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# Emerging Market Sustainable Finance

For the year ended 31 March 2024 | Impact Report 2024



This inaugural report showcases the developments of Record's Emerging Market Sustainable Finance strategy, highlighting the environmental, social and economic characteristics promoted by its portfolio investments. This is a first step in advancing the strategy's proprietary impact reporting through the development of new metrics, case studies and the refinement of its impact framework.



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## Introduction

### Developing local currency markets and contributing to sustainable growth through an innovative investment strategy.

The launch of the flagship Record EM Sustainable Finance strategy ("EMSf" or the "strategy") in 2021 was a pioneering step to design a sustainable finance solution together with private sector investors that aims to support the development of local currency markets in Emerging Market and Developing Economies ("EMDEs") to promote United Nations Sustainable Development Goal ("UN SDG") -aligned socioeconomic growth.

EMSf takes active currency risk across a wide universe of emerging and frontier currencies in pursuit of greater currency stability, whilst also offering currency hedging solutions in partnership with the development finance community to encourage local currency funding. Simultaneously, it directly supports the financing of development projects through its investments in bond instruments issued by Multilateral Development Banks ("MDBs") and other Development Finance Institutions ("DFIs") with active operations in EMDE countries.

This blended impact-first investment strategy is underpinned by a holistic pattern of continuous engagement that delivers impactful investment opportunities and aims to promote improved investment transparency and disclosure on use of proceeds alongside better policies and practices among investees and bank counterparties.



## Opening remarks



We are committed to closing the development funding gap in emerging markets with investments that promote the development of local currency markets, deliver resilient and thriving economies and crowd-in new investors to the asset class.

**Renata Kreuzig** | Portfolio Manager, Emerging Market Sustainable Finance

As the Strategy celebrates its third anniversary in 2024, we are delighted to share our investment achievements and impact developments.

Despite a challenging macroeconomic backdrop over the past year, resulting from an aggressive global monetary tightening cycle in response to the most notable inflation shock in recent history, we have made significant progress in our operations, including new disclosure and sustainability frameworks.

Investments in smaller, under invested frontier markets continued to grow as we added the Mongolian tugrik, Azerbaijani manat and Jamaican dollar to the currency universe. Successful engagement initiatives and a new collaboration platform with multilateral development banks culminated in the origination of important transactions that are aligned with the UN SDGs. We on-boarded c.\$160 million in new bespoke, impactful peer-to-peer ("P2P") currency transactions, taking the total outstanding volume to c.\$185 million - more than three times greater than the outstanding balance reported at FY-23.

The P2P sub-portfolio includes projects that benefit from local currency loans whilst also committing to impactful outcomes such as supporting women entrepreneurs in the Micro, Small and Medium-sized Enterprise ("MSME") sector in Mongolia, delivering affordable housing finance for female workers in rural areas of Kazakhstan, and expanding credit for women and agriculture in Azerbaijan. These transactions are aligned with our ambition to design innovative currency solutions that provide long-term, inclusive and affordable funding, protecting vulnerable borrowers from currency risk and promote a thriving and competitive private sector.

We strongly believe that it is possible to bridge the emerging market development finance gap and offer sustainable currency investment solutions that deliver financial returns. We are thankful for the partnership of our stakeholders, who have offered their unconditional support on this journey. We are also deeply grateful to our investors for their continuous trust and ongoing commitment to promote the development of local currency markets and support sustainable and inclusive growth in EMDEs. We look forward to a constructive year ahead, pushing boundaries to improve people's lives in developing countries.

**Renata Kreuzig** | Portfolio Manager, Emerging Market Sustainable Finance

28 June 2024

# The mission

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## Mobilising private assets to do good in currency markets

Currency volatility poses a significant challenge for EMDEs in need of long-term development funding that is vital for unlocking the productivity potential of their economies.

The world's least developed countries are particularly vulnerable to currency instability as they lack market depth, owing to the perceived deficit and inefficiency of their financial, regulatory and enforcement market infrastructure. Most available funding is denominated in hard currencies (e.g. EUR or USD), potentially exposing local governments, private businesses and communities to volatile exchange rate fluctuations that can result in market uncertainty, higher cost of capital, and increasing debt burdens.

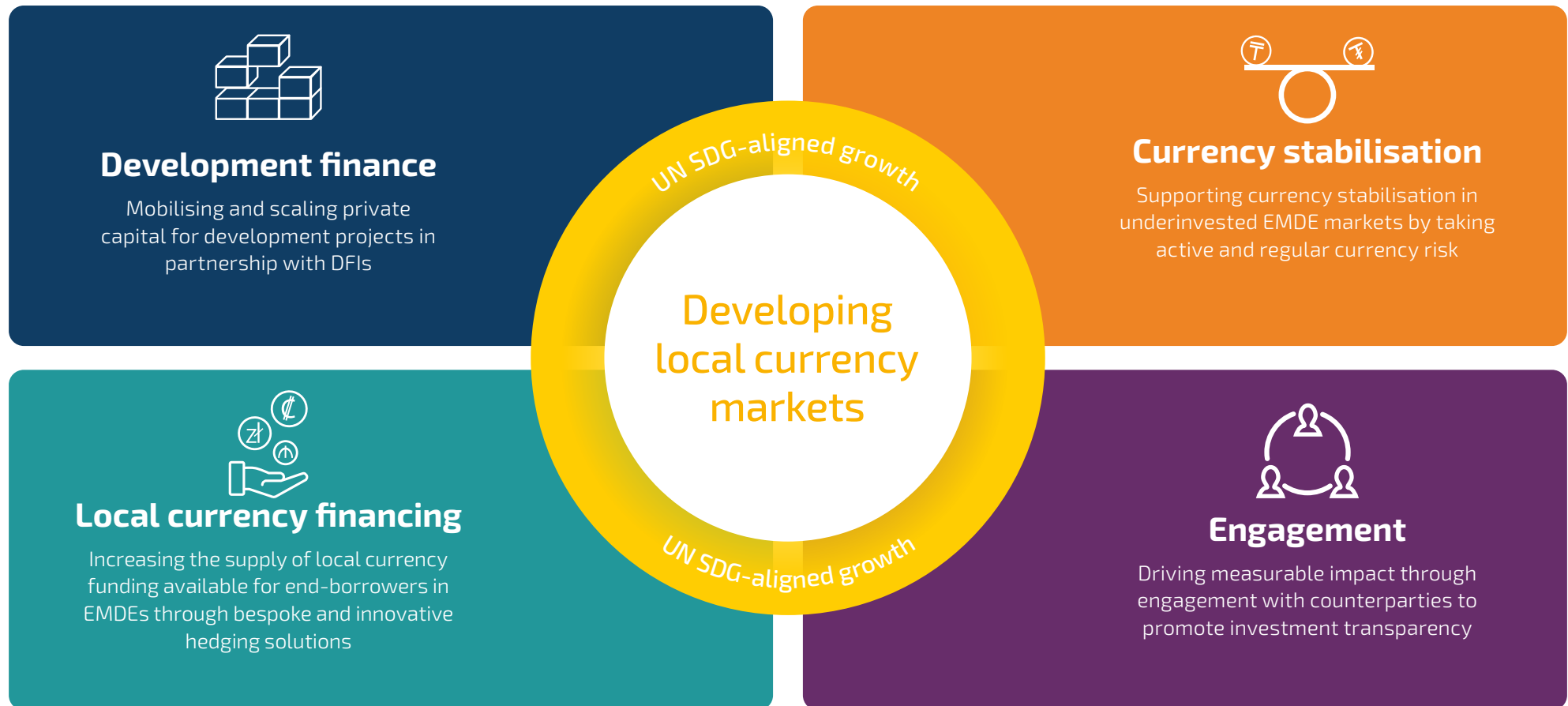
Efficient and developed capital markets enable access to long-term local currency financing, which predicated a well-functioning private sector and contributes to economic prosperity and inclusive wealth distribution. Stabilising local currencies and the cost of hedging the foreign exchange risk can avoid business distress that ultimately threatens the sustainability of important development projects in key sectors such as infrastructure, public health, education, energy and climate change.

In this context, addressing foreign exchange volatility and the limited supply of local currency loans is crucial for achieving United Nations Sustainable Development Goals and reducing social vulnerabilities. Sustainable currency investment solutions can therefore help to support long-term economic development and inclusive growth, in line with the UN SDGs.



## Impact principles

EMSF's strategic ambitions are summarised within four overarching impact principles which together contribute towards developing local currency markets in EMDEs to promote UN SDG-aligned socioeconomic growth and local community wellbeing.



## Impact principles continued

Measuring and reporting EMSF development outputs for FY-24.

### Development finance

Allocation to DFI bond issuers

**100%**

Private capital invested in bonds issued by DFIs

**\$980m**

EMDE countries benefiting from portfolio issuers' development operations

**146**

### Currency stabilisation

EMDE currencies traded

**35**

Investments in active EMDE currency contracts

**\$1.5bn**

Volume traded in EMDE currencies

**\$7bn**

### Local currency financing

Hedged local currency loans for DFIs

**\$183m**

Local currency transactions directly supporting EMDE borrowers

**19**

Average tenor of EMSF hedging solutions for DFIs

**4 years**

### Engagement

Investments with ringfenced use of proceeds for development financing

**\$560m**

Investments with expected environmental and/or social impact KPIs

**\$65m**

Engagement meetings with counterparties

**50+**



## UN SDG alignment

UN SDG alignment is intrinsically and holistically integrated in the design of EMSF and its impact principles.

Investees commit to support borrowing member countries on their development journey and provide funding to projects that are aligned with a broad spectrum of UN SDGs. Investees operate with ambitious targets for climate finance in addition to strong social outcomes, such as gender equality, access to education, and social cohesion.

In FY-24, EMSF portfolio investments have supported nearly all UN SDGs. However, we have identified five core SDGs that align closely with EMSF's overarching goal of fostering the development of currency markets in EMDEs.



### 1 No poverty

Build the resilience of the poor and reduce exposure and vulnerability to economic shocks.



### 8 Decent work and economic growth

Strengthen the capacity of domestic financial institutions to encourage and expand access to finance.



### 9 Industry, innovation and infrastructure

Increase access of small-scale enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into markets.



### 10 Reduced inequalities

Implement the principle of special and differential treatment for developing countries and encourage official development assistance and financial flows, including foreign direct investment, to countries where the need is greatest.



### 17 Partnerships for the goals

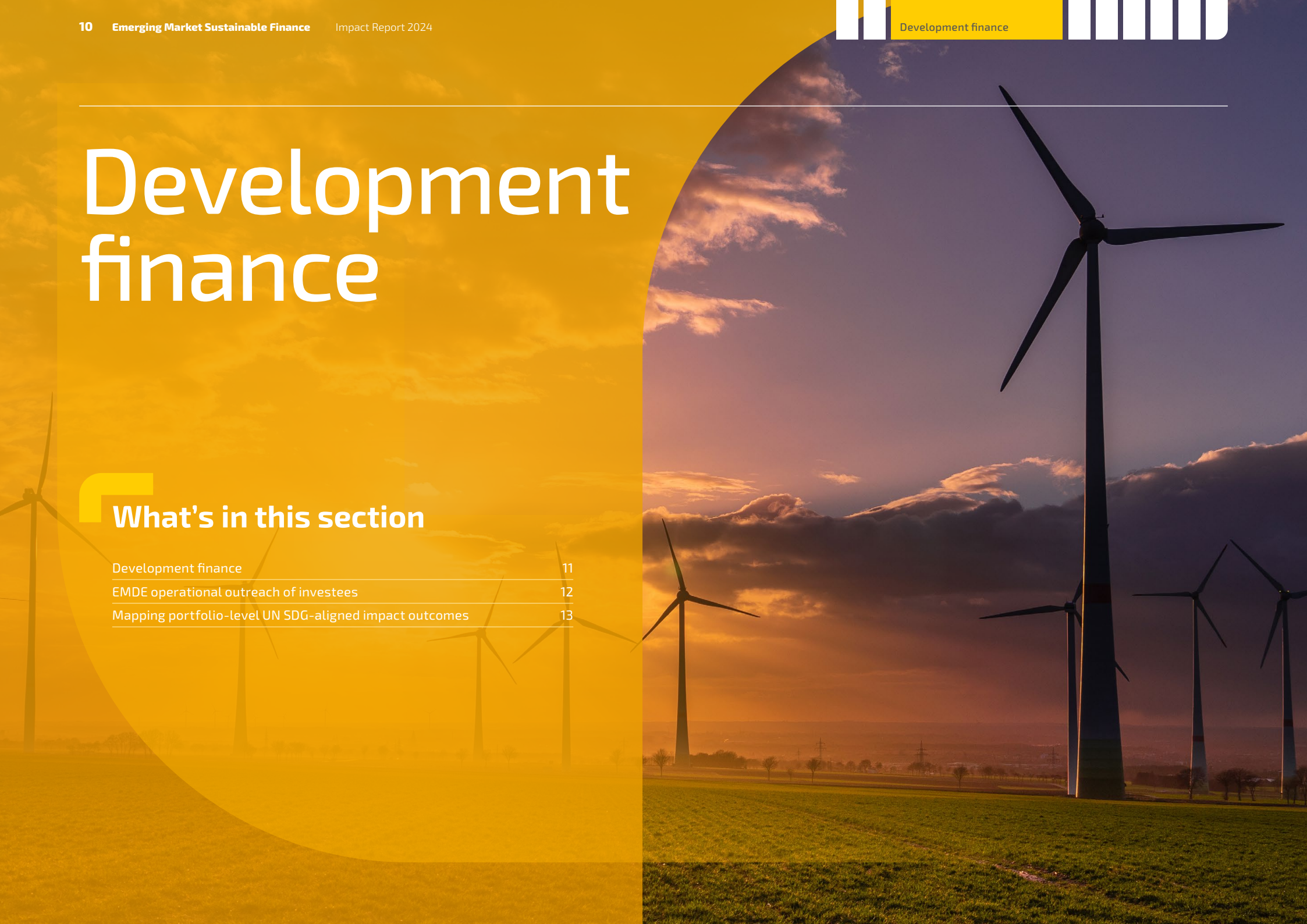
Mobilise additional financial resources for developing countries from multiple sources to enhance global macroeconomic stability, multi-stakeholder partnerships, and global partnership for sustainable development.



# Development finance

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## Development finance

Mobilising and scaling development finance by funnelling private capital into development projects in partnership with DFIs.

100%

Allocation to DFI bond issuers

\$980m

Private capital invested in bonds issued by DFIs

146

EMDE countries benefiting from portfolio issuers' development operations

Investees in the portfolio lend predominantly to their sovereign members, with less than 20% disbursed to borrowers in the private sector. EMSF aims to support more private sector financing through its partnerships with DFIs.

### The challenge

DFIs play a crucial role in advancing the global development agenda, particularly in EMDEs. However, the scale of financing required to achieve the UN SDGs exceeds the resources of MDBs and other DFIs. Private capital is needed to complement development financing to scale up projects and address larger developmental challenges.

Despite the importance of private sector capital mobilisation, there are significant barriers to attracting private investment in EMDEs, including volatile return profiles of investments, perceived difficulties navigating the complexities of EMDE markets and the reputational risk of investing in markets with inadequate governance and uncertain political landscapes.

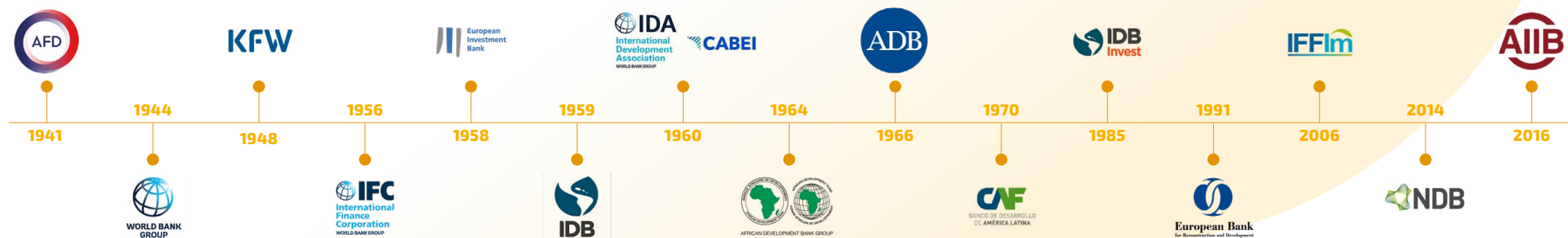
Fostering private sector interest and capital allocation in development activity is therefore essential to bridge this funding gap and catalyse sustainable development efforts.

### EMSF approach

EMSF works with private investors to design innovative investment vehicles that suit diverse investment profiles. EMSF is fully committed to supporting the operations of DFIs to provide affordable long-term funding to development projects in EMDE countries, with a particular focus on the local private sector.

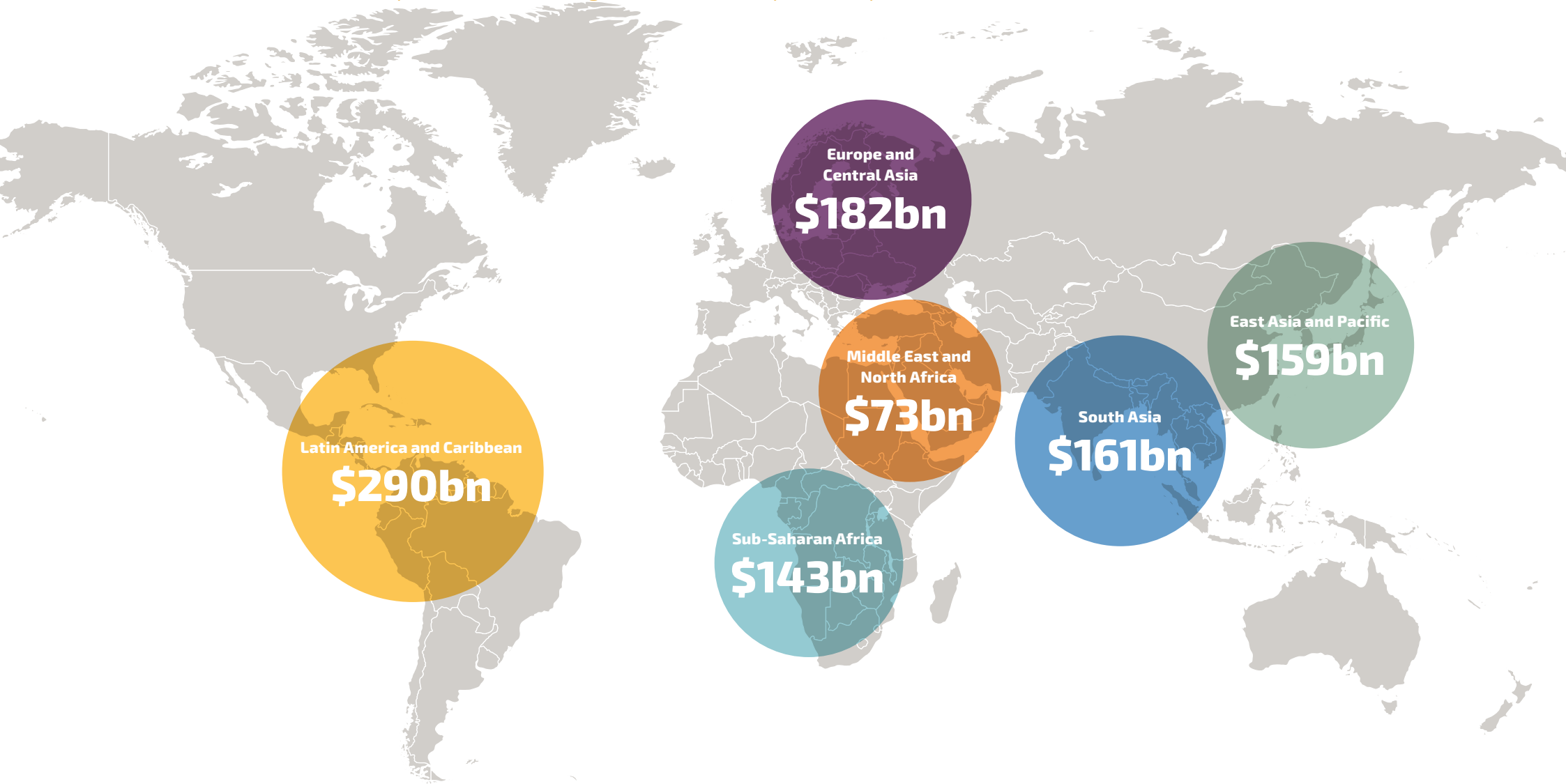
EMSF investments finance activities in key development sectors such as health, agriculture, energy, finance, water and other urban infrastructure and services. These investments target programmes that contribute to poverty reduction, job creation and inclusive economic growth in EMDEs, aligning with the broader objectives of the UN SDGs.

## A growing portfolio of established and young DFIs



## EMDE operational outreach of investees

The MDBs and DFIs in the portfolio have significant development operations in EMDEs.



## Mapping portfolio-level UN SDG-aligned impact outcomes

Investees in the portfolio are committed to aligning their policies and practices with the UN SDGs, the Paris Agreement and the Operating Principles for Impact Management. Furthermore, investees monitor ESG performance and advise on ESG practices, including in relation to human rights and environmental legislation.

EMSF developed a proprietary methodology to estimate the UN SDG-aligned impact that can be indirectly attributed to the bond investments in the portfolio. The methodology consolidates data across UN SDG-aligned indicators as reported by investees and estimates the EMSF impact contribution on a portfolio level by applying weights that reflect bond holdings as a percentage of outstanding borrowing operations in global markets for individual investees.

Achieved impact data illustrates actual results reported for projects during the reporting year, whilst expected impact estimates data based on new financing commitments made in the reporting year. Data is taken from the most recent reports available on the investees' website.

Please see pages 33-34 in the annex of this report for an overview of our methodology and additional UN SDG-aligned impact outcomes.

	Achieved impact (in thousands)	Expected impact (in thousands)		Achieved impact (in thousands)	Expected impact (in thousands)
 <b>1 NO POVERTY</b>	Beneficiaries of improved social protection and/or anti-poverty programmes		 <b>8 DECENT WORK AND ECONOMIC GROWTH</b>	Beneficiaries of improved access to financial services	
	<b>322,038</b>	<b>826,884</b>		<b>6,990</b>	<b>19,882</b>
 <b>5 GENDER EQUALITY</b>	Women beneficiaries of economic empowerment initiatives including education, training, job and loan initiatives		 <b>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</b>	Beneficiaries of constructed, improved or rehabilitated transport infrastructure including roads, rails and bridges	
	<b>2,386</b>	<b>1,531</b>		<b>13,870</b>	<b>110,958</b>
 <b>7 AFFORDABLE AND CLEAN ENERGY</b>	Beneficiaries of new and/or improved energy infrastructure or services		 <b>13 CLIMATE ACTION</b>	Beneficiaries of enhanced disaster and climate change resilience	
	<b>11,323</b>	<b>57,170</b>		<b>2,188</b>	<b>18,981</b>
 <b>8 DECENT WORK AND ECONOMIC GROWTH</b>	Beneficiaries of employment support initiatives including professional training				
	<b>22,339</b>	<b>3,823</b>			

# Currency stabilisation

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## Currency stabilisation

Supporting currency stabilisation in underinvested EMDE markets by taking active and regular currency risk.

# 35

EMDE currencies traded

### The challenge

Volatility in currency markets, particularly prevalent in EMDE countries, poses significant obstacles to economic growth and stability. Academic research<sup>1</sup> and the development finance community have independently emphasised the pivotal role of currency stability in fostering financial market development and unlocking socioeconomic growth potential in developing countries.

The detrimental effects of volatile currencies extend beyond mere fluctuations in exchange rates; they create a ripple effect throughout the economy that contributes to liquidity shocks for local businesses, lowered business survival rates, and stifled investment and innovation. Currency is therefore an essential economic price level that can boost economic prosperity and contribute to sustainable development in less developed economies and create a lasting positive impact for local businesses and communities.

# \$1.5bn

Investments in active EMDE currency contracts

### EMSF approach

EMSF aims to support currency stabilisation and the development of financial markets in EMDE countries by targeting investments in currency markets that are underinvested and subject to sudden volatility spikes. It commits to remaining an active investor across economic cycles, including in times of turbulence, to help reduce the adverse impacts of currency volatility and its detrimental effect on economic agents that manage foreign exchange risk on their balance sheets.

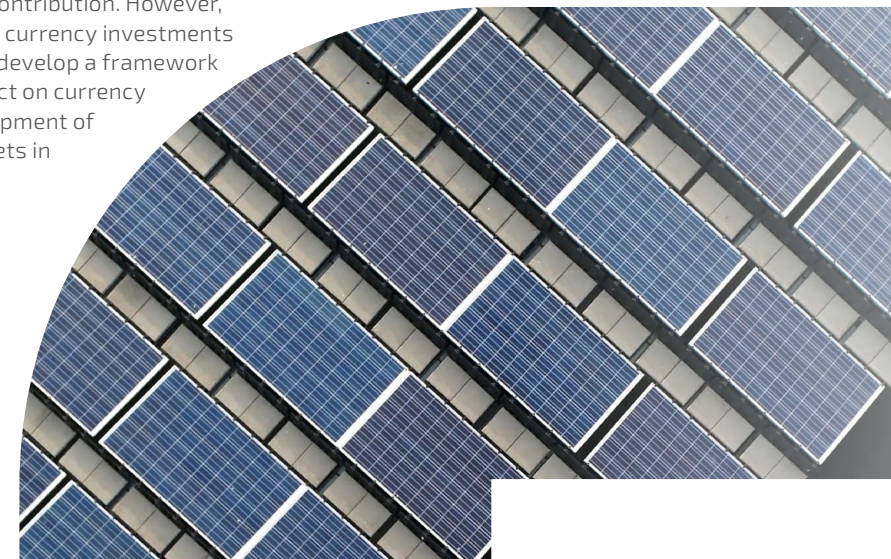
# \$7bn

Volume traded in EMDE currencies

EMSF's regular trading activity as a long-term recipient of EMDE currency risk, particularly in stressed market conditions – when market activity dries up and currency hedging cost shoots up – can contribute to easing market pressure and providing an alternative currency platform for development finance.

Measuring the impact of EMSF's currency investments on currency stability remains a challenging task due to the substantial scale of currency market activity and the difficulty in isolating EMSF's contribution. However, as EMSF expands its currency investments over time, it aims to develop a framework that estimates impact on currency volatility and development of local currency markets in frontier economies.

Since its inception, EMSF has taken foreign exchange risk in 40 EMDE currencies and is committed to remaining active in adverse market conditions to help moderate financial stress and trading inconvenience.



## Market development vectors and currency tiering

EMSF pursues impact by making investments in currency markets that lack depth and are underinvested in across at least one of the following four market vectors.

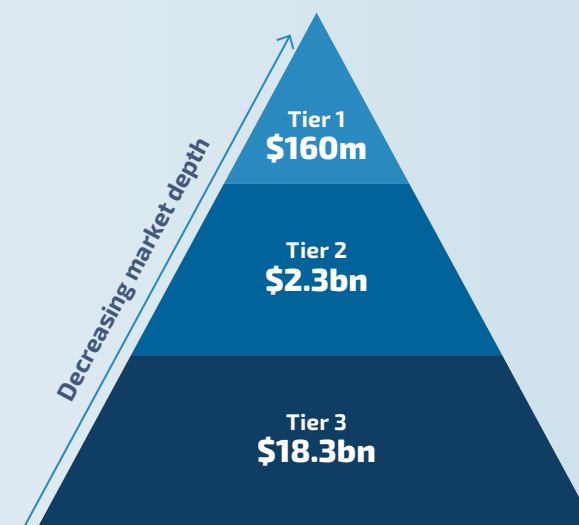
Market vector	Domestic enterprises and local authorities struggle with exchange rate risk because:	EMSF approach
<b>Time</b>	Often there is uncertainty around the timing of when exactly a project will start.	Agree the terms of a transaction in advance (if necessary) to offer planning certainty.
<b>Maturity</b>	A currency is only liquid for short maturities, while necessary investments have long maturities.	Enter foreign exchange transactions with short as well as long maturities.
<b>Liquidity</b>	There is limited foreign exchange market activity.	Accept illiquidity risk and invest in less liquid market conditions.
<b>Volatility</b>	A currency is volatile (or has potentially large drawdowns).	Become a long-term investor pursuing the risk premia offered by volatility and drawdowns.



### Currency tiers

The market vectors support the categorisation of currencies into three tier groups in order to optimise portfolio construction by maximising the benefits of diversification, responding to market inefficiencies, and improving trade look-through. Whilst Tier 3 currencies are the most liquid and tradable currencies and are typically benchmark emerging market currencies, Tier 1 and 2 currencies are generally less liquid markets, and execution can be bespoke; these are typically frontier market currencies.

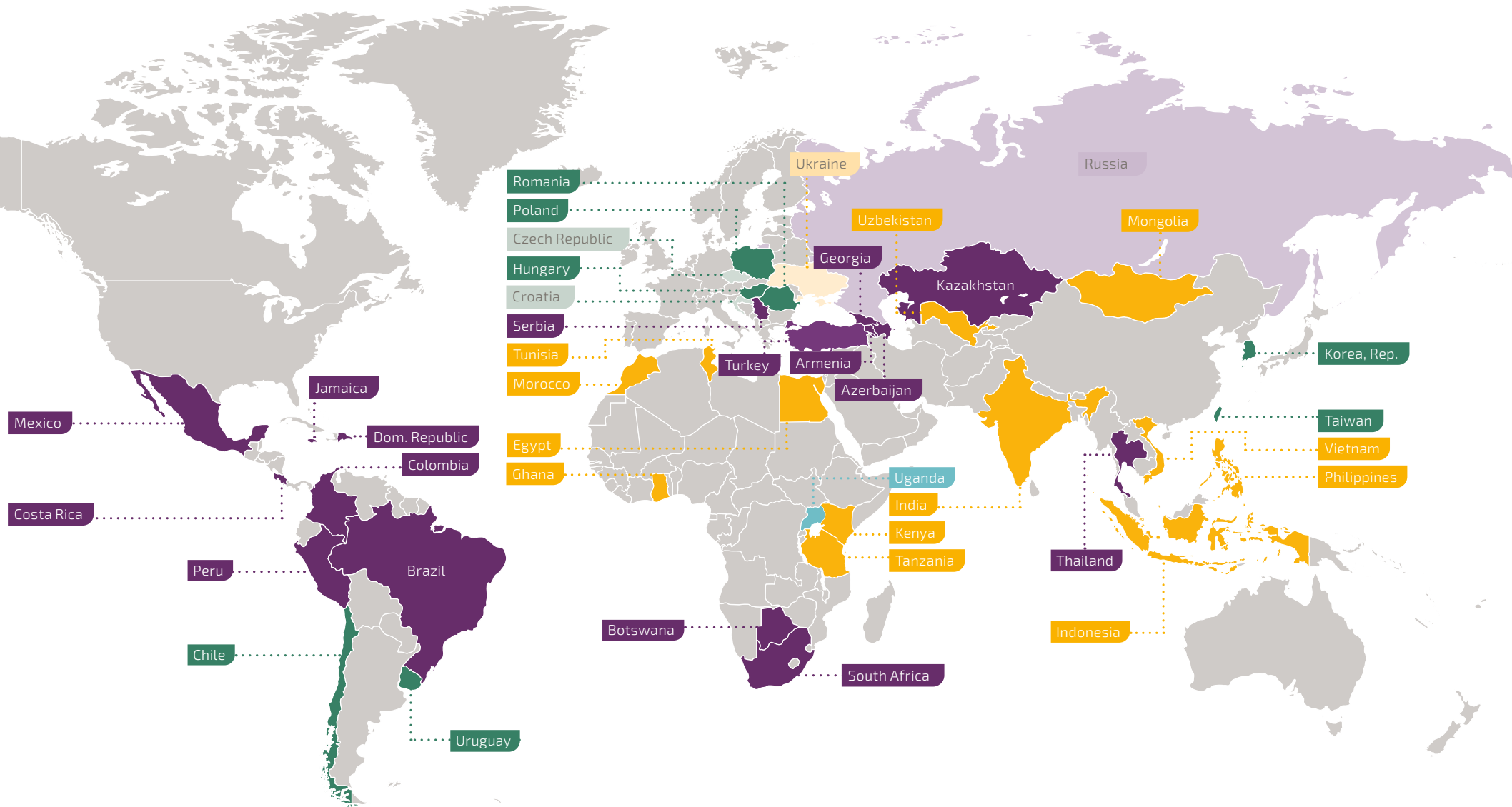
Investments in smaller Tier 1 and 2 currency markets aim to support development of local currency markets by providing much needed liquidity in shallow markets and structuring hedging solutions that enable development loans in local currency. Investment volumes in EMDE currency markets since inception exceeded \$20 billion this year, of which \$2.5 billion were in Tier 1 and 2 currencies.



Note: Volumes are from inception to 31 March 2024.



# Currency investments since inception



Key: Low-income (teal), Lower-middle (orange), Upper-middle (purple), High-income (dark green), Inactive currency positions (light grey)

# Local currency financing

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Peer-to-Peer ("P2P") local currency investments since inception	21



## Local currency financing

Increasing the supply of local currency financing available for end-borrowers in EMDEs through bespoke and innovative hedging solutions.

### \$183m

Hedged local currency loans for DFIs

#### The challenge

DFIs, including MDBs, play a crucial role in fostering sustainable growth in EMDEs. However, MDBs operate within regulatory, credit and other operational constraints that limit their ability to absorb and manage currency risk on their balance sheets. This limits their capability to provide loans in local currencies and exacerbates the debt burden felt by local communities. Simultaneously, borrowers in EMDEs face limitations when raising funding in their own domestic financial ecosystems due to insufficient access to local financial resources. This creates significant foreign exchange risk for borrowers who operate assets and generate revenues in local currency but must manage liabilities in hard currencies, risking increased budget or business instability in light of currency volatility.

Loans denominated in local currency account for less than 5% of the total development operations of the Investees in the portfolio. EMSF provides innovative solutions to support MDB deployment of local currency loans.

### 19

Local currency transactions directly supporting EMDE borrowers

#### EMSF approach

EMSF seeks to work in partnership with the development community to structure bespoke P2P trade opportunities to absorb and hedge FX risks that originate at MDB level (primary FX hedging transactions), allowing more in local currency funding to be deployed to projects in EMDEs. EMSF facilitates local currency loans by offering to hedge the MDBs' currency risk through derivative instruments, e.g. cross currency swaps, or by purchasing a bond issued by the MDB with cash flow similar to their loan to the borrower. This matches the local currency asset with an equivalent liability, offsetting their currency risk. Additional EMSF capabilities include secondary hedging transactions (secondary FX risk transfer or FX hedging), whereby EMSF absorbs existing currency risk that originated from past development flow.

### 4 years

Average tenor of EMSF hedging solutions



## How does it work in practice?

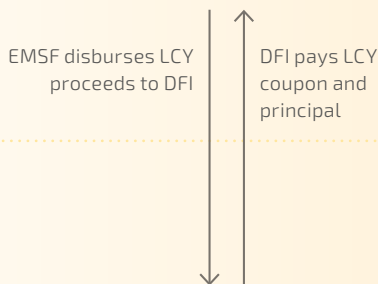
Primary and secondary FX hedging transactions aim to provide FX hedging solutions for DFIs that engage in local currency (“LCY”) operations with end-borrowers in EMDEs. While primary FX hedging represents a bilateral transaction between EMSF and the DFI disbursing the local currency loan, secondary FX hedging occurs in global markets where DFI-originated local currency risk – initially warehoused by a financial institution – is transferred to EMSF.

### Primary FX Hedging

3

EMSF warehouses LCY risk on behalf of DFI disbursing LCY development loan

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2

FX risk transfer between the DFI and EMSF

**DFI**



1

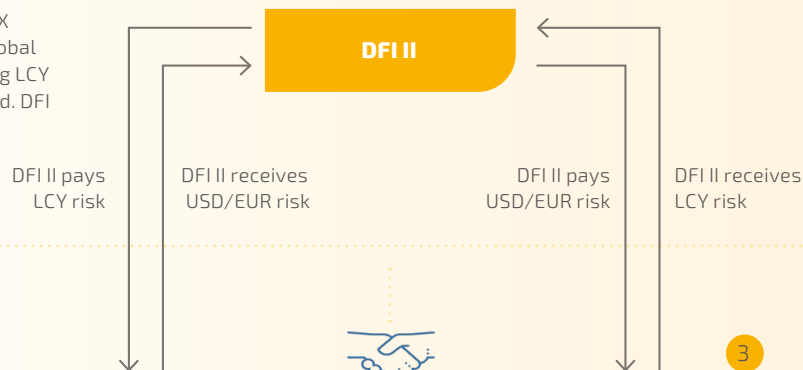
Borrower in EMDE gets local currency loan from DFI for development project

**EMDE LCY Borrower**

### Secondary FX Hedging

4

DFI II facilitates FX risk transfer in global markets by issuing LCY denominated bond. DFI II is fully hedged



5

EMSF warehouses LCY risk that originated from DFI disbursing LCY loan

**Emerging Markets Sustainable Finance**

**Financial Institution**

3

EMSF partners with Financial Institution to take existing LCY risk through a bond transaction and open new FX hedging capacity in the system

1

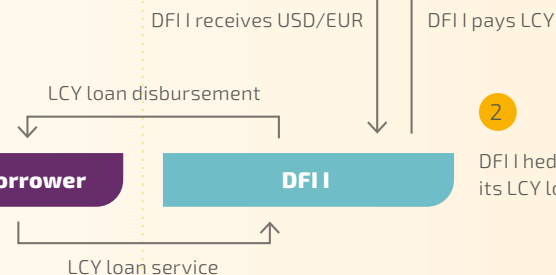
Local borrower has access to LCY funding from DFI

**EMDE LCY Borrower**

**DFI I**

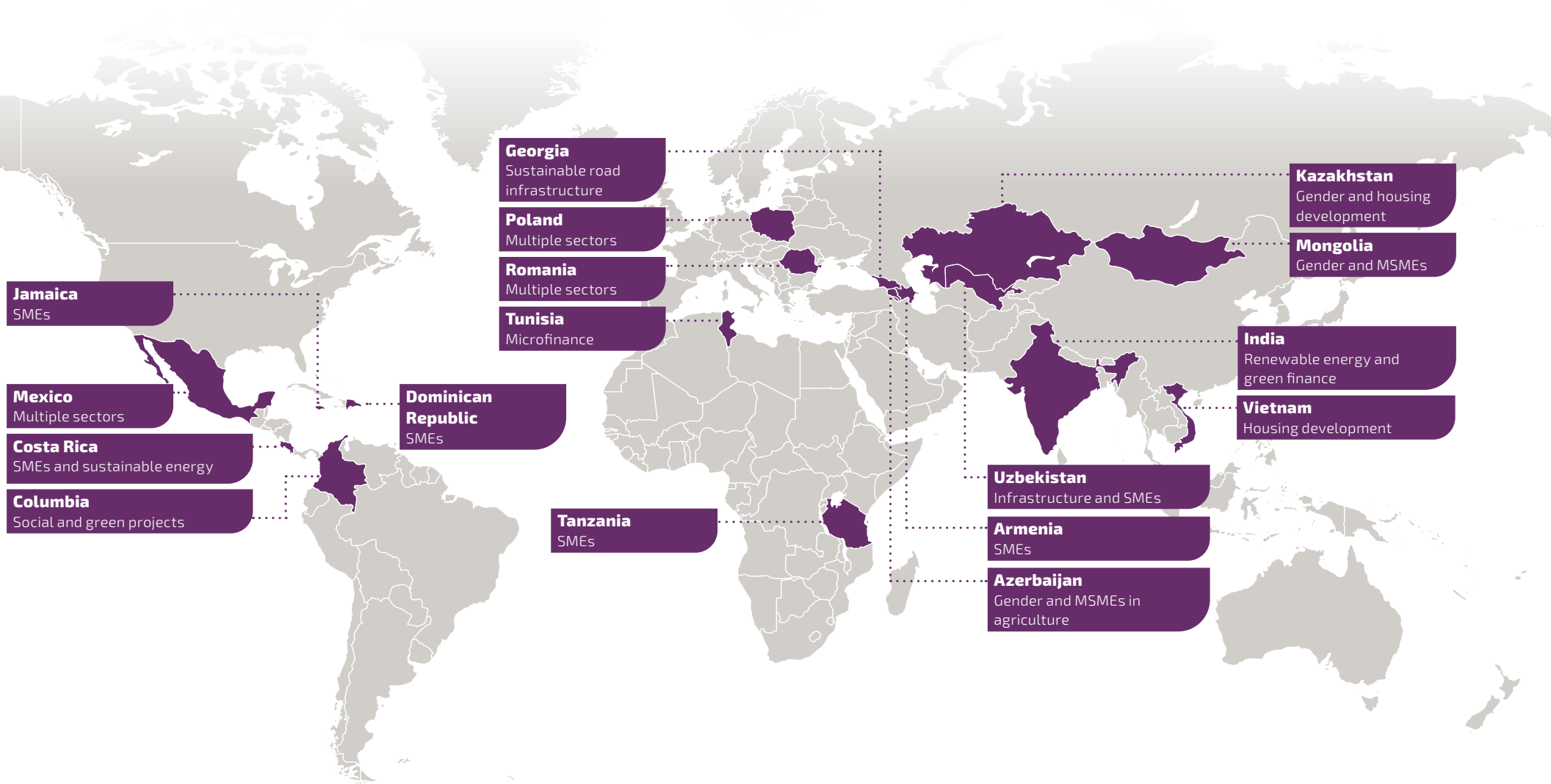
2

DFI I hedges FX risk on its LCY loan



## Peer-to-Peer (“P2P”) local currency investments since inception

The unique and bespoke structure of P2P trades delivers greater oversight of the use of proceeds alongside transparent and measurable impact.



Amount by region	East Asia and Pacific	Europe and Central Asia	Latin America and Caribbean	Middle East and North Africa	South Asia	Sub-Saharan Africa	Total
	\$5m	\$89m	\$77m	\$6m	\$20m	\$10m	\$208m

# Engagement

## What's in this section

Engagement

23



# Engagement

Driving measurable impact through engagement to innovate and promote investment transparency.

**\$560m**

Investments with ringfenced use of proceeds for development financing

**The challenge**

EMSF has been a pioneer in mobilising private sector capital to promote development in local currency markets. EMSF must work closely with its stakeholders to deliver and measure impact and catalyse private capital that advances the global sustainable development goals. Private investors are more willing to engage in local currency strategies and do good in currencies when the impact of their investments can be measured. Determining impact outcomes and standardising impact reporting in foreign exchange markets, however, presents significant challenges that are inherent to the asset class. Addressing these challenges requires increased collaboration and active engagement among investors, the development community and other stakeholders.

EMSF operates a fully transparent investment platform that relies on a strong and dedicated, long-term relationship with private investors.

**\$65m**

Investments with expected environmental and/or social KPIs

**EMSF approach**

The Strategy operates a multi-stakeholder approach to engagement through its Counterparty Leadership Framework. Since its inception, EMSF has strongly advocated for improved transparency on use of proceeds and clear impact outcomes and is responsive to the evolving challenges in local currency financing and emerging needs. It remains committed to driving innovation and improving reporting standards to further mobilise private capital and do good in currency markets.

**50+**

Engagement meetings with counterparties

**Counterparty Leadership Framework**

Effective engagement is essential for building transparent and mutually beneficial relationships with counterparties. The Counterparty Leadership Framework is designed to enable productive engagement and assess the performance of counterparty banks and investees (collectively referred to as "counterparties") across two categories: counterparty operations and counterparty engagement. By integrating and measuring engagement performance considerations, the Counterparty Leadership Score is used to incentivise counterparties to collaborate, improve transparency and report impact.

**Counterparty Leadership Score**

**Counterparty performance**

**Level 1**  
ESG screening

**Level 2**  
Market operations

**Counterparty engagement**

**Level 3**  
Collaboration

**Level 4**  
Transparency on use of proceeds

**Level 5**  
Measurable impact

# Impact stories

## What's in this section

Impact stories

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## Impact stories

# Promoting gender equality in housing finance in Kazakhstan

Asian Development Bank

### Project summary

The Housing Finance programme has been running since 2020 and aims to reduce poverty and promote gender equality through affordable local currency mortgage products designed exclusively for women borrowers. ADB provides Kazakhstani tenge ("KZT") funding to Otbasyl Bank, with at least 60% of the funds earmarked for loans to female customers living in rural areas of Kazakhstan and at least 20% to low-income women. The mortgage sub-loans provided by the financial intermediary will be used for the acquisition of residential housing units or the renovation of existing homes.

The project addresses the growing demand for housing and limited access to affordable mortgages for households in rural and remote areas in Kazakhstan.

It also aligns with the national regional development programme, which prioritises the integration of the economy and empowering of the regions by promoting non-oil industries, such as SMEs, tourism and agriculture. In rural areas, the provision of affordable housing finance helps build and enhance valuable housing assets and thereby improves the living standards of the female population who are predominantly self-employed and dependent on agriculture.

### Interim impact outputs as at Q4 2023

- ADB-funded outstanding housing sub-loan portfolio totalled \$81 million, with 100% disbursed to female customers.
- 3265 loans disbursed to woman clients for acquisition of housing or renovation.
- 19% of the loans were granted to low-income female borrowers (with household income below KZT 200,000).
- 72% of loans were disbursed to clients outside the four major city centres.
- Average maturity of the sub-loan portfolio was 9.1 years.

### KZT project funding

\$100 million (KZT 44.6 billion).

### EMSF KZT investment

KZT 2.3 billion in ADB gender bond. Approximately 6% of the ADB-funded outstanding sub-loan portfolio.

### Read the [project overview](#)

### Read a [press release](#)

### Watch a [video](#)

USDKZT as at 29 March 2024.

Source: ADB website, ABD Project Data Sheet.



## Impact stories

# Supporting Micro, Small and Medium-Sized Enterprises (“MSMEs”) in Mongolia

Asian Development Bank



### Project summary

ADB is providing Mongolian tögrög (“MNT”) financing to Invescore – the largest nonbank financial institution in Mongolia – to support MSME growth in the country, with at least 30% of the funds being earmarked for female-led enterprises.

MSMEs have a critical role in the sustainable development of Mongolia. The sector accounts for 90% of registered businesses, employs 72% of the work force and accounts for 15% of gross domestic product<sup>1</sup>. However, MSMEs generally report access to finance as a barrier to investment and growth, with the sector accounting for 25% of total outstanding bank loans. Mongolian female workers represent almost 50% of the workforce but are less likely than men to own assets that can be accepted as collateral.

By improving access to long-term affordable local currency finance, the project will support the sustainable expansion of MSMEs in the non-extractive sector and diversification of the economy, contributing to job creation and poverty reduction in Mongolia.

### Interim impact outputs as at Q4 2023

- MSMEs in Mongolia received MNT 34.1 billion (\$10 million) in loan disbursements.
- A total of 662 MSME were recipients of sub-loans, of which 341 MSME recipients were female-owned or female-led businesses (53% of the total loans disbursed).
- Maturity of sub-loan portfolio can extend as long as 2028, with cars being the asset most commonly placed as loan collateral, enhancing finance access and affordability.

### Project funding

\$10 million, of which \$5 million is ADB ordinary capital and denominated in MNT.

### EMSF MNT investment

MNT 13.7 billion in ADB gender bonds. Approximately 40% of total funding programme.

### Read the project overview

### Read the press release

USDMNT as at 29 March 2024.

Source: ADB website, Project Data Sheet.



## Impact stories

# Expanding access to credit for women and agriculture in Azerbaijan

Asian Development Bank

### Project summary

The project aims to address the financing gap observed in the MSME sector in Azerbaijan. ADB provides Azerbaijani manat ("AZN") funding to Bank Respublika ("BR") for on-lending to women business owners and borrowers operating in agricultural production, processing and trade in Azerbaijan. With its extensive network of 32 branches, of which 19 are in rural regions, BR is an ideal conduit to expand financial access to underserved sectors and areas.

The agriculture sector accounts for 36% of the country's total workforce<sup>1</sup>. Targeted programmes can contribute to poverty alleviation and food security, as most of the country's food is produced by smallholder farmers. MSMEs are also critical to poverty reduction efforts, especially in rural areas. However, despite their economic and social significance, access to financial resources for MSMEs and agriculture enterprises remains limited.

Women-owned MSMEs ("WMSMEs") face an even greater barrier to financing because of lower property ownership amongst women, where property is often secured as collateral against loans.

The loan improves financial inclusion of underserved sectors by providing much needed capital to WMSMEs and the agricultural sector, contributing to additional employment and income generating opportunities for poor and vulnerable people in rural areas.

### Interim impact outputs as at Q4 2023

AZN 14.5 million disbursed across 1,783 loans of which:

- AZN 3.85 million disbursed to women across 417 loans
- AZN 11.7 million disbursed to enterprises in agriculture sector across 1,573 loans
- AZN 2.5 million disbursed to micro enterprises across 208 loans
- AZN 170,000 disbursed to SMEs across two loans



### AZN project funding

AZN 34 million (\$20 million)

### EMSF AZN investment

AZN 8.5 million in in ADB gender bonds. Approximately 25% of the funding programme.

### Read the project overview

### Read the press release

USDASN as at 29 March 2024.

Source: ADB website, Project Data Sheet.



## Impact stories

# Expanding long-term local currency funding to strategic projects in Romania

European Bank for Reconstruction and Development

### Project summary

EBRD's development operations in Romania target projects that support the modernisation of the domestic economy. These projects promote sustainable infrastructure and regional development, including the decarbonisation of the energy sector and its transition from coal to cleaner energy sources. Additionally, they encourage the restructuring of state-owned enterprises, boost private sector productivity and accelerate SME growth, and expand financial intermediation and capital markets. These initiatives aim to reduce the transition gaps and improve governance, integration and inclusion standards.

Development operations in the country include transactions that are denominated in Romanian Leu ("RON"). Local currency disbursements provide important long-term affordable funding, protecting borrowers in Romania from currency mismatches on their balance sheets and improving the corporate creditworthiness of projects that rely on local currency revenues.

These operations promote economic resilience, encourage a thriving and competitive private sector and support the development and deepening of local currency markets.

Intended impactful outcomes:

1. Promote investments in sustainable infrastructure and regional development.
2. Support productivity through corporate expansion, innovation and upgrading skills.
3. Expand financial intermediation and capital markets.

### Interim impact outputs as at Q1 2024

EUR 830.6 million (RON 4.1 billion) in outstanding RON operating assets (including EUR 143.4 million in multicurrency loans), of which:

- 68% disbursed to depository credit and nonbank financial institutions
- 14% disbursed to municipal services (including water, sewage and transportation)
- 10% disbursed to electric power distribution
- 8% disbursed to other sectors

Outstanding RON operating assets further contribute to support the following primary transition qualities in Romania: Resilience (70%), Competitiveness (13%), Green Economy (11%) and Others (7%).

Weighted average (original) project loan tenor is 7.06 years.

The transition qualities are aligned with the 2030 Agenda for Sustainable Development. EBRD's development operations in the region contribute to 14 of the 17 Goals. The Bank provides particular value through its support for SDGs 5, 6, 7, 8, 9, 10, 11, 12 and 13.

### EMSF RON investment

RON 92 million in EBRD bonds. Approximately 2.2% of total EBRD RON operating assets.

### Read EBRD's strategy in Romania for 2020-2025

EURRON as at 29 March 2024.

Source: EBRD, Record.

# Conclusion

## What's in this section

Final remarks

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## Final remarks

### The impact journey continues



As we conclude our inaugural impact report for EMSF, we reflect on the significant strides we have made in partnership with the development community and our global investor base. Together, we continue to successfully mobilise and scale private capital to deliver innovative currency risk management solutions that are aligned with the UN Sustainable Development Goals.

Our ambition is to expand our support to DFIs, enhancing their development financing and local currency operations. We firmly believe in the potential to support the development of local currency markets and promote sustainable currency solutions that deliver greater inclusion and long-term sustainable growth. To further these goals, we continue to develop our internal trading and operational platforms and build infrastructure capacity to absorb currency risk in underdeveloped frontier markets.

Looking ahead, we are excited about the constructive years to come. We are committed to pushing EMSF's ambitions and enhancing our impact contributions, whilst upholding sustainability leadership through continually integrating ESG and impact considerations into the investment process and actively engaging with stakeholders across the investment chain.

Thank you for your continued trust and support. We look forward to building on this year's successes and scaling our impact in the most underserved global communities.

**Andreas Koester** | CEO, Emerging Market and Frontier Investments

ADB's local currency operations are strategic and impactful and help us to reach borrowers that would not otherwise consider mainstream currency borrowing due to the corresponding FX risks. At year-end 2023, 32% of ADB's disbursed private sector loan portfolio was delivered in ten Asian local currencies, and we are indebted not only financially but also in terms of operational effectiveness to EMSF as one of ADB's core investors. The Brazilian 2024 Presidency of the G20 has prioritized the development of local currency bond markets and the mitigation of FX risk to catalyse further private sector investment into developing countries – this supports the ambition of ADB to grow its local currency operations in three dimensions: by basket of available currencies, by tenor of available local currency funding and by volume of available local currency liquidity.

**Jonathan Grosvenor** | Assistant Treasurer, ADB

# Appendix

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## Glossary

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<b>ADB</b>	Asian Development Bank	<b>EIB</b>	European Investment Bank	<b>IFFIM</b>	International Finance Facility for Immunisation
<b>AFD</b>	Agence Française de Développement	<b>EMDE</b>	Emerging Market and Developing Economy	<b>KFW</b>	Kreditanstalt für Wiederaufbau
<b>AFDB</b>	African Development Bank	<b>IADB</b>	Inter-American Development Bank	<b>MDB</b>	Multilateral Development Bank
<b>AIIB</b>	Asian Infrastructure Investment Bank	<b>IDA WBG</b>	International Development Association – World Bank Group	<b>MSMEs</b>	Micro, Small and Medium-Sized Enterprises
<b>CABEI</b>	Central American Bank for Economic Integration	<b>IDB Group</b>	Inter-American Development Bank Group	<b>NDB</b>	New Development Bank
<b>CAF</b>	Corporacion Andina de Fomento	<b>IDB Invest</b>	Inter-American Investment Corporation	<b>P2P</b>	Peer-to-Peer
<b>DFI</b>	Development Finance Institution	<b>IFC</b>	International Finance Corporation	<b>SMEs</b>	Small and Medium-Sized Enterprises
<b>EBRD</b>	European Bank for Reconstruction and Development			<b>UN SDGs</b>	United Nations Sustainable Development Goals



## Endnotes and disclosures

### Disclosures

#### Disclosures for whole report

- Rounding and exchange rate conversion errors may exist.
- Emerging Market and Developing Economies ("EMDE") includes countries classified by the International Monetary Fund, with the addition of South Korea, which is internally classified as an emerging market currency.
- All currency data is provided as notional amounts traded.
- All investee information is based on the most recent data reported. Data taken as at 31 March 2024.
- This report refers to Multilateral Development Banks ("MDBs"), development agencies and development banks collectively as Development Finance Institutions ("DFIs"). As at 31 March 2024, bonds issued by MDBs represented 92% and bonds issued by development agencies and banks represented 8% of total bond holdings.

#### Disclosures for Impact principles in numbers page 7

- All data is as at 31 March 2024
- Volume traded in EMDE currencies and number of EMDE currencies includes data across financial year ending 31 March 2024.

#### Disclosures for EMDE operational outreach of investees page 12

- Calculated using the most recent available data on disbursed loan operations reported by investee's financial statements as of 31 March 2024.
- In cases where disbursed data was not available, committed capital was used.
- The institutions included in the analysis are AFD, AfDB, ADB, EBRD, IADB, IDB Invest, EIB, IBRD, IFC, IDA, NDB, CABEL, and IFFIm. For IFFIm, data was derived from its share of its parent organisation, Gavi, due to direct data unavailability.
- AIB and KfW were excluded from the analysis due to the lack of consistent data.

#### Disclosures for Mapping portfolio-level UN SDG-aligned impact outcomes page 13

- Impact data was taken from the most recent report available on the issuer's website. Most data is from reported operations in the calendar year ending 31 December 2022. AfDB reported on operations in the calendar year ending 31 December 2023 and IDA and IFC report on operations in the financial year ending 31 March 2023.
- The institutions included in the analysis are AFD, ADBf, AIIB, ABD, EBRD, IADB, IDB Invest, EIB, IBRD, IFC, IDA, NDB, CABEL. IFFIm and KfW were not included in the assessment as their SDG reporting was not consistent with the rest of the portfolio.
- The indicators reported have been chosen because they were most consistently reported on by our portfolio issuers. At least 4 investees out of the 13 included in the assessment must have been reporting against the indicator for it to be included in this report.
- The impact outcomes published aim to capture a snapshot of estimated and achieved impact from our investee's operations, but it does not represent the full extent of impact delivered by our issuers or EMSF investments.

### Endnotes

#### Endnotes for Currency stabilisation page 15

1. P. Aghiona, P. Bacchetta, R. Rancierec, and K. Rogoff, Exchange rate volatility and productivity growth: the role of financial development, Journal of Monetary Economics;

#### Endnotes from Impact stories page 26

1. The Global Findex Database 2021 (worldbank.org)

#### Endnotes from Impact stories page 27

1. Labour Market | The State Statistical Committee of the Republic of Azerbaijan

## Mapping portfolio-level UN SDG-aligned impact outcomes

SDG		Achieved impact (in thousands)	Expected impact (in thousands)
	Beneficiaries of improved social protection and/or anti-poverty programmes (#)	322,038	826,884
	Farmers empowered through improved access to agricultural services, technology and investments (#)	4,986	197,639
	Beneficiaries with enhanced access to essential health, nutrition and population services (#)	138,819	365,296
	Students benefited by education projects (#)	31,992	18,835
	Women beneficiaries of economic empowerment initiatives including education, training, job and loan initiatives (#)	2,386	1,531
	People with improved access to sanitation and clean drinking water (#)	32,910	107,102
	Installed power generation capacity from renewable sources (MW)	28	43
	Electricity produced from renewable energy sources (GWh)	—	76
	Beneficiaries of new and/or improved energy infrastructure or services (#)	11,323	57,170
	Jobs supported (#)	10,383	5,955
	SME and microfinance loans supported (#)	3,827	8,318
	Beneficiaries of employment support initiatives including professional training (#)	22,339	3,823
	Beneficiaries of improved access to financial services (#)	6,990	19,882
	Beneficiaries of employment support initiatives including professional training (#)	19	41
	Beneficiaries of constructed, improved or rehabilitated transport infrastructure including roads, rails and bridges (#)	13,870	110,958
	Beneficiaries of improved urban living conditions (#)	45,103	514,497
	GHG emissions reductions (tCO <sub>2</sub> /year)	66,164	38,089
	Beneficiaries of enhanced disaster and climate change resilience (#)	2,188	18,981
 	Terrestrial, coastal and marine areas conserved, restored and/or enhanced (ha)	577	1,873

## Disclaimer

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