United Nations Development Programme

UNDP

Non-Binding Opinion

Mexico's 2020 SDG Bond Allocation and Impact Report

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The United Nations Development Program is the leading United Nations agency dedicated to ending injustice of poverty, inequality and climate change. We work with our extensive network of experts and partners in 170 countries to help nations build integrated and lasting solutions for people and the planet.

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UNDP's Opinion at a Glance

UNDP is of the opinion that Mexico's 2020 SDG Bond Allocation and Impact Report follows the criteria portrayed in the UMS SDG Sovereign Bond Framework underpinning its issuance. The report showcases the consistent effort of the Government of Mexico to integrate impact management into its sustainable financing decision-making. The report embodies the core elements of UNDP's SDG Impact Standards for Bond Issuers. The expected impact reflects the direction of the country´s policy choices and is linked to budgetary programs aligned with SDGs targets.

The opinion is built upon the following dimensions:

1. SDG IMPACT STANDARDS

2020 Mexico's SDG Bond Allocation and Impact Report embeds the four foundational elements of the SDG Impact Standards for Bond Issuers.[1] The country efforts reflect a commitment towards developing a strategy for contributing positively to SDGs.

2. PROGRAM SELECTION

The eligible expenditures selection process is formalized in the UMS SDG Sovereign Bond Framework.[2] UNDP considers that this process is verifiable, consistent, and sufficiently robust. The selection and exclusion clauses met the provisions established in the Framework.

3. ALLOCATION REPORT

The funds were allocated to eligible expenditure categories aligned with social development goals that are intended to achieve positive socio-economic outcomes. The Ministry of Finance was responsible for notionally allocating the funds according to clear, transparent, and verifiable criteria. The spending practices are in line with domestic public financial management regulations and laws.

4. IMPACT REPORTING

The Ministry of Finance fulfills the commitment to publish its first annual Allocation of Funds and Impact Report and will continue to do so until the Bond has been fully repaid. UNDP considers that the reported interventions can translate into positive social impacts and advance the Sustainable Development Goals, specifically SDG 2, 3, 4, 8, and 9. UNDP is of the view that this Report is aligned with UMS SDG Sovereign Bond Framework's established practices.

5. SDG SOVEREIGN BOND AS A DRIVER OF CHANGE

Institutional and organizational dynamics associated with bond issuance and its impact report triggered a continuous learning environment, invigorating knowledge and information-sharing channels, surfacing the potential virtuous cycle of connecting financing sources and results-oriented reports on expenditures. This opened new conversations among development economics and financing for sustainable development practitioners.

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1   The four foundational elements are strategy, management approach, transparency, and governance. 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. For further detail please refer to the following link: https://sdgimpact.undp.org/sdg-bonds.html
2   https://www.finanzaspublicas.hacienda.gob.mx/work/models/Finanzas_Publicas/docs/ori/Espanol/SDG/UMS-SDG_Sustainable_Bond_Framework.pdf

Foreword

Innovations that contribute to sustainable development are generating new ways to understand the role that financial instruments can play on increasing funding and enhancing impact of development programs. The issuance of the first Sustainable Development Goals (SDG) Bond in 2020, by the Government of Mexico, is a milestone that strengthened the country's transformative journey towards development and fostered new dynamics within the ecosystem.

Aligning government budgets to SDGs is an unprecedented exercise that implies a responsibility, not only on issues related to account disclosure to public scrutiny, but also on policy programing to enhance development. This accountability exercise is a cornerstone on reporting expected impacts of this type of investments. The United Nations Development Programme (UNDP) has been involved with this process since 2017, when the first budget and SDG alignment workshop took place in the country, and more recently in 2020, when UNDP was invited to provide an opinion on the UMS SDG Sovereign Bond Framework.

To accelerate the implementation of financial solutions that foster sustainable development, UNDP has focused on technical assistance activities within the different stages of preparation of the SDG Bond, as well as on supporting the monitoring and evaluation processes. As part of the activities that were established on the Memorandum of Understanding signed with the Ministry of Finance, UNDP agreed to issue a Non-Binding Opinion of Mexico's 2020 SDG Bond Allocation and Impact Report. These activities are part of a comprehensive regional strategy of UNDP's Regional Bureau of Latin America and the Caribbean to strengthen capabilities to design and implement innovative financing instruments to enhance sustainable development.

The context in which this Opinion took place reflects both openness and commitment by national authorities towards innovating financial responses to address pressing development challenges. The vision to effect positive change in the most vulnerable communities is reflected on the use of the Bond's funds to overcome conditions that prevent access to basic services as well as to education and health. Thus, the expenditures linked to the Bond do capture the expected contribution to SDGs that the country envisions.

This Opinion highlights the effort of the Government of Mexico to incorporate impact management into its sustainable development financing decisions. The SDG Bond Allocation and Impact Report embodies core elements of UNDP's SDG Impact Standards and addresses to some extent the country's policy direction as it relates to budgetary programs' alignment with SDGs targets. UNDP's Opinion focuses on several dimensions that capture the strategic approach in which the allocation of funds took place.

One dimension is worth emphasizing. This is the one related to the institutional dynamics that were generated as part of the issuance of the SDG Bond, as well as the elaboration of its Report. The initial evidence, collected through interviews with the stakeholders of this initiative, shows that an environment of continuous learning started to evolve as different conversations on development and financing took place among diverse participants. This eventually translated into knowledge generation that catapulted information sharing through digital channels that over time, will improve the understanding of the effects that sustainable financing has on development results. These dialogues are expected to expand, until best practices on development economics and sustainable finance merge towards a continuos improvement of impact management and reporting.

Finally, UNDP is grateful to the Mexican authorities for their invitation to be part of this journey towards sustainable development and acknowledges their commitment towards finding new financial mechanisms to foster development within a sound policy framework.

Executive Summary

In September 2020, the Government of Mexico through the Ministry of Finance (SHCP, for its acronym in Spanish) issued the first Sustainable Development Goals (SDG) Sovereign Bond aligned with the 2030 Sustainable Development Agenda.[3] This issuance was preceded by the UMS SDG Sovereign Bond Framework that provided a sound mechanism to track eligible sustainable expenditure categories according to the national government's budget.[4] United Nations Development Programme (UNDP) was invited to provide an opinion of such Framework and as part of its commitments with the country, UNDP agreed to accompany the report preparation process and issue a non-binding opinion in this regard.[5] This type of innovative initiatives are part of a comprehensive effort carried out by UNDP's Regional Bureau of Latin America and the Caribbean in a joint effort, with the Country Offices, to support the region in developing institutional capabilities to manage financing instruments for sustainable development.

The context in which the previous UNDP's opinion regarding the UMS SDG Sovereign Bond Framework took place reflected openness to public scrutiny by authorities, as well as a solid institutional commitment towards exploring innovative financing mechanisms to address pressing development challenges. This Opinion on Mexico's Allocation and Impact Report is proof that this commitment continues to drive positive change to effect impact in the country's most vulnerable communities. The open dialogue with the authorities, allowed UNDP to analyze whether the mechanisms selected by SHCP to link the use of funds to results were reasonable, transparent, robust, and replicable within a sound governance framework. Once these mechanisms were observed in practice, it was possible to argue that the expenditures linked to the Bond do capture the contribution to the SDGs.

UNDP's non-binding opinion represents an independent appraisal on the alignment of Mexico´s SDG Bond Allocation and Impact Report with the 2030 Agenda and the extent to which eligible expenditure categories have followed the criteria established in the UMS SDG Sovereign Bond Framework, and UNDP's letter of alignment.[6]

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3 https://www.gob.mx/shcp/prensa/comunicado-no-071

4 https://www.finanzaspublicas.hacienda.gob.mx/work/models/Finanzas_Publicas/docs/ori/Espanol/SDG/UMS-SDG_Sustainable_Bond_Framework.pdf

5 Given that the SDG Impact Standards for Bond Issuers were released in 2021 they were not included in the Framework's opinion.
 https://www1.undp.org/content/undp/es/home/news-centre/news/2020/Historic_890_million_SDG_Bond_issued_by_Mexico.html

6 https://www.finanzaspublicas.hacienda.gob.mx/work/models/Finanzas_Publicas/docs/ori/Espanol/SDG/UNDPs_Opinion_on_Mexicos_SDG_Sovereign_Bond-February_2020.pdf

As part of UNDP's non-binding opinion, the following were reviewed:

1. UMS[7] SDG Sovereign Bond Framework ("Framework").

2. UMS SDG Sovereign Bond Allocation and Impact Report.

3. The alignment of funds allocation and impact reporting with UNDP's SDG Impact Standards for Bond Issuers.

4. The viability of the intended positive impacts of the SDG Bond use of funds.

5. The institutional commitment and governance mechanisms towards sustainable development and environmental, social and governance performance to achieve SDGs by 2030.

As part of this formal engagement, UNDP held several conversations with various members of the Government of Mexico and attended the first meeting of the Specialized Technical Committee for SDGs (CTEODS, for its acronym in Spanish) that took place on July 6th, 2021. UNDP also met with the Ministry of Finance's team to discuss the effect of the SDG Bond on both internal and external planning processes activities. Also, UNDP had fruitful discussions on the use and management of resources as well as on impact reporting with several stakeholders.[8]

This report is structured into six sections. In the first one, an assessment on the alignment of Mexico's SDG Bond Allocation and Impact Report with respect to SDG Impact Standards for Bond Issuers was carried out. The second section comprises an evaluation of the program selection methodology and its soundness to capture the links to specific SDGs. The third section describes the use and management of resources and the allocation criterion that was followed to guarantee the appropriate use of the Bond's funds. The following section captures the main challenges of reporting and the indicators that were used to monitor expected results. Section five offers a fresh perspective on institutional dynamics that were generated because of the SDG Bond issuance and impact reporting. The last section provides a series of recommendations for future reports.

UNDP considers that Mexico's 2020 SDG Sovereign Bond Allocation and Impact Report embodies the four foundational elements of the SDG Impact Standards for Bond Issuers. The strategy standard alignment of UMS SDG Sovereign Bond Framework is shown through an appropriate impact strategy for positive contribution to SDGs. The integration of impact into decision-making reflects the basis of the management approach standard. Disclosure of positive contributions to sustainable development through the SDG Bond and performance reporting captures the fundamentals of transparency standard. SHCP has continually reinforced its commitment to sustainable development through its governance practices.

The process for selection of eligible sustainable expenditures entails different types of policy tools to address development challenges.[9] The use of geo-spatial eligibility criterion, for certain social spending programs, is intended for beneficiaries in vulnerable segments of the population according to the latest

7   United Mexican States (Mexico).

8   UNDP would like to thank the National Institute of Statistics and Geography (INEGI), the Office of the 2030 Agenda for Sustainable Development, and three units within the Ministry of Finance (SHCP): Office of the Chief of Staff of the Undersecretary, Public Credit Unit, and the Performance Evaluation Unit (UED) for the time devoted to these interviews.

9   These tools include spending on investments, subsidies, grants, loans, cash transfers and in-kind benefits.

Social Gap Index (2020).[10] The methodology used to select specific budgetary items includes choosing development targets that are addressed through public programs as well as those with high potential to affect socio-economic progress. The resources of the 2020 SDG Bond are related to eligible sustainable expenditure categories of the identified budgetary programs to advance SDG 2, 3, 4, 8, and 9.

> Management of allocation of funds was transparent and guaranteed that an amount equal to the funds was used to finance eligible budgetary programs.

The eligible expenditure categories, with a specific SDG target, were items included in the country's 2020 annual budget that are aligned with a specific SDG. The SDG Bond included budgetary programs with a sustainable development outcome and output. These expenditure items were earmarked and were spent in the fiscal year that ended on December 31st, 2020. The scope of spending items targeted to highly vulnerable municipalities in terms of education, health, and access to basic services at household level seems to clearly identify the largest barriers that prevent marginalized communities from achieving SDGs. The criterion for selecting eligible spending items includes a list of excluded activities that cannot be financed through the SDG Bond.[11] Management of allocation of funds was transparent and guaranteed that an amount equal to the funds was used to finance eligible budgetary programs.

The impact report is the first analytical exercise conducted on Mexico's first SDG Bond to account for expected results related to the budgetary programs that integrate the pool of eligible expenditures for 2020. Given the complex dynamics of sustainable development, the proposed expected impact indicators capture the direction of the intended effect of the interventions on the target populations. The report includes relevant available data, disaggregated at either state or municipal level, that is collected by the National Institute of Statistics and Geography (INEGI)[12], line-ministries and the National Council for Social Policy Evaluation (CONEVAL).[13] The state and municipal allocation of funds was done following a geo-spatial criterion and the use of the Social Gap Index to target marginalized communities as established on the UMS SDG Sovereign Bond Framework. In October 2021, the Committee of Inclusive and Sustainable Economy (CISE) had its first session where a revision of the 2021 eligible expenditures took place.[14] In the meantime, several workshops took place in 2020 to review the eligibility of such expenditures. Once it is functioning, UNDP will participate as an observer and will provide an opinion on the selection process of eligible spending items.

The issuance of the SDG Bond and the elaboration of the impact report generated organizational and institutional dynamics that enabled an accelerated and continuous learning environment, opening new pathways to access granular information. A roadmap to institutionalize information sharing practices was implemented to overcome communication challenges and fostering regulatory reforms to support this type of ecosystem. Existence of this innovative financing mechanism might trigger a deeper understanding on the linkages between money sources and their uses and outcomes. Narrowing the knowledge-sharing gap between the fields of Development Economics and Financing for Development is also perceived as an additional positive dynamic that is being generated by this issuance. This is seen as a positive byproduct of the Government of Mexico's (GoM) commitment towards innovative instruments for financing sustainable development, that provides valuable lessons for the international community.

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10 https://www.coneval.org.mx/Medicion/IRS/Paginas/Que-es-el-indice-de-rezago-social.aspx

11 Excluded activities include exploration, production, or transportation of fossil fuel; generation of nuclear power; and alcohol, weapons, tobacco, palm oil, cattle/beef production, conflicted minerals, or adult entertainment industries. Also, activities related to deforestation or degradation of biodiversity; child labor or forced labor; and breach of Mexico's anti-corruption laws, and all environmental, social and governance laws, policies, and procedures were excluded.

12 Instituto Nacional de Estadística y Geografía.

13 Consejo Nacional de Evaluación de la Política Social.

14 The operation of this Committee in 2020 was affected by the constraints posed by the Covid-19 pandemic and for the change of Presidency in the 2030 Agenda Office to the Ministry of Economy.

SDG Impact Standards

In April 2021, UNDP released the 1.0 version of the SDG Impact Standards for Bond Issuers. These Standards are provided for all Bond Issuers – regardless of size, geography, or sector – who want to contribute positively to sustainable development and SDGs. These are practice and decision-making principles – not performance or reporting guidelines. In that sense, for the purpose of this public opinion, UNDP relies on the core elements of such standards as a conceptual framework[15] to reflect on the practices and decision-making process regarding this Report. The previous opinion on the alignment of Mexico's SDG Sovereign Bond Framework to SDGs is a valuable first approach and represents one of the pillars for this Non-Binding Opinion. An analysis of this nature was only made possible by the openness of the Ministry of Finance to allow UNDP to accompany the report-making process since the early days.

Table 1 ∣ SDG Impact Standards for Bond Issuers

Principle	Actions
Strategy	The SDG Bond clearly defined and contextualized SDG impact intentions and strategic impact goals to link results to expenditure categories. The SDG Bond excludes spending programs whose objectives were opposed to sustainable development. SHCP formally engaged all the involved stakeholders to clarify roles and responsibilities, considering the interdependency of sustainable development issues and SDGs.
Management Approach	SHCP embeds sound impact measurement and management practices into the design and operation to optimize SDG Bond's contribution to sustainable development. A sustainable development approach was incorporated into the federal budget cycle to guarantee that the public spending is linked to SDGs.
Transparency	Disclosure practices of SDG Bond performance and contribution to sustainable development were in place. All relevant information about the bond and other public finance related topics is accessible. Transparency practices carried out by SHCP include annual allocation of funds and impact reporting.
Governance	There has been a strengthening of institutional capacities and control mechanisms to contribute to sustainable development. There are two independent governing bodies that are responsible for monitoring and assessing indicators and policies to address SDGs challenges.[16]

15 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.

16 There is a Specialized Technical Committee for Sustainable Development Goals (CTEODS) that oversees data collection and the National Council for 2030 Agenda that is responsible for monitoring and evaluation of related development activities.

⚙ Strategic Intent

Mexico's SDG Bond Allocation and Impact Report integrates strategic intent and impact goal-setting foundational elements of the SDG Impact Standards for Bond Issuers.[17] The country has made substantial efforts to embed sustainable development elements into consistent purpose and strategy to enhance SDGs. The SDG Bond has clearly defined and contextualized SDG impact intentions and strategic impact goals. In addition, to consider the interdependency of sustainable development issues and SDGs, a formal engagement plan was issued to effectively involve all the stakeholders, on at least a semi-annual basis through a technical Committee, to solve implementation challenges and clarify roles and responsibilities. There is also an extensive use of available evidence and relevant social and scientific data that is collected by INEGI. An information platform, SDGs Information System (SIODS)[18], is in place to compile information from different sources into a well-integrated system to display national, state, and municipal indicators.[19] Also, SHCP has continued its SDG Bond Program that includes a recent issuance on 6th July 2021, for €1,250 million with a maturity of 15 years and sound impact goals to monitor its sustainable development strategy.[20]

⚙ Integration of Management Approach

SHCP is integrating impact into its management approach to optimize SDG Bond's contribution to sustainable development. The SDG Bond report relies on a robust "managing-for development-results" system and an institutionalized governance architecture to deliver on the impact strategy and SDGs monitoring. Since 2018, a sustainable development approach was incorporated, into the federal budget to link public spending to SDGs. There is also visibility of senior leadership's commitment throughout the Ministry of Finance and other involved stakeholders, regarding performance monitoring, conformance. A culture of continuous improvement is starting to develop to bring together functions of different areas of the Ministry and several stakeholders. There is a formal approach to involve all stakeholders on issues that affect them, including support on budget training and local leadership. All of them are kept informed of actions, progress, and lessons in a transparent manner.

⚙ Contribution to Transparency for Sustainable Development

In the case of transparency, SHCP is disclosing its performance strategy and its potential positive contribution to sustainable development. In this regard, all relevant information about the Bond and other public finance related topics is accessible to all interested parties.[21] This information includes the UMS SDG Sovereign Bond Framework[22], Second-Party Independent Opinion[23], UNDP's Opinion on Mexico's SDG

17 https://sdgimpact.undp.org/assets/Bond-Issuers-Standards_1.0.pdf

18 Sistema de Información de los Objetivos de Desarrollo Sostenible.

19 http://agenda2030.mx/#/home

20 https://www.gob.mx/shcp/prensa/comunicado-no-041-mexico-consolida-curva-de-rendimientos-sostenible-con-nuevo-bono-alineado-a-objetivos-de-desarrollo-sostenible-de-la-onu-276495

21 https://www.finanzaspublicas.hacienda.gob.mx/es/Finanzas_Publicas/Espanol

22 https://www.finanzaspublicas.hacienda.gob.mx/work/models/Finanzas_Publicas/docs/ori/Espanol/SDG/UMS-SDG_Sustainable_Bond_Framework.pdf

23 https://www.finanzaspublicas.hacienda.gob.mx/work/models/Finanzas_Publicas/docs/ori/Espanol/SDG/2020_0218_VigeoEiris_SPO_SHCP_Final.pdf

Bond Framework[24], and eligible sustainable expenditure categories.[25] SHCP is committed to publicly report, at least annually, on allocation of funds and on the impact of its SDG Bond. Regarding impact, disclosures include an explanation on the expected effects of its government spending policy to foster SDGs. To do so, the authorities intend to use related targets, to provide sufficient context of actual performance against goals and baselines. As part of its disclosure policy, the Framework considers an external audit to the Allocation Report that could be carried out by Deputy Chamber's audit unit. Also, there is a formal mechanism to ensure appropriate actions are taken to address observations and recommendations timely.

Governance Practices

Governance practices have focused on both strengthening institutional capacities and creating control mechanisms to contribute positively to sustainable development through public action. In this regard, since 2015, the Government of Mexico (GoM) created the Specialized Technical Committee for Sustainable Development Goals (CTEODS), a governing body responsible for generating indicators and statistical information to allow monitoring and strengthening of public policies to address SDGs challenges. CTEODS is coordinated by INEGI and brings together 26 government units, as well as UNDP as standing invitee.[26] In addition, with the aim to enhancing the multidimensional focus of development interventions, in 2017, the GoM created the National Council for 2030 Agenda[27], and in 2021 its mandate was strengthened to monitor targets and indicators to fulfill de 2030 Sustainable Development Agenda.[28] This high-level multi-stakeholder council is led by the President of the country and includes 19 line-ministries, sub-national governments, non-governmental organizations, academia, private sector and international development agencies. Through this institutional arrangement the GoM meets corporate governance standards regarding institutional coordination policies to address sustainable development issues.

UNDP's Opinion on Alignment with SDG Impact Standards

Mexico's SDG Bond Allocation and Impact Report is aligned with the four core elements of UNDPs' SDG Impact Standards for Bond Issuers. The Report has clearly defined, and contextualized SDG expected impact and strategic goals to link results to expenditures categories. Sound impact measurement is embedded with management practices to optimize SDG Bond's contribution to sustainable development. There is disclosure on SDG Bond performance and its potential positive contribution to sustainable development. The governance processes provide the appropriate operating context for an effective oversight of the SDG Bond. Thus, there is consistency between the country's strategy and purpose to enhance SDGs through this type of innovative financial instruments.

24 https://www.finanzaspublicas.hacienda.gob.mx/work/models/Finanzas_Publicas/docs/ori/Espanol/SDG/UNDPs_Opinion_on_Mexicos_SDG_Sovereign_Bond-February_2020.pdf

25 https://www.finanzaspublicas.hacienda.gob.mx/work/models/Finanzas_Publicas/docs/ori/Espanol/SDG/2020_Eligible_SDG_Expenditures.pdf

26   http://agenda2030.mx/docs/doctos/AcuerdoCrea_es.pdf

27   http://www.dof.gob.mx/nota_detalle.php?codigo=5480759&fecha=26/04/2017

28   http://dof.gob.mx/nota_detalle.php?codigo=5624321&fecha=20/07/2021

2   Program Selection

Methodology to Link Budgetary Programs to SDGs

The methodological approach that was implemented to identify the links between budgetary programs to SDGs entails a two-stage process.[29] During the first stage, links were identified through matching budgetary programs' objectives to SDGs targets. During the second stage, identification of the type of contribution of budgetary programs to SDG takes place.[30] Thus, the two-stage process not only allows for examining the contribution of the budgetary program to SDG targets, but also reviews the direct or indirect contribution as well as the conducive conditions to achieving the SDGs. Eligible expenditures are labeled under SDGs categories that are most related to the objectives and programs' target population.[31] The methodology is supported by a logical framework in which the link between inputs, activities, outputs, and outcomes is fully aligned and consistent.[32] These processes were fully implemented before the issuance of the UMS SDG Sovereign Bond.

Innovation in Budget Alignment

Mexico's Federal Government has pioneered efforts to assess the contribution of their budget to SDGs targets in a comprehensive manner. Given the innovation of the budget alignment to SDGs, that started in 2018, it is very likely that the methodology will continue to evolve to include other elements that were not included in the first edition of the impact report. Improvements on both planning and budgeting processes are already being analyzed by the authorities and could eventually be incorporated to further strengthen the linkage processes of budgetary programs to SDGs targets. Furthermore, these new pieces of information could be used as inputs to provide different levels of data disaggregation that inform future allocation of funds and impact reports. UNDP recognizes that this effort is part of wide range innovation practices within the government which constitutes a strong foundation for continuous improvement and knowledge sharing among participating government institutions.

Eligible Expenditures Categories

Eligible expenditures in 2020 are mainly related to social development targets and associated to 20 SDG targets (out of 51) of the 2030 Agenda. The monitoring of such associated targets is conducted in SIODS (7) and through other sources (15) that include administrative data from line-ministries (Table 2). The approach used to select the pool of eligible expenditures was based on filters established in the

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29 https://www.ppef.hacienda.gob.mx/work/models/PPEF2020/docs/exposicion/EM_Anexo.pdf

30 Contributions may be total or partial, direct, or indirect. It is paramount to acknowledge that the mechanism through which this could effectively materialized is still being evaluated given the interconnectedness of SDGs and the possibility that trade-offs could arise.

31 https://www.gob.mx/cms/uploads/attachment/file/556730/ANEXO_2_Vinculacion_del_Presupuesto_a_los_Objetivos_del__Desarrollo_Sostenible.pdf

32 https://www.mx.undp.org/content/mexico/es/home/library/democratic_governance/el-enfoque-de-la-agenda-2030-en-planes-y-programas-publicos-en-m.html

Framework and the starting point included all eligible spending categories. The validation of the program selection process, that was carried out through several workshops that took place in 2020, represents an institutional effort to guarantee that eligible expenditures criteria were met according to the Framework's guidelines and that no inconsistencies were found.[33] In the future, the validation process is expected to be performed within the Committee for Inclusive Sustainable Economy (CISE, for its acronym in Spanish).[34] This Committee is already envisioned in the UMS SDG Sovereign Bond Framework and in October 2021 a revision of eligible expenditures already took place for the fiscal year ending in December 2021.[35] As part of the disclosure policy, the Framework considers the use of an independent external auditor. Deputy Chamber's Audit Unit (ASF[36], for its acronym in Spanish) could represent a viable option to verify the compliance of both eligibility criteria and spending of the Allocation Report.[37]

Table 2 ｜ SDG Associated Targets and Number of Budgetary Programs with Contribution to SDGs in 2020

SDG	Associated SDG Targets and Indicators			Eligible expenditures categories	Allocation of Bond's funds (million USD)	Share in total (%)
	2030 Agenda	SIODS [38]	Other sources			
2	1	1	-	4	139.1	16
3	8	2	6	10	291.5	34
4	7	3	5	15	270.5	32
8	3	-	3	3	48.6	6
9	1	1	1	5	105.3	12
Total	20	7	15	37	855	100

Source: United Nations, SHCP and INEGI.

Use of Social Gap Index

The identification of marginalized communities, at both state and municipal level, was based on the Social Gap Index estimated by CONEVAL. This process was implemented according to the methodology suggested by the UMS SDG Sovereign Bond Framework. Previously, a pool of eligible expenditures categories was selected and from such amount, a geo-spatial eligibility criterion was applied. Out of the US$16.8bn[39] that were identified under eligible expenditures, 26% or US$4.4bn were classified as medium, high, or very high levels of marginalization according to the Social Gap Index. It is important to highlight that 39% of this figure or US$1.7bn was specifically identified as eligible expenditures in marginalized

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33 Several workshops took place to validate with line-ministries such eligible expenditures categories.

34 Committee for Inclusive Sustainable Economy (CISE).

35 For additional information please refer to page 24 and 25 of the UMS SDG Sovereign Bond Framework.

36 Auditoría Superior de la Federación.

37 It is recommended that, once the audit report is available, be included into the public documents that accompany the 2020 SDG Bond issuance.

38 Sistema de Información de los Objetivos de Desarrollo Sostenible. http://agenda2030.mx/#/home

39 That represents 5.6% of the executed budget of the country in 2020. https://www.transparenciapresupuestaria.gob.mx/es/PTP/infografia_ppef2020

municipalities (Figure 1)[40] This shows that there is a large pool of eligible expenditures to guarantee the use of funds of the SDG Bond and that a sound process was used to enhance the selection of marginalized communities. The evidence collected from the issuance of the first SDG Bond Allocation and Impact Report suggests that an initial contribution to accelerating the efforts on data disaggregation to track eligible spending categories particularly, at the municipal level, took place.

Figure 1 ı Total Eligible Expenditures in 2020
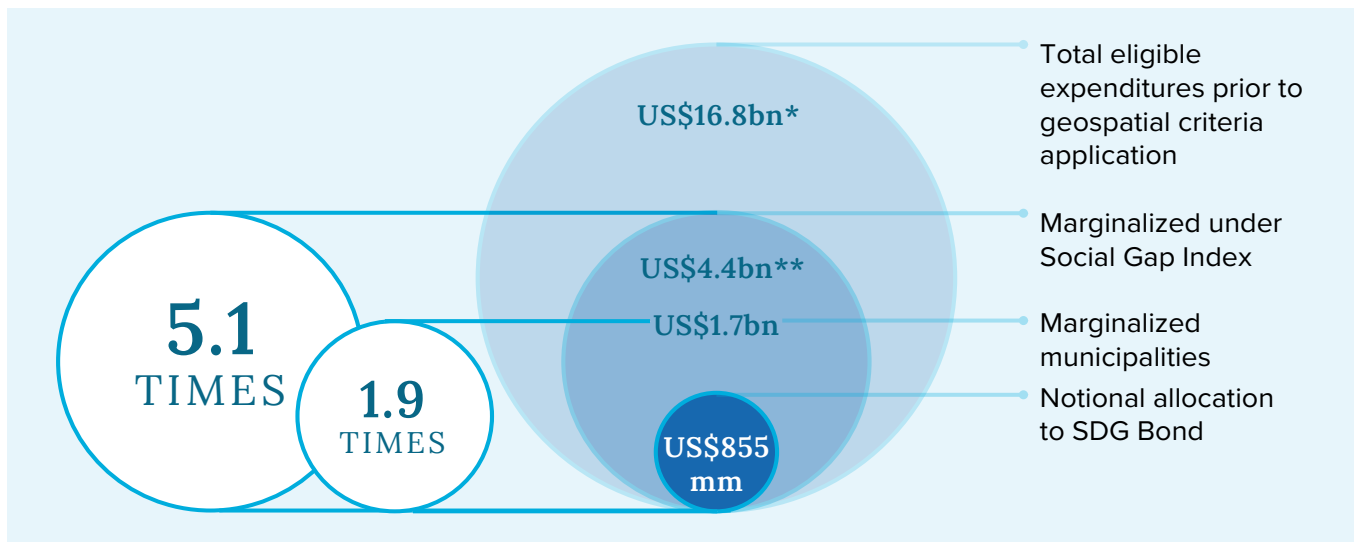
Source: UNDP with information from SHCP.

*This figure includes US$9.2bn of eligible expenditures at state level, prior to applying the geospatial criteria.
**The number includes US$2.7bn of eligible expenditures at marginalized states.
The exchange rate that was used is 1.1410 usd/euro (2020 average) according to the Federal Reserve Bank of St. Louis.

UNDP's Opinion on Program Selection

UNDP is of the view that the Framework's criteria were effectively applied to program selection using national evidence. Innovation in budget alignment to SDGs is an evolving process that will include other elements to further strengthen these linkages. The methodology used to link budgetary programs to SDGs guarantees clear linkages through matching development objectives, while at the same time identifying the direct contribution of such programs to specific SDGs. In addition, eligible expenditures categories were related to social development targets according to the country's policy priorities. The Social Gap Index was the primary tool used to identify marginalized communities at municipal level and was utilized according to previously disclosed conceptual guidelines. Thus, the methodology used to select programs is consistent to the one established in the UMS SDG Sovereign Bond Framework.

40 If the information of marginalized states were to be included and additional US$2.7bn could be added.

Allocation Report

Initial Pool of Eligible Expenditures

Net proceeds from the 2020 SDG Bond issuance were transferred to the Federal Treasury[41] account and notionally allocated to different types of budgetary expenditures[42] earmarked for the 2020 Federal Budget eligible programs. As a first stage towards the allocation, a pool of eligible resources was identified by applying each of the Framework's criteria to 2020 budget execution items. The pool of eligible expenditures allowed for a surplus to Bond's outstanding balance, as required by the Framework. Moreover, distribution of eligible expenditures in the pool constitutes the structural base of the notional allocation. If total eligible expenditures, after applying the geo-spatial criterion[43], were used to notionally allocate the Bond's resources, there would be a surplus of US$3,530 million. Thus, the total eligible resources, after the geo-spatial filter, would represent 5.1 times the Bond's issuance.

Table 3 ∣ Budgetary Execution of Initial Pool of Eligible Expenditures (billion USD)

SDG	Budget Execution*	Geo-spatial criterion		Geo-spatial	Share in (%)			
		State	Municipal		Budget Execution	State	Municipal	Geo-spatial
2	2.3	-	0.7	0.7	13.7	-	43.2	16.3
3	6.9	1.5	-	1.5	41.1	54.7	-	34.1
4	5.2	0.7	0.7	0.7	31.0	25.6	41.6	31.6
8	1.4	-	0.3	0.3	8.3	-	15.1	5.7
9	1.0	0.5	-	0.5	6.0	19.7	-	12.3
Total	16.8	2.7	1.7	4.4	100.0	100.0	100.0	100.0

Source: UNDP with information from SHCP.

*Includes total amount of eligible expenditures that were executed before applying the geo-spatial criterion.

41 This is a standard procedure that is established in the Internal Regulation Framework of SHCP.
https://www.gob.mx/cms/uploads/attachment/file/299882/Reglamento_Interior_de_la_SHCP_DOF_27_de_septiembre_2017.pdf
42 Investments; subsidies, grants, loans; tax and operating expenditures.
43 Equivalent to €750 million.

Notional Allocation of Funds

SDG Bond funds were directed to address social development challenges targeting five SDGs, in vulnerable communities according to the geospatial criterion.[44] Out of the US$16.8bn eligible budgetary resources executed in 2020, 26% (US$4.4bn) were labeled as eligible expenditures under the geo-spatial criterion, targeting marginalized segments of the population (Table 3). This geo-spatial criterion was used to identify communities at both state and municipal level that will be the primary target of Bond funds. In the case of spending that is directly transferred to end beneficiaries and where municipal data were available, the resources were allocated to the most vulnerable municipalities identified through a geo-spatial criterion.[45] The share of the executed budget from the total amount of resources executed[46] (in marginalized communities) was used as a weighting factor to distribute the Bond funds to eligible expenditures.[47] The use of notional funds towards most vulnerable communities is guaranteed under this method and the use of a weighting factor procedure translates into a proportion of eligible expenditures, within the budgetary program, linked to the Bond's funds.

Categories of Eligible Expenditures

Ten out of the 37 eligible budgetary programs concentrate 90% of the notional allocation to the SDG Bond. While the state participation of such allocation is 62%, the municipal share is 38%. Interestingly, the use of funds was mainly directed to three main categories: healthcare, education and basic food groups. For notional purposes, this means that the largest amount of funds US$283.4 million (33.1% of funds) was allocated to provision of healthcare services[48] (Graph 1). Notional allocation to education was the second largest through three categories: training for education staff[49] (Graph 1) and basic education and high school scholarships[50] (Graph 2). Each one of such programs recorded an allocation of US$121.8 (14.2% of funds). The third category related to production and consumption subsidies for basic food products[51] reported an allocated amount of US$120.4 or 14.1% of funds (Graph 2).

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44 This policy priority shows the commitment of the Government of Mexico towards enhancing social progress focusing on health, education, food security, infrastructure, and labor markets issues. These sectors were severely affected during the Covid-19 pandemic and would require additional financing in the aftermath of this event.

45 Making use of the social gap index, briefly explained in the previous section on Program Selection.

46 Equivalent to US$4.4bn.

47 If the municipal geo-spatial criterion had been used as the only filter to allocate the resources, two SDGs (3 and 9) would have been left out of the final selection because of lack of disaggregated data. Similarly, if the state geo-spatial criterion had been used, two SDGs (2 and 8) would not have been chosen. Thus, the value added of the municipal disaggregation would have been lost. This is explained by the fact that certain budgetary programs that include direct cash transfers do have data at municipal level, in comparison to other programs in which there is no direct transfer of resources, and thus data are only available at state level.

48 This corresponds to budgetary programs Health Care and Free Medicines for Population with no Access to Social Security and Health Care.

49 Budgetary program called Support to Education Centers and Organizations.

50 This is traditionally referred as Basic Education Scholarship Program for Well-Being Benito Juárez, and Universal Scholarship for High School Students Benito Juárez.

51 The production component is addressed through the budgetary program Sowing Life (Sembrando Vida) and the consumption subsidies are channeled through Production for Well-Being.

Graph 1 ⏐ Main Categories of Notional Allocation at State Level (million USD)
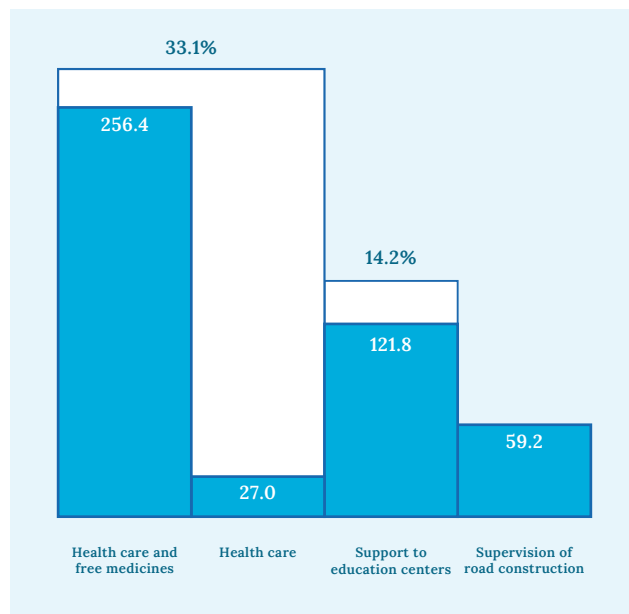
Graph 2 ⏐ Main Categories of Notional Allocation at Municipal Level (million USD)
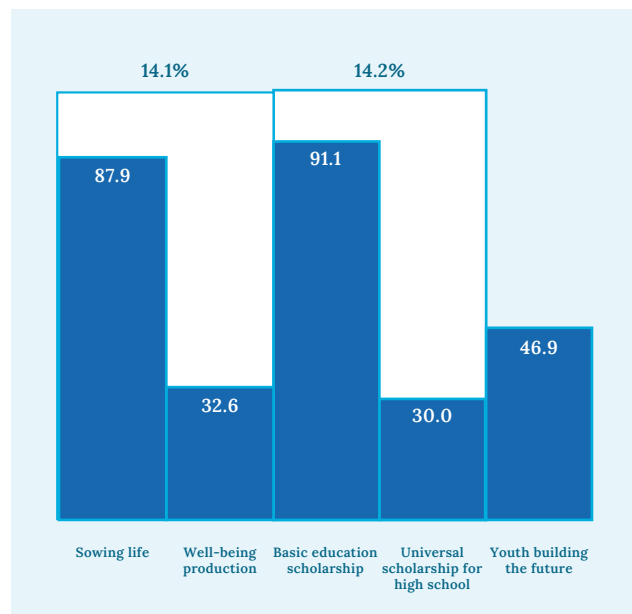

Source: UNDP with information from SHCP.

Management of Resources

Management of resources included a verifiable allocation of funds process. The Bonds' resources were used to finance some components of federal budgetary programs and these allocations were monitored by SHCP on a regular basis.[52] Additionally, there were sound controls to guarantee that the eligibility criterion as well as the exclusion clauses were strictly applied, and the resources were directed as intended. In this regard, exclusion clauses met the provisions established in the UMS SDG Sovereign Bond Framework which specifies that eligible sustainable expenditures do not include exploration, production, or transportation of fossil fuel; generation of nuclear power; and alcohol, weapons, tobacco, palm oil, cattle/beef production, conflicted minerals, or adult entertainment industries. Moreover, the expenditures were screened by SHCP to ensure that they did not involve activities related to deforestation or degradation of biodiversity; child labor or forced labor; or violations of any Mexican law concerning anti-corruption, environment, social and governance, or any policy or procedure under those regulations. As an additional accountability mechanism, the Chamber of Deputies' Audit Office[53] or a similar entity will verify, on a timely basis, the Bond's notional allocation of funds to intended expenditure categories.[54]

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52 The quarterly reports are part of the monitoring that SHCP conducts to inform the legislative branch on public finance performance.
https://www.finanzaspublicas.hacienda.gob.mx/work/models/Finanzas_Publicas/docs/congreso/infotrim/2020/ivt/01inf/itindc_202004.pdf
53 Auditoría Superior de la Federación (ASF).
54 UNDP's opinions expressed on eligible expenditures are contingent to the results of this audit report.

Box 1 | Fulfillment of Exclusion Clauses

According to SHCP, the budgetary programs linked to the SDG Bond comply with the exclusion criteria established under the UMS SDG Sovereign Bond Framework.

In this regard the following are not eligible expenditures categories:

1. Exploration, production, or transportation of fossil fuel.
2. Generation of nuclear power.
3. Alcohol, weapons, tobacco, palm oil, cattle/beef production, conflicted minerals or adult entertainment industries.

Additionally, all expenditures were screened by the responsible authorities to ensure that they do not involve any of the following activities:

4. Deforestation or degradation of biodiversity.
5. Child labor or forced labor.
6. Breach of Mexico's anti-corruption laws, and all environmental, social and governance laws, policies, and procedures
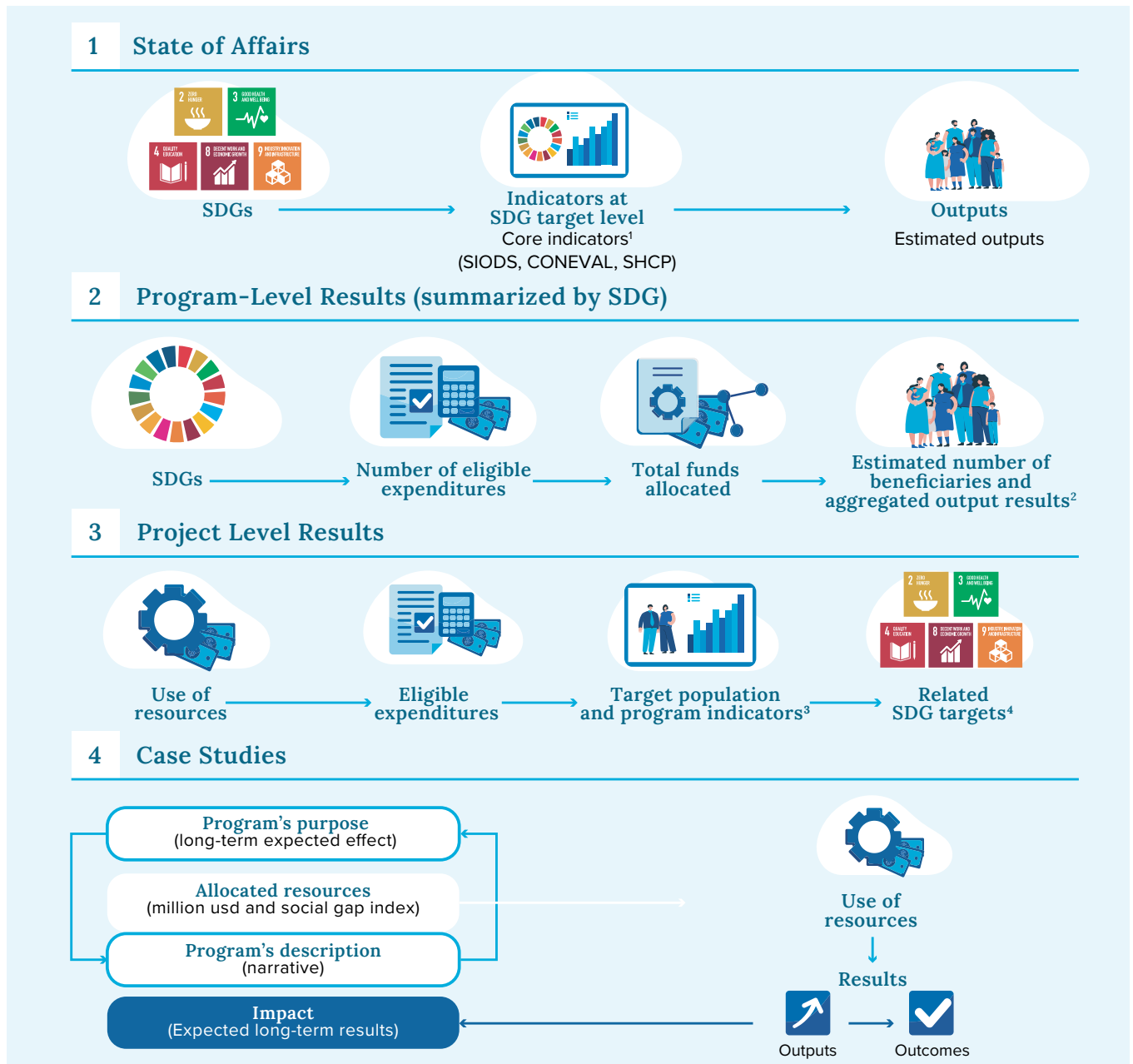
UNDP's Opinion on Allocation Report

Transfer of Bond's net proceeds was carried out as established by Law and were allocated to eligible expenditures categories earmarked for the 2020 Federal Budget. The funds were directed to mainly address social development challenges, that were previously identified through SDGs and a set of filters were applied in order to determine the eligibility of such expenditures. Once a pool of expenditures was estimated then and a weighting factor, estimated as the share of the executed budget to total amount of executed resources (in marginalized communities), was used to distribute eligible expenditures of such budgetary programs. Budget execution reflects that 10 budgetary programs (27% of the total) concentrate 90% of eligible expenditures under the geo-spatial criterion. Management of resources included a verifiable allocation of funds process that explicitly excluded activities that were prohibited. Thus, the allocation of Bond funds was performed according to relevant criteria and an estimated weighted proportion of budget execution of each eligible programs was used.

Impact Reporting

The following figure is UNDP's schematic interpretation with the purpose to provide a conceptual framework of the Impact section of Mexico´s Allocation and Impact Report.

Figure 1 ⏐ Results Framework

1 State of Affairs

SDGs → Indicators at SDG target level / Core indicators[1] (SIODS, CONEVAL, SHCP) → Outputs / Estimated outputs

2 Program-Level Results (summarized by SDG)

SDGs → Number of eligible expenditures → Total funds allocated → Estimated number of beneficiaries and aggregated output results[2]

3 Project Level Results

Use of resources → Eligible expenditures → Target population and program indicators[3] → Related SDG targets[4]

4 Case Studies

Program's purpose (long-term expected effect)

Allocated resources (million usd and social gap index)

Program's description (narrative)

Impact (Expected long-term results)

Use of resources → Results → Outputs → Outcomes

Source: UNDP with information from SHCP.

1 2030 Agenda indicators, at national and state (when available) level, in which eligible expenditures have a direct contribution.
2 For additive categories where the nature of output results allowed for this type of reporting.
3 Based on program's results matrix and reported on an estimated basis.
4 Includes eligible programs' direct and indirect contributions to SDGs.

Theory of Change and Results Chain

Mexico's SDG Bond Allocation and Impact Report includes output results for each SDG, highlighting the specific SDG target that it contributes to (Figure 1). Significant efforts have been made to collect available information and to identify alternatives to report on eligible expenditures at "program level" (Level 2) and "project level" (Level 3) as well as on outputs for each category of use of resources. Disclosure of these elements contributes to a better understanding of the logic behind the theory of change and the results chain framework to address social development challenges. Focusing public spending on key budgetary programs is intended to enhance sustainable development and improve well-being of the most vulnerable segments of the population as shown on study cases (Level 4). The institutional efforts to highlight both output and impact results represent a cornerstone of impact management practices that provide a sound foundation for disclosure. The inclusion of maps provides geographic location of states and municipalities that received Bond's resources, offering a clear picture of the marginalization criterion that was used to identify these communities. Through these visual elements, it is emphasized that the target population of the Bond's funds is in the states with the highest levels of marginalization.

Table 4 ∣ Expected Long-Term Impact of Selected Eligible Expenditure Categories of SDG Bond Funds

SDG	SDG target (national level)	State of Affairs (Baseline)	Expected impact	Eligible expenditure category
2	2.3 Share of population with moderate or severe food insecurity	20.7% (2020)	Decrease in population share with food insecurity	Production and consumption subsidies for basic food products
3	3.8. Share of population with no access to health services	28.2% (2020)	Decrease in population share with no access to health services	Health care services
4	4.3 Share of youth not attending school	46.5% (2020)	Decrease in share of youth not attending school	Students' scholarships
8	8.10 Bank branches per 100,000 adults	17.17 (2020)	Increase in access to financial services	Access to financial services
9	9.1 Share of population with low access to paved roads	4.9% (2020)	Decrease in the share of population with low access to rural roads	Rural roads

Source: UNDP with information from CONEVAL and CNBV.

Expected Impact Indicators and Potential for Positive Contribution to SDGs

The information that was used to report on the expected impacts of selected eligible expenditures includes reliable and publicly accesible sources. This leverages on different monitoring and evaluation mechanisms that were already in place in the Government, particularly at program level. After applying the geo-spatial criterion from the initial 43 eligible budgetary programs, 37 programs fulfilled the established marginalization criterion. The expected impact indicators were identified according to a matching procedure that linked such budgetary programs to SDGs outcomes and specific targets. The indicators used to track these targets include 20 from the Global SDGs framework and 7 that are specific to the country. This set

of indicators was further reviewed by a Technical Committee[55] that is part of the National Council for the 2030 Agenda. The final selection was revised by UNDP to guarantee the consistency of such indicators to SDGs targets. Some of these indicators as well as the direction of the expected impacts are shown in Table 4. The methodology used to link the budgetary program to the specific SDG targets and indicators was the one described at UMS SDG Sovereign Bond Framework.[56]

Expected Social Impacts and Estimates of End Beneficiaries

The expected social benefit of eligible expenditures categories relies on the information provided by both CONEVAL and a robust Public Administration Performance Evaluation System[57] (SED by its the acronym in Spanish) administered by the Ministry of Finance, mainly in its monitoring component. Since 2018, this includes an analysis on both direct and indirect contribution of each budgetary program towards specific SDG goals. It is expected that this methodology, on expected social impacts on the SDG Bond funds, will gradually evolve to allow for a more granular analysis and impact identification, where the links between public program expenditure in specific geographical areas, and development results could be observed at the beneficiary level. This will allow capturing the expected impact of spending on a specific group of beneficiaries in marginalized communities. Also, outputs can be defined as number of hospitals, scholarships or other types of target population that are intended to capture the estimated contribution of the Bond's notional allocation. The first Allocation and Impact Report showed valid and significant efforts to implement the methodology to estimate the impact, emphasizing the use of public information. Given current data availability, information on end beneficiaries is shown on aggregate terms. Thus, in some cases it was not possible to identify unique numbers of beneficiaries for some programs given their operations dynamics.

The number of beneficiaries of eligible expenditures was estimated using i) the share of budget allocated to marginalized areas and this proportion was multiplied by the total number of beneficiaries of a specific program. This result was ii) multiplied by a notional factor that is constant across all programs.[58] This number represents the share of eligible expenditures notionally allocated to the Bond (US$855 million) divided by the total amount of eligible expenditures (US$4.4 billion). This methodology is transparent in the sense that allocates the resources according to the share of budget execution in marginalized communities.[59] However, there are at least two main implications of this procedure. The first one relates to the use of a notional factor, that is constant for eligible expenditures in marginalized communities, to estimate the number of beneficiaries. This could cause some deviations from the actual number of end users of each budgetary program. The second implication is that the input/output indicators of the estimated beneficiaries is based on average well-being gains. This assumes that the results of the programs in marginalized communities are the same as in those that are not. This may generate deviations in the estimates of beneficiaries as well as on output results calculated under similar assumptions. The reported results on the number of estimated beneficiaries obtained through proportions may face challenges to link them to specific outcomes. To

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55 Specialized Committee to track SDGs (CTEODS).

56 Data were validated by the CTEODS and generated according to a robust collection and verification processes.

57 Sistema de Evaluación del Desempeño.
 https://www.transparenciapresupuestaria.gob.mx/es/PTP/evaluaciones

58 This number is approximately 19.5%.

59 In the case of the estimates of number of beneficiaries of Sowing Life, the total number of beneficiaries (415,692) was multiplied by the share of the budget in marginalized areas (35.48%). This the result was equal to 147,492. This number was multiplied by the notional factor of 19.5%. The final result is 28,757 which is the estimated number of beneficiaries of the program.

address this, SHCP has made extensive efforts to identify available sources of information that could help to report on single program beneficiaries.

Data Segmentation and Output Monitoring

Given that socioeconomic characteristic data segmentation of beneficiaries such as age, employment status, gender, income level, and urban or rural setting is at a developing stage, extensive efforts were put in place to identify any available sources of information that could made possible to report figures beyond weighted averages. In cases were the available information, allowed to pinpoint the use-of funds to results in a specific geographical area, it was included.[60] The GoM has emphasized that impact monitoring includes a gradual approach to shift from outcome-based to impact-focused indicators.[61] There is an enabling environment around the reporting process and clear signs that the GoM is fully committed to a continuous improvement on each edition of the report. Methodological challenges, regarding output monitoring as well as granularity of data, are shared concerns among the international development community. Diverse forums have acknowledged the call to 'leave no one behind' embedded in the 2030 Agenda and have created an unprecedented demand for granular, comparable, and timely data in a broad range of policy fields.[62] UNDP acknowledges the Government's willingness to explore various paths to overcome these challenges and for sharing its learnings with the international community.

📝 UNDP's Opinion on Impact Reporting

> The information used to report on expected impacts of selected eligible expenditures includes reliable and accessible sources of data. The overall benefits of the budgetary programs linked to the Bond's funds are captured at the aggregate beneficiary level. The use of original ideas to communicate the results is appreciated, and the use of images, statistics, project-level outputs provide context in which the understanding of the theory of change is enhanced through indicators that show the intended results. The proposed methodology to capture the expected impact of eligible expenditures linked to SDGs has the potential to provide new insights on development programs using disaggregated data to inform public policy on the intended effect on single program beneficiaries. Moving forward, the challenge is to gradually report on the expected impact of the end beneficiaries, living in vulnerable communities, using different criteria for segmentation such as gender, age, income level, and employment status, while considering the diverse nature of expenditures that are linked to the Bond issuance.

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60 An example is the case of rural roads that were identified to specific marginalized communities.

61 As established on UMS SDG Sovereign Bond Framework.

62 For additional information please refer to the following two documents: https://www.undp.org/sites/g/files/zskgke326/files/publications/ Discussion_Paper_LNOB_EN_lres.pdf https://sdg-action.org/wp-content/uploads/2021/07/SDG-Actions-SDGs-2021.pdf

SDG Sovereign Bond as a Driver of Change

Environment of Continuous Learning

The issuance of the first SDG Bond in Mexico and the first Allocation and Impact Report is underpinned by a continuous learning environment inside the Ministry of Finance. This enabling environment is starting to permeate throughout all the involved institutions. The fact that the topics covered by the Bond were cross-sectoral, implied that the technical areas responsible for debt management had to learn from and closely interact not only with areas responsible for sustainable development, but also with areas involved with results management. The use of internal sources of information, that traditionally were not considered, could have contributed to close collaboration within this learning environment. These combined processes translated into a systematization of information that is key to start new conversations on how to improve linkages of budgetary performance with SDGs and expected impacts. Thus, the evolving nature of the tasks that entailed both the conceptualization of the SDG Bond and the reporting of allocation of funds and impact could have generated more learning interactions among units, taking advantage of information sources that were not previously considered.

Coordination and Institutionalization of Knowledge and Information-Sharing

The issuance of the SDG Bond could be associated to a series of organizational changes that translated into strengthening information sharing practices, overcoming communication barriers, and fostering reforms to support institutional access to information within a sound transparency framework. The issuance of the first SDG Bond in the country provided the ideal setting to pilot a joint effort for all stakeholders to contribute towards standardizing monitoring mechanisms, disaggregating data at a municipal level, and providing a plan to prioritize tactical actions on defining strategic indicators. This implied clarifying roles and responsibilities of all the involved stakeholders within the governance structure that was already in place, which strengthened inter-institutional, and accountability mechanisms. Moreover, fostering the exchange of administrative records within a national information platform generated a deeper sense of commitment towards embracing innovative practices on data collection and sharing. The lessons learned during this first reporting cycle are valuable inputs towards the institutionalization of the impact management practices of the SDG Bond and its allocation and impact report process.

Linking Sources and Uses of Resources

The awareness of this type of financial instruments, within different line ministries, could be associated with a deeper understanding on how their current budget execution had a potential to open new sources of financing. To a certain extent, the possibility of being part of these programs, under the SDG Bond umbrella, provides an additional incentive to disclose the results of their programs. This was particularly relevant in

the case of line-ministries, that were not yet part of the SDG Bond budgetary programs. These entities are expected to become more proactive in enhancing the reporting of their program's performance to signal efficiency in order to increase the probability of being part of the next round of financing. In the case of the participating institutions, that were part of the SDG budgetary programs, this dynamic could have contributed to the strengthening of communication channels among them to better understand how they were managing data requirements and to what extent the disaggregation of information was supporting the decision-making to implement adjustments to their programs. This was crucial to generating strategic indicators on budgetary programs to monitor specific SDGs targets.

Dialogue between Development Economics and Financing for Development

Through the issuance of this innovative financing mechanism, two practice communities started having conversations regarding the links between development economics and financing for development. These dialogues translated into creation of a path to clearly address this type of issues through a robust legal framework, supported by strong processes that will lead to strengthening of institutional capacities to continue issuing this type of Bonds. Among the main topics that were addressed through this knowledge exchanges, one captured the essence of these dialogues: How specific social programs could generate new opportunities for providing empirical evidence on the effect of sustainable financing on development? Through these types of questions, new institutional dynamics started to evolve to generate innovative financial instruments focused on provision of sustainable financing to address development through SDGs. This discovery process translated into exploring different instruments that could capture not only development outcomes but also connecting financing to beneficiaries in marginalized communities. Thus, financing is building bridges to narrow the gap between two fields of knowledge that traditionally implement solutions within different perspectives of development.

Policy Choices

Mexico's experience on SDG Bond issuance and impact reporting provides useful lessons for other middle-income countries that may face similar financing challenges within a context of inequality. First, managerial capacities need to be in place to determine the appropriate sources and uses of financing to address SDGs gaps within an environment of accountability. This should be part

> To a certain extent, the possibility of being part of these programs, under the SDG Bond umbrella, provides an additional incentive to disclose the results of their programs.

of a broader strategy in which appropriate incentives are created to succeed in accessing international investors that are looking for opportunities to contribute to sustainable development. Second, this experience shows that there should be a set of capabilities within the government regarding budgetary policy and financial planning that are necessary to carry out this type of transactions within uncertain and volatile economic conditions. These institutional requirements could be strengthened in countries that are committed to fostering sustainable development with similar financial mechanisms. Third, policy choices should be at the center of these discussions. Given that this type of transactions may take place in a context of decreasing government expenditure and limited fiscal space, achieving this type of operations provides support to governments to foster sustainable development through efficient resource management while attracting new sources of funding.

The dynamics around the issuance of the SDG Bond and its allocation and impact report, signal an accelerating and continuous learning environment in which exchanges in technical knowledge and managerial practices occurred. The innovative financial instrument triggered dynamics that could contribute to institutionalize knowledge and information-sharing through reinforcement of these practices, overcoming communication barriers, and fostering regulatory reforms to support the ecosystem. The awareness of this type of financial instrument could be one of the factors that promote an enhanced interest on better understanding the linkages between sources of funding and budget execution by both participating and non-participating institutions. Finally, this Bond issuance is related to narrowing the knowledge gap between the fields of Development Economics and Financing for Development and creating new mechanisms to address development challenges through sound and responsive financial instruments.

Recommendations for Future Reports

Innovation on financing solutions possess a high potential to foster sustainable development. The experience of Mexico's SDG Bond Allocation and Impact Report shows that creating an ecosystem where all the involved stakeholders play a collaborative role enhances transformative processes within a sound regulatory framework. The alignment of the Report with the core elements of UNDPs' SDG Impact Standards for Bond Issuers shows consistency between the country's strategy and the purpose to enhance SDGs through this type of innovative financial instruments. This could be strengthened through a methodology to determine the materiality of sustainable development issues and to identify where the most significant impacts on SDG outcomes can take place to capture intended effects of a particular path of development. Furthermore, a formal approach to ensure that the impact strategy and impact goals remain fit for purpose could be developed to better understand future risks and opportunities. The governance mechanisms already in place at the National Council for the 2030 Agenda could play a pivotal role to address these challenges.

The Bond's funds were directed to address social development challenges and were allocated to eligible expenditures categories. Given that the pool of eligible expenditures is larger than that of the Bond's funds, a weighting factor was used to guarantee that every budgetary program in the pool was notionally linked to the SDG Bond. This process guaranteed that funds effectively were targeted to marginalized communities and that no eligible programs were excluded. For the first edition of the allocation and impact report, program beneficiaries were estimated using the share of budget allocated to marginalized areas and this proportion was multiplied by the total number of beneficiaries of a specific program. This result was multiplied by a notional factor, that represents the share of Bond's issuance to total eligible expenditures. Thus, the estimated number of beneficiaries could have certain degree of deviation from the actual number if the notional factor is larger than the share of beneficiaries in the program. This is a first exercise to estimate the number of beneficiaries, given the available information, that provides a baseline for future reports. UNDP acknowledges the efforts that were carried out by the authorities to present the indicators with different levels of disaggregation and the reported estimated results. For future editions of the report, it will be important to continue this conversation on how to better capture the expected impact using methods that help both to distribute the resources and to contribute to identify end-beneficiaries. This effort could also start a new dialogue regarding the best practices to showcase the results according to the reality of the involved communities. UNDP can support the country to further explore new ways to effectively link the budgetary resources to specific target populations and report the expected impact on those single beneficiaries.

The use of more granular information at the state and municipality levels could provide a more accurate estimate of the expected social benefits to unique beneficiaries. The methodology and assumptions that were used to calculate the expected social impact of the eligible expenditures could benefit from a segmentation of the beneficiaries using socioeconomic determinants such as age, employment status, gender, and income level to further improve the linkages between the allocation and impact reports. Linking the benefit of a subset of a marginalized population to indicators that are representative of the average expected impact, which includes a wider universe of beneficiaries, may not fully capture the real impact of the Bond on this marginalized target population. The 2030 Agenda Principles urge to accelerate the efforts to disaggregate monitoring information with a proper level of granularity to make visible the realities of vulnerable communities.[63]

The issuance of the SDG Bond and the elaboration of the impact report triggered organizational dynamics and a pathway to a continuous learning environment, as well as the institutionalization of knowledge and information-sharing. These findings in both settings signal that a strong momentum is forming and provide evidence on the great opportunities to formalize these practices. UNDP recommends that all involved institutions update their relevant procedural mechanisms within their institutional regulatory frameworks to facilitate future information requirements. These normative changes could be useful to identify roles and responsibilities and to provide legal support that empowers these institutional commitments. This process could start with Federal Budget information requirements, in which data disaggregation at the municipal level could be mandatory by law for all the involved parties in the SDG Bond. The formalization in legal instruments of such practices would lay strong foundations for the continuity of operations within the monitoring and evaluation activities for future SDG Bond issuances.

63 https://sdgs.un.org/2030agenda

Non-Binding Opinion

Mexico's 2020 SDG Sovereign Bond Allocation & Impact Report

Disclaimer

While this opinion reflects the alignment of impact reporting with the core elements of the SDG Impact Standards[64], there is no guarantee of this with future versions of such standards. This non-binding opinion is not a detailed verification of alignment with those standards but rather an initial approach to understanding how impact management was applied in practice, as it relates to positive contribution to SDGs in terms of strategy, management approach, disclosure, and governance practices. UNDP envisions that third parties will conduct this type of thorough assessments through a standardized survey in the near future.

This non-binding opinion addresses, to some extent, the expected impact of eligible expenditures, financed with SDG Bond resources. However, it does not quantify the real impact of such spending on the beneficiaries. The impact measurement of such programs is responsibility of the social policy evaluation unit in the country.[65] This non-binding opinion provides an impartial assessment on allocation of funds and impact report of Mexico's 2020 SDG Sovereign Bond. The figures used are preliminary until the audit report is publicly released. Thus, there is no guarantee that funds were effectively spent on the intended programs nor that such funds were directed towards eligible expenditure categories. The information contained in this non-binding opinion shall not be considered as a statement of UNDP regarding the reliability and coherence of the country's social policy.

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64 https://sdgimpact.undp.org/sdg-bonds.html

65 The entity that is responsible for evaluating social policy and poverty measurement is CONEVAL (Consejo Nacional de Evaluación de la Política Social). This government agency is an autonomous unit with technical capacity to generate objective information regarding social policy and poverty measurement in Mexico. https://www.coneval.org.mx/quienessomos/Conocenos/Paginas/Quienes-Somos.aspx