

The role of UN Common Country Analysis (CCA) in designing the SDG/Thematic Bond Frameworks in Countries

Key messages

- *Offering support to Governments in the formulation of national **SDG/Thematic Bond Frameworks** is a potential entry point for the UN system on the ground, to collectively engage with the Government on SDG financing. Thematic bond financings should be considered among other SDG financing options and be based on the countries financing needs and debt sustainability.*
- *The new generation CCAs provide a useful basis for engagement by setting the scene for crucial building blocks which enable bond frameworks and focusing on the points for UN's advocacy.*
- *UN Country Teams are encouraged to offer support to the development of a national SDG/Thematic Bond Frameworks so that the funds mobilized are invested in key SDG priorities and opportunities, with a strong focus on vulnerable groups and those being left behind, as identified within the CCA.*
- *The UN engagement in SDG/Thematic Bond Frameworks is also an opportunity to ensure alignment of SDG/Thematic Bond Frameworks with Integrated National Financing Frameworks (INFFs) and consistency with national SDG financing strategies.*

Introduction

The issuance of SDG bonds/thematic bonds (such as green, blue, social bonds or SDG bonds) from emerging markets reached record heights in 2021 over 35 billion USD¹. From an SDG financing perspective, SDG bonds/thematic bonds enable direct linkages between resources mobilized with specific SDGs and related thematic areas.

One of the key steps in the issuance of SDG/thematic bonds is the development of **SDG/Thematic Bond Frameworks**. These frameworks define the broad parameters of bonds issuance, including the areas selected for use of resources raised by bonds (use of proceeds), selection process for eligible projects, how the funds raised will be managed and on the nature of reporting that will be done in the future to provide details of the spending of proceeds. The frameworks provide a narrative to attract investors by articulating the country context and how the bond issuance will help countries make catalytic investments in projects that will have real sustainable development impact.

Oftentimes, Governments turn to specific consultancy firms, a think tank or a select UN entity for support with the development of SDG/Thematic Bond Frameworks. Normally, a new bond governance structure is also established within the Government to create and manage such frameworks. As a best practice, the Bond Frameworks are independently assessed versus global standards. This process often represents a missed opportunity for a whole-of-UN engagement in the development of these Bond Frameworks, sometimes missing the links with other existing SDG financing related initiatives in the country, such as the INFFs. In this context, this note argues that **the new generation Common Country Analysis (CCAs) provides a good basis for engagement of the UN with the Government on national SDG Financing efforts.**

¹ IMF (2021), Global Financial Stability Report.

What does a typical SDG Bond/Thematic Bond Framework look like?

In line with **ICMA Sustainability Bond Guidelines**, the typical Sustainability Bond Framework will have the following core components (as mentioned in [ICMA Sustainability Bond Guidelines](#)² and followed by recent bond frameworks in [Benin](#), [Peru](#), [Indonesia](#), [Uzbekistan](#)), 1) Overall introduction and context discussion 2) Use of proceeds 3) Process for project evaluation and selection 4) Management of proceeds 5) Reporting and external review.

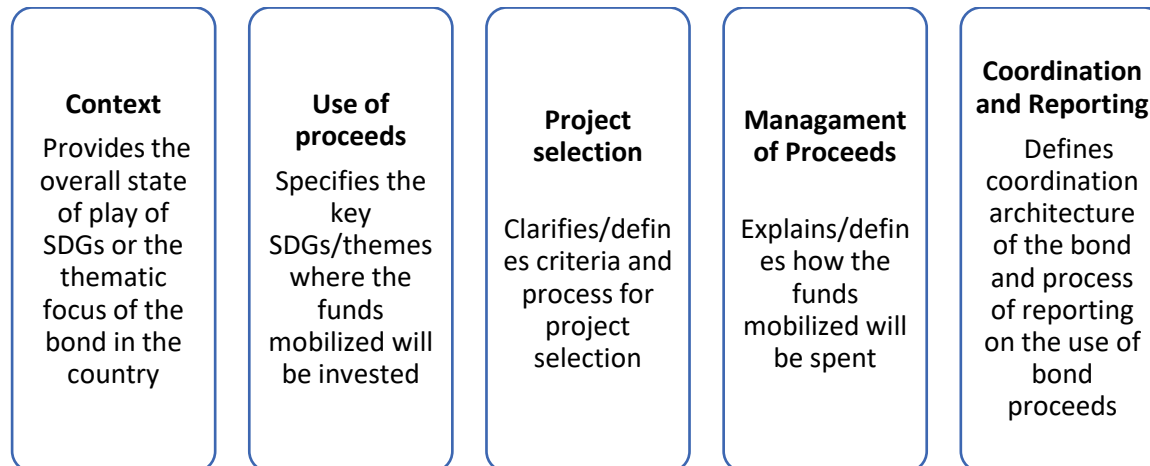


Figure 1 : A typical structure of an SDG/Thematic Bond Framework

What can CCAs provide in the context of SDG/Thematic Bond?

The new generation CCAs are expected to provide integrated, forward-looking and evidence-based joint analysis of the context for sustainable development in the country and progress towards the Agenda 2030 and the SDGs. The CCA will identify those SDG areas and opportunities that will have an SDG acceleration effect. The CCA will also include a root cause analysis on the vulnerable groups who are at risk of being left behind in the country, supported by the most up-to-date data. This information on the context of sustainable development in the country, on the population groups that are being left behind and on key SDG areas/opportunities for transformative change are important building blocks of the SDG Bond Frameworks. Further, it is an important opportunity for the UN system to highlight critical issues such as gender equality, human rights and promote green transitions in concert with biodiversity conservation and reduction waste/pollution. The fact that the CCA is a collective product of a range of UN agencies, lends its analysis credibility, providing a solid basis for the UN's collective advocacy for SDG/Thematic Bond Frameworks.

² While other standards apply, for example the Climate Bonds Initiative standards or UNDP SDG Impact Standards, ICMA guidelines remain the most broadly used.

Context	Use of proceeds	Project selection	Management of Proceeds	Coordination and Reporting
<ul style="list-style-type: none"> •The overall state of progress towards SDGs captured in the CCA will be useful here. 	<ul style="list-style-type: none"> •Advocate to integrate SDG priorities and opportunities; vulnerable groups; gender and human rights aspects highlighted in the CCA. 	<ul style="list-style-type: none"> •Advocate for potential for a UN inter-agency team participation in the project selection process. This includes capacity development of line ministries in submitting proposals for the allocation of proceeds. 	<ul style="list-style-type: none"> •Advocate for a transparent process. •Explore linking with INFF governance /coordination structures. 	<ul style="list-style-type: none"> •Offer UN technical assistance in results reporting and alignment of reporting with SDGs indicators.

Figure 2 : Mapping of UN support (especially from CCA) towards relevant components/process of SDG Bond Frameworks

Some other core UN-advocacies within the SDG Bond/Thematic Bond Frameworks

Linkage with INFF oversight committees/coordination structures: In nearly 70 countries globally, the UN system has been supporting the development of Integrated National Financing Framework (INFFs) thanks to the [Joint SDG Fund joint programmes](#). These frameworks are intended to support and integrate SDG financing efforts in countries. An important building block of the INFFs is the overall ‘governance and coordination’ mechanisms³. At the same time, the SDG/Thematic Bond Framework is expected to propose the governance structures for the management of proceeds of bonds issuance. The UN could advocate for linkages between the INFF-related coordination structures and the SDG bond /thematic bond coordination structures, aiming to avoid duplication of efforts and making use of existing structures. For example, the INFF oversight committee could also provide overall oversight to the SDG bonds’ issuance and management of proceeds. For example, in Indonesia INFF is referred to as the umbrella of any SDG financing policies/strategies, while support to issuance of thematic bonds is a concrete example how UN can leverage financing under INFF.

Use of SDGs indicators: Where possible, it would be useful to integrate SDG indicators within the component ‘use of proceeds’ in the bond framework and align the management/reporting on the use of proceeds to SDG indicator frameworks - the UN could offer support in enabling such alignment.

Why should UN country teams get involved with the development of SDG Bond/Thematic Bond Frameworks?

Bonds, notwithstanding the implications to added public debt, are a tool to raise finances for specific thematic areas/sustainable purposes. Hence, bonds if clearly linked to SDGs, provide an important opportunity to channel finances towards SDG areas and vulnerable groups. By using the advocacy messages and strategic priorities contained in the CCA to develop an SDG/Thematic Bond Framework

³ <https://inff.org/resource/integrated-national-financing-frameworks-governance-and-coordination>

when it determined to be an appropriate financing tool based on the country context, the UN system can support national governments to raise finances to the most critical SDG financing gaps in the country. Therefore, the development of a Bond Framework provides a unique opportunity for the joint-UN expertise to come together and support Governments in the achievement of the 2030 Agenda.

What can RCs do if the Government expresses interest for an SDG/Thematic Bond?

- ✓ Consult with Ministers of Finance, understand their needs and SDG financing gaps, as well as the current debt sustainability situation in the country based on UN CCA and UNDP Development Finance Assessment or other relevant analysis by the IFIs. Help the Government assess the opportunity and benefits of issuing an SDG/Thematic bond by sponsoring feasibility and capital market studies, if needed.
- ✓ Based on this analysis, a determination can be made if the potential of an SDG bonds / thematic bonds issuance may be an appropriate financing mechanism. If this is the case, proactively consult with the Ministers of Finance (or senior officials) on potential interest in issuance of SDG bonds /thematic bonds (depending on country context) and alert them of a global trend in increased use of SDGs/thematic bonds to finance SDG priorities.
- ✓ Proactively reach out to the Government (e.g., Ministry of Finance; Planning) and express interest in the UN's willingness in engagement to support the development of an SDG/Thematic Bond Framework by referring to methodologies and case studies and/or organizing peer exchanges with Government that issued SDG bonds.
- ✓ Establish an UN-inter-agency working group depending on the thematic focus of the bond issuance, after initial discussions with the Government. Identify budget to support the Government with technical assistance and access to experts.
- ✓ Extract from CCA the key advocacy material for the UN in terms of bond issuance on the SDG areas that the UN system has identified as key priorities for the country as well as the vulnerable groups to focus on (in line with figure 2). Get this information vetted by the inter-agency working group and then present it to the Government to support the development of the bond framework.
- ✓ Involve resident and non-resident UN entities for reviewing the bond framework from an SDG lens (including gender equality and women's empowerment), especially the use of proceeds and the initial list of projects, to assess alignment and consistency with existing initiatives and overarching country commitments to key UN Conventions.
- ✓ Invite International Financial Institutions (IFIs), working on the theme, to review UN's inputs and use this as an opportunity to further strengthen UN-IFIs collaboration.
- ✓ As highlighted in this note, advocate for linkages of the bond framework with SDG indicators and INFF governance structures if it exists.
- ✓ Finally, as defined by the UN's engagement mentioned in the Bond framework, organize coordinated support in operationalization of the Bonds. This could include establishing a joint United Nations and Government technical structure committee for the selection of eligible projects, support to line ministries for submitting proposals for the allocation of proceeds, and impact management framework and reporting to markets.

About this note: *This note was prepared by the SDG Financing Team of the UN Development Coordination Office. We acknowledge inputs from the Joint SDG Fund, UN ESCAP, UN Women, and RCO Economists in Benin, Indonesia and Uzbekistan. This is intended to be a living document. Please contact jacoba@un.org, carmen.arguello@un.org, nina.thelen@un.org to share comments on the note and examples of your UN country team's engagement with Governments in the development of SDG/Thematic Bond Frameworks.*