

SDG sovereign bonds as an instrument to advance alignment and financing for the Sustainable development goals

Countries and Investors in joint action

Background

Countries worldwide are grappling with multiple crisis, including the aftermath of the COVID-19 pandemic, and looking to drive forward an inclusive, sustainable recovery. This needs to be made within the context of rising food prices, high inflation and increasing interest rates, and the impacts of conflicts around the world. Finance is one of the key enablers and one of the areas addressed, alongside with food and energy, in the Global Crisis response group that the United Nation Secretary-General established in March 2022.

Both public and private finance is critical for the implementation and achievement of the 2030 Agenda and the Addis Ababa Action Agenda. Within this context, more than 80 countries are using Integrated National Financing Frameworks (INFFs) to put in place robust, holistic strategies for financing sustainable development. Within Integrated National Financing Frameworks an increasing number of countries have identified SDG sovereign bonds as one possible option to finance national sustainable development ambitions, and a few countries have come to marked with SDG-sovereign bonds.

There is significant potential to mobilize additional private investment to close the financing gap for Agenda 2030. Asset managers hold approximately US\$126 trillion in assets . Shifting even 3-5% of this capital towards sustainable development would make a significant contribution for the achievement of the SDGs and transition towards a green economy¹. A vast portion of the needed investment capital can potentially come from the mainstream capital of institutional investors with a relative long-term investment horizon.

Incentives might be needed to stimulate the greater shift of investments to reach where they are needed the most, and to stimulate long term sustainable development along with regulations and policy changes. The challenge is to identify where incentives can have the biggest impact and how they can best be designed.

Key actors and their initiatives

Rwanda is in the final stages of developing an INFF financing strategy for its National Strategy for Transformation. This financing strategy aims to ensure fiscal sustainability, increase domestic revenues and engage the private sector as a driver of Rwanda's economic development. It prioritises the development of thematic bonds that can unlock capital for investment in national sustainable development priorities, building on the establishment of the Kigali International Financial Center, the Rwanda Innovation Fund, and Rwanda's National Climate Fund (FONERWA).

Indonesia is a leader in innovative SDG financing. In 2014 the Ministry of Finance introduced climate budget tagging systems to monitor and manage climate expenditure across the national budget. This

¹ OECD Global Outlook on Financing for Sustainable Development 2023. *No Sustainability Without Equity*

provided a basis for pioneering the world's first sovereign green sukuk in 2018. The country has to date gone through 10 rounds of issuances, mobilising more than \$6.5 billion through the global and domestic market. With an expansion of the green bond and green sukuk framework to consider the blue economy and social outcomes, the government issued the country's first SDG bond in September 2021, mobilising €500 million, targeting education, health, and ICT sectors.

Building on these and other financing innovations, the government initiated the development of an integrated national financing framework to build a holistic approach for financing its national development plan and SDGs Roadmap. In August 2022 the Minister of National Development Planning launched the [INFF report](#) on the sidelines of the G20 Development Working Group. Indonesia is currently setting up the SDG Financing Hub at the Ministry of Planning (Bappenas) with the support of the INFF facility and will incorporate the INFF approach into the financing strategy of its upcoming medium-term development plan.

Sweden (through Sida), United Nations Development Programme (UNDP) and Department on Economic and Social Affairs (UNDESA) have initiated discussions on how international investors can support realisation of country-owned INFFs, through instruments that can help align investors' portfolios with the SDGs and catalyse new investments for developing countries. This includes collaboration with investors within the Global Investors for Sustainable Development Alliance (GISD)².

The GISD alliance, in collaboration with UNDP, is developing a paper to provide guidance³ on how the SDG-linked Sovereign bonds market can be enhanced. It will cover the following aspects:

- Consolidated lessons learnt and best practices emerging out of SDG-linked sovereign bonds issued so far. This can also include case studies from selected countries on how SDG-linked bonds are being integrated in national strategies as part of the INFF-process.
- Concrete and practical recommendations from the perspective of investors for enhancing integrity of future SDG-linked sovereign bond issuance. This can include knowledge around suitable ticket sizes, rates, returns, and guidelines on building a pipeline of attractive investment projects, standards and tools for measurement and disclosure etc.

As Team Europe, and in cooperation with UN, the EU work together with INFF countries in their efforts to attract increasing international private capital to finance sustainable investment projects. The EU together with EIB and several EU DFIs, is keen to supporting development of green bond markets in partner countries, in a Team Europe approach, in particular through the Global Green Bonds Initiative..

There are opportunities to further deepen the dialogue between countries and investors on SDG sovereign bonds to enhance the integrity and quality of these instruments. While the organizers all support open dialogue on the potential of SDG bonds, they also recognize challenges and needs of different countries, including debt challenges, current lack of accountability in the SDG bond market, and that SDG bonds is just one instrument, which should be seen as part of a broader INFF.

² [Gisdalliance.org](https://gisdalliance.org)

³ [Report on Incentives - TT3 WG2.pdf \(gisdalliance.org\)](#)

Side-event at FfD-forum, New York 18 April 2023

Title: SDG sovereign bonds as an instrument to advance alignment and financing for the SDGs. Countries and Investors in joint action.

Length: 90 minutes, 18 April 08.00-09.30, room 6.

Format: Official in person high level side event at the FfD-forum, New York. Streaming of the event for virtual listening.

Keynote address

Mr Junhua Li, Under-Secretary-General, Department for Economic and Social Affairs, United Nations

Highlighting the importance of the SDGs, the need to mitigate SDG-washing, the need for responsible debt restructuring within the remit of SDG-sovereign bonds, and the UN as a convening platform for this discussion amongst stakeholders.

Opening and welcoming remarks by co-hosts

Rwanda Minister of Finance and Economic Planning, Honourable Dr. Uzziel Ndagijimana. SDG and green sovereign bonds framed by the Integrated National Financing Framework.

Ambassador Anna Karin Eneström, Permanent Representative of Sweden to the UN. The potential with working in partnership for greater leverage for sustainable development – working in collaboration with the financial sector.

Panel discussion: the need to leverage the experience and needs of countries and private investors to develop SDG sovereign bonds market and to contribute to sustainable development

Moderator Shari Spiegel, Chief, Policy Analysis and Development Branch, Financing for Sustainable Development Office, Department of Economic and Social Affairs, UN

Introduction by moderator setting the scene inviting countries and investors to the panel also introducing INFF.

The country perspective on SDG sovereign bonds

Countries sharing examples of work with INFFs, discussing also the concept of SDG sovereign bonds as a means to close financing gap for Agenda 2030. IMF adding perspectives on the country cases including debt sustainability.

Rwanda Minister of Finance and Economic Planning, Honourable Dr. Uzziel Ndagijimana

Indonesia Mr. Yanuar Nugroho, Expert Coordinator at the National Secretariat of Sustainable Development Goals Implementation, Indonesia.

The investor perspective on SDG sovereign bonds

Moderator inviting investors and WB to join the panel for dialogue on investor perspective to catalyse private capital related to the potential with SDG sovereign bonds. Investors reflecting on challenges and opportunities to finance and align with the SDGs.

Citi (member of GISD), Stephanie von Friedeburg Managing Director Global Public Sector

PIMCO (member of GISD) *Gavin Power, Executive Vice President and Chief International Affairs and sustainable development.*

Nordea Asset Management (representing Swedish Investors for Sustainable Development in GISD), *Nils Bolmstrand, CEO.*

Bank of America (member of GISD), *Andrew R Karp, Head of ESG Advisory and Financing solutions BofA Securities.*

CDPQ (member of GISD), *Vito Dellerba, Senior Director, Investments Global Sovereign Debt CDPQ*

World Bank, *Anna Wallenstein, Regional Director, Sustainable Development, Latin America and the Caribbean.* Robust government strategies and reliable impact management to ensure credibility of SDG sovereign bonds.

Moderator inviting countries to give reflections and comments on investor perspectives.

Moderator concluding reflections

Summarizing challenges and possibilities for countries and investors and laying out the case why you would need incentives with its advantages and disadvantages.

The potential need for incentives for SDG sovereign bonds

Reflections on barriers and potential avenues forward to incentivise investments at scale including the use of risk mitigation instruments (e.g. guarantees) to bridge investments and close the financing gap for Agenda 2030.

European Union, *Antti Karhunen, Director Sustainable Finance, Investment and Jobs; Economy that works for the People, European Commission*

Swedish International Development Cooperation Agency (Sida) *Carin Jämtin, Director General*

Nordic Development Fund, *Karin Isaksson, Managing Director.*

UNDP, *Marcos Neto, Director Sustainable Finance Hub*

Discussion and open call for collaboration

PIMCO on behalf of working group on SDG bonds in GISD Alliance, *Gavin Power, Executive Vice President and Chief International Affairs and sustainable development.*

Audience Q&A

Moderator closing remarks

Areas to discuss:

- From a country perspective, what needs are identified in the process of issuing and reporting on SDG sovereign bonds as a means to finance sustainable development and Agenda 2030 on country level. How can it connect to the INFF process or other country processes.
- From an investor perspective, how can SDG sovereign bonds further catalyse financing for sustainable development in emerging markets and developing countries and enable alignment of financial flows to Agenda 2030. What could be the role of MDBs and IFIs in shaping the instruments and monitoring systems?
- What incentives are needed to drive larger SDG-investments to the counties who need it the most and how can the Integrated National Financing framework assist in this endeavour.



- How can we together - investors, countries and other stakeholders contribute to refine SDG sovereign bonds, making the instrument fit for purpose to meet country needs, investors demands and regulatory remits and at the same time contributing to scaling up financing for the SDGs?