TOSSD

Total Official Support for Sustainable Development

Preliminary guidance for reporting on institutional investments in TOSSD

TOSSD Task Force Issues Paper[1] - Agenda item 4
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Introduction

1. At its 14th meeting, the TOSSD Task Force approved the Secretariat's proposal to conduct a data pilot on institutional investors. The rationale was that the TOSSD framework covers all official and officially supported resources to promote sustainable development in developing countries, and therefore also investments by publicly-owned pension funds, insurance companies and sovereign wealth funds engaged in the SDGs. So far, no data on institutional investments have been reported to TOSSD, creating an information gap.[2]

2. The data pilot aimed to further investigate the relevance and feasibility of capturing in TOSSD granular information on these investments and gather information from the most prominent institutional investors through a survey covering investments made or committed in 2021. The survey was administered by the TOSSD Task Force Secretariat, in co-ordination with TOSSD reporters from the countries of residence of the surveyed institutional investors.

3. Building on the findings and main lessons learnt of the data pilot (section 1), this note suggests preliminary guidance for reporting institutional investments in TOSSD and outlines possible steps to be undertaken by data providers before including institutional investments in their reporting to TOSSD (sections 2 and 3).

1. Summary of the findings from the data pilot

4. The detailed findings from the TOSSD data pilot on institutional investors are presented in a dedicated report circulated under separate cover. In a nutshell, the report highlights three main lessons learnt:

   i. First, the data pilot confirmed the **difficulty to engage with and collect investment-level information from public pension funds, sovereign wealth funds and insurance companies**. Only nine institutional investors participated in the data survey underpinning the pilot (over 34 initially targeted). The main challenges included i) understanding the chain of command and who has the authority for requesting reporting from these institutions, ii) co-ordination with new institutions, and iii) the confidentiality obligations

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[2] See also https://oe.cd/InstInv4SD.

related to institutional investments. The data collected also had a number of caveats (see para. 8 below).

ii. Second, the data pilot nevertheless showed that collecting data on these institutions' SDG-aligned investments, even if partial, could significantly increase the overall TOSSD comprehensiveness and bring **further transparency on investment flows to developing countries** that contribute to achieve the SDGs.

iii. Third, it also demonstrated the potential of such data to **complement providers' reporting** on their sustainable development activities in developing countries.

5. At the same time, the report calls for a **prudent approach** to determine in which circumstances such investments could be considered for inclusion in the framework.

2. Guidance for identifying and connecting with potential institutions

6. The above findings helped the Secretariat to identify some preliminary steps to be followed by data providers, which are described below.

i. The first step for reporters is to **identify in their own country potential large institutional investors.** Institutional investors can be defined as legal entities pooling, managing and investing other people's money, usually acting as intermediary investors. They include pension funds, insurance companies and investment funds. Sovereign wealth funds and public pension reserve funds are sometimes considered as institutional investors too although they could be seen as ultimate owners of the assets they invest.

ii. Secondly, reporters need to **confirm that the targeted institutions comply with the TOSSD definition of "official or officially supported"**. In the case of institutional investors, this means meeting the definition of public corporations, i.e. "corporations over which the government secures control by owning more than half of the voting equity securities or otherwise controlling more than half of the equity holders' voting power, or through special legislation empowering the government to determine corporate policy or to appoint directors".[3] The TOSSD definition on "officially-supported" could explicitly mention institutional investors as part of the public sector corporations (see proposal in Box 1).

Box 1: Proposed edits to the TOSSD definition of "Officially-supported"

13. TOSSD aims to capture the entirety of instruments and modalities used by official provider countries and organisations to support sustainable development, including mechanisms that mobilise resources from the private sector. Therefore, in the context of TOSSD, "officially-supported resources" are defined as:

a) resources provided by:

i. official agencies, including state and local governments, or by their executive agencies, and

ii. public sector corporations[9], **including pension funds, insurance companies and sovereign wealth funds.**

b) private resources mobilised by official interventions, where a direct causal link between the official intervention and the private resources can be demonstrated.

[3] As defined in footnote 9 to para. 13 of the Reporting Instructions.

iii. Third, reporters may want to verify **whether the targeted institutions hold assets in TOSSD recipient countries**.

iv. In addition, given the broader mandate of such institutions, reporters could **check if a selected institution has a clear strategy towards sustainable development** and/or is committed to move towards a CO2-neutral portfolio (e.g., by exiting emitting sectors, aligning their investments with the SDGs). In general, this information is made available on the institutions' websites, annual reports or "sustainable investing reports". This verification, at the institutional level, would constitute an additional safeguard to ensure that investments reported in TOSSD are sustainable.

v. Finally, once an institution is properly identified, reporters need to **understand the chain of command** (pensions regulators, Ministries of Finance, pension fund asset managers, etc.) to reach out to, obtain contact information and establish the relationship. This step is key and may require greater co-ordination with other government entities, similarly to pillar II activities not captured elsewhere.

7. All these preliminary steps are essential to identify and build a relationship with the institutional investors that may undertake investments within the scope of TOSSD.

3. Guidance for reporting investment-level information

8. Once an institutional investor is identified as potentially meeting the TOSSD eligibility criteria at the institution level, the next step is to collect the data. However, the survey revealed a number of data caveats to be addressed before including these investments in TOSSD. Possible guidance to address them is presented below.

i. **The granularity of the data.** The data pilot highlighted the difficulty for a majority of the institutional investors to share investment-level data. In some cases, this happened because the information requested (sector, SDGs) was not readily available in their internal systems but, in most cases, investment-level reporting was prevented by confidentiality constraints. In order to address the former difficulty, **reporters could use a simplified reporting template** such as the one used for the data pilot (see Annex). This template was developed in close collaboration with PensionDanmark with a view to eliminating any technical obstacles. As for the latter difficulty – the confidentiality constraints – this is a more complex issue that falls outside the Task Force "jurisdiction" / responsibility. One option to get around this obstacle would be to agree with these institutions on **rules for data disclosure in TOSSD online**.

ii. **The point of measurement.** As described in the data pilot report, most institutional investors communicate on their volumes of assets held at the end of the year (i.e. investment stocks), instead of annual disbursements. To make the data comparable with TOSSD gross disbursements, in the context of the data pilot disbursements were estimated as the difference between assets held in Y and Y-1. However, changes in volumes of assets does not necessarily mean that there were new investment flows but could simply indicate a change in the value of the assets held. Moreover, this calculation sometimes resulted in negative amounts and raised the question of whether to include or exclude them (for comparison purposes with TOSSD gross disbursements, they were excluded from the data pilot). This issue would definitely require hands-on discussions between reporters and targeted institutions to define the volume figure reportable to

TOSSD based on available information, i.e., ideally the volume of new investments (similar to "greenfield investments") or, alternatively, the difference in stock values from one year to another as a proxy for gross disbursements (requiring the determination of how to deal with negative results).

iii. **The sustainability test.** The data pilot also indicated that, in general, **greater scrutiny would be required to confirm the TOSSD-eligibility of institutional investments**. This issue is directly related to the level of detail in institutional investors' data (investment-level vs. semi-aggregates) and the extent to which these institutions track / monitor the sustainability of their investments. The sustainability assessment at the institution level, as suggested in section 2, may help in assuming the SDG-alignment of underlying institutional investments. While this could provide the "SDG justification", it remains that reporting on the SDG focus at the activity level is the standard in TOSSD. Therefore, the Secretariat would strongly encourage reporters to work with institutional investors foreseen for inclusion in TOSSD on identifying the SDG-alignment of their investments – possibly at the target level or, alternatively, at the goal level with a justification.

9. Finally, the data pilot informed on the increasing attention paid by institutional investors – whether public or private – on the SDG-alignment of their investments. It also illustrated that, in some cases, private institutions are strongly committed to the SDGs and eager to increase transparency on the impact of their investments (e.g., PensionDanmark, see section 4 of the data pilot report). This opens the door for a potential reflection at the TOSSD Task Force on the relevance of capturing SDG-related activities falling out of the scope of the TOSSD framework (e.g., through a satellite indicator).

Issues for discussion

- **Should the Reporting Instructions be adjusted to incorporate a specific reference to public institutional investors (see proposal in Box 1)?**
- **Should the guidance for identifying relevant institutional investors be integrated in the yearly data solicitations?**
- **Do Task Force members have comments on the caveats and ways to address them as highlighted in section 3 of this note?**
- **Could TOSSD experiment a satellite indicator on SDG-aligned private institutional investments, as a transparency tool?**