DEVELOPMENT FINANCE THROUGH PUBLIC MARKETS: ORIGINATE-TO-DEMONSTRATE

October 2023

MOBILIST
MOBILISING INSTITUTIONAL CAPITAL THROUGH LISTED PRODUCTS

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EXECUTIVE SUMMARY

Accelerating private capital flows to emerging market and developing economies (EMDEs) is the only way to finance the 2030 Sustainable Development Goals (SDGs) and international climate commitments. This paper discusses how, by investing and exiting through *public* markets, official sector actors can attract large-scale institutional co-investors, accelerate capital velocity, generate demonstration effects, and have systemic impact by triggering domestic capital market development. Public market mobilisation has the potential to catalyse far greater capital flows than is typically possible through traditional private market development finance.

A step-change in private investment for sustainable development in EMDEs is needed. Post-COVID-19, the SDG financing gap increased to over US $4trn while private finance flows to developing countries are declining. Portfolio flows to many EMDEs have been declining since the financial crisis in 2008, and private capital mobilised to these markets through co-investment by official institutions has broadly flatlined since 2018.[1]

In response, the international community has called for reforms to increase multilateral development banks' (MDBs) investment capacity and their mobilisation of private finance. The G20's landmark review of MDB Capital Adequacy Frameworks, the G7's Partnership for Global Infrastructure and Investment, and the 2023 Summit for a New Global Financing Pact all call for optimisation of MDB balance sheets and catalytic investment to mobilise private capital into EMDEs, including by transferring MDB risk and assets to private investors. In doing so, official development finance actors can lay the foundations to transition more fully from a buy-and-hold business model toward an originate-to-distribute or originate-to-share business model.

Reigniting public market flows must form part of this reform agenda due in part to their unique scale and liquidity:

- Stock exchanges and public debt capital markets jointly intermediate 100 times the combined balance sheets of the MDBs, offering deep pools of capital to be co-invested with development finance actors.[2]
- With average equity holding periods less than half those in private markets, public market investments and exits could greatly accelerate capital velocity and facilitate gradual exits, protecting MDB value and impact.
- Public market structured products can facilitate exits or risk transfer from what otherwise may appear to be subscale or illiquid MDB assets, including through securitisation of bilateral loans and equity and debt sales to listed investment companies or public platform companies.

Public markets are also a natural platform for development finance actors to generate much sought-after 'demonstration effects'. Throughout each day, large volumes of highly standardised data and disclosures across asset classes and regions are made freely available by stock exchanges and public debt markets. This information is pored over by industries of analysts and asset managers to inform investment decisions. Therefore, development finance transactions in listed markets can create perpetual public information streams relating to risks and returns in EMDEs, helping to correct investor misperceptions and information asymmetries.
In doing so, such 'demonstration transactions' can trigger follow-on commercial investments in EMDEs that need not tie up *any* official sector capital. Such transparency contrasts with the decade-long debate over the disclosure of MDBs' private risk data through the Global Emerging Markets Risk Database.

1 https://www.oecd.org/dac/2023-private-finance-odfi.pdf

2 https://thegiin.org/research/publication/impact-investing-market-size-2022/; https://www.rockefellerfoundation.org/report/reimagining-the-role-of-multilateral-development-banks/; https://www.mckinsey.com/industries/private-equity-and-principal-investors/our-insights/mckinseys-private-markets-annual-review

Most importantly, public market mobilisation has the potential to trigger a positive cycle of domestic market development in EMDEs. Deepening capital markets is essential for macroeconomic stability and enables EMDEs' self-financing of sustainable economic development. Official sector actors can accelerate the flow of assets in domestic EMDE capital markets by exiting their holdings or transferring risk. They can also enhance liquidity and valuations in these markets through co-investment and generate market information through demonstration. Deeper pipeline, accelerated velocity, and enhanced transparency can attract international investors, further improving liquidity and valuations. When complemented with technical support to connect domestic, regional, and international capital markets more effectively, official sector actors could generate truly systemic and enduring impact through public market transactions.

Effective domestic and international policy and regulation are required to manage the risks associated with public markets while capitalising on the opportunity to close the SDG and sustainable infrastructure financing gap. Several of these risks are driven by the same factors underpinning the unique advantages of public markets, including their scale and liquidity. While inward investment creates a positive macroeconomic cycle, market liquidity means that investors can also create a negative macroeconomic cycle should they choose to exit en masse, especially if this is triggered by external factors. Risks of sudden stops and reversals are particularly acute in those EMDEs that lack sufficient market regulation, macroeconomic policy buffers, and domestic market depth, underscoring the importance of prudent policy and regulation and efforts to deepen domestic markets.

The envisaged approach to private capital mobilisation in public markets through distribution, demonstration, and domestic market development has strategic implications for the role of official sector investors. As recommended by the G20 review of MDB Capital Adequacy Frameworks, official development banks and institutions are considering a shift in their business model from 'originate-to-hold' to 'originate-to-distribute' or 'originate-to-share'.[3,4] In addition, we encourage consideration of a complementary approach, namely 'originate-to-demonstrate' by sourcing, selecting, and supporting pioneering public market transactions that increase the flow of both capital and *information* for market participants. These may be among the most catalytic investments available to official sector actors, offering scale, capital velocity, and potential to trigger follower transactions and a positive cycle of domestic market development.

3 https://cdn.odi.org/media/documents/ODI_Working_paper_An_exploration_of_bilateral_development_finance_institutions_x0AEs0S.pdf

4 https://www.dt.mef.gov.it/export/sites/sitodt/modules/documenti_it/news/news/CAF-Review-Report.pdf

1. INTRODUCTION

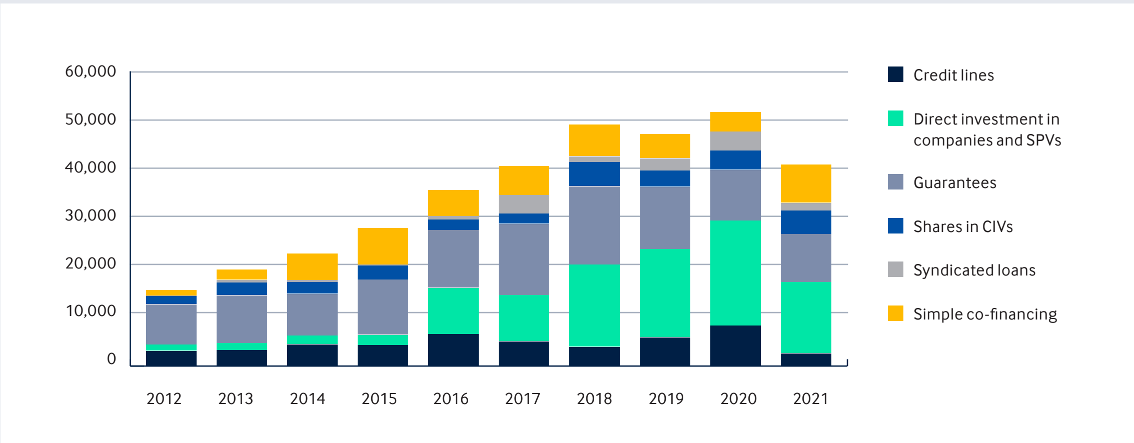
A large and persistent financing gap means that EMDEs cannot come close to meeting the SDGs without attracting much greater private-sector investment. While this need is larger than ever before, private sector capital flows into EMDEs are stalling. MOBILIST hopes to demonstrate how official sector actors and market participants can use public markets to reignite large-scale private capital mobilisation.

TAKING STOCK

Far greater investment by the private sector is the only way to ensure that EMDEs can meet the 2030 SDGs.[5] But despite strong policy commitment, efforts by official sector investors to mobilise private capital have failed to bridge the SDG and climate financing gap in EMDEs.

Instead, private capital mobilised by official institutions has flatlined. While more than US $1.3 trillion in predominantly listed MDB bonds was outstanding in 2021,[6] private finance mobilised *through co-investment* had stalled even before the COVID-19 pandemic. OECD data presented in Figure 1 show how private capital mobilised by official institutions through co-investment has flatlined since 2018 and declined in 2021 as the pandemic endured.[7]

Figure 1 – Private Capital Mobilised in EMDEs by Official Development Finance Interventions (US $mn)[8]



5 https://www.oecd.org/dac/financing-sustainable-development/blended-finance-principles/Making-private-finance-work-for-the-SDGs.pdf

6 https://www.dt.mef.gov.it/export/sites/sitodt/modules/documenti_it/news/news/CAF-Review-Report.pdf

7 https://www.oecd.org/dac/2023-private-finance-odfi.pdf

8 https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/mobilisation.htm

More comprehensive data captured by the development finance community itself similarly suggests a year-on-year decline in private finance mobilised into middle- and low-income countries during 2021, though this estimate is of a more modest decline (1.2%) from a higher base (US $64.1 billion mobilised in 2020).[9] Regardless of one's preferred source, total capital mobilised to date is clearly insufficient to close the SDG financing gap in EMDEs.

At the same time, gross portfolio inflows to EMDEs (excluding China) have also shown a progressive decline over the last decade. These inflows had almost halved from their 2011/12 peak when the pandemic hit in 2020.[10] Both portfolio debt and equity gross capital flows to EMDEs have shown a progressive decline over the last decade, turning negative in 2018.[11] Against the macroeconomic backdrop created by the pandemic, the mobilisation environment has become even more challenging since 2020. Increased borrowing to combat COVID-19 made developing countries highly vulnerable when major central banks began to raise interest rates. In 2022, global supply chains were again shocked by Russia's invasion of Ukraine. The scope to boost MDB borrowing to finance additional lending to EMDEs is similarly constrained by growing risk across predominantly EMDE Sovereign loan books and – to date – limited inclination among shareholders to inject further capital.

These challenges underscore the need for innovative approaches to mobilising private investment and that reigniting public market capital flows to EMDEs *must* be part of the SDG and climate financing solution.

PUBLIC MARKETS FOR DEVELOPMENT FINANCE

Public markets offer unparalleled scale, but their potential value goes much further. Public markets provide perpetual scrutiny, transparency, and liquidity, leading to more frequent and accurate price discovery than is typical in private markets (see Box 1 on page 7). In turn, prices that accurately reflect risks and rewards ensure capital is allocated to the most productive companies, Sovereigns, and projects to maximise economic impact. Transacting in public markets can, therefore, play a vital role in increasing the flow of *information*, triggering replication by other issuers and helping to correct global investors' misperceptions relating to EMDE risk and returns.

This paper considers the potential to enhance the scale and quality of the flow of capital to EMDEs through public markets, with a particular focus on the potential role of official sector actors. To complement the development banks' borrowing programmes, the case studies below show that official sector co-investment through public markets has the potential to scale capital mobilisation through co-investment and accelerate capital velocity.

Official sector actors can also use public markets to trigger capital mobilisation by demonstrating the viability of pioneering asset classes, investment strategies, markets, and sectors. Demonstration has featured prominently in development finance strategies for decades, yet the unique advantages of public markets remain under-explored.

Drawing from case studies and insights across the development finance sector, this paper is structured as follows:

- Section 2 discusses the advantages of public markets in the context of EMDE funding needs.
- Section 3 analyses risks associated with public market mobilisation.
- Section 4 considers how official sector actors can mobilise more private capital through public markets while mitigating these risks.
- Section 5 concludes with recommendations for official MDBs, development finance institutions (DFIs), and their shareholders.

The paper was prepared under the MOBILIST programme and builds from a roundtable hosted by the Governments of the UK and Norway with participants from the official sector and public market communities in Spring 2023. The MOBILIST programme, established by the UK Government and delivered in partnership with the Government of Norway, seeks to mobilise private capital through listed product structures. Box 2 summarises this approach to public market mobilisation.

9 ttps://www.aiib.org/en/about-aiib/who-we-are/partnership/_download/mdbs-joint-report-on-mobilization-of-private-finance-2020-21.pdf

10 https://www.mobilistglobal.com/wp-content/uploads/2023/06/Financial-Regulation-and-Emerging-Markets_MOBILIST_Risk-Control_2023.pdf

11 Ibid.

Box 1 - MOBILIST Programme Overview

MOBILIST
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Background

The MOBILIST programme, developed by the UK Government and delivered in partnership with the Government of Norway, was created to harness the unparalleled potential of public markets to help deliver the climate transition and the United Nations Sustainable Development Goals (SDGs) in developing economies.

MOBILIST invests on non-concessional terms, contributing instead by demonstrating that pioneering products and strategies are commercially viable and can contribute to sustainable development and climate objectives in developing countries. MOBILIST sources investments through deep partnerships with stock exchanges in emerging markets. The programme selects on the basis of returns, impact, additionality, scalability, and replicability and provides assistance for at-risk costs associated with listing and enhanced impact measurement. MOBILIST can support debt and equity strategies with technical assistance, and while it can only invest equity, the underlying investments inside the selected vehicles can include all asset classes.

In addition to its direct support for selected products, MOBILIST strives to inspire the replication of these investments by creating an enabling environment for issuers, investors, and intermediaries. This includes conducting and commissioning research into the factors that shape capital flows to EMDEs and identifying solutions to constraints on these flows.

Investment process

MOBILIST designed a Source, Select & Support (S3) process to identify "the most promising products to support"[12] in their quest for successful listing. In fact, all three stages of MOBILIST's investment process are geared to facilitate the mobilisation of private capital through public listing[13]:

- **Source:** MOBILIST sources eligible products through a global network of intermediaries who can bring to our attention products with the potential to be listed on stock exchanges in developed, frontier and emerging markets.
- **Select:** Through an appraisal process, the MOBILIST team assess the ability of products to qualify for support (the eligibility criteria), their ability to attract funding (the commercial viability criteria) and the amount of work and time required to achieve a successful listing (the distance to market assessment).
- **Support:** MOBILIST supports selected products with an appropriate mix of equity capital, technical assistance, and enhanced visibility through UK government guidance and backing.

Impact management

MOBILIST investees are required to meet International Finance Corporation (IFC) Performance Standards. Otherwise, MOBILIST does not prescribe a specific impact or environmental, social, and governance (ESG) due diligence, instead relying on each product's own internal ESG management framework. MOBILIST assesses for internal consistency and capacity, recognising that no single impact management or ESG framework would be uniformly applicable across diverse asset classes, sectors, and geographies.

12 https://www.MOBILISTglobal.com/investments/

13 https://www.MOBILISTglobal.com/investments/how-we-select-and-invest-in-products/

2. WHY PUBLIC MARKETS?

Public markets have characteristics that support mobilisation at scale: standardisation, price transparency, and liquidity. These characteristics can help official sector actors accelerate capital velocity and support demonstration that can trigger replication by other investors.

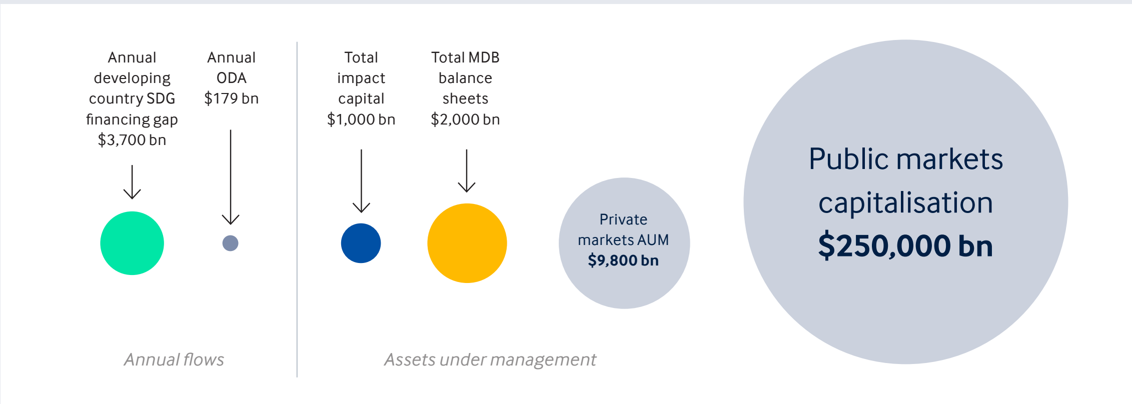
2.1 SCALE

Access to more capital at a lower cost

Public markets offer unparalleled scale for capital mobilisation. Most of global wealth is held by institutional investors mandated to primarily invest through public markets. Figure 2 shows that stock exchanges and public debt capital markets jointly intermediate more than 20 times the amount of capital managed in private markets, 100 times the combined balance sheets of the MDBs, and 200 times impact investors' assets under management.[14] This capital is allocated and reallocated daily, predominantly within developed markets. This means that EMDE issuers must offer allocators more attractive risk-adjusted returns than developed markets and diversification opportunities if they hope to attract investment flows through the public markets.

Their sheer scale also means that public markets can offer lower capital costs compared to private markets, thanks to an extensive standing origination network of public exchanges and intermediaries serving them. Every stock exchange is a hub for hundreds or thousands of intermediaries, offering brokering and investment banking services to connect issuers and investors. The size of this network in EMDEs is demonstrated by the number of World Federation of Exchanges (WFE) members located in ODA-eligible markets[16] (see Figure 3). At the end of 2022, the 45 exchanges in these countries had a

Figure 2 – Public markets' scale in context[15]

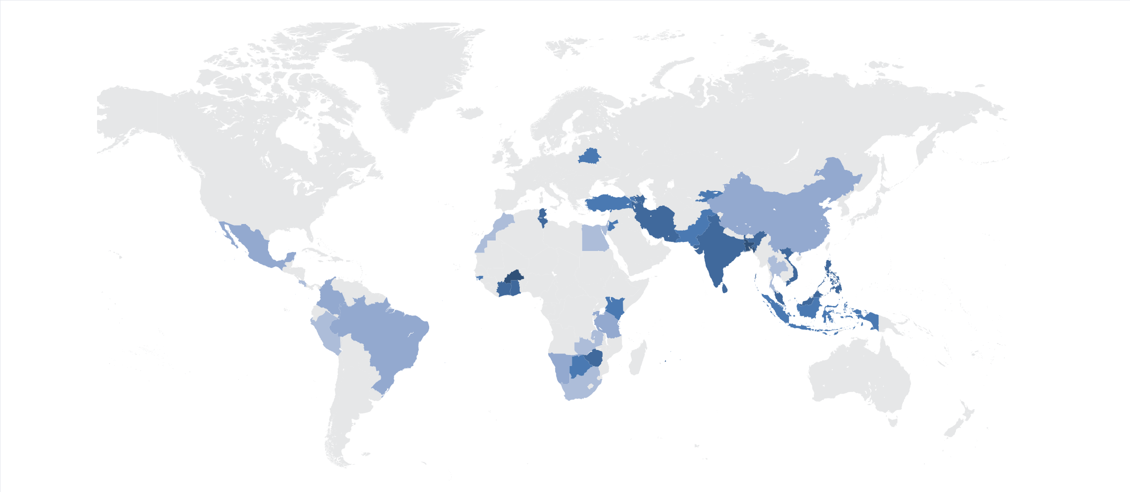


14 https://thegiin.org/research/publication/impact-investing-market-size-2022/; https://www.rockefellerfoundation.org/report/reimagining-the-role-of-multilateral-development-banks/; https://www.mckinsey.com/industries/private-equity-and-principal-investors/our-insights/mckinseys-private-markets-annual-review

15 Ibid.

16 https://www.world-exchanges.org/our-work/statistics

Figure 3 – WFE Members in ODA-Eligible Countries[17]



combined market capitalisation of almost US $22 trillion. They were home to more than 21,500 domestically listed companies, representing 40% of all companies listed in WFE member countries. During 2022, these exchanges also saw 675 domestic IPOs, accounting for half of all new listings on WFE member exchanges.

Public markets' scale is also enabled by a high degree of standardisation, which underpins trust between buyers and sellers, helping to reduce transaction costs. For example, stock exchanges offer standardised IPO procedures and documentation followed by ongoing requirements, including *inter alia* standardised financial audit, corporate reporting, shareholder rights, corporate governance obligations, and liquidity requirements.

Public markets can cater to smaller or less liquid assets

Despite their scale, public markets can still facilitate the flow of capital into smaller and less liquid underlying assets that are more common in EMDE markets. Some stock exchanges have developed market segments and structures specifically for this purpose. For example, the London Stock Exchange Group's AIM segment and the Johannesburg Stock Exchange's AltX Board offer a regulatory approach tailored to smaller, high-growth companies. Regarding structures, listed collective investment vehicles, including closed-ended listed investment companies, listed platform companies, and special purpose acquisition companies, facilitate the flow of equity capital from large allocators in public markets and smaller or less liquid projects and companies in private markets.

On the debt side, listed asset-backed securitisations can similarly offer allocators access to large, diversified pools of smaller underlying loans, enhancing financing terms for real sector companies and even infrastructure projects. In 2021, for example, the Asian Infrastructure Investment Bank (AIIB) provided a US $60 million anchor investment into notes issued under the Bayfront Infrastructure Capital II (BIC II) securitisation. The BIC II transaction saw US $401 million raised across five tranches of listed notes backed by infrastructure loans (so-called Infrastructure Asset-Backed Securities or IABS) listed on the Singapore Exchange.[18] This was the second in a series of transactions demonstrating how otherwise illiquid infrastructure loans can be packaged to (i) recycle originating banks' capital and reduce capital costs while (ii) offering institutional investors diversified and credit-enhanced exposures.

Listed collective investment vehicles can also offer smaller-scale EMDE companies and projects that are not yet ready to list themselves access to deep pools of institutional capital while exposing them to the rigour of public markets. For example, a listed investment company is required to report on the operational performance and risks of companies or assets into which it invests and must provide regular valuation updates on its underlying investments. In addition to enhancing market discipline for privately held companies and assets in these portfolios, this process supports the scaling of underlying companies by generating material public information about their performance. It also means that companies are better prepared for public market disclosures should they choose to list in the future.

17 Ibid.

18 https://www.infrastructureasia.org/-/media/Articles-for-ASIA-Panel/Bayfront-Internation-Capital-II---Case-Studies.ashx

2.2 TRANSPARENCY

Price-discovery and information flows

Perhaps as important as large-scale capital flows, public markets also generate large-scale *information* flows. Public trading venues require extensive financial and non-financial disclosures from issuers, not only at initial listing but also on a regular basis after that. In addition, every time a listed security is traded, the transaction informs future buyers and sellers, reflecting and generating critical information related to the true value of the security. Within a context of effective regulation, perpetual price discovery (see Box 2) accelerates the reallocation of capital from less to more productive investments, incentivising issuers to continuously learn and enhance their productivity.

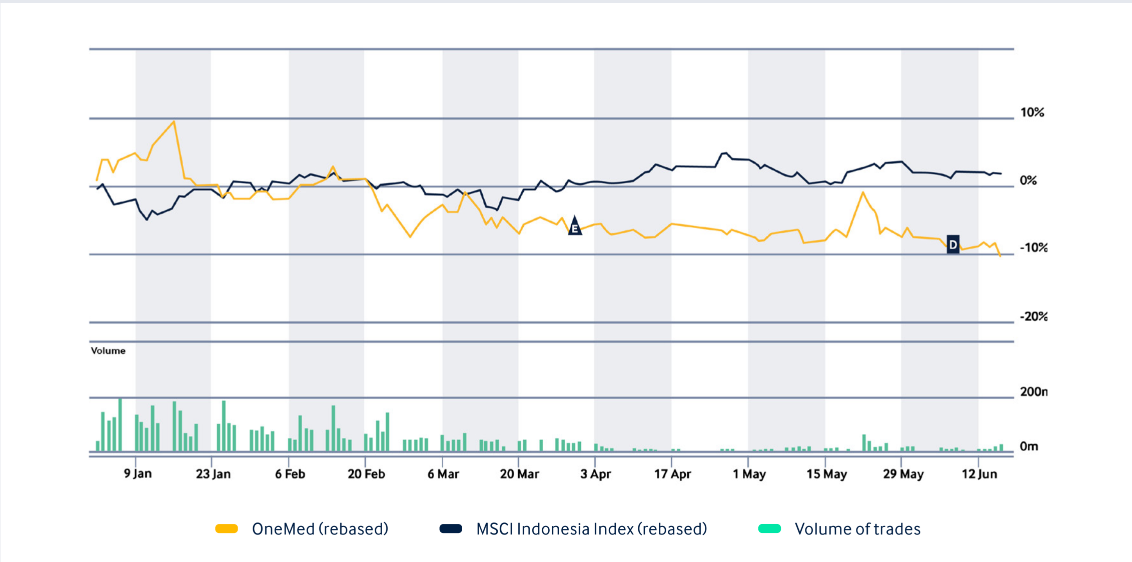
This transparency and information flow contrast the private market transactions that dominate official sector development finance portfolios. The extensive (and extended) debate around the appropriate use of the MDB/DFI Global Emerging Markets (GEMs) Risk Database is indicative. The database holds detailed risk information related to more than US $1.3 trillion in official sector financing, predominantly in private markets. However, despite repeated calls by investors for greater access to granular data, reports on the database still present only highly aggregated summary statistics and are published with a 2- to 3-year lag. This scarcity of risk data perpetuates misperceptions in the market, eliciting additional risk premia for EMDE assets.

In contrast, data about the volatility and performance of official sector investors' *listed* debt and equity portfolios is accessible in real-time to all market participants with every issuance and every trade. For example, the Asian Development Bank (ADB) invested US $12.2 million in the IPO of PT Jayamas Medica Industri (OneMed) on the Indonesian Stock Exchange in November 2022.

Box 2 – Understanding Price Discovery

'Price discovery' refers to the process through which changes in supply and demand for a security affect its price. In efficient public markets, prices are frequently (even perpetually) adjusted to reflect the broad range of material public information affecting buyers' and sellers' assessments of relevant risks and returns. Prices, therefore, capture volumes of information related to a security's true value in a single number and guide the allocation of capital based on that information.

Figure 4 – OneMed Performance YTD[19]



19 https://www.marketwatch.com/investing/stock/omed/charts?countrycode=id&mod=mw_quote_tab

OneMed is Indonesia's largest manufacturing and distribution company of medical equipment and supplies, covering 514 cities and 34 provinces. Since its listing, the value of OneMed (and so of ADB's investment) has been publicly available in real-time. Every fluctuation in its share price reflects information about the company, the sector, the market, and the global economy.

Figure 4 shows OneMed's performance (yellow) relative to the MSCI's Indonesia Index (dark blue) and the volume of trades over the period (bars), with each trade reflecting and generating new market information. Earnings and dividends events are also shown, with corresponding detailed documentation made available through the Indonesia Stock Exchange. Without listing, the information contained in these disclosures and in the company's share price would not have been transmitted to the market.

Transparency and commitment to ESG

Finally, the listing process and subsequent scrutiny can act as a commitment device to ensure that companies retain their focus on SDG impact and ESG risk management. Impact and ESG risk considerations are increasingly codified into regulations and standards that tend to apply more stringently to publicly listed companies and assets and asset managers investing in listed securities. Importantly, the listing process can act as a commitment device on these issues, locking issuers into reporting standards and expectations that persist long after early investors have exited. In contrast, early investors in private markets may feel the need to 'stay the course' until their ESG and impact objectives are fully delivered, potentially delaying capital recycling.[20]

2.3 LIQUIDITY

The virtuous cycle of a liquid equity market

Market liquidity is a crucial determinant of the potential of public markets to contribute to firm-level productivity and growth. Liquidity can enhance price stability and reduce volatility, which lowers risk.[21] Lower risk reduces capital and transaction costs and enhances valuations, attracting more buyers and triggering a virtuous cycle of mutually reinforcing movements in liquidity and valuations. Liquid markets provide more accurate price signals, ensuring that capital is allocated to the most productive companies, countries, and projects, contributing to economic progress and social outcomes. Liquidity also enables the development of more sophisticated financial instruments, which enhances risk management and attracts more sophisticated and higher-quality issuers, investors, and intermediaries.[22]

Box 3 – Defining liquidity

Market liquidity refers to the ability of buyers and sellers to transact efficiently. It is measured by the speed with which large purchases and sales can be executed and by the transaction costs incurred in the process.[23] Transaction costs include both explicit commission and search costs, the bid/ask spread, and losses from moving the market price in the act of buying or selling. These costs affect the ease of exit for security holders and their willingness to buy in the first instance.

More liquid public markets contribute to macroeconomic stability and sustainable economic development across an entire country or region. Liquid capital markets improve the effective transmission of monetary policy[24] and enhance systemic risk management, thereby promoting financial stability.[25] It also enhances exchange rate stability and hard currency reserves by attracting net capital inflows. Liquid capital markets tend to indirectly reduce the cost of capital as banks and other lenders are forced to consider the existence of a low-cost capital market alternative when setting credit conditions and interest rates. In turn, the lower cost of capital leads to more corporate investment. This creates greater growth, more jobs and higher tax collection, ultimately generating better returns for savers and more capital to be reinvested.

Accelerating capital velocity through public markets

For development finance actors, enhanced liquidity through public markets offers opportunities to accelerate capital velocity. The average equity holding period of 4 to 5 years for emerging market

20 https://www.cgdev.org/publication/taking-stock-mdb-and-dfi-innovations-mobilizing-private-capital-development

21 https://www.mobilistglobal.com/wp-content/uploads/2023/07/MOBILIST-Research-Paper_Liquidity-in-Equity-Markets_June-2023.pdf

22 Ibid.

23 https://www.ig.com/uk/trading-strategies/what-is-market-liquidity-and-why-is-it-important--190214#:~:text=Market%20liquidity%20is%20important%20for,side%20of%20a%20given%20position

24 https://onlinelibrary.wiley.com/doi/abs/10.1111/sjpe.12347#:~:text=The%20role%20of%20bank%20liquidity,and%20protect%20their%20loan%20portfolios.

25 Ibid.

public equities[26] means that capital can be deployed and recycled *twice* within a traditional 10-to-12-year private equity fund lifecycle. Therefore, investing through the public markets could double the speed with which scarce development finance is recycled and redeployed into new projects. Where liquidity allows, official sector investors can also unwind positions gradually, decelerating or accelerating as portfolio objectives and market conditions evolve. Accelerating and enhancing capital velocity is aligned firmly with recommendations in the G20-sponsored review of MDB Capital Adequacy Frameworks and discussed further below.

A shorter holding period can also present a dilemma for official sector actors, as Gregory (2023) notes: *"A shorter portfolio holding period for a large part of the assets originated has implications for the way that an MDB/DFI recovers the costs of origination and supervision of assets, for its net income, and for its ability to add value to portfolio companies. It also has implications for the riskiness and volatility of the residual portfolio that the MDB/DFI continues to hold."*[27]

This trade-off highlights the elevated importance in listed markets of not only strategic exit planning but also strategic pre- and post-listing *communication.* Such communication can clarify that an exit on planned timelines represents success for an official sector investor since the additionality it brought to the transaction wanes as private demand for the security grows. In this context, an exit signals a high degree of confidence that information asymmetries have been mitigated and private capital is prepared to take complete control and improve liquidity rather than indicating lost confidence in further financial upside. The official sector actor's exit in the face of growing demand provides one final service to the market, offering liquidity to facilitate the entry of private investors without placing upward pressure on pricing.

3. COSTS AND RISKS ASSOCIATED WITH PUBLIC MARKET MOBILISATION

Public markets are not without risks and require capital flow management and macroprudential measures to maintain stability. The solution is not to avoid the development of public capital markets but rather to implement pre-emptive risk management measures.

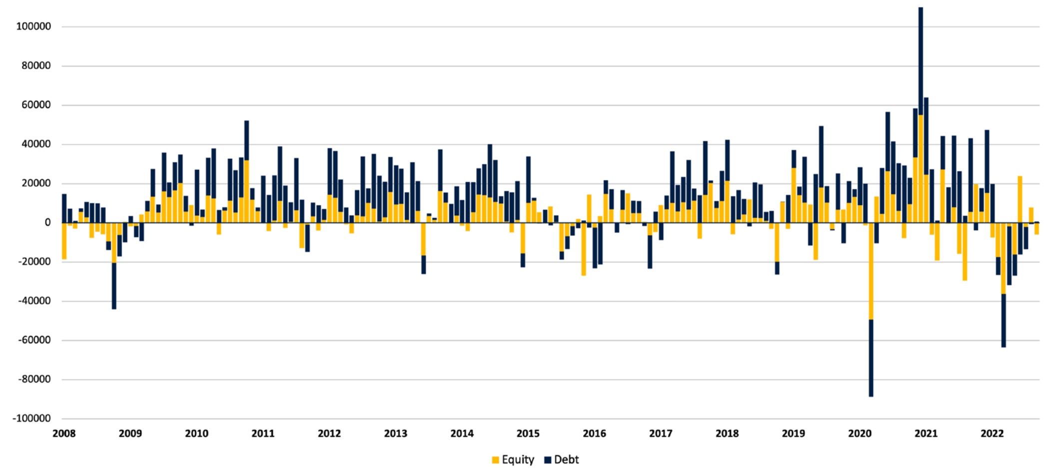
Repeated EMDE financial and current account crises were highlighted during a recent MOBILIST roundtable on public market mobilisation. Emerging market financial crises during the 1990s and early 2000s, the Global Financial Crisis, and subsequent external shocks to EMDEs underscore the potential generational damage caused by sudden stops and reversals in capital flows.[28] These risks were again highlighted during the latter half of 2022 as rising inflation, rising interest rates, volatile commodity prices, and already high debt levels among most smaller emerging and frontier market issuers drove investors away from EMDE assets.

26 https://www.bailliegifford.com/en/uk/individual-investors/insights/ic-article/2022-q2-managed-fund-5-burning-questions-10011705/#:~:text=Portfolio%20turnover%20is%20less%20than,years%20for%20emerging%20market%20stocks

27 https://www.cgdev.org/publication/taking-stock-mdb-and-dfi-innovations-mobilizing-private-capital-development p. 5

28 https://www.imf.org/external/pubs/ft/wp/2010/wp10237.pdf

Figure 5 – Debt and Equity Flows into Emerging Markets[29]



These dynamics are driven by the same factors underpinning the unique advantages of public markets, including their scale and liquidity.[30] International financial integration has increasingly exposed EMDE markets to shocks that originate outside domestic economies.[31] Figure 5 shows the scale and the speed with which public market flows can fluctuate from month to month.

Recent policy changes reflect evolving practices on macro-financial risk management. For example, the IMF's Institutional View on capital flows was revised in 2022. The Fund's Institutional View continues to emphasise that risks are particularly acute in countries with insufficient market regulation, macroeconomic policy buffers, and domestic market depth. In addition, from 2022, the Institutional View explicitly recognises that capital flow management and macroprudential measures can help developing countries manage risks associated with large and volatile capital flows.[32] That is, the solution is not to avoid the development of public capital markets and, by extension, deprive companies and countries of their distinct benefits. Instead, pre-emptive measures should be considered to prevent the build-up of liabilities and broader financial stability risks.

It is also important to distinguish between direct investments in locally listed companies and investments in internationally listed vehicles that, in turn, provide capital to privately held EMDE projects and companies. In the latter case, concerns regarding sudden capital flow reversals, regulatory shortcomings, currency volatility, and a lack of liquidity (all of which may indeed deter private co-investors) could be mitigated, particularly in the context of closed-end structures.[33,34]

From the issuer's perspective, listing can also raise potential costs and concerns that need to be addressed upfront. Prior MOBILIST research emphasises direct costs associated with IPO, including legal, auditing, and investment banking and listing fees, and indirect costs of investor relations and information disclosures on an ongoing basis once listed. These fixed costs can be particularly punitive for smaller companies, for whom participation in listed markets through collective investment vehicles may be preferable in the short-term. Listing can also dilute control and create a conflict between the long-term interests of strategic shareholders and the short-term objectives of financial investors, during good times and bad.[35]

These costs and risks can be mitigated by the stock exchange, for example by creating distinct trading platforms with less demanding trading/free float and disclosure requirements for smaller corporates; or by the companies themselves, through appropriate management incentive systems taking into account the company's longer-term objectives. Development finance actors also have a role to play, as discussed in the following section.

29 OECD Monthly Capital Flow Dataset (De Crescenzio and Lepers 2021)

30 https://www.mobilistglobal.com/wp-content/uploads/2023/07/MOBILIST-Research-Paper_Liquidity-in-Equity-Markets_June-2023.pdf

31 Anusha Chari: Capital Market Risks in Emerging Markets (The Reporter, Oct 2020)

32 Ibid, p. 3

33 Ibid

34 https://www.sciencedirect.com/science/article/abs/pii/S0014498313000375

35 https://www.mobilistglobal.com/research-data/liquidity-in-equity-markets-its-sources-significance-in-developing-economies/

4. THE ROLE OF OFFICIAL DEVELOPMENT FINANCE IN PUBLIC MARKETS

Official sector actors can mobilise private capital through four public market mobilisation pathways: exit mobilisation, co-investment, demonstration, and policy and regulation. These routes can enhance the flow of assets, capital, and market information and have the potential to generate systemic impact on domestic capital markets in EMDEs.

The need to mobilise private capital for the SDGs and international climate commitments is one of the critical reasons behind calls for reforms to increase the investment capacity of MDBs. Major proposals include those included in the G20's review of MDB Capital Adequacy Frameworks, focusing on enhancing capital velocity, increasing direct capital mobilisation, and recommendations relating to rating agencies' treatment of MDB assets and liabilities. However, these reforms will take time and will remain inadequate in the context of the growing financing gap facing developing countries. Hence, a renewed focus on new mechanisms to mobilise additional private capital and accelerate the recycling of assets is needed. This section discusses why and how public markets should be included among these mechanisms.

We see at least four routes to the mobilisation of private capital through public markets:

- **Route 1 – Exit Mobilisation:** Development finance actors can share assets and risk with private holders through public markets, mobilising institutional capital and recycling scarce development finance for new EMDE investments.
- **Route 2 – Co-investment:** Development finance actors can co-invest before, during, and after IPO, increasing liquidity and valuations to support listing and scaling to attract sizeable institutional asset allocators.
- **Route 3 – Demonstration:** Development finance actors can trigger follow-on investments and correct allocators' misperceptions through pioneering 'demonstration transactions' that increase the flow of information relating to new asset classes, sectors, markets, and investment strategies.
- **Route 4 – Policy and Regulation:** Development finance actors can expand their technical support for capital market development, including by ensuring that EMDEs participate fully in the design of global regulatory standards that affect their access to capital.

Taken together, public market mobilisation through these four routes has the potential to trigger a positive cycle of capital market development, with complementary action on demand, supply, intermediation, and policy and regulation. Official sector actors can enhance the flow of (i) assets through exits, (ii) the flow of capital through co-investment, (iii) and the flow of information through demonstration. By complementing technical assistance with more coordinated and concerted *transactions* in domestic markets, official sector investors can trigger a positive cycle of enhanced pipeline, liquidity, valuations, and capital inflows from international investors, which ultimately further enhances liquidity and valuation.

4.1 EXIT MOBILISATION

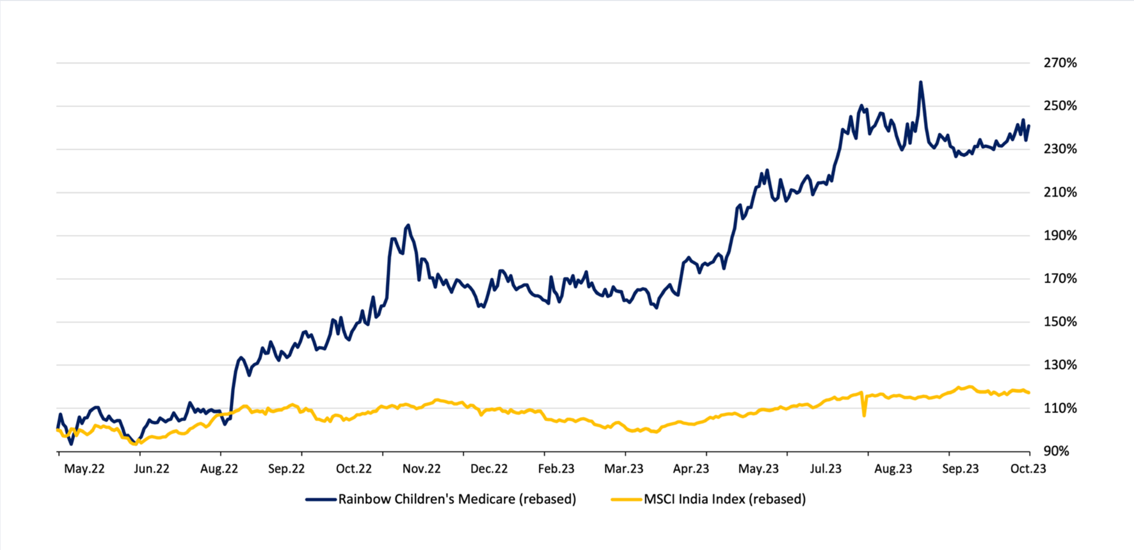
Public markets offer a route to accelerated capital velocity for official investors, increasing the total volume of capital available for deployment each year. The 2022 Review of MDB Capital Adequacy Frameworks notes that official investors have a significant comparative advantage in investment origination due in part to their high standards, project preparation skills, and technical assistance. Therefore, the Review questions the development benefits of MDBs holding assets on their balance sheets for long periods.[36]

Accelerating capital recycling can increase the total amount of development finance deployed each year. Public markets offer unique advantages: They are characterised by typically shorter holding periods and offer investors flexibility for gradual and more granular exits. Public disclosures and listing regulations in public markets also have the potential to 'lock in' corporate governance standards long after official investors exit. Assets and risk can be transferred to public markets through a range of listed product structures, including synthetic and true sale securitisation, listed investment companies, and listed platform companies. Once listed, these products can continue to attract capital that may not otherwise have been allocated to EMDEs, even after official investors have fully exited.

While there are still relatively few examples of exit mobilisation through public markets, several development banks and DFIs have demonstrated the potential. In 2013, BII invested US $17.5 million in Rainbow Children's Medicare, a multidisciplinary paediatric, obstetrics, and gynaecology hospital chain in India. The company completed its IPO in 2022, issuing new equity of US $35 million and allowing existing investors to sell down shares worth US $155 million. The sale of BII's stake for US $95 million and the new equity represents a mobilisation of US $130 million from the original equity injection. The investment also delivered a ca. 21% annualised return to BII in USD terms, translating to a cumulative return of 443% over nine years.[37]

Listing allows companies to attract new investments continuously. BII's former investee has outperformed the Indian market, which itself outperformed the broader emerging market asset class over the period (see Figure 6). BII's initial equity injection financed the creation of a company that continues to attract additional private investors more

Figure 6 – Rainbow Children's Medicare Ltd. Performance[38]



36 https://www.dt.mef.gov.it/export/sites/sitodt/modules/documenti_it/news/news/CAF-Review-Report.pdf

37 https://assets.bii.co.uk/wp-content/uploads/2023/03/13125506/Understanding_Mobilisation.pdf

38 https://www.marketwatch.com/investing/stock/543524/charts?countrycode=in&mod=mw_quote_tab

than a year after the official sector equity was recycled and made available for further impactful transactions. The transaction demonstrates the value of a well-timed exit into the markets by multiplying the mobilisation rate of an initial official sector investment over months and years post-listing.

The African Development Bank (AfDB) has similarly used exit mobilisation to distribute the risk associated with its loans to private investors and insurers while remaining the lender of record. In the latest transaction of its Room2Run securitisation series, the AfDB successfully transferred risk associated with a US $2 billion *Sovereign* loan portfolio to private insurers and the UK Government.[39] The transaction builds on its initial synthetic securitisation of US $1 billion in private sector loans. While neither transaction occurred in the listed markets, both demonstrate the potential to transfer official sector loans to private investors and insurers. This strategy could be replicated in the public markets through listed notes backed by Sovereign and non-Sovereign loans extended by official development finance banks and institutions.

4.2 CO-INVESTMENT

Co-investing through public markets has the potential to enhance mobilisation rates through co-investment. For example, the African Local Currency Bond (ALCB) Fund supports the development of African capital markets by promoting primary corporate bond issuances in local currency. The ALCB Fund had mobilised US $1.8 billion in co-investment by 2021, representing a co-investment multiplier of more than 10 times.[39] Similarly, in 2018, the ADB invested almost US $20 million in direct and administered financing into PT Medikaloka Hermina (Hermina), Indonesia's second-largest private hospital group, which operated 28 hospitals in 2017. Despite challenging market conditions, Hermina raised US $140 million and adopted ADB's environmental and social safeguard standards. The company's share price has more than doubled since listing,[41] demonstrating the viability of its business model.[42]

Even when investing pari passu with commercial investors, official development finance can mobilise *additional* capital for EMDEs that would otherwise not have flowed. For example, MOBILIST's underwriting approach to sizing participation in each transaction means that it only invests to the extent that additional capital is needed. In a recent securitisation, MOBILIST committed an anchor investment of up to US$20.4m and received a final allocation of US$5.0m, given investors' robust demand and strong oversubscription for the Notes. In this context, MOBILIST's direct equity participation alongside commercial capital in the securitisation vehicle enhanced the credit rating of more senior parts of the capital structure, crowding-*in* private investors. The securitisation raised US $410.3 million, representing approximately 80 times the mobilisation rate for MOBILIST's anchor equity investment. Such transactions could similarly facilitate the transfer of loans or risk from MDB balance sheets into public markets.

MOBILIST's pipeline demonstrates the broad range of structures through which development finance can be co-invested in public markets. The most frequent structure to be proposed to MOBILIST to date is the listed investment company, including several London-listed investment trusts offering EMDE exposure across a range of sectors and strategies. This structure is particularly well-suited to financing sustainable development in EMDEs. Investors can buy and sell their holdings of the investment company, yet the investment manager does not have to manage daily redemptions. This ensures a long-term investment horizon and the ability to invest in illiquid, private market and infrastructure assets that drive sustainable development in EMDEs. Sponsors have proposed a range of additional structures to MOBILIST, including platform companies, guarantee companies, thematic shares, and special purpose acquisition companies.

Investing pre-IPO also has clear additionality from a development finance perspective. As early as 1998, EBRD teamed up with FAMCO, a joint venture between BRE in Poland and Pictet in Switzerland, to establish a fund to invest in Polish SMEs that would otherwise be too small for EBRD to support individually. The fund targeted pre-IPO companies that planned to list on the Warsaw Stock Exchange or invested in companies at IPO.[43] Similarly, in 2022, the UK Government, through the MOBILIST programme, invested US $7 million into the Climate Energy Access Resilience (CLEAR) Fund, a climate-focused and Africa-dedicated private equity fund with the ambition for medium-term listing on a major stock exchange. CLEAR Fund is managed by Helios Investment Partners and InfraCo Africa, the African development arm of the Private Infrastructure Development Group (PIDG).[44]

39 https://www.afdb.org/en/news-and-events/press-releases/african-development-bank-unit-ed-kingdom-and-london-market-insurers-enter-new-risk-transfer-partnership-climate-ac-tion-55664

40 See https://alcbfund.com/ for more information on the ALCB Fund. For further discussion on potential for local currency bonds in frontier markets see recent IMF and World Bank guidance here: https://documents1.worldbank.org/curated/en/790921615526044752/pdf/Guidance-Note-for-De-veloping-Government-Local-Currency-Bond-Markets.pdf. For discussion of local currency offshore bond markets for Africa, see LSEG Africa Advisory Group recommendations here: https://www.lseg.com/content/dam/lseg/en_us/documents/media-centre/offshore-local-currency-bond-mar-kets-africa.pdf

41 https://www.marketwatch.com/investing/stock/heal/charts?countrycode=id&mod=mw_quote_tab

42 https://www.adb.org/results/indonesia-private-sector-improving-health-care-moth-ers-and-their-children-0

43 https://www.ebrd.com/work-with-us/projects/psd/polish-preipo-lp.html

44 https://www.mobilistglobal.com/investment/clear-fund/

4.3 DEMONSTRATION

Addressing information asymmetry

A major conceptual challenge to private capital mobilisation through public markets relates to additionality. Official sector investors must demonstrate that they are mobilising capital that otherwise would not have been deployed while participating in listed transactions on equal footing (pari passu) with private investors or exiting to them on commercial terms. The transactions discussed above demonstrate the additionality of anchor capital in helping investment products reach the requisite scale for listing. Yet the most scalable form of additionality is the demonstration effects created by such pioneering transactions.

Information asymmetries constrain investment in EMDE asset classes or investment strategies.[45] Many larger institutional investors simply will not invest in a firm or fund for which they cannot identify established securities with similar characteristics (so-called 'comparables'). In the case of pioneering assets, other institutional investors may rely on bespoke research or more costly active fund managers. In the context of smaller scale, higher risk, and less liquid EMDE markets and asset classes, this additional time and cost may prove fatal.[46]

Generating additional market information through their investments may be the most catalytic route to mobilisation open to official sector investors. If successful, investing to demonstrate the viability of pioneering firms and products can trigger follow-on commercial investments that otherwise would not have happened without tying up *any* official sector capital in follower deals. Moreover, the information transmitted by these 'first-mover' transactions can have market-shaping impacts by establishing new asset classes, demonstrating the impact of new policies or regulations, or even highlighting the viability of entire markets.

How demonstration effects lead to mobilisation at scale

Demonstration effects have been considered an important route to mobilisation in certain corners of the development finance landscape for some years. For example, the ALCB Fund intentionally seeks to stimulate innovation by *"participating in transactions that push market boundaries"*. In 2021, the Fund reported that 12 of its investments were in bonds of first-time issuers and that 6 issuers that had previously received ALCB Fund investment had successfully returned to the market without further ALCB Fund participation.[47] Similarly, BII's 2022-26 *Productive, Sustainable, and Inclusive Investment* strategy centres on mobilisation through demonstration in the strategic objectives guiding the institution's work over the medium-term: *"We invest to set the forces of competition in motion, and to demonstrate success from innovative forms of investment, technologies and business models that others can replicate."*[48]

Despite the presumption of demonstration effects, the ability of these pioneering investments and strategies to trigger 'second-mover' transactions and market-shaping impacts has not been systematically measured or maximised. For example, this market shaping 'demonstration pathway' to mobilisation is not captured under the OECD[49] and MDB Taskforce[50] mobilisation measurement frameworks, nor in BII's draft expanded mobilisation framework[51]. Without conceptualisation and measurement, the official sector is not systematically learning how to refine its operations to maximise capital mobilised through demonstration.

Here, the development finance community can learn from broader innovation discourse. A comprehensive conceptual framework for demonstration effects in development finance is beyond the scope of this paper. However, a body of work dating to the 1960s has established that three assumptions must hold if demonstration effects are to trigger behavioural change:

1. Success for first-movers must be visible to second-movers, and second-movers must attribute success to adopting the innovation being demonstrated.
2. Second-movers must have incentives, capacity, and resources to copy the innovation, and barriers to entry must be low (or not insurmountable).
3. Second-movers must be able to access the know-how to replicate and adapt the innovation.[52]

The discussion in Section 2 makes clear that public markets are the *perfect* venue through which official sector actors can trigger mobilisation through demonstration. Relative to private markets, public markets offer (and indeed demand) perpetual visibility of first-movers' performance, with pertinent

45 https://www.mobilistglobal.com/research-data/drivers-of-investment-flows-to-emerging-and-frontier-markets/

46 https://www.mobilistglobal.com/research-data/drivers-of-investment-flows-to-emerging-and-frontier-markets/

47 https://uploads-ssl.webflow.com/64b65df0576270cec211168c/64b65df0576270cec21119e5_ALCB%20-%20Impact%20Report%20Summary%202021%20-%20FINAL.pdf

48 https://www.alcbfund.com/

49 https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/DAC-Methodologies-on-Mobilisation.pdf

50 https://documents1.worldbank.org/curated/en/495061492543870701/pdf/114403-REVISED-June25-DocumentsPrivInvestMob-Draft-Ref-Guide-Master-June2018-v4.pdf

51 https://assets.bii.co.uk/wp-content/uploads/2023/03/13125506/Understanding_Mobilisation.pdf

52 https://beamexchange.org/uploads/filer_public/ab/fc/abfcb2d3-7847-448e-9ed6-c99fd99f3b94/getting_to_scale.pdf

information disclosed in standardised formats and on a frequent and predictable basis. Industries of asset managers, consultants, and researchers are mandated with attributing successes and failures to particular innovations. Second-movers are also incentivised to replicate success, though barriers to entry can be a deterrent. Finally, second-movers have unmitigated access to the same broad ecosystem of brokers, banks, and technical advisers that enable first-mover listings.

4.4 POLICY AND REGULATION

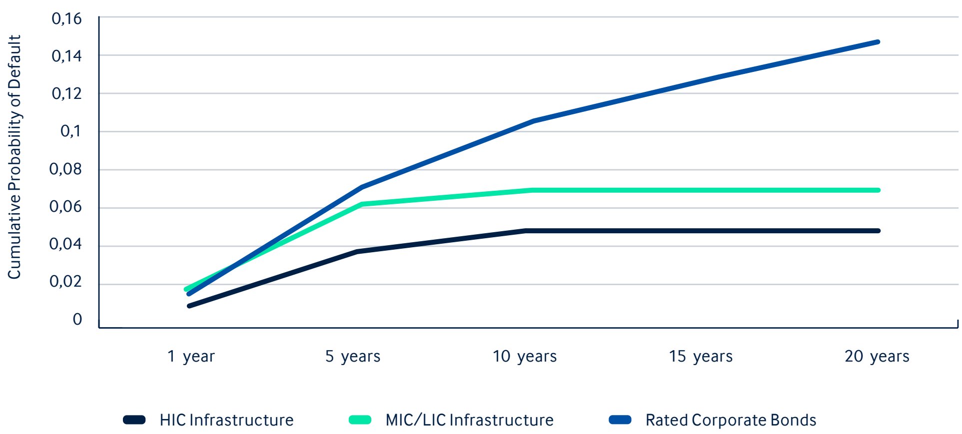
The need for technical support for EMDEs in policy*making*

Official sector actors provide extensive technical support to help build domestic capital markets in EMDEs, including from both policy and regulatory perspectives. For example, the World Bank Group's Joint Capital Markets Program (J-CAP) works with governments and regulators to create the conditions in which financial instruments, particularly bonds, can be traded. Similarly, Financial Sector Deepening (FSD) Africa provides technical assistance to support the development and review of capital market policies, guidelines, and regulations and market infrastructure development. The EBRD and ADB provide extensive complementary support in pursuit of regional market development, particularly in debt capital markets.[53]

EMDEs also receive technical support to implement the global capital market and financial sector regulatory standards developed by international standard-setting bodies (SSBs). For example, joint IMF-World Bank Financial Sector Assessment Program (FSAP) teams review the quality of bank and non-bank supervision and oversight of financial market infrastructure.[54] FSAP findings represent a crucial input into IMF policy advice, including in relation to the implementation of the Basel III standards on banking supervision.[55]

Less technical support is available to assist EMDEs in engaging with the design of key international standards. This means that EMDEs are typically *takers* rather than *makers* of policies and regulations that profoundly affect international capital flows to their economies and their prospects for domestic market development. For example, of the 214 respondents to the formal consultation on Basel III standards, 86% were posted by advanced economy (AE) respondents. Moreover, changes to draft standards based on this consultation were found to have been predominantly aimed at satisfying AE respondents.[56]

Figure 7 – Historical Credit Performance of Infrastructure Loans and Corporate Bonds[57,58]



53 https://www.mobilistglobal.com/wp-content/uploads/2023/06/Financial-Regulation-and-Emerging-Markets_MOBILIST_Risk-Control_2023.pdf

54 https://www.imf.org/en/About/Factsheets/Sheets/2023/financial-sector-assessment-program-FSAP

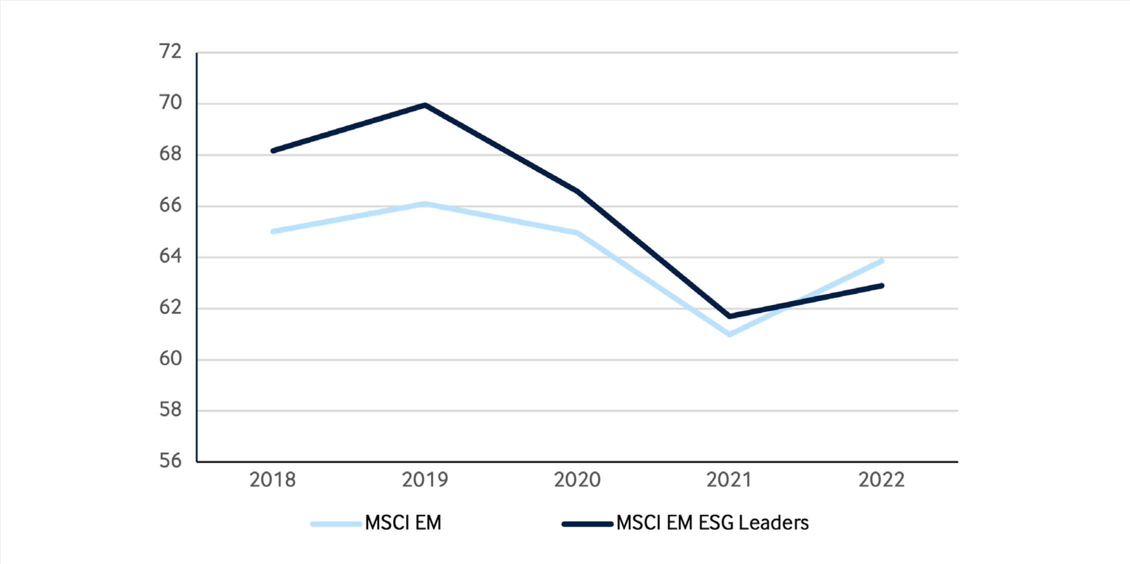
55 See for example https://www.imf.org/en/Publications/CR/Issues/2018/01/19/India-Financial-Sector-Assessment-Program-Detailed-Assessment-of-Observance-of-the-Basel-45542

56 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4431626

57 https://www.moodysanalytics.com/articles/2020/examining-infrastructure-as-an-asset-class

58 https://www.mobilistglobal.com/wp-content/uploads/2023/06/Financial-Regulation-and-Emerging-Markets_MOBILIST_Risk-Control_2023.pdf

Figure 8 – MSCI EM and ESG Leaders Equity Index - % allocation to lower- and upper-middle income economies[60]



Disproportionate treatment of EMDE risk in international regulations

MOBILIST research finds that this gap in policy*making* support is particularly problematic as key international standards disproportionately penalise EMDEs. For example, the EU Solvency II regulatory regime sets prudential standards for insurers in Europe. Solvency II capital charges are lower for Organisation for Economic Co-operation and Development (OECD) and European Economic Area (EEA) infrastructure assets than for corporate debt securities in general, reflecting the lower risk associated with infrastructure. All else being equal, this allowance incentivises insurers into OECD and EEA infrastructure assets. Critically, no such allowance is made for infrastructure assets outside the OECD and EEA, despite quantitative evidence suggesting that EMDE infrastructure assets are also lower risk than corporate bonds in general (see Figure 7). MOBILIST-funded research finds such disproportionate treatment of EMDE risk in several regulatory fields.

The mainstreaming of ESG considerations into asset allocation and, more recently, into AE regulation could also prove problematic. MOBILIST-funded research finds indicative evidence that ESG mainstreaming may have diverted capital away from EMDEs. Figure 8 shows that the weight assigned to EMDEs in MSCI's Emerging Markets ESG Leaders Index declined from 68.2% in 2018 to 62.9% in 2022. Critically, EMDEs' collective weight fell more significantly in this ESG-focused benchmark than in mainstream benchmarks over the same period. This suggests that the general underperformance of EMDEs was not the only driver of their declining share in ESG-focused indices. The risk of capital diversion is found to be exacerbated by data scarcity, data bias, and a relatively weak understanding of EMDE climate and ESG transition in mainstream metrics.[59] These risks look set to deepen as ESG practices and norms become codified into AE regulation, particularly in Europe.

In this context, additional technical support is required to ensure that EMDEs participate more fully in developing international regulatory standards, with a particular focus on ensuring the proportionate and accurate treatment of EMDE risk. While the needs, capabilities, priorities, and positions would vary across EMDEs, technical support could include:

- Preparation of regulatory impact assessments specifically addressing the consequences of international policy and regulatory standards on capital flows to EMDEs.
- Coordination of EMDE perspectives on key issues considered by SSBs, considering the range of impacts and so positions across economies.
- Development of monitoring and accountability mechanisms to ensure that EMDE perspectives more fully inform and shape the development of consequential policies and regulations.

59 https://www.mobilistglobal.com/research-data/resetting-the-esg-investment-paradigm-to-support-emerging-markets-developing-economies/

60 Ibid.

4.5 SYSTEMIC IMPACT

Taken together, official sector actors can enhance the flow of assets (through exit), capital and liquidity (through co-investment), and information (through demonstration), with the potential for *systemic* impact on domestic capital markets. Capital markets in many smaller EMDEs remain inefficiently subscale and illiquid, struggling to attract international institutional investment and generate returns for local allocators.[61] This can be seen in the index weights assigned to smaller emerging and frontier markets, with 78% of developing countries excluded from the mainstream MSCI Emerging and Frontier Market universe because of their size, illiquidity, and policy and regulatory risk. Building scale in these markets will, therefore, require action on demand, supply, and the quality of policy, regulation, and trading venues.[62] Official sector investors can trigger a positive cycle of enhanced pipeline, liquidity, valuations, and capital inflows by complementing existing technical assistance with more coordinated and concerted *transactions* in domestic markets.

Currently, the predominance of private market transactions in official sector portfolios means they have limited connectivity with domestic capital markets. Beyond press and impact reporting, most official development finance investments do little to stimulate pipeline, provide liquidity, or generate information to demonstrate the viability of developing country public capital markets. This allows a negative cycle to persist, as illiquidity undermines price discovery and valuations, reducing weights in market indices. This limits international capital flows, placing pressure on exchange rates and external stability, further deterring investment and liquidity.

Official sector transactions in domestic markets can reverse this cycle. Figure 9 on page 21 shows how exiting and investing through public markets can enhance capital velocity and co-investment mobilisation rates for development banks and DFIs. More importantly, it shows how a programme of exits through IPO, investments at IPO, and exits in the secondary market can create a positively reinforcing cycle of pipeline, liquidity, price discovery, and reduced uncertainty, and so can inspire confidence among domestic institutional investors. In turn, this leads to improved performance and liquidity, enhancing index weights and bolstering external and macroeconomic stability to attract international capital.

Such market-building impacts have underpinned notable development finance transactions in recent years. EBRD's 2018 acquisition of a 3.6% stake in Port of Tallinn at IPO – the first IPO of a major state-owned transport infrastructure asset in the Baltics – provides an example. EBRD's Director for Transport commented, *"The transaction has demonstrated that the sale of shareholdings in state-owned enterprises can be successfully implemented via local stock exchanges"*.[63] The Estonian Minister for Economics and Infrastructure underscored her hope that the listing would *"improve liquidity and attractiveness of the local capital market"*.[64] Similarly, with AIIB's support, the BIC II transaction was only the second infrastructure debt securitisation in Asia Pacific. It included the world's first publicly issued securitisation sustainability tranche backed by sustainable assets. AIIB notes that its investment is *"ultimately geared to support and validate a new type of debt security [contributing] to the nascent market in Asia"*.[65]

61 https://www.mobilistglobal.com/wp-content/uploads/2023/07/MOBILIST-Research-Paper_Liquidity-in-Equity-Markets_June-2023.pdf

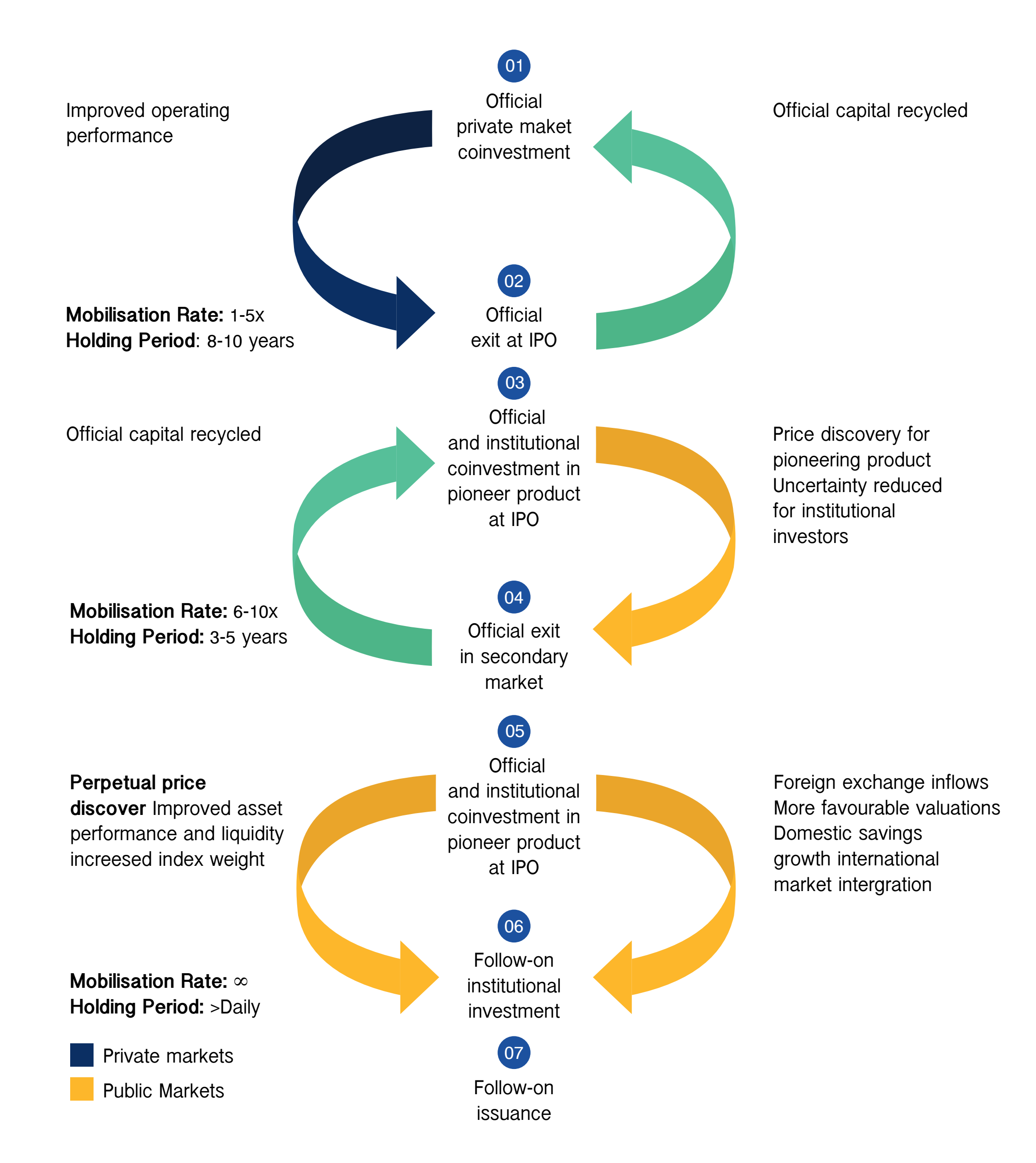
62 Ibid.

63 https://emerging-europe.com/business/port-of-tallinn-ipo-sees-ebrd-acquires-minority-shareholding/

64 Ibid.

65 https://www.aiib.org/en/news-events/media-center/blog/2023/Mobilizing-Institutional-Capital-for-Infrastructure-Debt-in-Asia.html

Figure 9 – Opportunities to Trigger Systemic Change in Domestic Markets[66]



66 Indicative mobilisation rates draw from case studies above for public markets and OECD (2023): Private Finance Mobilised by Official Development Finance Institutions.

5. CONCLUSION

To have a systemic and catalytic impact, official sector actors should consider the additionality, utility, and impact of information flows, not only capital flows.

Originate-to-Demonstrate and Invest for Systemic Impact

The envisaged approach to mobilisation in public markets through distribution, demonstration, and domestic market development has strategic implications for the role of official sector investors. As recommended by the G20-sponsored Review of MDB Capital Adequacy Frameworks, official development banks and institutions should consider shifting their business model from 'originate-to-hold' to 'originate-to-distribute' or 'originate-to-share'.[67,68] Distributing and sharing risk and assets in liquid public markets offers the potential to accelerate capital velocity and grow total capital deployment each year. In addition, we advocate a complementary approach to capital mobilisation with systemic impact: originate-to-demonstrate. Public markets are the ideal venue for a strategy based on mobilisation through demonstration effects due to their transparency and the speed at which additional information can influence pricing and so asset allocation, and replication.

Considering the impact of information flows

In principle, such a framework does not favour or rule out any novel investment. However, it challenges the official sector to consider the additionality, utility, and impact of information flows, not just capital flows. For example:

- Investments with the potential to trigger systemic change, as described in Figure 9, may be among the most impactful. All else being equal, this would suggest an enhanced emphasis on local listings and exits relative to regional and international listings. It may also include secondary market positions and investments to scale companies *once listed*, bringing them to the threshold market capitalisation and liquidity required to attract the attention of index providers and institutional investors.
- Investments with the potential to demonstrate the viability of new asset classes could similarly offer a strategic entry point, particularly where those asset classes have the potential for scale across EMDEs and are well-suited to financing their sustainable development. This could include the securitisation of MDB and DFI debt portfolios and closed-end fund structures to offer institutional investors access to private market and illiquid assets through the public markets. To the extent that multiple comparables are required, this could mean a cluster of similar investments to build an asset class instead of backing disparate pioneering assets across multiple new classes.
- Investments with the potential to demonstrate the viability of new investment strategies that can be replicated across EMDEs and asset classes could be similarly strategic. This may include transferring strategies well-tested in one market to establish their viability in another.
- Investing in equity may generate more additional and useful information than investing in bonds. Such a strategy responds to the acute scarcity of equity capital in many EMDEs. It leads to company disclosures that generate more detailed market information at the point of issuance and continue throughout the listed life of the company.

Measuring and learning from mobilisation through demonstration

As noted above, MOBILIST is not alone in this endeavour. Several MDBs, DFIs, and specialist funds aim to back pioneering transactions that generate

67 https://cdn.odi.org/media/documents/ODI_Working_paper_An_exploration_of_bilateral_development_finance_institutions_x0AEs0S.pdf

68 https://www.dt.mef.gov.it/export/sites/sitodt/modules/documenti_it/news/news/CAF-Review-Report.pdf

information for investors and issuers to follow. None of these mobilisation efforts is captured in OECD reporting, meaning less attention is paid to *how* such demonstration effects efforts can improve mobilisation impact and scale over time.

Mobilisation through demonstration and with systemic impact would be challenging to attribute. Further analysis is required to identify quantitative and qualitative approaches to measuring and monitoring mobilisation through demonstration. A combination of metrics and methods will be required. For example, these could include monitoring (i) the use of official sector investees as comparables for independent transactions, (ii) the inclusion of official investees in market indices tracked by allocators, and (iii) qualitative testimony from institutional investors highlighting whether and how information generated through an official investment has shaped allocation decisions.

Whichever method is chosen, official sector institutions face an unbalanced scorecard if they do not acknowledge the potential of mobilisation through demonstration, and all else being equal, they are likely to focus more heavily on those mobilisation pathways monitored and not necessarily those that are most catalytic.

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