs in implementing energy efficiency measures. (IEG 2018d).

Chad: A Chad program provided that oil revenues would be managed by a separate account earmarked for poverty reducing spending (and to repay the Bank loans). The Bank knew that this was a bad idea from the start, even at the expected lower revenue levels (lack of political commitment, distortionary effect of enclave budgeting in a weak capacity environment) but went ahead with the design anyway to maximize the protection against the high reputational risks of the program and the need to respond to the severe external pressure and vocal criticism of WBG involvement. In the end, the

Bank's involvement improved the environmental and social provisions of the program, and somewhat improved the allocations of oil revenue to priority sectors such as roads and access to water. However, the broader objective of reducing poverty and improving governance was not met, and the overall outcome was unsatisfactory.

Romania: Another example of supporting standards was a series of two policy operations in Romania during 2014. Among the objectives of the series was to strengthen performance of SOEs. The theory of change was that clarifying SOE responsibilities, enacting a law on SOE corporate governance, and launching an IPO of Electrica, the electric supply and distribution company would improve compliance with international standards, and in the case of Electrica, stem fiscal losses. The measures were partially successful. The Initial Public Offering (IPO) of Electrica was oversubscribed by more than 200 percent and was the largest IPO ever in Romania. The Bank and IMF jointly supported work leading to adoption of a corporate governance law. However, the process of professional appointments of Board and management called for in the new law was only partially achieved. Only 32 of the largest and most important SOEs were able to achieve a professionally appointed board, and only 25 a professionally appointed management compared to a target of 80. The reasons were assessed as limited capacity and vested interests that were able to exempt key SOEs from the corporate governance law (World Bank 2019c; IEG 2020).

Health and Education

An analysis of MDG spending in 72 countries found that only 11 had budget systems allowing for meaningful tracking of MDG spending . While health and education expenditures were the easiest to track, it was generally possible only to track overall sector expenses rather than expenses targeted to the MDGs. Researchers compiled about 70 percent of data on planned MDG expenditures, but only about 40 percent of data on actual spending due to delays in audits and donor reporting. Country cases show different areas of progress.

Bangladesh had the highest Open Budget Index score in South Asia (56/100, up from 39 in 2006) due to improvements in transparency, parliamentary scrutiny, and civil society engagement.

Colombia has strong multi-year plans and meaningful performance budgeting, with frequently updated performance information available through a user-friendly website.

The Dominican Republic has adopted education and health laws that specify spending levels compared to GDP, and the laws are a focus on citizen and parliamentary engagement. Because of these and other reforms, the country has improved its open budget score from 11/100 in 2008 to 51 in 2015 (IBP 2017).

In **Mozambique**, there were targeted improvements in PFM and related areas in health and education. The result was resilience in distribution of medicines despite fiscal crisis and arrears, and primary schools that comply with standards for transparency and accountability. The operation was designed using a problem driven approach, where officers from the targeted ministries came together in a series of workshops prior to appraisal where they agreed on the PFM constraints that were most seriously constraining service delivery, and that could be unblocked to deliver visible improvements in service performance.

Nepal: While there have been many PFM improvements in Nepal in recent years, the shortcomings in revenue collection, procurement, accountability, and oversight are among the constraints reducing the quality and availability of services, and in turn preventing the desired contribution to enabling the development of a skilled labour force to support new private businesses and poverty reduction. For example, the education sector in Nepal is hampered by weak financial record keeping, ineligible expenditures, unreliable school audits, and lack of compliance on audits and other actions for funds release. There may also be ghost enrolments leading to leakages of funds intended for textbooks and scholarships (World Bank, 2014). Addressing these constraints would help remove blockages to improving education, which in turn, would promote the productive use of labour, the main asset of the poor, by reducing fertility and improving health, providing people with skills they need to participate fully in the economy, and strengthening civil institutions that can build up sound economic and social policies, all facilitating job creation and private business development.

Pakistan: Recent reviews of the education sector in Baluchistan Province of Pakistan also highlight the role of PFM constraints in holding back educational performance, and in turn higher level outcomes. While budget allocations and PFM systems have improved in some areas, there are still constraints in budget planning and execution, asset management, reporting and audit. There is a crowding out of non-salary spending, and lack alignment between policies, budgets, and spending. Weak project preparation and screening contributes to delays across the project cycle. In part as a result, only 16% of students in primary school make it to grade 10, and only 1/3 of Grade 5 children could read an Urdu story at Grade 3 level (Government of Balochistan, 2013; World Bank, 2015).

2 Emerging B4SDGs practices

This section provides an overview of emerging practices, which have not yet been evaluated. However, these practices are informative and provide a potential map of where to identify further evidence, experience, and expertise to guide decision making for countries that intend to move forward in B4SDGs. UNDP supports B4SDG work in many ways, including by participation in operationalisation of INFFs, DFAs, embedding public finance components into wider integrated SDG financing frameworks, etc. The following country case studies start with a brief overview of relevant PFM reforms in each country.

Armenia: Aligning SDG policies with the national planning and budgeting systems

Armenia has been practicing program-based budgeting (PBB) since piloting began in 2004 and it moved to PBB classifications including nonfinancial output indicators for the entire budget starting from 2019. Expenditures are classified by function and economic category. A custom-built treasury system supports commitment controls, budget classifications, and budget execution reports. However, currently there is no information system covering the whole budget cycle, including planning, procurement, debt, accounting, and general ledger.

The government introduced SDG related requirements in the budget circular to better align the budget proposals from line ministries with the SDG indicators. This integration of the SDG performance framework does not require major changes in the PBB processes.

A better alignment of SDG policies with the national planning and budgeting systems is still a challenge, primarily due to slow progress on formulation of SDG-aligned national long-term strategies. Policy units formulate program budgets and nonfinancial indicators but are not involved in assessing nonfinancial outcome indicators. Local facilities such as hospitals are not systematically part of budget planning and formulation.

More work is needed to strengthen the efficiency of links between annual and medium-term budgeting by introducing rolling base budgeting in the budget cycle, and to better prioritise investment projects. There is also need for a separate expenditure rule that would make medium term budgeting more predictable. These shortcomings limit the benefits of linking of performance to future budget allocations (Chukwuma et al 2020; IMF 2019a).

Uzbekistan: SDG based budgeting coding and tagging system

In Uzbekistan, many reforms have been underway since 2018 to enhance budget openness and transparency, including enhanced reporting on extrabudgetary funds and off budget accounts, and better-quality fiscal reports more in line with international standards on budget classification, comprehensiveness, and disclosure of fiscal risks (IMF 2019b).

A preliminary assessment of the state budget expenditures for the implementation of specific SDGs was conducted for 2019 fiscal year. This assessment showed that approximately 72% of the state budget expenditures are related to the financing of the SDGs in 2019. the tagging of budget appropriations was done by 17 SDGs on a direct relevance basis with several instances when SDG indicators have also been tagged to assess cross-cutting and complicated cases. The assessment was conducted for one year so far and the results were published in 2019 citizen's budget .

UNDP supports the government in aligning the SDG budgeting related initiatives with the ongoing PFM reforms on programme-based budgeting, as well as addressing the SDG budget tagging exercise on a more regular basis.

Nepal: Fiscal federalism

In Nepal, there was a World Bank-UNDP (2019) supported Federalism Capacity Needs Assessment including all three tiers of government, as well as a mapping of DP's support undertaken to assess capacity gaps for the transition to federalism at the request of the Government and its development partners.

UNDP also prepared a climate budget review toolkit for elected officials outlining their roles at each stage of the budget cycle (UNDP 2017).

Mongolia: SDG based marginal budgeting

In Mongolia, budget credibility is weak due to high revenue volatility in a resource dependent economy, and the political imperative for larger budgets. The 2011 budget law greatly expanded public disclosure of budget documents, though budget transparency is being reduced due to the rapid growth in unreported extra-budgetary financing of government capital projects, and the limited oversight of fiscal risks of state-owned enterprises. There are weaknesses in internal controls, and lack of legislative scrutiny of external audit reports.

The medium-term budget framework for 2020-23 prioritises the reduction of public debt, and the 2020 budget provided for a primary budget surplus of 1 percent of GDP. In this restrictive context, social spending can still increase by streamlining inefficient public expenditure. (e.g. Mongolia has incorporated SDG 15 into the 2020 Citizen's Budget) (IMF 2019c).

UNDP supported MOF to develop and adopt new SDG Budget templates for SDG-based marginal budgeting with piloting processes in two ministries conducted in 2018 and 2019. Expenditure trends analysis was used to identify the 'discrepancies' between existing SDG trends, the policy targets, and budget allocations with a view to informing budget discussions, identifying fiscal space, and securing additional funding during the budget formulation phase of the budget cycle.

Ghana: PFM Reforms

Ghana's PFM system has a robust legal and institutional structure that effectively guides Ministries/Departments/Agencies to deliver services. Many African countries look to Ghana as an example of good PFM practice. The system has become stronger in recent years in monitoring payments arrears, and in tracking budgetary receipts by service delivery units, and in turn reducing wastefulness. An integrated government information system (GIFMIS) plays a key role in these achievements. Remaining challenges include unreported extra-budgetary operations, weak fiscal risk monitoring of SOEs, and weak payroll controls. There are also serious issues of budget unreliability, revenue administration, financial reporting, and legislative scrutiny of audit reports. Among serious concerns for B4SDGs is that there are substantial fluctuations between original approved budgets and actual expenditures.

Program budgets have been submitted to Parliament since 2014. However, some ministries haven't fully adopted GIFMIS, so are unable to generate budget execution reports based on programs and sub-programs, but rather only based on economic and administrative classification. Ministries prepare their PBBs as part of an MTEF, but there is considerable variation between the second year of the last medium-term budget and the first year of the current medium-term budget (EU et al 2018).

Extensive PFM reforms are underway to improve budget management, financial control, and reporting, with support from the World Bank, SECO, UNDP and other partners. Despite some delays due to COVID, good progress is being made to strengthen annual financial statements, improve cash management and forecasting, limit supplementary appropriations, verify payroll, reduce arrears, report on performance, strengthen audit and parliamentary oversight, enhance GIFMIS functionality, and prepare a unified chart of accounts meeting GFS and IPSAS needs (World Bank 2020, 2021b).

As part of this massive reform initiative, the MOF has prepared a tool to help provide an accurate report on budget allocation and costing of the SDGs (Government of Ghana 2018) . In support of these government reforms, the Joint SDG Fund provides about $2.3 million to UNDP, UNICEF, WHO and UNOPS to deepen gender responsive SDG budgeting and results management and expand the market for SDG-linked bonds (UN 2021).

Ukraine: Medium-Term Budget Framework and Gender Budgeting

In Ukraine, the context is that the government has adopted program budgeting that makes performance information a mandatory part of budget planning and reporting. Efforts are underway to align this with the introduction of a Medium-Term Budget Framework approach. Since 2014, SIDA has supported development of an effective gender approach to budgeting. A US Treasury budget advisor is supporting work on key performance indicators and spending reviews linked to program budgeting. Public expenditure reviews were carried out in health and four other sectors in 2016. These and other reforms supporting fiscal risk management, an open budget portal, improved budget forecasting tools, and adoption of accounting standards have also been supported by the EU, the World Bank, IMF, and GIZ (World Bank and European Union, 2019).

As part of a joint programme, UNDP, UNICEF, WHO and UNECE are supporting a Development Finance Assessment (DFA) (at national and subnational levels), Mapping budget KPIs with SDG targets (SDG aligned Budget Declaration), Review and integration of SDG lens into the Medium-Term Expenditure Framework, and SDG Budget Tagging (national and subnational) (UN 2021).

Mexico: SDG based budget coding and tagging, and issues with medium-term budgeting

Moving to OECD countries, 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).

Although Mexico has made progress, more work is needed to integrate a medium-term, strategic perspective in financial management, to improve budget coverage and timeliness, and to better use performance information to improve spending effectiveness. While there is a five-year MTFF, forecasts are unreliable, and don't include risks such as climate change. Agencies don't carry out medium-term budgeting. While performance information is available on SDGs and other goals, more work is needed to ensure that this is used analyse spending effectiveness, and make changes as needed. Hundreds of extra budgetary entities and federal trust funds still need to be included in the budget. Financial information systems don't ensure consistency across information sources. To address these and related issues, reforms were launched in 2020 to improve the coverage and timeliness of public financial information and its use by the Federal Public Administration, financed by a World Bank (2020) loan. As part of a joint programme, UNODC, UNDP, and UNEP are helping increase the resilience of the public finance system to environmental and climate risks (UN 2021).

France: Program Budgeting and Green Budgeting

In France, program budgeting has been fully operational since 2006. The annual budget includes funds for about 130 programs, grouped into about 30 missions that sometimes cross ministerial boundaries. Ministries can move funds within their overall budget allocations, except they can't increase personnel costs. Annual performance plans and reports track program indicators for each mission and program. These processes have led in some cases to restructuring units organised around functions to become organised around programs. When this isn't possible, program managers have cross-cutting authority over relevant units in a matrix management structure (Robinson 2013a and 2013b).

In 2020 the French government made a significant move towards introducing selected SDG-important areas in its national budget. The government published its first "Green Budget" as part of its 2021 Finance Bill (see IMF PFM Blog on France's "Green Budget" for 2021).

Spain: Aligning public resources with SDGs

In Spain by 2019, a pilot methodology was expected to be available for aligning the budget of each Spanish ministry and the General State Budget with the SDGs. In 2020, an exercise was planned to be carried out to reflect the budget allocations per SDG in ministry budgets, and the 2021 General State Budget reflecting budget allocations per SDG. It was planned that starting in 2020, there would be standardised data and methodologies making it possible for each ministry without incurring extra staffing costs, to annually produce a report analysing this alignment of public resources with the SDGs, within each ministries scope of authority. Each of these reports will be incorporated into a final report setting forth the credit of each of the different ministries (GE 2018).

New Zealand and United Kingdom: Well-being budget

New Zealand's first well-being budget for 2019 included a wellbeing outlook in addition to the usual economic and fiscal outlook statements. There were five priorities for 2019: aiding the transition to a sustainable and low-emissions economy, supporting a thriving nation in the digital age, lifting Māori and Pacific incomes, skills, and opportunities, reducing child poverty, and supporting mental health for all New Zealanders (The Treasury 2019).

A similar effort in the UK is not as far along. The UK All Party Parliamentary Group on Wellbeing Economics includes academics, politicians, and civil society. A recent report for the government sets out proposals including a bigger budget for mental health, a strategy to improve the well-being of children in schools, and more spending on further education for people who don't go to university (WEF 2019).

Iceland: Linking policies and budgets, and Gender Responsive Budgeting

In 2016 Iceland adopted a new Act on Public Finances, linking together policies and budgets. Implementation of the Act will make the budgeting process more transparent, strategic emphases more visible and directly linked with appropriations, which will also make the budgeting process more accessible to the public. A specific provision concerns gender-responsive budgeting, which is also to be considered in drafting the budget bill (GI 2018).

Ireland: Value for money analysis, and Green Budgeting

Ireland produces periodic spending reviews, linked to the medium-term expenditure framework. Although evaluation results are meant to feed into these reviews, there is no evidence of this in the latest review (GI 2020). The government is committed to increase the use of evaluations by setting up a new agency focusing on value for money analysis and focusing on more targeted evaluations looking at significant elements of expenditure. Assessments of previous value for money reports finds they are effective at addressing operational issues, but less useful in addressing impact and continued relevance issues (Stockmann et al 2020: 9, 230-234).

In addition, The Minister for Public Expenditure and Reform announced in Budget 2019 (9 October 2018) that Ireland has joined the OECD's Paris Collaborative on Green Budgeting. The Minister also announced that Ireland intends to track climate-related expenditure starting with the Revised Estimates for Public Services Volume 20191 (published on December 19th, 2018).

Canada: SDG based progress report

The Government of Canada (2018) published its first SDG progress report in 2018 but didn't in 2019. To keep up the momentum, civil society organisations in the province of British Colombia prepared an SDG progress report for that year (BCCIC 2019).

Australia: Awareness raising around SDGs

The Australian Library and Information Association has integrated the SDGs into its Constitution. It is helping to communicate the 2030 SDG Agenda to its estimated 12.9 million users of the library system. Questacon, the national science and technology centre in Canberra, is also promoting awareness of the SDGs among its 430,000 annual visitors (GA 2018).

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