



BRIEFING NOTE No. 184

# Unlocking capital: Towards a European approach to mobilising institutional investors

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## Summary

This brief highlights the EU's growing reliance on private capital to help bridge the \$4.2 trillion annual Sustainable Development Goals (SDGs) financing gap. With limited official development assistance, institutional investors, managing over \$100 trillion in assets, are seen as crucial to closing this gap. However, current mobilisation levels remain inadequate. The European financial institutions, including the European Investment Bank (EIB Global), the European Development Finance Institutions and the European Bank for Reconstruction and Development, have made strides in attracting private capital, but their efforts remain fragmented and small in scale.

We call for a more strategic approach to mobilising private capital, particularly from institutional investors, to advance the EU's development, economic and geostrategic objectives and help improve the EU's offer to partner countries. We outline a number of recommendations which are essential for translating the objectives of the new European Commission – also dubbed the 'Investment Commission' – into practice and achieving the promised €300 billion in investment under the Global Gateway strategy.

First, we highlight the need to shift efforts from single- to multi-asset mobilisation strategies, which requires the development of standardised processes and

environmental, social and governance (ESG) assets in emerging markets and developing economies. Second, European development finance institutions should enhance cooperation both among themselves and with export credit agencies, implementing agencies and local actors. Finally, it is key to address the regulatory and operational obstacles currently hindering institutional investors' engagement in emerging markets and developing economies, and to develop innovative approaches, building on existing and scalable initiatives.

## Introduction

With limited official development assistance ([\\$223.7 billion](#)) and a growing SDG financing gap ([\\$4.2 trillion per year until 2030](#)), most development partners, including the EU, have increasingly relied on development finance. The objective is to mobilise additional public and especially private capital. Private assets account for over \$100 trillion including \$25.7 trillion at the European level, though the number is likely to [be less given the capacity of private actors](#) to invest in emerging markets and developing economies (EMDEs). Yet, while the EU's reliance on development finance is likely to increase (and some would argue for good reasons), development practitioners recognise that mobilisation levels remain small – and still far [from the US dollar trillion](#).

The limited progress on this agenda is a key issue that the new European Commission, the “Investment Commission” called for by Ursula von der Leyen, will have to address to i) deliver on its mobilisation promises made in the context of Global Gateway that were heavily promoted (\$300 billion overall investment package) as well as future clean trade and investment partnerships; ii) strengthen the trust and quality of the Global Gateway brand in a way that contributes to partnerships based on mutual interests. Luckily, there may also be a momentum amongst European institutional investors, who will increasingly need to look beyond the Organisation for Economic Co-operation and Development (OECD) countries, to diversify risks and ensure return on investments in line with their shareholders' demands, thereby [increasing the share of EMDEs in their investment portfolio](#).

This brief provides an overview of the current European landscape related to the mobilisation of private capital, including from institutional investors. In doing so, it highlights the current state of play as well as some of the key challenges

preventing European financial institutions for development to do more on this issue. It concludes by highlighting a set of recommendations, which have been developed particularly in the context of the next EU multiannual financial framework (MFF).

## Overview of European private sector mobilisation options

### 1. Background

European financial institutions for development are increasingly developing approaches and instruments aiming to mobilise private investments, including from institutional investors. According to the 2024 [Multilateral Development Banks \(MDBs\) joint report on the mobilisation of private finance](#), European Investment Bank (EIB) Global, European development finance institutions (EDFI), European Bank for Reconstruction and Development (EBRD) and KfW<sup>1</sup> Development Bank (KfW) mobilise approximately \$18 billion in low and middle income countries (LICs and MICs), with private<sup>2</sup> direct and indirect<sup>3</sup> mobilisation accounting for respectively 24% and 76% of the total (table 1). Overall, European financial institutions for development have mobilised about 25% of the total of private finance, which remains lower than International Finance Corporation (IFC)'s share alone (34.6%).

Table 1: Overview of EIB Global, EDFI, EBRD and KfW mobilisation of private capital in LICs and MICs in 2022.

| Institution       | Total lending (\$million) | Total private mobilisation (\$million) | Private direct mobilisation (\$million) | Private indirect mobilisation (\$million) |
|-------------------|---------------------------|--|---|---|
| <b>EIB Global</b> | 11,700                    | 8,076.5                                | 2,420.8                                 | 5,655.6                                   |
| <b>EDFI</b>       | 10,285                    | 5,155.7                                | 1,192.9                                 | 3,962.8                                   |
| <b>EBRD</b>       | 14,180                    | 4,847.0                                | 652.8                                   | 4,194.2                                   |
| <b>KfW</b>        | 10,900                    | 600                                    | NA                                      | NA  |
| <b>Total</b>      | 47,065                    | 18,589.2                               | 4,266.5                                 | 13,812                                    |

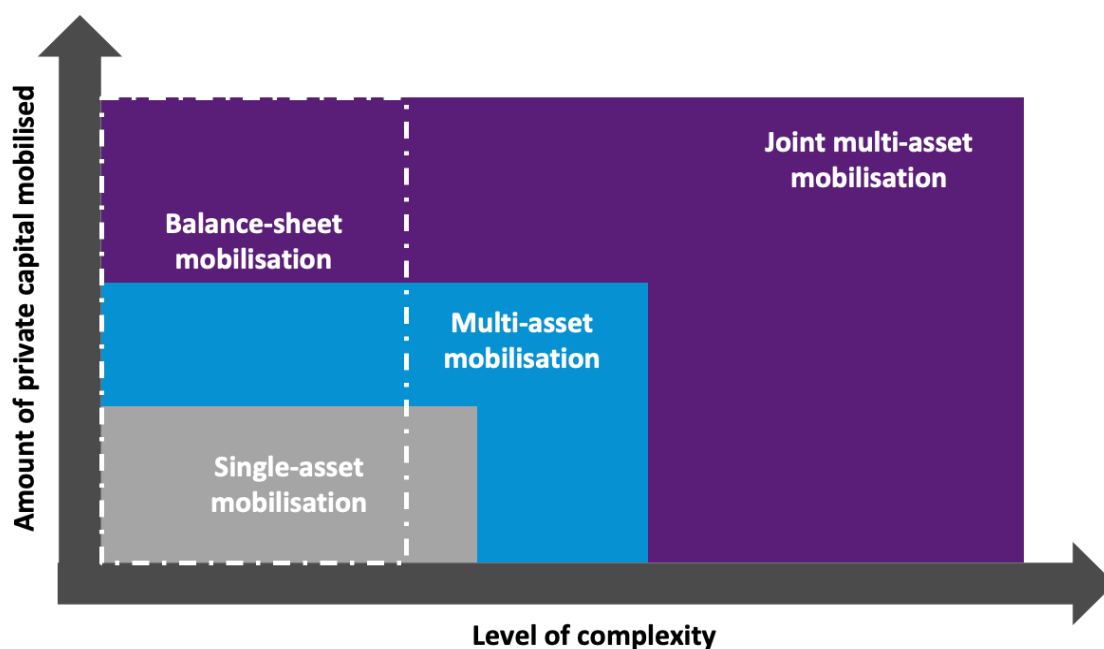
Source: [MDB Task Force on Mobilization](#) and [KfW](#)

While European financial institutions for development have mobilised an increasing amount of private capital thus responding to their shareholders' and beneficiaries' demands, mobilisation volumes remain low and are far from addressing the current \$3.9 trillion SDGs annual financing gap. Distinction should be made in this regard between members from the European development finance institution association (EDFI) and Joint European Financiers for International Cooperation (JEFIC): while EDFI members focus on private sector operations and sometimes have mobilisation of private capital as part of their mandate, JEFIC members' operations target sovereign entities, which is more conducive to attracting public rather than private (co)investments.

Yet, there have been several innovative and potentially impactful approaches developed and tested to attract private capital in development. Independently of the financial instrument used, financial institutions for development mobilise private investments, including from institutional investors, [at four levels](#) (Figure 1):

1. Balance sheet mobilisation, whereby financial institutions for development issue debt or equity to private investors to mobilise private capital – this type of mobilisation differs from the following ones in that it mobilises private capital at the level of the balance sheet and not projects. As a result, this type of mobilisation is not accounted for in the joint-MDB agreed definition, and differs from 'operational' (read projects) private sector mobilisation;
2. Single asset mobilisation, whereby financial institutions for development mobilise private capital on a project-by-project basis through for example loan syndication;
3. Multi-asset mobilisation, whereby financial institutions for development mobilise private capital at the portfolio level, with a view to efficiently attract private investment at scale;
4. Joint (vs. individual) multi-asset mobilisation, whereby financial institutions for development join forces to mobilise collectively private capital at portfolio level.

Figure 1: Framework for mobilising private capital.



Source: From the authors

Moving from one approach to another comes with a different potential for scale, but also different benefits, risks and levels of complexity (and hence transaction costs) (Annex 1). In particular, moving from individual to joint approaches implies dealing with a wider range of financial institutions for development's interests and constraints which are challenging to align. Whilst joint multi-asset mobilisation seems to be in theory the most efficient and effective way to mobilise private capital at scale, such an approach is yet to be developed.

## 2. Private capital mobilisation practices at the European level

A high-level overview of European financial institutions for development's private capital mobilisation practices indicates that most of these approaches have been tested at the European level (Table 2).

Table 2: European financial institutions for development illustrative experience in mobilising private capital.

| Type of mobilisation                       | Instrument/Approach                     | Example and scale  |
|--|---|--|
| <b>Balance sheet mobilisation</b>          | Equity                                  | E.g. 42% of FMO shares are owned by commercial banks, and slightly less than 5% in the case of Proparco<br>E.g. (outside of EU): Hybrid capital a la AfDB/World Bank |
|  | Debt / Bonds                            | E.g. EBRD Annual Borrowing Programme   |
|  | Local Currency Bonds                    | E.g. FMO synthetic bond  |
|  | Green, social and sustainable bonds     | E.g. EIB Climate Awareness Bonds or Sustainability Awareness Bonds, EBRD Green bonds; Finnfund's green bond  |
| <b>Single asset mobilisation</b>           | Unfunded risk transfers                 | E.g. EBRD Unfunded Risk Participations   |
|  | Guarantees                              | E.g. EIB guarantees; GuarantCo   |
|  | Blended finance                         | E.g. EBRD blended finance for climate investment in the private sector   |
|  | B-loans                                 | EBRD A/B structured loans and EIB in the future  |
|  | Client bond issuance                    | E.g. FMO and Proparco acting as anchor investor for Ecobank  |
|  | Client equity listings                  | E.g. Mobilist which mobilises institutional capital through listed products  |
|  | Asset sales                             | E.g. Norfund sale of SN Power & Norfund strategy to mobilise and circulate capital for increased additionality   |
|  | Privately managed funds with DFI assets | E.g. ILX Fund  |
| <b>Individual multi-asset mobilisation</b> | Equity funds                            | E.g. KfW/DEG: AfricaGrow (fund of funds, equity)   |

|                                       |   |   |
|---------------------------------------|---|---|
|                                       | Blended finance funds   | E.g. Green Earth Impact Fund with Blue Orchard and Luxembourg                       |
|                                       | DFI-managed funds   | E.g. IFU SDG investment Fund (equity); FMO SDG Loan Fund (debt)                     |
|                                       | DFI-managed portfolios  | E.g. (outside of EU) IFC Managed Co-Lending Portfolio Program (MCP)                 |
|                                       | Portfolio sales (“originate to distribute” or “originate to share”) | E.g. BII’s portfolio sale to Blue Earth Capital                                     |
|                                       | Country investment platforms  | E.g. Egypt’s NWFE (Nexus on Water, Food and Energy) with EBRD and private investors |
| <b>Joint multi-asset mobilisation</b> | Equity funds  | E.g. Amethis Fund II with EIB and Proparco  |
|                                       | Debt funds  | E.g. EAIF with KfW Development Bank, FMO and AfDB                                   |
|                                       | Thematic investment platforms                                       | E.g. BII and Norfund Globeleq   |

Source: From the authors, based on Gregory (2023)

**On the demand side, several reasons help explain why institutional investors’ appetite for investments in development finance is limited, including:**

- Private markets (debt and equity) in EMDEs are perceived as high risks and are almost systematically sub-investment grade. Not all institutional investors are equipped to invest in sub-investment grade, and even fewer have established teams for direct investments in private markets.
- There is a mismatch between the financial instruments used. MDBs mostly provide private debt in EMDEs. Yet, the appetite for private debt in EMDEs from institutional investors is limited. They are investing much more in liquid public assets.
- Size of the investments in development finance remains a huge challenge, where most DFI and MDB transactions remain too small to be considered for direct investments by institutional investors. For transactions of larger size, the complexity and lack of standardised approach may deter institutional investors.

- Related to the above, as institutional investors need size and MDB projects are typically not large, institutional investors need to invest in vehicles (such as ILX), which deploy efficiently. That brings an extra layer of complexity and costs, eroding returns which in turn makes the emerging markets (EMs) private debt asset class less attractive to institutional investors.
- Lastly, even if part of the Global Emerging Markets Risk Database (GEMs) data has been made publicly available following the call of the G20, the [lack of more granular and comprehensive credit risk data](#) still represents an obstacle for institutional investors – whilst ensuring that it does not compromise anonymity. In this regard, [EBRD](#) has recently published historical loan portfolio write off and recovery statistics broken down to the level beyond which such anonymity would be compromised.

**In addition to these common challenges, different investors have identified different challenges and opportunities.** Contrary to banks and insurance companies which face **regulatory constraints**, [pension funds have more leeway](#) when it comes to investing in emerging markets and developing economies. Investing in de-risked public-private funds for banks (including EU-regulated DFIs) and insurance companies means investing in an asset class under the EU prudential framework that imposes substantial prudential costs (capital charges) that can make these investments economically unviable, in addition to [slower and more demanding processes](#). Moreover, the recent EU regulations including the Taxonomy Regulation, the Sustainable Finance Disclosure Regulation, and the Corporate Sustainability Reporting Directive are currently [not fully adapted](#) to the activities of European investors in EMDEs, presenting additional challenges and compliance costs and thus hindering private capital mobilisation.

**On the supply side, this high-level analysis indicates that, at the policy level, the mobilisation of private capital is not systematically part of the mandate/strategy or objective of each financial institution for development and of their financial instruments.** This may be paradoxical as they are probably the [best-placed actors](#) to do so. EBRD and the Dutch entrepreneurial development bank (FMO) are amongst the exceptions, as they explicitly refer to facilitating the participation and mobilisation of private capital in their respective mandates and/or objectives (while recognising that not all operations can benefit from private sector mobilisation). Proparco has also highlighted the importance



of mobilisation in its new strategy 2023–2027, as well as British International Investment (BII) in its [2022–2026 strategy](#). However, there is not necessarily a distinction made between local and international private capital mobilisation. Importantly, those financial institutions for development having a mandate to work in challenging contexts (least developed and fragile countries, and/or climate adaptation) and/or a relatively small balance sheet will have fewer incentives and opportunities to mobilise private capital at scale.

**Not surprisingly, European financial institutions for development, and more especially the bigger DFIs<sup>4</sup> (FMO, BII and Proparco) and public development banks (e.g. KfW), and MDBs (EIB and EBRD) are the most active in mobilising private capital, including from institutional investors – though the latter is not a systematic target.** Developing such initiatives is generally costly, resource-intensive and time-consuming – which may help explain why smaller DFIs are not necessarily focusing on attracting capital from institutional investors (in addition to their limited scale at the individual level, which may be less appealing for institutional investors). In addition, the limited scale and replicability of most European initiatives makes it less relevant for institutional investors to get involved. That said, some of the smaller DFIs have carved out their niche like Finnfund with the Green Bond, and the investment fund for developing countries (IFU) with their SDG Fund.

**Yet, when looking at European initiatives, they focus on mainly two types of mobilisation: balance sheet<sup>5</sup> and single asset mobilisation.**

- Balance sheet mobilisation is done through the issuance of bonds (from plain vanilla bonds to green, social, sustainable and sustainability linked, and local currency bonds). Some financial institutions for development are not able – because of for example their capital structure or their limited size – to leverage capital markets. Balance-sheet mobilisation through equity is more limited as it requires shareholders' approval and has political impacts (existing shareholders may not want to see their share and hence power diluted).
- Single asset mobilisation is often small in scale (only a few exceed €1 billion), which makes for a fragmented landscape with mostly non-harmonised standards/products. Single assets mobilisation is time- and resource- consuming, and does not appear to be necessarily thought of in a way that can be replicated or upscaled. At the same time,

single-asset mobilisation sometimes allows testing approaches, which lessons learnt could be integrated into multi-asset mobilisation. Last, it also helps expose private investors much more closely to the markets, as a direct co-investor (in the case of syndications), which is usually the first step in getting more autonomous in alternative asset classes.

**Multi-asset mobilisation is rare and generally not based on standardised**

**approaches**, that is to say that there is currently no development finance asset class(es) with a clear risk/return profile identifiable by institutional investors. There are promising and innovative examples such as the IFU SDG investment fund, the FMO SDG loan fund, ILX Fund or Egypt's Nexus of Water, Food and Energy (NWFE), yet it is important to recognise some of the difficulties and upfront transaction costs (time and financial) that these approaches generate whether they relate to legal and financial challenges (time needed to engage with regulators and auditors, need for external credit rating assessment, fundraising efforts and project preparation costs), technical (lack of data already readable and understandable for potential investors; time for deployment). Also, these initiatives remain of relatively small scale compared to amounts to be potentially tapped from institutional investors.

**Initiatives by the European development finance community remain low-scale and fragmented, which is driven by both internal and external factors.**

The main reason why initiatives are relatively small is that they are driven by individual initiatives at the DFI/MDB level. One underlying explanation for such a phenomenon is the difficulty for financial institutions for development in sharing e.g. credit risk data, and the lack of harmonisation and approaches on impact data as well as incentives to 'share the cake', with most financial institutions for development focusing on attracting private capital for their own pipeline. External factors explaining the fragmented nature of these initiatives relate to donor funding used to attract private sector mobilisation, which often targets specific policy objectives, hence supporting investment strategies that are too narrow and too far from the market to attract institutional investors. Yet, just as moving from single to multi-asset mobilisation would allow scaling up initiatives, moving from individual to joint approaches would also help develop more efficient solutions at scale, whilst promoting common standards and products.

**Donors' support plays a key role, and the intended scale of EFSD+ brings the potential for the EU to play a crucial role in mobilisation.** For both single and multi-asset mobilisation, guarantees seem to play a significant role beside legacy instruments, such as investment grants, and they are used on a project and portfolio basis. This appetite for guarantees is mostly explained by the DFIs' and MDBs' capacity to leverage EU guarantees; and by the need for investors to close the gap (at least partially) between development finance assets and investment grade assets. However, the deployment of the European Fund for Sustainable Development (EFSD), and now EFSD+, and the involvement of institutional investors, has been challenged by several constraints:

- First, at the policy level, whereby EU regulatory and prudential requirements are not always adapted to the market conditions where DFIs and MDBs operate, especially in the most challenging countries. For instance, in Basel 3 and Solvency 2, in the standard model, an infrastructure project needs 25% of capital charge if it is deployed in an OECD country, while a similar project would require 49% if it is deployed in a non-OECD country. In many situations, this is an arbitrary parameter as the OECD is currently a set of 38 countries that display great diversity in terms of macroeconomic fundamentals. Another example is with EFSD+ compliance requirements and notably the horizontal policy requirements, which do not reflect what can reasonably be implemented, in particular in less developed markets; making private capital mobilisation, including from institutional investors, more challenging;
- Secondly, at the operational level, where the contracting and deployment of EFSD+ guarantees is not standardised and transaction costs (related in part to guarantee negotiation, management and reporting, etc.) have been much higher (and the implementation timeframe longer) than expected. This in turn impacts negatively the interest of institutional investors to work with those financial institutions for development benefiting from the EFSD+;
- Thirdly, the lack of public information, data and benchmarks available to institutional investors (such as GEMs data released for the first time in March 2024) has not allowed a widespread understanding of EFSD+ on capital markets. Furthermore, the [diversity of approaches](#) to measuring and disclosing private capital mobilisation further prevents transparency and therefore successful communication on the efforts realised;

- Fourthly, the donor approach by policy objective and/or by country (translated into the 'geographisation' of EFSD+ budget) is only rarely aligned with the DFI/MDB approach by sector and/or by region, leading to the perception that the EFSD+ may remain too far from the market reality to attract private investments at scale.
- Fifthly, market creation and pipeline development tools need to accompany guarantees for those to remain effective, especially in challenging markets and yet technical assistance funds are limited.

**In addition, whilst the focus is often borne by financial institutions for development when it comes to mobilising institutional investors, some potentially key actors remain absent from most European initiatives.**

1. Export credit agencies (ECAs), who can play a key role in mobilising European private capital, [including from institutional investors](#), are only rarely involved in the initiatives listed above. In times when European competitiveness and security are the primary objectives of the European Commission (and more and more associated with external policy objectives including sustainable development), the siloed approach between DFIs and ECAs will need to be addressed - even more when the focus is on private capital mobilisation. In addition to strengthening the coordination between DFIs and Export credit agencies (ECAs), consideration should be paid to developing a non-official development assistance (ODA)-based instrument to support ECAs operations outside the EU.
2. European corporates, currently represented under the Global Gateway Business Advisory Group (GG BAG), are not necessarily aware of or involved in the European initiatives to mobilise institutional investors, while their projects in LMICs could directly benefit from the investments mobilised. The ongoing work of the GG BAG could be better connected with the initiatives led by DFIs and by ECAs.
3. No or a very limited number of initiatives involves local pension funds, or more generally private investors from EMDEs, which are [growing fast](#) and could support national growth priorities. Likewise, while local and regional public development banks could open up opportunities to mobilise additional local private sector actors and institutional investors, very few of these initiatives involve them.

4. Only a handful of private capital mobilisation led by DFIs involves [implementing agencies](#), while there is a common recognition that advisory services on policy reforms, project preparation and technical assistance play a key role in facilitating investments from the private sector. Implementing agencies could help in many activities relating to market building / upstream activities. To make this agenda work requires financial institutions for development to work in synergy with governments and development partners in [shaping policy reforms](#) that can be conducive to this agenda. This is where the European Financial Architecture for Development (EFAD) plays a key role, including the various actors and network of actors supporting it, such as the EIB and EBRD, the EDFIs, JEFIC, Practitioners Network (PN) and also private actors and those supporting them such as the export credit agencies. Yet, progress regarding the coordination of DFIs, PDBs and implementing partners has been limited, even though most stakeholders acknowledge its importance in theory.

Based on the above observations, European financial institutions for development together with EU policy-makers will need to address especially the four gaps described below, and shift approaches towards more efficient and effective mobilisation of institutional investors at scale. In particular, there is a need to:

- Respond to institutional investors' needs for simpler, mainstreamed and harmonised processes and methodologies with respect to mobilisation and blended finance, and develop a standardised development finance asset class that they can trust and invest in efficiently (in time and resources) and repeatedly;
- Facilitate a policy and regulatory environment conducive to development finance (including for European banks, insurance companies and local institutional investors), allowing EU requirements to adapt to the specificity of LMICs;
- Develop tools that can help improve the policy and regulatory environment at the local level, with a view to attracting institutional investors – international or local – (project preparation, market creation, legal transition, pipeline development);
- Shift from single-asset to multi-asset mobilisation – based on existing upscalable and replicable single-asset mobilisation; and on ex-ante developments mentioned above, building on the potential provided by the large EFSD+ budget provided by the EU;

- Shift from individual to joint approaches, by developing relevant incentives and mechanisms facilitating such an endeavour, that should not be seen as a zero-sum game. Joint approaches should also go beyond financial institutions for development to include other actors such as implementing agencies and export credit agencies.

### 3. Bringing in a geopolitical perspective

The Global Gateway Strategy had already laid ambitious private (and public) capital mobilisation objectives: over €300 billion by 2027. Moving forward, with the new European Commission, the focus on investment and private capital mobilisation is expected to increase in the next few years and the next multiannual financial framework (MFF). Private capital mobilisation is essential for several reasons:

- **Credibility** – Delivering investments at scale is likely to improve the relations between the EU and its partner countries in the short to near term, in a context of geopolitical fragmentation.
- **Influence** – Achieving a high level of private capital mobilisation will impact the partner countries in the long term, and it would therefore reflect positively on the EU offer, which will bring not only financial institutions for development but also EU institutional investors, as well as implementing agencies.
- **Partnership** – In addition to attracting European investors, several actors and experts from EU partner countries have expressed interest in tapping into domestic pension funds. European financial institutions for development, in collaboration with other regional and national banks, could open up such an opportunity (and in doing so contribute to the development of local capital markets), and EU policymakers could support the policy and regulatory reforms needed for such capital market developments.

By being more ambitious on private capital mobilisation by providing a conducive policy framework and innovative instruments geared towards multi-asset mobilisation, the EU offer would also be distinctive in that it would not mix ODA and non-ODA approaches as other global and middle powers. As the section below will show, this will, however, demand a rethinking of the current policy framework (read EFSD+), which could be helpful in shaping a more impactful

EFSD+ successor in the 2028–2034 MFF. More specifically, setting up a clear European strategy with ambitious yet realistic objectives on private capital mobilisation will be paramount to moving from limited and fragmented endeavours to an effective and impactful European approach.

It will also require addressing some of the limitations and challenges shaping the extent to which financial institutions for development can mobilise private capital at scale:

- Financial institutions for development may be incentivised to focus on the more mature markets given that mobilising institutional investors often means selling investment grade and liquid assets, which are difficult to find in the more challenging contexts, including fragile states and least developed countries (LDCs). This may create tensions with their own mandate which may focus on market building, poverty reduction, and climate.
- To make the assets attractive (interest rates), financial institutions for development first have to build an attractive pipeline with a risk–return profile acceptable to institutional investors, and may have to consider [lower profits, which could impact their business model](#), and face challenges in keeping a balanced (in terms of risks and types of operations) portfolio. At the same time, moving towards an originate–to–share model is also more expensive for DFIs who already have limited returns.
- Financial institutions for development do not necessarily have the capacity to move towards an ‘originate and sell’ type of approach, which requires commercial–like banking practices and processes. Similarly, a different set of skills, competencies and business model to recover origination costs, would be needed to allow them to work more at the upstream level.
- Smaller financial institutions for development will face more difficulties in engaging with institutional investors, given the scale of their operations. For example, issuing bonds or equity is extremely challenging for some smaller DFIs, making it difficult to attract institutional investors even at the balance sheet level.

## Considerations and implications for the EU

Even though mobilising private capital including from institutional investors is not an end in itself, and is only one part of the story (the other being on how this capital is used in an effective and impactful manner), the EU, the European financial institutions for development and their shareholders cannot satisfy themselves with the current levels being achieved. This section puts forward key recommendations aiming to support financial institutions for development in this endeavour.

### 1. Addressing systemic issues impeding private capital mobilisation and its scalability

#### **At the political level:**

1. **The EU and its member states should establish a Mobilisation Task Force**, to develop a European strategy on private capital mobilisation, whose objectives should be part of the 'policy first' approach of the EU, especially for its partnership with more mature markets. Such a strategy should define where private capital mobilisation's efforts should focus on, and the type of approach and instruments that would allow to realise the set aspirations. Doing so would allow a more strategic approach to private capital mobilisation that would help improve the EU's offer to EMDEs, in a way that serves both EU development and geostrategic objectives. To do so, the Mobilisation Task Force would:
  - a. Identify, review and adapt all EU policy and regulatory requirements that boost or undermine private capital mobilisation, including from institutional investors;
  - b. Screen and review EU investment support initiatives relevant to its partner countries, through the lens of private sector mobilisation;
  - c. Act as a focal point for European investors (and at a later stage partners' countries' institutional investors) to better understand their interests and demands;
  - d. Provide recommendations on optimising EFSD+ potential to mobilise private capital at scale.

The [HLEG](#) report published in 2024 has set strong bases for such an EU Task Force to define a work programme for the coming months. The institutional framework



for the EU to engage this ambitious programme is already earmarked as the upcoming EU Strategy for scaling up sustainable finance in LMICs (announced in the EU Strategy for financing the transition to a sustainable economy in July 2021), which will hopefully address these issues at the needed level of ambition.

**At the operational/technical level:**

2. **Policymakers at the EU and its member states' level should work towards adapting financial and sustainable finance regulations:** EU prudential and regulatory frameworks should recognise this new development finance asset class, and ideally provide incentives for sustainable investments in EMDEs. Though beyond the scope of analysis of this report, European regulators should rethink financial and sustainable finance (CSRD, SFDR, etc.) regulations applicable to European investors in EMDEs, to ensure that these do not, through a lack of flexibility or adequate tailoring to the context of EMDEs, inadvertently prevent greater mobilisation. This issue is also emphasised in the recent [Draghi report](#), which underlines [the lack of clarity surrounding the interaction between different pieces of sustainable finance legislation](#).
3. **Financial institutions for development, with the guidance of their shareholders should review their mandate:** Shareholders together with their financial institutions for development should rethink the latter's mandates by integrating clear and more ambitious objectives related to mobilisation of private capital – alongside those focusing on development (including poverty, gender, youth, etc.) and climate impacts, as well as market building related investments. These objectives should be properly monitored and assessed to allow for continuous improvement, and should be well balanced with other key objectives such as investments in fragile states, impact and poverty reduction. As part of their mandate evolution, financial institutions for development should develop solutions for project preparation and pipeline development.
4. **Financial institutions for development should work together to develop a development finance asset class:** European financial institutions for development should work together to develop standardised ESG liquid (and investment grade) assets, with the potential support of donors. This would facilitate financial institutions for development' collaboration, as well as the engagement of institutional investors.

5. **Financial institutions for development and donors, in collaboration with the private sector, should work together to standardise blended finance processes:** Alongside developing a standardised asset class, simplifying and standardising blended finance processes will also play a key role in facilitating institutional investors' investments in EMDEs, limiting transaction costs and time. Greater transparency and communication on the concrete benefits provided by blended finance are also required.
6. **Financial institutions for development, together with other EFAD actors, should coordinate initiatives related to private capital mobilisation:**
  - a. European financial institutions for development – EDFI-EIB-EBRD-JEFIC – should work better together, also with the European Commission, following a Team Europe spirit on private capital mobilisation to agree on a common definition and measurement methodology for private sector mobilisation, exchange knowledge and lessons learnt (where actors like EBRD and/or FMO could play a key role); develop standardised assets and blended finance processes; harmonise impact reporting requirements/measurements; build on existing and/or develop new private capital mobilisation initiatives tackling specific issues and markets. Combined together, European financial institutions for development can offer projects' portfolios that are diversified (e.g., which could integrate part of EIB and JEFIC European and extra European sovereign assets, EDFI and EBRD private sector operations in the Neighbourhood and beyond), which could create additional incentives for institutional investors to invest in EMDEs.
  - b. Importantly, financial institutions for development should work in synergy with other actors including:
    - i. Local actors on the ground, from public development banks, which can bring to the fore specific technical and political knowledge, networks, additional capacities (human resource and finance), etc. Financial institutions for development should also engage with Institutional investors and notably local pension funds to develop products that are fit for purpose, possibly in local currency, contributing to the deepening of local capital markets.
    - ii. Export credit agencies, which can play a key role in mobilising additional European capital in EMDEs, and enlarge the network

of private actors financial institutions for development can tap into, to mobilise private finance at scale. These synergies are even more important in a context where internal and external policy objectives are increasingly linked (including on critical raw materials, energy, etc.).

- iii. European institutional investors and especially pension funds in the short term, face fewer regulatory barriers than insurance companies in investing in emerging markets and developing economies. This would help design instruments/approaches that meet the demands of the likes of pension funds and insurance companies. Having a European platform convening financial institutions for development and institutional investors may help facilitate this endeavour – and help demonstrate why other investors should consider joining financial institutions for development initiatives.
- iv. Implementing agencies who can play a key role – especially in de-risking by providing TAs and/or supporting policy reforms and/or making the link between financial institutions for development and local institutional investors (given that financial institutions for development do not often have local presence). In this context, DFIs should work more collaboratively with implementing agencies, which may require support/incentives from their shareholders.

## 2. Developing scalable and more effective initiatives

1. **Balance-sheet mobilisation** offers a few opportunities including:
  - a. EBRD can be quite innovative in this field and is currently considering issuing hybrid capital products as done by the African Development Bank (AfDB). One of the major advantages of this approach is that it does not dilute shareholders' shares while allowing it to go at scale (the issuance from the AfDB in 2024 amounted to \$5 billion).
  - b. A more 'innovative' approach that could be relevant to include the smaller financial institutions for development would be a 'common' issuance of bonds by several financial institutions for development allowing the smaller (and local) players to tap into capital markets,

which they would not be able to do individually. This would translate into higher-scale issuance and potentially efficiency gains. The larger financial institutions for development could also issue bonds, which would then be used to lend to smaller financial institutions.

2. **Single-asset mobilisation** should not be the 'go-to' approach. At least, joint single-asset mobilisation should be preferred, in cases where multi-asset mobilisation is not possible, or where there is a need to pilot test an innovative approach that tackles specific needs and markets.
3. **Multi-asset mobilisation** including joint multi-asset mobilisation – though complex and costly to set up – should be favoured, as they are also more attractive from an institutional investors' point of view (higher scale and more efficient). Several ideas could be explored:
  - a. Build on existing initiatives to favour actions in the short term: as discussed, pension funds face fewer constraints than insurance companies in investing in EMDEs. In this context, initiatives such as the ILX fund and the Danish SDG investment Fund which both involved pension funds, should be upscaled by involving more i) European (and local) pension funds; ii) more financial institutions for development; and iii) move from a project-by-project basis to a portfolio approach (whereby pension funds invest not in one project, but in a portfolio). The ILX also signed a MoU with EBRD to co-finance EBRD's projects benefiting from EFSD+ guarantees – such a model could be enlarged to all relevant MDBs and financial institutions for development. To engage pension funds, financial institutions for development could leverage their shareholders (Ministry of Foreign Affairs and/or Ministry of Finance), which may be able to facilitate contacts, dialogues, and provide incentives for such collaboration with pension funds to materialise.
  - b. Develop new initiatives for the mid-term:
    - i. Programmatic forward-looking syndication of financial institutions for development's asset portfolios (à la IFC Managed Co-Lending Portfolio Program – MCPP) meaning that large European and local institutional investors co-finance financial institutions for development's portfolios based on their deal origination and approval, and loan management. This model seems to be mature enough to be replicated, based on the lessons learnt from IFC MCPP (and

others), and could focus on specific issues (e.g. climate finance) based on financial institutions for development's pipeline of projects. The diversity of projects (in and outside Europe) by European financial institutions for development could make this approach particularly attractive for pension funds and insurance to gradually start investing beyond OECD countries. The EFSD+ guarantee could also be used to de-risk investment through credit enhancement.

- ii. Synthetic securitisation platform where financial institutions for development sell part of the investment's risks to different participants in the deal according to their respective levels of risk appetite, by structuring it by tranche (junior, mezzanine, and senior). Besides mobilising private capital, it allows financial institutions for development to redirect some of their resources previously used as risk capital to finance additional projects. Such an approach is promoted as part of the G20 MDB reforms and has been tested by, and could build on the lessons learned from, the AfDB Room to Run (in particular potential risks relating to subsidising investors for commercial sovereign loan risk transfer, [given the safe nature of MDB sovereign loans](#)). In fact, other MDBs including EBRD are currently considering this approach. EFSD+ guarantees, covering e.g. the junior tranche and/or the mezzanine could be valuable in de-risking the investment and attracting institutional investors financing.
- iii. Country-led platforms as in the case of the Egypt's NWFE could be a relevant vehicle to mobilise private capital at scale in relatively advanced economies, by setting up a multi-asset platform that would cover different sectors or value chains, and builds on financial institutions for development's upstream work both at the policy-level (improving the regulatory and business environment in a way that is conducive to investments of institutional investors) and at the operational-level (to build a pipeline of bankable projects).
- iv. Unfunded risk transfer at portfolio level, building on the experience of the EBRD unfunded risk participation, which builds so far on a project-by-project approach. Doing so at

portfolio level may help in diversifying risks for institutional investors.

- v. Last but not least, building Global Gateway multi-asset platforms could be explored. The EU could select a couple of very large projects under Global Gateway (e.g., energy sector in Africa) or aggregate several smaller projects (e.g., public transport in LAC) and prepare these projects, with the support of European financial institutions, ECAs and implementing agencies, with the objective of integrating those projects to a multi-asset investment platform, to which EU guarantee or blending would be made available. Institutional investors would receive a comprehensive offer for investing in specific real assets supported by the EU's Global Gateway strategy.

To make this new commission the 'investment commission' will require a strategic approach to the mobilisation of private capital, one that can effectively harness the power of private capital to achieve European sustainable development as well as geostrategic objectives. Addressing this issue now will be vital for the success of the start-up and scale-up of Global Gateway, and will provide important lessons for the next EU budget and successor of the EFSD+.

## Annex 1: Comparison of the different types of private capital mobilisation

Moving from one approach to another comes with a different potential for scale, but also different benefits, risks and levels of complexity (and hence transaction costs).

**Balance sheet mobilisation** is mostly performed through debt issuances: MDBs and DFIS' debt issuances have the benefit of scale and predictability, although mobilised private investors are not exposed to development finance transactions' risks, as their exposure is limited to the financial institution's balance sheet. Private investors subscribing to these debt issuances are generally attracted by the strong rating of the financial institution and do not have an appetite for development finance risk. Also, debt issuance is only relevant to large financial institutions for development (scale is required to make the bonds' issuance relevant). Balance sheet mobilisation through equity is a challenging process that i) is limited (the number of equity rounds is finite and only a few state-owned institutions consider opening up their capital to private actors); ii) can only happen on an ad-hoc basis to maintain stability and confidence; iii) requires buy-in of state-owned shareholders as it means changes in capital structure and governance; and iv) institutional investors may put additional pressure on ensuring adequate return on investments rather than supporting riskier and more additional types of investments. Alternatively, hybrid capital, such as the one issued by AfDB in January 2024, requires limited changes to the capital structure and governance and, if its interest rates decrease while its use/application increases, such an instrument could provide a way for financial institutions for development to mobilise private capital<sup>6</sup>. However, hybrid capital issuances may put pressure on the return on investment offered by the financial institution.

**Single-asset mobilisation** helps build the experience and risk appetite of private investors for development finance transactions, and it allows testing and learning from new approaches. It is also relevant in contexts where the private sector's appetite to invest may be limited due to the characteristics of the assets sold (phase of the project cycle, geographical/sectoral scope, etc.). It can be undertaken by both large and smaller financial institutions for development. However, it is more relevant to larger transactions, where it is more efficient and it

allows them to build a network of investors. Yet, transaction costs can be too high, both for the financial institution to justify the complexity of sharing individual transactions, and for institutional investors to finance too small and/or risky investments compared to their traditional investments..

Moving from single to multi-asset mobilisation, and from individual to joint approaches is more challenging and yet, this is what is required to attract private capital at scale. **Multi-asset mobilisation**, through intermediation, securitisation or investment funds, allows attracting institutional investors investment at scale, provided that the portfolio is diversified and performing [and the assets are low-cost and investment grade] – thus offering an adequate risk/return profile. Structuring the portfolio in tranches (with a senior tranche targeting institutional investors and a junior tranche covered by public funds) can also be a way to attract institutional investors. While the immediate benefits of such an approach are scale and impact, whereby private investments are mobilised towards a large and diversified portfolio of development finance transactions, many pitfalls would need to be addressed to expand the development of such investment schemes: (i) transparency, data harmonisation and data sharing by DFIs and MDBs both on credit risk and impact reporting; (ii) regulatory regime incentivising private investments in securitisation and investment funds in non-OECD countries; (iii) clarifying the role and additionality of these investment schemes and their managing entities (e.g. asset managers, other intermediaries) compared with the role of asset owners, MDBs and DFIs, and last but not least (iv) standardising the approaches, both for equity (investment funds) or debt (securitisation).

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## Endnotes

1. There was no amount publicly available at the level of JEFIC, and KfW was selected to illustrate public development banks' mobilisation of private capital.
2. Private direct mobilisation involves a transactional relationship between an MDB and a client or investor relating to financing an MDB-supported project or activity, and it measures the financial flows that result from that relationship.
3. Private indirect mobilisation estimates the private investment flows into that project that is not directly arranged by the MDBs but by financial intermediaries.
4. Nordic DFIs, although smaller, have developed some programmes: IFU, through the Danish SDG investment Fund, and FinnFund, through their OP Global Impact Fund.
5. Yet balance-sheet mobilisation is more rarely accounted for, as it is not part of the MDB joint-definition of private capital mobilisation.
6. Yet, financial institutions for development may prefer to opt for hybrid capital following the WB model, which helps avoid high interest rates (because it does not tap into the capital market and hence does not attract private capital).

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