

POLICY BRIEF

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Budgeting for the SDGs: Lessons from the 2021 Voluntary National Reviews

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Highlights

Aligning national and local policy frameworks, including budgets, with the SDGs is paramount to realise the transformative potential of the 2030 Agenda for Sustainable Development. When combined with quantifiable indicators and prioritisation, budgeting for the SDGs can lead to better implementation to attain the goals. It can be a cornerstone for strengthening SDG financing and building more coherent linkages between the SDGs and development strategies, as well as their implementation.

Recommendations:

- Identify budget methodology and strategies to strengthen the alignment of budget systems.
- Integrate the SDG targets into programmatic budgets to improve budget effectiveness and efficiency.
- Develop an impact- or results-oriented budgeting mechanism aligned with the SDGs.
- Link SDG costing with investment through expenditure and fiscal space analysis.

Aligning Budgets with the SDGs

In Voluntary National Reviews (VNRs) submitted in 2021, 35 countries reported integrating the SDGs into their national policy frameworks, and 25 countries indicated that the SDGs had been incorporated into local plans. However, systemic integration of the SDGs requires governments to not only translate their high-level SDG commitments and priorities into national and local plans, but also reflect them in budget decisions and delivery. Better budgeting in the context of SDG implementation means a clear and measurable presence of SDG targets in budget allocations, reports, and other elements of the budget cycle (UNDP 2020).

The COVID-19 pandemic has underlined the urgent need to integrate SDGs into budgetary systems and address trade-offs in achieving the SDGs (OECD 2020). Anchoring national and local budgetary allocations to the SDGs that complement SDG integration into national and local development plans or strategies can help improve overall coherence between strategic objectives and budgets (Hege & Brimont 2018). SDG–budget integration also increases accountability by providing a more comprehensive assessment of the government’s performance; disaggregating budget performance based on SDG indicators can deliver vital information to help realise the commitment to leave no one behind (Hege & Brimont 2018). As countries and cities refocus

priorities within budget constraints, integrating the SDGs into budgetary systems can enable a prudent assessment of expenditure in terms of sustainability, affordability, and the impact on future generations (OECD 2020).

This policy brief lays out recommendations to guide policymakers at the national and local levels in strengthening the integration of the SDGs into budgets. It is based on an analysis of VNRs presented in 2021 (see Note), which provides insights into countries' strategies for SDG budgeting. As such, SDG budgeting approaches presented in this brief are limited to those reflected in the 2021 VNRs.

Existing Strategies for SDG Budgeting

Strategies for SDG budgeting take various forms, and countries' approaches focus on different elements of the budget cycle, reflecting their local contexts, political commitments, and capacities.

SDG Budget Tagging

In their 2021 VNRs, 31 out of 40 countries reported undertaking or planning to map and track their national budgetary expenditures according to the SDGs. This continues a trend; in 2020, 30 out of 47 countries reported a similar effort. SDG tagging in budgetary frameworks can help countries highlight development challenges, such as funding shortages for a specific goal (OECD 2020). The potential of the SDGs as a budgetary tool depends on whether the process of SDG budget tagging is used to guide budget choices and performance by internal actors (e.g., ministries) and external actors (e.g., parliament, civil society) as part of the wider discussion to identify the country's medium-term sustainable development challenges (Hege & Brimont 2018).

Integrating SDGs into Budget Monitoring Systems

Governments are increasingly seeing the merits of further integrating the SDGs into their budget monitoring systems or developing an SDG-aligned budget performance report to ensure budget items contribute to and are evaluated against SDG progress. Uruguay has conducted a budget tagging exercise and ad hoc SDG budget execution reporting — its annual budget report includes information on the SDGs. Czechia, Denmark, and Mexico have developed mechanisms as single integrated systems to support the development of SDG-targeted public policies and their translation into budgets. In many countries, integrating the SDGs into the budgeting monitoring system requires reform of the public finance mechanism through developing solutions beyond standard sectoral budgeting reforms.

Calculating SDG Costs

Assessing SDG budget needs could help countries calculate the SDG financing gap in their potentially available budgets (SDSN 2019). For developing countries, SDG costing is essential to secure investments and development assistance necessary to achieve the SDGs. It can help governments, donors, and international organisations develop strategies for specific SDG targets (Vorisek & Yu 2020). In the 2021 VNRs, seven countries reported conducting SDG costing assessments, including Egypt, Indonesia, and Lao People's Democratic Republic. Egypt conducted a cost assessment of SDG contributions across sectors (education, health, social protection, water and sanitation, and transportation) and identified women's empowerment as a cross-cutting issue. SDG costing may or may not be part of SDG budgeting exercises, but alignment between the two (especially SDG costing for the public sector) is important for the SDG financing strategy (UNDP 2020).

Integrating the SDGs into Local Budgets

While SDG budget tagging is not yet as widespread at the local level, eight countries indicated that their regions and cities had conducted a similar exercise, including Cabo Verde, Norway, and Thailand. Castilla y León (Spain) has established a mechanism to evaluate local budgets against the SDGs. Its budget for 2022 will also be planned based on the SDGs. In Malmö (Sweden), each of the city's 13 budget goals identifies several SDGs to which it is contributing. Its sustainability reporting includes SDG analysis, which is applied as one of the evaluation criteria for budget decisions.

Policy Recommendations

The following four recommendations are provided for policymakers and financial administrators at the national and local levels to facilitate discussion and present budgeting solutions for the SDGs. The primary goal of institutionalising SDG integration into budgetary frameworks should be pursued in a way that recognises the specific context of the policy and capacity of each country or city. In a decentralised system where SDG budgeting is conducted at the sector level, adjustments are ideally made at the level of line ministries (in cities, budget adjustments should involve the mayor and city council), whereas in a centralised system it may be necessary to involve the central budgeting authority.

1. Identify budget methodology and strategies

The Inter-Agency Task Force on Financing for Development has recommended implementing an Integrated National

Financing Framework for the SDGs (INFF; United Nations 2019). An INFF can help national governments to generate lateral integration and coherence across finance policies (i.e., harmonising the finance system), including budgeting. As part of establishing an INFF, the budget methodology and strategy can be identified prior to determining SDG budgeting to analyse the risks associated with possible misalignment of budget systems, methods, and data consolidation (UNDP 2020). These risks include variations in budget formulation and reporting processes, budget calendars, circulars, and charts of accounts across departments or ministries and between levels of government. Cabo Verde, Cuba, and Egypt are among the countries that reported developing an INFF in their 2021 VNRs. Approximately 78 countries have implemented INFFs as of April 2022.

Policymakers must choose the most appropriate budget strategy for SDG budgeting based on the local context. One option is to upgrade financial management information systems (FMISs) to improve budget tagging. FMISs are one of the tools available to implement INFFs that can be considered while moving to SDG budgeting. For example, Mexico aligns its budget classification table with SDG policies. FMISs can be improved by making them flexible to allow timely and better alignment of budget formulation and reporting business processes, budget calendars, circulars, and charts of accounts to consolidate budget data.

2. Integrate SDG targets into programmatic budgets

While SDG budget tagging and ad hoc SDG budget execution reporting can facilitate integration of the SDGs in budgeting frameworks, integrating SDG targets into the budget programme can further inform policymakers on the effectiveness and efficiency of budget intervention toward attaining the SDGs. Policymakers must incorporate the SDGs into mid-term and annual budgeting processes to enable focused budget decision-making for each SDG target and SDGs-aligned budget post. A strategy implemented in Colombia is utilising Development Finance Assessment (DFA) to link SDG indicators with the government's annual work plan and budget according to policy priority preference. DFA is a tool to identify finance opportunities and existing resources to finance the SDGs more effectively (UNDP 2020). Financial administrators can design multiple layers of budget integration from programmes to projects, including SDG execution assessment for project approval and evaluation. Another strategy is applying a mechanism to quantify the contribution of each programme, sub-programme, and project to the SDGs. Countries and cities with performance and programmatic budget tagging in place should consider extending the practice to performance-based evaluation.

3. Develop an impact- or results-oriented budgeting mechanism aligned with the SDGs

Developing such a mechanism for SDG-based budgeting goes beyond ad hoc reporting of budget execution and integrating SDG targets in budget programmes (SDG target tagging). In Mexico, a results-oriented budget provides more accurate monitoring of budget decisions against the SDGs. Integrating the SDGs into the medium-term expenditure framework and budget steps are key to supporting this strategy, including adjustments to budget calendars to allow more policy-based budget negotiations and better strategic allocative functions. In countries with decentralised and programme-based budgeting, policymakers should improve conventional budgeting, monitoring, and evaluation systems at the sector level by line ministries or local departments by aligning beneficiary-centred SDGs with budget programmes and allocation. Where a beneficiary-based budgeting system is in place, policymakers must consider developing participatory monitoring, evaluation, and beneficiary feedback mechanisms to improve budgeting effectiveness and sustainability and reduce monitoring costs. Such mechanisms should be tailored to the local context and integrated into policymaking processes.

Identifying specific beneficiaries of government programmes is essential to align high-level policies and budget frameworks with SDG targets and indicators. Countries and cities lacking performance-based budgeting need to consider introducing budget performance indicators and explicit identification of beneficiaries of the SDGs in budget documents. It is preferable to use SDG targets rather than goals to ensure more applicable and targeted indicators. The Government of Mexico links all available indicators in its Information System of SDGs (SIODS) to the eligible expenditure's SDG targets, with beneficiaries identified by the ministries.

4. Link SDG costing with investment through expenditure and fiscal space analysis

A clear accounting of outlays on public services and public investments contributing to SDGs can provide information to identify the scope of financing gaps for the SDGs. In calculating costs, financial administrators must avoid double-counting investment needs by considering synergies across different types of investments. For example, investment in water and sanitation (SDG 6) can support efforts to end hunger (SDG 2), improve health (SDG 3), and promote gender equality (SDG 5) (World Bank 2017). Policymakers must ensure that analysis of SDG interlinkages is reflected in implementation strategies to support SDG

costing. In costing exercises, financial administrators should calculate operation and maintenance costs, discounting related to infrastructure, the role of policy and institutions, and the short- and long-term dynamics of different types of spending (Vorisek & Yu 2020).

Policymakers should utilise assessments such as Public Expenditure Review (PER), Public Expenditure and Institutional Review (PIER), and Public Investment Management Assessment (PIMA) in cross-cutting areas such as biodiversity, climate, and gender to gain a complete picture of the SDG investment gap, fiscal space, and potential stakeholders. The results should be used to develop appropriate platforms to connect stakeholders and SDG beneficiaries. Malaysia has established the “MySDG Trust Fund” as a platform to direct funding from companies, individuals, and entities within and outside the country for SDG-related projects. Colombia has introduced an SDG Investor Map to help direct domestic and foreign investments to achieve the SDGs.

Strategies for enhancing regional cooperation must be explored to improve access to finance in the Least Developed Countries. Tools and platforms for combining multiple sources of finance are needed, particularly for countries that rely on international financing. For example, Antigua and Barbuda has established a Sustainable Island Resources Framework Fund to channel international and domestic funding towards environmental and climate goals. Adjustments of FMISs may be needed to better link SDG costing and budgeting with investment. Policymakers can take a two-phase approach through DFA followed by INFF (SDSN 2019). The phases are (i) SDG financing needs assessment; and (ii) analysis of cost programming for specific sectors, thematic strategies, and/or individual projects (UNDP 2019). Governments with data deficits may opt for a simpler DFA focusing on particular critical issues or key SDG interventions.

Note

VNRs were carried out by 42 countries in 2021. This research analysed 40 VNRs available on the UN SDG Knowledge Platform (<https://sustainabledevelopment.un.org/vnrs/>). The methods used for the content analysis included searches for references to specific keywords, focusing on specific sections of the reports.

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