BOSNIA and HERZEGOVINA | 2023

Financing Framework for the Sustainable Development Goals in Bosnia and Herzegovina

ACRONYMS AND ABBREVIATIONS

AAAA	Addis Ababa Action Agenda
BAM	Convertible Mark
BiH	Bosnia and Herzegovina
CBAM	Carbon Border Adjustment Mechanism
CEC	Citizen Energy Community
CSRD	Corporate Sustainability Reporting Directive
EGBS	EU Green Bond Standard
ERP	Economic Reform Programme
ESG	Environmental, Social and Corporate Governance
ETS	Emissions Trading System
EU	European Union
FBIH	Federation of Bosnia and Herzegovina
GDP	Gross Domestic Product
GNI	Gross National Income
IFC	International Financing Corporation
MFI	Microfinance institution
IMF	International Monetary Fund
NGFS	Network of Central Banks Greening the Financing System
OECD	Organization for Economic Co-operation and Development
PPP	Public-private partnership
RDC	Research and Development Centre
REC	Renewable Energy Community
RS	Republika Srpska
SBP	Social Bonds Principles
SDG	Sustainable Development Goals
SDG-FF	Financing Framework for the Sustainable Development Goals
SIF	Strategic Investment Fund
SLBP	Sustainability-Linked Bonds Principles
SME	Small and Medium-sized Enterprises
UAE	United Arab Emirates
UNDP	United Nations Development Programme
VNR	Voluntary National Review

“Agenda 2030 is an action plan for people, the planet and prosperity. It seeks to strengthen the universal peace in larger freedom. This plan will be implemented by all countries and stakeholders, acting in collaborative partnership. We are resolved to free the human race from tyranny, poverty and to heal and secure our planet.”

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EXECUTIVE SUMMARY

The purpose of the SDG Financing Framework (SDG-FF) in Bosnia and Herzegovina is to offer the institutions at all levels of government in Bosnia and Herzegovina an agreed set of key policies and financing instruments for significant acceleration of progress in achieving Agenda 2030, i.e. progress towards achieving sustainable socio-economic development of the country.

Namely, if the current approach were to continue to be used in Bosnia and Herzegovina (i.e. if a long-term annual GDP growth rate of 2.5% and the existing share of SDG investment in public expenditures are maintained), BAM 79.9 billion would be allocated for SDG financing in the next seven years - at prices from 2022 - which would be insufficient for their achievement. In order to increase investment in the SDGs to the level of the comparator group of countries (upper middle-income countries), allocations for the SDGs should be increased to BAM 86.1 billion in the period 2023-2030, that is, from BAM 10.0 billion to 10.8 billion per year. This means that Bosnia and Herzegovina needs an additional BAM 6.2 billion allocated for the SDGs between now and 2030, or an additional BAM 0.8 billion per year.

The fundamental prerequisites for accelerating the growth of aggregate income to a minimum of 3.5% annually are the building of the country's innovation capacity, the elimination of infrastructure gaps, and decarbonization and digitalization of the economy and society. That is why the SDG-FF puts a focus on three priority sectors, namely: (i) digitalization, (ii) infrastructure and energy, and (iii) research and development. These are the sectors which have a strong internal potential for accelerated achievement of the SDGs within each of these sectors and a strong catalytic potential for generating additional fiscal space for financing sustainable development and the achievement of other SDGs.

The funds necessary for investing in the SDGs certainly exist, especially knowing that within the banking system alone there are more than BAM 3.4 billion in surplus funds above the required reserves. Nevertheless, in order to generate the necessary additional funds for the SDG financing, it is necessary to improve the existing or establish new financing mechanisms and instruments which will be based on international policies, standards and regulations. In accordance with the above, in addition to the Addis Ababa Action Agenda as a global platform to support the implementation of the Sustainable Development Agenda 2030, the development of the SDG-FF took into account the existing international and EU sustainable development financing policies. From the set of EU policies, the following were particularly used: the EU Green Deal, the EU Green Taxonomy Regulation for sustainability activities and climate change mitigation and adaptation standards, the European Green Bond Standard, the European Corporate Sustainability Reporting rules, including the Corporate Sustainability Reporting Directive and the EU Digital Services Act and the Digital Markets Act.

The following are recognized as key instruments for financing the three priority sectors for achievement of the SDGs: (i) strategic investment funds (SIFs) for financing energy and digitalization; (ii) syndicated loans for infrastructure financing; (iii) the SDG bonds for research and development financing, and (iv) Apex financial structure for SMEs. It is estimated that one billion BAM could be mobilized in the period 2024-2030 through SIFs alone.[1]

[1] BiH Development Finance Assessment, UNDP, April 2023.

In order to achieve the full effects in the financing of priority sectors for achievement of the SDGs, it is necessary to act in synergy and to supplement the financing modalities and the aforementioned key financing instruments with a series of complementary financing instruments, such as the digital transition scheme, social impact bonds and particularly the greenhouse gas emissions trading system, which will mobilize BAM 1.76 billion, from its introduction in 2025 to 2030.[2] The SDG-FF also proposes a series of long-term financing instruments which would be established gradually/in phases as the system develops, regulations permit and specific needs arise. Long-term financing instruments are planned to be piloted in the first phase (2024-2026), while their full implementation would begin in the second phase (2027-2030). Among them, the public-private partnership instrument[3] is particularly important since it is difficult to achieve the SDGs without private sector financing and bearing in mind that the infrastructure gap alone (SDG 9.1) in Bosnia and Herzegovina until 2030 is BAM 1.38 billion.[4]

Regarding the mechanisms of management, coordination and monitoring of the SDG-FF implementation, the Council for Monitoring the Implementation of the SDGs in Bosnia and Herzegovina is responsible for overall monitoring and reporting on the implementation of the SDGs. From the perspective of the implementation of the SDG Financing Framework, strategic budgeting for the SDGs should be integrated into the public finance management strategies. At the same time, the processes of mid-term and annual budget planning, as well as reporting, should ensure that the SDGs are integrated, that is, it is necessary to create a clear link between these processes and the inclusion of the SDGs. An annual report on the implementation of the SDG Framework will provide an overview of the progress made in the identified development pathways, accelerators and drivers, and the country’s updated Voluntary National Review will provide a basis for reporting on progress and challenges that can be analyzed through the mid-term evaluation of the SDG Financing Framework. All the above-mentioned instruments will be established with respect for the Constitution and the legally defined competences of each level of government, with the aim of creating a functional and implementable model which should ensure sustainable development and accelerated progress in attaining Agenda 2030 in BiH.

Cooperation with domestic and international institutions, primarily with the EU Delegation to Bosnia and Herzegovina and the EU Member States, will ensure support for the realization of the SDGs by integrating the SDG Framework priorities into the ERP through the identification of common priorities arising from the Agenda 2030 and the European integration process.

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[2] BiH Development Finance Assessment, UNDP, April 2023.

[3] The legal framework on public-private partnership (PPP) in Bosnia and Herzegovina is decentralized to a significant extent and is only partially harmonized with the EU acquis. In this regard, there is the Law on Public-Private Partnership ("Official Gazette of the RS", Nos. 59/09, 63/11 and 68/20) in the Republika Srpska, the BD Law on Public-Private Partnership in the Brčko District (Official Gazette of the Brčko District of BiH", No. 7/2010) and there are cantonal laws on public-private partnership at the level of the cantons. Despite the above, the total portfolio of the public-private partnership in BiH is limited, and its contribution to the realization of the SDGs is unknown, and there is potential for its expansion, which increases the fiscal space for other investments.

[4] BiH Development Finance Assessment, UNDP, April 2023.

INTRODUCTION

The SDG Financing Framework in Bosnia and Herzegovina is a joint document of the institutions of Bosnia and Herzegovina, the Federation of Bosnia and Herzegovina, the Republika Srpska and the Brčko District of Bosnia and Herzegovina the purpose of which is to support the implementation of the SDG Framework in Bosnia and Herzegovina[5].

This document was prepared with the consultative support of the members of the SDG Financing Working Group, which consists of representatives of the Council for Monitoring the Implementation of the Sustainable Development Goals in Bosnia and Herzegovina, appointed representatives of the Ministries of Finance and the relevant ministries at the level of Bosnia and Herzegovina, the Federation of Bosnia and Herzegovina, the Republika Srpska, and representatives of the Finance Directorate of the Brčko District of Bosnia and Herzegovina and representatives of the cabinets of the Council of Ministers of Bosnia and Herzegovina, the Government of the Republika Srpska and the Government of the Federation of Bosnia and Herzegovina. It is based on the assessment of development finances carried out in Bosnia and Herzegovina, and the Road Map for the development of the SDG Financing Framework in Bosnia and Herzegovina, prepared with the consultative support of the SDG Financing Working Group in Bosnia and Herzegovina[6] and the technical support of the United Nations Joint Programme in Bosnia and Herzegovina, financed by the Joint SDG Fund.

The purpose of the SDG Financing Framework in Bosnia and Herzegovina is to offer to the institutions at all levels of government in the country an agreed set of key policies and financial solutions and instruments, the implementation of which would significantly accelerate progress towards achieving Agenda 2030, i.e. sustainable socio-economic development of the country. In that regard, this document represents a long-term platform for institutions at all levels of government for their consideration and operationalization of the proposed key policies, financial solutions and instruments to accelerate the achievement of the SDGs.

The SDG Financing Framework in Bosnia and Herzegovina, alongside proposals for new financial approaches, policies and instruments to accelerate the achievement of the SDGs in Bosnia and Herzegovina, will be used as an entry platform for mobilization of financial and other forms of support available through cooperation with financial institutions, international organizations and bilateral donors active in Bosnia and Herzegovina and the Western Balkans region.

The SDG Financing Framework is aligned with the development pathways and accelerators from the SDG Framework in Bosnia and Herzegovina and the EU accession process. Given that the European Union granted EU candidate status to Bosnia and Herzegovina in December 2022, aligning with EU sustainable financing taxonomies[7] and standards becomes even more important. In closing the SDG

[5] Chapter 11 of the SDGs Framework in BiH recommends (i) that support for the operational implementation of the Sustainable Development Goals should be carried out through the strengthening of existing and the establishment of new, innovative financial mechanisms and/or instruments; (ii) that as part of monitoring the achievement of the Sustainable Development Goals overall, as well as for each level of government in Bosnia and Herzegovina, monitoring of the achieved financing of the Sustainable Development Goals from domestic and external sources should be carried out on a regular basis, and recommendations for possible improvements for the next planning period be prepared.

[6] The decision will be provided in the final draft as a reference to the appointment of the SDG Financing Working Group appointments.

[7] The EU taxonomy (EU) 2020/852 assesses the sustainability of economic activities on the basis of objective criteria. In a sense, the EU taxonomy is a classification tool that provides clear information to decision-makers, investors and enterprises on which investments and economic activities are sustainable from the perspective of ensuring environmental protection.

financing gap, this SDG Financing Framework in Bosnia and Herzegovina proposes the appropriate policies and investment processes, instruments, as well as reforms over the short (2023-2025) and longer term (2026-2030).

OVERVIEW OF APPROACH, SITUATION AND CHALLENGES OF SUSTAINABLE DEVELOPMENT GOALS FINANCING IN BOSNIA AND HERZEGOVINA

In addition to representing a unique common basis for the country's development that connects the SDGs, reforms resulting from the EU integration process and domestic development priorities, the SDG Framework is also important in terms of providing a clear direction for strong sustainable development, which in the case of Bosnia and Herzegovina means a transition from an upper-middle income to a high-income pathway.

The Development Finance Assessment in Bosnia and Herzegovina was carried out in 2022-2023 in order to estimate the size of the gap between the current levels of investment in the SDGs and the required investment levels to achieve the SDGs in the country, at the level of comparator group of countries. Despite numerous methodological challenges faced in such an analysis[8], it was still possible to assess SDG spending in Bosnia and Herzegovina, and to arrive at a model of the required level of investment to achieve the target rate of GDP growth, etc. The Development Finance Assessment in Bosnia and Herzegovina also identified key limitations to financing sustainable development, which can also be viewed as opportunities for strengthening the financial ecosystem in Bosnia and Herzegovina in order to support the implementation of the SDG Framework and Agenda 2030.

In relation to SDG financing, institutions at all levels of government in Bosnia and Herzegovina are faced with two fundamental challenges. The first is low income, and the second is low allocations from such a low income for SDG financing.

Viewed from the perspective of Gross National Income (GNI), GNI per capita of Bosnia and Herzegovina in 2021 was US$ 6,810 and of the comparator group of upper middle-income countries it was US$ 10,358, that is, it was higher by 52.1%. The situation becomes even clearer if we bear in mind that at the same time the global GNI per capita stood at US$ 12,026, i.e. it was nearly twice as high as GNI per capita in Bosnia and Herzegovina. The estimated allocation for SDG financing in Bosnia and Herzegovina in 2021 was US$ 1,545 per capita, and in the comparator group of countries US$ 2,508 per capita, i.e. it was higher by 62.3%.[9]

Also, the findings of the Development Finance Assessment in Bosnia and Herzegovina show that the achievement of sustainable development and the transition to a higher income group cannot be achieved without a strong increase in the saving rate and a strong increase in the investment rate, and especially not without strong investments in research and development. Bosnia and Herzegovina will not overtake upper middle-income countries, and especially will not catch up to high-income countries, which typical European countries are, if it does not overcome the middle-income trap, i.e. until it starts to radically reduce production costs and increase competitiveness, and thus exports, especially exports of hightech goods.

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[8] According to the UN Economic and Social Council (2021:18): "*There is no uniquely correct methodology for calculating the SDG implementation costs*", several approaches were used for the Development Finance Assessment and SDG costing, including (ESCAP, 2020.; ESCWA, 22021) and marginal capital coefficient.

[9] The paper took over the classification of countries by income groups of the World Bank, which is based on the size of the Gross National Income using Atlas methodology. For more details, see: https://blogs.worldbank.org/opendata/new-world-bank-country-classifications-income-level-2022-2023.

The factors which helped Bosnia and Herzegovina to move from a low-income country to an upper-middle-income country (natural resources, significant participation of relatively cheap labour, acquisition of technology through imitation) are not relevant for the transition from an upper middle-income country to a high-income country. All the more so as Bosnia and Herzegovina is faced with population shrinking and ageing.

In this regard, the acceleration of income growth, i.e. increasing the long-term growth rate from 2.5% to a minimum of 3.5%, can be achieved using the following policies: (i) re-skilling of workers (ii) climbing up value chains, (iii) attracting foreign direct investment, (iv) pro-natality policy, and (iv) facilitating immigration.[10] Likewise, one of the key assumptions for accelerating income growth (and overcoming the middle income trap) is the development of the country's innovation capacity. This ensures a technological leap from imitation to innovation. Therefore, research and development are of crucial importance for BiH and one of the priority SDGs.

In addition to an increase in income, which is the basic requirement for achieving the SDGs, it is also necessary to change the structure of public expenditures in terms of increasing the public expenditure share for the SDGs. Currently, too large a portion of public expenditure goes to current public spending (on salaries and social transfers), and hence, public investments are low. Likewise, in contrast to the European transition countries where the public sector is shrinking, in Bosnia and Herzegovina it is growing. Oversized, insufficiently efficient and with large outstanding obligations, it is too much of a burden. As such, it reduces the fiscal envelope for research and development, infrastructure, energy and digitalization as well as other SDGs.

If the current approach were to continue to be used in Bosnia and Herzegovina (i.e. if a long-term annual GDP growth rate of 2.5% and the relative share of SDG investment in public expenditures are maintained), BAM 79.9 billion would be allocated for SDG financing in the period 2023-2030, which would be insufficient for the achievement of the SDGs.

If, however, Bosnia and Herzegovina were to increase investments in the SDGs to the level of the comparative group of countries (higher middle-income countries), SDG spending would increase to BAM 86.1 billion in the period 2023-2030, i.e. from BAM 10.0 billion to 10.8 billion annually. In order to reach BAM 86.1 billion spent on the SDGs, Bosnia and Herzegovina needs an additional BAM 6.2 billion for the period 2023-2030, that is, BAM 0.8 billion per year, which is the equivalent of 28% of current public investments (investments from the consolidated budgets of institutions and public enterprises).

The necessary financial resources for investing in the SDGs certainly exist, because the banking system alone has over BAM 3.6 billion in surplus liquid funds above the required reserves (simultaneously with high profits). However, it is necessary to mobilize them through new financing mechanisms and instruments. This would bring the rate of domestic savings, which in Bosnia and Herzegovina is 8% of GDP, closer to the rate of domestic savings in upper middle-income countries, which is 37.1% (averages for the period 2019-2021).

[10] The work programmes of the Council of Ministers, the RS Government and the FBiH Government for the annual and three-year period, as well as the BiH and entity ERPs, define a series of policies and measures aimed at ensuring sustainable and inclusive growth. The defined measures are in synergy with the mentioned policies and their full implementation would contribute to an accelerated long-term increase in the country's growth rate.

FINANCIAL POLICIES, REGULATIONS AND STANDARDS TO SUPPORT THE ACHIEVEMENT OF THE SUSTAINABLE DEVELOPMENT GOALS IN BOSNIA AND HERZEGOVINA

In order to understand the broader picture and grasp global developments related to the financing of the Sustainable Development Goals, it is necessary to point out that the basis for the development of the SDG Financing Framework in Bosnia and Herzegovina comes from the Addis Ababa Action Agenda. Adopted in 2015, it lays a strong foundation for providing support to the implementation of Agenda 2030 and the Sustainable Development Goals and provides a new global framework for financing sustainable development by harmonizing all financial flows and policies with economic, social and environmental priorities. The Addis Ababa Action Agenda also initiated the creation of a comprehensive set of public policies by the Member States of the United Nations with over a hundred specific measures for financing sustainable development, transforming the global economy and achieving the SDGs.

This is the context in which the development of the SDG Financing Framework in Bosnia and Herzegovina should be viewed, first of all, as an effort to offer a comprehensive approach to development finance on the basis of the existing global policies and practices, taking into account all forms of financing - public, private, domestic and international - and unifying them for the purpose of implementing the SDG Framework in BiH. Accordingly, it is worth pointing out that in the previous period, at the global level, there were significant innovations in the area of sustainable finance, which fundamentally changed the way of investing in sustainable development. Many of these changes, driven by blended finance, FINTECH[11] and the digital economy, led to a series of new financing instruments which, sooner or later, will be available also to BiH.

In this regard, it should be noted that during the development of the SDG Financing Framework in Bosnia and Herzegovina, and especially when defining specific financing instruments, consideration was given to the current global policies, regulations and standards which can provide the market access to emerging asset class (e.g. green bonds) that can be further used to finance the SDG Framework development pathway priorities and accelerators. These are, among others:

- The EU Green Deal as a long-term strategy that aims to make Europe climate neutral by 2050 and support sustainable development. The Deal consists of a series of measures and initiatives that will help to achieve the goal of reducing greenhouse gas emissions by 55% below 1990 levels by 2030. As part of the EU Green Deal, the European Union will invest significant funds to support its Member States and the economy transitioning to more sustainable ways of production and consumption. It is expected that in this way new jobs will be created and the competitiveness of the European economy will be enhanced.

- The EU Taxonomy Regulation for sustainable activities and climate change mitigation and adaptation standards. The EU Taxonomy Regulation was published in the Official Journal of the European Union on 22 June 2020 and entered into force on 12 July 2020. It establishes the basis for the EU taxonomy by setting clear conditions that an economic activity has to meet in order to qualify as environmentally sustainable. The Taxonomy Regulation establishes six environmental objectives: (i) climate change mitigation, (ii) climate change adaptation, (iii) the sustainable use and protection of water and marine resources, (iv) the transition to a circular economy, (v) pollution prevention and control, and (vi) the protection and restoration of biodiversity and ecosystems.

[11] Financial technology (commonly known as fintech) is used to describe a new technology that seeks to improve and automate the provision and use of financial services. At its core, fintech is used to help users more easily and better manage their financial operations and processes.

- EU Green Bond Standard (EGBS) as a set of voluntary guidelines created by the European Union to promote transparency, credibility and consistency in the green bond market. The standard is designed to provide clear and verifiable criteria for bond issuers and investors to identify and evaluate green bonds. Among other things, in order to meet the standard, the green bond issuers must prove that the bond revenue is used to finance environmentally sustainable projects that contribute to the European Union's climate and environmental goals.

- EU corporate sustainability reporting rules, including Corporate Sustainability Reporting Directive (*CSRD*)

- The EU Digital Services Act and the EU Digital Markets Act.

Since the programme of integration of Bosnia and Herzegovina into the European Union is at the centre of all efforts and since Bosnia and Herzegovina committed itself under Article 70 of the Stabilization and Association Agreement to ensuring that its existing laws and future legislation will be gradually made compatible with the Community acquis and that existing and future legislation will be properly implemented and enforced, this document focuses on the relevant EU regulations, standards, rules and directives to support the achievement of the Sustainable Development Goals in Bosnia and Herzegovina. In addition, this document takes into consideration also other standards, practices, guidelines and examples that can help to define specific financing instruments for the achievement of the SDGs, such as:

- Standards and practices of "greening" the banking system by the Network of Central Banks Greening the Financing System (NGFS);
- Development, adaptation or adoption of green and climate bond financing standards as well as ESG market standards in support of moving towards sustainable and responsible investment (SRI) in Bosnia and Herzegovina
- UNDP Guidelines: SDG Impact Standards for Bond Issuers;
- Blended Finance Principles for Unlocking Commercial Finance, defined by the OECD Development Assistance Committee (OECD DAC);
- Global ESG Disclosure Standards for Investment Products;
- International Finance Corporation (IFC): Practitioner's Guide to Using Sustainable Debt for Gender Equality.

The aforementioned policies, standards and practices should also be seen as an orientation for the necessary strengthening and harmonization of the regulatory framework at all levels of government in order to create conditions gradually and under the set pace for the implementation of the Next-Generation financing instruments. This is particularly important for all levels of government in BiH and requires a timely response and a high degree of regulatory and institutional synchronization.

PRIORITY SECTORS WITH THE POTENTIAL FOR ACCELERATED ACHIEVEMENT OF THE SUSTAINABLE DEVELOPMENT GOALS IN BOSNIA AND HERZEGOVINA

The SDG Financing Framework proposes a special focus on three priority sectors: (i) digitalization; (ii) infrastructure and energy; (iii) research and development, which have a strong internal development potential for accelerated achievement of the SDGs within each of these sectors and a strong catalytic potential for generating additional fiscal space for financing sustainable development and the achievement of other SDGs in Bosnia and Herzegovina. When supported by incentive policies and new and innovative financing mechanisms and instruments, these sectors have a significant investment potential for investments from the private sector, but also for the opening of additional sources of financing from domestic and international private and public sources, including institutional investors, international programmes and funds that support the SDGs realization.

PRIORITY SECTOR: DIGITALIZATION

The importance of digitalization for sustainable development of BiH is reflected in the fact that it accelerates the economic growth, facilitates the creation of jobs and improves delivery of services, for instance, education and health services. The impact of digitalization is particularly visible in improving connectivity, promoting financial inclusion and increasing access to trade and public services, which certainly contributes to a society of equal opportunities. Specifically, the contribution of digitalization to the Sustainable Development Goals in Bosnia and Herzegovina is directly linked to SDG 9 (*build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation*), while it is also mentioned in the targets related to climate change (SDGs 13, 14 and 15), gender equality and women's empowerment (SDG 5), private sector development (SDG 8), education (SDG 4) and health (SDG 3).

Digitalization is not only essential for achieving the development pathways: good governance and public sector management, smart growth and a society with equal opportunities but also for building a sustainable society for the future. Regarding the level of development of digitalization in Bosnia and Herzegovina, Bosnia and Herzegovina is ranked 90th, out of 131 countries, in the Network Readiness Index 2022[12], and is the worst ranked country among the countries of the region. Regarding access to information and communication technologies[13], it is ranked 99th out of 131 countries, while the overall rating of network readiness remains low. In addition, BiH is at the very bottom of the business digitization scale.[14]

In a world that is investing in Fourth Industrial Revolution (4iR), Industry 4.0, and the Internet of Things (IoT), if Bosnia and Herzegovina remains poorly connected and digitalized, a significant number of economic activities will become uncompetitive, with government and business services lagging behind in embracing digitalization at the regional and European levels.

However, it should be kept in mind that the cost of financing digitalization is significant and requires serious investment flows, primarily from the private sector. In terms of financing digitalization, strong investments, based on adequate financing modalities, are necessary in order to: (i) build Bosnia and Herzegovina, through conformity with the European Union, as a gigabit society which connects all the main socio-economic drivers - such as schools, universities, research centres, transport hubs, hospitals, public administrations and enterprises that rely on digital technologies; (ii) provide uninterrupted 5G coverage available in all urban areas and all major land transport routes that connect people and facilities; (iii) provide access to mobile data connectivity in all places where people live, work, travel and assemble; (iv) embrace new practices in money and payment systems as well as FINTECH, and (v) develop digital skills for the public and private sectors. Also, the integration of digitalization into investments for gender equality should remain one of the priorities[15].

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[12] Network Readiness Index 2022, Washington DC: The Portulans Institute.

[13] Ibid.

[14] Ibid.

[15] “The introduction of digital technologies into government systems can help overcome traditional barriers to women's involvement in administration and participation in public life” (United Nations, 2010, Huyer 2010, cited in: IT for Change 2015)”.

Of crucial importance for the development of digitalization in Bosnia and Herzegovina is the approach, that is, the sequence of actions that need to be supported. The Road Map prioritizes actions that: (i) adopt legislation aligned with the Digital Services Act and the Digital Markets Act of the European Union as well as the electronic identification and trust services, and all that to be done in line with the BiH constitutional arrangement, (ii) ensure that more citizens and professionals have basic digital skills, (iii) provide sustainable digital infrastructure through mobilizing new sources of financing, (iv) promote the digital transformation of public services and private enterprises, including the adoption of a new law on electronic identification and trust services for electronic transactions, and (v) encourage systemic cooperation between Bosnia and Herzegovina and the European Union Member States to monitor and promote digitalization goals.

In practical terms, the key priority of digitalization development which contributes to the achievement of the SDGs is further improvement and development of a regulatory framework by the relevant institutions (digital services) for official communication channels of the public sector (within the government as part of e-governance), but also for e-commerce, e-banking and online trade (digital markets). This includes the adoption of the basic law on electronic signature, the establishment of cloud centres (at the state and entity levels), the development and adoption of solutions for online trade and the strengthening of digital and computer literacy, etc.

Investments in the e-Governance Development Strategy (for government levels that have not adopted it), Broadband Access Framework Strategies and Public Administration Reform Strategic Framework are prioritized. Given the central focus and priority of digitalization in the Economic Reform Programme (ERP), the responsible bearers of the implementation of these strategies from all government levels should work closely with the ERP coordinators, relevant officials for the ERP preparation,[16] officials working at the finance and IPA departments of line ministries, officials working at the budget department of Ministries of Finance and digitalization policy planning experts.

PRIORITY SECTOR: INFRASTRUCTURE AND ENERGY

Investments in infrastructure and energy are key to achieving the SDGs, contributing directly to the net zero carbon economy, better competitiveness and service delivery, lower transaction costs and high rates of return in terms of growth, yield and employment. Physical infrastructure is at the centre of achieving the SDGs, given that almost all Sustainable Development Goals are driven by infrastructure development. Transport directly contributes to the achievement of five targets related to road safety (target 3.6); energy efficiency (target 7.3); sustainable infrastructure (target 9.1), access to public transport (target 11.2) and fossil fuel subsidies (target 12.c). It was also emphasized that sustainable transport is key to facilitating the achievement of other SDGs.

At the same time, in accordance with the SDG Framework in Bosnia and Herzegovina, it is necessary to ensure access to reliable, affordable and modern energy services (target 7.1), significantly increase the share of renewable energy in the energy mix (target 7.2) and improve energy efficiency (target 7.3). Physical infrastructure should be built in a way that is sustainable and resilient (target 9.6) and it is also necessary to strengthen resilience and adaptability to climate-related disasters (target 13.1).

[16] The BiH ERP development process includes the development of the RS ERP and the FBiH ERP as well as the document consolidation process.

However, the economy in Bosnia and Herzegovina is currently the most carbon- and energy-intensive in the region[17], which requires rebalancing towards a diversified mix with a low carbon share, with a greater role of the private sector. Regarding investment in physical infrastructure to achieve growth and inclusion, according to the World Bank (2020), the transport infrastructure in Bosnia and Herzegovina is deteriorating and thus reducing the country's competitiveness. The quality of roads and railways is poor, which is affected by insufficient investments by financially weak public enterprises and inefficient spending.

In the energy sector, Bosnia and Herzegovina not only needs to increase the investment rate to at least 5-7% of GDP in the period 2023-2030 but to build at least 1,600 MW of new capacity in order to achieve energy security. Investments of around 3 billion euros are needed for modernization of electricity generation facilities, the installation of equipment to control CO_2 emissions and building new capacities in the next 20 years. In addition, the total investment required for the development of the electricity transmission grid is estimated at 350 million euros (World Bank, 2020).

Regarding infrastructure, since the economy in Bosnia and Herzegovina is small and close to the large European Union market, good connectivity is necessary for the competitiveness of the economy. Priorities for investments in new motorways and roads are the completion of the expressway and connections with the motorways facilitating the expansion of the Trans-European Transport Network and other routes which are prioritized by the South East Europe Traffic Observatory. The most important among them is the completion of the Vc corridor. For national, regional and local road networks, the priority is the selective renewal of the existing network with a focus on key bridges and tunnels (World Bank, 2020).

Railways have the potential to contribute to greater connectivity, but they need to be improved. Railways in Bosnia and Herzegovina are used for the transport of goods much more than in the rest of the Western Balkans (Eurostat), which shows their potential, but outdated rolling stock and tracks and, most importantly, ineffective operations seriously hamper the railways, with unsustainable costs (World Bank, 2020).

It is also necessary to improve further the public sector of water supply and sanitation. Only 58% of the population in Bosnia and Herzegovina is connected to the public water supply network, and only 31% to the public sewer network. Only 15% of the wastewater produced in the country is treated before it reaches the country's rivers. Of the total amount of water collected for citizens' consumption, 59% is lost due to leakage in the network. Many existing regional sanitary landfills have to start planning and designing additional waste disposal due to inefficient use, increasing volumes of waste and an initial lack of financing to expand beyond the first cell (World Bank, 2020).

Regarding solid waste management, even when there are regional sanitary landfills, there is a lack of implementation of measures for their use, and the system faces high transportation costs. The Economic Reform Programme defines a measure for the improvement of the management system for special categories of waste, which will be implemented in the coming period, but there is an additional need for its improvement and implementation. Ensuring quality, supply and sustainability of public services will require active leadership of the entity authorities. While it makes sense to place responsibility on the bodies closest to end users, the provision of public services is a resource-intensive task where the economy of scale is key. Addressing the shortcomings in the waste management sector will require the application of the economy of scale model in the municipalities, the establishment of performance

[17] With 0.56 kt of CO_2 emitted per 1 US$ of GDP, which is three times the EU average, according to the World Bank data, accessed on 10 June 2019; the latest available data from 2014 (The World Bank, 2020).

standards for the provision of quality services, and finally setting of tariffs closer to the costs of the service, which will certainly require strong support from the entity authorities (World Bank, 2020).

PRIORITY SECTOR: RESEARCH AND DEVELOPMENT

Research and development and innovation are one of the most important requirements for any economy to be competitive, and investments in research, development and innovation directly contribute to the achievement of the SDGs. It is worth noting that, in accordance with the SDG Framework in Bosnia and Herzegovina and to achieve impact on SDG 9, all levels of government are committed to building resilient infrastructure, promoting inclusive and sustainable industrialization and encouraging innovation. Target 9.5 requires the authorities in Bosnia and Herzegovina to encourage innovation and significantly increase the number of researchers as well as public and private spending on research and experimental development. Research and development affects, directly or indirectly, most of the Sustainable Development Goals. For example, SDG 11 refers to promoting inclusive, safe, resilient and sustainable cities and settlements, implying a focus on managing urban development. Well-governed cities can – with incentives – be centres of innovation and prosperity. Research and development can also be focused on gender (SDG 5), health and well-being (SDG 3), affordable and clean energy (SDG 7) and climate action (SDG 13).

A more significant allocation of resources for research and development is important for Bosnia and Herzegovina as it can provide vital knowledge and insights into overcoming problems, which, in turn, would lead to improvements in existing processes where effectiveness can be increased and costs reduced. Investments in research and development enable authorities and enterprises to develop new products and services in order to survive and thrive in competitive European markets.

According to the Global Innovation Index 2021 (GII 2021), Bosnia and Herzegovina was ranked 75th out of a total of 132 observed countries. The research and development financing gap in Bosnia and Herzegovina in the short (2023-2025) and long term (2026-2030) is estimated at BAM 50 million and BAM 208.4 million respectively[18].

Insufficient funds are the most common reason for the lack of innovative activities in the private and public sectors in the country. Due to lack of skills, a fragmented labour market and a low level of integration into global knowledge flows and value chains, foreign direct investments do not target knowledge-based sectors.

Despite the evident need for greater investment in research and development, sources of financing and available financing instruments in Bosnia and Herzegovina remain quite limited. Therefore, in the coming period, it will be necessary to increase public investments in research and development from the budgets of all levels of government and at the same time encourage financing for research and development from additional sources, including those from the private sector.

Finally, by strategically investing in research and development activities of educational institutions, innovative study programmes, encouraging larger innovative processes and products, through innovation funds to increase the efficiency of public enterprises, by establishing scientific innovation funds and incentivizing students at the tertiary level of education through scholarships, the outflow of talent will be reduced and greater innovation and competitiveness encouraged.

[18] BiH Development Finance Assessment, UNDP, April 2023.

PRIORITY FINANCING INSTRUMENTS TO SUPPORT ACCELERATED SDG ACHIEVEMENTS IN BOSNIA AND HERZEGOVINA

The heart of the SDG Financing Framework is the development, piloting and establishment of key financing instruments to support accelerated SDGs attainment and sustainable development in Bosnia and Herzegovina. The Financing Framework sets out priority main, complementary and longer-term financial instruments. The main instruments include **strategic investment funds (SIF), syndicate loans, SME Apex Financing Structure and SDG bonds in Bosnia and Herzegovina.**

As capital and financial markets develop, complementary and longer-term instruments will be scaled, increasing financial inflows from the private sector and other sources contributing to the SDG Framework outcomes in BiH.

MAIN FINANCING INSTRUMENTS FOR SDG PRIORITY SECTORS

STRATEGIC INVESTMENT FUNDS

The SDG Strategic Investment Fund (SIF) is a financing instrument intended for investing in projects that contribute to the achievement of the Sustainable Development Goals in accordance with Agenda 2030. Funds of this type invest in various areas, such as clean energy, sustainable agriculture, education, health, transport, maintenance of water resources and sanitary infrastructure, and the primary goal is to achieve a positive social, economic and environmental impact. The SIFs are usually formed within government bodies, international organizations or corporations, and their establishment is supported by international financial institutions.

The SIF most often functions by collecting funds from investors, which are then invested in various projects that contribute to the Sustainable Development Goals. These Funds are professionally managed and usually have teams of experts who assess investment opportunities and manage an investment portfolio, thus imitating the operation of a private investment fund.

In the context of Bosnia and Herzegovina, the SIFs, once established, would collect significant financial resources from public, private and other sources with the aim of securing and crowding in financial resources for directed and concentrated financing of strategic projects, **primarily energy and infrastructure projects, and also digitalization projects**. The SIFs would have a threefold objective: maximizing financial and socially acceptable returns and attracting domestic and foreign capital.

With the inclusion of the principles of sustainable development (ESG[19] and other relevant standards) in the SIFs, and with a targeted focus on environmentally friendly (priority) projects, the SIFs would generate significant catalytic and socio-economic development effects in the priority areas (defined in this SDG-FF). They would make a significant contribution to achieving (measurable) results within defined priority areas which contribute to the attainment of the SDGs in BiH. In addition, through the fund's multiplier effect and the multiplier effect of the SIF-financed investments, they would contribute to strengthening the fiscal space, primarily within the priority sectors, but also through spillover to other

[19] Environmental, Social and Corporate Governance (ESG), woven into business models of organizations to create value for all stakeholders (clients, employees, suppliers, creditors, local communities, social partners, etc.).

sectors relevant for sustainable development[20]. At the same time, the SIFs would significantly contribute to the increase, integration and deepening of the market, the stock exchanges and, in general, to the strengthening of capital flows in Bosnia and Herzegovina.

The possibility of establishing the SIFs exists at different administrative levels in Bosnia and Herzegovina, including the BiH, entity or cantonal levels, and they could potentially be incorporated into the existing entity-level development banks or the funds they support. The model and mode of operation of the SIFs would be decided on the basis of the strategic planning system at each level of government in Bosnia and Herzegovina, and feasibility studies on the approach, method and modalities of setting up the SIFs, which would be conducted in accordance with the best international and domestic practices and the domestic regulatory framework.

The size of the SIF would be aligned with the size of the Gross Domestic Product (GDP) of the level of government that sets up a SIF, with a size of around 3% of GDP being recommended. In the case of the Federation of Bosnia and Herzegovina, the size of the SIF would be BAM 543.6 million, and in the case of the Republika Srpska, it would be BAM 420.2 million. The minimum and maximum ticket size of an investment project which would be financed from the SIF's financial resources would be 2-20% of the total assets of the SIF. In the case of the Federation of Bosnia and Herzegovina, the SIF could provide loans to projects worth BAM 10-100 million, and in the Republika Srpska BAM 8-84 million. The SIFs would allocate their resources as investment in shares of companies or projects or as loans. Part of the raised capital and earned income, would be used to finance the SIF bodies, usually in the amount of 2.0-2.5% of the size of the SIF's capital.

The SIF would be established through two key phases, namely, through the first phase from 2024 to 2026 (3 years) and the second phase from 2027 to 2030 (4 years). In the first phase (2024-2026), the SIF would be established as a public or mixed SIF, depending on the structure of public and/or private sources of financing. During the first phase, the SIF's management and operating model would be defined on the basis of the feasibility study and then piloted, with (pilot) financing of the key strategic projects in the priority areas. When creating a SIF, for the purpose of ensuring knowledge, skills and procedures in the area of identifying, assessing, managing and monitoring the progress of the implementation of financed development projects in the priority areas, and mobilizing external financial sources, it is recommended that a renowned AAA rated international development bank (e.g. KFW, EIB, etc.) be included in the first phase (2024-2026). The presence of an international development bank with an AAA rating would imply its managerial and financial involvement in the financing of the SIF and would be regulated in accordance with the international and domestic regulatory frameworks. During the first phase, in addition to focusing on strengthening the operational and financial functions of the newly established SIF and initial financing of a smaller number of strategic projects, the SIF would work intensively on elaborately preparing for the more complex and financially and operationally more ambitious second phase (2027-2030). During the second phase, significant new sources of financing would be intensively mobilized from private and other sources (e.g. private sector investments in the SIF, using credit lines of international financial institutions, attracting donations from bilateral sources, etc.). During the second phase (2027-2030), the SIF would be gradually and progressively increasing the financial volume and directing financing to more complex and financially more

[20] Fund multiplier means the ratio of one BAM from the public sources to several BAM from private sources. In the example of project finance to be developed by the SIF, the investment multiplier of the SIF for the BiH Federation and the Republika Srpska would be 4, i.e. for one invested BAM of the SIF, another four BAM would be collected from other sources (most often bank loans, less often through the issue of project bonds), which is in line with the practice of project finance that the project developer provides 20% of the funds in the form of equity capital, while the remaining 80% is secured through the market.

demanding development projects, which would generate significant returns, but also the yield for investors (alongside control of investment and other risks systemically ensured within the SIF).

With the growth of the volume and quality of (bankable) strategic projects, which would be financed from the SIF support funds in the second phase (2027-2030), the SIF would gradually expand financial sources also by issuing the SIF bonds in accordance with ESG principles and international standards and practices for the issuance of environmental bonds. At the same time, in the second phase (2027-2030), through a more progressive opening towards private investors, international and domestic financial institutions, the SIF, along with re-investment of (public and private) funds, would intensively attract foreign co-investors to invest in projects important for sustainable development in Bosnia and Herzegovina.

Each level of government in Bosnia and Herzegovina that sets out to establish a SIF will define the specific management and organizational modality of the SIF. In the case of blended financing solution for the establishment of the SIF, i.e. significant participation of the public and private sectors, it is recommended that the SIF be founded as an investment company, i.e. as a joint stock company, which is possible under the existing laws on economic operators in Bosnia and Herzegovina.[21] If a different organizational and management modality of the SIF is chosen, the founder will comply with the recommendations from the feasibility study and the principles of sustainable development (ESG and other relevant standards). On behalf of each level of government that sets out to establish a SIF, the holders of controlling rights would be the line ministries that fit into the SIF's mandate. Depending on the specific arrangement of each level of government establishing the SIF, the term of operation of the SIF (open/closed, unlimited/limited) will be considered in the feasibility study prior to the SIF establishment and set in accordance with the relevant regulatory framework in Bosnia and Herzegovina, and the best international practices.

Each SIF would adopt and develop a modern approach to project financing, conducting a specific analysis (cost-benefit analysis, etc.). In the first phase, first providing support for smaller (bankable) projects, the SIF, supported by the partner development bank, would establish the necessary business and risk management models, and prepare an approach for the second phase, in which, along with strengthening financial sources, the focus would be on financing large, well-prepared (bankable) projects. In the second phase, the SIFs would invest intensively or provide financing to enterprises on a commercial basis to help scale up and develop the economy in the priority sectors, such as renewable energy sources and green infrastructure (e.g. large-scale solar and wind farms), and large-scale digitalization projects. In the second phase, the SIF would gradually test and introduce other forms of blended or hybrid financing, including encouraging PPP arrangements as a form of blended financing.

With this approach, the SIFs, in addition to contributing to sustainable development, would also influence the change in the investment environment in the country, deepening financial markets and acting as a means of attracting foreign direct investment, while at the same time harmonizing and applying the European standards of green and sustainable bonds, the EU taxonomy for sustainable activities and climate change mitigation and adaptation standards, and also promoting corporate reporting on corporate sustainability, sustainability preferences and fiduciary duties.

[21] Law on Economic Operators of the Republika Srpska ("Official Gazette of the Republika Srpska", Nos. 127/2008, 58/2009, 100/2011, 67/2013, 100/2017, 82/2019 and 17/2023); Law on Economic Operators of the Federation of Bosnia and Herzegovina ("Official Gazette of the FBiH", Nos. 81/2015 and 75/2021 of 22 September 2021) and the Law on Enterprises of the Brčko District of Bosnia and Herzegovina-consolidated version (Official Gazette of the Brčko District of Bosnia and Herzegovina, No. 49/11).

The indicative (illustrative) structure and financial parameters of the SIFs recommended for the level of the Federation of Bosnia and Herzegovina and the Republika Srpska are shown in Figures 1 and 2. A similar approach can be applied at other levels of government (cantons or groups of municipalities and cities) with the SIF's financial volume appropriate to the fiscal potential and other sources of financing of the founder.

The matrix of the SDG Financing Framework in Bosnia and Herzegovina (in the annex to the Framework) contains the proposed measures and recommended activities for the establishment of a SIF which can be applied at all levels of government in Bosnia and Herzegovina. It is important to emphasize that a feasibility study on the approach, method and modalities of establishing the SIFs, in accordance with the best international and domestic practices and the existing domestic regulatory framework, would provide a clear picture regarding the most efficient way and the possibility of organizing the proposed financing instrument, as well as the actual financial allocations of each level of government (SIF founders) within the first and second phases of the implementation.

Figure 1 – Proposed SIF approach for the BiH Federation

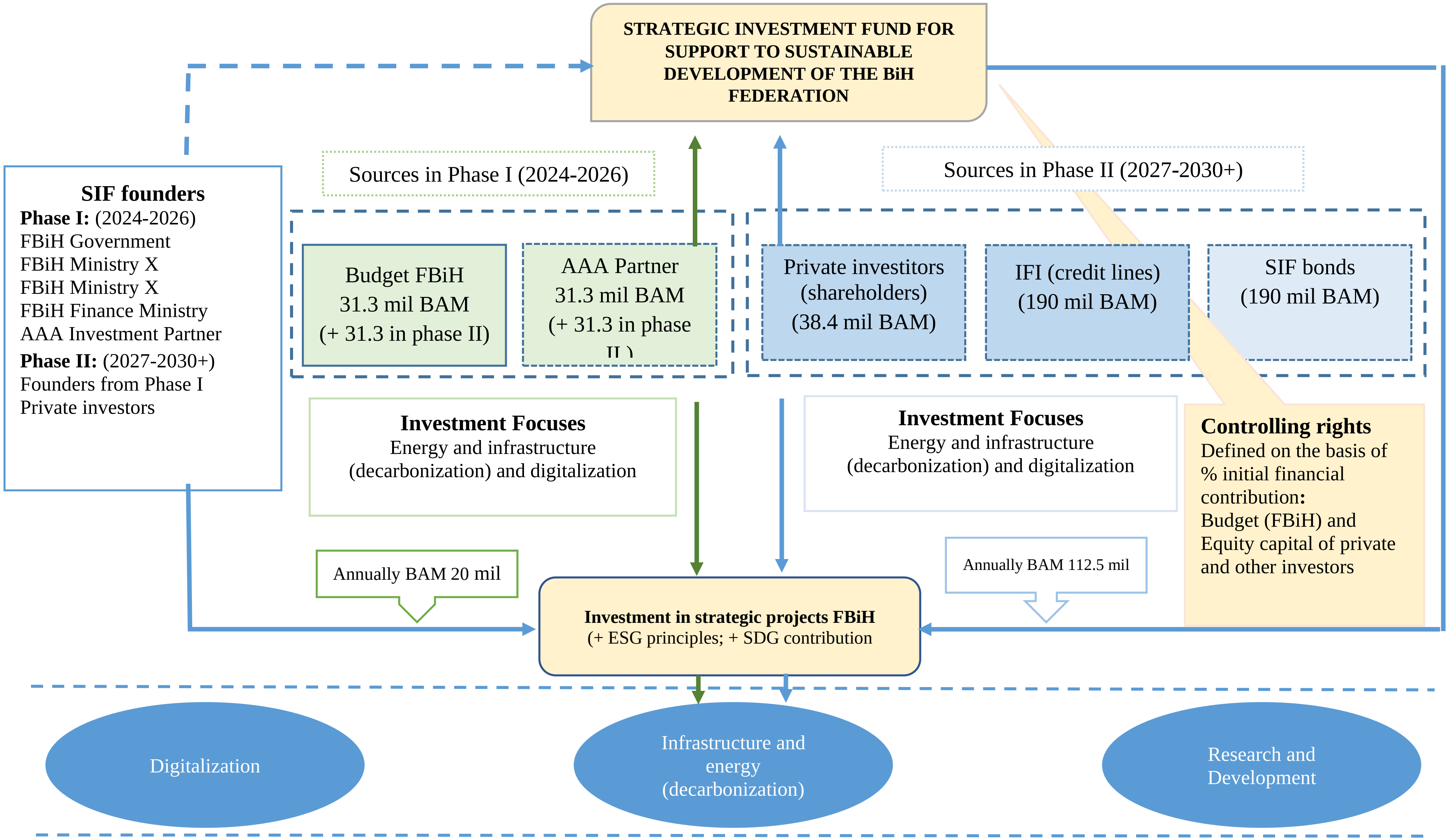
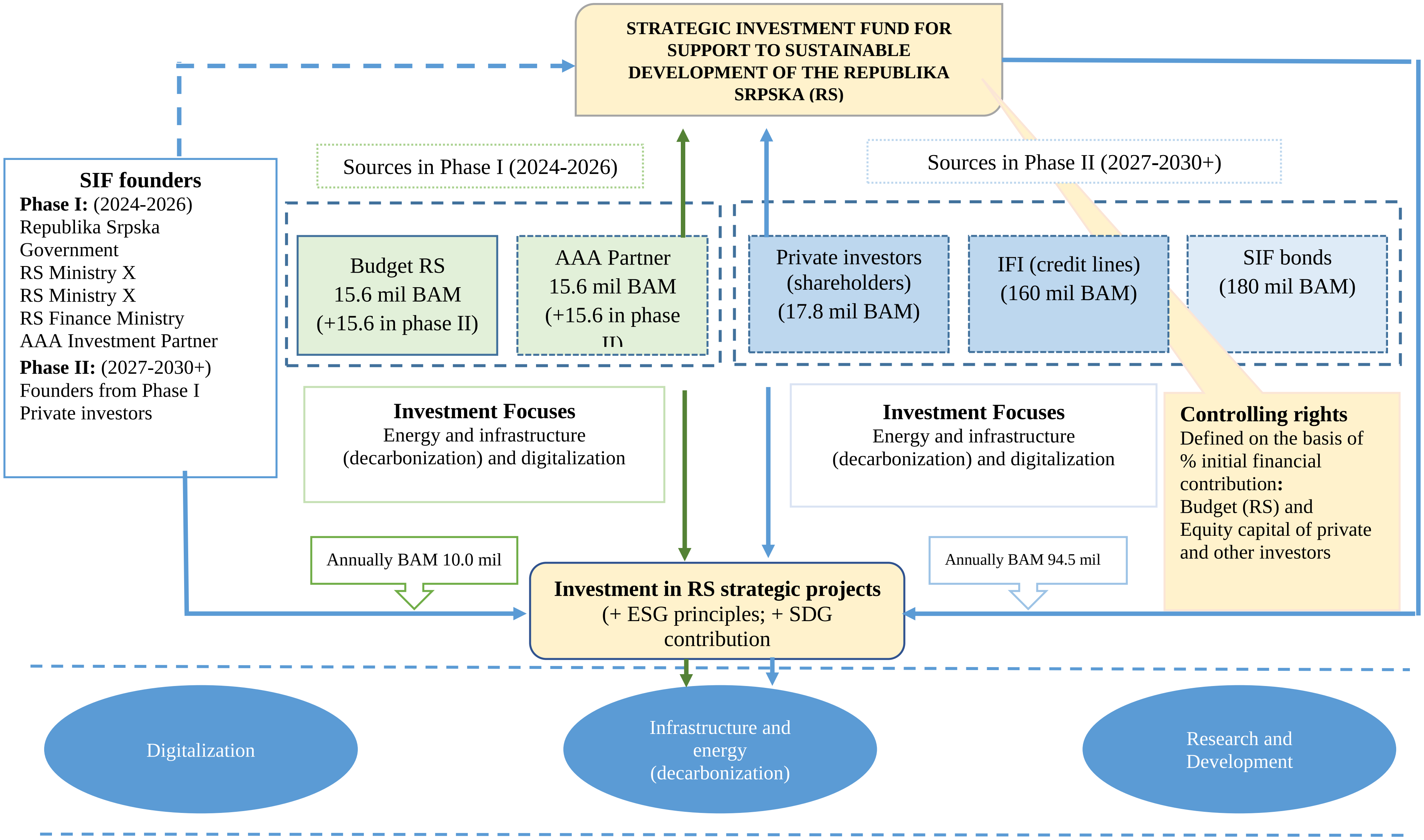


Figure 2 – Proposed SIF approach for the Republika Srpska



(GREEN) SYNDICATED LOANS

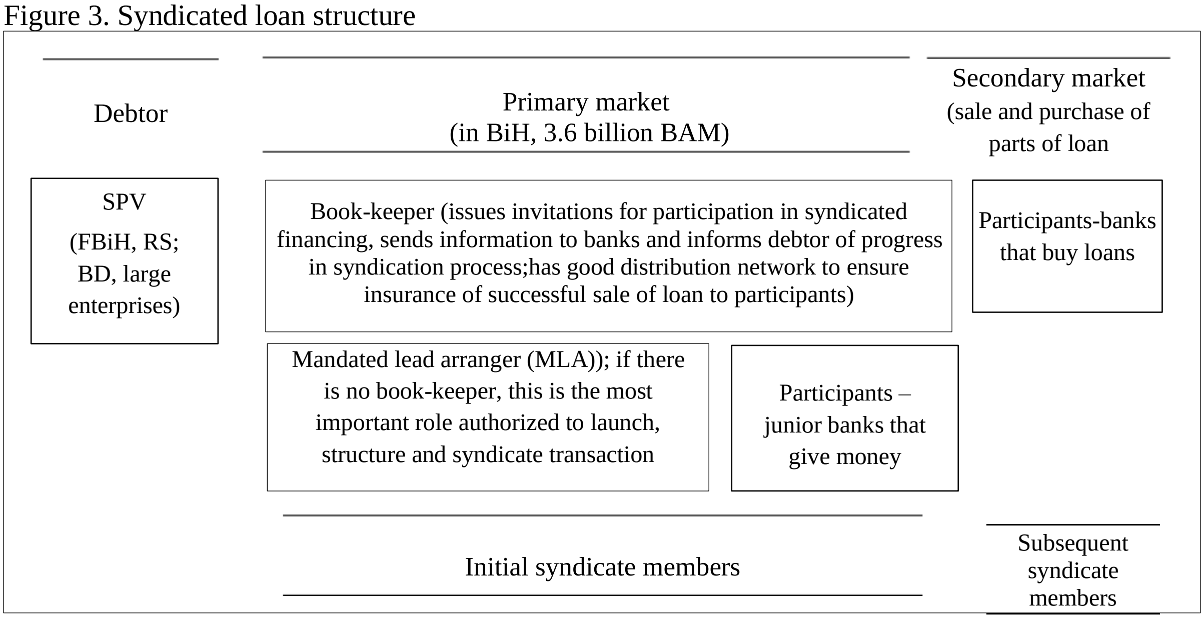
It is evident that the interest and funds for promoting commercial solutions that can close important financing gaps in infrastructure, climate change and social services, are increasing. Among the Sustainable Development Goals which capture slightly more attention of commercial banks are SDG 8 (economic growth and decent jobs), SDG 12 (responsible production and consumption) and SDG 13 (climate), because their attainment will create sufficient cash flow for loan repayment. Also, most financing mobilized from the private sector, such as guarantees, syndicated loans, credit lines, direct investments in companies and shares in collective investment vehicles in areas with clear commercial opportunities (such as energy, industry and mining, and construction) are achieved precisely through syndicated loans and credit lines.

It should also be noted that syndicated loans were already used in Bosnia and Herzegovina, and according to the International Monetary Fund (IMF) data for the period 1994-2014, 28 cross-border syndicated loan deals were signed, which means that there are no regulatory or legal obstacles to their scaling. Also, Bosnia and Herzegovina already has commercial banks that by their financial capital and financial strength can serve as syndicated loan arrangers. In this regard, it is worth mentioning that banks have over BAM 3.6 billion in surplus funds above the required reserves (i.e. BAM 6.5 billion with required reserves, while there are no reserve requirements for the establishment and functioning of the SIF). Attempts are made to activate part of these funds through syndicated loans, SDG bonds and/or other financing instruments.

It is estimated that during the first phase (2024-2026), around BAM 192 million would be collected through this financing instrument for SDG financing, which would be used to finance physical infrastructure, while in the second phase (2027-2030), BAM 345 million would be collected and also directed toward financing infrastructure.[22]

The procedure for concluding a syndicated loan agreement is usually initiated by the borrower and the bank that plays the role of lead arranger or lead partner. The structure and roles of individual syndicate members are determined on the basis of the commercial viability of the project (net present value, financial rate of return, discount rates, etc.), project management and safeguards arrangements, of the sector and cost and risk structures.

Figure 3. Syndicated loan structure



[22] BiH Development Finance Assessment, UNDP, April 2023.

Bearing in mind that the borrower of a syndicated loan can be a company/corporation, but also the government as the bearer of a large project, it is clear that there is a considerable potential for scaling this financing instrument for support to key infrastructure investments, large digitalization, energy transition and other projects. Also, in this way, funds can be secured for public investment projects lacking finance that commercial investors, e.g. commercial banks, are interested in.

It can certainly be expected that the use of this financing instrument in Bosnia and Herzegovina will be led by the private sector, corporations, authorities and ODA partners, depending on the demand and the nature of the investment to be financed. International financial institutions can also actively engage through cooperation with the commercial banks, impact investors, institutional investors and development finance institutions to co-finance certain investments as syndicated loans. In addition, engagement with international financial institutions (such as the European Bank for Reconstruction and Development - EBRD) would help to identify potential financing for projects that are not financed by commercial or investment banks. There is also room for the development of cross-border syndicated bank loans.

Regarding technical aspects of the realization of the syndicated loan agreement, they usually include the following steps: (a) negotiation on loan terms and a loan amount, an interest rate, the loan repayment terms and method, etc. (while focusing on the elements that make them suitable and flexible in terms of supporting the SDG Framework); (b) forming a syndicate of lenders and arranging details of the financial obligations of each lender; (c) signing a syndicated loan agreement detailing all terms and obligations of the borrower and lenders; (d) transfer of funds to the borrower (all at once or in several transactions, depending on the agreement); (e) maintaining accounts through which lenders and the borrower monitor the progress of the project or transaction they are financing.

As multiple lenders contribute to a syndicated loan, the loan can be structured into different types of loans and securities. Different types of loans also offer different types of interest, such as fixed or variable interest rates, which makes them flexible in terms of supporting the SDG Framework.

It should be kept in mind that syndicated loans usually carry a lower interest burden compared to unilateral loans. However, fees, which can exceed the amount of interest, are not an uncommon occurrence, which should also be taken into account.

Regarding possible risks, the most significant risk is that the borrower will not repay the principal and/or interest on the loan on time. In that case, the risk of nonperforming loan could in most cases be most visibly expressed by the public rating published by credit rating agencies, which reflects the agency's opinion on the collateral coverage of the loan, seniority in the company's capital structure (typically senior secured), trends in industry and corporate governance, among other factors (S&P, 2017).

SDG BONDS

SDG bonds are fixed income debt instruments which are becoming an increasing source of funds for financing the Sustainable Development Goals. It is a financing instrument that can be piloted and scaled in Bosnia and Herzegovina and directed towards several Sustainable Development Goals, primarily in the SDG priority sectors: digitalization, energy and infrastructure, but also in other thematic areas (e.g. gender bonds, digital transformation, blockchain, climate, green development and ecosystem development).

In the context of Bosnia and Herzegovina, there is undoubtedly a potential for establishing a wide investment portfolio for the achievement of the SDGs, including corporate SDG bonds (non-financial), SDG bonds of banks and financial institutions, SDG asset-backed bonds and project bonds, as well as SDG bonds of all levels of government.

The advantage of SDG bonds is that they can secure significant new financial flows for digitalization, energy and critical infrastructure in Bosnia and Herzegovina. Investment in bonds can also offset the decline in foreign direct and portfolio investment inflows, with recent issues largely underwritten by foreign investors.

From the issuer's point of view, SDG bonds are a useful financing instrument because they provide a direct source of financing in support of the achievement of the SDGs, increasing fiscal resources targeting key objectives, while supporting a new approach to sustainable financing that can be useful for introducing other instruments. In this way, the bonds would facilitate the transfer of funds from private funds to finance public programmes focusing on the SDGs.

There are no formal obstacles in terms of regulatory requirements for SDG bond issuance, since the bonds are already issued in the financial markets in Bosnia and Herzegovina, and hence no regulatory changes are required. However, given this is a specific financing instrument, the adoption of guidelines for the issuance of SDG bonds would be useful as a guarantee of transparency and accountability.

The SDG bonds issuance procedure would take place in stages, namely: the feasibility stage, the pre-launch stage and the launch stage. The feasibility stage includes exploring the reasons for bond issuance, selection of a project, gathering information for analysis and the beginning of coordination of actors. The pre-launch stage includes appointment of key advisors, selection of a bond framework, risk management and establishment of contact with investors. The issue launch stage includes the actual launch, marketing and discussions with potential investors and the final pricing and the bond issuance closing. It should be noted here that the SDG bond issuance certainly implies post-issuance activities, including monitoring and reporting on the project performance and preparation for the future transition.

The value of the bond issue would depend on targeted SDGs (i.e. climate action, renewable energy sources, gender action, etc.), but the bond issue would allow entities to tap into global private capital markets to finance the SDG-related programmes focusing on improvement of the quality of life and livelihoods. Since the development of the SDG bonds requires the establishment of a credible theory of impact on the Sustainable Development Goals, it is to be expected that due to the fixed coupon and fixed maturity date, demand for these bonds will likely be high.

Global practices and data suggest that the total value of the thematic bond market is approximately USD 2.8 trillion, with green bonds accounting for approximately 57% of the total thematic bond market. In this context, public sector bodies as well as private sector organizations in Bosnia and Herzegovina could issue bonds for the purpose of financing the Sustainable Development Goals (SDGs), primarily the priority ones. When issuing the SDG bonds, a system would be set up to measure the achievement of the SDGs for which the collected funds are used, and as part of that, key performance indicators would be defined and the public and investors would be kept informed on a regular basis.

The first step would be a pilot issue, focused on research and development (more precisely, on the development of scientific research infrastructure), which is one of the priority SDGs.

During the first phase of the SDG realization (2024-2026), it is estimated that around **BAM 52 million** could be collected in this way. **During the second phase** (2027-2030), **BAM 163 million** would be collected through bonds issuance. Bonds would be issued also by the commercial sector.[23]

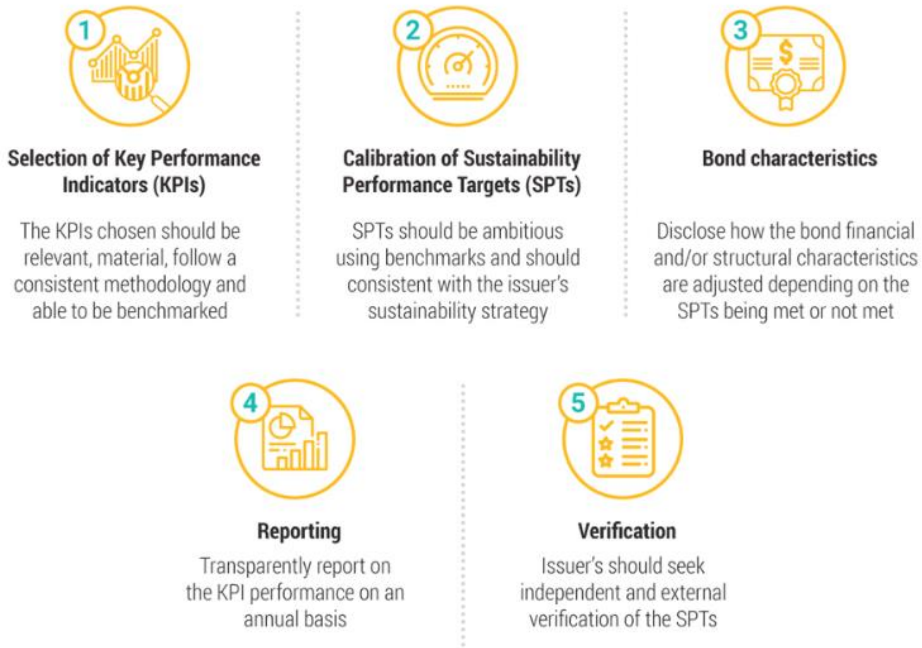
The SDG bonds would be placed **on the domestic market** through issues in tranches of **BAM 25-50 million**, for a term of three to seven years, in accordance with the issuer's needs and the time preferences of commercial banks as targeted key customers.

Since global standards for SDG bonds have not yet been developed (unlike those for green, social and sustainability bonds), when issuing SDG bonds, UNDP's SDG Impact Standards for Bond Issuers would be used in order to signal to potential investors that the approach to bond issuance is serious, while the technical support for the issuance of these bonds would be provided by UNDP.

From the perspective of the concrete application of this financing instrument, the Ministries of Finance would lead the process of developing SDG bonds. Namely, there are several criteria that these bonds must meet in order to be considered sustainable. This includes compliance with the principles of sustainable development, transparency regarding the purpose of funds and their impact and regular reporting on the results of the projects financed by these funds[24].

In technical terms, this process of compliance with the principles would also require a "third party opinion" from specialized institutions, such as Sustainalytics Ltd. (UK), which would ensure that the bond framework for the SDGs is credible, effective and aligned with the Sustainability Bond Guidelines, the Green Bond Principles and the Social Bond Principles from 2021. The following Figure shows the key characteristics of sustainability-linked bonds.

Figure 4: Characteristics of the sustainability-linked bonds



[23] BiH Development Finance Assessment, UNDP, April 2023.

[24] Under Sustainability-linked Bond Principles (SLBP), sustainability-linked bonds are bond instruments with financial and/or structural characteristics that depend on whether the issuer is achieving pre-defined sustainability/environmental, social and governance (ESG) objectives and that comply with the five fundamental components of SLBP . With these bonds, the issuers expressly undertake to improve the sustainability outcome(s) by a predefined deadline. Income from SLB has a general purpose and therefore, the use of income is not a determinant of their categorization.

Regarding the risk of SDG bond issuance, it depends, above all, on the level of public debt sustainability determined by the IMF and the credit rating agencies.

APEX FINANCIAL STRUCTURE FOR SMALL AND MEDIUM-SIZED ENTERPRISES

When we talk about Apex financial structure for small and medium-sized enterprises (SMEs), we mean the so-called second-tier fund (or "wholesale" fund) that directs public resources to multiple retail finance providers - usually lenders (banks and microcredit organizations) - in one financial market. Apex financing facility most often grants loans, but can also offer loan guarantees, equity investment and grants to support operational costs and technical assistance. By its nature, Apex is not necessarily and always an independent institution, but can be established within a larger organization, such as a development bank or some other financial institution.

Strengthening the financing of SMEs - including micro enterprises - is also a priority of the SDG Framework in Bosnia and Herzegovina and development strategies and other relevant strategic documents of the levels of government that establish and implement it, and the lack of dedicated SME financing is often described as the "missing middle" in the financial markets given the size of the credit gap. Furthermore, it should be borne in mind that the majority of SMEs in BiH have difficult access to financing and dedicated products of commercial banks, while at the same time, microfinance institutions (MFIs) usually lack enough capital to approve collateralized loans to SMEs and, by definition, are risk averse.

The target areas of investment through Apex financing facility would focus on SME financing in the areas of the knowledge economy, energy, agriculture and the environmental protection. In this regard, the Apex facility would directly aim at the priorities set in the SDG Framework in Bosnia and Herzegovina, directly following the "leave no one behind" principle and addressing the needs for a society of equal opportunities/increased financial inclusion but also showing links with good governance and smart growth.

By applying the Apex financing facility and strengthening the SME financing, the productivity of the economy in Bosnia and Herzegovina will increase, thereby increasing competitiveness and exports. In this regard, mapping of value chains will be organized, following the concept of smart specialization of EU regions. With a focus on cities-regions (that is, the cities centres of regions, i.e. university centres) in this way, competitive advantages would be established, and leaders of development and the method of supporting the development of the value chain would be identified. At the same time, development leaders are understood to mean companies that achieve or have the potential to achieve significant exports to foreign markets and become a leading actor in certain global niches.

It is estimated[25] that the Apex financing facility in Bosnia and Herzegovina would be activated **in the second phase** (2027-2030), through which **BAM 50 million** would be collected from external, non-credit sources (e.g. from the European Union funds and funds which will be used as grants)[26]. The funds collected for the Apex fund would be invested in the value chains of cities-regions, primarily to improve productivity and competitiveness in order to become as competitive links of the respective value chains as possible[27].

[25] BiH Development Finance Assessment, UNDP, April 2023.

[26] Most funds start with a market capitalization sufficient to secure the interest of private financial institutions, where the Apex's growth will be determined on the basis of market performance. Apex financing facilities receive significant support from the EU institutions, the World Bank/IFC, KfW, USAID, bilateral agencies and the Consultative Group to Assist the Poor (CGPA). The EIB is also an active investor in the Apex financing for SMEs.

[27] In the first phase (2024-2026), the Apex instrument would be piloted in the Brčko District and/or in one or more cantons in the Federation of Bosnia and Herzegovina through interested MFIs.

In addition, the application of the Apex financing facility would enable participating banks and microfinance institutions to lend under normal market conditions, without risk, in order to encourage the participating banks to further lend to SMEs for priority sectors. In this way, a significant multiplication of funds could potentially be used in the medium term, which would provide a sustainable source of capitalization for SMEs.

There are no regulatory obstacles to the application of the Apex financial facility in Bosnia and Herzegovina, and all that is needed is a consensus among key investors and consideration of the exact focus on the Apex fund in terms of targeted activities and fund management. Considering the number of SMEs in the country, the initial capitalization of the fund in the amount of BAM 50 million would be achievable if it is linked to the SDG Framework, the Paris Declaration, the EU Green Deal and integration into the European Union market.

The technical aspects of the establishment and application of this financial instrument in Bosnia and Herzegovina include Apex as a stand-alone structure or, in accordance with the laws on economic operators in BiH, as a limited liability company (LLC) fully owned by the respective levels of government. One possibility is to establish structures within which the work of Apex would be supervised by the board of directors, composed of domestic investors and the most important (anchor) financiers.

As it is estimated that the Apex financing instrument would be active in the second phase, in the coming period it is necessary to work out the details of its establishment and implementation, in accordance with the best international practices and the existing regulatory framework for small and medium-sized entrepreneurship in BiH.

COMPLEMENTARY FINANCING INSTRUMENTS SUPPORTING THE SDG ACHIEVEMENTS

Greenhouse Gas Emissions Trading System

The European Union launched the emissions trading system (ETS) in 2005 in order to reduce CO2 emissions in the economy, which are generated by polluters such as: power plants, factories and airplanes. The system is governed by the “polluter pays” principle and by introducing ETS II by 2030, obliges, or will oblige, power plants, factories, airline and maritime companies, communal waste incinerators, road transport and buildings, to have a permit for every ton of emitted CO2. Otherwise, polluters (i.e. industrial firms, power plants and airline companies) have to buy them at auctions. The price depends on supply and demand, and during 2023 it was in the range of 81-105 euros per ton.

In the CO2 emissions trading system, the relevant authority allocates or sells a limited number of permits that allow a discharge of a specific quantity of a specific pollutant over a set period of time. Thus, polluters are required to hold permits in amount equal to their emissions, and those who want to increase their emissions must buy permits from others who are willing to sell them. Emissions trading is a type of flexible environmental regulation that allows organizations and markets to decide how best to achieve the policy goals.

The EU ETS is the cornerstone of the European Union climate policy and its key tool for the cost-effective reduction of greenhouse gas emissions. It is the first major CO2 market in the world and also the largest. Complementary to the EU ETS is the Carbon Border Adjustment Mechanism (CBAM), which will apply also to Bosnia and Herzegovina unless BiH introduces the ETS, and which will forestall a possible switch from purchasing goods produced in the EU to the purchase of substitute goods produced in BiH and other non-EU countries where a lower (or no) CO2 emission price is charged, or in the EU companies which have moved their production activities to Bosnia and Herzegovina or other countries. Therefore, Bosnia and Herzegovina, as well as other countries in the region, should introduce ETS. At the same time, a registration system for emitters of CO2 (and other greenhouse gases) should be introduced, estimates of annual emissions of these gases should be made, and emission permits should finally be issued alongside the organization of the market of these permits.

Even very conservative estimates establish that the introduction of ETS in Bosnia and Herzegovina would ensure BAM 440 million[28] during the first phase (2024-2026), more specifically, in 2025, and **BAM 1.32 billion during the second phase** of the SDG implementation (2027-2030).

Digital transition scheme as a financing instrument that supports the achievement of the SDGs

In the context of applying the digital transformation scheme as a financing instrument to support the achievements in the SDGs attainment, the main goal is to help the gradual digital transformation of companies as key drivers of sustainable productivity, and municipalities and cities as important promoters of e-public administration.

Namely, the wide availability of advanced digital technologies to companies of all sizes will cause a wave of innovation in the creation of new and improvement of existing products and services, the way of organizing production and launching products and services. On the other hand, companies that lag

[28] (Đuliman A. and others, 2023. Debunking Myths about Energy Transition and Renewable Energy Sources. Sarajevo: RESET).

behind in the application of advanced digital technologies will suffer negative shocks to their business models and bring their survival into question. This is precisely why the establishment of this financing instrument should provide support to companies in all stages of their digital transformation.

In addition, public administration at all levels of government in Bosnia and Herzegovina uses digital technologies to provide services and for own purposes, including publication and dissemination of public information. Furthermore, digital technology allows citizens to obtain the necessary documents without wasting time, energy and other resources, because the documents are issued electronically. It also enables citizens to be informed about the budget, development plans and other important documents. Digital platforms can ensure that even citizens in the most remote communities in the municipality obtain the necessary documents and information. In short, the use of digital technologies for service delivery purposes, especially at the local and cantonal levels, helps the public administration to reduce the administrative burden, facilitate communication with citizens and improve efficiency in a way that better meets the needs of citizens and in a way that is environmentally friendly.

The application of this instrument implies that the digital transition scheme will be published on the appropriate *digital portal* with a questionnaire through which companies and municipalities, cities and cantons, will be able to assess their level of digital readiness and then, on that basis, apply for various types of scheme support. The funds of the scheme would be allocated depending on the size of the company and the size of its export, that is, depending on the size of digitalization and the reduction of administration and paper costs. Grants would cover a certain part of digitalization costs, for example, 80% for short-term consulting support, up to 10-20% for the purchase of digital equipment[29]. Also, as part of the digital transformation scheme, a special grant line would be developed for companies and the municipalities which provide digitalized services to vulnerable groups[30]. In addition, a special line for women's digital entrepreneurship would be developed.

The funds of the scheme would be formed on the basis of the public sector contribution and the funds of ODA partners in order to serve as a catalytic investor in digital transformation. The funds needed for the establishment of this financing instrument would be formed at the entity level (and would have two lines of action - one for companies, and the other one for municipalities/cities in the Republika Srpska/ for the municipalities/cities and cantons in the Federation of Bosnia and Herzegovina) and in the Brčko District.

In the first phase of the implementation of the SDGs (2024-2026), a pilot scheme with an **annual value of BAM 10 million** in the Federation of Bosnia and Herzegovina, and an **annual value of BAM 5 million** in the Republika Srpska, would be formed through this approach. In the second phase (2027-2030), BAM 30 million would be collected annually in the Federation of Bosnia and Herzegovina, while BAM 15 million would be collected annually in the Republika Srpska.

Since it is a new instrument, in the coming period it will be necessary to elaborate in detail the way of its establishment and operationalization, exclusively in accordance with the best international practices and the existing regulatory framework and assigned competences in this area, and to determine the exact financial allocations of each level of government in both phases for the purpose of the most efficient use of the instrument.

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[29] These schemes were developed by *Digital Transition Fund* which is available at link.
[30] For example, USAID launched in 2022 Digital Invest, a new blended finance programme, which mobilizes private capital for digital finance as well as for internet providers that deliver services to excluded population across the world.

Social impact bonds

Social impact bond (or social outcomes contracts) is the bond or financing instrument whose yield will be used exclusively for partial or full financing, refinancing or catalysing fundraising for existing and new projects with a social outcome.

There are a number of deep-rooted challenges that the society in Bosnia and Herzegovina is facing and which, for a number of reasons, remain unsolvable when they are approached in the conventional way of providing public services, and in that context, the possibilities for the establishment and application of this financing instrument should be considered. Namely, social impact bonds can serve as a supplementary means of financing through a pilot social intervention project which will show how the efficiency of providing a certain service can be increased.

Social impact bonds, as a financing instrument, implies a partnership of the public, private and civil sectors. They are outcomes-based contracts that most often use private financing for their implementation. In that case, the private investor is interested not only in yield, but also in the social outcome and so, the private investor will de facto lend funds for the delivery of a certain service, e.g. improving skills through training or research and development activities (due to the insufficient efficiency of the educational and/or research and development sector, as well as the weak impact of the reforms in those sectors, although other examples of social impacts are possible, for example, those that ensure that a member of a vulnerable group gets a job etc.[31]). The respective service will generate a social impact in accordance with the requirements of the contracting authority, e.g. of the employment office, ministry of education, ministry or agency responsible for research and development (i.e. whoever ultimately pays for the delivery of the respective service).

The fundamental difference between a traditional service, which is delivered according to the money-for-service principle, and social impact bonds (social outcomes contracts) is the emphasis placed on outcome in social impact bonds, rather than on input or activity. Investor in social impact bonds will be financially rewarded for their investment in the project if the appropriate outcome is achieved.

The social impact bond issuance takes place in several steps: (i) the bond issuer defines a social objective, the way it will be achieved and the methods of measuring success; (ii) the bond issuer publishes a document ("prospectus") setting out the objective of the bond issuance, the terms and risks of the investment. The prospectus should be transparent and precise, and include all the information relevant for investors; (iii) investors buy the bonds at the price set by the issuer; and (iv) the issuer uses the raised capital to achieve its social objective. Depending on the type of project, this may include the creation and construction of certain (entrepreneurial) infrastructure, investing in social programmes or similar activities.

An issuer is obliged to report regularly to investors on the progress and success of the project, and the fulfilment of the social objectives defined in the prospectus.

When the project is completed, an evaluation of the achieved social outcomes is conducted and if they are achieved, the issuer (government, private company or organization) pays out the yield to the investors. If the project is successful, the investors will receive the yield resulting from the savings that the project ensured to the public sector. If, however, the projects do not prove to be successful in achieving the social outcomes, the investors will not receive a return on invested capital.

[31] For the database of these bonds, see: https://golab.bsg.ox.ac.uk/knowledge-bank/indigo/impact-bond-dataset-v2/.

Social impact bonds can also be used to finance the projects which support women's empowerment, gender equality, strengthening access to sources of financing for this target group etc. and in these cases, we also talk about gender bonds. Gender bonds, which are based on the use of the collected funds, mean that the issuer specifies in advance the women's empowerment projects for which the collected funds will be used and their size (where they will be used in full or in part) [32].

Regarding the introduction of social impact bonds, this financing instrument would be piloted **in the first phase** of achieving the SDGs (2024-2026), primarily <u>for the purpose of creating a Centre of Excellence</u>, in the annual amount of **BAM 5 million** in the Federation of Bosnia and Herzegovina, **BAM 2 million** in the Republika Srpska, and BAM 2 million in the Brčko District.[33] The private companies of value chains that have the possibility to develop a Centre of Excellence in an activity in which the city-region has a competitive (comparative) advantage would apply for funding. In the context of Bosnia and Herzegovina and the introduction of gender bonds, in the first phase of achieving the SDGs (2024-2026), a pilot scheme would be formed with the **annual value of BAM 10 million** in the Federation of Bosnia and Herzegovina, and a pilot scheme with the **annual value of BAM 5 million** in the Republika Srpska.

In the second phase of achieving the SDGs (2027-2030), BAM 20 million in the Federation of Bosnia and Herzegovina and BAM 10 million in the Republika Srpska would be collected annually for financing the development of technological centres of the regions/cantons/entities. Among other things, the funds would be used for the creation of a special line within the digital transition scheme for the purpose of promoting women's digital entrepreneurship.

Since it is a new complementary financial instrument, in the coming period it will be necessary to work out the details of the way of establishing and operationalizing this instrument, exclusively in accordance with the best international practices, the existing regulatory framework and the assigned competences in this area, and to determine the actual financial allocations of each level of government in both phases, in order to maximize the effects of its application.

LONG-TERM FINANCING INSTRUMENTS SUPPORTING THE SDG ACHIEVEMENTS

Public-private partnership (PPP) mechanisms supporting the achievement of the SDGs

Public-private partnership (PPP) mechanisms can be seen as one of the available financing instruments for the SDG achievements. If we take into account the current pace of achieving the SDGs, it is practically impossible to achieve the SDGs without (more significant) engagement of private sector funds, especially for closing the infrastructure gap. In the case of Bosnia and Herzegovina, the infrastructure gap (SDG 9.1 infrastructure development) for the period 2023-2030 is BAM 1.38 billion.

In addition to the importance of PPPs for closing the above-mentioned gap, PPPs are also important for achieving social values, beyond those created by companies when they work completely independently. When the private sector cooperates with the public sector on the creation and development of hybrid arrangements, it is possible to meet a number of social needs that are still unmet in the BiH society, e.g. affordable housing, access to quality education, strong health care. Also, this mixed value approach enables the integration of economic, social and environmental performances. That is why governments and experts around the world promote PPPs as a key strategic instrument in achieving the SDGs.

[32] The gender bond concept is described in more detail in the chapter on long-term financing instruments.
[33] BiH Development Finance Assessment, UNDP, April 2023.

The United Nations Economic Commission for Europe (UNECE) has developed the 'PPPs for the SDGs approach'. Unlike traditional PPPs, focused on value for money, PPPs for the SDGs, focused on "value for people", are significantly more challenging. However, there are numerous limitations and challenges in the application of PPPs for the SDGs because not only economic but also social value should be achieved. Moving PPPs from being a mere financing tool to becoming an instrument that also provides "value for people" requires a special approach.

In this regard, the PPPs for the SDGs is a new inclusive approach that has just begun. There are two types of PPPs for the SDGs: (i) "government pays" PPPs (primarily financed by taxpayers) and (ii) "concessions" (primarily financed by infrastructure users). The PPPs for the SDGs have five specific outcomes: (i) access and equity, (ii) economic effectiveness and fiscal sustainability, (ii) environmental sustainability and resilience, (iv) replicability, and (v) stakeholder engagement. Their achievement is measured by a special, specifically designed methodology, which can be used to precisely measure the contribution of projects, e.g. to poverty reduction, gender equality, empowering vulnerable groups, creation of better conditions for early childhood growth and development, job creation, using renewable energy, development of circular economy, improvement of people's lives, etc.

For the development of PPPs in Bosnia and Herzegovina, of particular importance are: (i) harmonization with EU regulations and practices, (ii) developed investment policy, (iii) developed capacity of the private sector, (iv) developed market, (v) developed legal certainty, and (vi) high transparency of the process. In the context of Bosnia and Herzegovina, this approach can be used to achieve almost all the SDGs, especially for the following sectors: transport, energy, health, education, water supply and sewerage, solid waste management, public lighting.

In the transport sector (roads, railways, airports, urban transport, etc.), the challenge for PPPs is mainly to improve the planning process and establish development priorities in order to determine which projects have the strongest impacts and as such contribute the most to budget savings/effects. It is also important to establish which aspects of the transport system can be improved, made safer, more resilient and which lead to the strengthening of economic networks. It is important to evaluate the social and environmental effects of the project in order to mitigate or even avoid the negative external effects of roads on the environment and society, and at the same time determine which of these roads best meet the long-term transport needs of the region and the country, and which model will best serve citizens through acceptable PPPs, observed, among other things, through the payment of tolls, budget sustainability or their combination.

Bearing in mind the relative underdevelopment of the private sector in Bosnia and Herzegovina (for example, there are only 278 large enterprises, including public enterprises), it is possible to include private enterprises in projects through enterprise consortia.

Transparency, which is one of the fundamental PPP principles, is limited by various regulations, which is why it is difficult for private partners to access the information on PPP projects. Therefore, it is necessary to consolidate the information on PPPs and make it available on certain public web platforms which would have, among other things, a referral function.[34]

Likewise, it is necessary to harmonize the procedures for awarding PPP contracts in order to harmonize practice and increase legal certainty for the private/public partner. This is important both from the point of view of narrowing the field of discretionary interpretations of regulations, and thus of corruption,

[34] For PPP weaknesses in BiH see: IMF, 2023. The Future of PPPs in the Western Balkans. **Washington, D.C.: IMF**

and from the point of view of legal protection of the private/public partner (competent commission or court, or combined).

Preparation of PPP projects requires considerable professional and multidisciplinary skills. Prior to the development of such skills, it would be very useful to develop PPPs at the local level (preferably in the social and health spheres). It would also be useful to consider the idea of establishing PPP Centres of Excellence as knowledge centres that would collect, develop and disseminate good PPP practices. At the same time, special attention would be given to evaluation and risk mitigation methods.

There are three reasons for the development of public-private partnership and its inclusion in the achievement of the Sustainable Development Goals, especially the priority ones:

(i) *complementarity of advantages* (the partnership is established on the complementary advantages of the public and private sectors that work together to attain the Sustainable Development Goals, which otherwise would not be attained or would not achieve such good results if they were realized by only one sector, where in particular research and development, but also infrastructure and energy and digitization should be taken into account;

(ii) *public and private benefit* (the insufficient size of the benefit for achieving the Sustainable Development Goal by one side only prevents its realization, but if the public and private sectors undertake it together, they get more than if they would undertake the implementation alone);

(iii) *economic development* (support for taking advantage of the opportunity to improve economic development with the simultaneous profitability of the private sector, growth of employment and the economic activity of regions/cantons).

In order to see more clearly the reasons for the inclusion of PPPs in the achievement of the SDGs, the proposal is to implement in the first phase of the SDG achievements (2024-2026) a pilot project for the establishment of a research and development centre (RDC) in the activity in which a certain region/canton has a competitive advantage and a leader in development in that area. The RDC would be established by a public agency and a private partner investing funds as project sponsors (shareholders) and managing the RDC. Specific implementation modalities, as well as the selection of pilot projects would be defined on the basis of a feasibility study on the comparative advantages of the region/canton and their most competitive value chains and the cost-benefit analysis of the establishment of the RDC (which should become a legal practice in the evaluation and selection of public investment projects).

Since this is a new complementary financial instrument, in the coming period it will be necessary to work out in detail the way of its establishment and operationalization, exclusively in accordance with the best international practices, the existing regulatory framework and the assigned competences in this area, and to determine the actual financial allocations of each level of government in both phases, in order to maximize the effects of its application.

Energy communities as the SDG support mechanism

The basis for the application of this financing instrument is the global shift from centralized to decentralized production and its distribution. Decentralized energy systems are becoming increasingly important as they help accelerate the acceptance and integration of renewable energy into the energy mix. Therefore, with its Solar Energy Strategy, the EU set the goal that by 2025, at least one renewable energy community will be set up in every municipality in the EU with a population higher than 10,000 inhabitants.

By applying this approach, part of the free funds of citizens and small and medium-sized enterprises will be channelled to setting up energy communities in two forms: (i) setting up citizen energy communities (CECs) and (ii) setting up renewable energy communities (RECs) which may allow small and medium-sized enterprises to participate.[35]

The CEC is a legal entity based on voluntary and open participation, under the control of those members who are natural persons, local authorities, including municipalities or small enterprises, and whose primary purpose is to provide environmental, economic or social benefits to its members or local areas where a CEC operates, not to make monetary gain[36] and who can participate in almost all activities related to electricity generation and consumption.

Unlike CECs, RECs can include generation and consumption of all types of energy (electrical and thermal energy) and have a wider impact on the electricity market than a CEC and can include larger enterprises. On the other hand, however, a CEC can be engaged as a distribution system operator under the general regime or as a closed distribution system operator, while a REC is not expected to perform such an activity.

Even under the current circumstances in Bosnia and Herzegovina, enterprises are investing heavily in the development of their own energy sources, and once they are able to form their renewable energy community, they will be investing even more. The formation of citizen energy communities will be initiated at a later stage of community development when the market price of electricity for households is set. This will encourage citizens to form citizen energy communities, increase energy efficiency, etc.

In the first phase of the SDG achievements (2024-2026), i.e. before the required primary and secondary legislation is adopted at each level of government, the pilot projects for the establishment of energy communities of enterprises (renewable energy communities) in the amount of **BAM 100,000**, to be provided through the ODA programme, would be implemented.

Double-leveraged Mezzanine Finance

Double-leveraged mezzanine finance is a financing instrument applicable to all three priority sectors, especially for very risky activities (e.g. start-up companies). The instrument is most often designed as a public-private mezzanine scheme, intended to finance companies that lack financial resources.

The scheme can be attached to a public (developmental) bank or a commercial bank as a standalone segment of activity. Funds of the scheme are allocated to beneficiaries in the form of loans or equity capital.

For example, it is possible to establish a public-private mezzanine scheme open to small and medium-sized enterprises with insufficient access to capital. The scheme collects its funds in such a way that the public sector provides, say, one third of the funds, and the private sector (e.g. a private bank) provides the remaining two thirds.

The third provided by the public sector would be used as the first loss guarantee given to the respective bank within the observed mezzanine scheme. Furthermore, the enterprise supported by the scheme would establish a project vehicle/ special purpose vehicle. The scheme would support that project

[35] The European Union (EU) has two forms of energy communities: **Renewable Energy Community (REC)** and **Citizen Energy Community (CEC).**

[36] Greece and Portugal are exceptions in the EU as they allow communities to be profit-oriented.

vehicle by issuing a suitable financing instrument (e.g. bonds) so that it could more easily attract private investors, i.e. ensure loans and/or equity capital for the project.

The project vehicle[37] could be financed, for example, in the following way: the project sponsor 10% (own funds invested as equity capital), additional funds obtained from the mezzanine scheme 10% in the form of bonds, and 80% as a loan (from the bank that is the founder of the mezzanine fund).

The interest in establishing this scheme is the development of targeted areas of importance for the development of the economy as a whole (e.g. support for decarbonization of the economy) or its parts which represent a bottleneck of development, and the private sector has no commercial interest in financing its removal.

In the first phase of the SDG achievements (2024-2026), a pilot project of introducing a double-leveraged mezzanine finance scheme would be implemented. The scheme would support enterprises investing in high-risk activity. Each level of government that opts for this instrument would define specific financial parameters and organizational modalities for this instrument on the basis of the results of a feasibility study undertaken in advance.

Since this is a new complementary financial instrument, in the coming period it will be necessary to work out in detail the way of its establishment and operationalization, exclusively in accordance with the best international practices, the existing regulatory framework and the assigned competences in this area, and to determine the actual financial allocations of each level of government in both phases, in order to maximize the effects of its application.

Crowdfunding

Crowdfunding is becoming an increasingly present form of alternative financing, primarily for start-up companies and small and medium-sized enterprises (SMEs), which is based on small investments. A crowdfunding service provider, without taking its own risk, operates a digital platform open to the public with the aim of connecting or facilitating the connection of potential investors or lenders with the enterprises seeking financing. Such financing will be in the form of loans, acquisition of transferable securities or other instruments permitted for the purposes of crowdfunding.

Crowdfunding can be based on lending and/or investing. The provision of crowdfunding services involves three entities: the project owner who proposes the project for financing, the investor who finances the proposed project, and an organization that serves as an intermediary in the form of a crowdfunding service provider that connects project owners and investors through certain Internet platforms. Crowdfunding is based on ownership shares, which is interesting in view of an insufficiently developed capital market in Bosnia and Herzegovina. It is possible to finance start-ups through the respective platforms. Negotiations are conducted on the platforms and if the contract is concluded, all investors receive the same type of shares and at the same price as the main investor who led the negotiations on behalf of the group of investors.

Regarding crowdfunding, regulation is very important in order to prevent money laundering and fraud. In this regard, it is necessary to regulate crowdfunding based on lending and investing, while donor and grant funds will be subject to the standard legal regulation governing commercial transactions.

[37] Usually, the developer, i.e. the company that establishes a special purpose company, provides 15-20% of the value of the project in the form of equity capital, while the rest of 75-80% of the funds is mobilized in the market, most often through a bank loan and less often by issuing bonds on the capital market. The project facility (e.g. a wind farm) serves as loan security until the loan is repaid in full.

In the first phase of the SDGs achievements (2024-2026), pilot projects for the development of crowdfunding platforms would be implemented. Each level of government that opts for this instrument would define specific financial parameters and organizational modalities for this instrument on the basis of the results of the feasibility study undertaken in advance. Since it is an innovative financial instrument, in the coming period it will be necessary to elaborate in detail the way of establishing and operationalizing the instrument, exclusively in accordance with the best international practices and the existing regulatory framework as well as the competences assigned to each level of government.

Gender bonds

Gender bonds are a relatively new instrument within sustainable finance, and therefore there is still no official or universally accepted definition. In principle, they can be defined as bonds that support women's empowerment and gender equality.

They belong to the group of bonds where the method of using the funds intended to support the implementation of gender-sensitive policies, which will be collected through bond issuance, is determined in advance, although gender issues can also be incorporated into outcomes-based bonds.[38]

Globally, gender bonds are increasingly recognized and appreciated as an effective instrument for crowding-in capital and contributing to gender equality. Gender bonds specifically finance projects which support women's empowerment, gender equality and strengthening the target group’s access to finance.

From the perspective of gender equality, women are a particularly vulnerable group in Bosnia and Herzegovina. Empowering them and expanding their access to finance and economic inclusion will contribute to economic growth, especially in this post-pandemic, still vulnerable environment.

Regarding the application of this financing instrument, the issuer of gender bonds can be a company or a public sector institution in Bosnia and Herzegovina if it meets two basic requirements for gender bond issuance: (i) issuance based on widely accepted standards, such as Social Bonds Principles (SBP) or Sustainability-Linked Bonds Principles (SLBP), and (ii) if it is confirmed by an independent and authorized body. Bond buyers are investors (legal entities and natural persons), with a special focus on those socially responsible investors that support gender-sensitive projects.

In the first phase of the SDG achievements (2024-2026), a gender bond issuance scheme would be piloted in support of the implementation of pre-defined gender-sensitive policies aimed at empowering women, gender equality and strengthening access to finance for this target group. Gender bonds would be issued using the pre-defined purpose of collected funds approach. The funds collected through bond issuance would be used to form a special line within the digital transition scheme for the purpose of promoting women's digital entrepreneurship, and, if necessary, also for other purposes which contribute to improving access to financing and thereby to achieving SDG 5 (gender equality).

Bearing in mind that it is an innovative financing instrument, the modality for its operationalization will be worked out in detail in the coming period, exclusively in accordance with the best international practices and the existing regulatory framework, as well as the competences of each level of government.

[38] There are two approaches to issuing gender bonds: (i) the purpose of collected funds and (ii) achieved (pre-agreed) results. Gender bonds based on the approach of the use of collected funds mean that the issuer specifies in advance the projects of women's empowerment that collected funds will be used for and the amount of funds (in full or as a part of the collected funds). The difference between these two approaches is that the first is an instrument that focuses on activities, while the second rewards the achievement of the goals.

Institutional mechanisms of management, coordination and monitoring of the implementation of the SDG Framework in BiH

Strategic Budgeting and Investment De-risking for SDG achievements

Strategic budgeting for the Sustainable Development Goals[39] should be integrated into public finance management strategies, with an initial focus on alignment with the SDG financing needs, introducing an adapted modality of monitoring budget expenditure allocation for the SDGs (budget tagging), and integrating the SDG priorities and financing instruments into strategic planning and public investment planning and procurement, as well as to tracking the outcomes of financing the SDG achievements. At the same time, the processes of medium-term and annual budget planning, as well as reporting, should have a built-in module which ensures the inclusion of the Sustainable Development Goals.

An early priority should be the integration of the SDG Framework priorities, especially into the ERP programming process, as well as the PPP pipeline planning process. An additional priority should focus on budgeting for the SDGs by providing mechanisms for deepening the vertical integration between the SDG Framework and the resources over which the authorities on all levels in BiH have most direct control (the budget and public investment plans) through the strategic planning system. This is crucial because of the importance and scale of public finance, and its potential impact on financial leverage and catalytic effects.

SDG costing methodology should also be piloted, using a bottom-up approach based on the proposed priority sectors, and linked to the proposed SDG localization agenda at all levels. This refers to the development of costing tools for the implementation of SDG's priority interventions as support to the process, and ideally linked to the ERP costing guideline. Finally, the SDGs will be fully integrated into all Citizen's Budgets to ensure that the general public is informed about the localization of the SDGs.

Governance and Coordination Arrangements

Governance and coordination arrangements should focus on mindset change and on delivering tangible and measurable results to execute the SDGs. In this regard, the primary goal is that the SDG Framework in Bosnia and Herzegovina and the SDG Financing Framework are systemically supported, that they are embedded in practice and daily operations at all levels of government in the country.

The SDG Council, comprising representatives from all levels of government in BiH, coordinates, monitors and reports the overall execution of the SDGs in Bosnia and Herzegovina. However, given that meeting the SDGs is not just about financing but also about mind-set change and sustainable development in BiH as a whole-of-society approach, policy coordination, strengthening social dialogue and public-private collaboration are central to efficient coordination of all activities related to the achievement of the Sustainable Development Goals in BiH.

In this context, the following proposals are made for mechanisms, measures and mind-change elements:

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[39] Strategic budgeting helps governments (and others) allocate their resources in line with their goals, for example, achieving the SDGs. By setting priorities (including priority SDGs), it helps to meet the most critical needs first. Also see: [Budgeting for the Sustainable Development Goals](#).

- Strengthen and formalize the main mechanisms of SDG management and coordination by strengthening the coordination of the SDG Council with the representatives of the authorities responsible for development planning, Ministries of Finance and the line ministries at all government levels and permanent working groups/committees and government institutions that are important for the implementation of the SDG Financing Framework in BiH.
- Define the bearers and organize annual meetings with the aim of presenting the results of the implementation of the SDG Financing Framework in BiH to the wider community of relevant actors (e.g. private sector, financial institutions, etc.).
- Define the bearers and establish quarterly coordination meetings with the appointed ERP coordinators and representatives of the authorities responsible for development planning, the Ministries of Finance and line ministries at all levels of government.
- Improve and strengthen mechanisms of public-private cooperation at all levels of government.

MONITORING AND RISK MANAGEMENT ACTIONS

As mentioned above, the Council for Monitoring the Implementation of the SDGs in Bosnia and Herzegovina is responsible for the overall monitoring and reporting on the implementation of the SDG Framework, coordination of the preparation of annual reports and voluntary reviews towards the United Nations.

Reporting on the implementation of the SDG Framework in BiH is conducted through: (i) establishment and updating of an SDG Financing Framework electronic (web-based) Dashboard, (ii) an Annual Report on the Implementation of the BiH SDG Framework, (iii) the Voluntary Review to the UN (2023 and 2027), and (iv) SDG Indicators.

There are inevitably considerable risks in undertaking such a reform agenda, both in terms of financing risks and investment safeguards, but also in terms of failure to achieve the SDGs. Given the balance between market competition and market resilience, following the adoption of the SDG Financing Framework in BiH, a risk management matrix will be developed to support the work of institutions in BiH at all levels of government towards implementing the Framework.

An Annual Report on Implementation of the SDGs Framework in Bosnia and Herzegovina will outline progress towards the determined development pathways, accelerators and drivers, which contribute to achieving the defined targets of sustainable development. An updated Voluntary National Review (VNR) will provide an important basis for reporting progress and challenges to be identified through a Mid-Term SDG-FF Review.

FURTHER ASSESSMENT AND DIAGNOSTICS

The existing SDG Council (or other SDG governance and coordination mechanism that may be established in a later stage) will work with international cooperation partners to identify additional research that is required to promote and deliver the SDGs, e.g. in positioning for the EU Green Deal, blockchain development, deepening of capital markets or on gender equality and social exclusion, as required.

SDG Partnerships and Communication on the SDG Financing Framework

Regarding the partnership for the achievement of the Sustainable Development Goals in Bosnia and Herzegovina, it should be noted that given the current insufficient involvement, there is significant room for the inclusion of domestic and international institutions in the country aimed at providing support for the realization of the SDGs. In this regard, it is necessary to develop an institutional system that will support the SDGs, in order to enable the creation of a stronger partnership for the implementation of a common vision.

This certainly implies the activities on establishing close cooperation with the EU Delegation to Bosnia and Herzegovina and the European Union Member States, in order to integrate the SDG Framework priorities with the ERP through the determination of common priorities arising from Agenda 2030 and the process of European integration. This would also imply the establishment of joint working teams of the EU, the UN and other relevant international organizations and representatives of all levels of government, with maximum use of the adopted system of coordination of the process of European integration in Bosnia and Herzegovina.

Implementation Matrx for the SDG Financing Framework in Bosnia and Herzegovina

The Table below presents the elements of the Implementation Matrix for the SDG Financing Framework, with proposed key policies and strategies, measures for improvement and key activities that need to be undertaken, the bearers of responsibility for their implementation and the expected period of implementation.

Here, it is important to emphasize once again the importance of progress in the implementation of activities from the Financing Framework already in the initial phase for achieving the Sustainable Development Goals. Namely, the more progress is achieved in the first years of the implementation of Agenda 2030, covering the period of eight years (2023-2030), the greater the acceleration dynamics and stronger the impact on the results.

<table>
<tr><th colspan="5">BOSNIA AND HERZEGOVINA: IMPLEMENTATION MATRIX FOR SDG FINANCING FRAMEWORK IN BIH</th><th></th></tr>
<tr><th>#</th><th>Strategy / policy</th><th>Action</th><th>Rationale and key activity to implement an action</th><th>Responsibilities
Bearers of action</th><th>Period of action implementation</th></tr>
<tr><td colspan="4">Overarching Enabling Policies, Regulations and Standards</td><td></td><td></td></tr>
<tr><td>1</td><td>Improve policy making environment</td><td>Improve the policy making in line with the constitutional responsibilities and specificities of each government level</td><td>Following the EU’s approach of smart specialization, it is necessary to address the major structural economic challenges and eliminate key bottlenecks in economic development.

Following the EU’s approach of financial intermediation in EU markets and aiming to increase savings, investments and GDP level, it is necessary to implement the financial reform (to pass laws on credit unions and investment companies, etc.; introduce digital banking, etc.; allow to various companies to deal with the business of international payments etc.).

BiH is vulnerable to environmental shocks, including droughts, floods and earthquakes. To enhance the legal framework, strengthen administrative capacity and monitoring systems, and improve inter-institutional coordination, in line with the Green Agenda for the Western Balkans and the 2050 climate neutrality target.
Activities to implement actions:
- Identify the degree of compliance of domestic and internationally recognized policies (with an emphasis on the inventory of policy and project evaluation mechanisms, and compliance with the EU acquis in the environmental protection, work and management standards)
- Establish the key gaps in the economy (resource, savings and fiscal) and continue to undertake a financial reform (increase the census for banks, introduce non-bank loan and deposit taking financial institutions and investment companies and enhance competition in the payment transactions system with foreign countries)</td><td>Entity/cantonal ministries of the economy
Entity/cantonal ministries of labour
Entity/cantonal ministries of finance
Entity/cantonal ministries of the Environmental Protection
Ministry of Foreign Trade and Economic Relations</td><td>2024-2030</td></tr>
<tr><td>2</td><td>Greening the BiH Banking and Financial System</td><td>Bank for International Settlements (BIS) Network for Greening the Financial System (NGFS)</td><td>To accelerate the scaling up of green finance in BiH and to develop recommendations for strengthening the banks' role for climate change.
Activities to implement the action:
- Increase the understanding of nature-related risks, promote awareness of them, manage them in a coordinated manner by ministries and in line with regulators, and integrate criteria related to nature preservation into strategies and policies
- Develop and apply measuring risks associated with nature preservation and include assessments of these risks in the regulations of financial institutions and in analyses and decisions making
- Increase the capacity of financial institutions to act as a catalyst in the transition to a low-carbon economy (this includes increasing the offer of green financial solutions that can help clients transition to “greener” practices and better cope with climate-related events)</td><td>Banking agencies and entity ministries of finance</td><td>(*)[40]
2024-2026</td></tr>
</table>

[40] **(*) Asterisk indicates the priority actions for the period 2024-2026.**

BOSNIA AND HERZEGOVINA: IMPLEMENTATION MATRIX FOR SDG FINANCING FRAMEWORK IN BIH					
#	**Strategy / policy**	**Action**	***Rationale and key activity to implement an action***	**Responsibilities** **Bearers of action**	**Period of action implementation**
		Establish Innovative and Sustainable Financing working groups	Sustainable Financing Working Group will need to be established to lead the development of sustainable and green finance taxonomies in direct collaboration with the private sector through Joint Committees. **Activities to implement the action**: - Develop a working group and methodological framework for green finance (representatives of banking agencies, securities commissions, ministries of finance, etc.) which will, among other things, analyze the nature-related risks in the sectors that exert the greatest pressure on nature. - Introduce an SDG performance standard for banks, companies, etc. to help them embed the SDGs into management systems and decision-making processes. - Map SDG investors and ways of mobilizing capital from public and private sources for projects and programmes that contribute to nature preservation, establishment of environmental capital and its sustainable use.	Banking agencies and entity ministries of finance	**(*) 2024-2026**
		Gradual transposition of the EU Green Taxonomy Regulation	In order to meet the EU's climate and energy targets for 2030 and reach the objectives of the European Green Deal, it is vital that BiH directs investments towards sustainable projects and activities. For this to happen, either adoption or adapting the Green Taxonomy is essential if the EU Green deal is to be executed. **Activities to implement the action**: - Governments of the entities and BD should ensure that climate risks are assessed, released and mitigated and should adopt a regulation on data publication, according to which financial market actors will report on how their product is aligned with the EU taxonomy. Each financial organization will be obliged to publish in its annual report all turnover as well as all operating and capital expenditures related to taxonomic activities. - Follow the EU directive on corporate sustainability reporting (expected to be adopted in 2023). - Follow the EU Regulation on sustainability-related disclosures in the financial services sector (SFDR) (in force since 10 March 2021).	Entity line ministries	**(*) 2024-2026**
		Introduction of the new approaches and practices to enable better use of the existing and introduction of the new instruments	An overall review and strengthening of financial regulations is required in the light of ushering in a new era of sustainable development financing (e.g. establishing of a new or strengthening of the existing regulations for non-bank institutions, mutual guarantee funds, savings banks, savings and loan associations, financial holding and investment companies, and credit guarantee funds). **Activities to implement the action**: - Ensure that financial organizations identify and improve opportunities related to their products and systems, adjust operations in line with international standards and explore	Entity line ministries	**2024 - 2030**

BOSNIA AND HERZEGOVINA: IMPLEMENTATION MATRIX FOR SDG FINANCING FRAMEWORK IN BIH					
#	**Strategy / policy**	**Action**	***Rationale and key activity to implement an action***	**Responsibilities** **Bearers of action**	**Period of action implementation**
			corporate governance options towards the SDGs, and improve interoperable digital identification documents and data systems. - Take measures to ensure that relevant environmental, social and governance risks are systematically included in credit ratings and rating outlooks in a transparent manner, taking into account further assessment of the European Securities and Markets Authority (ESMA) (2023). - Specially encourage the introduction of innovative financing instruments and programmes for attracting diaspora investments (diaspora bonds of the strategic investment funds, etc.)		
		Adopt EU green and climate bond standards	The establishment of green markets requires the adoption of the European green bond and climate bond standards. Adoption is required to maximize gains from the Green Deal and to better direct financial and capital flows to BiH green investments. **Activities to implement the action**: - Incorporate sustainability policies into the policies of financial institutions and, as part of them, introduce green and climate bond standards as a voluntary standard aligned with best market practice and the EU Taxonomy Regulation. - Entity Securities Commissions should develop indicators of green bonds in line with the practice of the European Securities and Markets Authority (ESMA). - Issue green bonds following verification by external evaluators (registered with the European Securities and Markets Authority (ESMA) to ensure full compliance with the EU taxonomy and business operations in accordance with that taxonomy. - Ensure that detailed reporting provides full transparency in allocation of funds raised by issuing bonds and that the funds collected are allocated exclusively to projects that are aligned with the EU taxonomy.	FBiH Securities Commission, Republika Srpska Securities Commission, Sarajevo and Banja Luka Stock Exchanges	**2024 - 2026**
		Adopt ESG standards	Given the increasing centrality of ESGs in corporate governance and financing, it is necessary to strengthen protection for end-investors and improve the disclosures that they receive from a broad range of financial market participants and financial advisers, as well as regarding financial products, in line with EU standards. **Activities to implement the action**: - Promote ESG standards with a particular emphasis on three frameworks: (i) Global Reporting Initiative (GRI) standards, which are the most widely used globally, (ii) Climate Financial Reporting by the Task Force on Climate Financial Reporting (TCFD), and (iii)) standards of the Sustainable Accounting Standards Board.	Republika Srpska Securities Commission, FBiH Securities Commission, Sarajevo and Banja Luka Stock Exchanges	**(*) 2024 - 2026**

BOSNIA AND HERZEGOVINA: IMPLEMENTATION MATRIX FOR SDG FINANCING FRAMEWORK IN BIH					
#	**Strategy / policy**	**Action**	***Rationale and key activity to implement an action***	**Responsibilities** **Bearers of action**	**Period of action implemen tation**
			- Promote GRI quarterly reporting on sustainability and its equalization with financial reporting, especially in terms of comparability, timeliness, reliability and confidentiality of the presented information. - Introduce ESG reporting for public companies and public development banks, as well as for large companies (over 250 employees). - Support the development of databases for easier quantification of ESG factors, while expanding the list of risks and opportunities by including ESG factors and defining the list of exclusions (for projects that do not meet ESG standards).		
3	***PPP Regulatory Strengthening***	PPP legislative framework additional and continual strengthening in line with constitutional arrangement and responsibilities of each government level (laws, standards, guidelines, taxonomy and transaction advisory) to provide alignment with the EU Acquis Communautaire	PPPs are in the ascendency due to government macro-fiscal challenges, and there is therefore a need to review and upgrade PPP laws, regulations, guidelines and standards, as part of the process of establishing an annual high-quality PPP pipeline of bankable and Value for Money assessments, in line with constitutional arrangement and responsibilities of each government level. **Activities to implement the action**: - Adopt the concept and methodology of the United Nations Economic Commission for Europe (UNECE) called "PPPs for the SDG approach". - Establish PPP knowledge centres and ensure data collection and best examples of PPP implementation in other countries. - Train competent agencies/ministries to be able to adequately assess fiscal costs and risks related to PPP projects.	Ministries of Finance, Audit Offices, Ministries of Physical Planning, Construction and the Environmental Protection	**(*) 2024 - 2026**
Priority sector: Digitalization					
4	***Institutional and political leadership***	Ensure coordinated and harmonized policy making and setting of standards/actions	Digital transformation of the public sector requires harmonized approach and relevant actors with the authority to streamline and steer the process, both through political leadership and decision making, and policy making and setting of standards/actions. **Activities to implement the action**: - Governments of entities/BDs should create an environment for participatory and implementing processes for the achievement of broader social goals based on the public sector digital transformation (including the identification of holders of appropriate offices and their roles in the process), introduce policies, standards and regulatory security, improve collaboration with other levels of government, citizens, innovative companies, etc. and direct the market development towards the achievement of the priority SDGs, empower citizens and respond to the challenges brought by digitalization, especially finance. - Governments of the entities/BD should create citizen-oriented management systems (trust in the digital transformation of the public sector and the data ecosystem it creates	Prime Ministers, line ministries/ institutions	**2024 - 2030**

BOSNIA AND HERZEGOVINA: IMPLEMENTATION MATRIX FOR SDG FINANCING FRAMEWORK IN BIH					
#	**Strategy / policy**	**Action**	***Rationale and key activity to implement an action***	**Responsibilities** **Bearers of action**	**Period of action implementation**
			rests on transparency and legalization of data management and protection and responsibility for its use) and ensure full responsibility and an adequate system of two-way digital communication from management to users (it is crucial that an individual can demand protection and correction if his or her rights have been violated).		
5	***Alignment with relevant requirements and standards of the EU Digital Strategy***, in line with constitutional arrangement and responsibilities of each government level	Align with the relevant EU legislation, EU strategic and operational framework	It is necessary to align all the policies, strategies and action documents at BiH, entities and cantonal levels with the relevant strategic frameworks and sources of standards. The laws would regulate electronic identification, the use of data on natural or legal persons, as well as the use of trust services in electronic transactions and documents. **Activities to implement the action**: - Adopt the laws on artificial intelligence that will bring strict regulation of (high-risk) artificial intelligence systems and ban risky practices. - Adopt the laws on data (which will regulate access to data in business-to-business (B2B), business-to-client (B2C) and business-to-government (B2G) relationships, as well as the change of cloud service providers and on data management (which will ensure trust and facilitate data exchange). - Adopt the laws on digital markets (which will create fair and competitive markets for innovation, growth and competitiveness in the digital sector) and digital services (which will create a safer digital space where the rights of all users of digital services will be protected). - Adopt the laws on cyber security and security of network and information systems. - Draft and adopt the laws on electronic communication and electronic media in accordance with the EU acquis.	Relevant institutions	**2024 - 2030**
		Align with the SEE 2030 Strategy [41]	Adapt strategic, policy and operational plans to requirements and commitments from SEE 2030 Strategy, including funding mechanisms. **Activities to implement the action**: - Improve digital connectivity by improving broadband infrastructure with the aim of providing universal access to broadband internet for all citizens by improving digital skills. - Complete the second phase of the transition to digital broadcasting and adopt a framework strategy for access to the broadband network.	Relevant institutions	**2024 2030**

[41] SEE-2030-strategy.pdf (rcc.int)

BOSNIA AND HERZEGOVINA: IMPLEMENTATION MATRIX FOR SDG FINANCING FRAMEWORK IN BIH					
#	**Strategy / policy**	**Action**	***Rationale and key activity to implement an action***	**Responsibilities** **Bearers of action**	**Period of action implementation**
6	***Digital skills training***	Country-wide digital skills training programmes in academic and learning institutions	**Activities to implement the action**: - Adopt digital education action plans (which will improve the quality of education and training, especially speed up the modernization of curricula aimed at the greatest possible degree of digital component in order to better align with the labour market demand). - Ensure access to digital public services and fully ensure the establishment of e-government and e-health (and, if necessary, other segments of e-governance) in order to ensure full access to services and exercise of the rights by citizens through the improvement of digital skills and literacy, and by ensuring appropriate ICT infrastructure. - Enhance the application of the state-of-the-art technologies (5G, Internet of Things, artificial intelligence, blockchain, etc.), while strengthening cyber security, updating the regulation by including the regulation of digital risks.	Education Ministries, educational institutions at the secondary and tertiary levels	**2024 - 2030**
		Improvement of capacities and development of competencies and skills in the public sector	It is necessary to ensure relevant capacities and knowledge/skills of public sector employees, required for introduction of digital transformation and development/maintenance of e-governance system (infrastructure, services, digital solutions and processes) **Activities to implement the action**: - Conduct relevant studies on the level of digital skills of public sector employees for each level of government separately and develop plans to improve digital profiles of public sector employees. Introduce mandatory digitalization training into training programmes for civil servants, and introduce a competence framework for digital skills and develop digital skills assessment models and include them in the selection process for employment in the public sector. - Adopt relevant strategies and action plans for digital education in the public sector, aligned with the EU plan to support sustainable and effective adaptation to the digital age of the education and training systems of the Member States.	Relevant institutions	**2027 – 2030**
		Design financial incentives to encourage corporate skills training	**Activities to implement the action**: - Introduce subsidies to individuals (training payment, grants, vouchers, training checks, loans, etc.) for acquiring digital corporate skills. - Introduce subsidies to companies for organizing training for the acquisition of corporate digital skills for the unemployed and the employed. - In public administration, introduce a paid internship mechanism for final year students – digital juniors - support for institutions in lower-level IT/digital jobs (e.g. “data mining”, data and database management), which would partly be a response to the lack of staff and inability to attract experts.	Employer Associations and competent entity ministries	**2024 – 2030**

BOSNIA AND HERZEGOVINA: IMPLEMENTATION MATRIX FOR SDG FINANCING FRAMEWORK IN BIH					
#	Strategy / policy	Action	*Rationale and key activity to implement an action*	Responsibilities Bearers of action	Period of action implementation
7	***Laws on Electronic Identification and Digital Infrastructure Financing in line with constitutional arrangement and responsibilities of each government level***	Adopt a law on electronic identification and trust services for electronic transactions in line with the EU acquis	It is necessary to establish legal framework to enhance trust in electronic transactions in the internal market. **Activities to implement the action**: - Adopt the Law on Electronic Identification and Trust Services for Electronic Transactions. - Upgrade the set of laws and by-laws related to electronic business and administrative procedures at all administrative levels (electronic document, Regulation on Office Operations...)	Relevant institutions	**(*) 2024 – 2026**
8	***Strategic Framework and key public digital infrastructure***	Implementation of six key pillars of Information Society Development in BiH	These pillars are defined in relevant entity-level strategies and their full implementation is described in relevant action plans. Strategies define a strategic pathway and ensure alignment with area 5; action plans define specific actions and ensure the implementation of these requirements, reflecting their minimum. **Activities to implement the action**: - Adopt strategies for the information society development, with an emphasis on the improvement of digital literacy and ICT competence of citizens. - Establish public databases for public use, including digitalization and interoperability of base/source registers, standardization and creation of meta-registers, and establishment of semantic interoperability. - Harmonize the framework of interoperability in BiH with the European one and implement it fully. - Adopt and implement broadband legislation; - Establish criteria for determining critical infrastructure and adopt protection strategies for (critical) public digital infrastructure. - Adopt cyber security strategies and laws on the protection of (critical) public digital infrastructure.	Relevant institutions	**(*) 2024-2026**
		Implementation of fully transactional system of digital public services	Implementing critical infrastructure on each administrative level as a precondition for implementation of fully transactional system of digital public services. **Activities to implement the action**: - Improve digital regulation that includes its complete and thorough review with the appropriate supervisory bodies in accordance with EU directives. - Establish centres of shared services with appropriate, detailed interoperable and building blocks (service catalogue, ePayment, eID, eBox, eDelivery...) with the obligation of multiple use.	Relevant institutions	**(*) 2024 - 2026**

BOSNIA AND HERZEGOVINA: IMPLEMENTATION MATRIX FOR SDG FINANCING FRAMEWORK IN BIH					
#	Strategy / policy	Action	*Rationale and key activity to implement an action*	Responsibilities Bearers of action	Period of action implementation
			- In the systematization, foresee the position of the chief digital officer as a leading civil servant responsible for digitalization processes and clearly define the minimum requirements, experience and competencies necessary for this position.		
Priority sector: Infrastructure and energy					
9	***Develop PPP Market in line with constitutional arrangement and responsibilities of each government level***	***Establish Project Pipeline for Infrastructure Sectors***	In order to determine a wider PPP longlist, it is necessary to review the state of existing PPP proposals in line with OECD Principles for Public Governance of Public-Private Partnership and to undertake feasibility studies for new potential PPP investments, to be shortlisted for Wave I and Wave II execution, covering different sectors and SDGs. In developing the long list, and in reducing to a short list of viable (marketable and bankable) PPPs it is necessary to establish a formal process for shortlisting, based on VfM assessments, NPV/IRR/ERR, offtake, safeguards and risks. This is a formal process which often includes transaction advisory services. As a blended financing arrangement, developing PPP Project Financing Instruments that balance equity, debt, bond and other instruments, such as contingent liabilities and guarantees is necessary to enjoy the fuller scope of potential PPPs. **Activities to implement the action**: - Improve the systems of integral planning of public investments as a basis for the development of the PPP project base in order to bring PPP projects in line with the development priorities of the entity/district. - Establish methods and procedures for evaluating public investment projects (cost-benefit analysis, simplified cost-benefit analysis; calculable general balance model, etc.) and create a unique list of priority infrastructure and energy projects and regularly update it, for each level of government. - Hold preliminary online and direct presentations of projects nominated for public-private partnership in order to identify potential partners and then hold targeted meetings with interested private partners on the topic of risk allocation and financing modalities.	Ministries of Finance/ PPP Units /line ministries	**2024 – 2030**
		Design and carry out an assessment of PPP readiness capacity and consider the state of the market for PPPs	Diagnostics of the country's readiness for PPPs is necessary for providing strategic, tailored advice to the entities in BiH in making informed decisions in defining an operational plan for their PPP programme, the choice of public investments in relation to PPP and the type of PPP. **Activities to implement the action**: - Carry out diagnostics of readiness for PPPs at all levels of government (from the Institutions of BiH to the level of local self-governance units)	BiH Council of Ministers/Entity Governments /cantons/ cities and municipalities	**2024 – 2026**

BOSNIA AND HERZEGOVINA: IMPLEMENTATION MATRIX FOR SDG FINANCING FRAMEWORK IN BIH					
#	Strategy / policy	Action	*Rationale and key activity to implement an action*	Responsibilities Bearers of action	Period of action implementation
			- Establish strategic partnerships with PIDG, PPIAF and WBGEF to ensure advisory and other support in the field of PPPs.		
10	***Develop Energy Sector measures***	Adopting laws and bylaws on energy, transmission system operator and harmonize both them and energy efficiency laws as well with EU legislation, in line with the signed agreement from 2019	To transpose EU acquis (the third EU energy package) **Activities to implement the action**: - In accordance with the first EU acquis (the third energy package), create relevant missing and harmonize existing laws and by-laws. - Sign a direct contract with the service provider on the use of electronic registers for issuing, cancelling and trading guarantees of origin.	Energy ministries and other competent institutions	**2024 - 2030**
		Establish and harmonize single regulatory framework for the energy sector, in line with the signed agreement from 2019	To transpose EU acquis (the third EU energy package) **Activities to implement the action**: - Adopt legal frameworks for gas and electricity in accordance with the third energy package. - Ensure full harmonization of laws at the entity level in the field of electricity and gas in order to prevent further delays in the opening and functional operation of the energy market and the establishment of the day-ahead market.	Energy ministries and other competent institutions	**(*) 2024 - 2026**
		Engage EU Green Deal and Vertical Climate Funds in line with the constitutional arrangement and responsibilities of each government level	The European Green Deal is the EU's response to environment-related challenges and climate change consequences, coming as an integral part of the EC's strategy to implement the SDGs, putting people first. **Activities to implement the action**: - Finalize and adopt the National Energy and Climate Plan for the period up to 2030 in accordance with the recommendation of the Energy Community. - Adopt and implement the revised Strategy for adapting to climate change and low-emission development in accordance with the obligations under the Treaty on the Energy Community and the obligations from the Declaration on the Green Agenda for the Western Balkans.	Ministry of Foreign Trade and Economic Relations and entity ministries	**2024 - 2030**
		Develop the EU ETS alike system in line with constitutional arrangement and responsibilities of each government level	In the field of climate issues, the most important action for BiH is to facilitate a swift alignment with the EU Climate Law as well as to explore options for early inclusion of BiH in the EU Emissions Trading Scheme (EUETS). **Activities to implement the action:** - Make decisions on the introduction of a CO_2 taxation and trading system (e.g. by charging tax on CO_2 on the market principles ("cap-and-trade" scheme). - Make a decision on decarbonization (e.g. the electricity sector) and adopt a road map for decarbonization (dynamics of decarbonization until the year when it is planned to completely abandon the use of fossil fuels, e.g. the use of coal for electricity generation).	Ministry of Foreign Trade and Economic Relations and entity ministries	**(*) 2024 - 2026**

Bosnia and Herzegovina: Implementation Matrix for SDG Financing Framework in BiH					
#	Strategy / policy	Action	*Rationale and key activity to implement an action*	Responsibilities Bearers of action	Period of action implementation
11	***Develop Entrepreneurial Infrastructure Incentives***	Incentive Program for Entrepreneurial Infrastructure Development	In developing a successful entrepreneurial ecosystem, a programme is required to incentivize and promote startup companies through the provision of free or low-cost funding streams, perhaps structured around support for (i) business management, (ii) commercializing ideas, and (iii) strengthening research connections. **Activities to implement the action**: - Prepare a study on the effectiveness of encouraging the development of entrepreneurial infrastructure (using criteria, such as added value, export, employment, productivity) and adopt a road map for the development of entrepreneurial infrastructure. - Support the development of the regional Centre of Excellence (for the purpose of increasing productivity, competitiveness and exports based on the development of global value chains).	Ministry of Development, Entrepreneurship and Trades (FBiH)/ Ministry of the Economy and Entrepreneurship (RS)/ Department of the Economic Development, Sports and Culture (BD)	**(*) 2024 - 2026**
Priority sector: Research and Development					
12	***Establish entity and cantonal Research and Development, Innovation and Productivity Councils as Advisory Councils***	Draft Rules of Procedure of the Councils and ensure technical support for their operations	The Councils must be based on the strong rules of procedure. The institutions determined by the founder of the Council will provide support to the Council. **Activities to implement the action**: - Conduct an analysis of the functioning of the council for research, development, innovation and productivity of comparator countries. - Adopt documents on the operation of the councils based on the best practices of comparator countries and form entity and canton/district Councils in accordance with the competitive advantages of the regions and the desired growth rate of the region's productivity. - Entity/Cantonal/District Ministries responsible for research and development issues should review the Council's requests for technical support and make decisions on providing support to the Council.	Governments of the entities /BD/cantons	**(*) 2024 - 2026**
		Involve representatives of industries, academia, governments and donor community	To operationalize the Councils, and to recruit experts with the necessary skills set and experience necessary to allow the Councils to meet their overall strategic objective. **Activities to implement the action:** - Establish criteria for membership in the Council, as well as for members of the team of experts. - Make decisions on the formation of the Council. - Select Council members and a team of experts.	Governments of the entities /BD/cantons	**(*) 2024 - 2026**

BOSNIA AND HERZEGOVINA: IMPLEMENTATION MATRIX FOR SDG FINANCING FRAMEWORK IN BIH					
#	Strategy / policy	Action	*Rationale and key activity to implement an action*	Responsibilities Bearers of action	Period of action implementation
13	***Develop R&D, Innovation and Productivity Road Map Elements***	Map Global Value Chains (GVCs) and draft GVC strategies and policies	A sectoral mapping of the existing and potential GVCs is aimed at finding out its development potential, the opportunities and challenges for the construction of specific GVCs at the entity/cantonal/municipal levels. **Activities to implement the action**: - Conduct scientific research on value chains at entity/cantonal/municipal level and map internationally competitive value chains. - Identify the strategic leader of development and establish input-output connections with other companies. - Form a coalition of members around the selected value chain and strategic development leader in the value chain council (and within the council for research and development, innovation and productivity) which should provide proposals for improving the value chain's operations with a focus on: (i) skills, (ii) infrastructure, (iii) export and import and export finance, and (iv) regulation.	Ministries of the economy of the entities and/or cantons	**(*) 2024 - 2026**
		Design and establish a network of Excellency Centres (with innovation and training units) for the leading value chains at entity/cantonal/municipal levels	A smart, efficient and cost-saving system of pooling knowledge and expertise and make it available where needed across the value chains and around them. Innovation districts are zones in cities where public and private actors work to attract entrepreneurs, start-ups, business incubators, etc. **Activities to implement the action**: - Develop a pilot project for the establishment of an Excellency Centre as a product of a public-private partnership (a value chain company, on the one hand, and competent municipal/cantonal/entity authorities on the other), based on the selected value chain. - Adopt a plan for the development of the Excellency Centre based on the pilot project and the practice of the comparator countries. - Ranking business zones (according to the criteria of value added and export). - Implement a pilot project of a business zone that has the prerequisites to become an innovation district and locate an Excellency Centre in that business zone.	Ministries of the economy of the entities and/or cantons and city councils	**2024 - 2030**
		Research and development funding strategies	Identify the primary (anchor) investors to finance R&D from both public and private resources. **Activities to implement the action**: - Consider (i) the formation of a new company (typically an LLC) that will carry out research under commercial conditions and be able to repay the loan or (ii) borrowing from an existing company to carry out research with repayment of the debt upon successful completion of the research. - Consider applying for a grant for a BiH research project, with the EU and other public international bodies or with private national and international organizations.	Relevant ministries	**(*) 2024 - 2026**

BOSNIA AND HERZEGOVINA: IMPLEMENTATION MATRIX FOR SDG FINANCING FRAMEWORK IN BIH					
#	Strategy / policy	Action	Rationale and key activity to implement an action	Responsibilities Bearers of action	Period of action implementation
14	***Develop R&D Funds & Incentives***	Design Innovation Study Programs	Research and development include activities to innovate and introduce new products and services, as the first stage in the development process. The goal is typically to take new products and services to market. Design innovation study programmes direct research resources to attract researchers in key areas of study linked to SDG Framework outcomes. **Activities to implement the action**: - Make innovation development plans of global value chains in Excellency Centres. - Consider personnel potential for the development of value chain innovations and make programmes to attract key experts for the development of innovations	Relevant ministries	**(*) 2024 - 2026**
		Municipal/Cantonal and/or Entity Technological Funds	Industrial technological or investment funds are a new financing innovation mode that can build an effective financing channel in the R&D space, using the portfolio concept to allocate funds for science and technology, for example. In the absence of funding, no technological R&D will be undertaken. **Activities to implement the action:** - Undertake analyses of the technological level of development of municipalities/cantons/entities and global value chains of municipalities/cantons/entities from the point of view of the technological level of development. - Adopt technological development plans of municipalities/cantons/entities and transformation plans for Excellency Centres for development of municipalities/cantons/entities into innovation centres. - Form technological funds to support the technological development of municipalities/cantons/entities.	Relevant ministries	**2024 - 2030**
		Cross-Sharing Grant Scheme	Cross-sharing grant scheme promotes the positive effect in which a research (development) grant triggers additional development (research) expenditures due to complementarity of both activities. The cross-sharing scheme would need to be formally established. **Activities to implement the action:** - Create roadmaps for achieving investment in research and development in the amount of 1.2% of the GDP of municipalities/cantons/entities by 2030. - Develop criteria for awarding grants to the most potent global value chains of municipalities/cantons/entities. - Assign cross-grants (for every BAM of public money 1 BAM of private money) - Monitor grant spending and regularly report to the competent authorities, and introduce the practice of turning the grant into an interest-free loan in the event of inappropriate and/or inefficient use of the grant.	Relevant ministries	**2024 - 2030**

<table>
<tr><th colspan="5">BOSNIA AND HERZEGOVINA: IMPLEMENTATION MATRIX FOR SDG FINANCING FRAMEWORK IN BIH</th><th></th></tr>
<tr><th>#</th><th>Strategy / policy</th><th>Action</th><th>Rationale and key activity to implement an action</th><th>Responsibilities
Bearers of action</th><th>Period of action implementation</th></tr>
<tr><td colspan="4">Financial instruments to support accelerated achievements in the SDG priority sectors</td><td></td><td></td></tr>
<tr><td rowspan="3">15</td><td rowspan="3">Develop, pilot, establish the key, complementary and other financial instrument to support accelerated achievements in the SDGs attainment, in line with constitutional arrangement and responsibilities of each government level</td><td rowspan="3">Develop and implement proposed the <u>main short-term SDG financing instruments</u>:

- Strategic investment fund(s)
- Syndicated loans
- SDG bonds
- Apex financing facility</td><td>Establish a Strategic Investment Fund(s) as special-purpose investment vehicle with the aim to (i) secure financial and economic returns, (ii) accelerate investment in, and (iii) mobilize commercial capital to energy and infrastructure sectors where private investors would otherwise not invest or would invest to a limited extent.
Activities to implement the action:
- Form interdepartmental working groups for the establishment of SIF.
- Create feasibility studies.
- Organize investment conferences for potential foreign investors (to attract AAA Development Bank).
- Establish SIFs with entity/district government and (potential) AAA bank as founders.</td><td>Public sector institutions interested in the establishment of SIF and private companies, banks, etc.</td><td>(*) 2024 - 2026</td></tr>
<tr><td>Accelerate use of syndicated loans to promote commercial solutions that can close important financing gaps in infrastructure, climate change and social services. Most financing mobilized from the private sectors shares in collective investment vehicles in areas with clear commercial opportunities are achieved through syndicated loans and credit lines.
Activities to implement the action:
- Investigate the bases of public investment projects in the field of infrastructure and establish potential projects for syndicated loans.
- Refine potential public investment projects to a level acceptable to banks and banking regulators.
- Form working groups made up of representatives of the public sector (line ministry, ministry of finance, public company from the respective sector, etc.) and representatives of a potential bank syndicate in order to prepare a syndicated loan.</td><td>Ministries of Finance and line ministries at all government levels</td><td>2024 - 2030</td></tr>
<tr><td>Prepare and issues the first SDG bonds in BiH focused on financing the SDG Framework components referring to digitalization, infrastructure and energy and research and development.
Activities to implement the action:
- Form inter-departmental working groups.[42]
- Issue bonds in the domestic market.</td><td>Ministries of Finance and relevant institutions</td><td>(*) 2024 - 2026</td></tr>
</table>

[42] The task of inter-departmental working groups would be to consider the issues of the <u>feasibility phase of the issue</u> (reasons for issuance, selection of projects, collection of data for analysis, initiation of coordination of interested parties) and decide on whom to include in the activities; consider issues of the <u>pre-issuance phase</u> (choice of advisers, selection of framework, risk management, how to reach investors, etc.); consider issues of the issuance phase (issue launch, marketing, promotion, price); consider issues of the post-issuance phase (monitoring, reporting, project performance).

BOSNIA AND HERZEGOVINA: IMPLEMENTATION MATRIX FOR SDG FINANCING FRAMEWORK IN BIH					
#	Strategy / policy	Action	*Rationale and key activity to implement an action*	Responsibilities Bearers of action	Period of action implementation
			Establish **Apex financial facility** for providing credit and other guarantees to participating financial institutions that provide lending services to SMEs. **Activities to implement the action**: - Map the value chains of municipalities/cantons/entities. - Ensuring EU support for the development of SMEs (indicatively, BAM 50 million, i.e. BAM 7 million per value chain). - Distribution of funds through grants to SMEs.	Ministries of Finance and entity Ministries of the Economy	**(*) 2027 - 2030**
		Develop and implement proposed **complementary mechanisms and instruments** for support to accelerated SDG achievement: - **GHG emissions trading scheme** - **Digital transformation scheme** - **Social impact bonds**	**Establish the GHG emissions trading system** The GHG emissions trading scheme is the cornerstone of the EU's fight against climate change. In case BiH does not introduce this system, the EU will introduce taxation of products from BiH that contain CO2. **Activities to implement the action:** - Determine the extent of limits (restrictions) and the extent of GHG emissions trade. (geographic area, sectors, sources of emissions and greenhouse gases that are regulated) - Issue licenses that can be traded within the set limit. - Grant licenses to regulated companies and other organizations, while preventing risks of possible abuse, distributing effects and strengthening opportunities for increasing budget revenue.	Banking Agencies and Ministries of Finance	**2024 - 2030**
			Pilot digital transformation scheme Digital transformation schemes into support the SDGs are suitable instruments for catalyzing the transformation of enterprises and municipalities/cities. **Activities to implement the action**: - Undertake a study that will establish the state of digitalization of private enterprises and municipalities/cities. - Develop a digital platform through the forms of which enterprises/ municipalities/cities will be able to establish the degree of their digitalization. - Form a scheme (as a unit of the existing institution) on the basis of entity/canton grants and foreign support funds.	Banking Agencies and Ministries of Finance	**2024 - 2030**

BOSNIA AND HERZEGOVINA: IMPLEMENTATION MATRIX FOR SDG FINANCING FRAMEWORK IN BIH					
#	**Strategy / policy**	**Action**	***Rationale and key activity to implement an action***	**Responsibilities** **Bearers of action**	**Period of action implementation**
			<u>Pilot social impact bonds</u> Starting from the necessity to form Centres of Excellence as an important element of the infrastructure that translates ideas into commercial products and building innovation capacity, the establishment of Centres of Excellence will be piloted along the lines of research and development as a priority sector for the SDGs. **Activities to implement the action:** - Create feasibility studies for the establishment of Centres of Excellence. - Define efficiency criteria for Centres of Excellence (production and export of high-tech products, number of scientific articles and patents, training of workers). - Define the success criteria for the bond launch and, based on that, define the basis for (non)settlement of obligations for the bond.	Banking Agencies and Ministries of Finance	**2024-2030**
		<u>Scale up the use of **new generation long-term mechanisms and instruments** in BiH</u>: - **Public-private partnership as a mechanism of support to the achievement of the SDGs** - **Energy communities** - **Double leveraged mezzanine finance** - **Crowdfunding** - **Gender bonds**	As innovations in the field of sustainable financing are of a global nature and driven by FINTECH and digital economy, sooner or later, new financing instruments will be available also in BiH, so it is necessary to strengthen the economic, financial and regulatory regime in a timely manner. **Activities to implement the action:** - Establish knowledge centres on new financing instruments, ensure data collection and best examples of implementation in other countries. - Pilot the application of new financing instruments. - Adopt a regulatory framework that enables the application of new financing instruments, in accordance with the constitutional arrangement and the competences of each level of government.	Banking Agencies and Ministries of Finance	**2027 - 2030**
Strategic budgeting and investment de-risking along support activities for accelerated SDG achievement					
16	***SDG localization***	Pilot SDG alignment and integration at the cantonal and municipal levels	In support of the Global Task Force of Local and Regional Governments, UNDP and UN Habitat to support cities and regions to deliver the 2030 Agenda, piloting SDG localization is necessary given that most SDGs will only be met through local action, and that SDG localization is critical for awareness raising, advocacy, implementation and monitoring, as well as making sure that sub-national spending is linked to the SDGs. **Activities to implement the action**:	Competent ministries/ municipalities and cities /Associations of	**2024 - 2030**

BOSNIA AND HERZEGOVINA: IMPLEMENTATION MATRIX FOR SDG FINANCING FRAMEWORK IN BIH					
#	**Strategy / policy**	**Action**	***Rationale and key activity to implement an action***	**Responsibilities** **Bearers of action**	**Period of action implementation**
			- Develop an internationally comparable methodology for monitoring SDG investments by sector (agriculture and rural development, health, education, social benefits, energy, biodiversity protection, access to justice, research and development, digitalization, protection against flood and water and sanitation), with a special emphasis on expenditures on priority SDGs. - Pilot an internationally comparable methodology for monitoring SDG investments at the municipality/cantonal level. - Develop a methodology for including SDG investments for the public sector (budget and off-budgetary investments), and the private sector.	Municipalities and Cities	
17	***Strengthen SDG strategic budgeting and its alignment with development strategies / PIP***	SDG Budget Tagging	The implementation of the SDGs in BiH requires the involvement of various stakeholders at different tiers of government in order to track SDG spending and to provide a bridge to monitoring impact. **Activities to implement the action**: - Review existing budget classifications. - Consider and create SDG tagging (for the SDGs up to the level of targets), starting from the concept note on this matter. - Establish relevant fiscal rules supporting the SDGs (with technical assistance from IMF and the World Bank). Introducing an appropriate model for SDG spending tagging, with a focus on establishing a unique methodology for monitoring public sector expenditures (budget and off-budget expenditures), as well as private and civil sectors expenditures.	Ministries of Finance	**(*) 2024 - 2026**
		Strengthen Budget Call Circular SDG Guidance	As the budget call circular guides spending units in planning their budgets, integrating key elements of the SDG Framework and SDG-FF will guide spending units on how to align with and integrate the SDGs into the budgets. **Activities to implement the action** : - Hold technical level meetings to include the SDGs in budgeting processes. - Consider the possibilities of supplementing traditional budget instructions with SDG integrated budget instructions, guides and formats. - Convert SDG-FF into instructions for easier SDG integration into the budget instructions.	Ministries of Finance	**(*) 2024 - 2026**
		Integrate SDGs into development strategies	Development strategies define the priority goals – including SDGs - coherently explain how set goals can be reached, identify the policy tools, achieve their alignment and the time frame. **Activities to implement the action**:	Council of Ministers, Entity Governments	**(*) 2024 - 2026**

BOSNIA AND HERZEGOVINA: IMPLEMENTATION MATRIX FOR SDG FINANCING FRAMEWORK IN BIH					
#	Strategy / policy	Action	*Rationale and key activity to implement an action*	Responsibilities Bearers of action	Period of action implementation
			- Integrate priority SDGs into Economic Reform Programmes (ERP). - Include SDGs, especially financing instruments, in (updated) entity/district development strategies. - Include priority SDGs in the sectoral strategies for development of (i) infrastructure, (ii) energy, (iii) digitalization and (iv) research and development.		
		Integrate SDGs in public investment programmes (PIP)	Unless SDGs are integrated into the public investment plans (PIPs), public spending will not be aligned with the SDG Framework. **Activities to implement the action**: - Undertake fiscal space assessment (FSA), identify key fiscal challenges that need to be overcome in order to overcome fiscal gaps in the implementation of the priority SDGs. - Give priority within the PIP to projects related to SDG priorities (infrastructure and energy; digitalization; research and development). - Assign the function of assessment and selection of public investment projects to specific bodies with a previously established methodology for public investment assessment.	Ministries of Finance	**(*) 2024 - 2026**
		Integrate SDGs into Citizen's Budgets	SDGs are not incorporated into the Citizen's Budgets. Moving from a whole-of-government approach to a whole-of-society approach, however, means that society must be fully aware of the SDG Framework, its objectives and priorities. **Activities to implement the action**: - Develop the implementation of the Citizen's Budget, especially at the level of local self-governance. - Show priority SDGs and the results of their attainment with appropriate infographics. - Identify options for inclusion of the SDGs in the activities of civil society organizations. - Promote innovation and inventiveness related to the SDGs, especially those undertaken by young people.	Ministries of Finance	**2024 - 2030**
18	***Development of policies, mechanisms and instruments for Market Investment Risk Prevention***	Identify Blended Financing Solutions to De-Risk Investment	De-risking is critical to closing the SDG financing gap. The objectives of de-risking is to make SDGs more financeable by both public and private sector investors as investors can earn an acceptable "risk-adjusted" return. **Activities to implement the action**: - Prepare studies (with the support of UNDP) on alternative ways of financing SDGs, develop matrices of necessary investments in priority SDGs and financing instruments in order to identify the most strategically acceptable sources of financing for identified priority SDGs by including private capital where possible and desirable. - Identify the preferred SDG financing modalities and strategic partnerships for the implementation of projects on the basis of ranking of variants.	Ministries of Finance, SDG Council/relevant institutions	**2024 - 2030**

BOSNIA AND HERZEGOVINA: IMPLEMENTATION MATRIX FOR SDG FINANCING FRAMEWORK IN BIH					
#	Strategy / policy	Action	*Rationale and key activity to implement an action*	Responsibilities Bearers of action	Period of action implementation
Governance and coordination actions (within the implementation of the SDG Financing Framework in BiH (SDG FF)					
19	***Governance and coordination mechanisms***	Identify major governance and coordination mechanisms for SDG FF implementation	Strengthen and formalize SDG Council coordination with the governments' prime minister cabinet at all government levels, including with the prime minister advisors. **Activities to implement the action**: - Review existing management and coordination mechanisms to determine how much they include the SDGs. - Organize technical-level meetings to ensure that planning processes and key planning documents (global fiscal balance and policy framework, economic reform programme, mid-term and annual work programmes of governments and institutions, and framework budget documents) more fully include the SDGs. - Replace the traditional approach to auditing the budget and spending units with an SDG audit (preparatory and full).	Chairman of the BiH Council of Ministers, prime ministers of the entities and BD BiH	**(*) 2024 - 2026**
20	***Governance and coordination measures***	Annual meeting of actors involved in the SDG FF implementation	To bring together all SDG key actors that work on the SDG implementation (similar to the Geneva Annual SDG Community Meeting, for example) with aim to present the best practice and way of mobilizing wider community and resources for implementation and financing SDGs. **Activities to implement the action:** - Organize a tripartite meeting of the SDG Council, the Prime Ministers and the Prime Ministers' Advisors in order to jointly consider the practice of achieving SDGs. - Review planning and budget processes and propose the redirection of various public revenues for better achievement of priority SDGs, with an emphasis on tax revenues relevant for the SDGs (map and review current tax initiatives related to the SDGs and support tax reforms that support the SDGs).	SDG Council expanded to include prime ministers' advisors and relevant representatives of the Finance Ministries	**2024 - 2030**
		Quarterly coordination meetings with the coordinators for ERP preparation and members of the Working Group for monitoring the implementation of the Comprehensive Public Finance Management (PFM) Strategy u BiH 2021-2025	Given how central ERP (which covers PFM, digital, infrastructure and governance reforms) and the PFM Strategy (for SDG alignment), the coordination meeting will allow a two-way flow of information between stakeholders to make sure that alignment with the SDG Framework and SDG-FF are observed and integrated. **Activities to implement the action**: - Consider integrating SDG budgeting into the Public Finance Management Strategy with a focus on aligning SDG financing needs with the available fiscal envelope. - Consider the integration of priority SDGs into the economic reform programmes. - To consider issues of SDG financing gaps and modalities for overcoming them.	SDG Council, Prime Ministers' advisors, ERP coordinators and Working Group for monitoring the implementation of the Comprehensive PFM Strategy in BiH, 2021-2025	**2024 - 2030**

BOSNIA AND HERZEGOVINA: IMPLEMENTATION MATRIX FOR SDG FINANCING FRAMEWORK IN BIH					
#	Strategy / policy	Action	*Rationale and key activity to implement an action*	Responsibilities Bearers of action	Period of action implementation
21	***Additional work on SDG Mind Set Change***	Adopt SDG Financing Communication Strategy	Establish SDG Communication Strategy with clearly identified roles, channels and key messages to support financing of SDGs in BiH. **Activities to implement the action**: - Build a culture for the SDG agenda at all levels of society and all levels of government. - Develop appropriate communication material related to the SDGs at all levels of government and across all ministries and agencies.	SDG Council, Council of Ministers and Entity Governments	**(*) 2024 - 2026**
		Identify and establish public private collaboration platforms	To strengthen collaboration between public and private actors for the SDGs, it is necessary to establish a BiH Sustainable Development Solutions Network, linked to regional and global Sustainable Development Solutions Network Centres. **Activities to implement the action:** - Prepare materials on the SDG implementation and post them on the SDG Actions Platform portal, as well as collect materials from other countries on their achievements in the SDG attainment. - Map private and civil sector organizations interested in achieving the SDGs (for example, based on the database of companies competing for UNDP's business pioneers). - Encourage the formation of the SDG Council for private and civil sectors and organize meetings with the SDG Council. - Organize meetings of the SDG Council with relevant associations (Council of Foreign Investors, Association of Banks, Association of Employers, etc.).	SDG Council, Council of Ministers and Entity Governments	**2024 - 2030**
Monitoring and Evaluation and Risk Management Actions (within the implementation of the SDG Financing Framework in BiH (SDG FF))					
22	***SDG-FF Web Dashboard***	Integrate SDG Financing Framework (SDG-FF) in SDG Web Dashboard	The SDG-FF Web Dashboard would monitor **development finance trends** in contrast with BiH's resource needs. The Web Dashboard would monitor progress toward mobilizing the identified resources and how these contribute to development targets and indicators and would be integrated in the whole financing strategy implementation monitoring process. **Activities to implement the action**: - The Council of Ministers, Entity Governments and BD should publish all documents related to the SDGs on the SDG Dashboard, including reports on the achievements in the SDG attainment, as well as information on the role of development finance in attaining SDGs and on the required and collected funds for financing the SDGs.	Ministries of Finance and the Republika Srpska Ministry for Economic Relations and International Cooperation (RS MERIC)	**(*) 2024 - 2030**
		SDG Indicator Development	In advance of the proposed BiH 2023 Voluntary National report (VNR), there is a need to update indicators and to link the indicators the SDG-FF Dashboard so that the VNR is linked to the SDG FF Road Map and the future SDF Financing Framework.	Ministries of Finance and RS MERIC	**(*) 2024 - 2026**

#	Strategy / policy	Action	Rationale and key activity to implement an action	Responsibilities Bearers of action	Period of action implemen tation
			Activities to implement the action: - Consider the operation of statistical systems in BiH from the point of view of the SDGs. - Carry out mapping of indicators under the statistical agencies and draft action plans to improve data collection and the quality of existing indicators. - Establish input, output and impact indicators for investment projects for easier and more reliable evaluation of the impact of those projects on the SDG achievements.	/ Statistical Agencies in BiH	
23	***Reporting and Evaluation***	Annual Report on the Implementation of the BiH SDG Financing Framework	A short annual report will be prepared by the SDG Council in coordination with the UN, in order to maintain momentum on the SDG-FF, to draw out lessons, make adjustments to Road Map priorities and to provide the basis for an annual performance review. **Activities to implement the action**: - Consider current financial models, identify limitations and opportunities, and present an alternative set of financial models that provide greater value for money and better expand fiscal space for better SDG achievements. - Consider how public procurement norms are related to SDG standards. - Map subsidies and aid that have a negative impact on the SDGs.	SDG Council, entities (the RS MERIC) and the Brčko District	**(*) 2024 - 2026**
		Update VNR (BiH Voluntary National Review)	The proposed updated 2023 Voluntary National Review (VNR) would fully integrate with the SDG Framework, SDG-FF as the basis for demonstrating a comprehensive approach to the High-Level Political Forum. **Activities to implement the action**: - Indicate in detail how the “leave no one behind” principle is implemented (because, as reports show, the implementation aspect remains unclear to most countries) and how the issue of inequality is treated. - Facilitate the engagement of civil society organizations, including on the results of independent monitoring procedures. - Identify strategic budget actions that can be incorporated into the next VNR.	SDG Council / Ministries of Finance and the RS MERIC/ Statistical Agencies in BiH	**2024 - 2030**
		Mid-Term SDG-FF Review	The mid-term review will take stock of the degree to which planned results are on target, and the areas where additional improvement is required. **Activities to implement the action**: - Develop macroeconomic models for BiH, the Republika Srpska and the BiH Federation, separately, in order to facilitate an overview of the macroeconomic trends of the economy, with a special emphasis on the resource, savings/investment and fiscal gaps. - Establish the impact of the savings/investment and fiscal gaps on the medium-term dynamics of achieving the SDGs, for each level of government separately.	SDG Council, Ministries of Finance and the RS MERIC	**2024 - 2030**

BOSNIA AND HERZEGOVINA: IMPLEMENTATION MATRIX FOR SDG FINANCING FRAMEWORK IN BIH					
#	Strategy / policy	Action	*Rationale and key activity to implement an action*	Responsibilities Bearers of action	Period of action implementation
Further Assessment and Diagnostics (within the implementation of the SDG Financing Framework in BiH (SDG FF))					
24	***SDGs Concept and Policy Position Papers***	Thematic Issues identification that are important for SDGs implementation	There is a need to build in capacity for further assessment and diagnostic going forward, to accompany emerging and future actions, on issues such as: (i) SDG localization, (ii) detailed market assessments for each financing instrument, (iii) tax and non-tax incentives for the SDGs, for example. **Activities to implement the action**: - Undertake a review of public expenditures and an institutional review from the point of view of the SDG achievements and consider how to better direct budgets to the SDG achievement, for each level of government separately. - Analyze the current trends in the sectors of energy, infrastructure, digitalization and research and development, for each level of government separately, and determine the degree to which society and the economy fit into them. - Analyze the current trends in the development finance and see if the gap between global/regional and BiH development banking is shrinking.	SDG Council and Ministries of Finance and relevant ministries	**(*) 2024 – 2026**
SDG Partnerships (within the implementation of the SDG Financing Framework in BiH (SDG FF))					
25	***Additionally, strengthen SDG linkages with EU integration, alongside full implementation of adopted BiH European Integration Coordination System***	Solicit EU and EU Member State support for the SDG Framework	Implementation of the BiH SDG Framework from EU is key to success and yet EU instruments, the ERP and other actions related to PFM /PAR, for example, do not explicitly mention the SDG Framework. **Activities to implement the action**: - Link the SDGs with the European Commission annual report for BiH - if the priority SDGs are attained, the EU report will be more favourable (primarily cluster 4 and chapter 25 of the report) - Assess the economic situation in BiH in accordance with the EU semi-annual alert mechanisms. - Consistently implement the Energy Community recommendations.	SDG Council, the RS MERIC and coordination mechanism bodies	**(*) 2024 - 2026**
		Identify SDG-FF EU integration joint priorities and establish joint working relations, alongside full implementation of adopted BiH European Integration Coordination System	In support and linkage with Team Europe through Team Europe Initiatives (TEI), undertaking joint analysis, programming, execution and monitoring are key to an integrated approach that links the SDG Framework with EU integration and the SDGs and the Global Gateway. Formal discussion between Government, UN and EU (Working Better Together) is necessary to agree on entry points given the many shared activities between the EU and SDG Framework. **Activities to implement the action:** - The Council of Ministers, Entity Governments and BD should include the SDGs in planning documents related to the EU (Integration Programme).	SDG Council, the RS MERIC and coordination mechanism bodies	**(*) 2024 - 2026**

BOSNIA AND HERZEGOVINA: IMPLEMENTATION MATRIX FOR SDG FINANCING FRAMEWORK IN BIH					
#	**Strategy / policy**	**Action**	***Rationale and key activity to implement an action***	**Responsibilities** **Bearers of action**	**Period of action implementation**
			- Follow EU priorities that fully correspond to the SDG priorities (e.g. European Green Deal and the EU Green Agenda for the Western Balkans; A Europe Fit for the Digital Age). - Fully follow the "Whole-of-Government Approach" (WGA) in the SDG implementation.		
26	***Improve legislative SDG oversight capacities at all government levels***	Establish SDG Parliamentary Committees at all government levels	Starting from the fact that the governments are accountable for the goals they have subscribed to, it is necessary to make sure that enabling laws are passed and budgets adopted to support the SDGs. Core parliamentary roles for the SDGs include law making, budgeting, oversight, representation and localization. **Activities to implement the action**: - Support at the level of parliaments the SDG localization in order to increase the ownership and awareness of SDGs, especially in terms of reducing inequality and poverty, gender equality and environmental human rights. - Conduct dialogue on public policies, training of parliamentary committees and enhance the focus on strengthening accountability of the executive for its international commitments. - Encourage institutional discussions on evaluations of the implementation of planning documents, with an emphasis placed also on SDGs.	BiH Parliamentary Assembly, Republika Srpska National Assembly and the BiH Federation Parliament	**(*) 2024 - 2026**
27	***Foster SDG partnerships***	Establish framework for triangular cooperation for priority sectors	Triangular cooperation helps to achieve the SDGs in innovative and collaborative ways and can provide solutions to overcome BiH's most pressing environmental, economic and social challenges. **Activities to implement the action**: - Establish an inclusive dialogue for SDG financing among actors in order to promote stronger participation both in and outside BiH. - Analyze the database on triangular cooperation of the OECD in order to identify good practices and proposals for cooperation projects. - Cooperate with the OECD for the purpose of overcoming obstacles in the establishment and development of triangular cooperation for the implementation of priority SDGs (tools and instructions).	SDG Council, RS MERIC	**2024 – 2030**

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JOINT SDG FUND

Council of Ministers of Bosnia and Herzegovina

Government of the Federation of Bosnia and Herzegovina

Government of the Republika Srpska

Govermment of the Brčko District of Bosnia and Herzegovina

UJEDINJENE NACIJE BOSNA I HERCEGOVINA