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

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Foreword

Climate change, rising poverty and social and economic inequality threaten our world and our children's futures like never before.

Without rapid reductions in greenhouse gas emissions this decade, global warming will exceed 2°C, intensifying heatwaves and rainfall extremes, precipitating droughts and decimating agricultural production,[1] and contributing to driving millions of people from their homes as they become displaced.

More than 70 per cent of the world's population are affected by rising income and wealth inequality. And for the first time in many years, we saw an unprecedented increase in poverty and child poverty: the compounding impacts of climate, conflict and the COVID-19 pandemic increased the number of children living in poverty by 100 million. Poverty and inequality are undermining social cohesion and the social contract, destroying trust and intensifying conflict, while the current context of uncertainty and the consequences of war on food and fuel prices are only exacerbating these underlying trends.

Climate action and poverty reduction are closely interconnected. We know that even though the impacts of climate affect every country and region, the specific impacts are felt differently among income groups and sectors. Recent research estimates that climate change on its own will force up to 132 million additional people into extreme poverty by 2030.[2] UNICEF's Children's Climate Risk Index reveals that 1 billion children are at 'extremely high risk' of the impacts of climate change. That is nearly half of all children.[3] And moreover, as we identify priorities for recovery and reconstruction, it is important to invest in addressing social and economic inequalities, while actively promoting new livelihood and income-generating opportunities that are sustainable and support climate adaptation. In this sense, the distributive consequences of measures to tackle global warming, such as carbon pricing, transitioning of energy use and reducing employment in fossil fuel industries, must be addressed to avoid increasing poverty and placing the burden on those least able to adapt. Policies to reduce poverty and create employment must be based on sustainable and renewable forms of energy to foster resilient development for the future. The role of governments in setting policies and incentives, and in financing just transitions, is critical.

Addressing these twin challenges are essential elements to accelerate progress towards the Sustainable Development Goals, supported by the Addis Ababa Action Agenda on Financing For Development. In 2020, the Secretary General with the Governments of Canada and Jamaica launched the Financing for Development

1 Sixth Assessment Report of Intergovernmental Panel on Climate Change, March 2022

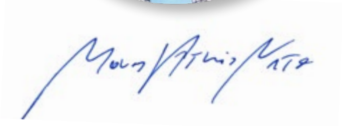
2 World Bank, *'COVID, Climate Change and poverty: avoiding the worst impacts',* October 2020 (link).

3 UNICEF, *The Climate Crisis is a Child Rights Crisis: Introducing the Children's Climate Risk Index.* New York: United Nations Children's Fund (UNICEF), 2021.

in the Era of COVID-19 and beyond Initiative (FFDI), to identify and promote concrete financing solutions to the pandemic emergency and recovery needs, and broader development challenges. Under this initiative, UNDP and UNICEF have led efforts under the Sustainability and Climate Action Cluster of the FFDI, to produce a rapid review of actions to promote alignment of resources with social and climate sustainability goals, through government budgets. We are grateful to our many other partners for their contributions, and to members of the Cluster for their participation in discussions.

This rapid review demonstrates the range of opportunities and experiences to build on by bringing together these agendas within government budget processes, to make the best use of public finance in tackling both climate change and poverty and inequality. It also highlights critical gaps in technical knowledge, tools and practices.

All partners, governments, the international community, and the private sector and civil society, can play a part in supporting this agenda, building on existing initiatives for Financing for Development such as Integrated National Financing Frameworks and SDG Budgeting exercises. We look forward to working with governments and other partners to take forward this critical agenda for a resilient and inclusive recovery, and a just and sustainable future.



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Executive Summary

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

- 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.

Background

Objective

The objective of this rapid review is to generate debate and recommend possible pilot actions related to national government budgets and public financial management (PFM) processes that can advance progress towards the SDGs, inclusiveness and climate-responsive policies. COVID-19 has encouraged the uptake of policies to develop sustainable, inclusive and climate-smart economies.[4,5] Using this momentum, well-designed and implemented budgetary and PFM measures can help to direct resources towards these policy goals and to improve the adequacy, efficiency, effectiveness, equity, transparency and accountability of public resources allocated to addressing climate change, social inclusion and the SDGs. However, while there are a number of frameworks, approaches and tools for each of these objectives, these are most frequently pursued independently of each other. 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.[6] By synergies, we mean that actions to support the 2030 Agenda can support climate change adaptation and mitigation; while actions to meet commitments under the Paris Agreement can advance and enable the achievement of SDG targets, including those focused on inclusion and leaving no one behind.[7]

4 As the OECD states, "...seizing the opportunity to direct recovery packages towards reducing [climate] risks, is a better option than paying the price of more costly mitigation and costly adaptation later." OECD. (2020). *Green budgeting and tax policy tools to support a green recovery*, p. 3 (link).

5 "The urgent and existential nature of [climate change's] threats, their potential impact on the macroeconomic and macro-fiscal outlooks as well as the scope of the required policy changes make policies to fight climate change and increase resilience one of the biggest challenges of our times." Gonguet, F., Wendling, C., Aydin, O. and Battersby, B. (2021). *Climate-Sensitive Management of Public Finances—"Green PFM."* IMF Staff Climate Note 2021/002, International Monetary Fund, Washington, DC, p. 1 (link).

6 Mohamed, A.J. (2019). *How does pluralism advance the Sustainable Development Agenda?* Global Centre for Pluralism, p. 4 (link).

7 Bouyé, M. and Harmeling, S. (2018). *Connecting the Dots: Elements for a Joined-Up Implementation of the 2030 Agenda and Paris Agreement.* Deutsche Gesellschaft fur Internationale Zusammenarbeit and World Resources Institute, p. 12 (link).

This rapid review identifies promising areas by:

a. Analysing tools, methods and best practices as they relate to the expenditure side of government budgets.[5]

b. Identifying opportunities and gaps in understanding of ways to integrate synergies and trade-offs between these goals within budget policies.

c. Identifying preliminary potential actions Member States, together with actors including international organizations, financial institutions, public development banks and bilateral donors, may wish to take to better align national budgets with these objectives.

This rapid review has been produced as part of the workplan of Cluster 1 (Sustainability and Climate Action) of the Financing for Development in the Era of COVID-19 and beyond Initiative (FFDI). It was developed and overseen by a working group of agencies including UNICEF, UNDP, UN-Women, OECD, ILO, Government of Mexico, Government of Russian Federation, UN-ESCWA, IDFC and UNESCO. Staff of UN-DESA's Finance for Sustainable Development Office were also consulted. Drafts of this paper have benefited from reviews by partner institutions. Significant and much appreciated contributions were made by colleagues at the IMF, UN-ESCAP, UN-DESA, UNDP, IBP, AFD, UNESCO, UN Women, Global AI and throughout UNICEF.

Motivation

Government budgets are the most significant instruments for aligning financing to the sustainability and inclusion objectives of the SDGs and the climate objectives of the Paris Agreement. By 2015, global public sector spending related to the SDGs was more than US$20 trillion. Without any change in priorities, this was expected to increase to US$32 trillion by 2030.[9] Relatively small increases to the aggregate amounts of these funds and improvements in the alignment of expenditures with SDGs, inclusiveness and climate goals could increase dedicated resources by several billions of dollars. However, the context and potential fiscal space for addressing these goals through domestic resources is highly unequal between countries in different income groups and widening in the wake of the COVID-19 pandemic.

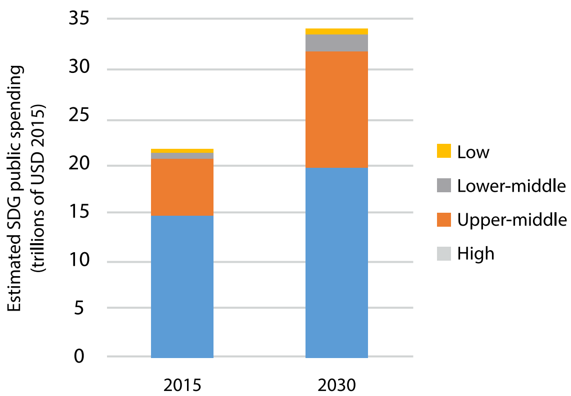

Figure 1: Estimated total SDG public spending, 2015 and 2030, by country initial income group. From Kharas, H and John McArthur, Building the SDG economy: Needs, spending, and financing for universal achievement of the Sustainable Development Goals, Brookings Institution, 2019

8 Resources related to government revenue, while critical, are out of scope of this rapid review unless they directly support expenditures (e.g., hypothecated taxes on fuel that fund green investments) or explicitly seek to change behaviours or incentives to contribute to achieving the SDGs or climate change mitigation or adaptation.

9 Kharas, H., McArthur, J. (2019). *Building the SDG economy: Needs, spending, and financing for universal achievement of the Sustainable Development Goals. Brookings Institution* (link).

The pandemic and its economic effects have highlighted the importance of sustainable, inclusive and climate-friendly development that leaves no one behind. The pandemic is simultaneously reversing development progress and increasing the costs of achieving the SDGs while constraining fiscal space. The increases in poverty and unemployment following the pandemic pose serious challenges to the achievement of the SDGs. Using the cost to achieve the SDGs as an inexact indicator of progress towards them, the IMF has revised upwards its estimates of incremental spending needs to achieve the SDGs to roughly 14 per cent of GDP annually in four case study countries, an increase of approximately 2.5 per cent of GDP on average.[10] Actions to support healthcare systems, households and firms amounted to US$16.9 trillion from the start of the pandemic to 27 September 2021, as reported by the IMF. Rich countries have spent disproportionately more as a percentage of GDP than poor countries, while everywhere deficits and debts have risen; revenues may have fallen; and many emerging and developing economies face borrowing constraints.[11] The lack of fiscal space for low-income developing countries constrains their ability to borrow to respond to the pandemic, let alone to invest in progress towards the SDGs.[12] It is therefore essential that public resources are used efficiently and effectively, debt burdens are eased and any spending adjustments are designed to address the planet's climate 'red alert'[13] and SDGs.

These reversals and constraints are occurring as climate changes makes the most vulnerable more vulnerable, costs for climate change adaptation are increasing, while the fiscal sustainability of government budgets is undermined. At the micro level, climate change disproportionately affects the multidimensionally poor by (1) increasing exposure to climate hazards; (2) increasing susceptibility to damage; and (3) decreasing ability to cope with impacts and recover.[14] Climate change increases needs but decreases access to key essential services, reducing resilience and adaptive capacity in a vicious cycle.[15] This cycle is compounded by accelerating GHG emissions. To add to these concerns, social sectors are predicted to face greater climate-related costs in the future: social protection programmes will need to expand to include those whose livelihoods have been affected; health costs will increase due to a wide range of factors from pollution to famine, and the threat of new pandemics; while the education sector faces the challenge of training young people in the skills they will need to live in the fast-changing environment of the future. At the macro level, climate change is expected to affect the fiscal sustainability of government budgets in the medium and long term.[16] It is likely that low-income countries will be disproportionately impacted, with output losses of up to 80 per cent by the year 2100 if no mitigation measures are taken.[17] Actions must be taken now to lessen the impacts of climate change and provide resilient, shock-responsive development pathways for all, especially the most vulnerable.

Climate change increases inequality. The costs of climate change are not borne equally, with women and children confronting and contending with disproportionate impacts. Gender inequalities in access to natural resources, other productive assets, finance, technology and knowledge constrain women's ability to respond to and cope with a changing climate. Additionally, over 1 billion children live in high-risk countries at risk of climate and environmental hazards. These children will have a longer exposure to climate hazards and

10 Benedek, D., Gemayel, E.R., Senhadji, A.S., Tieman A.F. (2021). *A post-pandemic assessment of the Sustainable Development Goals.* IMF Staff Discussion Notes No. 2021/003, pp. 12–13 (link).

11 IMF. (April 2021). *Fiscal Affairs Monitor,* p. 1 (link).

12 Sachs, J., Kroll, C., Lafortune, G., Fuller, G., Woelm, F. (2021). *The Decade of Action for the Sustainable Development Goals: Sustainable Development Report 2021*. Cambridge: Cambridge University Press at p. vii (link).

13 UN (2021). *New United Nations Climate Change Report 'Red Alert' for Planet, Secretary-General Says, Warning Current Emission Plans Not Enough to Adequately Curb Global Temperature Rise.* UN Statement SG/SM/20604 (link).

14 Islam, S.N., Winkel J. (2017). *Climate Change and Social Inequality.* UN Department of Economic & Social Affairs Working Paper No. 152 ST/ESA/2017/DWP/152, p. 6 (link).

15 UNICEF estimates that nearly half of the world's children live at "extremely high risk" of the impacts of climate change. UNICEF. (2021). *The Climate Crisis is a Child Rights Crisis: Introducing the Children's Climate Risk Index,* p. 13 (link).

16 OECD, *Climate Change and Long Term Fiscal Sustainability*, p. 3 (link).

17 IMF. (2021). *IMF Strategy to Help Members Address Climate Change Related Policy Challenges—Priorities, Modes of Delivery, and Budget Implications.* Policy Paper No. 2021/057, p. 9. (link)

are more physically and physiologically vulnerable than adults to extreme weather, droughts and floods. This vulnerability will be compounded where essential services – such as water, sanitation and hygiene (WASH), education and social protection – are lacking.[18] Women and children are under-represented in decision-making processes and corresponding budget decisions at all levels including regarding prevention, preparedness, recovery and risk-informed development.

To accelerate progress in tackling these challenges, public investments and spending that recognize the interconnectedness of these goals and translate this through the budget are essential. The SDGs and Paris Agreement themselves tie climate change, inclusiveness and sustainable development together. The SDGs are an integrated and indivisible balancing of the economic, social and environmental dimensions of sustainable development.[19] They express a basic principle of inclusiveness in the pledge to leave no one behind. They also take into account climate change through Goal 13, focusing Member States on taking urgent action to combat climate change and its impacts, and concrete targets and indicators reflecting climate mitigation[20] and adaptation[21] directly[22] and indirectly.[23] The Paris Agreement, which more comprehensively addresses climate mitigation and adaptation than the SDGs, emphasizes "the intrinsic relationship that climate change actions, responses and impacts have with equitable access to sustainable development and eradication of poverty."[24] The Nationally Determined Contributions (NDCs), the non-binding obligations of Parties to the Paris Agreement to reduce GHG emissions, are to be implemented "in the context of sustainable development and poverty eradication, in a coordinated and effective manner."[25] Similarly, Parties are encouraged to implement National Adaptation Plans (NAPs),[26] which may be more important for a larger number of countries with small emissions contributions that must adapt to the changing climate. NAPs should consider gender and intergenerational issues and include measures to address specific risks for women and children.

Many Member States are already making efforts through budgets and PFM to achieve the SDGs, advance inclusiveness and foster climate resilience in an aligned way. These reflect the real-world connections between the objectives established in the 2030 Agenda and the Paris Agreement. Budgets are the "strongest domestic legal basis"[27] in which to reflect commitment to the 2030 Agenda and a country's overlapping climate mitigation efforts. Integrating development, inclusiveness and climate targets into budgets and PFM processes harnesses some of the most established routines of governments towards the realization of these goals, ensuring continual efforts, budget allocations and actual expenditure on policy priorities.

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18 UNICEF, *Climate Crisis is a Child Rights Crisis,* p. 57 (link)

19 *See Transforming our world: the 2030 Agenda for Sustainable Development.* A/RES/70/1 (link).

20 We understand 'mitigation' as the stabilization of GHG concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system. Derived from (link), p. 3.

21 We understand 'adaptation' as reductions in vulnerability of human or natural systems to the current and expected impacts of climate change, including climate variability. Derived from (link), p. 4.

22 SDG indicators that directly reflect climate change include, for example, all of the indicators under Goal 7 (ensure access to affordable, reliable, sustainable and modern energy for all), 9.4.1 (carbon dioxide emission per unit of value added to upgraded infrastructure and industries); 11.2.1 (proportion of population that has convenient access to public transport, by sex, age and persons with disability); and 12.c.1 (amount of fossil-fuel subsidies per unit of GDP (production and consumption) and as a proportion of total national expenditure on fossil fuels).

23 Indirect indicators include 17.14.1 (number of countries with mechanisms in place to enhance policy coherence of sustainable development); 6.5.1 (degree of integrated water resources management implementation (0-100)); 1.2.2 (proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions); 2.4.1 (proportion of agricultural area under productive and sustainable agriculture); and 10.1.1 (growth rates of household expenditure or income per capita among the bottom 40 per cent of the population and the total population).

24 *Paris Agreement to the United Nations Framework Convention on Climate Change,* Dec. 12, 2015, T.I.A.S. No. 16-1104, Preamble (link).

25 Ibid., Article 6, paragraph 8 (link).

26 Ibid., Article 7, paragraph 9 (link).

27 *UNDP, Budgeting for the SDGs,* p. 2 (link)

Making explicit connections through translating NDCs, NAPs and SDGs into the budget requires consideration of the social impacts and costs of NDC-related investments in energy, transport, agriculture, environment and risk management, and the costs to offset these. Adapting to climate change will be costly for governments, citizens and businesses, especially in low-income contexts, and will require economic support. While green investment offers the potential for creating new employment, the benefits are not equally distributed. Under some scenarios, the majority of new employment from climate-related investment is in the construction and energy sectors, particularly in energy efficiency, and some population groups, in particular women, are less likely to benefit.[28] Income protection, investment in other sectors, technical and vocational education and training,[29] skills development, upskilling and reskilling can contribute to realizing the potential for new employment creation with a positive impact on the one hand, and enabling the potentially redundant workforce to enter other occupations,[30] to support a just transition.[31] Integrating environmental sustainability and socioeconomic equity together in policy packages is vital to mitigate the regressive impacts of environmental policies and ensure equal opportunities for all to contribute to and benefit from economic growth.[32]

Similarly, investments in climate resilience and inclusive social development, especially for vulnerable populations, have strong potential returns. Well-designed, climate-friendly and green stimulus measures can generate income, create jobs and improve well-being and resilience for all. [33] Investing in inclusive development could halve the increase in extreme poverty from climate change. [34] Developing the care economy could improve the economic recovery, offering greener jobs with better working conditions and wages.[35] Around 269 million new jobs could be created by 2030 if investments in education, health and social work were doubled. [36] Systematically transforming investments in education, child protection, health and nutrition, and water and sanitation can mitigate the impact of COVID-19, build resilient societies and systems, and enable adaptations needed to face the long-term challenges posed by climate change and environmental degradation.[37] In the wake of the pandemic, there have been approximately 1,700 social protection and labour market measures taken by governments across the world to absorb the shock. While there are enormous coverage gaps – 53.1 per cent of the global population is unprotected – these measures can provide the foundation for a just transition. [38] Expanding these to ensure no one is left behind by building resilience and disaster preparedness directly into health, social protection, WASH and education systems, ensures that people are more protected from the effects of climate change and environmental degradation and from pandemics, economic shocks and downturns, and other crises. For example, renewable energy can improve the self-reliance of schools and health clinics, minimizing the effects of disruptions that occur with many of the current and traditional systems and infrastructure. Resilient social protection systems are better able to manage the impacts of a variety of shocks – climate change, natural disasters, epidemics and economic shocks. [39] Achieving this, however, will require mobilizing public spending for up-front investments that yield long-term savings and benefits.[40]

28 ILO. (2019). *Skills for a greener future: A global view* at Chapter 6, examining changes to employment markets as a result of the transition to clean energy and the adoption of the circular economy (link).

29 UNESCO. (2021). *Skills development and climate change action plans*, p. 7 (link).

30 Ibid.

31 OECD. (2020). *Making the Green Recovery work for jobs, incomes and growth* (link).

32 OECD. (2021). *The inequalities-environment nexus: towards a people-centred green transition* (link).

33 Agrawala, S., Dussaux, D. and Monti, N. (2020). *What policies for greening the crisis response and economic recovery?* (link) See also Platform for Advancing Green Human Capital. *Advancing Green Human Capital* (link).

34 Hallegatte, S., Walsh, B.. (2020). *COVID, climate change and poverty: Avoiding the worst impacts.* World Bank (link). See also Jafino, B.A., Walsh, B., Rozenberg, J., Hallegatte, S. (2020). *Revised Estimates of the Impact of Climate Change on Extreme Poverty by 2030.* World Bank Policy Research Working Paper (link).

35 UN Women. (2021). *Beyond COVID-19: A feminist plan for sustainability and social justice,* pp. 40–1 (link).

36 United Nations. (2021). *Secretary-General's Policy Brief: Investing in Jobs and Social Protection for Poverty Eradication and a Sustainable Recovery* (link).

37 UNICEF. (2020). *A Triple Threat to Children's Rights or an opportunity to reimagine a fairer, greener, more sustainable world for all?* (link)

38 UN, *SG's Policy Brief on Investing in Jobs and Social Protection* (link).

39 Ibid

40 Ibid

Method

The paper is based on a literature review and desk review of country examples of budget practices related to climate and inclusion. The starting point was a light touch survey of the comprehensive library of tools and expertise collected by UNSDG Task Team Members on SDG Financing.[41] If an identified resource in the library related to budgets,[42] we further identified the stage of the budget cycle to which the resource would be most useful; the most relevant building block from the Integrated National Finance Framework (INFF, discussed further below) for the resource; the principal category of SDGs/climate initiatives in which the resource belonged; and the type of resource (e.g., Data & Statistics; Guidance & Reports; Services; Tools & Calculators; Courses & Training; Grants). Any given resource can cut across multiple categories (e.g., the same resource could address both the Formulation and Execution phases of the budget cycle or have both a Climate Centred and an Environment Centred focus). A predominant category was nevertheless chosen in each case.

Select materials from the library compiled by UNSDG Task Team Members on SDG Financing referenced above and representing areas of priority-based budgeting or PFM practices were subsequently reviewed in detail and supplemented by additional resources from other institutions.[43] The objective was to ensure major areas of activity, such as gender- and child-focused budgeting or budgeting for social protection, were included. Other relevant materials not in the library from partner institutions such as the OECD, World Bank, IMF, CABRI, OPM and GIZ were reviewed and integrated into the rapid review. While the review has been extensive, the volume of materials in this area and relatively short time frame for this analysis mean that the analysis on how budgets and PFM processes can be used to synergistically advance SDGs, inclusion and commitments under the Paris Agreement is not comprehensive.

The results of the analysis discussed above are presented by stage in the budget cycle, including an analysis of Foundational Elements and Governance. The budget cycle – a simplified, generalized description of the budget process – provides a useful framework to organize the review of existing materials, experiences and resources. The four stages discussed below are: Strategic Planning; Budget Allocation; Budget Execution; and Monitoring and Review. These stages and governance exist concurrently (e.g., Strategic Planning for year Y+1 occurs while Budget Execution for year Y and audit of year Y-1 are occurring) and influence each other. They are supported by Foundational Elements and Governance, each of which is also analysed in a brief section below.

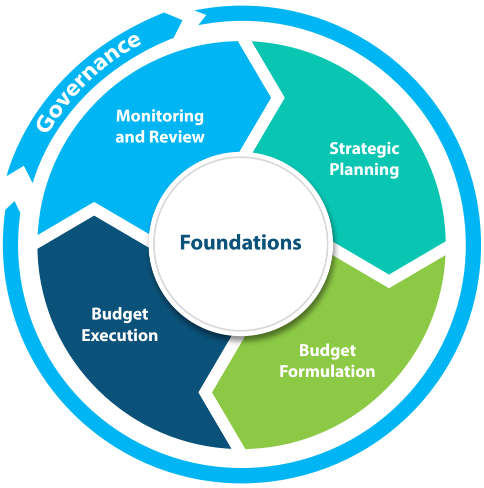

Figure 2: *Simple budget cycle.*

41 Available to UN Staff at (link).

42 Certain resources – especially those related to PPPs, infrastructure and taxation – were classified as indirectly related to budgets. Although out of scope at this stage, these materials may become more relevant over time and with more work.

43 See note 37 above.

Foundational Elements

The foundations of the public financial management system define the principles, rules, institutions and processes that determine the use of public resources, and are therefore essential for the opportunity to integrate SDG-, climate- and inclusion-related objectives. To integrate SDG-, climate- and inclusion-related priorities, PFM and budget processes should enable

- **a.** linking a government's policy objectives to the budget; and
- **b.** visibility and transparency of allocations and expenditures.

The discussion below provides background information regarding two enabling approaches to linking policy and expenditure: first, whether a programme- or performance-based budget facilitates an integrated approach to SDG-, climate- and inclusion-related goals; second, the intended impacts of green budgeting frameworks, gender budgeting frameworks and INFF on budgets related to climate and inclusion. Next, this section briefly presents basic classification approaches for allocations and expenditures and integrated financial management information systems as policy choices that both constrain and enable visibility into and transparency of SDG-, climate- and inclusion-related spending.

Enabling the links between policy and budget

Programme- and performance-based budgets

Programme-based budgeting (PBB) is useful but is not essential for aligning SDG-, inclusion- and climate-related goals within budgets. Performance budgeting aims to improve the effectiveness and efficiency of public expenditure by linking the funding of public sector organizations to the results they deliver.[44] As a type of performance budgeting, programme-based budgeting classifies expenditures by objectives (outcomes and outputs), in contrast to more traditional line item budgets that classify expenditure

44 Robinson, M. (2011). *Performance-based Budgeting Manual.* CLEAR, p. 12 (link).

by economic categories (salaries, supplies, etc.) and organizational category (ministry, department within the ministry, etc.).[45] The World Bank observes that when implemented with political will and focus, such budgeting approaches can have significant impact. Peru, for example, reduced its stunting rate from 28 per cent to 13 per cent between 2008 and 2016 using multisectoral programme-based budgeting.[46] Although helpful to achieve an aligned approach, programme-based budgeting is not essential. Spain and Colombia, for example, have made progress towards the SDGs without programme-based budgeting approaches.[47]

Some Member States are incorporating SDG-related criteria in performance-based budgeting. Rwanda introduced gender-responsive public financial management gradually via its budget call circulars, by including guidelines to mainstream gender responsiveness and expanding their applicability over time.[48] With the help of the SDG Fund, Mongolia is looking to support gender-responsive, results-based multi-year budgeting more aligned with its national Sustainable Development Vision for 2030.[49]

Despite the intended benefits, there is some scepticism on the effectiveness of performance-based approaches. Reported challenges include the need to keep performance information simple, affordable and usable;[50] coordination problems, lack of leadership, data, capacity and resources, and additional workload;[51] administrative, accounting and data challenges;[52] and that PBB "can fail in structurally reorienting spending and performance management at all levels of public administration."[53]

Budget and financing frameworks

Priority-based frameworks, such as green budgeting frameworks and gender-responsive budgeting, help link particular priorities to the budget. Green budgeting frameworks, such as the OECD's Paris Collaborative on Green Budgeting, highlight the environmental impacts of budget alternatives and choices.[54] Gender-responsive budgeting expresses gender outcomes as a key priority in the budgeting process. The INFF guides the design and implementation of financing policies to mobilize resources and align financing with national sustainable development priorities and the SDGs, complementing the frameworks focused on expenditures.

Member State Practice is beginning to combine and adapt these priority frameworks to meet domestic priorities. New Zealand, for example, has articulated a series of well-being budgets from 2019 on, "looking beyond traditional measures of success, such as Gross Domestic Product, to broader indicators of well-being."[55] The well-being approach draws on a decade-long initiative to develop a living standards framework that brings together 12 domains of current well-being with four capitals (human, social, natural, and financial and physical) that affect future well-being.[56] Five enduring well-being objectives have been

45 Ibid., p. 14 (link).

46 World Bank. *Investing in Human Capital for a Resilient Recovery: The Role of Public Finance,* p. 35.

47 Based on discussions with IMF staff.

48 PEFA. (n.d.). *GRPFM-3 Gender Responsive Budget Circular,* p. 3 (link).

49 UN-DESA, internal document.

50 Robinson, M. and Last, D. (2009). *A Basic Model of Performance-Based Budgeting.* IMF Technical Notes and Manuals 09/01, p. 4 (link).

51 OECD, *Inventory of Building Blocks and Country Practices for Green Budgeting,* p. 48 (link).

52 World Bank, *Investing in Human Capital for a Resilient Recovery,* p. 35 ("Both program budgeting and results-based budgeting can be counterproductive, resulting in overly technocratic procedures and a proliferation of performance targets that distract attention from the ultimate outcome.") (link).

53 ILO, *Fiscal Space for Social Protection,* p. 46 (link). Programme based budgeting is "the most widespread form of performance budgeting." See Robinson, M. *Program Classification for Performance-Based Budgeting,* p. 1 (link).

54 OECD, *Inventory of Building Blocks and Country Practices for Green Budgeting* (link).

55 Government of New Zealand. (2021). *Wellbeing Budget 2021: Securing Our Recovery* (link).

56 Huang, C-C., de Renzio, P. and McCullough, D. (2020). *New Zealand's "Well-Being Budget": A New Model for Managing Public Finances?* International Budget Partnership, p. 5 (link).

established against which the budget is measured, as seen in Table 1. These implicitly reflect an integrated approach to achieving the SDGs in an inclusive and climate-resilient manner. Moreover, the government started in 2021 to expand the approach to reflect its national and cultural context with principles derived from the traditional knowledge of the Maori known as He Ara Waiora.[57]

Table 1: New Zealand approach to well-being budgets

New Zealand well-being objective	Budget 2021 contribution
Just transition – Supporting the transition to a climate-resilient, sustainable and low-emissions economy, while building back from COVID-19	Funding transitions in areas such as transport and agricultural research, and increasing commitment to New Zealand Green Investment Finance (NZGIF) to better mitigate the impacts of climate change
Future of work – Enabling all New Zealanders and New Zealand businesses to benefit from new technologies and lift productivity and wages through innovation and support into employment of those most affected by COVID-19, including women and young people	Investments in education, skills and training to build back better
Physical and mental well-being – Supporting improved health outcomes for all New Zealanders and keeping COVID-19 out of our communities	Strengthening the health system to deliver the evolving needs of the population through addressing pressures in, and reforming, the health and disability system
Maori and Pacific – Lifting Maori and Pacific incomes, skills and opportunities, and combatting the impacts of COVID-19	Supporting Maori and Pacific peoples, particularly in housing and health, to develop solutions that are driven by Maori and Pacific communities
Child well-being – Reducing child poverty and improving child well-being	Supporting families and whanau to provide the essentials needed to support their children's well-being through income support measures and supporting more families and whanau into warm, dry housing

Green budgeting frameworks

Green budgeting makes the overall environmental impacts of budgeting choices clearer. It involves the systematic examination of existing and potential budget measures and policies, their interdependencies, externalities, joint benefits and mainstreaming an environmentally informed approach into the budget framework.[58] Green budgeting calls for an approach that is comprehensive, encompassing of positive and negative environmental impacts; evidence-based; coherent; credible; transparent; integrated into existing budget processes; fiscally sustainable; aligned with other long-term social and economic perspectives; and shared across the whole-of-government.[59]

57 Government of New Zealand. (2021). *Wellbeing Budget 2021: Securing Our Recovery* (link). More background on this approach can be found at this link.

58 OECD, *Inventory of Building Blocks and Country Practices for Green Budgeting,* p. 8 (link).

59 OECD, *Framework for Green Budgeting Key Principles,* p. 2–3 (link).

A leading green budgeting framework has been developed by the OECD's Paris Collaborative. This consists of four building blocks: a strategic framework, tools for evidence generation and policy coherence, reporting to facilitate accountability and transparency, and an enabling budgetary governance framework. The OECD observes that the environmental priorities, targets and benchmarks required for a strong green budgeting framework are often reflected in national-level policy documents, supplemented by sectoral plans, which are "eventually" reflected in budgets.[60]

The nature and extent of green budgeting varies by country. For those OECD countries that do not practice green budgeting, the absence of a methodology for assessing environmental effects, a modern performance budgetary framework and political will are identified as the biggest gaps to its adoption.[61] Countries that practice green budgeting echo that the lack of methodologies and resources are the two main challenges for implementing green budgeting.

Gender-responsive budgeting

Gender-responsive budgeting (GRB) uses fiscal policy and public financial management instruments to promote gender equality and empowerment of women and girls.[62] GRB seeks to ensure that the collection and allocation of public resources is carried out in ways that are effective and contribute to advancing gender equality and women's empowerment.[63] GRB encompasses a range of tools to assess and improve the impact of fiscal policies, budgets and budget processes on gender equality at all stages of the budget cycle.[64] For example, during the Strategic Planning phase, key tools identified include a Gender Needs Assessment (GNA) to identify gender needs and possible areas of intervention and Ex ante Gender Impact Assessments to analyse the expected gender impacts of particular policies.[65] This approach is used by a range of agencies including UN Women and the IMF.

SDG target 5.c.1 advances inclusion and improves budget and PFM process by monitoring the systems to track and make public allocations for gender equality and women's empowerment. The indicator measures government efforts to track and publicize resource allocations for gender equality through the public financial management cycle, not the quality or quantity of expenditure for gender equality and women's empowerment.[66]

Integrated National Financing Frameworks

An INFF aims to bridge national development plans and domestic, international, public and private financial resources. It is explicitly a financing framework focused on the sources of financing to achieve the SDGs, rather than an expenditure-focused framework. The framework is structured as four building blocks:

60 OECD, *Inventory of Building Blocks and Country Practices for Green Budgeting,* pp. 16 (link)

61 OECD, *Green Budgeting in OECD Countries,* s. 2 (link).

62 Stotsky, J.G. (2016). *Gender Budgeting: Fiscal Context and Current Outcomes.* IMF Working Paper 16/149 (Washington, DC: IMF), p. 4 (link).

63 UN Women. Asia and the Pacific. (2022). *Gender Responsive Budgeting.* (link).

64 IMF. (2017). *Gender Budgeting in G7 Countries,* pp. 7–9 (link).

65 UN Women. (2021). *COVID 19 and Fiscal Policy: Applying Gender-Responsive Budgeting in Support and Recovery Measures,* p. 4 (link).

66 United Nations. (2018). *Metadata regarding SDG Indicator* 5.c.1 (link).

a. *Assessment and diagnostics*, to identify financing gaps, challenges, opportunities and risks;

b. *Financing strategy*, to develop financing policy solutions and orchestrate the support of development partners;

c. *Monitoring and review*, to generate data on volumes and impact of different types of finance as well as information on the effectiveness of identified policy solutions, and to encourage learning to improve outcomes; and

d. *Governance and coordination*, to define roles and responsibilities and provide oversight and accountability.

These building blocks are usually put into place following an Inception Phase, which may include a Development Finance Assessment (DFA).

Figure 3: *Schematic overview of Integrated National Financing Frameworks for Sustainable Development. Taken from https://developmentfinance.un.org/2019-integrated-national-financing-frameworks-sustainable-development*

INFFs and DFAs represent an area of active work for UN agencies in partnership with Member States. More than 70 countries are developing INFFs to strengthen their national planning policies, with support from the international community.[67] Most countries are expected to launch a financing strategy by 2022.[68] For example, with the support of the UN Joint SDG Fund, Benin and Kazakhstan have undertaken DFAs to develop INFFs. Cameroon, Djibouti and Mongolia are all developing full INFFs, in most cases by extending existing DFAs.[69] Cabo Verde has begun the INFF process, with focus on creating a gender financing profile to identify policies and instruments to advance gender equality.[70] Progress towards the INFF in Member States can be tracked through the INFF Dashboard.[71]

67 Integrated National Financing Frameworks. (2022). *INFF Dashboard* (link).

68 INFF in Q1 2021: *Global Progress Report*, p. 2 (link).

69 UN-DESA, internal document.

70 UN Women. (2021). *Technical Guidance Note: Mainstreaming Gender Equality in Integrated National Financing Frameworks,* p. 12 (link).

71 Integrated National Financing Frameworks. (2022). INFF Dashboard (link)

The INFF offers guidance on ways to:

a Estimate the cost of implementing national development priorities (through the Financing Needs Assessment).

b Assess sources and types of financing for development priorities (through the Financing Landscape Assessment Guidance).[72]

c Understand, manage and address risks to a country's ability to sustainably finance and achieve national development objectives (Risk Guidance).

d Identify and address capacity constraints to finance sustainable development priorities (Binding Constraints Guidance), among others.

The INFF guidance generally provides methods to pursue these objectives and summaries of existing tools or relevant resources with pointers on when they might be most relevant.

This core INFF guidance acknowledges the interrelated nature of climate, sustainability and inclusion.

Climate, Sustainability and Inclusion in the INFFs

a A core step of the analysis of Financing Needs is to assess the impact of reaching everyone and ensuring environmental sustainability, and specifically to apply the United Nations' framework for assessing who is left behind to inform revisions of cost estimates after identification of at-risk populations, as presented in Figure 4. Climate change is also presented as a driver of different scenarios that should be incorporated into long-term planning and target setting.[73]

b The Risk Guidance recognizes that climate change poses complex risks and identifies key tools for countries to measure and mitigate climate change risks. Importantly, the Risk Guidance highlights the fundamental role of social protection in addressing underlying drivers of risk, such as poverty and inequality, and reducing the negative impact of shocks on the poorest and most vulnerable. Expressed differently, "[s]trengthening the interface between ministries of finance, social protection mechanisms, and forecast-based financing instruments can support resilient livelihoods pre-shock and minimize negative coping strategies in the event of a shock."[74]

72 As mentioned in the Financing Landscape Assessment guidance, funding may come from development banks, which play a significant role in resourcing climate and sustainable investments and implementing NDCs. Multilateral development banks committed US$61.6 billion in climate finance in 2020, of which US$41.5 billion was in low- and middle-income countries (see p. 7 (link)). IDFC (International Development Finance Club) members invested US$187 billion in climate finance the same year (link; link) The overall volume of financing by public development banks amounted to US$2.2 trillion annually (10 per cent of global investment worldwide) (link). A coalition of public development banks has agreed on key principles for aligning their strategies with the 2030 agenda, including on the financing of energy transition, fight against climate change, biodiversity and nature protection, inclusion and gender equality by the Declaration made during the "Finance in common summit", held in Paris on 12 November 2020 (link).

73 INFF Financing Needs Assessment, pp. 16–18 (link).

74 INFF Risk Guidance, p. 20 (link).

Figure 4: *UN framework for assessing who is being left behind. Source: INFF Financing Needs Assessment Guidance (https://inff.org/report/assessment-diagnostics-financing-needs-report) citing from LNOB Operational Guide Interim Draft 2019.*

Foundations of visibility and transparency

Budget Classification (BC)[75] and Charts of Accounts (COA)[76] can help governments provide a comprehensive view of allocations and expenditures. Current investments in BC and COA are being made to increase their ability to track expenditure in priority areas. For example, in Kenya, UNICEF, the World Bank and the IMF cooperated in the production of Standard Chart of Accounts (SCOA) codes, manuals and training curricula. This system should give the Government of Kenya the ability to track expenditure to subprogrammes, including those that address areas reflecting social inclusion, like nutrition, and climate change, such as WASH.[77] Similarly, the SDG targets have been captured in Ghana's COA with the intent of facilitating reporting on the level of the government's commitment and follow-through.[78]

75 The BC provides the applicable classification within budget documents, describing which expenses are anticipated in the coming year.

76 The COA applies when recording actual transactions in the accounting system and reflects actual payments or commitments, instead of anticipated expenditure. The COA should include all of the categories of the BC to enable expenditure control and reporting. Robinson, M. (2011). *Performance-based Budgeting Manual. CLEAR*, p. 69 (link).

77 UNICEF. (2019). *Kenya Country Office Annual Report 2019,* p. 5 (link).

78 Government of Ghana. (2018). *Ghana's SDG Budgeting Manual* (link).

These investments can help shape improvements to Integrated Financial Management Information Systems (IFMIS) that allow visibility of SDG, climate and inclusion related spending. IFMIS enable governments to plan, execute and monitor the budget by assisting in the prioritization, execution, control and reporting of expenditures, as well as the custodianship and reporting of revenues integrated with systems to record and report all daily financial transactions[79]. New IFMIS that permit tagging have been implemented or are under development in Ghana (following the revisions of the COA, discussed above), Kenya and Uganda, among others.[80]

Recommendations

Adapting the foundations of PFM systems to facilitate greater alignment of climate, sustainability and inclusion goals at national level will always be contingent on the existing PFM system and ongoing reform efforts. However, there are ways that international agencies can assist by developing methodologies to enhance the integration of spending for different objectives, and establishing a common classification system for enhancing visibility of these goals. The following recommendations reflect ways in which global standards could be developed to assist alignment at the national level.

Help prioritize SDG, climate and inclusion expenditures and identify synergies by developing an Integrated Expenditure Framework. Achieving the SDGs in an inclusive manner while mitigating and adapting climate change involves complex trade-offs. The existing frameworks do not provide a way to express these trade-offs across priorities or identify methods to achieve synergies across policies and expenditures. Just as the INFF is designed to assist countries to manage a complex financing landscape given a set of national development priorities, an Integrated Expenditure Framework may help manage a complex expenditure landscape within a set of financial and climactic constraints.

Inrease visibility of spending priorities and execution by establishing a classification system for allocations and expenditures for SDGs, inclusiveness and climate-related spending. Member States' budgets rely on a wide variety of budget classification systems, COAs, budget preparation processes and IFMIS. Recognizing these variations, foundational efforts could be made to create a classification system that captures expenditures on SDGs, inclusion-focused and climate-responsive actions for adaptation into local contexts. These may serve as a useful foundation for the development of locally appropriate classification systems, just as the OECD DAC Rio Markers have been broadly used as the foundation for climate change tagging systems in national budget systems.[81] The articulation of these systems could occur in partnership with international organizations, international financial institutions (IFIs), bilateral aid donors, public development banks (PDBs) and other interested parties, to maximize usefulness across institutions.

79 Adapted from Dener, C, Watkins, J.A, Dorotinsky, W.I. (2011). *Financial Management Information Systems: 25 years of World Bank Experience on What Works and What Doesn't.* World Bank, p. 1 (link).

80 CABRI. *Inclusive Budgeting and Financing for Climate Change in Africa*, p. 27 (link).

81 See World Bank, *Technical Annex: Overviews of Climate Expenditure Frameworks.* Rio Markers informed the development of the climate change tagging systems in Cambodia, Colombia, Ecuador, Ethiopia, Kenya, Moldova and Nepal.

Strategic Planning

Strategic Planning links policy objectives, medium-term fiscal planning[82] and annual budgeting. These links help ensure fiscal discipline, policy coherence and consistent reconciliation of priorities with resources while providing line ministries with the ability to plan programmes across numerous budget cycles.[83] The Strategic Planning stage of the budget permits the consideration of synergies and trade-offs between climate, inclusion and sustainability objectives, to support prioritization among policy alternatives. Additionally, as policies supporting the SDGs, inclusiveness and climate responsiveness may require more short-term investment but lower medium-term operating costs, this approach provides greater visibility of the costs of these programmes over time; while considering the opportunities and potential cost-efficiencies. This is particularly important in the context of the increased fiscal risks and limited fiscal space in many countries following COVID-19 and the potential impact of climate change and social risks on the macrofiscal context. Before considering Strategic Planning tools at the level of the budget, governments can consider the fiscal risks arising from both climate change and associated social risks.

Ministries of finance (MoFs) now recognize that budgets need to take climate change into account. With the Helsinki Principles, a coalition of over 50 finance ministers has recognized the far-reaching impacts that climate change will have on public finance and the necessity of public finance to address climate change.[84] To maximize the impact of NDCs, this coalition recommends they be situated within central fiscal policies and mainstreamed into PFM systems.[85] Moreover, the coalition recognizes that climate change will impact the fiscal context,[86] including by:

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82 Mid-term fiscal planning can consist of medium-term fiscal frameworks (MTFFs), establishing medium-term macroeconomic and fiscal targets and projections; medium-term budget frameworks (MTBFs), developing medium-term budget estimates for individual spending agencies; and medium-term expenditure frameworks (MTEFs), that add elements of activity and output-based budgeting to the MTBF. OPM. (2000). *Medium Term Expenditure Frameworks – panacea or dangerous distraction?,* p. 2 (link). Some commentators note that the terms are used in different ways by different authors, such that they can no longer be said to have a definition. Robinson, M., p. 132 (link).

83 OECD. (2020). *Inventory of Building Blocks and Country Practices for Green Budgeting,* p. 43 (link).

84 Coalition of Finance Ministers for Climate Action, Helsinki Principles (link).

85 Coalition of Finance Ministers for Climate Action. (2020). *Better Recovery, Better World,* p. 15 (link).

86 The OECD has also scoped the revenue and expenditure risks and opportunities of lowering GHG emissions and increasing environmental resilience. OECD. (2021). *Climate Change and Long Term Fiscal Sustainability,* p. 4 (link).

a. lowering tax revenues from reduced household and corporate income;

b. lowering dividends from or increasing potential bailout costs for state-owned enterprises;

c. raising debt servicing costs resulting from a country's weaker trade position following reductions of foreign direct investment reflecting climate impacts on competitiveness;[87]

d. requiring responses to the materialization of fiscal risks arising from physical and transition risks, including zoonotic diseases like COVID-19, extreme weather events and compounding effects among such events that amplify economic and financial loss;[88]

e. eroding trust in financial markets to the extent sovereign borrowing costs increase and access to capital markets is restricted;[89] and

f. requiring the government to serve as the lender of last resort in response to severe economic or financial shocks.[90]

This perspective is echoed by the OECD, which encourages the incorporation of environmental risk assessments taking into account the uncertainties associated with climate change into longer-term fiscal assessments to assess long-term fiscal sustainability.[91]

Similar to climate change, social risks can also have macroeconomic implications. Major social shocks such as the COVID-19 pandemic, natural disasters or conflicts leading to displacement; or longer-term developments such as demographic transitions, have significant implications for the macrofiscal framework, and also highlight the need for a longer-term investment in human capital, and in inclusive development.

Tools

The main budget tools under consideration address two key dimensions of Strategic Planning: strategic allocation and costing of policies. Tools can be used at different scales to:

a. Make operational and actionable plans and budgets;

b. Estimate resources and financing required to achieve targets;

c. Guide policymakers on prioritizing, sequencing and maximizing efficiency of budget allocations; and

d. Develop financing strategies.[92]

The brief overview of identified tools for Strategic Planning below classifies tools by area of application, focusing on two larger categories for green budgeting and gender-responsive budgeting. The principal focus is on identified approaches to assessing the costs and benefits of policies and programmes, including where possible the distributive effects; and the costs of policies and programmes, capturing an integrated dimension where possible. However, the relevant tools and approaches for integrating the objectives remain limited.

87 Coalition of Finance Ministers for Climate Action. (2021). *Climate-Related Risks for Ministries of Finance: An Overview,* pp. 10–11 (link).

88 Coalition of Finance Ministers for Climate Action. (2021). *Climate-Related Risks for Ministries of Finance: An Overview,* pp. 15–16 (link).

89 Ibid.

90 Ibid.

91 OECD, *Inventory of Building Blocks and Country Practices for Green Budgeting,* p. 20 (link).

92 Derived from UN Women. (2015). *Handbook on Costing Gender Equality* at p. 8 (link).

Countries do not always employ the same sets of tools within a priority area. For example, in their survey of country practices around green budgeting, the OECD catalogued the use of key tools central to the implementation of green budgeting. As captured in Figure 5 below, environmental impact assessment and cost–benefit analysis are used widely, as are carbon assessments and carbon pricing instruments. Environmental audits and pricing of biodiversity/ecosystem resources are less frequently deployed. This suggests that even within a priority area, such as budgeting for environmental preservation and conservation, Member States require customizable approaches to suit their political contexts, institutional capacities and funding constraints.

	Environmental Impact Assessments (*ex ante* or *ex post*) (individual measures)	Environmental Cost Benefit Analysis (individual or all measures)	Carbon Assessments	Carbon pricing instruments (incl. fuel and carbon taxation, emissions trading systems, etc.)	Environmental tax reform	*Ex ante* or *ex post* green budget tagging	Using a shadow price of carbon	Regular review of environmentally harmful tax expenditures and subsidies	Statistical green tagging / reporting	Green perspective in spending review	Inclusion of climate considerations in long-term fiscal sustainability analysis	Green perspective in performance setting or performance budgeting	Environmental audit or validation of the budget	Biodiversity / Ecosystem pricing	Green Balance Sheet
Austria	■		■												
Canada	■	■		■				■	■						
Colombia	■	■	■	■	■	■					■				
Denmark	■	■	■		■		■			■					
France	■	■	■	■		■	■	■	■						
Ireland	■	■	■	■	■	■	■			■					
Italy	■	■	■			■			■			■			
Luxembourg						■									
Mexico						■									
Netherlands	■	■	■	■	■			■			■				
Norway	■	■	■	■	■	■	■		■						
Portugal	■			■	■										
Sweden	■	■	■	■	■		■								
United Kingdom	■	■	■	■	■		■	■		■	■	■			
Total	12	10	10	9	8	7	6	4	4	3	3	2	0	0	0

Figure 5: *Use of green budgeting tools from across OECD countries (available at: https://www.oecd-ilibrary.org/sites/acf5d047-en/1/3/2/index.html?itemId=/content/publication/acf5d047-en&_csp_=3bdc5c1c30cb759d429453c611be28ba&itemIGO=oecd&itemContentType=book#section-d1e313)*

Tools to assess and trade-off the integrated impacts of policy alternatives on inclusive and sustainable development and climate change are maturing slowly. The prioritization, sequencing and optimal design of budget allocations is a core objective of the tools used in the Strategic Planning phase of the budget cycle. The current set is more focused on achieving this goal within a priority area, but does not advance understanding of the extent to which policies contribute to multiple objectives and whether they are mutually reinforcing or potentially undermine other goals. This is an acute shortcoming arising from the way these tools developed. Gender-responsive budgeting was initially developed several decades ago and learning from practice has informed other forms of priority-based budgeting. Over time, it is possible that existing methods and approaches may evolve or emerge to meet this important need.

Green budgeting tools

• Ex ante Environmental Impact Assessment

Ex ante EIAs improve the link between government policy and expenditure by comparing the environmental impacts of alternative policies to identify those most responsive to a government's priorities. The ex ante EIA process can vary significantly in scope and objective, and may open up opportunities for public participation in certain circumstances. Ex post EIAs can also inform decisions about the continuation or adjustment of specific policies. EIAs are more frequently applied for individual projects or policies, and are rarely applied at the level of the budget as a whole, however.[93]

• Environmental Cost–Benefit Assessments

ECBAs analyse the net benefits of individual policies to determine whether they are worth pursuing as well as how they compare to other policy options, for example the costs and benefits of a renewable energy project compared with a coal-fired power plant. They require aggregating economic, environmental and social net benefits across populations, geographies and time. The environmental impacts assessed can either be the deliberate aim of the action or an indirect consequence. The aggregation process requires that the various impacts be measured in monetary terms, to provide a common basis by which to compare outcomes. This conversion into monetary value as a common unit for comparison draws on a number of techniques, including valuation using subjective well-being approaches, revealed and stated preference methods, contingent valuation, the valuation of ecosystem services and health valuation. The OECD observes based on survey results that "[t]here are large variations in the extent to which CBA is being carried out, and the extent to which various environmental impacts are being taken into account in these analyses, across economic sectors and across analytical contexts."[94] There is no agreed method to incorporating distributional incidence of costs and benefits into ECBAs.[95]

Notable Member State practice in the area of ECBAs includes Thailand's pilot Climate Change Benefits Analysis (CCBA). The purpose of the CCBA is to identify government investments that will become significantly more important as climate change takes place, because they reduce the loss and damage from climate change and/or reduce GHG emissions. CCBAs are required by a clause in the budget submission template to justify budget requests.[96]

• Environmental taxes and carbon pricing

Pricing in the externalities of pollutants, including GHG emissions, allows governments to align the economic incentives of private actors with their environmental priorities and supports the achievement of NDCs. Carbon pricing can occur through two mechanisms: direct environmental taxes or emissions trading systems.[97] Carbon pricing is viewed as a cost-effective policy tool because it gives emitters an ongoing incentive to cut emissions or pay the social cost of carbon and contributes to alignment of public and

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93 OECD. (2020). *Inventory of Building Blocks and Country Practices for Green Budgeting,* pp. 21–23 (link).

94 OECD. (2018). *Cost Benefit Analysis and the Environment,* Ch. 1 (link).

95 Ibid., Ch. 2.

96 UNDP. (2015). *CCBA Guidelines* (link).

97 The World Bank. (2014). *Pricing Carbon* (link).

private decision-making.[98] Carbon pricing should go hand in hand with fossil fuel subsidy reform to ensure the effectiveness and equity of these measures. Phasing out harmful spending and tax expenditure can free up resources to advance inclusiveness, as in Indonesia where the government reduced subsidies on petrol and diesel and spent the savings on social programmes for low-income households.[99] Unfortunately, current subsidization of fossil fuels sometimes implies that carbon pricing is negative.[100] Carbon pricing may also contribute to revenue, depending on the design.[101]

Government spending can also facilitate the introduction of carbon pricing by supporting complementary measures to reduce carbon emissions[102] and supporting policies to offset the complex poverty and distributional impacts of carbon pricing.[103] Some possible measures to target affected populations and businesses include cash transfers to the most vulnerable; investing in or subsidizing mass transit; reductions in taxes; assisting workers whose livelihoods depend on fossil fuels to new jobs; and providing fiscal and technical support to areas affected by closed industries.[104]

Gender-responsive budgeting tools

- Rapid Gender Assessment/Gender Needs Assessment

During the COVID-19 Pandemic, UN Women created a Rapid Gender Assessment survey to advocate for equality building on the Gender Needs Assessment. The survey sought actionable data on pre-existing gender gaps, employment, livelihoods, household activities and access to goods and services. Administered in over 50 countries, the surveys captured the increase in gender inequality resulting from COVID-19. These insights led to new government policies in the Maldives (extending income support to self-employed women) and Albania (increase in budget allocations to severely impacted sectors).[105]

- Gender Impact Assessment

Ex ante Gender Impact Assessments can improve the inclusiveness of expenditure. These should be viewed as integral to the Strategic Planning stage of the budget process and accompany budget proposals tabled in parliament. Austria, Canada, Iceland and Sweden prepare such assessments by law, with other Member States using ex ante GIAs even without legal requirements. Canada was able to use the legal requirement in its COVID emergency response to identify gender inequalities (such as an increase in gender-based violence) and address these through budget measures (e.g., a US$50 million allocation for shelters and sexual assault centres).[106] Similarly, initial GIAs of Iceland's COVID-19 response found that most of the jobs created would have been done by men, leading to project adjustments that improved the gender impact of its investment programme.[107]

98 OECD. (2018). *Effective Carbon Rates 2018: Pricing Carbon Emissions Through Taxes and Emissions Trading.* OECD Publishing, Paris, (link)

99 OECD. (2020). *Inventory of Building Blocks and Country Practices for Green Budgeting* at pp. 21–23 (link).

100 Ibid., p. 11.

101 Ibid., p. 16.

102 Ibid., p. 10.

103 Shang, B. (2021). *The Poverty and Distributional Impacts of Carbon Pricing: Channels and Policy Implications.* IMF (link).

104 Ibid., pp. 22–23.

105 UN Women. (2021). *COVID 19 and Fiscal Policy: Applying Gender-Responsive Budgeting in Support and Recovery Measures* at p. 3 (link). Additional results of the surveys are available at (link).

106 Ibid., p. 5 (link).

107 OECD, *Green Budgeting and Tax Policy Tools to Support a Green Recovery,* p. 6 (link).

Costing

A second element of strategic budget planning is costing of policies and programmes, which is essential to support adjustments in budget ceilings at the sector level. The INFF's Financing Needs Assessment Guidance provides an overview of a range of quantitative costing methodologies, from top-down approaches to establish an estimate of overall financing requirements to detailed, activity-based, bottom-up calculations. Numerous costing tools targeting particular action areas have been developed, many of which are catalogued in the INFF's Financing Needs Assessment Guidance. These tools extend line ministries' abilities to produce good-quality budget proposals by improving costing capabilities and generating credible information about sector needs.[108] The guidance emphasizes integration across sectors, policy priorities and financing options, medium-to long-term perspectives and addressing risk. However, the majority of costing approaches do not yet capture the potential efficiencies from integration of policies and programmes, the synergies and trade-offs between policy objectives and sectors, or equity assessments. Current costing tools may not accurately assess the costs of operationalizing a budget programme or achieving a desired outcome, in part because they do not capture the integrated nature of activities required to achieve the SDGs and climate adaptation and mitigation for all.

Table 2: Costing tools

Tool	Lead agency	Description
Handbook on Costing Gender Equality	UN Women	Outlines a common process for running a costing exercise, relying on calculations of unit cost
Guidebook for Assessing SDG Needs	UN-ESCAP	Explains, among other concepts, how costing SDGs can accelerate outcomes; the application of various costing methods to the SDGs; and ways that fiscal policies can support SDG progress[109]
Input-Outcome SDG Costing[110]	IMF	Calculate additional spending required for education, health, roads, electricity and water by setting levels of key inputs and associated unit costs at similar values to those in countries with similar GDPs but higher development outcomes
Impact40 Tools for Transformational Change	UNFPA	Estimates the costs of preventable maternal deaths, gender-based violence, female genital mutilation and child marriage as well as meeting demand for family planning
SimuEd	UNESCO	Estimates the costs of education sector plans
Assessing Financing Options for Social Protection and Social Protection Floor Cost Calculator	ILO	The former provides practical guidance on how fiscal space can be created for a universal social protection system. The latter estimates the costs of the different components of social protection floors
Guide on Public Finance for Children in Early Child Development[111]	UNICEF	Provides guidance on tools for diagnosing, analysing and remedying public finance issues in different country contexts related to ECD, including costing with additional guidance on advocacy during the COVID-19 pandemic and recovery
UNICEF Public Finance for Children Toolkit[112]	UNICEF	Presents the most common public finance analysis tools that UNICEF uses to strengthen spending for essential investments and services for children, including guidance on costing

108 World Bank. (2021). *Investing in Human Capital for a Resilient Recovery: The Role of Public Finance.* World Bank, Washington, DC. World Bank. License: CC BY 3.0 IGO, p. 34 (link).

109 UN-ESCAP, *SDG investment Guidebook* (link).

110 Gaspar, V., Amaglobeli, D., Garcia-Escribano, M., Prady, D., Soto, M. (2019). *Fiscal Policy and Development: Human, Social, and Physical Investments for the SDGs.* IMF, pp. 25–8 (link).

111 UNICEF. (2019). *Global Resource Guide on Public Finance for Children in Early Childhood Development* (link). *Also see ECDAN.* (2021). *Protecting and promoting public financing of early childhood development during the COVID-19 crisis* (link).

112 Forthcoming.

National Adaptation Plans (NAPs) are important instruments to support the integration of measures to offset and reduce the impact of climate change on livelihoods and poverty into the budget, and need to be costed. Thirty-one countries have so far developed NAPs. Fiji has reviewed approaches for costing of NAPs and has developed a methodology for rapid assessment using bottom-up approaches and an Excel-based tool to obtain estimates in a relatively short time, with options for more advanced analysis depending on capacity.[113]

Costing methodologies are beginning to demonstrate the potential for cost-efficiencies or enhanced outcomes from a more integrated approach.

For example:

a. Bangladesh, in its 2017 SDG Financing Strategy, sought to avoid overestimating costs by categorizing policies that advanced more than one SDG. By capturing interventions on a synchronization network and adjusting the total costs accordingly, Bangladesh estimated its total requirement to meet the SDGs as between 73 per cent and 83 per cent of the gross sum of annual unsynchronized cost estimates.[114]

b. Individual costing models do not always adequately account for the co-benefits of spending in other sectors. According to a UNICEF analysis of subnational expenditure and SDG outcome data in Ethiopia, conventional unit-cost models do not successfully predict SDG outcomes. There is greater explanatory power in models that incorporate spending in other sectors and interactions between cross-sectoral spending.[115] The study supports the hypothesis that comprehensive and integrated investments across key social sectors have a greater likelihood of successfully achieving the SDGs subject to fiscal constraints than single-sector solutions.[116]

Box 1: The impact of cross-sectoral spending on SDG outcomes at the subnational level in Ethiopia

The 'unit-cost approach' is one of the most commonly employed methods for estimating costs. While straightforward and easy to use, this approach to costing may not account for changes in the investment required to achieve the desired outcome for hard-to-reach populations (thereby underestimating cost) nor estimate the impact of cross-sectoral synergies (thereby overestimating cost). Recognizing these limitations, a costing study from Ethiopia estimated the cost for achieving a selection of child-sensitive SDGs, after taking account of fiscal synergies generated from cross-sectoral spending. By comparing progress towards child-focused outcomes subnationally between districts with high and low levels of 'co-finance' between sectors (e.g., districts that employ only health spending to tackle child wasting versus those that co-invest in agriculture and education), the study estimated that the cost of achieving selected child-focused outcomes would be lower than under a unit cost scenario.

Source: UNICEF, Financing the Child Centred Sustainable Development Goals (SDGs) in Ethiopia (link).

113 Government of Fiji, Ministry of Economy. (2020). *Costing Methodology for Fiji's National Adaptation Plan* (link).

114 Bangladesh, *SDGs Financing Strategy*, p. 43.

115 UNICEF. (2018). *Financing the Child Centred Sustainable Development Goals (SDGs)* in Ethiopia, p. 20 (link).

116 Ibid.

Based on this brief review of tools related to Strategic Planning, there is a clear need to develop systematic tools to find policy and budget synergies. For example, the INFF Financing Needs Assessment Guide proposes three foundational questions to find policy synergies:

a. Are there overlaps in the costed outcomes/activities that may result in overestimated financing needs?

b. Could interventions identified in one sector serve the achievement of objectives in other sectors too?

c. How can double counting of required inputs/interventions be avoided while synergies are advanced?[1]

These questions can be applied systematically to consideration of the synergies and trade-offs between climate, sustainability and inclusion objectives.

Recommendations

To enhance alignment of Strategic Planning in national budgets with sustainability, climate and inclusion goals, a number of actions can be taken. Relevant areas for actions include understanding the resource envelope and macrofiscal risk, integrating distributional issues in assessments of climate mitigation and adaptation policies, and adapting costing methodologies to better account for potential cost-efficiencies from synergies between different policies. In some of these areas methodologies and practice are at an early stage.

Improve estimates of resource envelopes and demands by reflecting climate risk, social risks and SDG-aligned policy actions in macrofiscal risk assessments or reviews (e.g., Financial Stability Assessments, Debt Sustainability Analyses, Fiscal Risk Assessments and Management Statements, etc.). Despite the unknowns of climate change, government fiscal forecasts must start reflecting and planning for the possible range of outcomes ahead and making investments today in resilience aligned with the SDGs that addresses the needs of all.[118] System-level risks, opportunities and vulnerabilities must be reflected in medium-term expenditure forecasts and policy priorities. Protective measures against potential 'destabilizing feedback loops' are required (e.g., if reduced public spending leads to lower labour demand and subsequently lower revenues).[119] This may build on the experience of responding to the COVID-19 pandemic, where governments were called upon to take extraordinary budgetary measures to support livelihoods and the economy. Such planning may also draw on tools such as the IMF's principles and practices of effective risk disclosure, analysis and management, among others.[120]

Prepare for climate and social fiscal risk by including risk-sharing financing instruments (contingency funds, credit lines, traditional insurance, state-contingent debt clauses, etc.) into financing options, including as part of the INFF.[121] Climate risks are not faced by countries in proportion to their contribution to climate change. Those countries that contributed the least to GHG emissions may be most at risk of

117 Adapted from *Financing Needs Assessment Guidance,* p. 7 (link).

118 Ibid.

119 Coalition of Finance Ministers for Climate Action. (2021). *Climate-Related Risks for Ministries of Finance: An Overview,* pp. 10–11 (link). The CFM note that likely and recurring climate events and different sources of risk and sectors could gradually or abruptly turn into a vicious cycle. They provide an example where climate physical and transition risk leads to higher probabilities of loan default, leading to tightened lending conditions, which increases the costs and delays the transition of the low-carbon economy.

120 Ibid.

121 Ibid.

droughts, fires, cyclones or floods. Preparing for disproportionate risk might include creating contingency funds to respond to emergencies; establishing emergency credit lines between central banks; purchasing traditional insurance against climate events; and debt service relief clauses in borrowing instruments for climate shocks that permit increased expenditure (including for social protection) upon certain trigger events. The design of such instruments must recognize the fundamental importance of continuing to invest in the SDGs and ensuring equitable distributions in the event of climate shocks. Negotiating such protections before climate events, rather than after the fact, is good practice likely to reduce costs.

Advance inclusion by analysing the distributional implications of carbon taxes, carbon markets and other climate-related fiscal measures (including intragovernmental transfers). Hypothecated taxes, carbon markets and other climate-related fiscal measures will have different impacts on different population groups. Governments must design policies with a sophisticated understanding of these distributional implications to leave no one behind. For example, a carbon tax imposed on fuel is a strong policy measure if it is also coupled with a redistributive subsidy to assist those who need assistance to maintain their livelihoods and well-being while they reduce their dependence on fossil fuels. As climate change makes the vulnerable more vulnerable, it is crucial that the measures to address and mitigate climate change do not further accentuate that vulnerability or create additional gender inequalities. Tools including vulnerability, damage and loss assessments, and fiscal incidence assessments can be deployed to assess potential distribution effects of policies, including gender considerations.[122] This may also include assessing intergovernmental fiscal transfer formulas to ensure that climate vulnerability is adequately reflected in metrics (e.g., poverty, deprivation) used to determine amounts transferred from central to subnational governments. A practical example is the Philippines People's Survival Fund, which annually transfers funds to local governmental units and accredited local/community organizations to implement climate change adaptation projects that will better equip vulnerable communities to deal with the impacts of climate change.[123]

Assess the climate and sustainability impact of subsidies and rebalance expenditures or mitigate unwanted or unintended impacts of subsidies based on these assessments to achieve inclusive growth while maximizing climate resilience. For example, approximately half of policy support for energy in COVID-19 recovery packages is directed towards fossil fuels.[124] Redirecting this kind of support towards a low-carbon, inclusive recovery could provide reasonably straightforward opportunities to advance climate goals and SDGs. Rebalancing must take into account the links between the use of natural resources, subsidized fossil fuel use and the livelihoods of those who may experience multidimensional poverty.

122 UNDP. (2021). *Budgeting for Climate Change, A Guidance Note for Governments to Integrate Climate Change into Budgeting* (link).

123 National Integrated Climate Change Database and Information Exchange System. *People's Survival Fund* (link). For more details on the progress of the Fund, please see Department of Finance, Republic of the Philippines. (2020). *People's Survival Fund Seeks to Find Solution to Climate Crisis* (link).

124 OECD, *Green Budgeting and Tax Policy Tools,* p. 3. See also, FAO. (2021). *A multi-billion-dollar opportunity – Repurposing agricultural support to transform food systems* (link).

Develop and apply costing tools that identify options to integrate climate, inclusion and sustainability objectives. Today's costing models estimate the spending required for priorities like ending maternal deaths or building roads. For the most part, these tools do not provide a picture of spending synergies (e.g., capturing the reductions in the cost of lowering maternal deaths possible by investing in girls' education); GHG emissions (e.g., considering the contribution of low-carbon social infrastructure to reducing emissions); or provide an indication of how climate change may affect the programmes (e.g., including the costs of road reconstruction in the event of coastal erosion). Detailed analytical and empirical work is required to develop integrated models that consider the co-benefits and trade-offs of pursuing joint priorities as well as understanding how achieving the SDGs and inclusive societies may be challenged in various climate scenarios. This will help decision makers assess trade-offs between priorities; maximize against GHG emissions constraints; or identify the risks that a changing climate might pose to achieving particular SDGs and inclusion. For example, investments in the capacity of vulnerable populations (including women, girls and people with disabilities) to adapt to climate change are estimated today to be underfunded by US$140 Billion to US$300 Billion annually.[125] Costing methods that estimate the cost of adaptive social protection for women, girls and people with disability under different climate scenarios and that estimate the costs (including GHG emissions) and benefits (including synergies) of different levels of investment in social protection interventions may improve resource efficiency and climate adaptation as well as disrupt the cycle of vulnerability.[126]

Develop and apply tools to measure and maximize synchronization effects. The government of Bangladesh categorized policies that advanced more than one SDG and adjusted its total estimated costs for achieving the SDGs accordingly. This resulted in an estimate of the total financial requirement to meet the SDGs as between 73 per cent and 83 per cent of the gross sum of annual unsynchronized cost estimates.[127] Member States may wish to conduct similar exercises for their own budgets and, over time, encourage line ministries to maximize the synchronization impact of their policies. Such an approach may permit Member States to eventually align initiatives for inclusion, climate resilience and sustainability at the policy level, in addition to the expenditure level.

125 Inter-agency Task Force on Financing for Development. (2021). *Financing for Sustainable Development Report,* p. 29 (link).

126 World Bank, *Investing in Human Capital For a Resilient Recovery: The Role of Public Finance,* p. 29 (link).

127 Bangladesh, *SDGs Financing Strategy,* p. 43.

Budget Formulation

The Budget Formulation stage can be leveraged to advance policy coherence between climate, sustainability and inclusion objectives. During this stage, the MoF allocates planned expenditure across sectors and policies for the next fiscal year and provides indicative medium-term allocations. It assesses overall resource availability; sets aggregate expenditure and revenue targets; prepares the Budget Call Circular; provides ministry ceilings; assesses submissions made by the ministries in response to the circular; tags allocations with particular priorities, if required; and prepares draft estimates for submission to and approval by parliament.[128] If a medium-term budget framework is in place, indicative allocations for a 3–4-year period are also made during this stage. The allocation process for the coming year and medium term can be used to ensure that a government's sustainability, inclusiveness and climate resilience policy priorities drive budgeting choices by line ministries and are advanced by the whole-of-government, through key processes including the Budget Call Circular, ex ante Budget Statements and budget tagging. Within budget tagging there are multiple approaches focused on particular policy objectives.

Key practices and procedures

- Budget Call Circular

The Budget Call Circular may be the "single most important guidance document prepared by budget departments" and a "key vehicle for operational guidelines and targets."[129] It should reflect the priorities established in the Strategic Planning phase and provide a clear set of rules for the budget process.

Budget Call Circulars can be used more extensively to pursue integrated approaches to climate, inclusion and SDG objectives.

128 World Bank. (1998). *Public Expenditure Management Handbook*, p. 102 (link).
129 IMF, *Green PFM*, p. 11 (link).

a. **Climate.** The Budget Circular could state that climate change will be a major criterion for budget allocation, ask line ministries to identify climate-friendly investment projects or link spending to strategic environmental priorities, or require justification of all new policy proposals in terms of their climate impact, among other measures.[130] This approach could result in line ministries owning and implementing their climate commitments.[131] As one potential model, climate change expenditure tagging (described further below) began simply with guidelines in the Budget Call Circular in the Philippines.[132]

b. **SDGs.** Similarly, Budget Circulars should "reflect on SDGs while justifying the budget proposals."[133] For example, in Mexico SDG targets are broken into sub-targets that can be linked to budget programmes, facilitating policy coordination and tracking of budget contributions. The methodology is included within the Budget Circular.[134] In Cambodia, the inclusion of nutrition in the 2017 Budget Call Circular contributed to an increase in the budget allocation for nutrition by 30 per cent.[135] Still other examples may exist but are not yet documented.[136]

c. **Inclusion.** Some countries have used their Budget Call Circulars to encourage line ministries to advance inclusion. In Uganda, for example, Budget Call Circulars have asked ministries to submit specific actions to address gender inequality, with specific instructions on how to report their plans and measure progress.[137] The IMF observes that in Uganda, "gender budgeting became integral to the budgetary process and influenced fiscal policies, even though in practice, there remains considerable scope for improving the substance of gender budgeting."[138] In Mali, Budget Call Circulars instruct 10 priority sectors to engage in gender-responsive planning and budgeting, including making plans to reduce gender gaps, generate gender-sensitive indicators; allocate resources; and produce a report.[139]

Prior to or along with reviewing ministry submissions in response to the Budget Circular, MoF or parliament can require climate, environment, equity or sustainability assessments or reviews of policy measures.[140] Some countries require such assessments by law for certain priority areas like gender (e.g., Austria, Canada, Iceland and Sweden)[141] or environment- and climate (e.g., France). Ex ante assessment of new spending programmes, as discussed in the previous section on Strategic Planning, can highlight alignment with strategic goals, identify baselines, estimate costs and propose impact indicators and targets.[142]

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130 Ibid., p. 9.

131 Coalition of Finance Ministers for Climate Action, *Report on Helsinki Principle 6,* p. 15 (link).

132 Ibid, p. 24 (link). Also see World Bank. (2021). *Technical Annex: Overviews of Climate Expenditure Frameworks. EFI Insight-Governance. Washington,* DC: World Bank (link).

133 UNDP, *Budgeting for the SDGs,* p. 17 (link). In a discussion on gender-responsive budgeting, for example, the IMF observes that the circular may state that "gender be reported in budget submissions, and be considered an important criterion during negotiations." The same paper notes, however, that as of 2017 no G7 country produced a budget circular that provided instructions to spending ministries on how to implement principles of gender budgeting. IMF, *Gender Budgeting in G7 Countries,* pp. 10 & 20 (link).

134 Rivero del Paso, L. (2021). *Leveraging Public Budgets for the Sustainable Development Goals: the Case of Mexico.* IMF PFM blog (link).

135 UNICEF, *Guide to PFM in ECD,* p. 57.

136 Gouzien, Q. (2020). *Integrating the SDGs into the Budget: the experience of African Countries.* IMF PFM blog (link).

137 Stotsky, J.G., Kolovich, L. and Kebhaj, S. (2016). *Sub-Saharan Africa: A survey of Gender Budgeting Efforts.* IMF Working Paper WP/16/152, p. 12 (link).

138 Ibid., p. 37.

139 Ibid., p. 34

140 For environment- and climate-related assessments, see IMF, Green PFM, p. 9. For gender assessments, see UN Women, *COVID-19 and Fiscal Policy,* p. 5. For equity assessments, see GIZ, Equity Budgeting Tool, pp. 28–9 (link).

141 UN Women, *COVID-19 and Fiscal Policy,* p. 5.

142 OECD, *Inventory of Building Blocks and Country Practices for Green Budgeting,* p. 22 (link).

- Budget Statements

Budget Statements on the ex ante impact of a draft budget on the achievement of SDGs and climate goals on all sectors of the population, including the vulnerable, provide helpful transparency. For example, Finland required each ministry to supplement its budget proposal with brief paragraphs describing how sustainable development would be reflected in their sectoral policies in 2018 and the systematic use of the SDGs in the justifications for the main expenditure titles in the 2019 budget.[143] Norway has a similar practice, with a requirement that the lead and supporting ministries assigned to each of the 17 SDGs submit implementation status updates in their budget proposals.[144] Such statements can be helpful in "kickstarting reform processes within ... available human, financial and technical resources."[145] Other countries publishing Budget Statements include Morocco (gender), Rwanda (gender) and France (environment and climate).[146]

- Tagging

Tagging – identifying types of expenditures within a country's budgetary system – makes allocations and expenditures visible against priorities across agencies.[147] Tagging can raise awareness on the flow of funds; mobilize resources; enhance policy coordination; focus monitoring and review efforts on priority spending areas; measure resource allocations to particular priorities; and engage civil society.[148] The data generated can be analysed to raise the quality of government spending, contribute to Budget Statements and ensure greater policy coherence as measured by SDG target 17.14.[149]

Some countries have taken a consolidated approach to SDG tagging. For example, with the support of the Joint SDG Fund, Armenia has developed SDG tagging to align sectoral policies.[150] Nepal started to assign SDG codes to all national programmes and projects in 2016/2017 based on the programme's primary contributions to the SDG goals.[151] More commonly, Member States use different tagging systems for different priorities, including pro-poor tagging, gender, child, green and climate budget tagging, discussed further below. Such priority systems may be expanded to cover other priorities, as Ecuador is considering doing with its climate budget tagging system.[152]

Tagging's limitations include:

a. Assigning tags can be subjective and open to interpretation across agencies and ministries;

b. The meaning of the tag and the tagging process may vary by country, providing limited international

143 United Nations. (2019). *Sustainable Development Goal 16: Focus on public institutions, World Public Sector Report 2019.* Division for Public Institutions and Digital Government, Department of Economic and Social Affairs, New York, June, p. 89 (link).

144 GIZ and WRI, *Connecting the Dots,* p. 47 (link).

145 UN, *World Public Sector Report 2019,* p. 93 (link).

146 Ibid, pp. 33–5 (link)

147 World Bank, *Climate Change Budget Tagging Review,* p. 11.

148 UNDP, *Knowing what you spend. Also see UN Women & UNDP, Technical Guidance Note: Mainstreaming Gender Equality in Integrated National Financing Frameworks* (link).

149 SDG target 17.14, Enhance policy coherence for sustainable development.

150 UN Joint SDG Fund. (2021). *2021 Achievements and Highlights Of the SDG Financing: Component 1 Portfolio Of the UN Joint SDG Fund* (link).

151 Government of Nepal. (2020). *Voluntary National Report,* pp. 14–15 (link).

152 OECD, *Green Budget Tagging* at 5.3.

comparability;[153]

c. Expenditures may satisfy more than one tag, leading either to a proliferation of tags or the need to determine weightings for expenditures and adding operational complexity either way;[154]

d. Incentives may exist to over- or under-tag expenditures;[155]

e. Tagging measures the amount of expenditures, which must be further analysed to determine coherence, efficiency, efficacy or equity;[156] and

f. Finally, unless the underlying chart of accounts system reflects the SDGs and climate goals, tagging operations will always be viewed as additional work for both line ministries and central budget authorities.

Potential corrective measures include:

a. Ensuring internal and external scrutiny and oversight of tagging methodology and outcomes by the supreme audit institution, parliament and civil society;

b. Quality assurance by the central budget authority;

c. Ensuring coherence between tagging and other fiscal (e.g., tax expenditures) and non-fiscal (e.g., infrastructure and public procurement policies) legislative, regulatory or policy actions;[157] and

d. Mapping SDGs, climate adaptation and mitigation priorities against the functional budget classification to track related investments in the absence of programme budgeting. Nepal, for example, annually maps out where public investments aligned with the SDGs are allocated by the various line ministries.[158] Using this data, the Government of Nepal prioritizes allocations to lagging goals.[159]

- Gender budget tagging

Countries are adopting a variety of approaches on gender budget tagging. More than 80 countries have applied some form of gender budgeting, using tagging to varying degrees, among other elements of the methodology,[160] including Ecuador, Bangladesh, Colombia, India, Mexico, Indonesia, Nepal, Rwanda and Uganda and many OECD countries.

153 Ibid., at p. 36. The OECD is currently working with Eurostat and with countries to improve the coverage of climate and biodiversity-related expenditure in its surveys, including by helping countries identify relevant expenditure items in national data sources. The Inter-American Development Bank is currently exploring a methodology for climate budget tagging that can be linked to official statistical frameworks and classifications. This requires exploiting existing classification systems and conceptualising conceptualizing an accounting framework to organise organize the information. IADB, *Connections across Financial and Environmental Classifications Systems in the Context of Climate Change Public Budget Classification* (link).

154 ESCAP, *Guidebook*, p. 23.

155 OECD. (2021). *Green Budget Tagging: Introductory Guidance & Principles*, OECD Publishing, Paris, (link).

156 Ibid., p. 40 (link). World Bank, *Climate Change Budget Tagging Review*, p. 38 (link).

157 OECD, *Green Budget Tagging* (link).

158 Government of Nepal. (2018). *Needs Assessment, Costing and Financing Strategy for the Sustainable Development Goals* (link) and Koirala, K. (2018). *Implementation of the SDGs in Nepal: Status and Challenges* (link).

159 United Nations. (2021). *Handbook for the preparation of Voluntary National Reviews: The 2022 Edition* (link) at p. 39. See also ESCAP, *Guidebook*, p. 20 (link).

160 World Bank, *Climate Change Budget Tagging Review*, p. 13

Tagged items are sometimes presented in a Gender Budget Statement. This explains how the budget measures support gender equality priorities and goals.[161] A Gender Budget Statement can be made with or without gender budget tagging. The statement may accompany draft budget proposals (as practiced in Canada, Iceland, Japan, Korea, Mexico, Portugal, Spain and Sweden).[162] Components of a Gender Budget Statement can:

a. Identify which allocations promote gender equality, and which affect men and women differently, via a gender allocations report;

b. Explore how the budget advances a government's gender equality agenda, via a gender equality progress statement; and

c. Provide a distributional assessment of how specific budget measures or the budget as a whole affect men and women in different ways and serves to promote gender equality, via a gender impact analysis.

The SDG Fund with engagement of UN Women is supporting national efforts on gender-responsive budgeting, including the collection and use of gender data, as part of its support in Member States to develop and implement INFF. This includes support for Cameroon, where efforts will be made to track public expenditures in the social sectors to better estimate and redress the loss of resources and quantify the proportion that reaches the final beneficiaries. The Fund is also supporting work in Tajikistan on the development of an integrated tool for tracking and reporting of on-budget gender-disaggregated SDG financing.[163]

- Green budget tagging

Green budget tagging allows countries to identify areas of expenditure that are helpful or harmful to green objectives.[164] Such a system can cover a large range of environmental objectives, including climate change. Key design considerations include:

a. Defining "green" (which will vary by national country context);

b. Deciding which budget measures to tag (including whether to tag subnational government budgets);

c. Developing a classification system, including whether to capture budget items with negative impact;

d. Deciding what type of information is needed from the tagging process, including whether a weighting system is required;[165] and

e. Quality assurance processes.[166]

Reporting along with the budget can provide summary information on how budget measures align with a country's green objectives.[167] This can include General Green Budget Statements, Green Progress Statements and distributional impact analysis.[168] The objectives of these statements are similar to those for gender budgeting, discussed above.[169]

161 See, for example, IMF, *Gender Budgeting in G7 Countries,* p. 10.
162 OECD, *Gender Budgeting Path to Action,* pp. 16–17.
163 UN-DESA, internal document.
164 OECD, *Green Budgeting and Tax Policy Tools,* p. 4.
165 OECD, *Green Budget Tagging,* p. 18.
166 Ibid., p. 32.
167 OECD, *Green Budgeting Framework Highlights,* p. 3.
168 OECD, *Green Budgeting and Tax Policy Tools,* p. 9.
169 Ibid., p. 9.

France appears to be the only country currently tagging expenditures that have an adverse impact on the environment.[170] Budget lines and tax expenditures are classified according to their impact (either positive or negative) on six environmental objectives: climate change adaptation, climate change mitigation, biodiversity and sustainable land use, circular economy and risk prevention, water resources management and pollution abatement. The results of the tagging are presented as part of the budget. This system was used in September 2020 to assess and improve the French government's EUR 100 billion *Plan de Relance.* The tagging system is still relatively new, however, and not yet incorporated into France's FMIS. It is also currently focused on budget preparation, not actual expenditure. As the Government of France observes, the value of the exercise is that it highlights policies that may have unfavourable environmental impacts; raises questions about the policy tools; and may lead to environmental mitigation efforts.[171]

Other countries have made considerable progress on green budget tagging, as well, including implementing in FMIS and tagging through execution. These include Ireland (implemented green budgeting as part of the budgetary and estimates process), Nepal (introduced climate budget tagging with a view to accessing international climate funds in response to extreme weather events) and the Philippines (to help mobilize financing for its NDCs, described further below).[172]

- Climate budget tagging

Climate budget tagging (CBT) is a specific type of green budget tagging to address the finance challenges associated with climate change mitigation and adaptation. CBT explicitly builds on prior budget work related to gender, poverty reduction and children.[173] Specific benefits of CBT can include strengthening the national framework for green bonds by providing rules and procedures for deciding the eligibility of projects, tracking the financing and reporting (e.g., Indonesia Green Bond and Green Sukuk; Ireland Green Bond)[174] and identifying funding gaps and under-resourced priorities.

As with green budget tagging, CBT requires defining and classifying climate expenditures; assessing and measuring the relevance of those expenditures; and determining how those expenditures will be tagged. Key design considerations include the objectives of key stakeholders; the depth and breadth of coverage; the constraints of the national PFM system; the extent of climate knowledge of relevant officials; the engagement of MoF officials and other internal partners; the existence of internal platforms;[175] and deciding how to distinguish climate adaptation from climate mitigation measures.[176] While the integration of subnational government spending on climate change is recommended, an observed common problem is the absence of a unified structure for classifying expenditures at national and subnational levels.[177] UNDP observes that CBT may be most valuable where climate change expenditure reports are mainstreamed in the budget cycle and published as part of the budget reporting system; are used to inform parliamentary debate; and are published in climate expenditure reports available to the general public and civil society.[178]

170 World Bank, *Climate Change Budget Tagging Review,* p. 24.

171 Government of France. (2020). *Report on the Environmental Impact of the Central Government Budget,* p. 8 (link).

172 OECD, *Green Budget Tagging,* Annex A.

173 UNDP, *Knowing What You Spend,* p. 1.

174 Ibid., p. 44.

175 Ibid., p. 16.

176 OECD, *Green Budget Tagging,* section 1.2.

177 UNDP, *Knowing What You Spend,* p. 19.

178 Ibid., p. 49.

Several Member States are using CBT.

a. Nepal first implemented CBT to help access international climate funds. Tagging was rolled out from a few ministries to cover all central government entities. Sectoral ministries tag and weigh proposed budgets, which are then validated by the National Planning Committee. The results are published in an annex to the budget and as part of an annual citizens' climate budget.[179]

b. Bangladesh has implemented a system to tag and weight expenditures that contribute to one of the six thematic areas (food security/social protection/health, comprehensive disaster management, infrastructure, research and knowledge management, mitigation and low-carbon development, capacity-building and institutional-strengthening) or one of the 44 programmes under the national climate change policy.[180] Bangladesh rolled out the tagging in a gradual manner, expanding the ministries involved with time. This has led to higher quality data and a more manageable implementation.[181]

c. The Philippines introduced CBT to mobilize funding for its NDCs. Expenditures that address mitigation and adaptation are first tagged and weighted; then sub-classified according to the country's National Climate Change Action Plan.[182] The government set up a temporary help desk to assist line ministries and a dedicated one to assist local government units in the first years of implementing CBT, as well as providing other forms of communication and support.[183]

d. Similarly, Ireland implemented CBT in part to facilitate the country's commitment to and use of green bonds. The government adopted the International Capital Markets Association standards for classifying climate-related expenditures. Tagged expenditures are presented to parliament.[184]

Examining recent practice, some key lessons learned for CBT include:

a. Define the policy objectives of implementing CBT and assess alternatives;

b. Define the policy scope of tagging (e.g., tag all SDG related expenditures; only those related to climate change; etc.), to ensure the tagging system can be implemented and operationalized with reasonable investment;

c. Engage key institutional stakeholders and line ministries in design and implementation;

d. Align definitions and tagging methods with national climate change policies and strategies;

e. Integrate tagging across the budget cycle;

f. Extend CBT beyond the central government, to subnational governments and state-owned enterprises;

g. Design the tagging system so that it aligns with ICMA's Green Bond Principles and can therefore mobilize climate finance, should the government wish to;

h. Generate useful information for decision makers;

179 OECD, *Green Budget Tagging,* Annex A.
180 Ibid., p. 36.
181 Ibid., p. 33.
182 Ibid., Annex A.
183 UNDP, *Knowing what you spend,* p. 40.
184 OECD, *Green Budget Tagging,* Annex A.

i. Undertake Public Expenditure Reviews to test alignment and outcomes; and

j. Promote transparency, engagement and debate.[185]

The CBT process differs across countries. As shown in Table 3, countries employ CBT at various stages of budget formulation and implement it in a variety of manners to suit their particular circumstances and needs.

Table 3: CBT's budget process touch points. Adapted from World Bank. (2021). Climate Change Budget Tagging: A Review of International Experience, p. 30 (link).

Country	Tagging during budget preparation	Tagging after budget preparation	Manual tagging	IFMIS tagging	Climate in budget documents or annexes	Climate citizens budget	Reporting on actual expenditures
Bangladesh	✓			✓	✓	✓	✓
Cambodia		✓	✓				✓
Colombia		✓	✓				
Ecuador	✓			✓	✓		
Ethiopia		✓	✓				
France	✓		✓		✓		
Ghana				✓			
Honduras	✓			✓	✓		
Indonesia				✓	✓		
Ireland	✓		✓		✓		
Kenya				✓			
Mexico	✓		✓		✓		
Moldova	✓		✓				
Nepal	✓		✓		✓		
Nicaragua	✓			✓	✓		✓
Odisha (India)	✓		✓		✓		
Pakistan	✓			✓			
Philippines	✓			✓	✓		
Uganda	✓			✓			✓ (planned)

While CBT increases awareness and transparency, it is unclear to what extent it currently impacts programme design or resource allocation. Tagging may, however, be helping mobilize external and private funding, both by identifying a portfolio of climate-relevant programmes to approach development partners, and to facilitate identification and tracking of a pipeline of suitable projects to be financed through green bonds.[188]

185 World Bank, *Climate Change Budget Tagging*, p. 9 (link).

186 See, e.g., Patel, S., McCullough, D., Steele, P., Schalatek, L. Guzmán, S., Hossain, T. (2021). *Tackling gender inequality and climate change through the budget*. International Budget Partnership, pp. 1–3 (link).

187 UNDP, *Knowing what you spend*, p. 48.

188 World Bank, *Climate Change Budget Tagging*, pp. 37–8 (link).

- Child-Focused Public Expenditure Measurement

Child-Focused Public Expenditure Measurement (C-PEM), is a method for identifying public spending related to the realization of children's rights.[189] Such spending represents vital investments in the long-term well-being of individuals and economies: it creates the foundation for healthy lifestyles, maximizes cognitive and physical abilities and gives children an opportunity to develop and apply skills to improve labour productivity.[190] Public expenditure contributing to child-specific objectives is identified and weighted to calculate total public investment in children.[191] These expenditures tend to be quite significant in budgets due to the size of education and health programmes for children. Because the method is country-specific, direct international comparisons using C-PEM may not be possible.

C-PEM can inform both the Budget Formulation stage and the Monitoring and Review stage. Generally, for a national government to support a C-PEM, a strong policy objective resting on a specific child policy framework, PFM reform processes or accountability for international commitments are required. The C-PEM helps guide decision-making, track specific expenditures, facilitate impact evaluation and monitor overall financial efforts. For the most part, expenditures that are deemed 'child-focused' can be:

a. Direct (focused or targeted specifically to children and adolescents);

b. Indirect (expenditure for families, or other agents with an impact on the welfare of children and adolescents); or

c. Expanded (e.g., covering a wider population of which children are a subgroup).

C-PEM monitoring increases the transparency of child-focused public spending, potentially resulting in increased public investment in children. Examples of Member States that have implemented C-PEM include Armenia, El Salvador, Yemen, Uganda, Peru[192] and India.[193] India produces a child expenditure statement.[194]

While spending on essential social services is an SDG indicator, the implementation of systems to track and make public these allocations is not. More specifically, SDG target 1.b.1 measures the proportion of government spending on health, education and direct transfers to the monetary poor. It is designed to measure the financial commitment of governments to target their services and transfer on the poor groups of society, reinforcing pro-poor development strategies.[195] A child-specific measure on fiscal equity for 1.b.1 has also been developed which builds on the C-PEM.[196] However, apart from Gender with SDG target 5.c.1., there is no SDG indicator to measure government efforts to track and publicize resource allocations for inclusion through the public financial management cycle.

189 Cummins, M. (2016). *Child Focused Public Expenditure Measurement: A Compendium of Country Initiatives.* UNICEF PF4C Working Paper (link).

190 UNICEF. (2021). *Financing an Inclusive Recovery for Children: A Call to Action,* p. 10 (link).

191 UNICEF. (forthcoming). *PF4C Toolkit.* p.58 (link)

192 UNICEF. (n.d.). *Investing in Children in Peru: A Methodology and Monitoring Framework* (link).

193 UNICEF. (2019). *Public Expenditure on Children in India: Trends and Patterns* (link).

194 UNICEF. (2019). *Child Focused Public Expenditure Measurement, A Compendium of Country Initiatives,* p. 73 (link).

195 SDG Indicator metadata for SDG target 1.b.1, p. 3 (link).

196 Save the Children. (2021). *Fair Shares: Fiscal Equity for Children in Kenya* (link).

Recommendations

Prioritize inclusion and climate adaptation strategies, SDG-aligned spending, and GHG emissions reduction commitments by addressing these in national budget guidelines. In particular, given their influential role in the budget cycle, Budget Call Circulars can be revised to (1) demonstrate the commitment of governments to achieve the SDGs, inclusion and climate mitigation and adaptation; and (2) orient line ministries to achieve these efficiently and synergistically. The changed approach to the Budget Call Circular could be implemented incrementally, starting with manageable activities with a small number of line ministries or programmes to determine the improvements required to scale.

Efficiently increase visibility into allocations or expenditures for SDGs, climate change and inclusion through budget tagging methodologies and associated public Budget Statements. Starting from existing allocation or expenditure tagging processes, it may be possible to expand iteratively to (1) capture other priorities, (2) allocations as well as expenditures and (3) tag government expenditure with negative impacts to help identify trade-offs (as France does with its green budget). For example, in the Philippines, national government agencies are required to tag climate-relevant budget allocation and specify whether the activity is, or its components are, mitigation- or adaptation-focused. The systems and validation measures in place allow for tracking all the way from budget requests to actual expenditures.[197] Such a system could be expanded to include, in the first instance, those SDGs that are directly related to climate targets (such as SDG 13 or SDG 7[198]). This incremental step would allow more visibility on the actual overlap and trade-offs between SDG targets and climate targets without creating additional work.[199] Capturing expenditure data, moreover, may assist in providing a picture of the overall effectiveness, efficiency and credibility of governments in delivering climate and development targets. This could be enhanced by building on reporting in Budget Statements, including Gender and Green Budget Statements.

Increase synergies in SDGs, inclusion and climate goals through existing review processes of line ministry budget submissions. Analytical work and Member State practice suggests that SDGs can be achieved more cost-effectively in an integrated manner than separately. Similarly, it is possible that achieving climate mitigation and adaptation, inclusion and SDGs simultaneously and synergistically would be less costly overall than designing and implementing separate, granular programmes. MoF, as the central budgeting authority reviewing the submissions of line ministries and potentially as the agency responsible for quality assurance of budget tagging exercises, should use the review of budget submissions to identify opportunities to advance multiple priorities. This may involve flagging otherwise independent projects that target a similar class of beneficiaries or the same geographic regions. A broader programme on building health clinics run by a ministry of health might benefit, for example, from availing of resources allocated to other ministries to address use more renewable energy and generate less solid waste.

197 World Bank. (2021). *Technical Annex: Overviews of Climate Expenditure Tagging Frameworks,* pp. 27–9.

198 SDG 13 Take urgent action to combat climate change and its impacts; SDG 7 Ensure access to affordable, reliable, sustainable and modern energy for all.

199 A similar process may already be under way. ESCAP notes that an SDG expenditure tagging exercise is "implicit in the formulation of the proposed SDG Annex in the Socio-Economic Report." See UN-ESCAP. (2020). *Government Budget and the Sustainable Development Goals: the Philippine experience,* p. 33 (link).

Budget Execution

Budget Execution can be the "major cause of poor program and project implementation, failure to translate strategic priorities into results and inefficient resource use."[200] During the Budget Execution stage, governments collect revenue and spend resources in the manner approved in the budget. Bottlenecks that compromise budget and output delivery may require high-level commitment and attention to resolve.[201]

Real-time expenditure tracking can provide insight into budget execution. Expenditure tracking means monitoring and reporting on budget execution either for selected budget lines or programmes or categories of expenditure. This practice can highlight information to analyse PFM challenges, such as low budget execution on climate mitigation activities or ministries with lower spending execution rates.[202] Measuring the geography and timing of budget execution can reveal helpful patterns which may provide insight to ensure equitable and inclusive service delivery.[203] Similarly, expenditure tracking can ensure appropriate programmes are supported and the risk of misdirection and misappropriation is reduced.[204] Such reporting is facilitated by strong tagging and IFMIS (e.g., Indonesia's Climate Expenditure Report and the Philippines' Climate Budget Reports).[205] Pandemic-related constraints (including remote work) and limited prior investments in appropriate technology may be currently limiting reporting of reliable, relevant and timely financial and performance information.[206]

200 World Bank, *PEM Handbook,* p. 104.

201 World Bank, *Investing in Human Capital for a Resilient Recovery: The Role of Public Finance,* pp. 37–8.

202 UNDP, *Knowing what you spend,* p. 45.

203 UNICEF, *Guide for PFM in ECD,* p. 67

204 UN Women, *COVID 19 and Fiscal Policy,* p. 5.

205 IMF, *Green PFM,* p. 11.

206 World Bank, *Investing in Human Capital for a Resilient Recovery: The Role of Public Finance,* p. 38. See further *Government Financial Reporting in Times of the COVID-19 Pandemic.* Government Policy Note. Washington, DC: World Bank. License: Creative Commons Attribution CC BY 3.0 IGO, p. 5 (link).

Tagging expenditures as well as allocations gives a better understanding of actual investments, as opposed to data on planned budget expenditure.[207] In the realm of climate change budget tagging, Bangladesh, Cambodia and Nicaragua tag expenditures, with Bangladesh further conducting audits on two climate-tagged projects.[208] The Philippines is currently developing appropriate expenditure auditing systems.[209] Countries may also initially choose to track budget allocations and then extend with experience to track expenditure, as in the case of Nepal and Pakistan.[210]

Analysis and timely publication of actual expenditure with budget estimates can improve the link between expenditure and outcomes.[211] This reconciliation may be done by sector and programme as well as by outcome and output.[212] The importance of this reconciliation to budget credibility is recognized in the SDGs, with SDG indicator 16.6.1 measuring primary government expenditures as a proportion of the original approved budget, by sector (or by budget codes or similar). Some governments will additionally publish these deviations and provide "detailed and regular explanations", though these are somewhat "imperfect."[213]

Expenditure control systems can advance credibility.[214] When budgets are not implemented as planned, spending priorities can shift, deficits may exceed projections and critical services may be compromised, reducing the confidence in the government to accurately and consistently meet expenditure and revenue targets.[215] Controlling expenditure may provide one means of advancing credibility. This may occur through controls over expenditure commitments, accrued liabilities and cash expenditures; greater devolution towards ministries; greater reliance on internal and external audit; and greater emphasis on transparency and accountability, among other measures.[216]

Recommendations

Enhance budget credibility by explaining spending deviations for SDG-, inclusion- and climate-related allocations. Comparing budget allocation and expenditure, coupled with reasonable explanations, provides an indication of PFM system efficiency, programme effectiveness and government credibility. Establishing collaborative in-year mechanisms for monitoring execution rates and deviations and discussing potential solutions may provide MoF and line ministries with the opportunity to recalibrate or redesign allocation and expenditure towards particular outcomes. Moreover, to the extent there is transparency to the executive and public, the deviations and their explanations can increase transparency, trust and accountability.

207 UNDRR. (2020). *Disaster Risk Reduction Investment in Africa – Evidence from 16 Risk-sensitive Budget Reviews,* p. 14 (link).

208 World Bank, *Climate Change Tagging Review,* p. 30.

209 Coalition of Finance Ministers for Climate Action, *Report on Helsinki Principle* 6, p. 24 (link).

210 UNDP, *Knowing What You Spend,* p. 30 (link).

211 World Bank, *PEM Handbook,* p. 27.

212 Ibid., p. 29.

213 Lakin, J., Herrera, G. (2019). *How Governments report and justify budget deviations.* International Budget Partnership, p. 10 (link)

214 Pattanayak, S. (2016). *Expenditure Control: Key Features, Stages and Actors.* IMF Technical Notes and Manuals 16/02, p. 1 (link).

215 International Budget Partnership. (2018). *Making and Keeping Promises: Why Budget Credibility Matters* (link).

216 Ibid., p. 3.

Monitoring and Review

Monitoring and Review of the effectiveness of budget allocations for sustainability, inclusion and climate responsiveness is the final element of alignment through budget processes. During the Monitoring and Review phase, MoF, line ministries, supreme audit institutions (SAIs), the executive and legislative branches and civil society examine, measure and monitor the efficiency and effectiveness of budget allocations and expenditures. The development and application of tools to the challenges posed by the SDGs, inclusiveness and climate change is relatively new. Colombia, for example, consolidates available sectoral climate finance information to provide decision makers with information on progress towards national goals and NDCs. The government is working to expand the system to more revenues and expenditures to better understand the relationship between emissions and finance and show spending productivity.[217]

The Monitoring and Review phase includes several types of analysis that may support assessment of compliance, progress towards the SDGs, climate and inclusion goals, advances value for money and efficiency and can be used to advance environmental and social objectives.[218] The outputs of the Monitoring and Review phase of the budget cycle may be used inside and outside the country for a variety of purposes, including determining compliance with international obligations or conditions in green or impact bonds and learning how to maximize the effectiveness and efficiency of public expenditures in pursuit of NDCs and SDGs. Reviews can also be used to "to scrutinise the purposes and value of existing programme expenditures and to improve their efficiency or to create fiscal space for new priority spending initiatives."[219]

Despite their potential utility, there does not appear to be a clear and consistent way that governments use data, reviews and analysis to prioritize or adjust policies and expenditures related to sustainability and inclusion objectives. For example, following a workshop for MoF and government agencies for women in Latin America focused on gender budgeting tools, it was observed that ex post evaluations were seldom conducted. Performance budgeting indicators were more widespread.[220] Strengthening the

217 Coalition of Finance Ministers for Climate Action, *Report on Helsinki Principle* 6, p. 29 (link).

218 See, e.g., *IMF, Green PFM,* pp. 9–10 (link).

219 OECD, *Inventory of Building Blocks and Country Practices for Green Budgeting,* p. 36 (link).

220 IMF. (2021). *Gender budgeting in Latin America: current practices and looking forward* (link).

feedback loop between Monitoring and Review and the rest of the budget cycle may help further advance climate, sustainability and inclusion priorities, while considering the synergies and trade-offs.

Monitoring and Review mechanisms may have to change to accommodate the incorporation of climate goals and SDGs. For the Monitoring and Review phase to contribute to the achievement of SDGs, inclusion and climate goals, funds, emissions and outcomes may all need to be tracked. This requires changing roles for the line ministries, MoFs and SAIs involved, as well as the integration of different types of data into Monitoring and Review mechanisms. It also requires additional skills. The IMF observes that both internal audit and control (by MoFs and line ministries) and external audit (by SAIs) of the climate impact of government policies will require more than "traditional auditing skills" and "requires deep understanding of the technical details" to occur successfully.[221] Similarly, SDG audits generate new methodological, technical and political challenges, including shifting focus to an integrated whole-of-government approach.[222]

The SDG Fund is supporting the evolution of Monitoring and Review to meet the challenge of SDG audits. In Kazakhstan, for example, the SDG Fund is supporting work aiming to strengthen SDG monitoring and accountability mechanisms by involving non-government actors in the budgeting process.[223]

Tools

- Public Expenditure and Institutional Reviews in social sectors

Public Expenditure and Institutional Reviews (PEIRs) examine the allocation and management of public expenditure to assess the impact and effectiveness of budget planning and execution as well as highlight challenges. A PEIR may analyse government-wide expenditures or may focus on a particular sector such as health care, education or infrastructure. The World Bank has published or will publish sector analytical guidelines to conduct PEIRs in Education,[224] WASH,[225] Social Protection,[226] Health (forthcoming) and Climate Change. PEIRs are publicly available.[227]

- Climate Change Public Expenditure and Institutional Reviews

CPEIRs assess opportunities and constraints for integrating climate change concerns within the budget allocation and expenditure process through the analysis of policies, institutions and expenditures. CPEIRs build in part on PEIRs, which analyse the quantity and quality of public spending over time against policy goals and performance indicators.[228] CPEIRs assess opportunities and constraints for integrating climate change concerns within the national and subnational budget allocation and expenditure process

221 IMF, *Green PFM,* p. 12 (link).

222 Montero, A.G., Le Blanc, D. (2019). *The role of external audits in enhancing transparency and accountability for the Sustainable Development Goals.* DESA Working Paper No. 157 (2019), ST/ESA/2019/DWP/157, pp. 15–16 (link).

223 UN-DESA, internal document.

224 World Bank Group. (2017). *Education Public Expenditure Review Guidelines.* World Bank, Washington, DC. © World Bank. License: CC BY 3.0 IGO (link).

225 Manghee, S., van den Berg, C. (2012). *Guidance Note: Public Expenditure Review from the Perspective of the Water and Sanitation Sector.* World Bank, Washington, DC. © World Bank. License: CC BY 3.0 IGO (link).

226 Canagarajah, R.S., Hitzmann, K., Holzmann, R. (2001). *Guidance for the conduct of a social protection expenditure, performance and finance review (English).* Social Protection discussion paper series Washington, D.C.: World Bank Group (link).

227 See (link).

228 UNICEF, *Choosing Public Expenditure Analytical Tools in WASH* (link).

through policy analysis, institutional analysis and climate public expenditure analysis.[229] The World Bank has published guidance on conducting a CPEIR.[230] Executed CPEIRs are available for review.[231]

CPEIRs explicitly make the connection between climate and inclusion issues and expenditure implications. Critical elements of the CPEIR methodology include consideration of vulnerability, the linkages and gaps between climate policies and vulnerability, climate change policies in multiple sectors including social sectors and the costs of policy implementation. The objective is to ensure the CPEIR is pro-poor and gender-sensitive, and includes relevant ministries and stakeholders as part of the process.[232]

- PEFA Frameworks

Public Expenditure and Financial Accountability (PEFA) has recently developed tools for assessing the responsiveness of a country's PFM systems to climate and gender equality. The PEFA Framework assesses the capacity of PFM systems to maintain fiscal discipline, allocate resources strategically and support efficient service delivery.[233] Recently, the PEFA Climate and PEFA Supplementary Framework for Gender Responsiveness extended this assessment to highlight relevant PFM practices.[234,235] Aspects of this approach may be useful in assessing the resilience and strength of public sector finances generally, including in response to climate-related crises.[236]

- INTOSAI SDG Audit Model

Led by the International Association of Supreme Audit Institutions (INTOSAI), SAIs have started to audit SDG-related matters and develop appropriate tools.[237] Gender budget and social accountability audits, for example, are used to assess the effectiveness and compliance of expenditure programmes. These may be conducted by state institutions, civil society organizations or SAIs.[238] Results can be used to modify the design of the policies being assessed.[239] INTOSAI's Development Initiative has recently published an SDG Audit Model offering guidance on building strategic audit portfolios and conducting audits of individual national targets linked to the SDGs.[240] This model is currently being piloted in 55 countries on public health system, sustainable public procurement and intimate partner violence programmes.[241] Additionally, certain SAIs have started auditing SDGs individually or cooperatively.[242] Indonesia's and Georgia's SAIs are developing online portals to provide information on the SDGs and disseminate the results of SDG audits.[243]

229 UNDP. *A Methodological Handbook – Climate Public and Institutional Review* (CPEIR), p. 5 (link). An earlier methodology is also available (link).

230 World Bank Group. (2014). *Climate Change Public Expenditure and Institutional Review Sourcebook*. World Bank, Washington, DC. © World Bank (link).

231 See (link).

232 UNDP. *A Methodological Handbook*, p. 19-22 (link)

233 PEFA, *PEFA Climate*, p. 11 (link).

234 Ibid., pp. 11–3 (link).

235 PEFA, *PEFA Supplementary Framework for Gender Responsive Public Financial Management* (link)

236 *INFF Binding Constraints Guidance*, p. 3 (link).

237 Montero and Le Blanc, External Audits, pp. 4 & 8 (link). See also p. 6 and following, where INTOSAI's strategic engagement with the UN on the SDGs is discussed further.

238 UN Women, *COVID-19 and Fiscal Policy*, p. 6. (link)

239 IMF, *Gender Based Budgeting in G7 Countries*, p. 12 (link).

240 INTOSAI Development Initiative. (2020). *IDI's SDGs Audit Model* (link).

241 INTOSAI Development Initiative. *Audit of SDGs Implementation* (link).

242 Montero and Le Blanc, External Audits, p. 8 (link).

243 Montero and Le Blanc, External Audits, p. 8 (link).

• Voluntary National Reviews

Member State governments are encouraged to submit Voluntary National Reviews (VNRs) of their progress towards the SDGs, which serve as the basis for the regular reviews by the High Level Political Forum. The objective of such VNRs is to share knowledge, strengthen policies and institutions, and mobilize support and partnerships to further the SDGs. Forty-five countries are expected to present their VNRs in 2022, some for the first time (e.g., Dominica, Eritrea, Somalia) and some for the fourth time (e.g., Togo, Uruguay). Of note, the 2021 VNRs recognized the importance of the principle of leaving no one behind, using this principle to identify vulnerable groups, address geographical inequalities, include a broad variety of stakeholders and disaggregate data.[244]

• Reporting and review under the Paris Agreement

The Paris Agreement's Enhanced Transparency Framework (ETF) lays out reporting principles designed to build trust and confidence that all countries are contributing to the global effort. The ETF enables comparisons of a country's actions against its plans and ambitions as described in its NDC. Parties agreed to common reporting tables for national GHG inventories; common tabular formats for tracking progress towards NDCs and climate finance, technology transfer and capacity-building; outlines of the biennial transparency report (BTR), national inventory document and technical expert review report; and a training programme for technical review experts. The first BTRs are expected in 2022.

• INFF Monitoring and Review Building Block Guidance

The INFF Monitoring and Review Building Block Guidance aims to integrate various monitoring and review systems in place in a country, which may not be otherwise well-aligned. Monitoring and Review of the INFF aims to bring together information and systems for tracking financing, expenditure, and national development and SDG outcomes, and related policy processes. The guidance recommends that one body have overall responsibility for the Monitoring and Review system to coordinate the efforts of the various stakeholders involved. Recognizing that there is no one size fits all approach to establishing an effective monitoring and review system, the monitoring guidance recommends establishing a baseline of relevant systems and then strengthening existing systems, closing gaps if needed. For countries that are developing an INFF, this offers the potential to bring together information and systems for Monitoring and Review of finance, expenditure and outcomes related to sustainability, inclusion and climate change.

Recommendations

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. Transparency of budgets and outcomes is crucial to generating political will and ensuring accountability. Publication allows for greater participation in and engagement with these significant national projects. Ensuring that such reports are accessible to all citizens reflects the importance of universal engagement in resolving unsustainable development and carbon-intensive economies. This may be accompanied by measures to build the capacity of civil society actors to engage and participate in budget processes related to these goals.

244 United Nations Department of Economic and Social Affairs. (2021). *2021 Voluntary National Review Synthesis Report,* pp. 7–8 (link).

Conduct Public Expenditure and Institutional Reviews for Climate and in social sectors. Use these processes to identify mutually supportive or conflicting policies and related spending, gaps and opportunities, and to feed these into Strategic Planning and Budget Formulation.

Accelerate feedback into the budget cycle by conducting internal evaluations and external audits of SDG-, inclusion- and climate- related programmes. The internal evaluation and external audit functions provide crucial independent feedback into the policies associated with achieving the SDGs, inclusion and climate resilience. Governments may choose to collaborate with SAIs and their internal audit functions to coordinate potential contributions of the SAI to national planning and budgeting processes by prioritizing certain audits that can provide useful information to SDG-, inclusion- or climate-related expenditures. INTOSAI observes that SDG audits, for example, have "urged national governments into action where there previously had been none, provided independent oversight on the implementation of the 2030 Agenda in national contexts, made recommendations for enhancing preparedness and implementation of the 2030 Agenda and contributed to raising awareness amongst citizens and stakeholders on the significance of implementing the 2030 Agenda."[245] Governments should also ensure that the learning from the Monitoring and Review be appropriately incorporated into future budget cycles.

Create reporting synergies by integrating climate targets into Voluntary National Reviews and SDGs into reports prepared for the UNFCCC. The VNRs are part of the follow-up and review mechanisms associated with the 2030 Agenda. Similarly, the Biennial Reports, Biennial Update Reports and Biennial Transparency Reports provide updates on actions undertaken by Parties to the UN Framework Convention on Climate Change on implementation, including the status of its GHG emissions and removals by sinks, as well as on the actions to reduce emissions or enhance sinks.[246] More emphasis could be placed in the VNRs on the achievement of climate mitigation and adaptation goals in alignment with the SDGs. Similarly, a more concerted approach to reporting to the UNFCCC on the achievement of those SDGs directly and indirectly related to climate response would be a powerful expression of a joined-up approach. Finally, the preparation of such reports would have the additional benefit of sharing information and capacity across government, facilitating the whole-of-government approach required to achieve these interrelated goals.

245 INTOSAI Development Initiative, *IDI's SDGs Audit Model,* p. 4.

246 United Nations Climate Change. *Biennial Update Reports* (link).

Governance and Coordination

Supportive policies, laws, institutions and coordination are essential to the integration of SDGs, inclusion and climate goals within budgets and PFM processes. Integrating these goals will require particular attention to the roles and capacities of multiple agencies in the budget process.

Political leadership is required throughout the budget cycle to address climate, inclusion and sustainability concerns, to overcome potential resistance and incentivize integration.[247] Political leadership ultimately makes strategic allocation decisions on the basis of budget constraints and political realities.[248] Sustaining this leadership will require high-level communication to ensure continued support and manage expectations.

Integrating SDG-, inclusion- and green-focused PFM initiatives with existing agendas or systems is more likely to succeed. The IMF, for example, recommends that green PFM should be integrated with the existing PFM agenda or systems.[249] UN-DESA observes that linking SDGs to budget processes "ha[s] to be inscribed in the broader context of [PFM] reform."[250] A firm foundation in law "should establish the link between the fiscal framework and the national development plan, sectoral plans, and annual budgets, as well as other budget initiatives, such as gender budgeting."[251] This legal foundation should also outline objectives; provide a clear mandate for the MoF; define the key terms; delineate institutional arrangements and responsibilities; and define key requirements.[252] Member States adopt different approaches to integrating priority changes with PFM or budget systems or processes. Mexico and New Zealand have amended their PFM legal

247 See, e.g., *IMF, Green PFM,* p. 14 (link); OECD, *Green Budgeting Framework Highlights,* p. 3 (link); UNDP, *Knowing What you Spend,* p. 48 (link); UNDRR, *Disaster Risk Reductions in Africa,* p. 4 (link); World Bank, *PEM Handbook,* especially Chapter 2 (link); ILO, *Fiscal Space for Social Protection,* p. 32 (link); UNICEF, *How to Engage in Budget Cycles and Processes to Leverage Government Budgets for Children,* p. 23 (link).

248 World Bank, *PEM Handbook,* p. 35 (link).

249 IMF, *Green PFM,* pp. 13 & 15 (link).

250 UN-DESA, *World Public Sector Report 2019,* pp. 92–3 (link).

251 IMF, *Green PFM,* pp. 7–8 (link). See also IMF, *Gender Budgeting in G7 Countries,* p. 10 (link); IMF, *Fiscal Policy and Gender Equality,* Ch. 1 (link).

252 IMF, *Green PFM,* p. 7 (link).

framework to reflect the priority of SDGs and NDCs. Sweden, on the other hand, appears to have included PFM elements in its climate laws, as Canada, Albania, Morocco, Uganda and others have done for gender.

Even with a strong legal framework and political leadership, converting SDG, inclusion-focused or climate expenditures into outcomes may require a whole-of-government approach with strong coordination by the central budget authority. Costa Rica signed a National Pact for the Advancement of SDGs including the legislative, executive and judicial branches of government, local governments, civil society and the private sector. The pact signatories undertake to mobilize resources, plan, budget, build institutional capacities and be accountable for the implementation of the 2030 Agenda.[253] Despite the agreement to cooperate, signatories recognize "considerable challenges ... in the financial means for implementation ... [given] the complex state of public finances and the lack of capacities of social actors to mobilize resources." [254]

Expertise, collaboration and coordination within and across ministries is required for effective implementation.[255] Integrating SDGs and climate priorities in a synergistic way into the budget and PFM process requires different types of expertise that may be distributed across the entire government and in different sectors. Ministries of energy, environment or agriculture may have more knowledge on climate change, while ministries of health, education and social protection will have greater knowledge on questions of inclusion. Teams must have some degree of expertise in the particular topic, whether climate, environment, gender or children's well-being and rights.[256] Knowledge of PFM, associated IT systems, administrative processes, project management and the like are also required for successful reforms.[257] Such knowledge is unlikely to rest in only one ministry, either: expertise will likely be required from across – and beyond – government.[258]

MoF have a crucial role to play in incorporating SDG-, inclusiveness and climate-responsible development into budgets and fiscal policy. Where policy and financial planning are separate, budget decision makers may not take the policy priorities seriously.[259] The role of MoFs extends from coordinating the budget process, to training on new issues and resolving questions from line ministries. MoFs will be required to advise where governments can cut expenditure and where fiscal space exists for new priorities.[260] The IMF recognizes this role in its work on green PFM, observing that "only the MoF has the requisite knowledge and skills to instil green practices into PFM processes and the overall vision of the tools (budget legislation and regulation, manuals and guidance documents, IT systems) that may need to be adjusted for this purpose."[261] The "institutional leverage" of the MoF is also viewed as helpful.[262] This essential role is increasingly recognized by Member State practice, with the Coalition of Finance Ministers for Climate Action recognizing that "finance ministers hold the keys to unlocking climate action."[263]

Budget transparency regarding both revenue and expenditure and accountability is a crucial element of good governance.[264] Most PFM initiatives for individual SDGs and climate mitigation and adaptation advocate for increasing transparency and accountability. Initiatives to strengthen transparency and participation related to the goals of sustainability, inclusion and climate can build on and adapt the many exist-

253 Government of Costa Rica, *Second Voluntary National Review, Sustainable Development Goals,* Costa Rica 2020, p. 52 (link).

254 Ibid., pp. 56–7.

255 OECD, *Inventory of Building Blocks and Country Practices for Green Budgeting,* p. 47 (link).

256 See, e.g., IMF, *Green PFM,* p. 13 (link); UNICEF, *Guide to PFM in ECD,* p. 13.

257 See, e.g., IMF, *Green PFM,* p. 14 (link).

258 UNDP, *Knowing What you Spend,* p. 12 (link).

259 Robinson, M. p. 111.

260 Ibid., p. 139.

261 IMF, *Green PFM,* p. 14 (link).

262 Ibid.

263 Coalition of Finance Ministers for Climate Action. About us (link).

264 UN-DESA, *World Public Sector Report 2019,* p. 104 (link).

ing initiatives to strengthen budget transparency and ensure stronger accountability for decision makers regarding the results of public expenditure.[265] In the absence of transparency and accountability, efforts to resolve PFM barriers and bottlenecks to achieve priority outcomes would be limited.[266]

Recommendations

Update laws and regulations to reflect PFM approaches to achieving inclusion-, climate- and SDG-related objectives. This may involve (1) reforming existing PFM law to ensure incorporate climate-, inclusion- and SDG-related objectives into the legal underpinnings of fiscal frameworks; or (2) incorporating PFM measures into legislation addressing priority areas consistent with the SDGs and climate mitigation and adaptation (e.g., acts that bind a government to achieve gender equality or net zero). It is vitally important to give the achievement of climate and development objectives the force of law. The process of reflecting these priorities into legislation and regulation requires careful deliberation and planning, grants institutional legitimacy and can create the accountability required to achieve difficult 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. Identifying where in government the skills, abilities and resources lie to achieve particular objectives will be an important part of coordinating the complex efforts involved in achieving sustainable, inclusive and climate-resilient development. Investing in the development of the necessary capacity and encouraging sharing across line ministries and MoF is more likely to lead to policy coherence and effective implementation. Specific capacity-strengthening and support to sector ministries may be required to support integration.

265 IMF, *Fiscal Transparency Handbook*, pp. 1–3 (link); UNICEF, *Global PF4C Programme Framework*, p. vii; see, e.g., IMF, *Green PFM*, p. 10 (link).

266 UNICEF, *Global PF4C Programme Framework*, pp. 25 & 36.

Conclusion

Many Member States are making efforts through budgets and PFM to achieve the SDGs, advance inclusiveness and foster climate resilience in an aligned way that maximizes synergies and minimizes trade-offs. Agencies and institutions, including public development banks, are looking to support these efforts. Much can be done, both to leverage the substantive strengths of organizations towards this objective and achieve greater harmonization of these efforts across different bodies.

The tools and knowledge resources available appear focused on the Strategic Planning and Budget Formulation (particularly around tagging) stages of the budget cycle. However, there are many methodological challenges at the Strategic Planning stage particularly on how to address synergies and trade-offs among different policy and expenditure proposals. Important aspects of Budget Formulation do not appear to have many associated resources (e.g., how to write a Budget Circular that advances SDGs and reduces GHG emissions; how to integrate the outputs from the Monitoring and Review stage into subsequent planning and budgeting activity). Budget Execution appears relatively underexplored as a means of advancing SDGs and climate commitments. Numerous materials address the governance framework, but these do not necessarily focus on integrating SDGs and inclusiveness mitigation and adaptation strategies into public budgets. This might reflect the absence of an SDG target focused on expenditures, in spite of targets on domestic resource mobilization (17.1), official development assistance (17.2), additional resources (17.3) and long-term debt sustainability (17.4).

The knowledge base focuses on guidance and reports rather than services or practical implementation that may be offered on these topics. Documented case studies of the work being done by international organizations and practical lessons learned are not easy to find, if they exist.

More empirical work is necessary to identify which tools, resources and approaches are (1) helpful to Member States and (2) impactful, noting this must be appropriate for the existing status of PFM systems and ongoing PFM reform processes.[267] There are a large number of knowledge resources avail-

267 See UNDP. (2020). *Budgeting for the Sustainable Development Goals: Aligning Domestic Budgets with the SDGs.*

able to Member States, only a fraction of which have been reviewed here. The review conducted, however, points to a fragmented approach, with many different perspectives, clustered around a few points in the budget cycle. Moreover, uptake is surprisingly limited. The strongest examples of Member State practice taking an integrated approach to inclusiveness, sustainability and climate can be found in Table 4.

Table 4: Examples of successful integration in PFM

Country	Initiative
Fiji	Fiji has aligned its 5-year and 20-year NDPs to the Paris Agreement;[268] embedded a climate change division in the same ministry that handles the NDPs, budgeting and finance; accessed public and private finance for many mitigation measures.[269] Additionally, Fiji aims to integrate gender-responsive budgeting into public finance management by, among other measures, scrutinizing budget proposals for their impact on gender equality through a standing order to parliamentary committees.[270]
Nepal	Nepal analyses the impacts of climate investments on the poor and vulnerable as well as the current gaps in its delivery of climate investment both at the national and subnational levels. This led to improvements in the tagging method to incorporate gender while planning climate actions.[271] Nepal has also been implementing gender-responsive budgeting since fiscal year 2007/08.[272]
New Zealand	New Zealand's Well-Being Budget attempts to align annual budgets with five longer-term objectives that integrate sustainable development, inclusiveness and climate resilience. Its first budget, in 2019, included new spending in the five priority areas of about 5 per cent of total expenditure, referred to the Living Standards Framework that had been developed in the country and grouped new initiatives by these objectives. It also included a budget report on child poverty and finalized official targets for reducing child poverty, in accordance with other laws[273]

Most existing tools centre on design policies and budgets within particular priority areas, but do not help prioritize budget allocations and expenditures across different priorities. Even while synergies in achieving sustainability, inclusion and climate resilience may be possible, trade-offs between these goals are inevitable. Too few of the tools and knowledge resources explore how such trade-offs between priorities should be measured and evaluated.

Stronger integrated approaches are possible. Building on Member State practice, such as New Zealand's Well-Being Budget, and exploring some of the recommended actions outlined in this paper may result in useful improvements to budgeting and PFM practices and advance the alignment between pursuing climate mitigation and adaptation and the SDGs in a manner that leaves no one behind. Potential contributions to

268 Fiji, *VNR*, p. 57 (link).

269 Ibid., pp. 58–9.

270 PEFA. (2020). *2020 Global Report on Public Financial Management* at pp. 105 (link). Other measures mentioned include gender impact analyses of the feasibility and prefeasibility studies for major investment projects (p. 100); outlining budget measures to improve gender equality (but not giving an overview of key policies targeted at closing gender gaps (p. 101); and carrying out ex post gender impact assessments on public service delivery (p. 104).

271 UNDP, *Knowing what you spend,* p.48 (link).

272 UN Women. (2012). *Implementation of the Gender Responsive Budgeting in Peace Building and Health Programmes in Nepal* at p. i (link).

273 Huang, C-C., de Renzio, P. and McCullough, D. New Zealand's *"Well-Being Budget": A New Model for Managing Public Finances?,* p. 10 (link).

policy coherence and cost synergy are outlined in the hypothetical budget and PFM actions focusing on adaptation and mitigation measures for SDG indicator 3.8.1 are provided in Table 5.

Table 5: Example of how various stages of the budget cycle could advance SDG Indicator 3.8.1 (Coverage of essential health services)[274] and climate mitigation and adaptation

Assessment	**Conduct impact assessment to determine health impacts of climate change on population, with a particular focus on the gender and distributional aspects of such change**
Costing	Consider additional costs to adapt health systems to tackle changing disease burden as a result of climate change and extreme weather events
Budget Call Circular	Require submissions to include (1) estimated positive and negative climate emissions impact of programmes, including presentation of emissions constrained alternatives (e.g., how much would it cost to achieve this objective and maintain national GHG emissions at 1990 levels? At Net Zero levels?); (2) distributional impact assessments; and (3) estimated cost of adaptation
Evaluation of responses to Budget Call Circular	Weigh proposed outcomes of programmes against distributional and climate impacts. Evaluate for indicators of low-carbon health care, including: (1) health system design and models of care based on appropriate technology, coordinated care, emphasis on local providers and driven by public health needs; (2) building design and construction based on low-carbon approaches; (3) waste minimization and sustainable healthcare waste management; (4) sustainable transport and water consumption policies; and (5) resilience strategies to withstand extreme weather events. Assess possible synergies within this indicator and with others, including investment programs in renewable energy and energy efficiency[275]
Tagging	Tag expenditures with associated GHG emissions savings, using an infrastructure lifecycle assessment approach
Spending reviews	Assess the efficiency and effectiveness of spending that increases universal coverage of essential health services against GHG emissions and other waste outputs to identify activities with high climate impact relative to benefit
Audit	Expenditure audit focused on identifying resource leakage and ineffective GHG emissions reductions spending

Potential next steps include:

a. Member States can rapidly review their budget cycle to identify specific opportunities, including some identified above;

b. Member States to identify the most pressing needs, required resources and desired assistance;

c. International agencies and development partners can offer technical support and funding to Member States for alignment. This may take place in the context of existing programmes, including support to PFM reform programmes, the Joint SDG Fund programmes or under the frameworks including Budgeting for SDGs;[276]

d. Global support can be provided for methodological advances or standards that would advance alignment; and

e. Reviewing existing budget initiatives linked to NDCs, NAPs, SDGs and VNRs to identify additional synergies and strategies.

274 Defined as the average coverage of essential services based on tracer interventions that include reproductive, maternal, newborn and child health, infectious diseases, non-communicable diseases and service capacity and access, among the general and the most disadvantaged population. See (link).

275 See, e.g., World Bank Group. (2017). *Climate-Smart Healthcare – Low-Carbon and Resilience Strategies for the Health Sector* (link).

276 UNDP, *Budgeting for the Sustainable Development Goals.*

Annex: Outline for a Country Level Alignment Action Plan

Table 6: 2022 Example Action Plan for Member States

Budget instrument or process	Action
Review budget cycle calendar and budget instruments to identify opportunities to strengthen alignment	• Integrate climate- and SDG-related criteria into key budget instruments • Report SDG and NDC spending and main outcomes in both Voluntary National Reviews and Biennial Update Reports under the Paris Agreement. Identify overlaps • Publish an SDG and Climate Budget Statement outlining the key budget measures taken in 2022 to support an integrated approach to a climate-resilient, inclusive future.
Identify opportunities for synergies within budget estimates	• Identify largest budget outlay for each SDG and top five climate mitigation and adaptation expenditures • Develop a matrix showing synergies and trade-offs in country between SDG targets and climate commitments • Assess overlaps and synergies between budget items
Major expenditure reviews or macrofiscal assessments	• Identify country-specific data sources to develop methods to build cost estimates that incorporate cross-sectoral synergies • Identify principal government activities and supporting measures that generate the most greenhouse gas emissions
Budget tagging	• Review existing or planned budget tagging and identify opportunities for harmonization and synergies between climate- and SDG-related exercises
Budget execution	• Increase frequency of reporting on budget execution, particularly for tagged budget items • Publish reports on deviations between allocations and execution, along with explanations of the differences • Identify effective and relevant audits that may be possible in coordination with national SAI

Annex: Key Questions

As Member States look to integrate SDGs and climate mitigation and adaptation into their budgets and PFM processes efficiently and synergistically, key questions will be encountered at each stage of the budget cycle. Some of these are included below.

1. **Strategic Planning phase:**

    a. What are the mechanisms (if any) proposed for prioritization of SDG-/climate-related spending commitments? For example, should governments simply choose projects with the highest cost–benefit ratios, or should a multidimensional impact assessment that reflects government's priorities while assessing the likely environmental, climatological, social and economic be conducted?

    b. Are there any proposed mechanisms for integration of SDG-/climate-related spending commitments? For example, could Bangladesh's work attempting to avoid double counting of required SDG expenditure be repurposed to assist in integration? Do the proposed methods for integration maximize cross-sectoral benefits and capture potential savings in expenditure?

    c. How can the stabilization and recovery phases of COVID-19 and the increasing number of climate disasters inform necessary updates to costing models for priority programmes and fiscal envelope estimates?

    d. How could the various types of impact assessment conducted through the Strategic Planning phase – including environmental and gender impact assessments – be streamlined to reflect the multi-sectoral nature of most initiatives?[277] Such early assessments can be used to advance priorities, as recent experience in advancing gender-responsive COVID-19 response measures in Iceland and Canada show.[278]

2. **Budget Formulation stage:**

    a. What are the mechanisms and instruments proposed for translating SDG-/climate-related policy commitments into budgets? (e.g., budget circulars; budget coordination groups, budget templates, etc.)

    b. What are the mechanisms for integrating SDG- and climate-related budget proposals? (e.g., links between sector working groups; climate, gender or SDG screening; incentives for climate, gender or SDG priorities)

    c. How can the budget formulation process be used to advance cross-sectoral projects to achieve the SDGs and climate?[279] Are there ways in which the processes can be used to identify how programmes or policies can be made more supportive of significant but non-primary outcomes?

    d. Are there any mechanisms or instruments proposed for strengthening SDG-/climate-related spending at subnational level?

    e. How could sustainability and climate change considerations be reflected in intergovernmental fis-

277 OECD, *Green Budgeting and Tax Policy Tools,* p. 8 (link).

278 Ibid., p. 6.

279 Many tools identify that interventions can advance priorities (1) predominantly, (2) significantly or (3) indirectly. For example, ESCAP identifies three types of interventions for gender equality: gender specific; gender mainstreaming; interventions that do not specifically aim at gender equality yet can promote it. ESCAP, *Guidebook,* pp. 58–9. OECD-DAC Rio Markers have a three-step classification system to identify whether measures are focused on a thematic area: not targeted, significant or primary. OECD, *Green Budget Tagging,* p. 25 (link). Similarly, UNICEF's C-PEM methodology uses a four-category system of specific, indirect, expanded expenditure and expenditure on public goods. UNICEF, *C-PEM Methodology,* p. 6 (link).

cal transfers? What measures are required to ensure that regions affected by major climate-caused events (floods, droughts, cyclones, locusts, etc.) receive a larger share of transfers? Do existing formulas based on poverty/deprivation metrics already capture these impacts?

f. To accelerate tagging, can commonly accepted classifications of expenditures that are beneficial or detrimental to the achievement of the SDGs and NDCs be developed?[280]

g. How can existing tagging practices be expanded to cover more priorities?

h. What factors lead to the success of conditionality/performance-based budgeting for SDG and climate? Does the imposition of such conditions mean lower budget execution (e.g., less money actually spent on these goals)?

i. How can budget tagging systems be used to greater impact to increase the amount, efficiency, efficacy or equity of public expenditure, particularly with respect to GHG emissions reductions or SDG achievement?

j. What is the optimal way to track and tag expenditures associated with subnational governments and state-owned enterprises that may not have a consistent MIS with central budget authorities?[281]

3. Budget Execution stage:

a. How does conditionality for SDGs and climate impact budget execution?

b. Are there common shortfalls or bottlenecks in budget execution around SDGs and climate?

c. Can procurement activities be optimized to maximize the achievement of the SDGs and minimize the production of GHGs?

d. What cost-efficiencies can also be gained through government procurement?

e. What measures can be taken at the execution stage to enhance the resilience of PFM processes?

f. Are there factors at budgeting and budget execution stages that might be placing SDG- or climate -related programmes in a lower priority?

4. Monitoring and Review stage:

a. What are the existing mechanisms for monitoring allocations and execution of expenditures related to SDGs and climate goals?

b. What are the challenges identified in monitoring allocations and execution of expenditures related to SDGs and climate goals?

c. Are there any proposed mechanisms/instruments for integrating these approaches?

d. How should the prioritization of Monitoring and Review functions occur in light of the limited capacity and resources that support SDGs and climate goals?

e. How can the required capacity for ex post evaluations or audits of the impact and effectiveness of sustainability- and climate-related policies be built/shared efficiently?[282]

280 IMF, *Green PFM,* p. 10 (link).

281 A climate public expenditure and budget review in Kenya identified that close to 40 per cent of the government budget is released to parastatals, agencies, semi-autonomous agencies as transfers, and not through the IFMIS. UNDP, *Knowing what you spend,* p. 18 (link).

282 IMF, *Green PFM,* p. 12 (link).

f. What communication and transparency strategies should be adopted to maximize the impact of Monitoring and Review in improving processes, structures and programmes for SDG implementation, holding governments accountable and informing SDG follow-up and review at the global level?[283]

5. Governance-related questions include:

a. What types of information should be provided to parliament/executive and legislative branches of government and the public to improve PFM for SDGs and climate mitigation and adaptation? At what points in the budget cycle?

b. Are there executive or administrative structures that are more likely to provide incentives for a coherent, synergistic approach?

c. What forms of transparency and accountability are most effective in the country context?

d. What tools and resources can be made available broadly to make the technical work in PFM, SDGs and climate change more accessible to and engaging for interested stakeholders? Are there other means to encourage broad participation in relevant PFM processes?

e. Are there common attributes to more effective legal frameworks that can both improve core PFM practices while advancing SDGs and climate mitigation and adaptation? How can existing PFM laws as well as practices and processes be adapted to reflect the increased prioritization of the SDGs and climate adaptation and mitigation?

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283 These objectives for Monitoring and Review derived from Montero and Le Blanc, *External Audits,* p. 11 (link).


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