MOBILIST

INVESTING WITH IMPACT IN EMDE PUBLIC MARKETS: THE IMPORTANCE OF ADDITIONALITY

MOBILIST

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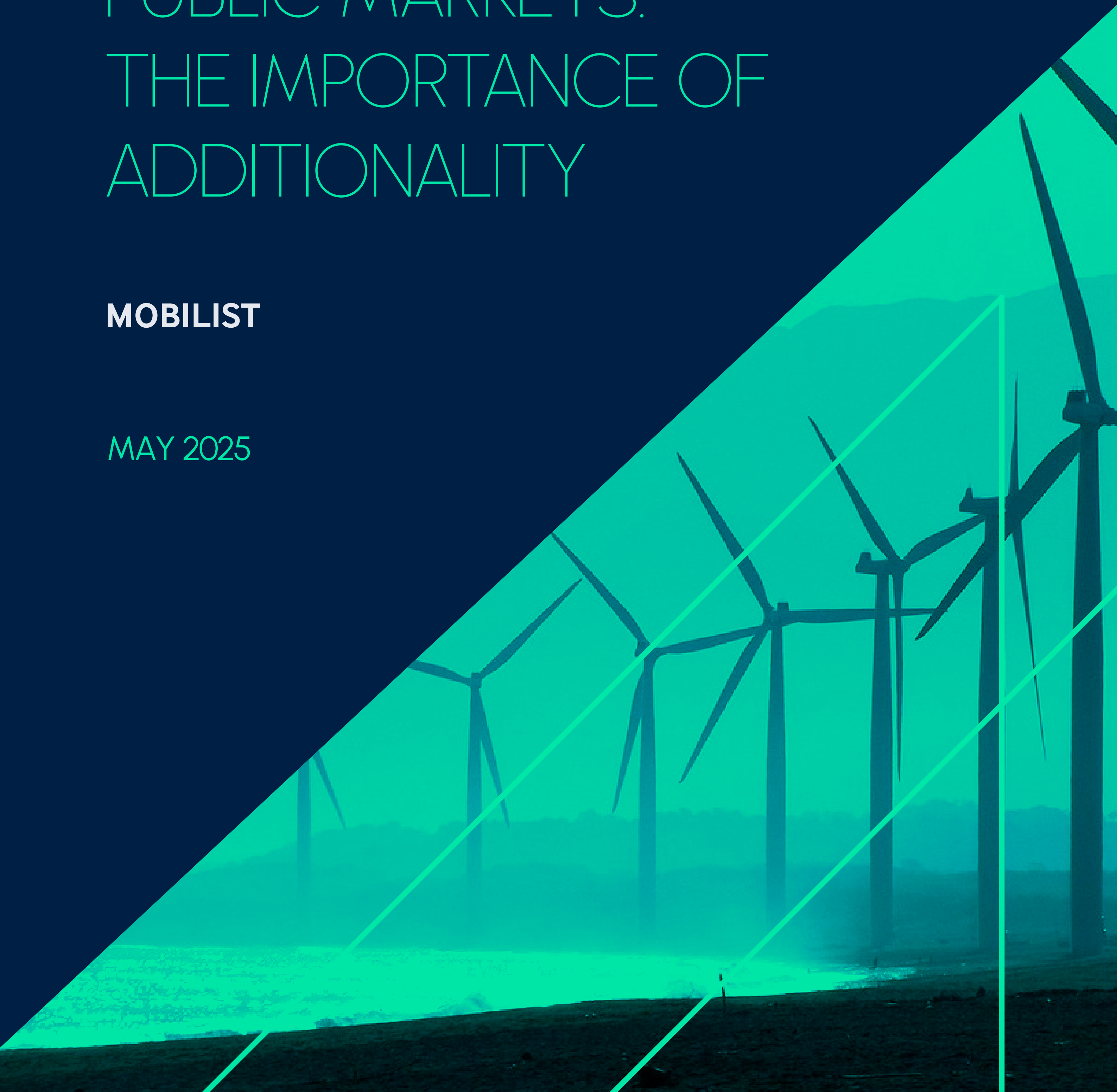

ABOUT

MOBILIST

A flagship UK government programme and now supported by Norad, Mobilising Institutional Capital Through Listed Product Structures (MOBILIST) supports investment solutions that help deliver the Global Goals for Sustainable Development and the climate transition. MOBILIST competitively sources and selects dedicated emerging and frontier market investment products. Our team supports these products to list on global and local public exchanges. By demonstrating products' commercial viability, we build momentum for developing country investment opportunities at scale.

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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.

1. INTRODUCTION

This MOBILIST Research Policy Note (see Box 1) explores routes to sustainable development and climate impact in emerging market and developing economies (EMDEs) through *the public markets*. The Note reviews whether and how impact considerations feature in allocations to EMDEs at present and draws lessons for practitioners and policymakers from a series of case studies. The Note contributes to the discourse on measuring and maximising the impact of private investment and the related discourse on the mobilisation of private capital into EMDEs by public sector institutions, with a particular emphasis on mobilisation and impact through *public markets*.

BOX 1 – INTRODUCING MOBILIST

MOBILIST seeks to harness the unparalleled potential of public markets for sustainable development in low- and middle-income countries by accessing institutional investors' deep pools of capital through public stock exchanges. Developed by the UK Government and delivered in partnership with the Governments of Norway and Switzerland, MOBILIST offers equity capital to facilitate the IPO of pioneering products, technical assistance throughout the listing journey, and policy and research support to enhance the environment for issuers, investors, and intermediaries. The common thread of MOBILIST-supported products is that they mobilise capital through public markets, which are best placed to address information asymmetries commercial investors face.

Varied interpretations of central concepts have slowed progress towards scaling impactful investments, particularly in EMDEs. These markets have often been 'takers' of global typologies and metrics developed for investors in Europe and North America. Divergence in definitions is evident within investor communities, across developed and EMDE markets, and between private sector investors and public sector institutions concerned with sustainable development in EMDEs. Prior MOBILIST research suggests that allocators' mainstreaming of non-financial considerations in such a fragmented context could divert capital from EMDEs because of data scarcity, backwards-looking typologies, and failure to account for additionality and momentum. This is because ESG and some impact rules, typologies, and data standards were predominantly designed for developed markets and do not consider the compliance challenges and associated costs for earlier-stage issuers in EMDEs. As a result, they could act as a barrier and not an enabler of impactful capital inflows.[4] Box 2 provides a glossary of key terms used throughout this paper.

4 See RiskControl: Financial Regulation and Capital Flows to EMDEs (June 2023) at https://www.mobilistglobal.com/wp-content/uploads/2023/06/Financial-Regulation-and-Emerging-Markets_MOBILIST-Research-by-Risk-Control_2023.pdf

BOX 2 – KEY TERMS

Impact

Impact addresses the ultimate significance and potentially transformative effects of the intervention, [including] social, environmental and economic effects… that are longer-term or broader in scope… It does so by examining the holistic and enduring changes in systems or norms and potential effects on people's well-being, human rights, gender equality, and the environment – OECD.[5]

Impact investments

Impact investments are investments made with the intention to generate positive, measurable social and/or environmental impact alongside a financial return – GIIN.[6]

Impact investing

Impact investing is defined as the deployment of funds into investments that generate a measurable and beneficial social or environmental impact alongside a financial return on investment – UNDP.[7]

Impact investors

Impact investors intentionally and explicitly seek the dual objective of producing both financial and social/environmental returns - KPMG.[8]

Environmental, Social, and Governance (ESG)

ESG means using Environmental, Social and Governance factors to assess the sustainability of companies and countries. These three factors are seen as best embodying the three major challenges facing corporations and wider society, now encompassing climate change, human rights and adherence to laws – Robeco.[9]

ESG-aligned investing

Traditional ESG investing (which still represents most ESG-aligned investing) is defined as 'single materiality'. This approach considers only how ESG risks and opportunities impact an organisation's financial performance.[10] In contrast, 'double materiality' represents a more holistic approach to ESG-aligned investing that considers the impact on the natural world and society, as well as any potential financial gains – Deutsche Bank.[11]

Additionality

Means that an intervention will lead, or has led, to effects which would not have occurred without the intervention. This implies that additionality requires establishing a causal relationship between the intervention and the additional effects (financial, developmental or otherwise) – OECD.[12]

Theory of change

A theory of change explains how the activities undertaken by an intervention (such as a project, program or policy) contribute to a chain of results that lead to the intended or observed impacts – Better Evaluation.[13]

5 OECD (2021), Applying Evaluation Criteria Thoughtfully, OECD Publishing, Paris, https://doi.org/10.1787/543e84ed-en
6 Source: https://thegiin.org/publication/post/core-characteristics-of-impact-investing/
7 Source: https://www.undp.org/policy-centre/istanbul/impact-investing
8 KPMG: Creating value for society through impact investing (2018) at https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2017/11/impact-investing.pdf
9 Source: https://www.robeco.com/en-int/glossary/sustainable-investing/esg-definition
10 Source: https://www.manifestclimate.com/blog/what-is-single-and-double-materiality/
11 Source: https://www.deutschewealth.com/en/our-capabilities/esg/what-is-esg-investing-wealth-management.htm
12 Winckler Andersen, O., Hansen, H. and Rand, J. "Evaluating financial and development additionality in blended finance operations", OECD Development Co-operation Working Papers, No 91 OECD Publishing, Paris.
13 Source: https://www.betterevaluation.org/frameworks-guides/managers-guide-evaluation/scope-evaluation/describe-theory-change

Prior MOBILIST research[14] and others[15] have written extensively on the availability and quality of ESG and impact data in EMDEs and potential solutions. Instead, this Policy Note focuses on two related but distinct concepts, clarity over which is crucial to scaling investment in EMDEs through public markets. The first is a company or product's economic, environmental, and social impact; the second is an investor's additionality in contributing to impacts that otherwise would not have occurred. Box 2 explains that investors lie on a spectrum in their consideration of these concepts:

- Impact investors increasingly require measurable and attributable (or 'additional') contributions to higher-level, systemic outcomes beyond a company or product's direct activities.
- ESG investors face a much lower bar of 'consideration' of ESG factors without the need for attributable contribution to positive impact. Instead, their focus tends to be on the extent to which ESG factors create additional risk to portfolio returns and allocators' reputations.

Additionality has increasingly been codified in policy and legislation, including in the UK's 2023 Green Finance Strategy and the UK Financial Conduct Authority's (FCA) Sustainability Disclosure Regime (SDR).[16] The FCA underscores that the Impact category within sustainable investing is differentiated by its intention to generate additionality by obligating Sustainable Impact-labelled financial products to explicitly measure the investor's contribution to impact objectives.[17] The FCA recognises that key attributes of the Impact category include the presence of a clear theory of change and measurability of both the product's assets and the investor's contribution to intended impacts.

In several respects, this approach to additionality mirrors the OECD's requirement that private sector instruments (PSIs) backed by *public sector* international development funders must demonstrate additionality if they are to be included in reporting for official development assistance (ODA).[18] Provisional methods published in 2023 distinguish between financial, value, and development additionality, requiring that for a PSI activity to be ODA-eligible, it must be additional financially or in value, together with its development additionality. According to the OECD, a PSI activity conveys:

- *Financial additionality* in cases where private sector partners are unable to obtain financing from capital markets (local or international) for a specific activity at the necessary terms and/or scale or where it mobilises finance from the private sector that would otherwise not have been invested.
- *Development additionality* if it is intended to deliver development impact that would not have occurred without the partnership between the official and the private sector. The OECD's definition of impact used in this context is provided in Box 2.
- *Value additionality* in cases where the official sector provides or mobilises, alongside its investment, non-financial value to private sector partners that the capital markets would not offer, and which will lead to better development outcomes. It is often pursued through investment conditionality, active ownership (e.g. board participation), capacity-building activities, advisory services and other technical assistance.

Table 1 provides an overview of key distinctions on this spectrum of ESG-aligned to impact-driven investment. This spectrum demonstrates the range of ways in which investors integrate ESG and impact considerations into their investment process, but neither requires compromise on financial returns. On the contrary, increasing evidence underscores that investors do not need to choose between non-financial considerations and financial performance. For example, one recent analysis of half a century of ESG investment data concluded that considering non-financial aspects of business conduct appears to enhance and not undermine a company's financial performance: "Companies that apply ESG principles tend to be higher quality and financially superior".[19]

Similarly reliable performance data for impact investments is more difficult to produce, primarily because of the predominance of private markets in their portfolios (see below). However, based on available data from 305 impact investors, over two-thirds of whom seek market rate returns,[20] 86% of investors reported either in-line (70%) or better than expected (16%) financial returns. Based on the 2024 GIIN analysis[21] covering 5 years of data (2019-2024), one could conclude that in most cases, risk-adjusted, market-rate returns can be achieved through impact investments if that is the asset manager's stated objective.

14 Sources: Fitch Solutions: Resetting the ESG Investment Paradigm to Support Emerging Markets & Developing Economies (April 2023) see research report at https://www.mobilistglobal.com/wp-content/uploads/2023/04/MOBILIST_Research-Report_Resetting-the-ESG-Paradigm.pdf and https://www.worldbenchmarkingalliance.org/news/the-start-of-the-impact-management-project-network/nce ratings and sustainability risks in credit ratings, European Commission, 2023

15 For example, see the World Benchmarking Alliance (https://www.worldbenchmarkingalliance.org/) and outcomes from the Impact Management Project (https://impactfrontiers.org/)

16 UK Government Paper: Mobilising Green Investment: 2023 Green Finance Strategy (March 2023) and FCA: Sustainability Disclosure Requirements (SDR) and investment labels (Nov 2023).

17 The FCA's disclosure requirements specifically instruct the managers of financial products labelled Sustainability Impact to publish KPIs to "measure the positive impact (both the impact of the assets and the investor's contribution)".

18 OECD: Private sector instruments: additionality, reporting requirements and data disclosure, and monitoring, safeguards and disciplines (Aug 2023) at https://one.oecd.org/document/DCD/DAC/STAT(2023)20/REV1/en/pdf

19 Bart van der Grient, Chris Berkouwer and Taeke Wiersma: Investigating the link between ESG and investment performance (Robeco, Jan 2024) see https://www.robeco.com/en-uk/insights/2024/01/is-esg-investing-more-hype-than-help-for-investment-portfolios

20 69% of emerging market-focused impact investors seek market rate returns as opposed to 78% of developed market-focused impact investors. GIIN: State of the Market 2024: Trends, Performance and Allocations (GIIN, 2024).

21 GIIN: State of the Market 2024: Trends, Performance and Allocations (GIIN, 2024).

Table 1 - The key differences between ESG-aligned and impact-driven investing[22]

	ESG-aligned investing	Impact investing
ESG risk vs SDG impact[23]	Typically concerned with asset-level ESG harms that create financial risks. For example, those arising from lawsuits, union strike action, and conflicts of interest.	Typically concerned with an investment's positive contribution to wider economic, environmental, and social goals, including among immediate stakeholders, wider communities, and entire markets.
Alignment vs additionality	Little consideration of the investor's incremental contribution to SDGs and climate objectives.	Emphasis on incremental impact that would not have occurred without an investor's participation.
Backward vs forward-looking	Typically based on backwards-looking scorecards of behaviour in relation to ESG matters.	Tends to be more forward-looking, targeting investees with credible plans for significant change in operations and, therefore, impact.
Negative screens vs positive selection	Initial negative screens to exclude assets with high ESG risks, with subsequent investment process targeting maximisation of risk-adjusted financial returns.	Treats financial return and impact in parallel throughout the investment process and "may even prioritise social and environmental benefits as long as financial returns are positive."[24]
Public vs private market focus	Primarily public market strategies, partly because ESG ratings primarily rely on publicly reported ESG data.	Primarily private market strategies because financial additionality is easier to appraise, influence and evaluate in illiquid assets.

These distinctions have material consequences for asset allocation to EMDEs, where both (perceived) ESG risk and potential for SDG and climate impact are higher. While less than 10% of ESG-aligned assets are invested outside developed markets, Figure 1 shows that a typical impact investor allocation to sub-Saharan Africa alone can be as high as 12-14%. This is 2-3 times larger than the typical EMDE allocation of ESG funds, which ranges between 3% and 7%. Figure 2 shows that impact investors have tended to focus on the private markets, partly because of concerns over their ability to contribute incrementally to impact objectives through listed instruments.

In contrast to influencing large, listed, developed market corporates, early-stage private market companies are typically of smaller scale, creating opportunities for impact investors to achieve shareholder control and affect impactful changes in corporate behaviour. In large and liquid capital markets, the efforts of impact investors "are complicated by socially neutral investors (who only seek profit), who can potentially offset any effects on the stock price. For example, if impact investors divest from an industry, socially neutral investors can move in to buy up the underpriced stock. There is clear evidence of short-term market inefficiency such that impact investors can affect stock prices on the timescale of around 3 months. There is expert disagreement about whether socially responsible investing is likely to have an effect after 6 months and beyond: some economists hold that the effect will be completely offset, some that more than half will be offset, and some that a substantial fraction of the effect might persist beyond 6 months." [25] This traditional, well-entrenched view is further explored and challenged in the next section.

22 Based on Jaclyn Foroughi's article 'ESG Is Not Impact Investing and Impact Investing Is Not ESG' in the Stanford Social Innovation Review (Nov, 2022) and Hauke Hillebrandt and John Halstead's article 'Impact Investing Report' (Nov 2018). Sources: https://ssir.org/articles/entry/esg_is_not_impact_investing_and_impact_investing_is_not_esg# and https://www.founderspledge.com/downloads/fp-impact-investing

23 Hauke Hillebrandt and John Halstead: Impact Investing Report (Nov 2018).

24 Source: https://ssir.org/articles/entry/esg_is_not_impact_investing_and_impact_investing_is_not_esg#

25 See Hauke Hillebrandt and John Halstead: Impact Investing Report (Nov 2018).

Figure 1 - Regional Breakdown of ESG vs Impact Investing (2021-22)

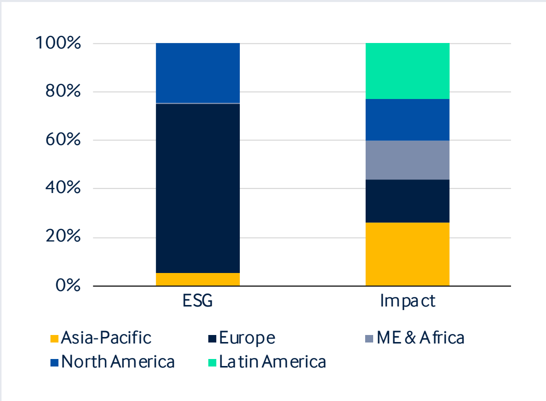
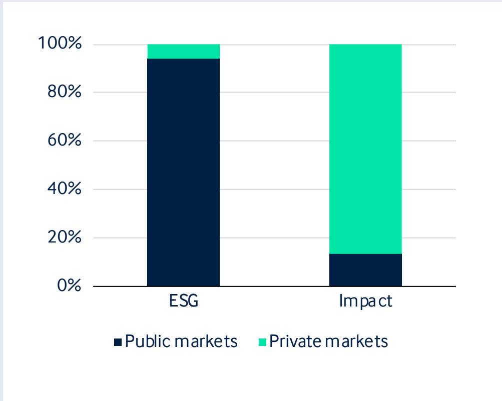


Figure 2 - Public vs Private Markets in ESG vs Impact Investing (2021-22)



Sources: PwC: Asset and wealth management revolution: Exponential expectations for ESG (2022) and GIINSIGHT: Impact Investing: Allocations, Activity & Performance (GIIN 2023 Report)

The remainder of this Policy Note applies approaches to impact and additionality, used routinely in international development, to public market investing in EMDEs. The Note demonstrates that investors can generate additional impact at scale in these markets by investing in listed instruments. This is partly possible because of the unique characteristics of EMDE assets relative to their developed market counterparts, particularly for those EMDE markets and asset classes that are smaller, less liquid, and so less well-known to larger allocators. Enhancing liquidity and mitigating information asymmetries by investing in these markets can contribute to impact at the investee level and wider public goods associated with more functional capital markets in EMDEs.

This Policy Note is organised as follows:

- **Section 2** describes potential routes to additionality and impact through listed instruments offering exposure to EMDEs.
- **Section 3** presents a series of case studies highlighting the diverse structures and strategies through which listed instruments can help finance a range of sustainable development and climate objectives.
- **Section 4** summarises conclusions and recommendations for asset allocators and development finance actors.

2. ROUTES TO ADDITIONAL IMPACT THROUGH PUBLIC MARKETS IN EMDEs

Impact investors have tended to minimise public market allocations, partly due to concerns over their additionality.[26] Establishing financial additionality in large, liquid, well-regulated public markets can be conceptually challenging. Some impact investors are concerned that impactful and profitable projects offered in these markets would likely be funded without their presence. In contrast, investors without an impact mandate would vote down impactful projects with inferior profitability.[27] Moreover, by the time a company is mature enough to list (or issue listed debt instruments) and able to comply with public market disclosure and reporting requirements, impact investors may feel they are able to generate relatively little value additionality through engagement with and support for management.

While an argument could be made that avoiding listed instruments might miss an impact opportunity even in developed markets, the case studies presented in the following section show that additionality concerns are even less relevant in EMDEs and particularly in smaller frontier markets. In these economies, public markets can lack scale, liquidity, robust regulation, and quality information.[28] This means that impact investors can indeed add significant financial value. Similarly, investors can create significant value additionality through engagement with issuers in EMDEs, where sustainability practices and reporting often remain below global standards. Moreover, these are the contexts where the greatest development additionality can be achieved, with opportunities for investors to generate both direct and systemic impact in pursuit of the SDGs and international climate commitments.

In EMDEs (and possibly even in developed markets), investors can generate additional impact in public markets through four primary channels:

1. **Financial additionality is most easily proven at the point of listing**. Impact-driven debt and equity investors can be most confident of financial additionality when participating in primary transactions. In primary markets, the same case for additionality used in private markets can apply – the impact investor contributes funds that otherwise would not have been available to the issuer. Taking anchor or higher-risk positions at the listing stage could be particularly additive, giving other investors both confidence that a transaction will reach the requisite scale and downside protection. As the book builds, impact investors could accept lower allocations than peers to minimise the risk of crowding out commercial capital and, therefore, maximise financial additionality.

2. **Making secondary markets and backing innovative structures that enhance liquidity in low-liquidity environments could be financially additional, enhancing valuations and commercial investors' confidence in smaller EMDE markets.** Recent research shows that introducing market-makers in frontier economies can help enhance liquidity and reduce bid-ask spreads in public markets.[29] This finding mirrors research from small-cap and other less liquid segments of developed market exchanges, in which designated market-makers had a significant impact on market quality. In earlier-stage frontier markets, where illiquidity is a constraint for larger allocators and index providers, DFIs and other impact investors could establish impact-driven market-makers. This would be comparable to DFIs pooling resources and expertise to bring to market hedging instruments for EMDE currencies, through the TCX Fund. Similar investments to establish market-makers and otherwise increase liquidity could significantly enhance price discovery and valuations of impactful debt and equity instruments. Complementary action would also be required to mitigate regulatory and other structural impediments to liquidity, as it has been laid out in prior MOBILIST research.

26 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 their private market and real asset investments (86% and 81% respectively in 2017 and 2022). Source: GIINSIGHT: Impact Investing: Allocations, Activity & Performance (GIIN 2023 Report).

27 See for detailed argument: Hauke Hillebrandt and John Halstead: Impact Investing Report (Nov 2018

28 See MOBILIST: Liquidity in Equity Markets: its Sources & Significance in Developing Economies (30 June, 2023)

29 Source: https://ideas.repec.org/a/rfe/zbefri/v42y2024i1p95-121.html

3. **Picking pioneering issuers and instruments can generate systemic development additionality by bringing new information to market**. Information asymmetries are widely considered a key constraint to asset allocation into smaller, less familiar EMDE markets, segments, and asset classes. Backing innovative issuers brings new information to the market at the point of listing. After-market trading and disclosures provide further evidence of investability (or otherwise) and impact of not only the issuer but the entire market, segment, and asset class they represent. Selecting investments based on their informational richness under an 'originate-to-demonstrate' strategy could be among the most scalable routes to impact. This strategy was explored in prior MOBILIST research.[30]

4. **Engagement with issuers and complementary technical assistance can ensure equity and debt investors' value additionality and development impact.**

   b. **Impact-driven equity investors** can enhance a company's impact and the quality of its sustainability reporting through engagement with management and by promoting impact objectives through voting patterns. Innovative incentive structures (including impact-based fees and clawbacks) can further align issuer and investor objectives to maximise value and development additionality. Precedents of active shareholder and lender engagement are even emerging in the context of passively allocated funds through the implementation of proxy-voting strategies.[31]

   c. **Impact-driven debt investors** can similarly prioritise instruments that incentivise sustainable development and climate impact, either through clearly defined uses-of-proceeds or through sustainability-linked structures that reward progress towards higher-level outcomes (see Box 3). Even in the case of unlabelled instruments, the high likelihood that an issuer will return to debt capital markets in the future provides key investors with influence over issuer behaviour, including in relation to impact. Technical assistance can support issuers' engagement with investors on these topics (and more broadly) to enhance demand and liquidity, in turn improving the quality of price signals.

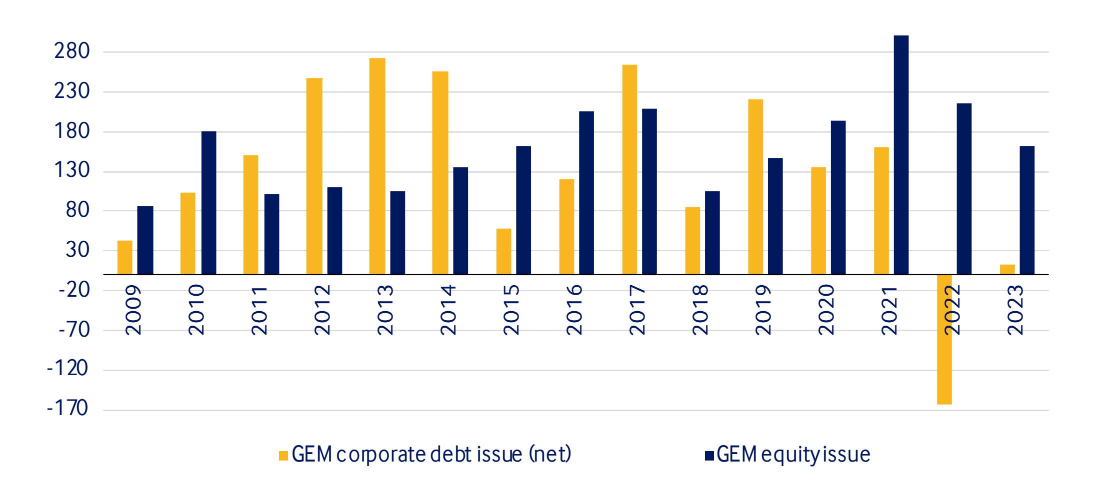
Once invested, the transparency of public markets can also act as a commitment device, incentivising the delivery of impact objectives long after impact-driven investors have exited and recycled their capital. In most EMDEs, ESG and impact reporting requirements differ greatly for public and private issuers. Such information is provided regularly and in a consistent format for listed companies and instruments, in most cases, as part of the issuer's annual reporting. This, in turn, imposes discipline through an ongoing, well-informed dialogue between investors and issuers and under the scrutiny of market analysts. Compared with typical private market investments, the transparency of public markets can significantly reduce costs of impact monitoring and management facing investors.

BOX 3 – GSS+ BONDS IN PUBLIC MARKETS: TRANSPARENCY, CLEAR RULES, AND SIZE ENSURE GENUINE IMPACT ADDITIONALITY AT SCALE

Both equity and debt financing are proving crucial in financing climate and development targets in EMDEs and globally (see Figure 3). Global debt issuance climbed to US $13.2 trillion in 2024H1, compared to US $9.8 trillion in 2023H1, an increase of 35%. Green, social, sustainability, and other labelled (GSS+) bond volume constituted 4.2% of the H1 2024 total, with aligned GSS+ volume reaching US $554 billion, an increase of 7% on the prior year. When combined with the powerful scrutiny of public markets, GSS+ bonds can deliver "less market volatility and less greenwashing". Public markets and the joint International Capital Markets Association (ICMA) guidelines can further help investors to "stay clear of greenwashing and ensure their bonds are fit for purpose."

30 Source: https://www.mobilistglobal.com/research-data/development-finance-through-public-markets-originate-to-demonstrate/
31 Source: https://manhattan.institute/article/index-funds-have-too-much-voting-power-a-proposal-for-reform

Figure 3 – Emerging Market (Net) Corporate Debt and Equity Issuance (2009-2023 in US $bn)



Notes to Figure 3: Total equity issues include capital raised through IPOs and secondary market offerings. Net debt issuance can be negative in any given year if more bonds expire than are issued.

Sources: bond data from JP Morgan, Bond Radar, Bloomberg, as of 31 July 2024 at https://www.abrdn.com/en/intermediary/insights-and-research/the-case-for-em-corporate-bonds, while equity data is provided by Dealogic in the SIFMA: 2024 Capital Markets Fact Book (July 2024).

3. CASE STUDIES

The following case studies cover diverse listed companies and products and seek to apply the concepts discussed above to elucidate how public markets could offer scalable and replicable routes to impact in EMDEs. This section also identifies challenges to adopting and maintaining effective impact management practices in public markets, as well as potential solutions. With one exception, the case studies focus on listed equities, which have received less attention among impact-driven investors targeting EMDEs than listed debt instruments.[32] Three of the five case studies relate to investments by the MOBILIST programme. Four include some development finance participation, highlighting the important roles that official MDBs and DFIs can play in public markets.

CASE A - FINANCING THE PHILIPPINES' ENERGY TRANSITION

Overview: In June 2024, the MOBILIST programme invested in the IPO of renewable energy operator Citicore Renewable Energy Corporation (CREC) on the Philippine Stock Exchange (the PSE)[33]. MOBILIST invested ca. US $12.5 million out of the total IPO of US $86 million. The remaining shares were subscribed by private sector investors.

Product impact: CREC's IPO primarily supported UN SDG7 by enhancing access to Affordable and Clean Energy. The company is the second largest solar energy producer in the Philippines, with ten solar projects with a combined gross installed capacity of 285MW,[34] and an existing pipeline of over 2.3GW of new capacity[35] planned by the end of 2026. Its solar, onshore and offshore wind projects target 5GW capacity by the end of 2028 and 8GW by the end of 2030. US $86 million raised through IPO will accelerate CREC's execution of its ambitious solar energy pipeline. This transaction is especially important in the Philippines, where the share of fossil fuels in the energy mix increased over the past two decades. Rapid economic growth has seen electricity demand in the Philippines expand at a 4.4% CAGR over the past wten years, outstripping the growth of renewable energy supply. As a result, by 2021, coal had risen to almost 60% of total electricity generation.

Investor additionality: MOBILIST's participation satisfied the condition of additionality in several ways:

1. MOBILIST's equity contribution was financially additional since private sector demand, while significant, was not entirely sufficient to cover the supply of shares. The UK Government's US $12.5 million participation, accounting for 14.5% of the transaction, played a catalytic role – it was large enough to have contributed materially to getting the IPO over the line. Still, it was not so large as to distort the valuation deemed appropriate by private investors, meaning that MOBILIST remained a price taker during the IPO process. This was highlighted by the fact that despite MOBILIST's participation during the bookbuilding process, the issue price fell from the indicative price of PHP3.88 to the final IPO price of PHP2.70.

2. As of January 2024, the PSE was host to only two renewable energy generators[36] and one renewable energy REIT, which generates rental income from renewable energy operators as tenants. This left ample room for the MOBILIST-supported IPO of CREC to generate new market information concerning the necessary preconditions of a successful renewable energy business model and opportunities for impact in this context. The company's platform approach[37] offered the demonstration of a new operating model among PSE-listed companies, with potential for replication in the market. Aftermarket performance and ongoing disclosures under PSE rules ensure that public financial, ESG, and impact information is continuously updated. These demonstration effects and enhanced market information contribute to the development of the renewable energy segment in the Philippines's capital markets.

32 For extensive data and analysis on the rapidly growing and evolving green, social, sustainability, and sustainability-linked bonds market, please see https://www.climatebonds.net/about

33 Source: https://www.mobilistglobal.com/news-views-events/mobilist-invests-in-renewable-energy-ipo-in-the-philippines/

34 Seven of these are its own assets (175.5MW), while it receives lease payments from the other three.

35 Of which 1.6GW of 8 solar and one hydro project is under construction or ready to be built.

36 ACEN is a regional platform that owns, constructs, and operates power assets, 98% of which are renewables across solar, wind, and geothermal generation and battery storage. SPNEC has a similar business model but focuses on Central Luzon and solar assets only.

37 The company operates a vertically integrated platform covering the design, development, construction, and operation of its renewable energy projects delivering ready-to-build projects within 24 months.

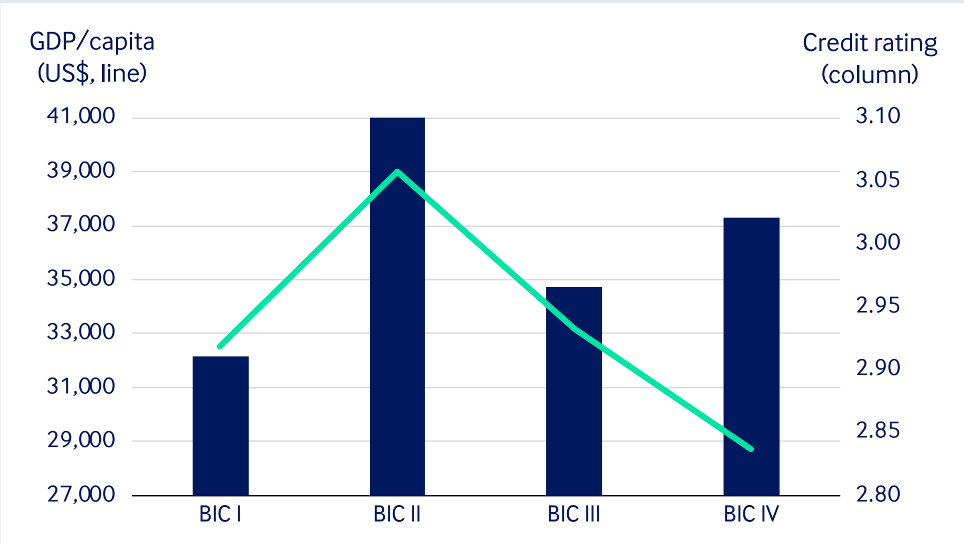
CASE B - BUILDING EMDE SUSTAINABLE INFRASTRUCTURE SECURITISATION AS AN ASSET CLASS

Overview: In September 2023, MOBILIST made an equity investment in the Bayfront Infrastructure Capital IV Pte Ltd (BIC IV) infrastructure asset-backed securitisation (IABS), supporting "strategic infrastructure projects across Asia, the Middle East and Africa"[38] and further establishing IABS as an asset class. Transferring infrastructure assets to private investors enabled originating banks to finance new projects, including green infrastructure projects, primarily in EMDEs. In this way, BIC IV demonstrated opportunities to accelerate capital velocity through securitisation, freeing up capacity for originators to lend to new projects that contribute to sustainable economic development in EMDEs. The securitised notes were listed on the Singapore Exchange.

Product impact: As with prior Bayfront IABS transactions, the underlying assets in BIC IV consisted of infrastructure debt transferred from originating banks' balance sheets. However, this was the first in the Bayfront securitisation series to focus primarily on financing Asia's energy transition. For example, 34% of the underlying assets qualified as sustainable and BIC IV included a dedicated senior sustainability tranche of US $115 million, rated Aaa. Over 80% of the underlying portfolio was infrastructure projects in countries classified by MSCI as emerging economies, the highest proportion in the Bayfront transaction series to that date.

Figure 4 shows the weighted average GDP per capita (line) and the weighted average credit rating[39] (column) of each Bayfront securitisation portfolio. Bayfront IV stands out as the best performer in its combination of weighted average rating (second highest) and exposure to developing countries, by some margin targeting the lowest GDP per capita countries of transactions in the series. Therefore, this transaction has demonstrated that even in lower-income countries, it is possible to find quality infrastructure assets with adequate credit ratings.[40]

Figure 4 – GDP/capita vs credit rating of the four Bayfront securitisation portfolios[41]



Investor additionality: Since this was Bayfront's fourth IABS transaction, it could have been argued there was little information asymmetry for MOBILIST's participation to address. However, the BIC IV transaction brought to market two fundamental innovations that contributed to the strongest order book and the tightest pricing in the series to date:

38 Source: https://www.mobilistglobal.com/news-views-events/mobilist-makes-catalytic-equity-investment-in-infrastructure-debt-securitisation-transaction-sponsored-by-singapore-based-bayfront-infrastructure-management/

39 We used a simplistic approach of allocating numbers to each of the five credit rating ranges: Aa1-Aa3 = 5, A1-A3 = 4, Baa1-Baa3 = 3, Ba1-Ba2 = 2, and B1-B2 = 1. While the approach is simplistic, it has the advantage to express the relative credit rating of each portfolio in one number.

40 While BIC II had on average higher credit rating, it only managed to achieve that at the expense of supporting the lowest proportion of low income countries, as the average GDP/capita of BIC II was ca. $39,000 vs $29,000 in the case of BIC IV.

41 Source: https://www.bayfront.sg/platforms and https://data.worldbank.org/indicator/NY.GDP.PCAP.CD

- Similar to prior Bayfront securitisation transactions, the deal size was US$410.3m with a 10% equity tranche. However, 19.5% of the preference shares were subscribed by MOBILIST, making BIC IV the first IABS backed by an external equity investor and freeing Bayfront's scarce equity for future transactions. This transaction also appears to be the first direct equity participation by a development finance actor in a listed securitisation transaction to date, highlighting the viability of this approach to other development finance institutions.
- The unrated and unlisted junior Class D Notes were guaranteed by GuarantCo Ltd (itself rated A1 by Moody's and AA- by Fitch), a member of the Private Infrastructure Development Group (PIDG).[42] GuarantCo's guarantee helped to transfer risk from private investors to development finance actors and enabled the overall structure to achieve the tightest pricing in the series to date.

Apart from its direct capital contribution, which demonstrates financial additionality, MOBILIST's participation created value additionality in several ways: not only does MOBILIST require and monitor alignment with the UN SDGs[43] and its own ESG framework, the programme actively raised the profile of the transaction with development finance peers and market participants, increasing the likelihood of replication. This fourth transaction in the series also contributed additional track record and comparables for future IABS coming to market, enhancing price discovery and so contributing development additionality at the market level by building the IABS asset class.

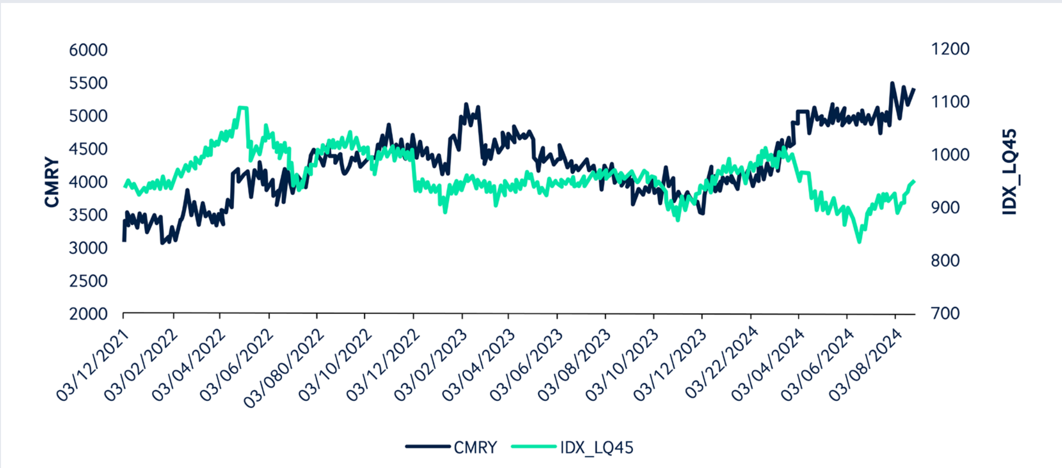
Other development finance actors supported the transaction and prior IABS sponsored by Bayfront Infrastructure Management, demonstrating the varied ways in which development finance can generate financial and development additionality when deployed into innovative assets and asset classes. For example, the Asian Infrastructure Investment Bank (AIIB) is a shareholder in Bayfront Infrastructure Management and the Asian Development Bank (ADB) is a shareholder in Clifford Capital Holdings, Bayfront Infrastructure Management's other shareholder. AIIB also invested in the infrastructure-backed notes issued by BIC IV.

42 RiskControl: Innovative Deals in Development Finance: Originate to Demonstrate (July 2024).
43 More specifically MOBILIST's investment was linked to green, social and sustainability notes in renewable energy, pollution prevention & control, energy efficiency, and affordable basic infrastructure, addressing SDGs 7, 11, and 13, i.e. affordable and clean energy, sustainable cities and communities and climate action.

CASE C – ENHANCING FOOD SECURITY, WOMEN'S ECONOMIC EMPOWERMENT, AND IMPACT MANAGEMENT THROUGH ACTIVE STEWARDSHIP

Overview: PT Cisarua Mountain Dairy Tbk (CIMORY), a producer of dairy and consumer foods products in Indonesia, successfully listed on the Indonesia Stock Exchange (IDX) in December 2021. CIMORY raised IDR 3.66 trillion (US $255 million equivalent), offering shares representing 15% of the company's issued share capital. ADB subscribed to ca. 19.4 million shares worth IDR 59.9 billion (US $4.2 million). CIMORY's successful execution of its expansion strategy after IPO led to an increase in net income from IDR 790 billion in 2021 to IDR 1,242 billion in 2023. Consequently, CIMORY's stock price has risen by 72.9%[44] since the IPO, outperforming the IDX LQ45[45] which increased by only about 1% (see Figure 5).

Figure 5: CIMORY share price compared with IDX LQ 45 since IPO



Product impact: ADB's investment in CIMORY was intentionally aligned with the Government of Indonesia's directives and regulations on improved sustainability of farming; with a focus on achieving food sovereignty; strengthened agricultural bio-industry systems, and increased farmer welfare.

Despite being a middle-income country, Indonesia ranked 73/117 countries in the 2021 Global Hunger Index. 28% of children under 5 years of age suffered from stunting. At the same time, obesity was prevalent among children and adults in all income groups. More than 20% of the population had a serious daily protein consumption deficit, with proteins comprising less than 8.6% of their diet. CIMORY's strong track record in producing quality dairy products meant that capital raised through IPO contributed to expanded access to affordable proteins for end-customers by tripling the company's production and distribution capacities. In turn, enhanced protein intake could contribute to reduced hunger, stunting, and intake of low-quality carbohydrates.[46]

Agriculture is also a key sector for women's economic activity in Indonesia, including farming and animal husbandry in the dairy industry. However, female contributions are often not formally acknowledged or rewarded. Women's labour force participation in Indonesia at the time of CIMORY's listing was 28 percentage points below that of men. By expanding activity in the dairy industry, CIMORY disproportionately benefits women in the economy.

Moreover, CIMORY has developed an innovative distribution channel, Miss CIMORY, comprising a salesforce of over 4,000 women selling its products directly to more than 200,000 households each week. Immediately following its IPO in December 2021, CIMORY also launched its '1000 Srikandi Peternak Indonesia' ('1000 Heroines of Indonesian Farmers') movement,

44 Price per 27th August 2024
45 IDX_LQ45 IDX LQ45 is an index of the 45 most liquid and highly traded stocks on the Indonesia Stock Exchange
46 Source: https://www.adb.org/sites/default/files/project-documents/55301/55301-001-rrp-en.pdf

aimed at supporting SDG 5, and delivered by CIMORY in collaboration with the ADB and Chamberlain Veterinary Services (CVS) Australia. This women's empowerment programme invited female farmers from West Java to develop their dairy farming skills, financial literacy, entrepreneurship, and digital literacy to help grow their dairy businesses.

Figure 6 summarises the range of CIMORY's SDG initiatives and targets. The IPO increased CIMORY's financial capacity, allowing it to expand operations, reinforcing CIMORY's position as a leading dairy producer and enhancing the scale and nature of its contribution to economic development at both local and national levels.

Figure 6: CIMORY's SDG Initiatives, Main Programmes and Medium-Term Targets[47]

1 NO POVERTY	5 GENDER EQUALITY	6 CLEAN WATER AND SANITATION	7 AFFORDABLE AND CLEAN ENERGY	12 RESPONSIBLE CONSUMPTION AND PRODUCTION
Main Initiative: Increased engagement of local communities in Cimory's supply chain	**Main Initiative:** Empowerment of low to middle income women	**Main Initiative:** Water conservation and wastewater utilisation	**Main Initiative:** Energy conservation and utilisation of clean and renewable energy in company activities	**Main Initiative:** Responsible use of plastic materials.
Programmes: • Dairy Farmers programme	**Programmes:** • "Srikandi" Farmers programme • Miss Cimroy" Agent programme	**Programmes:** • 3R (Reduce, Reuse, and recycle) program in all factories • Rainwater Collection Program • Utilisation of steam condensate as boiler feed water • \recycling program for effluents from wastewater treatment facilities for utility water	**Programmes:** • Installation of solar panels at factory locations • Conversion of freon chillers to liquid NH3-based chillers • Installation of solar cells for lighting in factory areas • Conversion of electric chillers to absorption chiller systems • Use of LED lighting throughout factory locations	**Programmes:** • All new products use environmentally friendly packaging. • Utilization of lighter and thinner plastic materials for bottle packaging, pouch caps, and secondary packaging. • Utilisation of lighter and thinner plastic materials for bottle packaging, pouch caps, and secondary packaging. • Support for plastic waste collection and recycling activities.
Medium Term Targets 1000 dairy farmers as new partners per year	**Medium Term Targets** 20% increase in number of miss cimory ladies	**Medium Term Targets** 10% reduction in water using ratio	**Medium Term Targets** 10% reduction in energy usage ratio	**Medium Term Targets** 10% reduction in plastic usage ratio

Finally, approximately 80% of all dairy products consumed in Indonesia are imported. As domestic output failed to meet accelerating growth in domestic demand, reliance on imports was likely to worsen. By integrating local farmers into its supply chain and reducing the sector's reliance on imports, CIMORY contributes to food security and sovereignty, Indonesia's economic development, and even macroeconomic stability by enhancing the country's trade balance and reducing foreign exchange outflows. The company also provides training to cooperative representatives to help farmers sustainably improve productivity and quality.

Investor additionality: While its financial allocation in the IPO was relatively limited, ADB generated financial additionality by taking an anchor position that helped catalyse initial discussions with other possible investors. The investment proceeds allowed CIMORY to expand its business, increase financial returns, and enhance its societal contributions. The Company's net income increased by over 57% in two years since IPO, demonstrating its ability to grow and expand its impactful operations with the funds raised.[48]

Moreover, ADB generated value additionality by actively contributing to CIMORY's sustainability practices and women empowerment programmes. Prior to its investment, ADB commissioned an extensive Environmental and Social Compliance Audit Report[49], which identified a range of risks and recommended corrective actions. This included actions relating not only to specific risks but more widely to corporate systems and approaches to environmental and social risk management, in alignment with ADB requirements and domestic regulations. For example, while the audit found low risk from a regulatory compliance perspective, it recommended actions to minimise and monitor the impacts of CIMORY's supply chain on forest cover and to enhance grievance redress. ADB's investment was contingent upon CIMORY's agreement to document and agree a corrective action plan and adequate environmental and social risk management system prior to disbursement.

47 Source: https://cimory.com/uploads/investors/Cimory_2023_SR_FINAL.pdf
48 Source: https://cimory.com/uploads/investors/AR%20CMRY_2023_FINAL.pdf
49 Source: https://www.adb.org/sites/default/files/project-documents/55301/55301-001-escar-en_0.pdf

The transaction also demonstrates value and development additionality through the enhanced market information created by CIMORY's IPO and disclosures required by IDX, particularly in relation to sustainability practices in the dairy sector. Although CIMORY had nascent sustainability programmes before its listing, going public led the company to expand these efforts, set initial targets, and make its sustainability reports available to the public. CIMORY began publishing sustainability reports immediately after its IPO, and these reports are now available for the financial years 2021-2023. Figure 7 provides an overview of enhancements to CIMORY's sustainability reporting and its impact and ESG management since the IPO.

Figure 7: CIMORY's Disclosure and Initiatives on its Sustainability Journey

From a value additionality perspective, these reports reflect enhanced sustainability practices that came with both ADB's investment and CIMORY's decision to go public. In terms of development additionality, these disclosures set precedents against which investors can benchmark peers and future issuers. ADB's anchor investment in CIMORY's IPO therefore supported market development by reducing information asymmetries for investors and other potential issuers relating to sustainability practices in the dairy sector and among listed companies in Indonesia and the region.

CASE D – EXPANDING ACCESS TO FINANCIAL SERVICES IN RURAL AND UNDERSERVED COMMUNITIES

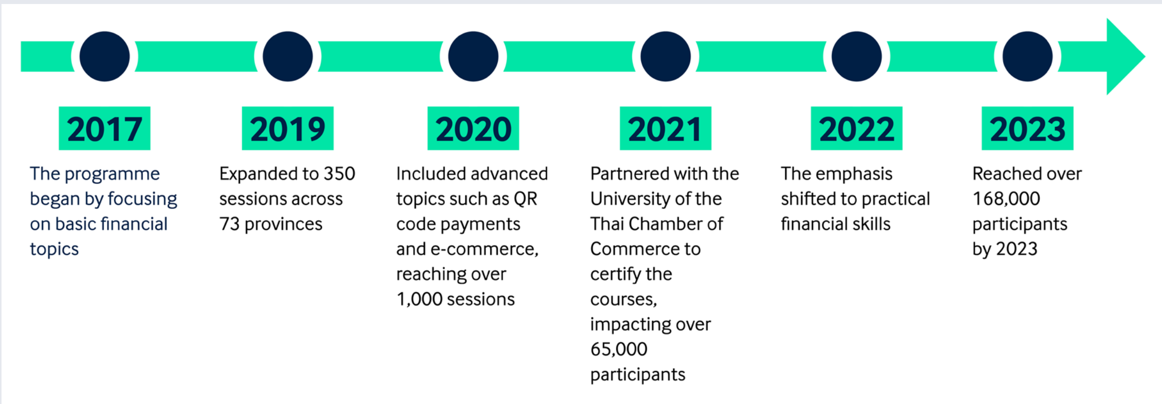
Overview: Thai Credit Bank is the only licensed financial institution in Thailand specialising in nano-finance, microfinance, and loans to Micro, Small, and Medium Enterprises (MSMEs). Established in 2007, the bank provides customised loan solutions and financial services to these crucial segments, recognising their significant role in the country's economic growth and poverty reduction objectives. In February 2024, Thai Credit Bank went public by listing 254,124,200 shares at THB 29 per share, raising THB 7,370 million (just over US $200 million) through its IPO. This IPO marked Thai Credit Bank as the first financial institution serving these critical segments to be listed on the Thai stock exchange. MOBILIST invested US $14.9 million to support the IPO[50].

Product impact: Thai Credit contributes directly to the UN SDGs, particularly SDG 8, which focuses on promoting sustainable economic growth through universal access to financial services. The bank has advanced this goal while maintaining strong financial performance in several ways, including through backing from Thai Credit Guarantee for 84.9% of nano and micro loans.[51] This guarantee allows Thai Credit Bank to offer affordable financing, including products with zero-interest grace periods. The bank is well-positioned to sustain business growth while creating impact owing to its competitive business model, which is underpinned by low-cost operations, effective consumer targeting, streamlined application and repayment processes, and adoption of digital channels for payments and a range of other services.

Thai Credit also contributes to SDG 5 (gender equality) by promoting women's empowerment through increased access to financial resources. In Thailand, many micro and small enterprises lack the credit history and collateral required to secure loans from traditional banks. Notably, nearly 60% of SMEs in Thailand are owned by women.[52] Thai Credit supports these businesses by providing financial products tailored to their needs, thereby helping women entrepreneurs overcome barriers to financing.

Thai Credit Bank's "Tang To Know-how" project has been advancing financial literacy, including for women, since 2017 as shown in Figure 8. Initially focusing on basic financial topics like discipline and savings, it had expanded to 350 sessions across 73 provinces by 2019. The programme then incorporated topics like QR code payments and e-commerce, reaching over 1,000 sessions in 2020. By 2021, Thai Credit partnered with the University of the Thai Chamber of Commerce to certify the courses, impacting over 65,000 participants. In 2022, the emphasis shifted to practical financial skills and by 2023, the programme had broadened to include a range of community members and professionals, engaging over 168,000 people.[53]

Figure 8: TCB's "Tang to Know-How" Financial Literacy Programme



50 Source: https://www.mobilistglobal.com/investment/thai-credit-bank/
51 Thai Credit Bank Annual Report 2023: https://www.irplus.in.th/Listed/CREDIT/en/form-56-1
52 Source: https://www.adb.org/sites/default/files/project-documents/57012/57012-001-rrp-en.pdf
53 Thai Credit Bank Annual Report 2023: https://www.irplus.in.th/Listed/CREDIT/en/form-56-1

Investor Additionality: The IPO has created significant additionality in several ways. Capital raised through the public offering has significantly enhanced Thai Credit's financial capacity, enabling it to further its mission of supporting micro and small enterprises. By 2023, the bank had established a robust financial foundation, with a total net loan portfolio of THB 140,181 million and total assets of THB 163,444 million. The successful capital raise of THB 7,370 million in February 2024 has added THB 1,834 million to the bank's capital, boosting total assets by 6.6% to THB 174,225 million as of March 31, 2024, enabling Thai Credit to continue its positive growth trajectory, achieving a 0.6% quarter-to-quarter growth in Q2 2024, with total assets reaching THB 175,224 million.[54]

The infusion of capital from the IPO has been instrumental in expanding Thai Credit's operational scope, demonstrating development additionality. The bank's loan portfolio increased to THB 143,627 million in Q1 2024 and 148,187 in Q2, reflecting a quarter-to-quarter growth of 2.5 % in Q1 and 3.2% in Q2.[55] This growth highlights the enhanced leverage and capacity the bank has gained, allowing it to increase its loan offerings and support a larger number of micro and small enterprises. The IPO also enabled the exit of a development finance actor, providing liquidity and allowing the institution to recycle its capital into new impactful projects.

Finally, going public also improved the market's access to information about Thai Credit through mandatory disclosures during the listing and subsequently on a frequent basis. Thai Credit discloses its ESG performance based on the Global Reporting Initiative (GRI) standards and, since early 2024, has updated its disclosure framework to align with the Thai Securities Exchange Commission's One Report requirements.[56] The bank's sustainability reports include details on its contributions to community development, financial literacy and inclusion programmes, and support for women. Enhanced transparency not only builds investor confidence but also ensures that the bank's sustainability practices are consistently measured and communicated, promoting accountability and enabling better comparison with industry peers.

54 Thai Credit Bank Management Discussion and Analysis: https://www.efinancethai.com/news/2024/8/E/7280214.pdf

55 Thai Credit Bank Management Discussion and Analysis: https://www.efinancethai.com/news/2024/8/E/7280214.pdf

56 Thai Credit Bank Annual Report 2023: https://www.irplus.in.th/Listed/CREDIT/en/form-56-1

CASE E – DELIVERING IMPACT IN SECONDARY MARKETS

Overview: The Confluence Impact Fund, managed by UK-based Confluence Investors, targets publicly listed companies in emerging markets, excluding Brazil, Russia, India, and China.[57] Launched in February 2023, the Fund is designed to achieve both positive impact and competitive financial performance based on the belief that these often-overlooked markets offer attractive businesses capable of delivering compelling returns and meaningful impact. The fund targets investment in publicly listed companies that specifically advance the UN SDGs. It focuses on four sectors: Climate action (SDG 13 – Climate Action); Inclusive education (SDG 4 - Quality Education); Financial Inclusion (SDG 8 – Decent Work and Economic Growth); and Quality Healthcare (SDG 3 – Good Health and Well Being, see Box 5). As of December 2023, the Fund had invested in ten companies.

Product impact: The Confluence Impact Fund's investment strategy begins with a dual screening that evaluates both financial and impact criteria for publicly listed companies. From an impact perspective, an initial ESG screen eliminates sectors such as gambling, mining, oil and gas, tobacco, and weapons. Additionally, markets with overly complex political risks are excluded. Then to evaluate the potential for positive impact, Confluence Investors assign a financial value to both environmental and societal impacts.

Confluence Investors' Impact on Money Framework uses academic estimates to assess the link between a company's activities and their effects on the environment and society. The fund estimates the financial value or cost associated with both positive and negative impacts and reports its impact yield both overall and for specific SDGs through an impact report available to investors. In this sense, the impact yield aligns with earlier work on the Carbon Yield metric[58]. For 2023, the equity portfolio achieved an estimated impact yield of 30.7%, meaning that for every US $1 million invested in the fund's companies, a net positive impact valued at US $307,000 was generated.[59]

BOX 4 – ENHANCING COVERAGE OF HEALTH DIAGNOSTICS THROUGH PUBLIC MARKETS[60]

The Confluence Impact Fund is a shareholder in IDH Integrated Diagnostics Holdings, a leading healthcare company in the Middle East and Africa, including operations in Egypt, Jordan, Nigeria, and Sudan. IDH is known for its high-quality medical diagnostic services and healthcare provision. The company's impact is significant in several ways: Since listing, it has expanded its network of laboratories and medical centres, improving access to diagnostics in underserved areas; it provides accurate and timely results, enhancing patient care and helping healthcare professionals make better decisions; and it brings advanced technologies to EMDEs, such as digital pathology and molecular diagnostics, to improve diagnostic accuracy and efficiency.

Investor Additionality: The Confluence Impact Fund is an active shareholder that aims to maximise value additionality and its contribution to the development impact of its investments. By selecting investments that align with specific SDGs and using its influence as a significant shareholder, the fund ensures that each company has the potential to create meaningful change and then acts on this potential. The fund's commitment to active management and to influence corporate strategies and drive impact initiatives helps to enhance the effectiveness of investments in achieving their intended social and environmental outcomes. Furthermore, the fund manager's fee is linked to the achievement of these impact goals, providing strong motivation to act in alignment with its objectives. The manager's performance fees include a 25% component tied to achieving impact goals, assessed through independent audits and advisory board reviews. Consequently, the fund manager is motivated to continuously monitor and actively influence portfolio companies—such as through voting rights or other engagement methods—to ensure they meet their impact objectives.

57 Confluence invests in publicly listed companies in the non-BRIC global emerging markets.
58 YAnalytics: Evidence-based Impact in Climate (March 2022) see at https://yanalytics.org/research-insights/evidence-based-impact-climate
59 See the Confluence Impact Report 2024 for further details of the manager's application of Impact of Money approaches to their investment process: https://www.confluenceinvestors.com/wp-content/uploads/2024/07/Confluence-Impact-Report-2024.pdf
60 See the Confluence Impact Report 2024 for further details of the manager's application of Impact of Money approaches to their investment process: https://www.confluenceinvestors.com/wp-content/uploads/2024/07/Confluence-Impact-Report-2024.pdf

The above case studies demonstrate the varied strategies and structures through which public companies and listed products can contribute to the UN SDGs and international climate commitments. In addition, the case studies show the numerous ways in which investors backing these companies can generate additionality, by contributing financial additionality at IPO and in thinly traded secondary markets. Investors can do this by backing innovators that enhance market information and efficiency, by engaging with investees to advance shared sustainability and impact objectives, and by providing technical assistance to support issuers in maximising both direct SDG and climate impact and systemic contributions to capital market development. Several lessons can be drawn from these case studies.

Liquidity remains paramount. Without liquidity in the secondary markets, the quality and reach of information created by a listing is limited, meaning that even if the investment delivers the desired impact and return, there may be little demonstration effect or contribution to market-building. In this sense, an illiquid listed asset ultimately may not be that different from a private investment. Therefore, allocators should prioritise listings with the potential to reach the requisite scale, creating a better chance to deliver meaningful turnover and even index inclusion. For that, **investors need a multi-pronged strategy:**

- In the primary market, during the selection stage, impact investors should be familiar with larger allocators' screening criteria and index providers' inclusion criteria, including market capitalisation, free float, industry preference and target investment opportunities with a requisite growth trajectory to meet index inclusion requirements over time. Industry preference in this context simply means that index providers often prioritise the inclusion of companies (even sometimes with smaller market capitalisation) from industries hitherto underrepresented in the index. Such an approach should dovetail well with the aims of impact investors insofar that the investment has a better chance to eliminate information asymmetries if it is targeted at companies in lesser-known industries. It is also important to recognise that liquidity is affected not only by a company's total market capitalisation but also by its tradeable free float in the secondary market. Therefore, investors need to ensure that during the IPO, controlling/strategic stakes are reduced sufficiently to create satisfactory free float to support liquidity in the aftermarket. This ensures a far better chance not only for liquidity but also for index inclusion and future attractiveness to larger allocators.

- In the secondary market, impact investors could work closely with management and sell-side analysts to facilitate active engagement with the wider investor community through a targeted and sustained communication and investor relations strategy. Such a strategy would include frequent analyst and investor calls, company site visits, conference participation, and regular and in-depth analyst coverage to create investor interest and, ultimately, liquidity. Furthermore, once a fair price has been realised, signalling that the company is now well understood by the market and hence information asymmetries have been eliminated, impact investors should look to exit their holding to boost the company's free float and liquidity further.

Even allocators with limited firepower can deliver additionality and impact. Rather than supporting small IPOs, which could easily end up illiquid investments in the secondary market with limited second-round mobilisation and replicability potential, impact and development finance investors could focus scarce resources on higher risk positions in structured transactions, to trigger significant private, commercial capital mobilisation with rich and widely shared informational content. They can also engage actively to enhance a company's impact. Innovative fee structures can align manager and investor objectives to maximise value and development additionality.

Transparency associated with listing is a unique feature of public markets and imposes discipline in impact delivery. In most EMDEs, ESG and impact reporting requirements differ greatly for public and private companies. In this sense, listing significantly adds to the publicly available information regarding the issuer's behaviour in ESG and impact matters. Such information is provided regularly and in a consistent format, in most cases as part of the company's annual report. This, in turn, imposes discipline through an ongoing, well-informed dialogue between investors and investees and under the scrutiny of market analysts, including after anchor investors unwind their positions.

Enhanced transparency over sustainability strategy, initiatives, and outcomes through mandatory disclosures also sets a positive example, encouraging other stakeholders to undertake similar initiatives. In comparison to private market investments, the transparency of public markets reduces the cost of maintaining oversight. This is one more reason why the development of public markets is crucial in EMDEs, ensuring that EMDE issuers are not left behind as reporting standards on sustainability matters improve globally and a greater share of global investments are being channelled towards impactful investees.

4. CONCLUSIONS AND RECOMMENDATIONS

Their scale and transparency mean public markets offer an important channel through which to finance the UN SDGs and international climate commitments in EMDEs. However, in practice, while public markets dominate ESG investing, they have historically been overlooked by investors seeking positive and additional *impact* in developing countries. This paper has highlighted that investors can indeed "shift away from risk-focused ESG investments and towards investments that drive positive impact".[61]

The paper contributes to a growing body of practice and evidence regarding the impact that can be generated by listed companies and through listed products but also highlights material concerns around investor additionality. Without clear guidance on this topic, allocators concerned with the impact of their investments should actively consider integrating the additionality concepts and approaches discussed here into 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:

    a. Working with investees to improve liquidity in domestic markets. Liquid capital markets are a principal public good in and of themselves[62], 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.

    b. 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:**

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

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

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

    d. 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.

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

61 Ibid.
62 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 contribution of MDB/DFI investments in growing capital markets and reducing information asymmetries that deter larger international allocators and index providers altogether.

Feedback from investors suggests that the pursuit of impact need not compromise financial returns, though impact investors may be required to take longer-term positions than commercial peers. Investor surveys indicate that most impact investors are satisfied with financial returns or have experienced unexpected upside from their impact strategies[63]. However, the case studies above highlight that in smaller and less liquid EMDE markets, impact investors may be required to adopt a longer investment horizon than their developed market peers. Not only are these markets less liquid, but generating value and development additionality through active engagement, demonstration effects, and market building can take time. Even in shallow public markets, holding periods are typically shorter, and exit opportunities arise sooner than in private markets, where impact investors are currently concentrated.

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.

63 GIIN: State of the Market 2024: Trends, Performance and Allocations (GIIN, 2024).

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