United Nations Development Programme

Non-Binding Opinion

Mexico's SDG Bond Allocation & Impact Report 2022

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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.

UNDP's Opinion at a Glance

UNDP is of the opinion that Mexico's SDG Bond Allocation & Impact Report 2022 complies with the criteria established in the UMS SDG Sovereign Bond Framework. It has contributed to strengthen the country's capabilities and accountability mechanisms by detonating participatory and deliberative dynamics within the 2030 Agenda governance structure. Furthermore, the dynamics between the Ministry of Finance, line ministries and other government institutions have contributed to improve granularity of data for monitoring outputs and outcomes and the link between Eligible Expenditures and marginalized territories.

This opinion is based on the following dimensions:

1. ALIGNMENT WITH SDG IMPACT STANDARDS.

Mexico's SDG Bond Allocation and Impact Report 2022 shows continuity and a pathway towards the consolidation of an impact strategy, impact management, transparency, and governance practices which constitute the four foundational elements of the SDG Impact Standards for Bond Issuers.[1]

2. PROGRAM SELECTION.

Program Selection processes have followed established criteria to link budgetary programs to SDGs and to identify Eligible Expenditure categories in accordance with the Framework. Consultation processes within the 2030 Agenda governance structures have validated program selection and contributed to advance transparency and participation not only of government actors, but also of non-government actors such as academia, private sector, and civil society organizations.

3. USE OF PROCEEDS/ALLOCATION REPORT.

Notional Allocation of Resources adheres to the Allocation proceeds of the Framework and continues to advance SDGs 2, 3, 4, 8 and 9 in marginalized territories. Education, healthcare, and basic food groups were the main priorities as they concentrated 79.6% of the resources.

4. IMPACT REPORTING.

Framework criteria are fulfilled in general. There is an underlying theory of change behind budgetary program allocation, estimated end beneficiaries, output, and State of Affairs indicators. Reporting trends in SDGs target indicators contributes to enhance the results chain framework. Establishing direct causality between resource allocation and impact results is complex for sovereign bonds, however a clear commitment to continuous improvement is showcased.

5. SDG SOVEREIGN BOND AS A DRIVER OF CHANGE.

5. SDG Sovereign Bond as a Driver of Change. The Report supports transparency and results-based management, and it could position itself as a best practice reference for other Bond issuers. Allocation and Impact Reports have been a catalyst for the institutionalization of positive dynamics within the Ministry of Finance's units and with line ministries and other institutions that participate in 2030 Agenda's governance bodies. Furthermore, it has created an enabling environment for the exchange of information, review of indicators, and generating a sense of appropriation of the results presented in the Report to include non-government actors.

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1 The four foundational elements are strategy, management approach, transparency, and governance. For further detail please refer to the following link: https://sdgimpact.undp.org/sdg-bonds.html

Foreword

Mexico issued its second SDG Sovereign Bond in July 2021 for EUR 1.25 billion. As in the previous issuance, this Bond's proceeds were aligned with SDGs 2, 3, 4, 8, and 9 and targeted towards marginalized territories. In compliance with the provisions contained in the SDG Sovereign Bond Framework, the Ministry of Finance and Public Credit (SHCP, for its acronym in Spanish) has published Mexico's SDG Bond Allocation & Impact Report 2022 with the participation of line ministries, decentralized government institutions, the National Institute for Geography and Statistics (INEGI), the National Council for Evaluation of Social Development Policy (CONEVAL) and other key actors such as academia, private sector, and civil society organizations. This Report includes new information such as the trends in SDG target indicators where available.

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 2022. 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 findings of the previous sections. Finally, the last section offers some concluding remarks and recommendations.

To elaborate this Non-Binding Opinion, UNDP reviewed several public documents related to the SDG Bond and conducted interviews with relevant stakeholders involved in the Bond's process. SHCP facilitated access to all documents and databases that support UNDP's opinion, while interviews to key actors provided relevant information about the processes for the elaboration of the Report, the institutional dynamics triggered and the direction they are taking. 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, Ministry of Public Service, Ministry of the Economy, National Institute of Statistics and Geography and Wellbeing Bank for their disposition to provide support and assistance during this process.

The second edition of this Report fulfills the compromise of Ministry of Finance with investors to inform transparently how Bond's resources are allocated and their contribution to SDGs. UNDP acknowledges the efforts of the Ministry of Finance to foster continuous improvements and considers that these processes constitute relevant practices that can be taken as a reference by other Bond issuers to strengthen bond issuance links and impacts to SDGs. The commitment to publish this UNDP technical opinion was agreed from the Framework, however, the openness with which 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 fulfillment of the 2030 Agenda.

1 Alignment with 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[2] reference to identify relevant dynamics that have resulted from the issuances of Mexico's SDG Bond Allocation & Impact Reports.[3]

Table 1 ∣ SDG Impact Standards for Bond Issuers

Principle	Actions
Strategy	*Mexico's SDG Bond Allocation and Impact Report 2022* disclosed by the Ministry of Finance and the processes related to its elaboration evidence the consolidation of a clear impact strategy. It has detonated dynamics that transcend the Bond that will yield in the mid-term better indicators that account for budgetary programs' outputs and social changes related to SDGs in marginalized territories and to monitor better SDGs performance at a country level through the Information System of the Sustainable Development Goals (SIODS, for its acronym in Spanish).
Management Approach	The Bond's Impact and Allocation Reports have contributed to develop and consolidate an ecosystem of sound collaboration and management both within SHCP' units and externally with relevant stakeholders such as line ministries and other government agencies, INEGI, academia, private sector, and civil society organizations that are part of the 2030 Agenda governance structure to exchange information and make more deliberative and transparent decisions.

2   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.

3   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

Principle	Actions
Transparency	SHCP continued its efforts to disclose publicly all relevant practices of SDG Bond performance and its contribution to sustainable development. In this sense, it has fulfilled its commitment of reporting on an annual basis Bond's result and impacts on sustainable development with the issuance of two SDG Bond's Allocation & Impact reports. In addition, efforts to disclose publicly to non-governmental stakeholders the practices and stages to elaborate them are recognized, as well as the willingness to allow UNDP to accompany the report-making process.
Governance	The Report elaboration dynamics have shown steady progress towards the establishment of a solid collaboration ecosystem based on national governance SDG bodies to monitor Bonds' allocation of resources and impact on marginalized territories. There is an active involvement of relevant stakeholders who participate in such governance mechanisms to define and refine the Bond's allocation and impact strategies. Bond related processes have triggered wider discussions on financing for sustainable development.

Source | UNDP.

Alignment with Strategic Intent.

The SDG Bond Allocation & Impact Report 2022 disclosed by SHCP advanced the consolidation of its impact strategy by identifying budgetary programs that have potential to contribute to sustainable development in marginalized territories; reporting trends in key SDG indicators; and producing better and more granular data to allocate Bond's resources and report its impacts. These processes have promoted a learning, deliberative, and participatory environment within the 2030 Agenda governance structures such as the National Council and the Specialized Technical Committee for the Sustainable Development Goals (CTEODS, for its acronym in Spanish), the main interinstitutional body that monitors progress towards SDG targets for the country. It is expected that these processes will lead to important adjustments that will deliver better impact and outcome indicators for future reports. Institutional processes triggered by the elaboration of the Report have produced positive spillovers that go beyond the scope of the Bond, by producing quality data that can give a better understanding of social changes related to SDGs and budgetary programs' outputs.

Integration of Management Approach.

The Report has contributed to consolidate a collaborative environment both within the decision-making units of SHCP and the 2030 Agenda's governance structure. Line ministries and other governmental institutions have become more conscious of their role in reporting better and more granular data and of the potential benefits they can obtain in doing so. INEGI has shared with them its information management

experience through workshops to achieve this goal. The private sector, academia and civil society have begun to play a more active role on the allocation and impact reporting processes. In addition, there is a commitment from SHCP to make progress towards the institutionalization into formal routines of these processes to perform these duties annually smoothly and expeditiously.

Contribution to Transparency for Sustainable Development.

Since the first Bond issuance, SHCP publicly disclosed relevant information which includes Bond's Framework, Second Party Opinions, and Eligible Expenditure categories. In addition, SHCP has done a substantial effort to release Report's practices and stages to all stakeholders involved, it has displayed willingness to duly respond to any inquiry and concern from both government institutions and non-government actors and has done adjustments when applicable. Another transparency evidence is the willingness to allow UNDP to accompany the report-making process. To publish open access databases underpinning the portfolio weight calculations of each Eligible Expenditure publicly will further contribute to transparency.

Governance Practices Focus.

The National Council for 2030 Agenda and CTEODS are the main governance bodies to address Bond issues. The elaboration process of the Report has shown steady progress towards the establishment of a solid collaboration ecosystem to monitor Bond's allocation and impact through the active involvement of all stakeholders who participate in them. Governance practices could be further strengthened by promoting a wider involvement of relevant government financial institutions and financial governance bodies such as the Sustainable Finances Committee that could add value to define other relevant oversight mechanisms, identification of risk strategies to cope with complaints, remedial actions, instability factors, as well as to address relevant aspects to promote greater involvement and the collaboration of investors as stakeholders beyond its role as Bond's consumers.

UNDP's Opinion on Alignment with SDG Impact Standards

Mexico's SDG Bond Allocation & Impact Report 2022 disclosed by SHCP ensures the continuity of SDG impact strategy aligned with the four core elements of UNDPs' SDG Impact Standards for Bond Issuers. In addition, UNDP recognizes that the Bond has triggered processes and management practices that advance towards the establishment of a solid collaboration ecosystem, both internally within SHCP' units and externally with the active involvement of 2030 Agenda's relevant stakeholders within its governance structure. These processes have also created a more robust interaction environment in favor of an organizational culture of results orientation, deliberative decision-making, transparency, and continuous improvement to measure outputs and outcomes that transcends the Bond itself, generating positive spillovers that have the potential to improve national monitoring processes towards the achievement of SDG national goals and targets.

2

Program Selection

The methodology to link budgetary programs to SDGs is an integral part of Mexico's Federal Government processes to prepare yearly budget proposals and of its Performance Evaluation System (SED, for its acronym in Spanish). Program selection as Eligible Expenditures follows Framework's established criteria through a deliberative process with line ministries and other government institutions, as well as other non-government actors that participate within the 2030 Agenda governance structure. The use of the Social Gap Index further calibrates targeting for allocating Bond's resources.

Selection of Eligible Expenditures

Mexico's SDG Allocation & Impact Report 2022 presented 30 budgetary programs as Eligible Expenditures selected by the Ministry of Finance. They are aligned to a total of five SDGs—2, 3 ,4, 8, and 9—and 53 targets. Each year, SHCP decides which SDGs will be eligible. The methodology applied to select the pool of Eligible Expenditures was based on the seven filters established in the Framework.[4] SHCP conducted participatory and deliberative workshops with line ministries, other government institutions and non-government actors to present and discuss Eligible Expenditures within the National Council for 2030 Agenda. Through a wide consultation process within Council's technical committees, SHCP validates and assures that Eligible Expenditures criteria are met according to the Framework's guidelines and that any inconsistency found is solved. Previous UNDP opinion mentioned that this validation process would be performed within the Committee for Inclusive Sustainable Economy (CISE, for its acronym in Spanish), which was also considered within the Framework. In fact, for this second issuance, four new committees—Wellbeing, Environment, Economy, and Monitoring and Strategy—became fully operational and the decision-making process for choosing the Eligible Expenditures took place within them to assure transparency and involvement of all stakeholders that participate in them.

UNDP's Non-binding Opinion for the first issuance considered a viable option that the Chamber of Deputies' Audit Unit (ASF, for its acronym in Spanish) verified the compliance of the eligibility criteria and the allocation of resources. On March 2021, ASF presented no observations on its 25-GB "Public Debt of the Federal Government" for the first issuance. In this year, the ASF audited the Public Debt of the Federal Government and presented its results in May. It made no observations regarding the issuance of bonds in the international market. However, the revision of the compliance of eligibility criteria and the allocation of resources by ASF will further increase certainty about how Eligible Expenditures are selected according to the Framework. A collaboration is ongoing between SHCP and ASF to work around this revision.

Use of Social Gap Index

CONEVAL estimates every five years the Social Gap Index based on data provided by INEGI. The Ministry of Finance uses this Index to geo-spatially identify marginalized states and municipalities, which

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

constitutes the seventh filter established in the Framework. Bond's allocations for 2021 selected 32 Initial Eligible Expenditures amounting to US$15.5 billion, from which two eligible expenditures did not fulfill this geo-spatial criterion. Therefore, 30 Eligible Expenditures satisfied the seven criteria, amounting to US$5 billion. The SDG Sovereign Bond accounted for 29.6% of this amount. This means that there is still a large pool for expenditures to guarantee a proper use of proceeds of the SDG Bond. US$515 million were allocated to the Very High level, US$424 million to the High level, and US$539 million to the Medium level. There is no significant change between the percentage allocated to different regions according to their Social Gap Index between the first and second issuances of the Bond. US$538 million were allocated at municipality level, while the rest—US$940 million—were allocated at a state level.

Figure 1 ı Total Eligible Expenditures in 2021
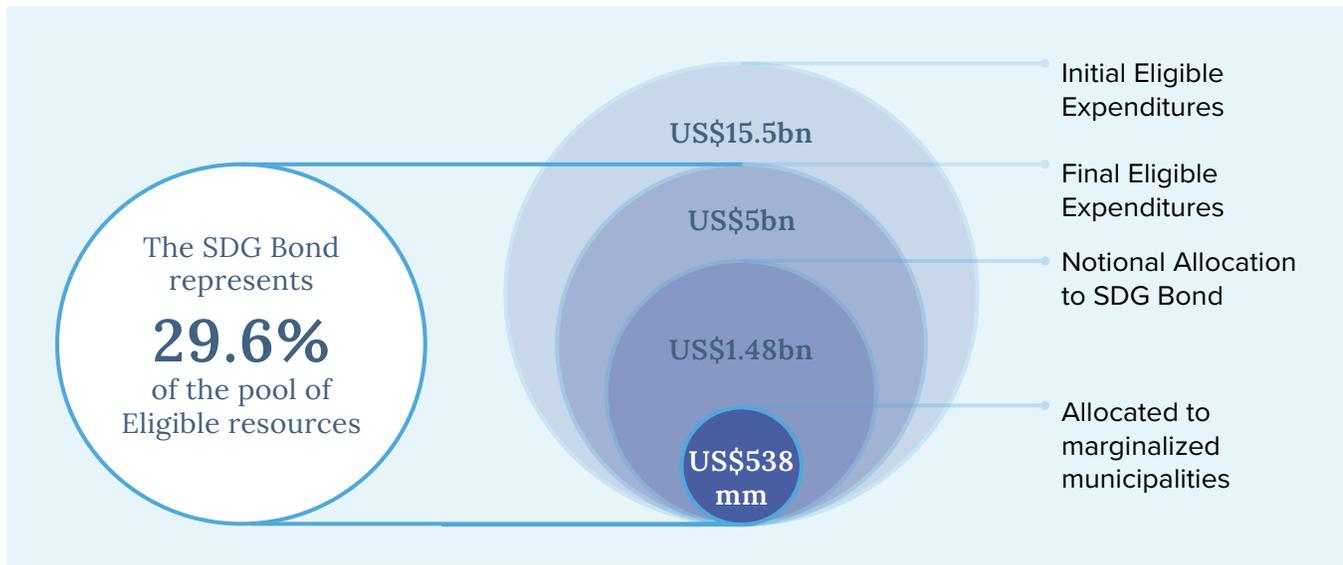
📝 UNDP'S opinion on Program Selection.

Program Selection processes have followed established guidelines to link budgetary programs to SDGs. 30 Eligible Expenditure categories were identified to be aligned to five SDGs—2, 3, 4, 8, and 9—following the filters established in the Framework. Consultation processes within the 2030 Agenda's governance structure have validated program selection and they have contributed to advance transparency and participation of all relevant stakeholders including not only government actors but also academia, private sector, and civil society organizations. The use of CONEVAL's Social Gap Index is crucial for Bond's notional allocation of resources. The revision by ASF of eligibility criteria and allocation of resources constitute a relevant opportunity to further the level of certainty of the report. Currently, SHCP and ASF are working towards it.

3

Allocation Report

Initial Eligible Expenditures.

As in the first Bond issuance, net proceeds from the SDG Sovereign Bond were transferred to the Federal Treasury account and notionally allocated to different eligible programs in the 2021 Federal Budget. Before the Notional Allocation of Resources, a pool of eligible resources was identified by applying the seven criteria of the Framework. This pool of eligible resources generated a surplus to Bond's balance, as required by the Framework. The distribution of Eligible Expenditures within this pool is the structural base of the Notional Allocation.

Table 2 | Eligible Expenditures Initial Pool

SDG	Budgetary resources in lagged areas	
	USD	%
2	$973,696,781	19.4%
3	$1,486,661,850	29.6%
4	$1,539,501,872	30.6%
8	$ 112,814,677	2.2%
9	$ 912,200,615	18.2%
Total	$ 5,024,875,795	100.0%

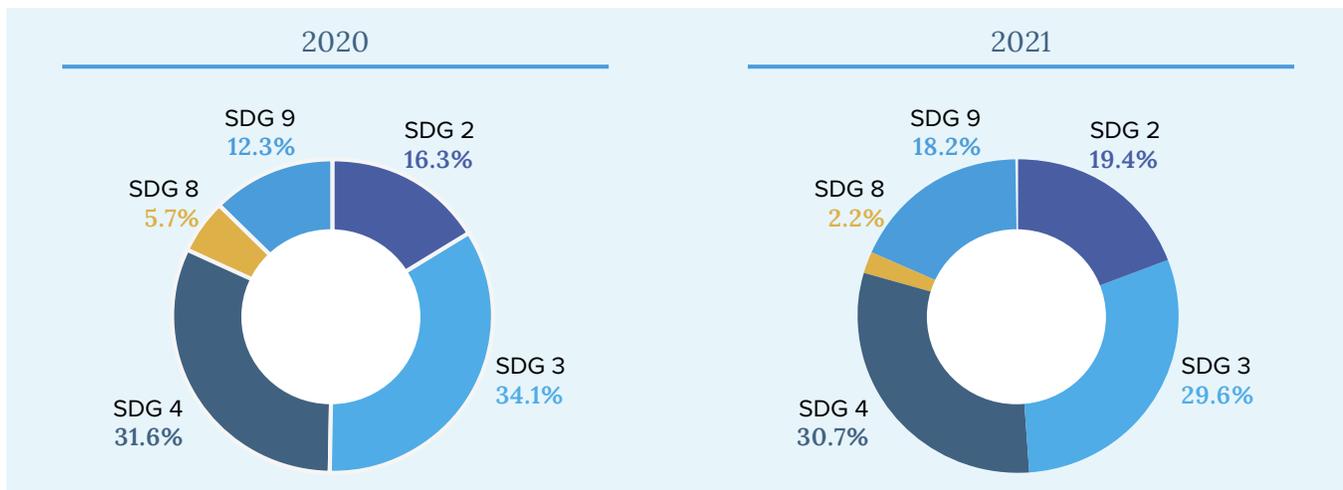**Source** | UNDP with information from SHCP.

Notional Allocation of Resources.

SDG Bond proceeds were notionally allocated to address social challenges targeting five SDGs in vulnerable territories according to the geo-spatial criterion. Of the US$15.5 billion Initial Eligible Expenditures identified for 2021, 30.3% (US$5 billion) were labeled Eligible Expenditures according to the geo-spatial criterion, targeting marginalized territories. The share of each Eligible Expenditure that was executed in marginalized territories as a proportion of the sum of all the budget of Eligible Expenditures executed in marginalized territories was used as a weighting factor to make the Notional Allocation of each Eligible Expenditure. This method guarantees that Notional Allocation of Bond's Resources reflects the proportion of the budget that in fact goes to marginalized territories.

Categories of Eligible Expenditures.

Eight of 30 eligible budgetary programs concentrate 85% of the Notional Allocation of the SDG Bond. While the state level participation of such allocation is 64%, the municipal level share is 36%. It should be noted that the first SDG Bond had an allocation at the state level of 62% and 38% at the municipal level. Education, healthcare, and basic food groups received 79.6% of the resources. Education received US$452.9 million (30.6% of the proceeds) in contrast to the first issuance where it received US$270.5 million (31.6% of the proceeds). US$437.4 was allocated to healthcare services, equivalent to 29.6% of the proceeds, whereas in the first issuance it received US$291.5 million or 34.1% of the proceeds. Health Care and Free Medicines for the Population without Labor Social Security was the program that received the highest amount of notional allocation of resources, US$323.8 million, followed by Support to education centers and organizations with US$199.9 million.

Graph 1 ׀ Eligible Sustainable Expenditures categories and allocation 2020 vs 2021 } (Portfolio weight (%))

Source ׀ UNDP with information from SHCP. It should be noted that sums may not round up to 100% due to rounding.

Graph 2 ׀ Main Categories of Notional Allocation
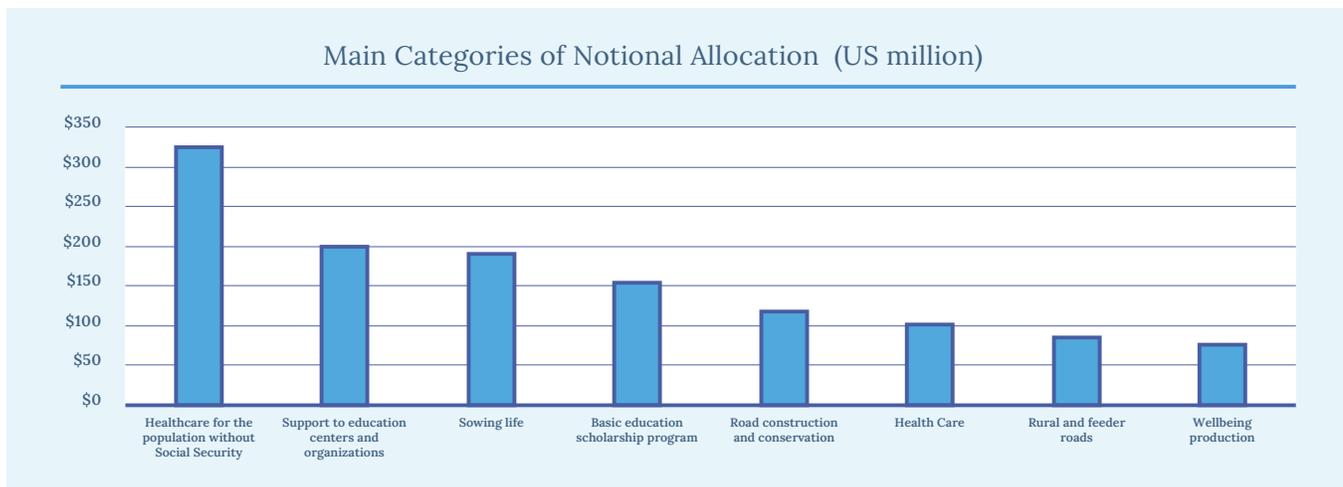
Source ׀ UNDP with information from SHCP.

Initial Eligible Expenditures were identified by applying the Bond's Framework. Notional Allocation of Resources reflects the share of the budget of each Eligible Expenditure as a proportion of the sum of all Eligible Expenditures that in fact goes to marginalized territories. Valuable efforts have been made to improve the accuracy of such estimations. Transparency can be enhanced if data used for the estimations for Notional Allocation of Resources is published or concentrated in an open access repository. Education, healthcare, and basic food groups concentrate 79.6% of the Notional Allocation of Resources. There were no significant changes between the First and Second Issuance with regards to the share that is allocated to states and municipalities. However, important changes in the shares going to each SDG were detected between the First and Second issuances.

4   Impact Reporting

This section analyzes the Impact chapter of Mexico's Allocation and Impact Report. The Impact Report is structured based on the SDGs to which Eligible Expenditures contribute according to the following schematic interpretation (see Figure 2).

Figure 2 ∣ Results Framework

1   **Overall picture by SDG (Program-Level Results)**

Total funds allocated → Number of eligible expenditures → Estimated number of beneficiaries and aggregated output results → General state of affairs and its trend (compared to 2020's report) * → Maps and visualizations reporting allocation by social gap level and geographical distribution of funds

2   **Project-Level results (Responsible ministries)**

Contribution to SDG targets (differentiating direct and indirect contributions) → Eligible expenditures → Use of resources → Estimated number ofbeneficiaries and aggregated output results

3   **National state of affairs**

Main SDG targets addressed → Core indicators and results for 2020 and 2021 reports → Variance observed * → Trend *

4   **Case studies**

| Program's description (general diagnosis) | Program's purpose (short-term objectives and long-term expected impacts) | Allocated funds | Information on beneficiaries and outputs disaggregated by gender when available | Breakdown of allocation and estimated outputs based on the geospatial criterion |

New compared to last year.

Source ∣ UNDP with information from SHCP.

Theory of Change and Results Chain.

The Report presents the contribution of Bond's resources to the achievement of SDGs and its specific targets in marginalized territories. The display of graphical visualizations that account for geo-spatial intensity of allocations by level of marginalization represents a helpful element to assess compliance with the Framework's provisions regarding allocations based on the geospatial criterion.

The Report contains indicators at program level benefiting from data made available by line ministries and other institutions. Moreover, case studies provide the rationale behind key budgetary programs in terms of the outputs produced and the budgetary programs' objectives. By matching SDG targets, State of Affairs and output indicators, and Eligible Expenditures, a theory of change is implicitly established. The results chain framework can be enhanced through a matching procedure that allows for pinpointing program concurrencies not just at the SDG target level, but also at target territories. The commitment to obtain and produce further granular data opens the potential to provide the necessary inputs to portray changes in State of Affairs indicators in marginalized territories. This disaggregation of data will strengthen the results chain framework.

Expected Impact Indicators and Potential for Positive Contribution to SDGs.

Significant efforts were made to select relevant indicators and to collect information related to Eligible Expenditures directly from producers of information. Once SDG targets linked to Eligible Expenditures were identified, a proposal of indicators associated to the relevant SDGs for the Bond's purposes was presented and submitted for further review at CTEODS and technical committees of the National Council for the 2030 Agenda. This approach resulted in the compilation of 21 State of Affairs indicators, with data provided by CONEVAL, INEGI, line ministries, and other institutions.

Data collection involved (i) harnessing the methodology applied to pinpoint budgetary programs' contribution to SDG targets; (ii) the use of information already generated within the monitoring and evaluation mechanisms of SED, particularly at program level; (iii) the delivery of workshops with line ministries and other institutions to gather granular data related to outputs and beneficiaries at the program level; and, whenever possible, breakdowns by gender and marginalization level; and (iv) the analysis of information under the implementation of the geo-spatial criterion. This process accounts for the commitment to report on the best available information. The leveraging of information already produced within SED and the Integral Information System of Government Programs Registries[5] (SIIPP G, for its acronym in Spanish) indicates an efficient use of resources and is key to promote appropriation of the delivered results by line ministries and other institutions, resulting in positive dynamics.

Expected Social Impacts and Estimates of End Beneficiaries.

Expected social impacts and estimates of outputs and end beneficiaries are reported through the

5   SIIP G is a tool administered by the Ministry of Public Administration (SFP, for its acronym in Spanish) that integrates program registries of subsidies programs from all levels of government. Further information can be found at: https://www.gob.mx/sfp/acciones-y-programas/sistema-integral-de-informacion-de-padrones-de-programas-gubernamentales-siipp-g

indicators selected according to the process described earlier. Since the 2020 Report set a benchmark, it is possible to observe aggregated and short-term changes in State of Affairs indicators:

- For nine out of 21 indicators (42.87%) that do not update on a yearly basis, it was not possible to establish a comparison relative to 2020's benchmark.

- Nine indicators (42.87%) displayed changes in the expected direction.

- Opposite variations were observed for three indicators (14.29%).

Considering the time elapsed between Reports, it is early to talk about trends in the State of Affairs. Moreover, reported changes should be taken with caution regarding Bond's contribution to sustainable development, as the relevance of program-level indicators to social affairs indicators is yet to be assessed. Trends' information can be enhanced by reporting indicators' variations segmented by Social Gap Index level to pinpoint more precisely the effects of public spending from Bond's resources on SDGs.

At the program-level, the establishment of closer communication with information producers through workshops and specific requests strengthened substantially the data gathering process. This allowed for more granular information at the program level for some Eligible Expenditures, related to end beneficiaries and outputs at state or municipality level that met the geo-spatial criterion. However, for some programs, this information remained unavailable. The allocation process, based on the notional factor applied in 2020 and countered for the 2021 issuance, does not allow to capture end beneficiaries directly for every program. For the majority of programs, a subset of end beneficiaries was reported, equivalent to the proportion of the programs' expenditure in marginalized areas related to the Bond. In the case of three out of 30 programs, indicators related to end beneficiaries and some outputs comprise estimations rather than raw numbers.

When disaggregated information on end beneficiaries was available, the reported value was the result of weighting the raw number of beneficiaries in areas with medium, high, or very high levels of marginalization by the percentage of a program's expenditure associated to the Bond according to the notional allocation factor. When information on end beneficiaries and outputs was not available in a more granular fashion, a proxy was constructed based on the proportion of the program's budgetary allocation in areas that met the geo-spatial criterion and weighted by the notional factor. The Report does not distinguish explicitly on which procedure was followed for every program indicator.

Disclosing which methodology applied in each case is relevant to identify the proportion of indicators that reflect a true subset of end beneficiaries, and the proportion of indicators that rely on more indirect estimations and assumptions that may cause some deviations from the actual number of end beneficiaries and outputs. Moreover, the disclosure of this information allows to acknowledge improvements in the reporting by line ministries and other institutions in comparison with 2021's Impact Report

Data Segmentation and Output Monitoring.

Improvements observed in the data-gathering process represent a significant step towards the desired direction, especially in terms of data segmentation based on socioeconomic characteristics. Considering the gradualist approach adopted by the Government of Mexico to improve the quality of Bond's Impact Reports and the positive dynamics emerging within and between ministries and other institutions, it is expected that upcoming editions will present more impact-focused indicators and more granularity in State of Affairs indicators. Challenges to report disaggregated data (by sex, age group and ethnicity, among others) may persist due to the notional allocation approach to select Eligible Expenditures.

UNDP's Opinion on Impact Reporting

UNDP is of the view that the Impact Report follows the criteria established in the Framework. Elements included on the Impact Report account for a strengthened rationale behind the theory of change, linking budgetary program allocations, estimating end beneficiaries, outputs, and, indirectly, State of Affairs indicators. Reporting variations related to SDGs' target indicators across time contributes to the enhancement of the results chain framework. Reported changes should be taken with caution as the relevance of program-level indicators to social affairs indicators is yet to be assessed. Disaggregation of data is strongly advisable to track changes by social gap level and other socioeconomic characteristics. 2022's Report displays enhanced impact information, thanks to efforts carried out by the Ministry of Finance, line ministries and other institutions to gather sufficient information on programs' beneficiaries and outputs in marginalized areas. Given the allocation of funds methodology, capturing end beneficiaries for some programs is still challenging. There is space for improvement for future reports. UNDP's recommendations are summarized in section 6.

5

SDG Bond as a Driver of Change

Key learnings may arise from the processes behind the reporting of the first SDG sovereign bond of these characteristics that is issued in the world. This section documents and analyzes the dynamics derived from the issuance reporting exercises.

Institutionalized communication channels within the Ministry of Finance.

Mexico's SDG Bond Allocation and Impact Report 2021 was a catalyst of positive dynamics between areas within the Ministry of Finance, especially between units involved in performance evaluation and public credit. The identification process of budgetary programs' performance indicators as a main source for the Bond's Impact Report brought these areas to work closely, thus, fostering information sharing to account for social impact associated with Bond's issuance. Despite changes in the composition of areas involved in the exchange of information, these practices were strengthened and continued in the elaboration process of *Mexico's SDG Bond Allocation & Impact Report 2022*. The continuity of these practices denotes the institutionalization of these positive dynamics, which seem to evolve towards the formalization of information exchange routines for future reports.

Enhancement of monitoring mechanisms and data production associated with the SDGs.

Impact Report relied on a methodology—implemented on a yearly basis by line ministries and other institutions that is overseen by the Ministry of Finance—to pinpoint contributions of budgetary programs to SDG targets. This methodology, which has enabled the selection of Bond's Eligible Expenditures, at the same time, has been complemented by Bond's reporting commitments established in its Framework. In Bond's Impact Reports, ministries and other institutions are not just stating contributions of budgetary programs to SDG targets but providing evidence for these contributions through output and outcome indicators in marginalized areas, resulting in a mutually reinforcing relationship. Moreover, line ministries and other institutions are displaying greater interest in generating and providing useful information to clearly exhibit development improvements imputable to the budgetary programs under their responsibility. Hence, implementing agencies are rearranging internal information flows and responsibilities to report on programs' contributions to the 2030 Agenda. The call for workshops by the Ministry of Finance to identify relevant data on beneficiaries and outputs has incentivized the production of more granular quality data with the oversight of INEGI. The National Council for the 2030 Agenda and its technical committees represented an enabling environment to exchange information, review the relevance of State of Affairs indicators and to generate a sense of appropriation for the results informed in *Mexico's SDG Bond's Allocation and Impact Report 2022*. Furthermore, the exchange of point of views between the SHCP and its counterpart in the State of Mexico, which recently also issued an SDG Bond,[6] has proven fruitful to standardize reporting impacts.

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6   The State of Mexico was the first subnational government to issue an SGD Bond in 2022 to finance 18 social, sustainable, and green projects for a total of $USD 145 million. The objectives in its State of Mexico Development Plan 2017-2023 are aligned to SDGs. More information can be found at: https://finanzas.edomex.gob.mx/node/415

Renewed interest in innovative sources of financing for development

The SDG Bond and the openness displayed by the Ministry of Finance within the National Council for the 2030 Agenda and its technical committees catalyzed interest by academia, private sector, and civil society organizations in the use and development contributions of public debt. Non-governmental actors are displaying increased attention not only in the reporting process, but in the mobilization of resources in innovative ways and in broadening the debate on financing for sustainable development. This is expected to foster transparency and accountability.

UNDP'S opinion on SDG Bond as a Driver of Change

The Report has been a catalyst of the institutionalization of positive dynamics within the Ministry of Finance's units for performance evaluation and public credit. Implementing agencies are displaying greater interest in generating and providing better and more granular data to exhibit results imputable to their budgetary programs. Agenda's governance bodies represent an enabling environment for the exchange of information, for reviewing indicators, and for generating a sense of appropriation of the results presented in the Report, transcending government actors to include academia, private sector, and civil society organizations.

Concluding remarks and recommendations

The publication of *Mexico's SDG Bond Allocation & Impact Report 2022* is a commitment of the Ministry of Finance with the ESG investors to inform transparently how Bond resources were allocated among budgetary programs in marginalized territories and how these funds could be contributing to the achievement of SDGs. Furthermore, by undertaking this task following the Bond's Framework, key practices that UNDP advocates for, through its *SDG Impact Standards*, are fostered. UNDP acknowledges the efforts of the Ministry of Finance for continuous improvement and considers that key insights and dynamics that have derived from the Bond's processes are relevant best practices that can be considered by other Sovereign Bond issuers.

The elaboration of the Report denoted positive dynamics of information exchange and sound collaboration within the 2030 Agenda governance structures where the Ministry of Finance, line ministries, other government agencies and non-government actors participate, and within the Ministry of Finance itself; and have created positive spillovers that transcend to the Bond itself to improve processes of the country's information generating and accountability institutions. In addition, the report signals the continuity of an impact strategy based on SDGs and has contributed to foster results orientation, participatory and deliberative decision-making among established governance mechanisms, and gradual but continuous improvements not only for resource allocation and impact reporting within the Bond's scope, but also for monitoring processes towards the achievement of SDG national goals and targets. Higher engagement by the National Council for the 2030 Agenda to provide feedback on the selection of SDGs and eligible expenditures for future issuances is advisable.

For this Report, SHCP progressed to incorporate more granularity on Eligible Expenditures data, and to provide more accuracy in outputs and outcomes indicators and an improved linkage between Eligible Expenditures and marginalized territories. While this refinement precludes strict comparability between the first and second reports, it lays an improved foundation for trend analysis in the future. These efforts are also intended to show more clearly Bond's contribution to SDGs, especially in advancement of its social dimension and for territories with medium, high, and very high levels of marginalization. One area of opportunity that remains is the revision of Bond's eligibility criteria and allocation of resources by ASF, although currently SHCP has established collaboration with this agency to accomplish it.

Close exchanges and communications between SHCP, line ministries and other implementing government agencies have improved the understanding not only on the way the SDG Bond issuance

contributes to sustainable development but on government institutions core activities and the need to have better output and outcome indicators to properly reflect their contribution to SDGs. As a result, some institutions have started to adjust their internal processes to improve the performance monitoring of their programs and the way they identify links to SDGs. They are also analyzing ways to define more clearly and strategically their responsibilities for data provision and to embed these changes in institutional processes of monitoring and evaluation.

The "leaving no one behind" principle calls for continued efforts to better characterize end beneficiaries.

The notional allocation process, based on the notional factor applied in 2020 and countered for the 2021 issuance, does not allow to capture end beneficiaries directly for some programs for which granular information is not available, due to factors such as the type of goods and services that the program delivers and its scale. It is advisable to analyze alternative mechanisms to estimate end beneficiaries in a more accurate manner. It is worth noting that the standing Bond's Framework does not consider additional filters than those applied by the SHCP in the Eligible Expenditures selection process. Challenges to report more disaggregated data by socioeconomic characteristics such as sex, age group, ethnicity, etc. may persist due to the notional allocation approach to select Eligible Expenditures and by other relevant factors that could go beyond the Minister of Finance scope. However, the "leaving no one behind" principle calls for continued efforts to better characterize end beneficiaries. Piloting a case study where additional information can be provided could be a useful way to approach these challenges.

To enhance transparency and to allow replicability of the information portrayed in the report, it is suggested that databases for calculating portfolio weight of each Eligible Expenditure are concentrated and published in a single site, and that cases where information restrictions exists are identified whenever possible. Another area of opportunity is to strengthen the relationship between output and State of Affairs indicators and thus, the results chain framework. To achieve this, segmentation of data by Social Gap Index level is strongly advised.

There are some actions around the SDG Bond governance that could contribute to an enabling environment to mobilize additional resources aimed at sustainable development and to strengthen the monitoring and accountability mechanisms at the subnational level. For example, the wider participation of relevant government financial institutions and financial governance bodies such as the Sustainable Finances Committee could contribute for oversight, identification of risk strategies to cope with instability factors, complaints, remedial actions, and to address aspects that promote the involvement and collaboration of investors as stakeholders, beyond being Bond consumers. The organization of seminars with subnational financial authorities, where best practices and challenges faced during the issuance and reporting processes of SDG Bonds are shared, could result in beneficial exchanges between issuers and potential issuers.

Looking into a larger time frame, since SHCP is committed to reporting annually on the Eligible Expenditures, and social and environmental benefits for as long as the SDG Bond is outstanding, it is beneficial to envision future allocation and impact reports that provide historical information on output and outcome trends for indicators linked to different SDG Bond's issuances and, at the same time, allow for substantial modifications in Eligible Expenditures, according to Mexico's future development priorities. Also, as bond matures, it will become increasingly relevant to disclose how the materiality of impact on sustainable development is addressed.
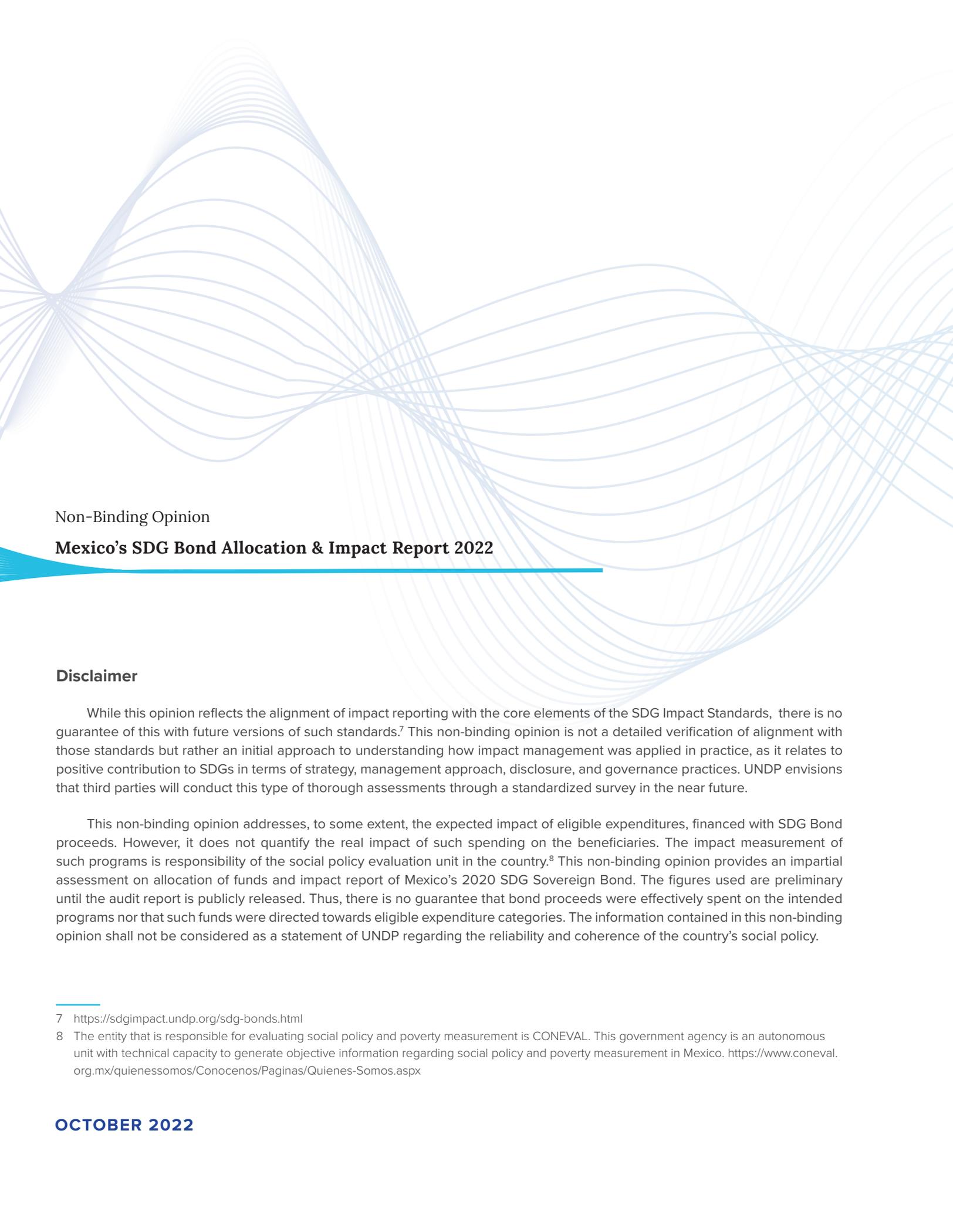
Non-Binding Opinion

Mexico's SDG Bond Allocation & Impact Report 2022

Disclaimer

While this opinion reflects the alignment of impact reporting with the core elements of the SDG Impact Standards, there is no guarantee of this with future versions of such standards.[7] 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 proceeds. 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.[8] 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 bond proceeds 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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7   https://sdgimpact.undp.org/sdg-bonds.html

8   The entity that is responsible for evaluating social policy and poverty measurement is CONEVAL. 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

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