



Bridging the Investment Gap: Institutional Investor Capital and EMDEs

Joint workshop for Effective Collaboration

Monday 24th March, 2025

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Introduction

On 24th March 2025, EDFI and IIGCC brought together members – asset owners, Development Finance Institutions (DFIs) and Multilateral Development Banks (MDBs) – to identify solutions for more effective collaboration aimed at unlocking capital for Emerging Markets and Developing Economies (EMDEs).

The session started with welcoming remarks and case studies, acknowledging the potential for greater asset owner and DFI/MDB collaboration, in part due to their shared long-term horizons. A tour-de-table followed, exploring the aims of asset owners and then DFIs/MDBs regarding the barriers and solutions to greater collaboration.

The current context

Asset owners, DFIs and MDBs shared reflections on current allocations to EMDEs. Several key themes emerged:

- ✱ **Current asset owner allocations to EMDEs are typically in listed equity and debt and sovereigns, rather than climate-specific funds**

Asset owners tend to hold EMDEs through listed debt and equity, and sovereigns. However, there are some asset owners with allocations to EMDEs through private equity and debt. While some asset owners noted that their climate strategies and activities have led them to an interest in EMDEs, this has rarely led to an increase in EMDE allocations through climate-aware funds in part due to limited investable opportunities that address institutional investor constraints. Participants recognised the underdeveloped potential of opportunities in private assets.

- ✱ **Asset owners are an heterogenous group – there is no one-size-fits-all**

Asset owners are heterogenous and often resource-constrained. Some use investment consultants to support allocation processes and others do this internally. Ratios between Direct Contribution (DC) and Direct Benefit (DB) pension schemes vary, as well as the age and make-up of beneficiaries. These elements all affect risk appetite and the flexibility of portfolios.

- ✱ **DFI/MDB mandates are increasingly focused on private sector mobilisation**

DFIs/MDBs noted that their private sector mobilisation activities to date have sometimes been indirect rather than by design, but the impetus and mandates for the latter are increasing. Where mobilisation has been central to mandates, there have been strong track records and profitability in the last 15 years.

Opportunities for future collaboration

Participants discussed solutions that would enable greater collaboration and asset owner allocations to EMDEs. They identified opportunities to:

1 Enhance the suite of investment opportunities to ensure they better address institutional investor constraints

Institutional investors have specific constraints that can be hard to cater to in sustainable EMDE investment products. Institutional investors require investment opportunities with large ticket sizes and high liquidity, which DFIs may not have the size or flexibility to provide. Some investors noted that they do not consider close-ended funds at all.

Solutions:

Participants discussed originate-to-distribute solutions such as securitisations including Collateralised Loan Obligations (CLOs) and/or Synthetic/Significant Risk Transfers (SRTs). Others raised the option to scale direct lending to MDBs via private placements. MDBs/DFIs noted the opportunity to work together, and potentially amalgamate pools of assets, to provide the scale required for institutional investors to invest.

The importance of tailoring approaches to different asset classes was underlined; some asset owners have strong working relationships with MDBs on the liquid/bond market side but would like to work more closely on non-liquid assets considering they contribute to lower portfolio volatility. Here, MDBs/DFIs could offer resources through their local offices, to provide the in-country market information that asset owners need. Asset owners also offered to review early stage MDB/DFI product structures to develop more effective funds.

2 Increase DFI/MDB understanding of asset owner mandates and decision-making processes

The legal obligations, including fiduciary duties, which bind asset owners and their shaping of investment decisions, could be better understood by DFIs and MDBs. Asset owners must balance (among other things) long-term horizons, portfolio diversification and risk adjusted returns.

Some asset owners who have more successfully built EMDEs into their overall portfolios noted that building up the investment case took time and starts with the Strategic Asset Allocation (SAA) process.¹ SAA has the potential to enable or limit total allocations to EMDEs over multi-year periods. Some asset owners have internal risk budgets set through the SAA process, which create de facto ceilings to potential allocations to EMDEs, given EMDE investments typically use a greater share of the overall risk budget.

Solutions:

Asset owners and DFIs/MDBs can work together to ensure that fiduciary duty and the SAA process are better understood. Asset owners touched on the opportunity to create dedicated EMDE or development 'sleeves', or to more explicitly argue for 'EMDE sub-asset classes', to more adequately build regional diversification into SAA processes. Asset owners can learn from MDBs/DFIs climate solutions and sustainability standards; in turn, DFIs/MDBs can familiarise themselves with investor frameworks such as the Net Zero Investment Framework (NZIF), to understand how investor climate strategies are developed, and decision-making processes are approached.

3 Collaborate to address data and reporting barriers

Limited sustainability and financial data availability in EMDEs is a barrier to investment.

Asset owners often require more granular sustainability data and disclosures from climate-related products than other products to verify sustainability credentials and mitigate greenwashing concerns. It is often harder for EMDE assets to provide the necessary disclosures. Investors also lack the tools and metrics that incorporate 'fair share principles' to adequately verify the sustainability credentials of EMDE products.

Regarding financial performance data, while the disclosure of DFI/MDB performance and risk recovery data through the Global Emerging Markets (GEMs) Consortium database is positive, greater granularity is required to integrate this information into asset owner investor models and decision-making processes.

Solutions:

DFIs/MDBs can share more sustainability and financial data and increase transparency to address asset owner reporting challenges. DFIs/MDBs can share lessons learned, tools and metrics on tracking and monitoring real world impact to support asset owners to better verify the sustainability impact of EMDE investments. Familiarising themselves with the NZIF and other investor tools and reporting processes will also enable DFIs/MDBs to better share the appropriate information.

¹ Strategic Asset Allocation (SAA) is a fundamental investment approach that focuses on building a portfolio based on an investor's long-term goals, risk tolerance and time horizon. SAA emphasises diversifying investments across different asset classes (e.g., stocks, bonds, real estate, cash) to reduce overall portfolio risk. SAA is a long-term strategy, meaning it's designed to stay in place for an extended period, typically years, rather than being adjusted frequently based on short-term market fluctuations.

4 Collaborate to reduce the perceived sense of risk among asset owners and their advisors

A lack of familiarity with EMDE markets and investment opportunities can exacerbate the sense of risk within asset owner organisations, as well as with clients, advisory boards and investment committees. This sense of risk increases when investment opportunities look complex and unusual (e.g. some blended finance opportunities), and use 'DFI language' rather than familiar terms. Such products can be too resource-intensive in proportion to potential returns to make it onto investment team desks.

Further, there are multiple stakeholders involved in the asset owner decision-making and SAA process: asset owners, consultants, advisors, investment committees, trustees and boards. It can be challenging for DFIs/MDBs to navigate the roles of each of these entities.

Solutions:

Asset owners, MDBs and DFIs can work together to increase the standardisation of products, align language and harmonise metrics and reporting disclosures to mainstream DFI/MDB products into decision-making processes. Capacity building is required to reduce the perceived sense of risk associated with EMDEs within asset owner organisations and with their advisors.

5 Work together to engage key actors

Government messaging can influence asset owner priorities. Governments sometimes encourage a focus on specific geographies, themes and/or asset classes. This is a potential lever that could be used to support increased allocations to sustainable investments in EMDEs. Yet, signals are often mixed and competing. Currently, there's a focus on allocations to domestic investments and defence.

Investment consultants and advisory services could increase the presentation of EMDE products to asset owners, increasing the likelihood of asset owner interest and demand.

Solutions:

Asset owners and DFIs/MDBs can engage governments to set clear priorities with a focus on sustainable development and EMDEs. They can support governments to understand the synergies between these investments and domestic growth and resilience. Asset owners can ask consultants and advisors more explicitly for EMDE services, to generate demand and supply.