

Budgets for Climate, Sustainability & Social Inclusion:

A Rapid Review of Approaches and Tools

Financing for Development in
the Era of COVID-19 and Beyond Initiative



Cluster 1:

**Sustainability and Climate Action
Subgroup on Alignment of
National Planning, Spending and Implementation**



Budgets for Climate, Sustainability and Social Inclusion: A Rapid Review of Approaches and Tools*

Government budgets are the most significant instruments for aligning financing to the sustainability and social and economic inclusion objectives of the Sustainable Development Goals (SDGs) and the climate objectives of the Paris Agreement. Enhancing the alignment of expenditures with SDGs, inclusiveness and climate goals could increase dedicated resources by several billions of dollars, accelerating progress to limit harmful climate change, supporting climate adaptation and promoting inclusive, just and sustainable societies for future generations. In this way, government budgets can be used to support a just transition – maximizing the social and economic gains from climate action, digital and demographic transformations and supporting the creation of green jobs while reducing social and environmental risks.

A rapid review was carried out to generate debate and identify potential pilot actions within budgetary and public financial management (PFM) processes that can maximize the synergies between sustainability, inclusion and climate-responsive policies while minimizing the trade-offs between them. Designing expenditures to capitalize on synergies between greenhouse gas (GHG) emissions reductions, adaptation measures, the SDGs and actions to enhance social justice and inclusion may lower the total cost to achieve these objectives.

The review analyses key available resources related to sustainable, climate-friendly and inclusive development for the expenditure side of national government budgets, organized by stage of the budget cycle. It summarizes tools, methods and best practices; identifies key questions and opportunities; and identifies preliminary actions that Member States, together with other international actors, may wish to take to better align budgets to achieve SDGs, inclusive societies and climate commitments.

* This publication is the end product of a collaborative effort of multiple UN and international agencies, national governments, civil society and private sector partners under Cluster 1 of the Secretary-General, Canada and Jamaica's Initiative on Financing for Development in the Era of COVID-19 and Beyond ([link](#)).

The main conclusions are:

- a. **Current approaches to budgeting for climate, sustainability and inclusiveness into the budget cycle and fiscal policy are fragmented.** There is limited integration of these objectives or coordination between budget actors on these issues.
- b. **Some areas of the budget cycle have received greater focus than others.** There is comparatively limited guidance in some aspects of the budget cycle (e.g., methods for prioritizing expenditures in strategic planning; or for integrating climate and SDG objectives into budget circulars); and
- c. **There is considerable scope for Member States, supported by the international community, to achieve greater integration and synergies between budgeting for SDGs, social inclusion and climate adaptation and mitigation.** This requires policy alignment among, and recognition of, context-specific co-benefits of and trade-offs between measures to reduce emissions, enhance livelihoods, reduce poverty and inequality, and achieve other SDGs. Closer integration could lead to better budget outcomes and ultimately enhanced progress to results by:
 - i. building political and government leadership and capacity;
 - ii. reallocating resources from unsustainable or climate risk-increasing expenditure to SDG priorities, climate mitigation and adaptation and just transitions;
 - iii. identifying cost-efficiency savings and effectiveness improvements by financing policies that achieve multiple objectives;
 - iv. improving budget execution and troubleshooting in budget implementation related to climate and SDG priority expenditures; and
 - v. improving accountability to citizens and reporting on climate and SDG-related objectives based on international commitments.

As critical steps to advance this alignment agenda and ensure government budgets are responding optimally to the imperatives of climate change, social inclusion and just transitions, governments can undertake rapid reviews of their budget cycle to identify opportunities to adopt these processes, including through review of existing budget initiatives linked to SDGs, Nationally Determined Contributions (NDCs), National Adaptation Plans (NAPs) and Voluntary National Reviews (VNRs) for additional synergies. International agencies and development partners can offer technical support and funding to Member States for alignment of budgets with sustainability-, inclusion- and climate-related goals. This may take place in the context of existing programmes, including support to PFM reform programmes, or under other frameworks including Budgeting for SDGs. Global support can be provided for methodological advances or standards that would advance alignment.

To strengthen alignment of national planning, spending and implementation around climate and social inclusion objectives through budget processes, national governments, supported by the UN system and international community, could pursue the following preliminary actions through the budget cycle:

1

Strengthen the foundational elements of PFM systems to increase the visibility of climate and social inclusion spending

- Establish a classification system for allocations and expenditures for SDGs, inclusiveness and climate-related spending.
- Prioritize SDG, climate and inclusion expenditures and identify synergies by developing an Integrated Expenditure Framework.

2

Enhance integration between climate, sustainability and inclusion objectives at the strategic planning phase of the budget

- Improve estimates of resource envelopes and needs by reflecting climate risk, social inclusion and SDG-aligned policy actions in macrofiscal risk assessments or reviews.
- Prepare for climate and social fiscal risk by including risk-sharing financing instruments (e.g., contingency funds, credit lines, insurance), in options for financing including as part of Integrated National Financing Frameworks (INFFs).
- Assess the distributional implications of carbon taxes, other climate-related fiscal measures and budgets for approaches to offset the costs for the poor.
- Comprehensively assess the climate and social impact of subsidies and rebalance expenditures to mitigate unwanted or unintended impacts.
- Increase the efficiency of public resource use by developing and implementing costing tools for social programmes with options to integrate climate, inclusion and sustainability objectives.

3

Increase focus on climate, sustainability and inclusion objectives in budget formulation and implementation

- Prioritize inclusion and climate adaptation strategies, SDG-aligned spending and GHG emissions reductions commitments by including these in national budget guidelines.
- Enhance budget credibility by explaining spending deviations for SDG-, inclusion- and climate-related allocations.

4

Strengthen monitoring and review of climate and inclusion objectives

- Increase transparency of allocations and expenditures for SDGs, climate change and inclusion through budget tagging methodologies and budget reporting.
- Accelerate feedback into the budget cycle by conducting internal evaluations and external audits of SDG-, inclusion- and climate-related programmes.
- Engage the public by publishing annual reports accessible to all citizens analysing the progress made towards climate goals, inclusion and SDGs given the budget resources made available.
- Conduct Public Expenditure and Institutional Reviews for Climate and in social sectors.

5

Adopt governance measures to strengthen PFM systems' responsiveness to climate and social inclusion objectives

- Enhance cross-ministry coordination by mapping expertise required for SDG-, inclusion- and climate-related budget processes and encouraging knowledge-sharing, capacity-strengthening, resource-sharing and cross-ministry projects.
- Update public finance laws and regulations to reflect PFM approaches to achieving inclusion-, climate- and SDG-related objectives.

