United Nations Development Programme

Non-Binding Opinion

Mexico's SDG Bond Allocation & Impact Report 2024

OCTOBER 2024

Non-Binding Opinion Mexico's SDG Bond Allocation & Impact Report 2024

United Nations Development Programme (UNDP)
Montes Urales 440
Col. Lomas de Chapultepec, Alcaldía Miguel Hidalgo.
C.P.11000, CDMX, México.

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.

Analysis team: Victor Aramburu and Maite García de Alba.
Editorial design: Octavio Mendoza.
First edition, October 2024.

UNDP's Opinion at a Glance

UNDP is of the opinion that Mexico's SDG Bond Allocation and Impact Report 2024 complies with the criteria established in the UMS SDG Sovereign Bond Framework. 2023's Bond issuances have continued the strategy of developing a sustainable yield curve, not only by issuing in international markets, but also by consolidating the local thematic debt market with bonds in local currency to diversify its portfolio, to hedge against exchange rate volatility and to move from a brown public debt portfolio to a more sustainable one. It also continued with the strategy of incorporating new Green Eligible Expenditures in addition to the Social ones. In this edition, trends of indicators for Green Eligible Expenditures have been displayed. The institutionalization of the SDG Bonds' dynamics has been strengthened with the consolidation within the SHCP of internal processes regarding the structuring of SDG Bonds, the methodological approaches to report, and the official creation of a specialized ESG Direction. The institutionalization steps that have been taken by the SHCP are key in the face of the coming changes in government. The Bonds' indicators have been examined through ICMA's Harmonised Framework for Impact Reporting to improve transparency in communication with investors by complying with international standards. Not only SDG Bonds have been a harbinger and a cornerstone for Mexico's Sustainable Finance Mobilization Strategy, but a roadmap for other emerging market economies sovereign issuers with which Mexico has socialized its experience and good practices.

ALIGNMENT WITH SDG IMPACT STANDARDS

Mexico's SDG Bond Allocation and Impact Report 2024 maintained and consolidated a clear impact strategy aligned with the core elements of UNDP's SDG Impact Standards for Bond Issuers: impact strategy, managerial approach, transparency, and governance structures.

PROGRAM SELECTION

Program selection processes followed the established methodology to link budgetary programs to SDGs and then applying the Framework's criteria to filter Social and Green Eligible Expenditures.

ALLOCATION REPORT

Notional Allocation of Bonds' proceeds followed the Framework's criteria. 15 of the 44 budgetary programs comprise 91.6% of the resources. 65% of the resources were allocated at a state level and 35% at a municipal level. Education, water and sanitation, food security, transport, and healthcare comprised 96.2% of the Notional Allocation.

IMPACT REPORTING

Impact Reporting was done following the Framework's criteria. The Report concatenates the allocation of resources with the number of outputs and beneficiaries of the Eligible Expenditures and the impacts expressed in the indicators of the State of Affairs.

SDG SOVEREIGN BOND AS A DRIVER OF CHANGE

SDG Bonds have contributed to transition Mexico's Sovereign Debt from a brown portfolio to a more socially and environmentally sustainable one. Consolidation of the local ESG debt market is key to advance sustainable finances at the local level. Mexico is also contributing to socialize and share its experiences and best practices with other countries, subnational governments, and other public entities to issue sustainable financial instruments.

Foreword

For the fourth consecutive year, Mexico has issued its SDG Sovereign Bond, reaching an allocation of US$5.9 billion in 2023. As a major milestone, the Ministry of Finance and Public Credit (SHCP for its acronym in Spanish) now has a Direction for Environmental, Social, and Governance Control and Monitoring with a clear mandate and faculties to develop strategies and monitor and report on actions related to thematic debt instruments that contribute to finance development actions for addressing environmental and societal challenges. In compliance with the provisions established in the SDG Sovereign Bond Framework, the SHCP has published Mexico's SDG Bond Allocation & Impact Report 2024 with the collaboration of line ministries and the National Institute for Geography and Statistics (INEGI, for its acronym in Spanish).

This Report includes updated information regarding some State of Affairs' indicators and budgetary programs aligned to Social and Green SDGs. 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 2024 SDG Bond & Allocation Report.

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

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

UNDP is grateful to Mexican authorities of the SHCP, the Ministry of the Environment and Natural Resources, the Ministry of Agriculture and Rural Development, the Ministry of Infrastructure, Communications and Transport, and the Ministry of Health for their disposition to provide support and assistance during this process.

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

SDG Impact Standards

SDG Impact is an initiative of UNDP's sustainable finance hub that developed the SDG Impact Standards for Bond Issuers as a tool to promote that bond issuer's decision-making processes integrate impact strategies, management approaches, transparency, and governance mechanisms that have the potential to make positive contributions to SDGs. The standards constitute a best practice reference for Bond Issuers as decision-making principles, but they do not intend to be specific performance or reporting guidelines. The elaboration of UNDP's non-binding opinion took the core elements of these standards as a reference to identify relevant dynamics in Mexico's SDG Bond issuances and the elaboration and publication of SDG Bond *Allocation & Impact Reports*.

Principle	Actions
Strategy	Mexico's SDG Bond Allocation and Impact Report 2024 portrays an integrated and comprehensive strategy that relies on Eligible Expenditures that contribute to achieve Social and Green SDGs. It has a focalization strategy on marginalized states and municipalities to maximize impacts of social budgetary programs. For the second time, it incorporated budgetary programs aligned to Green SDGs.
Management Approach	The creation of a specialized Direction for Environmental, Social, and Governance (ESG) Control and Monitoring within the SHCP in charge of formulating strategies, and structuring and reporting on thematic debt instruments, in conjunction with the administrative routines it has established with line ministries and the 2030 Agenda structures guarantee the continuity of using sustainable finance to achieve SDGs even if political cycles change. For the second time, Mexico's Superior Audit of the Federation (ASF, for its acronym in Spanish) has revised that the *Allocation & Impact Reports* of 2022 and 2021 complied with the Framework's criteria.
Transparency	SHCP continues with its solid commitment to transparency throughout the process by establishing periodical revisions and adopting international best practices and standards. This year, the Report included as an innovation the analysis of the alignment of the output and beneficiaries' indicators, as well as the State of Affairs' indicators with ICMA's Framework for Impact Reporting, for both Social and Green projects, to comply with international standards and to facilitate communication and transparency with investors, especially international ones.
Governance	The governance structure continues to consolidate through the creation of the ESG Direction within the SHCP with a clear mandate and faculties to develop strategies and monitor and report on actions related to thematic debt instruments that contribute to finance development actions for addressing environmental and societal challenges. This Direction will constitute the keystone to coordinate the deliberative and collaboration processes related to sustainable financing within the 2030 Agenda structures with regards to the selection and validation of Eligible Expenditures as well as gathering and developing granular data for constructing better indicators to report their impacts.

Strategic Intent

Since 2018, the Mexican Federal Government, through the SHCP, has established as an administrative routine the revision and alignment of budgetary programs of line ministries to SDGs. The methodology for this process was developed with UNDP's technical assistance and after six years it has proven to be an established routine. Consequently, the contribution of most budgetary programs to SDGs' targets is acknowledged on a yearly basis. This process is the keystone to identify and select Eligible Expenditures with a direct contribution to SDGs. Moreover, the selection process entails the use of the Framework's geospatial criterion to notionally allocate Bonds' resources to Social Eligible Expenditures that operate in marginalized regions. The geospatial criterion is based on sound data from public sources to pinpoint marginalized territories. It should be noted that this criterion does not apply to Green Eligible Expenditures, as the allocation rationale differs. For the second time, Mexico's SDG Allocation & Impact Report has included budgetary programs aligned with green SDGs, consolidating its holistic approach to sustainable finance by including the social and environmental dimensions. The application of the Framework's exclusion criteria reduces the risk of negative effects.

Management Approach

Processes to deliver on the impact strategy are being continuously improved and on the path towards institutionalization. The Eligible Expenditures' selection process carried out by SHCP, based on the Sovereign SDG Bond Framework, complies with applicable legislation, such as the Federal Law on Public Debt and the Federal Law on Budget and Fiscal Accountability.

The annual revision of Mexico's ASF has been consolidated, as it has revised the Allocation & Impact Report for the second time. It concluded that the Eligible Expenditures selected for the 2021 fiscal year complied with the Framework's criteria.

Procedures within different units from SHCP are well-established, thus contributing to agile and timely information requests to line ministries and other institutions. The creation of a Direction for ESG Control and Monitoring within the Public Credit and International Affairs Unit of the SHCP is a signal of Mexico's commitment to maintain and consolidate sustainable finances as a strategy for investing in development. This Direction is responsible for the oversight of the formulation of policies and the structuring and reporting on thematic debt instruments with ESG criteria for mitigation and adaptation to climate change, closing social disparities, and achieving SDGs. The institutionalization through the creation of the Direction and its internal processes will be key for the consolidation of sustainable finance and ESG public debt for the incoming Administration.

Transparency

The SDG Bond Allocation and Impact Report consistently provides information on output indicators, State of Affairs' indicators, trends, and case studies, providing relevant context and considering the scope and limitations of the notional allocation of the Bond's proceeds. As in previous editions, the sharing of databases with UNDP to replicate procedures and figures is a sign of openness that is highly acknowledged.

For the first time, the Allocation and Impact Report presents an analysis of the alignment between output and beneficiaries, as well as State of Affairs' indicators with the *International Capital Market Association's (ICMA) Handbook-Harmonised Framework for Impact Reporting for Green Projects* and Social Projects to comply with international standards and to facilitate communication and transparency with investors, especially international ones. 89% (39 out of 44) output and beneficiaries and 74% (29 out of 39) State of Affairs' indicators are aligned to at least one indicator from ICMA's Framework.

Governance

The leadership of SHCP regarding the SDG Bond issuances, allocation decisions, and reporting activities, benefits from its cross-cutting responsibilities and from the information exchange systems that are already in place. From this year on, SHCP will have a specialized ESG Direction with a clear mandate and faculties to develop strategies, monitor and report on actions related to thematic debt instruments that contribute to finance development actions to address environmental and societal challenges. This Direction will continue to coordinate the deliberative and collaboration processes related to sustainable finance within the 2030 Agenda structures with regards to the selection and validation of Eligible Expenditures as well as gathering and developing granular data for constructing better indicators to report its impacts. A challenge for this Direction will be that line ministries that produce data and construct indicators fully grasp the transcendence of their tasks in the effort to attract investors interested in sustainable finance.

UNDP's Opinion of Alignment with SDG Impact Standards

The *Allocation & Impact* Report 2024 published by SHCP shows that the Federal Government of Mexico maintained and consolidated a clear impact strategy aligned with the core elements of UNDP's SDG Impact Standards for Bond Issuers. It has a focalization strategy in marginalized states and municipalities to maximize social impacts of Eligible Expenditures and, for the second time, it included budgetary programs aligned with Green SDGs. Starting this year, SHCP will have a specialized ESG Control and Monitoring Direction in charge of formulating strategies, and structuring and reporting on thematic debt instruments which will be key for the consolidation of sustainable finance in the new Administration. Furthermore, this Direction will constitute the keystone to coordinate the deliberative and collaboration processes related to sustainable financing within the 2030 Agenda structures with regards to the selection and validation of Eligible Expenditures as well as gathering and developing granular data for constructing better indicators to report their impacts. Transparency in impact reporting continues to consolidate with the second revision of the Allocation & Impact Report by Mexico's ASF. Moreover, this year's Report included as an innovation in transparency and communication with investors, the analysis of the alignment of the output and beneficiaries' indicators, as well as the State of Affairs' indicators with ICMA's Framework for Impact Reporting.

Program Selection

Every year, Mexico's Federal Government, based on the established methodology, prepares the annual budget proposal by establishing the contribution of its budgetary programs to SDGs and its targets. This methodology was first developed in collaboration with UNDP, and it is now an integral part of the Mexican Performance Evaluation System (SED, for its acronym in Spanish). Once the contribution is established, SHCP makes a thorough selection of the SDG Bond's Eligible Expenditures following the applicable legislation and the Framework's established criteria. This selection is submitted to the deliberative structures of the 2030 Agenda, where several line ministries, other government institutions, and civil society organizations participate. The Social Gap Index, developed and published by the National Council for the Evaluation of the Social Development Policy (CONEVAL, for its acronym in Spanish), is used as the Geospatial Criterion to filter social Eligible Expenditures and to notionally allocate the Bond's resources to highly marginalized areas. It should be noted that this criterion is not used for Green Eligible Expenditures as allocation priorities differ and environmental investments might be needed also in non-marginalized territories, but they might generate spillovers that benefit them. In some cases, green projects are already geolocalized and, consequently, the geospatial criterion is not needed.

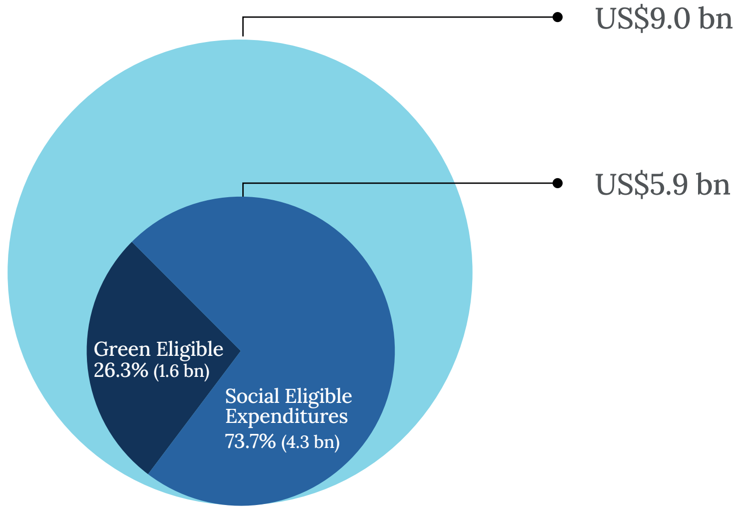
Eligible Expenditures

The SHCP initially had a pool of 44 budgetary programs as Eligible Expenditures for the SDG Bonds *Allocation & Impact Report* 2024. 31 were aligned to five Social SDGs—2, 3, 4, 8, and 9—and 13 to four Green SDGs—6, 7, 11, and 15. Budgetary programs were also aligned to 77 targets of SDGs. As in previous editions, the six filters' criteria established in the Framework were applied to all Eligible Expenditures. The seventh criterion, also known as the geospatial criterion, only applies to budgetary programs that contribute to Social SDGs. As previously stated, budgetary programs associated with Green SDGs might be implemented in all types of regions, independently of their marginalization level because environmental problems affect all kinds of territories. In order to guarantee a rigorous selection process, Eligible Expenditures are selected by SHCP and revised within the 2030 Agenda governance structures. Furthermore, for the second time, Mexico's ASF published in January 2024 the *Annual External Revision: Report of the Allocation and Impact of the SDG Bond 2022*, where it revised the compliance of the eligibility criteria and the allocation of the Bonds' resources for the 2021 fiscal year. The ASF concluded in this revision that the SHCP complied with all the procedures and criteria established in the Framework to select the Eligible Expenditures and to allocate the Bond's resources during the 2021 fiscal year

Use of Social Gap Index

As in previous issuances, the Bond used CONEVAL's Social Gap Index as the seventh geospatial criterion to identify marginalized territories at the state and municipal level as stated in the Framework. The initial 44 Eligible Expenditures amounted to a total of US$21.8 billion, of which US$19.5 billion corresponded to 31 budgetary programs aligned to Social SDGs and US$2.4 billion to 13 budgetary programs associated with Green SDGs. The geospatial criterion was applied to the 31 budgetary programs aligned to Social SDGs, which yielded a total US$6.6 billion. In the case of budgetary programs aligned to Green SDGs, the US$2.4 billion were maintained because the geospatial criterion does not apply to them. The notional allocation of the Bonds' resources resulted in the allocation of US$4.3 billion to Social Eligible Expenditures, representing 73.7 % of the total US$5.9 billion available for distribution. This figure does not greatly differ from the previous year's proportion of 72.2% allocated to Social SDGs. In the case of Green Eligible Expenditures, the final allocation wasUS$1.6 billion, from the original US$2.4 billion, that is, 65.93 % of the original amount. This figure is smaller than last year's allocation which was 72.2% of the original amount.

Graph 1: 44 Eligible Expenditures total budget and notional allocation



Source: UNDP with information from SHCP.

US$1.5 billion were allocated to territories classified with a Very High Social Gap Index (34.3% of the total US$4.3 billion), US$1.4 billion to territories with a High level (31.9% of the total), and US$1.4 billion to regions with a Medium level (33.8% of the total). As in previous reports, there is no significant variation in the proportion of resources allocated to the different marginalization levels. These proportions were 35.8%, 29.4%, and 34.8%, respectively for last year. However, in absolute terms, there was an important increase of US$0.22 billion to territories classified with a High level in the Social Gap Index. In the case of regions with Very High and Medium marginalization levels, there was no significant change in absolute terms compared to the previous year's report. US$2.0 billion corresponding to 15 Eligible Expenditures were allocated at the municipal level and US$2.3 billion of 16 Eligible Expenditures were allocated at the state level. It should be noted that a higher proportion of resources are allocated to territories with a Very High Social Gap Index at the state level than at the municipal level. US$1.1 billion are allocated to states classified with a Very High marginalization level, accounting for 48% of the resources distributed at the state level, whereas US$0.4 billion are allocated to municipalities with a Very High marginalization level, representing 19% of the resources distributed at this level.

UNDP's Opinion on Program Selection

The selection of Eligible Expenditures complied with the Framework's established criteria. 31 Eligible Expenditures were aligned to five Social SDGs—2, 3, 4, 8, and 9—and 13 programs to four Green SDGs—6, 7, 11, and 15. The geospatial criterion applies only to Social Eligible Expenditures because environmental problems may be present in any kind of territory, independently of its marginalization level. For the second year, Mexico's Superior Audit Office has revised and validated that Eligible Expenditures and resource allocation followed the Framework's criteria. US$1.5 billion were allocated to territories classified with a Very High Social Gap Index (34.3% of the total US$4.3 billion), US$1.4 billion to territories with a High level (31.9% of the total), and US$1.4 billion to regions with a Medium level (33.8% of the total).

Allocation Report

Initial Eligible Expenditures

Based on Mexico's legal framework, net proceeds from the SDG Sovereign Bonds were transferred to the Federal Treasury and notionally allocated to Eligible Expenditures of the 2023 Federal Budget. Before doing the Notional Allocation of Resources, the Framework establishes that a pool of Eligible Expenditures should be identified by applying its seven criteria (six in the case of those aligned to Green SDGs, where the seventh geospatial criterion does not apply).

Table 1: Eligible Expenditures Initial Pool

SDG	USD	%
2 ZERO HUNGER	$1,435,142,497	16.0%
3 GOOD HEALTH AND WELL-BEING	$1,160,883,883	12.9%
4 QUALITY EDUCATION	$2,554,025,803	28.4%
6 CLEAN WATER AND SANITATION	$2,102,281,120	23.4%
7 AFFORDABLE AND CLEAN ENERGY	$20,028,573	0.2%
8 DECENT WORK AND ECONOMIC GROWTH	$71,979,599	0.8%
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	$1,397,495,859	15.6%
11 SUSTAINABLE CITIES AND COMMUNITIES	$54,048,106	0.6%
15 LIFE ON LAND	$191,127,959	2.1%
Total	$8,987,013,399	100%

Source: UNDP with information from SHCP.

Notional Allocation of Resources

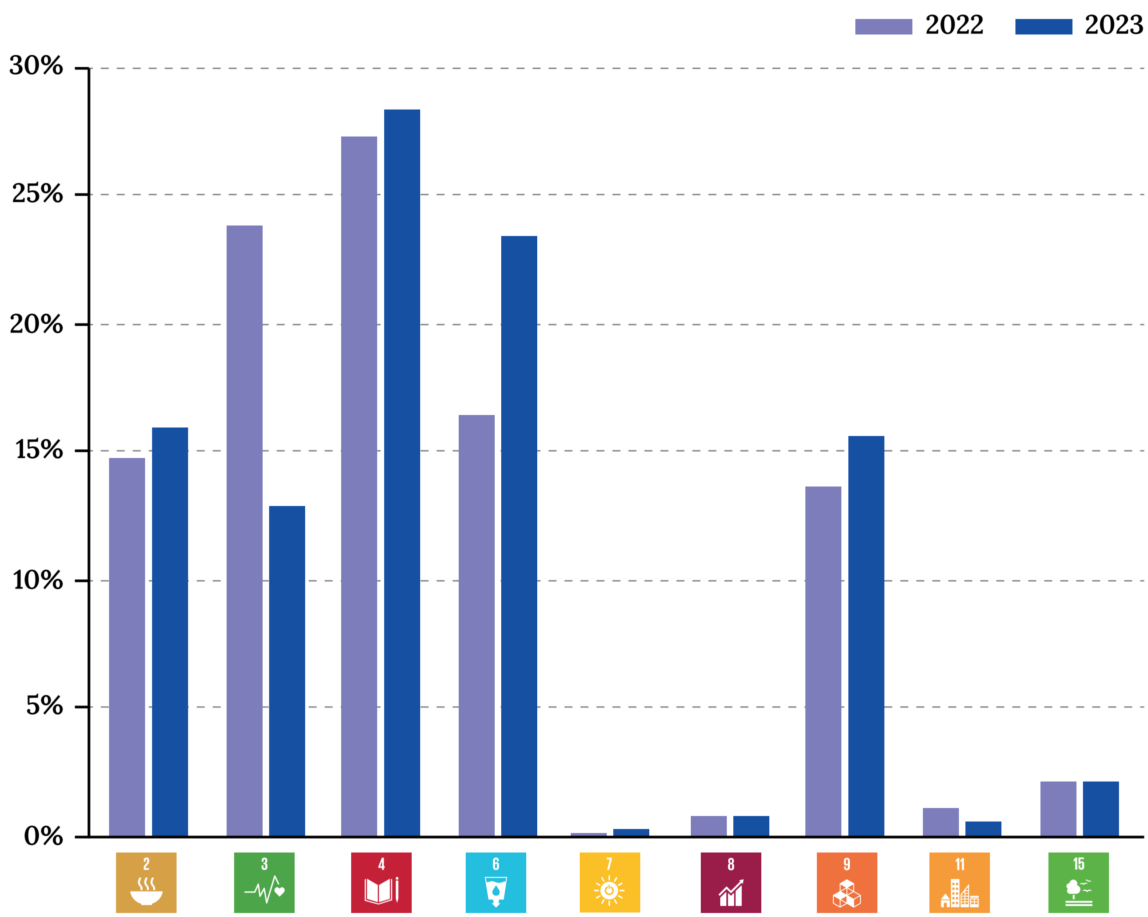
In this fourth Report, the net SDG Bond proceeds were notionally allocated to address social and environmental problems targeting the same nine SDGs as in the previous report. Of the US$9 billion Initial Expenditures identified for 2023, US$6.6 billion or 73.7% were aligned to Social SDGs, whereas US$2.4 billion or 26.3% were linked to Green SDGs. Then, the Bonds' resources, equivalent to US$5.9 billion or 65.5% of the US$9 billion, were notionally allocated, of which US$4.3 billion went to Social Eligible Expenditures (73.7% of the total allocation) and US$1.6 billion to Green Eligible Expenditures (26.3% of the total).

Categories of Eligible Expenditures

15 of the 44 budgetary programs concentrate 91.6% of the Notional Allocation of the SDG Bond. In this issuance, 65% of the resources were allocated at a state level and 35% at a municipal level. This distribution slightly differs from the previous issuance, where 70% of the resources were allocated at the state level and 30% at the municipal level. Education, water and sanitation, food security, transport, and healthcare comprised 96.2% of the Notional Allocation. Education received US$1.68 billion (28.4% of the proceeds) in contrast to the prior issuance where it received US$1.37 billion (27.2% of the proceeds). In this Report, water and sanitation related budgetary programs came in second place, with US$1.39 billion, equivalent to 23.4% of the net proceeds. In third place came food security programs with US$0.95 billion, equivalent to 16% of the proceeds. Transport was the fourth category of programs in terms of the amount of resources allocated, with US$0.92 billion, representing 15.6% of the proceeds. In contrast to the previous issuance, health programs received US$0.77 billion, equivalent to 12.9% of the total amount, whereas in the preceding issuance, these figures were US$1.2 billion and 23.8%, respectively.

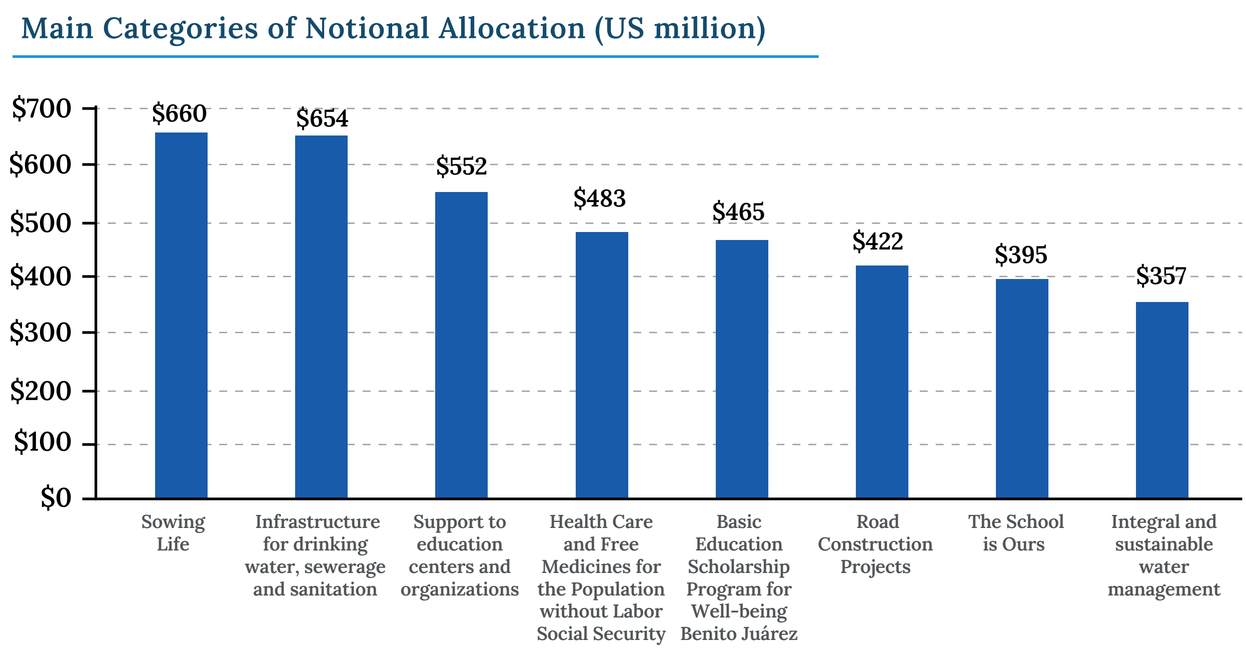
In this report, Sowing Life was the budgetary program that received the greatest Notional Allocation amounting to US$659.6 million or 11.1% of the proceeds. In contrast, the program that received the largest amount of resources in the previous two Reports was Healthcare and Free Medicines for the Population without Labor Social Security.

Graph 2: Eligible Sustainable Expenditures categories and allocation 2022 vs 2023 (Portfolio weight (%))



Source: UNDP with information from SHCP.

Graph 3: Main Eligible Expenditures



Source: UNDP with information from SHCP.

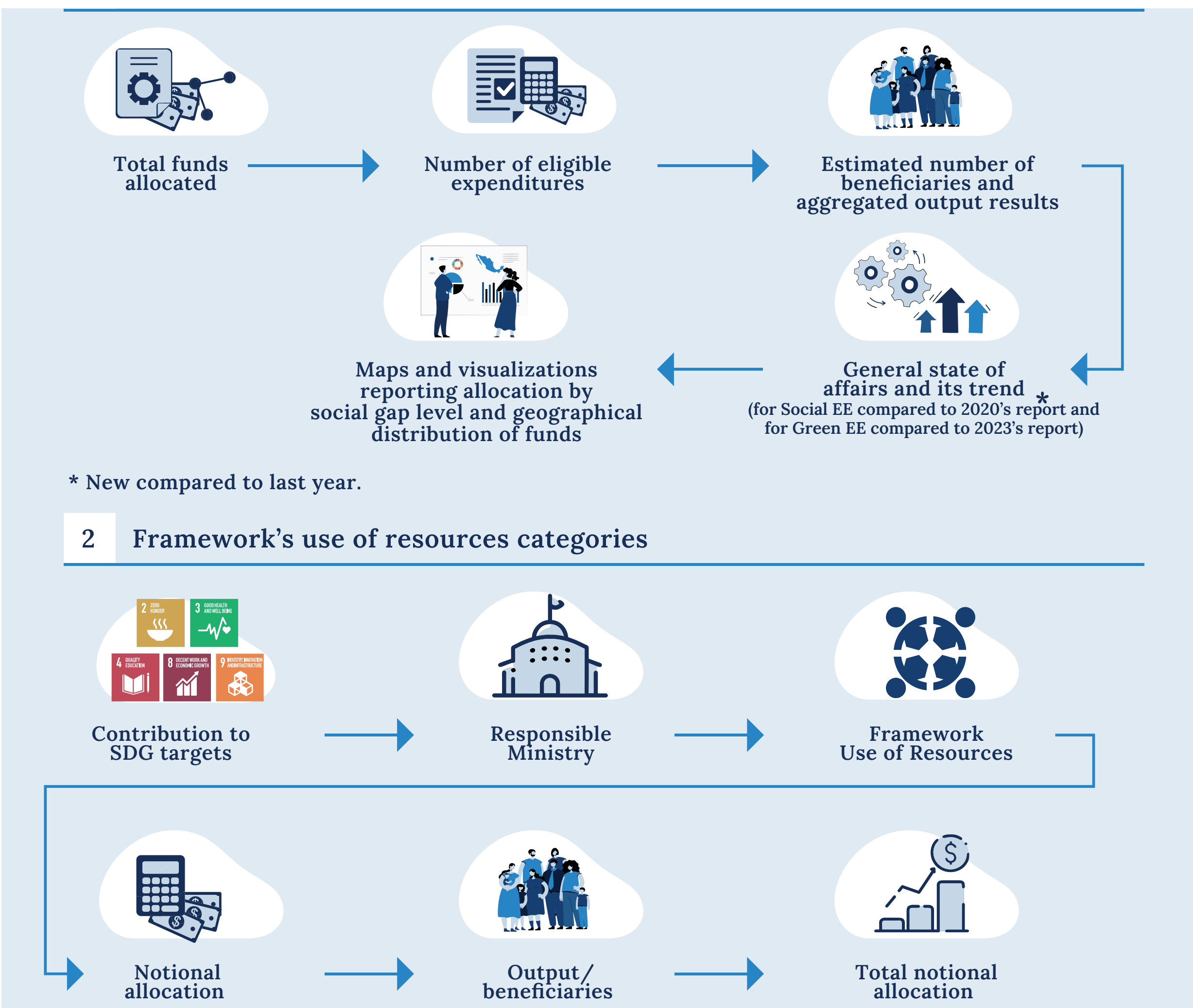
UNDP's Opinion of Allocation Report

The Notional Allocation of Resources represents the amount of the Bonds' resources that are distributed in the selected Eligible Expenditures. 15 of the 44 budgetary programs concentrate 91.6% of the resources. 65% of the resources were allocated at a state level and 35% at a municipal level. Education, water and sanitation, food security, transport, and healthcare comprised 96.2% of the Notional Allocation. US$4.3 billion were notionally allocated to Social Eligible Expenditures (73.7% of the total allocation) and US$1.6 billion to Green Eligible Expenditures (26.3% of the total).

Impact Reporting

This section reviews the Impact Report chapter of Mexico's *Allocation & Impact Report* 2024. In contrast to previous editions, after a brief introduction, it presents a table with the main outputs and outcomes for each SDG, the responsible ministry, the category of the Framework Use of Resources, the notional allocation in millions of USD and also as a percentage of the total amount of Bonds' resources, and, finally, an analysis of the alignment between outputs and beneficiaries results indicators to ICMA's Framework for Impact Reporting. From this analysis, 89% (39 out of 44) output and beneficiaries indicators and 74% (29 out of 39) State of Affairs' indicators are aligned to at least one indicator from ICMA's Framework. After this table, the chapter displays the outlook of each SDG with Eligible Expenditures in terms of the geographical allocation of resources; a breakdown of the amount of resources by Social Gap Index level for Social Expenditures and, for Green Expenditures, a regional allocation based on terciles; the main outputs and beneficiaries; and the State of Affairs' indicators with its historic and most recent available values, its trend and an analysis of the alignment with ICMA's Impact Reporting. It should be noted that a similar version of this table was presented in the previous edition of the Report, but at the end of the chapter.

Figure 1: Results Framework



3 Case studies

- SDG and targets to which the program contributes
- Program relevance and, if available, state of affairs
- EE main objective and impact
- Responsible ministry, resources allocated and beneficiaries
- For Social EE, allocation by Social Gap Index. Fos Green EE, allocation by terciles

Theory of Change

As in previous editions of the *SDG Bond's Allocation & Impact Report*, the infographics concatenated the notional allocation of resources with the corresponding figure of outputs and beneficiaries of the Eligible Expenditures and the impacts expressed in the indicators and trends of the State of Affairs' indicators. SHCP, in a display of transparency, acknowledges that considering the way in which proceeds are managed, the impact cannot be fully and directly attributed to the Bond. Nonetheless, figures related to State of Affairs' indicators provide relevant context in terms of accountability and decision-making processes at the country level. In contrast to previous editions of the Report, the number of Eligible Expenditures and the responsible line ministries for their operation can only be found in the annexes. The maps and graphs contribute to portray a reference where Bonds' resources are channeled. In the case of Social SDGs, the Report shows the marginalized areas where resources are allocated, complying with the Framework's mandate of using a geospatial criterion. In line with previous years' recommendations, it would be desirable if results' indicators, when possible, could be further disaggregated by gender, age, or employment situation, among others, as established in the Framework. Efforts in this direction are displayed in the case studies section, where relevant breakdowns are presented in terms of gender and ethnicity.

Case studies exemplify the theory of change and the results chain that underlies the notional allocation of resources to the Eligible Expenditures' outputs and beneficiaries and finally to impacts. First, each case study presents the name of the Eligible Expenditure and the main SDG target to which it is aligned. Then, it makes a brief diagnosis of the problem it seeks to address and the means to contribute to solve it. As an innovation, it also states the program's objective and its main impact. The responsible ministry of its operation, the amount of allocated resources and the number of beneficiaries or outputs it has produced are presented afterwards. For some Social SDGs, there is a disaggregation of beneficiaries by gender, ethnic identification or marginalization degree. In this type of Expenditures, it presents Bonds' resources and results disaggregated by level of marginalization. Then, a map displays the amount of resources broken down by terciles. Finally, it shows the other SDG targets that the Eligibles Expenditures contribute to achieve.

Expected Impact Indicators and Potential for Positive Contribution to SDGs

The previous edition of the Report used some of the indicators for SDGs 2 and 3 of the recently updated Multi-dimensional Measurement of Poverty that CONEVAL publishes. However, there is no updated measurement for this year, since it is done biennially. In the case of SDG 2, it presents a disaggregation of last year's indicator for lagged areas which was used in Mexico's SDG Bond Allocation & Impact Report 2022. For SDG 3, the same indicator and its value were presented, given the lack of an updated figure for this year. The value of State of Affairs' indicators for SDGs 4, 6, 7, 8, and 15 were also updated because their periodicity is measured either annually or biennially. These updates include the value of three out of four State of Affairs' indicators of Green Eligible Expenditures, which were first presented in last year's Report. In summary, SHCP used the most updated available data for every SDG.

Expected Social Impacts and Estimates of End Beneficiaries

State of Affairs' indicators are used to present expected social and green impacts at the country level. With respect of how they have changed according to this new Report, the results are the following:

- Four out of nine changed in the expected direction.
- Two out of nine changed contrary to the desirable direction.
- Three out of nine indicators did not change because there was no updated data.
- No new indicators were included in this edition.

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

- 18 out of 39 (46.2%) indicators' trends changed in the expected direction.
- 10 out of 39 (25.6%) indicators' trends changed contrary to the desired direction.
- 1 out of 39 (2.6%) indicators' trends did not change.
- 10 out of 39 (25.6%) indicators did not have updated information.
- No new indicators were included.

The estimation of end beneficiaries comes from each budgetary program's registry. The main sources of information for the first method come from the Integral Information System of Government Program Registries (SIIP-G for its acronym in Spanish), administered by the Ministry of Public Administration (SFP, by its acronym in Spanish) and from data integrated by the SHCP. If both data sets are available, the source that is chosen is the one closest to the information reported on the Public Account, reported at the end of each fiscal year to the Chamber of Deputies. In this case, the disaggregation by gender, age, and other socioeconomic variables is possible. The second method is used in budgetary programs that do not have a registry and benefit a whole territory, such as those aligned to Green SDGs or infrastructure projects. In this case, the data comes from the Public Account prepared by the SHCP.

Data Segmentation and Output Monitoring

The data for output indicators comes from the Results Indicators Matrix that each budgetary program reports to the Performance Evaluation Unit of the SHCP. In most cases, data from budgetary programs aligned with social SDGs can be disaggregated by the marginalization level of the territories where its beneficiaries live, gender, ethnic identity, and other socioeconomic variables. Although some disaggregation by gender and ethnic identity is done in the case studies, it is still desirable to present further granularity in output and beneficiaries' indicators in the Impact Report, benefitting from the robust data collection that is in place in Mexico.

UNDP's Opinion on Impact Reporting

UNDP is of the opinion that Impact Reporting was done following the Framework's criteria. Considering the proceeds' management, the Report concatenates the notional allocation of resources with the number of outputs and beneficiaries of the Eligible Expenditures and the impacts (although not fully attributable to the SDG Bonds) expressed in the indicators of the State of Affairs. In the case of Social SDGs, the Report shows the marginalized areas where its resources were focalized. As an innovation, an analysis of the alignment between outputs and beneficiaries results indicators to ICMA's Framework for Impact Reporting was included in this year's Report. From this analysis, 89% (39 out of 44) output and beneficiaries indicators and 74% (29 out of 39) State of Affairs indicators are aligned to at least one indicator from ICMA's Framework. In line with previous years' recommendations, it would be desirable if results' indicators, when possible, could be further disaggregated by gender, age, employment situation, etc. as established in the Framework.

SDG Bonds as a Driver of Change

Transitioning from a Brown Public Debt Portfolio to a More Sustainable One

The issuance of SDG Bonds since 2020 has contributed to transition Mexico's Sovereign Debt from a brown portfolio to a more socially and environmentally sustainable one. SDG bonds have grown tenfold in terms of the proportion that they represent from Mexico's total bond portfolio, going from just 0.2% in 2020 to 2% in 2023. The proportion that SDG and sustainable bonds represent from the total external bond portfolios has increased more than eightfold during the same period, going from 1.1% to 8.9%. In terms of the domestic bond portfolio, they now represent 1%. Furthermore, the issuance of bonds in local currency reduces uncertainty and risk exposure to volatility in the exchange rate. Moreover, it contributes to strengthening the local thematic debt market, which has positive spillovers for other stakeholders, such as subnational governments aiming to explore this market.

New green Eligible Expenditures

The incorporation of Green Eligible Expenditures in the Bonds' Notional Allocation strengthens Mexico's commitment to sustainability by investing in natural resources conservation and regeneration, in low-emission mass public transport, and in the energy transition by contributing to develop low-carbon emission energy sources. Since the previous issuance, Green Eligible Expenditures were included in the Bonds' Notional Allocation. The first budgetary programs that were added sought to protect and maintain national parks and conservation areas, to support sustainable forestry development, and rail transport infrastructure for freight and passengers. In this new issuance, a budgetary program that rehabilitates and modernizes dams and head structures was incorporated.

Socializing good practices

Just as Mexico has been open to adopting international best practices such as the creation of the Sustainable Taxonomy following the examples of the European Union, Colombia, and China, it is also contributing to socialize and share its experiences and best practices with other countries, subnational governments, and other public entities to issue sustainable financial instruments. Specifically, Mexico has shared its knowledge with other Latin American sovereign issuers such as Colombia, Brazil, Guatemala, and Honduras.

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

SDG Bonds have contributed to transition Mexico's Sovereign Debt from a brown portfolio to a more socially and environmentally sustainable one. Sustainable bonds have grown tenfold in terms of the proportion that they represent from Mexico's total bond portfolio. The incorporation of Green Eligible Expenditures strengthens Mexico's commitment to sustainability by investing in natural resources conservation and regeneration, in low-emission mass public transport, and in the energy transition by contributing to develop low-carbon emission energy sources. Mexico is also contributing to socialize and share its experiences and best practices with other countries, subnational governments, and other public entities to issue sustainable financial instruments.

Concluding remarks and recommendations

Mexico's SDG Bonds Allocation & Impact Report 2024 is the materialization of SHCP's commitment to accountability with its investors and the general public, about how the resources are allocated to Social and Green Eligible Expenditures, the outputs they produced, the number of people they benefited, and the broader impacts on them and the potential for achieving SDG targets. By this year, the process of reporting has been strengthened with the creation of a specialized ESG Control and Monitoring Direction within SHCP that is in charge of formulating strategies, and structuring and reporting on thematic debt instruments. This Direction will constitute the keystone to coordinate the deliberative and collaboration processes related to sustainable financing within the 2030 Agenda structures with regards to the selection and validation of Eligible Expenditures as well as gathering and developing granular data for constructing better indicators to report their impacts. A best practice will be that SHCP develops materials and perhaps workshops for line ministries so that public officials can fully understand the transcendence and scope of the Bonds' issuances, as well as allocation and impact reporting processes.

Transparency continues to be strengthened in this Report. It includes as an innovation the analysis of the alignment of the output and beneficiaries' indicators, as well as the State of Affairs' indicators with ICMA's Framework for Impact Reporting to comply with international standards and to facilitate communication and transparency with investors. The sharing of allocation and impact databases with UNDP to replicate procedures and figures is a sign of transparency that is highly recognized.

SDG Bonds have been a driver of change by different means. On the one hand, they have contributed to the transition of Mexico's Sovereign Debt from a brown portfolio to a more socially and environmentally sustainable one. Sustainable bonds have grown tenfold in terms of the proportion that they represent from Mexico's total bond portfolio. On the other hand, Mexico has shared its experiences and best practices with other countries, subnational governments, and other public entities to issue sustainable financial instruments.

United Nations Development Programme
Montes Urales 440, Lomas de Chapultepec,
Alcaldía Miguel Hidalgo, Ciudad de México,
C.P. 11000.
www.mx.undp.org