

CENTRAL BANK AND DEVELOPMENT FINANCE INSTITUTION APPROACHES TO INVESTING IN GLOBAL SYSTEMS

WILLIAM BURCKART, STEVE LYDENBERG AND JESSICA ZIEGLER

JULY 2017

TIIP THE INVESTMENT
INTEGRATION PROJECT

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DISCLOSURES

Support for The Investment Integration Project (TIIP) research was provided by the Investor Responsibility Research Center Institute (IRRCi).

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Mr. Burckart, the President and COO of TIIP, also serves as a Visiting Scholar to the Center for Community Development at the Federal Reserve Bank of San Francisco. Mr. Burckart has received compensation from this role. Visiting Scholars engage with Community Development department staff to share experiences and best practices from the field, advise current and proposed initiatives, and present their research to community development stakeholders. Mr. Burckart did participate in the preparation of the TIIP profile regarding the Federal Reserve Bank of San Francisco.

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EXECUTIVE SUMMARY

The global financial community is increasingly concerned with how the health of the environmental, societal and financial systems within which they operate impacts their portfolios and vice versa.

In the report *Tipping Points 2016: Summary of 50 Asset Owners' and Managers' Approaches to Investing in Global Systems*, TIIP explored how institutional investors are operationalizing these concerns and integrating systems-level considerations into their investment practices and approaches. Central banks and development finance institutions (DFIs) were largely omitted from that analysis, but recent actions and statements by central banks and DFIs indicate that they too are incorporating systems-level thinking into their work. They contend that concern for systems-level issues aligns closely with central bank mandates to stabilize financial systems, catalyze entire economies, set monetary policy, and manage interest rates and money supply, and with DFI missions to generate economic growth and alleviate poverty through investing in the private sector in emerging markets.

TIIP has therefore developed this extension to the *Tipping Points 2016* analysis to examine how central banks and DFIs incorporate environmental, societal, and financial systems-level thinking into their activities and, ultimately, determine how their approaches could influence institutional investors.

Like institutional investors, central bank and DFI approaches seek to manage risks and rewards at environmental, societal and financial systems levels. Among those systems-level issues of highest concern—and which relate most directly to central bank and DFI missions and mandates—are climate change and economic inclusion.

As this concern has grown, central banks and DFIs have incorporated a number of “on-ramp” activities to bring attention to and address systems-level risks and rewards:

- **Environmental and social risk assessment.** The identification, definition, and quantification of issues that are potential sources of economic instability, social unrest, or environmental disruption.

- **Long-term prosperity protection.** Focusing on the enduring long-term health of the systems within which they operate, which is vital to protecting lasting prosperity.
- **Impact measurement.** Specifying, evaluating and reporting on social and environmental factors throughout the investment process along the dimensions of various impact evaluation frameworks.
- **Financial systems stewardship.** Protecting and enhancing financial systems over the long-term by encouraging behavior that supports the prioritization by investors of positive systems-level societal and environmental considerations in their decision-making.
- **Universal cooperation.** Consideration of the need for cooperation among nations that they serve in their policies and practices as they build consensus across regions, economies, and countries.

Beyond these activities, many central banks and DFIs have also adopted numerous of the Ten Tools of Intentionality, first introduced by TIIP in *Tipping Points 2016*. Management of environmental, societal, and financial systems-level risks and rewards does not typically happen as an unintended consequence of daily investment practice. It occurs when investors *actively pursue* strategies that allow them to produce impact at these levels. TIIP identified ten such strategies used by institutional investors, all ten of which at least one of the central banks or DFIs profiled for this report has also embraced: Additionality, Diversity of Approach, Evaluations, Locality, Interconnectedness, Polity, Self-Organization, Solutions, Standards Setting, and Utility.

Although it is notable that central banks and DFIs acknowledge the importance of systems-level issues and incorporate commensurate considerations into their approaches and practices through on-ramps and other tools, DFIs' experience measuring the impact of such activities might provide the most valuable lessons for institutional investors.

Given that societal-level impact is central to their missions, DFIs have explored how to address the difficult task of measuring such impacts. Among

those measurement approaches which might provide useful insights for institutional investors is the Managing for Development Results (MfDR) framework developed by a collaboration of DFIs to help them better plan for, monitor, and evaluate development progress. MfDR helps DFIs to think beyond basic inputs, activities, and outputs and to focus on their outcomes and impacts on regional systems.

INTRODUCTION

In September 2015 Mark Carney, chair of The Bank of England, in a speech to a group of insurance professionals at Lloyds of London expressed the Bank's concern that climate change was posing systemic risks to the insurance industry and ultimately to the financial system as a whole. He warned that "once climate change becomes a defining issue for financial stability, it may already be too late," and urged action by the government and the financial sector to avoid physical, liability, and transition risks to the economy.¹ In doing so he embroiled the bank in a public debate about the relevance of "stranded assets" in the fossil fuel industry and the relevance of environmental issues to the Bank's role as a steward of the economy and financial sector.

Around the same time that Mark Carney issued his warning to the insurance sector, the Inter-American Development Bank (IADB) was making climate change a major focus for its lending throughout Latin America and planning to double its investments in mitigation projects to protect the region's biodiversity, which is crucial to its large tourism industry. In fact, climate change is also an emerging theme among many other development finance institutions (DFIs) that have previously focused on more traditional poverty alleviation projects such as education, infrastructure, and energy.

As the world becomes increasingly interconnected, populous, prosperous, and complex, institutional investors are more and more concerned about the interplay between environmental, societal, and financial systems and their investments. The Bank of England and IADB provide indications that central banks and DFIs are also concerned about how these systems affect their work.

THE TIPPING POINTS 2016 REPORT

TIIP's *Tipping Points 2016: Summary of 50 Asset Owners' and Managers' Approaches to Investing in Global Systems* examined whether and how a cross section of asset owners and asset managers

incorporate environmental, societal and financial systems-level considerations into daily practice. It included profiles of 50 institutional investors that have taken initial steps to incorporate disparate aspects of systems-level thinking into their policies and practices.

Central banks and DFIs differ from institutional investors in several ways, though. Unlike institutional investors, central banks and DFIs are essentially banking institutions that use a combination of loans and guarantees and outright grants to achieve their goals. In addition, promoting economic development in developing nations is central to DFI missions. Because the *Tipping Points 2016* analysis focused on how institutional investors contend with environmental, societal and financial systems-level concerns through portfolio and portfolio-related activities, it does not emphasize central banks or DFIs. However, because systems-level thinking is so fundamental to the mission of these institutions, TIIP extends on the *Tipping Points 2016* analysis with this examination of how central banks and DFIs incorporate environmental, societal, and financial systems-level thinking into their activities and exploration of how their approaches could be useful to mainstream institutional investors.

Our analysis included 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 strategies and approaches at least to some extent. They are:

Central banks

- De Nederlandsche Bank
- Central Bank of Kenya
- Federal Reserve Bank of Boston
- Federal Reserve Bank of San Francisco
- The Bank of England
- The Peoples' Bank of China

¹ Mark Carney, "Breaking the Tragedy of the Horizon: Climate Change and Financial Stability" Speech, September 29, 2015.

DFIs

- African Development Bank
- Asian Development Bank
- European Investment Bank
- Grameen Bank²
- Inter-American Development Bank
- International Finance Corporation
- International Fund for Agricultural Development
- Islamic Development Bank Group

➤ CENTRAL BANKS

Central banks have historically been charged with maintaining stability in the finances and growth of national economies. Their core tasks include keeping inflation under control, thereby maintaining the value of their national currency; promoting sustainable economic growth, while steering between deflation and excessive inflation; and keeping unemployment in check. Central banks also maintain a capital reserve that can be used in times of crisis to bail out financially troubled, nationally important institutions.

All central banks share the same basic responsibilities, but their histories, relationships to national governments, and day-to-day activities vary. These differences are reflected to some extent in their varied approaches to environmental and societal systems-level considerations, which they are increasingly addressing as part of their core responsibility of maintaining the stability and health of their nations' financial systems.

The Bank of England and De Nederlandsche Bank, for example, are the oldest of the banks profiled for this report, both with roots that date back to the 17th century. The Bank of England started out as a private bank that played a central role in commerce but only later became a part of the central government.

The Federal Reserve Banks of Boston and San Francisco are parts of a decentralized approach to central banking adopted by the United States Federal Reserve System just over 100 years ago, in 1913. Populist sentiment, in the wake of the 1907 financial

crisis, was the driving force in executing such an approach.

The Central Bank of Kenya and The Peoples' Bank of China are also among the younger banks profiled for this report, having been established in the latter half of the 20th century. This youth might help to explain their apparent willingness to more comprehensively integrate systems-level considerations across their operations and activities.

Central banks have a clear mandate to manage risks and rewards at a financial system level. They increasingly view the financial, environmental, and societal systems as fundamentally connected, and acknowledge that the environmental and societal systems' health is closely linked to long-term economic prosperity.

➤ DEVELOPMENT FINANCE INSTITUTIONS

In comparison, DFIs are funding organizations typically supported by the national governments of large geographic regions. Their financial activities commonly combine loans (both market-rate and concessionary) with grants, insurance, export credits and guarantees, which distinguishes them from traditional institutional investors such as asset owners and managers. Multilateral DFIs are backed by a coalition of national governments, whereas bilateral DFIs such as the U.S. Overseas Private Investment Corporation (OPIC) and Netherlands Development Finance Company (FMO) (profiled for *Tipping Points 2016*) are backed by a single government.

DFIs primarily focus on financing private sector activities in developing countries and have historically emphasized poverty alleviation, infrastructure, and capacity-building projects. They are akin in purpose to the World Bank, founded in 1944 as part of the Bretton Woods, whose International Finance Corporation was created in 1956 to address poverty in developing countries through investments in the private sector. In recent years, developed countries have shifted away from aid to developing nations as a means of promoting economic development and to direct investment programs, including the kind of initiatives favored by DFIs.

a small-scale private sector approach to the development goal of poverty alleviation.

² Although analyzed alongside DFIs, Grameen Bank is a microfinance bank. It is included in this analysis to illustrate

DFIs, like those profiled for this report, are increasingly concerned with how issues like climate change, diversity and social inclusion, and cooperation and the recognition of how mutual interests across national boundaries impact progress toward their poverty alleviation goals. Therefore, they are incorporating environmental and societal systems considerations into their lending practices and lending to projects focused on things like climate change adaptation and mitigation.

By way of contrast to many of the large-scale projects of the profiled DFIs, this report also profiles Grameen Bank, which is an example of a microfinance institution with a “development” and poverty alleviation mission that has taken as fundamental to its business model small-scale lending and the inclusion of women in the economy.

ROADMAP TO THE REPORT

This report is organized as follows. Section 1, entitled “The On-ramps to Systems Thinking,” provides details on the major pathways that central banks and DFIs are utilizing that have direct or indirect implications on policy or practice at a systems level. Many of these on-ramps are functionally similar to the strategies pursued by other institutional investors as

they consider and manage their impacts on environmental, societal, and financial systems and, in turn, consider those systems’ impacts on their portfolios of projects and investments.

Section 2, “The Tools of Intentionality,” examines the use of systems-level approaches by central banks and DFIs to make the connection between local projects and overarching monetary policies that bridge the gap between project or policy decision-making and what happens at the systems level.

Section 3, “Impact Monitoring and Reporting,” looks at whether and how the profiled DFIs might help to inform advancements in the development of measurement and reporting that is crucial to investors’ ability to intentionally manage their systems-level impacts. Finally, the “Conclusion” offers closing thoughts on the implications of central bank and DFI activity for institutional investors and their embrace of systems-level considerations.

Appendix A provides detailed tables on the use of the tools of intentionality by the profiled central banks and DFIs. Appendices B and C contain the summary profiles of the selected entities, and Appendix D summarizes our research methods.

SECTION 1: THE ON-RAMPS TO SYSTEMS THINKING

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.³

Central banks and development finance institutions (DFIs) also pursue “on-ramps” to systems-level thinking that reflect their concerns about systems-level issues. Central banks, for example, might seek to strengthen civic infrastructure to promote economic development. This is true of the Federal Reserve Bank of Boston and its belief that it can help improve the economies of New England’s small, former manufacturing cities and the well-being of their residents through cross-sector collaborations anchored in effective leadership and a shared long-term vision. On the other hand, DFIs like the African Development Bank, are concerned about the negative impacts that environmental instability can have on poverty and economic growth and promote various climate change mitigation and adaptation solutions.

Given differences in central banks’ and DFIs’ structure (financing and grant making) and missions (DFIs’ focus on developing nations and central banks’ focus on financial system stability) when compared to institutional investors, they pursue on-ramps slightly differently from those adopted by the institutional investors that TIIP profiled for *Tipping Points 2016* (see Table 1.1). 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.

Descriptions of each of these approaches, and how they may lead to systems-level considerations, follow.

ENVIRONMENTAL AND SOCIAL RISK ASSESSMENT

Environmental and social risk assessment refers to the identification, definition, and quantification of issues that are potential sources of economic instability, social unrest, or environmental disruption—or conversely of benefit to these systems—and the identification of the populations, industries, or ecosystems that are (or stand to be) most impacted by these issues.

Risk assessment at this level is similar to institutional investors’ use of ESG integration, which is the systematic and explicit consideration of environmental, social, and governance factors in financial analysis. In ESG incorporation, institutional investors complement traditional quantitative techniques of analyzing financial risk and return with qualitative and quantitative analyses of ESG policies, practices, performance, and impacts.

A number of profiled central banks and DFIs have identified a range of environmental and societal challenges and actively assess their risks. Notably, both **The Bank of England** and **De Nederlandsche Bank (DNB)** have identified climate change as posing a direct threat to specific industries that they supervise and to their broader missions to protect financial system stability. The Bank of England has determined that climate change is a risk factor similar to others effecting the financial or economic system, and has assessed its potential impact on the United Kingdom’s insurance industry. Both The Bank of England and DNB have also identified and embarked on defining the issue of “stranded carbon assets,” and DNB has assessed the likely impact of the transition to a low-carbon economy. Having assessed pollution and carbon-heavy industry as a threat to China’s well-being (resident health and economic

³ Editor’s Note: In *Tipping Points 2016: Summary of 50 Asset Owners’ and Managers’ Approaches to Investing in Global Systems* we included “negative exclusionary screening (including reweighting)” as an on-ramp. In

retrospect, this on-ramp is essentially a sub-approach of “ESG Integration” thus we have integrated the former into the latter.

growth), **The People’s Bank of China** is promoting a transition to a “green” financial system.

Profiled DFIs are also identifying and assessing environmental and societal risks, including climate change. Their concerns center around the threats of climate change on biodiversity and tourism (as highlighted by the **Inter-American Development Bank**); agriculture (a concern of the **International Fund for Agricultural Development**); and, environmental sustainability broadly speaking (a focus of the **Asia Development Bank**). This is part in parcel with their setting standards for individual projects.

LONG-TERM PROSPERITY PROTECTION

Long-term prosperity protection refers to the focus of central banks and DFIs—whether by mandate or mission—on the enduring, long-term health of the systems within which they operate. These institutions typically view focusing on systems-level issues as vital to protecting lasting prosperity in the regions where they focus and the fulfilling of this role.

Such a focus on prosperity protection implies an inherently long-term and systems-level definition of what constitutes a sustainable society. It is similar to the institutional investors’ on-ramp focus on long-term value creation, commonly characterized as the potential to create long-term value based on sustainability criteria, sustained financial quality, and a demonstrated ability to manage both current and future economic and governance opportunities and risks by focusing on a long-term strategy.

Unlike many institutional investors, central banks and DFIs do not focus on short-term returns; rather, they are primarily concerned with generating sustainable prosperity—for central banks, this translates into economic stability, and for DFIs into poverty alleviation. Profiled banks and DFIs have displayed an understanding that, to achieve these goals, they must enhance and protect the long-term health of environmental, societal, and financial systems.

As such, nearly all DFIs incorporate a focus on the societal system issues of income equality and financial inclusion into their approaches to poverty

alleviation and economic growth. **Grameen Bank’s** entire approach, for example, is based on the idea that it cannot eradicate poverty on a broad scale without ensuring that Bangladesh’s poorest residents are included in the country’s formal banking system. **Inter-America Development Bank’s** current *Institutional Strategy* identifies social exclusion and inequality as one of the top three barriers to development in Latin America and the Caribbean.

Central banks like **The Federal Reserve Bank of San Francisco** and **Central Bank of Kenya**, for example, also contend with societal system issues as part of facilitating economic and community development. The Federal Reserve Bank of San Francisco views serving economically disadvantaged people as crucial to economic growth and the long-term stability of local financial and social systems and has emphasized the need for healthy communities in doing so. Similarly, the Central Bank of Kenya stresses financial inclusion as part of its mission and vision, and sees a transition to green finance as an enabling factor in that transition.

IMPACT MEASUREMENT

Impact measurement refers to specifying, evaluating, and reporting on social and environmental factors throughout the investment process along the dimensions of various impact evaluation frameworks.

This approach by central banks and DFIs bears a strong similarity to the measurement systems currently being developed by self-identified impact investors—for example those endorsed by The Global Impact Investing Network, which promotes investing that intentionally generates *measurable* social and environmental impact, alongside financial return.

To this end, developing countries and multilateral development banks—including six of the eight profiled DFIs⁴—have collaborated in the creation of the Managing for Development Results (MfDR) framework to systematically plan for, monitor, and evaluate development progress (discussed in detail in the “Impact Monitoring and Reporting” section of this report). This impact measurement initiative is standardized and aims to extend the focus of DFIs “beyond their traditional focus on input delivery and

Corporation (as part of the World Bank Group), and Islamic Development Bank.

⁴African Development Bank, Asian Development Bank, International Fund for Agricultural Development, Inter-American Development Bank, International Finance

output quality to focus on the achievement of outcomes... [a.k.a.] the contribution that [they] make to country results.”

➤ FINANCIAL SYSTEMS STEWARDSHIP

Financial systems stewardship refers to actions by central banks to protect and enhance their 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.

Whereas a number of institutional investors covered in the *Tipping Points 2016* report describe themselves as “stewards” of their clients’ money, central banks can be viewed, more broadly speaking, as stewards of entire financial systems and economies. What is notable about recent developments is that numerous central banks now view their understanding of the relationship between the environment, society, and their respective financial systems as crucial to fulfilling this stewardship function.

Three central banks in particular—**The Bank of England, De Nederlandsche Bank (DNB), and The Peoples’ Bank of China**—draw strong connections between their obligations to the stability in their national financial and economic systems and to environmental systems-level considerations—focusing on climate change and sustainability. In fact, DNB’s legal mandate was recently updated to include sustainability, and states that it must focus on *the sustainable prosperity* of the Netherlands as part of promoting financial stability.

➤ UNIVERSAL COOPERATION

Universal cooperation refers to considerations by central banks and DFIs of the need for cooperation among the nations that they serve by promoting consensus across regions, economies, and countries.

This need to cultivate cooperation and consensus bears a similarity to the broad perspective adopted by universal owners. Large institutional owners invested in virtually all asset classes and widely diversified securities within these asset classes seek investments that are mutually supportive in the growth of the economy. Given the dependence of their portfolios’ performance on that of the whole economy, as opposed to that of individual securities, they are naturally sensitive to the interrelations among the full range of their investments and the necessity for them to align in their long-term impacts on society and the environment.

Both central banks and DFIs include considerations of international cooperation in their policies and practices—central banks because of the inevitable interrelations between national economies, and DFIs because their activities often span the borders of neighboring countries. Consequently, they both must negotiate the often substantial challenges of cultural and political differences. **Islamic Development Bank Group**, for example, highlights among its successes maintaining neutrality on politically sensitive issues and among its challenges the need for greater decentralization in its operations.

Table 1.1. On-Ramps to Systems Thinking

Mainstream institutional investors	Central banks & DFIs
<p>ESG integration. The systematic and explicit integration of environmental, social, and governance factors into financial analysis.</p>	<p>Environmental and social risk assessment. Identification, definition and quantification of issues that are potential sources of economic instability, social unrest, or environmental disruption, or conversely of benefit to these systems—and the identification of the populations, industries, or ecosystems that are or stand to be most impacted by these issues.</p>
<p>Long-term value creation. The potential to create long-term value based on sustainability criteria, sustained financial quality, and a demonstrated ability to manage both current and future economic and governance opportunities and risks by focusing on a long-term strategy.</p>	<p>Long-term prosperity protection. 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.</p>
<p>Impact investing. Investments made in companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return.</p>	<p>Impact measurement. Specifying, evaluating and reporting on social and environmental factors throughout the investment process along the dimensions of various impact evaluation frameworks.</p>
<p>Investment stewardship. Aiming to protect and enhance the value of clients' assets by engaging with companies, encouraging business and management practices that support sustainable financial performance over the long-term, and applying ESG considerations to all investment strategies, whether indexed or actively managed.</p>	<p>Financial systems stewardship. 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.</p>
<p>Universal ownership. The ownership of securities in a broad cross-section of the economy.</p>	<p>Universal cooperation. Considerations of the need for international cooperation among the nations that they serve and prioritizing consensus across corresponding regions and economies.</p>

SECTION 2: THE TOOLS OF INTENTIONALITY

Institutional investors are increasingly considering how to manage risks and rewards at environmental, societal, and financial systems levels to preserve and enhance these systems' wealth-creating potential.

Central banks and development finance institutions (DFIs), because of their mandates, are naturally inclined to take systems-level considerations into account. Disruptions to these systems can threaten progress toward their foundational objectives of ensuring financial and monetary stability, promoting economic growth, and eradicating poverty. The Bank of England, for example, is concerned that extreme weather events caused by climate change may directly impact the stability of the insurance industry. In addition, such weather events and other climate change-related issues (e.g. biodiversity loss) damage homes, negatively affect tourism, and threaten the agriculture industries in the world's poorest regions where DFIs target their financing.

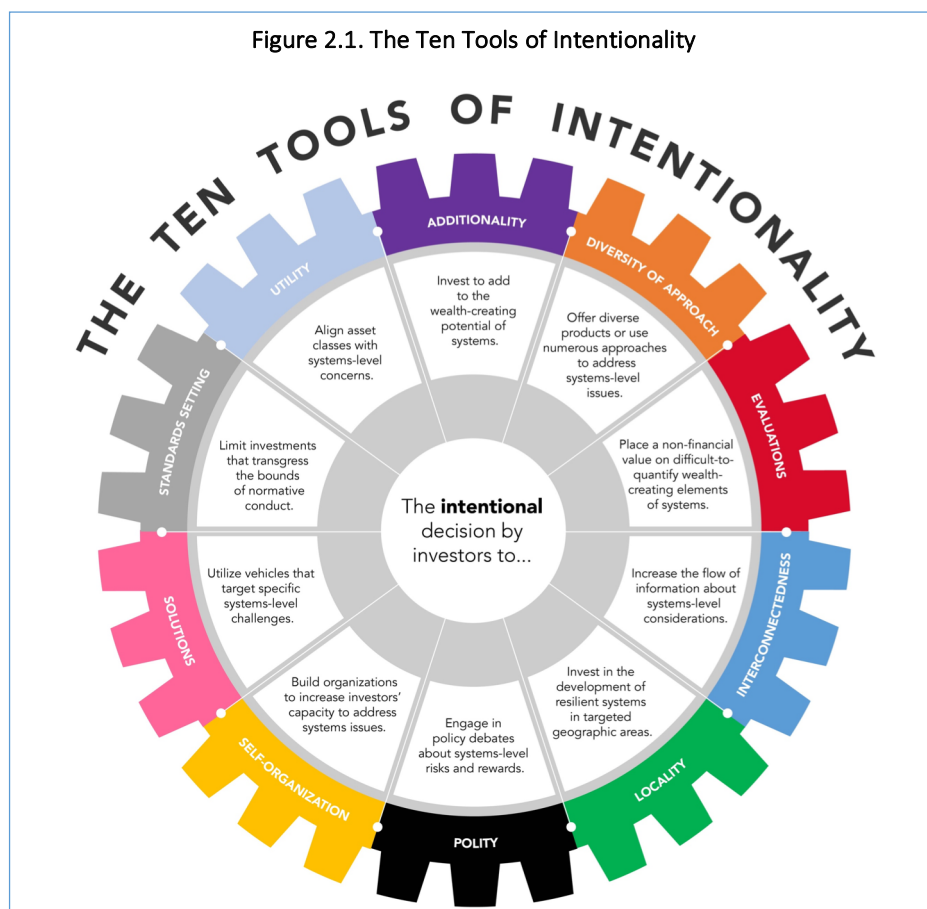
As part of *Tipping Points 2016*, TIIP identified ten tools that institutional investors can use to balance the maintaining of the resilience of the environmental, societal, and financial systems that are the ultimate source of their wealth creation and the efficiency necessary for maximizing returns (see Figure 2.1). Given that central banks' and DFIs' ability to fulfill their missions depends in part on the health of these systems, they have adopted the tools of intentionality in ways similar to that of the long-term institutional investors examined for *Tipping Points 2016*.

Although the profiled central banks and DFIs collectively use all ten of the tools of intentionality

(see Table 2.1), they most notably use those tools that complement their experience, strengths, and influence.

For profiled 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 profiled 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**).

The remainder of this section describes each of the tools and highlights notable uses by profiled institutions. Appendix A contains a complete list of the banks and DFIs that TIIP has identified as using each tool with descriptions of how they are used. Although their use of the tools spans numerous systems and themes, at least half of the central banks and many of the DFIs use the tools to address systemic environmental issues, especially climate change (see Table 2.2).

Finally, as part of *Tipping Points 2016*, TIIP examined how institutional investors integrate the tools of intentionality into a set of key investment activities (e.g. portfolio construction, corporate engagements, manager selection). Such an analysis was not appropriate for this report given that central banks and DFIs approach financial activities in fundamentally different ways. DFIs do, however, integrate systems-level considerations into their lending activities in ways similar to that of institutional investors and their investment activities. Box 2.1 at the end of this section provides this discussion.

Table 2.1. Central Bank and DFI Use of the Tools of Intentionality

Institution	Additionality	Diversity of Approach	Evaluations	Inter-connectedness	Locality	Polity	Self-Organization	Solutions	Standards Setting	Utility
Central banks										
De Nederlandsche Bank				✓		✓	✓			
Central Bank of Kenya								✓	✓	
Federal Reserve Bank of Boston				✓	✓		✓			
Federal Reserve Bank of San Francisco				✓			✓			
The Bank of England				✓		✓	✓			
The Peoples' Bank of China				✓		✓	✓		✓	
Development finance institutions										
African Development Bank		✓		✓		✓			✓	
Asian Development Bank				✓		✓		✓	✓	
European Investment Bank				✓			✓		✓	
Grameen Bank [†]	✓			✓	✓			✓		✓
Inter-American Development Bank	✓	✓	✓	✓						
International Finance Corporation	✓			✓			✓	✓	✓	
International Fund for Agricultural Development	✓					✓	✓			✓
Islamic Development Bank Group				✓			✓		✓	
Totals										
Central banks	0	0	0	5	1	3	5	1	2	0
DFIs	4	2	1	7	1	3	4	4	5	2
All	4	2	1	12	2	6	9	5	7	2

[†]Although analyzed alongside DFIs, Grameen Bank is a microfinance bank. It is included in this analysis to illustrate a small-scale private sector approach to the development goal of poverty alleviation.

➤ ADDITIONALITY

Half of the profiled DFIs (and none of the profiled central banks) use the tool of Additionality, which is defined by making investments that add to the wealth-creating potential of environmental, societal, and financial systems that might not otherwise have

been made. Among them is **International Finance Corporation**, which focuses on mobilizing investments in countries where capital is otherwise not available, therefore contributing additional resources to the world's most fragile countries. It also focuses on fortifying these countries' underlying

environmental, social, and financial systems through investments in infrastructure and financial markets. The policies of other DFIs, including **Inter-American Development Bank** and **International Fund for Agricultural Development**, require that their investments enhance, or otherwise add to, poverty reduction and related development efforts already underway in targeted countries.

➤ DIVERSITY OF APPROACH

Diversity of Approach is offering diverse products with systems-level targets or undertaking a variety of approaches to address a single systems-level issue. DFIs **African Development Bank** and **Inter-American Development Bank** have both deployed a diverse set of approaches toward mitigating and adapting to the risks of climate change.

According to African Development Bank, environmental stability and poverty are inextricably linked. It has therefore deployed a collection of strategies to promote climate change mitigation and adaptation; ranging from enforcing environmental—and social—risk standards for all operations, to building member country capacity to fight climate change, and advocating for the removal of regulatory obstacles to effectively implement climate change projects. Inter-American Development Bank, too, addresses environmental issues in numerous ways, including dedicating financing for climate change mitigation and adaptation programs and connecting stakeholders to climate information through its Nationally Determined Contribution (NDC) Invest program, research publications, and practical guides.

➤ EVALUATIONS

Just one of the profiled DFIs (and none of the central banks) uses Evaluations, which is the placing a financial value on difficult-to-quantify wealth-creating elements of environmental, societal, or financial systems.

Inter-American Development Bank is committed to protecting Latin America and the Caribbean against climate change and its effects on, among other things, the region's natural capital and biodiversity (essential to important economic sectors like tourism). It recently launched the Biodiversity and Ecosystem Services Program to help stakeholders better understand and measure the economic value of the region's ecosystems, and to promote projects

and investments focused on its protection. It will soon incorporate such valuations into economic analyses.

➤ INTERCONNECTEDNESS

As large and systemically influential national and international institutions, central banks and DFIs are particularly well-positioned to disseminate information about systems-level considerations. It is therefore not surprising that the tool most commonly used by these institutions—by nearly all central banks and DFIs—is Interconnectedness, which is increasing the information flows among peers relevant to environmental and societal systems-level considerations.

Since at least 2014, both **The Bank of England** and **De Nederlandsche Bank** (DNB) have conducted extensive research on the implications of climate change and the transition to a low-carbon or carbon-neutral economy on their national financial systems and key industrial sectors (e.g. insurance and finance). Bank leadership—and, notably, The Bank of England's Governor Mark Carney—have spoken publicly, disseminated research findings and stimulated interconnected dialogue on these systems-level issues. DNB asserts that such work helps it to fulfill its role as a “catalyzer” for discussion and debate around the links between environmental, societal and financial systems, sustainability, and climate change.

The profiled central banks and DFIs also connect their stakeholders to information about systems-level considerations by publishing reports, white papers, and books. The **Federal Reserve Bank of San Francisco**, for example, has authored a series of publications related to its Healthy Communities initiative and promoting the idea that local economies can only thrive when their residents are healthy, educated and safe. This includes the book *Investing in What Works in America's Communities: Essays on People, Place & Purpose*, with contributions from authors including the then Governor of the Board of Governors of the Federal Reserve System and the then secretaries of the U.S departments of Housing and Urban Development, Education, and Health and Human Services, among others from academia, research, finance, and community development.

Many profiled central banks and DFIs also convene industry conferences and events, host information-sharing platforms (typically web-based), and provide training on systems-related topics to build stakeholder capacity to address such issues independently. Particularly notable among these

efforts is **Asian Development Bank's** Environmental Law Development Program, which provides training on environmental law to encourage “more effective development and enforcement of environmental law in the longer term.”¹

Table 2.2. Using the Tools of Intentionality to Address Systemic Environmental Issues

Central banks	
De Nederlandsche Bank	DNB uses the tools of Interconnectedness, Polity, and Self-Organization to catalyze discussion and reforms related to the transition to a low-carbon economy, which it describes as inevitable given the long-term risks of climate change driven by carbon emissions.
The Bank of England	BoE uses Interconnectedness, Self-Organization, and Polity to voice concerns about the risks of climate change and its impact on industry sectors (e.g. insurance) and to recommend policy changes that encourage financial institutions to contribute to the management of such risks.
The Peoples' Bank of China	PBoC uses Interconnectedness, Self-Organization, Standards Setting, and Polity to lead China's adoption of a green financial system that facilitates investment in energy conservation and emissions reduction and that will help China reduce pollution and improve air quality.
Development finance institutions	
African Development Bank	AfDB uses Diversity of Approach, Interconnectedness, Polity, and Standards Setting to promote various climate change mitigation approaches. Africa's residents are particularly vulnerable to the effects of climate change (e.g. its impacts on scarce resources like water exacerbate regional conflicts).
Asian Development Bank	ADB uses Interconnectedness, Polity, Solutions, and Standards Setting to generate dialogue about and recommendations for climate change adaptation and mitigation approaches that will help protect the livelihoods of the region's vulnerable coastal residents and agriculture industry.
European Investment Bank	EIB uses Interconnectedness, Solutions, and Standards Setting to incorporate into its work its belief that climate change poses long-term risks to environmental and social sustainability, which in turn threatens to undermine the sustainability of its investments.
Inter-American Development Bank	IADB uses Additionality, Diversity of Approach, Evaluations, and Interconnectedness to help protect the region's ecosystems and biodiversity—essential to the success of its tourism and other industries—against climate change.
International Finance Corporation	IFC uses Additionality, Interconnectedness, Self-Organization, Solutions, and Standards Setting to promote both environmental and social sustainability that it believes are vital to protecting the long-term solvency of its investments.

▶ LOCALITY

Locality is making sound investments that support the development of resilient environmental, societal, and financial systems within limited geographic boundaries. The **Federal Reserve Bank of Boston's** Working Cities Challenge is a notable example of the use of Locality among profiled central banks and DFIs. Through the Challenge (and in partnership with community development non-profit Living Cities), the Bank identifies and supports economic development

activities in small, former manufacturing cities in New England. It focuses on strengthening these cities' civic infrastructure through cross-sector collaborations with effective leadership and encourages the idea that a shared long-term vision can revitalize their economies and improve the well-being of residents (e.g. increase incomes and reduce poverty).

► POLITY

Using Polity, investors engage in public policy debates relevant to investment risks and rewards at an environmental, societal, or financial systems level.

The Peoples' Bank of China is among those central banks leveraging their relationships with policymakers and other central banks to catalyze policy dialogue around climate change and contribute to commensurate reforms.

In 2014 and in partnership with the United Nations Environmental Programme, the bank convened the Green Finance Task Force to examine other developed countries' green finance policies and recommend how China could establish a green financial system of its own. It subsequently collaborated with other regulation agencies to issue the Guidelines for Establishing the Green Financial System. The guidelines provided 14 discrete recommendations which, broadly speaking, encourage private investment in green projects and discourage investment in polluting sectors; advocate for policy incentives for green investment; encourage development of standards for green finance and green and pollution liability insurance systems; and encourage participation in the system by local governments and authorities.

► SELF-ORGANIZATION

Nearly all the profiled central banks and half of the profiled DFIs use Self-Organization to create organizational structures to build the capacity of the investment community to address systems-level considerations. Through these ongoing initiatives, these banks and DFIs convene stakeholders to discuss and develop approaches to integrating systems-level considerations into decision-making and solving interrelated environmental, societal, and financial challenges.

The Peoples' Bank of China has shown leadership in this area, namely through its role in establishing and co-chairing the G20 Green Finance Study Group. The group of 80 representatives from across the G20 nations and affiliates recommended approaches to scaling-up green finance worldwide including examinations of how the financial system could facilitate related investment and environmentally sustainable development. Although China's G20 presidency is now over, Germany has committed to continuing these discussions as part of its presidency in 2017.

De Nederlandsche Bank (DNB) and **International Fund for Agricultural Development (IFAD)** are among those central banks and DFIs that use Self-Organization through their hosting of ongoing discussion platforms focused on systems issues. DNB's Platform for Sustainable Finance and Sustainable Finance Lab convene Dutch banks, pension funds and others to develop solutions to sustainability challenges and systemic environmental risks, while IFAD's Platform for Agricultural Risk Management and online platform AgTalk provide forums for discussion about the challenges of, and solutions to, structural rural poverty.

► SOLUTIONS

Half of the profiled DFIs and one central bank have developed investment solutions or otherwise invested in vehicles that target specific systems-level social or environmental challenges. Various profiled institutions such as **International Finance Corporation (IFC)**, **Asian Development Bank**, **European Investment Bank (EIB)**, and **Central Bank of Kenya** are issuing environmentally-focused bonds to raise money for climate change mitigation and adaptation projects and renewable energy projects. This is true, for example, of IFC's green and forest bonds and EIB's Climate Awareness bonds. The Central Bank of Kenya issues long-term infrastructure bonds, which among other things, raise capital for investment in clean and alternative energy solutions.

► STANDARDS SETTING

Through Standards Setting, investors limit investments that transgress broadly accepted bounds of normative conduct. This might include enforcing lists that prohibit investments in enterprises, sectors, or even countries that violate such norms of conduct or international standards. **Asian Development Bank**, for example, disallows investments in projects associated with, among other things: forced or child labor, weapons and munitions, tobacco, radioactive materials, commercial logging in certain forests, and fishing harmful to vulnerable species or habitats. In a variation on this theme, **Islamic Development Bank Group** requires that all investments comply with Sharia law, which prohibits investments in things like alcohol and pork and disallows charging interest on loans.

Asian Development Bank and three other DFIs (**African Development Bank**, **European Investment**

Bank (EIB), and International Finance Corporation) have also developed policies that set standards for acceptable environmental and social risks and impacts of projects.

EIB, for example, screens all prospective investment projects against the social and environmental standards outlined in its Environmental and Social Handbook and otherwise “mainstreams” climate considerations into all investment decision-making. Social assessments address projects’ compliance with established human rights agreements, principles on involuntary resettlement or other harm to vulnerable groups. Environmental and climate change assessments estimate project-related greenhouse gas emissions and their economic cost and, for particularly vulnerable projects, they help EIB determine whether project adjustments and further screening vis-à-vis its Emissions Performance Standards are necessary. This approach is like that of African Development Bank and International Financial Corporation who also rate projects into environmental and social risk categories upon assessment completion and to determine project management approaches.

In addition, TIIP attributed the use of Standards Setting to the **Central Bank of Kenya’s** affirmative decision *not to* set standards or impose regulations for the initial launch of the M-PESA mobile banking

platform. Doing so helped the program rapidly expand and prove effective in financial inclusion and, ultimately, poverty reduction.

UTILITY

Utility is maximizing the alignment of specific asset classes with environmental, societal, or financial systems-level concerns. **Grameen Bank** is a widely recognized advocate for the utility of microcredit for addressing poverty and other systemic social issues and is one of two profiled DFIs that use this tool.

Grameen provides small loans (microcredit) to the poor in rural villages throughout Bangladesh. It uses this approach to invest in income-generating activities for individuals, and to help connect them to the country’s formal banking and financial systems. It advocates this use of microfinance as an asset class that is particularly effective in helping low-income individuals generate income, in removing systemic barriers to financial inclusion, and in contributing to poverty reduction on a broad scale.

BOX 2.1. THE TOOLS OF INTENTIONALITY AND DFI LENDING ACTIVITIES

In *Tippling Points 2016*, TIIP established that institutional investors (asset owners and asset managers) put their commitment to environmental, societal, and financial systems-level issues and the tools of intentionality and on-ramps into effect through a variety of investment activities—in particular, through their investment beliefs statements, security selection and portfolio construction practices, corporate engagements, targeted investment programs, and manager selection.

DFIs are different from the investors profiled for *Tippling Points 2016* in various ways, including that they are banks and primarily focus on lending to initiate business activity, whereas institutional investors invest in ongoing business activities and related securities. DFIs also engage in grant making and other trade-facilitating activities such as insurance and export lending—financial activities not typically pursued by institutional investors.

Although DFIs do not engage in the investment activities reported on in *Tippling Points 2016*, they do integrate their systems-level considerations—and the tools of intentionality and on-ramps—into their lending activities in ways comparable to how institutional investors integrate them into investment activities.

Guiding beliefs & mission statements. Some investors develop guiding beliefs about systems and related approaches that they outline in formal beliefs statements or through less formal mediums; DFIs might similarly have mission statements and other guiding principles that incorporate systems-level considerations. Grameen

Bank's Methods of Action—a combination of beliefs, policies and practices—guide all bank microcredit lending. The Methods incorporate various systems-related considerations, most of which focus on the bank's belief in, and commitment to, pursuing financial inclusion through connecting Bangladesh's poor to formal credit and banking mechanisms.

Loan decisions & project selection. Investors might also incorporate systems and on-ramp considerations into their investment selection processes. Where the profiled DFIs are concerned, this primarily translates into systematically considering environmental and social risks as part of new loan decisions and project selection (especially in “sensitive” sectors), prohibiting loans to certain types of projects, and in some instances, requiring that new projects augment (rather than duplicate) national and/or regional poverty alleviation efforts. Such activities commonly align with the tools of Additionality and Standards Setting. As is described, in part, above:

- African Development Bank, Asian Development Bank, and Islamic Development Bank Group (IDBG) prohibit projects of certain types, including those that violate established national or international social and environmental norms or standards (or, in the case of IDBG break with Sharia law);
- Inter-American Development Bank and International Fund for Agricultural Development require that new projects comply with their strict additionality requirements; and
- African Development Bank, Asian Development Bank, European Investment Bank, Inter-American Development Bank, and International Finance Corporation mandate project compliance with acceptable environmental and social risks and impacts of projects.

Targeted lending programs. Developing impact- or solutions-focused investments that direct a portfolio or investment program toward a specific positive solution is another way that investors express their commitment to systems-level considerations. Arguably all DFIs “target” their lending toward solutions to poverty, but many also engage in projects that otherwise target related environmental or societal considerations. This can align with the tool of Solutions and might include issuing environmentally-focused bonds to fund climate change mitigation or adaptation projects (as is the case with International Finance Corporation, Asian Development Bank, and European Investment Bank) or otherwise dedicating lending to projects that address systems issues. Asian Development Bank, for example, issued its first “policy-based” loan to the People's Republic of China in 2015 to support its development of strategies and policies to address air pollution in Beijing, which threatens residents' health and economic growth.

SECTION 3: IMPACT MONITORING & REPORTING

To be credible and effective, it is not enough for investors to simply focus on incorporating environmental, societal, and financial systems-level considerations into their policies and practices. They must also set goals, monitor, and measure and report on the impacts and outcomes of those activities.

Although groups of investors have developed methods for assessing portfolio-level impacts (particularly those from the impact investment community) and suggested ways to measure and report on progress at systems levels, institutional investors have yet to tackle these challenges on a broad or meaningful scale. In fact, few of the institutional investors profiled for *Tipping Points 2016* indicated that they were focused on systems-level impact measurement.

Given that societal-level impact is central to DFI's missions, TIIP has paid special attention to how they address the difficult task of measuring such impacts. Lessons that may prove useful to institutional investors have emerged from their use of Managing for Development Results (MfDR) and independent evaluations.

MANAGING FOR DEVELOPMENT RESULTS

Over the past decade, a group of developing countries and multilateral development banks—including six of the eight profiled DFIs⁵—have adopted the Managing for Development Results (MfDR) framework to systematically plan for, monitor, and evaluate development progress. The names and other specifics of each country's and DFI's MfDR strategy differ slightly, but all share the same fundamental purpose, goals, and general approach.

Initially established to help developing countries and DFIs assess their progress in reaching the Millennium Development Goals, MfDR continues to guide the development community in establishing its objectives and providing evidence that its investments are effective in achieving them. In doing so, it uses performance and results data to better manage operations and achieve development goals. The

⁵African Development Bank, Asian Development Bank, International Fund for Agricultural Development, Inter-

International Fund for Agricultural Development, for example, credits the MfDR in helping them to build their development approach around three questions: (1) *What do we wish to achieve?* (2) *What will we do to reach these results?* and (3) *How will we know whether we have achieved them?*

For DFIs, MfDR also means “going beyond their traditional focus on input delivery and output quality to focus on the achievement of outcomes... [a.k.a.] the contribution that [they] make to country results.”² This shift to a focus on outcomes—defined as the medium-term effects of a development intervention or the “observable behavioral, institutional, and societal changes”³—helps DFIs to answer the fundamental development question: *did we succeed?* It forces them to think beyond basic outputs (e.g. *the number of health clinics built*) and instead consider their broader impacts (e.g. *whether citizen's health has improved*).

A central component of MfDR adopted by the profiled DFIs is the “results chain,” which “theorizes that various inputs and activities lead logically to higher orders of results.”⁴ Guided by the chain framework, DFIs define their desired impact and outcomes, and those outputs, activities, and inputs that will help them achieve those results (see Box 3.1).

The specific types and amount of indicators tracked by each profiled DFI are different and align with their specific development strategies, though there is some effort across the DFI community to standardize indicators and approaches.

At least half of the profiled DFIs that use MfDR—including **African Development Bank**, **Asian Development Bank**, and **Inter-American Development Bank**—assess progress toward their strategic development goals and along the results chain against between 50 and 100 indicators divided into the same four basic groups, or “levels”: (1) development progress in their region of focus, broadly speaking; (2) their contribution to development progress in the region; (3) project

American Development Bank, International Finance Corporation (as part of the World Bank Group), and Islamic Development Bank.

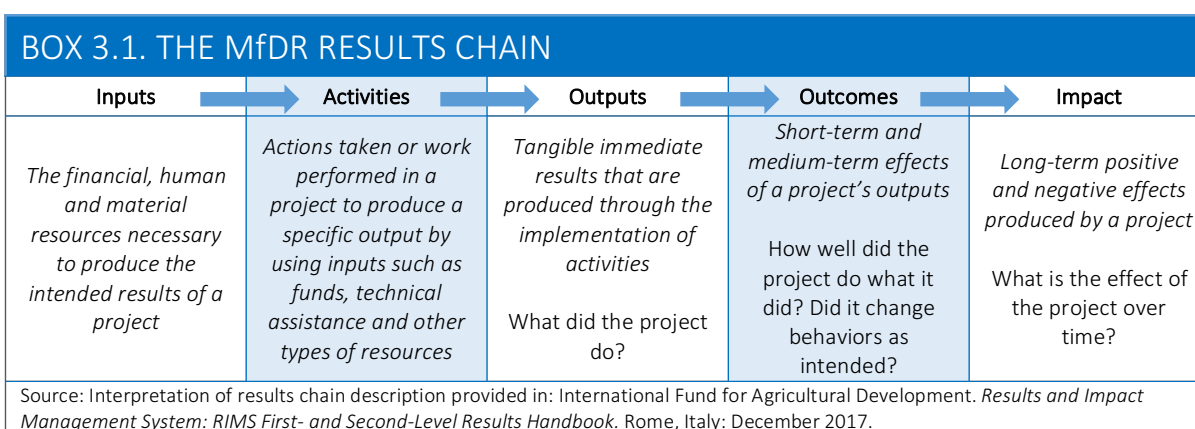
management efficiency and performance; and (4) operational efficiency and performance.

Further, most of the profiled DFIs (including some that participate in MfDR and some that do not) are partners in the Harmonized Indicators for Private Sector Opportunities (HIPSO) project, a working group of DFIs focused on standardizing development indicators. According to International Finance Corporation (an active HIPSO participant), countries and projects might receive financing from various DFIs and have to report information to each in different ways in an onerous exercise.

Standardized indicators will alleviate this burden, facilitate collaboration and learning, and help the DFI community better understand its collective impact.

Embedded in MfDR is a commitment to transparency and, specifically, to showing investors and other stakeholders that development financing is making a difference at a systems level, as well as at a project level. In line with this commitment, DFIs that participate in MfDR release annual development effectiveness reviews detailing results and publicly disseminate information about their measurement methods.

Box 3.2 at the end of this section provides examples of how select of the profiled DFIs that use MfDR do so in practice.



INDEPENDENT EVALUATIONS

Beyond MfDR, three of the profiled DFIs—**African Development Bank (AfDB)**, **International Fund for Agricultural Development (IFAD)**, and **International Finance Corporation (IFC)**—conduct evaluations of their projects through their independent evaluation offices. IFC operates a Systemic Evaluation Program as part of its broader results measurement framework. Each year the World Bank’s Independent Evaluation Group evaluates one-quarter of IFC’s projects to measure project progress (compared to goals and project self-evaluations) and project outcome sustainability, and to compare results to

project self-evaluations. AfDB’s Independent Evaluation Department similarly evaluates its projects. Approximately one to two years after each project is completed, the department evaluates its inputs, outputs, outcomes, and impacts and assigns it a summary performance score.

IFAD’s independent evaluations focus not only on identifying project success, but also on identifying shortcomings to inform improvements. The evaluations comply with its Evaluation Policy and Evaluation Handbook.

BOX 3.2: MFDR IN PRACTICE

African Development Bank (AfDB), Asian Development Bank (ADB), International Fund for Agricultural Development (IFAD), and Islamic Development Bank Group (IDBG) are among the profiled DFIs that have developed and implemented measurement approaches consistent with MfDR guidelines.

AfDB's One Bank Results Management Framework and ADB's corporate results framework monitor and assess progress at four levels; two of which focus on each organization's operational and organizational effectiveness, and two of which examine development progress in the regions where they focus and their contribution to that progress (a.k.a. their "effectiveness"). The specific approaches align with each organization's unique development objectives; those components most relevant to systems-level measurement can be summarized as follows:

African Development Bank	Asian Development Bank
<p>Level 1: What development progress is Africa making [toward ADB's goals of inclusive and green growth]?</p> <ul style="list-style-type: none"> <i>Select indicators:</i> GDP growth (%); population living below the poverty line (%); income inequality (Gini index); life expectancy (years); resilience to water shocks (index); institutional capacity for environmental sustainability (index). 	<p>Level 1: Development progress</p> <ul style="list-style-type: none"> <i>Summary:</i> Tracks progress in Asia and the Pacific toward reducing poverty, promoting human development, improving infrastructure and access to services, improving governance, and creating a sustainable environment; monitors continued relevance of ADB's existing development strategy, <i>Strategy 2020</i>.
<p>Level 2: How well is AfDB contributing to development in Africa?</p> <ul style="list-style-type: none"> <i>Select indicators:</i> Roads constructed, rehabilitated or maintained; drinking water capacity created (m³/day); people with new or improved access to water and sanitation; cross-border roads constructed or rehabilitated (km); people benefiting from vocational training; classrooms and educational support facilities constructed. 	<p>Level 2: ADB's contribution to development results</p> <ul style="list-style-type: none"> <i>Summary:</i> Assesses ADB's contribution to development using sub-sets of indicators that (a) examine operations completed over prior three years and their collective performance and (b) assesses recently completed project outcomes against projects' goals.

In describing their impact measurement systems, IFAD and IDBG outline how they use the MfDR results chain to set goals, determine measurement approaches, and/or to select indicators. IFAD and IDBG's descriptions of the output, outcome, and impact components of their approaches include:

	Outputs	Outcomes	Impacts
International Fund for Agricultural Development	Measured with simple, quantitative project-specific indicators; e.g.: number of people trained and number of households receiving project services	Measured through studies, participant evaluations, surveys, etc.; indicators are project-specific and might include: effectiveness of the program at achieving specified objective or likely sustainability of the program	Measured with impact surveys supplemented with qualitative data analysis; IFAD measures the impact of all projects on: incidence of child malnutrition (hunger) or household assets ownership (poverty)
Islamic Development Bank Group	<i>Goals:</i> increase the financial sustainability of the clients; build and develop Islamic financial institutions; increase the production capacity and the quality of the services of the clients; etc.	<i>Goals:</i> create jobs; improve access to finance for SMEs; increase payments to governments; increase customers' access to improved services and products	<i>Goals:</i> poverty reduction; inclusive growth; better living standards; improved environment for Islamic finance business

CONCLUSION

A first-of-its-kind study, TIIP's report *Tipping Points 2016: Summary of 50 Asset Owners' and Managers' Approaches to Investing in Global Systems* demonstrated that a range of investors are exploring whether and how the health of the environmental, societal and financial systems within which they operate impact their portfolios and vice versa. While this is a relatively recent phenomenon for mainstream institutional investors, a systems-level focus has long been fundamental to central banks and development finance institutions (DFIs).

From catalyzing entire economies to setting monetary policy and supporting economic growth, central banks and DFIs perform different functions but share a concern for generating sustainable prosperity. For central banks, this translates into a focus on economic stability, and for DFIs into a focus on poverty alleviation. What is new, however, is that in recent years central banks and DFIs have displayed an understanding that to achieve these goals they must enhance and protect the long-term health of environmental, societal and financial systems.

This evolution in approach has served to advance numerous on-ramps to systems-thinking—environmental and social risk assessment, engaging in long-term prosperity protection, impact measurement, financial system stewardship, and universal cooperation. Though different in many ways from the on-ramps identified in *Tipping Points 2016*, they are functionally similar to those used by institutional investors as they consider and manage their impacts on global systems and consider those systems' impacts on their projects and investments.

The efforts of central banks and DFIs, and institutional investors, dovetail again when it comes to their utilization of the ten tools of intentionality. Given that central banks' and DFIs' ability to fulfill their missions depends in part on the health of these systems, they have adopted the tools of intentionality in ways similar to that of the long-term institutional investors examined for *Tipping Points 2016*; albeit with nuances in emphasis and execution.

What the activities of central banks and DFIs mean for institutional investors is twofold. First, the key to assessing portfolio-level impacts and ways to

measure and report on progress at systems levels remains elusive for most institutional investors on any broad or meaningful scale (despite much ingenuity and progress). But lessons that may prove useful to institutional investors 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.

More and more, institutional investors are recognizing the complicated interplay between environmental, societal, and financial systems and their portfolio decision making—and the ability for investors to influence this relationship. What has been less obvious are the ways in which investors can most effectively go about developing and integrating these considerations into their practices and policies. Though they do not offer direct comparisons, central banks and DFIs do provide compelling illustrations, insights, and lessons for institutional investors looking to embrace a systems-focus.

Sustainable prosperity means different things to different investors. For central banks and DFIs it means economic stability and poverty alleviation, for institutional investors it means wealth generation and preservation. What is common to all investors, though, is the need to enhance and safeguard the systems-level sources of this prosperity. While in many cases still in its infancy, systems-level investing holds tremendous promise for doing just that in an increasingly interconnected and complex world.

ACKNOWLEDGEMENTS, AUTHOR INFORMATION, AND ABOUT TIIP

➤ ACKNOWLEDGEMENTS

For his helpful comments and suggestions on various drafts of this paper, TIIP would like to thank Jon Lukomnik. For its financial support for this and related TIIP projects, we would also like to thank IRRCi.

➤ AUTHOR INFORMATION

The authors of this TIIP report are William Burckart, Steve Lydenberg and Jessica Ziegler.

William Burckart. Mr. Burckart is the President and COO of The Investment Integration Project (TIIP). He has been at the forefront of impact investing and has contributed to the field through groundbreaking research, including leading a multi-year field building effort focused on the financial services industry in collaboration with the Money Management Institute; managing the production of (and is a contributing author to) the *New Frontiers of Philanthropy: A Guide to the New Tools and Actors that Are Reshaping Global Philanthropy and Social Investing* (Oxford University Press: 2014), and was involved in the writing of the *Status of the Social Impact Investing Market: A Primer* (UK Cabinet Office: 2013) that was distributed to policymakers at the inaugural G8-level forum on impact investing. Mr. Burckart is a visiting scholar of the Federal Reserve Bank of San Francisco, serves on the Global Advisory Council of Cornerstone Capital Group, and is a founder or co-founder of two impact investment advisory firms (Burckart Consulting and Impact Economy LLC).

Steve Lydenberg. Mr. Lydenberg is TIIP’s Founder and CEO. He also serves as Partner, Strategic Vision of Domini Social Investments where he provides strategic vision and direction to guide the firm’s policies, procedures, and daily practices. Mr. Lydenberg previously served as the firm’s Chief Investment Officer and was a co-founder of the Domini 400 Social Index, the first index to utilize social and environmental standards. In addition, Mr. Lydenberg is the Founding Director of the Initiative for Responsible Investment (IRI) at the Kennedy School of Government at Harvard University, which was established to provide institutional support for catalytic activity for responsible investment, broadly construed, with a strong focus on creating a foundation of research activity around the field. He has published widely on responsible investment and corporate social responsibility and is a CFA charter holder.

Jessica Ziegler. Ms. Ziegler is the Associate Director for Research at TIIP, where she oversees and directs the execution of all TIIP research projects. Ms. Ziegler has extensive experience in research design, data collection and rigorous qualitative data analysis. She comes to TIIP from Mathematica Policy Research—an industry-leading public policy research firm—where she spent eight years conducting rigorous social policy evaluations. Ms. Ziegler has authored more than a dozen analytic reports on the implementation, costs and effectiveness of federally-funded workforce development, family support and education programs; her reports are used by foundations, non-profits and federal, state and local policymakers to inform policy reform and program improvements. Ms. Ziegler holds a Master of Public Policy from Johns Hopkins University and a Bachelor of Arts in Policy Studies from Dickinson College.

➤ ABOUT TIIP

TIIP helps institutional investors understand the big picture, or “systems-level,” context of their portfolio-level decisions. This is important because “systems-level” events, such as economic crises, ecosystems under stress, and societies in turmoil can disrupt the best-laid plans of investors and cost them dearly. Even seemingly “local” issues are now having much greater impact than they once did as the world becomes increasingly interconnected. TIIP designs, provides and maintains data and analytics that enable institutional investors to make this important connection between portfolio-level decisions systems-level considerations. TIIP’s research portal and database of investor profiles, market analysis, and practical guidance provides a way to better match investors, benchmark systems strategies, and optimize program development. Investors leverage TIIP’s data and analytics to solve program inefficiencies, enhance impact measurement, and boost absolute returns. Learn more at www.tiiproject.com.

APPENDIX A
CENTRAL BANK AND DFI USE OF THE TOOLS OF INTENTIONALITY

Additionality

Development finance institutions	
Grameen Bank	Provides loans to the poorest people from Bangladesh's most remote areas who have been historically underserved by the country's financial system; investing where others do not ensures that the bank adds to the development of these areas and the economy.
Inter-American Development Bank	Requires that projects enhance, or otherwise add, to its member countries' poverty- and inequality-reduction strategies.
International Finance Corporation	Mobilizes investment in countries where capital is otherwise not available, or adds investment capital to the world's most fragile countries including those affected by conflicts; seeks to fortify these countries' underlying environmental, social and financial systems through investments in things like their infrastructure and financial markets.
International Fund for Agricultural Development	Requires that new projects augment, or add to, national poverty eradication efforts as part of its Results-based Country Strategic Opportunities Program.

Diversity of Approach

Development finance institutions	
African Development Bank	Believes that environmental stability (i.e. climate change) and poverty are inextricably linked and deploys a diverse set of related mitigation and adaptation approaches, including: adhering to environmental and social risk standards, connecting member countries and other stakeholders to commensurate resources, and promoting policies that remove regulatory barriers that impede the progress of climate change-related strategies.
Inter-American Development Bank	Uses a diverse set of approaches to address environmental issues, including dedicating financing to climate change mitigation and adaptation programs and connecting stakeholders to information about climate change and mitigation through its Nationally Determined Contribution (NDC) Invest program and in publications such as <i>Stranded Assets: A Climate Risk Challenge</i> .

Evaluations

Development finance institutions	
Inter-American Development Bank	Protects the Latin America and Caribbean ecosystems against climate change through projects like its Biodiversity and Ecosystem Services Program, which aims to help stakeholders understand and measure the economic value of the region's natural capital.

Interconnectedness

Central banks	
De Nederlandsche Bank	Publishes research on pension funds' sustainable investment practices, the risks of climate change, and the transition to the carbon neutral economy with the goal of catalyzing discussion among financial industry stakeholders.
Federal Reserve Bank of Boston	Facilitates interconnected dialogue on the financial and societal barriers to civic resurgence through (a) the publication of proprietary research and dissemination of studies conducted by peers; and (b) coordinating the dissemination of best practices on such resurgence as part of the Working Cities Challenge and the Capital & Collaboration project.
Federal Reserve Bank of San Francisco	Connects community stakeholders and investors to information on the "value of health" as part of its ongoing research and in related reports and publications, including its <i>Health and Community Development</i> periodical and books like <i>Investing in What Works in America's Communities: Essays on People, Place & Purpose</i> , which contains contributions from leaders from the public, private, and non-profit sectors.
The Bank of England	Publishes research and otherwise encourages dialogue about the impacts of climate change on key industry sectors (i.e. insurance) and the financial system broadly speaking;

	disseminates such information in a variety of ways, including public statements by Governor Mark Carney.
The People's Bank of China	Advocates for collaboration between environmental regulators and financial institutions as crucial to China's successful adoption of a Green Credit Policy and green financial system; issues commensurate guidelines.
Development finance institutions	
African Development Bank	Connects member countries to information and resources to build their capacity to fight climate change and to contribute to the success of bank climate change projects; considers such efforts as crucial to poverty reduction; conducts research and publishes papers through its Development Research Department.
Asian Development Bank	Connects stakeholders from its member countries to research, training, and capacity-building resources to support their pursuit of poverty reduction and sustainable growth, including through the Environmental Law Champions Development Award program, which disseminates information about environmental law, and the ADB Institute that provides information on a range of long-term development issues.
European Investment Bank	Uses experience financing climate-focused projects to connect stakeholders to information about tools for climate financing and to participate in discussions to develop principles for integrating climate consideration into investment practices.
Grameen Bank	Trains stakeholders from various sectors and industries on the bank's approach to microcredit in order to increase the capacity of the investment community to address systemic financial and social issues.
Inter-American Development Bank	Uses its platform as a large international development institution to connect stakeholders to information about climate change and mitigation through its Nationally Determined Contribution (NDC) Invest program and publications such as <i>Stranded Assets: A Climate Risk Challenge</i> .
International Finance Corporation	Is committed to ensuring that the development finance community is adequately reporting and otherwise connected to comparable data that facilitates collaboration and learning, as evidenced by its participation in the Harmonized Indicators for Private Sector Opportunities project.
Islamic Development Bank Group	Pursues its strategic objective to encourage connectivity in a variety of ways including: funding transportation infrastructure (primarily roads) that literally <i>connects</i> its member countries; encouraging "reverse linkage" partnerships between its member countries; and sponsoring conferences, information portals and convenings to encourage trade among member countries.

Locality

Central banks	
Federal Reserve Bank of Boston	Focuses on catalyzing the economic resurgence of systematically selected former manufacturing cities in New England as part of the Working Cities Challenge.
Development finance institutions	
Grameen Bank	Structures lending and operations around local villages and requires local branches to familiarize themselves with assigned villages residents and needs.

Polity

Central banks	
De Nederlandsche Bank	Emphasizes the need for public policy reforms that support a smooth transition to a carbon-neutral or carbon-free economy, including policies that are long-term, transparent, and cost-effective.
The Bank of England	Recommends to policymakers how they might encourage the financial community to manage the risks to the stability of the economy that are implicit in various climate change scenarios.

The People's Bank of China	As part of the collaborative government initiative Green Finance Task Force, provided a blueprint for the creation of a green financial system in the country that included policy recommendations for 14 specific actions and nine guidelines that the country's investment community was expected to adopt.
Development finance institutions	
African Development Bank	Considers policy, legal and regulatory reform as an important way to address the risks posed by climate change; promotes public policies that remove regulatory barriers and facilitate climate change-related strategies and activities.
Asian Development Bank	Is committed to enhancing and strengthening public policies and regulations to create conditions conducive to long-term, sustainable investment.
International Fund for Agricultural Development	Actively contributes to public policy debates and regulatory reform at the national and international levels; this recently involved advocating for adequate treatment of smallholder agriculture issues during the formulation of the Sustainable Development Goals included in the United Nations' Agenda 2030 and at the Conference of the Parties.

Self-Organization

Central banks	
De Nederlandsche Bank	Organizes and leads the development of collaborations such as the Platform for Sustainable Finance and the Sustainable Finance Lab, which convene Dutch banks, pension funds and others to develop solutions to sustainability challenges and systemic environmental risks.
The Bank of England	Provides leadership to organizations including the Financial Sustainability Board and the G20 Green Finance Study Group on environmental systems issues, including climate change and related financial risk disclosures and the barriers to scaling up green finance worldwide.
Federal Reserve Bank of Boston	Organizes and provides ongoing support to groups of experts and local stakeholders in their implementation of Working Cities Challenge program models.
Federal Reserve Bank of San Francisco	With partners, organizes the Strong Prosperous and Resilient Communities Challenge to, among other things, provide ongoing technical assistance to cities in addressing societal and environmental challenges associated with racial equality, health, and climate change.
The People's Bank of China	Organized the Green Finance Task Force, which provided a blueprint for actions and guidelines for China's adoption of a green financial system.
Development finance institutions	
International Finance Corporation	Organizes representatives from various stakeholder groups (e.g. government and the private sector) into collaborations like the 2030 Water Resources Group, which identifies ways that investors can help to address global water scarcity challenges.
International Fund for Agricultural Development	Organizes groups of peers and stakeholders to engage in discussions and debates about the challenges of, and solutions to, structural rural poverty (e.g. through the Platform for Agricultural Risk Management and the online discussion series AgTalk).
Islamic Development Bank Group (IDBG)	Engages in numerous capacity-building projects, such as the founding of trade associations and equity investments in Islamic financial institutions.

Solutions

Central banks	
Central Bank of Kenya	Issues long-term infrastructure bonds, the proceeds from which it uses to fund projects focused on fortifying energy infrastructure and clean and alternative energy solutions.
Development finance institutions	
Asian Development Bank	Issues green bonds to raise capital to finance climate change mitigation and adaptation projects important to protecting the livelihoods of the region's coastal area residents and agriculture.

European Investment Bank	Provides leadership in the innovation of new investment tools and solutions to catalyze climate-focused investment, including launching a “climate action portfolio” and Climate Awareness Bonds program.
Grameen Bank	Pioneered the development of microcredit to promote financial inclusion for the poor and to address societal issues worldwide.
International Finance Corporation	Issues green and forest bonds to raise capital to invest in projects to mitigate climate change, deforestation, and forest degradation.

Standards Setting

Central banks	
Central Bank of Kenya	Intentionally refrained from regulating the initial launch of the M-PESA mobile banking platform; <i>not</i> regulating or otherwise setting standards for the platform allowed it to grow quickly, reach many people and, ultimately, encourage financial inclusion and poverty reduction.
The People's Bank of China	Sets standards for green bonds, including which financial institutions can issue them, required documentation and administrative timelines, rules for earmarking bond proceeds to fund green projects, and reporting requirements.
Development finance institutions	
African Development Bank	Requires that all operations and investments adhere to the environmental and social risk standards outlined in the <i>Operational Safeguards</i> of its <i>Integrated Safeguards System</i> .
Asian Development Bank	Assesses the environmental and societal risks of prospective projects, and sets standards for the types of socially or environmentally harmful activities and products that it will not invest in (e.g. forced or child labor, weapons, fishing practices harmful to species or habitats).
European Investment Bank	Has established thorough and comprehensive standards for the incorporation of environmental and social factors into its investment and other activities; its <i>Statement of Environmental and Social Principles and Standards</i> , <i>Environmental and Social Handbook</i> , <i>Emissions Performance Standards</i> and <i>Climate Strategy</i> jointly ensure that the projects that it invests in address environmental, social, and governance considerations.
International Finance Corporation	Contributes to the development of internally utilized and externality shared standards for environmental and societal impact and performance measurement through its <i>Performance Standards on Environmental and Social Sustainability</i> and participation in the Harmonized Indicators for Private Sector Opportunities project.
Islamic Development Bank Group	Applies the standards of Sharia law to all banking and investment practices.

Utility

Development finance institutions	
Grameen Bank	GB is a widely recognized advocate of the utility of microcredit as a vehicle for addressing systemic social issues.
International Fund for Agricultural Development	Assesses how it can attract additional financing to development through matching public and private partners to the financial tools that provide them with the most utility (i.e., the asset classes and other tools that align with their interests and approaches).

APPENDIX B
CENTRAL BANK PROFILES

Central Bank of Kenya (CBK)

Central bank * Headquarters: Kenya * AUM US\$9.9 billion (2016)⁵

AT A GLANCE

Kenya is a recognized leader in **harnessing “fintech” (financial technology) to support financial inclusion**. Financial system observers suggest that CBK, and Kenya’s telecommunications regulators, facilitated this reputation by allowing the country’s first mobile banking provider to launch its program without excessive intervention. Since its success with fintech and financial inclusion, Kenya—and CBK in particular—advocates for the **use of fintech to advance green finance** worldwide.

TOOLS OF INTENTIONALITY

- | | |
|------------------------------------------------|-------------------------------------------------------|
| <input type="checkbox"/> Additionality | <input type="checkbox"/> Polity |
| <input type="checkbox"/> Diversity of approach | <input type="checkbox"/> Self-Organization |
| <input type="checkbox"/> Evaluations | <input checked="" type="checkbox"/> Solutions |
| <input type="checkbox"/> Interconnectedness | <input checked="" type="checkbox"/> Standards Setting |
| <input type="checkbox"/> Locality | <input type="checkbox"/> Utility |

YEARS INTEGRATING

Maintaining financial system stability and community development have been among CBK’s core functions since it was established. CBK first supported “fintech” methods for increasing financial inclusion (and, in turn, reducing poverty) about **10 years** ago, in 2007, with the launch of the mobile banking M-PESA platform. CBK has been discussing green finance, sustainability and the consideration of environmental and social factors for at least **2 years**, since approximately 2015.

SYSTEMS & THEMES FOCUSED ON

- | |
|------------------------------------------------------------------------------|
| <input type="checkbox"/> Environmental |
| <input type="checkbox"/> Biodiversity |
| <input type="checkbox"/> Climate change |
| <input type="checkbox"/> Natural resources |
| <input type="checkbox"/> Oceans |
| <input type="checkbox"/> Renewable energy |
| <input type="checkbox"/> Sustainable land use |
| <input type="checkbox"/> Waste management & pollution |
| <input type="checkbox"/> Water |
| <input type="checkbox"/> Other |
| <input checked="" type="checkbox"/> Societal |
| <input type="checkbox"/> Consumer health & safety |
| <input type="checkbox"/> Corporate governance |
| <input type="checkbox"/> Corruption |
| <input type="checkbox"/> Employment, labor rights & working conditions |
| <input checked="" type="checkbox"/> Income inequality & economic opportunity |
| <input type="checkbox"/> Food production & security |
| <input type="checkbox"/> Human rights |
| <input type="checkbox"/> Infrastructure |
| <input type="checkbox"/> Social equality & inclusion |
| <input type="checkbox"/> Other |
| <input checked="" type="checkbox"/> Financial |
| <input type="checkbox"/> Shareholder rights |
| <input checked="" type="checkbox"/> Stability |
| <input type="checkbox"/> Transparency |
| <input type="checkbox"/> Other |

TOOLS OF INTENTIONALITY: THE CBK “TIIPING POINT”

CBK has taken intentional steps to address the systems-level risks of climate change and the potential rewards of green finance, and to promote societal system stability through financial inclusion and poverty alleviation. It has developed and otherwise supported investment **solutions** for fortifying energy infrastructure and spearheads the **setting of standards** for the use of financial technology to increase access to banking in Kenya’s most remote areas and to grow green finance worldwide. Proceeds from CBK’s issuance of long-term infrastructure bonds, for example, fund clean and alternative energy projects. Its initial abstention from regulating the M-PESA mobile banking platform helped bolster the program’s reach and effectiveness as a financial inclusion and, ultimately, poverty reduction effort. In the years since M-PESA’s launch, CBK has **set standards** for the use of financial technology and other agency banking approaches to strengthen Kenya’s financial system and has partnered with the Kenya Bankers association to develop and promote principles for the integration of economic, social and environmental considerations into banking decision-making. CBK has intentionally used these tools to fulfill its mandate to develop and support sustainable markets in Kenya, and to help the country realize the environmental and societal objectives embedded in its Vision 2030.

ABOUT CBK

CBK is Kenya's central bank. Its primary duties include: (1) formulating monetary policy to maintain price stability and (2) promoting financial stability (e.g. through ensuring effective payment systems, developing foreign exchange policies and managing foreign exchange reserves, issuing currency, and serving and banker and advisor to the Kenyan government). CBK is one of five entities responsible for regulating Kenya's financial system.

In 2008, Kenya launched its Vision 2030, its plan to "transform Kenya into a newly industrializing, middle-income country providing a high quality of life to all its citizens by 2030 in a clean and secure environment" (Kenya Vision 2030). Embedded in the plan is a commitment to expanding financial inclusion, a core focus of CBK. In line with this commitment, CBK is a vocal advocate for employing fintech to increase access to banking services throughout Kenya and, in turn, to reduce poverty. CBK also supports Kenya's embrace of green finance and using fintech to facilitate its transition to a green economy, and asserts that sustainability aligns with its financial stability mandate.

APPROACHES IN PRACTICE

▶ ACTIVITIES

Emphasizes sustainability and supports green finance

In his 2015 address to the Technical Experts Convening on Long-Term Sustainable Finance, CBK's then governor (Njuguna Ndung'u) emphasized the importance of sustainability in the financial sector and voiced support for Kenya's embrace of green finance. He stated:

- *Sustainability aligns with CBK's mandate.* CBK must think "beyond [its] traditional mandate of price and financial stability" and must "also act as market development agents... [and] support development of financial infrastructure, strong institutions and a conducive policy environment" (Ndung'u 2015). This includes ensuring domestic price stability to, in turn, promote market certainty, and promoting financial market accessibility and financial inclusion. Further, as part of its mandate to maintain financial stability, CBK must help to ensure that Kenya's banks are strong and therefore able to consider the long-term and to operate sustainably; "In this regard, CBK has adopted a flexible risk management framework for the banking sector, which can accommodate, among other areas, the management of environmental and societal concerns" (Ndung'u 2015).
- *With its peers from other sectors, CBK and Kenya's financial institutions can help to facilitate the expansion of green finance in Kenya.* According to CBK's governor, Kenya's "ambitious plans to transition to a green economy... comes with tremendous financing opportunities" (Ndung'u 2015). He notes that banking alone cannot support this transition and urges that Kenya's banking, insurance, pension and capital market sectors collaborate to develop requisite across sector solutions. For its part thus far, CBK has issued a series of long-term infrastructure bonds, the proceeds of which "have been used to fund sustainable infrastructural solutions including clean and renewable energy plants, like the geo-thermal power generation" (Ndung'u 2015).

Champions fintech to promote financial inclusion and accelerate green finance

Fintech and financial inclusion. Financial inclusion, or access to personal and business financial services, is one of CBK's focus areas. Each year, its Financial Stability and Access Division oversees the implementation of the FinAccess Household Survey, which measures the "drivers and usage of financial services in Kenya" (FSD 2017). Financial technology, in particular mobile banking (banking transaction conducted using mobile phones or tablets), is among the methods for expanding financial inclusion championed by CBK.

In 2007, CBK supported the launch of the mobile money exchange platform M-PESA by telecommunications provider Safaricom in Kenya. Many financial system observers herald M-PESA as a major success and some note that this success is due, in part, to CBK's and telecommunications regulators' "initial decision to allow the scheme to proceed on an experimental basis, without formal approval" (The Economist 2013).⁶ In other words, not only did CBK and Kenya's telecommunications regulators support the program's launch, but their intentional decisions *not* to intervene in or regulate M-PESA allowed the program to reach more Kenyans (described by the United Nations Environment Program inquiry as "pragmatic policy and regulation"). This is particularly notable given that remittance payments from Kenyan ex-

patriots “are a significant financial resource for [Kenyan] households” (UNEP 2015: 11); these payments can be sent and received through the M-PESA platform, making it a catalyst for both financial inclusion and poverty reduction.

Since M-PESA’s launch, Kenya’s parliament enacted legislation—National Payment System Act of 2010 and National Payment System Regulation of 2014—which expressly allows “agency banking.” Agency banking is a banking model that permits banks to contract with third-party retailers (e.g. M- PESA) to provide bank products and services, and which is overseen by CBK. Further, “Kenya’s breakthrough leadership in advancing financial inclusion through the rapid diffusion of fintech... has inspired the Alliance for Financial Inclusion” (UNEP 2016: 54).

In its advocating for fintech as a means to promoting financial inclusion, CBK also discusses challenges to the approach and recommends future improvements. In a 2015 speech at Dutch development bank FMO’s *Future of Finance* conference, for example, CBK’s governor noted the following: (1) “innovators and financial service providers listen and understand the concerns of their prospective customers,” which will help to optimize product design; (2) “more attention should be given to expanding financial services in the lagging areas” (e.g. small and medium sized enterprises, women, and people living on US\$2.00 to \$5.00 per day); (3) “standardization of technologies will likely yield benefits in the short term, but this should not be allowed to stifle the emergence of new technology” and; (4) “innovations need to deal adequately with the risks arising from these financial services” (e.g. cybercrime and data privacy) (Njoroge, P. 2016).

Fintech, green finance, and the Green Digital Finance Alliance (GDFA). CBK’s governor is a vocal supporter of GDFA, a collaboration of financial institutions, businesses, and other public and private stakeholders formed in 2016 “to address the potential for fintech-powered business innovations to reshape the financial system in ways that better align it with the needs of environmental sustainability” (GDFA 2017). In fact, the homepage of GDFA’s website displays the following quote from Patrick Njoroge, CBK’s governor, “*Innovations in financial technologies (fintech) offer the greatest hope for aligning the world’s financial systems with the urgent twin objectives of sustainable development and deepening financial inclusion. Further progress requires the close cooperation of all--innovators, regulators, financial institutions.*” In this, GDFA’s inaugural year, it will review existing green digital finance strategies, convene stakeholders, examine approaches to measuring and reporting on carbon footprints.

Supports industry collaboratives that advance sustainable finance and banking

The Sustainable Finance Initiative Guiding Principles. CBK supports and, with the Kenya Bankers Association (KBA), promotes Kenya’s Sustainable Finance Initiative Guiding Principles. Launched in 2016, the Principles have been adopted by all 48 banks in Kenya. They assist the banks in thinking beyond financial returns to “give due attention to the economic, social and environmental pillars of development” (SFI 2017). CBK’s governor was an honorary guest and speaker at the event where the Principles were first introduced.

The Sustainable Banking Network. CBK is a member of the International Finance Corporation (IFC)-led Sustainable Banking Network, a voluntary collaborative of “financial sector regulatory agencies and banking associations from emerging markets committed to advancing sustainable finance in line with international good practice” (IFC 2017).

STAFFING

N/A

IMPACT MONITORING & REPORTING

N/A

APPROACH PLANNING AND DEVELOPMENT

N/A

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Profile developed in: February 2017.

Profile developed by: The Investment Integration Project (TIIP). TIIP helps institutional investors understand the big picture, or "systems-level," context of their portfolio-level decisions. "Systems-level" events, such as economic crises, ecosystems under stress, and societies in turmoil can disrupt the best-laid plans of investors and cost them dearly. Even seemingly "local" issues are now having much greater impact than they once did as the world becomes increasingly interconnected.

This profile benefited from the guidance of Nick Robbins, Co-Director of the Inquiry into the Design of a Sustainable Financial System at the United Nations Environment Programme, and draws on the Inquiry's analyses Kenya and CBK in UNEP (2015) and UNEP (2016).

De Nederlandsche Bank (DNB)

Central bank * Headquarters: The Netherlands * AUM US\$230 billion (2015)⁷

AT A GLANCE

DNB believes that environmental, societal and financial systems are linked, and that financial institutions—including central banks—must integrate sustainability into their operations to protect the health of these systems and ensure enduring prosperity. It has established itself as a “catalyzer” for discussion and debate around these topics and emphasizes the following as part of this role:

- ⇒ **Climate change and the transition to the low-carbon or carbon-neutral economy:** Climate change poses considerable long-term risks to the financial system and the transition to a low-carbon or carbon-neutral economy is certain. Carbon-dependent countries like The Netherlands are particularly vulnerable to shifts in energy policy. To allow The Netherlands to adequately prepare for policy changes and assess related risks, and to protect against the “carbon bubble” (aka “stranded” assets), transition policies should be gradual, predictable, transparent, and implemented with consistency.
- ⇒ **Across-sector collaboration and sustainability solution development:** Achieving sustainability will require cooperation from various stakeholders, including banks and other financial institutions, businesses, pensions, insurers and others. DNB therefore leads and otherwise supports across-sector and interdisciplinary collaborations seeking to develop joint sustainability solutions; namely, through its Platform for Sustainable Finance and the Sustainable Finance Lab.

TOOLS OF INTENTIONALITY

- | | |
|--------------------------------------------------------|-------------------------------------------------------|
| <input type="checkbox"/> Additionality | <input checked="" type="checkbox"/> Polity |
| <input type="checkbox"/> Diversity of approach | <input checked="" type="checkbox"/> Self-Organization |
| <input type="checkbox"/> Evaluations | <input type="checkbox"/> Solutions |
| <input checked="" type="checkbox"/> Interconnectedness | <input type="checkbox"/> Standards Setting |
| <input type="checkbox"/> Locality | <input type="checkbox"/> Utility |

YEARS INTEGRATING

Maintaining financial system stability has been among DNB’s core functions since it was established. DNB’s leadership has been publicly advocating for the financial system and business community to address the risks of climate change and the transition to a carbon-neutral economy for **2 years**, since 2015, and started conducting its own research on these topics in 2016.

SYSTEMS & THEMES FOCUSED ON

- | |
|------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> Environmental |
| <input type="checkbox"/> Biodiversity |
| <input checked="" type="checkbox"/> Climate change |
| <input type="checkbox"/> Natural resources |
| <input type="checkbox"/> Oceans |
| <input type="checkbox"/> Renewable energy |
| <input type="checkbox"/> Sustainable land use |
| <input type="checkbox"/> Waste management & pollution |
| <input type="checkbox"/> Water |
| <input type="checkbox"/> Other |
| <input type="checkbox"/> Societal |
| <input type="checkbox"/> Consumer health & safety |
| <input type="checkbox"/> Corporate governance |
| <input type="checkbox"/> Corruption |
| <input type="checkbox"/> Employment, labor rights & working conditions |
| <input type="checkbox"/> Income inequity & economic opportunity |
| <input type="checkbox"/> Food production & security |
| <input type="checkbox"/> Human rights |
| <input type="checkbox"/> Infrastructure |
| <input type="checkbox"/> Social equality & inclusion |
| <input type="checkbox"/> Other |
| <input checked="" type="checkbox"/> Financial |
| <input type="checkbox"/> Shareholder rights |
| <input checked="" type="checkbox"/> Stability |
| <input checked="" type="checkbox"/> Transparency |
| <input type="checkbox"/> Other |

TOOLS OF INTENTIONALITY: THE DNB “TIIPING POINT”

DNB has taken intentional steps to use of the tools of **Interconnectedness**, **Polity**, and **Self-Organization** to address the systems-level risks of climate change and to promote sustainable finance. Through publication of research on sustainable investment and the risks of climate change and the transition to the carbon neutral economy, DNB has created resources to catalyze discussion between, and to otherwise **connect**, financial industry stakeholders (e.g. pension funds) on the topic. The bank further bolsters such efforts to increase the flow of information about these systems-level issues and the importance of integrating sustainability into finance and central banking through statements made by bank representatives at industry events and in other public forums. As part of these statements, representatives commonly emphasize the need for **public policy** reforms that support a smooth transition to a carbon-neutral or carbon-free economy, including policies that are long-term, transparent, and cost-effective. DNB also **organizes** and leads

the development of collaborations such as the Platform for Sustainable Finance and the Sustainable Finance Lab, which convene Dutch banks, pension funds and others to develop solutions to sustainability challenges and systemic environmental risks. These intentional actions can help the bank and the broader Dutch financial system to better manage the risks of systems-level risks of climate change and realize the systems-level rewards of sustainability for the Dutch economy.

ABOUT DNB

DNB is the central bank of The Netherlands. Its primary duties are to: (1) maintain the stability of the Dutch financial system, (2) establish monetary policy and ensure price stability, (3) protect the security and dependability of national payment systems, (4) supervise Dutch insurance and pension providers (as per its 2004 merger with the Pension and Insurance Supervisory Authority of the Netherlands), (5) advise the Dutch government on domestic and international economic policy, and (6) conduct research related to the above. The Netherlands is a member of the European Union (EU) and the Eurozone, the group of EU member states that have adopted the euro as their currency. As such, DNB performs its tasks together with the European Central Bank (ECB), the central bank of the Eurozone.⁸

DNB's legal mandate was updated to include sustainability—"to contribute to the sustainable prosperity of the Netherlands by safeguarding the financial stability"—after the global financial crisis of 2008. As such, the bank believes that it must develop, support and promote solutions for sustainable development. Since at least 2015, it has been conducting research on sustainability, climate change, and related topics, and convening stakeholders and facilitating debate and discussion around systemic issues and their impact on the financial system and vice versa.

APPROACHES IN PRACTICE

▶ ACTIVITIES

Conducts research on sustainable investment and the risk posed by climate change to the financial system

Assessment of Dutch pension funds' sustainable investment policies. In 2016, DNB published *Sustainable investment in the Dutch pension sector*. Using data from a survey of 32 of The Netherlands' largest pension funds' online reporting practices, DNB analyzed whether and how Dutch pensions integrate sustainability into their investment practices and report on such activities per The Netherlands' Pensions Act (which requires pension funds to describe in annual reports how they integrate environmental and social issues into their investment policies). As the supervisor of Dutch pensions and through the study, DNB aimed to: assess compliance with the Act; examine whether the funds are taking adequate steps to protect financial stability for future generations, and; "stimulate dialogue" about "the importance of a balanced and sustainable investment policy, with respect to the risks and opportunities... because it strengthens financial sector stability and contributes to sustainable prosperity" (DNB 2016b: 4).

DNB found that Dutch pensions, both large and small, are increasingly integrating sustainability into their investment policies. It suggested five next steps; three for pension funds and their managers and two for "the entire sustainability investment chain":⁹

Pension funds and their managers should:

1. Strengthen cooperation within the sector
2. Focus on making sustainable investment more transparent
3. Embed sustainability further in risk management policies for the investment portfolio

The sustainability investment chain should:

1. Improve the availability, quality and standardization of environmental, social and governance (ESG) information and aim for unambiguous sustainability reports
2. Conduct further scientific research and studies into the effects of the integration of ESG factors on investment policies

Examination of the potential impact of the transition to carbon-neutrality on the Dutch economy. In its 2016 occasional paper, *Time for Transition: An exploratory study of the transition to a carbon-neutral economy*, DNB states that "Economic activity and energy consumption are inextricably linked" (Schotten et. al. 2016: 9), and notes that the global transition to a carbon-neutral economy is inevitable and underway. To that end and using data collected through literature reviews, original analyses, and expert interviews, the paper assesses the readiness of the Dutch economy to transition from carbon-dependency to carbon-neutrality, highlights the risks that such a transition to the Dutch financial system, and makes

preliminary recommendations for how finance and business might best prepare for the transition and mitigate identified risks. Key assertions from the report include:

- *The transition to the carbon-neutral economy is inevitable and necessary but uncertain.* The world’s dependence on a carbon intensive economic model is not sustainable and the transition to sustainable energy sources is guaranteed. While the 2015 Paris Climate Conference (COP21) nations have committed to this transition, their “ambitions [have yet to be] translated into policies” (Schotten et. al. 2016: 83); therefore, it is not clear how exactly it will occur.
- *The Dutch economy is carbon-intensive and vulnerable to shifts in energy policy.* “The Dutch economy specializes in carbon-intensive processes, making it vulnerable to climate policies, which might damage its competitiveness. In addition, the more rapid the transition, the greater the likelihood of abrupt adjustments” (Schotten et. al. 2016: 83).
- *Energy policy must take a long-term view and be transparent.* Prudent energy policy should take “a long-term view,” “specify clear goals and transition paths for various sectors,” and consider “infrastructural issues (electrification of energy systems, integration of sustainable generation)” (Schotten et. al. 2016: 83). Such an approach allows for the gradual adjustment of investments, adequate public debate, and the development of necessary and innovative new technologies. It remains unclear when, how, and how quickly the COP21 nations will act on their commitment to keeping global warming below 2°C. Financial system stakeholders need complete and clear information about countries’ plans to properly assess potential risks; they require “unambiguous standards [that are] applied by all relevant parties and help put a realistic carbon price on climate risks” (Schotten et. al. 2016: 86).
- *A cost-effective energy policy is one that focuses on reducing carbon emissions and implementing carbon pricing.* To minimize the costs of the transition to a carbon-neutral economy, policymakers must emphasize “emission reduction as the fundamental objective” (Schotten et. al. 2016: 85), with carbon pricing as “essential to achiev[ing] this focus on reducing emissions” (Schotten et. al. 2016: 85). Additionally, the European Union must reform its Emissions Trading Scheme (ETS) and might consider introducing a direct tax on emissions for those industries that currently fall outside the scope of the ETS

Planned research climate change risks for the financial sector and the insurance industry. DNB intends to expand on the initiatives describe above and to conduct additional research on the risks of climate change for the financial and insurance sectors and the related implications for DNB in its supervisory role.

Funds and leads collaborations focused on climate change and sustainability

Platform for Sustainable Finance. DNB launched the Platform for Sustainable Finance in 2016. The Platform convenes Dutch banks, pension funds, insurance companies and other stakeholders—e.g. the Dutch Banking Association, the Dutch Association of Insurers, the Federation of the Dutch Pension Funds, the Dutch Asset and Fund Management Association, the Ministries of Finance and of Infrastructure and the Environment—to discuss and develop across-sector sustainability and climate change initiatives. The Platform is also examining potential regulatory barriers and facilitators related to sustainable finance.

Sustainable Finance Lab (SFL). DNB contributes funds to support the operation of SFL, “an informal interdisciplinary network of mostly academics of different Dutch universities” that identifies and recommends ways that the Dutch financial sector can “contribute to an economy that serves humanity without depleting its environment” (SFL 2017). SFL researches solutions, produces reports, and otherwise participates in debate around four interrelated themes: banks, markets, stability and sustainability.

Fosters financial system and policy dialogue about sustainability and climate change

According to DNB, one of its primary roles is as a catalyst for discussion and debate on systemic issues and topics including sustainability, climate change, and the transition to a carbon-neutral economy. Its research and collaborative efforts (described above) are two ways that DNB fulfills this role; another is through raising issues and making recommendations in public forums. This includes hosting industry events (e.g. the 2015 United Nations Environmental Program Sustainable Finance Seminar), making speeches, and discussing sustainability and climate change on the DNB website and in annual reports. Major themes discussed by DNB across these mediums and over the past two years include:

- *Importance of integrating sustainability and long-term thinking into finance and business.* DNB believes that “climate change, economic growth, financial stability and social wellbeing are inextricably and systemically linked,” and that “a stable financial industry and sustainable economic growth are only possible if [the financial system] integrates sustainability into [its] operations and business models” (Elderson 2015). It warns that addressing systemic environmental, societal and financial issues (e.g. population growth, climate change, natural resource depletion) is urgent, asserts that the financial system must consider the long-term implications of its immediate decisions on these issues (that is, short-term gains must not be “achieved at the expense of the long-term health and stability of the system as a whole” (Elderson 2015), and suggests that there are three main principles to sustainable development. Those principles are: “(1) economic growth that generates wealth and wellbeing for present and future generations; (2) growth that balances the needs of all stakeholders, now and in the future, and; (3) growth that respects the limits and systemic nature of our environment” (Elderson 2015).
- *Role of central banks in promoting sustainability.* Central banks “can– and must – contribute to sustainable development” (Knot 2015), and “must use the power and influence at their disposal to advance sustainability” (Elderson 2015). For DNB, doing so aligns with its mandate to preserve prosperity and safeguard financial stability. DNB therefore directly executes in or otherwise advocates that central banks should engage in, a series of activities, including: (a) incorporating sustainability into core business practices; (b) conducting research; (c) catalyzing discussion and debate; (d) conducting stress tests; and (e) “stimulating markets for specific assets” (e.g. green bonds) and otherwise encouraging sustainable finance, among other things. Much of the above should be done in partnership with financial institutions that must incorporate sustainability and responsible investments and embrace transparency. Systemic issues “could undermine prosperity... alter geopolitical bonds, influence the global flow of trade and impact the long-term prospects of each continent” (Elderson 2015); inaction is not an option.
- *Risks of climate change.* DNB has identified climate change as an “important” example of a risk that could have “considerable” long-term impact on the financial institutions, the broader financial sector, the environment, and society. It increases the threat of extreme weather events and collateral physical damage, which “can impact financial institutions by damaging their investments or – in the case of non-life insurers – through their primary activities” (DNB 2016a: 107).
- *Transition to a low-carbon economy and the carbon bubble (stranded assets).* The transition to a low-carbon or carbon-neutral economy risks the devaluation of carbon assets, sometimes referred to as the “deflation of the carbon bubble” or the “stranding” of carbon assets (ceasing the extraction of fossil fuels), which could be extremely disruptive to financial institutions and the broader financial system. This is particularly true of Dutch financial institutions, which have “considerable” exposure to CO₂-sensitive sectors compared to other European countries. DNB suggests that a gradual, predictable, transparent, and consistently implemented transition to a sustainable economy might mitigate these risks. Such an approach would allow for adequate risk assessment and stress testing and the development deliberate and gradual carbon pricing schemes, and might include a focus on reducing carbon emissions and increasing sustainable energy projects over time.

➤ STAFFING

N/A

➤ IMPACT MONITORING & REPORTING

N/A

APPROACH PLANNING AND DEVELOPMENT

N/A

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Profile developed in: January 2017.

Profile developed by: The Investment Integration Project (TIIP). TIIP helps institutional investors understand the big picture, or “systems-level,” context of their portfolio-level decisions. “Systems-level” events, such as economic crises, ecosystems under stress, and societies in turmoil can disrupt the best-laid plans of investors and cost them dearly. Even seemingly “local” issues are now having much greater impact than they once did as the world becomes increasingly interconnected.

This profile benefited from the guidance of Nick Robbins, Co-Director of the Inquiry into the Design of a Sustainable Financial System at the United Nations Environment Programme, and draws on the Inquiry’s analyses of DNB’s systems-related approaches in UNEP (2015) and UNEP (2016).

Federal Reserve Bank of Boston (FRoFB)

Central bank * Headquarters: United States * AUM N/A

AT A GLANCE

FRoFB believes that **investments in strengthening civic infrastructure** through cross-sector collaborations anchored in effective leadership and a shared long-term vision can improve the economies of New England's small, former manufacturing cities and the well-being of their residents. To this end, FRoFB has partnered with Living Cities to launch the *Working Cities Challenge*, an initiative that identifies and nurtures community development teams in cities in Massachusetts, Rhode Island, and Connecticut that focus on changing systems and improving residents' lives through a shared goal and collaboration with the help of community engagement and data.

TOOLS OF INTENTIONALITY

- | | |
|--------------------------------------------------------|-------------------------------------------------------|
| <input type="checkbox"/> Additionality | <input type="checkbox"/> Polity |
| <input type="checkbox"/> Diversity of approach | <input checked="" type="checkbox"/> Self-Organization |
| <input type="checkbox"/> Evaluations | <input type="checkbox"/> Solutions |
| <input checked="" type="checkbox"/> Interconnectedness | <input type="checkbox"/> Standards Setting |
| <input checked="" type="checkbox"/> Locality | <input type="checkbox"/> Utility |

YEARS INTEGRATING

Maintaining financial system stability and community development have been among FRoB's core functions since it was established in 1941. FRoB first incorporated a focus on improving cities' civic infrastructure, or systems, **4 years** ago in 2013 with the launch of the *Working Cities Challenge* in partnership with Living Cities.

SYSTEMS & THEMES FOCUSED ON

- | | | |
|-------------------------------------------------------|-----------------------------------------------------------------------------------|-----------------------------------------------|
| <input type="checkbox"/> Environmental | <input checked="" type="checkbox"/> Societal | <input checked="" type="checkbox"/> Financial |
| <input type="checkbox"/> Biodiversity | <input type="checkbox"/> Consumer health & safety | <input type="checkbox"/> Shareholder rights |
| <input type="checkbox"/> Climate change | <input type="checkbox"/> Corporate governance | <input checked="" type="checkbox"/> Stability |
| <input type="checkbox"/> Natural resources | <input type="checkbox"/> Corruption | <input type="checkbox"/> Transparency |
| <input type="checkbox"/> Oceans | <input checked="" type="checkbox"/> Employment, labor rights & working conditions | <input type="checkbox"/> Other |
| <input type="checkbox"/> Renewable energy | <input type="checkbox"/> Income inequality & economic opportunity | |
| <input type="checkbox"/> Sustainable land use | <input type="checkbox"/> Food production & security | |
| <input type="checkbox"/> Water | <input type="checkbox"/> Human rights | |
| <input type="checkbox"/> Waste management & pollution | <input type="checkbox"/> Infrastructure | |
| <input type="checkbox"/> Other | <input type="checkbox"/> Social equality & inclusion | |
| | <input type="checkbox"/> Other | |

TOOLS OF INTENTIONALITY: THE FRoFB "TIIPING POINT"

FRoFB has taken intentional steps, exceptional among Federal Reserve System banks and arguably beyond the scope of its community development mandate, to use of the tools of **Interconnectedness**, **Locality**, and **Self-Organization** to catalyze systems-level change in New England's postindustrial cities. Through the publication of proprietary research and dissemination of studies conducted by its peers, FRoFB facilitates **interconnected dialogue** between public, private, non-profit and philanthropic entities about how best to address the financial and societal systems-level barriers to civic resurgence. It focuses on catalyzing the economic "resurgence" of specific **local** areas, namely small, former manufacturing cities in Massachusetts, Rhode Island, and Connecticut as part of the *Working Cities Challenge*. Central to FRoFB's role in the *Challenge* is convening, or **organizing**, external experts (i.e. the *Challenge* Steering Committee) and local stakeholders to implement program models, and **connecting** local teams to peers and experts to establish and disseminate best practices. It plays a similar collaboration-building and information-sharing role as part of its *Capital & Collaboration* project, which aims to attract investment to small postindustrial cities to support cross-sector collaboration among other things. These intentional actions have the potential to create systems-level impacts that mitigate the societal and financial barriers to economic resurgence in specific cities and, ultimately, improve the broader financial system of New England.

While it does not directly invest in initiatives funded through the *Challenge* or *Collaboration*, FRoFB's use of Interconnectedness and Self-Organization enable the initiatives' investor partners to employ the tools of *Locality* and *Additionality* to strengthen systems within specified local regions (i.e. small postindustrial cities) and to provide these areas with *additional* resources to increase their societal and financial resilience.

ABOUT FRoFB

FRoFB is one of the 12 district banks that make up the Federal Reserve System, the central bank of the United States (U.S.). Its district includes six states—Connecticut (all but two counties), Massachusetts, Maine, New Hampshire, Rhode Island, and Vermont. FRoFB's core functions correspond with those of the other Federal Reserve System district banks: establish monetary policy, maintain financial stability, supervise banks and promote the soundness of financial institutions and the financial system, oversee America's payment system and provide financial services to the U.S. government and financial institutions. While each district is a separate incorporated reserve bank and operates independently, the functioning of the System requires extensive collaboration and coordination between districts and is supervised by the centralized Board of Governors.

FRoFB, like all Federal Reserve System district banks, is also responsible for promoting consumer protection and community development, with a focus on underserved and economically disadvantaged (low and moderate income) communities. This includes, among other things, developing and ensuring compliance by financial institutions with relevant laws and regulations (namely, the Community Reinvestment Act), conducting research and analysis and providing technical assistance, and engaging and convening stakeholders. The districts focus these activities around four main issues: housing and neighborhood revitalization, small businesses and entrepreneurship, employment and workforce development, and community development finance.

In 2013, FRoFB partnered with Living Cities to launch the *Working Cities Challenge*, a community development initiative aimed at catalyzing the economic "resurgence" of small, former manufacturing cities in Massachusetts, Rhode Island, and Connecticut. The *Challenge* is modeled after Living Cities' *Integration Initiative*, which is based on promising community development approaches that align with those identified in research conducted by FRoFB and others; namely, that strengthening cities' civic infrastructure through cross-sector collaborations with effective leadership and a shared long-term vision can revitalize their economies and improve the well-being of residents (e.g. increase incomes and reduce poverty).¹⁰ Put another way, the *Challenge* "work[s] to improve the lives of low-income residents by improving systems" (Federal Reserve Bank of Boston (2017), emphasis added).

Subsequent related projects undertaken by FRoFB with a similar emphasis on supporting systemic change in economically depressed cities—namely, the *Capital and Collaboration* project—not only aim to achieve FRoFB's community development objectives, but also aspire to catalyze community investment that:¹¹

- Achieves social, economic and environmental benefits in underserved communities.
- Nurtures economic and neighborhood vitality.
- Makes cities more equitable and sustainable.
- Meets the needs of places and sectors where conventional market activity does not fully meet community needs.

The aforementioned projects are summarized in the Other Activities, Impact Monitoring & Reporting, and Approach Development sections below.

APPROACHES IN PRACTICE

▶ ACTIVITIES

Encourages community development through cross-sector collaboration in the *Working Cities Challenge*

As part of its ongoing community development work, FRoFB partnered with Living Cities to launch the *Working Cities Challenge* in 2013. Through the *Challenge*, which started in Massachusetts and recently grew to include cities in Rhode Island and Connecticut, FRoFB and Living Cities select through a competitive grant competition teams in small, post-industrial cities that commit to "leading collaboratively across sectors, engaging community members, using evidence to track progress toward a shared goal, and working to improve the lives of low-income residents by changing systems" (Federal Reserve Bank of Boston (2017)).

While FRoFB partners with Living Cities to lead the *Working Cities Challenge*, it does not provide the grant funding. Rather, Living Cities and organizations including the Ford Foundation, the Commonwealth of Massachusetts, the Kresge

Foundation, the Rhode Island Department of Labor & Training, Bank of America, the State of Connecticut and many others supply grant funds. FRofB's role in the *Challenge* is two-fold, it:

1. Designs and implements the model with the *Challenge*'s Steering Committee, which is "comprised of leaders from the public, private, and philanthropic sectors" (Federal Reserve Bank of Boston (2017)).
2. Coaches winning teams and helps them with capacity building, "by linking them to experts, best practices, and opportunities for peer networking through a Learning Community designed to be responsive to teams' interests and needs" (Federal Reserve Bank of Boston (2017)).

Since its launch in 2013, teams from 11 cities in Massachusetts have received *Challenge* implementation grants (seed or multi-year) totaling about US\$4.6 million. Examples of initiatives that received grants include:

- **The Lawrence Working Families Initiative.** With a three-year US\$700,000 *Challenge* implementation grant, Lawrence Community Works led the launch of the Lawrence Working Families Initiative and its Family Resource Center. Services provided through the Center include adult education, expanded access to child care and healthcare, and financial coaching. The main objective of the initiative is to increase the incomes of the Lawrence Public School parents by 15 percent over a 10-year period; an additional goal is to increase parent engagement in the schools. Partners include public and not-for-profit entities (e.g. the City of Lawrence, Greater Lawrence Family Health Center), foundations (e.g. the Stevens Foundation), and area businesses (e.g. New Balance).
- **The Acre Initiative.** Acre is one of the poorest and most ethnically diverse neighborhoods in Lowell, Massachusetts; most of its residents live in public housing developments. The Acre Initiative takes a "whole family" approach and provides various services to families living in these housing developments toward the 10-year goals of increasing: (a) household earned income by 10%, (b) the number of adults in "family sustaining employment" by 10%, and (c) the number of pre-school children who are developmentally school ready by 10%. Partners include the City of Lowell, the Lowell Housing Authority, Coalition for a Better Lowell Inc., Greater Lowell Community Foundation, among others. The grant award amount for this project is not available.
- **The Pocket Change: Creating a Somerville that Works for All Initiative.** With US\$100,000 in seed funding from the *Challenge*, the City of Somerville launched its pilot initiative aimed at reducing youth unemployment by 10 percent over a 10-year period. The City of Somerville led the initiative with guidance from area employers and a series of cross-sector task forces. Core initiative activities included hard and soft skill training and internships, all coordinated through mobile and online applications.

As of March 2017, seven cities in Rhode Island were in the process of planning initiatives with the support of *Challenge* design grants and eligible cities in Connecticut were in the process of submitting proposals to receive such grants. The initiatives in each state that show the most promise for achieving the *Challenge*'s overall objectives will be selected for implementation grants like those received in Massachusetts.

Investigates ways to connect postindustrial cities and investors through the *Capital & Collaboration* project

In 2015, FRofB partnered with the Kresge Foundation and Harvard's Initiative for Responsible Investment (IRI) to launch *Capital & Collaboration*, a project "designed to foster capital investment in smaller, postindustrial cities through thoughtful, cross-sector engagement of the local investment community and civic leaders" (Federal Reserve Bank of Boston (2017)). The project is based, in part, on the Kresge and IRI-developed "capital absorption framework" which helps stakeholders to assess a city's ability to attract and use investment capital based on: (a) the "coherence" of, and community support for, its strategic priorities, (b) its ability to "generate deals and projects" toward realization of these priorities, and (c) whether contextual factors might promote or inhibit project execution.

FRofB and partners executed the *Capital & Collaboration* in three phases:

1. **Assessment:** analyze data and conduct interviews to "better understand the capital flows (sources and uses, duration, cost and terms)" in Massachusetts' Working Cities; identify existing investment barriers; assess "demand for low-cost, flexible capital—how much is being used, by whom, and for what" (Federal Reserve Bank of Boston (2017)).

2. **Engagement:** convene a Working Group of representatives from community development finance institutions, intermediaries, banks and financial institutions and other stakeholder groups to lead a series of workshops on “exemplary deals and pipelines for capital investment” (Federal Reserve Bank of Boston (2017)).
3. **Recommendations:** synthesize findings from the assessment and engagement phases and develop commensurate recommendations for connecting cities with investment opportunities.

A September 2016 report produced by the project, for example, assessed the opportunities for and inhibitors to capital investment for downtown revitalization and small business and residential development in Massachusetts’ Working Cities. Researchers conducted interviews and focus groups, analyzed data on capital flows, convened the Working Group, and led a capital absorption workshop focused on these specific investment issues toward the ultimate goal of identifying and recommending opportunities “for improvement and better coordination of existing resources to create transformative change for the Working Cities and the rest of [the state]” (Kresge Foundation et. al. (2016): 3).

Among other things, the report recommends that stakeholders, including cities themselves: (a) improve cross-sector collaboration and communication to increase capacity to attract and efficiently use resources, (b) increase the amount and quality of information on the social and economic impact of investments, (c) ensure that investments pursue community benefits alongside financial returns, (d) clearly communicate priorities and goals so that resources can be deployed accordingly, (e) support community investment through better aligning state policy and the Community Reinvestment Act, and (f) increase the “availability and use of incentives and credit investments”(Kresge Foundation et. al. (2016): 15).

STAFFING

Like the other 11 Federal Reserve System districts, FRofB has a dedicated 17-person Community Development division, which oversees execution of its community development activities including the *Working Cities Challenge* and *Capital & Collaboration*.

IMPACT MONITORING & REPORTING

FRofB and Living Cities partner with Mt. Auburn Associates—a third-party evaluator—to conduct implementation analyses of ongoing *Working Cities Challenge* initiatives that benchmark their progress against stated goals, and to inform guidance, both across sites and for FRofB and Living Cities and for the individual projects. The evaluator’s mid-term assessment of the first round of Massachusetts *Challenge* grants examined each initiative’s: (a) governance and cross-sector engagement; (b) use of data; (c) community engagement, and (d) systems change. The research team conducted document reviews, Learning Community observations, interviews with stakeholders at each initiative, and observations of initiative meetings in each city to assess progress along each of the indicators. Initiative-specific analysis findings for the systems change indicator are summarized in Table 1 below.¹²

Table 1. Mid-Term Implementation of Massachusetts Round 1 *Working Cities Challenge* Grants: Systems Change

City	Initiative-Specific Progress on Systems Change (as of October 2015)
Chelsea	<ul style="list-style-type: none"> • Stakeholders see the Challenge as helping to build relationships they did not have before, including closer relationship between Massachusetts General Hospital (MGH) and The Neighborhood Developers as well as between Chamber of Commerce and Bunker Hill Community College. • City has new capacity and more data-driven approach related to building inspections. • New community engagement officer in police department leading to practice change. • MGH increased funding for community activity; exploring use of NeighborCircles in public health work.
Fitchburg	<ul style="list-style-type: none"> • New relationships between Head Start and School System developed through the initiative. • Stronger relationships leading to unanticipated outcomes: Montachusett Opportunity Council (MOC) and Fitchburg State University (FSU) are conducting feasibility study of MOC-owned property in the North of Main neighborhood for use as a daycare center.; FSU is considering potential for development further up Main Street to have impact on downtown.
Holyoke	<ul style="list-style-type: none"> • New Latino business leadership has emerged. • Holyoke Chamber of Commerce is placing more emphasis on entrepreneurship and inclusion of the Latino business community. • Stronger relationships among the initiative advisory board prompted discussion and exploration of new initiatives/partnerships. • Changes to city business registration system eliminate review and sign-off by multiple departments.

Lawrence	<ul style="list-style-type: none"> • Stronger relationships between Lawrence Public Schools and community organizations; accelerated collaboration of community organizations focused on workforce development; deeper engagement of career center. • School system embracing Challenge-modeled approach for parent engagement.
Salem	<ul style="list-style-type: none"> • City Latino Affairs Coordinator position will be sustained. • North Shore Medical Center named one of its workforce recruiters as liaison to Point neighborhood. • North Shore Workforce Investment Board wants to continue holding workforce programs in Point neighborhood.
Somerville	<ul style="list-style-type: none"> • City now has dedicated staff person for workforce activities. • Somerville Community Corporation and The Career Place report new case management approach with more intensive career coaching. Considering integrating mentorship. Changes based on learning through the initiative.

FROfB and Living Cities supplement these implementation analyses with performance data for each initiative reported on the *Challenge* website; the website currently reports information on initiative-specific performance as it relates to each city's goals on the Massachusetts round one grantees as of June 2015, October 2015, and the conclusion of implementation year two. Similar implementation and performance analyses and data collection will also occur for the second round of Massachusetts grants, and for the Rhode Island and Connecticut grants, as those initiatives progress.

APPROACH PLANNING AND DEVELOPMENT

The *Working Cities Challenge* is an adaptation of Living Cities' *Integration Initiative*, which is based on the promising community development approaches that align with those identified in research conducted by FROfB and others. This research includes:

- **FROfB's analysis of efforts to revitalize the City of Springfield.** Between 2008 and 2011, FROfB conducted research to identify: (a) why Springfield, Massachusetts—a once prosperous manufacturing hub—experienced population and income declines and poverty increases between the 1960s and mid-2000s, and (b) how comparable American cities avoided or recovered from similar trends. A central conclusion of the research is that the cities that recovered, dubbed “resurgent cities” by FROfB, did so through collaboration between numerous organizations and across sectors, with a shared long-term vision, and under the direction of a lead (or “anchor”) organization—collectively referred to as “strong civic infrastructure.” While such collaboration is the “most crucial” catalyst for resurgence, these cities were further helped by investments in infrastructure and the “extension of benefits to the community as a whole” (Kodrzycki and Muñoz (2009)). The research also asserted that Springfield's problems were not insurmountable and resurgence possible.
- **A study of Massachusetts' “Gateway Cities” conducted by MassInc and the Brookings Institution.** As of the mid-2000s, many of Massachusetts' former manufacturing cities lagged behind the rest of the state and its largest city, Boston, along numerous economic and social indicators (e.g. income, poverty, and educational attainment). According to the researchers, such an imbalance “threaten[s] the state's overall economic competitiveness as well as the well-being of thousands of its businesses and families” (Muro et. al. (2007): 25). In their summary report, MassInc and Brookings provided three recommendations for improvement, including that these cities establish cross-sector and regional collaborations and that they focus on improvements to physical and technological infrastructure (e.g. railways, internet and broadband). The research also highlighted the important roles that strong governance and coordinated investments in education, workforce development, and economic development play in economic recovery.

Together with Living Cities' experience with the *Integration Initiative*, these findings shaped the foundational features and goals of the *Challenge*; namely, that it focused on revitalizing small cities throughout New England by making and otherwise cultivating investments in strengthening their civic infrastructure.

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Profile developed in: February 2017.

Profile developed by: The Investment Integration Project (TIIP). TIIP helps institutional investors understand the big picture, or “systems-level,” context of their portfolio-level decisions. “Systems-level” events, such as economic crises, ecosystems under stress, and societies in turmoil can disrupt the best-laid plans of investors and cost them dearly. Even seemingly “local” issues are now having much greater impact than they once did as the world becomes increasingly interconnected.

Federal Reserve Bank of San Francisco (FRofSF)

Central bank * Headquarters: United States * AUM US\$594 billion (2015)¹³

AT A GLANCE

FRofSF believes economies can only thrive when their residents are healthy, educated and safe, and that all are better off when the most vulnerable succeed, particularly in the long-term; as such, it has **incorporated an emphasis on health into its community development activities**. This notably includes partnering with The Robert Wood Johnson Foundation (RWJF) to execute the *Healthy Communities* initiative, which encourages cross-sector collaboration and place-based investment in not only healthcare, but in the social and environmental determinants of health. Beyond fostering well-being, FRofSF seeks through the initiative to “create a market place that truly values health.”

TOOLS OF INTENTIONALITY

- | | |
|--------------------------------------------------------|-------------------------------------------------------|
| <input type="checkbox"/> Additionality | <input type="checkbox"/> Polity |
| <input type="checkbox"/> Diversity of approach | <input checked="" type="checkbox"/> Self-Organization |
| <input type="checkbox"/> Evaluation | <input type="checkbox"/> Solutions |
| <input checked="" type="checkbox"/> Interconnectedness | <input type="checkbox"/> Standards Setting |
| <input type="checkbox"/> Locality | <input type="checkbox"/> Utility |

YEARS INTEGRATING

Maintaining financial system stability and community development have been among FRofSF’s core functions since it was established in 1941. **Seven years** ago, in 2010, FRofSF partnered with RWJF to launch a new initiative that examines the systemic linkages between health (and its component parts, e.g. education, employment and safety) and economic well-being.

SYSTEMS & THEMES FOCUSED ON

- | | | |
|-------------------------------------------------------|-----------------------------------------------------------------------------------|-----------------------------------------------|
| <input type="checkbox"/> Environmental | <input checked="" type="checkbox"/> Societal | <input checked="" type="checkbox"/> Financial |
| <input type="checkbox"/> Biodiversity | <input type="checkbox"/> Consumer health & safety | <input type="checkbox"/> Shareholder rights |
| <input type="checkbox"/> Climate change | <input checked="" type="checkbox"/> Corporate governance | <input checked="" type="checkbox"/> Stability |
| <input type="checkbox"/> Natural resources | <input type="checkbox"/> Corruption | <input type="checkbox"/> Transparency |
| <input type="checkbox"/> Oceans | <input checked="" type="checkbox"/> Employment, labor rights & working conditions | <input type="checkbox"/> Other |
| <input type="checkbox"/> Renewable energy | <input checked="" type="checkbox"/> Income inequality & economic opportunity | |
| <input type="checkbox"/> Sustainable land use | <input type="checkbox"/> Food production & security | |
| <input type="checkbox"/> Water | <input type="checkbox"/> Human rights | |
| <input type="checkbox"/> Waste management & pollution | <input checked="" type="checkbox"/> Infrastructure | |
| <input type="checkbox"/> Other | <input checked="" type="checkbox"/> Social equality & inclusion | |
| | <input type="checkbox"/> Other | |

TOOLS OF INTENTIONALITY: THE FRofSF “TIIPING POINT”

Through collaborative actions with foundations and other stakeholders, FRofSF has made noteworthy use of the tools of **Interconnectedness** and **Self-Organization** to address the systems-level implications of health. Through its ongoing research and related reports and publications—such as its *Health and Community Development Review* and book *Investing in What Works in America’s Communities: Essays on People, Place & Purpose*—and its *Healthy Communities* conferences, FRofSF **connects** community stakeholders and investors to information about the “value of health” and linkages between health and other outcomes. Beyond disseminating information, FRofSF has partnered with foundations and others to **organize** the *Strong Prosperous and Resilient Communities Challenge*, which catalyzes investment in six metro areas to address societal and environmental challenges associated with racial equality, health, and climate change. FRofSF intentionally uses these tools to help local communities to develop and enact the policies and practices that it views as having a high potential for positive impact on the systems-level challenges that they face.

ABOUT FRofSF

FRofSF is the largest of the 12 district banks that make up the Federal Reserve System, the central bank of the United States (U.S.).¹⁴ FRofSF's district includes nine states and three territories—Arizona, California, Hawaii, Idaho, Nevada, Oregon, Utah, and Washington, American Samoa, Guam, and the Commonwealth of the Northern Mariana Islands. FRofSF's core functions correspond with those of the other Federal Reserve System district banks: establish monetary policy, maintain financial stability, supervise banks and promote the soundness of financial institutions and the financial system, oversee America's payment system and provide financial services to the U.S. government and financial institutions. While each district is a separately incorporated reserve bank and operates independently, the functioning of the System requires extensive collaboration and coordination between districts and is supervised by the centralized Board of Governors.

FRofSF, like all Federal Reserve System district banks, is also responsible for promoting consumer protection and community development, with a focus on underserved and economically disadvantaged (low and moderate income) communities. This includes, among other things, developing and ensuring the compliance by regional financial institutions with relevant laws and regulations (namely, the Community Reinvestment Act), conducting research and analysis and providing technical assistance, and engaging and convening stakeholders. The districts focus these activities around four main issues: housing and neighborhood revitalization, small businesses and entrepreneurship, employment and workforce development, and community development finance.

In 2010, FRofSF partnered with The Robert Wood Johnson Foundation (RWJF) to launch *Healthy Communities*, a health-focused community development initiative based on FRofSF and RWJF's shared beliefs that:

- **Health is more than healthcare.** Healthcare is one of many determinants of personal health; in fact, “only 10% of what affects life expectancy is related to healthcare” (FRofSF 2015). To that end, FRofSF and RWJF employ a broader definition of health that also considers its social and environmental determinants such as education, employment, safety, transportation, and housing.
- **Economic and physical health are linked.** According to FRofSF, “our economy can only reach its full potential when everyone is educated, healthy, and has an affordable place to call home” (FRofSF 2017) and “physical and economic health are tightly linked” (Williams 2016).
- **Cross-sector coordination and place-based initiatives can improve health outcomes.** The health and community development, and other sectors (e.g. housing, education, and transportation), can more effectively improve health and low-income communities if they collaborate and pool resources. These stakeholders should recognize that “your zip code is more important than your genetic code” (FRofSF 2015) for predicting health outcomes and should target activities accordingly.
- **Investing in health is a moral and economic imperative.** Investing in the health of disadvantaged communities not only better lives and mitigates disparities, it is also good for the economy and facilitates long-term prosperity. Children from such communities are the future of America's workforce; “They're potential sources of technological and scientific innovation. They'll be paying into our Social Security and protecting our country.... No one who is planning on living past the next decade can afford to dismiss their fate” (Williams 2016).

“Prosperity is like a Jenga tower: Take one piece out and the whole thing can fall. And since wellbeing is the sum of a host of intertwined factors, finding a path to economic mobility and success means addressing them all.”

- John C. Williams,
President and CEO, FRofSF

For FRofSF's part, a key objective of its participation in efforts like *Healthy Communities* is to “create a market place that truly values health” (FRofSF 2015). The activities conducted as part of *Healthy Communities* and similar initiatives toward this and other goals are outlined in the Other Activities section below.

APPROACHES IN PRACTICE

▶ ACTIVITIES

Convenes stakeholders from across sectors to strategize way to improve community health outcomes

As part of its ongoing community development work, and through the *Healthy Communities* initiative in particular, FRofSF convenes stakeholders to explore and strategize how stakeholders from various sectors can collaborate to improve health.

Between 2010 and 2013, FRoSF and RWJF convened more than 10 regional *Healthy Communities* conferences around the country. In a 2013 interview, FRoSF's Director of Community Development noted that these conferences focused on "consciousness raising"—that is, to bring regional stakeholders together to discuss the foundational beliefs of the initiative—and that future, "phase two," conferences would pivot to discussions about operationalize these concepts on the ground (RWJF 2013). FRoSF and RWJF leadership—namely the President and CEO and each organization—give speeches at some of the conferences about the intersection between community development and health and to promote the initiative's core ideals. In February 2016, for example, the two gave back-to-back key note speeches at the *National Interagency Community Reinvestment Conference* that discussed the foundational beliefs of the initiatives (outlined above in About FRoSF).

Participants in the inaugural *Healthy Communities* conference included representatives from the White House, the departments of Health and Human Services and Housing and Urban Development, the Office of Management and Budget, and others from the private and non-profit sectors.

At least one of the regional conferences resulted in the formation of a local Health Communities initiative in 2011, the Las Vegas Healthy Communities Coalition (LVHCC), "a collective impact initiative with a mission to 'foster collaboration and coordination across multiple sectors and stakeholders, to generate healthy outcomes for all Southern Nevadans, ultimately leading to a healthier community'" (Choi 2013: 1). At its inception, LVHCC included 18 partner organizations (from the government, nonprofit, and education sectors, among others), operated with in-kind support from the local United Way and grants from Wells Fargo Bank (US\$100,000) and RWJF (US\$200,000), and focused on collaborate between the education, employment, the natural and built environments, arts and culture, and health and human services sectors.

Publishes books, papers and articles to advance research and discussion on *Healthy Communities'* topics

FRoSF disseminates information and research about why and how various stakeholder groups should and can work together to efficiently improve health outcomes for underserved communities. To that end, FRoSF has developed and otherwise supported the development of numerous publications focused on this and other topics central to its *Healthy Communities'* initiative. Notable among them include:

- ***Health and Community Development.*** Although not specifically a product of *Healthy Communities*, the December 2009 edition of FRoSF's Community Development Investment Review, titled "Health and Community Development," outlined the concepts and issues that underpin the initiative. Individual articles contained within the edition explore issues including the social and environmental determinants of health and their existing inhibitors, financing for community health centers and banking's role in community health, the relationship between physical and financial health, and how the design and (dis)functioning of the healthcare market disproportionately negatively affects low-income people, among other things. Collectively, the articles address the question, "can community development finance help 'bend the cost curve' for health care?", which FRoSF contends the answer to which "is a resounding yes" (FRoSF 2009).
- ***Investing in What Works in America's Communities: Essays on People, Place & Purpose.*** With its partners from the Low Income Investment Fund, FRoSF published *Investing in What Works in America's Communities* in 2012 to "call on leaders from the public, private, and nonprofit sectors to build on what we know is working to move the needle on poverty" (FRoSF & LIIF 2012). Essays focus on how private, non-profit, philanthropic and organizations and investors can improve health outcomes through collaborative action on things like housing and education, and how doing so can revitalize communities. Authors include the then Governor of the Board of Governors of the Federal Reserve System and the then secretaries of the U.S departments of Housing and Urban Development, Education, and Health and Human and Services, among others from academia, research, finance, and community development.

Further encourages investment in low income communities through the SPARCC initiative

FRoSF launched the three-year Strong Prosperous and Resilient Communities Challenge (SPARCC) in 2016 and in partnership with Enterprise Community Partners, the Low Income Investment Fund, and Natural Resources Defense Council and with \$90 million in funding provided by RWJF, the Ford Foundation, The JPB Foundation, The Kresge Foundation, and The California Endowment.

Through SPARCC, FRoSF and its partners will "amplify efforts within communities to make sure that major new investments in the places we live, work, and play lead to equitable and healthy opportunities for everyone" (SPARCC

2017). It focuses on six regions—Atlanta, Chicago, Denver, Los Angeles, Memphis and the San Francisco bay area—and investments that address three core issues:

- **Racial equity.** “Inclusive communities, where low-income people and people of color are able to fully participate in and benefit from a strong regional economy, create better outcomes for everyone” (SPARCC 2017). SPARCC supports investment in approaches that advance empowerment of marginalized persons.
- **Health.** “Today, in our nation the place where an individual is born or grows up is a major predictor of his or her health and lifespan” (SPARCC 2017). SPARCC supports investment in models that align with the core principles of the Healthy Communities initiative; that is, across sector collaboration and a holistic definition of health that includes its social and behavioral determinants.
- **Climate.** “Climate change affects us all by increasing risks to the places we live from events like floods and droughts, and to our health from illnesses, such as asthma” (SPARCC 2017). SPARCC supports investments in “the built environment” that reduce pollutions and other environmental hazards.

According to SPARCC’s website, “local leaders know that while typically tackled separately these issues are deeply intertwined” (SPARCC 2017).

Among other things, SPARCC will provide grants and technical assistance and develop “a learning network” and will “advance local efforts to create neighborhood and systems-level change through five strategies: data collection and analysis, capital deployment, learning network, policy reform, and communications and influence” (SPARCC 2017).

STAFFING

Like the other 11 Federal Reserve System district banks, FRofSF has a dedicated Community Development division, which oversees execution of its community development activities including Healthy Communities and SPARCC. A core function of the 11-person division is to analyze qualitative and quantitative data on low-income communities as part of its Center for Community Development Investments.

IMPACT MONITORING & REPORTING

N/A

APPROACH PLANNING AND DEVELOPMENT

N/A

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Profile developed in: February 2017.

Profile developed by: The Investment Integration Project (TIIP). TIIP helps institutional investors understand the big picture, or "systems-level," context of their portfolio-level decisions. "Systems-level" events, such as economic crises, ecosystems under stress, and societies in turmoil can disrupt the best-laid plans of investors and cost them dearly. Even seemingly "local" issues are now having much greater impact than they once did as the world becomes increasingly interconnected.

The Bank of England (BofE)

Central bank * Headquarters: United Kingdom * AUM: US\$500 billion (2017)¹⁵

AT A GLANCE

BofE believes that systemic environmental and societal changes impact the financial system and that addressing such changes aligns with its mandate to maintain monetary and financial stability in the United Kingdom (U.K.). It provides a model for identifying climate change-related risks and opportunities, and for collaborating with peers to develop and disseminate commensurate solutions. Notable related activities include:

- ⇒ **Leading international collaborations to address climate change-related risks and the financial system's response:** BofE co-chairs and otherwise leads international collaborations charged with convening stakeholders and recommending how the financial system and policymakers might confront climate change-related risks and capitalize on climate change-related opportunities (e.g. the Financial Sustainability Board Task Force on Climate-related Financial Disclosures and the G20 Green Finance Study Group).
- ⇒ **Assessing and reporting on climate change-related risks facing the U.K.'s insurance industry and BofE:** As part of examinations conducted in 2015 and 2016, BofE determined that climate change poses physical and transitional risks to central banks and physical, transitional, and liability risks to the U.K.'s insurance industry. The assessments found that, while these entities might be reasonably well-equipped to address some of these risks and the magnitude of others is uncertain, these risks cannot be ignored and require financial system action.

SYSTEMS & THEMES FOCUSED ON

<input checked="" type="checkbox"/>	Environmental
<input type="checkbox"/>	Biodiversity
<input checked="" type="checkbox"/>	Climate change
<input type="checkbox"/>	Natural resources
<input type="checkbox"/>	Oceans
<input type="checkbox"/>	Renewable energy
<input type="checkbox"/>	Sustainable land use
<input type="checkbox"/>	Water
<input type="checkbox"/>	Waste management & pollution
<input type="checkbox"/>	Other
<input checked="" type="checkbox"/>	Societal
<input type="checkbox"/>	Consumer health & safety
<input type="checkbox"/>	Corporate governance
<input type="checkbox"/>	Corruption
<input type="checkbox"/>	Employment, labor rights & working conditions
<input checked="" type="checkbox"/>	Income inequality & economic opportunity
<input type="checkbox"/>	Food production & security
<input type="checkbox"/>	Human rights
<input type="checkbox"/>	Infrastructure
<input checked="" type="checkbox"/>	Social equality & inclusion
<input checked="" type="checkbox"/>	Other (demography, longevity)
<input checked="" type="checkbox"/>	Financial
<input type="checkbox"/>	Shareholder rights
<input checked="" type="checkbox"/>	Stability
<input checked="" type="checkbox"/>	Transparency
<input checked="" type="checkbox"/>	Other (digital currencies)

TOOLS OF INTENTIONALITY

<input type="checkbox"/>	Additionality	<input checked="" type="checkbox"/>	Polity
<input type="checkbox"/>	Diversity of approach	<input checked="" type="checkbox"/>	Self-Organization
<input type="checkbox"/>	Evaluation	<input type="checkbox"/>	Solutions
<input checked="" type="checkbox"/>	Interconnectedness	<input type="checkbox"/>	Standards Setting
<input type="checkbox"/>	Locality	<input type="checkbox"/>	Utility

YEARS INTEGRATING

Maintaining financial system stability and community development have been among BofE's core functions since it was established. The connection between climate change and BofE's mandate to maintain financial stability was first made **5 years** ago, in 2012, when its Prudential Regulation Authority (PRA) launched an analysis of the impact of climate change and the transition to a low-carbon economy on the U.K.'s insurance industry, according to researchers at the United Nations Environment Programme.

TOOLS OF INTENTIONALITY: THE BofE TIIPING POINT

BofE has taken intentional steps, exceptional among central banks, to use of the tools of **Interconnectedness**, **Self-Organization** and **Polity** to address the systems-level risks of climate change. Through publication of research and public statements by its Governor,

BofE has created resources to promote **interconnection** through dialogue among central banks and other members of the financial community on this topic. It has also engaged in **organization-building** around this issue through its leadership of the Financial Sustainability Board and the G20 Green Finance Study Group. These efforts have resulted in a variety of specific **policy** and regulatory recommendations and other signals that central bankers can send to the financial community to encourage it to manage the risks to the stability of economy are implicit in various climate change scenarios. These intentional actions have the potential to create systems-level impacts that can mitigate the highly uncertain, disruptive risks of climate change to specific industries such as insurance as well as to the United Kingdom's economy as a whole.

ABOUT BofE

BofE is the central bank of the United Kingdom. Established in the 1600s, BofE has three primary responsibilities: (1) design and print United Kingdom currency, (2) monitor and address risks to financial stability, and (2) set national monetary policy, including interest and inflation rates.

Over the past five years, BofE—under the leadership of its governor, Mark Carney—has publicly voiced concerns about the risks posed by climate change to central banks and the broader financial system and has launched a series of initiatives to examine these risks. According to BofE, doing so directly aligns with its mandate to maintain monetary and financial stability. Beyond climate change, BofE acknowledges (through its One Bank Research Agenda) that societal issues (e.g. demography and inequality) might similarly impact the financial system and require central bank action.

APPROACHES IN PRACTICE

▶ ACTIVITIES

Conducts research on the impact of climate change on major sectors, central banks, and the financial system

Inclusion of climate change and societal systems themes in the One Bank Research Agenda. In 2014, BofE launched a new three-year strategic plan—One Bank, One Mission—which aims to ensure that all bank policies and activities serve its mission “to promote the good of the people of the United Kingdom by maintaining monetary and financial stability” (BofE 2017).

As part of the plan, the bank established the One Bank Research Agenda, which outlines its research objectives around five themes, including “Central bank response to fundamental technological, institutional, societal and environmental change” (BofE 2017). Research within this theme explores such issues as:

- Demography
- Increasing longevity
- Inequality
- Climate change
- Emerging economies
- Digital currencies

According to BofE, the “potential policy implications” of each of the above might “range from the evolution of real interest rates to risks to the financial sector to the future of money and banking itself” (BofE 2017). Toward understanding these implications, the bank’s research aspires to answer questions like “Could these and other sources of global imbalances place stress on the international financial system?” and “How should macroprudential, microprudential and monetary policy regimes be designed to accommodate these long-term shifts?” among others.

Assessment of climate change risk for the United Kingdom’s insurance sector. In 2015, BofE’s Prudential Regulation Authority (PRA) released its report, *The impact of climate change on the UK insurance sector*. The report, which is based on surveys of and discussions with insurance firms, and roundtables with firms and other industry stakeholders, identified that the insurance industry faces the following three climate change-related risks:

- *Physical risks.* Risks that “arise from weather-related events, such as floods and storms” (PRA 2015: 4), including property damage and supply chain disruption and resource scarcity, which could impact liabilities and the value of assets.
- *Transition risks.* Risks that arise from the transition to a low-carbon economy; that is, risks such as “the potential re-pricing of carbon-intensive financial assets, and the speed at which any such re-pricing might occur” (PRA 2015: 4), which could “strand” carbon assets.

- *Liability risks.* Risks that arise when third-parties seek to recover losses from climate change-related damage and the costs of the claims are passed on to insurance companies.

PRA concluded that the insurance industry is equipped to manage these risks in the near term, but noted that “increasing physical risks could present meaningful challenges to insurance business models and the full range of risks from climate change identified” (PRA 2015: 8). PRA asserted that “climate change is becoming increasingly relevant to financial regulation” (PRA 2015: 67), and stated that it will “focus on promoting resilience to climate change and supporting an orderly financial sector transition to a lower carbon economy” through international collaboration, research, dialogue and supervision. The report also suggests that insurance firms might pursue some of the “opportunities” related to climate change, such as offering new products (e.g. renewable energy project insurance) and investing in green bonds.

Review of the implications of climate change and climate change mitigation policies for central banks. Building on its analysis of climate change risk for the U.K.’s climate sector, BofE released its white paper *Let’s talk about the weather: the impact of climate change on central banks* in 2016. The paper examines the potential impact of climate change and changes in the world energy supply (i.e. the transition to a low-carbon economy) on central banks in advanced economies, and describes the following as the primary climate change-related risks facing central banks and the financial system:

- *Weather-related natural disasters.* The risk for extreme weather events (e.g. flooding, heat waves, and heavy precipitation) increases as the planet warms. Such events “could trigger financial instability and a macroeconomic downturn if [they were to] cause severe damage to the balance sheets of households, corporates, banks and insurers” (Batten et. al. 2016: 27). To proactively hedge this risk, central banks and the financial system might price such risks into financial contracts and otherwise “distribute them efficiently” (e.g. via insurance and reinsurance). After the disasters, banks must “gauge the impact on the output gap, inflationary pressure and the financial system – for example, by adjusting monetary policy and supplying liquidity to the financial system if needed” (Batten et. al. 2016: 27).
- *Gradual warming.* Though more research and sector-level analysis is needed, the gradual warming of the planet could “affect an economy’s potential growth rate” (Batten et. al. 2016: 27).
- *Sudden, unexpected “tightening” of carbon emissions policies.* Abrupt and unanticipated shifts in carbon emissions policies—namely, policies that restrict emissions—“could lead to a disorderly repricing of carbon-intensive assets and generate a negative supply shock” (Batten et. al. 2016: 27) (i.e. stranded assets). These risks might be mitigated through an “orderly” transition to a low-carbon economy that focuses on (a) predictable and transparent policies, (b) re-directing private investment toward low-carbon technologies, and (c) industry climate-related disclosure. A more measured and transparent transition would increase central banks’ capability to effectively examine the potential stressors of the transition on the financial system.
- *Changes in weather patterns and reliance on bioenergy.* These changes and this reliance “could increase the volatility of food and energy prices, and hence the volatility of headline inflation rates” (Batten et. al. 2016: 28), making it “more challenging for central banks to gauge underlying inflationary pressures and maintain inflation close to the target” (Batten et. al. 2016: 28).

Leads and convenes groups focused on climate change and the financial system

The Financial Sustainability Board (FSB) and the Task Force on Climate-related Financial Disclosures (TCFD). In his role as chairman of the FSB, BofE governor Mark Carney led the launch of the industry-led TCFD in 2015, chaired by Michael Bloomberg. The group was tasked with developing “voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to lenders, insurers, investors and other stakeholders” (FSB 2017).

To that end, in 2016, TCFD released for comment its draft recommendations for how businesses, the financial industry, and other key industry sectors (e.g. energy and transportation) might disclose such information. The recommendations encourage climate-related disclosures around: governance; actual and potential risks to corporate strategy; risk identification, assessment, and management, and; metrics and targets used to assess risks and opportunities. They also outline “principles for effective disclosures” which includes, among other things, that disclosures should “represent relevant information,” “be specific and complete,” and “be comparable among companies within a sector, industry, or portfolio” (TCFD 2016: 17). An appendix to the report containing the recommendations provides guidance for implementing them.

Beyond the draft recommendations, the task force also suggested areas for additional consideration including aligning TFCFD’s work with that of other standards setting efforts, continuing research to improve data quality, developing methods for greenhouse gas emission allocation for asset classes beyond public equities, and refine scenario analysis methodologies and conduct such analyses.

G20 Green Finance Study Group (GFSG). In 2016, the G20 leadership selected BofE to co-chair GFSG with the People’s Bank of China toward the purpose of assessing the barriers to scaling-up green finance worldwide. That is, to determine how the financial system—including central banks—can better facilitate “the financing of investments that provide environmental benefits in the broader context of environmentally sustainable development” (G20 2016: 5).

In its summary report, released in 2016, GFSG recommends that, “to enhance the ability of the financial system to mobilize private capital for green investment,” G20 countries should: (1) “provide clearer environmental and economic policy signals for investors regarding the strategic framework for green investment”; (2) “develop, improve, and implement voluntary principles for and evaluate progress on sustainable banking, responsible investment and other key areas of green finance”; (3) “mobilize support for the expansion of knowledge-based capacity building platforms” (e.g. the Sustainable Banking Network and the U.N. Principles for Responsible Investment); (4) “support the development of local green bond markets”; (5) “promote cross-border investment in green bonds”; (6) “encourage and facilitate knowledge sharing on environmental and financial risk” and; (7) “improve the measurement of green finance activities and their impacts” (G20 2016: 4).

Central Banking, Climate Change and Environmental Sustainability workshop. In November 2016 and with the Council on Economic Policies (CEP) and as part of its One Bank Research Agenda, BofE hosted a workshop for central banks, academics and other researchers to explore the potential effects of climate change on central banks and the intersection between financial regulation, monetary policy and environmental sustainability. A call for papers prior to the event requested research that explored answers to such questions as: *What are possible effects of environmental risks (e.g. climate change) and policies to mitigate them (e.g. carbon taxes) on central bank objectives (e.g. price and financial stability)?, What roles might the financial system play in propagating or mitigating these risks?, and What environmental externalities might arise from monetary policy and financial regulation?,* among others.

Advocates for a financial system focus on climate change at industry events

Mark Carney speeches. In his roles as governor of BofE, FSB chair, and GFSG co-chair, Mark Carney gives speeches about the risks of climate change to central banking; notable speeches include those to a group of insurance professionals at Lloyd’s of London in September 2015 and to the United Nations General Assembly in April 2016. Carney’s speeches discuss BofE, FSB, and GFSG’s climate change-focused activities (discussed above), and highlight the following additional and interrelated themes:

- *Climate change and the “tragedy of horizon.”* While the world feels the effects of climate change today, scientists predict that the most catastrophic impacts are yet to come. The “tragedy” is that these effects will be felt beyond the traditional horizons of most actors... beyond the business cycle, the political cycle, and the horizon of technocratic authorities” (Carney 2015), providing little incentive for them to act. Put simply, “once climate change becomes a defining issue for financial stability, it may already be too late” (Carney 2015). Government intervention is necessary to address this issue.
- *Need for a “FAIR” system.* The financial system must be Fair (rejects “heads-I-win tails-you-lose” and “too-big-to-fail” approaches and embraces discipline), Aligned (aligns incentives and promotes disclosure and transparency), Inclusive (expands access to finance and advances related technology) and Resilient (addresses and prevents systemic failures that led to the recent global financial crisis) if the world is to achieve the United Nations Sustainable Development Goals (SDGs) and combat climate change.

STAFFING

N/A

IMPACT MONITORING & REPORTING

N/A

APPROACH PLANNING AND DEVELOPMENT

N/A

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Profile developed in: January 2017.

Profile developed by: The Investment Integration Project (TIIP). TIIP helps institutional investors understand the big picture, or “systems-level,” context of their portfolio-level decisions. “Systems-level” events, such as economic crises, ecosystems under stress, and societies in turmoil can disrupt the best-laid plans of investors and cost them dearly. Even seemingly “local” issues are now having much greater impact than they once did as the world becomes increasingly interconnected.

This profile benefited from the guidance of Nick Robbins, Co-Director of the Inquiry into the Design of a Sustainable Financial System at the United Nations Environment Programme, and draws on the Inquiry’s analyses of BoE’s systems-related approaches in UNEP (2016a) and UNEP (2016b).

The People's Bank of China (PBoC)

Central bank * Headquarters: China * AUM N/A

AT A GLANCE

PBoC is a vocal proponent of establishing a green financial system—in China and worldwide—to repair and prevent environmental degradation, mitigate climate change, and advance environmental sustainability. In line with this commitment and China's "war on pollution," PBoC:

- ⇒ **Convenes taskforces and study groups to assess and recommend ways to transition China and the world to a green financial system.** In 2014, PBoC partnered with the United Nations Environmental Programme (UNEP) to convene the Green Finance Task Force and, ultimately, to recommend 14 specific next steps for China's transition to a green financial system. In 2016, as part of its G20 presidency, China established the G20 Green Finance Study Group, an international collaboration focused on greening the global financial system and co-chaired by PBoC.
- ⇒ **Establishes guidelines for green finance and for specific components of green financial systems.** Together with China's other financial regulation agencies, PBoC has developed guidelines for establishing China's green financial system, a green credit policy, and for green bonds. It does so toward the goal of deterring financing for high-polluting and energy-intensive enterprises and encouraging investment in energy conservation and emission reduction projects and, ultimately, protecting China's environment.

TOOLS OF INTENTIONALITY

- | | |
|--------------------------------------------------------|-------------------------------------------------------|
| <input type="checkbox"/> Additionality | <input checked="" type="checkbox"/> Polity |
| <input type="checkbox"/> Diversity of approach | <input checked="" type="checkbox"/> Self-Organization |
| <input type="checkbox"/> Evaluation | <input type="checkbox"/> Solutions |
| <input checked="" type="checkbox"/> Interconnectedness | <input checked="" type="checkbox"/> Standards Setting |
| <input type="checkbox"/> Locality | <input type="checkbox"/> Utility |

SYSTEMS & THEMES FOCUSED ON

- | |
|------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> Environmental |
| <input type="checkbox"/> Biodiversity |
| <input checked="" type="checkbox"/> Climate change |
| <input type="checkbox"/> Natural resources |
| <input type="checkbox"/> Oceans |
| <input type="checkbox"/> Renewable energy |
| <input type="checkbox"/> Sustainable land use |
| <input checked="" type="checkbox"/> Waste management & pollution |
| <input checked="" type="checkbox"/> Water |
| <input type="checkbox"/> Other |
| <input type="checkbox"/> Societal |
| <input type="checkbox"/> Consumer health & safety |
| <input type="checkbox"/> Corporate governance |
| <input type="checkbox"/> Corruption |
| <input type="checkbox"/> Employment, labor rights & working conditions |
| <input type="checkbox"/> Inequality & economic opportunity |
| <input type="checkbox"/> Food production & security |
| <input type="checkbox"/> Human rights |
| <input type="checkbox"/> Infrastructure |
| <input type="checkbox"/> Social equality & inclusion |
| <input type="checkbox"/> Other |
| <input checked="" type="checkbox"/> Financial |
| <input type="checkbox"/> Shareholder rights |
| <input checked="" type="checkbox"/> Stability |
| <input type="checkbox"/> Transparency |
| <input type="checkbox"/> Other |

YEARS INTEGRATING

Maintaining financial system stability and community development have been among PBoC's core functions since it was established. PBoC first signaled its concern for the environment more than **25 years** ago, in 1995, through its *Notice on Relevant Matters of Implementing Credit Policies and Enhancing Environmental Protection*. It was not until **4 years** ago (in 2013), however, that the Chinese Communist Party Central Committee formally charged PBoC to work with its peer agencies to develop financial policies to support China's commitment to environmental protection and sustainability.

TOOLS OF INTENTIONALITY: THE PBoC "TIIPING POINT"

Through collaborative actions with other branches of the Chinese government, PBoC has made notable use of the tools of **Polity** and **Self-Organization**, along with supporting steps toward **Interconnectedness** and **Standards Setting** to address the systems-level risks of climate change and to drive the country toward the practice of "green finance." PBoC helped to **organize** the multi-party collaborative government initiative, the Green Finance Task Force, to provide a blue print for the creation of a green financial system and

commensurate **policy** recommendations and guidelines for China's finance community. PBoC has also issued **standards** including the use of green bond proceeds and reporting requirements and had increased the **interconnectedness** among Chinese environmental regulators and its financial institutions. It has intentionally used these tools to direct China's finance community to policies and practices that have a high potential for positive impact on the systems-level challenges that the country faces.

ABOUT PBoC

PBoC is the central bank of China. It is one of four entities responsible for regulating and supervising China's financial system (as part of the country's socialist market economy); the others are the China Banking Regulatory Commission, China Securities Regulatory Commission, and the China Insurance Regulatory Commission. Among PBoC's major responsibilities are: developing and enforcing financial laws, rules and regulations; establishing monetary policy; issuing and stabilizing currency; and ensuring financial stability.

China faces a myriad of environmental problems, including poor air quality and polluted water. These issues are exacerbated by an economy that relies on high-pollution industries and carbon-intense energy sources (namely, coal).¹⁶ In 2013, and in recognition of its environmental ills and the need for China to develop a more sustainable economy, the 18th National Congress of the Communist Party of China (CPC) committed to establishing China as "an ecological civilization" and noted that it "must establish systematic and integral ecological civilization institutions and systems, and use institutions to protect the ecology and the environment" (CPC 2013). This commitment was reinforced in 2014 when China's Premier Li Keqiang "declared war" on pollution. In line with these assertions, PBoC has initiated various efforts to encourage China's transition to a green financial system. While PBoC has been recommending ways that China's financial system might support the alleviation of its environmental problems for at least 25 years, it launched its holistic promotion of green finance in China (and the broader global economy) in approximately 2013 or 2014.¹⁷ These and related activities are outlined in the Other Activities section below.

PBoC is one of many Chinese entities that are developing and enacting plans as per the environmental objectives outlined in the 18th CPC's Five Year plan, and most of its environmentally-focused work is done in collaboration with or as a compliment to that of the country's other regulatory agencies. This profile focuses on those initiatives in which PBoC is involved and, in particular, those for which it has a leadership role.

APPROACHES IN PRACTICE

▶ ACTIVITIES

Established and oversees China's Green Credit Policy

Together with China's Ministry of Environmental Protection (MEP) and the China Banking Regulatory Commission (CBRC), PBoC established and launched the Green Credit Policy in 2007 (also known as *Opinions on Implementing Environmental Protection Policies and Rules and Preventing Credit Risks*). Banks provide as much as 80% to 90% of financing to Chinese enterprises; as such, the primary purposes of the policy are to deter lending to high-polluting and energy-intensive enterprises and encourage lending to energy conservation and emission reduction projects. The policy has three main components:¹⁸

- Increase commercial banks' ability to, and require that they, assess and manage environmental risks and performance. That is, banks should not lend to poor environmental performers and should favor lending to energy conservation and emission reduction projects.
- Establish a process for the sharing of information between environmental regulators and financial institutions. This includes developing and releasing an environmental "blacklist" of companies that break environmental laws or do not pass Environmental Impact Assessments.
- Identify, track, and penalize financial institutions or regulators that violate the policy, with which compliance is mandatory.

MEP, CBRC and PBoC have published a series of documents containing clarifying information about the policy and implementation guidance in the years since its initial issuance. This includes CBRC's Green Credit Guidelines (2012), which further encourage banks to utilize green credit and assess environmental risks; specifically, the Guidelines require that banks develop environmental and social risk rating schemes, encourage innovation, strengthen environmental and social due diligence, and audit and otherwise evaluate borrowers' environmental performance, among other things.

Convened *Green Finance Task Force* and developed *Guidelines for Establishing the Green Financial System*

Green Finance Task Force. In 2014 and in partnership with the United Nations Environmental Programme (UNEP), PBoC's Research Bureau convened the Green Finance Task Force—which included 40 experts from ministries, financial regulators, academics, banks and other financial institutions, and international experts—to examine other developed countries' green policies and discuss how China could establish a green financial system of its own. According to the Task Force, establishing a green financial system—defined as “a series of policies, institutional arrangements and related infrastructure building that, through loans, private equity, issuance of bonds and stocks, insurance and other financial services, steer private funds toward green industry” (PBoC UNEP 2015: 6)—is crucial to combatting environmental degradation.

The Task Force's final report, released in 2015, recommends 14 specific actions, which it describes as falling into four broad areas:¹⁹

Specialized investment vehicles to support green investment, including green banks and funds

1. Sponsor the creation of the China Ecological Development Bank and encourage the creation of local green banks.
2. Promote the development of green industry funds through public-private partnership arrangements.
3. Adopt environmental policies for overseas development institutions.

Fiscal and financial support, especially to promote green bonds and green initial public offerings

4. Improve the system for providing discounted interest rates on green loans.
5. Develop the green bonds market by issuing industry guidelines, permitting and encouraging banks and enterprises to issue green bonds and providing incentives.
6. Improve the mechanism through which environmental performance is communicated and recognized in equity markets.

Financial infrastructure covering for example carbon markets, green credit ratings and stock indices

7. Accelerate the formation of markets for emission trading.
8. Establish a green rating system to bring down the financing costs for green enterprises and projects.
9. Promote the creation and use of green stock indices that orient the capital market to green industry.
10. Create a public nonprofit environmental cost analysis system and database.
11. Create a green investor network to foster the expertise and capabilities of institutional investors in investing in green industries.

Legal infrastructure, including provisions to advance environmental lender liability, and compulsory environmental liability insurance and disclosure of environmental information

12. Implement compulsory green insurance for key industries.
13. Identify and clarify environmental liabilities of banks.
14. Establish mandatory environmental disclosure requirements for listed companies.

The report also noted that there are three mechanisms through which China can combat apparent market failures (i.e. that companies benefit from investment in high-polluters, but society is harmed by such investments) and encourage private investment in green projects: (1) “increase return on investment to green projects”; (2) “reduce the return on investment of polluting projects” and; (3) “increase awareness and responsiveness to these signals amongst investors, companies and consumers” (PBoC UNEP 2015: 2).

Guidelines for Establishing the Green Financial System. In 2016, approximately one year after the Green Finance Task Force released its final report, PBoC collaborated with six other Chinese financial regulation entities (the Ministry of Finance, the National Development and Reform Commission, the Ministry of Environmental Protection, China Banking Regulatory Commission, China Securities Regulatory Commission, and China Insurance Regulatory Commission) to develop the *Guidelines for Establishing the Green Financial System*. Broadly speaking, the guidelines: (a) emphasize the need to establish a green financial system that mobilizes private investment in green sectors and discourages investment in polluting sectors; (b) encourage policy incentives and related support for green investment; (c) discuss the importance of

establishing standards for green finance; (d) request the development of green and pollution liability insurance systems, and; (e) highlight the role of local governments and authorities in promoting green finance.

The nine guidelines and select examples of how, specifically, each should be adopted are:²⁰

1. Establish a green financial system that supports environmental improvement

- Finance and otherwise support green projects in areas such as environmental protection, energy savings, clean energy, green transportation, and green buildings.
- Utilize financial instruments including green bonds, credit, development funds and insurance.
- Mobilize private investment in green industries; discourage investment in high-polluting projects.
- Establish requisite policy, legal and regulatory supports and financial products.

2. Support green lending

- Develop policy framework and improve green credit system (e.g. support better monitoring and evaluation of loans).
- Promote securitization of green loans.
- Help banks better assess and incorporate social and environmental risks.

3. Enhance the role of the securities market in supporting green investment

- Improve green bond rules and regulations, and standardize definitions.
- Reduce green bond financing costs.
- Support financing for green enterprises through initial and secondary public offerings. and secondary offerings.
- Establish mandatory environmental information disclosure system for listed enterprises and bond issuers.

4. Launch green development funds and mobilize social capital through public and private partnerships

- Establish various types of development funds, including a national-level green development fund and regional and private funds.
- Encourage local governments to support development fund financed projects (e.g. through relaxing market restrictions and granting franchises).
- Facilitate public and private partnerships for green projects.

5. Develop green insurance

- Develop compulsory environmental pollution liability insurance system in areas of high environmental risks.
- Encourage and support insurance institutions to innovate green insurance products and services and to develop an environmental risk control system.

6. Improve the environmental rights trading market and develop related finance instruments

- Develop different kinds of carbon finance products (e.g. forwards, swaps, options, leases, bonds, derivatives).
- Promote the establishment of markets for pollutant emission rights, energy use rights, water rights and other environmental rights.

7. Support local government initiatives to develop green finance

Explore supportive measures (e.g. central bank re-lending, macro- prudential assessment, and capital market instruments) to promote green finance at the local level.

8. Promote international cooperation in green finance

- Expand the scope of international cooperation in green finance (e.g. promote the global consensus on developing green finance under the framework of the G20 and the application of voluntary principles for green banking and green investment)
- Promote the progressive, two-way opening of the green securities market.
- Enhance the “greenness” of China’s outward investment.

9. Prevent financial risks and strengthen implementation

- Improve the supervision mechanism to prevent risks related to green finance, including better supervisory agency coordination and unified standards.
- Intensify public communications on green finance.

Co-chaired G20 Green Finance Study Group

As part of its G20 presidency in 2016, China launched the G20 Green Finance Study Group. Co-chaired by PBoC the Bank of England, the group of 80 representatives from across the G20 nations and affiliates assessed the barriers to scaling-up green finance worldwide. That is, the group examined how the financial system—including central banks—can better

facilitate “the financing of investments that provide environmental benefits in the broader context of environmentally sustainable development” (G20 2016: 5).

In its summary report, released in 2016, the group recommended that, “to enhance the ability of the financial system to mobilize private capital for green investment,” G20 countries should: (1) “provide clearer environmental and economic policy signals for investors regarding the strategic framework for green investment”; (2) “develop, improve, and implement voluntary principles for and evaluate progress on sustainable banking, responsible investment and other key areas of green finance”; (3) “mobilize support for the expansion of knowledge-based capacity building platforms” (e.g. the Sustainable Banking Network and the U.N. Principles for Responsible Investment); (4) “support the development of local green bond markets”; (5) “promote cross-border investment in green bonds”; (6) “encourage and facilitate knowledge sharing on environmental and financial risk” and; (7) “improve the measurement of green finance activities and their impacts” (G20 2016: 4).

China’s 2016 G20 presidency and the Green Finance Study Group represent the first time that green finance was on the G20’s agenda. Germany has committed to continue the G20’s discussions on green finance as part of its presidency in 2017.

Developed green bond guidelines

In line with its commitment to supporting the establishment of China’s green financial system, PBoC released guidelines for the issuance of green bonds in 2015 in order to “accelerate ecological civilization development, guide financial institutions to serve green development, promote economic restructuring and upgrading, and drive transformation of economic development pattern” (PBoC 2016b). Among other things, the guidelines stipulate which financial institutions can issue the bonds (i.e. those in good financial and legal standing), required documentation and administrative timelines, rules for earmarking bond proceeds to fund green projects, and reporting requirements. The guidelines direct issuers to the China Green Bond Endorsed Project Catalogue, which dictates the types of projects that can be financed with bond proceeds.

Chinese green bond issuances in accounted for 39 percent of global issuances in 2016, compared to accounting for less than 5 percent in 2015. Researchers assert that this growth of green bond issuances in China is due, at least in part, to the issuances of guidelines by PBoC.²¹

STAFFING

N/A

IMPACT MONITORING & REPORTING

N/A

APPROACH PLANNING AND DEVELOPMENT

N/A

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Profile developed in: February 2017.

Profile developed by: The Investment Integration Project (TIIP). TIIP helps institutional investors understand the big picture, or "systems-level," context of their portfolio-level decisions. "Systems-level" events, such as economic crises, ecosystems under stress, and societies in turmoil can disrupt the best-laid plans of investors and cost them dearly. Even seemingly "local" issues are now having much greater impact than they once did as the world becomes increasingly interconnected.

This profile benefited from the guidance of Nick Robbins, Co-Director of the Inquiry into the Design of a Sustainable Financial System at the United Nations Environment Programme, and draws on the Inquiry's analyses of PBoC's systems-related approaches in PBoC UNEP (2015), UNEP (2016a), and UNEP (2016b).

APPENDIX C
DFI PROFILES

African Development Bank Group (AfDB)

Development finance institution* Headquarters: Ivory Coast * AUM US\$18.36 billion (2015)²²

AT A GLANCE

Among AfDB's primary concerns are increasing Africa's environmental sustainability and promoting various climate-change mitigation and adaptation solutions. Its approach includes **assessing, addressing, and monitoring environmental and social risks and opportunities** as part of portfolio construction and throughout the life of a project. Its Integrated Safeguards System, for example, requires the "mainstreaming" of environmental and social considerations into all operations and mandates that all prospective projects be categorized based on these considerations and managed accordingly. AfDB further requires that projects from sensitive sectors comply with additional Climate Change Safeguard System reviews.

TOOLS OF INTENTIONALITY

- | | |
|-----------------------------------------------------------|-------------------------------------------------------|
| <input type="checkbox"/> Additionality | <input checked="" type="checkbox"/> Polity |
| <input checked="" type="checkbox"/> Diversity of Approach | <input type="checkbox"/> Self-Organization |
| <input type="checkbox"/> Evaluation | <input type="checkbox"/> Solutions |
| <input checked="" type="checkbox"/> Interconnectedness | <input checked="" type="checkbox"/> Standards Setting |
| <input type="checkbox"/> Locality | <input type="checkbox"/> Utility |

ASSET CLASSES INTEGRATED INTO

- | | |
|------------------------------------------------------------------|------------------------------------------|
| <input checked="" type="checkbox"/> Fixed income | <input type="checkbox"/> Real estate |
| <input checked="" type="checkbox"/> Infrastructure & real assets | <input type="checkbox"/> Venture capital |
| <input checked="" type="checkbox"/> Private equity | <input type="checkbox"/> Other |
| <input type="checkbox"/> Public equities | |

YEARS INTEGRATING

Supporting financial and social system stability has been among AfDB's core functions since it was established in 1966.

SYSTEMS & THEMES FOCUSED ON

- | |
|-----------------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> Environmental |
| <input checked="" type="checkbox"/> Biodiversity |
| <input checked="" type="checkbox"/> Climate change |
| <input checked="" type="checkbox"/> Natural resources |
| <input type="checkbox"/> Oceans |
| <input checked="" type="checkbox"/> Renewable energy |
| <input checked="" type="checkbox"/> Sustainable land use |
| <input checked="" type="checkbox"/> Waste management & pollution |
| <input checked="" type="checkbox"/> Water |
| <input type="checkbox"/> Other |
| <input checked="" type="checkbox"/> Societal |
| <input type="checkbox"/> Consumer health & safety |
| <input type="checkbox"/> Corporate governance |
| <input type="checkbox"/> Corruption |
| <input checked="" type="checkbox"/> Employment, labor rights & working conditions |
| <input checked="" type="checkbox"/> Income inequality & economic opportunity |
| <input checked="" type="checkbox"/> Food production & security |
| <input type="checkbox"/> Human rights |
| <input checked="" type="checkbox"/> Infrastructure |
| <input checked="" type="checkbox"/> Social equality & inclusion |
| <input type="checkbox"/> Other |
| <input checked="" type="checkbox"/> Financial |
| <input type="checkbox"/> Shareholder rights |
| <input checked="" type="checkbox"/> Stability |
| <input checked="" type="checkbox"/> Transparency |
| <input type="checkbox"/> Other |

AfDB TOOLS OF INTENTIONALITY: THE AfDB "TIIPING POINT"

AfDB has taken intentional steps to use of the tools of **Diversity of Approach**, **Interconnectedness**, **Polity**, and **Standards Setting** to promote environmental and social sustainability toward its goal of reducing poverty across Africa. It believes that environmental stability (i.e. climate change) and poverty are inextricably linked and has deployed a **diverse** set of related mitigation and adaptation approaches. These include:

- Requiring that all operations and investments adhere to the environmental and social risk **standards** outlined in the Operational Safeguards of its Integrated Safeguards System
- **Connecting** member countries to information and resources to build their capacity to fight climate change and to contribute to the success of AfDB climate change projects
- Promoting **public policies** that remove regulatory barriers and facilitate AfDB's climate change-related strategies and activities.

Together, these intentional actions have the potential to address barriers to poverty reduction posed by climate change and to strengthen Africa's environmental, societal, and financial systems.

ABOUT AfDB

Launched in 1966, AfDB is a multilateral development finance institution focused on reducing poverty through sustainable economic growth and social progress across Africa. It does so through lending, grant-making, providing technical assistance, and policy advising. All AfDB operations and activities adhere to its current 10-year strategy, *Strategy 2013-2022*, which establishes its core objectives, operational priorities, and “areas of special emphasis” (see Box 1).²³ The *Strategy* aligns with the United Nations Sustainable Development Goals (SDGs) and addresses the underlying challenge that, while Africa experienced extensive economic growth in the decade that preceded the *Strategy*, that growth has been uneven and volatile.

Box 1. Summary of AfDB’s Strategy 2013-2020

Objectives		
Inclusive growth	<ul style="list-style-type: none"> • Increase jobs, reduce poverty, and promote prosperity by ensuring that the economy includes all Africans, no matter their age, gender, or geography • Invest in infrastructure, promote gender equality and community participation, and invest in skill development • Promotes economic, social, spatial and political inclusion 	
Green growth	<ul style="list-style-type: none"> • Ensure that growth is sustainable; improve water, energy and food security; promote sustainable resource use, job creation, and economic development. • Alleviate pressure on natural assets; manage environmental, social and economic risks; build resilience to climate shocks; invest in sustainable infrastructure and sustainable resource use; create ecosystem services. 	
Operational priorities		
<ol style="list-style-type: none"> 1. Infrastructure development. Increase and otherwise leverage funds for investments in infrastructure to address funding gaps (Africa invests only 4% of GDP in infrastructure) 2. Skills and technology. Combat Africa’s high unemployed through supporting skill and technical training linked to labor market need; focus on young people. 3. Governance and accountability. Support institutions that promote transparency, inclusion, and accountability, including the media and civil society; “support fiscal decentralization and domestic resource mobilization” 	<ol style="list-style-type: none"> 4. Private sector development. Encourage and support private sector enterprises with an emphasis on woman and young entrepreneurs; support micro-, small-, and medium-sized enterprises, the development of local capital markets governance, risk management, and financial standards and regulation. 5. Regional economic integration. Better integrate the economies of Africa’s 54 countries create to “create larger, more attractive markets, to link landlocked countries, including fragile states, to international markets and to support intra-African trade” 	
Areas of special emphasis		
<p>Fragile states</p> <p>Fragile states contain 1/5th of Africa’s populations and many of its poorest residents; AfDB will promote dialogue, local ownership, and celebration of success</p>	<p>Agriculture and food security</p> <p>Most Africans live off of, and work, the continent’s land; AfDB will invest in rural infrastructure, and support increases in agricultural productivity and competitiveness, and promote policy dialogue to remove trade barriers</p>	<p>Gender</p> <p>Investments in women and girls can boost productivity; AfDB will promote knowledge and skill development and legal and property rights</p>

Environmental sustainability—namely, climate change adaptation and mitigation—and social sustainability are among AfDB’s core priorities. According to AfDB, Africa is acutely effected by climate change, despite being responsible for only 4% of the world’s greenhouse gas emissions. It contends that environmental sustainability and poverty alleviation are “intertwined challenges for the 21st century” (AfDB); as climate change adversely impacts water and agriculture it increases regional conflict over limited resources, threatening livelihoods and stability. Bank policies including the *Integrated Safeguards Systems*—which represents “the cornerstone of AfDB’s strategy to promote growth that is social inclusive and environmentally sustainable” (AfDB 2014: 1)—and the *Climate Risk Management and Adaptation Strategy* outline AfDB strategies and approaches for confronting these challenges.

Typically a major source of funding for AfDB, many its member countries face fiscal constraints that impede their giving ability and threaten to stagnate progress. AfDB is therefore focused on leveraging funds from other sources, including pension and sovereign wealth funds seeking long-term investment opportunities that tend to align with AfDB’s development approach.

APPROACHES IN PRACTICE

INVESTMENT ACTIVITIES

Security selection & portfolio construction

All AfDB investments, activities, and operations must comply with its **Integrated Safeguard System (ISS)**. Among other things, the ISS establishes AfDB's commitments to, and procedures for:

- “Mainstreaming” sound environmental and social management across all its investments;
- Avoiding adverse environmental and social impacts and maximizing benefits;
- Minimizing adverse environmental and social impacts when avoidance is not possible; and
- Helping borrowers and clients fortify their own safeguard systems and environmental and social risk management procedures.

A core component of the ISS are the **Operational Safeguards** against which AfDB assesses all projects to develop commensurate project management, monitoring, and safeguard plans. They are:

1. Environmental and social assessment
2. Involuntary resettlement land acquisition, population displacement and compensation
3. Biodiversity and ecosystem services
4. Pollution prevention and control, hazardous materials and resource efficiency
5. Labor conditions, health and safety

Projects are assessed into one of four environmental and social risk categories, from likely to cause “significant” adverse environmental and social impacts (Category 1), to likely to cause “less” adverse impacts (Category 2) or likely to cause “negligible” adverse effects (Category 3), and projects that fund an intermediary that might invest in sub-projects with adverse impacts (Category 4). Project compliance with management and safeguard plans is continuously monitored over time.

In accordance with the ISS, AfDB excludes from investment projects that are “harmful to the physical or social environment”; harms identified include:²⁴

- Illegal activity per host country or international law
- Radioactive materials (except for medical purposes)
- Unbonded asbestos fibers or products made mostly of bonded asbestos
- Internationally banned pharmaceuticals or chemical compounds
- Internationally banned ozone depleting substances
- Products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora;
- Products used for unmanaged rainforest logging
- Forced or child labor

Climate Change Safeguards System (CCSS). AfDB also screens all projects from “sensitive sectors” (e.g. water, energy, transportation, and agriculture) against its CCSS, “a set of decision-making tools and guides that enable the Bank to assess investments in terms of their vulnerabilities to climate change, and to review and evaluate adaption and mitigation measures” (AfDB 2014:25). Projects are assessed into one of three categories: (1) Might be vulnerable and require additional evaluation, and “comprehensive, practical risk management and adaptation measures” (AfDB 2014:25) should be integrated into the design; (2) Might be vulnerable and require additional review, and “practical” risk management and adaptation measures should be integrated into the design, and; (3) Not vulnerable.

Dedicated lending for climate change mitigation and adaptation. AfDB announced in 2015 that it will provide US\$5 billion per year in climate financing by 2020, which is triple its current lending dedicated to climate related projects and will ultimately represent 40% of its total new investments. Half of the US\$5 billion will be specifically for reducing Africa's greenhouse gas emissions and focus on investments in renewable energy and energy efficiency, such as sustainable transportation. The other half will be dedicated for projects that will enable African economies to adapt to climate change, including climate-resilient crops, infrastructure and improved irrigation.

Targeted investment programs

Green Bonds: AfDB issues green bonds to raise funds to support climate adaption and mitigation projects and toward its overall objective to achieve green growth. AfDB screens prospective projects against its *Climate Finance Tracking System*,

its system for assessing finance targeted at climate adaptation and mitigation. Projects that pass the climate finance screening must then meet two additional criteria:²⁵

- Financing can be qualified in full as promoting either low carbon or climate resilient development.
- Project will lead to significant accumulated greenhouse gas emissions reduction over the lifetime of the asset.

Eligible projects typically include those that focus on topics such as renewable energy generation, energy efficiency, solid waste management, urban development, water supply and access, low carbon transport, among other things.

Targeted funds. AfDB invests in fund targeting clean and sustainable energy, including the Evolution One Fund and the Sustainable Energy Fund for Africa.

Highlights:

- \$500 million issued in Green Bonds by the end of 2015

➤ OTHER ACTIVITIES

Addresses climate change issues through policy reform and information-sharing

In its *Climate Risk Management and Adaptation Strategy*, AfDB outlines the three primary ways that it will aim to fortify its investments against the risks posed by climate change. The first—“climate proofing” its investments—is reflected in its environmental and social assessment procedures (see the Investment Activities section); the other two include:

- **Policy, legal and regulatory reforms.** To ensure that development activities occur in a “positive enabling environment,” AfDB will support policy and regulatory instruments that align with its climate change and green growth objectives.
- **Knowledge generation and capacity building.** AfDB will help member countries build their capacity to fight climate change and support related development projects through promoting knowledge sharing. Activities will include helping to strengthen and upgrade climate information systems, including the ClimDev-Africa Programme that the Bank is developing together with the African Union and the United Nations Economic Commission for Africa.

Maintains a research hub that disseminates information on sustainability and other development topics

AfDB considers “generating and sharing knowledge” to be “key components in efforts to reduce poverty and foster development” and “has systematically emphasized the critical role that knowledge is expected to play in the transformation of African economies to ensure sustainable development and poverty reduction” (AfDB 2017). AfDB’s Development Research Department carries out such research and analysis on a range of social and economic issues (e.g. growth, poverty reduction, inclusion) and publishes various newsletters, reports, papers, journals, etc. to its website. Working papers published in 2017 included, for example, *Farmers’ Vulnerability to Climate Shocks: Insights from the Niger Basin of Benin*; *Measuring Inclusive Growth: From theory to applications in North Africa*; and *Why is inequality high in Africa?*

➤ STAFFING

AfDB takes a decentralized approach to staffing and has offices throughout Africa. It has a specialized division that focuses exclusively on activities related to environmental sustainability; the **Energy, Environment and Climate Change Department** spearheads AfDB’s “investments, advisory services, knowledge generation and capacity building in the areas of energy, environment and climate change” and “coordinates the mobilization of innovative climate and environmental finance to pave the way for Africa’s green and climate-resilient growth” (AfDB 2017).

➤ IMPACT MONITORING & REPORTING

One Bank Results Management Framework (RMF) and Annual Development Effectiveness Review (ADER). AfDB measures progress toward its strategic development objectives and goals using its One Bank RMF. The RMF assesses bank progress against 100 performance indicators organized into four levels. Levels 1 and 2 are described in Box 2 below;²⁶ Level 3 indicators help to answer *Is AfDB managing its operations effectively?*, and Level 4 indicators assess *Is AfDB managing itself efficiently?*

AfDB’s One Bank RMF is likely influenced by Managing for Development Results (MfDR). AfDB is one of seven multilateral development banks that has adopted MfDR, which is a “management strategy that focuses on using performance information to

improve decision-making... [and that] involves using practical tools for strategic planning, risk management, progress monitoring, and outcome evaluation” (www.mfdr.org).

AfDB reports on annual progress tracked using the RMF in its annual ADER, which it describes as answering three main questions: *What development progress is Africa making? How well is AfDB contributing to Africa’s development? And how well is AfDB managing itself to better support Africa’s development?*

Box 2. Levels 1 and 2 of the AfDB One Bank Results Management Framework, Select Example Indicators

Level 1: What development progress is Africa making?		
<i>Inclusive growth</i>		<i>Green growth</i>
<ul style="list-style-type: none"> • GDP growth (%) • Population living below the poverty line (%) • Income inequality (Gini index) • Access to improved water source, improved sanitation facilities, telephone services, electricity (% population) • Life expectancy (years) 	<ul style="list-style-type: none"> • Enrolment in education (%) • Unemployment rate (%) • Women’s participation in the labor market (%) • Mo Ibrahim Index of African Governance (index) • Intra-African trade (billion USD) • Global Competitiveness (index) • Access to finance (% population) 	<ul style="list-style-type: none"> • Food insecurity (% of population) • Resilience to water shocks (index) • Institutional capacity for environmental sustainability (index) • Production efficiency (Kg CO2 emissions per USD of GDP) • Renewable energy (% total electricity produced)
Level 2: How well is AfDB contributing to development in Africa?		
<ul style="list-style-type: none"> • Roads constructed, rehabilitated or maintained • Power capacity installed (MW) • CO2 emissions reduced (tons per year) • Drinking water capacity created (m3 /day) • People with new or improved access to water and sanitation • Cross-border roads constructed or rehabilitated (km) • Cross-border transmission lines constructed etc.(km) • SME effect (turnover from investments) (million USD) 	<ul style="list-style-type: none"> • People benefiting from investee projects and microfinance • Land with improved water management (ha) • People benefiting from vocational training • Classrooms and educational support facilities constructed • People benefiting from better access to education • Share of countries with improved: quality of budgetary and financial management; quality of public administration; transparency, accountability and corruption mitigation in the public sector 	

Project evaluations. AfDB’s Independent Evaluation Department (OPEV) evaluates the inputs, outputs, outcomes, and impacts of each project approximately one to two years after completion, with an increasing focus on country-level results (as opposed to project-level results). Key performance indicators include:²⁷

- relevance and achievement of objectives at project appraisal
- borrower’s implementation performance
- adherence to project cycle time frame, the performance and the role of the Bank
- institutional development performance of the project
- the sustainability of project or program results

OPEV assigns each project a performance score and summarizes the evaluations in Project Completion Reports, which are available via an online database.

APPROACH PLANNING AND DEVELOPMENT

AfDB’s Board of Executive Directors makes day-to-day decisions about loans, grants, and policies. Representatives from each of the member countries are part of the Board, but the voting power is split by the size the member’s share of AfDB contributions. The largest shareholder is Nigeria with nearly 9 percent of the vote. The Board of Governors is made up of the Minister of Finance, Planning or Cooperation from each member government and meets annually to make decisions about AfDB’s leadership and strategic direction.

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Profile developed in: March and April 2017.

Profile developed by: The Investment Integration Project (TIIP). TIIP helps institutional investors understand the big picture, or “systems-level,” context of their portfolio-level decisions. “Systems-level” events, such as economic crises, ecosystems under stress, and societies in turmoil can disrupt the best-laid plans of investors and cost them dearly. Even seemingly “local” issues are now having much greater impact than they once did as the world becomes increasingly interconnected.

Asian Development Bank (ADB)

Development finance institution * Headquarters: Philippines*US\$157 billion (2017)²⁸

AT A GLANCE

ADB aims to build on the economic growth in Asia and the Pacific through **ensuring that future growth is inclusive, environmentally sustainable, and regionally cooperative**. It is particularly focused on ensuring that the region adapts to the effects of climate change and mitigates future climate change-related challenges, which, among other things, threaten its coastal residents and agriculture industry. ADB works to address these challenges through environmental and social screening of new investments, specialized investment vehicles (e.g. green bonds and policy-based loans), and information dissemination and training.

TOOLS OF INTENTIONALITY

- | | |
|--------------------------------------------------------|-------------------------------------------------------|
| <input type="checkbox"/> Additionality | <input checked="" type="checkbox"/> Polity |
| <input type="checkbox"/> Diversity of Approach | <input type="checkbox"/> Self-Organization |
| <input type="checkbox"/> Evaluation | <input checked="" type="checkbox"/> Solutions |
| <input checked="" type="checkbox"/> Interconnectedness | <input checked="" type="checkbox"/> Standards Setting |
| <input type="checkbox"/> Locality | <input type="checkbox"/> Utility |

ASSET CLASSES INTEGRATED INTO

- | | |
|------------------------------------------------------------------|------------------------------------------|
| <input type="checkbox"/> Fixed income | <input type="checkbox"/> Real estate |
| <input checked="" type="checkbox"/> Infrastructure & real assets | <input type="checkbox"/> Venture capital |
| <input checked="" type="checkbox"/> Private equity | <input type="checkbox"/> Other |
| <input type="checkbox"/> Public equities | |

YEARS INTEGRATING

Supporting financial and social system stability has been among ADB's core functions since it was established in 1966.

SYSTEMS & THEMES FOCUSED ON

- | |
|------------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> Environmental |
| <input type="checkbox"/> Biodiversity |
| <input checked="" type="checkbox"/> Climate change |
| <input type="checkbox"/> Natural resources |
| <input checked="" type="checkbox"/> Oceans |
| <input type="checkbox"/> Renewable energy |
| <input checked="" type="checkbox"/> Sustainable land use |
| <input type="checkbox"/> Water |
| <input type="checkbox"/> Other |
| <input checked="" type="checkbox"/> Societal |
| <input type="checkbox"/> Consumer health & safety |
| <input checked="" type="checkbox"/> Corporate governance |
| <input type="checkbox"/> Corruption |
| <input type="checkbox"/> Employment, labor rights & working conditions |
| <input checked="" type="checkbox"/> Income inequality & economic opportunity |
| <input type="checkbox"/> Food production & security |
| <input type="checkbox"/> Human rights |
| <input checked="" type="checkbox"/> Infrastructure |
| <input checked="" type="checkbox"/> Social equality & inclusion |
| <input type="checkbox"/> Other |
| <input type="checkbox"/> Financial |
| <input type="checkbox"/> Shareholder rights |
| <input type="checkbox"/> Stability |
| <input type="checkbox"/> Transparency |
| <input type="checkbox"/> Other |

TOOLS OF INTENTIONALITY: THE ADB "TIIPING POINT"

ADB uses the tools of **Interconnectedness**, **Polity**, **Solutions**, and **Standards Setting** to address the systems-level challenges of equitable and environmentally sustainable growth, and to otherwise promote environmental and social sustainability. It assesses the environmental and societal risks of prospective projects, and **sets standards** for the types of socially or environmentally harmful activities and products that it will not invest in (e.g. forced or child labor, weapons, fishing practices harmful to species or habitats).

Given that many people throughout Asia and the Pacific live in coastal areas or are dependent on agriculture for their livelihood, the region is particularly susceptible to the effects of climate change. ADB has developed investment **solutions** to help address this issue, including, its green bonds which finance climate change mitigation and adaptation projects, and a "policy-based" loan to the People's Republic of China to help develop low-carbon energy policies. In addition, ADB **connects** stakeholders from its member countries to research, training, and capacity-building resources to support their pursuit of poverty reduction and sustainable growth. This includes its ADB Environmental Law Champions Development Award program, which disseminates information about environmental law, and the ADB Institute that provides information on a range of long-term development issues. Central to ADB's development work is its commitment to enhancing and strengthening **public policies** and regulations to create conditions conducive to long-term, sustainable investment.

ABOUT ADB

ADB is a development finance institution established in 1966 to promote economic growth and regional cooperation in Asia and the Pacific. Its overarching mission is to help its 67 member countries reduce poverty and improve living conditions and quality of life. It pursues this mission through investment (loans, equity), giving (grants), technical assistance, and policy advisory.

ADB activities align with its *Strategy 2020*. Asia and the Pacific has experienced many consecutive decades of economic growth and poverty reduction. Despite such progress, nearly half of the world's extreme poor reside in the region. Further, the growth "has come at significant environmental cost" (ADB 2016b: 8) and has not been equitably distributed within or across ADB's member nations. *Strategy 2020* focuses ADB on three strategic development agendas: (1) attaining inclusive growth; (2) environmentally sustainable growth; and (3) regional integration. Within these agendas, ADB emphasizes series of operational areas and drivers of change that align most effectively with its strengths. They are:²⁹

Core operational areas

- Infrastructure
- Environment
- Regional cooperation and integration
- Finance sector development
- Education

Drivers of change

- Private sector development and operations
- Good governance and capacity development
- Gender equity
- Knowledge solutions
- Partnerships

As part of its mid-term review of *Strategy 2020*, ADB re-affirmed its strategic commitment to the strategy's agendas, operational areas, and drivers of change and established ten strategic priorities that further define its focus leading up to 2020 and incorporate needed strategic adaptations for operating in the post-2008 financial crisis world (see Box 1).³⁰

Box 1. ADB's Strategic Priorities

Sharpening ADB's operational focus

1. Supporting poverty reduction and inclusive economic growth
2. Promoting environmental sustainability and resilience to climate change
3. Deepening regional cooperation and integration, and.
4. Supporting infrastructure development

Responding to the new business environment

5. Strengthening engagement with middle-income countries
6. Scaling up private sector operations
7. Promoting knowledge solutions

Strengthening ADB's capacity and effectiveness

8. Expanding financial resources and partnerships
9. Delivering value for money in ADB
10. Sharpening organizational effectiveness

Strategy 2020 and the priorities established in the mid-term review align with a series of international agreements, including Rio +20, the United Nation's Agenda 2030 Sustainable Development Goals (SDGs), and the 2^o Celcius agreement of the 21st Conference of the Parties (COP 21). As part of its Environmental Operational Directions, ADP commits increasing its focus on sustainable growth through investments in sustainable infrastructure, natural capital, and climate change and mitigation and through strengthening of environmental governance and management capacity.

APPROACHES IN PRACTICE

➤ INVESTMENT ACTIVITIES

Security selection & portfolio construction

Environmental and Social Safeguards. ADB assesses projects' potential impacts on the environmental, involuntary resettlement, and indigenous peoples per its Safeguard Policy Statement (SPS) to:³¹

- Avoid adverse impacts of projects on the environment and affected people, where possible;
- Minimize, mitigate, or compensate for adverse project impacts on the environment and affected people when avoidance is not possible; and
- Help member countries and borrowers strengthen their safeguard systems and develop the capacity to manage environmental and social risks.

In line with the SPS and through its environmental assessment component, ADB assesses projects into one of four environmental risk categories:³²

- **Category A.** Significant adverse environmental impacts that are irreversible, diverse, or unprecedented, and that may affect an area larger than the sites or facilities subject to physical works. An environmental impact assessment is required.
- **Category B.** Adverse environmental impacts that are site-specific, likely reversible, and in most cases mitigation measures can be designed more readily than for category A projects. An initial environmental examination is required.
- **Category C.** Minimal or no adverse environmental impacts. No environmental assessment is required although environmental implications need to be reviewed.
- **Category FI.** Involves investment of ADB funds to or through a financial intermediary.

ADB does not invest in projects that do not comply with the SPS or with the host country's environmental laws and regulations.

Per the SPS, ADB also conducts an initial poverty and social assessment (IPSA) of all projects to identify likely project poverty and social impacts and issues.

Prohibited investments list. ADB does not invest in projects associated with the following:³³

- | | |
|---------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|
| • Forced or child labor | • Radioactive materials |
| • Illegal trade, production, or activities per host country law or international agreements | • Unbonded asbestos fibers |
| • Weapons and munitions | • Commercial logging operations or equipment used in tropical moist forests or old-growth forests |
| • Alcoholic beverages (excluding beer and wine) | • Marine and coastal fishing practices harmful to vulnerable species or habitats |
| • Tobacco | |
| • Gambling, casinos, and equivalent enterprises | |

Targeted investment programs

Green bonds. Many people in Asia and the Pacific live in coastal areas or are dependent on agriculture for their livelihood, making the region particularly susceptible to the effects of climate change. ADB issues green bonds to raise financing for projects focused on climate change mitigation and adaptation; specifically, projects that target sustainable transport and urban development, green land use and forest management, building climate resilience, and strengthening climate change adaptation and mitigation policies, governance, and institutions.

Policy-based loans. In 2015, ADB issued its first “policy-based” loan to the People’s Republic of China to address air pollution in great Beijing, which is threatening economic growth and resident health. With the US\$300 million loan, the local government will make “fundamental reforms in its energy and socioeconomic policies and establish a solid basis for incremental reforms and investments in improving air quality and public health” (ADB 2017) (e.g. transitioning from coal to cleaner energy and promoting public transportation) and will “develop a monitoring and analysis system and help strengthen environmental regulatory enforcement” (ADB 2017); all toward the goal of reducing coal consumption and reducing air pollution.

➤ OTHER ACTIVITIES

Provides training and hosts conferences to disseminate development knowledge and best practices

Among ADB’s strategic priorities is sharing knowledge and expertise, which together with strategic partnerships and leveraging additional financing forms its Finance++ approach. According to ADB, “meeting the region’s development needs

requires sharing knowledge and expertise among [member countries]" (ADB 2016b: 5). This includes disseminating tools and information via the ADB website and hosting seminars and conferences like the following:

- An upcoming seminar on women's employment, entrepreneurship and empowerment, during which ADB and attendees (from governments, commercial banks and businesses, civil society, and research institutes and development partners) will discuss best practices for promoting women's employment, entrepreneurship and empowerment.
- The ADB Environmental Law Champions Development Award, a program that provides training to "expand and improve the teaching of environmental law across the region, thereby leading to more effective development and enforcement of environmental law in the longer term" (ADB 2017b).

Provides capacity building and training, and conducts research, through the ADB Institute

Through its ADB Institute (ADBI), ADB conducts research and provides capacity building support and training to policymakers from its developing member countries to advance issues that support its poverty reduction objective. ADBI "focuses its activities on areas where it has a strategic advantage, such as the analysis of emerging policy issues from regional as well as medium- to long-term perspectives, and the facilitation of policy dialogue among senior [developing member country] policy makers" (ADB 2017b). Research topics include: sustainable development; trade finance gaps; the digital economy and new trade tools; obesity; financial inclusions, regulation, and education; and housing policy for inclusive growth.

STAFFING

N/A

IMPACT MONITORING & REPORTING

Corporate results framework. ADB evaluates development progress and its performance in executing its *Strategy 2020* using its corporate results framework—that is, ADB's progress in achieving the *Strategy 2020* goals compared to a baseline—which contains a set of 91 indicators across four levels and divided into two sections (see Box 2).³⁴ Together, the sections, levels and indicators help ADB assess whether *Strategy 2020* and its mid-term review align with the region's needs, whether ADB is contributing to development progress, and whether it operates and is managed well.

ADB's results framework is informed by Managing for Development Results (MfDR). ADB is one of seven multilateral development banks that has adopted MfDR, which is a "management strategy that focuses on using performance information to improve decision-making... [and that] involves using practical tools for strategic planning, risk management, progress monitoring, and outcome evaluation" (www.mfdr.org). ADB publishes information on its development results in its annual report, annual portfolio performance report, and annual development effectiveness review, all of which are publicly available.

Box 2. ADB's Corporate Results Framework

Section 1: Development progress in Asia and the Pacific

- Level 1:*
Development progress
- Tracks development progress in Asia and the Pacific; progress toward reducing poverty, promoting human development, improving infrastructure and access to services, improving governance, and creating a sustainable environment
 - Monitors continued relevance of *Strategy 2020*
 - Does *not* assess ADB performance

Section 2: ADB's development effectiveness

- Level 2:* ADB's contribution to development results
- Assesses ADB's contribution to development of its recently completed operations
 - Sub-set of indicators examine operations completed over prior three years and their collective performance; another sub-set assesses recently completed project outcomes against projects' goals
 - Focuses on ADB's *Strategy 2020* development agendas, core operational areas, and drivers of change
- Level 3:* ADB operational management
- Tracks ADB's operational management of new and ongoing operations
 - Monitor operations at the start of a project and during implementation
 - Measures fund disbursement processes and speed, and assesses co-financing
 - Examines alignment between operations and *Strategy 2020*

Level 4: ADB organizational management

- Examines ADB’s performance in managing its internal resources and processes to support its operations
- Measures performance in three areas: human resources, budget resources, and process efficiency and client orientation

APPROACH PLANNING AND DEVELOPMENT

N/A

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Profile developed in: April and May 2017.

Profile developed by: The Investment Integration Project (TIIP). TIIP helps institutional investors understand the big picture, or “systems-level,” context of their portfolio-level decisions. “Systems-level” events, such as economic crises, ecosystems under stress, and societies in turmoil can disrupt the best-laid plans of investors and cost them dearly. Even seemingly “local” issues are now having much greater impact than they once did as the world becomes increasingly interconnected.

European Investment Bank (EIB)

Development finance institution* Headquarters: Luxembourg* AUM: US\$624 billion (2015)ⁱ

AT A GLANCE

EIB seeks to minimize the environmental and societal risks, and maximize the rewards and sustainability, of its investments and is notable as a leader in climate-focused finance. It believes that climate change poses substantial risks to long-term environmental and social stability and incorporates sustainability considerations into all its work. Notable activities include:

- ⇒ **Dedicating 25 percent of loans to climate-focused projects.** These loans fund projects that address climate change mitigation and adaptation. In 2016, EIB provided over €19 billion to such projects.
- ⇒ **Assessing the social and environmental risks of all prospective investments and issuing Climate Action Bonds.** EIB screens all prospective investments against its established social and environmental standards. It also issues green bonds, called Climate Action Bonds, the proceeds from which it uses to finance renewable energy and energy efficiency projects.
- ⇒ **Measuring and reporting information on the greenhouse gas emissions (GHG) of its investments.** EIB measures and reports on the absolute and relative GHG emissions of all prospective and ongoing projects with “significant” emissions, and reports aggregate and project-specific information via reports available on its website.

Beyond its focus on climate change, EIB also finances projects to support innovation and skill development, strengthen infrastructure, and increase access to finance for small- and medium-sized business, all of which it contends promote social and financial sustainability and long-term economic growth.

TOOLS OF INTENTIONALITY

<input type="checkbox"/>	Additionality	<input type="checkbox"/>	Polity
<input type="checkbox"/>	Diversity of Approach	<input type="checkbox"/>	Self-Organization
<input type="checkbox"/>	Evaluation	<input checked="" type="checkbox"/>	Solutions
<input checked="" type="checkbox"/>	Interconnectedness	<input checked="" type="checkbox"/>	Standards Setting
<input type="checkbox"/>	Locality	<input type="checkbox"/>	Utility

ASSET CLASSES INTEGRATED INTO

<input checked="" type="checkbox"/>	Fixed income	<input type="checkbox"/>	Real estate
<input checked="" type="checkbox"/>	Infrastructure & real assets	<input checked="" type="checkbox"/>	Venture capital
<input checked="" type="checkbox"/>	Private equity	<input checked="" type="checkbox"/>	Other (Microfinance)
<input type="checkbox"/>	Public equities		

YEARS INTEGRATING

Supporting financial and social system stability has been among EIB’s core functions since it was established in 1958. Environmental protection has been one of EIB’s priorities for **33 years**, since it announced its first environmental policy statement in 1984. EIB developed the policy after the oil crises of the 1970s, through which European governments realized that the continent was dependent on foreign oil imports and developed an interest in pursuing alternative energy projects.

SYSTEMS & THEMES FOCUSED ON

<input checked="" type="checkbox"/>	Environmental
<input checked="" type="checkbox"/>	Biodiversity
<input checked="" type="checkbox"/>	Climate change
<input type="checkbox"/>	Natural resources
<input type="checkbox"/>	Oceans
<input checked="" type="checkbox"/>	Renewable energy
<input type="checkbox"/>	Sustainable land use
<input checked="" type="checkbox"/>	Waste management & pollution
<input checked="" type="checkbox"/>	Water
<input type="checkbox"/>	Other
<input checked="" type="checkbox"/>	Societal
<input type="checkbox"/>	Consumer health & safety
<input type="checkbox"/>	Corporate governance
<input type="checkbox"/>	Corruption
<input checked="" type="checkbox"/>	Employment, labor rights & working conditions
<input checked="" type="checkbox"/>	Inequality & economic opportunity
<input type="checkbox"/>	Food production & security
<input checked="" type="checkbox"/>	Human rights
<input checked="" type="checkbox"/>	Infrastructure
<input checked="" type="checkbox"/>	Social equality & inclusion
<input type="checkbox"/>	Other
<input checked="" type="checkbox"/>	Financial
<input type="checkbox"/>	Shareholder rights
<input type="checkbox"/>	Stability
<input checked="" type="checkbox"/>	Transparency
<input type="checkbox"/>	Other

TOOLS OF INTENTIONALITY: THE EIB “TIIPING POINT”

EIB has taken intentional steps to make exceptional use of the tools of **Interconnectedness**, **Solutions**, and **Standards Setting** to address the systems-level challenge of climate change and to otherwise promote environmental and social sustainability and long-term economic growth. Due to its experience financing climate-focused projects, EIB is particularly qualified to **connect** stakeholders to information about tools for climate financing and to participate in discussions to develop principles for integrating climate consideration into investment practices—as it did as part of the COP 21 and COP22 climate talks in Paris in 2015 and 2016.

In line with its focus on addressing the systemic social and financial challenges facing Europe, and on promoting long-term sustainability, EIB has established thorough and comprehensive **standards** for the incorporation of environmental and social factors into its investment and other activities. Together, its *Statement of Environmental and Social Principles and Standards*, *Environmental and Social Handbook*, *Emissions Performance Standards* and *Climate Strategy* ensure that EIB’s investments adequately address environmental, social, and governance considerations; protect vulnerable groups, health, and safety; comply with international human rights standards; and support the environment. Given estimates that funding in the trillions is required to transition to a climate-resilient economy, EIB has also been a leader in innovating new investment tools and **solutions** to catalyze needed climate-focused investment. This includes launching its “climate action portfolio” and Climate Awareness Bonds program, which provided targeted financing for climate change mitigation and adaptation projects, and mobilizing additional financing through equity funds, layered risk funds, and funds of funds.

These intentional actions have the potential to create systems-level impacts that can not only advance progress on key climate issues, but that can promote long-term social and financial sustainability.

ABOUT EIB

EIB is the bank of the European Union (EU). It was established in 1958 under the Treaty of Rome to promote the cohesion of the European continent, decrease imbalances in regional development and, most specifically, to mobilize and provide loan financing for Europe’s major infrastructure projects. Today, EIB is a non-profit entity owned by the 28 EU member states that provides and otherwise mobilizes financing and expertise for sustainable investment that advances the EU’s policy objectives (what it calls its lending, blending and advising services). One of the world’s largest international public lending institutions, 90 percent of its projects financed are within the EU, with the other 10 percent in 150 other countries around the world.

Sustainability is central to all EIB investment and other activities. Together, its *Statement of Environmental and Social Principles and Standards* and its *Environmental and Social Handbook* outline why and how EIB considers sustainability factors (including social and environmental) as crucial to its work. Put simply, as a long-term investor, EIB seeks to reduce environmental and social risks with the potential to undermine the sustainability of its investments and seeks to maximize the rewards to investing in risk mitigation strategies. Within this broad focus, EIB has established standards related to ten specific themes:

1. Assessment and management of environmental and social impacts and risks
2. Pollution prevention and abatement
3. Biodiversity and ecosystems
4. Climate-related standards
5. Cultural heritage
6. Involuntary resettlement
7. Rights and interests of vulnerable groups
8. Labor standards
9. Occupational and public health, safety and security
10. Stakeholder engagement

EIB places a particular emphasis on environmental sustainability, which is one of its four priority issues and a core goal of the EU. According to EIB, climate change is arguably “the greatest challenge of our time” (EIB 2016d: 1) and its impact is not just environmental, but social and financial too; it notes that climate change “undermine[s] efforts made to improve welfare, notably in the world’s poorest regions, and to ensure steady economic growth across the globe” (EIB 2016d: 1). Given its “experience and expertise in financing climate action,” EIB believes that it is particularly well-positioned “to provide investment in high quality low-carbon resilient projects and to develop innovative finance instruments with the goal to catalyze and mobilize further finance” (EIB 2016d).

EIB’s *Climate Strategy* highlights what the bank views as the most pressing environmental challenges of the day—namely that climate change needs immediate attention and that mitigation and adaptation require “trillions” of dollars in investments—and establishes its commensurate strategy and priorities, including:

- **Reinforcing the impact of the bank's climate financing.** The bank will commit a minimum specified percentage of its investment dollars to climate projects, prioritizing those “with the greatest potential to curb or avoid the negative consequences of climate change” (EIB 2015d).
- **Increasing resilience to climate change.** Climate change is certain and underway. EIB assesses the impact that climate change on its investments and other activities, and identifies and implements approaches to addressing and adapting to its effects.
- **Integrating climate considerations across all bank standards and practices.** All EIB projects must align with EU standards for reducing carbon emissions and the bank continuously investigates ways to enhance its processes for integrating environmental considerations into its analyses.

These climate-focused approaches and investments not only benefit the environment, but can also help to create jobs, diversify and stabilize the global energy supply, catalyze technological progress, and positively impact living conditions (e.g. air quality and access to food). They also compliment and otherwise help to advance numerous of its other strategic priorities, including:

- **Supporting innovation and skill development**, which are “key ingredients for ensuring sustainable growth and creating high-value jobs... and in driving long-term competitiveness” (EIB 2017b). In 2016, EIB provided **€13.5 billion in loans for projects focused on innovation and skills**.
- **Strengthening infrastructure**, which is “an essential pillar that interconnects internal markets and economies... [and that] play[s] an important role in economic growth, sustainability and job creation, as well as ensuring competitiveness” (EIB 2017b). In 2016, EIB provided €19.7 billion to support infrastructure projects.
- **Increasing access to finance for small- and medium-sized enterprises (SMEs)**, which are “important drivers of growth, employment and innovation in Europe... and [that] employ two thirds of the active working population” (EIB 2017b). In 2016, EIB provided €19 33.6 billion in financing to SMEs.

The Investment Activities and Others Activities sections that follow below, focus on how EIB operationalizes its sustainability and climate-related strategic priorities.

APPROACHES IN PRACTICE

▶ INVESTMENT ACTIVITIES

Security selection & portfolio construction

ESG assessments. EIB assesses the environmental, social and governance (ESG) risks of all prospective investments.

Social assessments. EIB screens all prospective investments against the social standards outlined in its [Environmental and Social Handbook](#); specifically, against five guidance notes listed in the Handbook that establish standards for: involuntary resettlement, rights and interests of vulnerable groups, labor standards, occupational and community health and safety, and public consultation and participation in project preparation. All projects and enterprises invested in must also comply with the Charter of Fundamental Rights of the EU.

Environmental assessments and *Climate Strategy*. Published in 2015, EIB's *Climate Strategy* outlines its commitment to mobilizing finance to create a low-carbon, environmentally-friendly, and climate-resilient economy toward achieving the Paris agreement 2° Celsius goal, and prescribes related investment activities. This includes:

- **Dedicated lending for climate-focused projects.** EIB commits a minimum of 25 percent of its financing to climate-focused projects, called its “climate action portfolio.” This includes investing in large and small “high-impact” projects and sectors and those that focus on both mitigation and adaptation, including investments in things like clean water and air, biodiversity, and transportation, among other things.
- **“Mainstreaming” climate considerations into all investment analyses.** EIB assesses the environmental impact of all prospective projects; this includes sector-specific assessments of (a) “the economic cost of the resulting carbon emissions and other externalities” (EIB 2016a: 15) and their potential to generate tradable carbon credits, and (b) greenhouse gas emissions (GHG). For projects considered particularly vulnerable to climate change, EIB assesses and determines whether the project should adjust their operations and design. Certain prospective investments are subject to additional screening as outlined in EIB's *Emissions Performance Standards*; this includes projects with absolute emissions greater than 100,000 tCO₂-e and relative emissions greater than 20,000 tCO₂-e, which are typically in industries known to have particularly heavy carbon footprints (e.g. manufacturing, fossil fuels, transportation).

Social and environmental risk ratings. All projects are categorized into one of three risk categories based on their assessed “mitigation measures and residual impacts” (EIB 2017b): low risk (neutral impacts), low or moderate risk (minor negative residual impacts), and moderate or high risk (major negative residual impacts).

Focus on the water sector. According to EIB, “water is the primary medium through which climate change influences human societies and ecosystems” (EIB 2011). It therefore invests in financing for public and private clients for projects covering the entire water cycle, such as those focused on “protecting against water related destruction, increasing secure access to clean water, ensuring reliable provision of sustainable and affordable water and waste water to stakeholders, and promoting the increase in energy efficiency in the sector” (2017b).

Highlights:

- Increased percentage of loans dedicated to climate action programs by 5 percent, from 20 percent in 2010 to 25 percent in 2015; dedicated 26 percent of loans to such projects in 2016.
- Invested €16.9 billion in environment-focused projects in 2016, including a project to help to provide safe drinking water to 25 million people worldwide; expects to provide US\$100 billion in financing for climate projects over the next five years.
- Has lent almost €64 billion for approximately 1,400 water security projects to date.

Targeted investment programs

Climate Awareness Bonds (CABs). EIB issued its first CAB in 2007, the proceeds from which it designates for investments in renewable energy and energy efficiency projects. EIB aligns issuances of its CABs with the International Capital Market Association’s voluntary Green Bond Principles. In addition to raising capital, the EIB also uses CABs to promote transparency in climate finance and the discussion of definitions and reporting principles. The bank believes that it is important to make climate impact a core consideration for other institutions in dispersing capital. EIB aims to mainstream climate consideration across financial institutions, and uses green bonds, public engagements, and advisory services to promote mainstreaming.

Highlights: As of the end of 2016, the EIB has raised over €15 billion from its CABs.

▶ OTHER ACTIVITIES

Develops new financial tools to mobilize investment in climate smart projects

Given that additional funding estimated in the trillions is required to transition to a low carbon climate resilient economy, EIB complements its financing activities with products to mobilize private financing as well. It develops financial tools intended to demonstrate to the markets that investments in projects addressing climate change are financially sound and can be scaled. These products include equity funds, layered risk funds and fund of funds, such as the Global Energy Efficiency and Renewable Energy Fund.

Collaborates with peers to develop and advance solutions to issues related to investment and climate change

EIB coordinates with other financial institutions and organizations to share expertise in developing climate finance solutions. It supports various related United Nations’ programs, such as the Green Climate Fund, and holds capacity building sessions through the EU Financing Institutions Working Group on Climate Change Adaptation. EIB representatives attended the COP21 and COP22 climate talks in Paris in 2015 and 2016 and presented on several panels about its climate finance tools. While at the COP21 conference, EIB and 25 other public and private financial institutions from around the world outlined five principles to integrate climate considerations into investment practices to mainstream climate action in finance. These principles “aim to support and guide financial institutions moving forward in the process of adapting to and promoting climate smart development” (EIB 2017b). They are:

1. Commit to climate strategies
2. Manage climate risks
3. Promote climate smart objectives
4. Improve climate performance
5. Account for climate action

Catalyzes investment for Sustainable Development Goal (SDG) projects.

EIB commits to investing US\$400 billion in projects to achieve the SDGs. It also works to catalyze funding for SDG-related projects from public and private sector partners.

Promotes financing for climate research and innovation

EIB asserts that immense emissions cutbacks are necessary to meet long-term climate targets (i.e. 2° Celsius), which will require breakthroughs in research and innovation. It partnered with the European Commission in 2007 to establish the Risk Sharing Finance Facility to promote financing for research and innovation projects. EIB also partnered with the European Investment Fund InnovFin, which is expected to provide more than €24 billion of debt and equity financing available to innovative companies by 2020.

STAFFING

N/A

IMPACT MONITORING & REPORTING

Carbon Footprint Exercise and *Environmental and Social Datasheets*. EIB measures and reports on absolute and relative (that is, relative-to-baseline) GHG emissions of all prospective and ongoing projects with “significant” emissions, called its Carbon Footprint Exercise (CFE); that is, projects with absolute emissions greater than 100,000 tCO₂-e and relative emissions greater than 20,000 tCO₂-e, which typically includes those in industries known to have particularly heavy carbon footprints (e.g. manufacturing, fossil fuels, transportation). EIB’s methodology is based, in part, on those developed by the Intergovernmental Panel on Climate Change (IPCC) and the World Resources Institute, and by ISO14064 and the Voluntary Carbon Standard. It focuses on measuring scope 1 and 2 emissions for most projects, and measures scope 3 emissions for certain of its physical infrastructure projects.

EIB reports aggregate, across project, CFE results in its annual *Sustainability Report*. In 2015, EIB assessed 73 of its projects worth €11.2 billion using its GHG methodology; EIB estimated their total absolute emissions are estimated at 4.6 Mt CO₂ eq/year, “with overall reduced or avoided emissions from the same financing estimated at 3.1 Mt CO₂ eq/year” (EIB 2016a: 16). It also reports project-specific CFE information its *Environmental and Social Datasheets*, which can be accessed via its public register.

Climate Awareness Bond (CAB) newsletters, third-party evaluations of CABs, and CAB *Environmental and Social Completion Sheets*. EIB publishes an annual newsletter that describes its CAB activities and reports on aggregate project impacts, including, among other things: absolute GHG emissions, GHG emissions saved or avoided, additional electricity produced, additional heat produced, and energy (heat and electricity) saved. The 2016 issue discusses EIB’s contracting with professional services firm KPMG to audit its CAB processes, procedures and reporting and to develop the *Independent Reasonable Assurance Report*. The main purposes of the audit and report were to assess CAB alignment with the Green Bond Principles and to help EIB to improve its CAB impact reporting.

Starting in 2016, EIB began developing and publishing to its public register *Environmental and Social Completion Sheets*, which report completed CAB-funded project environmental and social outcomes, summarize each completed project’s alignment with EIB’s Environmental and Social standards.

Annual *Sustainability Report*. EIB publishes an annual *Sustainability Report* that describes its sustainability policies and procedures, highlights related changes, project greenhouse gas emissions, and summarizes the year’s sustainability activities (e.g. dollar amounts invested in sustainability-related projects). The report is structured in accordance with the Global Reporting Initiative reporting guidelines.

APPROACH PLANNING AND DEVELOPMENT

The EU member states are EIB’s shareholders. States’ ownership shares are based on their “economic weight” in terms of the relative size of its GDP at the time of its accession. However, shares for the four largest economies in the EU (France, Germany, Italy and the United Kingdom), are capped at a maximum amount and all have the same shareholding.

EIB has three decision-making bodies:

- Board of Governors, which determines its guiding principles;
- Board of Directors, which is responsible for the strategic management and approves financial operations, and;
- Management Committee, which oversees day-to-day management.

EIB also has an audit committee that ensures that the EIB activities follow proper banking practices.

When an application for a loan is made to the Bank, the project is appraised by EIB staff. One of the first five questions asked about each request is “What is the contribution of the project to the economy and to society as a whole? Is the project sustainable from an economic, financial, environmental, social and technical point of view?” (EIB 2017b).

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Profile developed in: February 2017

Profile developed by: The Investment Integration Project (TIIP). TIIP helps institutional investors understand the big picture, or “systems-level,” context of their portfolio-level decisions. “Systems-level” events, such as economic crises, ecosystems under stress, and societies in turmoil can disrupt the best-laid plans of investors and cost them dearly. Even seemingly “local” issues are now having much greater impact than they once did as the world becomes increasingly interconnected.

Grameen Bank (GB)

Development finance institution * Headquarters: Bangladesh * AUM US\$2.9 billion (2015)³⁵

AT A GLANCE

GB believes that **the provision of small loans to poor people can help to lift individuals, communities, and potentially entire countries out of poverty.** Through its income-generating loans and other targeted loan programs, GB focuses exclusively on lending to Bangladesh's poorest people. While none of GB's loans require collateral, all come with the expectation that borrowers will commit to improving the health and well-being of their families, fortifying the social infrastructure of their communities, and acting to ensure enduring prosperity.

TOOLS OF INTENTIONALITY

<input checked="" type="checkbox"/>	Additionality	<input type="checkbox"/>	Polity
<input type="checkbox"/>	Diversity of Approach	<input type="checkbox"/>	Self-Organization
<input type="checkbox"/>	Evaluation	<input checked="" type="checkbox"/>	Solutions
<input checked="" type="checkbox"/>	Interconnectedness	<input type="checkbox"/>	Standards Setting
<input checked="" type="checkbox"/>	Locality	<input checked="" type="checkbox"/>	Utility

ASSET CLASSES INTEGRATED INTO

<input checked="" type="checkbox"/>	Fixed income	<input type="checkbox"/>	Real estate
<input type="checkbox"/>	Infrastructure & real assets	<input type="checkbox"/>	Venture capital
<input type="checkbox"/>	Private equity	<input checked="" type="checkbox"/>	Other (Microcredit)
<input type="checkbox"/>	Public equities		

YEARS INTEGRATING

GB has been providing loans to the poor throughout Bangladesh toward the goal of ending poverty since it was established more than **35 years** ago.

SYSTEMS & THEMES FOCUSED ON

<input type="checkbox"/>	Environmental
<input type="checkbox"/>	Biodiversity
<input type="checkbox"/>	Climate change
<input type="checkbox"/>	Natural resources
<input type="checkbox"/>	Oceans
<input type="checkbox"/>	Renewable energy
<input type="checkbox"/>	Sustainable land use
<input type="checkbox"/>	Waste management & pollution
<input type="checkbox"/>	Water
<input type="checkbox"/>	Other
<input checked="" type="checkbox"/>	Societal
<input type="checkbox"/>	Consumer health & safety
<input checked="" type="checkbox"/>	Corporate governance
<input type="checkbox"/>	Corruption
<input type="checkbox"/>	Employment, labor rights & working conditions
<input checked="" type="checkbox"/>	Inequality & economic opportunity
<input type="checkbox"/>	Food production & security
<input checked="" type="checkbox"/>	Human rights
<input type="checkbox"/>	Infrastructure
<input checked="" type="checkbox"/>	Social equality & inclusion
<input checked="" type="checkbox"/>	Other (poverty reduction)
<input type="checkbox"/>	Financial
<input type="checkbox"/>	Shareholder rights
<input type="checkbox"/>	Stability
<input type="checkbox"/>	Transparency
<input type="checkbox"/>	Other

TOOLS OF INTENTIONALITY: THE GB "TIIPING POINT"

GB has made exceptional use of a range of the tools of intentionality in its pioneering and single-minded pursuit of the development of the microcredit market to address the challenge of ending poverty in Bangladesh. It has made particularly notable use of the tools of **Additionality, Interconnectedness, Locality, Solutions** and **Utility** to address the systems-level risks of financial and societal exclusion and related issues. Through its pioneering of the development of microcredit to promote financial inclusion for the poor, GB created an investment **solution** that is now used to address societal issues worldwide. This commitment to providing loans to the poorest people from Bangladesh's most remote areas who would have otherwise been excluded from the country's financial system ensures that GB invests where others might not; **adding** to the development of these areas and the economy. Further, GB structures its operations and lending around **local** villages, requiring local branches to familiarize themselves with assigned villages' residents and needs.

GB is a tireless advocate for the **utility** of microcredit as a vehicle for addressing systemic social issues. Through its International Program Department, it **connects** professionals from various sectors and industries to training and information GB's approach to using microcredit as a poverty reduction strategy to increase the capacity of the investment community to address these issues.

ABOUT GB

GB is a bank that in effect functions as a kind of development finance institution. It provides income-generating loans and other banking services to the poor in rural villages throughout Bangladesh and toward the overarching goal of ending poverty. Its approach is built on the belief that “poverty is not created by the poor, [but rather that] it is created by the institutions and policies that surround them” (Grameen Bank 2017) and that providing poor people with access to credit to pursue income-generating activities not only increases the incomes of individuals, it makes “an impact on poverty alleviation at the national level” (Grameen Bank 2017). According to the bank's founder, Muhammad Yunus, “these millions of small people with their millions of small pursuits can add up to create the biggest development wonder.”

Within the broad objective of ending poverty, GB's loan program (dubbed “Grameencredit”):

- **Focuses on “poorest of the poor” with an emphasis on women.** GB lends to poor people from Bangladesh's rural areas and remote villages who have otherwise been excluded from the country's mainstream financial system and institutions. Without access to credit, which GB contends is a human right, society cannot reasonably expect that the poor will lift themselves out of poverty. GB believes that development output is greater when banks lend to women (rather than men) and that women “are more likely to use their earnings to improve their living situations and to educate their children” (Grameen Bank 2017). Further, women are often neglected by society in Bangladesh and providing them with loans with which to establish businesses and generate income helps to “raise their status, lessen their dependency on their husbands and improve their homes and the nutritional standards of their children” (Grameen Bank 2017). Ninety-seven percent of GB's borrowers are women.
- **Does not require collateral and provides loans to groups.** Lack of collateral, such as land, precludes most poor people from being able to borrow money from conventional banks. As such, GB loans do not require collateral and are provided to groups of five people (rather than individuals), called “centres.” Groups pay back loans in weekly or bi-weekly installments over one year and GB monitors them through regular in-person contact. This repayment and monitoring structure—combined with the support, peer pressure, and collective responsibility imbedded in the borrower groups (referred to as “solidarity” groups)—makes traditional collateral unnecessary. GB only provides subsequent loans to groups that have successfully repaid their first loan. It considers the development of centres as a way of building social capital in Bangladesh's villages.
- **Encourages savings.** GB provides savings, pension and insurance services in addition to its lending program and encourages borrowers to access these services. Doing so, it says, helps to break the cycle of “low income, low savings, low investment, low income” (Grameen Bank 2017).
- **Requires that banking activities be executed in borrowers' villages.** GB provides most of its lending and other banking services “at the door-step of the poor on the principle that people should not go to the bank, the bank should go to the people” (Grameen Bank 2017). It also addresses GB's customer's skepticism of conventional banks located in far away from their homes. GB operates a network of approximately 2,500 decentralized branches, each responsible for a group of villages. Branches are responsible for familiarizing themselves with local villages and their residents, identifying prospective borrowers, and tailoring services accordingly.
- **Simultaneously helps individual borrowers and advances the bank's social development agenda.** GB requires borrowers to memorize and adhere to its *16 Decisions*, developed by GB in consultation with borrowers. Through requiring borrower commitment to the *Decisions*, each of which falls into one of three broad categories (see Box 1), GB aims to raise borrowers' “social and political consciousness” and to encourage them to engage in projects that improve their communities' social and physical infrastructure.³⁶

In 2015, GB served more than 81,000 villages and nearly 9 million people throughout Bangladesh. Together with its founder, Muhammad Yunus, GB won the Nobel Peace Prize in 2006 “for their efforts to create economic and social development from below” (Grameen Bank 2017). The Nobel Committee noted that such development was necessary for achieving lasting peace and that “economic growth and political democracy” are not fully possible without the labor force participation of women and gender equality.

Box 1. Grameen Bank's 16 Decisions, Summarized

Borrowers commit to:

Families, well-being and health

- ✓ Working hard to lift themselves and their families out of poverty
- ✓ Caring for their houses and building new ones
- ✓ Keeping families small
- ✓ Drinking only safe water
- ✓ Educating their children
- ✓ Maintaining their health and children's cleanliness
- ✓ Planting trees
- ✓ Building and using latrines

Community building and investments in ongoing prosperity

- ✓ Helping and socializing with one another
- ✓ Maintaining fairness, justice and discipline
- ✓ Collectively investing to generate higher incomes

Gender equality

- ✓ Not paying or accepting dowries
- ✓ Not practicing child marriage

APPROACHES IN PRACTICE

▶ INVESTMENT ACTIVITIES

Investment beliefs statement

GB's lending practices are governed by the ten principles outlined in its *Method of Action*. These principles include a combination of beliefs, policies and practices that serve as the foundations for Grameen's approach to lending:³⁷

1. Start with the problem rather than the solution: a credit system must be based on a survey of the social background rather than on a pre-established banking technique.
2. Adopt a progressive attitude: development is a long-term process which depends on the aspirations and commitment of the economic operators.
3. Make sure that the credit system serves the poor, and not vice-versa: credit officers visit the villages, enabling them to get to know the borrowers.
4. Establish priorities for action vis-a-vis the target population: serve the most poverty-stricken people needing investment resources, who have no access to credit.
5. At the beginning, restrict credit to income-generating production operations, freely selected by the borrower. Make it possible for the borrower to be able to repay the loan.
6. Lean on solidarity groups: small informal groups consisting of co-opted members coming from the same background and trusting each other.
7. Associate savings with credit without it being necessarily a prerequisite.
8. Combine close monitoring of borrowers with procedures which are simple and standardized as possible.
9. Do everything possible to ensure the system's financial balance.
10. Invest in human resources: training leaders will provide them with real development ethics based on rigor, creativity, understanding and respect for the rural environment.

Security selection & portfolio construction

GB only provides loans for income-generating activities to Bangladesh's poorest people from rural areas and remote villages with an emphasis on women. It requires its borrowers to adhere to its *16 Decisions*, which dictate activities across three broad areas (see Box 1): (a) families, well-being and health; (b) community building and investments in ongoing prosperity, and; (c) general equality. Loans do not require collateral or legally-binding contracts.

GB provides loans to homogeneous groups of five people, or centres. Centres can access the full loan amount only after two of its members successfully pay back the principle and interest of an initial six-week trial loan. It gives priority to the neediest borrowers. Loan recipients typically include women with young children who live in dilapidated houses, do not have ready access to clean water or a latrine, and that lack adequate food, clothing and healthcare. Loans are "small" and have a 20 percent interest rate. They commonly provide funds for such activities as livestock purchases and care (e.g. milk cows, cow fattening), agricultural and trading equipment purchases and repairs, raw materials, etc.

Highlights:

- As of 2015, GB has provided loans to approximately 143,000 centers.
- In 2015, GB provided approximately Tk1 million (US\$13,000) in basic loans.

Targeted investment programs

In addition to its basic, income-generating loan program, GB operates a series of investment programs targeted at specific individuals and outcomes. They are:

Struggling Members Program. Also called the bank's "Beggars Program," the Struggling Members Program provides interest-free loans to people who have turned to begging as a last resort for survival, many of which have health problems and physical or cognitive disabilities. The goal of the program is "provide financial services to the beggars to help them find a dignified livelihood, send their children to school and to make them graduate into becoming regular Grameen Bank members" (Grameen Bank 2015: 22). Aside from being interest-free, Struggling Members Program loans differ from other GB loans in several ways, including longer repayment terms with "very small" installments (e.g. US\$0.34 per week) and free life and loan insurance.

Housing Loans Program. GB provides loans of up Tk25,000 (US\$290) to build a house. According to GB, "the ownership of a house infuses people with a sense of pride, security and self-respect that, in turn, provides a stepping stone to achieve economic prosperity and improved social status" (Grameen Bank 2015: 8). Loans have an interest rate of eight percent and a term of five years.

Higher Education and Nursing Education Loans Programs. Children of GB borrowers are eligible for interest-free loans to pursue higher education in topics including in medicine, engineering, and agriculture. The loans cover tuition, fees, supplies, housing and food for the duration of the course of study. Borrower's daughters can also access loans through the Nursing Education Program, which lends money specifically for a three-year course in midwifery.

Credit Program for Self-employment of the Recipients of Higher Education Loans. Participants in the Higher Education Loans Program, can receive loans to pursue self-employment opportunities. The program aims to develop "job creators" rather than "job seekers" and "to create a band of new entrepreneurs" (Grameen Bank 2015: 21); that is, the program expects that its participants will contribute to poverty reduction through building businesses that create jobs not only for themselves but for others too. Loans are not restricted to specific sectors and do not have a ceiling; interest rates are between three and five percent.

Village Phone Program. Through the Village Phone Program, GB provides loans to female villagers to purchase a mobile phone and become the village's "Telephone Lady." The mobile phones "not only create a new business opportunity for the poor, but also bring access to information, market, health and other services to the remote rural areas of Bangladesh" (Grameen Bank 2015: 18). Telephone ladies "provide the telecommunication services to the village while earning profits for herself" (Grameen Bank 2015: 18). GB operates the program in partnership with non-profit company Grameen Telecom.

Highlights:

- As of 2015, the Struggling Members Program had provided loans to a total of 109,000 participants (mostly women) and dispersed Tk176 million (US\$2 million), Tk149 million of which has been repaid.
- GB provided Tk5.59 million (US\$73,000) in housing loans in 2015 for the construction of 363 houses; the Housing Loans Program has provided loans for the construction of nearly 700,000 houses since it was launched in 1984.
- In 2015, the Higher Education Loan Program provided loans to nearly 300 students; in total, the program has provided loans to more than 53,000 totally more than Tk350 million (US\$4.6 million) since 1997.
- 294 students have enrolled in a midwifery course; 175 students have completed the course, 151 of which have either gotten jobs and or pursued more advanced degrees.
- In 2015, GB loans provided for the purchase of more than 200,000 village cell phones.

➤ OTHER ACTIVITIES

Provides training on GB's methods

GB's International Program Department provides various types of training to individuals from various sectors and industries on its approach to lending the very poor as a poverty reduction strategy. The duration, activities, and focus of each training differs but the overarching objectives are the same, including to develop trainees into "vessels of information, expertise, and resource for their peers and communities, as well as for Grameen Bank" (cite).

➤ STAFFING

GB has a decentralized operations and administrative structure through which each of its approximately 2,500 bank branches each provide loans and other banking services to a group of 15 to 22 villages. Branches are responsible for familiarizing themselves with local villages and their residents, identifying prospective borrowers, and tailoring services accordingly. "Bicycle bankers" (presumably named as such because they bicycle between villages) engage with borrowers regularly; this includes meeting with borrower groups each week during the loan repayment period to supervise their activities, monitor progress and assist with decision-making.

➤ IMPACT MONITORING & REPORTING

GB assesses borrower progress along its 10 *Indicators* to determine whether their socioeconomic situation is improving and, ultimately, if they are progressing out of poverty. They are:³⁸

1. The family lives in a house worth at least Tk25,000 (US\$312) or a house with a tin roof, and each member of the family can sleep on bed instead of on the floor.
2. Family members drink pure water of tube-wells, boiled water or water purified by using alum, arsenic-free, purifying tablets or pitcher filters.
3. All children in the family over six years of age are going to school or finished primary school.
4. Minimum weekly loan installment of the borrower is Tk200 (US\$312) or more
5. Family uses a sanitary latrine.
6. Family members have adequate clothing for everyday use, warm clothing for winter, and mosquito nets to protect themselves from mosquitoes.
7. Family has sources of additional income, such as a vegetable garden or fruit-bearing trees so that they can fall back on these sources of income when they need additional money.
8. The borrower maintains an average annual balance of Tk5,000 (US\$62) in her savings accounts.
9. Family experiences no difficulty in having three square meals a day throughout the year; no member of the family goes hungry any time of the year.
10. Family can take care of the health. If any member of the family falls ill, family can afford to take all necessary steps to seek adequate healthcare.

Third-party entities have studied the impact of GB's lending practices on poverty and poor families, including by World Bank, the International Food Research Policy Institute and the Bangladesh Institute of Development Studies, GB reports that such studies have found that: (a) average household income is 50 percent higher in villages containing GB borrowers than in comparable villages GB does not lend, and (b) fewer people live below the poverty line in GB villages (20 percent) than in comparable non-GB villages (56 percent).

APPROACH PLANNING AND DEVELOPMENT

N/A

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Profile developed in: March 2017.

Profile developed by: The Investment Integration Project (TIIP). TIIP helps institutional investors understand the big picture, or “systems-level,” context of their portfolio-level decisions. “Systems-level” events, such as economic crises, ecosystems under stress, and societies in turmoil can disrupt the best-laid plans of investors and cost them dearly. Even seemingly “local” issues are now having much greater impact than they once did as the world becomes increasingly interconnected.

Inter-American Development Bank (IADB)

Development finance institution * Headquarters: United States * AUM US\$113 billion (2016)³⁹

AT A GLANCE

IADB believes that to **reduce poverty throughout Latin America and the Caribbean**, it must address the three main development issues facing the region today: social exclusion and inequality; low productivity and innovation, and; lack of regional economic integration. In doing so, IADB must also confront three pressing development issues: gender equality and diversity; climate change and environmental sustainability, and; institutional capacity and rule of law. Among these challenges and issues, IADB is particularly focused on helping the region **mitigate and adapt to climate change**, which threatens its diverse and fragile ecosystems and, ultimately, the livelihoods of its most vulnerable citizens and solvency of important industries (e.g. tourism).

TOOLS OF INTENTIONALITY

- | | |
|-----------------------------------------------------------|--------------------------------------------|
| <input checked="" type="checkbox"/> Additionality | <input type="checkbox"/> Polity |
| <input checked="" type="checkbox"/> Diversity of Approach | <input type="checkbox"/> Self-Organization |
| <input checked="" type="checkbox"/> Evaluation | <input type="checkbox"/> Solutions |
| <input checked="" type="checkbox"/> Interconnectedness | <input type="checkbox"/> Standards Setting |
| <input type="checkbox"/> Locality | <input type="checkbox"/> Utility |

ASSET CLASSES INTEGRATED INTO

- | | |
|------------------------------------------------------------------|------------------------------------------|
| <input checked="" type="checkbox"/> Fixed income | <input type="checkbox"/> Real estate |
| <input checked="" type="checkbox"/> Infrastructure & real assets | <input type="checkbox"/> Venture capital |
| <input type="checkbox"/> Private equity | <input type="checkbox"/> Other |
| <input type="checkbox"/> Public equities | |

YEARS INTEGRATING

Supporting financial and social system stability has been among IADB's core functions since it was established in 1959.

SYSTEMS & THEMES FOCUSED ON

- | |
|------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> Environmental |
| <input checked="" type="checkbox"/> Biodiversity |
| <input checked="" type="checkbox"/> Climate change |
| <input type="checkbox"/> Natural resources |
| <input type="checkbox"/> Oceans |
| <input type="checkbox"/> Renewable energy |
| <input type="checkbox"/> Sustainable land use |
| <input type="checkbox"/> Waste management & pollution |
| <input type="checkbox"/> Water |
| <input type="checkbox"/> Other |
| <input checked="" type="checkbox"/> Societal |
| <input type="checkbox"/> Consumer health & safety |
| <input type="checkbox"/> Corporate governance |
| <input checked="" type="checkbox"/> Corruption |
| <input type="checkbox"/> Employment, labor rights & working conditions |
| <input checked="" type="checkbox"/> Inequality & economic opportunity |
| <input type="checkbox"/> Food production & security |
| <input type="checkbox"/> Human rights |
| <input checked="" type="checkbox"/> Infrastructure |
| <input checked="" type="checkbox"/> Social equality & inclusion |
| <input type="checkbox"/> Other |
| <input type="checkbox"/> Financial |
| <input type="checkbox"/> Shareholder rights |
| <input type="checkbox"/> Stability |
| <input type="checkbox"/> Transparency |
| <input type="checkbox"/> Other |

TOOLS OF INTENTIONALITY: THE IADB "TIIPING POINT"

IADB has taken intentional steps to use of the tools of **Additionality**, **Diversity of Approach**, **Evaluation**, and **Interconnectedness** to address the systems-level challenges of climate change, income inequality and economic opportunity, and social equality, among others, and to otherwise promote environmental and social sustainability and long-term economic growth. It not only assesses the environmental and societal risks of prospective projects, but also ensures that they serve to enhance, or otherwise **add**, to its member countries' poverty- and inequality-reduction strategies.

Given that Latin America and the Caribbean are home to the 40% of the earth's biodiversity, IADB is committed to protecting the region's ecosystems against climate change to protect its most vulnerable residents and important economic sectors like tourism. It recently launched the Biodiversity and Ecosystem Services Program to help stakeholder understand and measure the economic **value** of the region's natural capital, and to promote projects and investments focused on its protection. The **diverse set of approaches** that IADB uses to address environmental issues also includes dedicating financing to climate change mitigation and adaptation programs,

and using its platform as a large international development institution to **connect** stakeholders to information about climate change and mitigation, such as through its NDC Invest program and in publications such as *Stranded Assets: A Climate Risk Challenge*.

These intentional actions have the potential to create systems-level impacts that not only advance progress on key climate issues, but also promote long-term social and financial sustainability.

ABOUT IADB

Established in 1959, IADB is a development finance institution that provides loans, grants, and technical assistance to its 48 member countries from Latin America and the Caribbean to “accelerate the process of economic and social development” (IADB 2015: 2) throughout the region and in individual countries. Today, IADB focuses on fulfilling its purpose through reducing poverty and inequality and by investing in health, education, and infrastructure. IADB is part of IADB Group, which includes IADB, Multilateral Investment Fund (MIF) and Inter-American Investment Corporation (IAIC).

IADB’s *Institutional Strategy 2010-2020* outlines its current strategic approach to development. In a recent update to the *Strategy*, IADB identified the three most pressing development challenges facing Latin America and the Caribbean and a series of issues that it will focus on as it addresses them (see Box 1).⁴⁰ According to IADB, the challenges are “tightly bound together... each can be thought of as a cause and consequence of the other... [and] in periods of macroeconomic turbulence, the three become even more tightly bound” (IADB 2015: 8).

Sustainability is central to all IADB operations and activities because, according to IADB, “long-term economic growth and the reduction of poverty and inequality in Latin America and the Caribbean depend on development that is both environmentally sustainable and socially inclusive” (IADB 2017d: 6). As such, IADB is committed to helping its member nations achieve the United Nations Agenda 2030 Sustainable Development Goals (SDGs) and has aligned its priority development challenges and issues with the SDGs (see Box 1).

Box 1. IADB’s Strategic Priorities

Priority	Description	Relevant SDGs
Development challenges		
<i>Social exclusion and inequality</i>	<ul style="list-style-type: none"> ✓ Latin America and the Caribbean is the most unequal region in the world and 80 million of its residents live in extreme poverty, disproportionate numbers which represent certain groups (e.g. women, children, residents of urban areas) ✓ IADB aims to eradicate extreme poverty, create a more distributive fiscal policy, strengthen the capacity of the state, include all segments of the population in financial markets, and provide include 	<ul style="list-style-type: none"> ✓ <i>No poverty</i> ✓ <i>Zero hunger</i> ✓ <i>Good health and well-being</i> ✓ <i>Clean water and sanitation</i> ✓ <i>Reduced inequalities</i>
<i>Low productivity and innovation</i>	<ul style="list-style-type: none"> ✓ The region lags other emerging market economies in productivity, particularly in rural areas; caused, in part, by a poorly trained labor force, underdeveloped financial markets, inadequate infrastructure, and complex business regulations, among other things ✓ IADB aims to develop quality human capital, establish smart institutional frameworks, provide urban planning and rural infrastructure, and provide adequate knowledge and innovation ecosystems 	<ul style="list-style-type: none"> ✓ <i>Quality education</i> ✓ <i>Affordable and clean energy</i> ✓ <i>Decent work and economic growth</i> ✓ <i>Industry, innovation and infrastructure</i>
<i>Lack of regional economic integration</i>	<ul style="list-style-type: none"> ✓ Economic integration in Latin America and the Caribbean has slowed over the past 10+ years; causes include market-based linkages with complex political agreements, limited export offerings, and exclusion from supra-regional trade negotiations, among other things ✓ IADB aims to improve regional infrastructure, insert firms into value chains, converge integration policies and instruments, and leverage South-South and Triangular cooperation 	<ul style="list-style-type: none"> ✓ <i>Industry, innovation and infrastructure</i> ✓ <i>Partnerships for the goals</i>
Development issues		
<i>Gender equality and diversity</i>	<ul style="list-style-type: none"> ✓ Inequality based on gender, race, parents’ education level, and sexual orientation is prevalent in Latin America and the Caribbean ✓ IADB asserts that public policy must ensure that all the region’s people are given equal opportunities 	<ul style="list-style-type: none"> ✓ <i>Gender equality</i> ✓ <i>Reduced inequalities</i>
<i>Climate change and environmental sustainability</i>	<ul style="list-style-type: none"> ✓ Latin America and the Caribbean are particularly vulnerable to climate change; the region is home to 40% of the world’s biodiversity ✓ IADB asserts that climate change and biodiversity loss threaten progress on poverty reduction and equity and disproportionately impact the region’s most vulnerable residents 	<ul style="list-style-type: none"> ✓ <i>Sustainable cities and communities</i> ✓ <i>Responsible consumption and production</i> ✓ <i>Climate action</i>

		<ul style="list-style-type: none"> ✓ <i>Life below water</i> ✓ <i>Life on land</i>
<i>Institutional capacity and rule of law</i>	IADB asserts that strong, well-functioning institutions are critical to the volume, timeliness, and quality of services, and to enforcing the rule of law and combatting corruption and impunity	<i>Peace, justice and strong institutions</i>

APPROACHES IN PRACTICE

▶ INVESTMENT ACTIVITIES

Security selection & portfolio construction

Development Effectiveness Matrix (DEM). IADB completes a proposal for each prospective project that includes a monitoring and evaluation assessment and a DEM. The DEMs, which help IADB to systematically examine whether a project meets minimum financing requirements, examine the following:

- ✓ The development challenge to be addressed by the project; the “quantified” size of the problem
- ✓ The proposed evidence-based solution to the challenge
- ✓ The “evaluability” of the project (that is, an assessment of whether, how, and how well IADB can monitor its implementation and measure its effectiveness)
- ✓ The project’s alignment with strategic priorities and “additionality”

Environmental and social impact assessments. IADB assesses all projects with “potentially substantial environmental and social impacts” against its “suite” of safeguard policies and related guidance documents. IADB assesses each project into one of four risk categories: significant, moderate, minimal, and uncategorized. Depending on a project’s risk category, IADB might assign to it a designated safeguard specialist or require other additional environmental or social risk adaptation approaches.

Financing for climate change mitigation and adaptation. IADB will double its financing for climate change mitigation and adaptation projects to 30% of all approvals by 2020.

Targeted investment programs

Biodiversity and Ecosystem Services Program. Latin America and the Caribbean contains 40% of the earth’s biodiversity, “which can support and foster sustained economic growth if properly managed” (IADB 2017c). IADB recently launched the Biodiversity and Ecosystem Services program to “help the region protect and use this natural capital to generate social and economic development” (IADB 2017c). Core investment-focused program activities include:

- **Integrating the value of biodiversity and ecosystem services into key economic sectors.** IADB will identify sectors in which it can “provide practical applications of integration of the economic value of biodiversity and ecosystem services” (IADB 2017c), e.g. agriculture and tourism. This will include: “expand[ing] the Bank’s usual economic analysis to include economic valuations of ecosystem services” during project development; incorporate[ing] biodiversity inclusive environmental impact assessments” into project development; and “develop[ing] standardized impact indicators and methodologies to measure benefits at the ‘impact evaluation’ stage” (IADB 2017c).
- **Promoting private sector innovation in environmental protection.** IADB will “support private sector projects that possess innovative techniques for the protection of biodiversity and ecosystem services” (IADB 2017c). It will do so through, among other things, “increase[ing] its lending to biodiversity positive enterprises and scal[ing] it up to larger businesses” (IADB 2017c).

IADB will also execute a series of non-investment-focused activities as part of the program. These include: (a) developing and promoting biodiversity and ecosystem research and analysis, and otherwise disseminating information about the threats, risks, impacts, and benefits related to biodiversity and ecosystems, and; (b) promoting the mainstreaming of, and public policies to support, biodiversity and ecosystem preservation.

▶ OTHER ACTIVITIES

Provides guidance to member countries on achieving Paris Agreement goals

Through its NDC [Nationally Determined Contribution] Invest program, IADB supports its member countries in their implementation of activities under the Conference of the Parties (COP) 21 Paris Agreement. NDC Invest provides a “one-

stop shop” that “is designed to foster strategic coordination across the public and private sectors, with civil society and others... [and], to encourage[e] the transition toward more sustainable development by helping to fill the climate financing and implementation gaps” (IADB 2017d: 16). It has four elements:

1. **NDC Programmer.** Assists countries and their investors in developing NDC plans, including: helping to examine policies, regulations and sector strategies; developing transparent monitoring systems, and; developing mobilization strategies and financial instruments.
2. **NDC Finance Mobilizer.** Helps countries in accessing “concessional resources” to reduce costs and manage risks of investments tied to their NDCs.
3. **NDC Pipeline Accelerator.** Provides “a portfolio of sustainable and bankable projects by carrying out pre-feasibility and other project preparation studies, as well as plugging upstream gaps identified” (IADB 2017d: 16).
4. **NDC Market Booster.** Aims to “correct market failures associated with private sector projects, particularly small and medium-size enterprises, by providing non-reimbursable and reimbursable grants to pilot new business and financial models” (IADB 2017d: 16).

Conducts research and disseminates information on development and sustainability issues

IADB conducts research and publishes commensurate reports on a range of development and sustainability issues and topics, and otherwise disseminates information and guidance to development institutions, investors, and its member countries through papers and other guidance documents. Select examples of such work highlighted in IADB’s Sustainability Report 2016 include:

- **Research, reports, and articles on climate change, carbon reduction, and climate-resilient infrastructure.** In 2016, IADB published *Stranded Assets: A Climate Risk Challenge*, to better help its member countries understand the issue of, and risks associated with, stranded carbon assets. The report was informed by literature reviews, case studies, interviews and a survey conducted by IADB. In that same year, IADB’s president co-authored an op-ed in the Guardian on how investments in “low-carbon and climate-resilient infrastructure is essential for reducing global poverty” (IADB 2017d: 22), and IADB released its New Climate Economy Report which “uses extensive research to confirm that sustainable infrastructure investment is crucial to foster global economic growth, to deliver on the SDGs, and to cope with climate risks” (IADB 2017d: 22). IADB has also partnered with Mercer Investments to examine barrier to investment in sustainable infrastructure (particularly by institutional investors); in 2016, they jointly released *Building a Bridge to Sustainable Infrastructure: Mapping the Global initiatives that are Paving the Way*, which makes the case for support of sustainable infrastructure projects.
- **“Smart” management guide.** IADB’s 2016 publication *The Road Toward Smart Cities: Migrating from Traditional City Management to Smart City* is guide aimed at mayors, managers, consultants and others that provides information on best practices for integrating technology into urban development and management.

Convenes stakeholders to discuss development and sustainability issues

IADB speaks at conferences and otherwise convenes stakeholders to discuss a range of development and sustainability issues and topics. Recent examples of such work include speaking and moderating panels at the United Nations Conference on Housing and Sustainable Urban Development to “raise awareness of some of the challenges faced by urban dwellers” (IADB 2017d: 26) throughout Latin America and the Caribbean. Together with the German development bank KfW, IADB convened a breakout session at the Conference of the Parties to the Convention on Biological Diversity “to explore development banks’ perspectives on mainstreaming biodiversity in Latin America and the Caribbean” (IADB 2017d: 30).

Leads and supports initiatives focused on gender equality and inclusive development

Gender Parity Initiative. Together with the World Economic Forum (WEF), IADB is working to expand the Gender Parity Task Forces first launched by the President of Chile in 2016 to “close economic gender gaps” (cite). IADB and WEF’s Global Gender Gap Report are also partnering “to quantify the magnitude of gender-based disparities over time and to develop a digital repository of best practices for closing gender gaps as an implementation mechanism for the private sector” (IADB 2017d: 38).

Inclusive Public-Private Economic Development Forum. Together with the Municipality of São Paulo and the Instituto Ethos, IADB launched the Forum to help ensure that economic development opportunities are available to African

descendants, women, and other vulnerable populations. It focuses on achieving this goal through helping to improve private sector recruitment and improving leadership diversity in both the public and private sectors.

STAFFING

IADB recently incorporated into its organizational structure a division (or, “sector”) that exclusively focuses on its sustainability and climate change strategies and activities. It “fosters a regional network to develop and share knowledge in the form of cutting-edge research, lessons learned, and best practices” and “will also manage [IADB’s] operations in the areas of forestry, biodiversity, agricultural development, tourism, sustainable cities, and climate change and will support other sectors with mainstreaming sustainability considerations as member countries continue to demand multisectoral solutions” (IADB 2017d: 10).

Other divisions that have responsibilities pertaining to the topics discussed in this profile include the Office of Strategic Planning and Development Effectiveness and the Office of Evaluation Oversight, which both conduct evaluations of the outcomes and impacts of IADB’s development activities.

IMPACT MONITORING & REPORTING

IADB uses a variety of methods and tools to monitor the progress, costs, and effectiveness of its development projects and as part of its commitment to Managing for Development Results (MfDR).⁴¹ This includes conducting experimental (random assignment) and quasi-experimental studies, and calculating the economic rate of return (ERR) of projects to “evaluate [the] contribution of Bank’s efforts to economic development” (IADB 2017e). The ERR “compares the interest rate of an operation with the costs of capital and benefits for countries discounted over its life” (IADB 2017e). IADB documents project- and loan-specific information in project and loan monitoring and completion reports. IADB summarizes its sustainability activities in its annual Sustainability Report, and reports on the development performance, effectiveness, and impact of MIF projects in the annual Development Effectiveness Report; both of which it develops in compliance with the Global Reporting Initiative (GRI) standards for sustainability reporting. Highlights of IADB’s monitoring and reporting efforts are as follows.

Corporate results framework. The IADB Group developed the Corporate Results Framework (CRF) 2019-2019 to monitor the Group’s progress toward addressing the development challenges and issues outlined in the most recent update to the *Institutional Strategy*. The CRF assesses IADB, MIF, and IAIC’s progress against four groups of indicators that align with the IADB Group’s priority development challenges and issues (about 50 indicators in total) and with the SDGs (see Box 2).⁴²

Box 2. IADB Group’s CRF Indicators

Purpose	Development challenge / issue	Select examples
Regional context indicators		
<ul style="list-style-type: none"> Provide context into the region’s long-term development progress Help to broadly frame the progress reported at the country development level 	The three development challenges identified in the <i>IS</i> update: <ol style="list-style-type: none"> Social exclusion and inequality Low productivity and innovation Lack of regional economic integration 	<ul style="list-style-type: none"> ✓ Poverty headcount ratio ✓ Growth rate of GDP per person employed ✓ Growth rate of the value of total exports of goods and services ✓ Greenhouse gas emissions ✓ Proportion of terrestrial and marine areas protected
Country development results indicators		
<ul style="list-style-type: none"> Provide aggregate data on outputs and outcomes supported by IADB Group projects Seeks to answer questions about how IADB Group is contributing to development in the Region 	The three development issues identified in the <i>IS</i> update: <ol style="list-style-type: none"> Gender equality and diversity Climate change and environmental sustainability Institutional capacity and rule of law 	<ul style="list-style-type: none"> ✓ Beneficiaries of improved management and sustainable use of natural capital ✓ Beneficiaries of targeted anti-poverty programs ✓ Beneficiaries of women's economic empowerment initiatives ✓ Households benefitting from housing solutions ✓ Jobs created by supported firms ✓ Maternal mortality ratio
IADB Group performance indicators		
Capture how the IADB Group supports countries and clients in achieving results	The six operational guiding principles outlined in the <i>IS</i> : <ol style="list-style-type: none"> Responsiveness Multi-sectorality Leverage and partnerships Innovation and knowledge 	(Same as those reported above as examples of country development indicators.)

Auxiliary indicators	3. Effectiveness and efficiency	6. Strategic alignment
<ul style="list-style-type: none"> Help the IADB Group to more easily aggregate results across its portfolio Complement the main CRF indicators Allow for continuity in reporting on indicators from the previous CRF (2012–2015) Allow for experimentation with new indicators 	N/A	<ul style="list-style-type: none"> ✓ Partners satisfied with IADB Group financing instruments (%) ✓ Partners satisfied with IADBG’s knowledge-sharing (%) ✓ Accountability institutions strengthened ✓ Airports built or upgraded ✓ Amount of international trade promoted ✓ Business environment reforms enacted ✓ Crime information systems strengthened ✓ Urban rail and bus mass transit systems built or upgraded

Greenhouse gas emissions. IADB calculates the greenhouse gas emissions of its lending portfolio as part of the CRF and per its *Environment and Safeguards Compliance Policy*. It identifies those projects “that generate significant amounts of [greenhouse gas] GHG emissions” (IADB 2017d: 49). In 2016, “IADB-financed greenfield and expansion projects generated the equivalent of about 310,000 metric tons of CO₂ and low carbon development projects avoided the equivalent of about 43,000 metric tons of CO₂” (IADB 2017d: 49).

Analysis of environmental and social safeguard policies. In 2016, IADB partnered with the Zofnass Program for Sustainable Infrastructure at Harvard University to “investigate the benefits, outcomes, and effectiveness of IADB’s environmental and social safeguard policies” (IADB 2017d: 42). As part of the project, IADB and Harvard used Harvard’s *Envision Rating System for Sustainable Infrastructure* to analyze nine IADB-funded projects and concluded that the policies are “instrumental to facilitating sustainability” (IADB 2017d: 43) and that they “enhanced national regulations and the institutional capacity of borrowing member countries to manage environmental and social impacts, and they helped sponsors implement innovative best practices” (IADB 2017d: 43). The research also found that projects perform better, sustainably speaking, the earlier that IADB gets involved.

APPROACH PLANNING AND DEVELOPMENT

IADB’s Board of Governors makes major strategic and policy decisions. It includes representatives from each of the 48 member countries. IADB’s 14-member Board of Executive Directors approves country and sector strategies, operational policies, and loans.

IADB Group convened stakeholders and staff to develop its CRF 2016-2019, including a “group of more than 50 senior technical specialists throughout the IADB Group” (cite) that was responsible for “identifying the indicators, defining them and establishing corresponding baselines and targets” (cite). The group’s work was informed by the SDGs and examinations of similar frameworks used by other multilateral development banks.

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Profile developed in: April 2017.

Profile developed by: The Investment Integration Project (TIIP). TIIP helps institutional investors understand the big picture, or “systems-level,” context of their portfolio-level decisions. “Systems-level” events, such as economic crises, ecosystems under stress, and societies in turmoil can disrupt the best-laid plans of investors and cost them dearly. Even seemingly “local” issues are now having much greater impact than they once did as the world becomes increasingly interconnected.

International Finance Corporation (IFC)

Development finance institution • Headquarters: United States • AUM: US\$68.5 billion (2016)⁴³

AT A GLANCE

IFC combines investment and other activities to address environmental, societal and financial issues, and to cultivate systemic conditions favorable to the achievement of impact goals and to maintaining the long-term solvency of investments. Notable activities include:

- ⇒ **Requiring that investees adhere to environmental and social sustainability policies, performance standards, and reporting guidelines.** All investees must comply with IFC's *Sustainability Framework*, which outlines IFC's commitment to sustainability as part of its overall risk management approach, encourages good environmental, social and governance (ESG) practices, and promotes transparency and accountability.
- ⇒ **Using proceeds from green bond issuances to fund "climate-smart" projects.** As of September 2016, IFC has issued US\$5.6 billion in green bonds, the proceeds from which it exclusively uses to invest in projects related to climate change (e.g. renewable power, energy efficiency, sustainable agriculture). In 2016, issued its first forest bond, the proceeds of which will fund forest degradation and deforestation mitigation projects.
- ⇒ **Evaluating financial, economic, social, and development impact through its results measurement framework.** IFC assesses anticipated versus actual impact based on a set of development goals and using its proprietary Development Outcomes Tracking System (DOTS), which generates a composite score for each project.

TOOLS OF INTENTIONALITY

- | | |
|--------------------------------------------------------|-------------------------------------------------------|
| <input checked="" type="checkbox"/> Additionality | <input type="checkbox"/> Polity |
| <input type="checkbox"/> Diversity of Approach | <input checked="" type="checkbox"/> Self-Organization |
| <input type="checkbox"/> Evaluation | <input checked="" type="checkbox"/> Solutions |
| <input type="checkbox"/> Locality | <input checked="" type="checkbox"/> Standards Setting |
| <input checked="" type="checkbox"/> Interconnectedness | <input type="checkbox"/> Utility |

ASSET CLASSES INTEGRATED INTO

- | | |
|------------------------------------------------------------------|----------------------------------------------------------|
| <input checked="" type="checkbox"/> Fixed income | <input checked="" type="checkbox"/> Real estate |
| <input checked="" type="checkbox"/> Infrastructure & real assets | <input checked="" type="checkbox"/> Venture capital |
| <input checked="" type="checkbox"/> Private equity | <input checked="" type="checkbox"/> Other (microfinance) |
| <input checked="" type="checkbox"/> Public equities | |

SYSTEMS & THEMES FOCUSED ON

- | |
|-----------------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> Environmental |
| <input checked="" type="checkbox"/> Climate change |
| <input type="checkbox"/> Biodiversity |
| <input type="checkbox"/> Natural resources |
| <input type="checkbox"/> Oceans |
| <input checked="" type="checkbox"/> Renewable energy |
| <input checked="" type="checkbox"/> Sustainable land use |
| <input checked="" type="checkbox"/> Waste management & pollution |
| <input type="checkbox"/> Water |
| <input type="checkbox"/> Other |
| <input checked="" type="checkbox"/> Societal |
| <input checked="" type="checkbox"/> Consumer health & safety |
| <input checked="" type="checkbox"/> Corporate governance |
| <input checked="" type="checkbox"/> Corruption |
| <input checked="" type="checkbox"/> Employment, labor rights & working conditions |
| <input checked="" type="checkbox"/> Inequality & economic opportunity |
| <input checked="" type="checkbox"/> Food production & security |
| <input checked="" type="checkbox"/> Human rights |
| <input checked="" type="checkbox"/> Infrastructure |
| <input type="checkbox"/> Social equality & inclusion |
| <input type="checkbox"/> Other |
| <input checked="" type="checkbox"/> Financial |
| <input checked="" type="checkbox"/> Transparency |
| <input type="checkbox"/> Shareholder rights |
| <input checked="" type="checkbox"/> Stability |
| <input type="checkbox"/> Other |

YEARS INTEGRATING

Supporting financial and social system stability has been among IFC's core functions since it was established in 1956. **Nineteen years** ago, in 1998, it adopted its environmental and social review procedures.

TOOLS OF INTENTIONALITY: THE IFC "TIIPING POINT"

IFC has taken intentional steps to use of the tools of **Additionality**, **Solutions**, **Standards Setting**, **Interconnectedness** and **Self-Organization** to support sustainable long-term investment in the developing countries where it operates. Its core purpose is to

mobilize investments countries where capital is otherwise not available, or to **add** investment capital to the world's most fragile countries including those affected by conflicts. Beyond infusing these areas with capital, IFC seeks to fortify their underlying environmental, social and financial systems through **additional** investments in things like their infrastructure and financial markets, and through the development of targeted investment **solutions**. Through its green and forests bonds programs, for example, IFC raises capital for the exclusive purposes of investing in projects to mitigate climate change and deforestation and forest degradation because, per IFC, "it is essential to tackle climate change" to end extreme poverty (IFC 2016a: 41).

As part of the development of its *Sustainability Framework* (and its *Performance Standards on Environmental and Social Sustainability*) and active participation in the Harmonized Indicators for Private Sector Opportunities (HIPSO), IFC works to establish internally utilized and externality shared **standards** for environmental and societal impact and performance measurement. In addition to supporting measurement standardization, IFC's participation in HIPSO also signifies a commitment to ensuring that the development finance community is adequately reporting and otherwise **connected** to comparable data that facilitates collaboration and learning. IFC further **organizes** representatives from various stakeholder groups (e.g. government and the private sector) into collaborations like the *2030 Water Resources Group*, which identifies ways that investors can help to address global water scarcity challenges, and the *Sustainable Banking Network*, which promotes good practices for sustainable finance in emerging markets.

Together, these intentional actions have the potential to address barriers to prosperity in developing countries and strengthen their environmental, societal, and financial systems.

ABOUT IFC

IFC is a U.S.-based development finance institution with an investment portfolio totaling US\$68.5 billion. It directly invests in—and mobilizes third-party funds for investment in—private sector companies in developing countries where capital is otherwise not available.

IFC is one of five World Bank Group (WBG) organizations, all of which share the overarching goals of ending extreme poverty and boosting shared prosperity. Through its investments in infrastructure, manufacturing, agribusiness, services, and financial markets IFC also aims to:

- Establish, improve, and expand private enterprises;
- Further economic development;
- Create and stimulate economic conditions conducive to the flow of private capital, and;
- Address the "leading development challenges of our time" (IFC 2016a: 17), including "strong economic headwinds and slowed growth, conflict-related displacement, natural disasters and climate change, and pandemics" (issues which, according to IFC, disproportionately impact poor people) (IFC 2016a: 19).

To maintain the long-term solvency of its investments and achieve its goals, IFC:

- Incorporates environmental and social sustainability and ESG factors into its investment risk management approach, and;
- Invests in projects to develop and maintain the health of the environmental, social and financial systems within which its investees operate.

Beyond investment, IFC also promotes sustainability and works to advance its development objectives through advisory and asset management services:

- *IFC advisory*. IFC provides advisory services to investees, financial institutions and funds, managers, and governments, because "it takes more than finance to achieve sustainable private sector development" (IFC 2017). This includes helping companies to identify growth opportunities and pursue environmentally-friendly value chains; working with financial institutions to enhance risk management, and; advising governments on using public-private partnership to expand access to public services.
- *IFC Asset Management Company (AMC)*. Through its wholly-owned subsidiary AMC, IFC mobilizes and manages capital for investment, and provides investors with access to IFC's emerging markets and seeks to expand the flow of capital to these markets. As of June 2016, AMC had US\$8.9 billion AUM across its equity and debt investments and funds of funds. AMC's clients include sovereign wealth funds, pension funds, and other development finance institutions.⁴⁴

IFC raises investment capital through bond issuances in international markets, including general bonds, local currency bonds, and themed bonds (e.g. green bonds and forest bonds, discussed below). In FY2016, IFC committed to 344 projects in 78 countries; it currently invests in a total of 2000 projects in more than 100 countries.

APPROACHES IN PRACTICE

INVESTMENT ACTIVITIES

Investment beliefs statements

IFC does not have a formal investment beliefs statement, but has stated its belief that “embracing sustainability practices is key to long-term business growth and positive development outcomes” (IFC 2017).

IFC investment (and advisory) services must comply with its *Sustainability Framework*. In addition to outlining practical policies and requirements (discussed below), the *Framework* notes IFC’s belief that “an important component of achieving positive development outcomes is the environmental and social sustainability of these activities” (IFC 2012: 1).

Security selection & portfolio construction

Adopted in 2006 and revised in 2012, IFC’s *Sustainability Framework* outlines IFC’s commitment to sustainability as part of its overall risk management approach, encourages good environmental and social risk management by investees, and promotes transparency and accountability. The *Framework* has four parts:

- *Policy on Environmental and Social Sustainability*. Describes IFC’s dedication to, and overarching policies on, environmental and social sustainability and outlines its commitment to addressing sustainability topics, including (in part): poverty reduction; climate change and low-carbon economic development; human rights; women and economic development, and; transparency.
- *Performance Standards on Environmental and Social Sustainability*: Projects assessed as having moderate to high environmental or social risk or the potential for adverse environmental or social impact must adhere to the *Standards*, which address eight topics: (1) environmental and social risk and impact assessments; (2) labor and working conditions; (3) resource efficiency and pollution prevention and pollution prevention; (4) community health, safety and security; (5) land acquisition and involuntary resettlement; (6) biodiversity conservation and sustainable natural resource management; (7) indigenous peoples, and; (8) cultural heritage.
- *Access to Information Policy*. Describes IFC’s policy for the disclosure of environmental and social considerations and development impact information—all of which is publicly available on IFC’s website—and requires that enterprises disclose such information to the communities within which they operate.
- *Environmental and Social Categorization*. Establishes criteria for categorizing enterprises into types based on their apparent social and environmental risks and likely social and environmental impact (substantial, limited, or minimal). The categories dictate which disclosure requirements apply to which enterprises per the *Access to Information Policy*.

IFC visits project sites to evaluate progress and identify issues and potential solutions and as part of its semi-annual portfolio review.

Targeted investment programs

Climate-smart investments. “The consequences [of climate change] could be devastating: unprecedented heat waves, drought, and floods that put prosperity out of reach for millions of people in developing countries and roll back decades of progress in development” and “developing countries need up to \$100 billion per year to mitigate and adapt to its effects” (IFC 2016c). To address these issues, IFC launched its “climate-smart” investments program in 2010.

IFC issues green bonds to raise capital for investment in private sector projects in developing countries focused on climate change (renewable power, energy efficiency, sustainable agriculture, green buildings, private sector adaptation to climate change), called its “climate-smart projects.” IFC’s “Use of Proceeds” rules dictate that bond proceeds are set aside in a “Green Cash Account,” which contains funds reserved exclusively for investment in the projects. All climate-smart projects must comply with all components of IFC’s *Sustainability Framework*, including the *Performance Standards*.

IFC adheres to the Green Bond Principles (established by the International Capital Market Association (ICMA)) and selects its climate-smart investments using internally-established criteria that were reviewed by the Center for International Climate and Environmental Research at the University of Oslo.

Forest protection investments. “Deforestation and forest degradation account for up to 20% of the world’s greenhouse gas emissions—more than all cars, trucks, ships, planes and trains combined” (IFC 2016b). According to IFC, halving these emissions will require as much as \$300 billion over the next decade. To help direct private funds to forest protection (and,

as such, a reduction in greenhouse gas emissions), IFC recently launched its forests bonds program. It will use proceeds from the issuance of the bonds to fund forest protection projects. The project will comply with the Reducing Emissions from Deforestation and Forest Degradation (REDD) scheme, which “offer[s] economic incentives to reduce deforestation and invest in low-carbon growth” (IFC 2016b). Investors in IFC’s first forests bond will be repaid in carbon credits or cash.

Socially responsible bonds: the IFC Social Bond Program. IFC sells two types of social bonds to institutional and retail investors as part of its Social Bond Program: (1) Banking on Women Bonds that provide funds to women entrepreneurs in emerging markets, and (2) Inclusive Business Bonds that support businesses that “include low-income communities into their value chains” (IFC 2017). IFC’s Social Bond Program adheres to the International Capital Markets Association’s Social Bond Guidance.

Highlights:

- Raised US\$5.6 billion from green bonds issues across 63 transactions and in 11 currencies as of September 2016 (and since 2010), including two “benchmark” \$1 billion issuances
- Has made US\$13 billion in climate-smart investments as of FY2015
- Launched first forests bonds—\$152 million, five years—in 2016
- Issued first two Banking on Women Bonds in 2013 and 2014, raising US\$268 million for 16 projects
- Issued five Inclusive Business Bonds, raising US\$296 million for 13 projects

▶ OTHER ACTIVITIES

Promotes universal access to finance

According to IFC, “Access to basic financial products—bank accounts, debit cards, and housing loans—is the cornerstone of prosperity. Such products help people and businesses plan for expenses, build assets, increase income, and reduce their vulnerability to economic stress” (IFC 2016a: 60). With its WBG partners, IFC is aiming to achieve universal access to finance for adults by 2020. Recently, for example, IFC invested in a Pakistan’s largest commercial bank “to help it increase the number of women depositors and increase lending to rural borrowers and SMEs” (IFC 2016a: 60).

Toward this goal, IFC also supports the “consolidation of [financial] institutions” which it contends can help “to maintain the strength of the financial system” (IFC 2016a: 60), and recently invested in such consolidation in Armenia and Greece.

Participates in collaborations aimed at advancing environmental, societal and financial systems goals

Among other collaborations, IFC convenes the *2030 Water Resources* Group, which includes representatives from governments, civil society, and the private sector and aims “to identify investment needs and drive reform that can address the challenge of water scarcity in water-stressed countries” (IFC 2017).

IFC is also the secretary for *the Sustainable Banking Network*, “a global knowledge-sharing group of banking regulators and banking associations, to help develop guidance and capacity for banks to incorporate environmental and social risk management into credit decision making” (IFC 2016a: 102).

IFC is also a member of the Sustainable Banking Network (SBN), “a unique community of financial sector regulatory agencies and banking associations from emerging markets committed to advancing sustainable finance in line with international good practice” (IFC 2017). Among other things, SBN “facilitates the collective learning of members and supports them in policy development and related initiatives to create drivers for sustainable finance in their home countries” (IFC 2017).

▶ STAFFING

IFC’s Office of the Compliance Advisor/Ombudsman (CAO) “oversees investigations of [its] social and environmental due diligence at the project-level” (IFC 2017) and responds to complaints from people affected by IFC projects. The CAO’s overall goals are to enhance project outcomes and promote investee adherence to relevant social, environmental and other standards.

▶ IMPACT MONITORING & REPORTING

Results measurement framework. IFC monitors its investments and advisory clients at the individual project-, program-, industry sector-, and country-levels through its results measurement framework. The framework is currently under review and subject to change in the coming months, but as of the writing of this profile the three components of the framework are:

1. **IFC Development Goals (IDGs).** These goals outline the expected impact of IFC’s development activities, the development outcomes that IFC expects its project (investment and advisory) to achieve within a designated timeframe. IFC compares these targets to actual outcomes over time and uses them to communicate with stakeholders and the public. IFC’s current IDGs focus on impact achievement in five areas: (a) infrastructure (build or improve); (b) financial institutions (expand access to for microfinance and SME clients); (c) climate businesses (reduce greenhouse gas emissions); (d) health and education (improve services), and; (e) agribusiness (increase or improve sustainable farming opportunities).
2. **Development Outcomes Tracking System (DOTS).** All IFC investment and advisory projects receive a DOTS rating, or “development effectiveness rating.” For investment projects, this rating represents a synthesis of its financial, economic, environmental and social, and development outcomes as measured using a standardized set of indicators. For advisory projects, the rating is a composite score of the project’s strategic relevance, effectiveness, and efficiency performance (see Box 1 for more about the investment and advisory indicators).⁴⁵ Through DOTS, IFC also assesses progress toward achievement of the IDGs.
3. **Systemic Evaluation Program.** Each year and in collaboration with external experts, the World Bank Independent Evaluation Group (IEG) conducts independent evaluations of one-quarter of IFC’s projects (including impact, process, and meta analyses). Among other things, the evaluations measure project outcomes compared to objectives and assess the sustainability of the outcomes, and review project self-evaluations. IEG also conducts literature and portfolio reviews, develops case studies, and conducts project interviews and surveys. Beyond assessing impact, the evaluations also help to “fill knowledge gaps” and identify improvement opportunities and inform technical assistance. They also evaluate investments the sectoral level to assess economic growth and job creation. IFC reports evaluation results on its website; IEG reports them to WBG.

Project review summaries. IFC requires investees to submit “regular” reports on activities executed and for the duration of the investment. Per IFC’s *Access to Information Policy*, IFC publishes project-level environmental and social review summaries to its website disclosure portal.

Annual green bond reporting. Per its adherence to the ICMA-established Green Bond Principles, IFC annually discloses information about the projects funded in the previous year with green bond proceeds (including project descriptions, dollar amounts invested, each project’s expected environmental impact, public documents, etc.). IFC also provides green bond-funded project information in its annual Socially Responsible Bonds newsletter and through its participation in the Joint Report on *Multilateral Development Banks’ Climate Finance*.

Harmonized Indicators for Private Sector Opportunities (HIPSO). IFC participates in (and hosted the inaugural meeting for) the HIPSO working group, a group of 25 International Financial Institutions (IFIs) seeking to standardize development outcome measurement indicators. Many IFIs share clients that, until HIPSO, reported different outcomes information to different IFIs and in different ways—a burdensome exercise. A memorandum of understanding, enacted in 2013 and amended in 2015, contains a list of 38 agreed upon shared indicators across 15 sectors (e.g. agribusiness, education, health, and waste and sanitation). HIPSO’s objective is to use the resulting standardized data set to “to help facilitate collaboration and learning among development practitioners and institutions, and help IFIs to better understand the impact of their investments” (HIPSO 2017).

IFC, as a World Bank Group institution, is one of seven multilateral development banks that has adopted MfDR, which is a “management strategy that focuses on using performance information to improve decision-making... [and that] involves using practical tools for strategic planning, risk management, progress monitoring, and outcome evaluation” (www.mfdr.org).

Box 1. DOTS Indicators

Performance category	General indicators & benchmarks	Examples of specific indicators
Development outcomes: investments		
Financial performance	Returns to financier	Return on invested cap
Economic performance	Returns to society	Economic return on invested capital. Numbers of connections to basic services, loans to small enterprises, people employed, tax payments
Environmental and social performance	Project meets IFC's Performance Standards	Improvements in environmental and social management, effluent or emission levels, community development programs
Private sector development impact	Project contributes to improvement for the private sector beyond the project company	Demonstration effects, linkages, improvements in legal/regulatory framework
Development effectiveness: advisory services		
Strategic relevance	Potential impact on local, regional, national economy	Client contributions, alignment with country strategy
Efficiency	Returns on investment in advisory operations	Cost-benefit ratios, project implemented on time and budget
Outputs, outcomes, and impacts	Project contributes to improvement for clients, beneficiaries, and the broader private sector	Improvements in operations, investment enabled, jobs created, increase in revenues for beneficiaries, cost savings from policy reforms

APPROACH PLANNING AND DEVELOPMENT

IFC is owned by its 184 member countries. With guidance from IFC's Board of Governors (comprised of one governor and one alternate from each member country) and its 25-member Board of Directors, IFC's member countries jointly determine investment activities.

IFC is one of five WBG organizations. The President of WBG is also the President of IFC and it conducts much of its development work in partnership with other WBG organizations. Otherwise, IFC is an entirely separate legal entity from the World Bank and has its own operating capital, financial structure, management, and staff.

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International Finance Corporation (IFC) (2017). www.ifc.org. Accessed between December 19, 2016 and December 22, 2016. Pages accessed include: About IFC, Solutions, Sustainability, News and Resources.

Profile developed in: December 2016 and January 2017.

Profile developed by: The Investment Integration Project (TIIP). TIIP helps institutional investors understand the big picture, or “systems-level,” context of their portfolio-level decisions. “Systems-level” events, such as economic crises, ecosystems under stress, and societies in turmoil can disrupt the best-laid plans of investors and cost them dearly. Even seemingly “local” issues are now having much greater impact than they once did as the world becomes increasingly interconnected.

International Fund for Agricultural Development (IFAD)

Development finance institution * Headquarters: Italy * AUM: US\$7.4 billion (2015)⁴⁶

AT A GLANCE

For its projects IFAD identifies non-financial, as well as investment, objectives, monitors progress toward these objectives and, ultimately, measures project impacts. Its Results and Impact Management System (RIMS) serves as a guide for distinguishing between project inputs, activities, outputs, outcomes and impacts; using qualitative and/or quantitative data collection and analysis to assess each; and communicating relevant information to stakeholders.

IFAD's policies and practices also include **engaging with government and other stakeholders—at both the national and international levels—to promote the establishment of regulatory and policy frameworks that facilitate successful project implementation and positive results.** Through the United Nations, for example, IFAD was an active participant in the discussions that formulated Agenda 2030 and the Sustainable Development Goals (SDGs). A defining feature of IFAD's Results-based Country Strategic Opportunities Program (RB-COSOP) project framework is a commitment to (a) assessing local and national project enabling environments, and (b) ensuring that IFAD's work helps to improve those environments.

TOOLS OF INTENTIONALITY

- | | |
|---------------------------------------------------|-------------------------------------------------------|
| <input checked="" type="checkbox"/> Additionality | <input checked="" type="checkbox"/> Polity |
| <input type="checkbox"/> Diversity of Approach | <input checked="" type="checkbox"/> Self-Organization |
| <input type="checkbox"/> Evaluation | <input type="checkbox"/> Solutions |
| <input type="checkbox"/> Interconnectedness | <input type="checkbox"/> Standards Setting |
| <input checked="" type="checkbox"/> Locality | <input checked="" type="checkbox"/> Utility |

ASSET CLASSES INTEGRATED INTO

- | | |
|-------------------------------------------------------|------------------------------------------|
| <input checked="" type="checkbox"/> Fixed income | <input type="checkbox"/> Real estate |
| <input type="checkbox"/> Infrastructure & real assets | <input type="checkbox"/> Venture capital |
| <input type="checkbox"/> Private equity | <input type="checkbox"/> Other |
| <input type="checkbox"/> Public equities | |

YEARS INTEGRATING

Supporting financial and social system stability has been among IFAD's core functions since it was established in the 1970s.

SYSTEMS & THEMES FOCUSED ON

- | |
|------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> Environmental |
| <input type="checkbox"/> Biodiversity |
| <input type="checkbox"/> Climate change |
| <input type="checkbox"/> Natural resources |
| <input type="checkbox"/> Oceans |
| <input type="checkbox"/> Renewable energy |
| <input checked="" type="checkbox"/> Sustainable land use |
| <input type="checkbox"/> Waste management & pollution |
| <input type="checkbox"/> Water |
| <input type="checkbox"/> Other |
| <input checked="" type="checkbox"/> Societal |
| <input type="checkbox"/> Consumer health & safety |
| <input type="checkbox"/> Corporate governance |
| <input type="checkbox"/> Corruption |
| <input type="checkbox"/> Employment, labor rights & working conditions |
| <input checked="" type="checkbox"/> Inequality & economic opportunity |
| <input checked="" type="checkbox"/> Food production & security |
| <input type="checkbox"/> Human rights |
| <input type="checkbox"/> Infrastructure |
| <input checked="" type="checkbox"/> Social equality & inclusion |
| <input checked="" type="checkbox"/> Other (Poverty reduction) |
| <input type="checkbox"/> Financial |
| <input type="checkbox"/> Shareholder rights |
| <input type="checkbox"/> Stability |
| <input type="checkbox"/> Transparency |
| <input type="checkbox"/> Other |

TOOLS OF INTENTIONALITY: THE IFAD "TIIPING POINT"

IFAD has taken intentional steps to use of the tools of **Additionality**, **Polity**, **Self-Organization**, and **Utility** to address the systems-level challenge of poverty and to eliminate food insecurity. Embedded in its Results-based Country Strategic Opportunities Program (RB-COSOP)—which guides all IFAD lending and grants—are measures to ensure that IFAD investments augment, or **add** to, national poverty eradication efforts, and that they consider the capacities, needs, and structural conditions of the areas within which individual projects operate. In line with the RB-COSOP's focus on local conditions, IFAD actively contributes to **public policy** debate and regulatory reform; both at the national and international levels. This recently and notably included advocating for adequate reflection of smallholder agriculture issues during the formulation of the Sustainable Development Goals (SDGs) included in the United Nations' Agenda 2030 and at the Conference of the Parties (COP21). IFAD oftentimes **organizes** groups of peers and stakeholders to engage in similar discussions and debates about the challenges of, and solutions to, structural rural poverty (e.g. through the Platform for Agricultural Risk Management [PARM] and the online discussion series AgTalk). Beyond convening collaboratives, IFAD also assesses

how it can attract additional financing to development through matching public and private partners to the financial tools that provide them with the most **utility**, that is the asset classes and other tools that align with their interests and approaches. These intentional actions have the potential to create systems-level impacts that can not only reduce poverty, but that can transform the economies of developing countries.

ABOUT IFAD

IFAD is a specialized agency of the United Nations that provides loans and grants for agricultural and other projects in developing countries (directly and through leveraging funds from other sources) with the goals of reducing food insecurity and eradicating poverty in rural areas. IFAD was established in the 1970s after the 1974 World Food Conference and in response to a recent drought and famine that primarily affected Sahelian Africa. Conference attendees concluded what would eventually become the guiding principle for all of IFAD's work—that widespread hunger is as much the result of “structural problems relating to poverty” (IFAD 2017c) as it is a consequence of inadequate food production.

Within its broad goals of reducing food insecurity and eradicating poverty, IFAD targets “the poorest of the poor” (e.g. small farmers, rural poor women, and nomadic herdsman) in Asia and the Pacific, East and Southern Africa, Latin America and the Caribbean, and the Near East and North Africa and invests in nine major areas:

- | | | |
|--------------------------------------------------|-------------------------|---------------------------------------|
| 1. Agricultural development | 4. Rural infrastructure | 7. Capacity- and institution-building |
| 2. Financial services | 5. Livestock | 8. Storage/food-processing/marketing |
| 3. Small and medium scale enterprise development | 6. Fisheries | 9. Research/extension/training |

IFAD's *Strategic Framework 2016-2025* guides its current development efforts (see Box 1).⁴⁷

Box 1. IFAD's Strategic Framework 2016-2025

IFAD's *Strategic Framework 2016-2025* guides its lending and development work and establishes how IFAD will “contribute significantly” to the realization of the Sustainable Development Goals (SDGs) established in the United Nations' Agenda 2030, and to achieving seven of the goals in particular: no poverty, zero hunger, gender equality, decent work and economic growth, reduced inequalities, climate action, and life on land. Core components of the *Framework* include:

Strategic vision

Create inclusive and sustainable rural transformation

Strategic objectives and areas of thematic focus

1. Increase poor rural people's productive capacities
 - Access to natural resources
 - Access to agricultural technologies and production services
 - Inclusive financial services
 - Nutrition
2. Increase poor rural people's benefits from market participation
3. Diversified rural enterprise and employment opportunities
 - Rural investment environment
 - Rural producers' organizations
 - Rural infrastructure
4. Strengthen the environmental sustainability and climate resilience of poor rural people's economic activities
 - Environmental sustainability
 - Climate change

Overarching goal

Help poor people to overcome poverty and achieve food security throughout remunerative, sustainable and resilient livelihoods

Outcomes

1. Enabling policy and regulatory frameworks at national and international levels
2. Increased levels of investment in the rural sector
3. Improved country-level capacity for rural policy and program development, implementation and evaluation

Pillars of results delivery

- ✓ Country program delivery
- ✓ Knowledge building, dissemination, and policy engagement
- ✓ Financial capacity and instruments
- ✓ Institutional functions, services and systems

Principles of engagement

- ✓ Targeting
- ✓ Empowerment
- ✓ Gender equality
- ✓ Partnerships
- ✓ Innovation, learning and scaling up

APPROACHES IN PRACTICE

INVESTMENT ACTIVITIES

Security selection & portfolio construction

Results-based Country Strategic Opportunities Program (RB-COSOP). IFAD develops all its investment projects in accordance with its RB-COSOP framework, which guides IFAD in “making strategic choices about IFAD operations in a country, identifying opportunities for IFAD financing, and for facilitating management for results” (IFAD 2017c). The purpose and goals of the RB-COSOP include:

- Ensuring that the project will positively impact poverty and outlining development objectives
- Selecting the specific region that the project should operate within, the themes it should address, and innovations it introduces
- Assessing the enabling environment and “policy and institutional” factors that could affect the project, e.g. local governance, and how IFAD can help to improve that environment
- Summarizing engagement with country stakeholders and project alignment with the country’s poverty reduction strategy and planning framework; determining how the project adds value to these existing efforts
- Outlining how the project “operationaliz[es] IFAD's mandate of investing in rural people - that is, enabling poor rural women and men to improve their livelihoods and ensure food security in a gender balanced, well targeted, and sustainable manner” (IFAD 2017c)
- Identifying strategic partnerships and co-financers
- Assessing project costs, risks, and sustainability

OTHER ACTIVITIES

Promotes strengthening of public policies and standards to facilitate development effectiveness

National policies. In accordance with its RB-COSOP framework, IFAD aims to engage in policy dialogue focused on fortifying the “policy and institutional” environments of the countries within which it invests; that is, IFAD “seek[s] to expand [its] development impact by supporting [the] strengthening of national policy frameworks” (IFAD 2016b). In doing so, IFAD’s “key aim is to increase awareness of the linkages between macro level policies and programs and the micro level decisions made by millions of smallholders, rural entrepreneurs, peasants and rural workers” (IFAD 2016b).

Global standards. According to IFAD, its “impact on the ground is strongly affected by developments at the global level” (IFAD 2016b: 31); as such, IFAD also seeks to influence global standards to “minimize the negative effects of global trends and maximize incentives and opportunities for the rural poor” (IFAD 2016b: 31). For example, IFAD lent its on-the-ground, operational expertise to help to design the United Nations’ Agenda 2030 and to formulate its SDGs, and to ensure that the goals adequately addressed issues related to smallholder agriculture. IFAD’s role in developing Agenda 2030 included attendance at the Third International Conference on Financing for Development, where it organized and participated in various discussions and events that culminated in its drafting of recommendations on issues including financial inclusion, investment in smallholder agriculture and the rural sector, among others.

IFAD also participated in the Conference of the Parties (COP21), the United Nations’ conference on climate change held in Paris in December 2015, where it advocated for the consideration of rural people, agriculture, food security in the conference’s resulting international agreement.

Convenes and collaborates with international stakeholders to solve development challenges

Beyond public policy dialogue and discussions with governments, IFAD otherwise convenes and collaborates with international stakeholders to discuss development needs and challenges and to advance commensurate solutions. Recent select examples of such work include:

- *Participating in the Committee on World Food Security (CFS).* In 2015, IFAD was part of the CFS technical working group that crafted the since-adopted *CFS Framework for Action for Food Security and Nutrition in Protracted Crises*. It was also part of an advisory group tasked with determining how CFS can assist in achieving the SDGs.
- *Hosting the Platform for Agricultural Risk Management (PARM).* PARM, a G20 initiative launched in 2013, assesses and recommends improvements to country-level agricultural risk management approaches in sub-Saharan Africa.

Platform partnership include New Partnership for Africa's Development, Food and Agriculture Organization of the United Nations, the World Bank and others.

- *Hosing the online discussion series AgTalk.* Throughout 2014 and 2015, AgTalk convened “experts to generate debate on issues such as rural women, livestock and fishing” (IFAD 2016a: 42).

Connects public and private organizations that have complimentary development interests

IFAD asserts in its *Strategic Framework 2016-2025* that one of its “key priorities” is to promote “closer collaboration at local and country level between private-sector actors, financial institutions, and producers’ organizations and cooperatives to catalyze investments and employment in rural areas while reinforcing the inclusiveness of market-driven smallholder development” (IFAD 2016b: 21). It operationalizes this priority through its public-private-producer partnerships (4Ps) approach, which promotes “responsible private investments in food and agricultural value chains” (IFAD 2016b: 21).

Examines usefulness of different financial products for achieving development goals

Among the objectives that IFAD outlines in *Strategic Framework 2016-2025* is “seek[ing] to diversify and tailor the financial products it offers to... enhance its role as a catalyst for increased public and private investment in the rural sector” (IFAD 2016b: 32). This includes, specifically, assessing the viability of:

- *Direct equity investments.* “...by effecting limited direct investments in projects or enterprises, IFAD can achieve the dual objective of monitoring them very closely and acting as a catalyst for much larger private-sector investments” (IFAD 2016b: 32).
- *Credit guarantees.* “...IFAD may develop this capability in order to facilitate smallholder farmers and [small- and medium-sized enterprises’] access to credit” (IFAD 2016b: 32).

STAFFING

To promote positive development outcomes, IFAD works with individual country’s public, private and non-profit sectors to strengthen the policy and regulatory environments and improve the conditions within which its projects operate. IFAD takes a decentralized approach to staffing to facilitate these connections and partnerships and delegates much of its work to in-country offices. As part of its *Strategic Framework 2016-2025*, IFAD will add more in-country offices and increase the authority and autonomy of the offices, as they contain the staff most familiar with countries’ circumstances and needs.

IMPACT MONITORING & REPORTING

Measuring development effectiveness. Pursuant to its commitment to the Paris Declaration on Aid Effectiveness, IFAD is one of seven multilateral development banks that adopted Managing for Development Results (MfDR)—“a management strategy that... [incorporates] strategic planning, risk management, progress monitoring, and outcome evaluation” (www.mfdr.org). IFAD focuses on identifying impact goals and managing projects through continued monitoring of progress toward the achievement of those goals, and asks three core questions of its overall work and individual projects: “*What results do we wish to achieve? What will we do to reach these results? How will we know whether we have achieved them?*” (IFAD 2017c). It monitors and evaluates projects before, during, and at the end of implementation and at two levels:

1. *The country level.* At the country level, IFAD focuses on monitoring and assessing whether it is working effectively with its various development partners that that it is satisfactorily accountable to achieving country-level objectives. IFAD surveys its clients and partners each year for their feedback on its performance.
2. *The project level.* At the project level, IFAD conducts ongoing performance monitoring through “status and supervision reports” and assesses impact using its Results and Impact Management System (RIMS) (see Box 2).⁴⁸

Box 2. IFAD’s Results and Impact Management System (RIMS)

Using RIMS, IFAD assess projects along its “results chain.” This includes examining project inputs and activities and measuring their first, second and third level results (outputs, outcomes, and impacts).

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</i>	<i>Tangible immediate results that are produced through the implementation of activities</i> <i>First level results:</i>	<i>Short-term and medium-term effects of a project’s outputs</i> <i>Second level results:</i> <i>how well did the project do what it did?; did it</i>	<i>Long-term positive and negative effects produced by a project</i> <i>Third level results:</i>

	<i>assistance and other types of resources</i>	<p>what did the project do?</p> <p>Measured with simple, quantitative project-specific indicators; e.g.:</p> <ul style="list-style-type: none"> • Number of people trained • Number of households receiving project services 	<p>change behaviors as intended?</p> <p>Measured through studies, participant evaluations, surveys, etc.; indicators are project-specific and might include:</p> <ul style="list-style-type: none"> • Effectiveness of the program at achieving specified objectives • Likely sustainability of the program 	<p>what is effect of IFAD projects on the rural poor over time?</p> <p>Measured with impact surveys supplemented with qualitative data analysis; IFAD measures the impact of all projects on:</p> <ul style="list-style-type: none"> • Incidence of child malnutrition (hunger) • Household assets ownership (poverty)
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IFAD summarizes project results for its board and the public each year in its Report on IFAD Development Effectiveness (RIDE). Selected highlights from the 2016 RIDE report include:⁴⁹

Outputs	<ul style="list-style-type: none"> ✓ 1 million people were trained in business and entrepreneurship ✓ 22.2 million saved money voluntarily ✓ 16,460 kilometers of roads were constructed or rehabilitated ✓ 112.8 million people have benefited from IFAD services, half of which are women
Outcomes	<ul style="list-style-type: none"> ✓ 91% of projects satisfactorily improved gender equality ✓ 93 % of projects were satisfactorily effective ✓ 82% of projects were satisfactorily efficient
Impacts	<ul style="list-style-type: none"> ✓ 43.2 million people have increased their agricultural revenue ✓ 22.8 million people have increased their livestock assets; 28.8 million people have increased poultry ownership ✓ 24 million people have been lifted out of poverty

Independent Office of Evaluation, *Evaluation Policy*, and *Evaluation Handbook*. IOE conducts objective evaluations of IFAD's projects and their effectiveness as per its *Evaluation Policy* and as instructed in its *Evaluation Handbook*. These evaluations identify project successes and shortcomings; IFAD uses them to inform improvements. IOE also assesses and validates IFAD reports, including the RIDE report.

APPROACH PLANNING AND DEVELOPMENT

IFAD is overseen by a Governing Council which includes representatives from each of its 172 member states. Its Executive Board supervises operations and approves projects; it also includes representatives from each member state, the number of which is decided by which membership "list" the states is on (determined by whether the state is a member of groups including the Organization for Economic Co-operation and Development and the Organization of the Petroleum Exporting Countries).

IFAD management and Executive Board review RB-COSOP-guided project proposals and approve projects on an individual basis. Beyond project development, the RB-COSOP framework also guides ongoing formative project assessments and improvements over time and final project evaluations.

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Profile developed in: April 2017.

Profile developed by: The Investment Integration Project (TIIP). TIIP helps institutional investors understand the big picture, or "systems-level," context of their portfolio-level decisions. "Systems-level" events, such as economic crises, ecosystems under stress, and societies in turmoil can disrupt the best-laid plans of investors and cost them dearly. Even seemingly "local" issues are now having much greater impact than they once did as the world becomes increasingly interconnected.

Islamic Development Bank Group (IDBG)

Development finance institution * Headquarters: Saudi Arabia * AUM US\$12.1 billion (2015)⁵⁰

AT A GLANCE

Given that 48% of the population of its member countries is living in or near multidimensional poverty and 19% in severe poverty, IDBG focuses on the twin goals of **poverty alleviation and human development**. Notable activities include:

- ⇒ **Development Effectiveness Review:** In 2015, IDBG published a 50-page report providing details on its strategic objectives, strategic pillars and guiding principles, along with its 10-year goals for each, against which it measures progress in achieving its three strategic initiatives of inclusiveness, connectivity and growth of Islamic finance.
- ⇒ **Promotion of Islamic finance:** IDBG is unique among major development financial institutions in having as one of its three primary strategic objectives being the promotion of finance consistent with Sharia law, a set of principles derived from Islamic teachings.

TOOLS OF INTENTIONALITY

- | | |
|--------------------------------------------------------|-------------------------------------------------------|
| <input type="checkbox"/> Additionality | <input type="checkbox"/> Polity |
| <input type="checkbox"/> Diversity of approach | <input checked="" type="checkbox"/> Self-organization |
| <input type="checkbox"/> Evaluation | <input type="checkbox"/> Solutions |
| <input checked="" type="checkbox"/> Interconnectedness | <input checked="" type="checkbox"/> Standards setting |
| <input type="checkbox"/> Locality | <input type="checkbox"/> Utility |

ASSET CLASSES INTEGRATED INTO

- | | |
|------------------------------------------------------------------|------------------------------------------|
| <input checked="" type="checkbox"/> Fixed income | <input type="checkbox"/> Real estate |
| <input checked="" type="checkbox"/> Infrastructure & real assets | <input type="checkbox"/> Venture capital |
| <input checked="" type="checkbox"/> Private equity | <input type="checkbox"/> Other |
| <input type="checkbox"/> Public equities | |

YEARS INTEGRATING

Established in 1974, IDBG has focused on poverty alleviation and human development issues in Africa, the Middle East and Southeast Asia since it began operations in 1975.

SYSTEMS & THEMES FOCUSED ON

- | |
|-----------------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> Environmental |
| <input type="checkbox"/> Biodiversity |
| <input type="checkbox"/> Climate change |
| <input type="checkbox"/> Natural resources |
| <input checked="" type="checkbox"/> Oceans |
| <input type="checkbox"/> Renewable energy |
| <input type="checkbox"/> Sustainable land use |
| <input type="checkbox"/> Waste management & pollution |
| <input checked="" type="checkbox"/> Water |
| <input type="checkbox"/> Other |
| <input checked="" type="checkbox"/> Societal |
| <input type="checkbox"/> Consumer health & safety |
| <input type="checkbox"/> Corporate governance |
| <input type="checkbox"/> Corruption |
| <input checked="" type="checkbox"/> Employment, labor rights & working conditions |
| <input checked="" type="checkbox"/> Income inequality & economic opportunity |
| <input type="checkbox"/> Food production & security |
| <input type="checkbox"/> Human rights |
| <input type="checkbox"/> Infrastructure |
| <input checked="" type="checkbox"/> Social equality & inclusion |
| <input type="checkbox"/> Other |
| <input checked="" type="checkbox"/> Financial |
| <input type="checkbox"/> Shareholder rights |
| <input checked="" type="checkbox"/> Stability |
| <input type="checkbox"/> Transparency |
| <input type="checkbox"/> Other |

TOOLS OF INTENTIONALITY: THE IDBG “TIIPING POINT”

IDBG emphasizes the tools of **Interconnectedness**, **Self-Organization** and **Standards Setting**. **Connectivity** is one of its three strategic objectives—a goal that it pursues in a variety of ways including: funding transportation infrastructure (primarily roads) that literally *connects* its member countries; encouraging “reverse linkage” partnerships between its member countries; and sponsoring conferences, information portals and convenings to encourage trade among member countries. IDBG also engages in **Self-Organization** through numerous capacity-building projects, such as the founding of trade associations and its equity investments that support the development of Islamic financial institutions. IDBG also applies the Sharia **standards** of Islamic law to its banking and investments practices.

ABOUT IDBG

IDBG serves 56 member countries with Islamic populations in Africa, the Middle East and Southeast Asia. Its mission is to “promote comprehensive human development, with a focus on the priority areas of alleviating poverty, improving health, promoting education, improving governance and prospering the people.” (IDBG 2015: 1) In 2015 it approved approximately US\$12.1 billion in various projects and activities in these countries. Of this amount, 46.1% went to infrastructure, agriculture, education, health and private sector development. Another 52.9% supported the financing of trade agreements among its member countries. Egypt was the largest recipient of IDBG funds (16.6%), followed by Turkey (16.2%), Bangladesh (9.8%) and Pakistan (9.0%). Countries in Sub-Saharan Africa accounted for US\$3.6 billion in approvals.

IDBG’s overarching “vision for human dignity” is outlined as part of its most recent 10-year goals, which also describes its strategic objectives, their respective goals, and the strategic pillars that necessary to accomplish each and which it maps to the United Nations Sustainable Development Goals (IDBG 2014: 49) (see Table 1). In adopting its goal of promoting Islamic finance, IDBG takes a faith-based approach that differentiates it from other development financial institutions. Poverty is an issue of substantial concern among IDBG’s member countries. To assess poverty levels, IDBG uses the Multidimensional Poverty Index (MPI), which factors in health, education and standards of living. MPI measures the rate and intensity of poverty. Of its 56 member countries, 24 are categorized as having Low Human Development, while only six have attained the Very High Human Development level.

Table 1. IDBG’s 10-Year Objectives, Goals and Pillars

Strategic objective	Goals	Strategic pillars
Inclusiveness	Reduce the percentage of the population living in or near poverty among its member countries from 48% in 2014 to 18% by 2025, and in severe poverty from 18% in 2014 to 3% in 2025	<ol style="list-style-type: none"> 1. Economic and social infrastructure 2. Private sector development 3. Inclusive social development 4. Cooperation between member countries 5. Islamic finance sector development 6. Capacity building
Connectivity	Increase trade among Organization of Islamic Conference member countries from 19.3% of their total trade to 25%	
Islamic Finance Sector Growth	<ul style="list-style-type: none"> • Increase the global share of financial institutions’ assets devoted to Islamic finance from 1% to 3% • Ensure that that 25% of the Muslim population globally has access to Islamic finance by 2025 	

Among the areas for which IDBG approved funding in 2015 were:

- **Energy** (US\$1.1 billion). IDBG financed large-scale, gas-fired electric power plants in Egypt and Saudi Arabia. It also emphasizes “the urgent need of developing indigenous renewable energy (RE) resources as well as promoting energy efficiency enhancement (EEE) initiatives” (IDBG 2014:42).
- **Transportation** (US\$1.6 billion). IDBG’s transportation program focuses primarily on road construction within and between African countries.
- **Agriculture** (US\$419 million). Numerous of IDBG’s projects deal with issues related to food security and water supply.
- **Urban development** (US\$368 million). IDBG’s urban development program primarily focuses on providing potable water, sanitation services in cities, and modern housing in rural regions.
- **Education** (US\$239.4 million). IDBG emphasizes education programs that target the underserved and those in hard-to-reach communities, as well as vocational education. In 2015 it approved a US\$151.5 million Higher Education Development Project in Benin. In 2014, it approved funding for bilingual education of itinerant Koranic students in Nigeria. It also approved US\$10 million for a One Laptop Per Child rural education program in Cameroon.
- **Health** (US\$138.6 million). Among projects approved in 2014 and 2015 were US\$600,000 in emergency aid to deal with the Ebola crisis in Guinea and Sierra Leone, support for upgrading health care systems in Guinea (US\$34 million) and Sierra Leone (US\$10 million), US\$122.3 million to assure universal healthcare coverage in Gabon, and US\$27.8 million for its Support to Maternal, Newborn and Child Health Project in Cameroon.

IDBG also provides financing to facilitate trade among its member organizations. Among its financing activities are “energy (crude oil and petroleum products), fertilizers, plastics, textiles, agricultural inputs, food items, sugar, coffee etc.” (IDBG 2014: 33).

APPROACHES IN PRACTICE

▶ INVESTMENT ACTIVITIES

Security selection & portfolio construction

IDBG's investment policy conforms to Islamic Sharia law with relation to financial transactions—that is, it applies Sharia principles in its lending and investment practices. Sharia generally prohibits investment in alcohol or pork and the charging of interest on loans (usury).

Targeted investment programs

IDBG targets investments in Islamic banks. It holds equity ownership positions in the Bahrain Islamic Bank (17.65%), Gulf Finance House (0.55%) and Elaf Bank (2.3%). IDBG was a founder of Bahrain Bank. IDBG's Financial Product Development Center promotes Islamic banking through a series of publications, conferences, product and partnership development, and awards.

The Islamic Solidarity Fund for Development (ISFD) is seeking to raise US\$10 billion for concessionary investments primarily in least-developed countries through commitments from member countries and the IDBG. As of 2015, the ISFD had paid-in capital of US\$2.7 billion of which US\$1 billion came from IDBG and the rest from member countries. Its focus is poverty reduction, particularly among least-developed countries. Among the programs it supports are ones entitled: Renewable Energy for Poverty Reduction, Renewable Energy Alliance for the Poor, Urban Poverty Reduction Program, and Save the Mothers Program.

▶ OTHER ACTIVITIES

Partners with other stakeholders to promote and develop of Islamic finance

IDBG collaborates with various organizations to promote Islamic finance, and has undertaken a variety of initiatives to support the development of an Islamic microfinance industry; examples include:

- ✓ Working with the Kuwait House and Boubyan Bank to develop Islamic finance in various member countries;
- ✓ Participating with the United Nations and the World Bank Group in the Global Taskforce for Recovery and Reconstruction in the Middle East and North Africa;
- ✓ Being a founding member of the Accounting and Auditing Organization for Islamic Financial Institutions, the General Council of Islamic Banks and Institutions, the International Islamic Market, and the Islamic Financial Services Board; and
- ✓ Including “Deepening Islamic Financial Industry through Promoting Islamic Finance and Financial Inclusion” as one of the three themes in its Member Country Partnership Strategy with the Government of Indonesia supporting that government’s 2015–2019 Development Plan (IDBG 2015(b): 32).

Serves as an information conduit for its members and other stakeholders

To encourage cooperation in development among its member countries, IDBG funds “reverse linkage” programs in which one country transfers technology or know-how to another. Among recent such initiatives were water-quality treatment between Burkina Faso and Morocco; artificial insemination of livestock between Kyrgyz Republic and Indonesia; rice production between Brunei and Malaysia; eye-care treatment between Niger and Turkey; flood disaster risk management between Senegal and Indonesia; and rice production between Surinam and Malaysia.

IDBG's Group Business Forum, or THIQAH, promotes investments by the businesses in its member countries in each other through the maintenance of an interactive discussion portal and sponsorship of conferences and events such as the Global Islamic Economic Summit.

Otherwise, IDBG's Islamic Research and Training Institute holds conferences and publishes working paper on various aspects of the practice of Islamic finance and seeks to build the capacity of these organizations.

Manages the Awqaf Properties Investment Fund

In 2001 IDBG created an Awqaf Properties Investment Fund that it manages. The Fund invests in real estate properties, the incomes from which is used for charitable purposes. Awqaf is a financial arrangement whereby land and real estate are donated to a charitable cause that can use the profits to finance their giving and other activities. IDBG has provided a US\$100 million line of financing to this US\$76.4 million Fund.

Provides capacity development support to member countries

The IDBG has several programs whose mission is to build the capacity of its member countries. These programs include: “the technical cooperation program, the science and technology program, the scholarship programs, the NGO program, the women in development program, the reverse linkage program, and the WTO-related program” (IDBG 2014:48).

STAFFING

N/A

IMPACT MONITORING & REPORTING

In 2015, IDBG published the first of what will be its Annual Development Effectiveness Reviews. These reviews of the Group’s progress toward its 10-year goals established in 2015 are undertaken in conjunction with the Managing for Development Results (MfDR) initiative adopted by numerous other multilateral development financial institutions.⁵¹

In assessing its effectiveness, IDBG tracks the **outputs** of its investments and their **outcomes** because “monitoring outputs alone cannot explain how they contribute to development outcomes at the country or regional level. For example, roads may be powerful instruments for growth, but is there evidence that roads are generating increased incomes for beneficiaries?” (IDBG 2015(a):4). Ultimately these outcomes then translate into **impacts** (see Box 2).⁵²

Box 2. From Inputs to Impacts: IDBG Measurement System

Inputs	Outputs	Outcomes	Impact
<ul style="list-style-type: none"> • Building Islamic finance channels • Selective direct investments • Advisory services to governments and private sector actors • Developing business opportunities through partnerships • Asset management programs • Developing an enabling environment 	<ul style="list-style-type: none"> • Increase the financial sustainability of the clients • Build and develop Islamic financial institutions • Increase the production capacity and the quality of the services of the clients • Mobilize clients’ investment needs from the market 	<ul style="list-style-type: none"> • Create jobs • Improve access to finance for SMEs • Increase payments to governments • Increase customers’ access to improved services and products 	<ul style="list-style-type: none"> • Poverty reduction • Inclusive growth • Better living standards • Improved environment for Islamic finance business

Among the development impact results of portfolio that IDBG reported in its report were support for the creation of 50,000 jobs, new energy sources for 2 million people in Bangladesh, and \$11.7 million contributed to community development initiatives (IDBG 2015(a):16).

APPROACH PLANNING AND DEVELOPMENT

The IDBG’s Board of Governors approved the organization’s 10-year goals and its Board of Executive Directors works with the Bank’s management on their implementation. These goals were developed to “reflect the aspirations of MCs [Member Countries], Muslim communities, partners and IDBG staff, based on extensive global consultations. [They] also take into account the global and regional development agenda, including the UN-endorsed Sustainable Development Goals (SDGs)” (IDBG 2015(a):2).

SUCCESSSES AND CHALLENGES

On its 40th anniversary IDBG summarized its strengths and challenges. Among its seven strengths and 11 challenges were the following.⁵³

➤ SUCCESSES

1. **South-South solidarity:** Among its founding principles is South-South solidarity, which among other things, encourages solidarity among its members by a process of “reverse linkage” through which one member country transfers technology or other know-how to another.
2. **Trust of its members:** IDBG has sought to build trust among its member countries through its “political neutrality, high integrity and non-conditionality of its support.”
3. **Islamic finance:** IDBG has played a role in seeding and expanding Islamic finance among numerous of its member countries.

➤ CHALLENGES

1. **Concessionary resources:** To better serve the neediest populations, IDBG believes that it needs to better understand how it can intensify its efforts to make investments on concessionary terms.
2. **Capacity building:** Because all its members are developing countries, IDBG “needs to deepen its efforts in providing innovative solutions and in supporting and strengthening capacity development programs and institutions.”
3. **Decentralization:** Given the diversity of countries that it serves, IDBG recognizes the importance of decentralized investment decision-making and believes that its steps toward decentralization “need to be expanded to increase field presence and effective delivery, paying special attention to processes and cost-benefit considerations.”

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Profile developed in: April 2017.

Profile developed by: The Investment Integration Project (TIIP). TIIP helps institutional investors understand the big picture, or “systems-level,” context of their portfolio-level decisions. “Systems-level” events, such as economic crises, ecosystems under stress, and societies in turmoil can disrupt the best-laid plans of investors and cost them dearly. Even seemingly “local” issues are now having much greater impact than they once did as the world becomes increasingly interconnected.

APPENDIX D
RESEARCH METHODS

APPENDIX D: RESEARCH METHODS

Findings presented in this report represent a descriptive analysis of the systems-related approaches undertaken by a purposefully selected group of central banks and development finance institutions. The research methods used to develop the report and its accompanying investor profiles are as follows.

RESEARCH OBJECTIVES

A growing number of institutional investors have taken initial steps to incorporate disparate aspects of systems-level thinking into their policies and practices—some focusing on governance as it relates to the stability of the larger financial systems, some on environmental sustainability, and yet others on aspects of a fair and just society. Little work has been done to date, however, to document these disparate efforts. TIIP's *Tipping Points 2016: Summary of 50 Asset Owners' and Managers' Approaches to Investing in Global Systems* examined whether and how a cross section of asset owners and asset managers incorporate systems-level considerations into daily practice.

That report omitted central banks and development finance institutions (DFIs) given that their unique mandates differ in fundamental ways from those of traditional asset owners and managers. Central banks are explicitly responsible for the stability of financial systems, help catalyze entire economies, set monetary policy, and manage interest rates and money supply. By mandate, DFIs invest in, and help incentivize investment in, the development of private sectors in emerging markets where these sectors are nascent or otherwise do not yet exist. These are activities not typically associated with an asset owner or asset manager; but they are, in many senses, centered on systems-level thinking. Numerous central banks have begun to contend with the implications of their policies and practices beyond their core mission of maintaining financial and economic stability. DFIs have thought explicitly about their impacts on the environmental, societal and financial systems in which their investment activities are taking place, and have made progress in developing approaches to measuring these impacts.

Insights gained from an overview of the activities of these two sets of financial institutions could be of importance to the development of similar lines of thinking among the asset owners and managers profiled in *Tipping Points 2016*. For this reason, TIIP augments the *Tipping Points 2016* analysis with this extension report focused on central banks and, explaining the unique purposes of these financial institutions and their role at systems levels, comparing their programs and policies, and identifying insights and implications for more traditional asset owners and managers.

CENTRAL BANK AND DFI SELECTION

TIIP purposefully selected central banks and DFIs with some known commitment to systems-level or systems-related issues or activities. Selected banks and DFIs are:

Central banks

- De Nederlandsche Bank
- Central Bank of Kenya
- Federal Reserve Bank of Boston
- Federal Reserve Bank of San Francisco
- The Bank of England
- The Peoples' Bank of China

DFIs

- African Development Bank
- Asian Development Bank
- European Investment Bank
- Grameen Bank⁺
- Inter-American Development Bank
- International Finance Corporation
- International Fund for Agricultural Development
- Islamic Development Bank Group

⁺Although analyzed alongside DFIs, Grameen Bank is a microfinance bank. It is included in this analysis to illustrate a small-scale private sector approach to the development goal of poverty alleviation.

▶ DATA SOURCES

TIIP collected data from two primary sources to inform development of this report and the accompanying investor profiles. They were:

- **Reviews of publicly available information.** The primary source of data for this report and profiles was publicly available information gathered from bank, DFI, or other industry websites. Most commonly, this included: (a) information retrieved directly from bank or DFI web pages, (b) annual sustainability, corporate social responsibility and related reports, (c) investor-published white papers and opinion pieces, and (d) news releases or articles from online publications.
- **The United Nations Environment Programme Inquiry into the Design of a Sustainable Financial System.** TIIP consulted with a representative of the Inquiry about the systems-level considerations incorporated by central banks as identified through the Inquiry's research. Inquiry reports provided foundational information for TIIP's profiles of De Nederlandsche Bank, the Central Bank of Kenya, The Bank of England, and The Peoples' Bank of China.

Profiles were completed between January and May 2017.

TIIP provided each profiled investor with a draft of its profile for review and invited each to provide TIIP with additional information about its systems and on-ramp activities. TIIP integrated that written and verbal feedback from investors which was commensurate with the project's research objectives and that otherwise ensured the accuracy of information reported.

▶ DATA ANALYSIS AND REPORTING

TIIP used a qualitative approach to develop investor profiles and descriptively analyze information across investors for the state-of-the-industry report.

First, TIIP systematically developed profiles of each investor along a standardized set of dimensions that collectively mirror the investor selection criteria, including but not limited to: organizational characteristics (e.g. geography, size,), systems and on-ramp approaches and activities undertaken, related outcomes measurement and reporting, staffing for systems and on-ramp efforts, and processes for developing and refining systems and on-ramp approaches. Each profile also contains a "TIIPing Point" section, which highlights those characteristics of each investor's approach that differentiate it from its peers or provide examples of innovative policies and practices with regards to systems-level considerations. This approach ensured that this report presents information in a comparable way across institutions, while also allowing for the profiles to capture specific nuances.

Second, TIIP compared and contrasted investors across the dimensions included in the profiles to identify similarities and differences in approaches.

▶ LIMITATIONS

This extension report and its accompanying profiles represent a thorough effort to describe a broad range of systems approaches undertaken by central banks and DFIs. While the information reported provides valuable insights into their adoption of such approaches and can be used to help determine next steps for the field, readers should interpret the information reported within the context of the following limitations:

- **Publicly available information on systems approaches is limited.** Information on many investors' systems and related approaches is not available for some of the categories of information reported in the profiles. TIIP plans to profile an increasing number of investors each year. Doing so will expand the availability of information on systems approaches at all stages of development and implementation, and will facilitate comparisons of investors' approaches over time.
- **The selected central banks and DFIs do not represent all central banks and DFIs.** Because the purpose of this report is to demonstrate how systems-level thinking is being integrated into central bank and DFI

approaches, TIIP selected for the analysis a number of central banks and DFIs it believed to be adopting such considerations. Although this facilitates a rich discussion of the selected institutions' approaches, TIIP's analysis is not representative of such activities across all central banks or DFIs.

ENDNOTES

¹ Asian Development Bank (ADB). www.adb.org. Accessed between April 27, 2017 and May 2, 2017. Pages accessed include: “About ADB,” “News & Events,” “Data & Research,” “Publications,” “Countries,” “Projects,” “Focus Areas,” and “ADB Institute.”

² <http://www.mfdr.org/1About.html>. Accessed May 11, 2017.

³ *MfDR Principles in Action: Sourcebook on Emerging Good Practices*. Part 1: MfDR Concepts, Tools and Principles. Retrieved from http://www.mfdr.org/About/MfDRConcepts-tools_and_principles.pdf on May 11, 2017.

⁴ Ibid.

⁵ Total AUM equal to total assets, which was KES982,849,000,000 in 2016, as reported in *Central Bank of Kenya Annual Report July 2015-June 2016*. Converted to U.S. dollars using Yahoo! Finance currency converter using currency exchange rate from December 31, 2016. Reported amount rounded from US\$ 9,897,973,776.

⁶ M-PESA launched in 2007. According to CBK, “The proportion of adult population using formal financial services rose to 66.7% in 2013 from 27.4% in 2006 and 41.3% in 2009. The proportion of financial excluded on the other hand has been falling steadily from 39.3% in 2006 to 31.4% in 2009 and 25.4% in 2013. In a nutshell, Kenyans have enjoyed better financial access over that period” (Njoroge 2015). Reports and articles describing M-PESA’s success, some noting CBK’s role in that success, include: *Why does Kenya lead the world in mobile money?* (The Economist, March 27, 2013); UNEP 2015 and 2016; and *CBK: Kenyan banks record growth in agency banking model* (Standard Media, September 19, 2016).

⁷ Total AUM equal to total assets, which were €210,436,000,000 as of December 31, 2015 and as reported in DNB’s Annual Report 2015. Converted to U.S. dollars using Yahoo! Finance currency converter. Reported amount rounded from US\$230,090,314,680.

⁸ DNB’s assessments of the risks associated with both climate change and the transition to a carbon neutral economy align with findings from a February 2016 European Systemic Risk Board (which is supported by ECB) report *Too late, too sudden: Transition to a low-carbon economy and systemic risk* (see https://www.esrb.europa.eu/pub/pdf/asc/Reports_ASC_6_1602.pdf).

⁹ List of recommendations as reported in *Sustainable investment in the Dutch pension sector*, DNB (2016b).

¹⁰ Living Cities is a partnership between a series of public and private, for-profit and non-profit funders that focuses on revitalizing America’s cities and improving the lives of their low-income residents. It was founded in 1991. Launched in 2012, its *Integration Initiative* provides grants and loans to selected cities to implement one of three collaborative and cross-sector engagement focused revitalization strategies.

¹¹ List is as reported in Kresge Foundation et. al. (2016).

¹² Progress on systems changes is as reported in Mt. Auburn Associates (2015). Given TIIP’s focus on systemic change, Table 1 focuses on systems-related progress; see Mt. Auburn Associates (2015) for information about initiatives’ progress along other implementation indicators (governance and cross-sector engagement, use of data, community engagement).

¹³ Total assets as of December 31, 2015 as reported in FRofSF (2016).

¹⁴ The largest in terms of geography and size of its economy FRofSF (2016).

¹⁵ Total AUM equal to banking department total balance sheet size, which was £405,758,000,000 in 2016, as reported in Bank of England Annual Report 2016. Converted to U.S. dollars using Yahoo! Finance currency converter using currency exchange rate from December 31, 2016. Reported amount rounded from US\$498,596,706,807.

¹⁶ In *Establishing China’s Green Financial System*, the final report of the Green Finance Task Force, PBoC notes that “China’s environmental carrying capacity is at its upper limit; with levels of pollution in many areas that can no longer be ignored or tolerated. For example air quality is satisfactory in only 8 out of 74 major cities, and just 25 percent of drinking water reaches national quality standards. The extent and severity of China’s environmental pollution is closely related to China’s industrial, energy and transportation structure, with heavy industries accounting for almost 30 percent of the national GDP and 67 percent energy coming from coal” (PBoC UNEP 2015: 2).

¹⁷ PBoC first signaled its concern for the environment more than 25 years ago, in 1995, through its *Notice on Relevant Matters of Implementing Credit Policies and Enhancing Environmental Protection*.

¹⁸ Components reported here are as described by Bai et. al. (2013).

¹⁹ Four broad areas of the recommendations are reported as noted in the publication summary for *Establishing China’s Green Financial System* (UNEP 2015); recommendations are reported as written in *Establishing China’s Green Financial System* (PBoC, UNEP) (2015).

²⁰ Source: *Guidelines for Establishing the Green Financial System* (PBoC) (2016b). Guidelines and supporting bulleted examples are reported verbatim from the *Guidelines* in most instances, but are paraphrased for brevity or clarity in others. Bulleted

examples are selected and do not represent all instructions for implementing the guidelines; they are illustrative, not comprehensive.

²¹ See Climate Bonds Initiative (2017).

²² AfDB (2017).

²³ Ibid.

²⁴ AfDB (2014).

²⁵ AfDB (2016a).

²⁶ AfDB (2013a).

²⁷ AfDB (2017).

²⁸ Total assets as reported in ADB (2017a).

²⁹ ADB (2014b).

³⁰ ADB (2014a).

³¹ Ibid.

³² ADB (2009).

³³ ADB (2009).

³⁴ ADB (2014a).

³⁵ Total assets totaled Tk 220,885,443,353 in December 2015; converted to USD using Yahoo! Finance currency convertor and as of December 31, 2015. Reported amount rounded from USD\$2,884,977,840.

³⁶ The Yale School of Management also organized the *16 Decisions* into three groups, theirs being aspirations, investments, and gender equality. See *Grameen Bank: Who should own microfinance* at <http://nexus.som.yale.edu/grameen/?q=node/115>.

³⁷ Grameen Bank (2017).

³⁸ Ibid.

³⁹ Total assets reported in IDB (2017a).

⁴⁰ IDB (2015).

⁴¹ IADB is one of seven multilateral development banks that has adopted MfDR, which is a “management strategy that focuses on using performance information to improve decision-making... [and that] involves using practical tools for strategic planning, risk management, progress monitoring, and outcome evaluation” (www.mfdr.org).

⁴² IDBG.

⁴³ IFC agreed to invest a total of \$18,800,000,000 in fiscal year 2016; \$7,700,000,000 of which was mobilized from investment partners (a.k.a. co-investors) (IFC 2017; IFC 2016a). The value of its portfolio totaled approximately \$68.5 billion in 2016 (IFC (2016a): 3).

⁴⁴ IFC’s role as an asset owner, as opposed to asset manager, is the focus of this profile; therefore, we do not further discuss the system and related investment activities undertaken by AMC in this profile.

⁴⁵ Table in Box 1 originally reported by IFC in *How IFC Measures Development Results*. Accessed from https://www.ifc.org/wps/wcm/connect/f1b458804a9cefad8dc9df9e0dc67fc6/IFC_DOTS_DevelopmentResults_8.5x11_4-9.pdf?MOD=AJPERES on January 16, 2017.

⁴⁶ Total AUM equal to IFAD-only assets, which were US\$7,401,388,000 as of December 31, 2015 and as reported in IFAD (2016a). IFAD’s consolidated assets, including those leveraged from other sources, were US\$8,424,414,000 as of December 31, 2015.

⁴⁷ Adapted from figure developed by IFAD and presented in IFAD (2016b).

⁴⁸ IFAD (2014).

⁴⁹ IFAD (2017a).

⁵⁰ In the year 2016-2015 (H1436) IDBG approved US\$12.1 billion in investments.

⁵¹ See TIIP’s profile on the International Fund for Agricultural Development (IFAD) for more information on the MfDR.

⁵² Source: IDBG 2015(a): 36.

⁵³ IDBG (2014): 30.