The Bulletin

OMFIF

March 2018
Vol.9 Ed.3

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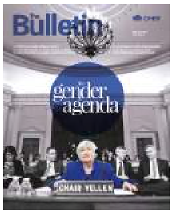

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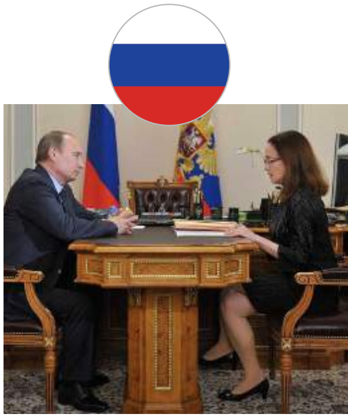

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Asset and risk management forum

OMFIF, the South African Reserve Bank and the World Bank Treasury's Reserves Advisory and Management Program (RAMP), convene public sector asset managers, as well as select private market participants, over two days.

The Forum focuses on governance, macroeconomic and financial developments, as well as the challenges and opportunities for public sector investment managers. The aim is to discuss best practices and offer an avenue for an interactive dialogue.

Venue: South Africa Reserve Bank, Pretoria
Date: 14-15 June 2018

For more information or to register your interest, please visit omfif.org/meetings

OMFIF

South African Reserve Bank

THE WORLD BANK
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Dialogue on world finance and economic policy

THE Official Monetary and Financial Institutions Forum is an independent think tank for central banking, economic policy and public investment – a non-lobbying network for best practice in worldwide public-private sector exchanges. At its heart are Global Public Investors – central banks, sovereign funds and public pension funds – with investable assets of $33.8tn, equivalent to 45% of world GDP.

With offices in London and Singapore, OMFIF focuses on global policy and investment themes – particularly in asset management, capital markets and financial supervision/regulation – relating to central banks, sovereign funds, pension funds, regulators and treasuries. OMFIF promotes higher standards, performance-enhancing exchanges between public and private sectors and a better understanding of the world economy, in an atmosphere of mutual trust.

Membership

Membership offers insight through two complementary channels – Analysis and Meetings – where members play a prominent role in shaping the agenda. For more information about OMFIF membership, advertising or subscriptions contact membership@omfif.org

Analysis

OMFIF Analysis includes commentaries, charts, reports, summaries of meetings and The Bulletin. Contributors include in-house experts, advisers network members and representatives of member institutions and academic and official bodies. To submit an article for consideration contact the editorial team at analysis@omfif.org

Meetings

OMFIF Meetings take place within central banks and other official institutions and are held under OMFIF Rules. A full list of past and forthcoming meetings is available on www.omfif.org/meetings. For more information contact meetings@omfif.org

OMFIF Advisers Network

The 178-strong OMFIF advisers network, chaired by Meghnad Desai, is made up of experts from around the world representing a range of sectors: monetary policy; political economy; capital markets; and industry and investment. They support the work of OMFIF in a variety of ways, including contributions to the monthly Bulletin, regular Commentaries, seminars and other OMFIF activities. Membership changes annually owing to rotation.

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The gender agenda

Diversity in the workforce, particularly gaps in women's presence and pay levels at the higher echelons of organisations, are subjects of growing importance around the world.

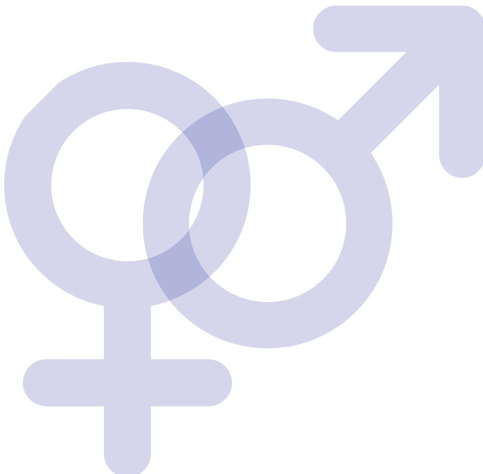
Tackling the gender agenda requires, among many other things, promoting female role models to inspire young women, enlarging the pool of talent from which organisations can benefit. Coinciding with International Women's Day on 8 March, this month's Bulletin is an all-female issue. OMFIF introduced this feature in March 2017 and we have expanded it this year with contributions ranging from leading women throughout our network of central banks, academia, policy and capital markets.

This month's focus report presents the findings of our Global Public Investor Gender Balance Index. The results of this fourth annual report on diversity in central banks are discouraging, showing a worsening imbalance between men and women in key decision-making positions.

This reflects above all (because of the US economy's weighting) the departure of Janet Yellen as Federal Reserve chair, but the trend is visible nearly everywhere. Five out of seven regions show a lower score in 2018 than 2017. This year we have expanded our research to include sovereign funds and public pension funds, helping shape a broader picture. We launch the results on 7 March in Singapore and London.

At OMFIF, we lead by example. Women make up 51% of our staff and are present across all levels of management, bringing our own GBI score close to 100%. This may be a sign of how times are changing. On the other hand, the poor scores among the institutions we highlight show how much more needs to be done. Promoting gender balance at the top is key.

A lack of female role models may signal limits to what women can achieve, discouraging them to enter some sectors in the first place. We hope that our research on gender diversity spurs improved personnel decisions. Over time this can contribute to making a real difference in accomplishing better institutional balance and performance in many fields.



Danae Kyriakopoulou
Chief Economist and Head of Research

»8 February, London

Ringfencing cryptocurrency risk

YVES Mersch, member of the European Central Bank's executive board, gave an OMFIF City Lecture in which he spelled out the ECB's generally hostile views on cryptocurrencies.

Mersch said cryptocurrencies are not money, can be used for illicit purposes, pose a risk to investors, and that regulators must be alert to these dangers.

The main concern is that a crash in the cryptocurrency market may cause losses of wealth large enough to affect consumer behaviour or spread contagion throughout the financial system. The dangers of individuals and retail investors losing large amounts of money are real. But the risk of contagion is relatively low, as the cryptocurrency market has few links to the wider economy and there is no exposure to core financial institutions. Mersch acknowledged the potential positive aspects of the underlying distributed ledger technology for the financial services sector. The benefits of blockchain cannot be ignored, though it will take time for them to materialise. As Mersch said, 'Just because the initial euphoria and hype subsequently fade, it does not mean that the innovation is without virtue.'

Orchestrator of Maastricht

RUUD Lubbers, the Netherlands' longest-serving prime minister and a member of the OMFIF advisory board, who died on 14 February aged 78, mixed firm credentials on European integration with a sense of continent-wide pragmatism. In later years, he took up strong positions promoting green policies, part of an anti-climate change vanguard that has swept across many areas of business and economic life. He helped orchestrate the European summit in December 1991 at Maastricht in the Netherlands that laid out the road to the euro.

»5 February, London

Central banking in the digital society

OMFIF held a lunch discussion with Cecilia Skingsley, deputy governor of Sveriges Riksbank and co-chair of the World Economic Forum's working group. The discussion focused on the different contextual reasons for potentially issuing central bank digital currencies. Topics also discussed included the declining use of cash in Sweden, the challenges of providing an effective and inclusive means of payment within this context, and the questions that need to be answered before issuing a central bank digital currency. *Go to page 20 to read the conversation with Deputy Governor Skingsley.*

FORTHCOMING MEETINGS

»Tuesday 13 March, Frankfurt

Economy, growth and investment

In the eighth **Economists Meeting** in Frankfurt, OMFIF convenes experts to examine macroeconomic and political developments in Europe, the implications of monetary policy for the banking sector, and the impact of the Basel III and Mifid II accords.

»Thursday 15 March, London

New challenges for financial regulation

Robert Ophèle, chair of the Autorité des marchés financiers, France's stock market regulator, gives an OMFIF City Lecture. He focuses on financial innovation, managing Brexit's effects on European markets, and how best to regulate cryptocurrencies.

»Tuesday 20 March, Prague

The future of money: risks and returns

OMFIF and the **Czech National Bank** organise a joint seminar to analyse the impact of fintech. Discussion focuses on the benefits and risks of private cryptocurrencies, central bank digital currencies and distributed ledger technology.

»Monday 16 April, Paris

Future of the euro

OMFIF organises a symposium on the institutional reinforcement of monetary union in the light of political changes in France and Germany. The discussion focuses on the reasons for these adjustments and how to achieve them.

For details visit omfif.org/meetings

The gender agenda

The first woman in the post, Janet Yellen took office as US Federal Reserve chair in February 2014. Her task: to steer the economy towards normalisation, but at the right pace. Too fast, and markets could lose confidence; too slow, and inflation and asset bubbles could form. She leaves the US in strong shape and with more tools in the arsenal than ever before. Still, worries persist over risks to financial stability. *Read more on Yellen's legacy on page 13.*


CHAIR YELLEN

Women shun careers in economics

Maths requirement and lack of role models drive shortage

Vicky Pryce
Advisory Board

I do not recall having a single female economics teacher during my A-levels, my undergraduate years or master's degree at the London School of Economics. The tutors during my later-abandoned PhD were men, and women were in a minority in the student body.

Even now, decades later, only 26% of economics undergraduates in the UK are women. Academic economists remain overwhelmingly male. The Economist magazine has calculated that only about 20% of Europe's senior economists are women. In the US, women comprise only 15% of full professors of economics.

One reason for the shortage of women in this field may be the requirement to be good at mathematics. Data from the UK Department for Education for 2012-13 suggest that although there has been an increase in the number of girls taking maths at A-level, this has also been the case for boys. The gender balance across England has hardly changed. Only about 20% of girls taking A-levels completed A-level maths, and the figure fell to 2.4% for the 'further maths' A-level.

A 2017 study by the Institute of Education at University College London in collaboration with a number of schools looked into issues that influence the take-up of maths. It identified, among other factors, 'the significance to girls of their perceptions of mathematics lessons and teachers, of discursive co-construction of masculinity and mathematics [and of] the range of careers associated with maths and science'.

This affects other sectors too. Recent data suggest only 8% of computer science A-level students are girls, with female participation in IT apprenticeship programmes and computer science degrees at 21% and 19% respectively. And according to a 2015 survey by the Centre for Economics and Business Research, only 7.7% of UK IT engineers are female.

The way economics is taught is another factor affecting the appeal of the subject to women. It is perceived as too clinical and too masculine. Only with the increased emphasis on behavioural economics are more women finding the subject approachable.

Another issue may be the lack of role models. A recent study by Catherine Porter, associate professor of economics at Heriot-Watt University, and Danila Serra, assistant professor of economics at Southern Methodist University, found that contact with successful female economists increased the chances of women enrolling in higher-level economics classes at university.

But there are not many such role models, certainly not in academia. Evidence suggests that it is difficult to get recognised in the economics profession if you are a woman. In comparison with other academic subjects, even more technical ones, women's progress seems to be slower.

Donna Ginther, a professor of economics at the University of Kansas, found it takes women longer to acquire tenure. Even if female lecturers' and researchers' productivity is the same as men's in terms of the number of papers published, their advancement tends to take longer than men's. If they co-authored a paper with a man, the man's chances of promotion increased much faster as a result of having the paper published than the woman's, according to research by Heather Sarsons, a PhD candidate in economics at Harvard.

It seems that recognition of one's worth as a female economist is much slower and this affects the perceived attractiveness of the profession. Only one woman has won the Nobel Prize for economics (Elinor Ostrom in 2009) and there are very few easily identifiable top female economists to act as role models, though there have been many who should have been recognised.

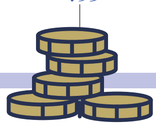
Women economists are poorly represented in business, think-tanks, journalism and academia, though they are more prominent in the public sector. As Victoria Bateman, the Cambridge academic and economist, reminds us, the world is poorer without women playing a proper part in shaping and influencing the path of the economy to achieve its full potential.

Vicky Pryce is Board Member at the Centre for Economics and Business Research and a former joint head of the UK Government Economic Service.

The gender agenda

Tracking the long road to balance

1753

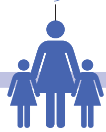


Russian women are granted the right to earn their own income

1792

Marianne of France appears on the 50 livre note, one of the earliest examples of a woman on a banknote

1850



Iceland enforces equal inheritance rights

1881

France grants women the right to own bank accounts

Stepping up pace of change

Well-governed organisations need greater diversity across all levels of business

Hanneke Smits
Newton Investment Management

In February, the UK celebrated 100 years since the first group of women were given the right to vote. There is still a long way to go. Indeed, the latest Gender Gap Report from the World Economic Forum (2017) calculates that it may take 217 years to close the economic gender gap.

The issue goes deeper than gender diversity and diversity of senior leadership within the workplace. Well-governed organisations need a greater spread of race, religion and background across all levels of business. Not only is this the right thing to do from an ethical standpoint, there is also increasing evidence that it makes sound business sense and improves financial performance.

First, role models are important. Seeing women at all levels who are passionate about supporting the careers of other women sends a powerful signal. This was the main driver behind my decision to set up Level 20 in 2015, a not-for-profit group that aims to inspire women in private equity. It uses a mentoring programme, as well as a range of targeted events and recruitment to engage with women, with the aim of getting more of them into senior roles. Level 20 is now funded by 42 private equity firms, which demonstrates that the industry is firmly behind these goals.

Similarly, at BNY Mellon, the highly engaged women's initiative network brings men and women from all over the organisation together for the advancement of women. The resource group provides an opportunity for networking and professional development and creates a forum where new ideas around gender equality can flourish. The network has a direct impact on BNY Mellon's bottom line, via the sharing of new ideas and skill-building workshops for its members and clients, who are able to make new connections in the marketplace.

Nurturing diversity

To nurture greater diversity, Newton has developed a number of schemes and training programmes. The company was also a founding member of a programme aimed at making financial education a core part of the primary school curriculum. Educating children about finance is key to providing opportunity to future generations.

> 'Those companies that can think differently and are able to learn and adapt quickly to create uncommon and innovative solutions, will be the ones best placed to harness this positive momentum.'

Within an organisation, there is much managers can do to question whether processes, policies and programmes enable women to succeed. Women tend to undersell their performance during reviews. Organisations need to ensure the process is fair and that both men and women are measured against the same standards. Companies should consider what additional support employees need so that they can go into a performance review feeling confident and able to have a meaningful conversation. Managers can initiate the dialogue required for positive change.

Over the course of my career, I have witnessed genuine progress in women's equality, but I also know that there is much more work to be done. Those companies that can think differently, and are able to learn and adapt quickly to create uncommon and innovative solutions, will be the ones best placed to harness this positive momentum.

These companies will spearhead the change we need, to ensure that 100 years from now, gender inequality will be a thing of the past. ●

Hanneke Smits is Chief Executive of Newton Investment Management, a specialist investment manager and part of BNY Mellon.

1902

Maggie Walker becomes the first woman to charter a bank, the St. Luke's Penny Savings Bank in the US

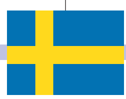
1914

In the UK, more than **2m** women replace men in the labour market during the first world war

1943

In the US, around **90%** of all able-bodied single women between 18-40 were engaged in some form of work

1947



First law adopting equal pay in salary comes into effect in **Sweden**

1950

Greta Kuckhoff becomes the first female central bank governor, East Germany's Deutsche Notenbank

Social bonds and investing for good

Financing female entrepreneurs in vulnerable communities

Karin Finkelston
International Finance Corporation

The launch of the United Nations' sustainable development goals in December 2015 brought the world together in a mission to fight poverty, inequality and climate change. Meanwhile, a bond market aimed at financing projects with these issues in mind has emerged and deepened. This asset class is supported by a growing number of investors who are embedding environmental, social and governance standards into their investment decisions. One powerful way to invest in social initiatives is through debt capital markets, where social bonds are attracting increasing interest.

As the largest development finance institution supporting the private sector in emerging markets, International Finance Corporation is well positioned to work with private enterprises to create opportunities for investors that achieve returns while benefiting society.

Social bonds offer investors an opportunity to finance IFC projects that focus on underserved people in emerging markets in need of essential goods, services and jobs. In March 2017 IFC issued a $500m global benchmark bond – the first ever dollar-labelled social bond benchmark – to meet investor demand. This innovative social bond programme will expand financing for projects that benefit women-owned enterprises and low income communities in emerging markets.

One such example is Al Majmoua, a Lebanese non-profit microfinance institution operating since 1994 to promote sustainable development for the country's most vulnerable people, from both the local and refugee communities. Since its launch, the association has disbursed more than 500,000 loans worth $700m to entrepreneurs.

IFC's partnership with Al Majmoua dates to 2014 when it provided the institution a $2m loan to expand its loan portfolio to include more low income small businesses and female entrepreneurs, including women who have fled with their children from Syria. In 2017, the IFC extended a $5m loan to Al Majmoua to support the development of microbusinesses and the small-scale manufacturing. The Aghabani embroidery value chain project has been a notable success. In this project Lebanese women joined Syrian refugees to develop goods for a local handicraft company that purchases their goods, providing the women artisans a steady income.

Investor appetite

Bonds related to the UN sustainable development goals are in gaining in popularity. In February the International Bank for Reconstruction and Development, sister organisation to IFC, issued a $350m bond that raised funds for its development activities around the world. The IBRD highlighted four of the sustainable development goals – good health and well-being, gender equality, responsible consumption and production, and climate action.

Developing guidelines and procedures for the social bond market is crucial. IFC is co-chair of the working group on social bonds established by the green bond principles executive committee of the International Capital Markets Association.

In line with the social bond guidelines, the IFC social bond programme is augmented by an annual impact report providing investors with detailed information on the underlying projects supported by the bonds that finance select IFC investments.

These investments incorporate low-income and rural populations, women and poor farmers, small

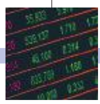
1963

US President John Kennedy signs the **Equal Pay Act**

1972

Katherine Graham becomes the first female chief executive of a Fortune 500 company, The Washington Post

1973



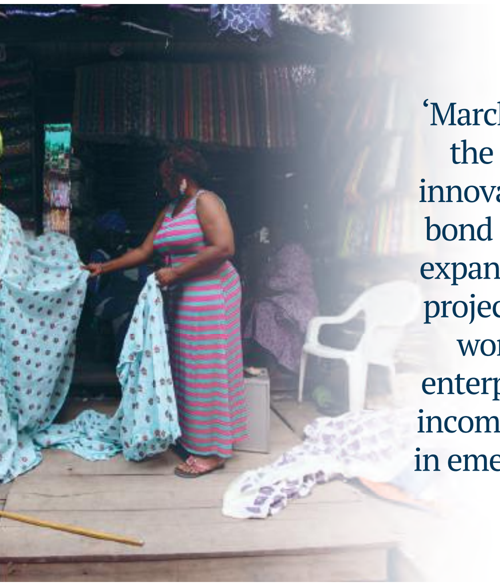
Women are allowed on the floor of stock exchanges in the **UK**

1984

Rosemary McFadden becomes the first woman to serve as president of any stock exchange, as head of the New York Mercantile Exchange

1988

Chen Muhua becomes the first and only female governor of the People's Bank of China



Commonwealth Secretariat photo by Sunday Alan

‘March 2017 marked the launch of an innovative IFC social bond programme to expand financing for projects that benefit women-owned enterprises and low-income communities in emerging markets.’

and medium-sized enterprises.

Proceeds from IFC’s social bonds support projects that involve lending to financial intermediaries, with the requirement that proceeds of the loan are, in turn, lent to women-owned enterprises. Proceeds promote lending to companies that incorporate people who earn less than the equivalent of $8 per day or who do not have access to basic goods and services into the value chain as suppliers, distributors or customers.

There is growing investor appetite for bonds that are themed as environmental, social and governance. What matters now is growing the appeal of the product for mainstream investors, improving the liquidity of the market, and promoting greater diversity of issuers. ●

Karin Finkelston is Vice-President of Partnerships, Communication and Outreach at the International Finance Corporation.

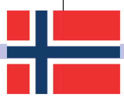
1997

Marjorie Scardino becomes the first female FTSE chief executive, appointed as head of Pearson

2003

Rachel Lomax becomes the first female deputy governor of the Bank of England

2008



Norway requires companies to ensure that 40% of its board members are women

Yellen’s legacy: Economic recovery, cautious normalisation

Janet Yellen became US Federal Reserve chair in February 2014, the first woman to hold the office. She inherited a tenuous economic recovery after the recession, a process largely fuelled by extraordinarily loose monetary policy under her predecessor Ben Bernanke’s quantitative easing programme. Yellen’s task was to pilot the economy towards normalisation, but at the right pace. Too fast, and markets could lose confidence; too slow, and inflation and asset bubbles could form.

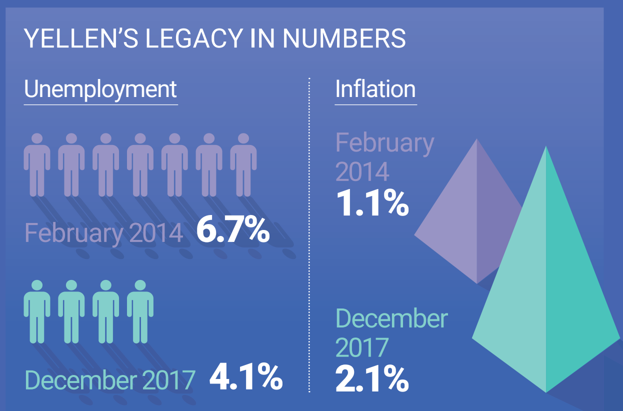
The dove who never cut rates

Unlike her contemporaries at other major central banks, Yellen never cut interest rates. At the start of her tenure, rates were close to zero, leaving little to cut. Instead, in 2015 she steered the Fed towards lifting rates for the first time in seven years, cautiously reversing Bernanke’s stimulus programmes.

During her tenure, unemployment fell to 4.1% in December 2017, a 17-year low. Her term ended this year with the economy adding 200,000 jobs in January, making it the first time that employment has risen in every month of any Fed chair’s tenure.

Unfinished business

Yellen leaves the economy in strong shape, and her successors have more tools in the arsenal than ever before. Still, worries persist over risks to financial stability. Although she began the unwinding of the extraordinary monetary stimulus measures enacted during the financial crisis, she won’t be around to complete the task. Her stepping down in February made Yellen the first Fed chair in decades to serve only one single term. It was not her choice. ‘I would have liked to serve an additional term, and I did make that clear,’ she said.



Innovative ways to enhance equality

Positive impact of 'gender lens investing' in Latin America and Caribbean

Gema Sacristán
IDB Invest

According to the World Economic Forum's Global Gender Gap Report 2017, at current rates of progress, it will take 100 years for men and women to attain equality across four key areas: economic participation, health and survival, educational attainment and political empowerment. Closing this gap requires investment from public and private institutions, and the financial sector in particular. Investing in a way that will benefit women — known as gender lens investing — has emerged as a strategy to obtain financial returns while advancing equality. Different 'lenses', which often overlap, represent opportunities for the investment world.

The first lens involves investing in companies whose products or services help advance gender equality. The women's market is the biggest emerging economy, with higher incomes than the combined GDP of the US and China. More than 870m women will enter the formal workforce by 2020. Women are responsible for 80% of household purchasing decisions, according to Deloitte.

IDB Invest works with Securepharma, a baby-wipe producer in the Dominican Republic. Beyond a loan to the company, IDB Invest designed a programme to improve breastfeeding rates in the country by including behavioural nudges in the form of basic health information on the containers.

$72tn

Global wealth women are expected to control by 2020

The second lens relates to facilitating female entrepreneurs' access to finance. Gender lens investing can attract more sources of capital. In 2012, IDB Invest launched its womenentrepreneurshipBanking programme in Latin America and the Caribbean. Loans, guarantees and technical assistance were provided to 17 banks in 11 countries.

Chile's Banco Estado issued the first gender bond in the region in 2016. The bank used it to finance its Crece Mujer Emprendedora programme. The transaction is Banco Estado's first socially responsible investment bond in any market, attracted Japanese investors, and it is the first time a Latin American and Caribbean bank placed a social bond outside its country.

In November 2017, IDB Invest disbursed $100m to scale up Itaú Unibanco's Mulher Empreendedora programme in Brazil.

The third lens concerns investing in gender-diverse companies. Greater diversity improves decision-making, reputation, productivity and employee retention and satisfaction. Diverse companies are also better equipped to innovate or tap into new business opportunities.

IDB Invest is using financing structures, including outcome-based incentives and advisory services, to strengthen workplace equity and women's leadership. Thanks to the Canadian Climate Fund for the Private Sector in the Americas' financing of renewable energy, IDB Invest has been able to offer these products to companies in the region. The financing for the Óptima Energía project in Mexico includes incentives linked to climate change and gender equality, helping spark a cultural change within the company.

Gender-focused investing numbers show a remarkable increase, according to Veris Wealth Partners' 2017 report. Investment options in assets with female-targeted strategies in public market securities jumped by 41% from 2016 to 2017. Although still a low proportion of total assets under management, the volume of business in this type of investment is expected to increase in the coming years, especially due to the demand from two types of investors: women and millennials.

By 2020, women are expected to control more than $72tn of global wealth, according to the Boston Consulting Group. Millennials, who are committed to using their wealth for social impact, will control more than half of investable assets, according to PricewaterhouseCoopers.

Gender lens investing is evolving. Investing in women and girls is a safe bet: good business, better impact. ●

Gema Sacristán is the Chief Investment Officer at IDB Invest, the private sector arm of the Inter-American Development Bank Group.

2009

Elinor Ostrom becomes the first woman to win a Nobel prize in economics

2011

Christine Lagarde becomes the first woman to head the International Monetary Fund

2013

The EU proposed that **40%** of non-executive directors of companies listed on stock exchanges should be women by 2020

2014

Janet Yellen is confirmed as the first female chair of the US Federal Reserve

2018

Iceland requires certain companies to get government certification for their equal-pay policies regarding gender

BulletinFocus

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An OMFIF supplement

March 2018

Gender Balance Index

6% Total of female central bank governors remains low

30% African sovereign funds' share of top 20

90% Iceland achieves best balance in European public pension funds

415 Institutions covered by the index

Could do better

GENDER BALANCE INDEX 2018

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GENDER BALANCE INDEX 2018

Jobs for the boys

This year marks the fourth release of our annual report on gender balance in central banks. The research has been expanded to include separate indices for sovereign funds and European public pension funds, helping shape a broader picture of gender diversity in public investment institutions.

The resulting Gender Balance Index aims to highlight the absence of women at the highest levels of these institutions and emphasise the outstanding individuals who have successfully reached the top. By conducting this research, OMFIF hopes to encourage gender diversity within global public investment institutions and attract more women to an historically male-dominated field. Gender balance is not a lofty ideal, but a tool that can benefit investment outcomes.

Central banks' score on the GBI fell to 19% this year from 31% last year, indicating that there are even fewer women in senior roles. Our analysis also looks at sovereign funds and European pension funds for the first time and finds the imbalance persists across institution types. Sovereign funds show an even bleaker picture, with a GBI value of 11%, while pension funds offer some hope with a score of 40%.

Institutional GBI scores are calculated by tracking the presence of men and women in the highest ranks, weighted by level of seniority. The regional and global GBI scores are a weighted average of individual institutions' scores, based on the corresponding countries' share of the global economy. For sovereign funds and pension funds, institutional scores are weighted by assets under management.

Gender matters

The imbalance is not new, but why it matters is of enduring relevance. Gender diversity in leadership is especially important given the implications for how institutional decisions are made.

Balanced teams are likely to be informed by a more varied set of views, avoiding the myopia to which homogenous groups may be susceptible. This is particularly important in the financial sector, making gender diversity a relevant concern for regulators in charge of safeguarding financial stability. A more comprehensive approach to risk assessment can be expected from an investment committee that benefits from different perspectives. Gender is one aspect that can add diversity, with academic studies in behavioural economics highlighting men and women's different attitudes to risk, and economic principles more generally.

Having more women participate in management and investment decisions does not guarantee an organisation's success. Instead, better gender balance expands the range of available views, enhancing the decision-making process. While considerable progress has been made to improve gender diversity in the private financial services sector, it is yet to be seen among the leadership of most global public investment institutions.

Increased female inclusion helps to dispel outdated notions about women's abilities. The longer women are absent from high-level roles, the more difficult it is to change perceptions about what they are able to achieve. In a sector where few females are visible, there is a need to assess why


European Central Bank general council (including central bank governors from all 28 EU members)

the gender imbalance is so stark and what can be done to change this.

Role models

Improving gender balance at the top can influence the composition of the investment industry as a whole. Men have no problem finding role models and mentors in the financial industry, and as a result there has never been a shortage of males pursuing careers in this field.

The story is different for women. Before Janet Yellen at the US Federal Reserve and Christine Lagarde at the International Monetary Fund headed two of the most prominent financial institutions in the world, there were few examples that made women believe that an upward career in this field was possible.

Women in visible, high-level positions change this perception. They provide reassurance to junior staff that long, successful careers are possible for women in finance. Their presence can encourage more women to consider working in the sector and widens the pool of talent from which organisations can hire.

'Balanced teams are likely to be informed by a more varied set of views, avoiding the myopia to which homogenous groups may be susceptible.'


European Central Bank executive board

Men as partners

It is crucial to remember that gender balance is not only a female concern. The failure to hire, retain and promote competent women affects institutional performance, which impacts everyone in the company. More men need to acknowledge that increased female participation is not a threat to their own success but could be a boost to their entire organisation.

More importantly, male colleagues play an important role in fostering a work environment that respects and supports women, especially in traditionally male-dominated fields. When women feel that their work is valued just as much as that of their male peers, they are more likely to stay, build fruitful careers and contribute their skills towards the organisation's goals.

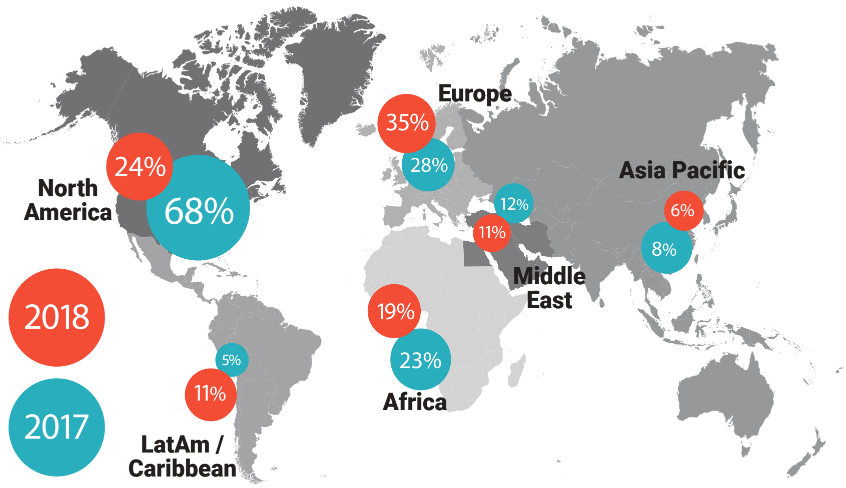
The past year has drawn unprecedented attention to the harassment and abuse that women endure when working with powerful men. Public investors and other institutions can play a vital part in visibly improving the culture and practice of men and women interacting positively in a professional setting.


Bank of England monetary policy committee

Central Banks

Figure 1: Latin America and Europe buck global trend

General Balance Index score, central banks, by region, 2017 v 2018, %



Source: OMFIF analysis

As guardians of price and financial stability, central banks perform an important social role, influencing their countries' economic development in areas that affect women and men in different ways. Gender diversity is important in ensuring the workforce of central banks reflects the societies in which they operate. There can be other benefits, too. At last year's launch of our GBI, senior representatives from the Bank of England spoke of the importance of diversity in opinion and attitude to risk to prevent 'groupthink' and to promote balance between overly cautious and overly risky decisions.

Diversity is about making use of female potential in an environment of tightening labour markets and search for talent, especially as female decision-makers can act as role models to inspire the next generation of central bankers. Unfortunately, the results of this year's GBI research show that the world of central banking is becoming less gender-diverse.

The value of the overall index for central banks – which aggregates the performance of individual institutions weighted by their share of the global economy – fell to 19.4% this year from 30.6% in 2017. The absolute number of central banks headed by women has fallen to 11 out of the 173 institutions included in the survey – a share of just 6%. The number of institutions with female presence extending to deputy governor level rose marginally to 53 from 52, covering 30.6% of central banks worldwide.

The decline in this year's overall score compared to last year can be explained largely by the stepping down of women in large-economy central banks that carry a greater weight in the construction of this index. The biggest single factor was the departure of Janet Yellen, US Federal Reserve chair, in February 2018. This change also explains the large drop in North America's regional score, to 24.5% from 68.6%. Still, North America is the second-best performing region in terms of gender balance, trailing Europe's 34.8%.

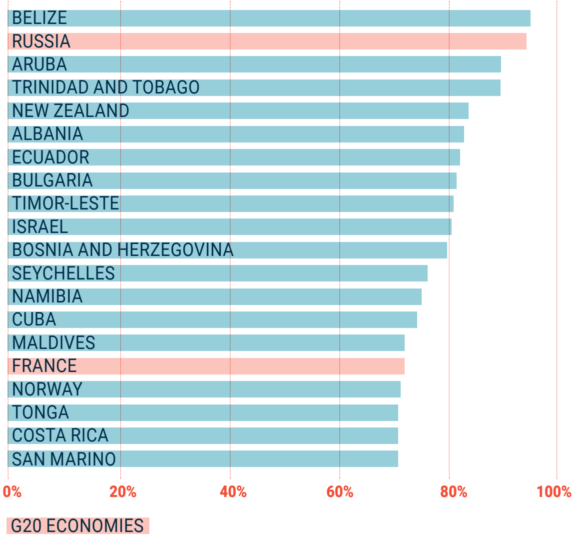
The performance of small non-euro area economies boosts Europe's score, particularly in the Balkans and wider eastern Europe (see Figure 2). Western Europe scores poorly. The euro area earns an average score of 27.1%, derived from a score of 10.3% for the European Central Bank and a euro area aggregate score (weighted by GDP) of 33.6%. The ECB is under significant political pressure to improve its gender balance. Presently just two of the 25 policy-makers on the bank's governing council are women. This includes the only woman on its six-member executive board, Sabine Lautenschläger, and the only woman to head a euro area central bank, Cyprus's Chrystalla Georghadji. Georghadji's term expires in April 2019, while Lautenschläger's term is not due to end until January 2022. However, this would not apply if consensus expectations for Bundesbank President Jens Weidmann to take over from Mario Draghi as ECB president are proven right.

The ECB's rules prevent any two individuals of the same nationality from serving on the executive board at the same time, meaning that the appointment of another German would require Lautenschläger to resign. Weidmann's appointment would follow that of Spanish Finance Minister Luis de Guindos to the position of ECB vice-president to replace Vítor Constâncio, who will be stepping down in May. De Guindos was one of only two (male) candidates nominated for the position, alongside Philip Lane, Ireland's central bank governor. This prompted members of the European Parliament's green parties to write a letter advocating greater gender diversity and encouraging member states to nominate female candidates.

In addition to Draghi and Constâncio, ECB Chief Economist Peter Praet and Benoît Cœuré, a fourth member of the executive board, are due to step down by the end of next year, creating more openings for the ECB to improve its gender diversity.

Figure 2: G20 fares poorly on gender balance

Gender Balance Index score, top 20 central banks, 2018, %



Source: OMFIF analysis

Elsewhere in western Europe, the UK saw a drop in its score to 20.4% from 29%. Two female senior staff from the Bank of England, Deputy Governor Minouche Shafik and Monetary Policy Committee Member Kristin Forbes, saw their terms end over the last year. While Charlotte Hogg, Shafik's original replacement, was also a woman, her appointment was short-lived – she resigned in March after it was found that she omitted to declare her brother's employment at Barclays as a potential conflict of interest. Dave Ramsden was subsequently appointed deputy governor. Meanwhile, Forbes was replaced by Silvana Tenreyro, making her the only woman on the MPC. In a future development, the terms of Dido Harding and Dorothy Thompson, both members of the Bank's court of directors, are due to expire in July, creating further challenges for the BoE's diversity agenda.

Overall, however, Europe was one of only two regions to see their regional score improve compared with 2017. The other was Latin America Caribbean, which welcomes two new women to the club of central bank heads: Verónica Artola Jarrín, who was appointed general manager of the Central Bank of Ecuador in May 2017, and Irma Margarita Martínez Castrillón, who was appointed minister president of the Central Bank of Cuba in June 2017.

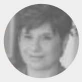
Elsewhere, the top-20 league in terms of gender balance remains dominated by small countries. Collectively, the countries making up the top 20 comprise only 6.6% of the world economy, with negligible impact on the aggregate index value. This includes four island states in the Caribbean, two in Asia Pacific and one in Africa, and further small economies in the Balkans and former Soviet Union, in Latin America, as well as Norway, Israel and San Marino. Yellen's departure leaves Russia and France as the only G20 economies in the top 20. Russia continues to be led by Elvira Nabiullina, while in France Sylvie Goulard was appointed as second deputy governor in January 2018, taking over from Anne le Lorier.

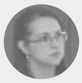
Figure 3: The 11 women in charge of central banks around the world


Jeanette Semeleer, governor of the Central Bank of **Aruba** (since September 2008)


Joy Grant, governor of the Central Bank of **Belize** (since October 2016)


Irma Margarita Martínez Castrillón, minister president of the Central Bank of **Cuba** (since June 2017)

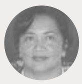

Chrystalla Georghadji, governor of the Central Bank of **Cyprus** (since April 2014)

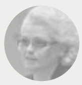

Verónica Artola Jarrín, general manager of the Central Bank of **Ecuador** (since May 2017)

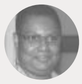

Karnit Flug, governor of the Central Bank of **Israel** (since November 2013)


Retselisitsoe Matlanyane, governor of the Central Bank of **Lesotho** (since January 2012)


Elvira Nabiullina, governor of the Central Bank of **Russia** (since June 2013)


Maiava Ainuu-Enari, governor of Central Bank of **Samoa** (since August 2011)


Jorgovanka Tabaković, governor of the National Bank of **Serbia** (since August 2012)


Caroline Abel, governor of the Central Bank of **Seychelles** (since March 2012)

Sovereign Funds

Sovereign funds bear long-term fiscal and economic responsibility, whether they were created to provide for future generations or insulate countries from volatility. Like large private investment institutions, their actions can have global impacts. As public investors, they have an additional role in safeguarding public resources.

With a GBI value of 12% sovereign funds are missing the benefit of gender-diverse perspectives in decision-making. Nearly one-third of the 70 sovereign funds covered by the research had no women among senior staff, the worst result for the three types of institutions. Only nine funds are headed by women, and three of them hold the post in an ex officio capacity.

Africa leads the other regions, with six funds in the top 20. South Africa's score and the fact that it accounts for more than half of the assets under management in the region boosted the continent's standing. In contrast, the Middle East's five biggest funds researched had no women among their executive management teams or boards of directors. Together they make up 80% of the region's AUM, pulling down its index score to just 1%.

As long-term investors of national wealth, sovereign funds have increasingly acknowledged their role in maintaining global financial stability. The drafting of the Santiago Principles in 2008 sought to establish international standards on transparency, independence and accountability for sovereign funds. As they improve operations to adhere to these tenets, it is worth evaluating whether gender balance in management will be among sovereign funds' long-term goals.

Among global public investors that OMFIF tracks, sovereign funds have the highest concentration of AUM, with $7.4tn distributed across just 92 institutions. With the magnitude of public resources at stake, the quality of decision-making at sovereign funds should be informed by as diverse a set of views as possible. It is unsurprising that some funds, notably those in the Middle East, draw on foreign asset managers, either by hiring them directly or outsourcing investment operations to them. This reflects the value of sourcing expertise from different places. With women beginning to build a more prominent presence in the world of finance, sovereign funds should start thinking of gender diversity as an additional tool to enhance their investment processes.

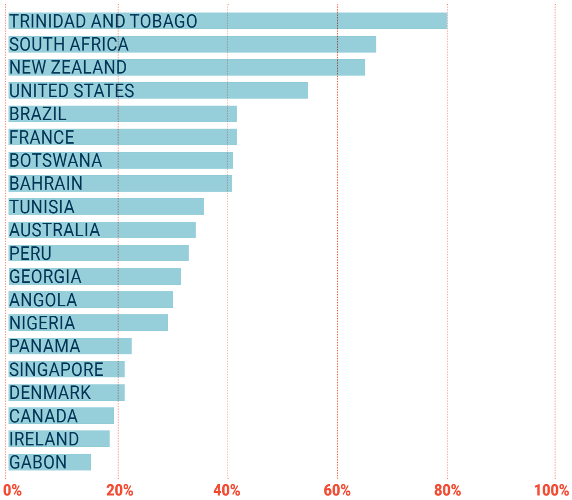
The Middle East's five biggest funds with 80% of the region's AUM have no women in senior positions

One-third of 70 sovereign funds covered by the research had no women among their senior staff

Six of top 20 sovereign funds are in Africa

Figure 4: Six of top 20 in Africa

Gender Balance Index score, top 20 global sovereign funds, 2018, %



Source: OMFIF analysis

Pension Funds

While central banks and sovereign funds make financial decisions that have a macroeconomic impact, investments made by pension funds affect individuals directly. Most people rely on pension incomes to sustain themselves after retirement, and the performance of pension funds has substantial consequences. A survey by the UK's Financial Conduct Authority found that 31% of respondents will rely entirely on state pensions after they leave the workforce. This underlines the importance of pension planning, even though, in the UK case, the volume of state pensions is largely independent of fund managers' investment decisions.

As in other types of public institutions, diversity of views is important in public pension investment decision-making.

The results of the GBI for European public pension funds are encouraging. At 40%, it is the highest overall score for the three type of institutions covered by the study. This may be because the research covers only Europe this year, a region that advocates gender balance.

In 2012 the European Commission proposed compulsory gender quotas for supervisory boards of large companies in European Union member states. The proposal was deferred, although the Commission actively encouraged targeting 40% as the share of women on corporate boards. As a result, the share of women rose to 23% in 2016 from 12% in 2010, with some taking the prescription more seriously than others.

Iceland followed the Commission's guidance and enforced a 40% gender quota. This year it became the first country in the world to make it illegal to pay men more than women in the same position. It also topped this year's GBI for pension funds, with a score of 90%.

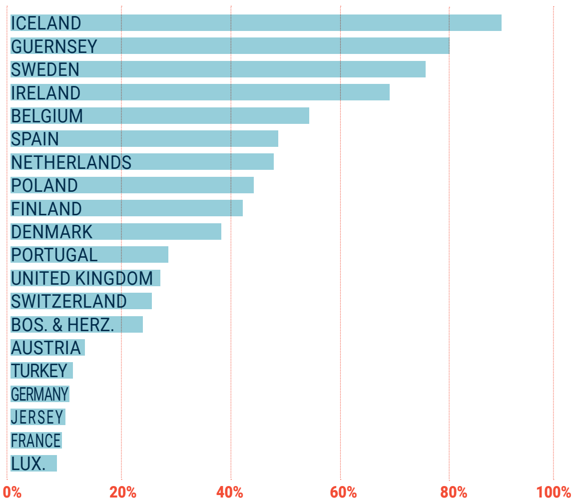
In contrast, the UK set a lower initial target for companies of 25% and encourages industry self-regulation rather than imposing quotas. The target was exceeded in 2016, but the success of private companies has yet to translate to pension funds.

The GBI for pension funds has added relevance when considering how they differ from other investment institutions. The returns they generate are unevenly distributed between men and women. There is great disparity between the pension incomes of men and women, rooted in persistent gender pay gaps and workforce sexism that mitigates against women from earning as much as men.

By themselves, pension funds cannot do much to correct the roots of the problem. There are many things outside of their control that affect women's ability to build up pension contributions, such as labour market attitudes towards women and career interruptions prompted by traditional gender roles.

But if pension funds are aware of the constraints that affect women, they can establish policies that help narrow the gender gap in administering pensions. This adds to the impetus for female representation, as pension funds are more likely to consider the gender gap when women are included in high-level conversations.

Figure 5: Non-euro territories dominate top 20
Gender Balance Index score, top 20 European public pension funds, 2018, %



Source: OMFIF analysis

Note on methodology

The OMFIF **Gender Balance Index** tracks the presence of men and women among senior staff of global public investors (central banks, sovereign funds and public pension funds), weighted by level of seniority. Governors, chief executives and those in equivalent positions are given the highest weights. Members of executive teams receive higher weights than those in non-executive roles, such as those on monetary policy committees. Individuals who fall into more than one category are given the weight corresponding to the highest-weighting category that applies.

The GBI for each institution is calculated by taking the ratio of the female and male (weighted) components. A score of 100% would be awarded to a perfectly gender-balanced institution. The global and regional GBI values for central banks are calculated by taking an average of the relevant institutional scores, weighted by corresponding countries' gross domestic product. The country, regional and global GBI values for pension funds and sovereign funds are calculated by taking an average of the relevant institutional scores, weighted by the value of these institutions' assets under management.

Results were prepared by Kat Usita, Economist at OMFIF. For questions please contact research@omfif.org

GENDER BALANCE INDEX 2018

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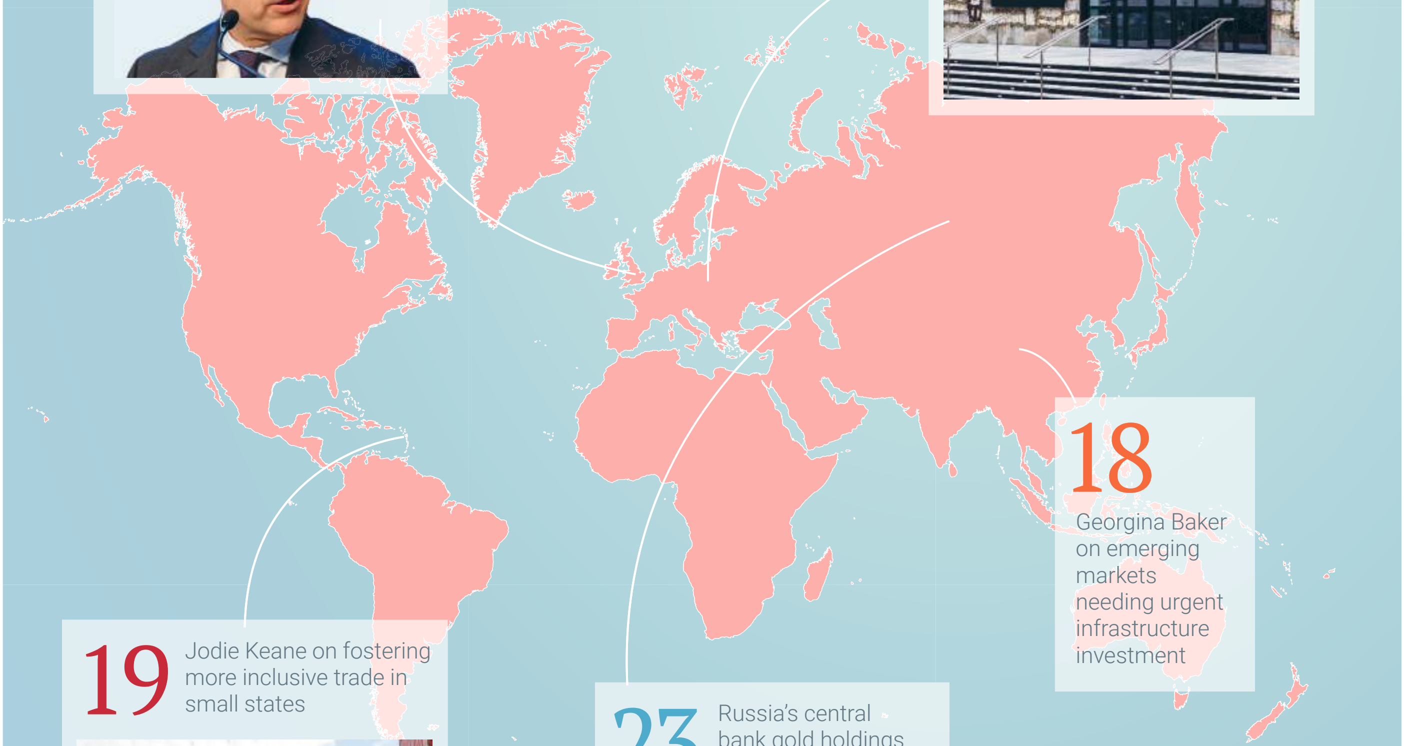


Public guardians of financial stability

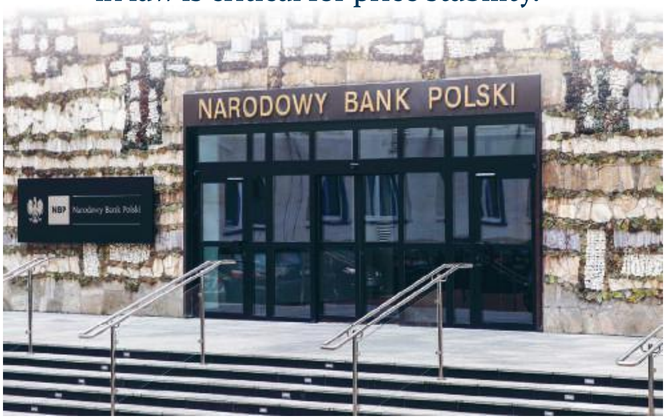
Strong central banks can intervene early during crises or market turbulence

Anna Trzecińska
Narodowy Bank Polski

A lot has happened in central banking, both globally and nationally, over the course of my 35-year career at Narodowy Bank Polski. NBP itself has undergone a total transformation.

The most important issue for the central bank was creating a sound legal foundation. According to the Constitution of the Republic of Poland (2 April 1997), 'NBP is to be responsible for the value of the Polish currency'. The Act on Narodowy Bank Polski of 29 August 1997 states 'the basic objective of the activity of NBP shall be to maintain price stability, while supporting the economic policy of the government, insofar as this does not constrain the pursuit of the basic objective of NBP'. Having the central bank's independence from fiscal or political interference enshrined in law is critical for price stability. We drew on the experience of other central banks. In 1998, the newly established Monetary Policy Council implemented direct inflation targeting, and a free-floating exchange rate a year later. A safeguarded payment system, as well as an analytical and statistical framework, have been developed. This was followed by a foreign reserve management system. These processes strengthened the credibility of the central bank in Poland, which is essential in conducting monetary policy. It is also very important in maintaining financial stability in times of crisis. Strong central banks can intervene early enough during possible crises or market turbulence because they have the infrastructure and capacity to give the best overall view of the situation and to respond instantaneously.

'Having the central bank's independence from fiscal or political interference enshrined in law is critical for price stability.'



Thanks in large part to NBP policies, the Polish banking system emerged unscathed from the global financial crisis. No bank in Poland was threatened with bankruptcy or needed support from the public safety net. The NBP plays the leading role in macroprudential supervision not only because of its experience in financial systems but also its relations with the real economy.

I am proud to say that, so far, all the mechanisms the NBP has introduced have been successful and we retain strong public confidence. It is particularly evident with respect to the macroeconomic performance of Poland. Since 2004, the average annual growth in the consumer price index has been 2% - close to the NBP's 2.5% target. At the same time, economic growth in the past few years has been relatively stable and close to the long-term potential GDP trend, with no macroeconomic imbalances. Inflation is currently 1.9%. The GDP growth of the last quarter of 2017 was above 5%. The remarkable achievements of the Polish economy result implicitly from credible monetary policy and contained inflation expectations.

But significant challenges are looming. Technology dominates every aspect of daily life. Financial innovations are widely perceived as extremely important for the prospects of markets and the whole economy. Developments in blockchain technology, virtual 'currencies' and artificial intelligence are the most conspicuous examples.

>5%

Poland's GDP growth in the last quarter of 2017

There is uncertainty as to what extent this new technological environment will influence the mandate of central banks. There is little doubt technology will create both opportunities and risks for central banks.

Central bankers should never forget the priceless assets in their hands: public trust and their own integrity. Central banks have to remain public guardians of financial and price stability. In doing so, they will ensure the economic wellbeing of their people. This mission has to be maintained regardless of the evolution of new forms of legal tender.

Moreover, central banks have to maintain their responsibility for financial stability and the capacity to intervene if need be. They have to anticipate and influence future trends in financial markets and try to be one step ahead of any developments. ●

Anna Trzecińska is Deputy President of Narodowy Bank Polski.

Carney's inflation conundrum

May presents opportune moment to raise rates again

Hetal Mehta
Legal & General Investment Management

Mark Carney, governor of the Bank of England, has a conundrum on his hands. Confusion around Britain's exit from the European Union, against a backdrop of disquieting inflation, casts doubt on near-term changes to interest rates.

In November 2017 the Bank raised interest rates for the first time in over a decade. At the time the consensus was that a rate rise was almost certain to happen, as Carney had signalled his intention to do so a couple of months earlier. It was generally believed that an increase in November would be a one-off, or 'one and done' as pundits in the City termed it.

Growth was barely at trend and despite high (albeit temporary) inflation, there seemed to be little merit in pursuing further increases amid uncertainty around Brexit. The Bank communicated the same sentiment, indicating that only two more rate rises were probable over the coming three years.

Signs of an improving labour market and stubbornly high inflation mean Carney might be inclined to raise rates again soon. But he may prefer to remain cautious and wait for clarity on the terms of the Brexit transition.

Two rate rises

While mainland European inflation has remained relatively subdued, the BoE has had to contend with annual inflation of 3%, according to consumer price index figures released on 13 February, against a target of 2%.

This has been a function of the decline in the value of sterling that followed the June 2016 EU referendum. Inflation will be slow to fall as stronger-than-expected UK economic growth, combined with a tight labour market and increasing wages, exert upward pressure on prices.

In February the BoE acknowledged the stronger economy, particularly regarding the short-term outlook. At the same time the Bank indicated that inflation was likely to remain above target, with 2017's partial recovery in sterling taking time to feed back into more moderate price increases.

While Carney did not mention specific dates, his language marked a shift from earlier signals. He implied that a faster pace of rate increases than previously expected might be warranted.

A 0.25 percentage point increase in the base rate is probable in the next few months, with May likely to present an opportune moment. To move earlier than then might be viewed as overly hasty following the last increase. A further rate rise in November also seems to be probable in the light of persistently above-target inflation, although the state of Brexit negotiations at that time could complicate the Bank's proceedings.

In the long term, additional rate increases seem probable in both 2019 and 2020. The consequence of Carney's conundrum is that the City jargon will soon change to 'one more, and then some more'. Though less catchy, it's more likely to be closer to the reality. ●

Hetal Mehta is Senior European Economist at Legal & General Investment Management.

Lower unemployment and higher inflation suggest interest rate rise
Unemployment rate and annual change in consumer price index, %

Source: Office for National Statistics, OMFIF analysis

'Carney has implied that a faster pace of rate increases than previously expected might be warranted.'

Infrastructure for development

New instrument for leveraging private sector funding

Georgina Baker
International Finance Corporation

Emerging markets will require a significant increase in infrastructure investment in the coming years to facilitate economic growth and respond to demographic and urbanisation pressures. This investment is also necessary to meet the UN Sustainable Development Goals, which try to alleviate poverty by providing clean water, sanitation and electricity. Current infrastructure investment is around $1tn per year, a figure that will need to triple annually over the next decade to meet demand for power, water, transport and telecoms.

The global population will expand by almost 2bn people by 2040. Global investment in infrastructure will need to reach $94tn by 2040, particularly as urban populations rise. The shortfall is expected to be around $18tn, a gap that can only be met, while meeting the SDGs, by lifting spending as a proportion of global GDP from 3% to 3.7%.

Public finance remains a significant lending source for infrastructure, yet many governments are facing fiscal pressure and are looking to reduce their balance sheets. New liquidity rules and a narrower focus on core markets has led to a reduction in long-term lending from large international commercial banks. Capital markets face high costs of capital, limited scale and low financial depth. Consequently, there is a dwindling supply of financing to meet an ever-expanding demand for infrastructure.

Institutional investors

One large, untapped source of debt financing for infrastructure investment in emerging markets is institutional investors, who control a deep and rapidly growing pool of assets. In Organisation for Economic Co-operation and Development countries, total assets under management by traditional institutional investors more than doubled between 2000 and 2011, to $73.4tn from $36tn.

Even though institutional investors are active in infrastructure financing in advanced economies, this has not translated to emerging markets. Regulatory uncertainty, project bankability, lack of asset performance data and the institutional capacity of procuring governments are constraints that, while complex, can be overcome with the right policies.

> 'Many governments are facing fiscal pressure and a reduction in long-term lending from commercial banks. There is a dwindling supply of financing to meet an ever-expanding demand for infrastructure.'

A steeper challenge is to convince investors to participate in a broad range of projects. The absence of a record makes it difficult for investors to decide on target return and asset allocation. The risk profile is usually sub-investment grade, and therefore outside the risk appetite that dominates the bulk of institutional balance sheets. In addition, the absence of local expertise in smaller markets makes individual credit review impossible or too onerous for projects outside a few large middle-income countries.

MCPP Infra is a platform developed in collaboration with leading insurance companies and other development partners. The approach builds on the original Managed Co-Lending Portfolio Program that was launched in 2013 with an investment from the People's Bank of China.

International Finance Corporation has entered into two partnerships, with investors from Allianz and Prudential, the insurers, mobilising $1.1bn. A third partnership for a further $500m is in final negotiations with Axa.

$18tn
Infrastructure funding gap in 2020

The MCPP platform provides investors with a portfolio of loans that mirrors the IFC's diversification across countries and sectors. MCPP Infra adapts this model to the needs of institutional investors with an explicit interest in infrastructure. To provide investors with an investment-grade profile, IFC provides credit-enhancement through a first-loss tranche.

MCPP is a $6bn platform with six global investors, with an additional $1bn in the pipeline. Collectively, the investors participating in the MCPP platform control over $3tn in assets under management.

The programme has demonstrated proof of concept and can be used as a reference point to support the standardisation of portfolio loan syndication platforms by other development finance institutions and international financial institutions. Exploring creative solutions to leverage private funding for investment in priority sectors like infrastructure is an urgent task. MCPP Infra is an important means of accomplishing that aim. ●

Georgina Baker is Regional Vice-President, Latin America and the Caribbean, Europe and Central Asia at International Finance Corporation.

Fostering more inclusive trade

Small states and marginalised groups need safeguards

Jodie Keane
Commonwealth Secretariat

The global trade slowdown, coupled with a reduction in the dollar value of international trade flows, has affected the performance of all countries. The Commonwealth's share of global exports of goods and services declined marginally between 2013-15, to 14.8% from 15%.

This is consistent with a longer-term trend, which has seen the Commonwealth's share of world exports decline slightly since 2005. Intra-Commonwealth trade assumes greater importance in this context, and this share has risen among members to almost 20% in recent years. This accounts for large shares of merchandise trade for the developing Commonwealth, including small states in southern Africa, the Pacific and Caribbean.

Trade-induced economic development is not necessarily inclusive, to the detriment of marginalised parts of society, including women and the youth, and must be managed carefully. Although some countries benefit from increases in growth in neighbouring countries, countries further away benefit less. This is simply because the increase in demand is lower, as trade costs are higher. Hence, some regions may begin to converge, whilst regions located further away will begin to diverge.

On small island states, output and population are clustered around airports. This shows the importance of market access to an area's development. For instance, in Grenada, Samoa and Fiji, remote provinces are growing rapidly, but this largely reflects a catch-up process. Both output and population density are far higher in capital provinces and those with an airport. Given the remoteness of many small island states, an emphasis on trade costs alone is likely to be inadequate to induce global value chain participation.

This raises the question as to which trade costs – of international, regional or domestic market access – matter most in view of inclusive, sustainable development objectives. Knowledge and information gaps need to be addressed at national and regional levels. Doing so may bolster governance capabilities and the ability to meet development objectives.

Trade policy and trade agreements affect women and men differently and can have significant implications for household wellbeing and for gender equality. These gender effects are influenced by social norms and values, as well as factors including access to resources, endowments, skill levels, rights and entitlements (sometimes enshrined in law) and regulatory processes. Strengthening these groups' influence on trade policy can help to avoid circumstances whereby some in society tend to lose more than they gain. This is the biggest problem that confronts multilateral institutions, in view of the current backlash against globalisation.

3:1

Male to female ratio of delegation heads at WTO

The Commonwealth Secretariat found a male to female ratio of just under 2:1 among trade negotiators at Geneva-based negotiators and around 3:1 among heads of delegation at the World Trade Organisation. When the last Commonwealth trade review was published, only one of the 15 councils and bodies reporting to the WTO's general council was chaired by a female ambassador. The challenge of increasing female representation begins at the top. ●

Jodie Keane is Economic Adviser in the Commonwealth Secretariat. The views expressed are those of the author and not the Secretariat.

'Trade policy and trade agreements affect women and men differently and can have significant implications for household wellbeing and for gender equality.'

Commonwealth Secretariat photo by Tom Perry

E-krona: complement to cash

Cecilia Skingsley, who has been serving as deputy governor of Sveriges Riksbank since 2013, speaks to OMFIF's Chief Economist **Danae Kyriakopoulou** about cashless societies, the potential issuance and consequences of a central bank digital currency in Sweden, and the role of women in leadership positions in public institutions.

Danae Kyriakopoulou: Electronic payments are taking over from cash when it comes to transactions, with Sweden a leading example of this phenomenon as the country where use of cash is lowest globally. What has motivated this development?

Cecilia Skingsley: The use of cash, that is, central bank money, as a share of Swedish GDP has been declining as more efficient payment methods have become available and as households have been adjusting their behaviour in response. It may even be eliminated as a means of exchange for commercial transactions. According to a Riksbank survey, the percentage of Swedes who used cash in their latest payment transaction declined to a global low of 15% in 2016 from 39% in 2010.

DK: Overreliance on technology can prove problematic. Last year a cyber attack on the UK's National Health Service resulted in operations being cancelled and lives lost. Is there a dark side to moving to a cashless society?

CS: Indeed, there are benefits to cash in emergencies. Even the 85% of people who don't use cash regularly would still turn to it if they lost access to digital means of payment, such as in the extreme case of a cyber attack or a power outage. But emergencies are not the only problematic scenario. The ability to choose between cash and banks' electronic services closes down as banks, retailers and cash-in-transit firms dismantle the distribution network. Retail banks have been closing branches as financial services move online. However, there is still a segment of the population that relies on cash, especially in rural areas. They are not well served by the private sector.

DK: This raises the issue of whether the central bank should step in to ensure the whole population has suitable access to banking services. Are central bank digital currencies the appropriate response?

CS: The issue of central bank-issued digital currencies presents its own intricacies, particularly in the light of the rising popularity of cryptocurrencies. If a central bank were to issue a digital currency, it would in effect circumvent some of the functions of retail banks. But central banks have no interest in taking over customer-facing retail services, such as credit creation and loan management. A central bank digital currency would create a parallel medium of exchange that, unlike unregulated cryptocurrencies, fulfils all three of the key functions of money: medium of exchange, unit of account and store of value.

DK: Again, Sweden is leading here. The Riksbank began an extensive research programme in November 2016 into the issuance of an e-krona. How would this work?

CS: No decisions have been taken, but we need to develop a concept in case there is a need for a central bank default option when cash is no longer usable. A number of issues are addressed: should the currency be booked in accounts or be in some form of digitally transferable unit without an account structure. If it did, would such an account be with the Riksbank? And should it generate interest? If the transfer system is decentralised between individuals, will this be compatible with regulations on combating money laundering and criminal financing? How would we prevent counterfeiting? Another important question is whether the e-krona should be issued directly to the public or go through banks, as happens with cash now. Even if the Riksbank chose to issue e-krona, it would not be to replace cash, but to act as a complement to cash. The Riksbank will continue to issue banknotes as long as there is demand, as is its statutory duty.

DK: What influence will an e-krona have on the financial system?

CS: It will depend on the features of the e-krona.

DK: This month's Bulletin is devoted to the issue of gender diversity in public investment institutions. Our findings show that you are part of a shrinking minority of women in leadership roles at central banks. How do we get women into more leadership roles?

CS: Research indicates there is a variety of preconceived views about women's abilities, affecting their chances to move up in hierarchies. We all need to be aware and change these views. But women also need to expand their comfort zones by building on their experiences and invest in their CVs.

> ‘Retail banks have been closing branches as financial services move online. However, there is still a segment of the population that relies on cash, especially in rural areas. They are not well served by the private sector.’

Profile

Education: Skingsley studied economics and political science at the University of Stockholm.

Career: Before becoming deputy governor, Skingsley was chief economist at Swedbank and macroanalyst at ABN Amro. She also worked at the ministry of finance and as a journalist for several years at Dagens Industri, Sweden's daily business newspaper, latterly as head of its financial markets section.

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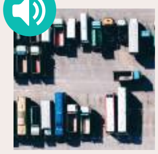
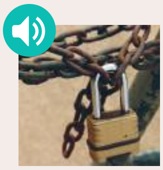


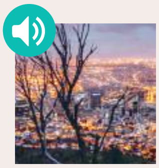
Trade in the Asia Pacific region

Alan Bollard, executive director of the Asia Pacific Economic Co-operation secretariat in Singapore, joins Adam Cotter. They focus on the challenges to the global trading environment, driving trade for small businesses in a globalised world, and the outlook for Asia Pacific in the light of the 2020 deadline set by Apec for achieving free and open trade and investment in the region.



Global implications of national debt

Lord Adair Turner, chair of the Institute for New Economic Thinking and former chair of the UK's Financial Services Authority, joins Vicky Pryce, economist at the Centre for Economics and Business Research. They discuss public and private debt around the world, the success of quantitative easing, and the relationship between money creation and the accumulation of private credit.



Regional integration in Africa

Hippolyte Fofack, chief economist and director of research at the African Export-Import Bank, and Paul Brenton, lead economist in the department of trade at the World Bank, join Danae Kyriakopoulou. They focus on patterns of African trade agreements and the future prospects for the Continental Free Trade Area and the Single African Air Transport Market.

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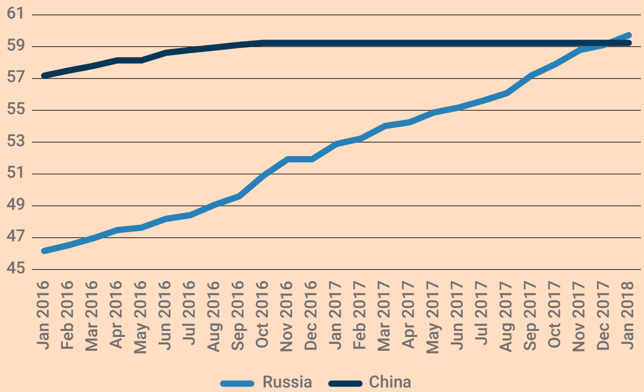
The chart

Each month we take a look at a chart from the world's central banks. This month, Russia.

The Central Bank of Russia purchased around 600,000 troy ounces of gold in January, overtaking China to become the fifth largest sovereign holder of gold. Moscow's gold purchases are derived largely from local production, as Russia is the third largest miner of gold in the world. The metal offers Russia independence from the dollar amid financial sanctions from the US, as well as a source of diversification for its foreign currency reserves.

Russia's central bank gold holdings overtake China's
Troy ounces, millions



Source: Central Bank of Russia, People' Bank of China, OMFIF analysis

The number

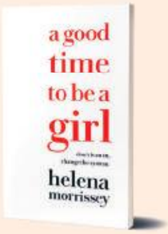
216

Amount of years, according to the World Economic Forum's 2017 Gender Gap Report, the gender gap will persist worldwide. This is exacerbated by fears that jobs primarily held by women, mainly administrative and service jobs, are threatened by the rise of automation.

Book review

A strangely inspirational view of diversity

Jearelle Wolhuter



The thought of having to review *A Good Time to be a Girl: Don't lean in, change the system* was quite depressing. The title might have belonged to a self-help business book drenched in overly optimistic anecdotes but thin on genuine advice.

Still, the writer, Helena Morrissey, is a well-known figure in the fight for workplace gender equality. She is one of few women to rise to the position of chief executive of an asset management firm in the male-dominated City of London. She managed to have a happy marriage and nine children while enjoying a high-flying career in finance.

This rare perspective forms the basis of the best parts of the book. Morrissey is candid about her successes and failures, and her central premise is good. Despite being a founder of the 30% Club, which campaigns for more women on company boards, she does not promote a narrow gender agenda. She supports the view of Lord Browne, former chief executive of BP, that 'women don't have to be honorary men, blacks honorary whites, gays honorary straights'. She argues that there is monetary benefit to broad diversity at all levels of business. She warns against the dangers of a lack of diversity: when everyone looks the same and shares a similar background, groupthink sets in. Customers are not all the same, and respond well when they see themselves reflected in a company's staff profile. And when crisis strikes, having access to non-conformist thinking makes a business more resilient.

Morrissey's arguments are less authoritative when she delves into the origins of behavioural differences between the sexes. She barely touches on the science and generalises too easily from a small number of studies and her own domestic 'evidence' of raising six girls and three boys. This chapter is not necessary and detracts from the book's real selling point: Morrissey's personal experiences of overcoming discrimination.

Look beyond some buzzwordy business-speak to find fresh thinking on gender balance. Morrissey's overly optimistic suggestions for change end up being strangely inspiring. Reading the book may make you consider that replacing the current system of entrenched privilege with one that works better even for the previously advantaged is not only desirable, but somehow achievable. ●

Jearelle Wolhuter is Subeditor at OMFIF.

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Advisers network poll

Gender imbalance in ECB presidential posts

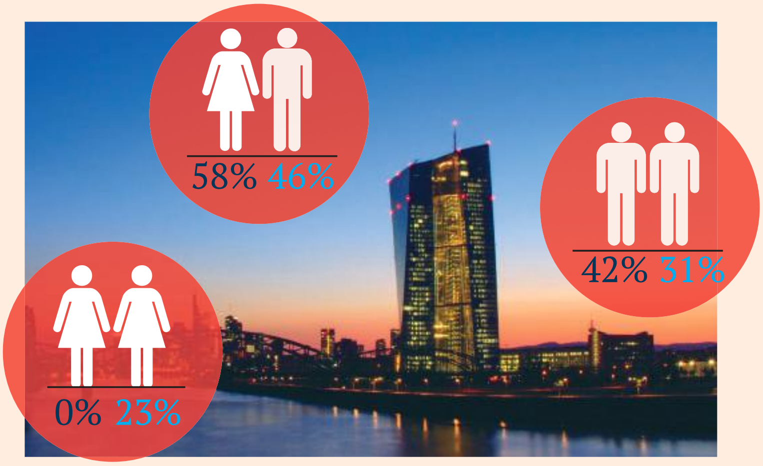
Networks give mixed views over likelihood of female candidates

The poll for this month focuses on the candidacy for the European Central Bank's top two positions. Participants were asked: **'What are your expectations for the European Central Bank president and vice-president candidates when Mario Draghi and Vítor Constâncio step down? a. Both women b. A man and a woman c. Both men'.**

Of those who responded to the advisers network poll, 58% believe the candidates will be a man and a woman against 42% saying both men. None of our advisers believed they would be both women.

The results were partly influenced by the ECB, in mid-February, announcing that two men were running for vice-president. Subsequently, few answers were optimistic that there would be a situation other than another man being announced as president.

OMFIF's Twitter network took a more varied view, with 23% for both women, 46% man and woman and 31% both men, though they came to the same conclusions as our advisers.



Advisers network   Twitter

'Both men, because these are the only candidates and proto-candidates on the table for the positions.'
Tavares Moreira, formerly Banco de Portugal

'As regulations push for gender equality in finance, it is unreasonable for the top European regulator to appoint same-sex candidates for both positions.'
Korkmaz Ilkorur, Credit Europe

'Given the state of the debate on gender I will go for a man and a woman.'
Roel Janssen, author

'In today's world, affirmative gender action rules. Appointing men for both roles would be unlikely.'
Steve Hanke, The Johns Hopkins University

'We are likely to end up with two men for President, between the current head of the Bundesbank and the governor of the Banque de France.'
Hemraz Jankee, formerly Bank of Mauritius

'My clear expectation is two men. There are no obvious female candidates for these two posts.'
Niels Thygesen, University of Copenhagen

These statements were received as part of the February poll, conducted between 5-19 February.

April's question:

With Britain scheduled to exit the European Union in one year's time, which countries are most likely to: (a) leave next and (b) join next?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