



Integrated national financing frameworks and sovereign thematic bonds

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Key messages

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- Sovereign thematic bonds are useful financing tools to not only raise much-needed capital but also align bond proceeds with sustainable development priorities. They can serve as an entry point to systematically integrate SDG impact measurement and management.
- 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.
- In the context of **integrated national financing frameworks (INFFs)**, 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.
- An INFF is a critical framework for countries to finance their needs sustainably over the long term and enhance the SDG impact of each dollar borrowed and spent.

The background

The SDGs financing gap in developing countries increased to USD 3.9 trillion in 2020. However, filling this gap would take less than 1% of global finance.¹

The SDG financing gap for developing countries increased by 56% due to the pandemic. It has been further exacerbated by the current global political and economic climate and limited revenue potential, which is expected to remain almost 20% below pre-pandemic projections into the foreseeable future.² Furthermore, many developing countries face an inevitable need to refinance their existing debt. External debt service in developing countries is projected to reach USD 375 billion on average between 2020 and 2025. Low-income countries are most vulnerable to a rollover risk, with 45% of their outstanding debt maturing by 2024, compared with 36% for all developing countries.³

Countries are looking for ways to mobilize private capital to finance their sustainable development ambitions and refinance their impending obligations. Sovereign thematic bonds can be a useful instrument to enable access to private capital while ensuring that proceeds are directed towards sustainable development.

The annual thematic bond issuance by sovereign, corporate and other issuers reached USD 863.4 billion in 2022 – 5% of the global bond market.⁴

There has been exponential growth in the thematic bond market over the last decade. As of 2022, the total cumulative issuance of thematic bonds surpassed the USD 3.7 trillion mark. Sovereign thematic bond issuance follows a similar growing trend: 43 sovereign issuers issued a combined volume of USD 323.7 billion in thematic bonds at the end of 2022 (Climate Bonds Initiative database).⁵ In the first two weeks of 2023, Reuters reported an unprecedented 20 sovereign bond issuances worth USD 39 billion by 11 developing countries.⁶ Given this trend, Climate Bonds Initiative expects more sovereign issuers making debut thematic bond issuance, bringing the number of sovereign issuers in the thematic bond market to 50 by the end of 2023.⁷

UNDP has supported over USD 12.3 billion in sovereign thematic bond transactions to date and is advising a number of countries for future issuance. UNDP is scaling up its support to countries on debt instruments, including thematic bonds, debt-for-nature and debt-for-gender/climate swaps.

However, sovereign thematic bonds are still a small fraction of overall sovereign debt issuances. There are underlying challenges related to market access: no low-income countries and only six lower-middle-income countries (of which only one is an LDC) have accessed the thematic bond market out of over 40 sovereign issuers. The markets that need capital the most are largely unable to access international capital. Enabling access to the sovereign thematic bond market and transforming sovereign debt into sovereign thematic debt can have a profound impact on mobilizing and aligning financing with the SDGs.

40 countries are prioritizing debt-related reforms and measures within their INFFs.

Debt sustainability should not be overlooked and plays a fundamental role, as 52 low- and middle-income developing countries are either already in debt distress or at high risk of debt distress.⁸ In February 2023, the UN Secretary-General launched the SDG Stimulus, which emphasizes the urgent need to tackle the high cost of debt and rising risk of debt distress, scale up long-term financing for development, and expand contingency financing to countries in need. The SDG Stimulus calls on governments to align all financing flows with the SDGs through national frameworks such as integrated national financing frameworks (INFFs).⁹

A systematic and integrated approach to financing is needed to ensure that countries leverage the benefits of the sovereign thematic debt market while maintaining their debt sustainability and financial stability.

INFFs as a framework for sovereign debt policy

In 2021, G20 Leaders endorsed the G20 framework of voluntary support to INFFs.¹⁰

INFFs help countries finance their national sustainable development objectives and the SDGs. Through INFFs, countries develop a strategy to mobilize, leverage and align financing with all dimensions of sustainability, broaden participation in the design, delivery and monitoring of financing policies, and manage risk. INFFs are voluntary and country-led.

The INFF Facility was launched in April 2022 in response to the demand for support from countries implementing INFFs.

The INFF Facility brings together UNDP, UNDESA, the OECD, UNICEF, the European Union, Italy, Sweden and Spain.

Currently, 86 countries are developing INFFs and designing and implementing over 250 financing reforms to strengthen public and private financing for sustainable development. INFF processes bring together policies that mobilize and govern public and private financing. Forty countries are prioritizing debt-related reforms and measures within their INFFs. These include SDG sovereign debt framework development, SDG impact measurement and reporting of sovereign issuances, linking the use of proceeds to SDG priorities, debt swaps, innovations in sovereign debt instruments, de-risking through guarantees and strengthening the capacity of debt management offices.

Positioning debt policies within the INFF processes helps countries address immediate financing needs while managing long-term debt sustainability by identifying and implementing reforms and measures to enhance domestic resource mobilization potential and strengthen their fiscal position.

Developing the SDG impact management capacity of governments through the thematic bond issuance process can lead to reforms and innovations related to the overall alignment of public finance with the SDGs, including SDG budget and investment tagging based on the impact framework already developed for the thematic bond issuance.

The following examples illustrate the practical experiences of countries that have issued sovereign thematic bonds linked to national INFF processes.



“Aside from raising new sources of financing, the instrument will increase transparency, efficiency and accountability of the allocation of proceeds through reporting of impacts and results.”

**Odilbek Isakov,
Former Deputy Minister
of Finance of Uzbekistan**

Uzbekistan: Improving financing terms

In July 2021, Uzbekistan issued sovereign SDG bonds as part of its resource mobilization efforts within its integrated national financing framework, becoming the first country in the region and second in the world to issue a sovereign SDG bond. The issue size was UZS 2.5 trillion to finance public projects in seven priority SDGs, including education, health, water supply and transport (USD 235 million equivalent, a tenure of 3 years, and a coupon of 14% per annum). This was a major achievement. Uzbekistan increased the issue size of UZS-denominated bonds by 25 per cent and, at the same time, lowered the coupon rate, representing strong progress compared to its previous inaugural UZS issuance in November 2020.

The integrated financing strategy being developed under the oversight of Uzbekistan’s Ministry of Economy and Finance will help ensure that debt is kept at sustainable levels while mobilizing financing for the country’s development priorities and increasing their SDG impact. The strategy’s prioritized financing reforms include mainstreaming SDGs in budgeting, decentralizing public finance and public funds, strategically planning tax and revenue mobilization, and implementing private sector development measures.

UNDP supported the Government of Uzbekistan in developing the sovereign SDG bond framework by identifying seven priority sectors for investment and acting as an observer in the project evaluation and selection process post-issuance as well as supporting the development of the bond allocation and impact report. UNDP is currently supporting the Government of Uzbekistan in developing an integrated financing strategy within its INFF.



Mexico: Driving innovations in SDG financing

Mexico is one of the global pioneers in innovative financing for the SDGs. The country was an early adopter of SDG budget tagging, mapping the federal budget against the SDGs and developing an SDG National Platform to monitor SDG implementation.

Mexico was the first country in the world to issue a sovereign SDG bond (7-year, EUR 750 million) in September 2020, which marked a historic domestic and international milestone. Mexico later issued a EUR 1.25 billion 15-Year SDG bond in July 2021.

Mexico's SDG bond uses an innovative approach, leveraging the institutionalized linkage of the entire federal budget to the SDGs. It applies geospatial eligibility criteria to ensure only budget items directly contributing to SDG targets and targeted at municipalities with the most significant development gaps are considered as eligible expenditures. In 2022, Mexico issued SDG bonds worth Mexican peso 20 billion (USD 977 million) and Mexican peso 15 billion (USD 730 million) in domestic markets and USD 2.2 billion and Japanese yen 75.6 billion (USD 549 million) in international markets.

Building on the success of SDG financing efforts, Mexico has been working on tools that are decisive for an INFF. Mexico is developing integrated financing solutions to strengthen budget and fiscal policies, improve financial system governance and design policies, regulations and tools to strengthen financial system resilience to environmental and climate risks. The country is also establishing a tracking and monitoring system, including using sustainable finance taxonomies and implementing innovative financing mechanisms, such as blended finance and green guarantees.

UNDP provided an opinion (an "alignment letter") on Mexico's sovereign SDG bond framework on SDG alignment and participated in the first issuance roadshow. UNDP also acts as an observer to the budget selection process to establish eligible expenditures and participates yearly in preparing the impact report by providing a non-binding technical opinion. UNDP is providing broader support to the government on financing sustainable development priorities, including support for risk financing, SDG-aligned programme budgeting at the national and subnational level, and contributing to the national sustainable finance strategy.



Indonesia launched the INFF assessment on the sidelines of the third G20 Development Working Group meeting in August 2022 during the country's G20 Presidency.¹¹ During the launch, Minister of National Development Planning Suharso Monoarfa said, "The INFF assessment will provide a holistic strategy to bridge the SDG funding gap and unleash new financing opportunities through public and private partnerships."

Indonesia: From green sukus to SDG bonds

The Republic of Indonesia has an exemplary record of innovative SDG financing. In 2014, the country started implementing Climate Budget Tagging to track and monitor government spending on climate change mitigation and adaptation. Based on the budget tagging exercise, Indonesia pioneered the issuance of the world's first sovereign green sukuk in 2018. To date, it has successfully raised USD 6.8 billion through ten rounds of green sukuk issuances in the international and domestic markets. Indonesia expanded the Green Bond and Green Sukuk Framework, incorporating sectors and projects that contribute not only to climate change mitigation and adaptation efforts but also to advancing the blue economy and positive social outcomes. In September 2021, the country issued its first SDG (sustainability) bond worth EUR 500 million on the global market, targeting education, health and ICT sectors. Indonesia's total thematic bond issuance is more than USD 7.8 billion.

With an estimated SDG financing gap of USD 1 trillion until 2030, the government initiated its INFF process in 2021. The INFF assessment launched in 2022 holistically maps Indonesia's financing ecosystem for the first time. It also articulates an INFF roadmap with six strategic areas to strengthen planning, budgeting and public-private partnerships, effectively mobilize resources through financial innovation, philanthropy and faith-based financing and enable consultative governance and coordination.

UNDP has been supporting the Government of Indonesia in issuing sovereign thematic bonds since 2017, including co-developing the Green Bond/Sukuk Framework, which was later updated to the SDG Government Securities Framework, selecting projects and monitoring and reporting bond and sukuk impact. UNDP supported the government with the INFF assessment and roadmap development and is now supporting the implementation of the roadmap activities, including establishing the SDG Finance Hub to carry out INFF implementation.



The International Financing Review recognized Uruguay with its “Latin American Bond of 2022” award for the issuance of its sovereign sustainability-linked bond tied to environmental indicators.¹²

Uruguay: Mitigating refinancing risk and reprofiling shorter-term liabilities

In October 2022, the Republic of Uruguay issued an innovative sovereign sustainability-linked bond with a step-up/step-down structure – the interest rate depends on the country reaching specific targets linked to quantitative goals set for 2025 in Uruguay’s Nationally Determined Contributions to the Paris Agreement. Uruguay’s performance against two key performance indicators will trigger the adjustments: (a) reduction in Green House Gas emissions (% of GDP) and (b) preservation of natural forests (a proxy for the country’s carbon capture capacity). The sovereign bond was issued for USD 1.5 billion (with a final maturity in 2034), of which USD 1 billion was new issuance. The remaining amount was used to reprofile shorter maturity issuances and mitigate refinancing risk. The bond issuance helped diversify the investor base by attracting over 40 new investors (~20% of the accounts) participating for the first time in an international bond transaction from Uruguay, many of which have a specific focus on sustainable bond issuances. The issue was 2.6 times oversubscribed.¹³

The sustainability-linked bond and other SDG financing innovations served as the building blocks for Uruguay to integrate different SDG financing initiatives under its INFF and enhance their complementarity and combined impact. Uruguay is starting its INFF development and plans to develop an integrated financing strategy to unlock and align financing with the SDGs.

UNDP partnered with the Inter-American Development Bank to support Uruguay in the design of the bond framework. UNDP will play a key role in undertaking the verification process, which consists of a technical review of the annual bond emissions report, a technical review of each key performance indicator calculation, and an assessment of the performance level against each Sustainability Performance Target until the maturity of the bond. UNDP is also providing broader support with Uruguay’s INFF implementation.

The opportunity

Sovereign thematic bonds are a critical instrument for financing sustainable development if leveraged sustainably. Many countries are exploring the potential of developing thematic bond instruments through their INFFs. They are using the approach to position sovereign thematic issuances within a comprehensive financing strategy that maintains debt sustainability. At the same time, sovereign thematic issuances trigger and necessitate a range of other reforms related to aligning financing with the SDGs, enhancing the SDG impact per dollar borrowed and spent, and strengthening the transparency and governance of financing.

When implemented together, there is an opportunity to mobilize the financing needed to support development in a sustainable, impactful way.

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Annex 1. Emerging market sovereign thematic bond issuance¹⁴

COUNTRY	ISSUE SIZE	BOND TYPE	ISSUE DATE	MARKET	INFF STATUS	INCOME CATEGORY
Benin	EUR 500 million	sustainability bond	July 2021	international	INFF	LM
Chile	USD 32.9 billion through 21 thematic bonds issuance	11 social bonds 5 sustainability bonds 4 green bonds 1 sustainability-linked bond (SLB)	Since 2019	international and domestic	Non-INFF	H
Colombia	Colombian peso 750 billion (~ USD195 million) additional 3 tranches of Colombian peso 1.72 trillion (USD423 million)	green bond	September 2021	domestic	INFF	UM
Ecuador	USD400 million	social bond	January 2020	international	INFF	UM
Egypt	USD750 million	green bond	June 2020	international	INFF	LM
Fiji	Fijian dollar 100 million (USD 50 million)	green bond	November 2017	domestic and international	INFF	UM
Guatemala	USD500 million	social bond	April 2020	international	INFF	UM
Indonesia	USD1.25 billion	Green sukuk	March 2018	international	INFF	UM
	USD750 million	Green sukuk	February 2019	international		
	IDR 1.46 trillion (USD 97.3 million)	Green sukuk	November 2019	domestic		
	USD750 million	Green sukuk	June 2020	international		
	IDR 5.4 trillion (USD 360 million)	Green sukuk	November 2020	domestic		
	USD750 million	Green sukuk	June 2021	international		
	IDR 5 trillion (USD 333 million)	Green sukuk	November 2021	domestic		

COUNTRY	ISSUE SIZE	BOND TYPE	ISSUE DATE	MARKET	INFF STATUS	INCOME CATEGORY
Indonesia	USD1.5 billion	Green sukuk	May 2022	international	INFF	UM
	IDR 6.73 trillion (USD 377.3 million)	Green sukuk	September 2022	domestic		
	IDR 10 trillion (USD 666.6 million)	Green sukuk	November 2022	domestic		
	EUR500 million	sustainability bond	September 2021	international		
	IDR 2.26 trillion (USD 152 million)	sustainability bond	October 2022	domestic		
	IDR 1 trillion (USD 67 million)	sustainability bond	November 2022	domestic		
	IDR 4.55 trillion (USD 306 million)	sustainability bond	January 2023	domestic		
Malaysia	USD800 million	sustainability sukuk	April 2021	international	INFF	UM
	Malaysian ringgit 4.5 billion (USD 970 million)	sustainability sukuk	September 2022	domestic		
Mexico	EUR750 million	sustainability bond	September 2020	international	INFF	UM
	EUR1.25 billion	sustainability bond	July 2021	international		
	Mexican peso 20 billion (USD977 million)	sustainability bond	May 2022	domestic		
	Mexican peso 15 billion (USD730 million)	sustainability bond	July 2022	domestic		
	USD2.2 billion	sustainability bond	August 2022	International		
	Japanese yen 75.6 billion (USD549 million)	sustainability bond	September 2022	international		
Nigeria	Nigerian naira 10.69 billion (USD29 million)	green bond	December 2017	domestic	INFF	LM
	Nigerian naira 15 billion (USD41 million)	green bond	June 2019	domestic		

COUNTRY	ISSUE SIZE	BOND TYPE	ISSUE DATE	MARKET	INFF STATUS	INCOME CATEGORY
Peru	USD3.25 billion	sustainability bond	October 2021	international	Non-INFF	UM
	EUR1 billion	social bond	November 2021	international		
Philippines	USD1 billion	sustainability bond	March 2022	international	INFF	LM
	Japanese yen 70.1 billion (USD559 million)	sustainability bond	April 2022	international		
Poland	EUR750 million	green bond	December 2016	international	Non-INFF	H
	EUR1 billion	green bond	August 2018	international		
	EUR2 billion	green bond	March 2019	international		
Serbia	EUR1 billion	green bond	September 2021	international	INFF	UM
Seychelles	USD15 million	blue bond	October 2018	private placement with international investors	INFF	H
Thailand	Thai baht 30 billion (USD964 million) initial issuance with total of USD6.6 billion through 12 tranches	sustainability bond	August 2020	domestic	INFF	UM
	Thai baht 35 billion (USD956 million)	sustainability bond	September 2022	domestic		
Uzbekistan	Uzbekistani som 2 trillion (USD235 million)	sustainability bond	July 2021	international	INFF	LM
Uruguay	USD 1.5 billion	Sustainability-linked	October 2022	international	INFF	H
India ¹⁵	Rs80 billion (USD 1 billion) and Rs80 billion (USD 1 billion)	Green bond	January 2023 February 2023	domestic	Non-INFF	LM
Turkey ¹⁶	USD 2.5 billion	Green bond	April 2023	international	Non-INFF	UM

Endnotes

- ¹ OECD, 2022. Global Outlook on Financing for Sustainable Development 2023: No Sustainability Without Equity. Available at: <https://doi.org/10.1787/fcbe6ce9-en>
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- ⁴ Climate Bond Initiative, 2023. 2022 Market Snapshot and 5 Big Directions for Sustainable Finance in 2023. Available at: <https://www.climatebonds.net/2023/01/2022-market-snapshot-and-5-big-directions-sustainable-finance-2023>
- ⁵ Climate Bond Initiative, 2023. 2022 Market Snapshot and 5 Big Directions for Sustainable Finance in 2023. Available at: <https://www.climatebonds.net/2023/01/2022-market-snapshot-and-5-big-directions-sustainable-finance-2023>
- ⁶ Reuters, 2023. Analysis: Investors Snap Up Record \$39 bln in Emerging Market Sovereign Bond Splurge. Available at: <https://www.reuters.com/markets/emerging/investors-snap-up-record-39-bln-emerging-market-sovereign-bond-splurge-2023-01-13/>
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- ¹¹ UNDP, 2022. Indonesia Launches Integrated National Financing Framework (INFF) Assessment to Bridge SDGs Financing Gap. Available at: <https://www.undp.org/indonesia/press-releases/indonesia-launches-integrated-national-financing-framework-inff-assessment-bridge-sdgs-financing-gap>
- ¹² Ministry of Economy and Finance of Uruguay, 2023. Uruguay Sovereign Debt Report. Available at: <http://deuda.mef.gub.uy/innovaportal/file/30885/1/sovereign-debt-report-february-2023.pdf>
The IFR Awards 2022 report is available at: <https://edition.pagesuite-professional.co.uk/html5/reader/production/default.aspx?pubname=&edid=51be05af-d36c-4ff7-9934-4b83ca595698>
- ¹³ IADB, 2022. Uruguay Issues Global Sustainability-Linked Bond with IDB Support. Available at: <https://www.iadb.org/en/news/uruguay-issues-global-sustainability-linked-bond-idb-support>

¹⁴ This is an adaptation of 'Box 2. Emerging Market Sovereign Thematic Bonds Issued as of September 2022' of the following World Bank report and three additional emerging market examples of Uruguay, Turkey, and India, that have since issued thematic bonds, are included.

World Bank, 2022. Sovereign Green, Social and Sustainability Bonds: Unlocking the Potential for Emerging Markets and Developing Economies. Available at: <https://thedocs.worldbank.org/en/doc/4de3839b85c57eb958dd207fad132f8e-0340012022/original/WB-GSS-Bonds-Survey-Report.pdf>

¹⁵ Reed Smith, 2023. India Raises \$2bn in First Sovereign Green Bond Issuances. Available at: <https://www.lexology.com/library/detail.aspx?g=ca51d752-c0fe-4f22-9957-75fc17e512d8>

¹⁶ Environmental Finance, 2023. Turkey Raises \$2.5bn from Sovereign Green Bond Debut. Available at: [https://www.environmental-finance.com/content/news/turkey-raises-\\$25bn-from-sovereign-green-bond-debut.html](https://www.environmental-finance.com/content/news/turkey-raises-$25bn-from-sovereign-green-bond-debut.html)