Thematic Bonds:
Roles and Responsibilities
and
Service Offering
Version 1.0
In the accompanying deck 'Bonds 101' we have described the market dynamics and why the timing and environment is opportune for issuing a thematic bond, as well as what are the steps towards issuance.

This deck explains the roles and responsibilities required for bond issuance and UNDP's potential roles in the process.

The deck also shows past roles of UNDP in bond issuances, demonstrating our track record to date.

The goal is to help Country Offices and the Regional Hubs to position themselves vis-a-vis governments and have the confidence to approach Ministries of Finance to explore bond issuances.

UNDP has a unique opportunity to deliver these services to countries facing financial distress and deliver on the SDGs.

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The thematic bond service offer is one of the 7 UNDP-FSH action area on SDG financing.
UNDP Roles & responsibilities
UNDP roles and responsibilities on sustainable debt instruments (including gender bonds)

A. Capacity building for sustainable debt market

1. Gatekeeper
2. Framework developer
3. Identify eligible budget items
4. Verifier/certifier pre-issuance; SDG Bond standards
5. Underwriter
6. Verifier, Monitor

B. Supporting thematic bond issuance & management, based on the seven steps required (UNDP role in bold—no underwriting role)

1. Engage governmental stakeholders
2. Establish a Green or SDG Bond Framework
3. Identify eligible budget items
4. Arrange an independent external review
5. Issue the Green or SDG bond
6. Monitor & report
7. REPEAT!

► Integrate SDG Bond Standards
► Ensure alignment with SDG Bond Standards

C. Advising on debt swap opportunities, i.e. guiding governments on determining the business/SDG case on debt for nature

Following a different series of steps but with the roles of UNDP largely the same as presented in this deck
Roles and responsibilities in debt swaps/ debt for nature opportunities

1) Design of debt swaps: Identify countries in debt that need fiscal space for COVID19 recovery and/or creditors with debt under threat.; Feasibility on debt for nature swaps using macro-economic analysis. This includes shortlisting countries where a technical analysis of existing amortizing debt has been done or can be done quickly to ensure terms are convertible and there is sufficient scale.

2) Gatekeeper: Policy dialogue on debt swap in partnership with IMF and other credit agencies such as the Paris Club (early scoping)

3) Identification and structuring options for debt for nature swaps. This include identifying high-value nature-based assets, protected areas, MPAs affected by the current crisis and where livelihoods are at high risk as a result feeding into the framework (Framework developer role)

   a. A potentially key question for investors will be what governments are using the proceeds of the debt for, and there may be ESG or SDG requirements which are not acceptable to the government but required by investors. UNDP will be crucial in guiding this process, which can also be part of Impact Monitoring, Verifying, Reporting

5) Dialogue with creditors, IMF. Many of the shortlisted countries are likely already heavily indebted to the IMF with strict requirements, and an inability to restructure existing debt, even if there is a clear use of proceeds for development and overall improvement in potential repayment often done by extending the tenor and reducing interest payments. But extending the duration of repayment is not accepted by the IMF. UNDP can help broker or guide this conversation, integrating the SDG-linked use of proceeds.
All roles and responsibilities in issuing thematic bonds based on the seven steps required:

1. **Gatekeeper.** Engage governmental stakeholders
2. **Framework developer.** Establish a Green or SDG Bond Framework
3. **Verifier/certifier.** Identify eligible budget items
4. **Verifier/certifier; pre-issuance SDG Bond standards.** Arrange an independent external review
5. **Underwriter.** Issue the Green or SDG bond
6. **Verifier, Monitor.** Monitor & report
7. **REPEAT!**

Supporting Ecosystem for SDG debt market development: Regulatory Development (e.g. Taxonomy and SDG Bond regulation development)

**UNDP does NOT play an underwriting role**
Roles and responsibilities in issuing thematic bonds

2. Framework production

• The issuer of a green/blue/SDG Bond needs to have a "Bond Framework" which lays out the following information:
  – Developmental/Social/Environmental objectives of the green/sustainable Bond
  – Selection process for eligible projects & assets to be funded by the bond proceeds
  – Internal procedures, such as management of proceeds, use of unallocated proceeds, and regular reporting which the issuer will provide
  – Sign off processes so that there is appropriate internal endorsement of the information contained in the reports.

• Bond issuers are usually very large organisations (or governments), so this “framework” will often describe how existing procedures inside the issuer are used to meet the requirements of the Standard as well as any new procedures to provide eligibility information.

Most significant differentiator of green/ sustainable bonds: The rigor of the bond framework
Also a key UNDP Value-Add and most obvious role for the country office.
UNDP support included:

- the development of Green Bond and Sukuk Framework;
- project selection procedures including through use of Climate Budget Tagging;
- data collection processes;
- impact measurement methodologies and guidance;
- report writing (e.g., 2nd Green Sukuk allocation and impact report on 5th March 2020);
- institution strengthening, training on data collection for line ministries;
- and capacity assessment and capacity building.
Roles and responsibilities in issuing thematic bonds
4. Pre-Issuance Certification and providing a second opinion

An issuer can obtain independent verification (or a second opinion) against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria.

Pre-Issuance Certification
Assessment and certification of the bond issuer’s Internal Green Bond Framework and processes, including its:

- selection process for projects & assets
- internal tracking of proceeds
- the allocation system for funds

The Verifier undertakes procedures to assess the readiness of the issuer and the proposed bond to conform with the Standard.

- Can either do Assurance Procedures using ISAE3000, or follow the Readiness Assessment Protocol (checklist) to assess the conformance with the Pre – Issuance Requirements of the Standard
- Verifier provides a Verifier’s Report to the issuer, who provides it to the Climate Bonds Standards Secretariat
- A “public” version of the verifier’s report must be provided as well as the detailed version
Example of Second Party Opinion Providers and Verifiers
The Verifier undertakes procedures to assess the readiness of the issuer and the proposed bond to conform with the Standard and can provide a second opinion on the process.

Can either do Assurance Procedures using ISAE3000, or follow the Readiness Assessment Protocol (checklist) to assess the conformance with the Pre-Issuance Requirements of the Standard.

Verifier provides a Verifier’s Report to the issuer, who provides it to the Climate Bonds Standards Secretariat.

A “public” version of the verifier's report must be provided as well as the detailed version.
Example 4. Verifiers
UNDP's Role in providing a Second Party Opinion

Mexico

- For example, in the Mexican bond, Vigeo Eiris has been commissioned to provide, prior to the first issuance of bonds, a Second Party Opinion (“SPO”) to independently assess the alignment of the Framework with the International Capital Market Association’s Green Bond Principles (“GBP”), Social Bond Principles (“SBP”) and Sustainability Bond Guidelines (“SBG”) 27, 2018 editions. Vigeo Eiris reviews the SDG Sovereign Bond Framework.

- The SPO will be made publicly available on SHCP’s website. It will provide bond investors with an independent assessment of the expected social and environmental benefits of the Eligible Sustainable Expenditures.

- UNDP did not charge for issuing its second opinion. The issue of fee for service came up, for thus far we have subsidized our engagement, using Labs and ongoing projects. Going forward, the fee can come from possibly a TA project or a % basis pt (but must avoid conflicts of interest).

- UNDP joined in the analytics, was part of the road show, targeted specific SDG investors, providing an opinion on a SDG project portfolio, forecasted SDG impact that was very context specific - all with significant analyses and shared data, to help frame and manage risk.
Embedding the SDG Impact Standards are for Bond issuers who want to contribute positively to sustainable development and achieving the SDGs. They provide a roadmap and practical guidance to translate that intent to action. All types issuers (corporate, sovereign, etc.) can use the Standards.

The focus of the UNDP SDG Impact Standards for SDG Bonds is on an issuer's impact management practices. The Standards can be applied to Use-of-Proceeds or to SDG-linked bonds where the coupon payable by the bond issuer is linked to achieving targets against specific SDG outcomes.

In this sense they are suitable for the green bond to be use for pandemic response proposed.

Huge market appetite for anything that resembles COVID, SDGs, social or green

The Standards for SDG Bonds promote an approach which is increasingly purposeful by linking sustainable development and achieving the SDGs to the focus of the issuance while allowing for flexibility to respond and adapt as the context changes, e.g. COVID-19.

Issuers can use the standards in the following ways:

As a guide to map out their internal impact measurement and management practices (and design their impact management systems), to support both internal decision-making and external reporting requirements under multiple frameworks.

Issuers can use the Standards before they apply for certification, or even if they do not intend to apply for certification.

To review strengths and possible gaps in an SDG Bond Program's adherence to the Standards.

To note any implications for rectification and marketing of an SDG Bond Program's adherence to SDG claims.
SDG IMPACT STANDARDS FOR SDG BONDS

The ask to countries:

It would be important for RBx and COs to incorporate UNDP SDG Bond Standards in our collective work on the area of Bonds. Separate SDG Impact Standards are available for Private Equity Funds and Enterprises.

Public and private issuers are encouraged to utilize the Standards as a gap analysis and self-assessment tool and COs can assist issuers in identifying gaps in SDG investment practices.

An external assurance framework and SDG Impact Seal are under development in tandem with making the Standards available as a voluntary, self-assessment guide. The FSH and SDG Impact team would be happy to present the Standards to all Regional Bureaus and interested COs.

Use of the UNDP Standards to guide third party opinions and framework designs.

• The Argentine, Bolivian, Chilean, Paraguayan Governments have requested UNDP’s support to implement the UNDP Standards, while the New Development Bank of the BRICS based in China is also working with the CO and SDG Impact team to implement the Standards.
• Note that the engagement with both the Mexican and Indonesia authorities and UNDP’s guidance took place before the UNDP SDG Impact Bond Standards were available.
Roles and responsibilities in issuing thematic bonds

5. Underwriter

While not a part of UNDP’s offering as a service, UNDP can help screen underwriters and gauge their relevance, alignment, and track record in supporting thematic bonds. Common roles of the underwriter in a thematic bond transaction:

**Introduce**
“Educate investors on the green bond product and how it could fit into their investment policies”, including green bonds concept, benefits & mechanics to issuers

**Strategy**
Help issuers clarify sustainable financing proposition and links with strategy

**GB Framework**
Help issuers design overall Green Bond Framework e.g. procedures to select projects and manage proceeds

**Green Alignment**
Help issuers define scope of eligible green projects

**Deal Execution**
Match issuers with different green & mainstream investors, advice on green pricing.

**Emergence of green structuring advisers**
Underwriter roles and fees

- Underwriters are intermediaries between a bond issuer and a bond buyer. Investment banks serve as the intermediary and underwrite the bonds to assume the risk of purchasing newly issued bonds. The top underwriters in 2014 were Bank of America Merrill Lynch, JPMorgan, Citigroup, and Morgan Stanley.

- Underwriting fees are labeled as the “underwriter’s discount” as the fee is deducted from the proceeds of a bond sale and are reduce proceeds that would otherwise flow to the issuer. The “underwriter’s discount,” is the fee paid to the investment bank for selling the bonds.

- In the U.S., underwriting fees, in recent years, have averaged about 0.7 percentage point on investment-grade corporate bonds, meaning that for a $1 billion bond issue, companies would pay about $7 million to banks arranging the sale. For U.S. high-yield, or “junk,” bonds, the fee averages 1.2 percentage points, according to data from Thomson Reuters—this is more in line with what we would expect for emerging markets as well.

- Why so low? Banks that agree to arrange bond offerings for ultralow fees are generally hoping to build relationships with corporate clients for future deals. They are also hoping to generate revenue from related businesses, such as fees for setting up foreign-currency swaps or on bond-trading commissions.

- Fees in Asia are generally lower and can vary widely, bankers say. Chinese banks, including state-owned Bank of China Ltd. and Industrial & Commercial Bank of China Ltd., paid a 0.1 percentage point fee on recent bond sales, according to a person familiar with the matter. Some companies are more generous. Alibaba Group Holding Ltd. paid $33 million in fees—or about 0.47 percentage point—on a $7 billion investment-grade bond deal in November.
Roles and responsibilities in issuing thematic bonds

6. Post-Issuance Verification

An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria.

Post-Issuance Certification

Assessment and certification of the bond, which must be undertaken after the allocation of bond proceeds is underway.

Verifier undertakes procedures so that it can provide assurance that the issuer and the bond conform with all of the Post-Issuance Requirements of the Standard:

- Verifier must use ISAE3000 for undertaking the assurance work which provides a clear and repeatable structure and process for this work.
- Limited assurance is the minimum requirement, but many issuers prefer to see reasonable assurance.
- The Verifier’s Report must contain an assurance statement.

Verifier’s Report is provided to the issuer, who then provides it to the Climate Bonds Standards Secretariat with its application to confirm the Certification.

A “publishable” version of the verifier’s report must be provided.
Roles and responsibilities in issuing thematic bonds
6. Monitoring and reporting

Origination / brokering
- **What we offer**: Accessing the SDG/impact investor market by introducing (potential) buyers and sellers, or service providers

Advise on underwriting arrangements
- **What we offer**: UNDP cannot be the structurer or underwriter but can propose a business/financial model to be set up by an investment bank locally or internationally

External Reviews
- **What we offer**: Verification or certification (pre and post issuance) including on uses of proceeds and impact, especially against the SDG Bond Standards

Periodic monitoring of the project(s)
- **What we offer**: As part of the monitoring the UN (through the Program Secretariat) can develop early warning systems (EWS) to inform government or its implementing agencies on potential lapses and shortcomings with the view of taking timely corrective actions and placing projects on path to successful completion.

Impact measurement and monitoring
- **What we offer**: monitoring, reporting and measuring impact of proceed uses to be included within annual reports for investors over the bond tenure

Overall administration of the scheme, Secretariat setup
- **What we offer**: All the activities above can be coordinated through the secretariat.

**UNDP added value**
- vast network of public & private finance actors
- being the first port of call for governments means we learn about opportunities for financing instruments before anyone else
- possibility of UNCDF engagement as part of a syndicated underwriting arrangement
Do you already have experience in:

- **Impact framework development?** Governments are issuing significant volumes of new debt already envisioned as ‘sustainable’ but without a certification body or organisation like the UN lending it credibility and veracity.

- **Monitoring and reporting tools and processes?** From an SDG-catalytic perspective, the outcome will be measurable and verifiable sovereign debt tied to development indicators.

- **The tagging of assets and instrument use-of-proceeds related to SDGs** toward COVID recovery, building on the taxonomies and process standards SDG Impact has deployed for bonds and private equity.

- **Advising on the metrics and targets for new debt issuance.** Rather than using an index or Climate Bonds taxonomies (or trying to embed Human Development Report indicators with investors who are not familiar with HDR), UNDP can use the SDGs as guidance and express ‘ownership’ over the goals.

- **Originating these opportunities?** To take the recommendations to regulators and sovereigns as advisors, to explain the greatest impact for financial return vis-à-vis COVID and climate in restructuring debt and rebooting local economies, again on a fee-for-services basis, and culminating in specific instrument issuances tied to the SDGs with UNDP’s support. The result is more sovereign debt tied to SDG-based indicators, as with the framework offering.

- **What policy tools have been deployed that can be plugged in, like INFF or DFAs?** UNDP has numerous policy tools at its disposal to embed nature-based solutions as part of ‘standard’ debt relief packages new debt to be issued. Policy tools like Integrated National Financing Frameworks (INFFs) and the associated Development Finance Assessments are one open door to embed nature-based debt solutions that can be considered as part of UNDP’s offering.

- **Based on the above knowledge, and proving this to counterparties, UNDP can offer second opinions**
How to Get Paid
How to Get Paid for the Bond Issuing Roles?

UNDP envisions three revenue streams:

- Fee for service (flat or success fee)
- Donors funding for Technical Assistance (TA)
- Percentage of bond issuance
Who gets paid and how?

Fee Types

• **Underwriter's Discount**: Issuers usually hire an investment bank to sell their bonds. The investment bank, or underwriter, retains a portion of the sales proceeds as a commission for its services.

• **Financial or Sovereign Advisor (or Consultant) Fees and Expenses**: “a professional consultant retained (customarily by the issuer) to advise and assist the issuer in formulating and/or executing a debt financing plan to accomplish the public purposes chosen by the issuer. A financial advisor may be a consulting firm, an investment banking firm, or a commercial bank.”

• **Bond Counsel Fees and Expenses**: “the attorney or firm of attorneys that gives the legal opinion delivered with the bonds confirming that the bonds are valid and binding obligations of the issuer and, customarily, that interest on the bonds is exempt from certain taxes.”

• **Disclosure Counsel Fees and Expenses**: The disclosure counsel is the law firm that prepares the official statement, and in some cases renders an opinion that indicates that the official statement is free of errors or material omissions. In many cases, the bond counsel and disclosure counsel are the same entity and charge a single fee.

• **Underwriter’s Counsel Fees and Expenses**: In some cases, the underwriter hires its own law firm to prepare and certify the official statement. Although the firm is directly accountable to the underwriter in this circumstance, the underwriter may pass along its fees to the issuer.

• **Rating Agency Fees**: Fees are paid to a nationally recognized statistical rating organization such as Moody’s or Standard & Poor’s. These agencies assign letter grades to bonds indicating their level of safety. Bonds with higher ratings are expected to pay lower interest rates than those with lower ratings or those that are unrated.

• **Bond Insurance Premiums**: Some issuers insure their bonds. The insurance company agrees to pay interest and principal in the event that the issuer defaults. When an issuer purchases bond insurance, its bonds receive a higher rating and the expectation of lower interest costs.

• **Verification Agent**: A verification agent is a consultant that checks various calculations in bond documents. For example, when a local government issues refunding bonds to pay off a previous bond issue, a verification agent determines whether sufficient proceeds from the new bond issuance are being escrowed to fully pay the interest and principal on the original bonds.

• **Trustee, Cost of Issuance Agent, Paying Agent and/or Escrow Agent Fee**: These are various names assigned to a bank or other financial institution that handles payments on behalf of the bond issuer. For example, a trustee ensures that bondholders receive their interest and principal payments on time and in full.

• **Contingency**: This is a reserve for any unanticipated expenses. Can be about 1 percent of total issuance costs.
The table shows issuance costs for the municipal bond market, and is readily applicable to the thematic bond issuance costs as well proportionally.
Three options: Fee for service, donors (TA), percentage of bond issuance.

- In general fees for bond issuance are 1%-2.5% of the total issuance amount (principal value). The smaller the issuance the higher the fee proportion.
  - Bloomberg’s 2014 Municipal Market Stat Book showed an average nationwide cost of issuance of 0.513 percent. This figure means that 0.513 percent of the face value of bonds issued in 2014—the total amount borrowed from the bond market in 2014—was devoted to issuance costs while the IRS put this figure at .83%, and the California Debt and Advisory Commission Cost of issuance ranged from 0.741 percent for bond issues over $75 million to 3.096 percent for bond issues under $10 million. CDIAC included underwriter fees, legal expenses, and financial advisor fees in its calculations.
  - According to Credit Suisse for green bonds a selling fee is client driven, for high quality investment grade this is 30-50 bps, high yield can be 100-150 bps. Legal costs are an additional $100k at least (paid by the client) but often two sets of lawyers are needed, for client counsel and bank counsel (underwriter) if the deal is sufficiently large i.e. $150m or more.

- Verifiers:
- Certification costs — ranging from $10,000 to $150,000
  - The certification fee for the green label of the Climate Bonds Initiative is a flat 0.1 basis points of the issue value (though the CBI also requires the external engagement of a party that verifies procedures and reports)
- Structurers—preagreed number of basis points normally
- Underwriters: In the U.S., underwriting fees, in recent years, have averaged about 0.7 percentage point on investment-grade corporate bonds, meaning that for a $1 billion bond issue, companies would pay about $7 million to banks arranging the sale. For U.S. high-yield, or “junk,” bonds, the fee averages 1.2 percentage points, according to data from Thomson Reuters—this is more in line with what we would expect for emerging markets as well. Fees in Asia are generally lower and can vary widely, bankers say.
- Arrangers—TNC proposing we take a portion of the management fees – need discussion with TNC, pending division of labour. UNDP brought the finance minister to the table in one week—gatekeeper for future deals so should be compensated based on success?
- Gatekeepers/brokers—usually success fee
- Second opinion providers (like CICERO for the World Bank or Sustainalytics)—depends on bond size
Fee generation for Country Offices

How to get paid:

- **Impact framework development**: flat fee for services
- **Monitoring and reporting tools and processes**: flat fee to set up processes, percentage of funds raised (.05%) allocated toward annual monitoring
- **The tagging of assets and instrument use-of-proceeds** related to SDGs toward COVID recovery: flat fee for services
- **Advising on the metrics and targets for new debt issuance**: Advisory offering of UNDP
- **Originating these opportunities**: charge brokerage fee to investors/potential partners
- **Second opinion**: flat fee
- **Structuring/arranging blended finance**: portion of bond issuance (%)
Next Steps
Next steps to specify UNDP potential support

1. Country office to structure TORs for the consideration of Ministry of Finance
2. Receive feedbacks
3. Continue conversation btw UNDP country office and Ministry of Finance
Next steps to specify UNDP potential support from countries to governments

1. Compile a priority list of development investment opportunities or actions where the upfront investment will yield a proven cost savings or eventual revenue stream. This should be financially authenticated.
   1. Potential protected areas, marine and terrestrial, should be included in this opportunity list, alongside the forecasts of potential revenues—i.e. tourism, user fees, leases, taxes, ecosystem services.

2. The CO should also establish a good understanding of the debt situation of the country before approaching the Ministry of Finance ahead of a discussion on COVID response and collaboration. This includes knowing:
   1. Terms of current debt (total outstanding amortizing debt), and owed to whom (term years, interest rate, size, number of coupon payments per year—whatever information is possible). The debtholders will be potential partners in any restructure or even potential new debt issuance. Identify any relationships the CO already may have with these sovereign debtholders (unlikely on the private side).
   2. Any restrictions on potential debt restructure or new issuances that the CO can identify: tied to local regulations, IMF conditions, etc.

3. With these in hand, the CO can engage with the Ministry of Finance to discuss:
   1. COVID recovery needs that UNDP can support (i.e. SME financing, tourism sector recovery, infrastructure investments)
   2. The need for debt restructuring and how UNDP can support this through services (framework development, asset tagging, SDG-linked use of proceeds)
   3. And UNDP can come prepared with a set of development and nature-based opportunities

4. Based on the potential for a debt restructure or new debt issuance, the Finance Sector Hub can support the Country Office on identifying private sector partners (i.e. The Nature Conservancy for debt-for-nature opportunities), on financial modelling, and on executing the frameworks proposed above.
Next steps for regional hubs to make this offering actionable

1. Shortlisting countries where a technical analysis of existing amortizing debt has been done or can be done quickly to ensure terms are convertible and there is sufficient scale.
2. Identifying potential creditors with existing debt under threat, i.e. France in the case of Kenya where there is appetite for nature-based solutions and willingness.
3. Identifying high-value nature-based assets across countries, protected areas, MPAs affected by the current crisis and where livelihoods are at high risk as a result.
5. A potentially key question for investors will be what governments are using the proceeds of the debt for, and there may be ESG or SDG requirements which are not acceptable to the government, but required by investors. UNDP will be crucial in guiding this process.
6. The IMF—what is relationship in your countries? Many of the shortlisted countries are likely already heavily indebted to the IMF with strict requirements, and an inability to restructure existing debt, even if there is a clear use of proceeds for development and overall improvement in potential repayment often done by extending the tenor and reducing interest payments. But extending the duration of repayment is not accepted by the IMF.
7. The target countries’ debt burdens, budget deficits, currency fluctuations and forecast growth will impact credit ratings which will have a follow on effect of what discounts or goodwill an investor (creditor) would offer—thus the macro situation must be soundly assessed ex-ante and modelled across sensitivities. UNDP cannot be associated with increasing pressure on these countries or contributing to liquidity crises.
Contact details

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Track record
Countries already supported by UNDP

The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.

- Final boundary between the Republic of Sudan and the Republic of South Sudan has not yet been determined.
- Dotted line represents approximately the Line of Control in Jammu and Kashmir agreed upon by India and Pakistan. The final status of Jammu and Kashmir has not yet been agreed upon by the parties.
As part of the development of the SDG Bond Guidelines for the Securities Regulator from Paraguay, **UNDP has been requested to cost an SDG bond market development program.**

- There is significant preparation at the country level, constituting a favorable regulatory environment, including:
  - Central Bank’s approval of a Guide for Environmental & Social Risk Management, to be integrated within the credit risk analysis of financial institutions (2018).
  - Paraguay Sustainable Finance Roundtable (MFS), established in 2019 and signatory to the PRB of the UNEP FI.
  - A Framework Agreement between WWF and National Securities Commission to develop and strengthen aspects related to “green bonds” and credit ratings, with guidelines to be released March 2020. Also, a joint initiative by the mentioned institutions and UNEP FI and PNUD consisting of capacity building webinars on Green, Social and Sustainable Bonds.
  - A Framework Agreement for Cooperation between the National Securities Commission and the Sustainable Finance Roundtable (MFS), to establish mutual-cooperation to develop projects and programs properly agreed upon.
Mexico has become the first country in the world to issue a Sovereign SDG Bond for EUR 750 million ($890m) with a 7-year duration using an innovative framework (SDG Sovereign Bond Framework). The transaction reached a demand of USD 5,696 million, equivalent to 6.4 times the allocated amount, and 267 global investment firms participated in the operation.

- The bond was presented to investors together with a Second Party Opinion (showing it was aligned with the four core components of the Green Bond Principles 2018, the Social Bond Principles 2018 and Sustainability Bond Guidelines) and a UNDP Alignment Letter, welcoming its unique features.
- UNDP’s was invited by the Government of Mexico to provide technical assistance in the preparation of the impact report and a non-binding public opinion and recommendations on it, strengthening the transparency and validity of the reporting. UNDP will also act as an observer to the budgetary selection process to establish the eligible expenditures.
- UNDP believes that the SDG Sovereign Bond Framework contributes to SDGs achievement by: Strengthening budget transparency, Increasing earmarked spending for sustainable development programs, Contributing to the development of the local and international capital markets aimed at development finance.

The UNDP SDG Impact Bond Standards can add much more value going forward, as the Standards apply to defined SDG Bond Programs.

**UNDP was invited to submit an opinion on the alignment of the SDG framework to the SDGs**

**UNDP will participate in the impact report**

**Additionally:**

- **3. Participation in the Roadshow**
  18 meetings with 76 potential investors, including the largest funds in the world (e.g. Blackrock with AUM of EUR 6.46 tn, AMUNDI (EUR 1.56 tn), and Alliance (EUR 543 bn).)

- **4. Go/No Go Call**

- **5. Pricing Call**

**MOU with the MoF**

It was decided to do the first exercise pro-bono and consider it a pilot to reduce political risk.

MOU has been signed that establishes that we will recover costs both in the impact report as well as in any future issuance requiring our opinion.
In March 2018, the Government of Indonesia through the Ministry of Finance issued the very first sovereign green Sukuk in US dollars. The five-year issuance raised US$1.25 billion and was oversubscribed by a broad range of investors (i.e. conventional, Islamic and green investors).

- It was priced at a yield of 3.75 per cent. S&P upgrading of Indonesia to investment grade in 2017 drove strong demand for the green Sukuk and also lowered the coupon from a previously touted 4.05 per cent.
- Proceeds were utilized to refinance completed project from 2016 budget (51%) and to finance new projects from 2018 budget (49%), including Sustainable Transport, Renewable Energy, Waste to Energy and Waste Management, Energy Efficiency and Resilience to Climate Change for Highly Vulnerable Areas and Sectors/
- Non-Sovereign Malaysian organisations have previously issued green sukuk, most recently with two issuances in 2017. The South East Asian nation also raised US$1.75 billion via a 10-year sukuk sold at the same time as the green issuance. The non-green sukuk was sold at a coupon rate of 4.4%.

**UNDP support included:**

- The development of Green Bond and Sukuk Framework;
- Project selection procedures including through use of Climate Budget Tagging;
- Data collection processes;
- Impact measurement methodologies and guidance;
- Impact report development (the **Green Sukuk allocation and impact report** complies with the Green Bonds Principles and their transparency and disclosure rules);
- Ministries training on data collection and capacity building
- Among others (institutional strengthening and capacity assessment)
Sri Lanka: guidance by UNDP to government for a $1bn SPB


   - Lower interest rate in line with ‘impact’ dimension & potential better credit rating on account of the future fiscal improvement
   - Non delivery of social projects triggers a penal interest rate equal to that of the country’s regular market rate

2. Proceeds will be used to pay down high cost external debt, generating cost savings

3. The Govt. will develop a medium-term spending plan to achieve the objectives of the project & adhere to milestones

   - Formalized by a medium-term budget plan (MTBP), approved by the Parliament
   - Mostly involves an optimization of the existing social budget of US$ 4-4.5 bn p.a
   - No existing spending line or allocation needs to be cut; funds could be generated solely from interest savings and spending optimizations (e.g. through initiatives such as better targeting)

4. The Bond will be repaid at maturity

5. Credit Enhancement: Possibility of securing institutional or syndicated underwriting.
Sri Lanka: guidance to government for a $1bn SPB

- Presented SPB concept to Ministry of Finance, Central Bank of Sri Lanka, and relevant govt. Departments.
- SPB endorsed by Central Bank of Sri Lanka (June 2020).
- Ongoing discussions with Fitch Ratings on SPB credit ratings.
- SPB endorsed by Ministry of Finance and Ministry of Health and Indigenous Medical Services (July 2020).

<table>
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<th>Problem(s) or project(s) identification</th>
<th>Identification by the government; advise and inputs from the UN System</th>
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<td>Solution identification</td>
<td>Substantial support extended by the UN system to help government articulate a clear solution</td>
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<td>Costing of the initiatives</td>
<td>UN systems support the government with the costing exercise through multitude of methods and tools</td>
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<td>Program and budget development</td>
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<td>Accessing the market with an appropriately designed SDG programmatic bond</td>
<td>Through extensive connections and network with the SDG investor market UN System helps government reach out to a market segment relatively unfamiliar to it.</td>
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<td>Periodic monitoring and reporting of the social project(s) outcomes</td>
<td>UN System helps build capacity of the program secretariat to carry out periodic monitoring, reporting and analysis that would help bring about successful outcomes.</td>
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Mauritius: policy options for government

- Covid response and oil spill response plus now designated high income country
- UNDP provided guidance on several calls to Government and BoM, consultant ToR and input to the draft Sustainable bonds framework for Mauritius drafted by World Bank, then tweaked to provide stronger emphasis on policy options for financing recovery, beyond emphasis on the bond.
- No fees charged but could have on advisory business to government linked as % of new funds mobilised
- BoM is setting up the Mauritius Investment Corporation Ltd (MIC) as a SPV. UNDP provided input for the policy paper and framework

Framework developed by WB aligned to debt management strategy of the Government, the future financing needs, the plan for eligible investments under the Framework, the applicability of the Framework could be broadened to cover other kinds of sustainable financing, including loans, as it only mentions bonds.

- The Framework is also broadened out to cover Ministry of Finance issuances to provide a unified and coherent framework for sovereign issuances in line with national strategies. At the moment the document only applies to the BoM.
- The draft framework mentions potential issuance of green and blue bonds not just on behalf of government, but for the purposes of BoM itself and its subsidiaries.
- Nevertheless, due to concerns about the potential for monetizing fiscal accounts and debt., issuance should not be undertaken by a Central Bank. Furthermore, it appears that the 60 billion Rps program of the BoM in response to the Covid-19 pandemic is about 13% of GDP, about 20% of official reserves, and Rps 15 billion more than the BoM’s paid in capital and its own reserves. This is a concern in terms of how investors would view BoM bond issuances risk and whether this risk would be different than the sovereign. Therefore, it should be clarified that BoM would only issue green and blue bonds on behalf of government.
Mongolia: exploring financing facility; debt for nature SWAP; rapid financing options with UNDP advice

Objective: The proposal was framed to help address significant debt burden but experts have told them that it would not help substantially and could take up to 4 years to materialize. The suggested approach going forward is to focus on sustainable debt for SDGs/Climate, looking at one on more instruments, including Debt of Nature/environment SWAP. This is part of a wider 'rapid finance facility' response for COVID recovery where fiscal space creation is the objective.

Requirements:
- Government's buy in/interest (which UNDP can respond to as lead on environment and economic recovery)
- Fit with government’s own debt refinancing strategies and opportunities on the one hand (e.g., they just refinanced an existing bond at over to 10% for 5+% with interest savings for more than the amount of the SWAP) – no formal letter is required but there should be clear interest and positive signal from government’s engagement with bilaterals and multilaterals on this, because the programme demands significant commitments to ensure follow-through on the MAP
- An amount that is at least 50 million, to make it worth the effort on all sides

Status: Government has expressed interest but has not engaged bilateral nor multilaterally on this yet. Switzerland and Germany are the proposed focus. They also had some discussions with The Nature Conservancy (TNC), which was itself looking at various options but had not zeroed in on the SWAP.
Echoing the work in Sri Lanka, a SPB will be structured as a programmatic mechanism, supported by a bond issue. As such the proposed SPB will have a ‘financing’ component (the ‘bond’ part) and a ‘programmatic’ component that lays out a plan for carrying out high impact social projects.

The $250m SPB framework proposed for the Maldives tries to address twin goals:

• to generate funds for high impact social projects in the country
• to restructure country’s external debt under more favorable terms so that it yields savings that could be channeled towards high impact social projects. Moreover, sustainable solutions to pressing social issues are expected to result in better primary fiscal balances with favorable impact in public debt dynamics
• this would mean however, initially the primary expenses will be higher under the scheme. However, later on the scheme delivers significant reductions in primary expenses which delivers favorable debt dynamics.
• To date, UNDP presented SPB concept to Ministry of Finance, Maldives Monetary Authority, and relevant govt. Departments.
Maldives: first debt for nature swap being developed with UNDP advice

UNDP providing gatekeeping, brokerage, advisory, and impact framework roles as Maldives scopes a debt for nature swap and other solutions to create fiscal space in a post-COVID landscape

- UNDP engaged TNC and the MoF in record time: calls, feedback, policy/instrument options scoped with debt for nature being the most attractive
- Also, it provided crucial elements within its high level policy support: a number of tools like DFA on the ground, and a Policy Note which articulated the landscape and financing options.

- UNDP should play a big role in programming of nature based economy combined with monitoring SAP which is already strong with conservation targets. Renewable investment is a huge opportunity as political commitment is extremely strong
- Blending finance. UNDP should add to the trust fund some fund from GFCR etc.
- Stars are aligned with so many politically important milestones including COP 26, and Maldives is very keen to shine and lead the SIDS and world. UNDP should give global platforms where the political leaderships can effectively play that role

- Proposal for Gov to achieve significantly sized swap is as result of UNDP input and guidance so far
- Broad discussions on fee arrangements and division of labour, as well as impact measurement, and development of Marine Spatial Plan all part of discussions—this can set a precedent for other countries and instruments
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