Budget Provisions in the Implementation of the 2030 Agenda for Sustainable Development and the SDGs

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Introduction: Importance of Linking Budgets to the SDGs

This Quarterly Report focuses on the importance of aligning national budgets along the 2030 Agenda and the SDGs in order to help in their successful implementation. Within the 2030 Agenda for Sustainable Development, there is a reference made in paragraph 45 to the role that national budgets have in implementing the SDGs. Although the passage reflects more on the role and responsibility of parliaments in adopting national budgets, this can be seen as further stressing the importance with which budgets should be bestowed, and the serious effects they have on the implementation of the SDGs and the 2030 Agenda. Not only is the national budget important for the implementation of the SDGs at the national level, but it also is important, as can be seen from the passage below, in the implementation of the SDGs at the regional and local level:

> *"§45 We acknowledge also the essential role of national parliaments through their enactment of legislation and adoption of budgets and their role in ensuring accountability for the effective implementation of our commitments. Governments and public institutions will also work closely on implementation with regional and local authorities, subregional institutions, international institutions, academia, philanthropic organizations, volunteer groups and others"*.[1]

Chapter two will look into how the SDGs will be incorporated into the budgets of the European Union, as the European Union is often held to a very high standard by the global community with respect to sustainable development. Recently, the EU and the European Commission have been signaling the increasing importance the 2030 Agenda and the SDGs have, and have reaffirmed their desire to remain a frontrunner in its implementation.

Chapters three and four will be dedicated to taking stock of the current situation in Europe regarding national budgetary alignment along the SDGs. Information for the stocktaking exercise is based on European countries that have completed their Voluntary National Reviews (VNRs) for the High Level Political Forum (HLPF) meetings in New York. Chapter four will highlight good case examples of European countries that are actively pursuing national budgetary alignment along the SDGs.

In order to better understand the role of national budgets in the implementation of the SDGs, an understanding of what national budgets are and how the budgeting process works, is helpful in being able to better understand budgeting for the SDGs and sustainable development, in general, as budgeting for sustainable development has been in existence, having taken various forms, such as environmental fiscal reform, taxes, etc., before the advent of the SDGs.

National Government Budgetary Process

The International Budget Partnership recently published a report, "Our Money, Our Responsibility: A Citizens' Guide to Monitoring Government Expenditures", that summarizes what national budgets are and how the entire budgetary process functions.

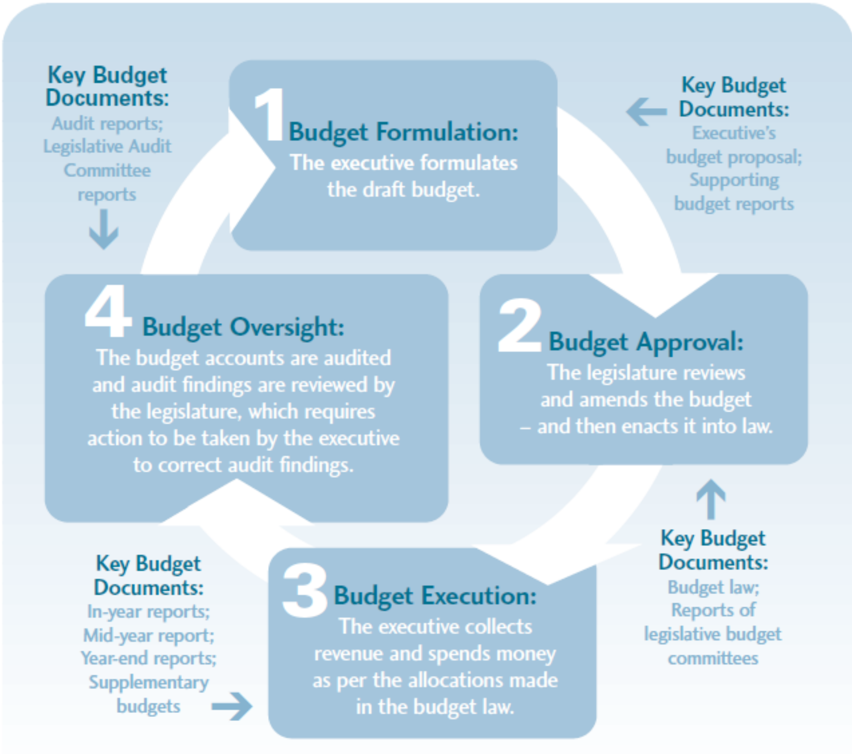
The International Budget Partnership report summarizes that national budgets are essentially the reflection of a given government's policy priorities over the course of the country's next fiscal year. Apart from the budget reflecting the government's policy priorities, it is also a reflection of the

[1] Transforming our world: the 2030 Agenda for Sustainable Development.

government's planned expenditures and revenue; how much the government is planning to spend versus how much the government is making, such as from tax revenues, in the upcoming year.[2]

However, national budgets are much more than documents showing government revenue versus government spending steered by policy priorities; budgets require a continuous cycle of different processes to make them function. The International Budget Partnership report identifies **four components to the entire budgetary process: 1) budget formulation; 2) budget approval; 3) budget execution; and 4) budget oversight**. The first step is usually marked by the executive branch of government putting together and drafting a budget plan. In the second phase, or enactment phase, the legislative branch of government debates, alters, or improves the executive budget plan. Then, the budget enters the third phase, or execution phase, where the government begins to implement the policies that are set out in the budget. Finally, in the fourth phase, or the auditing and legislative assessment phase, a country's national audit institution and the legislative branch proof and assess the budget regarding the expenditures that were made over the course of the year. *Figure 1* depicts the entire budgetary process, as proposed by the International Budget Partnership report.[3]

Figure 1: The Budget Cycle



Source: "Our Money, Our Responsibility: A Citizens' Guide to Monitoring Government Expenditures", International Budget Partnership, p. 6.

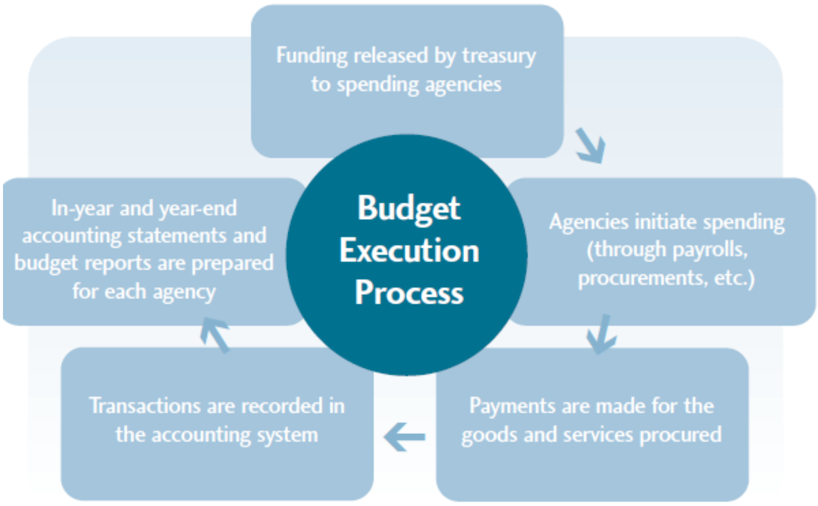
When it comes to the **implementation of the 2030 Agenda and the SDGs**, which includes their alignment with national budgets, it is undeniably **important and necessary for there to be the political will from the executive branch of the government to genuinely see the SDGs and their subsequent targets realized.** Without political commitment, which can be demonstrated by budgeting for the SDGs and their implementation, the realization of the SDGs is much harder, as it becomes more difficult for

[2] Ramkumar, Vivek. *Our Money, Our Responsibility: A Citizens' Guide to Monitoring Government Expenditures*. International Budget Partnership, p. 6.
[3] Ibid. p. 7.

government ministries to justify budgetary expenditures relating the SDGs if there is no clear mandate to implement them. Therefore, having the executive branch supporting the SDGs by creating budgets that reflect them and their subsequent targets is a vital first step in the implementation and budgetary process. This also holds true for the legislative branch of the government in terms of their political will towards the implementation of the SDGs, as they also need to amend and approve the national budget. For the purpose of this Quarterly Report, it will be most relevant to concentrate on the third phase of the budgetary process, as this phase represents how the previous two phases are put into concrete actions. Therefore, having a more in-depth understanding of this phase is helpful in being able to explore and understand the intricacies of how national budgets are put into effect; in this case, how the SDGs are being incorporated and integrated into the budget and how this manifests itself on the ground within responsible ministries.

The **budget execution process**, phase three of budgetary process as a whole, is classified in the International Budget Partnership report as generally consisting of five steps: 1) monies are released to various line ministries (or departments/agencies) as per the approved budget; 2) agencies initiate expenditures directly or by procuring goods and services; 3) payments are made for these expenditures; 4) expenditure transactions are recorded in accounting books; and 5) in-year reports are produced throughout the year, culminating at the end of the year with the closure of the accounting books and the production of year-end reports, which can be seen below in *Figure 2*.[4] The **first two steps of this particular budgetary process will be focused on**, as these are the main aspects that drive ministries, government agencies, and departments in their implementation of the government's political agenda.

Figure 2: The Budget Execution Process



Source: "Our Money, Our Responsibility: A Citizens' Guide to Monitoring Government Expenditures", International Budget Partnership, p. 14.

The first step marks the beginning of the budget's implementation, and, by extension, the **government's political priorities for the next year.** The national treasury releases funding to the relevant ministry, which usually occurs once phase two of the budgetary process has been completed and the budget has been agreed upon and signed into law. The funds, which can be made in quarterly or monthly payments from a central revenue fund, may be made by means of formal warrants

[4] Ibid. p. 14.

(government authorization forms) that sanction their release and specify the budget line items against which the government agency may incur expenditures.[5]

Once the funds have been released to the respective ministry, **responsible authorities within the ministry then propose specific expenditures**, which marks the beginning of phase two of the budget execution process. The ministry's chief accounting officer will then review the proposed expenditures in an effort to ensure they do not exceed the ministry's allocated budget and that all appropriate protocol has been followed. Once the proposed expenditures have been approved, the ministry is then able to begin working towards the implementation of the expenditure, which, for example, could be setting up the infrastructure necessary for creating a wind farm.[6]

Steps one and two of the budget execution process are of particular importance with respect to the implementation of the SDGs, since these two steps dictate how much government ministries, agencies, or departments will receive from the government and the budget, which, if the SDGs have been expressly budgeted for, would then earmark funds for the ministry to begin phase two, which is using the budgetary funds to begin the actual implementation of the executive branch's policy priorities. **If the SDGs are accounted for in the national budget, then ministries have the mandate and justification to begin spending to meet the targets set out within the SDGs, making it much easier for them to become realized, as, through the budget, the chances of successful implementation are greatly enhanced.**

As can already be gleaned, the national budgetary process plays a vital role in the successful implementation of the SDGs. It is the goal of the rest of this Quarterly Report to look into how European countries have dealt with budgeting with respect to sustainable development, as past experiences may provide key insights into how budgeting for the SDGs may look and what form the implementation of such measures will take. Chapter one will look into past experiences of how countries have managed to incorporate rate sustainable development into their budgets.

[5] Ibid. p. 15
[6] Ibid.

Chapter 1: Past Experiences in Budgeting for Environmental Issues

The experiences of European countries in budgeting for sustainable development can provide insights into how they may opt to deal with budgeting for the SDGs, as it may be possible that policymakers will utilize the same implementation tools and strategies, or utilize them in a broader fashion to reflect the all-encompassing and integrated nature of the SDGs. This chapter will look at environmental policy in particular, as many solutions for sustainable development tend to focus on the environment, and have focused on the environment in the past within Europe. When it comes to the environmental side of sustainable development, there is an established history, going back to the mid-1990s with **'green budgeting'**, of attempts for countries to think about sustainable development in a budgetary manner, or at least try to reflect sustainable development issues in national budgets. These sustainability issues can be witnessed in the environmental and 'green budgeting' reforms that happened throughout Europe over the last several decades.

Another aspect, apart from 'green budgeting', which policymakers use to budget for environmental issues is **'environmental fiscal reform' (EFR),** which has been continuously used in some countries as a way to address issues in sustainable development, focusing again on the environmental aspect of sustainable development. The OECD published a report in June 2017, *Environmental Fiscal Reform: Progress, Prospects, and Pitfalls*, which looks into environmental policy and EFR, and outlines the benefits that creating an environmental tax can have for countries that implement it. Green Budget Europe and the Danish Ecological Council also contribute to the EFR debate and give examples from European countries that have implemented such policy measures over the past several decades. Understanding the types of budgetary tools that have existed in the past and that countries have utilized may help to shed light on how policymakers may address their national budgets when it comes to aligning them with the 2030 Agenda and the SDGs.

Green Budgeting

Generally, the aim of green budgeting is to include environmental aspects when developing and implementing public budgets. Several EU Member States have made experiences with green budgeting, such as the UK (e.g. departmental spending reviews, Public Service Agreements), the Netherlands (e.g. departmental financial statements) or Germany (e.g. tax incentives for sustainable technologies), for example. Moreover, the EU undertook efforts to address green budgeting in their Multi-annual Financial Frameworks.[7] The EU Multi-annual Financial Framework (MFF) that will be devised for the years beyond 2020, which is when the current MMF will expire, will be looked at more closely in the next chapter, in order to determine whether the EU will focus on the 2030 Agenda and the SDGs post 2020.

The International Institute for Sustainable Development (IISD) published a report in 1994, *Making Budgets Green*, which provides over 20 stocktaking case studies on 'green budgeting' from across North America and Western Europe. The IISD report separates 'green budgeting' into three different categories, which are based on the ways in which governments generate revenue: 1) **public expenditure instruments (PEIs)**, which are characterized by the government needing to spend money, such as by providing subsidies; 2) **budget neutral instruments (BNIs),** which are characterized as instruments that neither cost the government money, nor generate it, but rather redistribute it; and 3) **revenue generating instruments (RGIs),** which do generate revenues for the government, such as through pollution taxes or other taxes that try to internalize environmentally damaging externalities.[8]

[7] Berger, Gerald., Steurer, Reinhard. *Horizontal Policy Integration and Sustainable Development: Conceptual remarks and governance examples*. ESDN Quarterly Report, June 2009. p. 8.
[8] International Institute for Sustainable Development (IISD). *Making Budgets Green*. 1994, p. 2.

The following section will discuss the potential relevance that ‘green budgeting’ has for the SDGs by using examples from the International Institute for Sustainable Development’s (IISD) report: *Making Budgets Green*. A more in-depth discussion of the examples from Western Europe are included in the Annex section of this QR. These examples are detailed accounts of the policy mechanisms that were introduced in order to reach policy goals and objectives regarding the environment. The examples also include the lessons that were learned by policymakers at the time, which could be useful for today’s policymakers in determining what could potentially work with respect to the SDGs, and which tools need to be better adapted to fulfil the complex and integrated challenges that the SDGs pose, as not only must environmental concerns be taken into account, but also other aspects of sustainable development.

Relevance of ‘Green Budgeting’ for the SDGs

It can be seen from the case studies, many of which can be found in the Annex of this Quarterly Report, in the IISD report pertaining to Western Europe that governments are capable of taking budgetary actions to help in solving sustainability issues, such as the environment, and that they have been doing so long before the advent of the SDGs. It is clear that policymakers possess a wide array and mix of tools that can allow them to adapt their budgets with respect to sustainable development, and its foundation principles: environment, society, and the economy. When it comes to choosing the correct tool, it depends entirely on a country’s specific context, as well as the nature of the tool and how it collects, spends, or redistributes the revenues. Many governments attempt to use revenue generating tools, as this allows them to potentially do more for their policy agenda. However, as can be seen by the above examples, it is often not well-received by businesses, nor the general public, as such tools often give the impression that the government is attempting to make a profit without providing something in return. Therefore, some of the more effective tools seem to be ones that forego government enrichment in favor of a more balanced approach. The usage of such neutral tools can be more easily justified to policymakers and other government officials, as well as to business, citizens, and other stakeholders, as the government does not enrich itself, businesses can still be supported, such as with funding for research and innovation, and, more importantly, a desirable outcome can still be reached, such as lower emissions. These types of tools are typically also successful because they rely on market forces, rather than government regulations and resolutions, to influence the behavior of businesses and consumers, which is more effective and efficient in reaching policy goals. This was clearly evidenced as was in the Swedish case study on nitrogen oxide emissions, where the general consensus of all stakeholders, including business and civil society, was that they introduced system was fair.

When it comes to the SDGs and ‘green budgeting’, policymakers can use what has been done before and incorporate the SDGs within certain policy agenda goals and explicitly align those goals along the SDGs. If the Swedish example is taken again and the goals of the policy are looked at, there can be a clear connection made to many of the SDGs. The Swedish nitrogen oxide charge on energy production inherently has an effect on SDG 7: affordable and clean energy, as the charge punishes firms that are unable to produce high amounts of energy relative to their emissions, and favors those firms that can produce energy more efficiently in terms of the amount of nitrogen oxide emissions they produce. The charge has even more wide-ranging effects that can be linked to the SDGs, such as SDG 9: industry, innovation, and infrastructure, because the charge did not hinder the energy industry’s competitiveness, and it also fostered the use of technology by firms to reduce their nitrogen oxide emissions.

In addition to affecting the economic side of sustainable development and the SDGs, the Swedish charge can also be connected to SDG 13: climate action, as, according to the United States’ Environmental Protection Agency, “nitrous oxide molecules stay in the atmosphere for an average of 114 years before being removed by a sink or destroyed through chemical reactions. The impact of 1 pound [about ½ kilogram] of N_2O on warming the atmosphere is almost 300 times that of 1 pound [½ kilogram] of carbon dioxide."[9] Since the charge was able to drastically lower the amount of nitrogen oxide emissions in Sweden, it would have helped in contributing to the realization of SDG 13. SDG 14: life below water and SDG 15: life on land, would also be positively impacted by this charge, as nitrogen oxide emissions contribute to the acidification of water and soil.[10] This example shows that governmental budgetary measures, themselves, can have a wide array of impacts and effects on the SDGs, which is only a small part of how the government decides upon policies and policy goals.

Even though the Swedish example is over 25 years old, it further shows that policymakers can keep in line with the 2030 Agenda's mandate that governments do not necessarily need to "reinvent the wheel" to be able to integrate the SDGs into their national agendas and policy goals, as many of the policy goals a government has will already address many of the SDGs. Policymakers, therefore, would, and to a great extent they are already doing so, need to find out how what they have done, what they are currently doing, and what they plan to do in the future is related to the SDGs and then integrate them into their goals. As government policy goals are being aligned along the SDGs, policymakers should not forget that more is needed than alignment along the 17 SDGs, which takes the form of the 169 targets that the goals represent. Therefore, it is important to anchor both, the SDGs and the sub-targets, within government policy and policy goals, which should also include the budgeting process.

Environmental Policy: Regulation vs. Taxation

When it comes to environmental policy, **government regulations and environmental taxes are generally the tools that are used in its implementation**. The OECD report mentioned above characterizes environmental policy as still being dominated, to a high degree, by regulations rather than by environmental taxes. Regulatory approaches are often rigid and targeted at specific, desired outcomes, such as banning or limiting pollutants, requiring certain fuel efficiency standards for vehicles, forcing companies to utilize specific energy-saving technologies, etc. However, the report goes on to say that **over recent decades there has been a growing interest in using market-based instruments, such as taxes and tradable emissions permits**, in addition to, or instead of, using regulations, as taxes can directly address the market failure that causes markets to ignore environmental costs. A well-designed environmental tax increases the price of a good or activity to reflect the cost of the environmental harm that it imposes on others, or at least moves the price in that direction. The cost of the harm to others, which was external to markets, is then internalized into market prices. This ensures that consumers and firms take these costs into account in their decisions. In essence, environmentally related taxes modify relative prices so that consumers include environmental costs in their spending decisions more accurately.[11] This, in turn, improves the condition of the environment, while at the same time, raising tax revenues for the government.

Regulations generally result in abatement costs at least as high as those that would result under taxes, since they force particular types of abatement, even if cheaper alternatives are available. As long as environmental problems and the solutions for them are broadly and well understood, this information asymmetry may not be too much of a problem, and regulation can work well. However, as the easy and cheap abatement options have been exhausted, it becomes more important to leave the decision on how to abate to those best informed about the available options and their costs, namely those industries that pollute, as it is in their best interest to find the cheapest, most efficient, most effective,

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[9] Environmental Protection Agency. https://www.epa.gov/ghgemissions/overview-greenhouse-gases#nitrous-oxide
[10] International Institute for Sustainable Development (IISD). *Making Budgets Green*. 1994, p. 24.
[11] OECD. *Environmental Fiscal Reform: Progress, Prospects, and Pitfalls*. June, 2017. p. 7.

etc., way to reduce their specific type of pollution, i.e. greenhouse gas emissions, or other environmental pollutants. The higher cost of the polluting activity that results from the environmental tax makes the activity less attractive to consumers and businesses. **In contrast to regulations or subsidies, however, a tax leaves consumers and businesses full flexibility to decide how to change their behavior and reduce the harmful activity.**[12]

Environmental Fiscal Reform

Green Budget Europe and the Danish Ecological Council published a report in 2014, *Environmental Fiscal Reform in Europe: An overview of policy and politics of implementing environmental fiscal reform in Europe between 1990 and 2013*, which looked into the environmental fiscal reform policies of six European countries, Sweden, Denmark, German, The Netherlands, the United Kingdom, and Ireland.

The area of EFR has been a theme in policy research and implementation in Europe for the last thirty years. **The concept of EFR is broadly based on using environmental taxes and a reduction of government spending that is harmful to the environment, such as subsidies for fossil fuel, to raise revenue.** The **extra revenue that is gained** from the implementation of EFR **can be used in a multitude of ways, which depends entirely upon the implementing country and its policy priorities**. For example some countries may choose to use this tax revenue to: 1) reduce other taxes, such as labor taxes; 2) reduce budget deficits; 3) invest in environmental infrastructure; and 4) stimulate new innovations in cleaner forms of energy and technologies.[13]

The report argues that the reasons for which a country or government may choose to implement EFR stems from a recognized need to reduce emissions or resource consumption levels. Using taxation to create market incentives to reduce emissions became more common during the 1990s, backed up by the economic rationale that pollution is an external cost on the economy that market prices would not reflect without a policy intervention. Research has shown that the benefits of this approach, ***if well-designed and successfully implemented***, can be numerous and multi-faceted, such as: 1) distortions within the economy are reduced as a result and efficiencies enhanced; 2) EFR measures may also raise substantial revenues, which can be used to reduce labor costs, or facilitate the transition towards a green economy; 3) changing relative prices can foster innovation and encourage investment; 4) a positive impact on employment may result, as a tax shift reduces the cost of labor; and 5) growth may also increase.[14] To counterbalance the possible adverse effects of an increase in green taxes, other taxes are reduced using the revenues generated by the ETR implementation, which is also referred to as 'revenue-recycling'. The purpose of such a revenue-neutral policy is to shift the tax burden so that it falls more on negative externalities, such as pollution and resource depletion, which it seeks to reduce, by ensuring that price signals reflect the true costs of negative externalities. Therefore, ETR provides a powerful incentive for all aspects of society, e.g. households and industries, to change their behavior and consumption patterns.[15]

Over the course of the past several decades, many European countries have tried to introduce some EFR policies. Some countries are more successful in implementing these policies than other countries, as political contexts and country specific contexts can be very different. However, the report indicates that there are a few challenges that many governments have to deal with, such as the interests of big

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[12] Ibid. p. 8-9.
[13] Hewett, C. & Ekins, P. *An overview of policy and politics of implementing environmental fiscal reform in Europe between 1990 and 2013*. Green Budget Europe and the Danish Ecological Council. October, 2014. p. 2.
[14] Ibid.
[15] Ibid. p. 5.

business, vehicle users, and trade unions, which feel particularly threatened by environmental taxes, as they perceive that these will hit their energy-intensive sectors hard. It is also difficult to communicate such a complex taxation policy to citizens, as they tend to be more distrustful about the revenue recycling that should take place in an EFR scheme. Therefore, it is very difficult for policymakers to strike a balance between simple communication of EFR and its more intricate design complexities. Another aspect that such EFR taxation policies have faced is the incredible amount of political will that needs to be leveraged in order to push them through, as it is often the case that environmental issues are not very high on the political agenda.[16]

Examples of Environmental Fiscal Reform in Europe

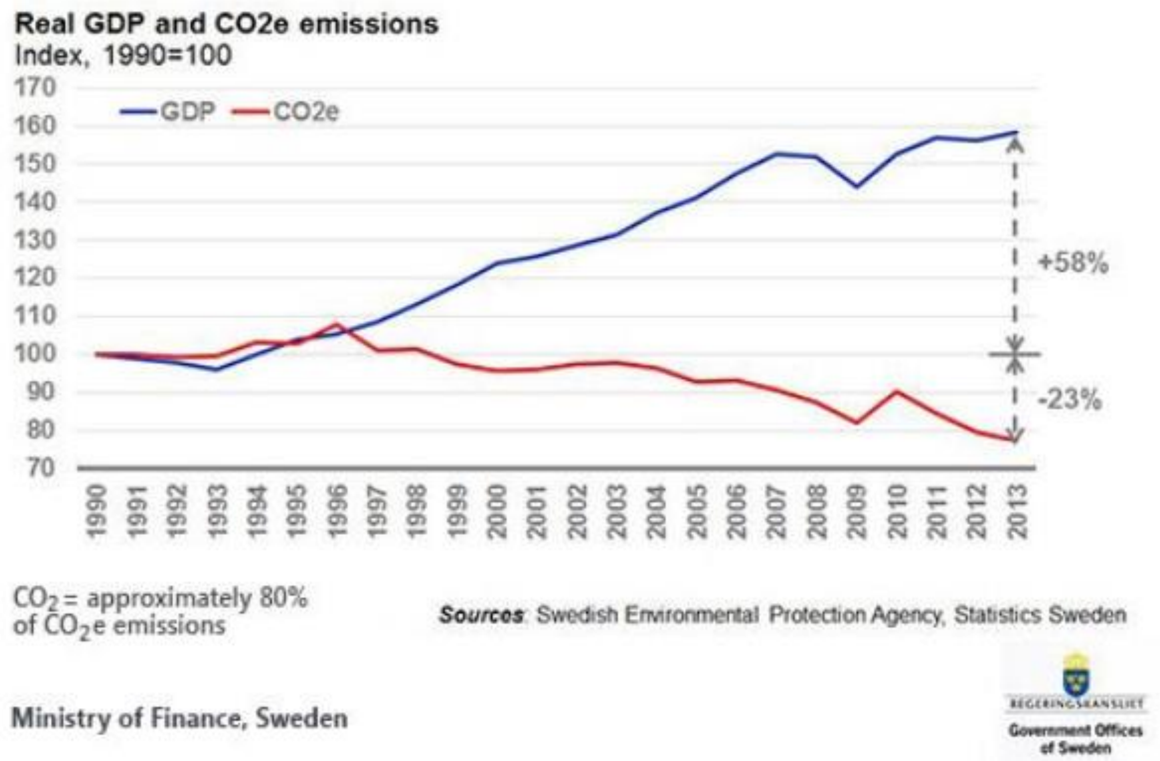
Sweden

Sweden, which was one of the case studies of the Green Budget Europe and Danish Ecological Council report, along with other Scandinavian countries, was one of the first movers in the EFR debate. The CO_2 tax was first introduced in 1991, as part of a much wider tax reform aimed at reducing the overall tax burden. There was a greater tax shift in favor of reducing non-wage labor costs than any compensatory revenue-raising from green taxes. Thus, the majority of citizens and businesses saw an overall fall in the tax bill at this time, making the whole package less controversial and a political consensus around its introduction easier to achieve. At the same time, industry was given a lower CO_2 tax rate than households and this differential has stayed in place ever since. Recommendations on green taxes were made by an independent Green Tax Commission, which also looked at further measures in the late 1990s. **As the political backdrop remained one of reducing the overall tax burden, political parties remained committed to the idea of EFR, developing a political consensus that has made implementation easier for governments of the left and right alike.** The Swedish government has consistently implemented EFR measures since the first measures were introduced in 1991. **Between 2000 and 2009, the general CO_2 tax, which applied to households and motor fuels, was increased further, while other taxes were reduced, such as income and labor taxes**. The CO_2 tax on industry remained the same during this period. In 2008, all industry covered by the EU ETS was exempted from the CO_2 tax. **It is worth noting that the administrative costs of the tax amount to just 0.1% of carbon/energy tax revenues.[17]**

New tax increases have been announced for 2016 for transport fuels, amounting to an increase of about 5 Euro cents per liter for diesel and gasoline.[18] [19] Since carbon-energy taxation was introduced in 1991, GDP and CO_2 emissions have decoupled in absolute terms, i.e. the emissions have decreased in absolute terms at the same time as GDP has increased. *Figure 3*, below, shows the decoupling over time.[20] [21]

[16] Ibid. p. 21.
[17] Ibid.
[18] Ibid. p. 22.
[19] Government of Sweden (2015). The Budget Bill for 2016 – Investing in Sweden's future.
[20] Hewett, C. & Ekins, p. 22.
[21] World Bank (2015). Sweden: Decoupling GDP Growth from CO2 emissions is possible

Figure 3: Decoupling of CO2 Emissions in Sweden over Time



Source: "An overview of policy and politics of implementing environmental fiscal reform in Europe between 1990 and 2013". Green Budget Europe and the Danish Ecological Council. October, 2014. p. 23.

The achievement of the Swedish EFR, which is almost unique in Europe, is the degree of political consensus that has allowed governments of left and right to support EFR and a gradual increase in CO_2 tax rates over 20 years. **The foundations for this appear to be that the country started this period with a higher overall tax burden. EFR has therefore taken place against a backdrop of falling taxes, thus taking a lot of the political heat out of the argument. Unfortunately this is not a position that many other European governments can envisage for themselves in the near future.**[22]

Denmark

The other main Scandinavian country in the EFR debate has been Denmark, which has constantly innovated with environmental tax measures, often based on the principles of EFR. For decades Denmark has had a relatively high registration tax on cars. This has been seen as a "luxury tax", but at the same time it is also a green tax, which has led to a lower car ownership in Denmark than in countries with a similar income level. From 2007 the registration tax was changed, so that it is partly dependent of the fuel consumption of the car.

The first carbon tax was introduced in 1993 on household energy, alongside reductions in labor taxation. As with other countries there had been a building up of academic and NGO research and advocacy on EFR, with support at that time from trade unions that were keen to promote green jobs and reductions in non-wage labor costs to stimulate more employment. Further measures came in 1996 and increases in 1998, including an extension of carbon taxation to business, with lower rates for energy-intensive industries on condition of the signing of energy efficiency agreements. However, political consensus was not achieved and the new, conservative government of 2001 implemented a

[22] Ibid. p. 23.

freeze on environmental taxes, although they did not reverse them. This held for a number of years until the financial crisis of 2007/8, and subsequent Euro crisis, changed the priorities of all European governments dramatically. The revenue from energy taxes was reduced by 1.3 billion Euros per year in 2009 compared to 2001 because of the tax freeze – corresponding to about 25% of the total annual revenue of the green taxes. The need to reduce budget deficits across Europe brought new pressures on the fiscal position of most governments. And in Denmark, the prime minister changed his mind about energy taxation in part inspired by the fact that Denmark was going to be the host of COP 15 on climate change in December 2009. The center-right government then introduced a new package of tax reforms which re-introduced index-regulation of energy taxes (but not other environmental taxes), and increased carbon taxes again in order to fund cuts in income tax, which had become their political priority. Some of these carbon tax measures increased the levels for industry, which created a debate on competitiveness resulting in a study for the Department of Economics and Business in 2010 stating that the carbon tax levels were affecting industrial competitiveness. The tax reform was then watered down in 2011, and after elections in September 2011, the new center-left government further cut back some of the green taxes on industry.[23] [24]

Relevance of 'Environmental Fiscal Reform' for the SDGs

A major driving force behind the introduction of EFR has always been environmental objectives, with the potential double dividend of job creation seen as an additional extra bonus. So already this has restricted the times when EFR might be adopted to those when the environment has been high on the political agenda. More recently, an additional factor has come into play: climate change has given added impetus for environmental taxes to that generated by more general environmental concerns.[25] Other times when policymakers have been more inclined towards environmental fiscal reform measures have been when the need for increasing revenue has been more acute, as has recently been seen in some European countries. This more opportunistic type of EFR has succeeded politically in the short term, but without good communication of the objectives to the public, the taxes are vulnerable to opposition and have often been stopped within a few years, although rarely actually reversed. In some countries, when the political heat has died down, parties that opposed green taxes when they were unpopular then turn to them again as revenue raisers in the future.[26]

When EFR is accompanied by reductions in labor taxes, then it becomes more palatable for the citizens of a country, as their overall taxes decrease, and the points at where their taxes would increase, which would be based on their consumption, can more easily be remedied by making different choices, i.e. not buying a car, not driving as often, purchasing a more fuel efficient car, using less energy, etc., than a tax on their income or their labor, which is largely out of their control.

National governments are able to do a service to the environment and their citizens at the same time, while also having the ability to raise their revenues. However, it is exactly **how these added revenues are being used that is important when thinking about budgeting for sustainable development and how sustainable development can best be integrated within a nation's policymaking priorities, i.e. subsidies given to low-carbon technology, energy efficiency, funds for climate action being developed and set up, instating higher green public procurement standards of governmental ministries, etc.**

When this type of revenue raising plan were to be applied to the SDGs, or if the revenues that would be gained from EFR were used to integrate the SDGs into all government ministries, such as giving

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[23] Ibid. p. 24.
[24] Danish Ecological Council (2013). Environmental taxation –changes since 2009.
[25] Hewett, C. & Ekins, p. 29.
[26] Ibid. p. 30

them **specific funds that were earmarked as funds for the SDGs**, or setting up cooperation mechanisms for inter-ministerial exchanges, would be a way in which the SDGs could become more strongly aligned with national budgets, as they could be funded through environmental taxes, rather than from other forms of government taxation, which might already be earmarked for other policy priorities.

Chapter 2: Budgeting for the SDGs at the European Union Level

This chapter of the Quarterly Report looks into the budgetary actions of the European Union and the European Commission. The focus of the European Union's budget can be found in their Multiannual Financial Frameworks (MFFs), which are designed to provide a stable basis for the budget implementation of the European Union over the course of at least five years. The current MFF covers the years 2014-2020 and allows the EU to invest 1 trillion Euros. It provides a framework for financial programming and budgetary discipline by ensuring that EU spending is predictable and stays within the agreed upon boundaries. The MFF lays down the maximum annual amounts the EU may spend in 5 different categories of expenditure: 1) Economic, social and territorial cohesion; 2) Competitiveness for growth and jobs; 3) Global Europe; 4) Security and citizenship; and 5) Sustainable growth: natural resources. By defining in which areas the EU should invest more or less over the seven years, the MFF is an expression of political priorities as much as a budgetary planning tool. The annual budget is adopted within this framework and usually remains below the MFF expenditure ceilings in an effort to remain flexible in case there are unforeseen needs that arise.[27] Figure 4, on the next page, provides a brief summary of the EU budget as it is presented in the EC's "Reflection Paper on the Future of EU Finances".

[27] http://ec.europa.eu/budget/mff/index2014-2020_en.cfm

Figure 4: Budgetary Summary of the Multiannual Financial Framework 2014-2020

Box 1: The EU budget in a nutshell — for the period 2014-2020

- represents around 1 % of EU GNI and 2 % of total public spending;
- is framed by multiannual financial frameworks (MFFs) of at least 5 years. The current framework (2014-2020) provides €1 087 billion;
- is mostly funded by contributions from each Member State based on their relative income, together with customs duties collected at the external borders and a small part based on value added tax. There is no EU tax. The revenue system is agreed by all Member States and ratified by national parliaments;
- mobilises via cohesion policy more than €480 billion in investments EU wide, which should result, for example, in over 1 million enterprises receiving support, 42 million citizens having access to improved health services, 25 million benefiting from flood and fire prevention, nearly 17 million additional citizens connected to waste water facilities, 15 million additional households with broadband access and more than 420 000 new jobs. Also 5 million Europeans will benefit from training and lifelong learning programmes, and 6.6 million children will have access to new, modern schools and childcare;
- is expected to trigger investments worth at least €500 billion via the extended 'Juncker plan' (European Fund for Strategic Investments);
- provides more than €74 billion for the Horizon 2020 research and innovation programme that has led — so far — to six Nobel Prizes, four Fields Medals and discoveries with a global impact (e.g. Ebola vaccine research, ground-breaking research on cancer and Alzheimer's disease and aircraft with lower CO_2 and noise emissions);
- provides over €30 billion to support trans-European networks in the fields of transport, energy and communication via the Connecting Europe Facility;
- supports a dynamic agricultural sector with around €400 billion, supporting 7 million farmers, provides for the modernisation of 380 000 farms with €8.7 billion and finances rural development investments targeting biodiversity, improved energy efficiency, the setting up of businesses and the modernisation of production facilities;
- finances the Galileo navigation system, which has to date launched 15 fully operational EU satellites into orbit, and Copernicus, Europe's earth observation programme;
- mobilised more than €17 billion between 2015 and 2017 to address the refugee crisis within and outside the EU;
- finances the Erasmus programme promoting the mobility of over 9 million people, especially students and youth across countries over the last 30 years;
- provides more than €8 billion to tackle youth unemployment via the youth employment initiative and to date has supported 1.6 million young people;
- aims at devoting 20 % of total expenditure to actions against climate change;
- provides around €8 billion of humanitarian aid, making the EU a leading donor of humanitarian aid in the world.

Source: European Commission. *Reflection Paper on the Future of EU Finances*. p. 10.

As MFF is the guiding budgetary tool, which Figure 4 represents, and a manifestation of the EC's political agenda and goals, it is an important indicator as to how the European Union, as a whole, will address issues in the future. This can also be extended to include the SDGs. However, it should be noted that this particular MFF began before the official adoption of the SDGs by the UN in September 2015. Therefore, it is not surprising that the current MFF does not mention the SDGs. **However, as the**

planning for the next MFF for beyond 2020 still needs to happen, most likely in May 2018[28], it still maintains the potential to address the SDGs directly and set a clear budgetary mandate for the EU to address the SDGs in its policy-making and goal setting. The way in which the next MFF is dealt with by the EC will set the stage for the EU for at least five years after 2020, bringing the EU's budgeting framework up until at least 2025. If the SDGs are not explicitly focused upon in the MMF beyond 2020, then the EU will most likely lose the opportunity to be frontrunners regarding the 2030 Agenda and the SDGs, as the 2030 Agenda only covers the years 2015 – 2030.

Apart from the MFF, the European Union, and, more specifically, the European Commission have been able to integrate the SDGs into their already established working plan. According to the European Commission's "Reflection Paper on the Future of EU Finances", sustainable development has long been at the heart of the European project. European societies today face many sustainability challenges from youth unemployment to aging populations, climate change, pollution, sustainable energy and migration. **The 2030 Agenda and the SDGs are an anchor of EU policy both internally and externally**.[29]

The European Commission, in this reflection paper, claims that the economic, social, and environmental dimensions at the heart of the SDGs have largely been incorporated into the EU budget and spending programs, where they have been mainstreamed into the Europe 2020 strategy to build around education and innovation, low carbon emissions, climate resilience, environmental protection, job creation, and poverty reduction.[30]

In an earlier European Commission Communication to the European Parliament, the Council, the European Economic and Social Committee, and the Committee of the Regions, and entitled: "Next steps for a sustainable European future European action for sustainability", and published on November 22, 2016, reinforced the EU's commitment to being a frontrunner in implementing the 2030 Agenda and the SDGs, together with its Member States. The 2030 Agenda will further catalyze a joined-up approach between the EU's external action and its other policies and coherence across EU financing instruments.[31]

The European Commission communication also states that the EU plans to incorporate the 2030 Agenda into two work streams. The first work stream, which is presented in the Communication, is to fully integrate the SDGs in the European policy framework and current Commission priorities, and serve as a stocktaking measure in assessing where the EU stands, as well as to identify the most relevant sustainability concerns. The second work stream will focus on the a more long-term vision that will focus on sectoral policies for after 2020 and will be foreseen as preparing the long-term implementation of the SDGs. Along those lines, the upcoming Multiannual Financial Framework for beyond 2020 will also help to reorient the EU's budget contributions towards achieving these long-term objectives.[32]

The EU budget, representing around 1% of EU Gross National Income (GNI), is an investment budget that complements national budgets and the wide set of EU policy and regulatory instruments to tackle challenges both at European and at international level. The Commission has already largely

[28] http://www.europarl.europa.eu/legislative-train/theme-new-boost-for-jobs-growth-and-investment/file-post-2020-mff
[29] European Commission. *Reflection Paper on the Future of EU Finances*. European Commission, June 2017, p. 13.
[30] Ibid. p. 14.
[31] European Commission. *Next steps for a sustainable European future European action for sustainability*. European Commission Communication, November, 2016, p. 3.
[32] Ibid.

incorporated economic, social and environmental dimensions, which are at the heart of the SDGs, into the EU budget and spending programs. The performance framework of EU spending programs for 2014-2020 already contains relevant elements to report on the three dimensions.[33]

The Investment Plan for Europe references specifically the SDGs and promotes coherence with the EU budget. Different policies such as the European Structural and Investments funds and instruments, like the Connecting Europe Facility, work alongside European Investment Bank financing to promote sustainability objectives, such as energy efficiency and clean transport, through the use of innovative financing instruments that help to achieve the necessary scale of investment required. There is also a political commitment of devoting at least 20% of the EU budget to climate action. Moreover, Horizon 2020 is expected to contribute at least 60% of its budget to sustainable development and 35% to climate action.[34]

[33] Ibid. p. 15
[34] Ibid.

Chapter 3: National Level Examples of Budgetary Alignment along the SDGs

This chapter looks more closely at individual European countries and their efforts to align their national budgets along the SDGs. As part of the entire process of implementing the SDGs and the 2030 Agenda, countries are encouraged to produce Voluntary National Reviews (VNRs) at the annual UN High Level Political Forum (HLPF) that takes place in New York City. For many of the countries that have produced these reviews in either 2016 or 2017, they mark the beginning of the SDG implementation process and served as a stocktaking exercise for many countries. Being one of the earliest and more comprehensive documents regarding how countries are dealing with and approaching the SDGs, the VNRs serve as one of the first indicators for how countries would proceed with the implementation of the SDGs. For the purposes of this Quarterly Report, the VNRs of the European countries that have already gone through the VNR and HLPF processes were examined, in order to discern whether national budgets, and budgeting for the SDGs in general, were already topics with which countries and governments were already concerned. *Table 1*, below, is dedicated to the sections of the individual VNRs that relate to budgeting for the SDGs.

National Budgeting for the SDGs in the Voluntary National Reviews

Table 2: National Budgetary Information in the Voluntary National Reviews

VNR 2016	
Country	**National Budgetary Information**
Estonia	-
Finland	Members of Parliament and Parliament itself play a key role in the national and global implementation of the Agenda 2030 and in monitoring its progress. The aim is that the various Parliamentary committees will take a holistic approach to considering the Agenda 2030 and its Goals and targets, taking into consideration the integrated nature of Agenda 2030. **Parliament is responsible for budgeting sufficient funds for the implementation of Agenda 2030, which will require political will and genuine commitment to the Goals and targets in question. It will actively place the global goals and targets on the national policy agenda and monitor the action the Government takes to implement sustainable development.** The aim is that the Parliament conducts a topical debate in the autumn of 2016 on its role in promoting sustainable development. In addition, it will consider the national implementation of Agenda 2030 while discussing the approval of the national implementation plan. Society's Commitment to Sustainable Development serves as a long-term target framework and tool, promoting policy coherence in the strategic and program work performed by various administrative sectors and societal actors. The aim is to have the principles and objectives of Society's Commitment included in future Government Programs, the Government's future reviews and budget preparation. The integration of Agenda 2030 with national budget planning is a key precondition for its successful national implementation. In its national plan for the implementation of Agenda 2030, the Government aims to identify short and medium-term objectives that are sufficiently tangible for inclusion in the budget planning of Finland's various administrative branches. Each administrative branch should incorporate these objectives in its budget proposals forming the basis for

	the preparation of the national budget. In the public sector, implementation of Agenda 2030 will also require budgeting related to objectives across administrative branches, particularly in the priority areas being scheduled for implementation at a certain point of time.
France	Ensuring that the vulnerable have access to fundamental rights is the first step on the road to independence. The government has made poverty eradication a policy priority with an additional envelope of over €2.6 billion budgeted through to 2017 to ensure access to basic services for all. The Healthcare Innovation Investment Fund, has a budget of €340 million to assist sector entrepreneurs with their projects and promote the spread of healthcare innovations. France is investing in research to improve energy efficiency and innovate in renewables. A total of €1.8 billion was invested in energy in 2013, including €440 million in new technologies: renewable energies, carbon capture and utilization, storage, networks, etc. Decentralized off-grid solutions, urban district heating and hydraulic technology are just some of the actions France promotes through the French Agency for Development, with its total budget of over €3 billion for the 2013-2015 period. A Positive Energy Territory for Green Growth (PET-GG) is a place of excellence for energy and ecological transition: reducing the energy needs of inhabitants, buildings, economic activities and transport. A budget of €500,000 has been allocated to the local authorities for this. In addition, 212 bidders have won the call for tenders for high-power solar plants, an estimated 1,500 biogas plants will be built over three years following the call for projects, and offshore windfarm projects are in place. The Investment in the Future Programme has received nearly €47 billion in funding to finance innovative and promising investments since 2010. 1,473 projects have been supported to date in the spheres of research, training, the economy and industrial projects, digital technologies, ecology and sustainable mobility. The government has earmarked €40 billion under its social and urban development policy to finance renovation of the most run-down neighborhoods.
Germany	Regularly, government action requires prior consultation among all relevant federal ministries and the Federal Chancellery. This procedure, although time-consuming, ensures that the German Government resolves problems of conflicting objectives internally, and that the entire government then backs the actions of every ministry. The implementation of the 2030 Agenda […] is carried out within the framework of the budgetary and fiscal requirements of the Federal Government.
Montenegro	The establishment of this complex system of monitoring the implementation of sustainable development and the UN agenda for sustainable development by 2030 is not possible without a satisfactory level of development of human resources needed to strengthen the process of data collection and processing. This will require adjustment of the current institutional organization and work programs of official and administrative statistics producers, which must be accompanied by an increase in the number of employees and budget allocations. The program framework of the Centre will be aligned with the needs of the implementation of NSSD until 2030 and 2030 Agenda for Sustainable Development, thus going beyond the current program of support to the public sector in the field of environmental sustainability and bridging the gap between

	the use of relevant scientific knowledge and implementation of sustainable development policy. Instead, there will be support for priority activities in all four groups of national resources: human, social, economic and natural, in line with the objectives and measures of NSSD until 2030 and possibilities for allocation of funds that will be available to UNDP, as well as those from the budget of Montenegro, particularly emphasizing the importance of activities aimed at the introduction of the green economy. Within the framework of the improvement of institutional organization for the implementation of sustainable development policy, it is particularly important to enable stable sustainable development funding. As budget planning, which is based on achieving results, constitutes one of the preconditions for efficient implementation of sustainable development policy, it is necessary to strengthen the capacities of the Ministry of Finance. According to the recommendations of the Regional UNDP Centre, having the seat in Istanbul, the NSSD suggested that at least one employee of the Ministry of Finance be entrusted with sustainable development funding in order for the budget planning and execution process to be improved from the point of view of organization and personnel, in accordance with the needs of the implementation of the NSSD 2030. Transformation of the existing governance capacities for the implementation of sustainable development policy into a modern, efficient and responsible sustainable development governance system must be based on the measurability of results and effects of the work of public administration, continuous improvement of employees' competences, enhancing of governance transparency and program budgeting of sustainable development priorities. The level of debt in Montenegro should be managed in accordance with legislation and the so called Maastricht criteria related to the Eurozone countries; starting ground for the future policy of state borrowing should be for the revenue achieved using these funds to be higher than the costs of borrowing; achieving public debt sustainability improves country's credit rating, and responsible management and control of public spending, and the strengthening of capacities of revenue gaining institutions will enable credible mid-term planning and create the space for greater sustainable development budget. Main sources of sustainable development funding should be state budget, but also the budgets of local self-governments and earmarked funds. Funds can also be secured through donations, credits, international assistance, as well as from the instruments, programs and funds of the EU, UN and other international development partners Montenegro has.
Norway	The Government has already taken important steps to identify challenges and integrate SDG reporting into the annual budget documents. The Storting's approval of the annual state and national budget, which are key political documents in the Norwegian democratic system, is required to give the Government the mandate it needs to carry out its policies. Following the adoption of the SDGs in September 2015, the Government developed a plan for national follow-up of the SDGs in Norway, which is linked to the budget process. Responsibility for each of the 17 SDGs is given to a coordinating ministry, which is to consult with other ministries involved in the follow-up of various targets under the goal concerned. Each ministry is to report on the status of follow-up for its respective goal(s) in its budget proposal. The Ministry of Finance will then sum up the main points in the national budget white paper, which is presented to the Storting annually, along with the state budget. This ensures annual reporting on the follow-up of the SDGs to the Storting, in a well-established process.

	The decision to report annually to the Storting through the budgetary process means that Norway has a clear institutional framework in place for its efforts to implement and follow up the SDGs.
Switzerland	National implementation of the Sustainable Development Strategy 2016–2019 is funded via the budgets that have been approved for the individual federal offices, which are responsible for incorporating the necessary financial resources in their financial planning. Should additional funding be required for measures in parallel with strategy implementation, it must be applied for as part of the normal budget process.
VNR 2017	
Belgium	-
Cyprus	Regarding the provision of social care programs, the Government is focusing on the provision of accessible, affordable and quality social care programs at local level (i.e. child care services, long-term social care services to the elderly and persons with disabilities, counselling services). In this direction, the Government through the competent Service (Social Welfare Services) is implementing the State Aid Scheme, under the Regulation 360/2012 for the provision of services of general economic interest (De minimis) where NGOs and Local Authorities may receive state aid based on certain criteria for the development and functioning of social care programs. In 2016, 252 organizations received state aid for the operation of quality social care programs with a total budget of around 7 million euros. National Action Plan for Youth Employment and Youth Guarantee Implementation Plan The challenge of youth unemployment is tackled through the National Action Plan for Youth (NAPFY). Youth Guarantee is a major part of the NAPFY, more specifically addressing NEETS 15 – 24 years of age. The NAPFY has a total budget of €47.2 million financed mostly from the European Social Fund (€29.2 million), the Youth Employment Initiative (YEI) (€11.6 million) but also from the ERDF (€3.1 million) and national funds (€3.3 million). It encompasses a Youth Guarantee Implementation Plan (YGIP) to which funds of €37.6 million have been allocated. It includes measures for an early intervention in the form of a Youth Guarantee (YG) to prevent school leavers and newly unemployed individuals in the younger cohort (ages 15-24) from falling into long-term unemployment and inactivity traps. To date, over 1,700 young people have been supported under YEI-financed measures of which 443 are in employment, education and training. Grant Schemes A number of instruments have been put in place or are planned to support SMEs' investment in R&D. Among them is a grant program by the Ministry of Energy, Commerce, Industry and Tourism for co-funding R & I activities with a budget of €17 million for 2015-2017 2020 (which exceeds current total annual business R&D expenditure). Further initiatives –are planned for 2018 that will include Business Innovation Centres, providing advisory services to public and private businesses for the development of competitive products, creation of clusters in ICT, transport, viniculture and construction, and an Innovation Voucher system ("Innovation Packages") providing limited funding support (€5,000-€20,000) for enterprises, joint ventures, start-ups or collaborations with public research organizations in order to promote Innovation Culture or product certification. All direct funding instruments are to be co-financed by Structural Funds. Establishing a dedicated Government Authority for Sustainable Development. A

	department, or ministry for development, could set, oversee, analyze the results and adapt its national and international strategy according to the national capabilities and the international needs. To elaborate on our proposal, this department would need to be interministerial and interdepartmental, and it would be best if the authority could draw its authority directly from the government leadership. This would allow it to overview all policies through the filter of sustainability, as defined in the targets but not restricted to it, and be able to initiate, guide, amend actions and raise possible concerns over potential conflict of priorities. This department would also need to create a coherent set of data collection tools in order to monitor the efficacy of the targets and evaluate their progress. It will need to have its own budget allocated from the national budget, as opposed to the current practice.
Czech Republic	-
Denmark	The Ministry of Finance is responsible for the coordination of the national implementation of the SDGs and the Action Plan adopted by the government. Line ministries, however, are responsible for integrating the SDGs in policy. The Ministry of Foreign Affairs is responsible for the SDGs in the context of the United Nations and other international fora as well as in Danish foreign and security policy, trade policy and development policy. Implementation of the Action Plan and sustainable development in general is funded by the budget allocations approved by Parliament in the annual budget negotiations for the coming fiscal year. Denmark's public sector is largely decentralized and the municipalities account for 70 percent of public consumption. Each year the government negotiates the budget for the following year with and for the municipalities and regions. An agreement for 2018 was reached on 1 June 2017 with local governments and 6 June with regional governments. The government and municipalities and regions agree to cooperate to achieve the SDGs and integrate sustainable development in policymaking. The Ministry of Finance is responsible for coordinating the national implementation of the SDGs. Efforts are mainly coordinated through the inter-ministerial SDG work group and bilaterally between the Ministry of Finance and the line ministries. The Ministry of Foreign Affairs was chair of the group until the adoption of the Action Plan, after which the Ministry of Finance took over the chairmanship. This shift reflects the government's wish to ensure that sustainable development is integrated into domestic policy and the daily workings of the government. While the Ministry of Finance is responsible for coordination, it is important to stress that policy expertise is located in the line ministries responsible for designing policies addressing the SDGs. Government implementation of the Action Plan and sustainable development in general is funded by budget allocations as approved by Parliament in the annual budget negotiations for the coming fiscal year. As such, every ministry and government agency etc. is responsible for the allocation of sufficient resources. In case additional funds are requested, the government will assess such requests on its merits and according to regular procedure. Fulfilling the SDGs will require immense levels of financing. While governments should play an important role, the bulk of the financing will have to come from financial institutions such as banks and institutional investors. Financial institutions see major opportunities in investing in sustainable development and activities that support the SDGs, but are often restricted from making certain investments by regulations and fiduciary duty. Governments should prioritize the

	use of public finance to leverage private capital for SDG investments. This can be done through mechanisms such as blended finance, where investors are insulated from some of the risk or have priority for some of the returns. The Danish Climate Investment Fund and the Danish Agribusiness Fund are examples of such mechanisms.
Italy	Inequality can only be effectively fought by adopting an integrated vision and restoring a sustainable, balanced and inclusive growth. To this end, All available instruments must be used, including budgetary policies and structural reforms. In the next five years, Italy will focus its efforts to enhance the socio-economic prosperity conditions. The strategic topics to be addressed by the Government and envisaged within the framework of the NSDS are the following: decrease poverty, inequality, discrimination, unemployment (particularly among youth and women); ensure an environmentally sustainable economic growth; increase the opportunities for training, study and social progress; restore the competitiveness of Italian companies through a "fourth industrial revolution" based on innovative and sustainable technologies. The Ministry of Finance will be tasked to create strong synergies between the NSDS implementation and the formal economic policies and to coordinate models required to define such objectives. Given the importance of declining the SDGs on a local scale and provided that some of the areas of competence and responsibilities rely not only on the central administration, the Government, through the State and Regions Conference and in accordance with Art.34, of the Legislative Decree n.152 (April 3rd 2006), will enhance local and regional authorities to be active and take part to the implementation process. In order to give full implementation to the Strategy, also in terms of financial resources and operative tools, every year, the Economic and Finance Document (DEF) will reflect the national targets, taking into account any new European initiatives and strategies, and will outline actions and tools to achieve them. The sustainability of public finances plays a key role, especially in the countries with high public debt. In this context, the 2017 Budget law was also set up taking into account the NSDS and the measures were taken considering the goals of sustainable development.
Luxembourg	-
Portugal	The integration of the gender perspective in the elaboration of the State Budget (gender budgeting), introduced for the first time in 2016, by referring the amounts invested in this area, should be noted. This work is to be consolidated and widened.
Slovenia	-
Sweden	Under SDG 10 Sweden states that: "In its 2017 budget bill, the Government stated that an action plan will be produced so as to gradually, before 2030, achieve and maintain a higher income growth than the national average for the 40 per cent of the population with the lowest income." Under SDG 12: "In its 2017 budget bill, the Government presented a strategy for sustainable consumption. It looks at what the State can do as a first step – in collaboration with other actors, such as municipalities, the private sector and civil society organizations – in order to promote greater environmental, social and economic sustainability in consumption." The City of Malmö, Sweden's third largest municipality with 320,000 inhabitants,

	has made the 2030 Agenda goals the municipality's goal. In September 2015, Malmö signed a declaration of cities´ commitment to the 2030 sustainable development agenda. The municipal budget for 2017 contains a commission for the entire municipal administration to implement the goals of the 2030 Agenda. Malmö builds upon previous experience of work with sustainability. Two pilot cases with a new model for steering the municipality's long-term investments assess benefits on the basis of the three sustainability dimensions. Another example is how to break down the overarching sustainability goals for a locally defined area in order to produce integrated initiatives for sustainable urban development. The Government has taken a series of measures to ensure that the gender equality perspective is systematically decisive for prioritizations when making decisions and allocating resources within all policy areas. These include the strengthening of the application of gender equality budgeting in the state budget and the implementing of a development program for gender mainstreaming within authorities. The Government has also entered into an agreement with municipalities and county councils to strengthen the focus of local and regional gender equality work on men, boys and masculinity issues until the end of 2017. A special national gender equality agency will be established from 1 January 2018.
The Netherlands	-

National Budgetary Trends for the SDGs in the Voluntary National Reviews

Some of the trends regarding budgeting for the SDGs that can be seen in some of the VNRs are that **political will and commitment to the SDGs** is vitally important for their overall successful implementation. The 2030 Agenda and the SDGs need to be placed on the political and public agenda of policymakers and politicians if they stand a chance of being implemented and their targets realized.

In addition to political will, the **integration of the 2030 Agenda and the SDGs in the national budgetary process** is a necessary precondition and prerequisite in implementation, as the national government administration not only needs a clear mandate to begin implementation, but it also needs the means by which to implement it. However, before the implementation process can begin within the ministries, the **ministries themselves need to be able to integrate the SDGs** into their own policies and programs, which include existing and future policies. In order to do this, and to avoid duplication of efforts with other ministries, some countries, such as Finland and Denmark, created interministerial working groups. One country even suggests that at least one employee within the Ministry of Finance of any country should deal with sustainable development funding, which the 2030 Agenda and the SDGs would clearly be a part of. However, for most of the VNR countries, **budgets do not seem to be increasing in order to deal with the 2030 Agenda**. Rather, ministries within countries should be seeking to **use their agreed-upon budgets to align their policies along the SDGs**. It seems, therefore, as if national ministries cannot expect additional budgets from the national government. However, other financial institutions, as suggested by Denmark, such as banks, could be a feasible way for more finances to become available for the implementation of the SDGs.

Another commonality that many of the VNR countries seem to have is an **overarching national sustainable development strategy that was reassessed in light of the 2030 Agenda and the SDGs**, such as Germany, Italy, Switzerland, Denmark, etc. Apart from national sustainable development strategies solidifying political will, they also provide a roadmap and a mandate for national ministries regarding implementation, and can also help in allocating responsibilities for certain policy fields, goals, objectives, etc. The SDGs are no exception in this regard. Although it should be mentioned that some countries see specific ministries as being responsible for certain SDGs, while other countries see the SDGs as more complicated and interconnected, for which coordination mechanisms between ministries is needed.

Chapter 4: Practical Examples and Stocktaking of National Budgetary Alignment along the SDGs

As the SDG arena is constantly and rapidly evolving, a lot can change for countries from the time they presented their VNRs to the time of publishing this QR. Therefore, a questionnaire was also developed and sent out to several representatives in national ministries throughout Europe in order to ask them more direct questions regarding national budget alignment along the SDGS. The questionnaire contained seven questions, which can be seen below. Please note, however, that not all represented countries necessarily responded to these seven particular questions, but rather addressed national budgeting for the SDGs within their country-specific context.

This chapter will look into more practical examples of countries within Europe with respect to where they are in their national budgetary processes when it comes to alignment with the SDGs. The information provided in this chapter came from policymakers at the national level from the different countries. Policymakers were presented with a **7-question questionnaire** that they could fill out. The questions of which were:

1. Is one ministry in your country responsible for the SDGs and the 2030 Agenda, or are responsibilities for specific SDGs spread out across appropriate ministries?
2. How does your country, or the individual ministries, allocate portions of their budget for the SDGs?
3. What does the national budget alignment process look like? (i.e. What had to happen in order for the SDGs to be reflected in the national budget?)
4. With the adoption of the 2030 Agenda and the SDGs, as well as their required implementation, has the budget for ministries increased to be able to deal with the SDGs, or are ministries able to apportion more/justify higher amounts of the budget for realizing the SDGs?
5. How did your country, or individual government ministries, deal with budgeting for sustainable development before the adoption of the 2030 Agenda and the SDGs? How were ministries able to budget for sustainable development?
6. Will budgeting for the SDGs follow similarly to the way in which your country budgeted for sustainable development in the past?
7. If you would make recommendations to fellow colleagues from other European countries looking to align their budgets to the SDGs, what would you recommend as necessary steps to accomplish this?

Policymakers were also able to share information in a more unstructured manner. The 7 example countries that are displayed below represent those countries for which information for this QR was provided. The information was provided by responsible policymakers from national ministries. These country examples serve as a stocktaking measure of the current situation in Europe regarding national budgeting for the SDGs.

Belgium

In Belgium, at the federal level, three ministers – the Minister of Energy, Environment, and Sustainable Development, the Minister of International Cooperation, and the Minister of Foreign Affairs – are responsible for the 2030 Agenda. Therefore, their respective administrations deal heavily with the 2030 Agenda. Apart from the main responsibilities for the 2030 Agenda laying within these ministries, other ministries are have responsibilities for certain SDGs. The Federal Institute for Sustainable Development, which is located within the Ministry of Energy, Environment, and Sustainable Development, has a coordinating role when it comes to sustainable development, especially concerning the chairing of the interdepartmental body, which brings together ministries regarding sustainable development issues, such as for the federal sustainable development strategies or gap analyses

As the regions and communities within Belgium have a high degree of autonomy. The regions and communities are also responsible for sustainable development, the 2030 Agenda and the SDGs. Therefore, the regional level ministries are also working towards the realization of specific SDGs.

In order to coordinate the internal implementation of the 2030 Agenda between the different federal entities (federal state, regions, communities), the Interministerial Conference for Sustainable Development is used, such as for the updated national strategy, as well as organizing a big event about the 2030 Agenda. This groups all ministers from all different levels of government (federal, regional, and communal) to deal with the 2030 Agenda. In addition to this coordination, there is also a coordinating body within the Ministry of Foreign Affairs, which also brings together all federal departments on the administrative and political level regarding Belgium's external position, such as what Belgium will say at the HLPF.

Regarding how federal ministries are apportioning their budgets regarding the SDGs, there are, as of now, no specific portions of the federal budget, or that of individual ministries, that are allocated towards the SDGs, except for Official Development Assistance (ODA). Due to austerity measures, cuts in the budgets of public services, and difficulties with the federal budget, increases in the budgets of the ministries are not possible.

Denmark

In Denmark, the Ministry of Finance is responsible for the coordination of the national implementation of the SDGs, as well as implementation in the context of the European Union and the European Union level. The Ministry of Foreign Affairs is responsible for other international SDG activities, including the United Nations.

Regarding the allocation of the national budget to the ministries, or individual ministry allocations regarding the SDGs, the ambition of the ministries should be to integrate the SDGs in day-to-day policy-making, meaning ministry budgets should not necessarily be increased to account for the SDGs, but existing policy-making should now take the SDGs into account. Therefore, it is up to individual ministries whether they apportion funds for the SDGs.

Prior to the adoption of the 2030 Agenda, there was a Sustainability Action Plan for Denmark, which prescribed measures to be taken towards sustainable development. The government, in March 2017, adopted an action plan for the implementation of the SDGs and this Action Plan is similar to earlier sustainability action plans.

When it comes to offering advice to other countries and the policymakers within those countries, it was suggested that the processes leading up to the Action Plan, and the Action Plan itself was extremely useful in creating ownership of the 2030 Agenda and the SDGs within the different government ministries.

Finland

A long-term approach is crucial to the implementation of the 2030 Agenda. It is well known that Finland has a long and successful tradition in promoting sustainable development through multi-stakeholder interaction and participation. Finland has created a system of ownership to promote sustainable development through institutional arrangements and partnerships. The 24-year old National

Commission on Sustainable Development and the more recent tool, Society's Commitment to Sustainable Development, are functioning as key platforms to that end.

These platforms have served as the long-term target frameworks and tools for policy coherence work on sustainable development by various administrative sectors and societal actors. However, it has been recognized that a long-term sustainability approach should also be adopted in resourcing Government action. This was one of the hot topics in 2016-2017 during the preparation of the Government Report to the Parliament on the implementation of the 2030 Agenda (Government's Implementation Plan).

To include sustainability issues in everyday discussions of legislative and budgetary matters, the Government decided to include the promotion of sustainable development in its annual report to the Parliament, and establish an annual public discussion forum for measuring and taking stock of progress in the implementation of the 2030 Agenda in Finland. Most importantly, the Government's Implementation Plan urged that the principles and objectives of sustainable development are to be included in future Government Programs, the Government's foresight activities and budget preparation. The Government's Implementation Plan also stated that the possibilities of adopting a phenomenon based – thematic and cross-sectoral – approach to Ministries' performance and budgeting will be explored.

Based on the Government Report to the Parliament on the implementation of the 2030 Agenda, the Ministry of Finance in Finland has started discussions with other line ministries on the sustainable development budgeting. The ultimate aim is to include sustainable development considerations in national budgeting by 2019. This is a very important step in mainstreaming sustainable development in all sectoral policies and financial resources.

To boost the process, the Ministry of Finance organized a multi-stakeholder workshop in November 2017, concentrating on the link between sustainable development and the national budget. The aim of the workshop was to discuss and gather ideas about how sustainable development could be identified and made visible better in the budget, and how to develop the link between the budgetary process and the sustainable development agenda. Outputs of the workshop are to be used in the preparation of the 2019 budget and beyond.

The workshop was the second step in an ongoing work to develop budgeting to take into account sustainable development issues. This work began during the preparation of the budget for 2018, when, as the first step, a short text paragraph was included under each main title in the budget. In these paragraphs, ministries provided information on how sustainable development is reflected on their sector during budget year 2018. In the workshop, participants were asked to assess these paragraphs and to bring forward ideas on how to develop them as part of the broader agenda mentioned above.

With over 100 participants, the workshop was a great success and demonstrated the broad societal interest towards the issue. Participants included officials from different ministries tasked with either sustainable development issues or budgeting, several participants from different non-governmental organizations, as well as some politicians and industry representatives. Having a mix of stakeholders with different backgrounds and knowledge in the workshop facilitated many-sided and interactive discussion on the topic.

The Ministry of Finance is still contemplating the results of the workshop and working on more detailed proposals to be taken as next steps. Certain guiding principles and some preliminary thoughts concerning future work can be highlighted at this stage: First, there is a need to find a pragmatic way forward in order to identify sustainable development in the national budget in a manner that adds value. The Ministry of Finance cannot just declare that 99 % of the budget is in line with SDGs. Second, ministries would need to find a way to integrate budgetary matters and sustainable development without causing excessive administrative burden. Third, the first priority is to identify budget items that are related to sustainable development. Fourth, linking the budget and sustainable development is going to be a long road and require proceeding step by step. What is important, however, is that the first steps have already been taken.

It is most likely that the budget will continue to have texts under each main budgetary title, but they will have to be streamlined and more focused. The link between texts, budget, and the Government Report will have to be clarified in the texts. There also seems to be a need for more coherent identification of budget appropriations with a clear link to different SDGs. This would then turn into a summary, either in the General Strategy Outlook section of the budget, or, depending on the outcome and substance of the summary as a separate publication, for example. There are some restraints as to the length and substance of the summary, if it is included in the budget. The Ministry of Finance is currently contemplating on the specifics of this issue.

The great interest in the Ministry of Finance's workshop proved that the combination of budget and sustainable development is an important topic. One challenge is that there are only a few international examples. Therefore, not everything can be done at once. The identification of sustainable development within the budget should be seen as a process, and Finland is only now at the beginning of that process.

Germany

In Germany, the lead responsibility for the 2030 Agenda and the Germany Sustainability Strategy lays within the Federal Chancellery. However, all ministries retain primary responsibility for their own contributions in respective policy areas.

There are some specific instruments in place to align parts of the federal budget with the 2030 Agenda:

1. A sustainability check is used as an ex-post instrument in Germany's biannual subsidies report. This report covers all federal subsidies, including federal financial assistance and federal tax benefits. The sustainability impact assessment has been required since 2015. It is fundamentally based on the National Sustainability Strategy, which is the key framework for implementing the 2030 Agenda, and focuses on long-term economic, environmental, and social impacts of subsidies. The assessments are carried out by the ministry primarily responsible for each subsidy in consultation with government departments affected by the subsidy.

2. If a budgetary position is linked to a regulation, an ex-ante sustainability check is undertaken as part of the regulatory impact assessment. Sustainability is enshrined in the Joint Rules of Procedure of the Federal Ministries as a mandatory criterion when assessing the impact of the Federal Government's proposed laws and regulations. The sustainability assessment is linked to the National Sustainability Strategy and therefore to the 2030 Agenda.

3. In addition, administrative activities are increasingly linked to the targets of the National Sustainable Development Strategy. The Federal Government adopted a program of measures of sustainable administrative activities in 2015 with the theme "setting a good example". For example, it includes targets and measures regarding the reduction of energy consumption in government buildings, procurement standards, sustainable event management, and compatibility of work and family life or nursing care.

4. The budget of the Ministry for Economic Cooperation and Development is closely aligned to the 2030 Agenda.

For other budgetary issues, the guiding principle of sustainability, which is relevant for the entire government, should support alignment with the 2030 Agenda. In practice, consultations among ministries affected by a particular budgetary issue can contribute to such an alignment. This would function, however, without a systematic mechanism apart from the instruments mentioned above.

Some of these measures mentioned above have been in place before the adoption of the 2030 Agenda. Allocating more funds towards sustainability, therefore, has been a more gradual process over the past decade.

While there are no figures available documenting how much more of the federal budget is allocated towards the SDGs,, the 2030 Agenda should, in principle, be supportive for more sustainable projects, and, as it has been incorporated into the German Sustainable Development Strategy, ministries should be seeking to align their policymaking with that.

Italy

Italy is currently engaged in gearing the 2030 Agenda and the SDGs towards economic, social, and environmental planning, by drafting the National Sustainable Development Strategy (NSDS). The NSDS was approved by the Council of Ministers on 2 October 2017, and has received the final approval by the Inter-ministerial Committee for Economic Planning (CIPE) in December 2017.The approval of this overarching Strategy represents a crucial step towards the implementation of Agenda 2030 at the national level.

The NSDS is endorsed by the Italian Council of Ministers. A Plan of Action will be developed and will include numerical and quantitative targets for 2030, as well as monitoring and review mechanisms and analytical models capable of measuring the impacts of policies on the NSDS objectives. The Presidency of the Council of Ministers will take the lead in coordinating and managing the Strategy, with the support of the Ministry for the Environment, Land and Sea and the Ministry of Foreign Affairs and International Cooperation, respectively, for the domestic and external dimension. The Government will provide an annual review about NSDS implementation, as well as an assessment of the achieved results. The Ministry of Finance will be tasked to create strong synergies between the NSDS implementation and the formal economic policies and to coordinate models required to define such objectives. The Ministry for the Environment, Land and Sea will ensure the participation of civil society and relevant stakeholders by creating a Forum on the Strategy for Sustainable Development building on the positive experience of the NSDS consultation process and ensuring continuity by setting up similar multi-level consultation processes. The Italian statistics system, together with the European system, will be in charge of rapidly improving the coverage and the significance of the indicators to be used for the update and review of the Positioning, in order to identify relevant trends in SDGs achievement.

The Italian national budget alignment with the SDGs goes through the Economic and Financial Document (DEF) 2017 that outlines the economic policy strategy for the next three years. It is a complex document, divided into three parts (in addition to numerous attachments): Stability Program; Analysis and Trends of Public Finance; and the National Reform Program (PNR). The National Reform Program includes a government program, with a vision that goes beyond strictly economic measures. In particular, the National Reform Program refers to three "strategic actions" that can be traced back to Agenda 2030:

1. The National Strategy for Sustainable Development;
2. The periodic monitoring of targets through a set of indicators widely based on the BES project, launched in 2011, to measure equitable and sustainable well-being (BES) besides economic

conditions. It takes into consideration economic parameters alone as inadequate to evaluate the progress of society and views them to be complemented by social and environmental information, as well as by measures of inequality and sustainability. For the first time, in 2017 four BES indicators have been introduced within the Economy and Financial Document, following national legislation, promoting the integration of BES within economic programming. The chosen indicators for 2017 exercise are: trend of average income available, income inequality, lack of participation in the labor market, and CO2 emissions and other climate-altering gasses. The DEF sets programmatic objectives for each variable. Starting from 2018 12 indicators will be integrated into the DEF, two of which relating to the environmental dimension (CO2 emissions and index of unauthorized buildings);

3. The gender budget (gender budgeting), which makes it possible to check annually and in the budget cycle the implemented policy effort and to share it among the actors called to implement policies to reduce gender inequality.

This is just the beginning of the process, however, but it represents a positive sign in relation to the path towards the alignment of the Italian policies and national budgeting with the 2030 Agenda and the SDGs.

Before 2030 Agenda, financial resources were allocated by the government or individual government ministers for the implementation of sustainable development dimensions (environmental, social, and economic) through specific sectoral policies and lines of actions.

Regarding budgeting in Italy, it is has recently changed and the implementation of 2030 Agenda could benefit from this change. The financial reform regarding the structure of the annual Economy and Financial Document (which is now policy-objectives related), will hopefully guide Italian budgeting in the future towards integration and avoid silo budgeting. Such a process fully supports the SDGs' achievement through a progressive definition of an integrated budget that explicitly relates to the sustainable development objectives. Although it has to be considered as a long route, the first steps seem to be traced, including the linkage among NSDS and the National Reform Programme.

The ESDN's Italian policymaker interview partner had this advice to give to colleagues from other countries:

1. To have high-level political support for the implementation of the SDGs at national level is very important and vital for the overall success of implementation;
2. To link the implementation of the SDGs and National Strategies for Sustainable Development to the national economy, financial documents, and to the government's budget; and
3. To create international level fora for discussion on budget alignment to the 2030 Agenda, which should be addressed to national decision-makers in the field of economics together with decision makers in the field of sustainability.

Montenegro

In Montenegro, the Ministry of Sustainable Development and Tourism is responsible for Agenda 2030 and all SDGs. The Government of Montenegro has adopted National Strategy for Sustainable Development until 2030, which represents the national response to the goals and targets set by the 2030 Agenda. The NSSD is an umbrella, horizontal, and long-term development strategy of Montenegro that relates to environment and economics, but also to human resources and social capital that should ensure prosperous development. Positioned in such a way, this strategy gives answers to: identified unsustainable development trends; incompatible sectoral policies, both between themselves and with the NSSD, and also with environmental protection policy; institutional framework that is not compatible with necessities to implement sustainable development policies and with requirements of good governance; incompatibility of the system of public finance with the need for horizontal and vertical positioning of sustainable development priorities within national strategy policies, plans and programs, respectively incompatibility of actual actions with expressed political support and official decisions regarding sustainable development of Montenegro.

Regarding ministerial budgets for the SDGs, each ministry in charge for implementation of specific sectoral strategies that contribute to the implementation of SDGs is responsible for securing the funds for its implementation through the state budget each year. The main sources of financing for sustainable development should include the state budget, but also local self-government budgets and earmarked funds. The funds can also be provided from donations, loans, international assistance programs, as well as from EU instruments, programs, and funds, UN programs, and other relevant partners of Montenegro. Individual budgets for ministries have not increased with respect to the SDGs and the 2030 Agenda.

The NSSD defines processes of alignment within Chapter 5.6.2. Financing platform for sustainable development of Montenegro by 2030. However, it still has not been implemented. Establishing sustainable environmental financing as a component of financing for sustainable development should be achieved through implementation of the following measures: activities will be separately planned (recognition of sustainable development programs by all beneficiaries), SDG 12 (12.2), SDG 17 (17.3, 17.9, 17.14, 17.18, 17.19); Establish the co-fund and promote mobilization of means for environmental financing through an efficient and financially sustainable environmental fund, along with the inclusion of new economic instruments in this area (green fiscal reform), SDG 17 (17.3, 17.14), SDG 12 (12.2); Eliminate environmentally unfriendly subsidies, including rationalization of inefficient subsidies, SDG 12 (12.c), SDG 17 (17.3, 17.14); Mobilize funds for the improvement of environmental infrastructure by combining economic instruments, stimulating foreign investments, through loans and developing partnership mechanisms with domestic and international partners (public and private sectors), SDG 12 (12.2, 12.c), SDG 17 (17.3, 17.14); Such defined measures have significant influence for achieving sustainable goals 12 and 17, at the same time being related to the Addis Ababa Action Agenda, which inter alia defines: domestic public sources for environmental financing (C. 20-34), domestic and international private business and finances (C. 35-49), international development cooperation (C. 50-78), science, technology, innovations and capacity building (C. 114-124), as well as matter of data and further monitoring of the strategy implementation (C. 133-125).

Switzerland

In 2015, the UNECE conducted a regional survey, to which Switzerland replied. One of the questions the UNECE survey asked pertained to budgeting for the SDGs: "Does your Government envisage any changes in the budgeting processes and governance structures due to the SDGs, and which institution in your Government will oversee SDG implementation in your country?"[35]

The answer Switzerland provided was that the national Sustainable Development Strategy defines sustainable development as a cross-cutting issue. Measures to implement the 2030 Agenda will be realized through the budgets of the competent line offices of the federal administration. This approach is intended to ensure that sustainable development can be integrated into all relevant policies and structures (mainstreaming). Ultimately, the Federal Council, Switzerland's highest executive authority, is the institution making the decisions. In addition to an interdepartmental coordination structure, the

[35] Regional survey by UNECE and the Regional UN Development Group for Europe and Central Asia
Geneva and New York, 2 December 2015, p. 6.

respective line offices of the federal administration will be responsible for specific measures. Switzerland has a very limited budget for financing specific projects and processes related to the overall steering and managing of the Sustainable Development Strategy and engagement, both at the national level and its international engagement in the Agenda 2030 process. This includes the indicator system for sustainable development, information events, as well as the overall sustainable development process and planning.[36]

When approaching a policymaker within the ESDN network about how Switzerland is now dealing with budgeting for the SDGs, the answer remained mainly unchanged from the answers provided in the UNECE's 2015 survey. Until the present, the 2030 Agenda has not had a direct effect on the budget. However, in May 2018, the Federal council will make a decision regarding how the country will proceed with the implementation of the 2030 Agenda. Until a decision is made by the Federal Council, federal agencies have the mandate that ongoing work would need to be financed by the existing budget, meaning it would be unlikely for ministries to receive substantially more funding for the SDGs. With respect to the implementation of measures to reach the SDG targets, individual ministries and respective offices would have to decide how to allocate their funds.

Trends in National Budgeting for the SDGs within Europe

As can be observed from the examples above, **many European governments have been giving thought to the form in which budgeting for the SDGs will take**. Some countries, such as Finland, have already been very active in trying to align their national budget with the SDGs. Many other national governments recognize the importance of having a budgetary mandate for the SDGs, but **see the SDGs more as guiding principles with which current and future policies should be aligned**. This, however, would **not necessarily merit extra financing or budgetary allocation** on the part of the national government, but would rather be up to line ministries to apportion their already agreed-upon budgets to take the SDGs into account. As the SDGs and the 2030 Agenda are becoming more mainstreamed and integrated into national sustainable development strategies, there seems to be more pressure on ministries to take responsibility for certain SDGs and make sure their policies and policy targets are in line with those of the SDGs.

From the examples in this Quarterly Report, it can be seen that even the more advanced national budgeting that is taking place in Finland, or will be by 2019, **is still in the beginning stages**. Many ministries are still attempting to figure out how they can align their policy goals with those of the SDGs, as well as work in a cohesive manner across ministries with respect to sustainable development. As the budgetary alignment process, with respect to the SDGs, has never been done before, national governments are left to figure out the process step by step.

[36] Ibid.

Annex

Examples of Public Expenditure Instruments in Europe

Denmark

One of the case studies of the IISD report provides an example of a government, in this case Denmark, using public expenditure instruments to achieve a desired policy outcome. In this particular case, **Denmark introduced a wind turbine investment subsidy, an electricity tax repayment system, and funding for research and development in wind technology**. The policy was designed with the goal of providing 10% of Denmark's national energy consumption from wind power by the year 2000. Denmark's wind energy program was a leading example for the time period in which this program was introduced, which was in 1979, of how government support for a policy can help drive change and innovation. In Denmark's case, the government was able to make an alternative source of energy commercially available, where the investment subsidy that was introduced covered 30% of the investment costs in wind turbines, which also helped with innovation, as market forces were stimulated to develop better wind turbines.[37]

Even more remarkable for Denmark is the fact that by 1989 the government no longer had to continue their financial support of this program, as their help was no longer needed to make private investments in wind turbines attractive. Therefore, the government abolished this subsidy program and the small to medium sized wind turbines were still able to become reliable and cost-effective.[38]

The lessons that policymakers can take away from Denmark's example are that: 1) A decentralized energy supply can be successfully implemented alongside a centralized energy supply system; 2) Government subsidies can be introduced as temporary measures and then phased out when wider policy goals are achieved; and 3) Environmental goals that can be met by the development of new technology are also economic development opportunities.[39]

The Netherlands

The Netherlands is another example of a European government utilizing a public expenditure instrument to drive forward a certain policy goal. In this case, **the policy goal was to replace environmentally unfriendly technologies with more environmentally friendly ones**. The way policymakers in The Netherlands were able to achieve this policy goal was by instating a program that targeted the operating assets of companies, such as machinery, to make them more environmentally friendly. The way in which the government did that was by introducing the Accelerated Depreciation of Environmental Investments Measure (VAMIL), established in 1991, which offered the opportunity for companies to apply accelerated depreciation on certain innovative and environment-friendly operating assets.[40]

Accelerated depreciation allowed for companies to receive greater tax benefits or write offs much earlier if they purchased and used certain environment-friendly assets, the list environment-friendly assets was published once a year and always updated with new and innovative technologies, as well

[37] Ibid. p. 8.
[38] Ibid.
[39] Ibid. p. 9.
[40] Ibid. p. 50

as having older innovations removed. In order for an operating asset to be eligible for the VAMIL list, an operating asset should: 1) Be clearly defined for fiscal purposes; 2) Have relatively good environmental impacts; 3) Not be widely accepted in The Netherlands; 4) Have no negative side effects, such as excessive energy use; and 5) Have a substantial potential market. The desired effects of the VAMIL were two-fold: to witness more favorable effects on the environment, as well as serve as an incentive for the development of more innovative environmental technologies in The Netherlands.[41]

The IISD report mentions that by choosing a fiscal incentive, the Dutch government was able to make use of a number of advantages that other policy tools and measures, such as subsidies, would not have had. The report also identifies one of the most important advantages to policymakers in determining the type of fiscal measure or tool they want to adopt is the measure or tool's simplicity of use for both the applicants, in the case of The Netherlands the companies wishing to make use of the enhanced depreciation rates, as well as the authorities. For The Netherlands, this simplicity criteria was achieved through use of the VAMIL, because the measure fits in with the ordinary accounting systems of companies and authorities for payments of income and corporate taxes.[42]

Another advantage the VAMIL had and that policymakers accounted for was having a fixed budget instead of an open-ended scheme, which helped the government keep costs under control, as previous experiments and experiences in granting subsidies on investments showed that the open-ended scheme can become too successful, meaning the costs of maintaining the project, grants, or subsidies eventually exceeded the country's capacities in being able to afford to pay. With the VAMIL that was not the case and the budget is fixed, but was believed to be enough to cover eligible companies that apply.[43]

The main result that may be interesting from a policymaker's point of view would be the ability of integrating fiscal instruments within an already established tax system, as it makes the entire process relatively uncomplicated for firms and the government to take part in it, and especially for the government, it offers them an opportunity to establish incentives for environmentally friendly innovations, which as The Netherland's example has displayed, has positive effects on the environment and on environmentally-friendly technology developments.[44]

Examples of Budget Neutral Instruments in Europe

Germany

In order to reach its budget neutral instrument status in the IISD report, **Germany made use of several different economic instruments to reach desired policy outcomes. The government managed to balance public expenditure instruments, in the form of a cash subsidy, grants, and tax repayment scheme for catalytic converter usage in vehicles in Germany. These tools were, however, compensated for with revenue generating tools, where policymakers instated a tax on leaded gasoline and cars that did not have catalytic converters.** The goal of policymakers was to reduce vehicle emissions, while at the same time attempting to mainstream, and thereby increase the acceptance and usage of catalytic converters by people in Germany. This particular mix of different policy tools can be referred to as a 'feebate' system that incorporated tax differentials that favored compliance with the government's desire to have lower vehicle emission standards, so that vehicles

[41] Ibid.
[42] Ibid.
[43] Ibid. p. 51.
[44] Ibid.

would produce less pollution, tax exemptions on cars that were registered as having a catalytic converter, as well as cash incentives for people willing to retrofit their existing cars with the converters.[45]

The way in which Germany implemented these measures was that the unleaded gasoline tax, amended in 1985 and enforced beginning in 1986, reflected the government's desire to move away from leaded gasoline usage. This tax hike on gasoline increased the tax differential to .10 Deutsche Marks per liter from .04, which was able to induce great enough of an incentive consumer behavior to change. The new gasoline tax was represented in the price of gasoline, where it accounted for nearly two-thirds of the overall price of gasoline. The government was able to generate revenues from this tax, while at the same time sending signals to dissuade consumers from using environmental and health damaging leaded gasoline. Another key element of the German tax differential on unleaded gasoline consumption was that the differential was not reduced, which further encouraged consumers with cars that had catalytic converters to continue using unleaded gasoline. The second part of the German 'feebate' scheme was to promote the usage of catalytic converters in vehicles. The government introduced tax differentials for low and reduced emission vehicles, as well as exempted new car owners, in which the cars were equipped with the converters, from having to pay the German car tax for a certain period of time.[46]

It was this feature of the German 'feebate' scheme that was the most remarkable, as the initial tax exemptions for consumers buying new cars already installed with the expensive catalytic converters was needed to help consumers cover the higher initial costs of buying such vehicles. The initial exemptions were as high as 3,000 Deutsche Marks per car, but were able to fall to 1,100 German Marks in 1988, and by 1991 the tax exemption was abolished, which reflected the fact that 97% of newly registered cars had catalytic converters.[47]

The success of this German program can largely be attributed to consistent, well-thought-out policy measures that were workable, had few loopholes and were widely perceived as fair among the public and across the federal and regional levels of government. Revenue-neutrality was also a key factor in the program's success, as it enhanced the program's credibility and eased political tensions surrounding the introduction of a new tax. The policy measures also had the added benefit of being easy for the general public to understand, and therefore it was easier for them to act on the government's goal of having people purchase cars that were built with the catalytic converters.[48]

The IISD report suggests that this case study, in particular, is an example of a good practice case, as the way in which the German government used taxes as a financial instrument, and then coupled that with command-and-control style legislation, in the form of the tightened emission standards, showed how well certain policy types can work in tandem. Also important in this case are the tax incentives for catalytic converters that induced people to buy environmentally-friendly cars, which, in turn, induced the car industry to produce environmentally-friendly cars, demonstrating that certain, well-thought-out policies, can have far ranging effects. Germany also experienced one of those far-ranging effects, which took the form of being able to use the market's reaction to the change in consumer behavior (i.e. people purchasing new cars with the converters and the car companies responding to that need and developing more environmentally-friendly cars.) to set even tighter standards on emission limits without meeting much opposition.[49]

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[45] Ibid. p. 12.
[46] Ibid.
[47] Ibid. p. 12-13.
[48] Ibid. p. 13.
[49] Ibid.

The IISD report highlighted that the more important points for policymakers to focus on in this example are that: 1) Revenue neutrality was a key factor for the success of the German program, not just with the public, but also with policymakers in the regional government administrations; 2) Overall budget neutrality was not achieved with a single instrument, but with a wide array of economic instruments; 3) Tax exemptions seem to have a psychological effect on taxpayers that is out of proportion to the benefits they received; 4) Fiscal instruments (tax changes) and regulations (emissions standards) work best in parallel; 5) Doing "too much" does no harm, although it is possible that the same results might have been achieved with fewer expenditures; and 6) Persistence pays and commitment counts.[50]

Sweden

Much like the German example above, **this Swedish case study, which dealt with a nitrogen oxide charge on energy production, also uses a 'feebate' system coupled with an emissions charge on nitrogen oxide.** The goal of this program was to reduce the amount of nitrogen oxide emissions in energy production in order to reduce air and soil pollution while, at the same time, maintaining the energy industry's competitiveness.[51]

The introduction of the nitrogen oxide charge was made in 1992 and charged 40 SEK for every kilogram of nitrogen oxide that energy companies produced. The revenue that was generated from the charges was then redistributed to liable energy production firms in proportion to the amount of energy they produced. However, it should be pointed out that smaller energy producing firms were not considered liable for the charge, as the costs of frequently measuring their emission levels would have been prohibitively expensive. Therefore, the charge mainly affected larger energy producers, which was defined as a plant that has an energy capacity of at least 10 MW and an annual energy production of at least 50 GWh. As a result of the nitrogen oxide charge, and its subsequent redistribution, the energy producing plants that produce more energy relative to their total emissions benefit from the program, whereas those with higher rates of emissions and relatively low energy production suffer. This allowed some energy plants to earn money while causing others to lose money.[52]

This particular policy program was very successful because it used this charge with a refund system, which was necessary in order to achieve a fair system, as the competition between small and large energy producers would have been distorted in favor of the smaller combustion plants, since they were not liable for the charge. Because the charge is refunded to the larger combustion plants that have high energy production compared to their emissions had a clear environmental purpose, rather than a revenue generating one for the government. The environmental focus of the charge helped the charge gain acceptance with the positive side effect that less polluting combustion plans are economically favored, since they receive the redistributed charges, and are, therefore, given a competitive advantage. It should also be noted that combustion plants are not required by the government through a regulation to participate in reducing their nitrogen oxide emissions. Firms are able to decide for themselves if they want to reduce their emissions or pay the charge. The financial incentives for plants to reduce their emissions is arguably more effective than any government regulation would be, as the charge and redistribution sends a clear sign to companies that it is more lucrative to reduce their emissions, which would save the government from having to enforce a regulation.[53]

[50] Ibid.
[51] Ibid. p. 24.
[52] Ibid.
[53] Ibid. p. 24-25.

The result of policymakers introducing this particular program was that: 1) Nitrogen oxide emissions were 35% lower in 1992 than in 1990, and by 1993 the total reductions rose to 44% of 1990 levels; 2) The number of combustion plants with nitrogen-oxide-reducing technologies increased by a factor of about 16 between 1982 and 1994; 3) Emissions reductions were achieved in a cost-effective manner for both individuals and society; 4) The average cost to reduce one kilogram of nitrogen oxide was 10 SEK, which provided a substantial economic inducement to reduce emissions, as the charge was 40 SEK per kilogram of nitrogen oxide emissions; and 5) the Swedish Environmental Protection Agency estimated the net benefit of the charge and redistribution to be about 250 million SEK.[54]

The lessons that policymakers can take away from the Swedish case example are that: 1) Budget-neutral economic instruments can be used to reduce pollution without harming industrial competitiveness or raising industry opposition; and 2) Political acceptability of an otherwise unacceptably high charge can be achieved if the income from the charge is redistributed to relevant parties.[55]

Examples of Revenue Generating Instruments in Europe

Many of the examples in the IISD report on 'green budgeting' focus on revenue generating instruments, which suggests that this method of 'green budgeting' is more favored by policymakers and the government, which does not come as a surprise, as it generally means more money that the government can put towards other policy goals and programs, which also being able to achieve their desired goals and outcomes. This section will, therefore, look into how certain European governments were able to generate revenue.

France

One example of a French revenue generating policy instrument was the landfill tax, which was introduced in 1992 to combat an increase in household waste from the 1960s to the early 1990s, which witnessed a 50% increase in the amount of waste that households generated, as well as around 6,000 illegal waste dumping sites. This issue was further complicated by the fact that the French public were generally opposed to new or expanded landfill sites. Policymakers' goal was to streamline the French waste management and make it self-financing.[56]

The landfill tax was applied to all waste entering landfill sites with prefectural authorizations to take the waste. The operator of the landfill site is responsible for paying the tax, where the rate was 20 French Francs per ton of waste, which was coupled with a general fee for every landfill site of 5,000 Francs per year, meaning a landfill site would need to take in 250 tons of waste a year. All liable landfill site operators would have sent tax forms to the National Agency for Environment and Energy Management (ADEME). The ADEME would then collect and verify the tax and then feed it into the Modernization Fund for Waste Management (MFWM), which was instituted in 1993, with the aim to promote more innovative ways in which to treat waste and provide local authorities with the necessary funds to do so with the main objectives being: 1) Financial aid to develop innovative technology for household and assimilated waste treatment; 2) Financial aid to install waste treatment facilities, especially those which make use of innovative technology; 3) Financial aid to local authorities on whose

[54] Ibid.
[55] Ibid.
[56] Ibid. p. 38.

territory a new treatment plant for household and assimilated waste is built; and 4) Financial aid for upgrading public landfill sites and restoring contaminated sites.[57]

At the time the IISD published their report, there had not been much research done on this particular program's effectiveness. However, given the lofty policy goal of ending the landfill tax by 2002 and having only 'final waste' accepted at landfill sites, there were doubts about whether enough revenue could be generated to reach those aims. In addition to the revenue raising question, this program was argued to still have significant challenges ahead, as roughly 160 waste treatment and recycling facilities would need to be created to cover a number of communities. This would entail the necessary doubling of the number of high capacity plants, as well as in improvement in the processes involved for incinerating and compositing the waste. However, without research and development funding for these issues and for cleaner processes, government authorities would likely face opposition from local communities in which new plants would be built; a clear NIMBY (not in my back yard) issue.[58]

However, if the program ran as it should have, then it should have been able to generate between 350 and 400 million Francs for the MFWM, and the tax should have acted as both an incentive and a deterrent, due to the fact that it is redistributed in the form of financial aid to support research on cleaner disposal processes, while it also provides a financial impetus to reduce waste.[59]

Germany

Another interesting case example from the IISD report is from Germany regarding the instatement of water taxes. The problem that policymakers wanted to focus on was the reduction and/or modification of water extraction activities, as well as creating a relatively stable source of revenue. This case is interesting because water prices have traditionally been derived on the basis of the costs of extracting water from the natural hydrological cycle, of water treatment, transport, and distribution. The true value of water as a resource, for both human consumption and the support of natural ecosystems, generally remains unmeasured[60] and not internalized in prices as negative externalities, such as by over extraction, which, in effect, contributes to the resource's exploitation.

In line with the general development of environmental policy away from direct regulation by prohibitions and prescriptions and toward greater use of economic instruments, water resource taxes were introduced in the German federal states not as alternatives to direct instruments, but as complements to them. For the most part, these economic instruments were augmented by improvements in water management and institutional capacity-building as a result of the tax introductions. Overall, success may depend on strong links between economic incentives and administrative control.[61]

In Germany, the German federal states have direct control over water resources. Therefore, each of the federal states could develop their own water taxation systems to fit their specific contexts. The IISD report provides a table of the different ways in which the German federal states dealt with the water tax issue, which can be seen in Table 1 below.

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[57] Ibid.

[58] Ibid. p. 39.

[59] Ibid.

[60] Ibid. p. 36.

[61] Ibid.

Table 1: Water Taxes in the different German Federal States

Baden-Württemberg
Rate based on quantity of water extracted. Tax on ground and surface water extraction. Tax revenues directed toward compensation payments to farmers for restrictions on fertilizer use in water catchment areas. Tariffs differentiated according to origin of water (surface or ground) and water use (public water supply, heat pumps, cooling, irrigation, other). As the first water tax, it served as a model for other *Länder* policies. Rebates up to 90% for water-intensive agriculture, forestry and industrial enterprises, conditional upon water-saving measures and minimized groundwater use. Public interest rebates also possible.

Hamburg
Tax on groundwater extraction only. Rate based on extraction rights held by users. A basic fee entitles users to extract a standard quantity of water which, if exceeded, causes the fee to rise to a level corresponding with actual water use. Fees have increased twice since introduction.

Berlin
Groundwater only. Applicable since January 1, 1990. Uniform tax rate (that is, no differentiation according to origin or use). Few exemptions or reductions. Closest to 'ideal' resource tax.

Hesse
Groundwater only. Differentiates among various uses like Baden-Württemberg. Relatively high unit rates.

Lower Saxony
Ground and surface water. Seven different rates which depend on origin and use. Similar to Baden-Württemberg.

Bremen
Groundwater only. Identical tariff structure to Lower Saxony in this area, but with fewer exemptions.

Mecklenburg-Western Pommerania
Ground and surface water similar to Lower Saxony.

Saxony
Ground and surface water similar to Lower Saxony.

Sleswick-Holstein
Allows taxes to be offset by investments in the substitution of ground with surface water, or in water-saving measures which reduce consumption by 20% or more. By the end of 1993, taxes were only applied to groundwater.

Brandenburg, Saxony-Anhalt, Thuringia and Other *Länder*
Similar to Sleswick-Holstein. Relatively low unit rates. Increased level of legislative complexity.

Source: International Institute for Sustainable Development (IISD). Making Budgets Green. 1994, p. 37.

The low price elasticity of water demand (that is, the modest reductions in water use caused by price increases) means that differential water taxes alone are not expected to cause dramatic changes in water use. In theory, differentiated water tax rates can be an efficient tool in providing incentives to change water extraction patterns. Different tax rates are more appropriately applied to different origins of water than water uses, however, because the use to which water is put has little bearing on the ecological cost of its extraction. However, most of the German federal states differentiate tax rates on the basis of water use, thereby reducing the environmental effectiveness of a resource tax.

The lessons that policymakers can take away from Germany's experiences with their water tax are that: 1) Effective resource taxes often require a competent administrative framework; 2) Policy creation through decentralized experimentation can ultimately lead to a stronger end result; and 3) Water resource taxes more accurately reflect true ecological costs when based on water origin rather than on total usage.[62]

[62] Ibid.

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