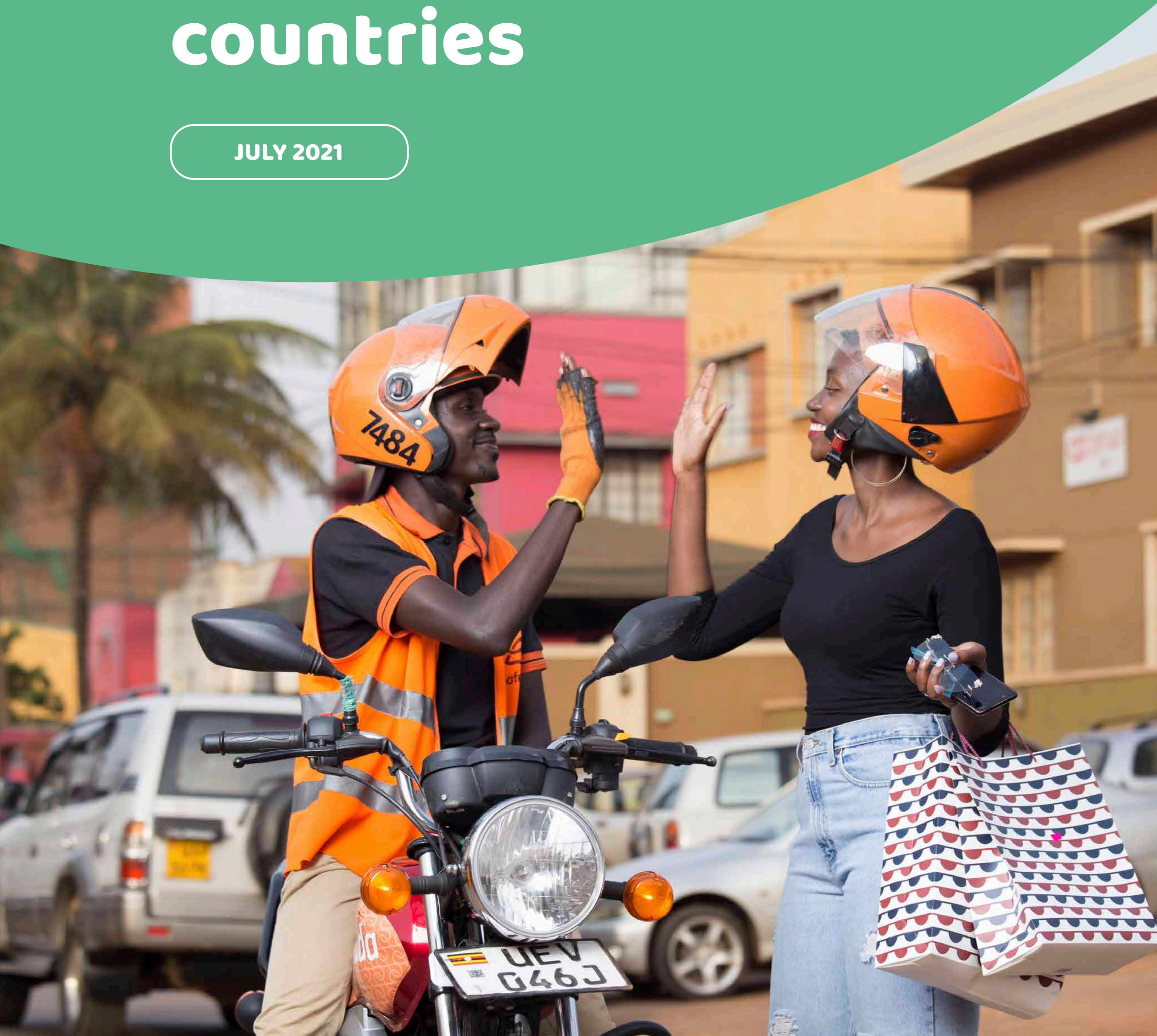
The case for impact investment in Sustainable Mobility in developing countries

JULY 2021



Executive summary

Introduction

Sustainable Mobility is a unique and budding sector for which solutions are critical given projected demographic growth in developing countries. By definition, mobility comprises the free movement of people and goods and services from one location to another. Mobility investment in developing countries typically involves public investment in large transport infrastructure projects, whilst impact investment is categorised under other impact sectors such as health, agriculture and energy.

USD 250 bn

Annual mobility investment required gap in emerging markets by 2030

Going beyond known transport solutions, Sustainable Mobility ventures involve entrepreneur-led B2C solutions in rural and urban settings, targeting low-income populations and remedying key challenges of mobility in developing countries. They seek to alleviate multiple mobility challenges in emerging markets, including; **accessibility,** through improving geographical access, inclusion of low-income populations through affordable mobility, and gender inclusion; **health and safety,** through reducing accidents and improving security for passengers; **efficiency,** through reducing time in transit and traffic congestion and improving the reliability of mobility solutions; and **climate change and the environment,** through reducing GHG emissions and pollution.

It is a unique sector in which solutions are critical given projected population growth in emerging markets. Developing countries, and particularly sub-Saharan Africa, host 98% of the 1 bn people in the world without access to transport (other than walking). Additionally, 2.4 bn more people are expected to live in cities in non-OECD countries by 2050, indicating the urban population will likely increase by 6.75 mn every month. There is a compelling need and opportunity for investment in creative Sustainable Mobility solutions that have potential for significant impact, particularly in achieving **United Nations Sustainable Development Goals (SDGs).**

93%

Of the 1.25 mn fatalities in transport occur **in low & middle income countries**

91% CO_2

Of 4.2 million premature deaths caused by outdoor air pollution are **in low & middle income countries**

200% CO_2

Increase in transport-related CO_2 emissions **in developing countries** between 1990 and 2016

This report

Combining the results of an investor survey with an impact materiality analysis of the whole sector and several case studies, this report presents the case for impact investment in Sustainable Mobility. It is divided into three parts: Part 1, on Sustainable Mobility and how it presents **a significant investment opportunity** with a proven funding gap; Part 2, on the different impact types the sector presents, with a focus on the **UN SDGs**; and Part 3, on seizing **the investment opportunities** presented and how the range of solutions and potential impacts make for a compelling opportunity for a range of investor types.

Key findings

Sustainable Mobility entrepreneurs require significant seed and growth capital, and the sector retains strong potential to generate social impact

Entrepreneur-led Sustainable Mobility services and solutions require significant capital as many rely on new assets or infrastructure whilst others involve technical innovation, which entails high development costs. Furthermore, political and financial risks render it difficult to raise funds, as enterprises and investors navigate various obstacles including the lack of legally binding, long-term mobility targets at the national level; a lack of consistent regulatory frameworks; technology risks; and the lack of mobility sector data and information.

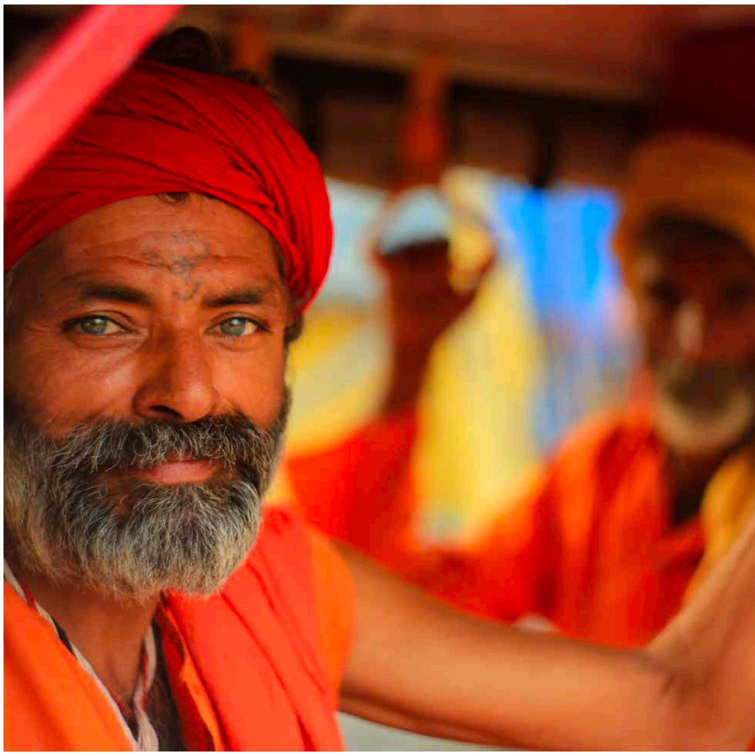
Notwithstanding this, Sustainable Mobility has the potential to generate extensive impact on customers of the mobility solution, employees, and the community the venture serves. Furthermore, it encompasses a diverse array of ventures at varying levels of maturity, providing opportunity to various investor types. Sector solutions can also feed investment mandates on energy, climate change, and other socio-economic objectives. Ultimately, regardless of the investor type or focus, there is **substantial opportunity to generate impact**, especially with respect to:

Improving health and safety:

Sustainable Mobility has a core and direct impact on health and well-being through three levers: a reduced number of deaths and injuries from transport accidents, improved safety within different means of transportation, and a reduced number of deaths and illnesses caused by air pollution. *See Tugende Case Study Pg. 43 and SafeBoda Case Study on Pg. 29 of the report*

800,000

deaths could be avoided annually if all countries reduced their road traffic fatalities to OECD levels



Enhancing socio-economic development and inclusion:

Sustainable Mobility solutions advance this objective via four main levers: increased mobility of low-income populations, increased access to basic resources, increased purchasing power resulting from more affordable transportation, and increased income for mobility employees. *See Tugende Case Study Pg. 43 of the report*

Reducing carbon footprint from transportation:

Most Sustainable Mobility solutions have a core and direct positive impact on climate change, even if they do not rely directly on "green mobility" solutions like electric vehicles. Indeed, they can decrease the negative environmental impact of transport through replacing polluting vehicles with cleaner ones. Mobility services enable non-motorized transport, improve traffic circulation resulting in shorter trips, and reduce the number of trips through reduced individual transport. *See WaterBus Case Study on Pg. 38, and Ampersand Case Study on Pg. 30 of the report*

Gender inclusion:

Women often have lower access to mobility solutions, which negatively impacts economic, health and education outcomes. Sustainable Mobility solutions can have positive impacts on gender inclusion by providing women access to safe mobility and employment. *See "Sustainable Mobility's Impact on Gender Inclusion" Pg. 35 of the report*

83%

Of women in Chennai, India walked to work, compared with 63% of men

Going forward, Sustainable Mobility avails investors an opportunity to overcome investment barriers and support an emergent and impactful sector

As a sector gaining traction, Sustainable Mobility requires continued and increased investment from the full spectrum of investor classes if enterprise solutions are to be seeded and scaled effectively in developing countries. However, it requires a concerted effort by investors to tackle **current hurdles to funding,** by:

Raising awareness within the investor community:

As a nascent sector, there is limited literature and data on Sustainable Mobility, even if this report attempts to add to it. The investor survey conducted for this report indicated a low level of awareness on both the concept and impact of Sustainable Mobility. Some investors intuitively assume that Sustainable Mobility offers a lot of potential for impact, but lack literature and data to back such instincts.

Better identifying and strengthening the investment pipeline of enterprises fitting investment criteria:

Investor mandates constrain funds to opportunities in specific sectors. Investors focused exclusively on low-carbon solutions will restrict funding to electric vehicles and associated infrastructure, whilst investors focused on poverty alleviation will mainly target rural populations. Understanding the impact of Sustainable Mobility will help make the sector's case as a major investment theme and permit investors to widen their existing investment criteria to fit Sustainable Mobility or create dedicated funds for it, effectively encouraging early-stage sector support.

Refining business models and strengthening financial attractiveness:

Mobility is capital-intensive. The success of entrepreneur-led solutions is highly dependent on public infrastructure development, particularly for solutions that rely on infrastructure that does not exist or that is in a poor state. This is often the case for any logistics or transport services in rural areas, where proper roads to a town may not exist. Highly price-sensitive customers also have to be taken in to account in business modelling of mobility services such as ride-hailing. Public-private partnerships and DFI involvement could make for investment in high-risk and capex-intensive ventures.

Building a healthy funding ecosystem:

The working capital funding ecosystems, such as the one in the energy access space, is not yet in place for Sustainable Mobility. It is thus difficult for investors to share risks and get sufficient return on their investment portfolio. For Sustainable Mobility to reach its full potential, it is incumbent upon all investors (DFIs, Donors, Impact Funds, etc.) to work together to blend different types of capital necessary to help both seed and scale sector solutions.

Despite these challenges, Sustainable Mobility is a unique and emerging sector within which solutions are critical, and for which significant impact investment opportunities exist that can meet different investment mandates.