Snapshot: The GISD Alliance Guidance on Sovereign SDG Bonds for Countries and Investors

Achieving the Sustainable Development Goals (SDGs) necessitates a substantial scaling up of finance and investment. Sovereign SDG bonds are a subset of thematic bonds that are anchored in the SDGs and can help governments finance their sustainable development priorities.

The **Global Investors for Sustainable Development Alliance**, under the leadership of the UN Department of Economic and Social Affairs (UNDESA) and the United Nations Development Programme (UNDP), have developed this **integrated guidance** for the benefit of the global financial community interested in these instruments.

Scope and methodology:

SDG bonds have been issued across all regions by countries looking to advance sustainable development. This guidance focusses on the experiences of the 18 developing countries[1] that, between 2016 and 2023, issued US$70.8 bn worth of sovereign bonds that include reference to alignment with the SDGs in their national financing frameworks.[2] [3]

The guidance provides a summary of these **country experiences** gleaned through interviews with country representatives and the private sector, a survey on investor preferences, in-depth case studies on countries that have issued SDG bonds, and an expert group consultation. Based on this research, the guidance considers the benefits, challenges and lessons learnt when issuing sovereign SDG bonds.

Benefits and challenges for countries:

The analysis finds that issuing sovereign SDG bonds has the potential to offer benefits to countries, including **providing a greenium, diversifying the investor base, signalling a commitment to sustainable development, and enhancing the SDG impact of the domestic private sector**. However, the process of developing and issuing a sovereign SDG bond involves many complex and technical steps, which can be challenging for developing countries. These include but are not limited to **multi-stakeholder coordination, mitigating greenwashing in terms of identifying projects and KPIs, monitoring and reporting, and issuance in domestic markets**. In addition, high debt levels, market risk perceptions and borrowing costs can make issuance unfeasible for some countries.

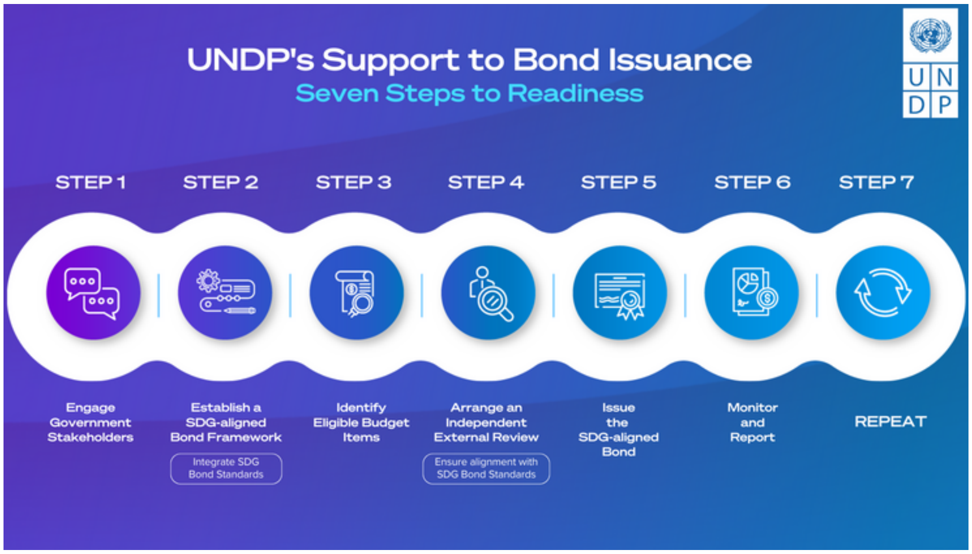
Best practices for countries:

The next section summarizes **best practices** for countries when issuing sovereign SDG bonds. Criteria that governments should evaluate before issuing a sovereign SDG bond include:

1) Suitable conditions in the country;
2) 'Goodness of fit';
3) Debt sustainability framework; and
4) Capacity.

1 This guidance uses the country classifications in the UN's 2024 World Economic Situation and Prospects report as the definition of developing countries.
2 Michetti, C, et al., Sustainable Debt Global State of the Market 2022, Climate Bonds Initiative 2023.
3 Climate Bonds Initiative, Interactive Data Platform, accessed February 2024.

Step-by-step guide to issuing a sovereign SDG bond:



Investors' preferences:

The guidance then turns to analysing investor preferences around sovereign SDG bonds, which have been compiled through interviews and further supplemented by a survey. The results shed light on **the decision-making process behind investing in sovereign SDG bonds, pricing risk, preferences between different bond structures, and data and impact**.

Investors' best practices:

A common theme among the best practices derived from these findings is a **more active role on the part of the investors to ensure mutually successful outcomes**. Specific best practices that investors can adopt to enhance their role include: assessing country conditions, engaging with government representatives to understand developmental gaps and national priorities, committing to transparency both in terms of pricing as well as sustainable development outcomes, undertaking independent due diligence to ensure alignment with global standards, signalling to governments the importance of adherence to established international conventions, communicating openly throughout the issuance process, and advancing the overall ecosystem by supporting the development of new technologies and frameworks.