

Graphic Adopted: UN Global Compact

1. Development Financing Landscape

The Sustainable Development Goals have fundamentally changed the development financing landscape. Key amongst these shifts is the recognition that financing the US\$5-7 trillion global investment required annually to achieve the SDGs¹ will require new sources of financing and new innovative financing instruments.

New sources of financing include emerging development partners, new development finance institutions, public-private 'single issue' vertical funds, philanthropic organizations, venture capital, and private 'impact' investors for development.

Examples of new and existing innovative financing instruments include blended finance (where concessional public finance is blended with non-concessional public or private finance); SDG, green and blue bonds issued for the financing of sustainable development; Islamic financing instruments (such as Islamic bonds or sukuk); guarantee schemes designed to reduce/share risk; impact investment

¹ https://stats.unctad.org/Dgff2016/partnership/goal17/target_17_5.html

aiming to generate positive social or environmental returns in addition to a financial return; social impact bonds (a form of payment for results scheme); countercyclical loan contracts (where debt service automatically falls when a major shock occurs); weather and disaster insurance schemes, and more.²

2. SDG Aligned Investment Landscape in China

China has attached great importance to implementation of the 2030 Agenda. Incorporating with its national development strategy, China is pursuing innovative and green development, and has prioritized key areas in *China's National Plan on Implementation of the 2030 Agenda for Sustainable Development*, including eradicating poverty, transitioning to low-carbon growth, advancing coordinated urban-rural development, and improving public services.

China has been greening its financial system since 2015. Seven ministries including the Central Bank jointly released the *Guidelines for Establishing the Green Financial*

² https://www.undp.org/content/dam/undp/library/Sustainable%20Development/2030%20Agenda/Financing_the_2030_Agenda_CO_Guidebook.pdf

System, setting out, for the first time, the official definition of green finance, incentives, disclosure requirements, and risk mitigation.

Since the Green Finance Committee of the China Society for Finance and Banking (GFC) was formed to promote green finance in late 2016, China has made marked progress in areas of green financial products, institutions, R&D of standards, capacity building and has been playing an increasingly important role in leading international green finance cooperation.³

Its green bond market has been growing at an impressive pace, with annual total issuance passing 31 billion U.S. dollars in 2018,⁴ representing the lion's share of the global market.

China also has a thriving private sector and High Net Worth Individuals interested in impact investing. China has the second most billionaires, at 285, with their total wealth reaching \$996 billion in 2018, while the United States had 705 billionaires, the highest, with a total net worth of \$3.013 trillion⁵. The top 100 philanthropists made a total of US\$ 3.3 billion of public donations domestically.⁶ **China's Charity Law went into force on September 1, 2016,**⁷ thereby laying out the legal foundation for the development of the philanthropy sector. The Charity Law contributes to the development of meaningful philanthropy in China, shaping the sector to be a key new source in achieving the 2030 Agenda for Sustainable Development.

In addition, a poverty relief fund backed by State-owned Assets Supervision and Administration Commission (SASAC) and central SOEs, as public-private partnerships, has attracted 2.2 billion USD in capital in 2017.⁸

Now, China Securities Regulatory Commission (CSRC), in collaboration with China's Ministry of Ecology and Environment, has introduced new requirements that, by 2020, all listed companies and bond issuers must fully disclose data related to Environmental Social and Governance factors (ESG).⁹

3. Challenges to Mobilize Greater Volumes of SDG Finance

There are three key barriers to mobilize greater volumes of SDG aligned financing, which is not unique to China.

First, there is a lack of incentives for financing SDGs focused on inequality, poverty and last mile issues. As indicated above there are efforts focused on green financing to address environmental protection and climate change in China, however, the vast potential on SDG financing is untapped and. For instance, poverty reduction, migration from rural areas to urban centres, health and education, affordable housing etc., all require massive investment of at least USD 11 trillion investment

during the 13th Five-year Plan Period from 2016 - 2020, which is equivalent to the Chinese GDP in 2015.¹⁰

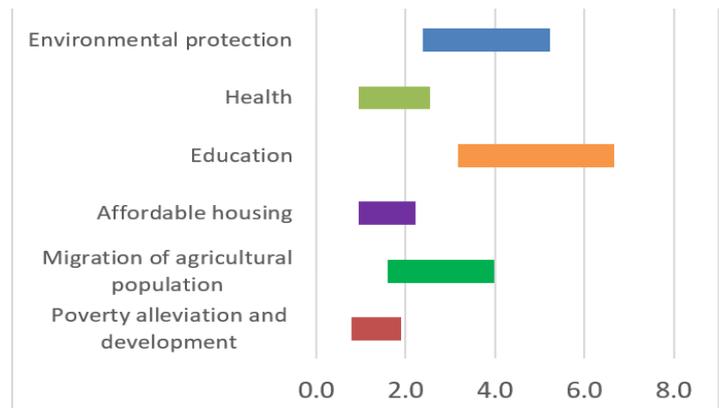


Figure 1 Investment Needs Distribution for Sustainable Development during the 13th Five-year Plan Period in China (trillion USD)

Second, there is a lack of conceptual clarity on SDG aligned financing and short supply of proven financial instruments that could contribute to social, environmental and economic benefits, and at the same time provide financial returns. This is despite the research pointing to the opportunities; for example, an estimated \$2.3 trillion worth of business opportunities in China would be opened for the private sector if it delivers the SDGs.¹¹

Third, is the absence of collectively accepted standards for measuring the SDG impact of an SDG aligned financing. This has led to proliferation of financial instruments that are claiming to have SDG impact and are using (sometimes abusing) the SDG branding without proper verification.

4. UNDP's Contributions

In November 2018, UNDP China and the China International Center for Economic and Technical Exchanges (CICETE), under Ministry of Commerce joined forces to establish a **Policy Research and Dialogue Platform on SDG financing in China.**

The SDG financing platform is focused on convening stakeholders best positioned to integrate SDGs as global standards into financing instruments, and into financing and investment decisions, as well as to accelerate and deepen the transformation of financial systems to be SDG aligned.

An increasing number of financial actors and key investors are welcoming the Standards being developed to qualify sustainable development investments and redirect financial flows to SDG financing. Following is an update on the progress and next steps:

- **Established a Platform for Stakeholder Collaboration**

³ Establishing China's Green Financial System: Progress Report 2017, UNEP

⁴ <https://www.huanbao-world.com/green/ljqr/81655.html>, Green Bond Research, China Rating

⁵ <http://www.chinadaily.com.cn/a/201905/10/WS5cd513b3a3104842260bafd4.html>

⁶ 2018 Hurun Philanthropy List

⁷ Handbook of Charity Law of the People's Republic of China, UNDP, 2018

⁸ http://www.xinhuanet.com/english/201805/21/c_137195381.htm

⁹ China Mandates ESG Disclosures for Listed Companies and Bond Issuers <https://www.globalelr.com/2018/02/china-mandates-esg-disclosures-for-listed-companies-and-bond-issuers/>

¹⁰ China Social Impact Investment Report 2016 China Development Research Foundation China Social Entrepreneur Foundation

¹¹ Business and Sustainable Development Coalition, Better Business, Better World, Asia, 2017.

UNDP has convened an inclusive space for policy makers, financial institutions, corporates, venture capitalists, international standard setters, academia and civil society to contribute their expertise on SDG financing. The platform also facilitates coordination between public organizations and private institutions and promotes policy making and advocacy.

The Platform includes but is not limited to Public-Private Partnership Center of Ministry of Finance, China Green Finance Committee, Shenzhen Municipal Finance Bureau, China Alliance of Social Value Investment, Ernst and Young, Narada Foundation, International Capital Market Association, UN Habitat, UNCDF, Climate Bonds Initiative, China Academy of Social Science, China Academy of Science, Central University of Finance and Economics.

- **Promote Digital Finance and Technology Exchange**

The platform is conducting research of existing standards and metrics on SDG financing, including green bonds, social bonds and sustainability bonds. The creating of the SDG Financing Standard is being led by the members of the platform, covering six thematic development areas: basic infrastructure, essential services, affordable housing, employment generation, food security, and socioeconomic empowerment and advancement.

The State Council approved three Innovation Demonstration Zones for the Implementation of the 2030 Agenda - Taiyuan, Guilin and Shenzhen. It aims to form replicable and promotable concrete examples of realizing sustainable development. The platform intends to leverage the national SDG innovation pilot zones as test grounds for experimentation and adoption of the Standard.

- **Analysis on SDG Financial Flows**

Context analysis is an important step to better recommend aligning resources with the 2030 Agenda. The analysis should at least focus on mapping of national macro-economy and fiscal capacity, domestic and external public/private finance in different development issues, national policies in the development finance and strategies to attract private financing including institutions with key responsibilities in the financial decision-making cycle. The platform will undertake further research and analysis on SDG financing flows.

- **New Frontiers of Philanthropic Finance for SDGs**

Philanthropy has the potential to become a key part of SDG financing in China. UNDP has analysed 5,545 Chinese foundations' and 83,038 charitable projects that tackle issues related to the SDGs. It comprehensively depicts the distribution and contribution of China's philanthropic actors to the 17 SDGs, as well as highlights the philanthropic sector's great potential to further achieve the SDGs in China.¹²

In line with the SDG Impact Measurement, the Platform will identify how Chinese philanthropic financiers has enriched

new financial instruments such as Internet fundraising, charitable trusts, corporate donations, impact investment, etc. as sustainable solutions to development issues; and how philanthropy can forge public-private partnerships aimed at marshalling and deploying public, private and philanthropic capital through a shared strategy.

In addition, the Philanthropic Finance Pillar will continue helping to identify the development status of philanthropic finance, especially including impact investing in China, support practitioners to enhance their database and various data visualization tools and provide in-depth data analysis.

Digital finance and technology encompass a magnitude of new financial products, financial businesses, finance-related software, and novel forms of customer communication and interaction; these are delivered by FinTech companies and innovative financial service providers¹³ which can support and accelerate the unlocking of both public and private capital for the SDGs.

It has the potential to provide access to financial services for 1.6 billion people in emerging economies, more than half of them women.¹⁴ It also provides convenient access to diverse range of financial products and services (and credit facilities) for individuals as well as small, medium and large businesses which can increase the GDP of all emerging economies by 6 percent, or \$3.7 trillion, by 2025. This additional GDP could lead to the creation of up to 95 million jobs across all sectors.¹⁵

UNDP is building relationships with key institutions in China engaged in FinTech and Inclusive Finance to strengthen innovation for development, and global cross-country collaboration for promoting technology transfer, learning and Sharing; pooling the expertise; and building partnerships for unlocking both domestic and international capital that would be of benefit and addressing the issue of poverty reduction across different sectors.

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¹² UNDP (2017), Philanthropy for Sustainable Development in China

¹³ Gomber, P., Koch, J. A., & Siering, M. (2017). Digital finance and FinTech: Current research and future research directions. *Journal of Business Economics*, 67(5), 537-580.

¹⁴ Digital finance for all: powering inclusive growth in emerging economies, Septmeber2016 McKinney Global Institute,

¹⁵ Digital finance for all: powering inclusive growth in emerging economies, Septmeber2016 McKinney Global Institute,