

19th Session of the Committee of Experts on Public Administration

Written input by UN-Habitat

Agenda Item 9: Emerging issues in public financial management and budgeting for the SDGs

It has become clear that to achieve the collective aspirations expressed within the Sustainable Development Goals (SDGs), massive mobilization of resources and their deliberate direction towards the achievement of the goals is required. Budgetary processes offer the critical link between countries' development objectives and their actualization. They elaborate on the finances dedicated to agreed priorities and indicate how public spending will influence outcomes. Accordingly, budgetary processes are crucial to the achievement of SDGs as they offer an entry point into national sustainable development strategies.

Budgetary processes typically comprise of four stages: formulation, approval, execution and oversight (audit). At the formulation stage, the government's executive branch devises a proposal of the required revenue, macro-economic estimates and budget allocations for the fiscal year or, in some cases, medium-term. At the approval stage, the proposal is discussed by a legislative institution and passed with estimates, sources of income, budget parameters and specific allocations for the set period. The third stage is execution and here, the allocated resources are utilized for the objectives that had been set. Oversight is the final stage where the budget is assessed to determine whether it was spent according to the norms, principles and objectives for which resources were allocated.

All the stages offer avenues for integration of SDGs into budgeting systems. The objective of the budgetary process is to align the government's priorities with the available resources and to see through their outcomes. SDGs may be incorporated into the budgetary process by linking them to the government's priorities. The New Urban Agenda (paragraph 5) offers insights into aspects that should be prioritized by governments in the pursuit of sustainable development in the urban context. These include ending poverty and hunger in all its forms and dimensions (SDG1 and SDG2); reducing inequalities (SDG10); promoting sustained, inclusive and sustainable economic growth (SDG8); achieving gender equality and the empowerment of all women and girls (SDG5); improving human health and well-being (SDG3); fostering resilience; and protecting the environment (SDG13, SDG14 and SDG15). UN-Habitat has included these goals in its strategic plan as four "domains of change" namely: reduced spatial inequality and poverty in communities across the urban-rural continuum; enhanced shared prosperity of cities and regions; strengthened climate action and improved urban environment; and effective urban crisis prevention and response. UN-Habitat has engaged countries to explore ways of reflecting the SDGs through the domains of change in their budgets at all the stages. For instance, to have meaningful impact at the approval stage, UN-Habitat organizes "Parliamentarians' Roundtables" during the World Urban Forum to sensitize and promote knowledge sharing on the crucial role of legislators, including budget approval for sustainable and inclusive urban development.

Challenges noted in budgeting for SDGs within the urban context at the local government level include:

- **Budget classifications and reporting:** how do we know what spending is in line with SDGs? Common budget classifications do not always facilitate this understanding as budgets are often broken down by distinctions such as re-current vs development expenditure or according to departments, projects or programmes. Furthermore, local governments do not always report their expenditures and revenues in standardized ways. Although national governments may impose uniform reporting standards, these take time to be fully adopted at the local level
- **Budget planning:** local governments often struggle to properly estimate their revenues and consequently, have significant revenue shortfalls. This undermines the essence of budgets.
- **Budget execution:** local governments may dedicate adequate resources to the SDGs but then fail to spend them due to challenges with procurement, among other challenges. As a result, current expenditure is well executed but development expenditure, which is arguably more important, is left behind.
- **Creating ways to meaningfully assess compliance with public financial management regulations:** local governments on paper often comply with existing regulatory requirements around participatory processes and budget allocations but the indicators used to assess such requirements do not go far enough to show whether they are observed in practice.
- **Sanctioning non-compliance with public financial management regulations:** there is need to work with national governments to set up regulatory incentives and controls to ensure accountability of local governments for mismanagement of public resources as a gap has been noted in this respect. One way of doing so would be including in inter-governmental transfer formulas a component around public financial management compliance.

It may be useful to consider human and administrative capacity deficiencies when undertaking public financial management reform in resource poor contexts. While, Performance Budgeting, Accrual Budgeting and other recent trends in the field are important, the objective should be to get the basics right. When local governments are struggling to comply with basic standards, introducing new reforms will only enhance confusion, open up more room for corruption and draw resources away from more urgent management reforms. Other recommendations include expanding the technical capacity of staff working on financial budgets and improving transparency at the local level for middle and small municipalities with particular focus on procurement processes for local infrastructure.

Transparency is pivotal to the budget process and public financial management systems and key to the realization of the transformative commitments expressed within the New Urban Agenda. Results of the Open Budget Survey 2019 show a positive correlation between sufficient levels of budget transparency and stronger democracies; lower perceived levels of corruption; higher levels of development and wealth; higher rates of tax revenue collection; lower levels of inequality; enhanced electoral accountability; and improved allocation of resources. Recognizing that these benefits will promote SDGs within the urban context, the

New Urban Agenda calls for “*transparency of data on spending and resource allocation as a tool for assessing progress towards equity and spatial integration*” (paragraph 136) and “*support for “subnational and local governments in their efforts to implement transparent and accountable expenditure control instruments for assessing the necessity and impact of local investment and projects, based on legislative control and public participation*” (paragraph 138).

Fiscal transparency in the urban context offers an initial point of interaction between various levels of governments and the urban population. Public participation is an important component of transparency, accountability and inclusivity and a key urban governance initiative. Participatory budgeting is a process of direct, voluntary and universal democracy, where urban residents debate and decide on public budgets and policy. Their participation is not limited to the act of voting to elect the executive or the legislators, but they also decide on spending priorities. Participatory budgeting can yield many benefits. It can improve transparency in municipal expenditures and stimulate citizens’ involvement in decision-making over public resources. It can redirect municipal investment toward basic infrastructure for poorer neighbourhoods. It can strengthen social networks and help mediate differences between elected leaders and civil society groups. By broadening and deepening citizen participation in the allocation of public resources, participatory budgeting appears as a positive process for the construction of inclusive cities, where those who are traditionally marginalized are breaking out of the cycle of exclusion (UN-Habitat, *72 Frequently Asked Questions About Participatory Budgeting*, 2004). Participatory budgeting can thus become an important tool in the democratization of cities.

COVID-19 has forced many governments to react quickly to the pandemic’s health and economic impacts. Prompt responses have led to revised budgets and re-allocation of resources. The urgency of the matter has meant that at times, normal budgetary procedures (such as public comments) have had to be dispensed with. However, the International Monetary Fund has advised that even as public actors “do what it takes” to launch emergency measures, they should “keep the receipts.” For instance, they should ensure that all budgetary spending has a clear authorization under the legal framework, with ex ante authorization or ex post approval by the legislature, as needed. Furthermore, while it may not be possible to undertake extensive public consultations, key stakeholders such as employee unions and other group representatives should be involved in decision-making.

In the urban context, transparency may be enhanced through harnessing the power of technology. As the New Urban Agenda calls for “*user-friendly and participatory data platforms using technological and social tools to enhance effective urban planning and management, efficiency and transparency through e-governance*” (paragraph 160), Smart Cities may bridge some of the transparency and participation gaps created by COVID-19. Technologies may be harnessed to create ‘smart governance’ which is characterized by new forms of e-government, evidence-informed decision making, better service delivery, and increased transparency, participation and accountability. Smart cities facilitate the rights of urban residents. Related to COVID-19, such rights include the right of access to information as smart cities should promote open data and transparency in governance; the right to public participation as urban residents are equipped with the necessary information to make decisions; and freedom of speech as technology enables alternative communication channels through which feedback from urban residents can be conveyed more effectively. Furthermore, smart

cities are meant to use data to improve the quality of urban services and lead to a better quality of life for all.