Contribution from the Association of European Development Finance Institutions (EDFI)

EDFI welcomes the chance to provide its thought on this essential discussion on the future of financing for development. We wish to offer the following recommendations:

Boost the share of Private Sector Instruments (PSI): an efficient and scalable use of ODA.

Only 1.3% of ODA was used in 2023 for Private Sector Instruments (PSI), according to the OECD. To change the scale of private sector mobilisation, this share needs to expand greatly. Financial sustainability is an added advantage of the PSI instrument. When Development Finance Institutions (DFIs) channel these funds to the private sector in low- and middle-income countries (LMICs), once repaid, they will be recycled into a new pipeline of impactful private sector activities. Moreover, PSI help grow fiscal space, as the supported enterprises pay taxes to their own governments. Scaling up DFIs thanks to more PSI funds means scaling up mobilisation, supporting the recycling of capital as well as the ultimate impact of poverty alleviation and climate action.

More specifically, we support reform of the international financial architecture to make it better align with the evolving economic realities developing countries face. The demand for development finance has surged during recent years, driven by mounting global challenges and humanitarian crises. Beyond public investment, reform efforts must also focus on equipping both bilateral and multilateral development finance institutions with the necessary resources and tools to scale up support to the private sector, which forms the backbone of developing economies.

Bolster mobilisation of private capital by supporting pipeline development, standardisation, ratings and regulatory consistency.

Since FfD3, DFIs have designed and tested various approaches to bring private capital—alongside their own capital—into their transactions. DFIs want to scale this and overcome challenges such as:

i. too little investable projects to absorb large private capital flows (demand for capital);
ii. risk-return profiles not being competitive with developed markets, also due to currently high interest rates, FX risks, and unsustainable debt burden (capital supply);
iii. struggle by private investors to assess, and therefore adequately price the risks; and
iv. unsuitable regulatory regimes that make investments costly and unattractive for some investors.

Concessional finance can be part of the solution and address points (i) and (ii), by supporting the emergence of investable, impactful companies to absorb additional capital[1] and making the risk-return profile feasible for private investors. The third (iii) challenge is being addressed by the track record and resulting transparency on risk of DFIs, as well as the development of new mobilisation

[1] A key bottleneck to mobilisation of funds is not only the *supply* of institutional capital, but also sufficient *demand* for the type of financing private investors can offer. Pipeline development of bankable projects and the creation of new markets, funded through concessional finance, are therefore indispensable. DFI members already built up a track record on this, which needs to be significantly accelerated to be able to meet mobilisation targets. Examples include the EFSD+ guarantees from the European Union, Proparco, with their investment continuum for start-ups in partnership with its subsidiary Digital Africa, the Dutch Fund for Climate and Development – a partnership between FMO, SNV and WWF, EDFI Management Company's AgriFI and ElectriFI and the Africa Resilience Investment Accelerator, or ARIA.

pathways such as the sale of DFI assets to private investors. The disclosure of more granular information from the GEMS database, and ongoing improvements and expansions to it, would be a significant contribution to this effort while also supporting the accurate rating of mobilisation structures. The DFIs experience also helps investors to see beyond the perceived high country risk[2] and to assess the true viability of the company to be financed. So far, prudential regulation of banks (Basel III) and insurers (Solvency II) requires very significant capital charges for any long-dated emerging market asset, which makes holding such assets relatively more expensive, and a differentiated view on prudential regulations for inclusive and green investments in the Global South could support unleashing capital from institutional investors for the SDGs, thereby tackling challenge (iv).

In parallel, there is need to strengthen local financial markets' infrastructure—including by improving local financial systems, expanding credit facilities, and enhancing local regulatory frameworks—not only with a view to creating an enabling business environment for international private investors, but also incenting domestic private capital mobilisation towards the SDGs.

Sustainable finance regulations that work for low- and middle-income countries.

DFIs and MDBs have been at the forefront of promoting strong, harmonised social and environmental standards for private sector investments in low- and middle-income countries (LMICs)[3]. New regulatory regimes in advanced economies, such as the European Union, however, impose frameworks that can be ill-suited for investors—including both DFIs and their private sector counterparts—seeking to deliver sustainable finance to developing nations.

EDFI thinks the Conference should stress the importance of collaboration between policymakers and development actors to deliver a system of sustainable finance regulations that includes the flexibility and rigor needed to mobilise investment into those regions where it's needed most.[4] In particular, European DFIs see an urgent need for regulatory frameworks that take account of existing international standards: that are adapted to the realities of LMICs; that recognise transitional investments; and that are maximally interoperable across borders.

European DFIs hope that the Conference will emphasise the need for the voices of investees and investors in LMICs in this conversation and for regular assessments of whether new sustainability regulations work for the developing world. As need exists for development approaches that take due account of the private sector, DFIs have a wealth of experience and knowledge to bring to the questions of how to better mobilise private capital and how to create a system of rules for recognising and promoting globally coherent and effective sustainable finance. In this context, a need exists for deeper international cooperation between advanced economies and LMICs to ease the transfer of knowledge and tailored capacity building to deliver robust local taxonomies and sustainable finance frameworks aligned with international standards and approaches.

[2] The global debt situation is affecting country profile risks and therefore also impeding private finance mobilisation.
[3] Examples comprise the EDFI Principles for the Responsible Financing of Sustainable Development, the Operating Principles for Impact Management (OPIM), the MDB / IDFC Common Principles for Climate Mitigation Finance Tracking.
[4] European DFIs have issued, for example, a report on the EU Sustainable Finance rules and their implications for investors in LMICS, alongside a statement promising reforms to enhance workability.

To conclude, EDFIs are hopeful the Conference will serve to highlight the need for more private sector instruments, which recycle and scale scarce ODA resources. We also look forward to contributing the practical experiences and challenges of DFIs and other investors in LMICs as part of a dialogue with policymakers and others about the mobilisation and regulatory solutions needed for achieving the SDGs.

About EDFI: The Association of European Development Finance Institutions, or EDFI, was established in 1992 to support and promote the work of bilateral Development Finance Institutions (DFIs). With a combined portfolio of €53 billion, including over €15 billion of climate finance, EDFI's 15 member institutions share a vision of a world where the private sector offers people in low- and middle-income countries opportunities for decent work and improved lives, and where private investment flows are aligned with the Sustainable Development Goals and the Paris Climate Agreement. EDFI's mission is to promote the joint interests of its members, inform policy, and drive innovation in industry standards. Learn more at www.edfi.eu

DFIs have a critical role in catalysing and mobilising private capital as trailblazers, creating new markets. DFIs have been innovating approaches to i) bring in institutional investors to their deals (supply of private capital) and ii) creating a pipeline of investable projects, partially with the support of blended concessional finance (demand for private capital) (see here for more information). At the same time, they also provide thought leadership on the understanding of mobilisation (cf. a discussion paper from BII).

EDFI membership: BII (United Kingdom), BIO (Belgium), Cofides (Spain), DEG (Germany), Finnfund (Finland), FMO (The Netherlands), IFU (Denmark), Norfund (Norway), OeEB (Austria), Proparco (France), SIFEM (Switzerland), Simest and CDP Development Finance (Italy), SOFID (Portugal), and Swedfund (Sweden).