



*Policy coherence for sustainable development: mainstreaming the SDGs in Italian decision making process*

Structural Reform Support Programme

**3<sup>rd</sup> Workshop: Connecting the existing evaluation and monitoring mechanisms related to sustainability within the revision of the National Sustainable Development Strategy and towards the PCSD Action Plan**



**Duration:** 4 hours

**Format:** Zoom with working language English

**Link** <https://meetoecd1.zoom.us/meeting/register/tJclc-ytqzoiHtRHZgCUeMu2iS0bouL6Wf0B>

**Date:** Thursday, 17 June 2021

**Time:** 9h00-13h00 CET

**Background note Session 2: introducing sustainability objectives and indicators in the budget cycle, lessons learned and future scenarios**

Structure of the session:

- *Mapping the links between the NSDS and the missions included in the National Recovery and Resilience Plan (PNRR).*  
**AT Sogesid SpA/MiTE – Francesca De Crescenzo (Division II - DG CRESS)**
- *Lessons learned: the system PBC (Programmazione Bilancio Controllo) and integration of the objectives and indicators of the Regional Strategy for Sustainable Development (SRSvS) in the financial programming (DEFER).*  
**Liguria Region – Cristina Gestro (Sustainable Development Sector) and Luisa Casu (Financial Programming and Statistics)**
- *Lessons learned from introducing the SDGs in the budget cycle, how the SDGs influenced policy formulation and spending, how the mechanisms will change with the introduction of the NRRP*  
**Tecnostruttura for the Regions for the Social European Fund – Cecilia Cellai**

*Questions from the floor with OECD moderation (Stefano Marta, Centre for entrepreneurship, regions and cities).*

*Wrap up. Rapporteur, Isabelle Ronvaux (UTS Sogesid SpA/MiTE).*



### Expected outcomes of the session:

Building on the result of Session 1, Session 2 analysis will investigate on the correspondences between policy measures and the SDGs in the budget could benefit policy coherence. The Session will provide lessons learned on how mainstreaming well-being and NSDS SDGs objectives in the budgetary cycle had an impact on policy making at subnational level.

### Questions for the session

1. What are the lessons learned at sub-national levels of government:  
*Has the analysis of the budget (DEFER) per its contribution to the regional sustainable development strategy (SRSvS) translated into considering SDGs during budget formulation across the directorates involved?*
  - what is the relevance of such analysis? Have this analysis highlighting the potential policy trade-offs or unnecessary duplication? Have they highlighted efficiency gains between programmes with shared goals?
  - what are the challenges? i.e. Collecting the evidence? Is the evidence collected through these analyses used by policy makers?
  - what are the possible solutions? i.e. using this evidence at different points of the decision making cycle? Strengthen capacities of key actors (i.e. decision-makers, general public) in understanding and using this evidence for strengthening policy integration?
2. Is there a reflection already on how will the interactions of the SRSvS with the NRRP be reflected in the budget?

### Using the budget process to integrate sustainable development into sectoral policies

According to the OECD PCSD recommendation (2019), at each step of the policy cycle different approaches and tools can be considered. This note considers tools that apply to the budgeting phase of the policy cycle. Aligning budget to the SDGs or to other cross-cutting frameworks is a decision that many governments undertook to better prioritising their spending long-term goals. SDGs budgeting can take different forms depending on the accounting and processes of a country's public financial management cycle. For instance, in Malta all ministries must flag how each budget action would contribute to the SDGs and to the national Sustainable Development Strategy when proposing to include it in the annual budget document. In other countries (i.e. Mexico) the Ministry of Finance tagged all expenditures for their contribution to the SDGs. These practices help tracking which are the most financed SDGs in a country, thus holding government accountable for giving effect to the priorities indicated in their sustainability strategies. Yet these analysis produce a high-level snapshot of the budget allocation and don't show policies' contributions to sustainability targets and related outcome indicators.

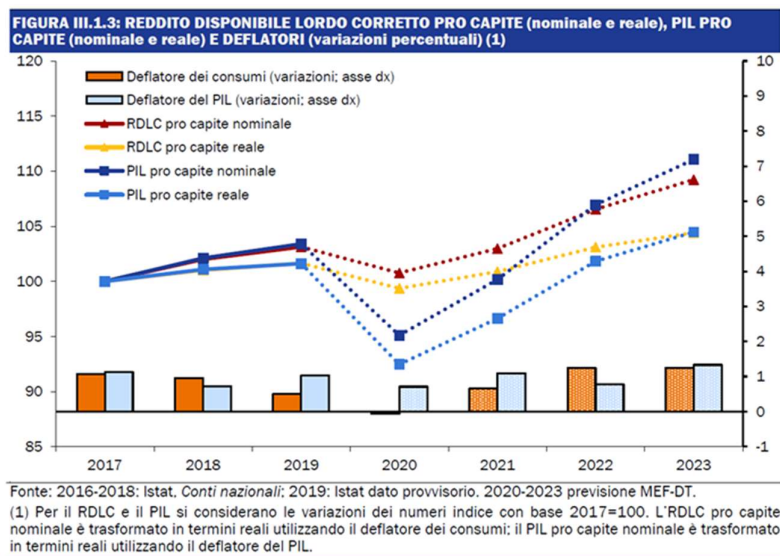
At sub-national level, the city of Mannheim, Germany, has actively involved its population to frame a vision statement that is being used as a basis for Mannheim's budget planning. The next budget cycle will be based on the new city strategy Mannheim 2030 including its 126 impact goals and 412 local indicators.

Italy is one of the first countries that linked the well-being indicators to economic programming and budget, recognising a key role of this data for policy making (Camera dei Deputati, 2020<sup>[1]</sup>). Every year in April the Economic and Financial Document (DEF/EFD), produced by the Ministry of Economy and Finance (MEF), includes an annex with the analysis of the trend over the last three years of 12 key well-being indicators (ESW



Annex, BES in Italian) and projections based on both the unchanged policy scenario and the programmatic policy scenario over the economic-financial programming cycle. In February the Ministry of Finance presents a Report on ESW indicators in the light of the policy measures contained in the Budget Law. The 2021 measures included in the Budget Law and other related legislation are grouped according to their expected contribution to the 8 dimensions of the BES (chapter 2) and the 12 indicators (MEF, 2021). This offers an ex-ante analysis (forecast) for those indicators for which it is currently possible to provide forecasts or impact analyses (up to year t+3). It also offers an ex-post analysis reporting on the trends of those indicators between 2005 and 2019 or 2020 depending on the availability of the data. As example, for BES indicator 'Adjusted gross disposable income of households per capita' a paragraph (p. 46 and p. 50) describes the measures adopted in 2020 and the measures included in the 2021 Budget Law for increasing workers and families allowances to contrast the effect of the pandemics. It follows an analysis of the trend of the indicator of disposable income for the period 2017 to 2019 and forecast until 2023 in both nominal and real terms. The measures are described as factors determining the past and future directions of that indicator.

**Figure 1. Impact of budget measures on adjusted gross disposable income of households per capita (BES RDLC indicator)**



Source: Ministry of Economy and Finance, BES Report (Relazione sugli Indicatori di Benessere Equo e Sostenibile), 2021.

This report is the most accurate effort to link policies and their past and future expected influence on well-being outcome indicators.

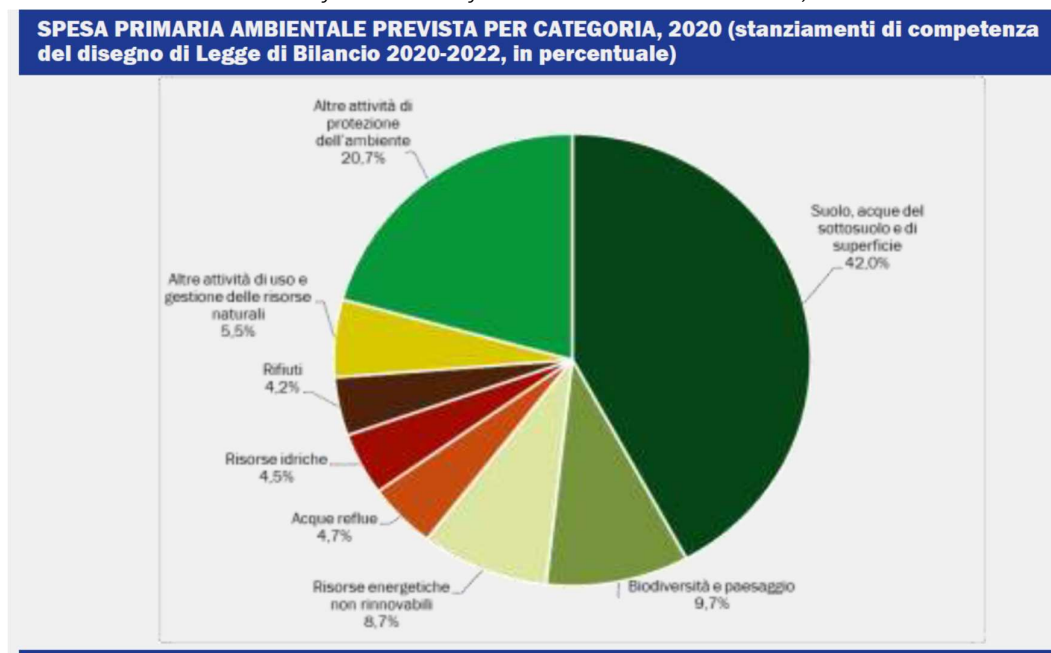
The 2021 Report on ESW also links the measures foreseen in the PNRR (as defined in the version approved by Parliament on 15 April 2021) with the 12 BES indicators. The document highlights those 2021 budget measures that are foreseen for the implementation of the PNRR such as: introduction of an IT system to manage PNRR expenditures; budget for monitoring and accounting the implementation of the projects, the definition of the financial and procedural monitoring system including costs, objectives and impact on the territories of PNRR-funded projects; etc. The document suggests that from 2022 also the contribution of the measures introduced through the PNRR to the 12 BES could be tracked in the next BES Annex to the DEF.



Furthermore, in accordance with the framework laid out in the European Semester the annual report, also produced by the Ministry of Economy and Finance, on the implementation of structural reforms, the National Reform Programme (PNR), included in 2020 a detailed section indicating major policy areas and priorities in light of the 17 SDGs. This chapter maps under the priorities of the structural reforms the SDGs indicators that are related. Under every PNR priority, the chapter identifies relevant SDGs, the progress of the key SDGs indicators in the last few years, compared to the rest of the EU member states and the country specific factors that influence these trends. The chapter describes how the current or perspective measures of the PNR and the Piano per il Sud under each priority are expected to/have influenced the SDGs (i.e. the measures included in the Climate Legislation –D.L. Clima- for urban reforestation and sustainable city management, will have a positive impact on SDG 11; the incentives for electronic payments to avoid fiscal evasion improved fiscal revenues thus will have effects on the whole SDG 8; Priority 5: Support to material and immaterial sustainable investments will have an impact on SDGs 5, 7, 8, 9, 11, 12, 13, 14, 15) . While the analysis of the statistical trend is very insightful, this chapter doesn't provide ready-to-use information on how a programme or legislation under the PNR will contribute to specific SDG goals or indicators.

In addition, since 2009 environmental expenditure included in the budget Programmes are illustrated in a specific report attached to the General State budget Final Accounts (according to Law 196/2009 art 36 par 6). Going beyond the legislative requirement, since 2011, environmental expenditures are illustrated also in the report attached to the Draft Budget Law. This results in a reclassification of the budget spending items with respect to their environment related content (Eco-budget-Ecobilancio) and Eco-report on the budgetary execution of the same expenditure items.

**Figure 2. Distribution of the public budget for its contribution to environmental objectives**  
<Primary environmental expenditure per categories identified in the SERIEE - European system for the collection of economic information on the environment, 2020>



Source: Ministry of Economy and Finance, Economy and Finance Document EFD, National Reform Programme, 2020



In addition, the Gender Budget report, introduced in 2016, performs an assessment of the different impact of budgetary policy on women and men, in terms of money, services, time and unpaid work.

At subnational level, several Italian regions have used the NSDS to prioritise sustainability in economic development programming. Those regions analysed how the regional budget contributes to the SDGs. Examples are:

- Regione Lazio aligned its budget to SDGs.
- DEFR (Economic and Finance Document of the Region) 2021 of Regione Emilia-Romagna has identified strategic objectives for 2020-2025 in accordance with the NSDS.
- Regione Liguria developed a coherence matrix to connect DEFR and the Regional Sustainable Development Strategy, including its indicators, to inform the programming and budgeting system.
- Regione Friuli Venezia Giulia mapped and linked the work of each department to the regional planning (strategic plan, DEFR, performance plan) and to the objectives of the NSDS.

In addition, Italian Regions and metropolitan cities consider the EU policies and funding tools more and more important for sustainable development policies at subnational level. Thus, in collaboration with the NUVAP (Presidency of the Council of the Ministries) and the MiTE several regions have developed **coherence matrixes** to link the objectives of the Cohesion Policies, to be implemented in 2021-2027 through the next EU MultiAnnual Financial Framework (MFF), with the objectives of the NSDS and SDG indicators. These experiences at territorial level show the spread used of SDGs and the NSDS as a systematisation matrix not only in budgeting but also in policy setting (the coherence matrixes have been used in the negotiation of the partnership agreements between the NUVAP and the regions for the EU Cohesion fund).

### **The Matrix for regional Integrated Programming included in the PNR**

The Annex to the National Reform Programme includes a document, the Contribution of the regions to the National Reform Programme (NRP), drafted by Cinsedo and Tecnostruttura of Regions, and approved by the Conference of the regions, where the planning, regulatory and implementation contributions of the Regions and Autonomous provinces to the NRP of the previous year are outlined. This document shows how Italian regions invest to insure reforms and investments implementation as requested in the Country Specific Recommendations (CSR)- expected at European level. Since 2016, this document broadened the analysis in view of strengthening the integrated programming effort undertaken at regional level in connection with the 2014-2020 programming of the ESI Funds and in response also to specific objectives or targets of sustainable development of the SDGs. This resulted in a cohesion Matrix (Quadro Sinottico) that maps the regional measures and sub-measures for their contribution to the implementation of the EU CSR 2019 (linked to the EU 2020 targets) and links them to: i) expected results of the past MFF 2014-2020 and the future policy objectives (OP) and specific objectives (OS) for the next MFF 2021-2027; ii) the SDGs targets; iii) the 12 BES/DEF indicators; iv) the Strategic objectives of the NSDS. Over 8000 regional provisions have been classified under this tool<sup>1</sup>.

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<sup>1</sup> [www.tecnostruttura.it](http://www.tecnostruttura.it) and [www.regioni.it/pnr](http://www.regioni.it/pnr)



Semestre europeo 2019 - CSR - Target UE 2020	Temî - Misure - Sottomisure	RA	SDGs	OP (OS) <sup>2</sup> Annex D fattori trasversali	Principi pilastro Diritti sociali	Domini BES	SNISvs (SP)
	Diminuire lo spreco alimentare globale pro-capite a livello di vendite al dettaglio e dei consumatori e ridurre le perdite di cibo durante le catene di produzione e di fornitura		12.3	OP 4 (11), OP 5		10	Persone L2 Prosperità B.7
	Incremento dell'occupabilità e della partecipazione al mercato del lavoro delle persone maggiormente vulnerabili	9.2	8.5	OP 4 (7), OP 5	17	8	Persone B.1
	Diffondere stili di vita sani e rafforzare i sistemi di prevenzione		2.2, 3.4, 3.5, 3.7	OP 4 (10)	14	1	Persone B.2
	Realizzazione di attività culturali in luoghi di cura/detenzione/aree disagiate		11.4	OP 4 OP 5	20	9	Planeta B.1, 2, 3, 5
	Realizzazione di progetti culturali per portatori di patologie specifiche e/o persone con disabilità (es. sviluppo di percorsi di visita a musei per non vedenti, discalce, progetti di teatro o spettacolo dal vivo per malati di Alzheimer...)		2.2, 3.4, 3.5, 3.7	OP 4 (10)	17	1	Persone B.2
	Riduzione del divario tecnologico nell'accesso alla cultura (es. programmi di alfabetizzazione digitale in biblioteca)		5.A, 9.1, 11.3, 11.4	OP 5	20	11	Prosperità L.3
	Incentivi di allargamento dell'utenza culturale		11.4	OP 5	14	9	Planeta B.1, 2, 3, 5
	Riduzione del divario generazionale nell'accesso alla cultura (da opere per bambini a progetti di partecipazione culturale per anziani)		5.A, 9.1, 11.3, 11.4	OP 5	20	11	Prosperità L.3
	<b>Misura 9 - Social Housing</b>						
	Riduzione del numero di famiglie con particolari fragilità sociali ed economiche in condizioni di disagio abitativo	9.4	11.1	OP 4 (5, 6), OP 5	19	9, 10	Persone L.3
	<b>Misura 10 - Inclusione sociale senza dimora Rom e migranti</b>						
	Riduzione della marginalità estrema e interventi di inclusione a favore delle persone senza dimora e delle popolazioni migranti Rom, Sinti e Camminanti	9.5	10.2	OP 4 (6)	19	4	Pace B.3
	Attuazione di politiche migratorie pianificate e gestite		10.7	OP 4 (6), OP 5		4	Pace L.2 Partnership B.1, B.2

However these provisions are not directly linked to the DEFR (Document di economia e finanza regionale)<sup>2</sup> as the measures in the DEFR are classified according to the Missions that each region includes in the budget rather than to the NRP priorities. Nevertheless, some Italian regions (i.e. Liguria) linked all the documents inventories in the Matrix (including the SDGs, the MFF and the NSDS) to the budget measures (see section on budgeting).

This tool shows that it is possible to connect different monitoring systems in a single matrix and to classify policy measures to the SDGs and the EU Semester Exercise without duplication of efforts by the administrations. In 2021, the Contributions of the regions to the NRP have also been connected with missions and components of National Recovery and Resilient Plan.

### Identified challenges and possible opportunities

From 2020 the EU called for developing a new approach<sup>3</sup> in the European Semester to make it 'directly support the European Union and its Member States in delivering the SDGs across its economic and

<sup>2</sup> The Regional Document of Economic and finance (DEFR) at regional level is the main programming instruments where all programmatic lines have to be presented by 30 of June for the length of the provisional budget. The programmatic lines are drafted according to the Missions that each region includes in the budget.

<sup>3</sup> The Annual Sustainable Growth Survey 2020 called for a refocusing of the European Semester on "competitive sustainability", reforming the European Semester, stating: "Over the past decade, the European Semester has established itself as the key tool for the coordination of national economic and employment policies. As such, it can help drive these policies towards the achievement of the SDGs by monitoring progress and ensuring closer coordination of national efforts in the area of economic and employment policies, keeping its focus on issues that have economy-wide implications [...]. By developing this new approach in this Semester cycle and over the years to come, the European Semester will directly support the European Union and its Member States in delivering the SDGs across its economic and employment policies and ensure that the economy works for everyone and growth is sustainable". To this end, the ASGS recommended the inclusion of a new dedicated section on environmental sustainability to be added and to complement the analysis on economic and social challenges: "The aim is to support Member States' actions by identifying synergies and trade-offs between environmental, social and economic policies at national level. The analysis of the reports will also support the use of EU funds for sustainable investments in the European Union". In addition to this new section, it is recommended that each country report also includes a new annex setting out the individual Member States' SDG performance through



employment policies'. To this end the Annual Sustainable Growth Strategy (ASGS) recommended the inclusion of a new dedicated section on environmental sustainability to be added and to complement the analysis on economic and social challenges and to take stock of progress made on the SDGs in the national reform programmes, as a qualitative complement to the indicator-based monitoring by the Commission within the Semester that will capture the economy-wide aspects of the related policies. In line with this recommendation, in 2020 Italy introduced the analysis of the National Reform Programme NRP in the light of SDGs. It is to be noted that in parallel, the document of the NSDS 2017 approved by CIPE (108/2017) attributes to MEF the mandate to link the NSDS with the official documents of economic programming and policies. Despite the absence in the current EU guidance to Member States for the implementation of the NRRP of any requirement to report expenditures for their contribution to the SDGs (to notice that the Semester will be including the reporting of the NRRP in the next years) it is essential for long-term planning that sustainability and well being remain central in programming and budgeting cycle as stated in Regulation 2021/241: "The Commission outlined in the Annual Sustainable Growth Strategy 2020 and the European Semester Spring and Summer Package 2020 that the European Semester should help achieve the implementation of the European Green Deal, the European Pillar of Social Rights and the UN Sustainable Development Goals".

Against this background, a few points for improvement on the links between BES and the policy cycle emerged during OECD interviews with key stakeholders such as: measurement frameworks reflect a set of common values, thus the selection of indicators should not be the first step. Instead, the selection of relevant indicators should be made only after the country's visions and targets and possible contributing policy areas have been formulated by the leading institutions with other stakeholders in a participative process. In this sense only indicators with reliable forecast and sensitive to the policies formulated should be selected to track policies' contributions (or impacts) to the targets identified and agreed among stakeholders. Also difficulties were experienced in establishing the linkages between budget measures and indicators as their correlation is not always clear in the literature.

### **Opportunities for further integrating sustainability in the budget mechanism**

#### **Broadening the scope of the BES/DEF indicators to include NSDS relevant indicators (impact budget analysis)**

A combined set of BES-DEF and NSDS indicators<sup>4</sup> as updated by the NSDS revision process, and their targets, could be considered into the budget and investments cycle. Italy could further investigate whether the same mechanism for analysing budget expenditures according to the BES indicators (not including the foresight component) could be extended to the updated set of 43 NSDS indicators. The advantages of mapping the budget measures and programmes for their impact to both the 12 BES and the set of NSDS indicators could include:

- Assessing the impact of budget measures on the progress of an integrated indicators framework towards quantified objectives would avoid a piecemeal picture of public spending as policies would be screened for their contribution to the NSDS/SDGs and well-being at once. Expenditures would then more effectively be charted for their contribution around the NSDS strategic objectives and numeric targets.

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which monitor each country's progress, based on Eurostat's EU SDG indicator set. In addition, the Commission has invited Member States to take stock of progress made on the SDGs in their national reform programmes, as a qualitative complement to the indicator-based monitoring by the Commission within the Semester that will capture the economy-wide aspects of the related policies.

<sup>4</sup> A broad compatibility exists between the two sets of indicators, SDGs and BES. 9 NSDS are already tracked through the BES\_MEF indicators so a total of 37 indicators would combine the NSDS and 12 BES indicators (see background Note session 1).



- Increase the exhaustiveness of the analysis of public expenditure by extending the assessment to complementary outcomes that are not currently monitored through the 12 BES. More exhaustiveness will translate into accounting for trade-offs and synergies between different policy areas and identify possibly compensatory measures.
- Charting the budget for its contribution to the NSDS objectives, could also give a better understanding for arbitrating across national strategic choices given financial and fiscal limitations.
- Identify expenditures from separate ministries that interacts with the same 12 BES and NSDS indicators would encourage more cross-cutting policy formulation particularly in view of balancing the EU priorities for competitiveness, social inclusion, digital and Green transition.

### ***Tag budget expenditures to the SDGs/NSDS in ex-ante analysis***

Italy could take steps for ex ante tagging the EU and ordinary budget according to its contribution for the SDGs indicators/NSDS priorities. Linking EU funding to the SDGs/NSDS is key given the substantial contribution of the EUNextGeneration Fund in the years to come. The approval of the NRRP/PNRR is giving new impetus in this sense. Building on the experiences of the regions in linking MFF budget with the NSDS and the PowerBi instrument recently developed by MITE in collaboration with three Universities which shows correspondences between the NRRP and NSDS, Italy could take steps tagging the EU and ordinary budget (but also influence the rest of the policy cycle) according to its contribution for the SDGs indicators. This would provide an ex-ante analysis of what expenditures are contributing to in terms of sustainability and potentially associate KPI to delivery of sustainability targets.

### **Target financial resource to sustainability enablers**

To ensure an effective implementation of the NSDS/RSDS, financial resources could be specifically targeted to the sustainability “enablers” which are essential to guiding, managing and monitoring the integration of the SDGs into national policies, plans and projects. For instance, a proposal by one of the working groups of the Forum for sustainable development (Development, 2021[5]) for strengthening the knowledge and cultural awareness at all levels of the government and civil society in order to enable new competence, behaviours and initiatives compatible with sustainable development, including by implementing the Italian strategy for Global Citizenship Education. Such cross-cutting actions could strengthen coherence and be specifically funded through a cross-ministerial budget.

### **Progress towards linking the EU Taxonomy framework with public investments assessment**

The EU taxonomy provides the requirements that public and private investments and economic activities must meet to be considered as environmental sustainable. While the work is ongoing at the EU level, Italy could take the opportunity to start thinking on how to assess public policy and investments also in light of such taxonomy.