



# Joint Programme 2022 Annual Progress Report

## SDG Financing Portfolio - Component 1

### Cover page

**UNCT/MCO:** Costa Rica

**Reporting Period:** 1 January - 31 December 2022

**JP title:** Strengthening Costa Rica's SDG Financing Architecture Through Resource Alignment with National Goals and Improved Education Sector Public Spending

**Stakeholder partner:** National Government; Civil Society Organizations; Parliamentarians; IFIs/DFIs; Private sector; Bilateral aid organizations; Institutional investors;

**Thematic SDG Areas:** Climate action & energy transformation; Transforming education;

**PUNOs:** UNICEF, UNESCO, UNFPA

**Top-up received as part of DEM:** No

**Total estimated expenditures:** US\$ \$ 643,331.0

**Total estimated commitments (including expenditures):** US\$ \$ 824,621.0

**Gender Marker:** Gender-transformative (for example, the JP explicitly aimed to address the structural and root causes of gender inequality, such as by combining social protection with community dialogues and economic empowerment activities that aim to shift gender social norms and power relations)

**Resident Coordinator:** Baiocchi, Allegra

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### Executive Summary

The JP strengthened dialogue and debate with different stakeholders to advocate for the country's SDG financing architecture, focusing in two aspects: i) finding country-specific solutions to mobilize and align private and development resources in the short- and medium-term with planning processes towards long-term national development goals; and ii) Improving MEP's capacities to develop SDG-linked, gender responsive and socially inclusive tools towards implementing results-based budgeting.

The following major results are:

1. Design of an Integrated National Financing Framework (INFF) to strengthen planning and financing processes and overcome existing impediments to finance the SDGs. Taken the Development Finance Assessment previously carried out in the country, the project has supported the development of the remaining three building INFF blocks: i) financing strategy, ii) monitoring and review and iii) governance and coordination.

2. The JP has carried out prefeasibility studies that will allow a close collaboration of public and private actors. The prefeasibility studies are: i) Blending national resources to leverage and increase funding for social housing; ii) Private equity fund to invest in green companies; iii) Exploring ways to use public financing instruments in the blue economy; iv) New financial mechanisms to channel financing from Pension Funds to the SDGs.

3. The JP has developed jointly with the Public Education Ministry (MEP):

- ü Logical framework matrix for educational quality that established a value chain: purpose, results, activities, and indicators. It is currently under review by the MEP considering the priorities of the authorities in the new Education Roadmap.

- ü Planning, budgeting, and accountability tool that identifies results (in line with the above matrix), objectives and strategic policies, with action target populations (poverty, disability, ethnicity, migrant, sex, LGTBQ+) and resources associated by results and objectives.

- ü Results-based budgeting Guide to orient MEP with knowledge and step-by-step process examples.

- ü Matrix for results-oriented budgeting application and use of the planning, budgeting and accountability tool. Since November 2022, MEP started the training processes to build capacities for the elaboration of the 2024 national budget based on results.

- ü Application of SDG4 monitoring tools based on the production of methodological guides and training processes to orient MEP in the production and analysis of indicators and the elaboration of a control panel tool.

- ü Public Expenditure Review first draft is finished, and it is under review by the JP and Inter-American Development Bank.

- All developed tools, guides and documents include a gender and social inclusion focus.

## Annual Progress

### Overall JP self-assessment of 2022 progress:

Satisfactory (majority of expected annual results achieved; 1 to 3 months delay in implementation)

### Overall progress and key developments to date (3 key JP milestones)

1. Design of an Integrated National Financing Framework.

Following on the recommendations identified during the Diagnose Phase of the INFF (the DFA) the objectives of this strategy are:

Objective 1: Start implementing an integrated approach for managing financial flows and improve their performance. The strategy will focus on coordinating specific policies, reforms and management interventions that will increase the value of development finance to the levels needed by the National Development Plan, align public and private flows with the specific objectives of the strategy, and improve the efficiency and effectiveness of their combined use.

Objective 2: Monitor the implementation of key policy reforms affecting development finance. The strategy will also focus on developing the government's technical capacities to set evidence-based financing mobilization targets and systematically monitor their achievement. A robust methodology for monitoring the implementation of a wide range of dispersed policies, action plans and timelines must be introduced.

2. The JP has carried out the prefeasibility of innovative financing instruments to allow a close collaboration of public and private actors towards the fulfillment of the 2030 agenda.

i) Private Equity Green Impact blended Fund: This will provide equity investments or loans to private companies willing to make green investments, produce nature-based solutions, or develop new green technologies for climate change adaptation and mitigation purposes. The first window of this fund will be for Costa Rica but it will be designed to be regional. The JP has been supporting the search of potential investors for the fund, including

philanthropists, development partners, asset managers and impact investors.

ii) Social Housing: The JP is proposing to use Collateralized Debt Obligations (CDOs) to leverage the current available resources of the National Bank for Housing (NBH). In this instrument the NBH will use its available funding to take the junior, high-risk position (and purchase it at a 0% coupon) which will fully de-risk the instrument to allow financing from pension funds at a senior level position. This pre-feasibility study foresees benefits for incorporating impact first investors and DFIs for a mezzanine tranche of the CDO which would considerably leverage more resources from the pension funds. The results of this study, developed in close coordination with the NBH, were presented at the National Assembly.

iii) Innovative Instruments for the Blue Economy: this pre-feasibility study is analyzing the opportunities to implement instruments such as debt-for-nature swaps, debt repurchase and/or redirection, performance bonds, blue sovereign bonds and sovereignty-linked bonds. This instrument has been discussed with the Ministry of Finance and with NGOs/Foundations that can participate in implementing blue-economy projects such as Costa Rica por Siempre, Conservation International Costa Rica and International Union for Conservation of Nature (IUCN). As the Social Affairs Commission of the National Assembly has shown interest in the instruments a workshop is being co-organized.

iv) New financial mechanisms to channel financing from Pension Funds to the SDGs. Costa Rica has not been able to robustly incentivize institutional investors to focus their investments in the highest priority areas of sustainable development. Through this pre-feasibility study, the JP will show the importance to use new instruments and provide options to generate the necessary cost-benefit conditions to expedite these investments. This study has involved the participation of the financial regulators and the institutional investors together with whom the JP organized a workshop in September. Participants in the workshop included Standard&Poors, UNEP-FI, a representative from Principles of Responsible Investments (PRI) and BNP-Paribas, together with representatives of JP consultants. A second workshop targeting commercial banks and its role on financing development priorities was co-organized with GIZ and UNFPA.

3. Key tools, policies, and internal capacities to support the Ministry's of Public Education transition to results-based budgeting.

The new administration (2022-2026) has among its priorities the development of its Education Route that will include several disruptive milestones with substantive changes in the education system. MEP's authorities highlighted that the results-based budgeting is an innovative milestone. Through this process the development of operative tools and internal capacities has been a constant request from MEP.

The JP has developed jointly with the Public Education Ministry (MEP) the following tools:

i. Planning, budgeting, and accountability tool: providing i) conceptual framework on gender perspectives and social inclusion; ii) international experiences and conditions for the successful implementation of budgeting with a gender perspective and social inclusion; iii) planning, budgeting and accountability tools with gender and social inclusion perspectives; iv) tools for strengthening monitoring processes, including a proposal for an accountability report concerning MEP's results in terms of gender equality and social inclusion.

ii. Logical framework matrix for educational quality: Establishing a value chain for the quality education achievement, with its perspective goals, results, activities, and indicators. The matrix is currently under review by MEP.

iii. Methodological Application of the Matrix for results-oriented budgeting: starting in November 2022, this technical assistance and capacity-building processes is being implemented in coordination with the MEP's organizational units. MEP is committed to present their 2024 budget under a results- based approach.

iv. Studies developed within the JP on legal, institution and administrative constrains to results based budgeting, and recommendations to overcome them.

v. Training processes implemented are based on a Results Based Budgeting Guide which includes basic conceptual information and recommendations to use as a step-by-step process for the formulation of results- based budgets.

vi. Application of SDG4 monitoring tools: based on the results identified through the production of methodological

guides and training processes. The objective is to orient MEP in the production and analysis of different types of indicators (in line with the UNESCO Institute of Statistics UIS) and the elaboration of a control panel tool. The guides are: conceptual framework for monitoring educational quality; collection and systematization of information that include indicators classification, and opinion survey and administrative indicators; alignment assessment of the MML-MEP to the SDG4 monitoring framework; conceptual framework and outstanding practices for the development of a dashboard.

vii. V. Public Expenditure Review (PER): the study, which is a joint initiative with Inter-American Development Bank, is currently underway; it will provide much-needed information on the efficiency, efficacy, and inclusivity of MEPs expenditures in relation to its educational goals, providing a set of key recommendations for accelerating the fulfillment of SDG 4. As part of this study, a financial model will be programmed to allow MEP to replicate this type of analysis on a yearly basis, accompanied by training sessions for its adequate use.

The JP has had substantial progress with MEP on accelerating the process leading to the full implementation of the results-based planning and budgeting tool. Some of the main strategies the JP has applied are providing tailored technical assistance, trainings for the capacity-building of key staff and development of easy to use implementing guidelines. As stated by Viceminister Sanchez in the attached Results Story, MEP's authorities are clearly committed to implement results-based budgeting for the 2024 budget period.

UNICEF, as the JP's leading agency, has been in charge of facilitating and strengthening the needed oversight and coordination mechanisms between all PUNOs and the RCO, and also with key institutional counterparts. Constant meetings are organized to monitor not only financial and technical implementation, but also to analyze changes in current events and context, as these might require strategic adjustments to the JP.

#### **Main Challenges, adjustments and lessons:**

- The negative economic effects of the pandemic have further affected the already debilitated country's fiscal situation. With limited fiscal space, the government has a great challenge of finding resources to fund its development agenda. Moreover, the presidential and legislative elections that took place in 2022 required a slight delay on the activities and, therefore, the need of requesting for an extension.

This extension has allowed us to open a high-level dialogue with the new elected authorities. The new Vice-President has requested to have monthly meetings to discuss the financing strategy and the pre-feasibility studies carried out by the JP.

- Costa Rica's lack of an institutional results-based budgeting culture and practice has demanded that progress in this area is being contingent to a slow learning curve. The JPs support in capacity building and development of practical tools and guidelines for the MEP, have been key to cement every step of the process to assure its sustainability and impact in the short and long term.

- The new government is promoting policy changes to respond to their priorities, one of them is the roadmap to Education. This transition has involved a re-evaluation and redefining of the education system that generated challenges, delays, and risks for the JP. At this moment, the Government has mandated to the transition to results-based budgeting. As this transition requires a learning process, the JP has concentrated its efforts on capacity building, tools development and technical and political dialogue.

- There is a short time available by the Ministry to comply with results-based budgeting which will require more accompaniment by the JP.

#### **SDG Acceleration**

The JP component has been carried out in two ways: by working with the national Regulators to help them identify the necessary regulatory changes that would allow institutional investors to play a more active role in financing

national SDG priorities and, by facilitating private sector investments in the SDGs with national counterparts. For example, with regards to electric mobility (SDG 11), the government should ensure that concessions for privately operated bus lines wishing to convert the fleet to electric are granted for a longer period. Otherwise, companies will not have time to amortize the necessary investment. It is also necessary to ensure that regulators facilitate the use of some instruments mentioned in the legislation, such as the Principal Protected Notes. The JP highlighted these aspects in the pre-feasibility studies and, because of this work, some private green bonds operations are currently being developed in the area of electric mobility, which will contribute to the National Decarbonization Plan.

The JP on component 2 has focused on the improvement of educational access and performance, focusing on the most vulnerable populations. The road to results-based budgeting at MEP has not been pursued beforehand. The JP established a methodology that can be adapted and replicated in other countries. The JP activity phases are: a) produced and shared information, evidenced-based research, knowledge and guidelines, to increase awareness and strengthen the capacities of MEP and the decision makers on results-based budgeting with a gender and social inclusion focus; b) promoted among key stakeholders within MEP training opportunities, c) work with key stakeholders within MEP to accompany processes that they will lead, tools designed for planning and budgeting with a gender equality and social inclusion focus; and the initiation of the 2024 results based budget elaboration, involving the indicators for SDG4 production.

The approaches institutionalized by the JP are i) an approach and a vision to results-based budgeting in line with 2030 Agenda (mainly SDGs 4 and 5); ii) ownership by MEP; and c) generated spaces, dialogue, collaboration and incentives for MEP authorities to realize the necessity and convenience for formally implementing a results-based management and budgeting approach.

For this, the JP has provided high-level technical support to develop guidelines and the required internal capacities which have been highly conducive towards accelerating the preparation of MEP’s 2024 results-based budget.

**Updates on SDG financing framework**

	Assessment Diagnostics	Financing Strategy	Monitoring	Governance
Inception phase			Review	Coordination
NA	Previously Completed	Advancing (50-99%)	Advancing (50-99%)	Advancing (50-99%)

**Descriptions on progress by INFF building blocks**

**Inception Phase:**N/A

**Assessment & Diagnostics:** • The UNS supported the Development Finance Assessment (DFA) that was finalized in 2019. The DFA analyzed all available financing flows -national and international; public and private- and the alignment of national development planning and financing strategies. This JP was developed taking the DFA as a starting point to Strengthen the SDG financing architecture in Costa Rica. • The planning, budgeting, and accountability tool identified and promoted the use of planning, financing, and budgeting methodologies with a gender perspective and social inclusion. It developed as mentioned above: a conceptual framework on gender and social inclusion perspective; a conceptual framework on budgeting with gender perspectives and social inclusion; tools for planning, budgeting and accountability with gender perspectives and social inclusion; and recommendations for the use of the tools. It is the main foundation in the result-base budgeting. • The Analysis on Legal, Institutional and Administrative Constrains for results-based budgeting and management, which contributed to inform MEP decision makers before starting the elaboration of the 2024 results based budgeting, and it was used during the trainings started in November for that purpose. The document includes a gender equality and social inclusion perspective. It has been already validated by MEP authorities. • The Public Expenditure Review (PER) has provided valuable data and insight on the efficiency, efficacy, and inclusivity of MEPs expenditures in relation to its

educational goals, providing a set of key recommendations for accelerating the fulfillment of SDG 4. As part of this study, a financial model will be programmed to allow MEP to replicate this type of analysis on a yearly basis, accompanied by training sessions for its adequate use.

**Financing Strategy:** The process of developing the Financing Strategy has followed the five stages requested by the guidelines. The grade of progress of each phase is as follows: 1. Identification of objectives and scope: this phase took the recommendations identified by the Development Finance Assessment. 2. Identification of the institutional structures for the operationalization of the Financing Strategy (coordination/governance mechanisms as well as resource tracking): leadership from the top of government is essential in this phase. The JP has already identified the structure that could be used but it still needs to be discussed with government counterparts 3. Determine the approach and structure, and bring together existing policies: The strategy is focusing on coordinating specific policies, reforms and management interventions that will increase the value of development finance to the levels needed by the National Development Plan, align public and private flows with the specific objectives of the strategy, and improve the efficiency and effectiveness of their combined use. 4. Identification of policy options: the pre-feasibility studies carried out by the project has allowed the organization of discussions on key areas where reforms would be needed 5. Evaluation and policy choice: In parallel with the implementation of the proposed actions identified in the previous step, the government must be able to monitor the proper execution of a significant number of essential policy reforms (current and planned) that will affect the sufficient availability of development financing and their alignment with national priorities. This is important for several reasons, the most important being that this monitoring is essential to manage the various opportunities for synergies generated by these different processes that will otherwise move forward in silos. This step will be discussed further withing Q1 2023. 6. Operationalization: To be discussed on Q1 2023

**Monitoring & Review:** Monitoring the implementation of key policy reforms affecting development finance is a key element to build an Integrated National Financing Framework. Therefore, the Financing Strategy will also focus on developing the government's technical capacities to set evidence-based financing mobilization targets and systematically monitor their achievement. A robust methodology for monitoring the implementation of a wide range of dispersed policies, action plans and timelines must be introduced. This specific aspect of the strategy will be further discussed on Q1 2023.

**Governance & Coordination:** On this step on the Financing Strategy the JP has already identified the structure that could be used but it still needs to be discussed with government counterparts, which will be done during the first quarter of 2023. An additional element of this strategy is to support the Government in implementing the essential measures to safeguard the inclusiveness and sustainability of the economic growth process that is also envisaged in the National Development Plan.

## Annual Reporting on Results

### JP contributions to the Joint SDG Fund's global cost of living crisis

#### Next steps, scaling and sustainability [400 words]

- Meeting with the Vice-President and the ministries that have been taking part of the high-level committee that has been discussing the financing strategy and the pre-feasibility studies.
- Workshop with National Assembly on blue economy aiming to show the possibilities that the issuance of a blue bond.
- Event with funding partners of SDG Fund where other strategic partners would also be invited. This event will share the results achieved by the project and we expect that some of the partners attending the meeting will be

able to continue with some of the activities carried out over this project.

- We are aware of the interest within some partners in the use of blended finance approach and the issuance of sustainable bonds. The JP is contributing to improve the financial ecosystem by overcoming market barriers and catalyzing the much larger flows of private finance that are necessary to unlock innovation on the vast scale that is required. In this sense, the concretization of an operation that involves one of the national pension funds could constitute the trigger that allows other institutional investors to participate in financing national development priorities. The challenge the JP oversees now is how to fund the last mile to concretize, showcase and scale up the results.
- Authorities has a commitment to implement the base-results budget in Education and the JP has a lot of political support. Starting this year, JP will support MEP with three consultants to advance jointly with results-based budgeting and the capacities development at MEP. One consultant previously worked with toolbox to engage processes.
- Sustainability has been supported through an internal capacity development process. MEP's authorities have also shown interest in sharing this experience with other ministries of Education; the JP has started conversations with the Central American Culture and Education Coordination on this behalf. The Latin American Campaign for the Right to Education also expressed their interest in sharing this experience with other of its member countries. Last October, UNESCO shared with the participants from NGOs across the LAC region the main achievements of the JP.
- Programme Expenditure Review: in the next months a Financial Simulation Model will be developed to enable MEP analyze every year the efficiency and efficacy of their expenditures. As this coincides with UNICEF's new 2023-2027 Country Programme goals, UNICEF will continue supporting MEP in the following years in strengthening its educational investment towards a more inclusive and quality educational system.

## Priority Cross-cutting Issues

### Cross-cutting results/issues

All the products explained above and developed by the JP are focused in gender equality and women empowerment, human rights, SDG data, youth, and leaving no one behind. Likewise, the coordination of the project has managed to adjust to the authorities' priorities to achieve the quality of each of the products, within the established deadlines and thus ensure the fluidity and best results of the project.

As mentioned above, the JP is proposing to use Collateralized Debt Obligations (CDOs) to leverage the current available resources of the National Bank for Housing. With this instrument the Bank will use its available funding to take the junior, high-risk position (and purchase it at a 0% coupon) which will fully de-risk the instrument to allow financing from pension funds at a the "senior" position. This pre-feasibility study proposes to prioritize the resources of the National Bank for Housing on three different groups: i) people living in slums; ii) people in condition of poverty and iii) middle-income families. As female headed households and families with children and adolescents, and other vulnerable groups such as migrants, indigenous people, and Afro-descendants, are over-represented in the proposed prioritized populations, this instrument is directly addressing the principle of leaving no one behind.

The National Women's Institute (INAMU) is one of the JPs main allied institutions. They contribute with its national experience on planning and budgeting with a gender perspective. The gender-responsive planning and budgeting tool promoted the use of consistent gender-sensitive and sex-disaggregated data and specific gender analysis of those furthest behind, particularly young women, indigenous women, Afro-descendants, women with disabilities, migrants, refugees, among others.

The Public Expenditure Review (PER) is assessing the efficiency, effectiveness, and equity of expenditures on education and their adequacy and sustainability relative to Costa Rica's education goals. The analysis is grounded in the context of system-level learning outcomes and recent and ongoing reforms. Building on existing analytical work in the sector, the study will benchmark Costa Rica's education outcomes, expenditures, and reform agenda. The

review will be key to support the MEP in improving expenditures related to education service delivery and responding to the needs of the sector, focusing on gender, territorial and social inequities.

### How did the JP apply the Gender Marker

The JP is Gender-transformative (for example, the JP explicitly aimed to address the structural and root causes of gender inequality, such as by combining social protection with community dialogues and economic empowerment activities that aim to shift gender social norms and power relations). Evidence, data collection and analysis (e.g. gender assessments of programmes; policy briefs, costing for scale-up of social services); Policy dialogues, advocacy (e.g. direct inputs to national policies, strategies, laws, including women’s and girls’ rights groups in coordination mechanisms); Design of new gender-transformative programmes (e.g. new cash transfers to women-led households); Adaptation of existing programmes (e.g. revision of eligibility criteria, removal of conditionalities); Capacity development (e.g. training of social workers, local governments, local communities);

### Focus on LNOB cross cutting principles

Human Rights	Persons with disabilities	Youth	Environmental and social standards
Yes	Yes	Yes	Yes

## Strategic Partnerships, Documents and Communications

### How did the JP facilitate collaboration with diverse stakeholders in the SDG financing space

The most strategic partnerships has been with the Vice-President, who has been leading the development of the financing strategy. The role of the financial system regulators have been key for facilitating the development of the pre-feasibility study on pension funds carried out by the JP. Obviously, the institutional investors such as pension funds have been a key partnert on that work. The National Assembly has always shows its willingness to collaborate with the project and we are actually planning a last workshop with the before the end of the project. Among the bilateral donors, we would like to highlight the continuous exchanges with EU Delegation, French Development Agency (including PROPARCO), Spanish Cooperation Agency, the Swiss Embassy, the German Cooperation Agency (GIZ), the World Bank, the Central American Bank for Economic Integration and the Development Bank of Central America. An special mention should be done to the Inter-American Development Bank, who has co-funded the Education Public Expenditure Review with JP on the amount of US\$ 20,000

Finally, since UNDESA/UNECLAC approved a Development Account for Costa Rica to set up an INFF, the JP is ensuring coordination with both entities on that area.

### Donor and Strategic events attended by JP in 2022

JP steering committee/ programme board meeting	Strategic partners/ donors event	Closing meeting/ event
Yes	No	No

### JP contribution to SDG Financing

Drafted a bill, strategy, and/or approved a law increasing the fiscal	Produced financing, costing, diagnostic and feasibility analyses as a basis to	Improved efficiency (cost savings) in management	Improved effectiveness of (value money;	Drafted policies/regulatory frameworks or developed tools to	Structured financial instruments (public, private or	new instruments or
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space for the policy in invest or increase focus	programmes/scheme social impact incentive private blended) to leverage	of \$1 spent)sector investment on additional funding	of spending the SDGs
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No	Yes	No	No	Yes	Yes
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**Main capacity building activities supported by the JP that allowed people to expand their knowledge on SDG Financing and INFFs**

- The workshop “Global institutional investment trends and opportunities for the Pension sector in Costa Rica” brought information of financial mechanisms not yet used in the country. Costa Rica could benefit from such instruments. The national pension system in Costa Rica represents 50% of national production, and only the Mandatory Supplementary Pension Regime (ROPC) is equivalent to 25% of the Gross Domestic Product (GDP), with a capital of about 15 billion dollars that can finance the development of the country.
- The introductory seminar “Sustainable Finance in the Age of Climate Change” offered a space for knowledge and discussion for financial institutions in Costa Rica on the conceptual and methodological frameworks that include climate change in the business models and risk management of entities in the short, medium and long term.
- The workflow for tool development “Planning, budgeting, and accountability” with MEP supported the inclusion of human rights priorities and diverse populations.
- Training workshop on results-based budgeting exercise.
- Training workshops delivered in November 2022 to build capacities in MEP public officials within planning and financial departments to advance the elaboration of the 2024 budget based on results.