# EXECUTIVE SUMMARY

**Investors concerned with impact have tended to minimise public market allocations**.[1] While the combined asset allocation by impact investors into public debt and equity roughly doubled from 6.4% in 2017 to 13.4% in 2022, it was still dwarfed by the 81% invested in private market and real assets. A preference for private markets is partly due to concerns over additionality when buying and selling listed instruments; that is, the extent to which investors can be confident that they are contributing to impacts that would not have occurred without their participation.

**Case studies presented in this MOBILIST Policy Note and elsewhere show that investors can generate significant and additional impact through listed instruments when investing in emerging markets and developing economies (EMDEs)**. These economies are more exposed to risks from climate change than advanced economies[2] and are most in need of capital investment to drive sustainable economic development. This explains why a typical impact investor's allocation to sub-Saharan Africa alone is 2-3 times larger than the typical ESG fund's entire EMDE allocation – the former focuses on additional impact and the latter on mitigating environmental, social, and governance (ESG) risk.

**Most importantly, case studies of listed EMDE companies and products underscore opportunities for systemic impact**. Investors concerned with impact can set entire markets on a more positive trajectory by investing in earlier-stage contexts to enhance liquidity, reduce information asymmetries, and build issuer capabilities. To achieve such impact, market participants should consider integrating additionality considerations throughout their investment process. This could mean:

1. Maximising *financial additionality* when investing in primary markets by intentionally sizing investments to mobilise commercial co-investment. MOBILIST has piloted such an approach by (i) committing to a maximum investment 'ceiling' to provide confidence to co-investors that a transaction will succeed while (ii) being ready to accept a lower allocation to maximise commercial participation as the book builds.

2. Maximising *development additionality* by enhancing the functioning of fledgling EMDE capital markets. This can be achieved by:

    - Working with investees to improve liquidity in domestic markets. Liquid capital markets are a principal public good in and of themselves[3], which – especially in frontier economies – should not be taken for granted. Financial additionality need not be confined to the primary markets in EMDEs, particularly where market makers are absent and liquidity is limited.

    - Targeting innovative issuers, transactions, and products that bring to market *new information*, not only new assets. Generating demonstration effects and mitigating information asymmetries by backing pioneering products and companies through an 'originate-to-demonstrate' model could be the most scalable route to impact of all.

3. Maximising non-financial value additionality by:

    - Actively engaging with investees during the listing process and once invested; to enhance corporate behaviour, sustainability strategy, and impact management. Such engagement applies to both debt and equity, though the levers available to investors differ significantly.

    - Working with investees and policymakers to enhance sustainability, impact and ESG disclosures, setting precedents and best practices for others to follow and generating data required to develop sustainable development indices for passive investors to track.

    - Considering incentive structures for intermediaries and investees that support and encourage delivery of their impact objectives.

    - Providing targeted technical assistance throughout the listing process and in the secondary markets (for both equity and debt instruments) to enhance impact management and accelerate demonstration effects.

1 Source: GIINSIGHT: Impact Investing: Allocations, Activity & Performance (GIIN 2023 Report).
2 https://blogs.worldbank.org/en/psd/acting-on-climate-through-the-banking-sector
3 For detailed analysis of the key economic advantages of liquid public markets see MOBILIST: Liquidity in Equity Markets: its Sources & Significance in Developing Economies (30 June, 2023).

**The case studies presented in this Note also demonstrate that official sector development finance actors have a key role to play**. Some multilateral development banks (MDBs) and development finance institutions (DFIs) view public listings simply as a trading device, perhaps because in developed and larger emerging economies, liquidity, public scrutiny, and shareholder protection in public markets are a given. However, in smaller and less liquid EMDEs, development additionality should also include the contribution of MDB/DFI investments in growing capital markets and reducing information asymmetries that deter larger international allocators and index providers altogether.

**Ultimately, impact investors need to work with issuers, regulators, and index providers to trigger a virtuous, self-reinforcing cycle of liquidity, valuations, market development, and investor confidence.**