# SDG SOVEREIGN BOND FRAMEWORK

**Building Prosperity: Financing SDGs for an Inclusive Economy**

MINISTRY OF FINANCE AND PUBLIC CREDIT
FEBRUARY 2020

GOBIERNO DE **MÉXICO** | **HACIENDA**
SECRETARÍA DE HACIENDA Y CRÉDITO PÚBLICO

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# Efficient Mix of Macroeconomic Policies

**One of the main strength pillars of the Mexican economy is the efficient mix of macroeconomic policies that has been implemented throughout time.**

**A. Fiscal Policy**
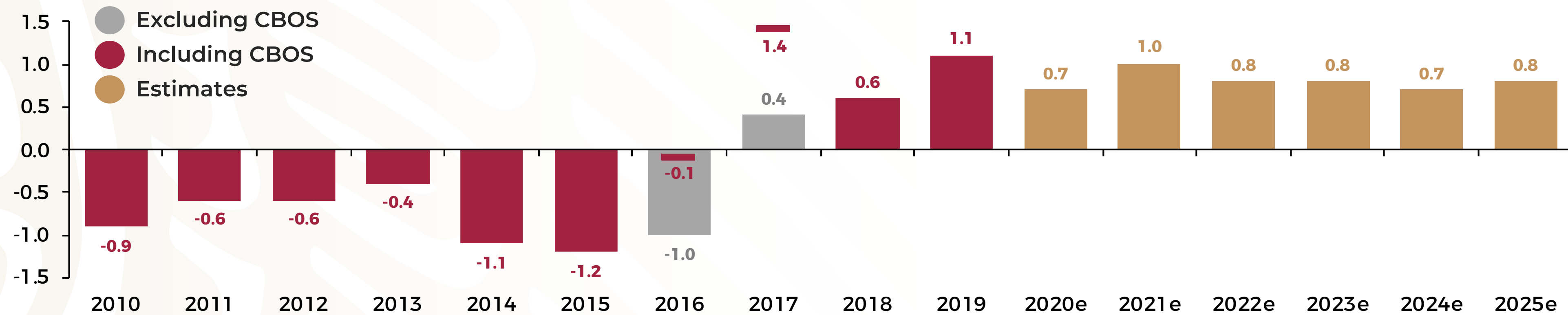- ✓ Solid public finances

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**B. Monetary Policy**
- ✓ Autonomous central bank with worldwide credibility
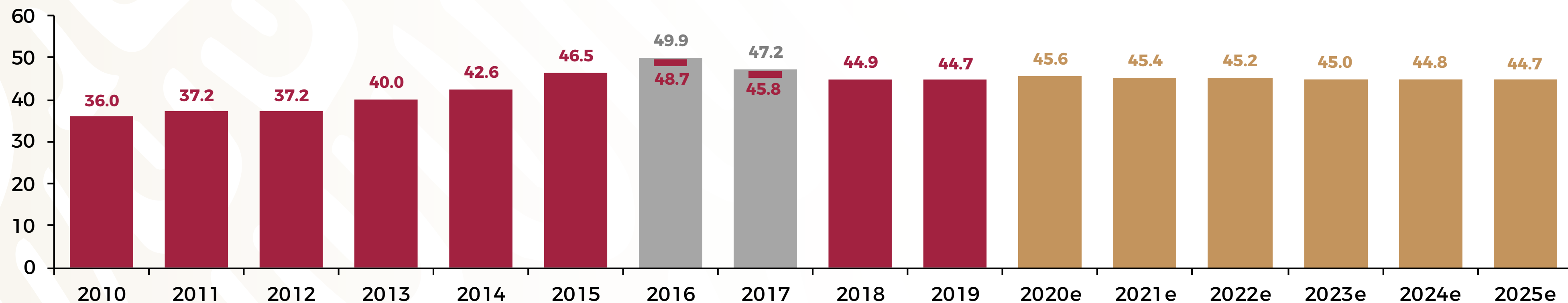
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**C. Financial Buffers**
- ✓ International reserves, FCL and CSL/1 with US authorities
- ✓ Stabilization funds at maximum historical balances

# A. Commitment to Maintain Fiscal Discipline

## Public Sector Primary Balance
### (2010 - 2025e, % of GDP)

Legend:
- Excluding CBOS
- Including CBOS
- Estimates

| Year | Value |
|------|-------|
| 2010 | -0.9 |
| 2011 | -0.6 |
| 2012 | -0.6 |
| 2013 | -0.4 |
| 2014 | -1.1 |
| 2015 | -1.2 |
| 2016 | -0.1 (Including CBOS), -1.0 (Excluding CBOS) |
| 2017 | 1.4 (Including CBOS), 0.4 (Excluding CBOS) |
| 2018 | 0.6 |
| 2019 | 1.1 |
| 2020e | 0.7 |
| 2021e | 1.0 |
| 2022e | 0.8 |
| 2023e | 0.8 |
| 2024e | 0.7 |
| 2025e | 0.8 |

## Historical Balance of Public Sector Borrowing Requirements
### (2020 - 2025e, % of GDP)

| Year | Value |
|------|-------|
| 2010 | 36.0 |
| 2011 | 37.2 |
| 2012 | 37.2 |
| 2013 | 40.0 |
| 2014 | 42.6 |
| 2015 | 46.5 |
| 2016 | 49.9 (Excluding CBOS), 48.7 (Including CBOS) |
| 2017 | 47.2 (Excluding CBOS), 45.8 (Including CBOS) |
| 2018 | 44.9 |
| 2019 | 44.7 |
| 2020e | 45.6 |
| 2021e | 45.4 |
| 2022e | 45.2 |
| 2023e | 45.0 |
| 2024e | 44.8 |
| 2025e | 44.7 |

Source: Ministry of Finance.

# A. Solid Debt Portfolio

■ The Federal Government has a conservative and solid public debt portfolio to better face episodes of high volatility that could arise in the global financial markets.

## Federal Government Gross Debt Breakdown
### (Dec 1995 vs Dec 2019, % of Total)

● External   ● Domestic

| | Dec-1995 | Dec-2019 |
|---|---|---|
| Domestic | 21 | 79 |
| External | 79 | 21 |
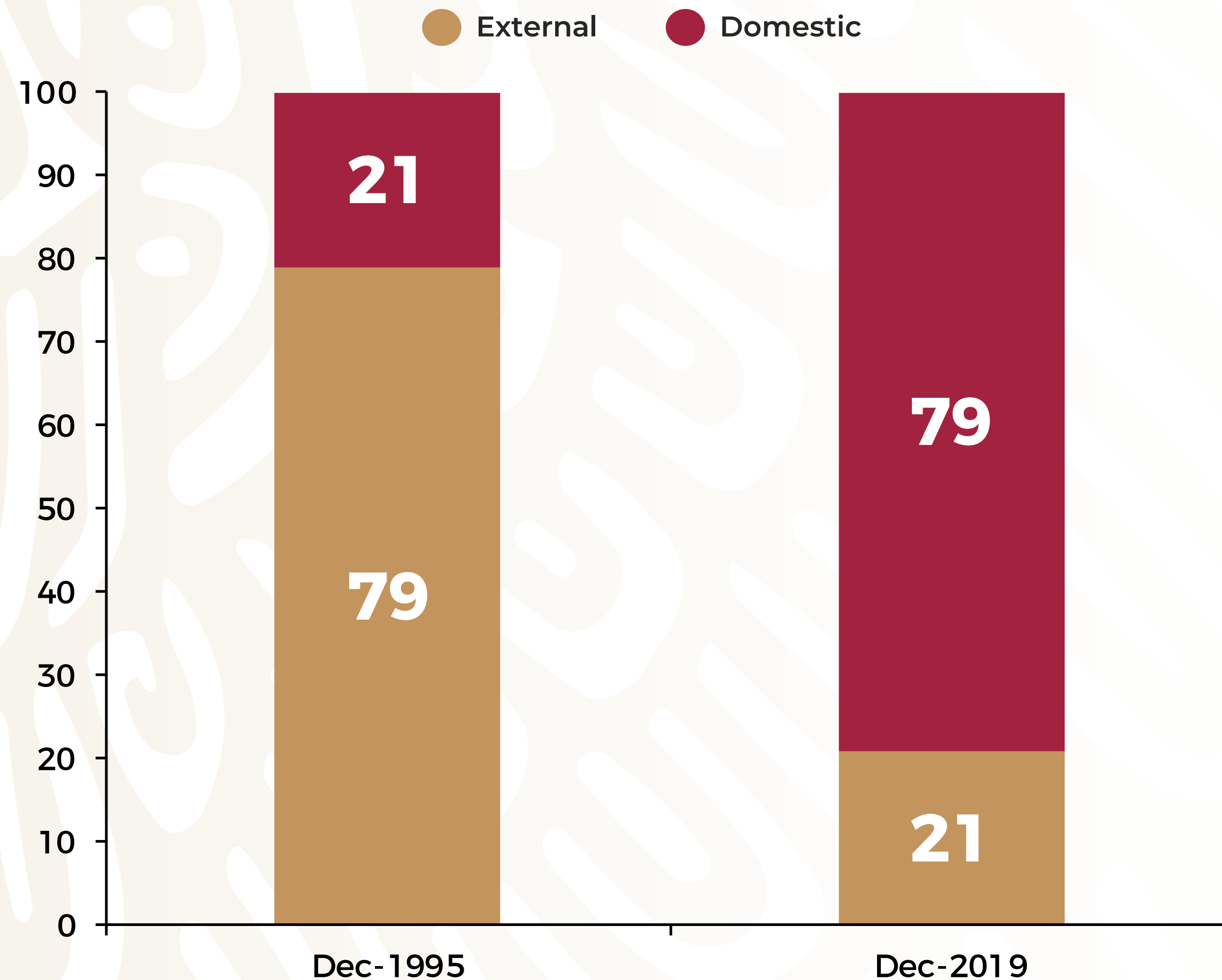
### Federal Government Gross Debt Statistics

**DOMESTIC DEBT**

| 369 USD bn | 7.9 years | 5.0 years |
|---|---|---|
| as of Dec-2019 | average life | duration |

**EXTERNAL DEBT**

| 100 USD bn | 18.4 years | 10.9 years |
|---|---|---|
| as of Dec-2019 | average life | duration |

Source: Ministry of Finance.

# B. Sound Central Bank Policies

## Monthly Inflation and Banxico's Reference Rate
### (Jan 2010 - Jan 2020, %)



Legend:
- Monthly Inflation (annualized)
- Estimates for Monthly Inflation
- 3.0% Target (+- 1%)
- Banxico's Reference Rate (rhs)
- Estimates for Banxico's Rate

| Banxico's Rate | 7.00% as of Feb, 20 | 6.50% for Dec, 20 |
|---|---|---|
| Inflation | 3.24% as of Jan, 20 | 3.49% for Dec, 20 |

## Long-Term Inflation Expectations
### (YoY, %)



Legend:
- Next 5 to 8 years
- 3.00% Target (+-1%)
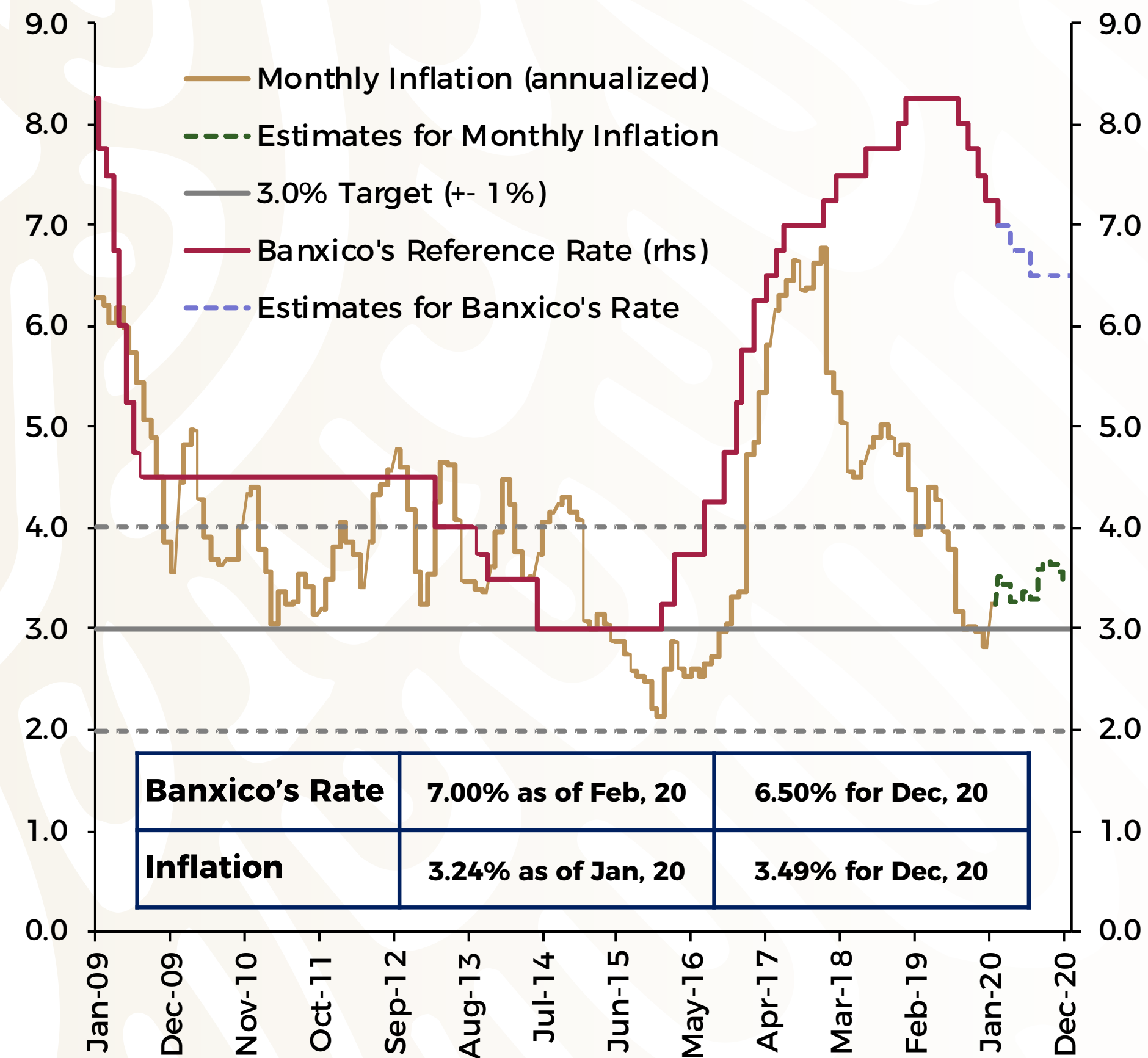
Source: Banco de México's Survey (as of January, 2020), INEGI.
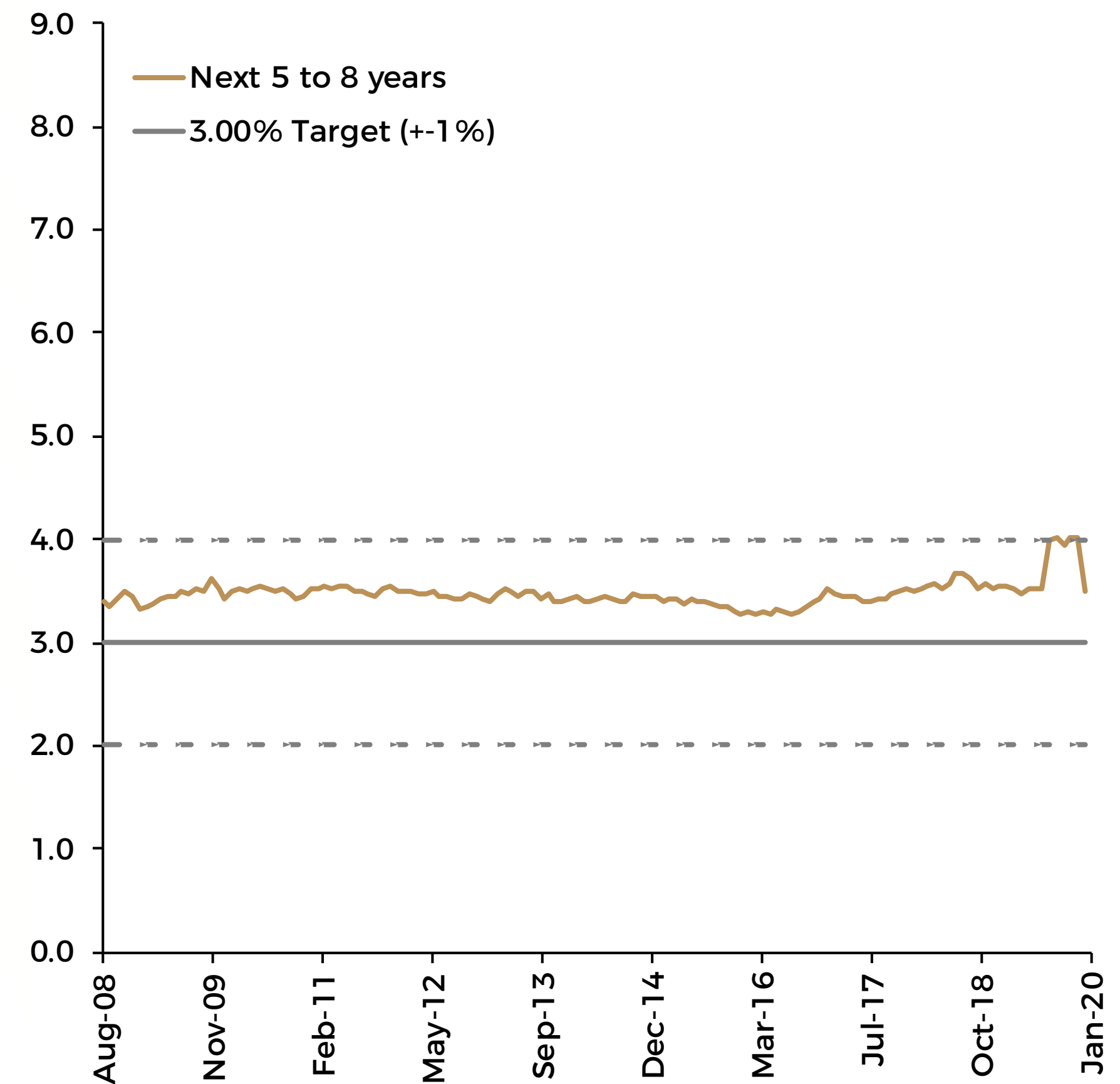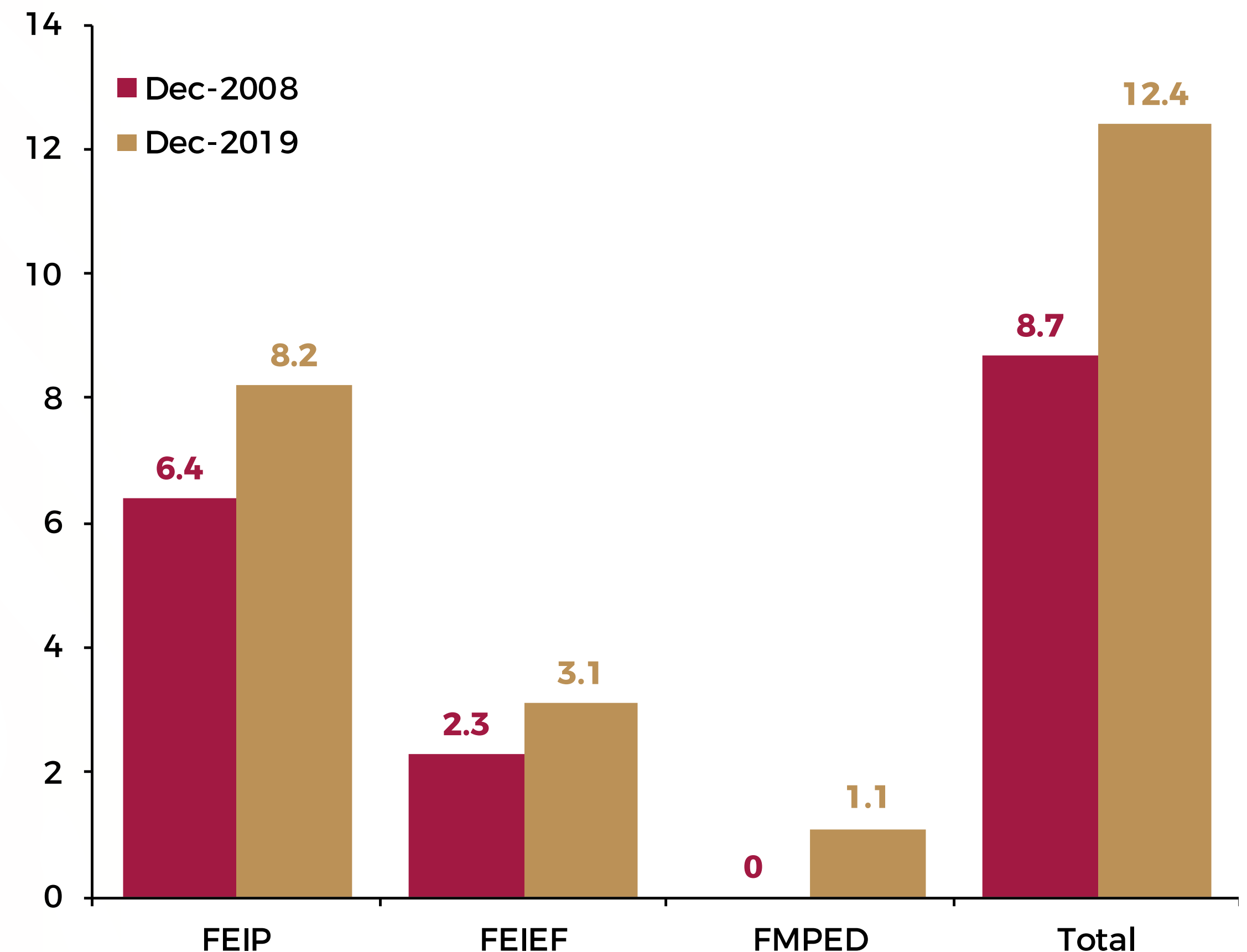
# C. Robust Economic Safeguards

- Stabilization funds currently have a maximum historical balance that could be used in times of an economic slowdown.

## Foreign Exchange Commission Toolkit

| | |
|---|---|
| **183 bn USD** | in Banco de Mexico's International Reserves |
| **61 bn USD** | under the IMF's Flexible Credit Line |
| **9 bn USD** | under a US Treasury NAFA Swap Line |
| **3 bn USD** | under a US Fed Bilateral Currency Swap Line |
| **Interventions in the FX market in order to reduce volatility** | |

Source: Banco de México, US Federal Reserve.

## Balance in Stabilization Funds
### (Dec 2008 - Dec 2019, USD billion)

Dec-2008
Dec-2019

| | FEIP | FEIEF | FMPED | Total |
|---|---|---|---|---|
| Dec-2008 | 6.4 | 2.3 | 0 | 8.7 |
| Dec-2019 | 8.2 | 3.1 | 1.1 | 12.4 |

Source: Ministry of Finance.
1/FEIP: Stabilization Fund for Budgetary Revenues.
2/FEIEF: Stabilization Fund for the Income of the Federal Entities.
3/FMPED: Mexican Petroleum Fund for Stabilization and Development.

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**1** Solid Macroeconomic Fundamentals

**2** Challenges and Measures to Enhance Growth

**3** Mexico's Socio-Economic Development at a Glance

**4** Mexico's SDG Sovereign Bond Framework

# Mexico Faces Challenges Related to Economic Growth

■ The Mexican economy has decelerated since mid-2018, weighed down by a challenging international environment and weak industrial production.

## Mexico's GDP
### (1Q2010 - 3Q2019, seasonally adjusted annual rate)



Source: INEGI.

# Investment and Consumption in Mexico

- Fiscal consolidation since 2014 has seen public investment steadily contract while the global slowdown and more pessimistic growth expectations have undermined private investment since early 2018.

- Growth in private consumption and retail sales have slowed, but remain positive. Public consumption has been trending down since mid-2018 amid government efforts to generate fiscal space for spending priorities.

## Gross Fixed Investment
(Jan 2015 - Nov 2019, Index 2013 = 100)
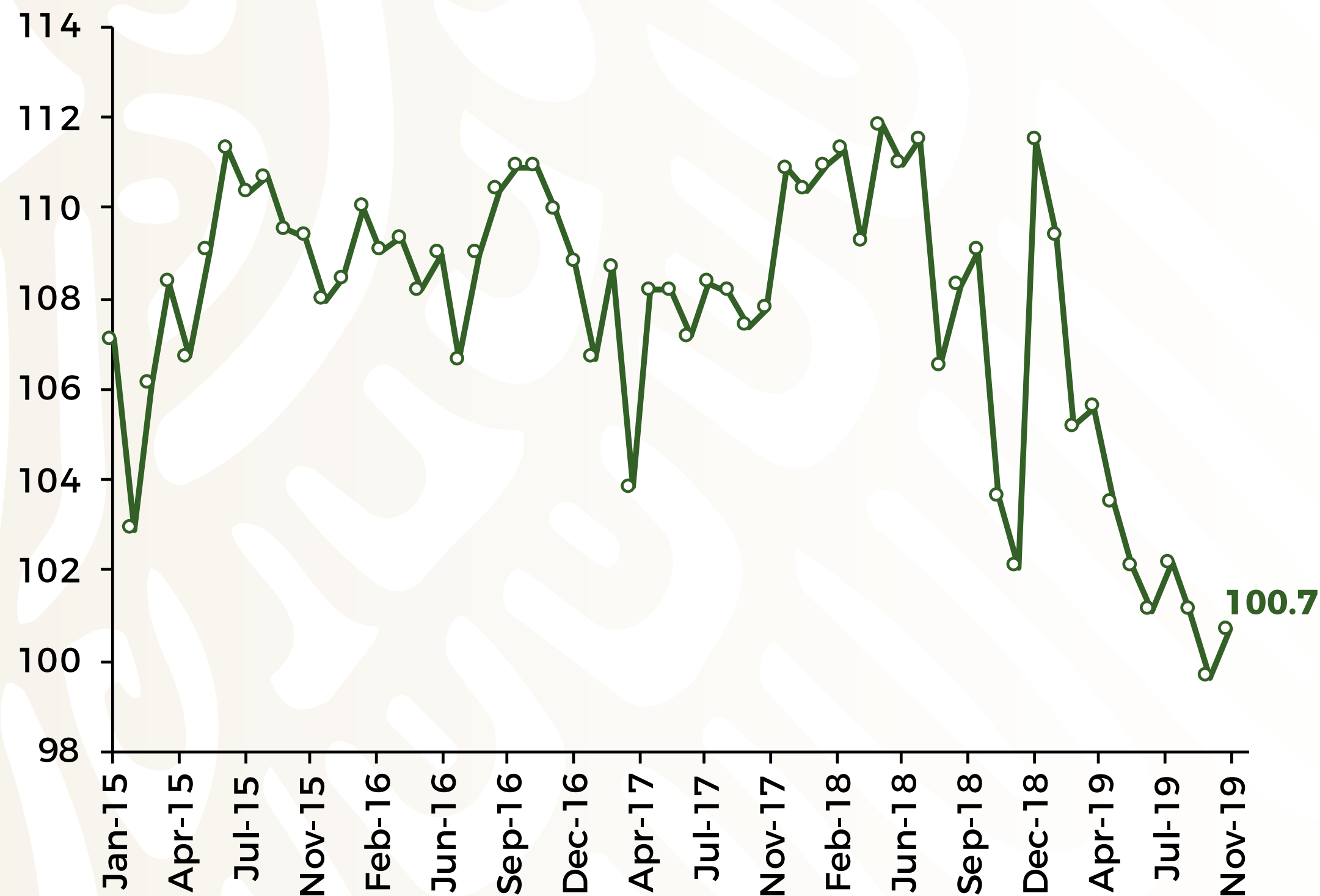
## Aggregate Consumption
(1Q 2016 - 3Q2019, Index 1Q2016 = 100)



Source: INEGI.
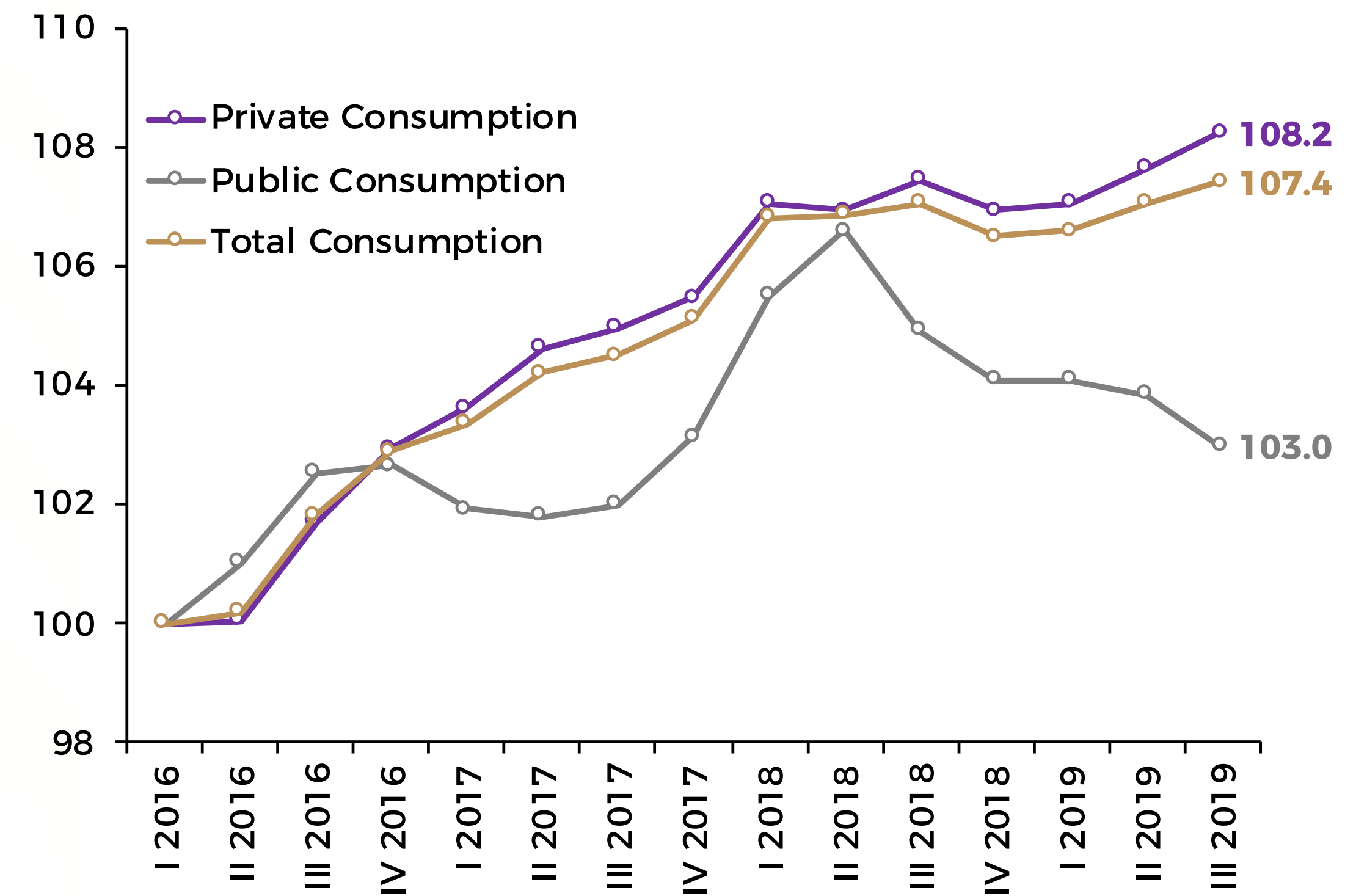
# Enhancing Economic Growth

■ The Federal Government's growth strategy contains 5 main axes.



**1. Private and Public Investment**

**2. Program to Strengthen the Financial Sector**

**3. Increase Tax Collection Capacity**

**4. Increase Labor Inclusion and Labor Productivity**

**5. Competitiveness and Business Environment**

RULE OF LAW
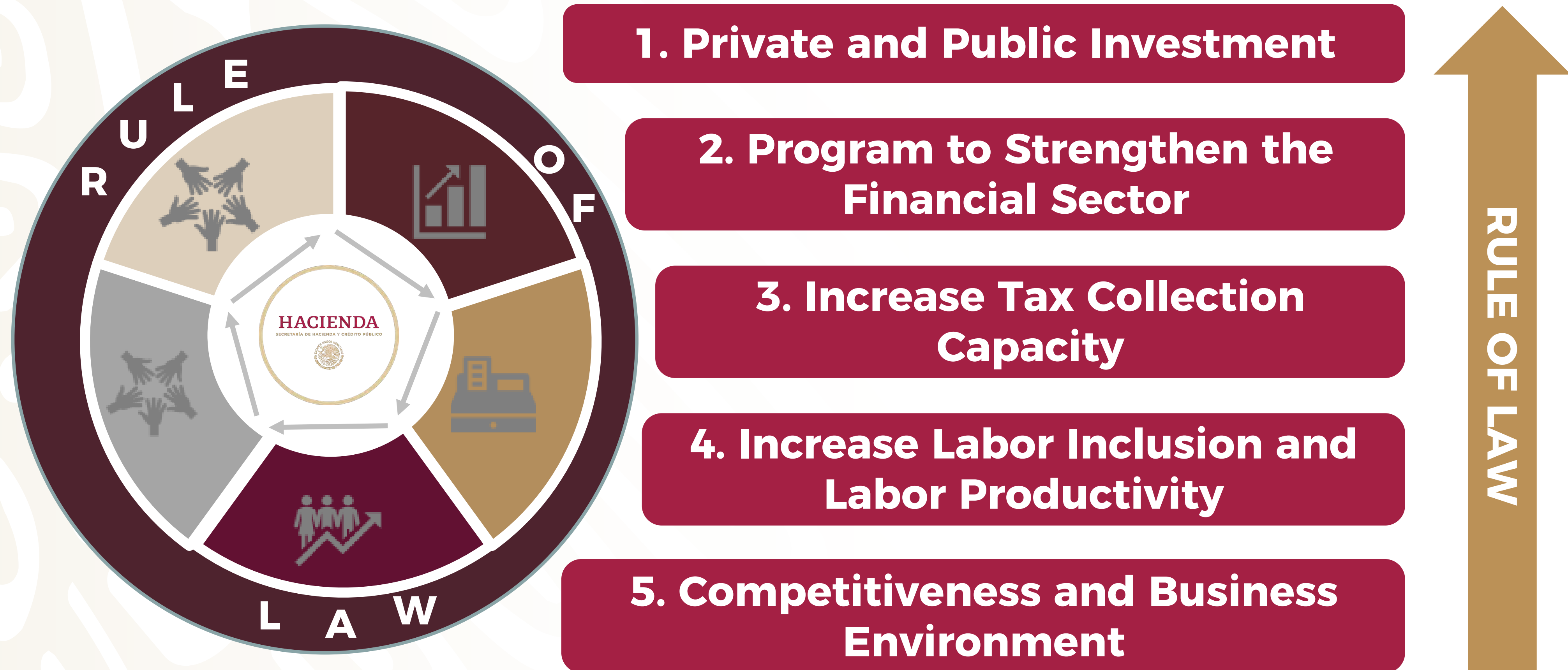
# Improvement in Mexico's Risk Perception Despite Headwinds

## Mexican Peso
### (Dec 2018 - Feb 2020, USD/MXN)



20.37

18.88
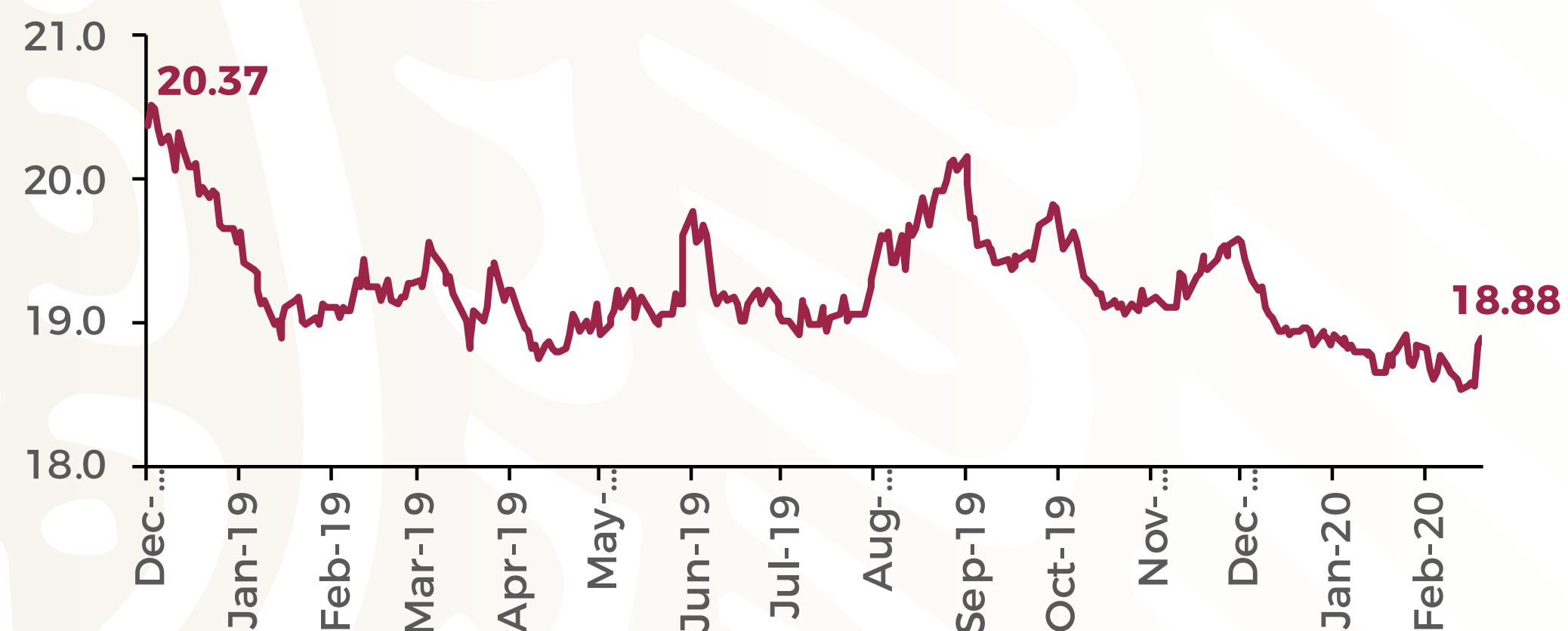
## MBono 10-year
### (Dec 2018 - Feb 2020, %)



9.073

6.53
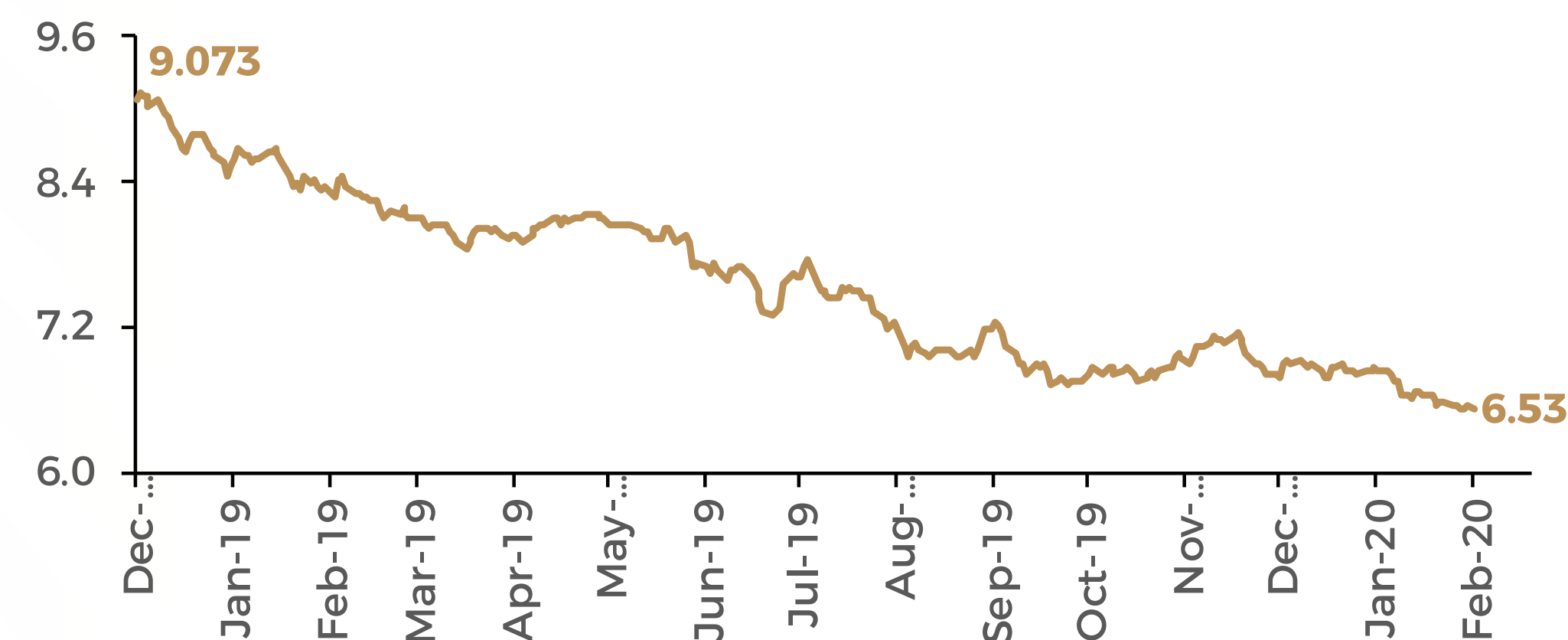
## Mexico's CDS USD 5-year
### (Jan 2016 - Feb 2020, pb)



170

71

Source: Bloomberg.

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# Long-term growth World versus Mexico's

The Mexican economy has shown low long-term growth since 1980. While low-income countries are catching up with high-income countries, Mexico, Argentina and Brazil continue to lag behind.

## Annual growth rate, real GDP per capita
### (1980 – 2018)
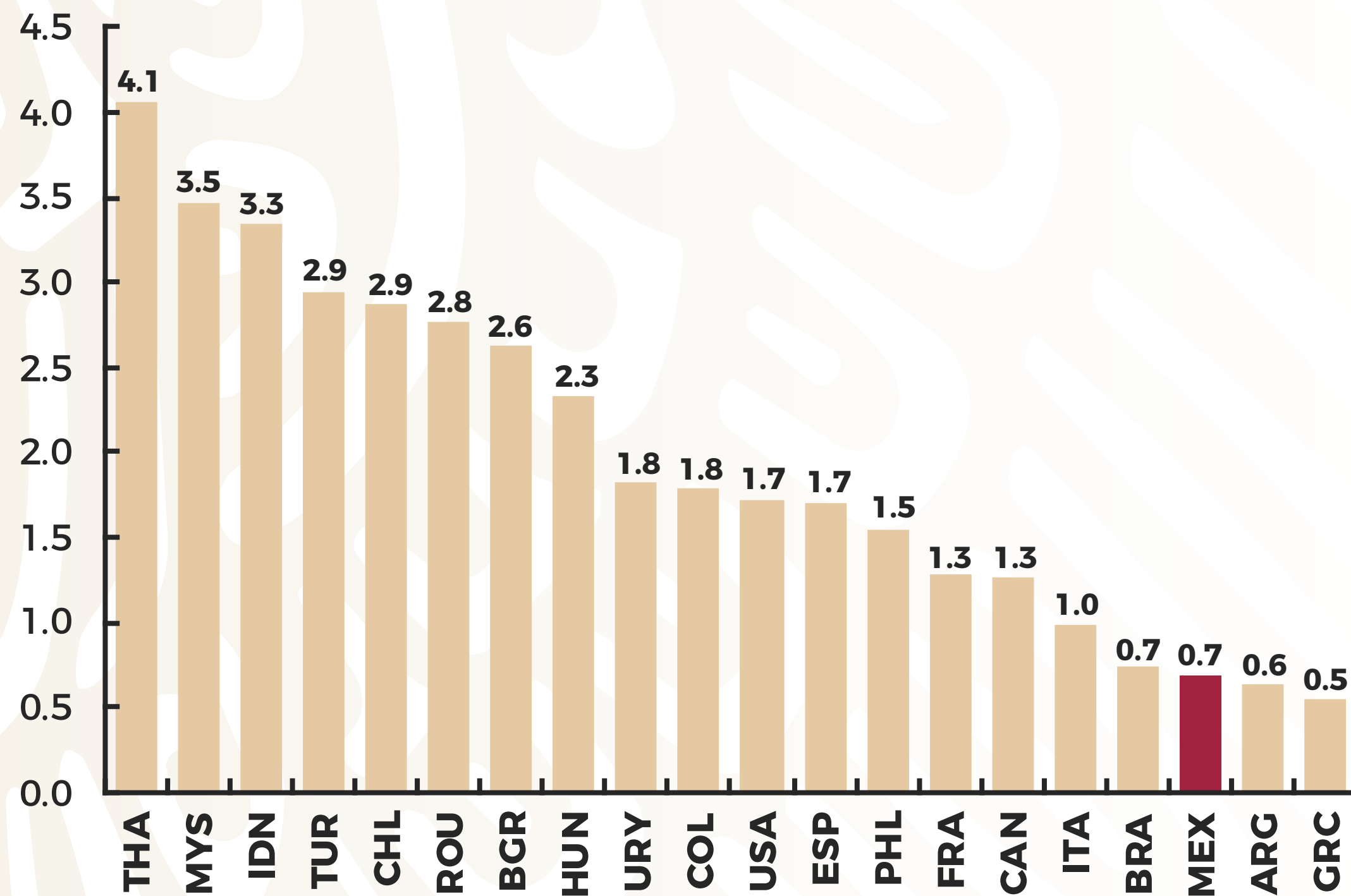


## Convergence of real GDP per capita
### Constant 2010 USD; annual growth rate (%)
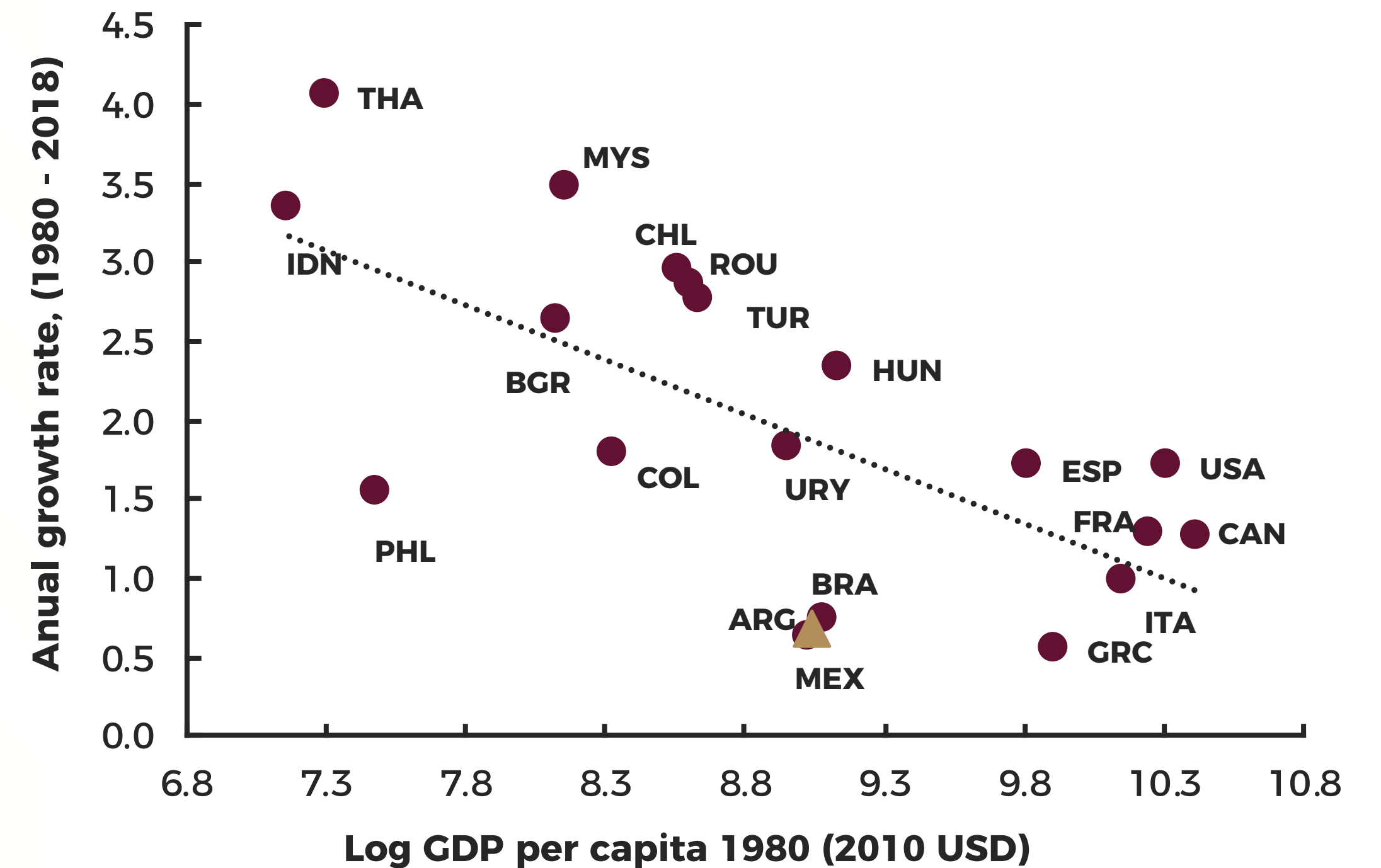


BRA: Brazil; URY: Uruguay; ARG: Argentina; CHL: Chile; COL: Colombia; MEX: Mexico; MYS: Malaysia; THA: Thailand; IDN: Indonesia; PHL: Philippines; HUN: Hungary; TUR: Turkey; BGR: Bulgaria; ROU: Romania; ESP: Spain; GRC: Greece; ITA: Italy; FRA. France; USA: United States; CAN: Canada.

BRA: Brazil; URY: Uruguay; ARG: Argentina; CHL: Chile; COL: Colombia; MEX: Mexico; MYS: Malaysia; THA: Thailand; IDN: Indonesia; PHL: Philippines; HUN: Hungary; TUR: Turkey; BGR: Bulgaria; ROU: Romania; ESP: Spain; GRC: Greece; ITA: Italy; FRA. France; USA: United States; CAN: Canada.

Source: World Bank

Source: World Bank

# Mexico's regional disparities: while northern states grow at rates above 2 percent, southern states show negative growth

High-income northern states are growing faster than the low-income southern states. Only middle-income states are catching up.

## Real GDP per capita, excluding oil

Constant 2013 pesos;
annual growth rate (%)



Growth rate, 2003 - 2017

Zac · SLP · Ags · Qro · Son · Hgo · Gto · Mich · Chih · Bcs · Nay · Yuc · CDMX · Pue · Sin · Coah · Mex · Jal · Ver · NL · Gro · Dgo · Col · Oax · QRoo · Tamps · Bc · Tab · Mor · Chis · Tlax · Camp

Log GDP per capita 2003
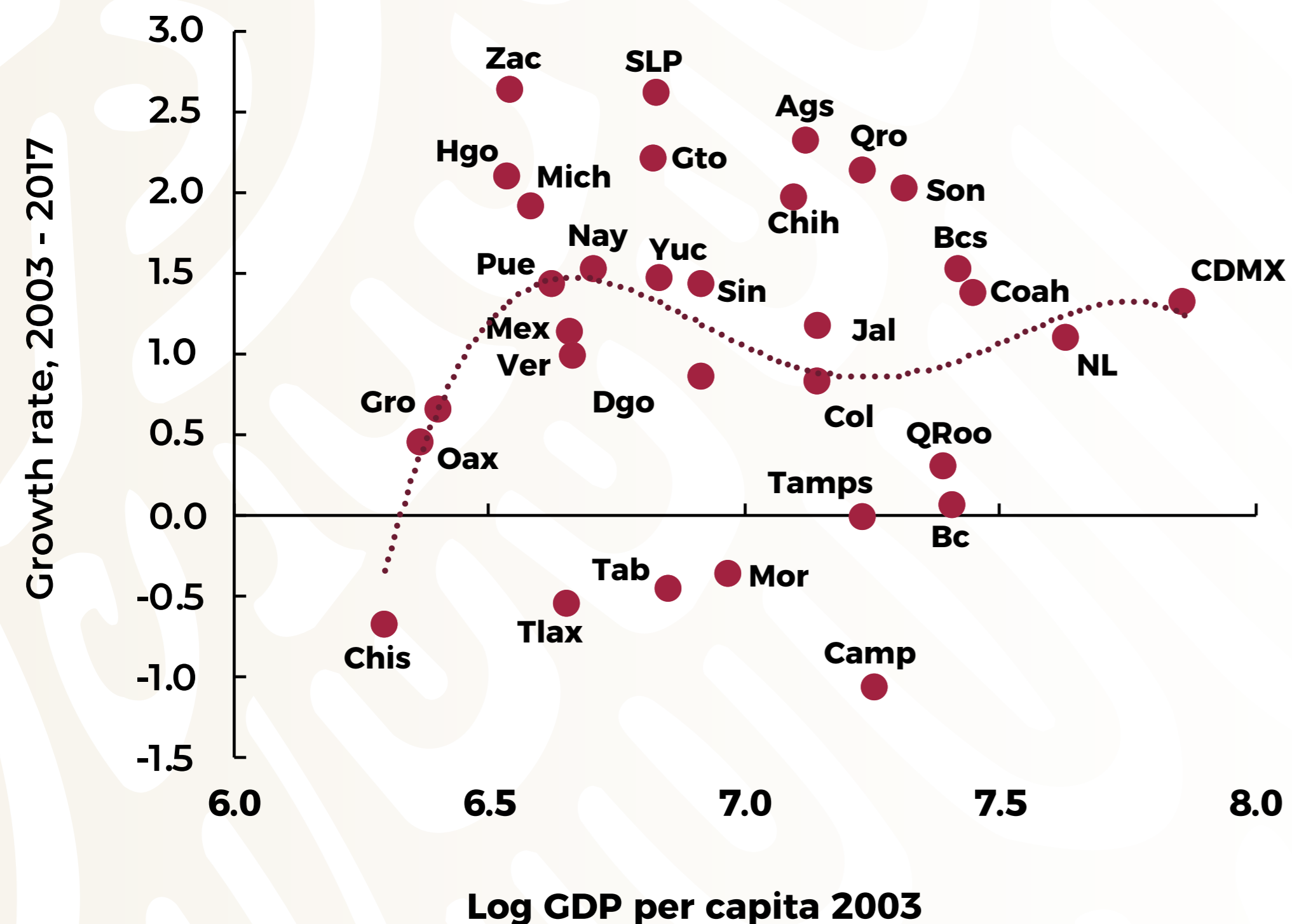
## Current GDP per capita in USD, 2017

Excluding oil



- 1,000 - 5,000
- 5,000 - 10,000
- 10,000 - 15,000
- 15,000 - 20,000
- 20,000 - 25,000

# According to the UN's Human Development Index some municipalities in Mexico rank in line with Switzerland while others rank closer to Burundi

## Ten municipalities with the highest and lowest HDI in 2015, International Comparisons

| Municipality | HDI | International Comparison |
|---|---|---|
| Benito Juarez (CDMX) | 0.944 | Switzerland (0.942) |
| Miguel Hidalgo (CDMX) | 0.917 | United Kingdom (0.918) |
| San Pedro Garza Garcia (NL) | 0.901 | Israel (0.901) |
| Coyoacan (CDMX) | 0.883 | Czech Republic (0.882) |
| Cuauhtemoc (CDMX) | 0.878 | Italy (0.876) |
| San Sebastian Tutla (OAX) | 0.868 | Estonia (0.866) |
| Corregidora (QRO) | 0.866 | Greece (0.866) |
| Iztacalco (CDMX) | 0.861 | Cyprus (0.860) |
| San Nicolas de los Garza (NL) | 0.859 | United Arab Emirates (0.859) |
| Azcapotzalco (CDMX) | 0.854 | Andorra (0.854) |
| Mixtla de Altamirano (VER) | 0.471 | Malawi (0.470) |
| Chalchihultan (CHIA) | 0.468 | Djibouti (0.470) |
| Mitontic (CHIA) | 0.465 | Gambia (0.457) |
| Mezquitic (JAL) | 0.461 | Ethiopia (0.451) |
| San Simon Zahuatlan (OAX) | 0.447 | Guinea-Bissau (0.449) |
| Colcoyan de las Flores (OAX) | 0.446 | Democratic Republic of the Congo (0.444) |
| Santos Reyes Yucuna (OAX) | 0.438 | Republic of Guinea (0.443) |
| Batopilas (CHIH) | 0.434 | State of Eritrea (0.443) |
| San Partin Peras (OAX) | 0.425 | Republic of Mali (0.418) |
| Cochoapa el Grande (GRO) | 0.420 | Republic of Burundi (0.418) |

Source: United Nations Development Programme, Municipal Human Development Index Report 2010-2015.

# Priority: Foster poverty reduction with social programs

More than a half of the population earn an income below the wellbeing line; among the worst in Latin America

## Population below the wellbeing line, 2010-2018
### (Percentage)



## Extreme poverty rates according to CEPAL, 2017
### (Percentage)
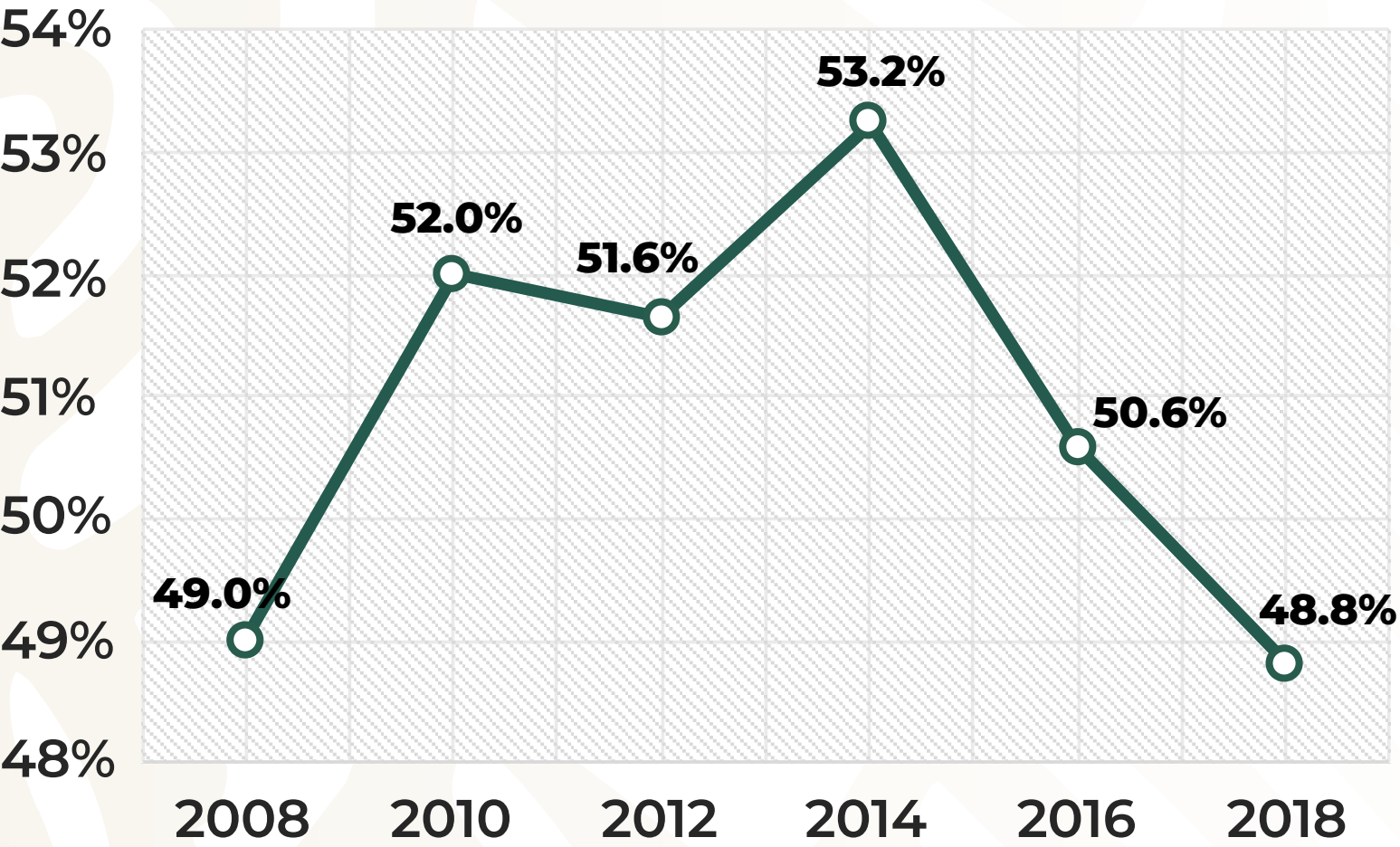


Source: CONEVAL
**Population below the wellbeing line:** Population with a lower income than the monetary value of basic nutrition, goods and services.
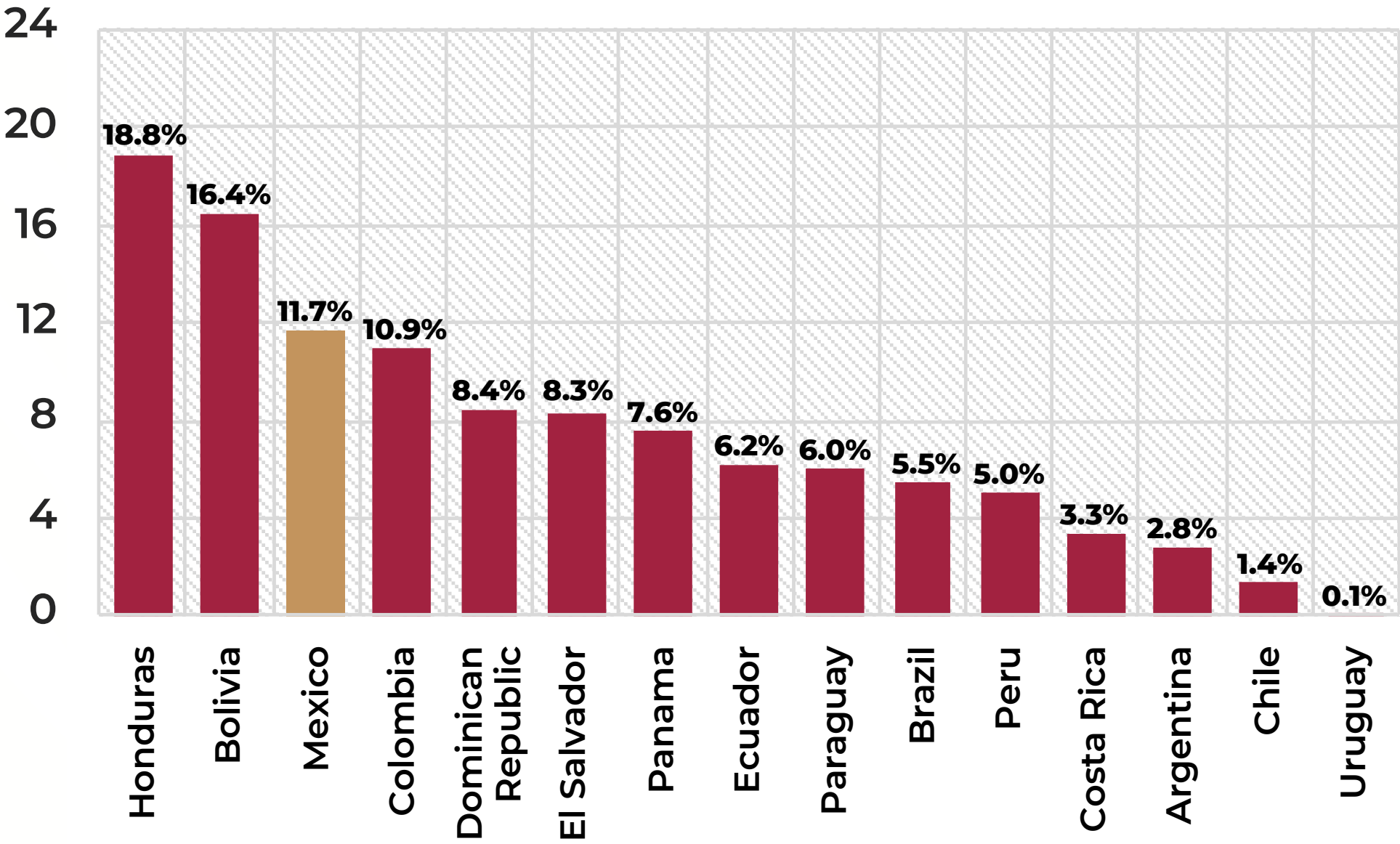
Source: CEPAL
Data for Honduras, Mexico and Dominican Republic of 2016.

# Priority: Preventing corruption

**ANTICORRUPTION AND TRANSPARENCY**

**Diagnostic:**

▶ Corruption weakens public institutions, the rule of law and hinders economic growth

▶ Increased intolerance by citizens to corruption in Mexico

**Actions:**

▶ Adoption of austerity measures (Public officials are tleading by example)

▶ Establishment of better transactional and control systems in expenditures, procurement, payroll, inventory, accounting and budgeting

▶ Open dialogue mechanisms for infrastructure projects among the private sector and government Typification of corruption schemes, mitigation measures and risk management

## Corruption Perception in Mexico, 2017 & 2019
### (Percentage)
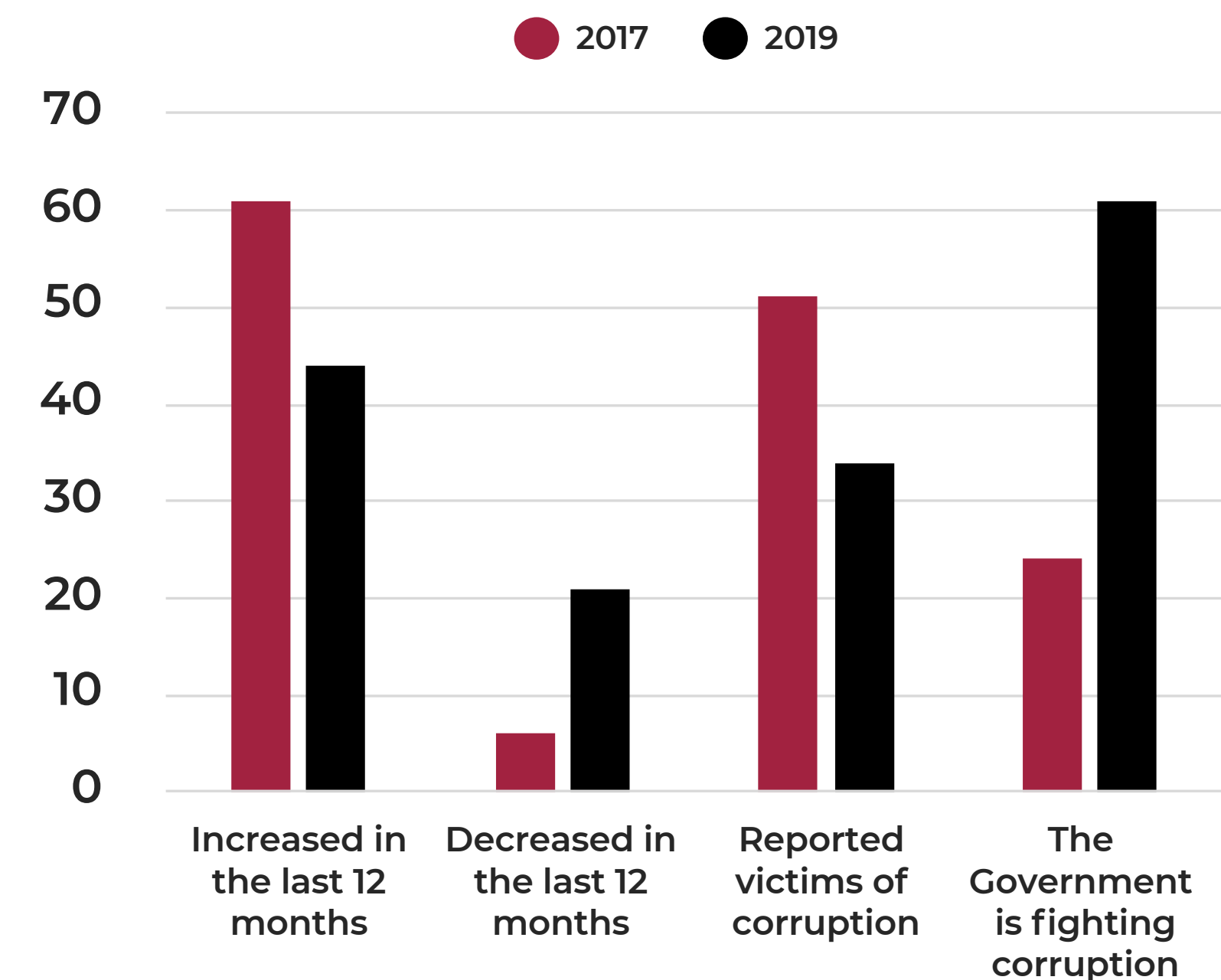


● 2017   ● 2019

| | Increased in the last 12 months | Decreased in the last 12 months | Reported victims of corruption | The Government is fighting corruption |
|---|---|---|---|---|
| 2017 | 61 | 6 | 51 | 24 |
| 2019 | 44 | 21 | 34 | 61 |

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# Why an SDG Sovereign Bond Framework?

✓ Mexico has the priority to guarantee the continuity of the 2030 Agenda over time, creating new planning, implementation and follow-up mechanisms and transforming national and subnational institutions

✓ Mexico has rich subnational data and has developed SDG federal budgetary tagging tools, mapping in a granular fashion the federal budget against the SDGs

✓ Mexico's approach is aligned with the most developed OECD member countries

✓ Monitoring system in place through the SDGs' National Platform – an open data source tool monitored by the INEGI (National Institute of Statistics and Geography)

✓ Benchmark for the increased demand for green/social/sustainable bonds issued by Mexican development banks and companies – 20 green/social sustainable bonds issued in Mexico for a total amount of MXN 50,562 million

# Why is our Framework unique?

**1.** **First SDG Sovereign Bond Framework in the world**
  - ▸ Mexico is committed to boost investment and set an example towards collectively achieve the SDGs
  - ▸ The framework uses an innovating methodology for federal budget alignment to the SDGs

**2.** **The Framework combines program eligibility and geospatial eligibility (granular targeting at city level)**
  - ▸ Only budgetary programs targeting the most disadvantaged areas and vulnerable populations are eligible (indigenous, elderly and children)

**3.** **Completely open governance**
  - ▸ All the methodology is public and we invite other countries and issuers to use and improve it
  - ▸ SDG commission (National Council and Executive Committees for Compliance for the 2030 Agenda)

**4.** **External support and validation**
  - ▸ The United Nations Development Program (UNDP), has provided an independent opinion on the Framework and will act as an observer of eligible expenditures selection process and the preparation of the impact report

# Established institutional policies, coordination, and regulatory framework to support Agenda 2030

**GOBIERNO DE MÉXICO**

**President's Office**

**National Council of the 2030 Agenda for Sustainable Development**

**Specialized Technical Committee of the Sustainable Development Goals**\*\*

**National Strategy Committee**

**Monitoring and Evaluation Committee**

Technical Secretary

**INEGI**

**(4) Technical Committees**\*

2030 Agenda Approach

**MX AGENDA 2030**

**Ministry of Finance and Public Credit**

Include the SDGs into the Budget

**DESIGN**

**National Development Plan**

**IMPLEMENTATION**

Institutional policies & Regulatory framework

\*SDG Sovereign Bond expenditures selection monitored in the Committee of Inclusive and Sustainable Economy ("CISE")

\*\*Oversight of Impact Reporting

# Mexico's SDG Sovereign Bond Framework

## Strategic asset class for an inclusive economy

### Use of Proceeds

▸ Budgetary programs mapped to selected SDGs

▸ Geospatial eligibility criterion ensures that social expenditures are directed towards regions where Mexico's SDG gaps are the largest

**Exclusions and screening (including but not limited to):**

✖ Exploration, production or transportation of fossil fuel;

✖ Alcohol, weapons, tobacco, palm oil, cattle/beef production, conflicted minerals or adult entertainment industries

✖ Breach of Mexico's anti-corruption laws, and all environmental, social and governance policies and procedures

### Selection and Evaluation of Eligible Expenditures

▸ SHCP oversees the implementation of the Framework and is responsible for the governance process to determine and monitor:

✓ Eligibility of projects, assets and expenditures;

✓ Notional allocation of funds raised;

✓ The investor reports

▪ The Committee of Inclusive and Sustainable Economy ("CISE"), led by the Office of the Presidency, will review the selection of eligible expenditures selected by SHCP

**SDG Sovereign Bond Framework**

### Management of Proceeds

▸ Net proceeds from each SDG Sovereign Bond issuance will finance eligible expenditures from the Federal Budget of the issuance year

▸ SHCP will manage the proceeds and monitor the advance of the budgetary program on a quarterly basis

▸ Monitoring and reporting will be conducted by participating authorities, government agencies and state entities

▸ The Committee of Inclusive and Sustainable Economy ("CISE"), as one of the SDG Specialized Technical Committees, will further monitor on a dynamic basis the pool of eligible expenditures

### Reporting

▸ Annual reports based on reliable and publicly available information

1. Allocation report (annual basis)

2. Impact report (annual basis until maturity of the SDG Sovereign Bond)

▸ The impact report is reviewed by the SDGs Technical Committee ("CTEODS"), led by the Office of the Presidency and the National Institute of Statistics and Geography

▸ UNDP will provide technical assistance on the development of the impact report

# Eligibility Criteria 1: Mexico Budget linkage to the SDGs

**Mexico has established a formal link between the current national planning process, the global 2030 Agenda and the SDGs .**

Sustainable Development Goals

National Planning

Programmatic Structure

Budget

## Matrix of Indicators for Results (MIR)

National Development Plan

Programs (Sectorial, Special, Regional and Institutional)

Budgetary programs

Sectorial Programs

| MIR Level | Objective | Indicator |
|---|---|---|
| End (Overall Objective) | | |
| Purpose (Outcome) | | |
| Component (Output) | | |
| Activities (Input) | | |

Mexico uses a programmatic structure based in budgetary programs, which allows it to group the allocations representatively and homogenously.

**Mechanics and programs:**

**Special Programs (Transversal)**

Transversal objectives aligned and linked to the strategies established in the NDP

**Sectorial Programs**

Sectorial objectives linked to national goals

**Institutional, Regional and Special Programs**

Objectives for each program derived from Sectorial Programs
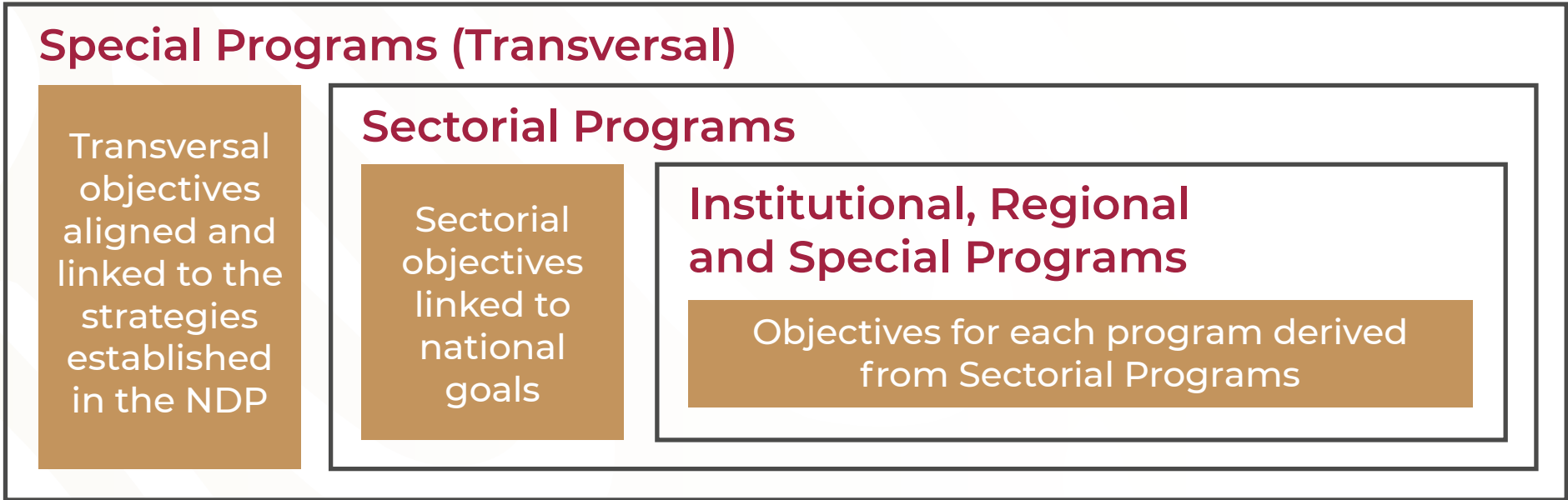
The budgetary program is a foundation stone of the Performance Based Budgeting and the Performance Evaluation System ("PES").

**The PES is a toolbox that aids federal government agencies in assessing the level of fulfillment of budgetary programs towards SDG targets & goals The PES provides performance information through two steps: monitoring of the budgetary program's performance through indicators & external evaluation by independent experts**

# What steps are taken to estimate the Budget expenditures that contribute to the SDGs ?

**Linking**

## Analyze

**1** *the linking between SDG & National Planning*



## Match the PEF

**2** *Through the Performance Evaluation System, which will automatically render the alignment with the SDGs*

## Everyone participates

**3** *Necessity of creating a glossary. On the basis of the same definitions, Ministries and Entities review the proposal for linkage and integrate possible additional links not covered in step 1*

## Where to apply it?

**4** *Only to spending that fits into programs that is not debt or allocations that are not aligned to governmental offices' objectives*

**Quantifying**

## What happens when the SDGs have many purposes?

**5** *We identified sub-goals. This allows the PEF's responsible to define an exact way to which of the sub-goal their program is linked, indicating that their linkage is partial*



## How does the budget contribute to goal or subgoal?

**6** *When the contribution is direct and when the budget can generate conditions to achieve the goal or subgoal (indirect contribution)*

## Systematize results

**7** *Homologated instrument to allow analysis of the information generated on previous steps. An excel macro is sent to the governmental offices whom reviewed and analyzed what is registered*

# Eligibility Criteria 2:
# SDG driven social geospatial eligibility criteria

- All social expenditures are subject to a geospatial eligibility criterion to ensure they are directed towards regions in Mexico with the greatest SDG gaps

- This criterion builds off the "priority area" zoning policies of the national authorities with a focus on the "Social Gap Index", to further refine the target populations. The Social Gap Index is made of 11 sub-indicators. The Data from the Social Gap Index comes from Census of Population and Housing. It is collected every 5 years, the latest results are systematically used for the sake of this SDG Sustainable Bond Framework

Geospatial eligibility criteria (the where) in addition to the "what" : use of priority areas focusing on Social Gap Index

Selection of cities with "very high", "high" or "medium" level of social lag for greatest impact

1,345 cities totaling roughly 22m of inhabitants out of national population of circa 120m

→ **Use of Proceeds in these areas are eligible**

## Social Gap Index

### EDUCATION

Percentage of illiterate population aged 15 years or more

Percentage of population aged 6 to 14 who do not attend school

Percentage of population aged 15 years and over with an incomplete basic education

### HEALTH

Percentage of population without access to health services

Percentage of homes that do not have a toilet or bathroom

Percentage of homes that do not have piped water from the public network

### HABITAT BASIC SERVICES

Percentage of dwellings with a dirt floor (mud floor)

Percentage of homes that do not have drainage

Percentage of homes that do not have electricity

Percentage of homes that do not have a washing machine

Percentage of homes that do not have a fridge

- The bulk of the 1,345 municipalities selected for the geospatial eligibility criteria are in States from the South of Mexico

# Eligible Sustainable Expenditures selection process

**A robust, SDG driven, decision-making process defines how Eligible Expenditures are selected**

**FILTER 1**

**FILTER 2**

**FILTER 3**

**FILTER 4**

**FILTER 5&6**

Bulk of Mexico's budget line items
("*Presupesto de Egresos de la Federacion*")

Include budget line items that are productive
assets i.e. Investment Projects ("PPI")

Budget line items that have at least
one direct SDG contribution

Budget line items that have operational
guidelines &/or policies in place

Remove negative spillovers

Pareto Principal

Eligible
Sustainable
Expenditure

**Remove ineligible assets:**
▶   Potential perceived, or actual negative SDG spill over
▶   Breached the exclusionary criteria in the framework

**Remove:**
▶   Not representing a sufficient volume ($)
▶   Expenditures that could potentially be materially changed or cancelled during the fiscal year

▶   Social Expenditures further reduced by Social Gap Index

# Eligible Sustainable Expenditures selection process

## Bonds issued under this Framework will promote the following SDGs:

• Production subsidies to subsistence farmers
• Training to small-farmers
• Free school meals
• Agricultural insurance

• Hospitals and medical equipment
• Health professionals support
• Provision of targeted health programs

• Sustainable forestry development
• National Parks management
• Wildlife conservation

• School and educational equipment
• Educational training centers
• Educational scholarships

• Watersheds management and conservation

• Water treatment infrastructure improvement
• Hydro-agriculture modernization
• Dam heads and structures improvement
• Projects to reduce water related hazards

• Renewable energy generation
• Energy efficiency investments in public buildings

• Clean energy generation and infrastructure
• Smart grids
• Energy efficiency programs

• Electrified rail transportation
• Multimodal platforms
• Bus-rapid transit system

• Digital payment systems
• Bank branches in isolated areas
• Cultural and natural heritage centers
• Scholarships for employment training
• Development and maintenance of employment training centers & programs

• Development of rural roads
• Access to internet

*Note: future potential eligible expenditures in gray.

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# Example of Eligible Expenditures

**Financial inclusion as a driver of a dynamic and inclusive economic growth**

BANC
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## FINANCIAL INCLUSION

**Diagnostic:**

▶ Financial inclusion in Mexico lag those of other countries with only 37% of the adult population owning a bank account as of 2017, versus 70% in Brazil and 80% in India

▶ Cash is still the main means of payment representing 95% of total transactions
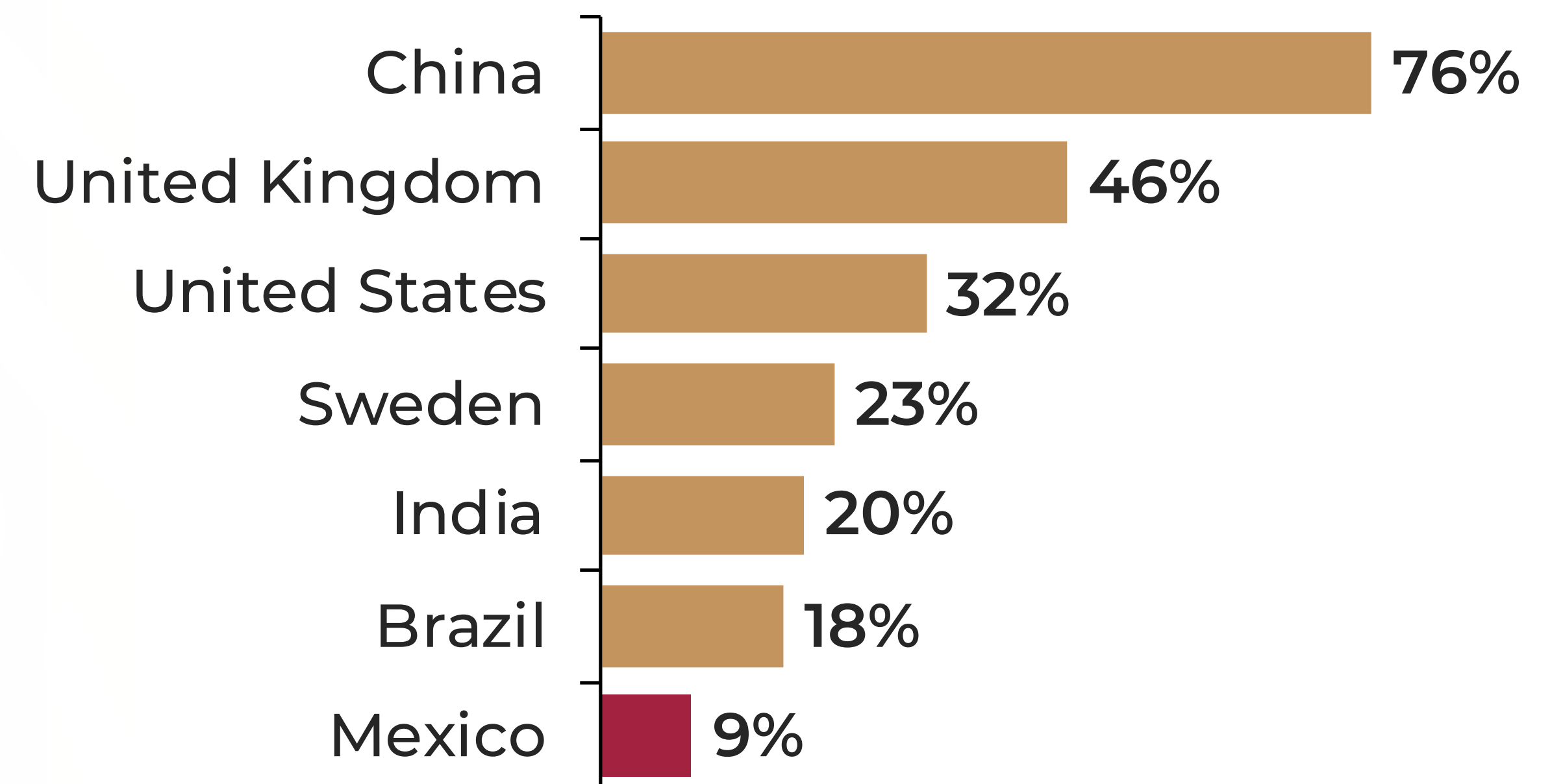
▶ Lack of internet connectivity

**Actions:**

▶ Construction of 2,700 more branches of the Wellness Development Bank in rural remote areas

▶ The issuance of secondary regulation of the FinTech Law

▶ Disbursement of social programs benefits through transactional accounts.
Inclusión Financiera (MXN 476m)

**Direct SDG contribution:**

8 DECENT WORK AND ECONOMIC GROWTH

### Card payments, 2016
(% of GDP)

| Country | % |
|---|---|
| China | 76% |
| United Kingdom | 46% |
| United States | 32% |
| Sweden | 23% |
| India | 20% |
| Brazil | 18% |
| Mexico | 9% |

# Example of Eligible Expenditures

**Increasing access to education at all levels**

## EDUCATION

**Diagnostic:**
Despite the fact that Mexico spends 5.2% of its GDP in education, its population still has a major opportunity to reach a higher percent of tertiary education

**Actions:**

▶ Scholarships at all levels *(Programa de Becas de Educación Básica para el Bienestar Benito Juárez - MXN 30.5bn; Beca Universal para Estudiantes de Educación Media Superior Benito Juárez - MXN 29bn)*

▶ Programs for internships at companies *(Jóvenes Construyendo el Futuro - MXN 25bn)*

**Direct SDG contribution:**

**Share of the population (25-34 years old) with tertiary education completed, 2018** (%)

| Country | Value |
|---|---|
| KOREA | 69.6% |
| CANADA | 61.8% |
| OECD* | 46.9% |
| EUROPEAN UNION | 44.3% |
| ARGENTINA | 40.0% |
| CHILE | 33.7% |
| COLOMBIA | 29.0% |
| COSTA RICA | 27.7% |
| MÉXICO | 23.4% |
| BRAZIL | 21.3% |
| INDIA | 13.9% |
| SOUTH AFRICA | 5.6% |
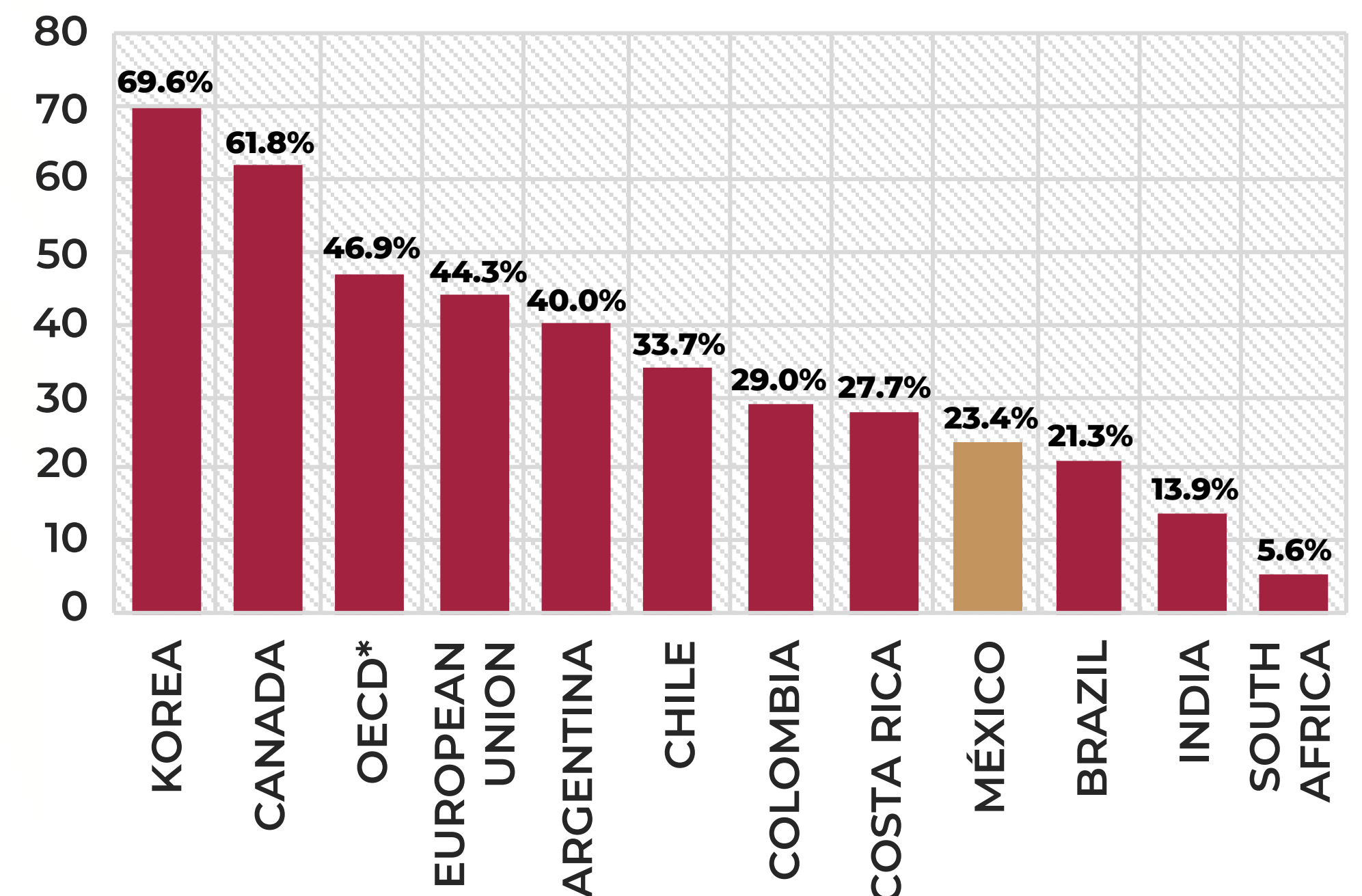
Source: OECD
OECD*, average

# Example of Eligible Expenditures

**Access health services for people without medical coverage**

## HEALTH

**Diagnostic:**

▸ Unequal distribution of the financial, physical and human resources in public health services

▸ Mexico's healthcare spending as a percentage of GDP remains one of the lowest among Latin American countries, ranking in the lower bound between developed and emerging markets

**Actions:**

▸ Consolidate health programs

▸ Increase coverage of health services for people without medical coverage

Provision & distribution of healthcare equipment and services (Seguro Popular, INSABI – MXN 72.5)

**Direct SDG contribution:**

3 GOOD HEALTH AND WELL-BEING

### Healthcare Spending, 2016
(% of GDP)

| Country | Spending |
|---|---|
| BRAZIL | 11.8% |
| NICARAGUA | 8.7% |
| CHILE | 8.5% |
| PARAGUAY | 8.0% |
| COSTA RICA | 7.6% |
| ARGENTINA | 7.5% |
| PANAMA | 7.3% |
| BOLIVIA | 6.9% |
| COLOMBIA | 5.9% |
| GUATEMALA | 5.8% |
| MEXICO | 5.5% |
| PERU | 5.1% |
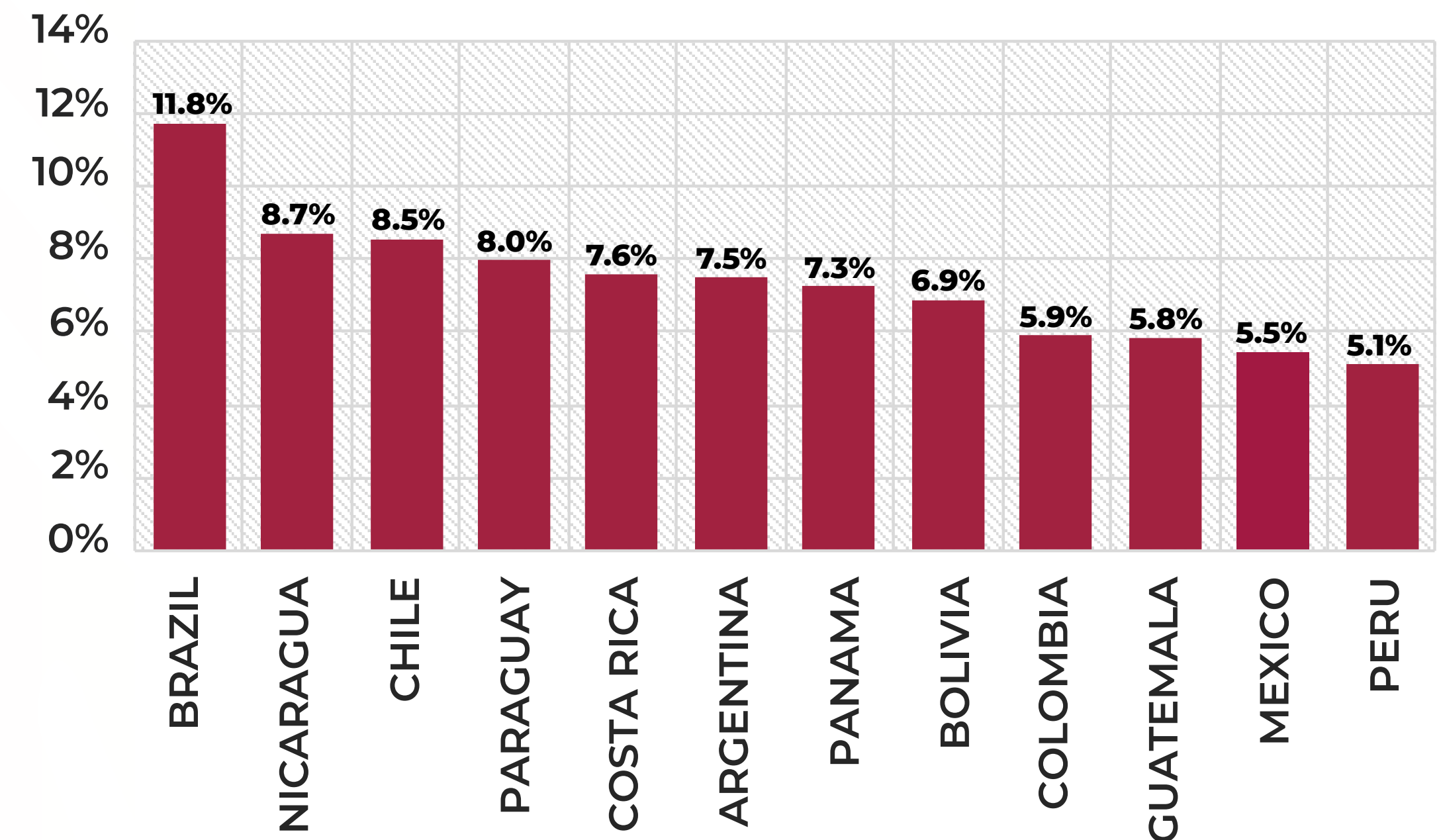
Source: World Bank

# Example of Eligible Expenditures

**Access to basic water infrastructure**

## WATER

**Diagnostic:**

▶ Inadequate drinking water, sewerage and wastewater treatment services

▶ Among OECD countries, Mexico has a low proportion of population connected to wastewater treatment plants through a public sewage network
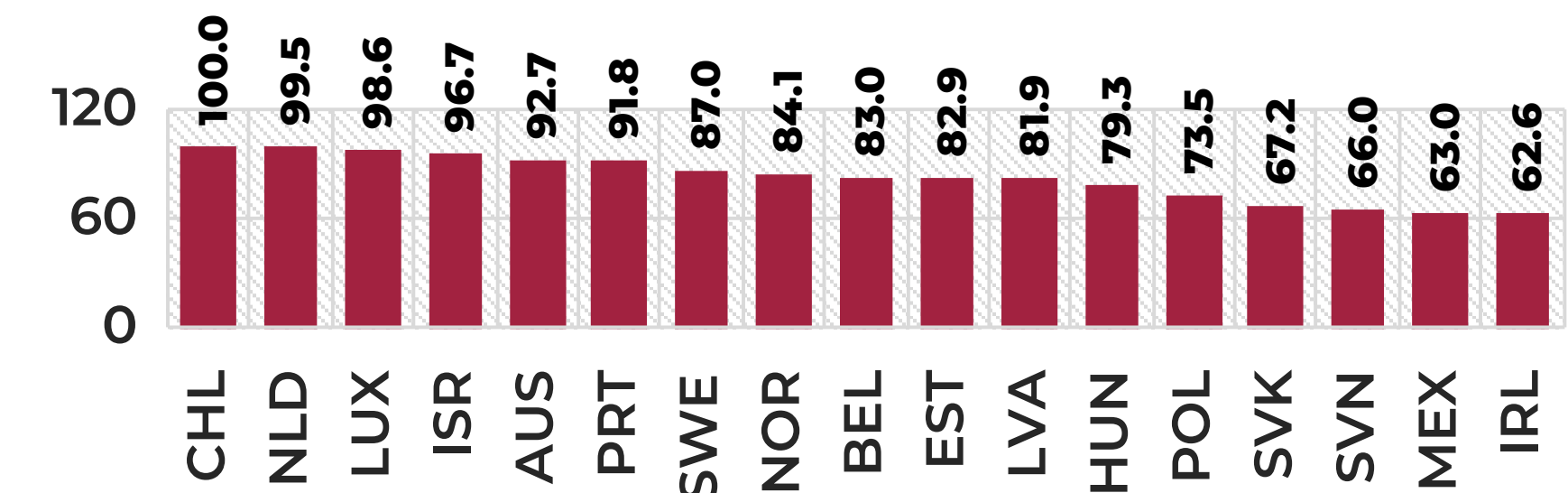
**Actions:**

▶ Construction and maintenance of water treatment infrastructure *(Agua Potable, Drenaje y Tratamiento – MXN 2.6bn)*

▶ Construction and maintenance of water distribution network *(Gestión integral y sustentable del agua – MXN 6.7bn)*

**Direct SDG contribution:**
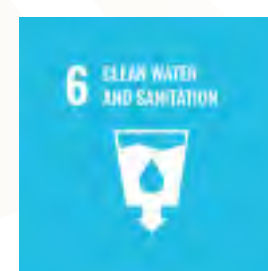
### Wastewater treatment, 2017
(% of the population connected to a wastewater treatment plant)

| | CHL | NLD | LUX | ISR | AUS | PRT | SWE | NOR | BEL | EST | LVA | HUN | POL | SVK | SVN | MEX | IRL |
|---|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| | 100.0 | 99.5 | 98.6 | 96.7 | 92.7 | 91.8 | 87.0 | 84.1 | 83.0 | 82.9 | 81.9 | 79.3 | 73.5 | 67.2 | 66.0 | 63.0 | 62.6 |

Source: ENIGH & OECD

### Population in housing without access to drinking water, 2018
(%)

**7.2** National average

- 0 - 2.23
- 2.24 - 4.48
- 4.49 - 9.60
- 9.61 - 27.19

# Example of Eligible Expenditures

## Increased Connectivity & Job Creation in Rural Areas

## CONNECTIVITY AND RURAL ROADS

**Diagnostic:**
- Remote rural areas lack connectivity and access to essential services
- In addition to insufficiently trained staff, a shortage of resources as well as budget constraints severely inhibit Mexico's ability to expand connectivity within rural areas

**Actions:**
- Development of rural roads to conserve and maintain existing rural road infrastructure to increase connectivity for municipalities lacking road infrastructure and to improve infrastructure resilience *(Conservación de infraestructura de caminos rurales y carreteras alimentadoras – MXN 7bn)*



**Direct SDG contribution:**

# Reporting

| Allocation Reporting | Impact Reporting |
|---|---|
| To be provided until the amount of budgetary resources expended on eligible expenditures equals the total amount of the net proceeds of the SDG Bond. | To be provided on the expected environmental and social impacts of the Eligible Sustainable Expenditures. |

**Allocation Reporting**

To be provided until the amount of budgetary resources expended on eligible expenditures equals the total amount of the net proceeds of the SDG Bond.

▶ Description of the eligible expenditures undertaken; including, if applicable, the relevant geospatial criteria as defined above in the Framework;

▶ Amount of budgetary resources allocated to each of the Eligible Sustainable Expenditures, including, if applicable, the percentage of resources allocated to meet the geospatial criteria;

▶ Type of budgetary expense;

Any co-financing share of the eligible expenditures, if applicable

▶ Remaining balance of any unallocated proceeds and the nature of the proceeds, if applicable.

▶ This report will undergo an independent external audit by *Auditoria Superior de la Federación* – the independent external auditor of the Chamber of Deputies

**Impact Reporting**

To be provided on the expected environmental and social impacts of the Eligible Sustainable Expenditures.
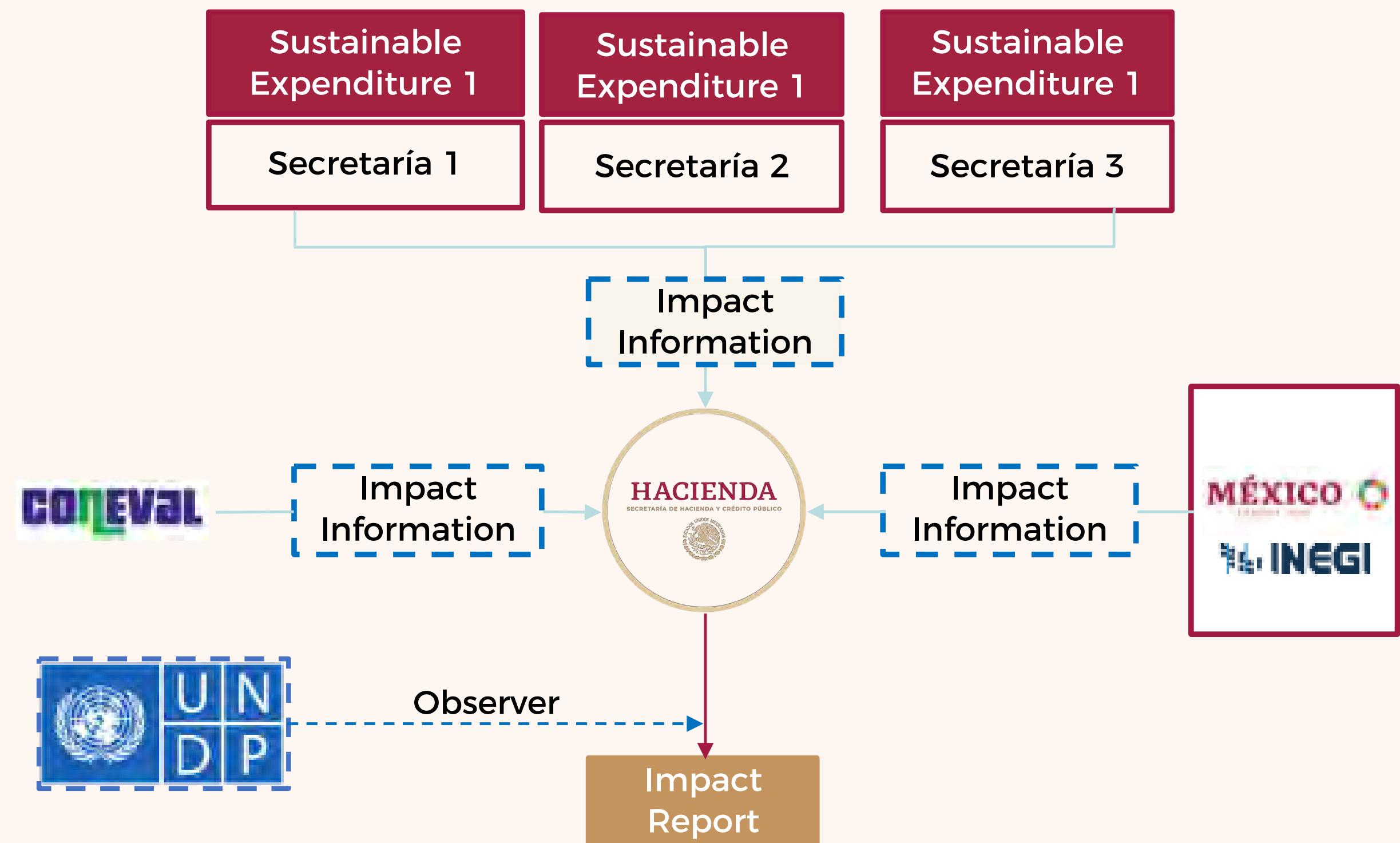
# Second Party Opinion

**Mexico has obtained a Second Party Opinion from Vigeo Eiris to confirm the alignment of the Mexico SDG Sovereign Bond Framework with the ICMA Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines**

**Second Party Opinion on
Mexico's SDG Sovereign Bond Framework**

"Vigeo Eiris is of the opinion that the SDG Sovereign Bond Framework of Mexico **is aligned with the four core components of the Green Bond Principles 2018 and the Social Bond Principles 2018**. We express a reasonable assurance (our **highest level of assurance**) on the Issuer's commitments and on the contribution of the contemplated 2020 Bonds to sustainability.

By creating a Framework to issue SDG Sovereign Bonds intended to finance Eligible Expenditures related to food, healthcare, education, water and sanitation, energy, employment, infrastructure, transport, and biodiversity, the Issuer coherently aligns with its sustainability strategy and commitments and addresses the main governmental issues in terms of action to bridge the SDG gap."

# UNDP's Opinion of Mexico's SDG Sovereign Bond Framework

▶ An unprecedented governance: apart from a pre-issuance opinion, and as enshrined in the Framework, the UNDP has agreed to act as "an observer to the impact report" and to provide guidance to Mexico in its production

▶ Overall opinion: The United Nations Development Programme is of the view that this framework is aligned with the principles and objectives of the Sustainable Development Goals

▶ UNDP recognizes that being asked to act as an observer and comment on the SDG Sovereign Bond Framework's alignment with the SDGs is evidence of Mexico's commitment towards implementing innovative mechanisms to achieve the 2030 Agenda, following the highest international standards."

## A landmark in the emergence of SDG Finance

- The issuance of Mexico's SDG Sovereign Bond Framework represents an important step towards **creating a market for SDG investments**.

- This first of its kind, this Framework has the potential to **open the way for other Governments to tap into the private capital market to finance public SDG-related programs**

- It also establishes a benchmark to guide the development of private sector capital markets

## Additionality: Advancing Mexico's commitment towards the SDGs

1. This Framework has the potential to advance Mexico's commitment towards the SDGs in three areas:

2. Strengthening **budget transparency: completely public alignment methodology**
   **Increasing the amount of resources** earmarked towards sustainable social development policies

3. Supporting the **development of capital markets to finance sustainable development** at the national and international level"

## Relevance of geospatial eligibility criterion and proposed indicators

- The **Social Gap** Index is a robust selection methodology

- The use o**f the Social Gap Index to define eligibility and sub-regional targeting** (geospatial criterion to ensure proceeds are used in areas that are lagging the furthest behind), **the proposed indicators**, and the **defined exclusions** for screening expenditures, further supports the aim of selecting expenditures in accordance with the SDG.

- Of the 43 proposed indicators 41 are aligned with actual indicators, 2 are partially aligned with actual indicators.

## Openness for for improvement through collaboration

- It is important to acknowledge the scope and limitations of the mechanisms available to link potential impact, outcomes and benefits to actual expenditures. The complexity and interconnectedness of the SDGs pose recognized methodological challenges to unequivocally link budgets and expenditure to actions and indicators.

- The invitation to the UNDP to advise the SHCP in drafting the report is an added **quality control mechanism** that the SHCP is undertaking to signal its commitment to quality reporting in terms of alignment with the SDG

# Growing interest for sustainable finance in the Latin American Region

**By introducing its SDG Sustainable Bond Framework, Mexico wants to promote sustainable financing to meet a significant shift of investor sentiment toward environmental and socially conscious investing**

## 12 Mexican investors are UN PRI signatories (14% of Latam)



## In total, 86 Latam investors have signed the PRI initiative



## Mexico is becoming a focal point for sustainable finance

**MexiCO2 is a climate change subsidiary of the Mexican Stock Exchange.**

▶ **It was tasked with forming a Consultative Committee on Green Finance (CCGF)**, which was launched in November 2016.

▶ **It has representatives from the whole financial chain and their respective associations:** banks, insurers, asset managers, development banks, etc.

▶ **It is led by a collegiate presidency, held so far by the heads of the three largest Afores.**

SRI: Social Responsible Investments
UN PRI: United Nation Principles for Responsible

¡MUCHAS GRACIAS!

GOBIERNO DE
MÉXICO