



SDG Finance Taxonomy (China)

2020 Edition

Guide and inform future investments towards a more inclusive and sustainable world

Dr. Christoph Nedopil

Director Green BRI Center,
Senior Research Fellow Central University of Finance and Economics



The urgency of investing in sustainable development – even more so after COVID-19



„We have to make progress in the three battles...and accomplish the targets and tasks for winning the battle against poverty“

Li Keqiang, Premier of PR China

„As we work through response and recovery from the shocks of the COVID-19 pandemic, the SDGs need to be designed into the DNA of global recovery“

Achim Steiner, UNDP Administrator

All global finance needs to support the SDGs. Non-SDG-aligned finance is not contributing to sustainable, healthy and people-centered economic growth!

What
Projects
Are
SDG-aligned
?



SDGs Finance Taxonomy (China)?

1

It is the first SDG project classification system with over 100 SDG aligned projects in 6 categories

2

It is a collective effort through multi-stakeholders engagement

3

It has a special focus on closing the gap of socioeconomic development and advancing vulnerable groups

4

It responds to both China's development scenario and the global development context

5

It includes strong SDG alignment and clear impact measurement indicators for every project

6

It is for various asset categories, not for any single financial instrument.

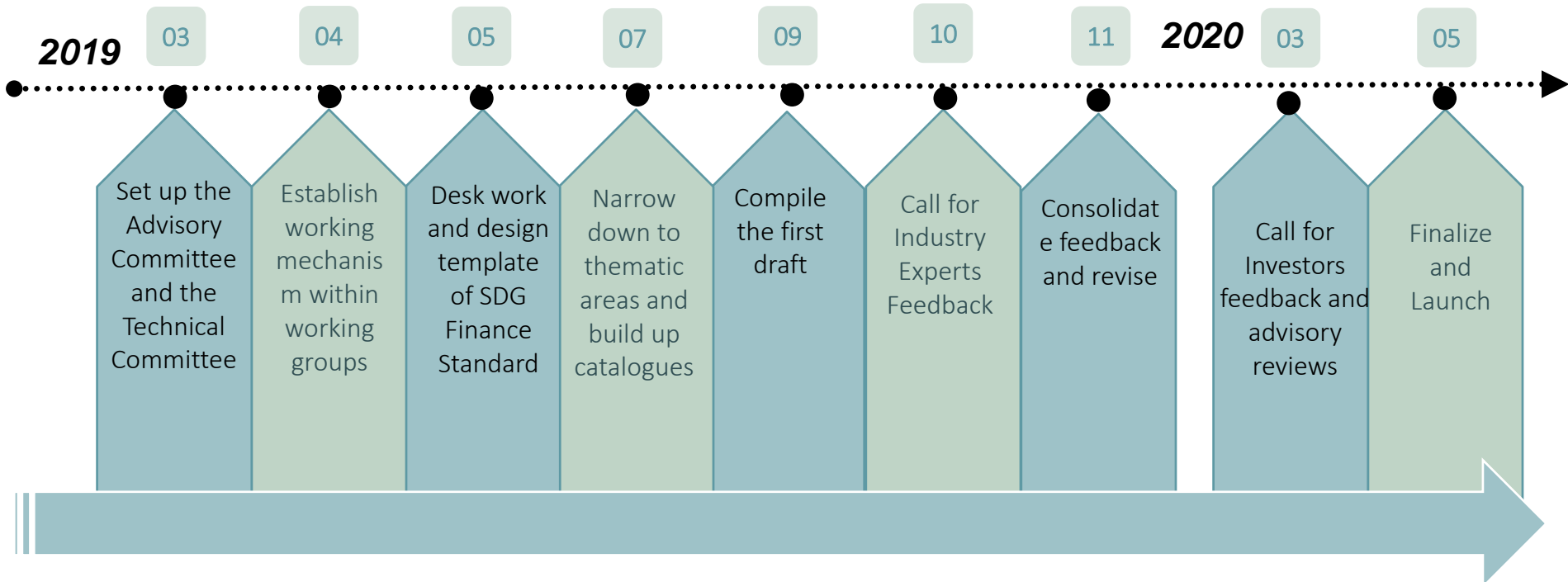
The SDG Finance Taxonomy is complementary to green finance and is always work in progres.

Guiding Principles of the SDG Finance Taxonomy



- To ensure the process legitimacy, relevance and quality of the Taxonomy through knowledge-sharing and collective action between relevant stakeholders during and after its development
- To address the needs of underserved groups and sectors, ensuring that no one is left behind
- To expedite acceptance of the SDG Finance Taxonomy through adopting and harmonizing existing SDG financing standards, as well as impact measurement
- To encourage the financial sector's participation by listing projects to mobilize private finance

Development process





SDG Finance Taxonomy

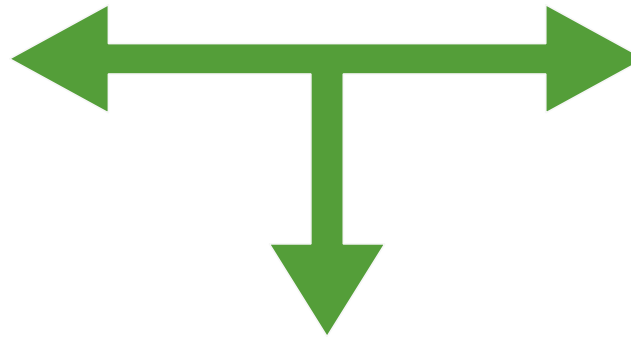
What is the SDG Finance Taxonomy

The SDG Taxonomy supports investors and project developers, as well as policy makers, to identify SDG projects and measure outcomes

Project Identification

Build on the green bond catalogue

To enable users to navigate investable and sustainable project finance



Impact Measurement

To provide impact measurement frameworks to inform and drive impact performance.

Quality Assurance

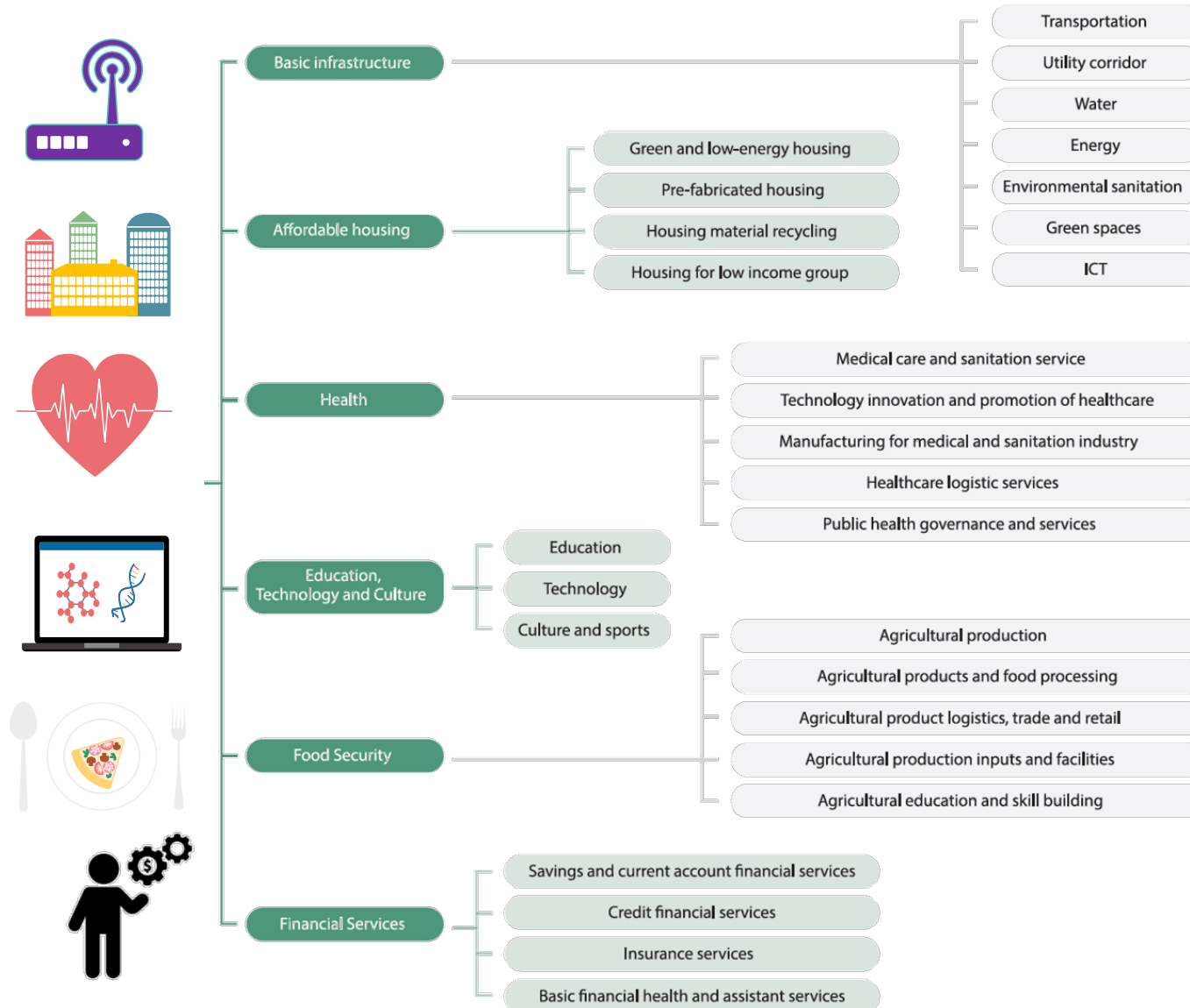
To ensure no misuse of SDGs Branding when mobilize and motivate private sector to advance the 2030 Agenda



Green Bond Endorsed Project Catalogue (2015 Edition)

Level-I Category	Level-II Category	Level-III Category	Specifications/ defining criteria	National Industries Classification Code	Notes
1 Energy Saving	1.1 Industrial Energy Saving	1.1.1 Device/Facility Construction and Operation	1. For the industries with a national standard of energy consumption allowance for unit product, energy consumption of the device/facility (except coal-fired power generation) or the process. 2. The reference value in the national standard of energy consumption allowance for unit	E-Construction-48 Civil Engineering Construction	The reference value of energy consumption allowance for unit product (process) should refer to the national standard of energy consumption allowance in each industry, or National Guidance for Industrial Energy Consumption

Focus on 6 core areas



Harmonizing the National Development Context and international Best Practices



The eligible projects are screened according to their specific relevance for national development priorities (e.g. Chinese FYPs, line ministries' regulations), international development, exercises and experiences.



The Taxonomy applies IMP to specify the impact outcome and target groups each eligible project must reach; and provides indicators to measure impact outputs learnt from PRI, IRIS+ and industrial standards etc.

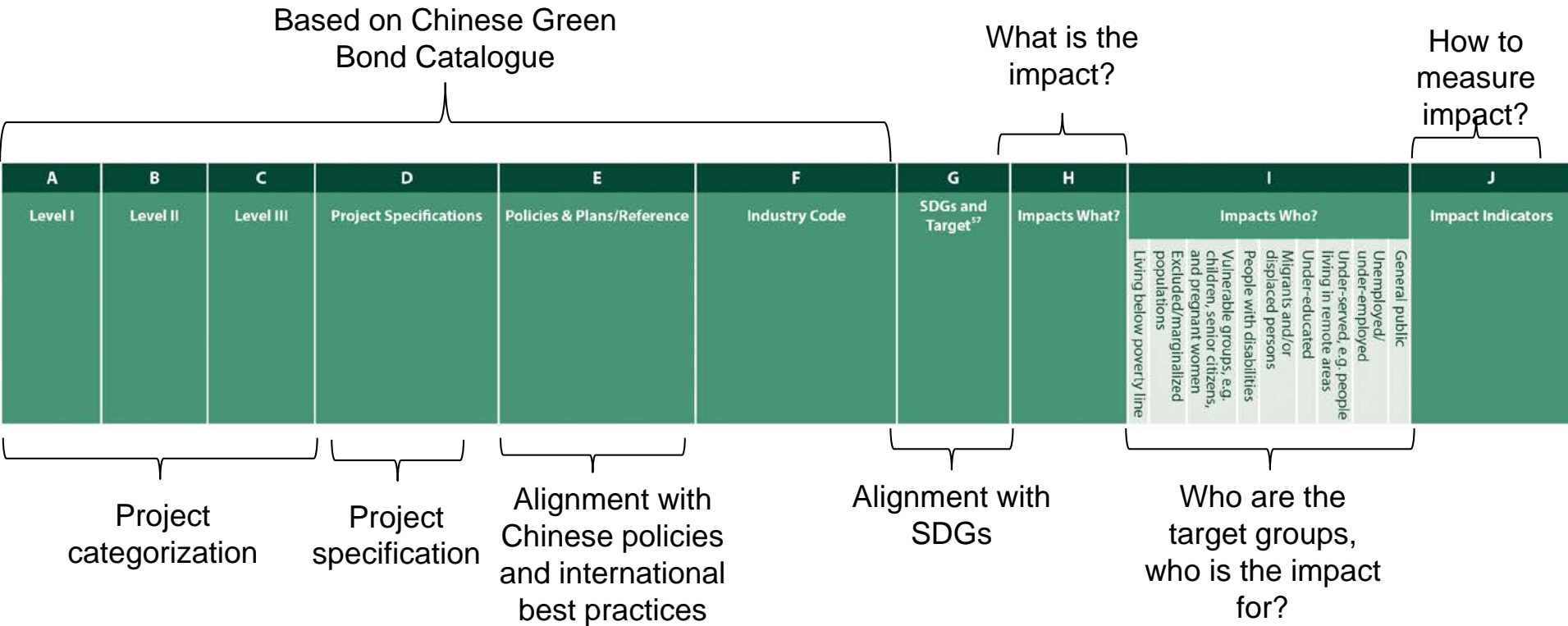
Catalogue breakdown are based on the ICMA Social Bond Principles
Half of the structure is lent from the practice of Chinese Green Bond Catalogue



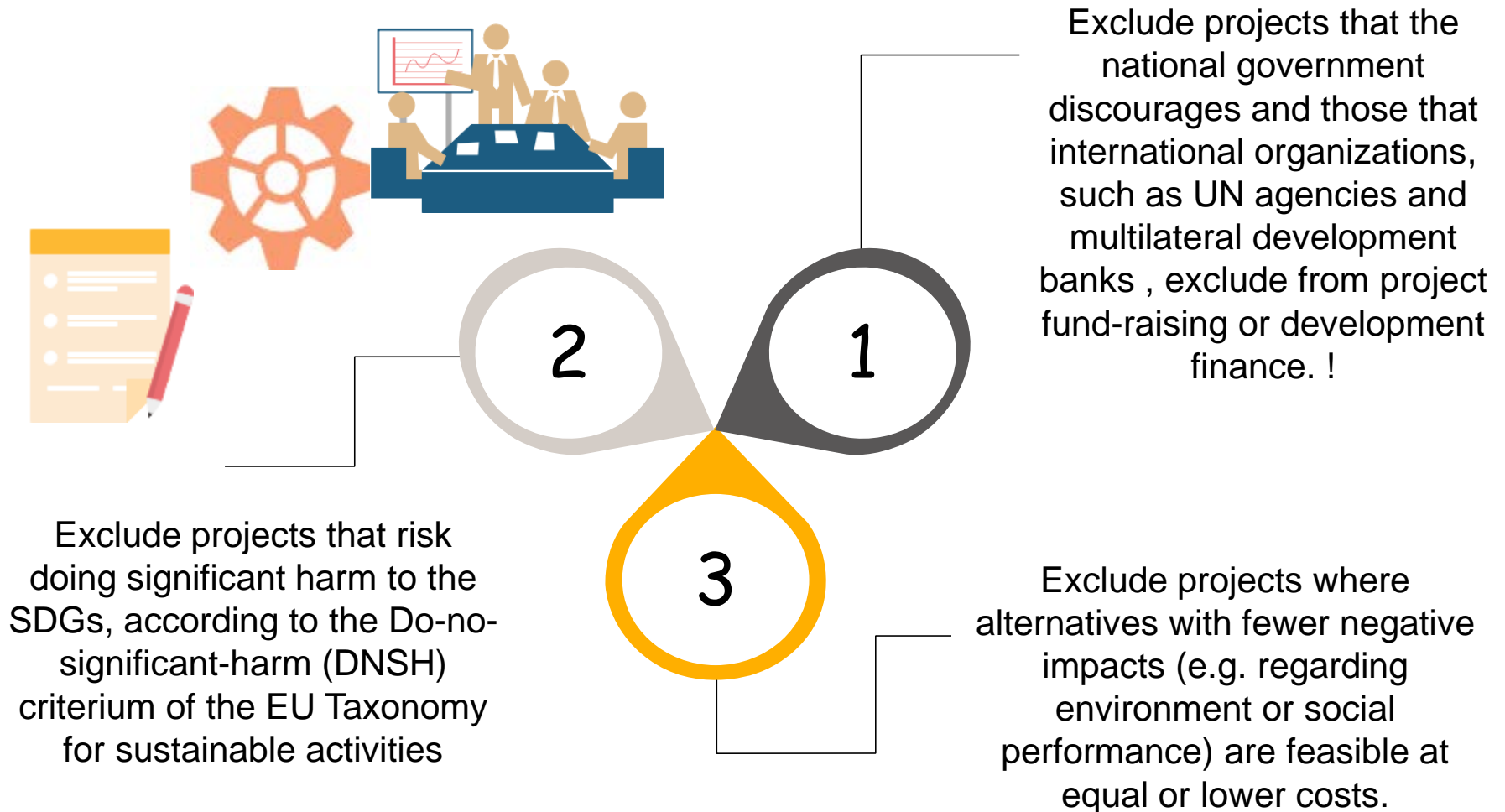
The Taxonomy specifies the most essential SDG targets that each project must contribute to



Example of SDG Finance Taxonomy

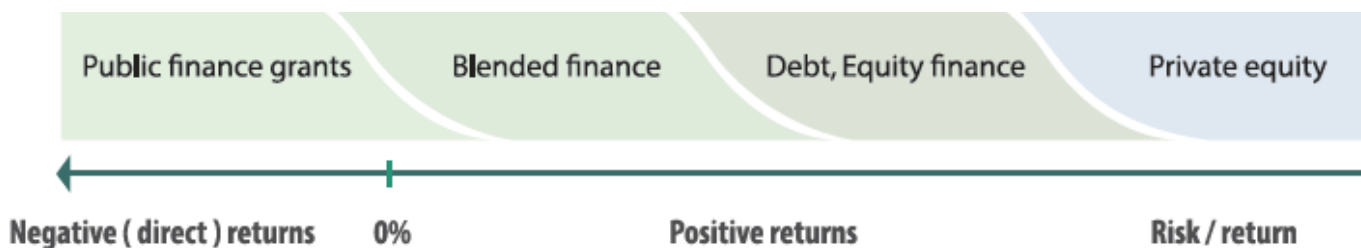


Quality assurance through inclusion and exclusion



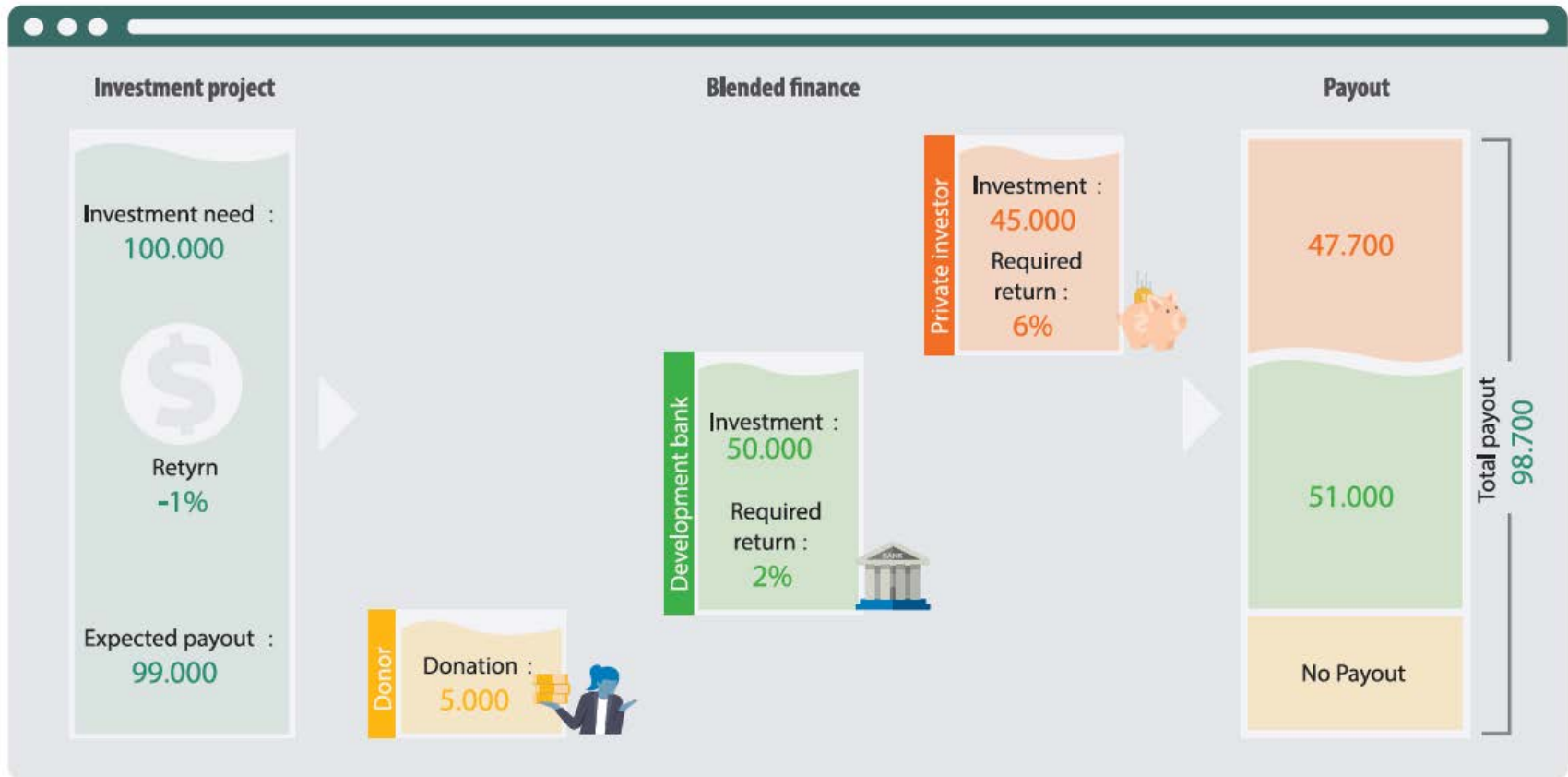
Financing options for SDG projects

Example	Application and description	Special forms of instrument relevant to the SDGs
Loan	Used when a borrower requires a fixed amount of money, mostly from a commercial bank	Green loan, impact-linked loans (where the interest rate depends on the impact performance)
Credit	Used when the borrower requires a more flexible credit e.g. from a commercial bank	Green credit, social credit, impact-linked credit
Bond	Used often when the borrower (issuer of the bond) needs a large amount of money and can go to the bond-market to raise money from many investors. The bond has a fixed return to investors (coupon) and a usually fixed repayment date. The investors can often buy and sell these bonds again on the market without affecting the issuer of the bond.	Green bonds, blue bonds, social impact bonds, Islamic bonds, diaspora bonds, transition bonds, impact-linked bonds
Equity	Often used to raise money for a company or project (e.g. through special purpose vehicles or SPVs), where investor(s) take ownership in the company/SPV. Equity usually does not have a fixed return nor a fixed repayment date. Equity can be tradable (e.g. company stock on stock markets), but also non-tradable (e.g. private equity).	Impact finance, crowdfunding
Funds	Used to pool assets (e.g. equity, bonds) to reduce risk of any single asset.	Impact funds, crowdfunding, development funds
Crypto-based investment	Using digital currencies and contracts with the possibility to integrate a variety of fund-raising and fund-management functions	Integration of smart contracting (e.g. impact requirement) and covenants for the disbursement of funds and the repayment of investments.



SDG Finance requires projects to be revenue-generating. SDG can be profitable – or NOT

Blended Finance



OECD: „Blended finance is the strategic use of development finance for the mobilization of additional finance towards sustainable development in developing countries“

Who should use the taxonomy



Financial institutions
that are interested in providing finance through financial instruments to project developers aligned with the SDGs



Businesses
interested in incorporating the impact management framework into production processes to align with SDGs



Policy makers
intending to mobilize funding to invest in industries and areas aligned with sustainable development

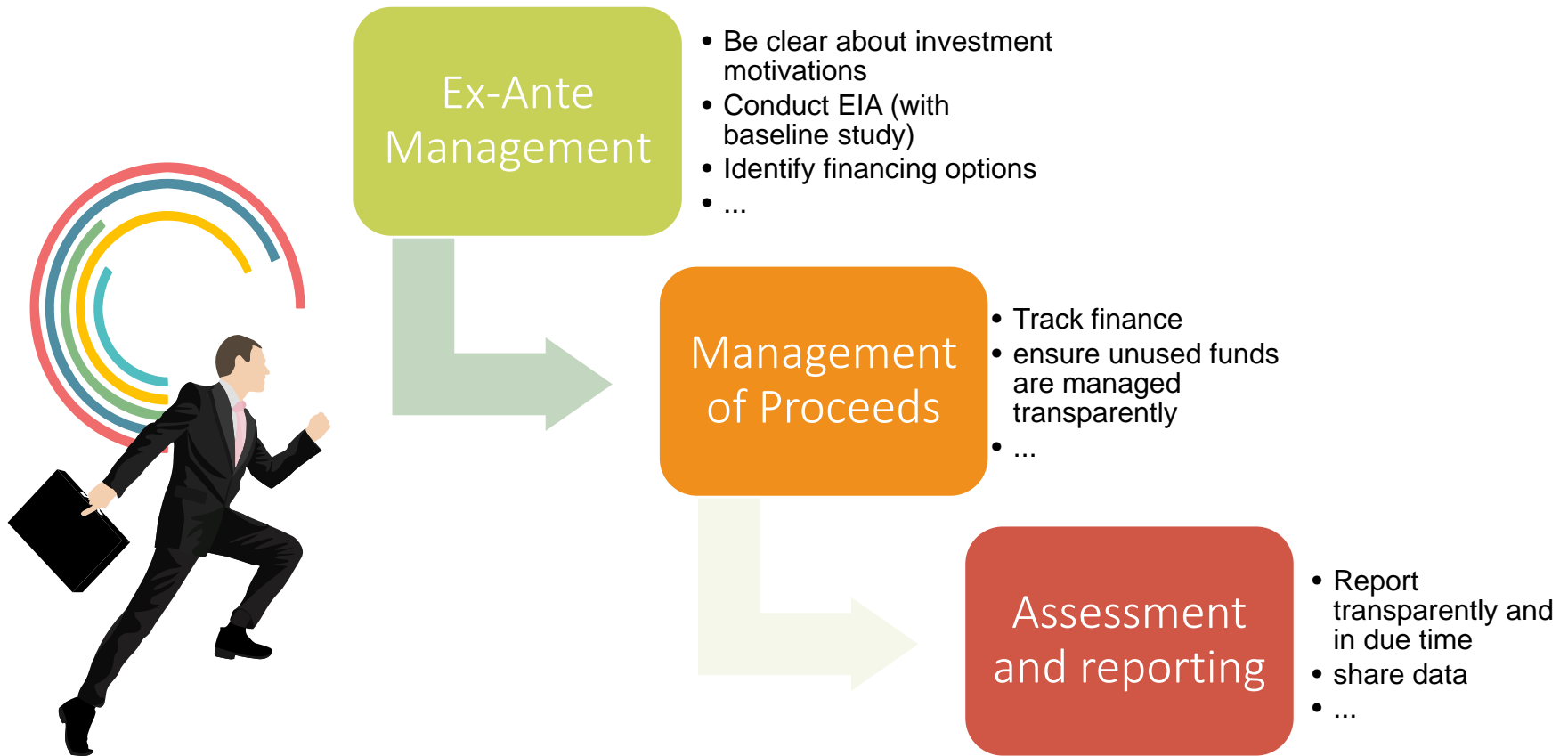


Industry bodies and communities
that are seeking consistent language of SDG-enabling finance; promoting confidence in SDG finance



Analysts and intermediaries
assessing and verifying the SDG impact of finance, and mainstreaming guidance on impact measurement management

How to apply the Taxonomy



A silhouette of a person standing on a boat, looking out over a vast, sunlit landscape with a cloudy sky and a body of water. The person is on the right side of the frame, with their back to the camera, looking towards the horizon. The sky is filled with soft, white clouds, and the sun is visible in the upper left corner, creating a bright glow and lens flare. The water in the foreground is dark, and the land in the distance is covered in low-lying vegetation.

Next steps

Source: <https://www.biodiversityfinance.net/#>

Next steps

Pilot SDG Finance taxonomy in China

Get more public feedback from international and Chinese partners

Mainstream the initiative through exchanges and training

Advocate incentive mechanisms through policy dialogues

Continuous improvement of the Taxonomy to keep it innovative and forward-looking

