TOSSD

Total Official Support for Sustainable Development

Mobilising institutional Investors for financing sustainable development: possible follow-up work by the Task Force

TOSSD Task Force Issues Paper[1] - Agenda item 1

14th meeting of the International TOSSD Task Force

8-9 December 2021

I. Introduction

1. **The Covid-19 crisis greatly widened the annual financing gap for the implementation of the 2030 Agenda.** The financing gap was estimated to amount to USD 2.5 trillion in 2019 for developing countries and increased by 50% in 2020 to amount to USD 3.7 trillion. More than ever, in this context, it is necessary to **mobilise all actors – and all assets available on financial markets – for the achievement of the SDGs.** This includes assets held by institutional investors such as pension funds, sovereign wealth funds or insurance companies (amounting to over USD 100 trillion at end-2019). These key participants in financial markets have therefore a critical role to play in shifting private financial resources towards sustainable development, contributing to a greater alignment of investments with the SDGs and, concretely, increasing the use of innovative blended finance solutions such as de-risking approaches.

2. **This note presents the findings from a recent OECD report on Mobilising Institutional Investors for Financing Sustainable Development and invites a discussion on possible follow-up work in the context of the TOSSD Task Force.** Section II summarises the objectives and main findings of the OECD report, which provided both qualitative and quantitative data on the potential of institutional investors to close the financing gap for implementing the SDGs, as well as information on the obstacles faced and possible solutions to scale up their investments in developing countries. Given this potential, section III underlines the importance of collecting in TOSSD more data on institutional investors' assets. It further invites the Task Force to consider testing the feasibility of collecting more granular data from public institutional investors.

II. Key findings from the recent OECD report on Mobilising Institutional Investors for Financing Sustainable Development

3. **The OECD Report on Mobilising Institutional Investors for Financing Sustainable Development[2] highlighted that shifting only 3.7% of institutional assets towards sustainable activities in**

[1] Jointly drafted by Ryad Selmani (ryad.selmani@oecd.org), Cécile Sangaré (cecile.sangare@oecd.org) and Julia Benn (Julia.Benn@oecd.org).

[2] The report was led by the OECD Development Co-operation Directorate and benefited from close collaboration of the Directorate for Enterprise and Financial Affairs (DAF). It was based on the DAF Annual Survey on Large Pension Funds, which included, in 2019, a special Addendum on SDG alignment and investment, and a questionnaire on assets held in developing countries.

developing countries would be sufficient to fill the SDG financing gap. The report further showed that, in 2017-18, **pension funds and insurance companies surveyed invested, respectively, only 8% and 2% of their total assets in developing countries, with a preference for stable and low-risk contexts such as Asian emerging markets**. Scaling-up institutional investors' investments towards developing countries still faces numerous barriers as investment decisions by pension funds and insurance companies are largely influenced by perceived risks associated with political and macroeconomic instabilities, or corruption. In this regard, **blended finance appears as one possible option in the development co-operation tool box to mobilise institutional investors' assets toward developing countries**. The use of risk mitigation instruments such as guarantees can contribute to lowering the perception of risks by institutional investors who are increasingly seeking investment opportunities in emerging markets, where interest rates may offer higher returns than in OECD countries.

4. **However, collaboration between institutional investors and the public sector – be it governments of provider or partner countries, or multilateral organisations – appears sporadic**. No more than one-fifth of the surveyed institutional investors collaborated with provider countries' development co-operation agencies, development finance institutions (DFIs) or multilateral development agencies, and collaboration with governments of the developing countries was even rarer. However, there are also positive examples, such as the one of PensionDanmark, which has been involved in three blended finance funds managed by the Danish DFI (IFU), namely the Danish Climate Investment Fund, the Agribusiness Fund and the SDG Investment Fund. PensionDanmark's total commitment in the SDG Investment Fund was almost EUR 100 million, specifically in support of 29 identified SDG targets. Another example is the IFC-Managed Co-lending Portfolio Program[3], which offers a platform enabling institutional investors to participate in impact-focused credit opportunities in IFC's pipeline. It has raised, in eight years, over USD 10 billion, enabling 11 insurers and other partners to join the IFC in contributing to the achievement of the SDGs.

5. Besides the analysis of the size and allocation of institutional investors' assets held in developing countries, the report shed light on key determinants of the investment behaviour of these market actors. The report particularly highlighted the **growing propensity of institutional investors to contribute to the implementation of the SDGs and align with international standards on sustainability**. For example, more than a half of the surveyed institutional investors indicated to have aligned their internal policies to some extent with the 2030 Agenda and the SDGs. The report concluded that it would be necessary to foster efforts already being made by several institutional investors to channel funds towards the achievement of the SDGs, and as part of these efforts, create a more comprehensive picture of the entire landscape of institutional investors' financial flows to developing countries.

III. Possible follow-up work by the Task Force

A. Why is this work relevant for TOSSD?

6. **So far, little evidence exists on institutional investors' contribution to the SDGs.** More data on their activities in developing countries is therefore critical for the international development finance community to increase the number of partnerships with these actors and incentivise the gradual shifting of their trillions of assets towards the 2030 Agenda. Furthermore, the level of detail in data reporting on mobilised private finance, including from private institutional investors' assets, remains

[3] More information is available here.

currently limited due to confidentiality constraints. Greater transparency on the activities already being undertaken would help build institutional investors' confidence in the emerging markets, ultimately aligning their investments with sustainability and impact investment standards.

7. **TOSSD appears as an appropriate framework to capture institutional investors' contributions to sustainable development finance.** First, the framework covers all "officially-supported resources" contributing to sustainable development, which includes all public investors such as public pension funds and sovereign wealth funds. In addition, TOSSD includes "private resources mobilised by official interventions, where a direct causal link between the official intervention and the private resources can be demonstrated" (TOSSD reporting instruction, §13) and, therefore, potentially the resources mobilised from private institutional investors.

8. **In addition to fostering the mobilisation of additional resources for the SDGs in developing countries,** more information on the volumes of institutional assets held in developing countries would definitely contribute to the main objective of TOSSD, which is to improve transparency and policy analysis on development finance.

B. A data pilot to test the feasibility of collecting more granular information

9. **The Task Force Secretariat would like to seize the opportunity to further explore this topic and assess the feasibility to collect in TOSSD more granular information on investments by public pension funds, insurance companies and sovereign wealth funds engaged in the SDGs**. In fact, the OECD Report and the underlying surveys demonstrated the possibility to collect data on institutional investors' investments in developing countries and the alignment of their investments with sustainability standards. However, despite the ground-breaking nature of the results and the novelty of the data collection process, the collected data were too aggregated to show a comprehensive picture of the instruments and vehicles used (e.g. intermediary investment funds, blended finance facilities) or on the sectors targeted by institutional investors in developing countries. Such information would be required for a better "recipient perspective" to this finance.

10. **A pilot study on institutional investors' financing for sustainable development could be one option to further investigate how to include these expenditures in TOSSD.** The main objective of this pilot study would be to carry out – in collaboration with a few volunteer members – a more comprehensive and in-depth data collection exercise. This would help assess the feasibility of collecting such data on a wider scale, better understand potential confidentiality constraints and evaluate the possible level of aggregation needed. It would also shed light on questions related to coordination of, and institutional engagement with, the actors to be involved in this process. Ultimately, such a pilot study would contribute to refine and test the statistical methodology of TOSSD in this area. It should be noted, however, that the pilot would require dedicated funding.

11. Such a data pilot would be an opportunity:

    - For **TOSSD Task Force members** hosting large public pension funds to contribute to enhanced data collection on institutional investors' assets invested for sustainable development activities, ultimately aiming at unlocking institutional assets at the global level and towards developing countries.

    - For **institutional investors**, through increased transparency, to lower their perception of risks and incentivise further collaboration with government entities.

- Finally, the data on institutional investors' investments for sustainable development will encourage the scaling up of institutional asset allocation towards **recipient countries**, but also give a better understanding of the opportunities and challenges pertaining to such investments.

12. The data pilot could be undertaken using the **TOSSD reporting template to collect activity-level data on new assets invested in developing countries contributing to the SDGs** for the 2019-2020 period. With a view to limiting the burden for the respondents, the template could include a limited number of data fields (see table in Annex A) focused on key elements such as the geographic allocation, the financial instruments used and, most importantly, the SDG targets. However, the success of such a pilot will require working with a few volunteer Task Force members – ideally those hosting large or active public pension funds/sovereign wealth funds (e.g. Canada, Denmark, Japan, Norway, Sweden or the United States, see Annex B), as well as South-South Co-operation providers and recipient countries.

Issues for discussion

- **Do members agree on the relevance of tracking institutional investors' contributions to the SDGs in the context of TOSSD?**
- **Do members consider the proposed data pilot an adequate first step to better capture large public pension funds' and sovereign wealth funds' SDG-aligned investments in developing countries?**
- **Would any member be interested in participating in such a pilot?**
- **Would members have feedback or specific suggestions on the proposed data pilot?**

Annex A: Potential data fields for the pilot

DATA FIELD	COMMENTS
Name of the institution	
Project title	At least a title, and when possible a brief description of the project and its objectives
Recipient countries/regions	Critical to identify trends in institutional investments in developing countries and gap analysis
SDG Focus	Necessary in the context of TOSSD to confirm contribution to sustainable development
Sector	3-digit general sector breakdown of investments or TOSSD purpose codes if no confidentiality constraints
Financial instrument	Using the TOSSD classification
Amount	Amounts disbursed
Financing arrangement	Multiple codes identifying specific characteristics of the financial arrangement using the TOSSD classification

Annex B: Potential relevant public institutional investors for a data pilot, based on the institutional investors' report

Country	Institutional Investors' environment [4]	Name of the institution	Type of Institution	Status	Additional Information
DAC MEMBERS					
Canada	► No specific limit on foreign investments. ► Subject to prudent investment rule.	**Canada Pension Plan (CPP)**	Social Security Reserve Funds (SSRFs)	**Independent from the government**	► **Assets in developing countries**: MUSD 36.9 (2017-18 average) ► **% of assets** in developing countries: **11%**
		Caisse de dépôt et placement du Québec (CDPQ)	Public Pension Reserve Funds (PPRFs)	**Public Pension Fund**	► **Second biggest public pension fund in Canada**
Denmark	► No specific limit on foreign investments.	**PensionDanmark**	Large Pension Fund (LPF)	**Non-profit labour market pension fund (Private)**	► **% of assets** in developing countries: **14%**
Japan	► No specific limit on foreign investments.	**Government Pension Investment Fund (GPIF)**	Public Pension Reserve Funds (PPRFs)	**Independent administrative institution**	► **Largest Japanese public fund investor.**
Norway (TOSSD Observer)	► No specific limit on foreign investments.	**Government Pension Fund Global (GPFG)**	Sovereign Pension Reserve Funds (SPRF)	**Public Pension Fund**	► **Assets in developing countries:** MUSD 101.8 (2017-18 average) ► **% of assets** in developing countries: **10%** ► High concentration of assets held in developing countries in 4 countries (China – People's Republic of, India, Brazil and Mexico)
Sweden	► No specific limit on foreign investments.	**AP2**	Public Pension Reserve Funds (PPRFs)	**Buffer Fund (Public)**	► **Assets in developing countries**: MUSD 5.4 (2017-18 average)

[4] 2020 Annual Survey of Investment Regulation of Pension Funds and Other Pension Providers (oecd.org)

Country	Institutional Investors' environment [4]	Name of the institution	Type of Institution	Status	Additional Information
United States	► No specific limit on foreign investments.	**Social Security Trust Fund** **(Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI))**	Social Security Reserve Funds (SSRFs)	**Public Pension Fund**	
		CalPERS **(California Public Employees' Retirement System)**	Public Pension Reserve Funds (PPRFs*)*	**Public Pension Fund**	► **Manages the largest public pension fund of the US**