AIMM — ANTICIPATED IMPACT MEASUREMENT & MONITORING

AIMM Sector Framework Brief
Development Impact Measurement Department
International Finance Corporation

CAPITAL MARKETS

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Development Impact Thesis – IFC's operations to develop local capital markets aim to more effectively intermediate longer-term finance—moving capital from savers (particularly, local institutional investors) to borrowers (particularly, local corporate securities issuers). In such cases, the contribution of well-functioning, organized securities (equity and bond) markets to development impact is linked to their ability to channel to corporate issuers the longer-term, local currency finance that is not readily available from banks established in the local markets. IFC provides financing and advisory services to securities issuers, which:

Project Outcomes

→ Increase firms' access to more affordable longer-term finance compared with what is currently available on the local market

→ Increase access to finance for the clients of the IFC client/issuer and other beneficiaries of issuer proceeds

Contributions to Market Creation

→ Improve competitiveness and innovation in the local capital market

→ Increase financial connectivity between local firms and local investors, including for longer-term debt instruments

→ Improve resilience by encouraging increased participation by local institutional investors with longer-term liability profiles

Development Gaps Addressed

- Limited access to longer-term financing
- Market vulnerabilities to sudden capital flow reversals
- Limited access to growth capital by firms in a range of industry sectors

Rating Construct – All AIMM sector frameworks include detailed guidance notes that help define project outcomes and contributions to market creation, aggregating to an overall assessment of development impact.

- For project outcomes, stakeholder effects are the key component for which sector-specific benchmarks define the context in which an IFC operation seeks to drive changes. The key stakeholders are defined as local (FI or non-FI) corporate issuers on the local securities exchange as "first-tier" users of financing raised. There may be a "second tier" stakeholder group, identified as IFC client-designated beneficiaries of the securities issue proceeds (second-tier users of financing). These designated "second-tier" stakeholders are expected to benefit from enhanced access to finance where the corporate issuer has earmarked some portion of the proceeds for on-lending to support specific development goals beyond capital markets development. These include improved access to longer-term finance for SMEs, housing, and/or for climate-smart purposes. The gap analysis is combined with a set of impact intensity estimates that specify the expected results using predefined indicators.

- For contributions to market creation, sector-specific market typologies define stages of development for five market attributes (or objectives): competitiveness, resilience, integration, inclusiveness, and sustainability. These market typologies, when combined with estimates of how much an intervention affects the development of a market attribute, provide the foundation for IFC's assessment of an intervention's market-level potential for delivering systemic changes. In the case of capital markets transactions, three of the most important expected market-creating attributes are integration, competitiveness, and resilience.

PROJECT OUTCOME INDICATORS		CONTRIBUTION TO MARKET CREATION INDICATORS	
Stakeholders	Access and affordability: first-tier user of financing • Change in fixed-income security maturity terms • Change in costs of issuing • Change in the time required to issue • Introduce new instrument(s) that improve(s) market efficiency, depth and/or access • Issuance subscription, of which by investor type	Competitiveness	Changes in market structure • Increases the number of investors in bond (equity) issues (primary market); increases the relative participation of local institutional investors in bond (equity) issues (primary market) Change in cost • Changes the pricing/available maturities in the market, leading to lower cost of issuing

PROJECT OUTCOME INDICATORS		CONTRIBUTION TO MARKET CREATION INDICATORS	
	Access and affordability: second-tier user of financing • See relevant IFC's "financial institutions" AIMM framework for scoring this stakeholder tier (borrowing segments/clients of an IFC FI client), depending on whether FI clients on-lend proceeds from securities issues to e.g., improve access to finance for SMEs, housing, or for climate-smart purposes Quality • Improve transparency and availability of information/better meet disclosure standards: Upgrade of accounting systems; Improve systems/ability to comply with IFRS		Changes in product offering and innovation • Introduces innovative financial instruments that provide effective ways for corporates to raise longer-term finance • Introduces technology that improves the ability of the local market to mobilize longer-term finance; improves the efficiency of process(es) within the local market for issuing bond and/or equity securities Market regulation • Introduces regulation(s) or procedure(s) that reduce(s) direct cost of issuing bond/equity securities; and/or reduces indirect cost of issuing a bond/doing a public equity listing; and/or promotes more transparent securities issues
		Integration	Encourages more securities issues: • Provides an issue with potential demonstration effects (e.g., by increasing maturity terms available in the local market) that could encourage other private enterprises (including notably non-FIs) to issue bonds--particularly in sectors that would diversify the economy (financial integration) • Encourages more corporate bond/equity issues on the local bond market by non-local firms based within the region; encourages more corporate bond issues by local firms on non-local bond markets within the region (geographic integration). Develops the buy side: • Encourages more investment by non-local investors from within the region; encourages more investment by local investors on non-local bond markets within the region (Geographic Integration) • Encourages local institutional investors to increase participation in bond issues at longer maturities (e.g., by sending a positive signal via IFC participation in an issue(s) (financial Integration)
		Resilience	Market financial stability: • Provides an issue with potential demonstration effects to encourage non-FIs across sectors to raise longer-term local currency financing - enabling these firms to better manage risk and diversify the economy (e.g., away from excess reliance on primary commodities); OR introduces an innovative derivative (hedging) instrument that is expected to help manage currency, interest rate, other price risks and facilitate price discovery • Strengthens regulatory and/or reporting standards to better enable the local capital market to mitigate risks and enhance oversight while responding to specific market needs of innovation and growth Market financial stability - Diversification: • Encourages increased participation by locally/intra-regionally based pension funds, life insurance firms, mutual funds (unit trusts), or retail investors
		Inclusiveness	Participation: • Promotes market-wide adoption of processes/infrastructure (e.g., specialized listing tiers with streamlined requirements such as reduced financial reporting frequency/lower fees) that effectively reach underserved firms (SMEs) unable to meet criteria to access main boards -- and increase awareness of these groups Impact(s) on second-tier users of financing: • And/or: refer to relevant underlying "financial institutions" framework for scoring the Inclusiveness attribute for market impact in case of a project which involves on-lending to an IFC client.
		Sustainability	• Aligns policies, data and other tools available to investment funds and security issuers with international good practice in ESG standards related to capital markets • Promotes application of internationally accepted green financing and/or ESG standards by securities issuers and/or funds in the market to support climate/green economy/and or social sustainability goals (e.g., Green Bond Principles, ESG, etc.); and/or motivates issuers to inform their decision making, due diligence, and reporting processes with climate and ESG data • Promotes ESG-oriented investment by local investors and funds

IFC's Environmental and Social Performance Standards define IFC clients' responsibilities for managing their environmental and social risks. While for most IFC investments, meeting Performance Standards reflects improved environmental and social performance, effects from implementation of the standards are only claimed in the AIMM framework where a clear counterfactual can be established and where the investment intent is to improve environmental or social outcomes.

Sector Specific Principles or Issues – The following principles will be applied for projects rated under this framework:

Principle or Issue	Treatment Under Framework
Broad approach	The assessment of impact considers the contribution that the project will make to developing the local capital market, by facilitating the channeling of longer-term financing, particularly from local investors with longer-term, local currency liability profiles, through financial instruments issued by local corporate. The assessment includes an evaluation of the type of issues (bond/equity) within the local financial market infrastructure, cost of issuing, accessibility, and quality. The project is considered within the context of the economy and financial system in which it occurs.

Principle or Issue	Treatment Under Framework
Benchmarking	Benchmarks use the best available information. This includes data and information about the local capital markets from statistical and international rating agencies, development finance institutions, national regulators and policy makers, and national, regional, and international industry associations (e.g., World Federation of Exchanges).
Treatment of negative effects	A project's negative effects are mentioned in the AIMM assessment only when significant enough to mitigate the overall rating. Potential negative effects could arise from not considering the level of local capital market development including local investor capacity, inappropriate sequencing, the underpinning regulations, potential exposure to currency risk and/or currency and maturity asset-liability mismatches. One or more of these negative effects could impede the realization of the market-creating impact claim(s) linked to the IFC transaction.
Frequency of monitoring	IFC capital markets transactions involving client issue of securities are different from other financial sector projects for purposes of monitoring. These types of projects will be evaluated (for first-tier users of finance) in terms of having achieved (or not) their project outcome aims only once: at the time of the launch of the securities issue itself on the primary market, to avoid double-counting it multiple times over the project life. In contrast, in the case of second-tier users of financing proceeds raised from an issuance, monitoring will be carried out periodically over the project life, because this part of the project assessment relies on other financial sector AIMM frameworks and their respective indicators (e.g., SME finance, housing finance, climate finance).

Project Outcomes – The primary stakeholders are the IFC clients (financial institutions or non-financial institutions) issuing securities on local securities exchanges as first-tier user of financing raised in IFC transactions. These "first-tier" stakeholders are expected to benefit from enhanced access to longer-term finance compared with what would be available if IFC were not participating in the transaction. For projects involving securities issues by IFC clients (particularly FIs), there may be a "second tier" stakeholder group, identified as IFC client-designated beneficiaries of the securities issue proceeds (second-tier users of financing). These designated "second-tier" stakeholders are expected to benefit from enhanced access to finance where the corporate issuer has earmarked some portion of the proceeds raised for on-lending to them to support development goals beyond capital markets development – such as improved access to finance for SMEs, housing, and/or for climate-smart purposes.

The development gap is an estimate of the development challenge that is being addressed by the project and provides context for the project's development outcomes. The gap is sector- or segment-specific and is benchmarked against all emerging market countries. The gap assessment uses data collected by IFC from various public sources. The table below illustrates an application of some of the main outcome gap indicators and their benchmarking. Apart from gap indicators that are naturally bound, all gap indicators are normalized to be scale-free (e.g., relative to GDP or to total population).

COUNTRY CONTEXT	Small Gap	Medium Gap	Large Gap	Very Large Gap
Access and affordability: Pension fund assets to GDP (%)	> 18%	2.6 - 18%	0.5 - 2.6%	< 0.5%
Access and affordability: Total value of domestic private bonds issued relative to GDP (%)	> 5.5%	0.75 - 5.5%	0 - 0.75%	0
Access and affordability: Domestic market capitalization relative to GDP (%)	> 50%	12.5 - 50%	0.5 - 12.5%	< 0.5%
Quality: Corporate governance score (specific component of the GCI index)[1]	– The country's corporate governance score is larger than 62	– The country's corporate governance score is between 62 and 52	– The country's corporate governance score is between 52 and 40	– The country's corporate governance score is smaller than 40

[1] The Global Competitiveness Index (GCI) is defined by the World Economic Forum and based on a set of institutions, policies, and factors that determine the level of productivity of a country, conditions of public institutions, and technical conditions.

“Core outcomes” for capital markets operations include improvements in access to more affordable longer-term finance by IFC client securities issuers. This is the main driver of the overall project outcome potential. Improved quality of corporate governance and reporting systems and processes ahead of a publicly listed securities issue is important and may involve capacity building and other advisory support provided jointly with the World Bank.

The core indicators for first-tier users of longer-term financing are the change in (fixed-income security) maturity terms, the change in costs of issuing, the change in time required to issue, the change in process required to issue, the introduction of a new instrument(s) that improve(s) market efficiency, depth and/or access, and the extent to which investors subscribe to the issue (of which by investor type). Affordability and access are inextricably linked in capital markets projects.

PROJECT INTENSITY	Below Average	Average	Above Average	Significantly Above Average
Access and Affordability—First-tier user of financing : • Change in maturity terms (in years/months) • Change in costs of issuing (%) • Change in time required to issue (in days); change in process required to issue (qualitative assessment)	– The issue has shorter maturity terms than previous comparable issues in the local bond market – Issue/project results in an increase in cost of issuing (and/or including higher fees) (benchmarked against comparable issues in the local market) – The project increases the usual time (in days) and/or complicates/increases the usual disclosure/other procedures for issuing particular securities	– The issue has similar maturity terms to previous comparable issues in the local bond market – Issue/project results in no change in cost of issuing (including fees) (benchmarked against comparable issues in the local market) – The project has no impact on the usual issuance process for the client (in terms of time to issue and disclosure/other procedures)	– The issue has somewhat longer maturity terms (1-2 years) than previous comparable issues in the local bond market – Issue/project results in decrease in cost of issuing (including fees) (benchmarked against comparable issues in the local market) – The project reduces the usual time (in days) OR facilitates/reduces the usual disclosure/other procedures for issuing particular type of securities	– The issue has significantly longer maturity terms (by more than 2 years) than previous comparable issues in the market and provides a benchmark for future issues – Issue/project results in a significant decrease in cost of issuing (including fees) (benchmarked against comparable issues in the local market) – The project reduces the usual time (in days) AND facilitates/reduces the usual disclosure/other procedures for issuing particular type of securities
Quality: Improved transparency and availability of information/better meet disclosure standards: Upgrade of accounting systems (Y/N); improve systems/ability to comply with IFRS (Y/N)	– NO, the project has no impact on the IFC (FI or non-FI) client's ability to meet corporate governance, disclosure standards, and/or reporting requirements through the upgrade of accounting systems and/or improved systems/ability to comply with IFRS		– YES, the project facilitates the IFC (FI or non-FI) client's ability to meet corporate governance, disclosure standards, and/or reporting requirements through the upgrade of accounting systems and/or improved systems/ability to comply with IFRS	

The AIMM methodology considers the uncertainty around the realization of the potential development impact being claimed, making a distinction between the potential outcomes that a project could deliver and what could be realistically achievable in the project’s development context. The table below presents the key types of risk factors for capital markets projects:

PROJECT LIKELIHOOD	Operational Factors	Sector Factors
Assessment Considerations	• Profitability and revenue earnings track record and potential of the firm planning to issue securities in the local market • Strength of asset quality/NPL ratio (if a bank) • Firm’s relative position in the market and potential for growth • Alignment of the securities issue with the growth strategy • Risks from new line of business • Firm’s level of preparedness to meet financial reporting and corporate governance requirements/level of development of analytical reporting capacity • IFC/WB providing advisory services that mitigate any of these operational risks • IFC’s past relationship with the firm and IFC’s experience on project specifics.	• Level of market trading activity/liquidity • Level of development of local institutional investor base • Supervision perimeter and capacity (e.g., underwriting standards, investor protection regulations, consumer financial protection requirements) • Specific regulatory risks (e.g., compliance-driven pressures; regulatory restrictions impeding institutional investors from diversifying into newer asset classes) • Supporting government policies and programs (e.g., privatization programs that make use of the securities market for sell-off of state-owned assets)

Contribution to Market Creation – IFC's capital market operations are expected to promote, in particular, integration, competitiveness, and resilience. The typical markets affected by such projects are the national (or subregional) securities markets that intermediate medium- to long-term finance from savers (investors) to borrowers (issuers).

The table below focuses on core market attributes that IFC investment projects typically affect. IFC's detailed guidance note includes more information on how IFC investment projects may contribute to changes in the other market attributes.

MARKET TYPOLOGY	Highly Developed	Moderately Developed	Underdeveloped	Highly Underdeveloped
Integration	– Many corporate equities and bonds including different non-plain vanilla bond structures across a range of economic sectors are listed on the local exchange – Relatively well integrated market with large number and diverse range of corporate securities listed by local and nonlocal firms on the local stock exchange or in the region – Market with large number of local and non-local institutional investors from within and outside the region participating in a range of securities listed by local firms on the local stock exchange	– There are at least several corporate bonds/equities by FIs and non-FIs listed on the local securities exchange – Increasing number of securities listed by local and nonlocal firms on the local stock exchange – Majority of investors continue to be banks, but increasing number of privately managed pension funds and insurance is developing. Local institutional and even retail investors are increasing participation in primary market issues – Increasing investment by non-local institutional investors from within the region in bonds listed locally and increasing investment by local institutional investors in non-local bond markets from within the region	– There are at most only a few corporate bonds/equities listed on the local securities exchange – Small number of securities listed by local firms and nonlocal firm within the region – Several emerging privately managed pension funds and nonlife insurance sector is beginning to emerge. Local institutional investors account for very limited amount of investment – Predominant investors continue to be banks – Small but recently increasing investment by non-local institutional investors from within the region	– No or low number of bonds/equities listed by local firms on the local stock exchange and no listings by nonlocal firms within the region; no local firms have listed intra-regionally – No cross-border investment by non-local, regional institutional investors in the low number of bonds listed by local firms on the local stock exchange; no cross-border investment by local institutional investors in bonds issued on nonlocal exchanges within the region – Predominant investors are banks, resulting in illiquid, shallow market
Competitiveness	– Local institutional investors account for a sizeable share of investment in securities issued on the local market by sovereign or corporates; a range of privately managed pension funds and insurers, institutional and retail investors participate actively in primary market issues and secondary market trading – Well-developed benchmark yield curve with a range of medium- to long-term maturities providing clear pricing signals – Sizeable market capitalization relative to GDP. Strong trading activity/liquidity – Trading platform with active secondary market trading in a range of corporate bonds and structures – Streamlined, efficient, quick process for issuing corporate securities locally	– Local institutional investors account for relatively small share of investment in securities issued on local market; increasing number of privately managed pension funds, and insurance sector is emerging – Benchmark yield curve is lengthening – Growing market capitalization relative to GDP. Trading activity/liquidity is increasing, but market is still concentrated, less efficient, costly; Trading platform with increasingly active secondary market trading. Recent progress for streamlining the processes and reducing the cost	– Local institutional investors account for very limited amount of investment in securities issued on local market by sovereign or corporates; emerging privately managed pension funds and nonlife insurance sector – Benchmark yield curve is emerging (short maturities) – Predominant investors continue to be banks. Trading activity continues to be impeded by small number of local issuers and investors, but trading platform and processes are modernizing. – Direct and indirect costs of and time required to issue securities continue to deter most non-FI corporates from issuing locally	– Limited number of (or no) privately managed pension funds or insurance firms; local institutional investors take up limited bonds issued by sovereign – Lacks a benchmark yield curve for pricing issues and no bonds have yet been issued by corporates – Predominant investors in the limited listed (government) securities are banks, which take a buy/hold approach, resulting in illiquid, shallow market characterized by limited trading activity – Few if any publicly listed equity issues; rudimentary trading platform with limited trading activity/inactive secondary market – Process for issuing/approving a bond/equity is lengthy , and costs of issuing are serious impediments to market development
Resilience	– A wide range of derivative instruments are available and in use by a range of firms across sectors--including more complex (exotic) instruments: credit derivatives, as well as weather, energy, and insurance derivatives – Capital market regulation strikes a very good balance between providing adequate investor protection and overall oversight of activities, on one hand, and responding to specific market needs of innovation and growth: fostering liquid, active trading in intermediating longer-term finance more efficiently – Regulations are appropriate for local level of market development while complying with international best practices as provided for by IOSCO and other international regulatory and reporting standards and principles	– A wider range of derivative instruments are available/in use (forwards, futures, options, swaps) – Capital market regulation strikes a relatively good balance between providing adequate investor protection and overall oversight of activities, on one hand, and responding to specific market needs of innovation and growth, although with some shortcomings reflecting capacity or other market limitations in new areas. It fosters liquid, active trading in intermediating longer-term finance more efficiently – Regulations are largely (although not entirely) appropriate for local level of market development while complying with international best practices as provided for by IOSCO and other international regulatory and reporting standards and principles	– Basic derivative instruments are available (mainly forwards), but hedging instruments are only used by the largest blue-chip firms – Some regulations are not appropriate for market development level, as too restrictive and/or not providing adequate oversight including investor protection. Many but not all regulations are geared to fostering liquid, active trading in intermediating longer-term finance more efficiently – Market is improving capacity to comply with relevant international best practices as provided for by IOSCO and other international regulatory and reporting standards and principles, albeit with some key shortfalls	– No or very rudimentary derivative instruments available--in use only by at most a few blue-chip firms in the market – Regulations impede ability of the capital market to intermediate longer-term finance more efficiently and enable liquid, active trading. Many regulations are not appropriate for market development level--either too restrictive and/or not providing adequate oversight including investor protection – Market has serious shortfalls due to severely limited capacity to comply with relevant international best practices as provided for by IOSCO and other international regulatory and reporting standards and principles

In general, most individual IFC projects are not expected to make a significant and immediate systemic market change, unless the project is a pioneer in a non-existent or nascent market. In capital market projects, the contribution to market-creation is a more intentional outcome of a project, although it still typically takes more than one intervention to move a market to the next stage. Particularly with this category of IFC projects, sound and stable macroeconomic policies—including disciplined fiscal policies to avoid crowding out of private capital—are essential to lay the foundations for the transaction to have this anticipated impact—and are prerequisites for the proper functioning of a local capital market. Increasing financial market integration, competitiveness and/or resilience are the potential market-creating effects of IFC's capital markets investments. The most important effects from IFC's capital market operations are:

<table>
<tr><th>MARKET MOVEMENT</th><th>Marginal</th><th>Meaningful</th><th>Significant</th><th>Highly Significant</th></tr>
<tr><td>Integration</td><td colspan="4">Integration is a key component of market creation: increasing financial market integration by encouraging more securities issues on the local capital market as well as developing and encouraging more investors with longer-term investment horizons is one of the potential market-creating effects of IFC's capital markets investments. Certain projects may increase financial connectivity (within and/or across markets) via demonstration effects by motivating further securities issues by local firms and by motivating increased participation by local investors -- including for issues at longer tenors. Forging closer links through cross-listings and cross-border investment intra-regionally may offer a way for small, less developed capital markets to achieve needed scale and liquidity and further deepen local capital markets.</td></tr>
<tr><td>Competitiveness</td><td colspan="4">New securities issues by IFC client firms are a key component of competitiveness. The issues may increase overall market competitiveness where these lead, via demonstration effects, to positive changes in the structure of the market, a lower cost of issuing securities, and/or technological or financial instrument innovation that improves the ability of the local market to intermediate longer-term finance. Improved market competitiveness, by bringing about increased securities market activity at the issuer and investor levels, can enable the securities market to more effectively move longer-term capital from savers to borrowers where it is most needed for development-enhancing investment in infrastructure and other longer-term productive activities. These competitiveness effects can manifest in corporate bond and equity securities markets.</td></tr>
<tr><td>Resilience</td><td colspan="4">Components of resilience may be present for certain projects under particular circumstances. Where an IFC bond project enables a firm to lengthen the maturity terms of debt financing, the issue, through demonstration effects, may help foster increased depth and resilience of the relevant financial system. Broad (and deep) local bond markets can play an important role in channeling longer-term finance from savers to borrowers (corporates) operating in a range of sectors, which could, in turn, help diversify the macro-economy and drive more sustainable economic growth. Where IFC capital markets projects encourage increased participation in securities issues by local institutional investors, these projects may help foster a more resilient capital market. By reducing an economy's reliance on foreign portfolio investors, a well-functioning local institutional investor base may play a role in bolstering the economy's resilience to sudden, destabilizing capital flow reversals.</td></tr>
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The likelihood adjustment for the anticipated market-creating impact follows the principles for the likelihood adjustment for project outcome potential. In general, the likelihood assessment includes sector-specific, as well as broad country risks that may prevent potential catalytic effects from occurring, plus political economy or policy/regulatory risks that may constrain market systemic change. Due to the diversity of market creating attributes and channels, most of the likelihood factors are expected to be sector, or intervention specific.

MARKET LIKELIHOOD	Sector Factors	Policy/Regulatory Factors
Assessment Considerations	• Extent to which government crowds outs public debt markets • Capital markets context with institutional capacity—e.g., level of development of the local buy side, including ability of local institutional investors to strike a balance between safeguarding contractual savings while maximizing returns on investment • Responsible finance culture and transparent pricing in the market • Appropriate level and use of technology in the capital market • Strength of the channel for competitive pressures and incentives to adopt innovations	• Government commitments and supporting policies/programs (e.g., earmarking certain privatizations for sell off in the equity markets; incubation programs to grow SMEs in strategic sectors) • Government capacity to implement policies and program commitments and track record • Regulatory scope and capacity—such as regulations that support more efficient financial intermediation, while providing adequate investor protection • Capital markets context with an enabling policy, regulatory framework