



Central Bank and Development Financial Institution Approaches to Investing in Global Systems

An extension to *Tipping Points 2016*

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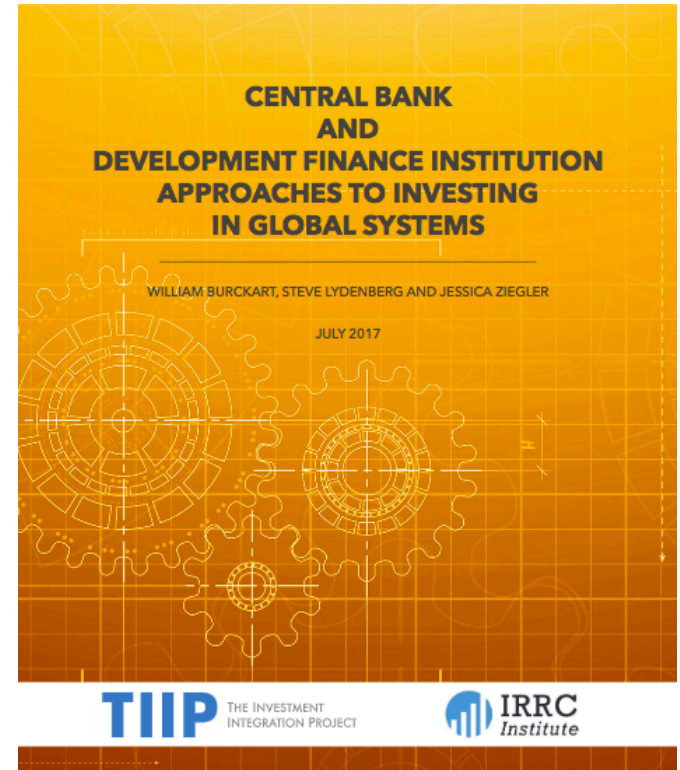
Steve Lydenberg
Founder and CEO
TIIP

Jon Lukomnik
Executive Director
IRRC Institute

William Burckart
President and COO
TIIP

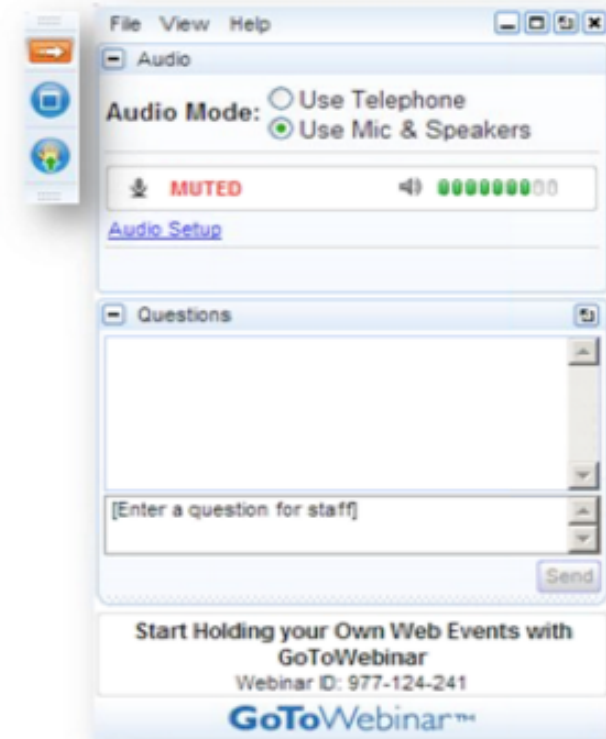
Agenda

- Logistics and Introductions
- Research Review
- IRRC Institute Perspective
- Q&A



Webinar Logistics

- Attendees are in listen only mode.
- But, questions are encouraged; enter your questions using “Question” function.
- Session recording, replay will be posted at www.irrcinstitute.org.
- Join us on social media:
@IRRCResearch and @TIIP_Insights
- Audio issues during webinar?
Contact GoToWebinar @ 1-800-263-6317.



Speakers



William Burckart, President and COO
The Investment Integration Project (TIIP)



Steve Lydenberg, Founder and CEO
The Investment Integration Project (TIIP)



Jon Lukomnik, Executive Director
Investor Responsibility Research Center Institute (IRRCi)

The IRRC Institute

- Not-for-profit established in 2005.
- Funds and disseminates objective, unbiased research on a range of issues at the intersection of corporate responsibility and investors informational needs.
- Funds academic and practitioner research.
- Offers two \$10K research awards annually – **deadline October 6, 2017.**
- More than 60 research reports available at no charge.



TIIP - The Investment Integration Project

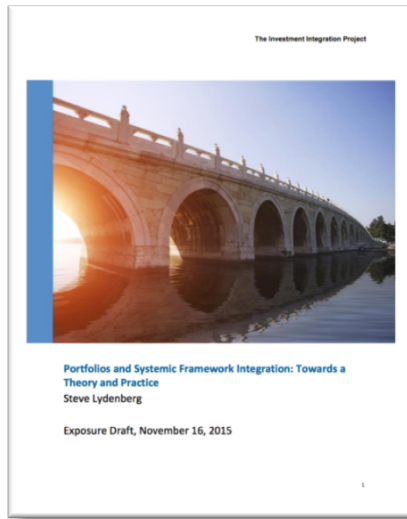
- Established in 2015.
- Focused on **asset owners** and **asset managers**.
- **Designs, provides and maintains data and tools** that enable institutional investors to make the important connection between their portfolio-level decisions and environmental, societal, and financial system-level considerations.
- TIIP's research portal and database of investor profiles, market analysis, practical guidance, and customized solutions **provides a way to better match investors, benchmark system-level strategies, and optimize program development.**



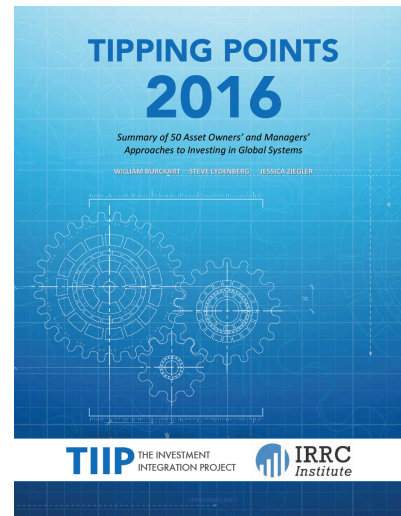
TIIP - Theoretical Groundwork and Practical Guidance

TIIP's growing body of research reports covers the basics of systems-level investing but also provides more advanced guidance about, for example, selecting relevant issues of focus or adopting systems-level approaches.

Portfolio and Systemic Framework Integration: Towards a Theory and Practice



TIPPING POINTS 2016: Summary of 50 Asset Owners' and Managers' Approaches to Integrating Global Systems



Systems-Level Considerations and the Long-Term Investor: Definitions, Examples, and Actions



Investing in the New industrial (R)evolution: Insights for asset owners and managers financing the circular economy

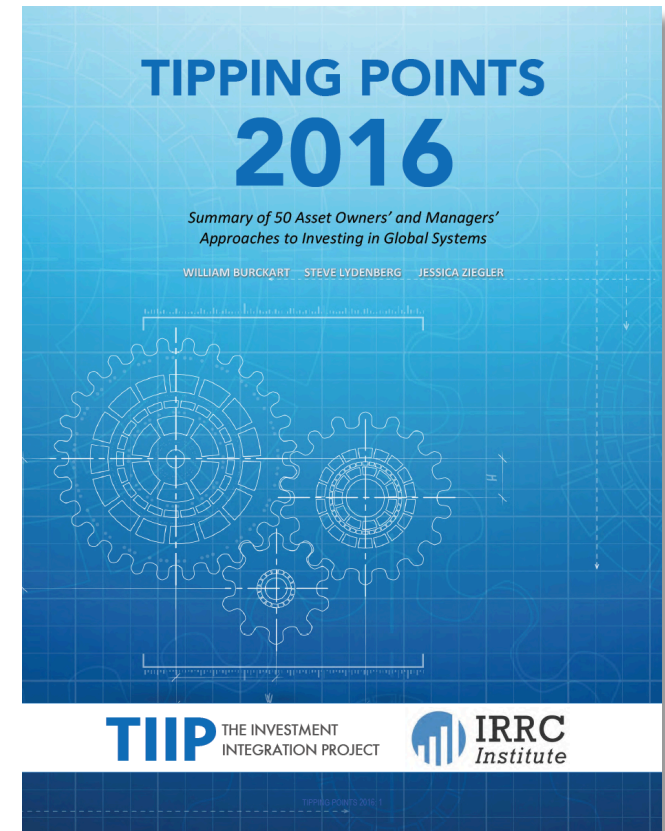


Central Bank and Development Finance Institution Approaches to Investing in Global Systems:

An extension to the *Tipping Points 2016* analysis of
50 asset owners' and managers' approaches to
investing in global systems

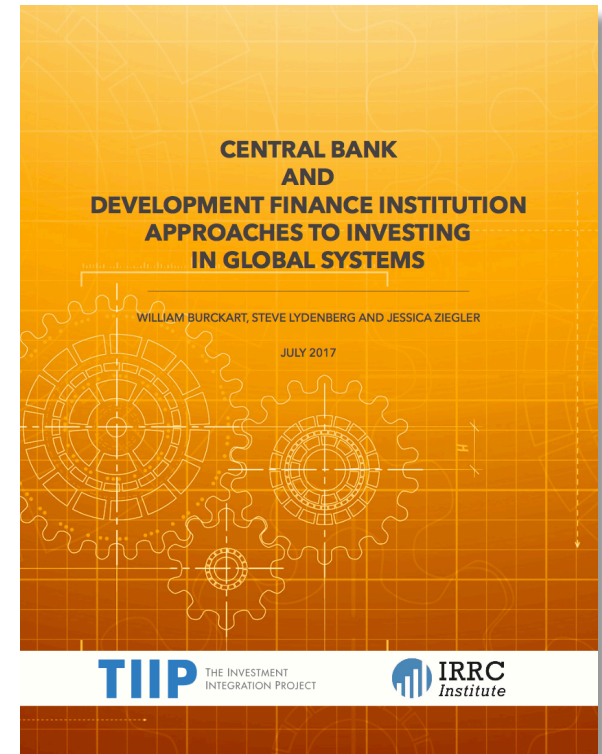
Highlights from Tipping Points 2016

- This state of the industry report documents the scope and variety of systems-level and related approaches undertaken by 50 asset owners and managers.
- It describes the activities these investors have executed, the tools they have used, the progress they have made and what research and support is necessary for further progress. It includes profiles of the specific policies and practices of these asset owners and managers that detail the tactics adopted by individual organizations and the variety of best practices that are being developed.
- This report gives form to “The Ten Tools of Intentionality,” the actual strategies that investors utilize to bridge the gap between what is happening within their portfolios and what occurs in the outside world.



Highlights from Extension Analysis

- The new study examines six central banks (including two U.S. Federal Reserve System regional banks), seven DFIs, and one microfinance bank, all of which are known to be incorporating environmental, societal, or financial systems-level considerations into their programs.
- The report identifies five “on ramp” activities that these financial institutions use to address systems-level risks and rewards, and its suggests parallels to how long-term investors attempt to manage systemic risks.
- The analysis suggests that investors could learn from how the central banks and development finance institutions approach systemic risk issues.



Investors Included in the Report

➤ Central Banks:



BANK OF ENGLAND



EUROSYSTEM



FEDERAL RESERVE BANK
OF SAN FRANCISCO



中国人民银行
THE PEOPLE'S BANK OF CHINA



FEDERAL RESERVE
BANK OF BOSTON™

➤ Development Finance Institutions:



IFAD
INTERNATIONAL
FUND FOR
AGRICULTURAL
DEVELOPMENT



Grameen Bank



European
Investment
Bank



IDB

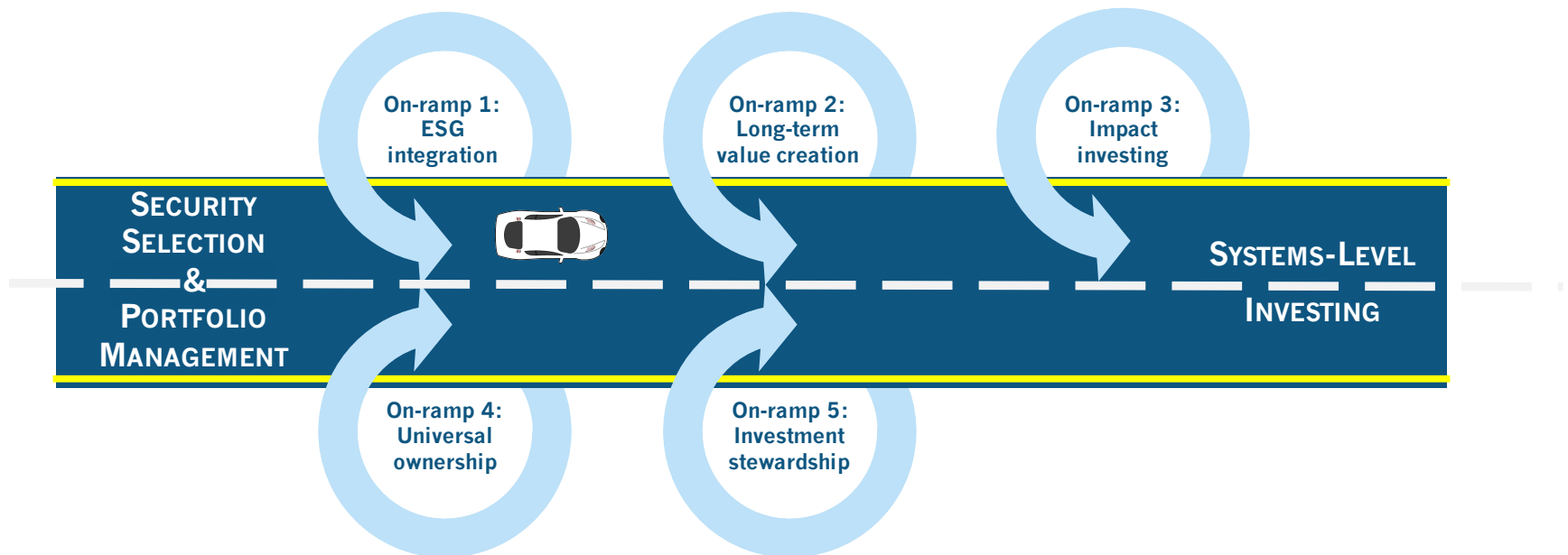
Inter-American Development Bank



Key Finding #1:
Five “on-ramps”
to systems-level investing

Highlights from Tipping Points 2016

In *Tipping Points 2016*, TIIP identified a range of “on-ramps” that indicate investors’ increasing concern about systems-level issues. **These include: environmental, social, and governance (ESG) integration, long-term value creation, impact investing, investment stewardship, and universal ownership.**



On-Ramps to Systems Thinking: **Takeaways**

- There are a number of “on-ramps” that indicate institutional investors’ increasing concern about systems-level issues. **These include: environmental, social, and governance (ESG) integration, long-term value creation, impact investing, investment stewardship, and universal ownership.**
- Central banks’ and DFIs’ pursue on-ramps slightly differently. **They include: environmental and social risk assessment, engaging in long-term prosperity protection, impact measurement, financial system stewardship, and universal cooperation.**
- Though different in many ways, these on-ramps are similar in intent to those used by institutional investors as they consider and manage their impacts on environmental, societal, and financial systems and consider those systems’ impacts on their portfolios of projects and investments.

On-Ramps to Systems-Level Investing

On-Ramps

- **Environmental & social risk assessment**

Long-term prosperity protection

Impact measurement

Financial systems stewardship

Universal cooperation

Identification, definition, and quantification of issues that are potential sources of environmental or social disruption or, conversely, that benefit these systems—and the identification of the populations, industries, or ecosystems that are or stand to be most impacted by these issues.



BANK OF ENGLAND

On-Ramps to Systems Thinking

On-Ramps

Environmental & social risk assessment

➤ **Long-term prosperity protection**

Impact measurement

Financial systems stewardship

Universal cooperation

Focus on the enduring long-term health of the systems within which central banks and DFIs operate. Viewed as vital to protecting lasting prosperity in the regions in which they operate and the fulfilling of this role.



Inter-American Development Bank

On-Ramps to Systems Thinking

On-Ramps

**Environmental & social
risk assessment**

**Long-term prosperity
protection**

➤ **Impact
measurement**

**Financial systems
stewardship**

Universal cooperation

Specifying, evaluating and reporting on social and environmental factors throughout the investment process along the dimensions of various impact evaluation frameworks.



On-Ramps to Systems Thinking

On-Ramps

Environmental & social risk assessment

Long-term prosperity protection

Impact measurement

➤ **Financial systems stewardship**

Universal cooperation

Acting to protect and enhance financial systems over the long-term by encouraging, among other things, behavior that supports the prioritization by investors of positive systems-level societal and environmental considerations in their decision-making.



BANK OF ENGLAND



中国人民银行
THE PEOPLE'S BANK OF CHINA

DeNederlandscheBank

EUROSYSTEEM

On-Ramps to Systems Thinking

On-Ramps

Environmental & social risk assessment

Long-term prosperity protection

Impact measurement

Financial systems stewardship

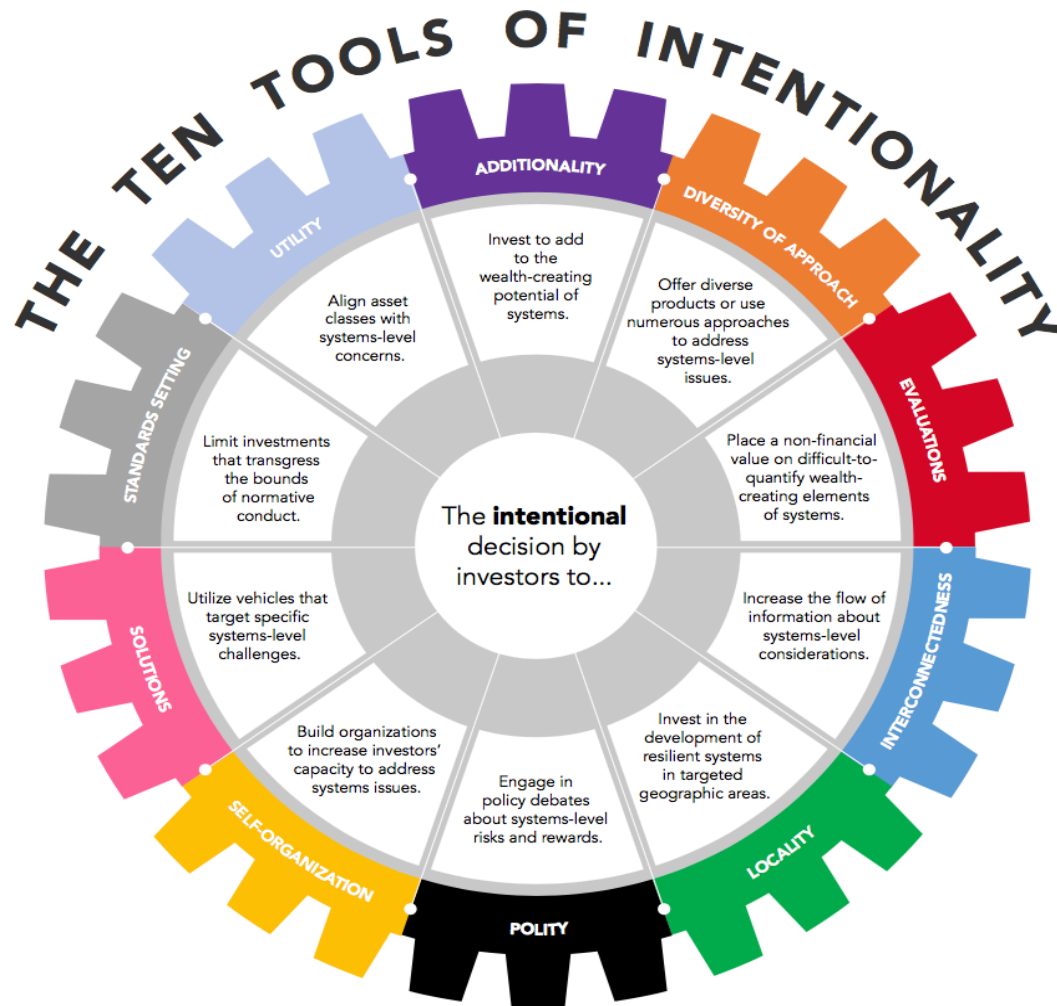
➤ **Universal cooperation**

Considerations of the need for international cooperation among the nations that they serve and prioritizing consensus across corresponding regions and economies.



Key Finding #2: The 10 Tools of Intentionality

10 Tools of Intentionality



10 Tools of Intentionality: Takeaways

- Central banks and DFIs are naturally inclined to take systems-level considerations into account.
- For central banks, this means using those tools through which—broadly speaking—they can leverage their relationships with policymakers (**Polity**) and their experience conducting research, disseminating information, and convening industry peers (**Interconnectedness** and **Self-Organization**).
- For DFIs, it means using those tools that complement their historical role of conducting research to inform development and capacity-building efforts (**Interconnectedness**), and those tools that leverage their influence over individual enterprises and industry sectors (**Standards Setting**). They also use tools that align with their commitment to augmenting (rather than duplicating) economic growth and poverty alleviation efforts already underway (**Additionality**) and to identifying and creating new and innovative approaches to development financing (**Solutions**).

10 Tools of Intentionality: **Additionality**

10 Tools of Intentionality

➤ **Additionality**

Locality

Solutions

Standards Setting

Polity

Diversity of Approach

Self-Organization

Interconnectedness

Evaluations

Utility

Intentionally strengthen often neglected elements of overarching systems; through investments in neglected elements of overarching systems and investments that would otherwise not be made.



10 Tools of Intentionality: Solutions

10 Tools of Intentionality

Additionality

Locality

➤ Solutions

Standards Setting

Polity

Diversity of Approach

Self-Organization

Interconnectedness

Evaluations

Utility

Intentionally seek to create investment vehicles that target particular social and environmental problems of substantial systemic importance.



10 Tools of Intentionality: Self-Organization

10 Tools of Intentionality

Additionality

Locality

Solutions

Standards Setting

Polity

Diversity of Approach

➤ Self-Organization

Interconnectedness

Evaluations

Utility

Intentionally allocate resources to the development and maintenance of tools that will facilitate impact on systems-level considerations.

DeNederlandscheBank

EUROSYSTEM

10 Tools of Intentionality: **Interconnectedness**

10 Tools of Intentionality

Additionality

Locality

Solutions

Standards Setting

Polity

Diversity of Approach

Self-Organization

➤ **Interconnectedness**

Evaluations

Utility

Intentionally increasing the information flows among peers relevant to environmental and societal systems-level considerations.



FEDERAL RESERVE BANK
OF SAN FRANCISCO

Key Finding #3:

Impact Monitoring and Reporting

Impact Monitoring and Reporting: MfDR

Many profiled DFIs have adopted the Managing for Development Results (MfDR) framework to systematically plan for, monitor, and evaluate development progress.

BOX 3.1. THE MfDR RESULTS CHAIN

Inputs	Activities	Outputs	Outcomes	Impact
<i>The financial, human and material resources necessary to produce the intended results of a project</i>	<i>Actions taken or work performed in a project to produce a specific output by using inputs such as funds, technical assistance and other types of resources</i>	<i>Tangible immediate results that are produced through the implementation of activities</i> What did the project do?	<i>Short-term and medium-term effects of a project's outputs</i> How well did the project do what it did? Did it change behaviors as intended?	<i>Long-term positive and negative effects produced by a project</i> What is the effect of the project over time?

Source: Interpretation of results chain description provided in: International Fund for Agricultural Development. *Results and Impact Management System: RIMS First- and Second-Level Results Handbook*. Rome, Italy: December 2017.

Recap: Overall Takeaways

- First, lessons that may prove useful to institutional investors for assessing portfolio-level impacts and ways to measure and report on progress at systems levels have emerged from the use by DFIs of the Managing for Development Results (MfDR) framework and independent evaluations.
 - **These breakthroughs could provide a blueprint (or influence the emergence of other efforts such as those being fostered by impact investors) for institutional investors to systematically plan for, monitor, and evaluate systems-level progress.**
- Second, consistent with their missions, central banks and DFIs exhibit a clearer focus than institutional investors on using the tools of intentionality in ways that complement their experience, strengths, and influence.
 - **Given that not every tool is applicable to every investor—or relevant in every context—tighter alignment between the capacities of institutional investors and their use of the tools of intentionality could lead to greater effectiveness in how investors ultimately effect systems-level issues.**

From the IRRCi Perspective

- Investors obviously pay attention to what central banks and development banks do.
 - But most of that interest focuses on their impact on short-term market dynamics: interest rates, credit availability, bi-lateral trade facilitation.
- As many institutional investors begin to focus on long-term investment and on environmental, social and governance systemic issues, understanding how these mission-driven powerful institutions think about systemic risk becomes more important. And could be instructive.

From the IRRCi Perspective

- As the report reveals, central banks and development banks use a variety of tools to intentionally address, and attempt to mitigate, financial, environmental and social systemic risk.
 - Not only should investors understand these activities so as to better understand the potential long-term impact of central banks and development banks, investors they can learn from them, and potentially adapt them to their own needs.
 - Perhaps the most interesting finding is how central banks and development banks attempt to measure their impact. This is pertinent and a hot topic right now for many large institutional investors.



Contacts

Jon Lukomnik
Executive Director
IRRCi
1.646.512.5807
jon@irrcinstitute.org
[@irrcresearch](mailto:jon@irrcresearch)
www.irrcinstitute.org

William Burckart
President & COO
TIIP
561.427.4971
wburckart@TIIPProject.com
[@TIIP_Insights](https://www.tiipinsights.com)
www.TIIPProject.com

Steve Lydenberg
Founder and CEO
TIIP
646-902-4511
slydenberg@TIIPProject.com
[@TIIP_Insights](https://www.tiipinsights.com)
www.TIIPProject.com