SDG ALIGNMENT AND BUDGET TAGGING: TOWARDS AN SDG TAXONOMY

Analysis for Colombia

JOINT SDG FUND

INFF Colombia

UNDP

ACKNOWLEDGEMENTS

United Nations Development Programme (UNDP)

Sara Ferrer Olivella
Resident Representative

Alejandro Pacheco
Deputy Resident Representative

Javier Pérez Burgos
National Manager for Poverty and Inequity Reduction

Mauricio Ruiz
Program Coordinator, INFF-Colombia - Integrated National Financing Frameworks

Luis Alberto Palacios
Diana Quiroga
Oscar Sánchez Romero
Mauricio Ruiz
Authors

Valeria Zapata Giraldo
Mery Cárdenas Collante
Communications

Valentina Zuluaga Posada
Paola Aponte Diaz
Editorial design

ACKNOWLEDGMENTS
Vishwas Vidyaranya - Ambire Global.
Nergis Gulasan - UNDP.
Suren Poghosyan - UNDP.

In process
ISSN
Colombia © 2022

TABLE OF CONTENTS

LIST OF ABBREVIATIONS

ODA	Official Development Assistance
APC-Colombia	Colombia's Presidential Agency for International Cooperation
B4SDG	Budgeting for the Sustainable Development Goals
BB	Building Blocks (main components of INFFs)
COFOG	Classification of the functions of government
DANE	Colombia's National Statistics Office
DFA	Development Finance Assessment
DGPPN	Colombia's Public Budget Directorate within the Ministry of Finance
DPIIP	Colombia's Directorate of Projects and Information for Public Investment
DNP	Colombia's National Planning Department
DSEPP	Colombia's Directorate of Monitoring and Evaluation of Public Policies within the DNP
ESG	Environmental, Social, and Governance
FOME	Government of Colombia's Fund for the Mitigation of Emergencies
IMF	International Monetary Fund
INFF	Integrated National Financing Frameworks for SDG
INFF-Colombia	Colombia's iteration of the INFF global initiative. UN Team in Colombia implementing INFF, led by UNDP-Colombia, in support of budgetary authorities in Colombia.
PPI	Policy Priority Inference model
Joint SDG Fund	UN inter-agency, pooled mechanism for integrated policy support and strategic financing
MHCP	Colombia's Ministry of Finance and Public Credit
MOF	Ministry of Finance
SDG	Sustainable Development Goals
UN-Women	UN Organization dedicated to promoting gender equality and women empowerment
PBIX	Power Bi® Desktop Document
PGN	Colombia's Public National General Budget
UNDP	United Nations Development Program
FMIS	Financial Management Information System
SQL	Structured Query Language
ITC	Information Technology Communications
UNICEF	United Nations Children's Fund

FOREWORD

The Sustainable Development Goals (SDGs) present the world's shared agenda for a more inclusive, sustainable, and just future grounded in universal rights. The United Nations Secretary-General called on all sectors of society to mobilise for a decade of action. However, the COVID-19 pandemic has stalled the progress towards the SDGs, threatening the gains made since 2015. With economic reversals and disruptions of livelihoods and basic services, the financing gap to achieve the 2030 Agenda has increased drastically in many countries.

One way to get back on the path to achieve the SDGs is for the governments to expand their fiscal space (e.g., through economic diversification and widening the tax base), do more with less by spending effectively and undertake inclusive policies to leave no one behind. Another is to attract private investment and international public finance for the SDGs. Improved management, stronger governance, and embedding the needed transitions in the policies, budgets, institutions, and regulatory frameworks of governments, cities and local authorities can help in achieving a recovery path towards the SDGs.

The Government of Colombia, with support from UNDP and other partners, has taken an important step towards strengthening the links between its planning and financing for sustainable development processes by embarking on the design of an Integrated National Financing Framework (INFF). This work includes mainstreaming the SDGs in the government's monitoring and reporting systems, paving the way for improved policymaking for efficient and equitable use of resources. An SDG budget coding and tagging methodology has jointly been developed through which SDG-linked finance in public budget and development cooperation can be tracked for the 169 SDG targets. The methodology has been successfully tested, validated jointly by the government, UNDP, and other partners, and applied on the Government of Colombia's national budget for the fiscal year 2020 and the analyses have been made publicly available through an online portal. Engagements have been undertaken at different levels of the government to build consensus and ownership.

UNDP has been working with many countries across the world in defining systems to track government budgets on specific SDGs. UNDP's work on climate budget-tagging has received universal attention and is being adopted by many countries. This new SDG budget coding and tagging methodology builds on UNDP's earlier work and will encourage and guide other countries that are looking to strengthen their SDG taxonomy to gauge efficiency and equity, formulate better policies, and attract private investment and international public finance to pursue their path towards achieving the SDGs.

Marcos Neto
Director - Sustainable Finance Hub, UNDP

SUMMARY

As part of the Decade of Action (2020-2030), the United Nations system began implementing the global initiative to strengthen national financing frameworks for the SDGs, known as Integrated National Financing Frameworks or INFF. A significant part of the analysis of all sources of financing for the SDGs is the public budget. This document presents guidelines for (i) aligning public budgets (and development cooperation) to the SDGs, and (ii) presents relevant inputs for developing local SDG taxonomies to explore public budget and private sector contribution to SDG Financing. The guidelines are presented in a step-by-step way to aid users in tailoring to local circumstances the analysis of SDG Financing and are based on the implementation of SDG budget tagging by the INFF-Colombia Joint Program.

ACKNOWLEDGMENTS

This document was prepared by the INFF-Colombia Joint Program coordination team composed of Mauricio Ruiz (INFF-Colombia Joint Program Coordinator, UNDP), Luis Palacios Ibañez (Advisor to INFF Coordination, UNDP), Diana Quiroga Veloza (UNDP consultant and focal point with the Ministry of Finance and Public Credit –MHCP), and Óscar Sánchez Romero (UNDP consultant and focal point with the National Planning Department –DNP)[1].

The Joint SDG Fund provided financial support to INFF-Colombia and provided the global platform of communication amongst the 62 INFFs worldwide.

The methodology for SDG alignment implemented in Colombia was reviewed and validated with the government's budgetary authorities, the DNP and MOF. The following counterparts were essential in providing government validation through the DNP's DPIIP directorate as well as the MOF's Budget Directorate: Diana Carolina Escobar, Deputy Director of Projects and Information for Public Investment at DNP; Claudia Marcela Numa, General Director for National Public Budget of the MHCP; Lelio Rodríguez, Deputy Director for Budget Analysis and Consolidation at MHCP. Yazmín González and Yasmín Durán of the DPIIP at DNP, and the MHCP advisors Leonardo Buitrago and Julián Chávez provided a superb review of the methodology.

The offices of UN Women and UNICEF in Colombia are part of INFF-Colombia. Diana Espinosa (UN Women), Paola Gomez (UN Women), and Pedro Baracaldo (UNICEF) are the technical focal points within the UNCT. Natalie Gómez at Colombia's UN RCO supports the Joint Program in discussions with other Country Offices. Carolina Barreto of Climate Bond Initiative also provided comments.

Authors would like to thank UNDP-Colombia for their support, especially Jessica Faieta, Sara Ferrer, Alejandro Pacheco, Javier Pérez Burgos, and Jaime Urrego. The UNDP Regional Bureau for Latin America and Caribbean provided overall strategy support for INFF implementation. Nergis Gulasan at UNDP's Panama Hub supported communications and integration to global initiatives. Suren Poghosyan at UNDP's Istanbul Hub provided guidance for the alignment of the Colombian public national budget. Vishwas Vidyaranya from Ambire Global provided helpful comments.

1 Corresponding authors and INFF-Colombia contact information: mauricio.ruiz@undp.org o luis.palacios@undp.org.

ABOUT THE INFF-COLOMBIA JOINT PROGRAM

UN support to the government of Colombia to design an INFF. The INFF-Colombia Joint Program was established in 2020 as part of the global initiative to strengthen financing frameworks for the SDGs. With financial support from the Joint SDG Fund and European development cooperation, and at the request of the government of Colombia, INFF-Colombia began activities in June 2020.

Expected outcomes. INFF-Colombia aims at reaching two interconnected outcomes through participating United Nations agencies. The first expected outcome is for stakeholders have clarity of current sources of SDG financing, which will be done by constructing a financial picture of SDG financing. The second expected outcome is the design of a national financial strategy for the SDGs.

Internal organization. INFF-Colombia is composed of UN-Women, UNICEF, and UNDP, the three United Nations agencies that jointly implement the initiative in Colombia. The Joint Program is coordinated by UNDP as the lead agency. UN-Women and UNICEF Offices in Colombia provide technical support to strengthen and accelerate the closing of gaps in gender and childhood. These policies are of great relevance for the country, especially due to the cross-cutting nature of gender topics at the social level and the high social profitability of investments in children.

Interagency work. The idea of strengthening of financing frameworks for the SDGs is not new and it does not arise with INFF-Colombia. Both UNICEF and UN-Women have experience in supporting agencies of the Government of Colombia to strengthen childhood and gender policies, including their financing. INFF-Colombia also intends to capitalize on the work carried out in recent years by these agencies.

Government counterparts. To strengthen the financing frameworks of the SDGs in Colombia, the INFF-Colombia Joint Program has as counterparts the National Planning Department (DNP) and the Ministry of Finance and Public Credit (MHCP), which are the budgetary authorities of the Government of Colombia. The previous establishment in 2015 of the High-Level Inter-Institutional Commission for the Effective Implementation of the SDGs, whose Technical Secretariat resides in the DNP's Directorate for Monitoring and Evaluation of Public Policies (DSEPP), has been essential for the implementation and results of the Joint Program.

Results achieved. At the time of this drafting (January 2022), the INFF-Colombia Joint Program has a map of SDG financing that comes from national public resources and international development cooperation. A visualization of the main results obtained so far can be retrieved here: https://bit.ly/SDG_Taxonomy_CO. Other results will be available at https://inff.org/country/colombia.

The road ahead for SDG financing and INFFs. INFF-Colombia, as part of the global INFF initiative, has recognized several present and future challenges in the implementation of financing frameworks for the SDGs. For instance, how to strengthen centralized government monitoring of all financing sources of SDGs (beyond public financing)? How to strengthen SDG costing and how to adjust prioritized goals with changes in administration? One of the most interesting results obtained so far in the implementation of INFF-Colombia has been that increasing the amount of public financing does not translate in an equivalent progress in SDG indicators, due to structural bottlenecks in program design or implementation. In this sense, how can countries strengthen the synergy between thematic and budget monitoring of SDGs in practice? These questions will be of interest in the Decade of Action.

INTRODUCTION: SDG GLOBAL CONTEXT AND FINANCING

1. Efforts towards resource mobilization have become a central theme in the Decade of Action. Increased interest in achieving the 2030 Agenda for Sustainable Development has led in recent years to a growing interest in accelerating actions to achieve it, including SDG financing.

2. Estimates of resource mobilization needs and effects of the pandemic. Global estimates carried out before the pandemic to assess financing needs to achieve the SDGs in developing countries were close to US$2.6 trillion annually[2]. With COVID-19, long-term financing needs increased by approximately an additional 1.7% of GDP for developing countries[3].

3. Domestic and global resources mobilization to support sustainable development continues to be a challenge for developing countries. In 2015 in Addis Ababa, global leaders agreed on a new framework for financing the 2030 Agenda and the 17 Sustainable Development Goals. The Addis Ababa Action Agenda emphasized the need for countries to have national sustainable development plans complemented by integrated national financial frameworks (INFFs). Moreover, the 2009 Copenhagen Accord calls for developed countries to mobilize resources towards developing countries, and the 2015 Paris Agreement aims at bringing financial flows to a level consistent with a trajectory conducive to sustainable and climate-resilient development.

4. Strategies for SDG implementation. To monitor progress of the Addis Ababa Agenda for Action, the Interagency Task Force on Financing for Development was also established in 2015, composed of more than 60 UN agencies, programs, and offices, as well as other international institutions. The 2019 F*inancing for Sustainable Development Report* (United Nations, 2019) formally introduced the concept of INFF as a tool for the local implementation of the Addis Ababa Agenda.

5. What are INFFs? While national development strategies determine "what" should be financed, INFF establishes the link with the "how", considering an integral financing approach that includes national public flows, international development cooperation, and the private sector. INFF are therefore strategies to strengthen existing government processes for development planning and implementation, focusing on overcoming financial obstacles to achieving the SDGs[4].

6. How are INFFs understood? As countries have moved beyond implementing mechanisms for monitoring the SDGs at different levels of government, and towards the integration of financing perspectives for the SDGs (INFF), some countries have uncertainties about how to strengthen their current SDG frameworks. The global INFF strategy thus presents four major steps, called Building Blocks (BB): (i) assessment and diagnostics; (ii) financing strategy; (iii) monitoring and review; and (iv) governance and coordination of the financing of SDGs.

7. Progress observed so far in INFFs has focused on the financing diagnostics of SDGs. Starting in 2020 and through the Joint SDG Fund, over 70 UN country offices have received resources to support INFF design and implementation at the national level. Throughout 2021 and following the path outlined by the four building blocks

---

2 Gaspar et al (2019).

3 IMF (2021).

4 For more information on the INFF global strategy see https://inff.org/about.

(BB)[5], there has been a strong interest in carrying out analyses of all sources of SDG financing to determine the size and pinpoint the current sources of SDG funding in developing countries.

8. Analyzing national budgets has been an important way to initiate approaches to INFFs. The main interest of governments that have the UN support to strengthen their financing frameworks for the SDGs through INFF has focused on national budgets, at least during the first stage of implementation (2020-2021). This is partly due to greater monitoring capacity from government over their own budgets, as opposed to development cooperation or private sector flows. Approaching the public (national) side of SDG financing is therefore a way to initiate the approach and delve into INFFs.

9. From thematic to financial alignment of SDG. National governments have some experience in thematic alignment of their policy programs with the SDG[6]. Generally, thematic alignment (not necessarily budgetary) has been ex-post, that is, after the design of development plans, specifically by adding one of 17 SDG labels to which the program is aiming. However, this ex-post SDG alignment is suboptimal when compared to a situation in which planning tools are SDG-informed from inception. Increased interest in moving from thematic to financial alignment of the SDGs, in part due to recent INFF introduction, has increased engagement from countries in the analysis of national budgets and their SDG alignment.

10. Budget analysis involves making decisions about the degree of SDG alignment. The choice of particular SDGs, as well as the percentage of a budget line that goes to the chosen SDGs brings the user of budget information closer to non-trivial decisions about which programs support SDG. For instance, which programs do not accelerate the closing of gaps in SDG? These questions naturally lead the user down the path of an SDG taxonomy.

11. Labelling programs towards SDG can be ambiguous at the margin. There are programs that are easy to match to the 169 SDG targets. However, in multiple cases there is little information on the beneficiary population based solely on the name of the item in the financial management information system (FMIS). For this reason, SDG alignments of public budgets must consider the results framework behind government programs. This SDG taxonomy provides a first approach to determine which components of public budgets can contribute to the SDGs, but the application of the methodology to other country(ies) will depend on inputs provided by local governments that can aid in obtaining more information about a program's aims than the one displayed in the budgetary database.

12. The analysis of public budgets can be automated or manual. If the interest of the user resides in historical analysis and/or from an academic perspective, there are benefits in using automated text reading tools to extract and link budget items to SDG. However, for the Colombian case, and despite having the possibility of automated text analysis, a manual approach was preferred. This was due in part to the

---

5 INFF's four building blocks are: Assessment and diagnostics, Financing strategy, Monitoring and review, and Governance and coordination.

6 The OECD recently estimated that about 75% of national development plans have some degree of SDG integration (OECD 2021). At the same time, the report recognizes that many countries have great challenges in making public SDG reports due to the lack of data availability on some indicators.

availability of the government's catalog of products for investment projects, which has detailed information of each investment project's deliverables. This increased the accuracy of the alignment compared to automated text analysis.

13. The mapping of public (national) SDG Financing can be as specific as desired. Analysis can be carried out at the level of the 17 SDG, but they can also be analyzed from a 169 global SDG target perspective. Additionally, a country or United Nations office analyzing SDG financing may have a deeper interest that can lead to focusing on SDG targets prioritized by countries as medium-term (or within the political administration) aspirations[7]. This guide allows the user to decide whether a 17 SDG approach is preferred over a more detailed 169 SDG target approach, or even a thematic one.

14. The analysis of the SDG financing is facilitated through three conceptual pillars and funding sources: (i) public (national) resources; (ii) development cooperation; and (iii) alignment of the private sector to SDG. Alternative analyses of SDG funding include making an explicit division between external and local philanthropy resources, as well as resources from impact investing[8]. However, the three-pillar approach can be a simple yet powerful way to enter and understand SDG financing and INFFs.

15. Local SDG Taxonomies serve as input for strategic decision-making (B4SDG[9]). The methodology presented in this guide to determine the degree of alignment of public budgets to SDG has several uses. In addition to serving as input for governments in designing thematic SDG bond issuances at the national or subnational level, the main benefit of having a map of SDG funding is the possibility for governments to take strategic funding decisions based on current SDG funding diagnostics resulting from analyzing the budget with an SDG lens. This possibility of taking strategic SDG-informed decisions is known as Budgeting for SDGs or B4SDG[10].

16. SDG alignment of public budgets allows a country to initiate its approach to estimating overall SDG financing. The alignment of public flows provides an important baseline given that public funds for SDGs are higher at the local level than development cooperation (more on that later). The baseline can then be expanded to more financing flows outside the public sphere. More than an account of SDG alignment in Colombia, this document serves as a step-by-step guide to adapt the implemented methodology to other circumstances, thereby strengthening SDG financing.

17. Strengthening the link between thematic and financial monitoring of SDG is easier once a financial overview of public SDG funding is available. SDGs do not move without funding, but funding alone does not remove design or implementation bottlenecks. This guide aids in the development of SDG financial diagnostics that

7 In 2018, at the dawn of the current administration, the government of Colombia prioritized 16 SDG target indicators, of which four had costing to 2030.

8 Innovative financing mechanisms (e.g. blended finance) combine several of these three pillars and in a more advanced stage of INFFs where financing strategy takes a more significant role, the three pillar approach is less relevant.

9 B4SDG - Budgeting for SDGs corresponds to a set of tools designed by UNDP to supports countries in the fulfillment of the 2030 Agenda through the integration of the SDGs in the budget process, thus supporting the improvement of the effectiveness, efficiency and equity pattern of public spending. (UNDP, 2020).

10 See Poghosyan (2020), Budgeting for SDGs (B4SDG).

increase the incentives for government stakeholders to avoid thematic silos. It is therefore an opportunity to strengthen communication within the government, specifically between the planning and financing entities, but also within the implementing entities themselves, where there is room for improving synergies between offices that monitor use of resources and those that monitor progress in SDG indicators.

18. This guide for the development of SDG taxonomies does not pretend to be an accounting methodology for costing or impact evaluation. The objective of the methodology is to present the national public budget in the SDG language. Given that the taxonomy is a top-down approach developed to aid national budgetary authorities in understanding SDG financing, it can always be argued from the sectoral perspective (where actual budgetary implementation occurs) that there are alternative choices for SDG alignment. The methodology should thus not be seen as an auditing tool or as a methodology to measure impact on the beneficiaries.

APPLICATIONS AND USERS OF THIS GUIDE

19. Adaptations of this guide will provide the foundations to strengthen integrated approaches to SDG financing. This guide is a direct result from the growing interest of governments and particularly other UN country offices in understanding the Colombian case to extract best practices that can be tailored to other contexts. Interestingly, and due to the alignment choices made and the percentages allocated, the SDG alignment of public budgets (and development cooperation) naturally set the foundation for a local SDG taxonomy.

20. This guide allows national authorities to communicate generalities of the budget to the public in a non-technical language. Adaptations of this guide that result in national budgets in SDG language allow the executive branch to monitor public sector resources and conversate with government sectors in a non-technical language. In addition to aiding in intragovernmental monitoring of resources, it strengthens public communication of the budget in a language that is easier to understand (e.g. SDG themes or even the 5 Ps[11]).

21. This guide supports the user in the analysis of the efficiency of public resources. As the user of this guide delves into the choices for matching local programs to SDG, the spectrum of potential users broadens. For instance, once the national budget is aligned with SDGs, sectoral or ministerial conversations can be convened around the efficiency of public spending for SDG. Specifically, having a picture of SDG financing by entity facilitates the monitoring of a relevant questions in public policy: What results are being achieved by an entity in a particular SDG indicator with a given amount of public resources? How much improvement can be gained in an SDG indicator if the baseline budget amount is increased?

22. Given the link between the financial information system (FMIS) and government financial statistics (GFS framework), it is possible for the user at the national level to determine the SDG allocation for different levels of government. In this regard, if the country follows accepted standards for the presentation of government financial statistics[12], it is possible to understand the degree of SDG alignment of public corporations, especially given that the SDG taxonomy developed here can

11 The 5 Ps refer to the spheres of sustainable development: People, Prosperity, Planet, Peace, and Partnerships.

12 For more information on Government Financial Statistics: https://data.imf.org/?sk=a0867067-d23c-4ebc-ad23-d3b015045405&sId=1390288795525

also be applied to quasi-public corporations (see chapter 4 for other uses of the methodology).

23. Within the sphere of public financial companies, this guide serves as input to understand SDG alignment of public companies, through SDG analysis of their portfolios. These companies have an active role in fostering development, such as second-tier banks that aim their portfolios at specific population groups. In the case of Colombia, second-tier banks that are part of the consolidated public sector have had a growing interest in understanding the SDG composition of their portfolio on agriculture and in SME support, in addition to their interest in thematic bond issuance.

24. This guideline aids in the development of an SDG taxonomy and thus increases incentives for private sector stakeholders to be aligned with sustainable initiatives. Within the market of sustainable reporting (ESG) that are a commonplace in the private sector, there is currently no direct equivalent for the public sector, except slightly for Voluntary National Reviews (VNR). This guide thus allows private sector stakeholders to visualize the extent of the local government's SDG budgetary alignment, providing the opportunity to create common ground under the same global SDG language.

25. The potential comparison between green taxonomies and the green component of this methodology would strengthen the identification, monitoring, and report of investments in green initiatives, with an added value of being within the framework of the 17 SDGs. The development of this guide for the analysis of the 169 SDG targets within public budgets, development cooperation, and the private sector, adds to the local and global toolbox for the analysis of Planet SDGs, where fully developed green taxonomies reside. Given the overarching approach of the methodology developed here, it would be possible for countries like Colombia to do a comparative analysis between local green taxonomies and the green component of an SDG taxonomy, to strengthen the local analysis of green investments.

26. Bond issuers can use this guide to identify potential eligible programs or items within a portfolio that will benefit from the bond's proceeds. In addition to existing tools that strengthen the internal operation and require attention to impact on third parties of current operations (see SDG Impact Standards and joint OECD-UNDP Impact Standards)[13], this guide allows bond issuers in early stages to implement the proposed methodology to determine the extent to which a government's project or a portfolio can be aligned to the themes the bond is trying to address. A step further is to tailor the proposed taxonomy to develop the issuer's own roadmap for the use of proceeds, similar to the case of taxonomies developed for the issuance of green bonds, but with a 17-goal focus (the SDG umbrella) or even a particular theme within them.

27. Ideally, a bond issuer should use the proposed methodology in combination with the SDG Impact Standards. SDG alignment on the public sector or SDG portfolio analysis (which is the focus of the 5-step methodology presented) can determine the eligibility of budget items or strategies and the overall extent to which they are SDG aligned. The next step is to guarantee that there is an internal sustainable structure and that impact standards are in place, which can be accomplished using the SDG

13 For more details on these strategies see: https://sdgimpact.undp.org/ and https://www.oecd.org/publications/oecd-undp-impact-standards-for-financing-sustainable-development-744f982e-en.htm

Impact Standards. Those impact standards can support the issuer in establishing the metrics to be used during the post-issuance and in reporting the use of proceeds.

28. Use for subnational authorities. In addition to SDG budget tagging at the national level that central government budget authorities can implement, subnational authorities can improve their communication with civil society and even strengthen their Voluntary Local Reviews (VLR) with this SDG alignment tool. At the subnational level, the SDG alignment guide also makes it possible to address the efficiency of transferred resources through the joint analysis between SDG-informed planning processes and SDG results obtained locally.

29. Applications to development cooperation. As later explained in chapter 4, the applications of this SDG taxonomy also include the possibility of analyzing incoming development cooperation from a multidimensional perspective at the program level using the same common language and methodology as the public sector. This allows government entities that monitor international development cooperation and SDG to have a consolidated (or integrated) vision of flows that support a country's development, which is precisely the objective of the global INFF initiative.

Table 1. Users of this SDG alignment methodology.

Potential users	Potential use
National Budget authorities.	• SDG budget tagging and financial mappings at the 169 SDG target level. • Strengthen the monitoring of all flows for development and national MRV systems. • Have a budget communication platform with the public, using an SDG lens to interpret and communicate national budget themes in a non-technical way. • Strengthen the synergy between thematic and budget monitoring of the SDGs.
Bond issuers interested in sustainable themes.	• Use the guide to identify eligible activities at the level of SDGs or themes within these: one or more of the 5 Ps of the SDGs (People, Planet, Prosperity, Peace, Partnerships). • Use the SDG taxonomy guidelines presented in this guide to adapt it to the local context, e.g. complementing existing local tools with the SDG taxonomy content.
Financial regulators and institutions (e.g., banks)[14]	• Encourage banks and financial sector stakeholders to invest in sustainable activities through clear regulatory frameworks, considering SDG budgeting by the government. • Study the interoperability between different SDG taxonomies or methodologies (e.g., between green taxonomies and this SDG alignment methodology). • Align with other frameworks available both globally and nationally (e.g., Environmental, Social and Governance -ESG bonds, green bonds). • Strengthen thematic supervision of sustainable investments and avoid SDG-washing. • Facilitate and encourage sustainability reporting frameworks using SDG taxonomy and the 5-step methodology proposed for activity alignment.
UN country offices.	• Strengthen the implementation of SDG financing developed through INFF. • Strengthen the analysis of development flows and assess their capacity to finance objectives prioritized jointly by UN Country Offices and local governments.
UNDP regional hubs.	• Standardize SDG analyzes and promote best practices in SDG financing. • Promote the analysis of SDG financing using a common framework.

14 Colombia currently has several frameworks and guidelines for bond issuances, monitoring of financial flows, a green taxonomy, and a green MRV system within the National Planning Department to track public green investments.

Potential users	Potential use
Investors, project developers, portfolio managers.	• Identify sustainable investment opportunities in developing and developed countries, based on SDG budget tagging done by the government or through their own SDG alignment. • This SDG alignment methodology allows for international harmonisation of definitions and helps in easy comparison among countries.
Bond Certifiers and Verifiers.	• Know about novel ways for countries to align public budgets to SDG to provide better recommendations to bond issuers. • Bond certifiers and verifiers can use the approach to tag investments for SGDs and align with the defined metrics to ensure compliance with the existing frameworks.
Finance/Economy Ministries and Foreign Affairs Ministries.	• Strengthen Voluntary National and Local Reports (VNR and VLR) and their presentation in UN meetings (e.g., during the High Level Political Forum on Sustainable Development). • Sharing results of SDG budgeting in the ECOSOC Forum on Financing for Development. • Use as input in conversations with the IMF and World Bank Group. • Sharing progress achieved by countries in SDG implementation in other international stances and fora. • Tag the investments to the corresponding SDGs. • Linkage with national monitoring systems and other taxonomies, methodologies or frameworks available at national level.
Development Cooperation offices within governments.	• Improve the monitoring and portfolio analysis of incoming development cooperation and assess its alignment to locally prioritized themes. • Strengthen dialogues with donor countries, whose projects tend to be multidimensional in terms of the SDGs. • Help prioritize investments for focus areas based on data for specific SDGs.
Academia, NGOs.	• Carry out qualitative and quantitative analyzes: how to strengthen identification of SDG activities? How does SDG financing change depending on the selection of associated goals? How can SDG results be better aligned to budgeting? How to identify bottlenecks in program design and implementation? • Identify research opportunities on mechanisms for increasing investment flows in certain areas, develop methodologies for monitoring data and analysis and modelling of scenarios for achieving the SDG goals based on investment flows, gap analysis, etc.
Private sector stakeholders and individual companies.	• Strengthen sustainability reports (ESG), by including SDG language to allow comparisons to efforts made by governments by using a common framework. • Support SMEs in introducing SDG analytical frameworks to foster sustainability reports.

Source: UNDP-INFF Colombia.

30. Based on the global context and possible applications, the following chapters explain the methodology for aligning development flows to the SDGs, with a focus on national budgets. Additionally, an SDG taxonomy is presented to support the budget or portfolio tagging towards the 169 SDG targets, as well as short overview of results obtained during the implementation of this methodology in Colombia. In the final chapter, other applications of this SDG alignment are presented, specifically for international development cooperation and private sector stakeholders.

CHAPTER 1.
SDG ALIGNMENT CRITERIA: TOWARDS AN SDG TAXONOMY

31. The first requirement for SDG budget tagging is to define the criteria to be used in the association of budget items to each of the SDG targets. Based upon the theory of change[15], it should be determined which budget expenditures may have a direct relationship with SDGs and which may not.

32. Defining criteria to determine which programs contribute to the SDG creates a category of budget expenditures that do not have a direct impact on the SDGs. This still allows for collateral or second-order impacts, which are captured by the multidimensional methodology described in Chapter 2. Expenditures without potential direct impact on the SDGs for the case of Colombia are listed in the following table:

Table 2. Exclusion criteria for expenditures not aligned with SDGs.

Criteria	Definition
Administrative fees	Include fees for compulsory licenses and other administrative fees related to the sale of services. Examples are driver's licenses, passports, visas, court fees, radio and television, among others (IMF, 2014).
Fines and financial penalties	Compulsory current transfers imposed on public institutions by courts of law or quasi-judicial bodies due to the violation of laws or administrative rules. (IMF, 2014).
Monetary contributions to international organization with narrow scope in terms of SDG.	Transfers made by government units to international organizations as membership fees or for concepts other than memberships (Ministerio de Hacienda y Crédito Público, 2021). To determine whether this spending has any impact on SDGs, it must be identified whether the international organization, to which the payment is being made, is engaging in activities that close SDG gaps and/or actions that support the government to achieve these goals.
Taxes	Mandatory payments to be made by government institutions at different levels of public administration, without any compensation. (Ministerio de Hacienda y Crédito Público, 2021).
Judgments and conciliations	Includes transfers made by public institutions as a result of compliance with a judicial ruling, an executive order, judicially recognized credits, arbitration awards, or a conciliation with a competent authority, in which it is ordered to compensate rights to third parties. (Ministerio de Hacienda y Crédito Público, 2021).
Civil servant's related expenditures (e.g., social security contributions, individual loans, etc.)	Civil servants are not considered a vulnerable population and therefore, some expenses particularly aimed at this reduced group of people are not contributing directly to closing gaps.
Sports-related expenditures	Even when sport is related to the well-being of society, the SDG do not have sports-related SDG targets. In some cases, these expenditures include government support to sports associations. In this regard, expenses earmarked for professional sports activities will not be aligned with SDGs, in contrast to expenses associated with sportive infrastructure, which can be aligned given their impact on the community well-being.

15 The Theory of Change describes and illustrates how certain activities can produce a desired outcome(s) that contribute to achieving the expected goals of a project or program.

Criteria	Definition
Security schemes for civil servants.	Personal protection services to guarantee the safety of civil servants (Departamento Administrativo Nacional de Estadística, 2009). These expenditures are not directly aimed at serving vulnerable population and therefore do not contribute to closing gaps in SDG[16].
Improvement of public entities' infrastructure	To determine whether this type of expenditures contribute to achieving the SDGs, it must be considered whether the entity benefiting from the improvements has a constant customer service, in which case it could be strengthening the state's services. Otherwise, they are expenses that do not have a direct impact on the achievement of SDG.
Environmentally unsustainable activities	Expenses related to activities that, although can have positive collateral effects on employment and economic activities, have negatively direct impact on environmental sustainability. In this regard, expenses aimed at encouraging the expansion of mining and fossil-fuel related activities are excluded from the SDG alignment. However, expenses aimed at transforming existing industries into more sustainable activities are aligned with SDGs.

Source: UNDP-INFF Colombia.

33. The complete or exhaustive list of national budget expenditures with no direct impact on SDGs is a choice of the final user of this guide and will be determined by adjustments to local situations and preferences. Each country has very specific expenditures and in some cases unique to its situation. Table 2 is therefore a non-exhaustive list of themes that serve to generate a conversation at the local level about budget items that can be aligned to the SDGs.

34. Expenditures with a direct impact on SDG targets must be identified. For this exercise, the relationship between each budget line and SDG targets is determined, based mainly on the policy action to which the spending is directed and the beneficiary population. The following table shows examples of the taxonomy developed by INFF-Colombia, presenting defined criteria for a sample of SDGs targets. For the complete 169 global SDG targets Taxonomy, visit: https://bit.ly/SDG_Taxonomy.

16 In the Colombian case, there is an exception for protection schemes that are provided by the State to general citizens, especially social leaders in vulnerable situations through the National Protection Unit (UNP).

Table 3. SDG Taxonomy: Examples of association criteria based on a sample of SDG targets.

SDG	SDG Target	Key Words	Association criteria	Budget line examples	
				Investment	Operational Expenses
1 NO POVERTY	1.4	Access to land or productive assets.	Expenditure aimed at policies addressing the right to economic resources and productive assets, particularly for vulnerable groups.	Access to instruments for the productive development of rural families to contribute to income generation.	School feeding programs.
2 ZERO HUNGER	2.3	Agricultural Productivity and Income of small producers.	Expenditure aimed at increasing agricultural productivity and income of small food producers, particularly vulnerable groups.	Strengthening the capacity of agricultural producers and their associative schemes in the generation and consolidation of productive chains.	Resources to municipalities with black communities established as collective territories.
3 GOOD HEALTH AND WELL-BEING	3.8	Access to health services.	Expenditures aimed at addressing policies to promote universal access to health services, protection against financial risks, and essential health services.	Strengthening the provision of health services in conditions of integrity, continuity, and quality.	National rural health plan.
4 QUALITY EDUCATION	4.7	Knowledge for sustainable development.	Expenditures aimed at promoting education schemes oriented at sustainable development around the 5 Ps of the SDGs.	Specialized knowledge generation in sociocultural and intercultural diversity, in sociocultural relations, and in archaeological heritage.	Activities for that sponsor cultural development.
5 GENDER EQUALITY	5.a	Equal Rights of Access to Resources (Women).	Expenditure aimed to policies that promote the inclusion of women on equal terms in productive schemes and the financial sector.	Gender approach implementation at work scenarios.	Fund for peace programs: social and economic reintegration program.
6 CLEAN WATER AND SANITATION	6.6	Protection and Restoration of Ecosystems, Water Resources, Water	Expenditures aimed at actions for protection and re-establishment of ecosystems related to water resources.	Institutional strengthening for implementation of national policy for comprehensive management of water resources.	Agreement related to wetlands of international importance, especially as habitat for waterfowl.
7 AFFORDABLE AND CLEAN ENERGY	7.1	Access to energy services	Expenditures aimed at actions that allow universal access to affordable, reliable, and modern energy services	Supply of electric power service in areas that lack access to this service.	Monetary Transfer to offices in charge of Mining-Energy planning for its operation.
8 DECENT WORK AND ECONOMIC GROWTH	8.2	Economic Productivity - Diversification, Technological Modernization, and Innovation	Expenditures aimed at policies that promote an increase in the productive levels of the economy	Local economic development processes for strategic competitiveness	Improve competitiveness by increasing business productivity and promoting investments within the framework of the Mesoamerican Council for Competitiveness
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	9.c	ICT Access / Universal Internet Access	Expenditures aimed at policies to increase access to information and communication technologies (ICT)	Community access solutions to information and communication technologies	Monetary transfers to offices in charge of increasing access to information and communication technologies.

SDG	SDG Target	Key Words	Association criteria	Budget line examples	
				Investment	Operational Expenses
10 REDUCED INEQUALITIES	10.2	Inclusion (Social, Economic and Political)	Expenditure aimed at policies to enhance and promote social, economic, and political inclusion of all people	Comprehensive intervention with a differential ethnic approach for indigenous and Afro-descendant population.	Monetary transfers to offices in charge of providing comprehensive care to population displaced by violence for its operation.
11 SUSTAINABLE CITIES AND COMMUNITIES		Links / Urban and Rural Zones / Planning / National Develop-ment / Regional Development	Expenditure aimed at attend actions to promote strengthening of national and regional development planning	Comprehensive plans and projects with territorial approach for rural population.	Strengthening of territorial management and good local government/ Local gover-nance
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	12.2	Sustainable Management / Efficient Use / Natural Resources	Expenditures aimed at policies that promote efficient and sustainable use of natural resources	Provide a social and environmental meaning to mining-energy planning	Stockholm Convention on Persistent Organic Pollutants
13 CLIMATE ACTION	13.1	Resilience and adaptation to climate change and natural disasters	Expenditure aimed at promoting adaptation to climate-related risks and natural disasters.	Generation of knowledge in risk management and climate variability	Emergency response to nationwide disasters
14 LIFE BELOW WATER	14.a	Marine Research	Expenditure aimed at research, science, and technology for improving ocean health.	Research for the generation of scientific, technical, social, and economic knowledge related to fishing and aquaculture	Transfer to the International Maritime Organization.
15 LIFE ON LAND	15.1	Conservation, Restoration and Sustainable Use of Ecosystems	Expenditures aimed to promote the conservation, restoration, and sustainable use of ecosystems.	Conservation of biodiversity and ecosystem services.	Agreement related to wetlands with international relevance as habitats for waterfowl species.
16 PEACE, JUSTICE AND STRONG INSTITUTIONS	16.6	Efficient and Transparent Institutions	Expenditures aimed at institutional development of public institutions, strengthening their efficiency and transparency	Strengthening institutional management.	Country defense in internatio-nal controversies.
17 PARTNERSHIPS FOR THE GOALS	17.18	Capacity Building Support for Developing Countries - Data Availability	Expenditure aimed at supporting developing countries to improve their capacities to produce timely, reliable, and high-quality informa-tion	Updating sociodemographic statistical information	Geographic Information System Update

Source: UNDP-INFF Colombia.

CHAPTER 2. OVERVIEW OF THE SDG ALIGNMENT METHODOLOGY

35. The SDG alignment of national budgets has two main objectives:

a. To estimate the contribution of national/local budget towards the SDGs.

b. To strengthen the inclusion of SDG optics and a focus on SDG financing in national/local planning, budgetary, and monitoring instruments.

36. Availability of disaggregated budget data, preferably in a spreadsheet[17]. This is not an easy task as sometimes government officials are sensitive to displaying disaggregated budget data, particularly in countries with exceptional political circumstances. If there is no special political situation, establishing a trust-based relationship with the Ministry of Finance (MoF) is important. A solid technical relationship, at least around SDG financing, will create an opportunity to explain to government officials the benefits of SDG budget tagging using this methodology, and will facilitate data sharing, following non-disclosure principles.

37. The application of any methodology for budget tagging has a subjective component. To reduce this subjectivity when applying any methodology (e.g., when an analyst is tagging an SDG target to any specific budgetary line based on his/her own expertise), the use of all available sources of information is highly recommended, especially information regarding the results framework or specific objectives of investment projects funded by the public budget. Additionally, some countries have experience in budget tagging for specific themes, which provide additional information about the extent of a country's budgetary support to specific topics. All this information will aid the user of this methodology in increasing the level of precision and in reducing the subjective component of the manual matching of budget lines to SDG targets.

38. Technical considerations once the budget information is available. To analyze the public budget, it is important to (a) have the information at the most possible level of disaggregation; (b) identify and keep the FMIS coding (which will be the link to extrapolate the alignment to other fiscal years); (c) exclude debt service; (d) choose a stage in the budget cycle; (e) lean towards to using the 169 SDG targets and not the 17 goals; and (f) align several SDG targets to each budget line, given the multidimensional nature of public policy. Table 4 gives further details about these technical considerations to align budget lines with the 169 SDG targets.

---

17 As minimum contents, budget information in a spreadsheet should include information such as: year, code(s) for each specific line or spending concept, name of budget sector, name of entity or office, budget status (e.g., initial appropriation, commitment, payment).

Table 4. Technical considerations to align public budgets with SDGs targets

Technical considerations	Methodological benefit
Use disaggregated budget data.	Analyze the internal structure of the budget to identify the highest level of data disaggregation available for aligning with SDG targets (e.g, budget lines, projects or programs associated with investment and operational expenses). The more disaggregated the data is, the more robust the association with SDG targets will be, reducing subjectivity.
Identify and maintain the official coding assigned to the most detailed level of budget data available within the FMIS.	The coding system of the public budget (within the FMIS) will allow for the extrapolation of the SDG alignment to other fiscal years, given that the codes should stay the same across years. However, each fiscal year has its own particularities, which will need a detailed review, especially when new programs and new projects are structured.
Excluding debt service from the analysis is highly recommended when implementing the methodology.	Debt service should be understood as a government expense to repay obligations materialized in past fiscal years and whose funds were disbursed in previous fiscal years through investment and operating expenditures.
Focus on the "Commitments" stage of the budget cycle, especially when working with the current fiscal year.	Working with the "Commitments" stage makes more explicit the willingness of government institutions to use assigned resources to specific policy themes. The "Payments" or "Verification" budget stages have greater variability depending on the time of analysis (e.g., at the beginning vs at the end of the fiscal year). Note: for previous fiscal years, the methodology is flexible, and the analysis can also be carried out using any other budget stage (e.g. Appropriation, Payment).
Focus on the 169 SDG targets to align budget lines with SDGs.	The 169 SDG targets better reflect the multidimensional and multisectoral nature of the SDGs.
Align one main SDG target and up to 5 secondary SDG targets to each budget line (or unit of analysis) of the budget corresponding to investment and operating expenses.	The multidimensional approach of the methodology aims at considering the links amongst SDG targets and the possible synergies between budget sectors. The 17 SDGs and their 169 targets are multisectoral, affecting each other positively or negatively.

Source: UNDP-INFF Colombia.

SDG ALIGNMENT IN 5 STEPS

39. Given these technical considerations, Chart 1 shows a summary of the 5-step methodology proposed to obtain SDG alignment, including the setup, sources of information, budgetary distribution rules, and consolidation of results. Throughout the following pages, technical and operational details are explained for each of the steps proposed, based on its implementation to public budgets and development cooperation.

STEP 1. INPUTS AND SETUP

40. The user of the proposed SDG alignment methodology needs to choose a fiscal year to analyse. Establishing clear criteria for the selection of the fiscal year is strongly recommended. There are considerations that will impact the choice of fiscal year. For instance, there are technical considerations (e.g., adjustments oriented towards the implementation of a results-oriented budget), as well as political (e.g., change of administration) or even considerations related to the policy response to mitigate the effects of the COVID-19 pandemic (which can have long lasting impact on the budget). This includes considering whether it is appropriate for local circumstances to use fiscal years affected by the pandemic or whether to use a previous one.

41. The public budget databases on which the exercise will be applied should be retrieved and prepared. It is always desirable to use the highest level of detail for the public budget. The SDG alignment methodology described in this document, can be applied at any level of aggregation, namely: budget or functional sectors, institutions, program-level, or using budget lines. However, greater detail in the analysis will guarantee more robust results, given the multidimensional nature of this methodology and the SDG.

Chart 1. The 5-Step Methodology for SDG alignment, based on its application to National Budgets and Development Cooperation projects.

1. Setup

- Public budget information at investment-project level
- Choice of the stage of interest within the budget cycle
- The 169 global SDG targets list
- Product catalog for each investment item/project

2. Definition of rules and manual thematic alignment

- Projects' thematic alignment to SDGs
- A multidimensional methodology is suggested for each item
- Select topics and expenses excluded from the SDG alignment

3. Budget alignment. Manual alignment for investment and thematic-specific operational expenses

- Once each budget line is aligned to several topics (main and secondary), the budget line is distributed according to the preferred %s for main vs. secondary targets
- Establish appropriate or desired %s with local budgetary authorities, including at the sectoral level

4. Alignment of operational expenses at the entity-level

- At the level of government entity, tabulate the percentage distribution of investment (by SDG target)
- Distribute the entity's operational expenditure to the 169 global SDG targets, following the same distribution tabulated for the investment budget

5. Final validation with stakeholders, reporting and visualization

- Final validation of the exercise with budgetary authorities. Adjust if necessary
- Report detailing current SDG financing
- Interactive visualization

Source: UNDP-INFF Colombia.

42. To reduce uncertainty during the thematic alignment of SDG targets, detailed information about investment projects should be available. It is common to find that the name of a project is not enough to establish a direct association with SDGs targets. It is therefore recommended to gather as much information as possible about the general and specific objectives of the project, as well as its deliverables. In the absence of such complimentary information, the project design and/or programmatic documents can be useful as well.

43. The first approach to SDG alignment should use information from a previous fiscal year and taking "Commitments" as the budget stage of interest. This is because Commitments reflect a real intention from the public institutions to invest in specific policy themes. Additionally, Commitments are not as sensitive to the moment in which the data is retrieved as Payments are during the budget cycle. However, the methodology for SDG alignment is flexible enough to generate results throughout the entire budget cycle, using appropriations, commitments, verification, or payments. The choice should be defined according to a country's need.

BOX 1
Inputs used for the Colombian case

For the Colombian case, the following three databases were used:

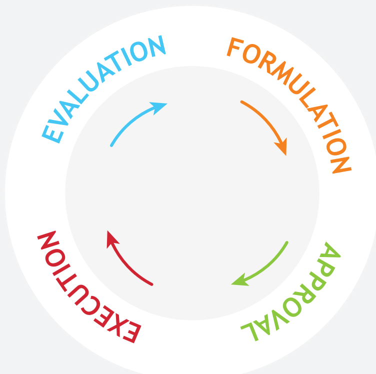
- 2020 National Budget Database from the Financial Management Information System (FMIS): Excel file, provided by the Ministry of Finance, which contained detailed information about 4,378 budget lines corresponding to investment and operating expenses from 2020.

- SDG database with 169 SDG targets: Excel file with 17 SDGs and 169 SDG targets. For each target, keywords were identified as well as potential associations with certain topics (e.g., Information and communication technologies) and population groups (e.g., women, childhood, and adolescence) to simplify the alignment. The latter creation of keywords contributed to the definition of the SDG taxonomy.

- Catalogue of investment products, which allows identifying the general and specific objectives and project deliverables for each fiscal year. This file is compiled by the DNP's Directorate of Projects and Information for Public Investment (DPIIP), and it details products, activities, and indicators associated to investment projects. The catalogue of products is therefore a resume of each project.

BOX 2
Budget Cycle

The public budget is a succession of processes that are repeated over time. The different phases that make up the Budget Cycle are continuously interrelated, as detailed below (Ministerio de Hacienda y Crédito Público, 2021). The budget cycle stages are as follows (Center for International Development al Harvard University, 2014).



Formulation: this stage refers to the preparation of the government's budget proposal for presentation to Congress. This proposal presents the spending needs for each government units and the forecast of the government's different sources of revenue, including indebtedness.

Approval: during this stage the budget proposal submitted by the government to the legislature is reviewed, debated, and sometimes adjusted with proposals from the legislature. At the end of this stage, the budget proposal is expected to be formally approved and enacted into law.

Budget Execution: once the budget has been approved, the spending units are authorized to undertake and process spending transactions through the budget execution cycle, which includes the following stages (Allen, Hemming, & Potter, 2013):

- **Appropriations:** corresponds to the spending authorizations defined by the budget law;
- **Commitments:** refers to the stage at which a future payment obligation is incurred. A commitment is established when an order is placed or a contract awarded for specific goods or services to be delivered at a specific time. Such a commitment becomes a payment obligation when the supplier has complied with the provisions of the contract;
- **Verification:** the stage in which it is ensured that the goods and services delivered, and their respective invoices are consistent with the stipulations of the contract;
- **Payment order:** this order is issued once the goods and services received have been verified; and
- **Payment:** this stage corresponds to the payment of invoices through the effective transfer of resources.

The budget execution cycle comprises the set of processes through which the government delivers the proposals contemplated in the budget. This stage also includes the accounting and reporting of information associated with budget execution.

Evaluation: at this stage, the government submits annual reports so that different entities can follow up and examine whether the activities carried out by the government complied with the provisions of the budget law.

STEP 2. DEFINITION OF RULES

44. Once the available databases are in place and a fiscal year is chosen, develop a pilot exercise with one budgetary or functional sector of interest, applying all the technical considerations mentioned before (table 4). The results of this pilot exercise will likely show opportunities for adjustments, either regarding databases or related to the methodological approach, before continuing with the alignment on the entire database that leads to the SDG budget tagging.

45. One-dimensional vs multidimensional tagging. The user of this methodology must decide whether to apply a one-dimensional (i.e., one SDG goal for each item) or multidimensional (i.e., several SDG goals for each item) alignment or tagging. This choice should be defined by the level of detail available and the desired precision. A multidimensional approach is desirable but not necessary when detailed data is available. However, when only sectoral level or program level budget data is available, a multidimensional approach is essential to capture multiple policy intentions contained in aggregated budget data.

46. A multidimensional approach will always guarantee more precise results, at the expense of time necessary for the SDG tag. The precision of results will depend on the available information and the time spent to undertake the exercise. This document is based on the multidimensional approach and the next steps of this chapter are adapted to the multidimensional case.

47. Determine a maximum number of secondary/complementary SDG targets. Once a multidimensional approach is selected, the next step is to determine the desired maximum number of secondary SDG targets that can be tagged to each budget line. The greater the number of secondary SDG targets, the higher the level of precision, but with a greater workload. An optimal choice might be to limit the number of secondary SDG targets to between 3 to 5.

48. Distribute the budget line amount between selected SDG targets. For the multidimensional approach, the percentages chosen during the pilot exercise become relevant in this step. The methodology is flexible, and these percentages should be established according to the intrinsic characteristics of each country, each budget, and based on knowledge or at least conversations with budgetary authorities. If conversations with budgetary authorities have not yet taken place at this stage, a preliminary distribution can be assigned.

49. Definition of percentages for the main and secondary SDG targets. To facilitate the implementation of this methodology, it is recommended to have a main SDG target with a relative weight greater than 50%, and secondary SDG targets whose relative weight complement the main SDG target, to distribute 100% of the budget line amount. The following equations summarize the conditions the percentages should follow when establishing a main SDG target:

$$0.5 < \rho_m < 1$$

$$\sum_{i=1}^{N} \rho_i = 1 - \rho_m$$

Where ρ is the percentage assigned to each aligned SDG target, m is the subindex identifying the main SDG target, i is the subindex identifying each one of the secondary SDG targets, and N is the total number of secondary SDG targets defined for the exercise. It is important to highlight that if ρ_m=1 is defined, the unidimensional case would be preferred.

BOX 3
Rules and distribution percentages defined for the Colombian SDG budget tagging

As a result of the pilot exercise for the Colombian case, applied to the COFOG division of Social Protection, the following rules were defined to align budget lines to SDG targets:

- Align each budget line from investment (and operational expenses with specific destination) with a main SDG Target (M), which will take 75% of the budget line*.

- Align each budget line from investment (and operational expenses with specific destination) with up to 5 complementary SDG Targets (C), in descending order of relevance. For these complementary SDG targets, the remaining 25% of the budget line was assigned, equally distributed according to the number of complementary targets identified.

If a budget line had only one complementary SDG target, this complementary target receives 25% of the budget line. If the budget line had between 2 and 5 complementary SDG targets, this 25% was equally divided between the complementary targets to estimate the potential contribution of the budget line to SDGs. An example of this procedure is presented in Table 5:

Table 5. Example of application of the alignment rules between SDG targets and budget lines.

Institution	Sector	Budget line	Commitment	SDG target alignment					
				M	C1	C2	C3	C4	C5
Institution A	Sector B	Investment project	100 mil	Target 17.14 (75 mil)	Target 9.1 (5 mil)	Target 8.3 (5 mil)	Target 16.3 (5 mil)	Target 10.2 (5 mil)	Target 1.5 (5 mil)

Source: UNDP-INFF Colombia.

* This percentage was defined after carrying out a sensibility analysis where the main target fluctuated between 50% and 75% of the budget line. This exercise showed that policy priorities keep their order regardless the weight of the main target. For this reason, the main target was established at 75%. This decision was validated by the technicians from the NPD and the Ministry of Finance of Colombia.

STEP 3. SDG alignment investment budget and operational expenses with specific destination

50. Up to this point, there is a manual alignment, mostly of investment expenses, towards SDG. The starting point was the detailed analysis of the investment projects applicated to the selected fiscal year, which hopefully uses detailed complementary project information[18] for a more precise SDG alignment.

51. Public budgets usually have some operational expenses that resemble investment expenses, in particular by having a specific destination, usually determined by Law. These operational expenses with a specific purpose should also be manually matched with SDG targets. This group of expenses includes, among others, intergovernmental transfers, sector-specific contributions (e.g., healthcare, education, pensions), special funds, and contributions to international organizations with direct impact on SDGs. Due to the specific destination of these operational expenses, a manual tagging should also apply.

52. Estimation of the overall SDG alignment of the investment budget at the entity level. Once the manual matching concludes, the next step is to estimate the SDG alignment of all investment projects at the institution level, which will show the distribution of the investment budget by SDG targets. This SDG distribution is a key input for implementing the next step of the methodology.

BOX 4
Manual matching for the Colombian case - Step 3

For step 3, all investment projects from the 2020 Colombian national budget were manually aligned to SDGs, using the 169 SDG targets. 1,548 investment projects, from 194 institution and 30 budget sectors, were analysed. Once all investment projects were aligned, 75% of each budget line was assigned to the main SDG target and the remaining 25% was equally distributed amongst complementary SDG targets, as explained in Step 2 of this methodology*. The following table shows a real example of SDG alignment, applied to one of DNP's investment project.

Table 6. Example of manual alignment between investment projects from the 2020 National Budget, and SDG targets.

Budget line	Commitment (USD)	SDG Target (M: Main / C: Complementary)					
		M	C1	C2	C3	C4	C5
Strengthening of local authorities - nationwide	6,038,599	16.6 (4.5 MM)	16 (754,824)	10.2 (754,824)			

Source: UNDP-INFF Colombia.

18 Some examples of complementary information might be Laws, Acts, Decrees, and/or policy documents and planning tools to identify the scope, objectives, results and expected deliverables when executing investment projects included in the budget for the selected fiscal year.

BOX 4
Manual matching for the Colombian case - Step 3

Operational expenses with a specific destination/purpose were then pinpointed. As a result of this identification, and in addition to the 1,548 investment projects, 1,587 operating expenses with a specific destination were manually aligned. For these budget lines, 75% was also preliminarily assigned to the main SDG target and the remaining 25% equally distributed between the complementary SDG targets*. The following table shows an example of SDG alignment, applied to an operational expense with a specific destination from the DNP:

Table 7. Example of manual alignment applied to operational expenses with specific destination from the 2020 National Budget.

Budget line	Commitment (USD)	SDG Target (M: Main / C: Complementary)					
		M	C1	C2	C3	C4	C5
Contribution to the Office of the Comptroller General	204,087	16.6 (153,065)	16.5 (25,510)	16.10 (25,510)			

Source: UNDP-INFF Colombia.

Finally, the SDG alignment of all investment projects for the government entity was calculated. These percentages will be used to implement Step 4 of this methodology. As an example, the following table shows the SDG alignment of all investment projects of the DNP.

Table 8. Distribution of DNP's investment budget towards SDG targets

SDG Targets	Total Investment - NPD (USD)	%
Total	**44,380,976**	**100%**
16.6	16,895,428	**38%**
17.14	9,588,661	**22%**
9.1	3,779,309	**9%**
16.1	3,668,199	**8%**
10.2	2,350,258	**5%**
9.c	1,728,336	**4%**
8.3	1,653,583	**4%**
16.7	1,232,487	**3%**
1.3	1,045,369	**2%**
16.3	987,005	**2%**
Other	1,452,341	**3%**

* The percentages were adjusted during the validation process with the DNP and the Ministry of Finance.

Source: UNDP-INFF Colombia.

Step 4. SDG Alignment Extrapolation to General Operational Expenses

53. Procedure for operational expenses without specific destination. After manually matching investment projects and operational expenses with a specific destination to SDG targets, general operational expenses need to be addressed. These are some of the most common general operational expenses. This category includes salaries, asset acquisitions, service acquisitions, payroll, leases, utilities, payable accounts, among others.

54. Under the assumption that general operational expenses allow government entities to carry out its thematic obligation by supporting the operation of the institution, operational expenses can be thought of as items that leverage SDG financing indirectly through their support for policy initiatives included in investment budget lines. In actual policy implementation, no education or health care service can be provided if budget for wages or electricity bills is not available. This relationship between investment and operational expenses can be used to link operational expenses to SDG, though indirectly through the SDG "behaviour" of the investment budget which engages more directly with themes related to the 2030 Agenda.

55. It is not recommended to do a manual matching of general operational expenses because these expenses support the general operations of the institutions and facilitate their mission. These expenses are indirectly aligned with multiple SDG goals. For this reason, an extrapolation of SDG alignment results from the investment budgets to general operational expenses should take place.

56. For the extrapolation of SDG alignment from investment to general operational expenses, the SDG distribution of the total investment budget by institution, obtained during step 3, must be applied (i.e., using the same percentages) to all general operational expenses of the same institution. Following this procedure, all general operational expenses will be aligned with all the SDG targets tagged for the investment budget of each institution.

57. There might be exceptional cases where a government institution does not have investment projects for the selected fiscal year. In this situation, there is not enough information to carry out the extrapolation procedure. Therefore, it is recommended to manually match the corresponding SDG targets aggregated at the institution level, following the guidelines of Step 3. SDG alignment of similar institutions from the same budget/functional sector should be considered, as well as review the Law, Acts, or any regulation that enacted during the creation of said institutions. This way, and depending on the institution's mission and objectives, the user of this methodology should proceed with manual matching the relevant SDG targets (See Table 12 for an applied example for this unique case).

BOX 5
Extrapolation of SDG alignment from investment budget to general operational expenses – Step 4 applied to the Colombian case

This box presents an example of the actions undertaken to extrapolate the investment results to general operational expenses of the National Planning Department (DNP) in Colombia. The following procedure here was implemented for the 163 entities of the Colombian government's national budget.

Once the absolute ($) and relative (%) contributions of the DNP's investment budget to the SDG targets have been calculated (shown by Table 9 and 10), the same relative distribution (i.e., the same percentages) should be extrapolated to DNP's general operational expenses (that were not manually aligned). This extrapolation can be observed in Table 11.

Table 9. Example of the SDG alignment of NPD's investment projects

Aligned SDG Targets	16.6	17.17	9.1	16.1	10.2	9.c	8.3	16.7	1.3	16.3	Other	Total
Relative contri-bution of investment budget to SDG targets	38%	22%	9%	8%	5%	4%	4%	3%	2%	2%	3%	100%
Total Investment - DNP (USD MM)	16.88	9.58	3.78	3.67	2.35	1.73	1.65	1.23	1.05	0.99	1.45	44.34

Source: UNDP-INFF Colombia.

BOX 5
Extrapolation of SDG alignment from investment budget to general operational expenses – Step 4 applied to the Colombian case

Table 10. Extrapolating the SDG alignment from NPD's investment budget to general operational expenses

SDG Targets	Contribution (%)	Non-assets acquisitions (USD MM)	Salaries (USD MM)	Payroll (USD MM)
16.6	38%	3.21	2.49	0.90
17.14	22%	1.86	1.44	0.52
9.1	9%	0.76	0.59	0.21
16.10	8%	0.68	0.52	0.19
10.2	5%	0.42	0.33	0.12
9.c	4%	0.34	0.26	0.09
8.3	4%	0.34	0.26	0.09
16.7	3%	0.25	0.20	0.07
1.3	2%	0.17	0.13	0.05
16.3	2%	0.17	0.13	0.05
Other	3%	0.25	0.20	0.07
TOTAL	100%	8.45	6.55	2.37

Source: UNDP. INFF-Colombia.

On the other hand, the 2020 Colombian national budget had 32 institutions without investment projects. For this group of institutions, a manual matching was undertaken, following the same procedures from Step 3, aggregated at the institution level. In other words, all the expenses of each of these 32 institutions were matched with the same SDG targets. Table 12 shows an example SDG alignment for two institutions without investment projects.

Table 11. Example of manual matching SDG targets to institutions with general operational expenses but without investment projects

Sector	Institution	SDG targets M: Main 75%; C: Complementary 25%.					
		M	C1	C2	C3	C4	C5
Environment	Corpocaldas	15.9	6.6 (5%)	12.2 (5%)	11.a (5%)	12.8 (5%)	16.6 (5%)
Defense	Inclusive Rehabilitation Center	10.2	4.a (12,5%)	16.3 (12,5%)			

Source: UNDP. INFF-Colombia.

Step 5. Validation, Reporting, and Visualization

58. It is essential to validate the distribution rules for the main and complementary SDG targets as well as the preliminary results with the national/local budget authorities. The validation procedure has four major advantages: (1) guaranteeing that the SDG budget tagging is in line with policy objectives, thereby refining the results of the exercise; (2) facilitating dialogue around SDG financing with budget authorities; (3) considering a permanent way for the government to do SDG budget tagging, in a way that strengthens national and/or subnational planning and budgeting instruments; and (4) broadening the dialogue with other stakeholders beyond budget authorities, including civil society, in order to strengthen their understanding of the national budget and actual financing for prioritized themes.

59. Unless the SDG alignment was done at a very aggregated level of the public budget, it will be unfeasible to validate the entire exercise with budget authorities. Design a joint validation strategy with budget authorities, allowing for a review of the most representative associations. For instance, the biggest budget lines of each functional sector can be reviewed, or even budget lines that repeat and whose alignment criteria could be extrapolated to other budget lines. The validation process should be designed in a way that, once finalized, results of the SDG budget tagging exercise can be understood as valid by the government. Regarding private sector, it might be easier to validate an SDG alignment exercise, given that the private sector usually only targets a handful SDGs.

60. Creating SDG financing reports. Once government validation is finalized, the information is consolidated, and a report is structured according to the needs of the user and its target audience. This report will become the main input to share with stakeholders from the public and private sectors, civil society, and the international community. The report may serve as an input for national or subnational governments to show progress on SDG financing. The report can show financing from an aggregated 17 SDG approach. However, a more disaggregated analysis at the 169-target level can be useful to measure the efficiency of spending in specific indicators or discuss SDG financing on a sectoral level.

61. Interactive visualization. In order to facilitate the visualization and interpretation of results from the SDG budget tagging, it is suggested to have an interactive visualization tool to facilitate the discussion with the government and other stakeholders. Users can increase their interest in SDG financing if they are able to interact with an SDG financing tool. There are multiple solutions to make interactive dashboards. Choose the most familiar option for the team. In the case of INFF-Colombia, Power Bi® (by Microsoft®) was used to create dynamic dashboards.

62. For users of this methodology considering Power Bi® for the creation of interactive dashboards, **it is worth mentioning that it has free access using an institutional email account** (e.g., john.doe@undp.org), and all related data will be stored in Microsoft OneDrive®. The steps to create an interactive dashboard are:

> **a. Data preparation:** all the necessary data to build the visualizations of the dashboard must be in an Excel® database or in SQL servers. If data security is a concern, particularly for government institutions, aggregated data can be uploaded, such that visualizations can only be constructed without including budget-specific data at the budget line level.

b. Creation of PBIX file in Power Bi®: to begin the development of the dashboard, it is recommended to download Power Bi® Desktop that is hosted in the Microsoft® Store. After a PBIX file is created within the desktop application, a link should be created to the Excel® file or the SQL database containing the data.

c. Building visualizations: Power Bi® has multiple charts and visualizations as well as the possibility to download and include third-party visualizations. The program shows a blank canvas, where the user can display all the visualizations, menus, and dashboard buttons. The canvas can be designed in any orientation and size.

d. (Optional) Upload the dashboard and create a link to share: once the dashboard has been created in the desktop application, there is an option to upload it to Power Bi® servers and create a URL that facilitates data sharing with the government and other stakeholders. This option is the most recommended for sharing information, taking into account that anybody with the link will be able to access the information presented on the dashboard (not the raw data).

BOX 6
Validation, reporting, and visualization. Step 5 applied to the Colombian case

A joint review and validation of the methodology between INFF-Colombia and Colombian budget authorities (DNP and MOF) strengthened the SDG budget tag. The validation process was done with technical experts from DNP's Directorate of Projects and Information for Public Investment (DPIIP) and the MOF's Budget Directorate (DGPPN). The validation process was carried out in 17 sessions, each lasting approximately 2 hours, and with the active participation of at least 9 government officials in each session.

The top-5 investment expenses and the top-5 operational expenses within each of the 30 Colombian budget sectors were reviewed. As a result, 75% of the total amount of the 2020 national budget was reviewed and jointly validated. Additionally, budget authorities provided feedback about the methodology and provided specific suggestions to adjust the percentages of resource distribution between the main and complementary SDG targets for specific budget sectors.

One of the most important outcomes of the validation process with Colombian budget authorities was the structuring of specific distribution rules for each budget sector. As explained in Step 2, the exercise was preliminarily designed to apply a general distribution rule of 75% of the budget line to the main SDG target, while the remaining 25% was equally distributed among the identified secondary targets. However, during the validation process national budget authorities revealed the need to define differentiated distribution rules for each budget sector, according to their intrinsic characteristics. Table 13 summarizes the four main groups of distribution rules established for the budget sectors of the Colombian National Budget.

BOX 6
Validation, reporting, and visualization. Step 5 applied to the Colombian case

Table 12. Distribution rules adjusted during the validation process and associated budget sectors.

Option	Main SDG target	Sec 1	Sec 2	Sec 3	Sec 4	Sec 5	Sector
1	75%	5%	5%	5%	5%	5%	Agriculture, Environment, Science, Defense, Education, Public Employment, Finance, Statistics, Intelligence, Mining, ICTs, Transportation, Housing
2	75%	10%	5%	5%	2.5%	2.5%	Trade, Culture, Sports, Office of the Prosecutor General, Interior, Justice, National Registry
3	75%	12%	7%	3%	2%	1%	Planning, Presidency, Labor
4	60%	15%	10%	5%	5%	5%	Congress, Healthcare, Foreign Office, Social Inclusion

Source: UNDP. INFF-Colombia.

Finally, all results from the Colombian application of this methodology were organized and made available to be consulted through a dashboard developed by INFF-Colombia on Power BI®. The dashboard can be consulted at: https://bit.ly/SDG_Taxonomy_CO.

63. The following pages will present the main results for the Colombian case associated with the application of the methodology described. This will become an input for the government to design a financing strategy to reach the 2030 Agenda and its SDGs.

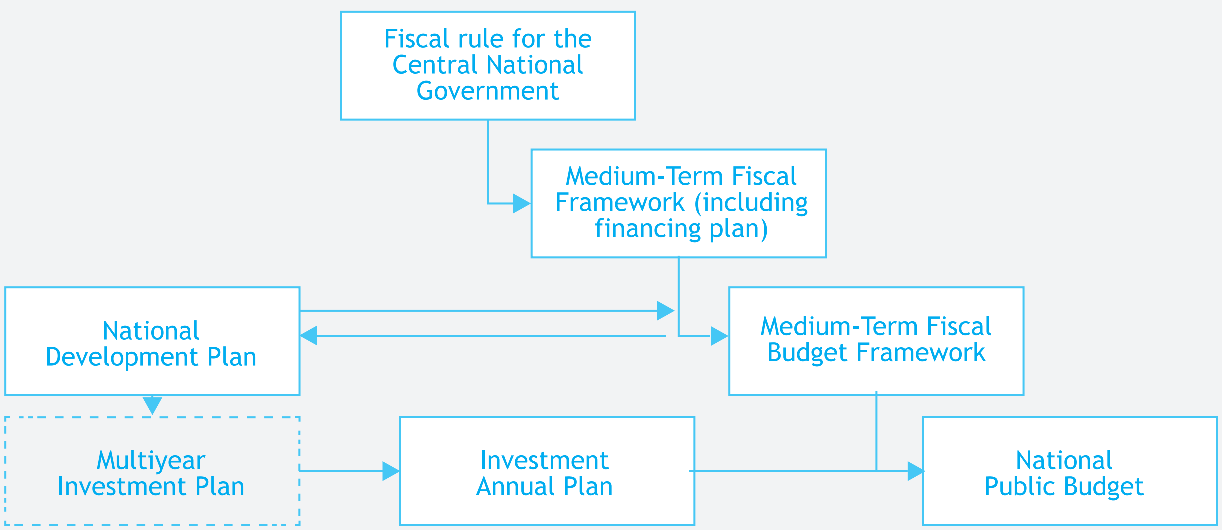
CHAPTER 3. RESULTS OF THE SDG BUDGET TAGGING IN COLOMBIA: GENERAL RESULTS

64. INFF-Colombia made an initial calculation of public SDG financing based on the SDG alignment of the national 2020 budget, using a preliminary distribution rule of 75% for the main SDG target and 25% for complementary SDG targets. It was found that 88.9% of the 2020 national budget (without debt service) was aligned to the SDGs. This preliminary alignment exercise was the main input for the validation process of both the methodology and results, which occurred in August 2020.

65. Once the joint validation with national budget authorities was completed, it was estimated that 89.1% of the 2020 national budget was SDG aligned19. During the validation process, 88% of the budget maintained its initial SDG alignment, while an equivalent of 12% of the budget had adjustments based on suggestions provided by sectoral government experts who participated in virtual roundtables.

BOX 7
The Colombian Budget System

While the main planning tool in Colombia is the National Development Plan, the Budget System is made up of different public policy tools. The Budgetary System was established through the issuance of different norms* that created policy the instruments that are part of the budget planning process and are integrated to the National Development Plan as indicated in the following diagram:



Source: Elaborated based on information from the Directorate of the National Public Budget of Colombia

* The Decree 111 of 1996 compiles norms that establish the Organic Statute of the Budget; Law 819 of 2003 issued rules on budget, responsibility, fiscal transparency, and other provisions.

19 It is important to highlight that the budget alignment exercise does not constitute an impact evaluation and therefore, concepts such as potential contribution or SDG alignment are used instead.

66. During the validation process with government national budget authorities the main adjustment to the SDG budget tagging was the Emergency Mitigation Fund (EMF), created in May 2020 as one of the policy responses to the adverse economic and social consequences from COVID-19. The EMF was initially programmed with a budget of USD 10.96 billion, of which $5.95 billion (54,4% of total funds for the EMF) were disbursed in 2020[20].

67. The Emergency Mitigation Fund (EMF) was originally aligned to multiple SDGs following the narrative description of its foundational Decree Law 444 of 2020: (i) addressing the health emergency by Covid-19, (ii) protection of vulnerable population, and (iii) protection of employment. However, during the validation process of the SDG budget tag, national budgetary authorities provided additional information on the Fund's implementation, which improved its SDG alignment and implied reductions of 55% in contribution to SDG 8 (decent work and economic growth) and 28% in SDG 2 (zero hunger), as well as increases of 22% to SDG 1 (no poverty) and 5% to SDG 3 (good health and well-being).

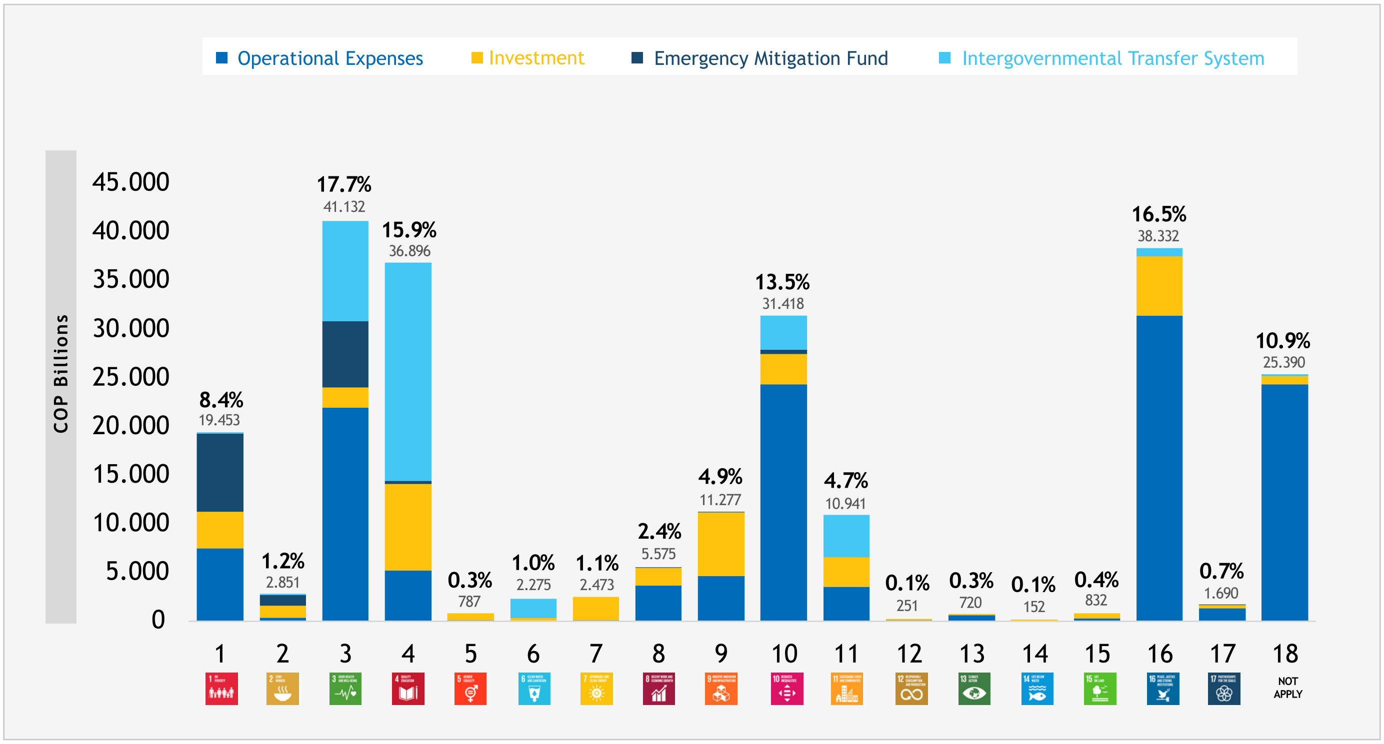
68. Other adjustments resulting from the validation process occurred in SDG 9 and SDG 15. Specifically, SDG target 9.c, related to development and use of Information and Communication Technologies (ICT), was suggested as the main target in some technology improvement projects of government entities. On the other hand, SDG target 15.a, oriented to increasing financial resources to strengthen biodiversity, had an increase in SDG alignment driven by a tagging change of the project: *Financial Management Support for the Development of Programs and Initiatives with resources from the Carbon Tax.*

69. Results from the SDG alignment of the Colombian National Budget. Graph 1 illustrates the SDG alignment of the national budget. The largest contributions from the national budget to the SDGs occur in SDGs 3 (Health), 4 (Education), 10 (Inequality), and 16 (Peace, Justice, and Solid Institutions). Additionally, there are important contributions to SDGs 1 (Poverty), 9 (Industry, Innovation, and Infrastructure), and 11 (Sustainable Cities). It should be noted that budget alignment does not reflect policy priorities since projects' cost structures are different from each other and they are hardly comparable in relation to their impact.

70. The national public budget in Colombia finances the SDGs with US$ 56 billion. This figure represents 89% of national budget (without debt service) and corresponds to 20.6% of GDP. The US$ 56 billion from public SDG financing contrasts with about US$ 1.6 billion that Colombia received in 2020 through development cooperation (see chapter 4).

20 Nine (9) entities from different budgetary sectors oversaw implementation of the Emergency Fund in 2020.

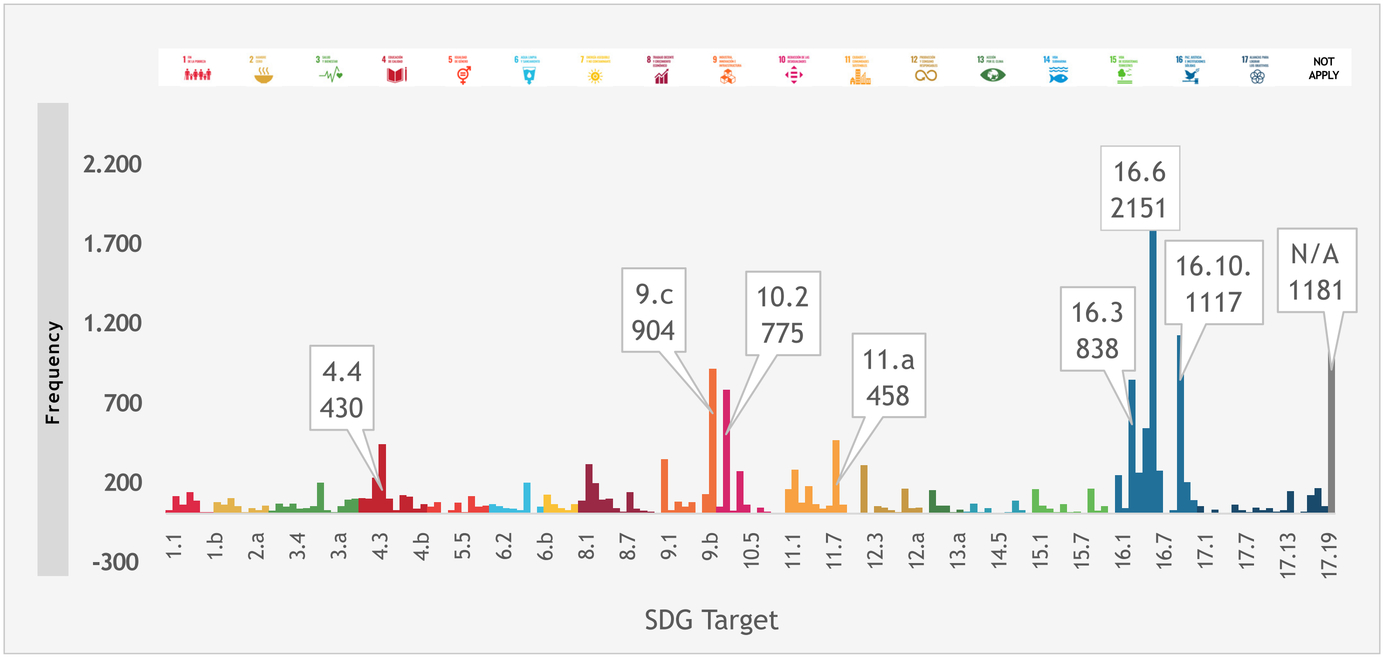
Chart 2. Contribution of the 2020 NB to the SDGs (Investment + Operational Expenses)



Source: UNDP-INFF based on SIIF 2020 and global SDG targets.

71. The most frequently tagged SDG targets are 16.6 (Institutional improvement), 16.10 (Freedom of information and rights), 9.c (ICT Development), 16.3 (Rule of Law) and 10.2 (Social, economic and political inclusion). Chart 3 shows the frequency of alignment for each of 169 SDG targets. It is important to note that frequency of association does not discriminate by main or complementary targets. This reflects the cross-cutting nature of sustainable development and not necessarily policy priorities. Likewise, the figure considers both the SDG targets associated manually (Step 3) as well as the SDG targets associated by imputation process (Step 4).

Chart 3. Frequency of association of SDG goals to budget items

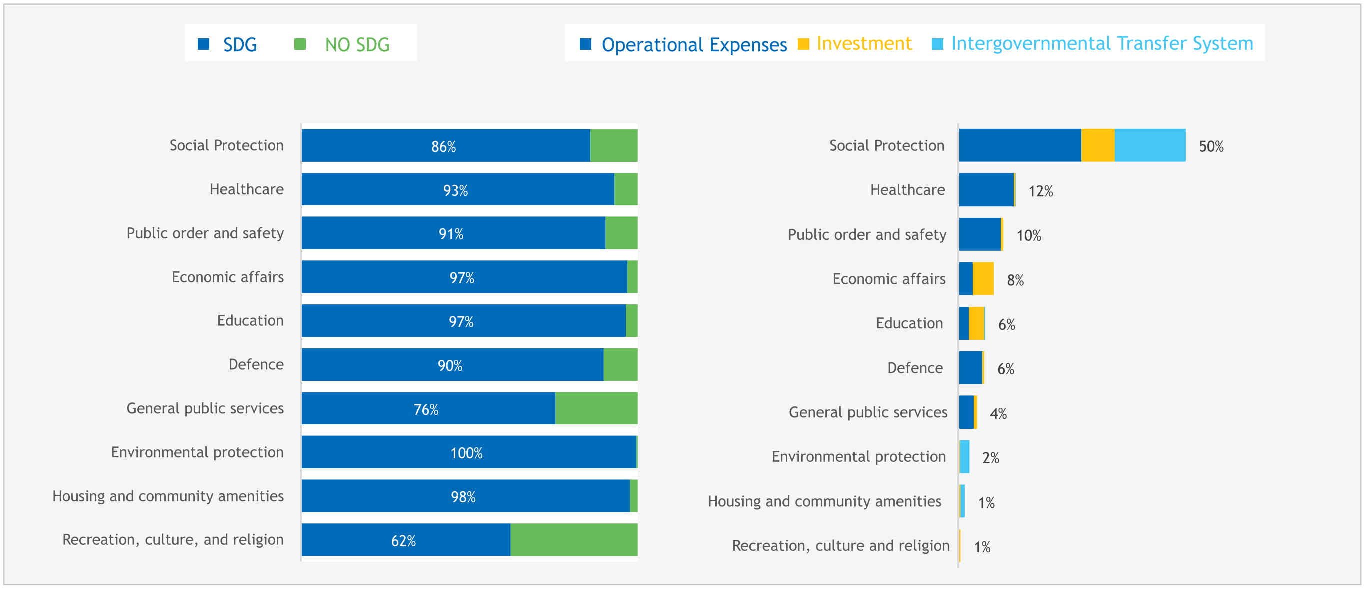


Source: UNDP-INFF.

72. Results for SDG 16 (Peace, Justice and Solid Institutions) should not be directly associated to resources directed to the 2016 peace accord, as it is important to note that SDG 16 has three dimensions. The peace dimension refers to reduction of all forms of violence and their corresponding mortality rates, as well as fight against organized crime. Likewise, the Justice dimension is related to rule of law, access to justice, and guaranteeing legal identity for all. Finally, the Solid Institutions dimension is related to improvements in governance and public institutions, strengthening of institutional transparency, free access to information, and fight against corruption. In Colombia, the Institutions' dimension receives 56% of resources allocated to SDG 16, while the Justice dimension receives 28%, and the Peace dimension receives 15%.

73. The results showed that the COFOG sectors of Social Protection and Healthcare were receiving the most resources due to their thematic nature and budget size. Chart 4 shows SDG alignment of COFOG sectors and their weight in the national budget (without debt service).

Chart 4. SDG alignment of COFOG sectors (left) and contribution of COFOG sectors to the 2020 National Budget (right)



Source: UNDP-INFF based on Integrated Financial Information System 2020 and global SDG targets.

74. An SDG map of the 10 functional sectors (COFOG) reveal the cross-cutting nature of SDGs to the entire public sector. Table 13 shows each budgetary functional sector and its alignment with the 17 SDGs, shading cells when one or more targets were aligned with at least one budgetary functional sector item. Table 13 justifies the need for a multidimensional approach in SDG budget tagging and the relevance of a detailed analysis at the budget line level.

*Table 13. Cross-classification between functional sectors (COFOG) and SDGs**

Functional Sectors	SDG																
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Recreation, Culture, and R eligion	X		X	X	X			X	X	X	X	X				X	X
Economic Affairs	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Defence	X		X	X				X	X	X	X		X	X		X	X
Education	X	X		X	X			X	X	X	X	X				X	
Public Order and Safety	X	X	X	X	X			X	X	X	X		X		X	X	X
Environmental Protection	X	X		X	X	X	X	X	X	X	X	X	X	X	X	X	X
Social Protection	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Healthcare	X	X	X	X	X			X	X	X	X		X			X	X
General Public Services	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Housing and Community Amenities	X		X	X		X	X	X	X	X	X	X				X	X
Count	10	7	8	10	8	5	5	10	10	10	10	7	7	5	5	10	9

* This association does not consider amounts, only if there are associations at budgetary line level. Basen on the 2020 national budget for Colombia.

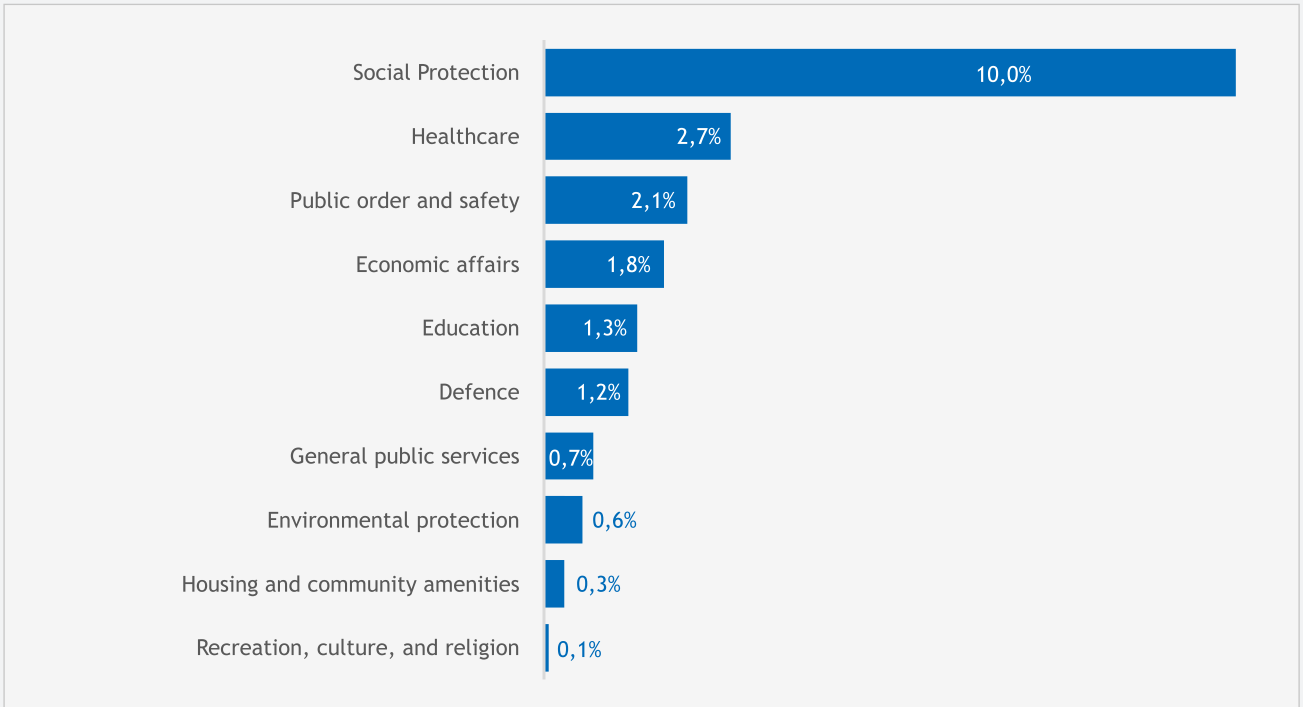
Source: UNDP. INFF-Colombia.

BOX 8
SDG budget tagging in Colombia. Summary of results

1. Overall SDG financing from the public sector. 89% of the Colombian national budget is aligned with the SDGs, corresponding to US$56 billion or COP$207 trillion, which represents 20.6% of GDP.

2. Sectoral results. COFOG sectors of Social Protection and Healthcare contributed the most to SDGs.

Chart 5. Contribution of COFOG sectors to SDGs (% of Colombian GDP)



Source: UNDP-INFF Colombia based on information from MHCP.

3. Cross-cutting nature of SDGs in public policy. 3 out of 10 COFOG sectors are aligned with all the 17 SDGs. In addition, 7 SDGs are present across the entire public sector since, at least, one SDG target of these 7 SDGs was identified in each one of the COFOG sectors.

4. Following the alignment criteria shown in Chapter 2, it was estimated that 10.9% of the 2020 Colombian national budget was not SDG aligned. The COFOG sectors with the lowest SDG alignment were Recreation, Culture, and Religion (38% of sectoral resources not aligned to SDG), and General public services (24% not aligned with SDG).

Extrapolation of SDG alignment to other fiscal years Analysis of the 2022 Colombian budget

75. One of the benefits of the SDG alignment methodology is the possibility of extrapolating the results across fiscal years. This is possible using the coding structure of the Financial Management Information System (FMIS), and particularly the unique codes associated with each budget line, which facilitates a time-series analysis.

76. The results of the SDG alignment are extrapolated by identifying common budget lines across fiscal years. Using the FMIS codes, budget lines that repeat between fiscal years should be identified, in order to assign the same SDG alignment to the new fiscal year. Table 14 shows the extrapolation of the SDG alignment for one budget line from the Colombian National Planning Department between 2020 and 2022 national budgets. Table 14 also shows that the extrapolation process can be applied between different stages of the budget cycle.

Table 14. Extrapolation of results for one budget line between 2020 and 2022 national budgets

FMIS Code	Year	Budget Line	Commitment (USD)	SDG Target (P: Main / C: Complementary)					
				M (75%)	C1	C2	C3	C4	C5
030101C-0301-1000-20	2020	Strengthening of local authorities - nationwide	6,038,599	16.6 (4.5 MM)	16.7 (754,824)	10.2 (754,824)			

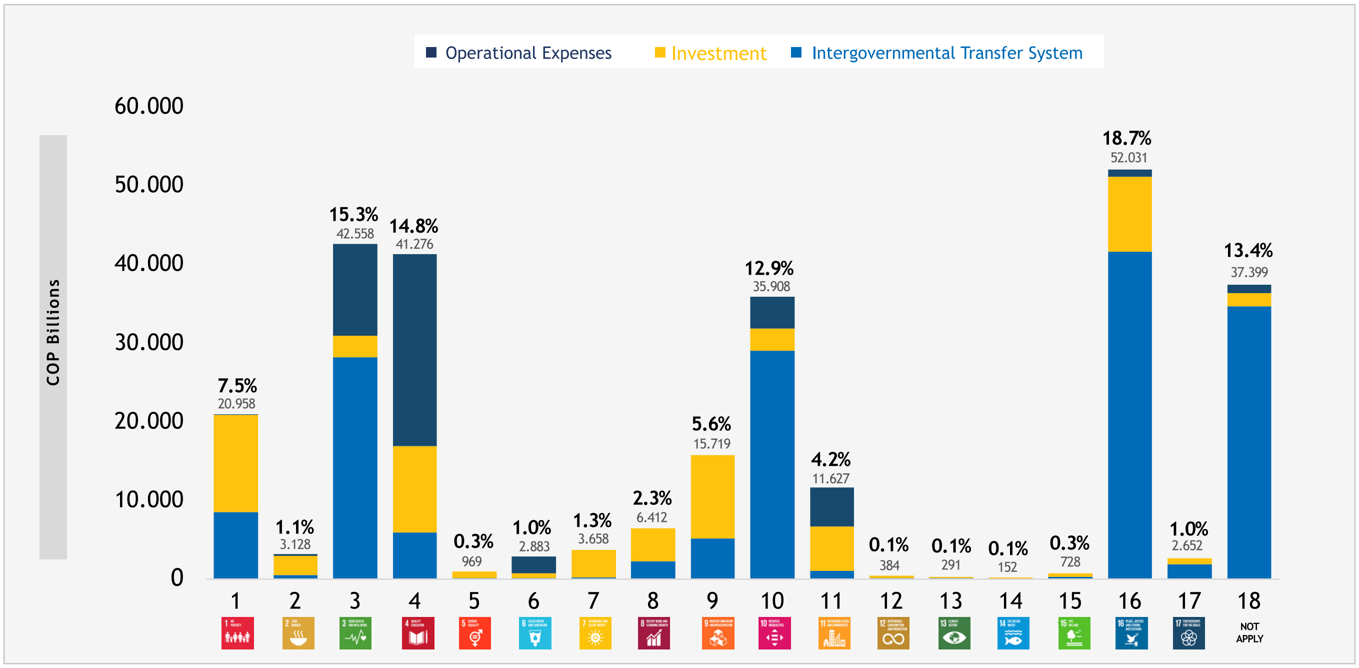
FMIS Code	Year	Budget Line	Initial Appropriation (USD)	SDG Target (P: Main / C: Complementary)					
				M 75%)	C1	C2	C3	C4	C5
030101C-0301-1000-20	2022	Strengthening of local authorities - nationwide	8,750,000	16.6 (6.5 MM)	16.7 (1.1 MM)	10.2 (1.1 MM)			

Source: UNDP. INFF-Colombia.

77. New budget lines must be manually matched to SDG targets. Most budget lines in public budgets repeat across fiscal years, which is an advantage when applying this extrapolation. However, there is usually new budget lines created as a result of new government programs or new institutions, and these should be manually aligned to SDGs. When doing this manual matching, it is important to keep the same alignment criteria used in previous fiscal years.

78. Applying the extrapolation process, INFF-Colombia estimated the SDG alignment of the Colombian 2022 national budget, using Initial Appropriation as budget stage. The results showed that 86% of the 2022 national budget is aligned with the SDGs (compared to 89% of the 2020 national budget). Likewise, these results showed that SDG 16 (Peace, Justice, and Solid Institutions) became the goal with the most SDG funding, followed by SDG 3 (Health), 4 (Education), and 10 (Reduced Inequalities). Chart 6 shows the overall SDG alignment of the 2022 national budget, using the at the initial appropriation stage.

Chart 6. Contribution of 2022 national budget (Initial Appropriation: Investment + Operational Expenses) to SDGs



Source: UNDP. INFF-Colombia.

79. Changes to overall SDG alignment from 89% in 2020 to 86% in 2022 are mainly explained by the different budget stage at which the alignment was made. Whereas the SDG alignment for 2020 used the Commitments cycle (advantages of using this stage were outlined in Chapter 2), the analysis for the 2022 budget used the Initial Appropriation stage[21]. In the latter budget stage, there are still reserve funds that are difficult to align to SDG given the lack of information surrounding its final destination. These funds are committed throughout the fiscal year, which highlights the benefits of using the commitments stage. The different budgetary stages used for the SDG budget tagging led to an overall reduction in SDG alignment from 89% in 2020 to 86% in 2022.

80. Other variations between fiscal years include adjustments to the government socioeconomic response to the pandemic (SERP) and the effect of the 2022 electoral cycle. One of the most significant adjustments occurred with the Emergency Mitigation Fund (EMF), created as the government's main socioeconomic response plan (SERP) for 2020 and 2021. The government's response package, including an unconditional cash transfer program, was incorporated as a more permanent budget component related to social inclusion and more specifically as part of SDG 1. This increased the relative weight of SDG 1 from 9% to 18% of total investment budget. Additionally, SDG 16 increased its relative weight due to the 2022 electoral cycle (congressional and presidential elections) which implied more administrative procedures and expenses for election logistics.

21 SDG alignment for the 2022 budget used the Initial Appropriation stage because it was the only stage available in February 2022.

Challenges and Limitations of the SDG Budget Tagging Methodology

81. Treatment of environmentally unsustainable activities. Unlike other SDG budget tagging analyses or taxonomies in which unsustainable activities can enter negatively in the measuring SDG financing, the methodology presented does not to subtract unsustainable activities as a negative contribution to the SDG. Under the methodology suggested unsustainable activities are classified based on the exclusion criteria indicated in Table 2, which allow the identification of activities with no impact on the SDGs fulfilment.

82. SDG treatment of operational expenses. Given the lack of international standardization for the treatment of operational expenses, it should be remembered that, at least conceptually, investment items are not implemented in isolation from the general operation budget. Investment expenses are complemented by operational expenses, as is the case when a new rural connectivity program (investment) is complemented by support from ministerial-level personnel (operational), or when job training initiatives (investment) need a functioning building where electricity bills are paid (operational). In this regard, the proposed methodology recommends assigning the SDG behaviour of investment expenses to general operational expenses.

83. Uncertainty around SDG budget tagging as a long-term strategy. The SDG alignment of the national budget is not yet linked to the government's financial information systems. This implies that it is not yet possible to produce SDG financing reports in real time to meet information requirements that arise during public financial management cycle. We are unaware of initiatives that permanently modify the financial information systems (FMIS) managed by Ministries of Finance. Additionally, there is uncertainty within MOFs about the convenience of modifying the Financial Management information System (FMIS) to integrate an SDG classifier, at least in the case of Colombia.

84. New expenditure lines created from one fiscal year to another must be manually aligned. Even though the SDG taxonomy presented in this document can be extrapolated to other fiscal years, it can only be done with expenses that are fixed over time. When new budget lines are created between fiscal years, SDG manual alignment should be applied to the new budget lines. This also applies when a new government unit is created.

85. The presented methodology for measuring SDG financing does not pretend to be an accounting methodology for costing or impact evaluation. The objective of the methodology is to present the public budget, development cooperation, and private sector strategies in SDG language. Given that the SDG taxonomy is a top-down approach developed to aid national budgetary authorities in understanding SDG financing, it can always be argued from the sectoral perspective (where actual budgetary implementation occurs) that there are alternative choices for the SDG alignment of budget lines. The methodology should thus not be seen as an auditing tool or as a methodology to measure impact on the beneficiaries.

86. The joint validation process with national budgetary authorities provided significant robustness to the SDG taxonomy. However, the specific details of the budget execution are best known by budgetary executing units. The executing units (ministries or entities) that are part of the national budget have budgetary autonomy, which means they know with more certainty the destination of assigned resources.

87. The methodology presented to create SDG budget tagging and develop local SDG taxonomies becomes an additional public policy planning instrument for governments to add to their toolbox. The top-down approach from the budget authorities (i) allows the national budget to be translated into SDG language to strengthen communication with the public; (ii) estimate SDG financing efforts by governments; (iii) strengthen estimates of the costing of national priorities and the 2030 Agenda; and (iv) serves as input in conversations around development planning with civil society and other stakeholders interested in the SDGs and their financing.

CHAPTER 4. ADDITIONAL APPLICATIONS OF THIS SDG ALIGN-MENT METHODOLOGY

Development Cooperation

88. The SDGs are not solely a financial effort by national governments. Having a centralized monitoring of all development flows allows strengthening a joint approach to the SDGs, emphasizing the three financing pillars of these and their linkages: public (national) financing, international development cooperation, and SDG alignment of the private sector. In this regard, the SDG alignment methodology presented here can be applied to other flows for development, complementing existing efforts to measure countries' contribution to sustainable development.

89. Public financing is the highest source of SDG financing. A first comparison between public financing and development cooperation allows to estimate that, in Colombia, the ratio between public SDG financing and development cooperation was 33 to 1. Specifically, Chart 2 shows that once debt service and budget lines without SDG-alignment are excluded, the 2020 national budget contributed with US$ 56 billion to the SDGs in Colombia. On the other hand, the application of the same methodology to development cooperation projects reflected an SDG alignment of US$ 1.68 billion[22].

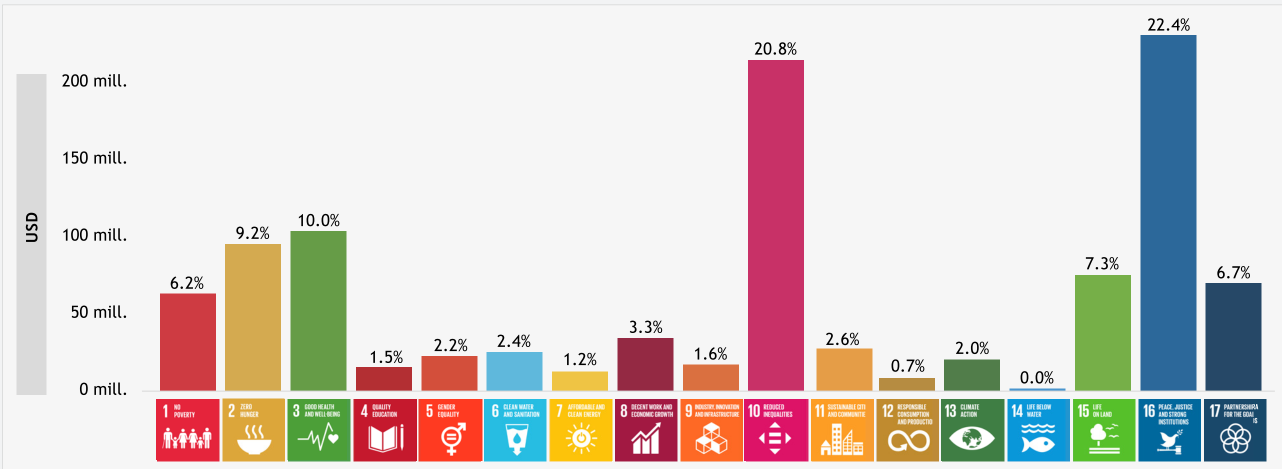
90. SDG financing from incoming development cooperation complements public financing of SDGs. Box 9 shows the SDG alignment of development cooperation for Colombia. US$ 1,68 million (1.68 billion) were received by Colombia in 2020 through both non-reimbursable cooperation and multilateral loans. Non-reimbursable cooperation was mainly aimed at SDG 16, 10, 3, and 2. On the other hand, reimbursable cooperation was mainly aimed at SDG 6 and 11. Interestingly, compared to the SDG alignment observed from the national budget (chart 2), donors have particular interest in the financing of SDG 13, 15, and 17.

91. Development cooperation usually has SDG alignment from the inception stage of the donors' global strategy, but it is not always SDG aligned using a multidimensional approach. As a result of the implementation of the SDG alignment methodology suggested in this document, the presidential agency for international cooperation (APC-Colombia) initiated adjustments in its monitoring system of non-reimbursable development cooperation, among others to allow for a multidimensional approach as well as to improve the data visualization and user interaction through Power Bi®.

22 In Colombia, refundable development cooperation is implemented through the national budget.

BOX 9
SDG Alignment of Incoming Development Cooperation in Colombia

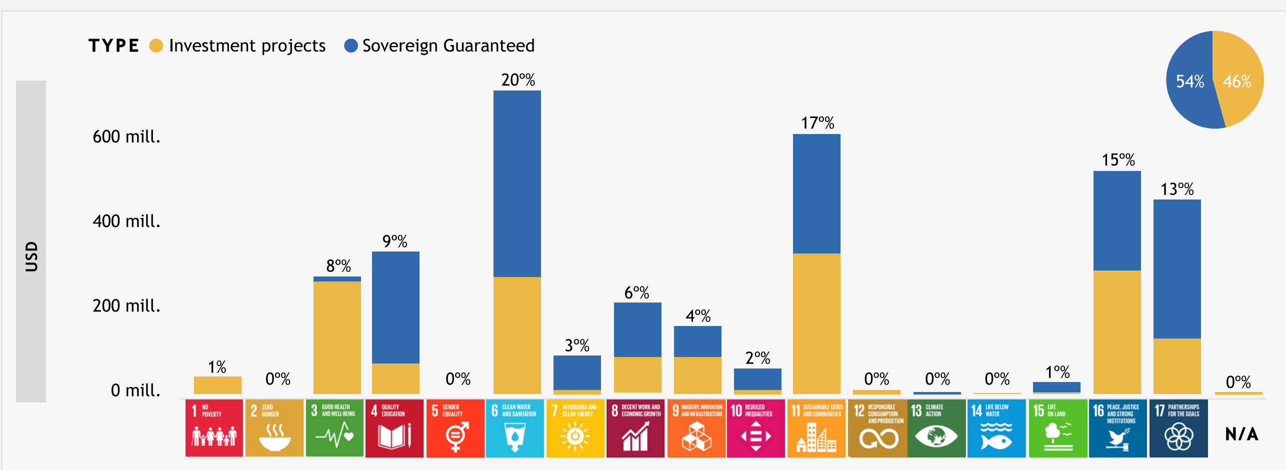
Panel A. Non-reimbursable Development Cooperation



Source: UNDP-INFF Colombia based on information from APC Colombia.

Panel B. Multilateral Loans

SDG FINANCING



Source: UNDP-INFF Colombia based on information from APC Colombia.

Given the flexible and focalized nature of incoming Development Cooperation, these resources aim at financing specific topics as well as humanitarian responses in recipient countries. Panel A shows that non-reimbursable development cooperation was strongly aligned with SDG 10 and 16. The contribution to SDG 16 is derived from projects implemented as a result of the 2016 peace agreement, which have strong financial support from the United States and the European Union. Regarding SDG 10, the development cooperation projects aligned were those mainly focused on the Venezuelan migratory crisis, mitigating the social impact of the pandemic, and supporting the victims of Hurricane Iota in 2020. These latter projects aligned with SDG 10 were mainly supported by the United States and multilateral organizations.

Panel B shows that refundable cooperation (multilateral loans) was more aligned with the 2030 Agenda's Prosperity dimension, particularly SDG 6 and 11. Resources aligned with SDG 6 financed water supply, basic sanitation, and water ecosystem recovery programs, with financing mainly from the World Bank and the Inter-American Development Bank (IDB). On the other hand, resources aligned with SDG 11 financed programs associated with strengthening public transportation systems in the country's main cities, mainly promoted by the IDB.

These results show interesting differences in the allocation of resources from non-reimbursable and refundable development cooperation. While non-reimbursable development cooperation is more aligned with alleviating urgent socio-economic issues and humanitarian needs, refundable development cooperation is mostly focused on financing long-term impact infrastructure and large-scale projects. This reflects the complementary nature of development cooperation and the importance of strengthening the monitoring of both mechanisms of international cooperation for effective SDG financing in the Decade of Action.

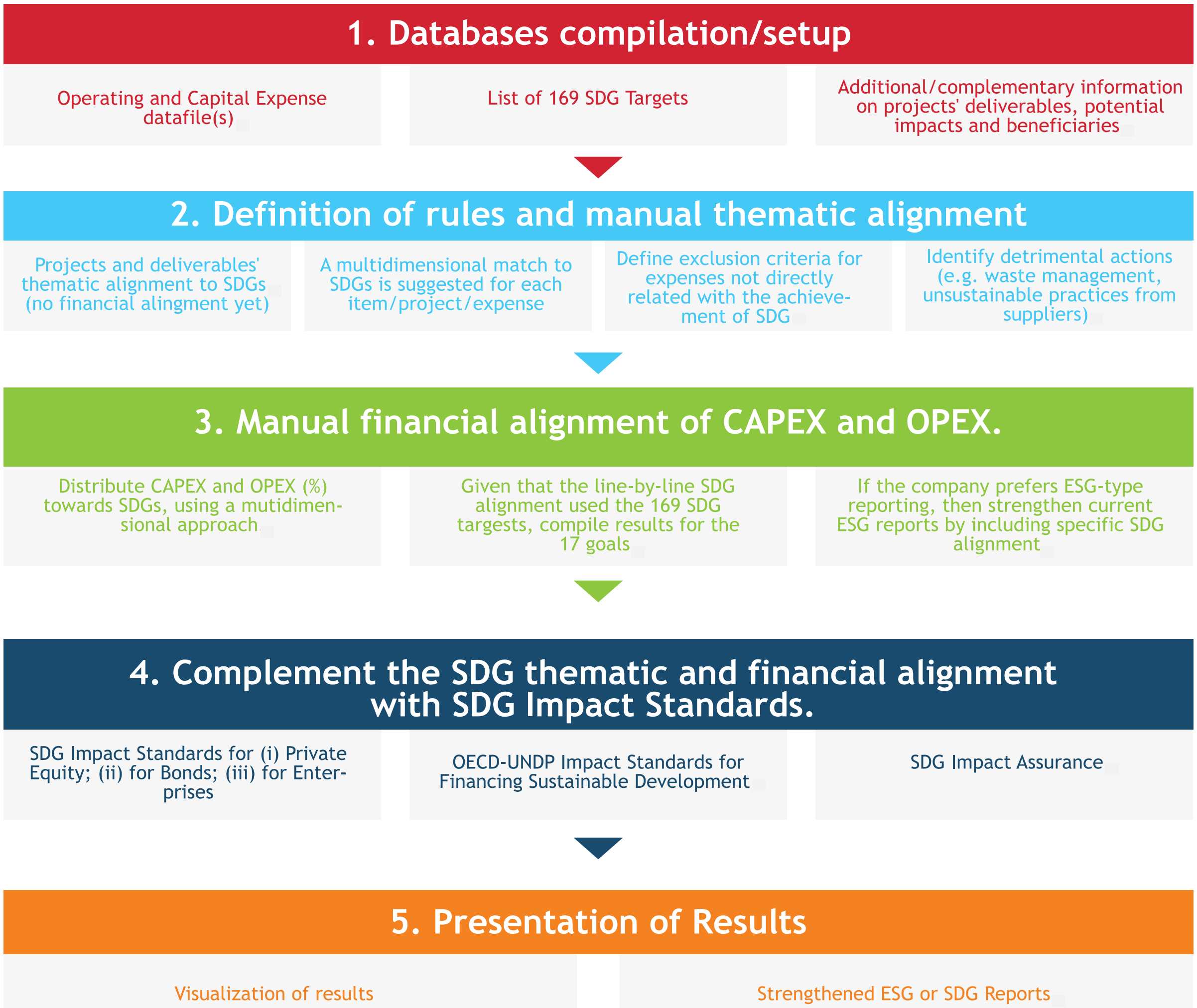
Private Sector

92. The SDG taxonomy presented can be used by private sector stakeholders to analyze asset portfolios or private projects from an SDG-alignment perspective. The methodology presented allows private sector stakeholders, including SME companies not familiar with active ESG reporting, to initiate or strengthen their sustainability reports, using the same sustainability language (SDG) increasingly used by national authorities and development cooperation. Companies and investors will be able to analyze portfolios from an SDG perspective. Additional users of this SDG taxonomy are presented in Table 1 at the beginning of the document.

93. The application of the SDG alignment methodology in private sector stakeholders has the analytical benefit of narrowing its impact on a handful of SDGs, as opposed to government programs that target a wide variety of themes when the entire government budget is considered. This leads to a simplified application that will shorten the time needed for the SDG alignment. An adaptation of the 5-step methodology for SDG alignment is presented on Chart 7 below.

94. This SDG alignment does not rival with existing ESG frameworks, as the proposed methodology can strengthen the information within ESG reports. However, and to reduce the risk of SDG-washing, the private sector should integrate and complement current ESG processes and frameworks with SDG Impact Standards (see Chart 7 and https://sdgimpact.undp.org/#what-we-do for more details). The latter will ensure the establishment of adequate measurements of third-party impacts and the implementation of corporate standards aligned with SDGs.

Chart 7. A Suggested Adaptation for the Private Sector of the 5-Step Methodology for SDG alignment.



Source: UNDP-INFF Colombia.

95. Chambers of commerce and business associations can use this methodology as an input to build indices or sectoral sustainability reports using SDG optics. As mentioned before, the proposed SDG alignment methodology can be useful to analyze the intention of portfolios to be aligned with the SDGs, not the effective final impact of a project or portfolio, which resides in the orbit of impact evaluation methodologies.

96. The use by the financial sector of the proposed methodology, for instance during the issuance of thematic bonds or in the supervision of the use of proceeds from bond issuance, requires an additional step, where specific metrics to evaluate progress in SDGs are determined at the country level, given sovereignty over SDG implementation. This guide provides elements to generate SDG alignment and adaptation at the local level, but governments and the financial sector need to complement SDG alignment with the implementation of OECD-UNDP Impact Standards for Financing Sustainable Development if there is interest in establishing national metrics to evaluate progress in SDG.

CHAPTER 5. CONCLUDING REMARKS

97. There are multiple challenges in the analysis of SDG financing. Since 2015 and increasingly in recent years, countries have shown interest in introducing SDG-aligned narratives in their planning instruments. This is a step in the right direction to create a bridge between the SDGs and public policy strategies, but narrative SDG alignment needs to evolve towards inception-based introduction of SDG perspectives and SDG budgeting (B4SDG).

98. The SDGs and SDG budget tagging exercises allow Finance Ministries to communicate budgeting matters with the public in non-specialized language. Despite being topics of growing interest in the public, there is an opportunity to increase training around SDG to staff within Finance Ministries, given their increasing role in SDG financing. SDG are the bridge between highly specialized budget languages and the public. There are opportunities to strengthen the training of public officials to emphasize that the SDGs go beyond purely environmental initiatives.

99. Countries need to integrate SDG analyses during the design stage of public policy instruments. SDGs will have greater support if governments transition from narrative ex-post SDG alignments of public policy instruments to using SDG information to take strategic decisions aimed at achieving the 2030 Agenda.

100. There are currently few long-term SDG financing strategies in place, but they will increase in number as global initiatives such as INFF take more concrete forms in developing countries. There is recent interest in SDG or thematic bond issuance, both in the private as well as in the public sector. However, SDG thematic issuance in the absence of a solid long-term financial strategy for the SDGs can lead to disarticulated and non-integrated financing. Countries should strive for designing solid financial strategies to mobilize additional resources for the SDGs from all sources.

101. The lack of SDG costing can generate future fiscal pressures. Without proper monitoring, some SDG indicators could generate future financial and fiscal pressure. For instance, not properly monitoring or having few measurements of SDG 14[23] can generate high social costs in the medium term, to the extent that oceans are a source of food for a significant portion of the population in developing countries. Further disregard for some SDG indicators will lead to higher future social and financial costs for the care of vulnerable population. This is also the case of environmental issues, where the cost of mitigation will grow as the transition to more sustainable models is postponed.

102. Developing countries need to strengthen their governance structure for SDG implementation. Internal government committees for the SDGs should be established, with staff dedicated to monitoring progress and financing for the SDGs, with defined roles and frequent whole-of-government meetings. This will create a centralized and effective approach to the SDGs. The experience of Colombia shows that the *High-level Inter-institutional Mechanism for the Effective Implementation of the 2030 Agenda and its SDGs* has been a key achievement for effective SDG and INFF implementation in the country.

23 In the case of Colombia, progress has been made towards defining strategies aimed at consolidating the country as a sustainable bi-oceanic powerhouse for 2030, as stated in CONPES Document 3990 of 2020, which includes a costing of US$ 100.4 million (constant 2020 prices) for planned actions that will be carried out the by responsible government entities.

103. The proposed SDG alignment methodology allow users the tailoring to local circumstances to derive local SDG taxonomies and strengthen diagnosis of SDG financing. The path towards strengthening national financing frameworks for the SDGs must go through mapping of current financing flows, which allows forecasting of SDG results based on current budget allocations. The SDG alignment methodology presented here is a roadmap to strengthen local perspectives for the SDGs, especially for public budgets.

104. The methodology consists of a manual match between budget lines and SDG targets, where each lines receives a main SDG target, and up to 5 secondary ones. This approach has several methodological advantages, among others: (i) allows a multidimensional approach to SDGs in government's budgets; (ii) uses the 169 SDG targets and not just the 17 goals; (iii) it is implemented at the budget line and not the program; (iv) considers operating expenses; and (v) it was validated by Colombian budget authorities.

105. The proposed SDG alignment methodology also provides guidelines for private sector stakeholders to align actions, programs, and portfolios to SDG. The guidelines presented cover the different themes of the SDGs, and this thematic diversity allows the creation of local SDG taxonomies that can aid in quantifying SDG alignment and support for sustainable development and/or determine eligible expenses for thematic or SDG bonds.

106. The ratio of public SDG financing to development cooperation in Colombia is 33 to 1. Upon applying the proposed SDG budget tagging methodology to the 2020 national budget, it was found that public SDG financing in Colombia is approximately US$ 56 billion. The application of the same methodology to incoming development cooperation projects reflected SDG financing of US$ 1.68 billion.

107. The differences in magnitude between public and development cooperation SDG financing allow to infer that, although possible, increasing fiscal space from the public sector could be marginal given current levels of public SDG financing. Alternatives for mobilizing additional resources include strengthening development cooperation to materialize the global commitment of bringing Official Development Assistance (ODA) to 0.7% of OECD DAC member countries' Gross National Income. On the other hand, and given the limited fiscal space of governments, the role of the private sector in SDG financing during the Decade of Action will be of the utmost importance.

108. Mobilizing additional resources for the SDGs is important, but so is program design and implementation. As part of the implementation of additional analytical methodologies to understand SDG financing, INFF-Colombia found that mobilizing additional resources for the SDGs will not necessarily generate equivalent results in SDG indicators[24]. In budgeting vs SDG results simulations carried out for Colombia, and available upon request, better SDG results are obtained with a budget reallocation, in contrast to a generalized increase in resources. During the Decade of Action, and in addition to mobilizing additional resources for the SDGs, there must be a thorough review of design and implementation in programs that present bottlenecks on SDG issues.

24 See the Colombian iteration of the Policy Priority Inference Model (PPI) by Gonzalo Castañeda and Omar Guerrero as part of the implementation of the UNDP component of INFF-Colombia. See http://oguerr.com/ppi/. For methodological details.

109. In summary, the presented methodology is thus a tool to strengthen integrated approaches to SDG financing through all funding sources, at a detailed level. In addition to SDG budget tagging of public budgets, this methodology can be applied to other development flows, including private sector portfolios and development cooperation projects.

110. The implementation of the proposed methodology strengthens the mapping of SDG financing and allows the user to move to more strategic topics, such as the total costing of national SDG goals and the design of financial strategies to achieve the SDGs. The next step after the implementation of this SDG taxonomy is to make strategic public policy decisions that are SDG-informed. The range of options that governments can use for this is known as Budgeting for SDGs (B4SDG)25.

25 Poghosyan (2020).

REFERENCES

- **Allen, R; Hemming, R.; Potter, B. (2013).** The International Handbook of Public Financial Management. Palgrave Macmillan.

- **Castañeda, G. y Guerrero, O. (2021).** El Presupuesto Público Nacional y los ODS en Colombia. Un Análisis de la Agenda 2030 desde la metodología de Inferencia de Prioridades de Política (IPP). UNDP. Available upon request.

- **Center for International Development at Harvard University (2014).** This is PFM, Harvard University Publishing, This is PFM (harvard.edu)

- **Gaspar, V; Amaglobeli, D.; Garcia-Escribano, M.; Prady, D.; & Soto, M. (2019).** Fiscal Policy and Development: Human, Social, and Physical Investment for the SDGs. IMF Staff Discussion Note. January 2019.

- **IMF (2014).** Government Finance Statistics Manual, IMF Publishing, Washington, D.C., Government Finance Statistics Manual 2014 (imf.org).

- **IMF (2021).** Achieving the Sustainable Development Goals Will Require Extraordinary Effort by All. Extraído de https://blogs.imf.org/2021/04/29/achieving-the-sustainable-development-goals-will-require-extraordinary-effort-by-all/ .

- **Ministry of Finance and Public Credit of Colombia (2021).** Manual de Clasificación Presupuestal, MoF Publishing, Bogotá, MANUAL DE CLASIFICACIÓN PRESUPUESTAL (minhacienda.gov.co).

- **Ministry of Finance and Public Credit of Colombia (2021).** Aspectos Generales del Proceso Presupuestal Colombiano, MHCP Publishing, Bogotá, https://www.minhacienda.gov.co/webcenter/ShowProperty?nodeId=%2FConexionContent%2FWCC_CLUSTER-156332%2F%2FidcPrimaryFile&revision=latestreleased.

- **National Administrative Department of Statistics of Colombia (2009).** Clasificación Central de Productos Tomo II, DANE Publishing, Bogotá, 01Preliminares.indd (dane.gov.co).

- **OECD (2021).** Achieving SDG Results in Development Co-operation: Summary for Policy Makers, OECD Publishing, Paris, https://doi.org/10.1787/5b2b0ee8-en.

- **OECD/UNDP (2021).** OECD-UNDP Impact Standards for Financing Sustainable Development, OECD Publishing, Paris, https://doi.org/10.1787/744f982e-en.

- **Poghosyan, S. (2020).** Budgeting for the Sustainable Development Goals. Aligning domestic budgets with the SDGs. UNDP.

- **United Nations (2019).** Inter-agency Task Force on Financing for Development, Financing for Sustainable Development Report 2019 (New York: United Nations, 2019), Available in: https://developmentfinance.un.org/fsdr2019.

SDG ALIGNMENT AND BUDGET TAGGING: TOWARDS AN SDG TAXONOMY

Analysis for Colombia

JOINT SDG FUND

INFF Colombia

UNDP