United Nations Development Programme

Non-Binding Opinion

Mexico's 2023 SDG Bond Allocation and Impact Report

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Non-Binding Opinion Mexico's 2023 SDG Bond Allocation and Impact Report

United Nations Development Programme (UNDP)
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UNDP's Opinion at a Glance

UNDP is of the opinion that Mexico's SDG Bond Allocation and Impact Report 2023 complies with the criteria established in the UMS SDG Sovereign Bond Framework. 2022's Bonds issuances have reached the local thematic debt market and new international capital markets. Issuances corresponding to 2022 break ground by incorporating Green Eligible Expenditures in addition to the Social, which contributes to addressing sustainable development challenges in a more integrated manner. Furthermore, it has contributed to enhancing information consolidation, update, and delivery within line ministries related to environmental SDGs. The institutionalization of the SDG Bonds' dynamics is on the way to consolidation within the Ministry of Finance through a formalization of an area entirely dedicated to the selection, tracking, and reporting of Eligible Expenditures. The Bonds' governance has proved resilient and flexible considering institutional changes. In this edition, UNDP highlights advances in more granular and updated information and positive efforts to regularize the Mexican Sustainable Financial Ecosystem by publishing the Mexican Sustainable Taxonomy and the Sustainable Finance Mobilization Strategy.

ALIGNMENT WITH SDG IMPACT STANDARDS

Mexico's SDG Bond Allocation and Impact Report 2023 continues to consolidate an impact strategy, managerial approach, transparency, and governance structures and practices which constitute the four foundational elements of the SDG Impact Standards for Bond Issuers.

PROGRAM SELECTION

Program Selection processes followed the established methodology to link budgetary programs to SDGs and to select Eligible Expenditures according to the Framework's criteria. This edition includes new Eligible Expenditures aligned to Green SDGs.

ALLOCATION REPORT

Notional Allocation complies with the criteria established in the Framework. 32 Eligible Expenditure categories were identified to be aligned to five Social SDGs—2, 3, 4, 8, and 9—and 12 programs were aligned to four Green SDGs—6, 7, 11, and 15. In principle, the geospatial criterion does not apply to programs aligned with Green SDGs because environmental problems are present not only in marginalized territories. More importantly, the scope of their benefits is extensive, generalized, and sometimes not restricted to specific areas.

IMPACT REPORTING

Impact Reporting follows the Framework's criteria. The Report concatenates the Bond's allocated resources to each SDG, the number of Eligible Expenditures aligned to it, the number of beneficiaries and outputs produced by those Eligible Expenditures, and, finally, to the impact indicator to which they contribute.

SDG SOVEREIGN BOND AS A DRIVER OF CHANGE

The Mexican sustainable finance ecosystem has continued to evolve and consolidate. Bonds' issuances have diversified into the local and Japanese capital markets, besides the EUR and USD markets. SHCP has published strategic documents that provide issuers with guidelines and investors with certainty and transparency regarding Mexico's sustainable finance strategy.

Foreword

For the third consecutive year, Mexico has issued its SDG Sovereign Bond, reaching an allocation of US$5.02 billion in 2022. As an innovation, some of the Bond's Eligible Expenditures are not only aligned to Social SDGs, but also include now budgetary programs aligned to Green SDGs. In compliance with the provisions established in the SDG Sovereign Bond Framework, the Ministry of Finance (SHCP, for its acronym in Spanish) has published Mexico's SDG Bond Allocation & Impact Report 2023 with the collaboration of line ministries, the National Institute for Geography and Statistics (INEGI, for its acronym in Spanish), and the National Council for Evaluation of Social Development Policy (CONEVAL, for its acronym in Spanish). This Report includes updated information regarding some state of affairs social indicators and budgetary programs aligned to Green SDGs and its new baseline indicators.

As stated in the Framework, the United Nations Development Programme (UNDP) participates in this process by "1) providing an opinion on the Framework's selection criteria; 2) acting as an observer to the budgetary selection process to establish the eligible expenditures; and 3) providing technical assistance, as required, on the development of the impact report." In this character, the UNDP presents its Non-Binding Public Opinion of Mexico's SDG Bond & Allocation Report 2023.

This Non-Binding Opinion has six sections. The first section, "Alignment with Standards", reviews the Report according to the four foundation elements of UNDP's SDG Impact Standards for Bond Issuers. The second section provides a brief analysis of the Program Selection processes. The third section focuses on the Allocation Report, while the fourth analyzes the Impact Report. The fifth section presents the main results of the SDG Sovereign Bond as a Driver of Change, arising from the findings of the previous sections. Finally, the last section offers some concluding remarks and recommendations.

To elaborate on this opinion, UNDP reviewed several public documents related to the SDG Bond and the innovations in strategy for the broader Mexican sustainable finance ecosystem. Interviews were conducted with relevant stakeholders involved in the Bond's reporting processes. SHCP facilitated access to all documents and databases that support this opinion, while interviews with key actors provided relevant information about the processes for the elaboration of the Report, as well as the institutional dynamics and innovations. Their insights add public value to this Non-Binding Opinion and to Mexico's strategy for financing sustainable development.

UNDP is grateful to Mexican authorities of the Ministry of Finance and Public Credit, Mexico's Federal Superior Audit Office, the National Institute of Statistics and Geography, and the National Institute for Indigenous People for their disposition to provide support and assistance during this process.

The third edition of the Report fulfills the compromise of the Ministry of Finance with investors to communicate transparently how Bond's resources are allocated in programs, their beneficiaries, the outputs that they produce, and their contributions to SDGs. UNDP acknowledges the leadership of the Ministry of Finance to promote continuous improvements and considers that these processes constitute best practices that can be used as a reference by other Bond issuers to strengthen bond links and impacts to SDGs. The commitment to publish this UNDP technical opinion was agreed upon from the Framework. However, the openness with which the Ministry of Finance has complied this provision allows the broader Finance for Development community to gain insights on how SDG Sovereign Bond Issuances of similar nature can foster positive practices towards the achievement of the 2030 Agenda.

SDG Impact Standards

SDG Impact Standards for Bond Issuers are a tool developed by SDG Impact, a flagship initiative of UNDP's sustainable finance hub. These Standards promote that bond issuer's decision-making integrate impact strategies, management approaches, transparency, and governance mechanisms that have the potential to make positive contributions to SDGs. SDG Impact Standards constitute a best practice reference for Bond Issuers and are seen as decision-making principles, rather than specific performance or reporting guidelines. In this context, UNDP's opinion takes into consideration the core elements of such standards as a conceptual framework[1] reference to identify relevant dynamics that have resulted from Mexico's SDG Bond issuances, and the elaboration and publication of SDG Bond Allocation & Impact Reports.[2]

Principle	Actions
Strategy	Mexico's SDG Bond Allocation and Impact Report 2023 shows an ambitious impact strategy. Eligible Expenditures comprise budgetary programs that directly contribute to Social and Green SDGs, which enhances the issuer's impact strategy by adopting a more integrated approach. Furthermore, the enforcement of the geospatial criterion in budgetary programs aligned to Social SDGs, included in the SDG Sovereign Bond Framework, allows for allocation processes that reach marginalized regions.
Management Approach	The consolidation of more granular information and the selection and identification of better indicators allow for detailed monitoring of the SDGs' progress. The institutionalization of sustainable finance has advanced within the Ministry of Finance through various steps, including those taken towards the creation of a specialized area in charge of formulating strategies, and structuring and reporting on thematic debt instruments with Environmental, Social, and Green (ESG) criteria to address financial gaps for mitigation and adaptation to climate change, for closing social disparities, and for achieving the SDGs.

1 An external assurance framework and SDG Impact Seal are being developed in tandem with the Standards. This opinion is not to be interpreted as an independent accredited assurer statement. SDG Standards are referred only as a conceptual framework. UNDP is not acting nor will act as an assurer in relation to SDG Impact Standards.

2 It is important to point out that considering SDG Impact Standards as a conceptual reference does not seek to assess their integration into reports but to have a relevant reference to identify Bond's impact and strategy towards sustainable development more clearly. SDG Impact Standards are publicly available at: https://sdgimpact.undp.org/sdg-bonds.html#why-this-matters

Transparency	The Ministry of Finance has demonstrated a solid commitment to transparency throughout the process. Mexico's Federal Superior Audit Office has revised that the first SDG Bond Allocation and Impact Report complied with the Framework's criteria; this review is to be done on a yearly basis. More granular data has been consolidated at the state level, and 2022 issuances have included budgetary programs aligned with Green SDGs, detonating the deliberative and collaborative processes that lead to the compilation, analysis, and reporting of better information. The sharing of databases with UNDP to replicate procedures and figures is a sign of openness that is highly acknowledged. In addition, the steps taken to select the corresponding Eligible Expenditures are duly described and comply with the Bond's Framework.
Governance	The governance structure has taken a significant step towards institutionalization, considering the new attributions of the Ministry of Finance, published in its Internal Regulation, which contemplates new competencies for developing strategies and monitoring actions on thematic debt instruments designed to address climate change, social disparities, and to achieve SDGs. The Mexican Government has advanced in consolidating deliberative and collaborative processes leading to the elaboration of the Report, including the validation of Eligible Expenditures, consolidation of more granular information, together with the selection and identification of better indicators.

Strategic Intent

Each year, the Mexican Government has established a routine for revising and aligning its budgetary programs to the SDGs since it started doing it in 2017 with UNDP's guidance. Nowadays, most of the Federal Expenses Budget's programs are aligned with SDGs to at least one of its targets. To achieve this alignment, a process involving line ministries and the Ministry of Finance was necessary. This alignment process is key in the allocation of proceeds, which allows to identify budgetary programs that contribute to one or more targets of the SDGs. The enforcement of the geospatial criterion for budgetary programs aligned to Social SDG, included in the SDG Sovereign Bond Framework, allows for allocation processes that reach marginalized regions. This year, for the first time since the issuance of the SDG Sovereign Bond Framework, the report comprises indicators for budgetary programs linked to Green SDGs. The impact strategy thus has been enhanced through the inclusion of social and environmental dimensions, leading to the adoption of an integrated approach.

This year, the Ministry of Finance has published two valuable documents that further validate Mexico's commitment to financing sustainable development, besides the SDG Bond as a financing tool, by providing issuers and investors with certainty and transparency about its strategic intent in sustainability as a whole: the Sustainable Finance Mobilization Strategy and the Mexican Sustainable Taxonomy.

Management Approach

The consolidation of more granular information, and the selection and identification of better indicators allow for a detailed monitoring of SDGs' progress. The institutionalization of procedures to receive information from line ministries and from other institutions, contributes to the development of a sound tracking system to assess development progress.

An integral part of the institutionalization of sustainable finance is the steps taken towards creating a specialized area within the Ministry of Finance in charge of formulating strategies, and structuring and reporting on thematic debt instruments with ESG criteria to address the financial gaps for mitigation and adaptation of climate change, for closing social disparities, and for achieving SDGs. Another proof of the institutionalization and resilience of the management approach is that although the head and staff of the Ministry of Economy, which presides over the Executive Secretariat of the National Council for the 2030 Agenda, changed by the end of 2022, SHCP maintained the strategy and actions established in the Framework, where the 2030 Agenda governance structures play a crucial role. SHCP established good relations with the new team and requested to have *ad hoc* sessions regarding the Eligible Expenditures and the SDG Bonds. It is expected that, in the near future, the operation of the governance structures of the 2030 Agenda will be strengthened as the participation of its stakeholders is reinforced.

Transparency

This Report presents advances in transparency. The first one is that Mexico's Federal Superior Audit Office, an agent of the Chamber of Deputies (ASF, for its acronym in Spanish), has made the first revision for the 2021 Allocation and Impact Report, stating that the Eligible Expenditures of 2020 complied with the Framework's criteria. This exercise will be done for each of the subsequent Reports. The second one is that more granular data has been compiled at the state level for those Eligible Expenditures that operate at that level. Finally, the third is that the inclusion of Green Eligible Expenditures in this Report, since 2022, has detonated the same deliberative and collaborative processes between line ministries, the areas of the Ministry of Finance, and autonomous entities such as the National Institute for Geography and Statistics (INEGI, for its acronym in Spanish) and the National Council for the Evaluation of the Social Development Policy (CONEVAL, for its acronym in Spanish) that led to the consolidation of better information and indicators in budgetary programs aligned with Social SDGs, but this time with programs aligned with Green SDGs. Moreover, the sharing of databases with UNDP to replicate procedures and figures is a sign of openness that is highly acknowledged.

Governance

During this last year, the major innovation in the governance structure was the new legal attributions in the Internal Regulation of the Ministry of Finance to develop strategies, and monitoring on thematic debt instruments, designed to address climate change, social disparities, and to achieve SDGs. This new attribution will be institutionalized in a new administrative area with manuals and routines that monitor financial instruments related with environmental, social, and governance issues.

The elaboration process of Mexico's SDG Bond Allocation and Impact Report has also engaged line ministries and the Ministry of Finance in a consolidation process of its institutionalization within the 2030 Agenda governance structure in the validation of Eligible Expenditures, and the consolidation of more granular information, as well as the selection and identification of better indicators in a deliberative and collaborative environment.

UNDP's Opinion of Alignment with SDG Impact Standards

Mexico's SDG Bond Allocation & Impact Report 2023 published by SHCP demonstrates a clear impact strategy aligned with the four core elements of UNDP's SDG Impact Standards for Bond Issuers. Routines for the deliberative and collaborative validation of the Eligible Expenditures, the consolidation of more granular information, and the selection and identification of better indicators continue to consolidate. The structure of SHCP has begun a process of adaptation and consolidation for the issuance of thematic debt instruments to finance SDGs. Furthermore, SHCP has published the Sustainable Finance Mobilization Strategy and the Mexican Sustainable Taxonomy which provide issuers and investors with certainty and transparency about its strategic intent.

Program Selection

Annually, the Mexican Federal Government uses its methodology, developed in collaboration with UNDP, to prepare each year's budget proposal by linking budgetary programs to SDGs. This step is now an integral part of Mexico's Performance Evaluation System (SED, for its acronym in Spanish). The next step is the selection of Eligible Expenditures by following the Framework's established criteria within the deliberative structures of the 2030 Agenda, where several line ministries, other government institutions, as well as other non-government actors participate. Then the Social Gap Index, developed and published by CONEVAL, is used as an analysis tool to target the Bond's resources destined for Social SDGs in lagged areas. As stated before, the geospatial criterion was not applied to the programs aligned with the green SDGs since these problems are not limited to marginalized territories, and the effects of these investments generally transcend the political borders of the intervened territories.

a. Eligible Expenditures

The Ministry of Finance initially considered 44 budgetary programs as Eligible Expenditures for *Mexico's SDG Bond Allocation And Impact Report 2023*. 32 of these programs were aligned to five Social SDGs—2, 3, 4, 8, and 9—and, for the first time, it included 12 programs aligned to four Green SDGs—6, 7, 11, and 15. Budgetary programs were also aligned to 75 targets of these goals. In this third edition, the methodology of six filters established in the Framework was applied to all Eligible Expenditures. Still, the geospatial criterion, which constitutes the seventh filter, only applies to budgetary programs linked to a Social SDG. In the case of those associated with a Green SDG, they might be present in territories with different marginalization levels because of the nature of the problem they are trying to solve. In order to guarantee a thorough selection process, Eligible Expenditures are revised within the 2030 Agenda governance structures. These governance structures have proven their resilience because by the end of 2022, there were some staff changes within the Ministry of the Economy, which oversees the Executive Secretariat of the National Council of the 2030 Agenda. Nonetheless, SHCP maintained the strategy and actions established in the Framework, where the 2030 Agenda governance structures have a vital role.

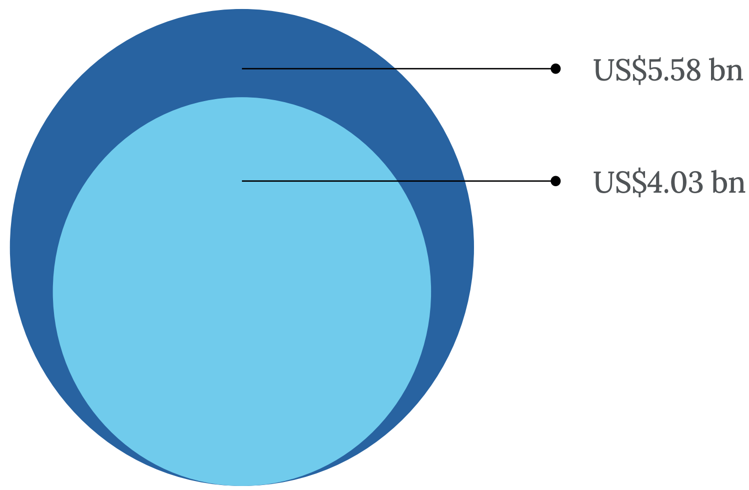
Since the first issuance of the SDG Bond, UNDP's Non-binding Opinion considered a viable option that ASF revised the compliance of the eligibility criteria and the allocation of its resources, this was established in the SDG Sovereign Bond Framework since its publication, and the Ministry of Finance was in an active dialogue with the ASF for this matter. In November of 2022, the Ministry of Finance and ASF signed a collaboration agreement to fulfill the Framework's mandate that the ASF makes a yearly revision of the Eligible Expenditures and Mexico's SDG Bond Allocation and Impact Report to review if they comply with the Framework's selection of budgetary programs and resource allocation criteria. Finally, in August 2023, the ASF published its first Annual External Revision: Report of the Allocation and Impact of the SDG Bond 2021. The ASF concluded in this revision that the Ministry of Finance complied with all the procedures and criteria established in the Framework to select the Eligible Expenditures and to allocate the Bond's resources during the 2020 fiscal year.

b. Use of Social Gap Index

As in previous issuances, the Bond used CONEVAL's Social Gap Index as the seventh geospatial criterion to identify marginalized territories at the state and municipal level in accordance with the Framework. Of the initial 44 Eligible Expenditures, amounting to a total budget expenditure of US$5.58 billion, the geospatial criterion was applied to 32 programs. The notional allocation of the Bond assigned US$4.03 billion, or 72.2% of their budget, to these 32 programs.

US$1.44 billion were allocated to marginalized territories, with a Social Gap Index of Very High, US$1.18 billion to territories classified with a High level, and US$1.40 billion to the Medium level. As in the first and second reports, there is no significant change in the proportion of resources allocated to the different marginalization levels. However, in absolute terms, there is a significant increase in the resources allocated to each of them, almost threefold. In terms of budget execution level, US$1.51 billion were allocated at the municipal level in 14 budgetary programs, while US$2.52 billion to the state level in 18 programs.

Graph 1: 44 Eligible Expenditures total budget and notional allocation



Source: UNDP.

UNDP's Opinion on Program Selection

Program Selection processes have followed the Framework's established criteria. 32 Eligible Expenditures categories were identified to be aligned to five Social SDGs—2, 3, 4, 8, and 9—and, for the first time, 12 programs were aligned to four Green SDGs—6, 7, 11, and 15. The geospatial criterion does not apply to programs aligned to Green SDGs, because environmental problems are not necessarily only present in marginalized territories or because their projects are already geolocalized. Therefore, CONEVAL's Social Gap Index is useful to allocate resources in programs aligned to Social SDGs. ASF has revised that the Eligible Expenditures of the first Report complied with the Framework's selection of budgetary programs and resource allocation criteria.

Allocation Report

a.Initial Eligible Expenditures

As with previous issuances, net proceeds from the SDG Sovereign Bonds were transferred to the Federal treasury and notionally allocated to Eligible Expenditures in the 2022 Federal Budget. Before doing the Notional Allocation of Resources, the Framework establishes that a pool of Eligible Expenditures should be identified by applying its seven criteria, except for those aligned to Green SDGs, where the seventh geospatial criterion does not apply.

Table 1: Eligible Expenditures Initial Pool

SDG	USD	%
2 ZERO HUNGER	$1,026,139,056	14.8%
3 GOOD HEALTH AND WELL-BEING	$1,655,946,938	23.8%
4 QUALITY EDUCATION	$1,890,015,500	27.2%
6 CLEAN WATER AND SANITATION	$1,136,877,553	16.4%
7 AFFORDABLE AND CLEAN ENERGY	$16,659,846	0.2%
8 DECENT WORK AND ECONOMIC GROWTH	$58,930,693	0.8%
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	$947,298,494	13.6%
11 SUSTAINABLE CITIES AND COMMUNITIES	$66,009,600	1.0%
15 LIFE ON LAND	$150,241,805	2.2%
Total	$6,948,119,485	100%

Source: UNDP with information from SHCP.

b.Notional Allocation of Resources

In this third Report, the net SDG Bond proceeds were notionally allocated to address social and environmental challenges targeting nine SDGs. As previously stated, the geospatial criterion only applies to the five selected Social SDGs. Of the US$6.95 Initial Eligible Expenditures identified for 2022, US$5.58 billion or 80.3% were aligned to Social SDGs, whereas US$1.36 billion or 19.7% were addressed to Green SDGs. The next step consisted of applying weights to estimate the Notional Allocation for each of the 44 Eligible Expenditures.

c. Categories of Eligible Expenditures

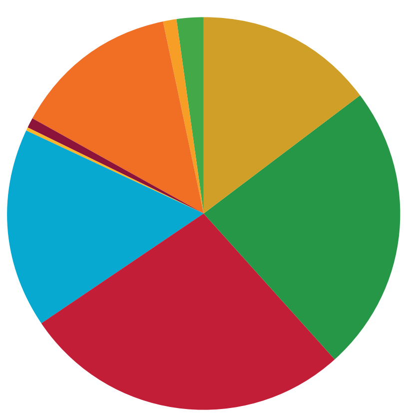
13 of the 44 budgetary programs concentrate almost 85% of the Notional Allocation of the SDG Bond. In this issuance, 70% of the resources were allocated at the state level and 30% at the municipal level. This distribution slightly differs from previous allocations, where 38% and 36% of the resources were channeled to the municipal level. This difference might be due to the inclusion of Eligible Expenditures aligned to Green SDGs, which are allocated at the state level. Education, healthcare, and food security concentrated 65.8% of the Notional Allocation, a lower proportion than the previous issuance where these groups received 79.6% of the resources. Education received US$1.37 billion (27.2% of the proceeds) in contrast to the prior issuance where it received US$452.9 million (30.6% of the proceeds). US$1.2 billion, equivalent to 23.8% of the proceeds, were allocated to healthcare, whereas in the previous issuance, these figures were US$437.7 million and 29.6%, respectively. As in the last Report, Healthcare and Free Medicines for the Population without Labor Social Security was the budgetary program that received the greatest Notional Allocation of resources amounting to US$936 million or 18.7% of the proceeds.

Graph 2: Eligible Sustainable Expenditures categories and allocation 2021 vs 2022 (Portfolio weight (%))

2021

2	19.4%
3	29.6%
4	30.7%
6	0.0%
7	0.0%
8	2.2%
9	18.2%
11	0.0%
15	0.0%

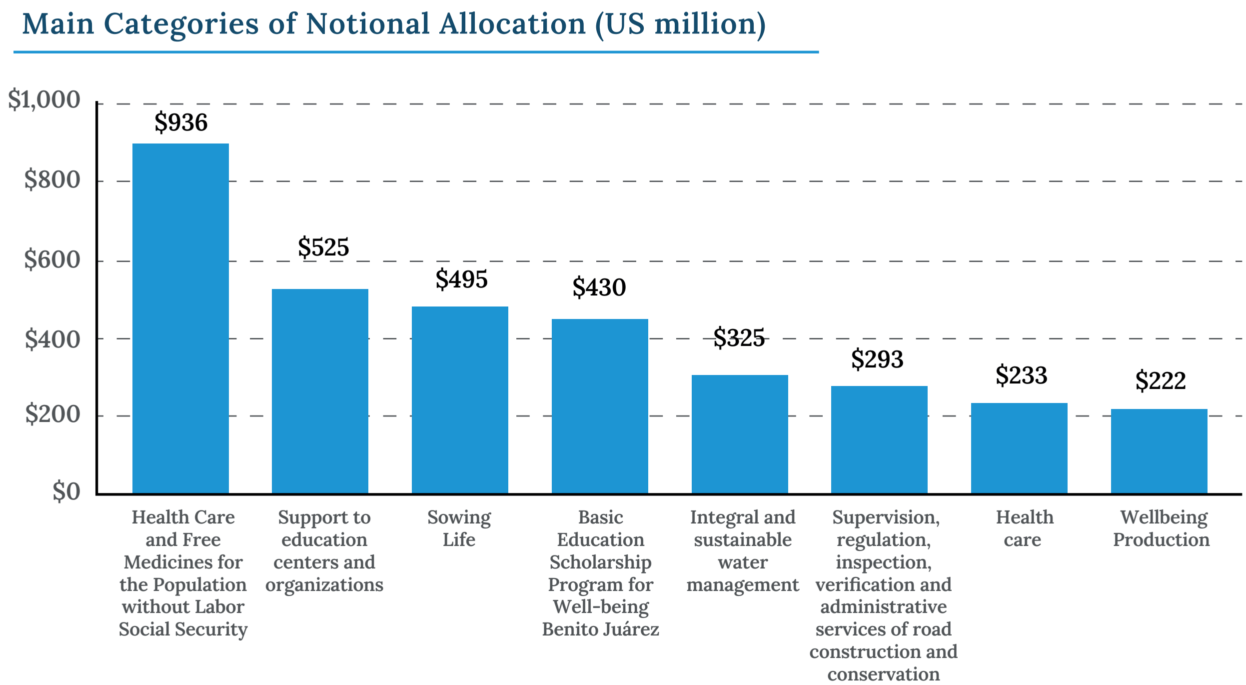
2022



2	14.8%
3	23.8%
4	27.2%
6	16.4%
7	0.2%
8	0.8%
9	13.6%
11	1.0%
15	2.2%

Source: UNDP with information from SHCP.

Graph 3: Main Eligible Expenditures



Source: UNDP with information from SHCP.

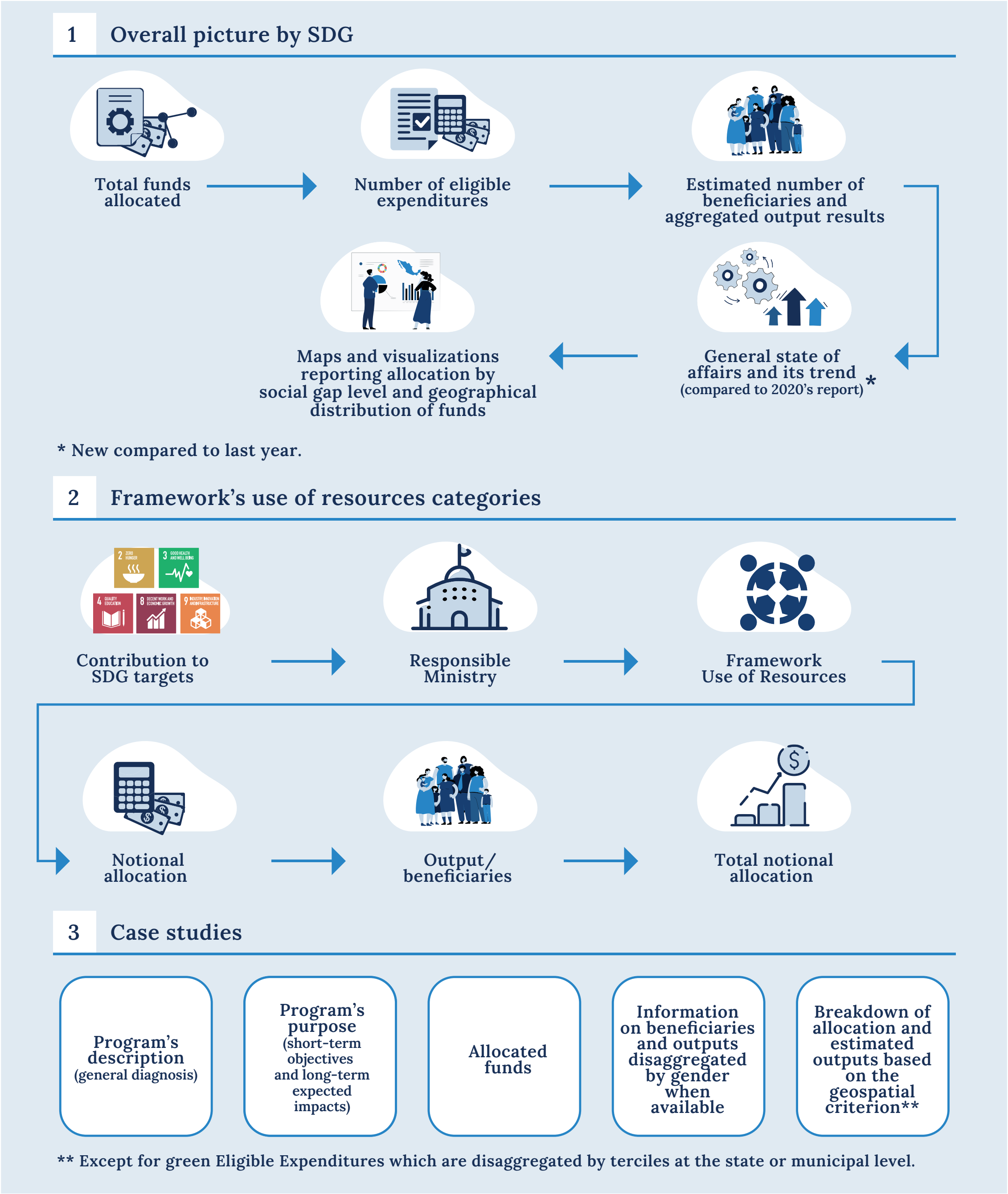
UNDP's Opinion of Allocation Report

Notional Allocation of Resources reflects the amount of Bond's resources distributed in several Eligible Expenditures. 13 of the 44 budgetary programs concentrated almost 85% of the Notional Allocation of Bond's resources. 70% of the resources were allocated at the state level and 30% at the municipal level. The allocation to the state level was higher than in the previous two issuances, mainly because budgetary programs aligned to Green SDGs operate at this level. Nonetheless, 80.3% of Bond's resources were notionally allocated to programs aligned with Social SDGs while the rest was notionally allocated to programs aligned to Green SDGs. Education, healthcare, and food security concentrated 65.8% of the Notional Allocation.

Impact Reporting

This section analyzes the Impact chapter of Mexico's Allocation and Impact Report. As in the previous edition, the 2023 Report presents the outlook of the SDGs in terms of the amount allocated, responsible ministry, number of Eligible Expenditures, beneficiaries, or output indicators, state of affairs indicators, and maps and visualizations (see Figure 1).

Figure 1: Results Framework



a. Theory of Change

The Report concatenates the results of Bond's resources going from the allocated resources to each SDG, then to the number of Eligible Expenditures that are linked to it, the number of beneficiaries and outputs produced by those Eligible Expenditures, and the impact indicator to which it contributes. The maps and graphs contribute to having a reference of where Bonds' resources are channeled. In the case of Social SDGs, the Report shows the marginalized areas where its resources are spent, complying with the Framework's mandate of using a geospatial criterion. Finally, a summary table presents, for each SDG, the breakdown of outputs and beneficiaries according to the Framework's use of resources categories, the Notional Allocation in relative and absolute terms, and the outputs and beneficiaries. It should be noted that, when possible, these should be further disaggregated by gender, age, employment situation, etc. as established in the Framework.

Case studies are helpful to portray the results chain of some Eligible Expenditures. First, they present the name of the Eligible Expenditure and the main SDG target to which it is aligned. Then, it makes a brief diagnosis of the problem it seeks to address and the means to contribute to solve it. It shows the amount of Bonds' resources allocated and output indicators. In contrast to the Output & Beneficiaries breakdown by the Framework's use of resources categories, data is presented disaggregated by gender, where applicable. If it is a Social SDG, it presents Bonds' resources and outputs disaggregated by level of marginalization. A map displays the amount of resources broken down by terciles. Finally, it shows the other SDG targets that Bond's resources contribute to achieve.

b. Expected Impact Indicators and Potential for Positive Contribution to SDGs

Where possible, indicators coming from the Multi-dimensional Measurement of Poverty are used; this is the case for SDGs 2 and 3. These indicators are measured biennially and are constructed with data from the Household's Incomes and Expenses Survey done by INEGI, a constitutionally independent body of the Mexican State. It should be noted that these indicators can be disaggregated into several variables such as gender, age, ethnicity, income level, etc. Furthermore, these indicators are constructed by CONEVAL, an institution with technical autonomy. In fact, in this third edition, the SDG Bond Report includes an appendix where it deepens in the measurement of the Multi-dimensional Poverty and its relationship to SDGs.

The inclusion of Green SDGs has catalyzed the improvement process of data collection and processing, and selection of better indicators in a collaborative and learning process between responsible line ministries, the Ministry of Finance, INEGI, and CONEVAL. These institutions have lent their expertise in gathering data and constructing indicators with rigorous standards such as clarity, relevance, appropriateness, and economy. The improvement of indicators from budgetary programs aligned to Green SDGs constitutes an unequivocal sign of these institutions' commitment with quality, transparency, and results-oriented programming and budgeting.

c. Expected Social Impacts and Estimates of End Beneficiaries

Expected social impacts are reported through state of affairs indicators. At the same time, the estimates of end beneficiaries come either from each Eligible Expenditure's beneficiary registry when these budgetary programs are social in nature and therefore, they should have a mandatory public registry or, in the case of budgetary programs aligned with Green SDGs, they are estimated considering the population that live within the territories in which they operate, if possible. As for the main state of affairs indicators, the results are the following:

- Two out of nine indicators changed in the expected direction.
- Two out of nine indicators changed contrary to the desired direction.
- One indicator did not change.
- Four out of nine indicators are new. These indicators are all from budgetary programs aligned with Green SDGs.

As for the total state of affairs indicators, the results are the following:

- 11 out of 36 (30.6%) indicators' trends changed in the expected direction.
- 6 out of 36 (16.7%) indicators' trends changed contrary to the desired direction.
- 2 out of 36 (5.6%) indicators' trends did not change.
- 17 out of 36 (47.2%) indicators are new.

There are several methods to estimate end beneficiaries. The first one is based on the direct registry of beneficiaries coming from the Integral Information System of Government Program Registries (SIIP G for its acronym in Spanish), administered by the Ministry of Public Administration (SFP, by its acronym in Spanish) and from data integrated by the Ministry of Finance. If both data sets are available, the source that is chosen is the one closest to the information reported on the Public Account, given to the Chamber of Deputies. In this case, the disaggregation by gender, age, and other socioeconomic variables is possible. Another method used in budgetary programs that do not have a registry and benefit a whole territory, such as those aligned to Green SDGs or infrastructure projects. In this case, the data comes from the Public Account prepared by the Ministry of Finance.

d. Data Segmentation and Output Monitoring

Output indicators come from the information that budgetary programs report in their Results Indicators Matrix to the Performance Evaluation Unit of the Ministry of Finance. In the case of budgetary programs aligned to Social SDGs, they are susceptible to segmentation by the geospatial criterion, as well as other socioeconomic characteristics. Except for the case studies where the percentage of beneficiaries that are women and, in some cases, indigenous or that inhabit highly and very highly marginalized municipalities are reported, the challenge to report more granular data in the Impact Report persists. The inclusion of budgetary programs aligned to Green SDGs in the Report catalyzes a gradualist approach to improve innovative processes in data segmentation.

UNDP's Opinion on Impact Reporting

The Impact Report follows the Framework's criteria. The Report concatenates Bond's allocated resources to each SDG, then to the number of Eligible Expenditures aligned to each of them, the number of beneficiaries and outputs produced by those Eligible Expenditures and finally to the impact indicator to which they contribute. After CONEVAL released the results of the Multidimensional Measurement of Poverty, some of the trends of the main state of affairs indicators have been measured. It is possible and desirable to disaggregate these indicators by gender, age, socioeconomic situation, etc. Also, the inclusion of Eligible Expenditures to Green SDGs has established baselines for future measurements. In general, 30.6% of the indicators' trends changed in the expected direction; 16.7% changed contrary to the desired direction; 5.6% did not change; and 47.2% are new.

SDG Bonds as a Driver of Change

a. Regularization of the Mexican financial ecosystem

In September of 2023, the Ministry of Finance published the Strategy for the Mobilization of Sustainable Finance, whose objective is "to reorient financing from public and private sources to develop activities and projects that generate positive impacts on the environment and society." This document explicitly mentions the eleven issuances of SDG Bonds in international markets since 2020. It also highlights the issuance of sustainable bonds in the local market since 2022, where demand has surpassed supply fourfold. The issuance of SDG Bonds has had a demonstrative effect on private issuers of thematic bonds and paved the way by expanding the market. Furthermore, other public institutions have followed SHCP's lead. For example, the Federal Commission of Electricity (CFE, for its acronym in Spanish), Mexico's State-owned electricity firm, issued its first sustainable bond in 2022 for financing renewable energy projects.

In March of 2023, the Ministry of Finance published Mexico's Sustainable Taxonomy, which "is a classification system that allows to identify and define activities, assets, and investments projects with positive environmental and social impacts, based on established targets and criteria." This definition will help to standardize the market and promote what SDG Bonds have been doing: attracting resources to finance economic activities or specific programs to achieve environmental and social positive impacts. In fact, this is the implicit theory of change that relies on the Impact Report.

b. Market diversification

Since its first issuance, the SDG Bond has followed a market diversification strategy. It started issuing first in Euros, and then, in 2022, diversified into Mexican Pesos, the local currency, US Dollars and Japanese Yen. The Japanese market has always been keen to invest in long-term Mexican debt. The incursion in this market has allowed to get very favorable interest rates, ranging from 1.00% to 2.52%, and with terms ranging also from three to 20 years. The strategy of issuing in the local market also provides more control over variations in exchange rates.

c. Institutionalization

Several processes related to the SDG Bond issuance have been institutionalized such as the yearly alignment of budgetary programs to SDGs that started in 2017 before the publication of the Framework and the first issuance of SDG Bonds; the validation of Eligible Expenditures at the governance structures of the 2030 Agenda; the selection, revision, and update of information and indicators; the elaboration and publication of its Allocation & Impact Report, etc. In 2023, the SHCP advanced towards the creation of an administrative area with manuals and routines in charge of formulating strategies, and structuring and reporting on thematic debt instruments with ESG criteria to address financial gaps for mitigation and adaptation to climate change, for closing social disparities, and for achieving SDGs. These new attributions had already been published as part of the Ministry of Finance's Internal Regulation.

UNDP's Opinion on SDG Bond as a Driver of Change

In 2022, SDG Bonds issuances inaugurated the local capital market with demand exceeding supply fourfold. SHCP has also issued bonds in the Japanese capital market which provides diversification and low rates at long terms, adding to the USD and EUR markets, where Mexico has a strong presence. State-owned firms have also started issuing their own sustainable bonds. SHCP has published the Strategy for the Mobilization of Sustainable Finance and the Mexican Sustainable Taxonomy which provide issuers with guidelines and investors with certainty and transparency regarding Mexico's sustainable finance strategy.

Concluding remarks and recommendations

Mexico's SDG Bond Allocation & Impact Report 2023 portrays the commitment of the Ministry of Finance to keep informed ESG investors about how its resources were allocated into social or green budgetary programs, the number of beneficiaries and outputs they produced, and the potential contribution they have to achieving SDG targets. Furthermore, the Report's dynamics have generated positive spillovers to other line ministries, within the Ministry of Finance, and the Mexican sustainable finance ecosystem.

The inclusion of budgetary programs aligned to Green SDGs has catalyzed a process of improving the compilation analysis, reporting of better information and the deliberative and collaborative selection of indicators that reflect outputs and state of affairs in the environmental policy arena. These discussions have taken place within the 2030 Agenda governance structures where INEGI, a constitutionally autonomous State institution, and CONEVAL, another institution with technical autonomy have lent their expertise and advice. Nonetheless, there are still opportunities and challenges for improvement such as the disaggregation of output and social state of affairs indicators by gender, age, employment status, as established in the Framework.

Transparency has been enhanced in this edition. Mexico's Federal Superior Audit Office has revised that the first SDG Bond Allocation and Impact Report complied with the Framework's criteria. This exercise is to be done yearly, with the subsequent published Reports. Besides, the sharing of databases with UNDP to replicate procedures and figures is a sign of openness that is highly acknowledged.

Within the Ministry of Finance, the process of institutionalization of sustainable finance has advanced through various steps, including those taken towards the creation of a specialized area in charge of formulating strategies, and structuring and reporting on thematic debt instruments with Environmental, Social, and Governance (ESG) criteria to address financial gaps for mitigation and adaptation to climate change, for closing social disparities, and for achieving SDGs.

The Ministry of Finance has published two documents that provide certainty and transparency for sustainable finance issuers and investors. The Strategy for the Mobilization of Sustainable Finance presents coordination guidelines and offers certainty regarding Mexico's strategy to attract public and private resources to finance sustainable development. The Mexican Sustainable Taxonomy provides issuers and investors a classification system to identify and define activities, assets, and investments projects with positive environmental and social impacts.

Finally, the Ministry of Finance started a diversification strategy which implies issuing bonds in the local and Japanese capital markets. This is a good practice because, the issuance in the local capital market reduces uncertainty with regards to volatility in exchange rates, and the selling of bonds in the Japanese capital market allows to get highly competitive rates at long terms.

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