EXECUTIVE SUMMARY

- **Available financing for sustainable development in emerging and frontier markets remains at a fraction of the levels required to meet the Sustainable Development Goals (SDGs).** Official aid represents less than 5% of the annual SDG financing gap in developing coun-tries, and despite recent growth, impact capital and development banks cannot compensate.

- **The MOBILIST initiative seeks to harness the unparalleled potential of public markets for sustainable development in low- and middle-income countries.** The initiative, developed by the UK government and delivered in partner-ship with the government of Norway, offers equity capital, technical assistance, and policy and research support.

- **MOBILIST occupies a unique vantage point at the intersection of public markets and development finance.** This note is the first in our series of thought pieces reflecting on this intersection and explores the role of market indices as a key factor shaping and limiting capital flows to developing countries.

- **With the rise of passive investing, indices directly shape a growing share of capital intermediated by public markets.** For the emerging markets, passive holdings accounted for 1% of the foreign money in public funds in 2000, rising to 10% by 2006, and almost 37% in January 2021. The performance of actively managed funds is benchmarked against the same indices, extending their influence beyond passive strate-gies.

- **Market participants continue to express discontent with existing benchmarks for emerging and frontier markets.** Concerns relate to concentration, alignment between benchmark methodology and portfolio objectives, frequent constituent turnover, high fees, and potentially excessive market power among index providers.

- **Index providers have responded to clients' demand with a slew of new sustainability indices, though none focuses on the low- and middle-income countries most in need of investment.** More than 55% of the country weight in one sustainable impact index is allocated to high-income countries, while more than 45% of a flagship SDG index is allocated to the United States.

- **A new suite of sustainable development indices is needed, targeting those markets that require most capital if we are to deliver the SDGs and international climate commit-ments.** Our early analysis of top-down indices tilted towards developing countries suggests that investors may be able to outperform existing emerging and frontier market benchmarks. However, further work is needed to build and back-test a dedicated bottom-up methodology to select specific securities.

We hope that this early analysis can serve as the foundation for further collaboration between development financiers, index construction experts, and asset allocators, including emerging markets portfolio managers, to trans-form the ideas above into practical market benchmarks and investment products that harness the potential of public markets for sustainable develop-ment. However, we wanted to emphasise that improving inefficient frontier market indices cannot on its own create a liquid capital market in developing countries, an issue which will be ex-plored in an upcoming MOBILIST report.