

2025 INFF Facility Partner Meeting

SESSION FIVE

SDG and thematic bonds

Date and time: 22 January 2025, 16:00-17:00

Session focal point: Enkhzul Dambajantsan, Enkhzul.dambajantsan@undp.org

Background

SDG and thematic bonds are useful financing tools to not only raise much-needed capital but also align bond proceeds with sustainable development priorities so that the SDG impact per dollar borrowed is enhanced. They can serve as an entry point to systematically integrate SDG impact measurement and management in the public and private financing and monitoring systems. Yet only a small fraction of the sovereign debt issuances is thematically aligned to the SDGs. In particular, the low- and lower-middle-income countries most in need of development capital are largely unable to access the thematic bond market, which presents both underlying challenges and a significant opportunity. Rising debt levels and debt sustainability is a critical challenge that countries need to grapple with when considering SDG and thematic issuances. These multiple, complex challenges require an integrated financing approach to maintain macro-fiscal stability and enhance their creditworthiness, while enabling access to development capital in international capital markets. Zero draft of the FFD4 Outcome document highlights the importance of developing innovative financial instruments including thematic bonds with sound regulatory framework and adequate risk management.

A total of 14 countries that are implementing INFFs are currently implementing reforms and policies related to debt and the development and issuance of sustainable debt instruments. Thirty-five others have prioritized thematic bond issuance, debt swaps or other changes to debt management within their INFF. In the context of INFFs, these countries are developing comprehensive financing strategies to ensure the long-term sustainability of sovereign debt by enhancing domestic revenue mobilization, the effectiveness and efficiency of expenditure and its alignment with sustainable development priorities. Thematic bond issuances are often preceded by or leading to other reforms in the public financing system to contribute to the alignment of the whole system with the SDGs. For example, Indonesia has introduced Climate Budget Tagging system in 2017 which has enabled the Government to better map the financing needs

and innovate with financing instruments such as the issuance of world's first Green Sukuk in 2018. To date, Indonesia has mobilised over 10 billion USD of thematic bond issuances innovating over the years from green sukuk to SDG bond to publicly listed blue bonds. Another example is Benin, which was the first least developed country and first African sovereign to issue an SDG bond, unlocking €500 million for investment in social sectors, environment projects and other areas in 2021. The bond issuance led to the development of a comprehensive SDG budgeting roadmap that includes SDG budget tagging and measures for a more comprehensive assessment of the impact of budget allocations on the SDGs. As these examples demonstrate, experience with the SDG bond and establishing structures to monitor the use of proceeds in line with the SDGs is inspiring change across the wider financial ecosystem SDG in addition to the enabling the financing of projects that make progress on SDGs.

On the other hand, investors also recognise the opportunity to invest into developing countries through the use of thematic debt instruments. To scale the market and unlock financing towards SDG projects, the Global Investors for Sustainable Development (GISD) Alliance, under the leadership of UNDESA and UNDP, has developed 'Guidance on Sovereign SDG Bonds for Countries and Investors'¹. This signals interest and commitment from global investors in developing the thematic bond market and supporting countries finance their development ambitions in a sustainable way.

Therefore, this session offers a discussion on the current experiences of using thematic debt instruments for financing the SDGs from both country and investor perspectives, and the ways forward to use thematic bonds market to embed SDG impact across wider financing ecosystem.

Objectives

- Exchanging experiences to date and future potential on using the INFF processes to scale financing through the use of thematic debt instruments
- Present the GISD Guidance on sovereign SDG bonds highlighting the challenges and opportunities related to enhancing sovereign thematic bond market
- Understand the key opportunities and challenges related to mobilising finance using thematic debt instruments and importance of integrated approach to enhance the SDG impact of the bond proceeds and beyond.

Guiding questions

- What are the experiences to date on using sovereign thematic bonds as a way for mobilising finance?

¹ <https://www.gisdalliance.org/sites/default/files/2024-04/GISD%20Alliance%20Guidance%20on%20Sovereign%20SDG%20Bonds-FINAL.pdf>

- How can INFFs help consider debt in a sustainable way and enhance SDG impact in debt management and wider financing ecosystem?
- What needs do investors have, not currently being met by issuers and other market actors and what solutions can be brought forward to scale this market in a sustainable way?

Agenda

TIME	SESSION	SPEAKERS
5 mins	Introduction	Moderator: Karin Svensson , Senior Advisor Financing for Development, Sida
25 mins	Panel/roundtable/workshop discussion 5 minutes per panellist	<ul style="list-style-type: none"> • María del Carmen Bonilla Rodríguez, Head of the Public Credit and International Affairs Unit, Ministry of Finance, Mexico (TBC) • Laetitia Hamon, Head of Sustainable Finance, Luxembourg Stock Exchange • Dulguun Battulga, DG Securities Markets Department, Financial Regulatory Commission, Mongolia • Luís Javier Herrero Borque, President, Barcelona European Financial Center
20 mins	Discussion	
5 mins	Key takeaways	