

Strategic area of engagement: SDG Budgeting

Integrating SDGs into domestic public finance through budget reform

Support reforms to the national budget process which enable the 2030 Agenda and / or specific SDGs to be incorporated into budget formulation; budget execution and procurement; and budget reporting and audit.

I. Problem statement

- What is the challenge/gap which needs to be addressed (aimed at country level)?
- What is the need for **systemic change** and what are the **barriers to taking solutions to scale**?
- Provide clarity on various clients' needs and challenges they may be facing (governments and others)

There is a disconnect between SDG policy frameworks, development planning and budgeting processes and it expresses itself in shortcomings in various parts of the budget cycle – weak transition of SDG policies into strategic budget decisions, poor budget accountability over SDG implementation, lack of institutional coherence in effective delivery of budgets to achieve SDGs, inability of budgets to report on SDG related expenditures, etc.

Meanwhile, government budgets are one of the most powerful tools to achieve SDGs. UNDP internal calculations estimate the potential role of state budgets in financing SDGs in various countries between 25 to 75 per cent of the total need. Hence any disconnect between the SDG framework and budgeting practices endangers the effectiveness of the Agenda-2030.

Countries face challenges in many aspects of bridging SDGs with budgets, such as:

1. Lack of SDG financing frameworks that can contribute to strategic budget formulation.
2. Budgets are both financial planning instruments and also policy documents while in many countries budgets do not explicitly host SDG policies as a result of poor coordination and synergy between national development planning and budgeting processes.
3. Governments communicate poorly on SDG policies and targets in medium-term and annual budget documents.
4. SDGs are not costed in a meaningful way for budget users to apply during the budget formulation stage.
5. Budget decision making is rarely driven by timely information on SDG outcomes, outputs and consequences of those decisions.
6. SDG performance is not embedded in budget performance frameworks while evidence-based and performance oriented budgeting will facilitate achieving SDG targets in an effective and efficient manner.
7. Budget monitoring, reporting and overall accountability functions on SDGs are extremely rare.

An cross-cutting challenge for governments is the lack of capacity to effectively implement budget systems transformations to mainstream SDGs into various elements of budget systems, including practical challenges in rolling-out existing system improvements to a larger scale and to cover all SDGs. Some further details on these challenges on integrating SDGs into budgets are presented in the Annex.

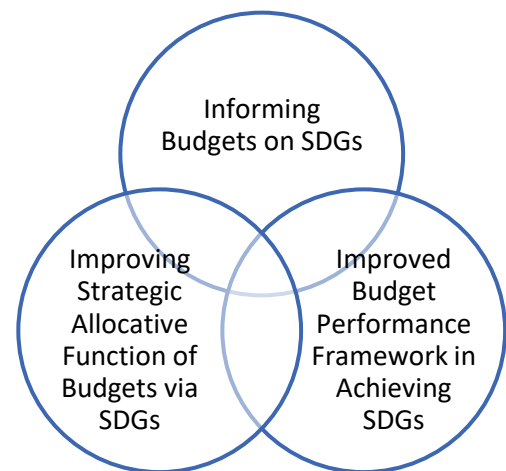
The primary counterparts in addressing the above challenges are the national authorities that directly interact with budgeting – ministries of finance, line ministries, members of parliaments and parliament committees, civil society organizations, etc. Budget systems are not identical in countries so the country context is critical in identification of the most effective model for addressing the above challenges.

II. Identification of potential solutions

- What can be done to address above challenges/gaps?
- Wide range of possible solutions (not necessarily UNDP's offer)

Three main pillars for grouping the potential outcomes in addressing the identified challenges are: i) Informing Budgets on SDGs, ii) SDG-driven Strategic Allocative Function of Budgets, and iii) Improved Budget Performance Framework in Achieving SDGs.

For many countries where parliaments play an effective role in budgeting the first pillar of mainstreaming of SDGs into budget systems will frame the range of solutions most suitable for that country context. Relevant toolkit may include integrating SDG targets in budget documents that parliaments vote for; informing public on SDG related budget documents (Citizen's SDG Budgets), introduction of various accountability tools to inform on budget decisions and report against the progress on SDGs, etc.



Improving SDG-driven allocative function of budgets will define the most suitable solutions for countries with more stronger roles of the executive over budget strategic directions. In some cases, the countries may already have a solid and agreed SDG policy and planning platform (e.g. Mongolian SDV-2030 with clear set of targets approved by the national parliament), so the solutions will rest in integrating those into budget formulation and other routine budget practices. The most relevant mechanisms for such cases are development and integration of SDG financing frameworks into existing medium-term budget frameworks and processes.

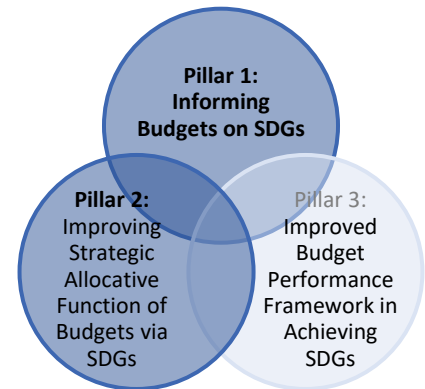
The third pillar solutions are most effective in countries with strong organizational systems following regulations and business processes. Informing performance frameworks of relevant implementing agencies on SDG policies and targets will contribute to improving budget effectiveness and efficiency. This pillar is a natural choice in countries where programme- or performance-based budgeting is practiced so SDGs related toolkit can enhance existing performance frameworks and systems.

No country solutions sit in solely one pillar and a combination of various interventions will be required. Adding a time horizon to this paradigm brings in the need for sequencing and prioritization of one pillar over another one or identifying a unique and country-specific choice of solutions for government.

III. UNDP's priorities in this area

- How will UNDP prioritize its interventions in this strategic area?
- Identify other actors and what they are doing in this space, compared to UNDP
- What is the comparative advantage of UNDP in this setting?

UNDP priorities in integrating SDGs into budgets shall base on the existing expertise and competitive advantage that our organization has accumulated in recent years. Although various UNDP hubs and country offices may have experience in application of a wide range of tools contributing to all three pillars of potential solutions, UNDP corporately has significant strengths and advantages in the following priority areas, which are primarily in the pillars 1 and 2. Other actors such as the World Bank, IMF, EU, ADB are important to partner with as they are specialized in many pillar 3 related activities. For instance, those organizations have long history of supporting governments in budgeting reforms on increasing effectiveness and efficiency of budget expenditures via introduction of results-based budgeting and management practices, as well as sector specific planning, monitoring and reporting.



UNDP can contribute by bringing in expertise for the following solutions:

1. Diagnostic tools and formulation of evidence-based reforms agenda for countries
 - a. Public Expenditure and Institutional Reviews (PEIR) are amongst the tools that UNDP has a vast experience on and can effectively deploy in initial diagnosis of the budget response pattern against individual SDGs or the whole SDG agenda. It is also a good platform for supporting effective cooperation between finance ministries and civil society organizations.
 - b. Budget Integration Index – is another diagnostic tool that UNDP can effectively deploy given its relatively high benefit-to-cost ratio. SDG-BII is currently under development and is designed for rapid assessment of various components of the budget cycle on whether a specific policy area is integrated in it or not. So far, the tool has been applied in few countries on SDG13 (Climate Change Budget Integration Index¹). Unlike PEIRs, BII tool is designed for assessing solely the budgeting systems without analysing expenditures – hence, the recommendation derived from BII are on budget system improvements only.
2. Effective advocacy with finance ministries
 - a. UNDP has recently progressed in effective communication with finance ministries, e.g. in promoting the climate finance agenda – a topic that finance ministries are not traditionally supportive about. SDG agenda needs even more collaboration with finance ministries in countries where there is a distinct separation and lack of coordination between the planning and budgeting functions/institutions.
3. Collaboration and technical support to parliaments in promoting the Agenda-2030
 - a. Advocacy and support in increasing the demand for SDG policies and targets being explicitly presented in budget documentation

¹ See <https://www.climatefinance-developmenteffectiveness.org/topic/climate-change-budget-integration-index-ccbii>

- b. Capacity building of parliament committees in budget scrutiny
- 4. Engaging Civil Society Organizations in Expenditure Analyses
 - a. Tools such as the public expenditure review by topics, sectors or budget programmes
 - b. Public Expenditure Tracking Surveys (PETS)
 - c. Citizen's SDG Budgets – presenting concise information on what are the government SDG priorities and objectives and how much money is allocated to each
- 5. Designing Financing Frameworks per individual SDGs (based on SDG Financing Strategies, better alignment between national development plans and budgets, etc.)
 - a. Financing gap analysis
 - b. Integrating financing frameworks in medium-term budget frameworks
 - c. Contribution to impact assessments by SDGs, etc
- 6. Support in SDG budget monitoring and reporting
 - a. More specifically, UNDP can support finance ministries in mapping the SDG targets with budget performance framework (e.g. simple exercise on informative nature of budget performance annex in Mongolia vs. more comprehensive budget justification mechanisms using budget-output-outcome relationships)
 - b. Going further into deeper reforms, UNDP can support finance ministries in introduction of budget tagging/coding mechanisms to track budget allocations and actual expenditures by SDGs
- 7. Developing knowledge and capacities across public and civil society actors to align, plan and monitor budgets with SDGs
- 8. Promoting partnerships that put in place a holistic institutional framework for financing SDGs.

IV. Rationale and Theory of change

- What we want to achieve/result areas of impact (with 2-3 KPIs)?
- What is our vision of transformational change?
- How does think link to other strategic areas of engagement?

UNDP is experienced in designing theories of change and delivering results for various individual SDG areas such as the biodiversity, climate change, gender equality, disaster risk reduction, etc. Hence, we will build up on the existing knowledge and experience in designing the theory of change for the Budgeting for SDG adapting it to the overall SDG framework. In any case, country context is important in designing country-specific theory of change.

UNDP can effectively engage with the governments by assisting country offices and government counterparts in scoping the Budgeting for SDGs approach using existing methodologies such as the BIOFIN experience in framing for SDG Finance Assessments, Planning and Financing.

The key impact/outcome level KPIs for country engagement match the overall framework of the Budgeting for SDGs, i.e.

- Pillar 1 KPIs: Budgets explicitly host SDG policies and targets
- Pillar 2 KPIs: Governments are more accountable for SDGs during budget formulation, decision-making, scrutiny and oversight processes

- Pillar 3 KPIs: Effectiveness and efficiency of budget delivery is increased using SDG performance framework

The transformational path in general must follow the balance of demand and supply for BSDG reforms in each country. It is natural to expect countries will first need a support by UNDP in framing the approach and scoping the reforms agenda. BIOFIN

methodology is well-suited to perform this role at the first stage of engagement (see steps in Figure 1).

Advocacy and supply of information is the essence of the second stage through better informing parliaments, CSOs and the public on “why” (which SDG target?) budgets spend money. This stage will be a platform to create a momentum and demand for a more comprehensive Budgeting for SDG model.

At its third stage, UNDP will engage in deeper and more comprehensive activities to ensure budget decision-making is SDG-driven, i.e. finance and line ministries are equipped with knowledge and toolkit to analyse the consequences of budget decisions over the SDG targets and progress towards those. This will inevitably supplement other aspects of budget cycle, such as the budget reporting, analyses, performance audit, etc.

Those stages are not necessarily sequential in their timing of commencement. For instance, Stage 3 activities may start in parallel with Stage 2 activities, however, the expectations over their effective operation must be adequate to the complexity of the toolkit and timeframe required to observe good enough results.

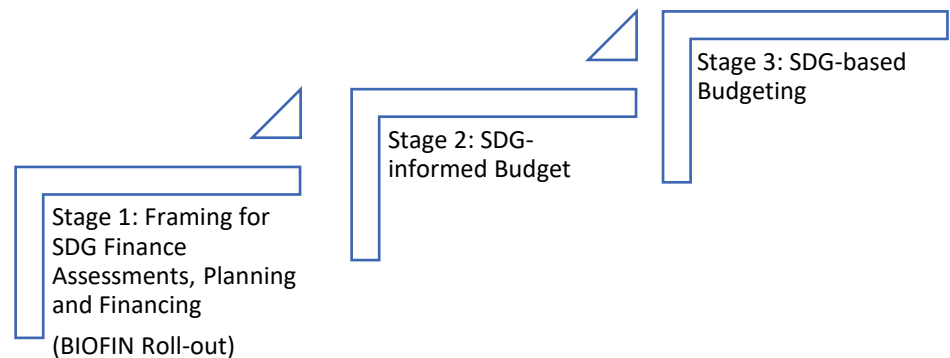
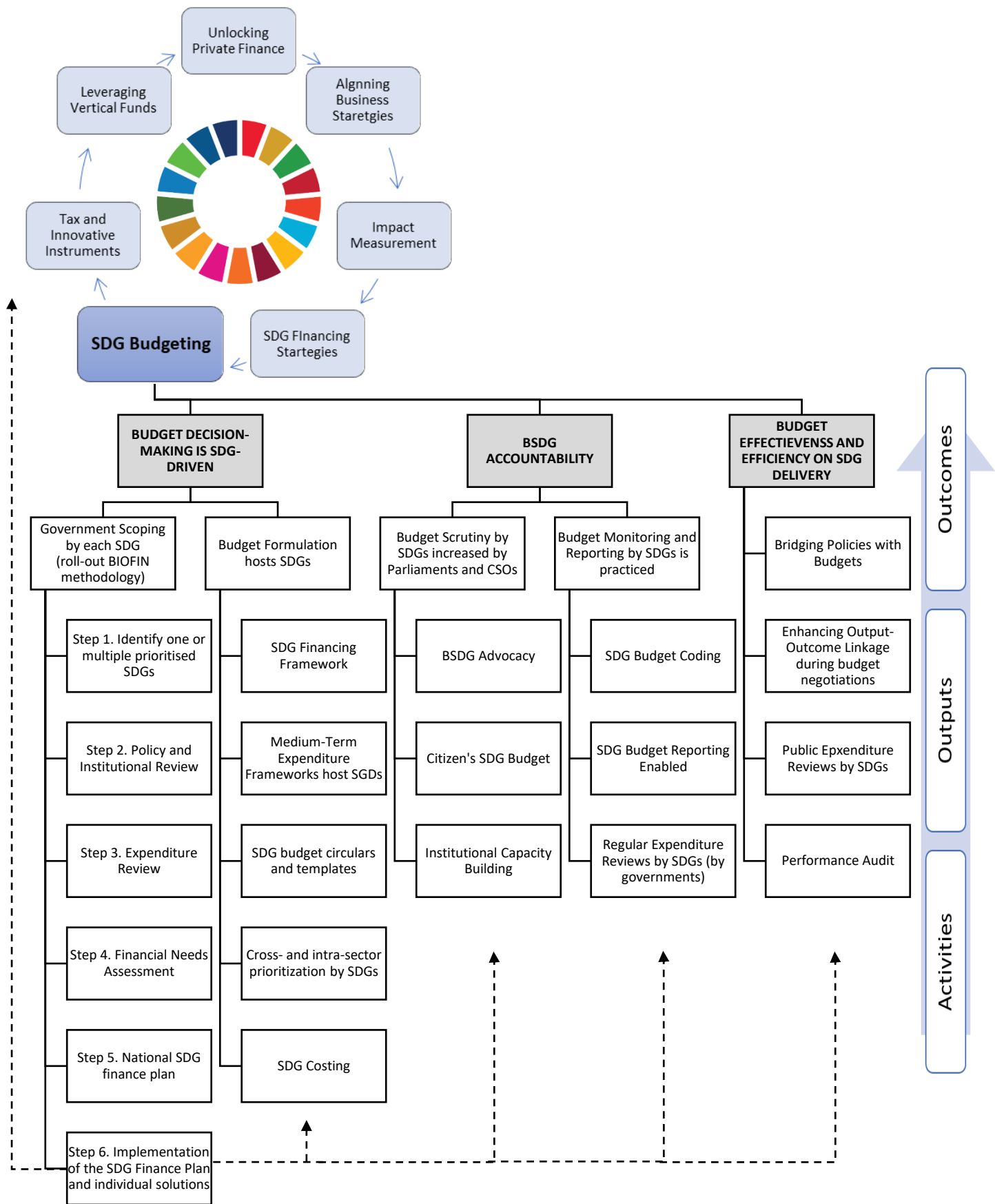


Figure 1. The Theory of Change



V. How we will work with partners?

- Who are the potential partners we need to engage in this space? Where is there opportunities for collaboration or overlap?
- What do we need to consider for these existing or potential partnerships?

Primary counterparts in countries for Budgeting for SDGs are naturally the finance ministries. However, the existing practice indicates that while finance ministries are key for systems reforms, cooperation with line ministries, parliaments and civil society organizations are equally important and in some cases are prime for success. Coordination with other DPs are also important for both avoiding the overlaps and engaging resources ad partnerships.

<i>Partner</i>	<i>Partnership</i>
<i>Finance ministries</i>	Engaging in PFM systems reforms, adjusting budgeting processes to host SDGs
<i>Line ministries</i>	<ul style="list-style-type: none"> - Mapping of SDG targets with budget performance framework - On-the-job support in SDG-based budget proposal justification - Evidence-based budgeting: bridging research with budgets via SDG-aligned policies and strategic planning mechanisms
<i>Parliaments</i>	Capacity building and strengthening the demand for SDGs being reflected and discussed in public budgets
<i>CSOs</i>	<ul style="list-style-type: none"> - Effective communication on SDG related budget allocations and expenditures (e.g. PER, Citizen's SDG Budgets) - Evidence-based budgeting: bridging research with budgets via SDG-aligned policies and strategic planning mechanisms
<i>Development Partners</i>	<p>Coordination and co-financing of the SDG/BSDG reforms agenda, e.g. partnership with WB, ADB, IMF, EU and others in:</p> <ul style="list-style-type: none"> - developing SDG financing frameworks and translation of those to medium-term budgets, - enhancing performance framework of budgets via results-based budgeting, - promoting Citizen's SDG Budgets, - aligning SDG budgeting agenda with the aggregate fiscal framework, - effective use of the fiscal space, - performance audit reforms, etc.

VI. UNDP Income stream considerations

- Preliminary considerations or suggestions on business model for this area

Options may include standard financing agreements with developing partners and government financing for some countries. For instance, to start with, UNDP can provide services directly to governments on budget bottlenecks identification, expenditure analyses and budget integration index assessment using government financing modality. Those are relatively inexpensive and rapid tools to deploy and offer to governments, while the outcomes could help UNDP in reaching out to other funding sources for more comprehensive, strategic and longer-term interventions.

Annex. The Problem Tree of Integrating SDGs into Budgets

