



Joint Programme 2022 Annual Progress Report

SDG Financing Portfolio - Component 1

Cover page

UNCT/MCO: Bosnia and Herzegovina

Reporting Period: 1 January - 31 December 2022

JP title: Towards the SDG Financing Ecosystem in Bosnia and Herzegovina

Stakeholder partner: National Government; Sub-national Governments; IFIs/DFIs; Private sector; Bilateral aid organizations;

Thematic SDG Areas: Decent jobs & universal social protection; Digital transformation; Climate action & energy transformation; Transforming education; SDG localization;

PUNOs: UNDP, UNICEF, ILO

Top-up received as part of DEM: No

Total estimated expenditures: US\$ \$ 664,893.1

Total estimated commitments (including expenditures): US\$ \$ 828,477.5

Gender Marker: Gender-responsive (for example, the JP aimed to respond to specific gender needs, such as linking social assistance with GBV response services or maternal health support)

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Executive Summary

A comprehensive Development Finance Assessment (DFA), launched in 2021 with support of UNDP and UN Women has reached its draft stage. The DFA includes a review of macro-economic and fiscal context along with the development finance landscape and three scenarios (reform paths) for accelerating SDG achievements in the country (1. Business as Usual; 2. Rapid Acceleration and Growth; 3) Structural Transformation Scenario). This was paired with a review of financing instruments globally and in the country to identify new financing instruments that could be established or existing ones that could be strengthened for accelerated SDG implementation in Bosnia and Herzegovina. Importantly, the DFA encompasses a Road Map for preparation of an SDG Financing Framework, focusing on priority areas/sectors proposed by the SDG Financing Working Group and contained in the country's SDG Framework (digitalization, decarbonization and infrastructure and research and development), taking into account their potential for leveraging finance for alternative sources through new financing instruments. The Road Map is now subject to wider consultations, including the UNCT, government institutions, international and national

financing institutions and the private sector. In addition, the pilot initiative undertaken by UN Women on SDGs tagging will also be reviewed in this process for further upscaling

Based on the road map, the process of preparation of the SDG Financing Framework will be launched in early 2023. The process will also take into account outputs from the activities conducted by UNICEF, WHO and ILO, namely investment cases related to early childhood development and health and analytical tools for evidence-based policy making with regard to labour.

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)

Outcome 1: Financing Framework, resulting from a broad-based dialogue, provides long term solutions for more integrated sustainable development financing in BiH.

Under this outcome, the JP engaged ministries of finance, the SDG Council and relevant line ministries in the process of conducting a comprehensive review of the financing landscape in the country, including SDG-based and gender-responsive public expenditure reviews and financing gaps that would serve as a basis for the stakeholders in setting up long term directions for sustainable SDGs financing in BiH. The DFA, launched in 2021 with support of UNDP and UN Women was completed in 2022 and is now in a consultation stage – consultations with government institutions are underway, to be followed by consultations with international and domestic financing institutions and the private sector.

The comprehensive DFA includes the Road Map for inclusive preparation of the BiH SDG Financing Framework to be launched under the INFF Phase 2 in early 2030. Based on the DFA, the Road Map provides (i) a summary of high level DFA diagnostic findings; (i) overarching enabling policies, regulations and standards that are key enablers and/or preconditions for accelerated SDG achievements; (iii) financing rationale and financing solutions for the three SDG priority sectors (digitalization, energy & infrastructure, research & development) that are most potential for SDG achievements and further fiscal spillover on other development sectors /SDGs; (iv) major and complementary SDG financial instruments; (v) strategic budgeting and investment de-risking for SDG achievements (approach); (vi) governance and coordination arrangement; (vii) monitoring and risk management actions; (vii) further assessment diagnostic (approach) (viii) SDG partnership for the goals (approach).

Following the consultations, the Phase 2 will be initiated in early 2023 with focus on preparing the SDG Financing Framework (Strategy) for the country.

Outcome 2: Public finance management is SDG-informed and resource planning in selected priority areas is gender-responsive, more efficient and effective.

While Outcome 1 aimed at defining long-term solutions for financing sustainable development in the country, Outcome 2 is meant to set a model for a simplified budget tagging and evidence-based policy making and budgeting for accelerated progress in the priority areas.

With respect to budget tagging, UN Women is finalizing the pilot on SDG budget tagging conducted in Canton Sarajevo, as the richest region in the country. This pilot case will be reviewed in the process of preparation of the SDG financing Framework for possible upscaling. The work on digitalizing financial processes in Canton Sarajevo to ensure more efficient and user-friendly integration platform for over 200 budget users is ongoing, with testing of the integration platform and training of budget users underway.

Importantly, UNICEF is finalizing 3 investment cases for early childhood development (including early childhood education, health and social services for children 0-6), 3 related policy briefs and 2 feasibility studies on early childhood education at the local level. WHO is preparing investment cases for non-communicable diseases and financial protection towards achieving Universal Health Coverage, planned to be finalized in 2023. In the reporting period, the ILO has also reached the final stage of its activities related to producing an analytical tool and a report on the impact of government policies on the labour market.

Finally, the capacities of statistical and educational institutions have been strengthened at all levels of government with support of UNESCO/UNDP. The support given to both the statistical institutions and educational authorities allows for the creation of more reliable and quality statistical information and information management.

Main Challenges, adjustments and lessons:

Bosna and Herzegovina is a complex country, consisting of state level, two entities, Brcko District, 10 cantons and 145 local governments. Having in mind that the “whole of government” governance mechanisms in BiH are weak and that competencies among different levels and sometimes unclear, it was rather challenging to ensure coherence among different government actors and their policies.

As the process of the preparation of the DFA and the Road Map was led by the SDG Financing Working Group (ministries of finance and relevant sectoral ministries from all government levels, the BiH SDG Council) the JP team and international and domestic development finance experts were frequently exposed to situations to invest additional efforts to identify enabling policy and financial instruments set-up that would be sufficiently applicable and converging for BiH as a whole. At the same time, it was needed to take into account specific aspiration of different governments with regard to SDG financing challenges and solutions.

SDG Acceleration

SDG target 17.14.1 Mechanisms in place to enhance policy coherence of sustainable development:

The completed DFA, including the Road Map for SDG Financing Framework preparation, paved the ground for setting up and institutionalizing the basic SDG Financing Eco-system in Bosnia and Herzegovina. This was achieved by defining critical enabling policies, regulations and financial instruments that will be streamlined through domestic government development planning systems and translated into implementable government actions. Envisaged adoption of the SDG Financing Framework by all government levels is expected to create a binding platform for systemic financing of the SDGs. In addition, the SDG Financing Framework will serve as a unique collaborative platform between public sector and other development partners such as the private sector and financing institutions.

SDG target 5.c Adopt and strengthen sound policies and enforceable legislation for the promotion of gender equality and the empowerment of all women and girls at all levels:

Introduction of budget tagging is recommended in the Road Map for SDG Financing Framework. In this context, the budget tagging model piloted in Canton Sarajevo is envisaged to be considered for upscaling to other government levels, which would greatly contribute to enhanced gender equality policies and financing.

Progress on other targets from the JP related to specific sectoral SDGs (i.e. health, education) will be demonstrated in 2023 as the related activities are in the final stage.

Updates on SDG financing framework

	Assessment Diagnostics	Financing Strategy	Monitoring Review	Governance Coordination
Inception phase				
Previously Completed	Completed (100%)	Emerging (1-49%)	Emerging (1-49%)	Emerging (1-49%)

Descriptions on progress by INFF building blocks

Inception Phase: Considering the complex administrative structure in the country, the DFA and the Road Map will not be formally adopted by all government levels but rather endorsed by the inter-governmental SDG Financing Working Group. Following the wide consultations, the Road Map will serve as key input for the preparation of the SDG Financing Framework for BiH, which is envisaged for January – April 2023 and which is to be formally adopted by all governments in the country. The Road Map provides the following recommendations for the SDG Financing Framework: (i) overarching enabling policies, regulations and standards that are key enablers and/or preconditions for accelerated SDG achievements; (ii) financing rationale and financing solutions for the three SDG priority sectors (digitalization, energy & infrastructure, research & development) (iii) major and complementary SDG financial instruments; (iv) strategic budgeting and investment de-risking for SDG achievements (approach); (v) governance and coordination arrangement; (vi) monitoring and risk management actions; (vii) further assessment diagnostic (approach) (viii) SDG partnership for the goals (approach).

Assessment & Diagnostics: 1. 1. Rapid SDG-based Public Expenditure Reviews were conducted for central BiH level, the two entities (Federation of BiH and Republika Srpska), 10 Cantons and Brcko District BiH with a focus on determination of the average yearly government spending that contribute to development accelerators and drivers defined in the SDG Framework in BiH (capital expenditures and current grants and subsidies). The analyses reveal the governments in BiH allocate in average USD 3 billion yearly to observed expenditures, which is not sufficient for SDG accelerated achievement. Having in mind the observed lack of systemic approach for SDG spending monitoring, the analyses also revealed that governments in BiH need to introduce budget SDG tagging that is needed to foster evidence-based planning /monitoring per specific drivers and policies defined in the SDG Framework in BiH. 2. The review of SDG Financial Instruments covered instruments in use in more advanced countries with focus on identification of new and innovative SDG financial mechanisms and instruments that could be applicable for BiH within the existing regulatory framework or with its minor adjustments. 3. Development Finance Assessment, Phase 1: i. Provided an overview of BiH's financing ecosystem including trends and composition of all public, private, domestic and international financial flows. ii. Identified strength, achievements and challenges of existing financing strategies, policies and institutional structures to meet key financing needs. iii. Identified the existing constraints that hinder institutional attempts to both mobilize and effectively channel finance into priority areas (with focus on capacities to couple public and private finance). iv. Provided three scenarios (business as usual; accelerated SDG achievements; structural transformation) with the existing SDG spending needs and gaps. v. Defined three priority sectors with potential to generate accelerated achievements and at the same time generate fiscal space for attainment of other SDGs. vi. Proposed a set of main and complementary financial instruments for SDG accelerated achievements in the short and long term period in BiH. vii. 4. Defined the Roadmap for BiH SDG Financing Framework preparation in the Phase II. Based on the diagnostic from DFA, SDG PER, and financial instruments review, a set of strategic policies/actions and instruments were proposed to be implemented in the short (2-3 first years) and long term period (up to 2030). Apart from strategic policies, regulations and standards, the Road Map proposed to create enabling environment and define a set of the major and complementary financial instruments for SDG accelerated achievements considering that BiH needs to generate/mobilize additionally USD 3.5 billion for the period 2023-2030 or USD 0.45 billion per year. This is an equivalent of 28% of actual public investments (investments from consolidated budgets of public authorities and public companies).

Financing Strategy: N/A. The process of preparation of the SDG Financing Framework/Strategy for BiH is to be launched in early 2023

Monitoring & Review: N/A. Monitoring and Review arrangements are still under development.

Governance & Coordination: N/A. Governance and Coordination arrangements are still under development.

Annual Reporting on Results

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

Next steps, scaling and sustainability [400 words]

Following the completed DFA diagnostic and the elements of the Road Map defined in the Phase 1, the Phase 2 will focus on supporting the SDG Financing Working Group in elaborating the SDG Financing Framework. As such, the SDG Financing Framework will define a set of measures aimed to foster policy and regulatory frameworks and financing instruments for accelerated progress towards fulfilling Agenda 2030. The Financing Framework is to determine a clear set of the respective government and institutional responsibilities, short- and long-term implementation timeframes, including proposed partnerships with international and domestic organizations and other development actors in BiH.

As for financing instruments, the SDG Financing Framework will follow a two-stage approach. In the first, short time period, the SDG Financing Framework will offer financing instruments and solutions for a “quick win approach”. This means that in the first stage the focus will be priority sectors that are most potential for accelerated SDG achievement and for generating fiscal spill over on the other sectors through a group of major financing instruments.

In addition, the SDG Financing Framework will propose gradual introduction of a set of complementary financial instruments whose introduction will follow development of enabling environment. For example, in the short-term period the focus will be on rapid establishment and use of several major SDG financial instruments, such as strategic investment fund(s), targeted syndicated loans for priority sectors; SDG bonds; Apex for SMEs. Importantly, these instruments could be further reinforced in the coming years by introduction of complementary financing options and instruments.

Priority Cross-cutting Issues

Cross-cutting results/issues

- Following the country's “business as usual” development paradigm in the past decades, the DFA revealed that Bosnia and Herzegovina will not be able to achieve sustainable development until 2030 without more targeted approach to accelerate the most potential sustainable development priority sectors (energy & infrastructure, digitalization, research & development). It was found that only accelerated progress in these areas will: a) lead to accelerated progress towards relevant sustainable development areas and specific SDGs defined as priority in the SDG Framework in BiH; b) through spill-over effect, create more substantial fiscal space needed for other SDGs, including those related to poverty, gender equality and women empowerment, human rights, education etc. Although the SDG-based public expenditure reviews demonstrated governments' allocations to areas of importance for the most vulnerable (education, social protection, labour policies, etc.), there is an obvious need for more substantial investments, better targeting and evidence-based policy making. Some of these issues are being addressed under Outcome 2 of the JP.

- In conducting the DFA and preparing the Road Map for the SDG Financing Framework, UN Women provided

support in ensuring a gender-lens across the processes and products. Overarching enabling policies, regulation, as well as priority areas defined in the Road Map were considered from the gender equality perspective, while a number of proposed specific financing instruments address horizontal issues such as gender equality and leaving no one behind (i.e. SDG strategic investment funds, SDG bonds, gender bonds, etc.). In addition, the Road Map for SDG Financing Framework proposes targeted actions for strengthening strategic budgeting through alignment of governments' budget preparation circulars with the SDGs, introducing SDG budget tagging and SDG related indicators).

How did the JP apply the Gender Marker

The JP is Gender-responsive (for example, the JP aimed to respond to specific gender needs, such as linking social assistance with GBV response services or maternal health support). Evidence, data collection and analysis (e.g. gender assessments of programmes; policy briefs, costing for scale-up of social services);

Focus on LNOB cross cutting principles

Human Rights	Persons with disabilities	Youth	Environmental and social standards
No	No	No	Yes

Strategic Partnerships, Documents and Communications

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

Through partnership between UNDP and Slovakia on public finance management, USD 209,000 were secured to further support the preparation of SDG-based public expenditure reviews in 2022. Even though this activity had been initially planned to be fully covered through the JP, the exercise required additional financing considering the scope and the number of governments that needed to be included in the process, all resulting from the complex administrative set up in the country (state level, 2 entities, Brcko District and 10 cantons).

Donor and Strategic events attended by JP in 2022

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

JP contribution to SDG Financing

Drafted a bill, strategy, and/or approved a law increasing the fiscal space for the policy focus	Produced financing, costing, diagnostic and feasibility analyses as a basis to invest or increase spending on the SDGs	Improved efficiency (cost savings) in the management of programmes/schemes	Improved effectiveness of (value for money; social impact) sector investment of spending the SDGs	Drafted policies/regulatory frameworks or developed tools to leverage private additional funding	Structured financial instruments (public, private or blended) to leverage additional funding
No	Yes	No	No	Yes	Yes

Main capacity building activities supported by the JP that allowed people to expand their knowledge on SDG Financing and INFFs

A workshop with representatives of private sector, including banking was organized in 2022 to present 1) key findings from the DFA process, including specific challenges and opportunities for the private sector and; b) obtain feedback from the private sector on further aspects that need to be elaborated in both the DFA and the SDG Financing Strategy. Additional workshops with these stakeholders are envisaged in early 2023, in the process of preparation of the SDG Financing Strategy for BIH.