The Role of Development Finance Institutions in Accelerating the Mobilisation of Green Capital

Climate Bonds INITIATIVE

Prepared by Climate Bonds Initiative

Executive summary

Development finance institutions (DFIs) are well placed to invest in global climate and sustainability goals but their own-account financing is not enough to meet the climate investment gap.

Climate action is deeply intertwined with DFI mandates and core business given they already provide over half of global public climate finance: EUR335bn per year in 2021–22.[1] Private capital that would not have been mobilised without the activity of a DFI can multiply DFI efforts and help to meaningfully address the current climate investment gap.[2]

This report explores the mobilisation efforts of 23 European DFIs, 14 of which are members of the Association of European DFIs (EDFI). DFIs are publicly owned financial institutions supporting sustainable economic development in low- and middle-income countries as defined by the OECD Development Assistance Committee.[3] This includes bilateral and multilateral institutions.[4]

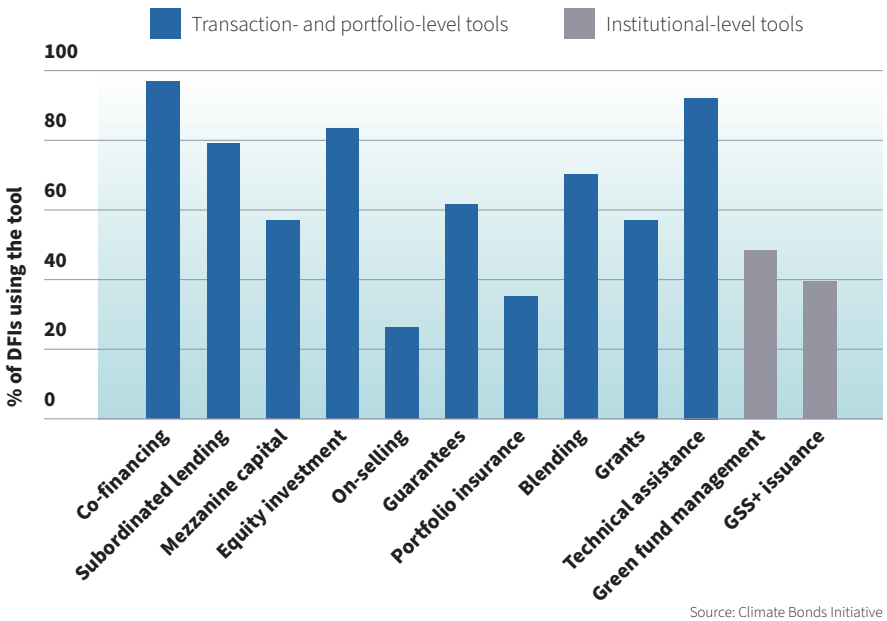
Current mobilisation levels are low. However, if all European DFIs were to double the current best efforts on mobilisation, levels would increase to EUR740bn per year and would have a substantial impact on global climate finance levels which currently stand at just over EUR1tn/year.[5]

Mobilisation levels vary among the DFIs. Mobilisation levels by EBRD and the EIB were equivalent to only 20% and 15% of their respective balance sheet sizes in 2022 and EDFI members' cumulative mobilisation levels reached only 1% of their combined balance sheet size.[6] If all 23 European DFIs matched current best-in-class efforts, they would mobilise a combined EUR370bn/year, which if doubled would mobilise EUR740bn/year.[7]

A range of barriers prevent some DFIs from ramping up mobilisation efforts. Some of those barriers originate from different DFI operating models and shareholder decisions, which is where they could have the greatest impact in improving capital mobilisation levels.

Although all the DFIs have climate targets only 37% have any form of mobilisation target, which lack impact given these are not linked to climate targets. Without targets and transparent reporting, investment teams may not be incentivised to crowd in private investment. However, targets based on narrow mobilisation definitions may result in investment decisions and a selection of mobilisation tools that do not maximise climate impact. This could also limit the range of tools considered and hinder the ability of DFIs to evaluate their efficacy.[8]

Figure 1: The use of capital mobilisation tools among DFIs, by percentage of DFIs using each tool



Source: Climate Bonds Initiative

The current use and mix of mobilisation tools may be more driven by ease of reporting rather than potential for impact, and the tools most used have higher transaction costs, thereby limiting impact potential. Although DFIs have a wide range of mobilisation tools at their disposal they have a preference for transaction-level tools over institutional-level tools, possibly driven by how mobilisation is measured (Figure 1). While Institutional-level tools have the potential to mobilise commercial capital at scale these are often overlooked in favour of transaction-level tools.[9]

A lack of transparency over investment performance hinders private investor appetite to participate in DFI mobilisation deals and similar projects. The lack of information on default and recovery rates could contribute to perceived higher investment risk, particularly for climate investments which are often more unfamiliar to private investors.

Green bonds account for a very low proportion of DFI liabilities despite being a key tool to mobilise private investment for climate projects. Among the DFIs that have issued green, social, sustainability, and sustainability linked bonds (GSS+), labelled debt only accounts for 17% of total outstanding volume on average, despite the high proportion of expenditure that would align with GSS+ frameworks. In addition, very low volumes of GSS+ bonds are issued in local currency, limiting local market stimulation and currency risk mitigation efforts.

Low levels of on-selling could be preventing further mobilisation and should be questioned. Of the 83% of DFIs making equity investments, only 26% use on-selling strategically. This suggests that many DFIs may have investments sitting on their balance sheets that are into the operational stage and for which the additionality of their participation is reduced. Early-stage investment is particularly important for climate investments which are characterised by high upfront costs and early-stage risks, which rapidly decreases once operational, meaning the investment could be passed on to private investors. This would free up capital to recycle into new projects and present investment opportunities to private investors.

DFIs are meant to operate in riskier environments but existing policy and regulatory barriers in their countries of origin, and a worsening financial market environment in their countries of operation, are likely to require DFIs to adapt further as well as maintain advocacy efforts to support greater capital mobilisation.

DFIs are not increasing risk-sharing efforts. Most climate investment needs are in low- or middle-income countries (LMICs), however these countries are facing deterioration of sovereign ceilings, increasing currency depreciation risks, and increasing physical climate risk exposure. DFIs are well-placed to break these vicious cycles of climate risk exposure, reduced investability, and lack of climate resilience but shareholders are not acting to enable the DFIs to take on more risks.

DFIs also face challenges in defining climate investments in a way that matches information availability and meets investor expectations. The MDB Joint Principles for Paris Alignment lack granularity on emissions thresholds etc., while the EU Taxonomy's narrow scope and references to EU legislation make application to non-EU investments very challenging.[10]

30 recommendations for DFIs, shareholders, and the EU Commission to scale mobilisation for green investment

1. Adopt a clear definition of mobilisation that encompasses all capital mobilisation tools available to DFIs.

2. Develop mobilisation targets that maximise climate impacts and encourage breadth of use of mobilisation tools based on needs.

3. Revamp how mobilisation is reported on to provide sophisticated incentives for effective mobilisation.

4. Develop portfolio diversification targets to ensure climate investment reaches the countries and sectors with greatest need.

5. Standardise investment structures to facilitate transparency and improve risk perception by private investors.

6. Scale up market creation facilities to grow investable project pipelines for private investors.

7. Prioritise on-selling to increase financing capabilities and maximise additionality.

8. Segment balance sheets to increase leverage while maintaining risk levels in line with appetite.

9. Increase the proportion of labelled GSS+ debt to provide a clear signal to investors on climate commitments and potentially enable DFIs to obtain better pricing.

10. The DFIs that are not yet members of the GEMs Database Consortium should look to join to improve their own abilities to assess risk levels and apply the most appropriate mobilisation tools.

11. The DFIs that are members of the GEMs Steering Committee should increase availability of information for private investors from the database to encourage participation in EM deals.

12. Investor pages should clearly describe co-financing opportunities including information on past performance to facilitate participation in investments.

13. Further and improved collaboration among DFIs and with other key stakeholders to address most barriers to capital mobilisation, whether those barriers relate to individual DFI operations or their external environment.

14. Collaborate closely with recipient country actors including NDBs and country-led platforms to help scale mobilisation.

15. DFI shareholders and governments need to embed climate change considerations in all international policy, including DFI strategy, international diplomacy, and trade to maximise impact of DFI investments.

16. Social and green go hand in hand, and this should be better reflected in DFI mandates and objectives.

17. Define the climate objectives of eligible green investments to ensure their climate impact and standardise allocation of financing.

18. Reduced shareholder return expectations would allow for greater risk-taking in DFI operations.

19. Shareholders can lower their dividend expectations.

20. Increase local currency GSS+ bond deals to stimulate local capital markets.

21. Smaller DFIs, which may be constrained in their ability to significantly diversify local currency exposure, can foster key collaborations.

22. Engage with local market regulation and climate policy frameworks to improve the real and perceived investment risks or regulatory limits to international investor participation.

23. Deploy green policy-based lending to provide the incentives for policy reform, aimed among others at addressing sovereign ceiling limits in the longer term.

24. Mobilise domestic investors in emerging markets and developing countries (EMDEs), leveraging an investment pool that is expected to grow significantly in the future.

25. Engage with credit rating agencies on ratings for mobilisation vehicles, differentiating between sovereign and underlying asset risks.

26. Collaboration between the European Commission (EC) and DFIs to improve usability and global applicability of the EU Taxonomy.

27. The EC can amend the GAR calculation to include non-EU investments.

28. The EC can look to provide greater consistency in how guarantees are treated in capital adequacy frameworks.

29. The IPSF can work with DFIs, leveraging their observer status, on mapping international standards and developing the Common Ground Taxonomy.

30. The DFIs can work with local governments on taxonomy development while helping to ensure interoperability.

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Definitions

Development Finance Institution (DFI): a specialised financial institution established to support economic development, majority-owned by government, which can include national development banks (NDBs) and multilateral development banks (MDBs).

National development bank (NDB): a financial institution created by national governments to finance the country's development and to fulfil certain policy objectives.

Multilateral development bank (MDB): a supranational financial institution established by a group of countries to finance socioeconomic development in developing countries.[11] Includes global MDBs such as the World Bank, and regional MDBs such as the European Bank for Reconstruction and Development (EBRD) or the Inter-American Development Bank (IDB).

For the purpose of this report, DFI will refer specifically to majority-publicly owned financial institutions supporting sustainable economic development in low- and middle-income countries as defined by the OECD Development Assistance Committee (DAC).[12] This therefore includes both bilateral and multilateral institutions.[13] In addition:

- Multilateral DFIs will refer to MDBs (see above).
- Bilateral DFI will refer to a DFI established by an individual country, serving to implement their government's foreign development and cooperation policy.[14]

Climate finance: finance that seeks to support mitigation and adaptation actions to address climate change.[15]

Blended finance: combining concessional capital with commercial capital, at the transaction or portfolio level, to address the Sustainable Development Goals (SDGs), and mobilise private resources.[16] There are other mobilisation processes which do not combine capital sources at the point of transaction and so are excluded from this definition for the purpose of this report.[17] Blended finance is a subset of capital mobilisation (see mobilisation definition below). Beyond this paper, there is variation in definitions used, which is further discussed in Annex II.

Concessional finance: finance provided on concessional terms, including grants, free technical assistance, debt, equity, or guarantees at below-market rates and/or with a grace period for repayments.

Commercial finance: finance provided at market rates, which does not necessarily originate from private investors and can also be provided by public investors.

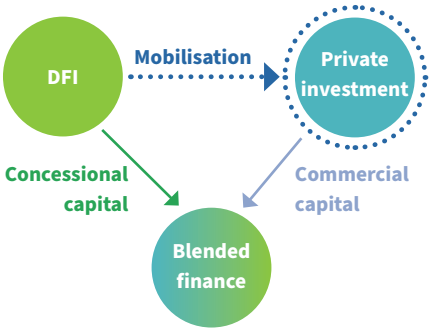
Development finance: finance provided by public institutions to meet development goals, SDGs, or climate goals, which can be provided on concessional or commercial terms.

Private finance: finance from private investors, i.e., not governments or development banks.

Mandate: official policy that the DFI is charged to carry out. This is often set out in the DFI's statute, article of association, or other terms of operation, but further elaborated in other communication.[18]

Additionality: the extent to which something happens as a result of a DFI's intervention that would not have occurred otherwise (i.e., without the DFI's intervention). In the context of development, the development impacts that arise as a result of investment that otherwise would not have occurred.[19]

Mobilisation: when private investment occurs that would not have happened without a DFI's actions, either directly or indirectly.[20] A subset of mobilisation includes blended finance, in which concessional capital is combined with commercial capital at the transaction or portfolio level.



Mobilisation ratio: is defined in a narrower way than the definition of mobilisation used in this report, and follows the MDB Task Force on Mobilisation. It represents a point-in-time assessment of the amount of commercial capital that is brought in by each dollar of concessional capital for a specific transaction. It is commonly then aggregated at institutional level.

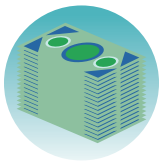
Private direct mobilisation (PDM): financing from a private entity on commercial terms due to the active and direct involvement of a DFI leading to commitment of the private financier.[21]

Private indirect mobilization (PIM): financing from private entities provided in connection with a specific activity for which a DFI is providing financing, where no DFI is playing an active or direct role that leads to the commitment of the private entity's finance.[22]

Transition finance: financing and investment used to support transition, often focused on high-emitting and/or hard to abate sectors. Transition finance is a subset of green finance as the transition being financed must be compatible with the goal of limiting global warming to 1.5°C.

1. Introduction: Green capital mobilisation is central to the function of DFIs

Meeting global climate and sustainability goals requires significant investment

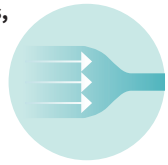


The climate transition requires large-scale mobilisation of private capital to transition energy systems, build resilient infrastructure, and develop sustainable communities. By most estimates, global climate finance needs to increase from USD1.3tn to around USD4-7tn by 2030 in order to maintain a 1.5°C pathway.[23,24]

For development finance institutions (DFIs), who are mandated to deliver sustainable development, climate investment is deeply intertwined with their core business. The broader global SDG investment gap is now estimated to be USD4tn/year.[25] Sustainable social development cannot be achieved without climate investment and the vast majority of investment demand for both is located in emerging markets (EM). In particular, climate resilience and sustainable development are mutually reinforcing. Climate vulnerability is decreased by social cohesion, improved education, and other social development priorities, while exposure to climate impacts will hinder sustainable development through loss of housing, infrastructure, and livelihoods, disruption of education, etc.[26] This places DFIs in a strong position to deliver adaptation investments which currently account for only 8% of global climate finance.[27]

For developed market (DM) DFIs, this is also part of the new collective quantified goal (NCQG) to be adopted at COP29 to replace the current USD100bn/year climate finance commitment with one in the trillions.[28]

DFIs are crucially placed to channel climate investment where it is most needed



In line with their mandates, DFIs can be influential and impactful investors which already provide the majority of public climate finance alongside NDBs.[29] Bilateral and multilateral DFIs also provide two-thirds of international concessional climate finance.[30]

DFIs and MDBs directly address market failures, such as when pricing fails to, or does not fully, incorporate the negative externalities or wider societal benefits of an investment. They often lend and invest across the economic cycle; lending more to nations when in financial distress, although they face challenges in the extent to which they can do so. They invest not for near-term return generation but for long-term global prosperity.

These approaches are crucial to climate financing for which investments are required throughout the economic cycle to ensure a whole-economy transition, the full value of an investment may only be realised and visible on long-term time horizons, and market failures limit the ability of private investor participation. In addition, DFIs are centres of expertise on many of the tools needed to ensure global capital is channelled to meet global climate investment needs.

Mobilising private investment is essential to meet the climate investment gap

Sustainable development and climate investment needs far exceed public financing capacity in both developed and emerging economies. Emerging markets and developing countries (EMDEs) other than China are estimated to need USD1tn of external finance per year by 2030, to meet mitigation and resilience objectives.[31] Of this, 80% will need to be covered by the private sector due to limited public investment availability.[32]

Box 1: Defining private capital mobilisation

Having different definitions of mobilisation matters. This is because use of different definitions will tend to favour the uptake of different mobilisation tools. The MDB Taskforce defines mobilisation as private investment resulting from DFI co-investing in a company or project with commercial investors, or when investing in a fund that attracts private capital.[37] The OECD defines it as financing from a private entity on commercial terms due to the active and direct involvement of an MDB leading to commitment.[38] These are both narrower definitions than used by this report.

BII define mobilisation as when commercial investment occurs that would not have happened without the activity of a DFI. This report adopts this definition as it encompasses a broader range of mobilisation pathways.[39]

For the purpose of this report, capital mobilisation tools are defined as those tools aimed at overcoming certain barriers or market failures to private capital investment, from investment risk to awareness of opportunities to inertia. They vary from direct investments, to guarantees, to institution-level interventions. Mobilisation tools can be targeted at specific DFI objectives, such as social development or climate mitigation.[40,41]

Based on the literature; principally DFI annual reports, sustainability reports, and websites, 12 main capital mobilisation tools have been identified as in line with the definition above. This list has also been compared to the instruments and tools listed by DFIs and MDBs themselves in their own publications. These tools are the following:

- Co-financing
- Subordinated lending
- Mezzanine capital
- Equity investment
- On-selling
- Guarantees
- Blended finance
- Grants
- Technical assistance and capacity building
- Portfolio insurance
- Climate/sustainability fund management
- GSS+ issuance

In addition, two main climate tools were identified:

- Climate lending
- Dedicated climate fund investment

It would be possible to classify this list differently or subdivide the tools further. For example, guarantees encompasses a range of instruments (currency guarantees, transfer-risk guarantees, policy-risk guarantees, etc.) but the level of granularity provided in DFI reporting varies. Hence, a higher-level classification is necessary for the sake of comparability and analysis. Analysis of tools should be taken as a relative indication of the variety of mobilisation activities rather than an absolute assessment of the level of mobilisation or other measure of success.

There is sufficient global capital available; the bond markets alone stand at over USD130tn outstanding.[33] Low-risk appetites, market failures in pricing of climate investment opportunities, and inertia in decision making mean capital is not currently flowing to the countries and technologies where it is most needed. Private finance contributions to LMIC infrastructure projects, which constitute the majority of climate projects, have declined since 2012, and only 10% reaches the lowest-income nations.[34]

DFIs provide important risk-sharing mechanisms, support transaction cost reduction, and contribute to necessary market-building efforts but not currently at the scale needed to deliver rapid climate action. Current mobilisation rates are too low to significantly address the climate investment gap. Private finance mobilisation for all SDGs in middle and low-income countries in 2022 was reported by MDBs and DFIs at USD71.1bn, of which only USD23bn was direct mobilisation, less than 25% the size of their direct climate financing.[35]

DFIs do have the potential to reach significant mobilisation levels. Convergence notes that mobilisation ratios on larger deals (USD100m or more) stand at 5.10 with DFI/MDB investment, compared to 2.54 without.[36]

The aim of this report is to assess the current status of capital mobilisation by European DFIs to support climate objectives, and how European DFIs might further increase capital mobilisation to address the global climate investment gap. The report sets out what DFIs, their shareholders, and policy-makers can do to scale private capital mobilisation for green.

2. The European DFI landscape

Within Europe, 23 institutions meet the definition set out above, hereafter 'the DFIs' (see Box 2). Note that these are not all bilateral DFIs; the European MDBs CEB, EBRD, and EIB meet this definition and are included in the analysis.

Box 2: The 23 DFIs analysed in this report

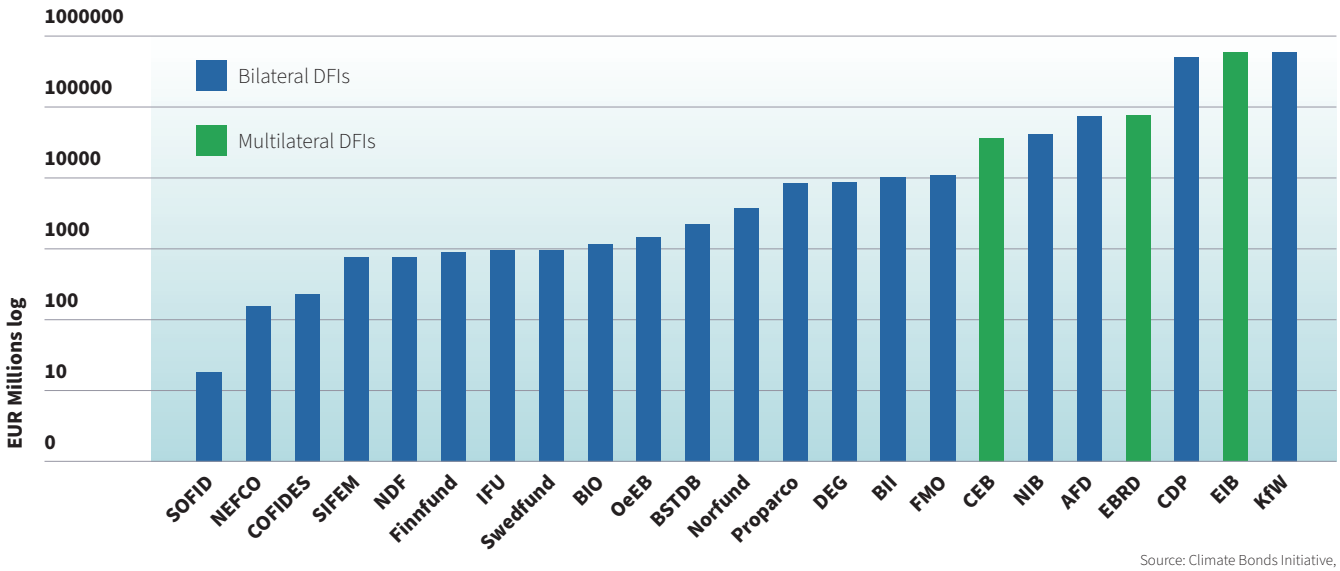
- Agence Française de Développement (AFD)
- British International Investment (BII)
- Belgian Investment Company for Developing Countries (BIO)
- Black Sea Trade and Development Bank (BSTDB)
- Cassa Depositi e Prestiti (CDP)
- Council of Europe Development Bank (CEB)
- Compañía Española de Financiación del Desarrollo (COFIDES)
- Deutsche Investitions- Und Entwicklungsgesellschaft Mbh (DEG), member of KfW group
- European Bank for Reconstruction and Development (EBRD)
- European Investment Bank (EIB)
- Finnish Fund for Industrial Cooperation (Finnfund)
- Netherlands Development Finance Cooperation (FMO)
- Investment Fund for Developing Countries (IFU)
- KfW Development Bank (KfW)
- Nordic Development Fund (NDF)
- Nordic Environment Finance Corporation (NEFCO)
- Nordic Investment Bank (NIB)
- Norfund
- Development Bank of Austria (OeEB)
- Société de Promotion et de Participation Pour la Coopération Économique (Proparco)
- Swiss Investment Fund for Emerging Markets (SIFEM)
- Sociedade Para o Financiamento do Desenvolvimento (SOFID)
- SwedFund

Table 1: Key characteristics of the 23 DFIs assessed in this report

	Country	GDP/ capita (EUR)	Destination of financing				% Public Ownership	Balance Sheet (EUR bn)	Credit rating	Published objectives		Shortlist for analysis
			Europe	Africa	Asia	LAC				Climate?	Capital mobilisation?	
Bilateral DFIs												
AFD	France	38,590	✓	✓	✓	✓	100%	69.9	AA-	✓		✓
BII	UK	39,150	✓	✓	✓	✓	100%	10.0		✓		
BIO	Belgium	47,250		✓	✓	✓	100%	1.1		✓	✓	✓
BSTDB			✓		✓		100%	2.2	BBB	✓		
CDP	Italy	32,390	✓	✓		✓	83%	475.0	BBB	✓	✓	✓
COFIDES	Spain	27,910	✓	✓	✓	✓	53%	0.2		✓		
DEG	Germany	46,150	✓	✓	✓	✓	100%	8.2		✓		
Finnfund	Finland	47,990		✓	✓	✓	96%	0.9	AA+	✓		
FMO	Netherlands	53,260	✓	✓	✓	✓	51%	10.6	AAA	✓	✓	✓
IFU	Denmark	63,540	✓	✓	✓	✓	100%	0.9		✓	✓	
KfW	Germany	46,150	✓	✓	✓	✓	100%	560.7	AAA	✓		✓
NDF				✓	✓	✓	100%	0.7		✓		
NEFCO			✓	✓			100%	0.1		✓		
NIB			✓	✓	✓	✓	100%	39.6	AAA			
Norfund	Norway	100,638		✓	✓	✓	100%	3.6		✓		
OeEB	Austria	49,440	✓	✓	✓	✓	100%	1.4	AA+			
Proparco	France	38,590	✓	✓	✓	✓	85%	8.2	AA-	✓		
SIFEM	Switzerland	89,109	✓	✓	✓	✓	100%	0.7		✓	✓	
SOFID	Portugal	23,310		✓		✓	80%	0.0				
Swedfund	Sweden	53,160	✓	✓	✓	✓	100%	0.9		✓	✓	
MDBs												
CEB			✓				100%	34.4	AAA			
EBRD			✓	✓	✓		100%	73.9	AAA	✓	✓	✓
EIB			✓	✓	✓	✓	100%	547.3	AAA	✓	✓	

Note: balance sheet and ownership figures taken from 2023 annual reports. Exceptions are FMO (2024 interim report), and SOFID (2022 annual report).[42] All other data as of September 2024.

Figure 2: Balance sheet size of the 23 European DFIs, logarithmic scale.



Source: Climate Bonds Initiative,

The DFI balance sheet sizes vary greatly and some correlation to a country's GDP can be observed. DFIs have a wide range of balance sheet sizes (EUR18m-560bn), see Figure 2. The multilateral DFIs tend to have the largest balance sheets, as would be expected given their greater number of shareholders providing capitalisation. However, several bilateral DFIs are also among those with the largest balance sheets: KFW, CDP, and AFD. There is a strong positive correlation (0.72) between balance sheet size and total national GDP, although there does not appear to be a correlation between balance sheet size and GDP per capita.[43] DFI capitalisation tends to be proportional to overall national budgets, which are related to overall GDP but not necessarily GDP per capita.

Around half of DFIs have secured a credit rating and these are all rated investment-grade (BBB) or higher.[44] For bilateral DFIs these will be tied to the sovereign credit rating, reflecting their government ownership, as stated by rating agencies.[45,46] The low coverage of credit ratings is because a large proportion of the DFIs do not rely on debt financing, and hence do not require a credit rating, but are instead entirely capitalised by shareholder financing and their own investment returns.

Box 3: Association of Bilateral European Development Finance Institutions, EDFI

Of the sample of DFIs, 14 are members of the Association of European Development Finance Institutions (EDFI). These are BII, BIO, CDP, COFIDES, DEG, Fiinfund, FMO, IFU, Norfund OeEB, Proparco, SIFEM, SOFID, and Swedfund.

The EDFI Association was established to facilitate cooperation and knowledge exchange among bilateral European DFIs and now has 15 members. One member, Società Italiana per le Imprese all'Estero (SIMEST), is not included in the report analysis due to its focus on supporting the internationalisation of Italian companies.[47]

EDFI members established the EDFI Management Company in 2016, see Box 7.

EDFI Statement on Climate and Energy Finance

The EDFI Association made a statement in 2020 on their joint ambitions on climate and energy-related finance.[48] EDFI aims to support private sector enterprises in high-need countries, maintaining standards for sustainable development, impact management, and transparency.

EDFI members made the following commitments as individual institutions:

1. Aligning new finance with the Paris Agreement. From 2022, all new financing has been expected to align with the Paris Agreement, with a goal to transition investment portfolios to net-zero GHG emissions by 2050.

2. Exclusion of fossil fuel financing. New coal and fuel oil financing will be excluded, with other fossil fuel projects limited to those aligned with the Paris Agreement until they are generally excluded by 2030 at the latest.

3. Ambitious climate finance targets. EDFI will set and publicly report on ambitious climate finance targets as well as private capital mobilisation targets.

4. Support for Paris-aligned projects. Clients will be supported with assistance, and investments will focus on promoting green growth, climate adaptation, resilience, access to green energy, and a just transition to a low-carbon economy.

5. Climate-related financial disclosures. High international standards, including the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, will guide climate-related financial disclosures.

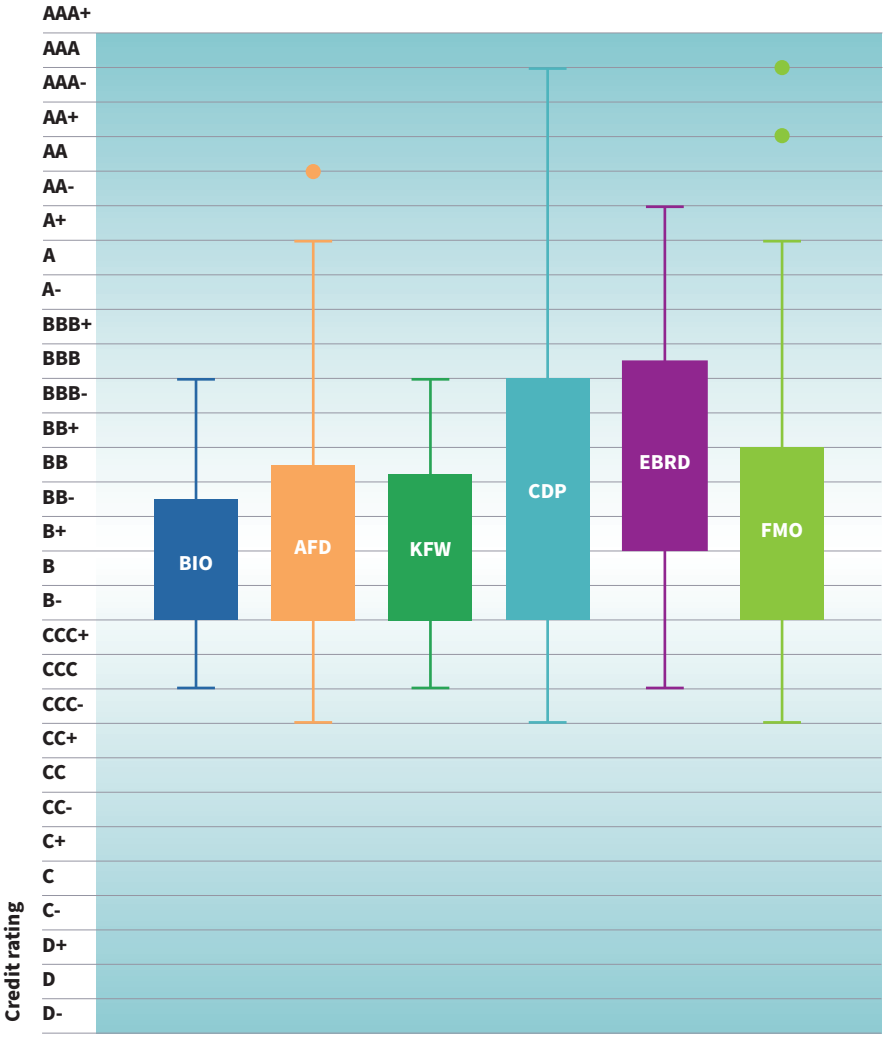
6. Institutional climate action. Climate action and risk management will be integrated at every level of EDFI institutions.

The DFIs operate globally, with most operating across Europe, Africa, Asia, and Latin America and the Caribbean (LAC) in countries with a wide variation of credit ratings, see Table 1 above. They invest in countries with credit ratings ranging from AAA to CCC- (included in Figure 3) and many unrated, in default, or restricted default countries (which are not included). As calculated by Climate Bonds, most of the DFIs operate in rated countries with an average credit rating of around BB-, below investment grade, although some have more pronounced spreads. CDP, for example, has the widest range of credit ratings in its portfolio (AAA to CCC-), whereas BIO has the smallest (BBB to CCC), and EBRD tends to operate in countries with a higher credit rating than the other DFIs sampled. It is important to note that this is not weighted according to level of investment in each country, and so cannot be used to judge the average credit risk of DFI investments. Level of exposure to each country will vary significantly and data on cumulative investment broken down per country of operation is not readily available. However, as an example, FMO has only two investment projects in the USA and 82 in India.[49]

The number of unrated or countries in default can represent a high proportion of the countries a DFI operates in. AFD, for example, operates in 69 countries, 24 of which have no credit rating or are in default (34%). Countries will be unrated due to inability of the rating agency to collect sufficient data or absence of sovereign debt issuance on international financial markets. These, and countries in default or restricted default, tend to be emerging economies and those most in need of development financing.

Project funding approaches tend to differ depending on a recipient country's credit ratings. Countries with lower credit ratings will tend to receive higher levels of concessional finance and grant funding, and loan/debt instruments are usually reserved for countries with higher credit ratings. Globally, countries in debt distress receive 83% of their international public climate financing as grants, compared to 8% for countries in low-debt distress. For example, AFD's projects in Haiti, an unrated country, are entirely grant based.[50] However, its projects in the Philippines, rated at BBB+, above AFD's average country of operation rating of BB-, are primarily sovereign loans.[51]

Figure 3: Range of credit ratings in shortlist DFI countries of operation



Source: credit rating data from Fitch ratings, as of July 2024.
Countries of operation from DFI websites websites as of July 2024.
Analysis by Climate Bonds Initiative.

3. DFI mobilisation objectives and tools

3.1. Climate and private capital mobilisation objectives among DFIs

Climate targets

All of the DFIs have adopted climate objectives as part of their strategies. Portfolio-level objectives that cover all activities are important for green capital mobilisation efforts, which will ensure all mobilisation activities are aligned. EDFI members committed to align all new financing with the goals of the Paris Agreement by 2022 and to target net-zero portfolios by 2050 at the latest but ambition and level of coverage vary, see Box 3.[52] For example, all DFIs bar BTSDB have applied fossil fuel exclusion policies. Many have climate financing targets and Paris-alignment objectives for new investments. Fewer have objectives to align indirect activities, for example aiding investees to align with the Paris Agreement. Such objectives can have an outsized impact, as the DFI works to align the whole company's activities, not just its investment.

MDBs and DFIs were founded with the objective of improving social outcomes in their countries of operation and, more broadly, most DFIs have a mandate to promote sustainable economic development and work to align their practices with the SDGs. Climate objectives are sometimes part of wider sustainable development objectives; 52% of DFIs mention that aligning with or contributing to various UN SDGs, such as SDG7 on Affordable and Clean Energy or SDG13 on Climate Action, is important for their organisation. In interviews, some DFIs expressed that there may be trade-offs in achieving climate outcomes. Some DFIs globally may require mandate expansion or clarification to increase climate action.[53] However, this does not appear to be an issue for the European DFIs.

In addition, DFIs have specific obligations deriving from their own government's commitments to achieving Paris objectives. These include acting across all institutions and agencies under their jurisdictions, meaning DFIs are expected to operate in a way that supports the Paris Agreement goals. One interpretation is that to be Paris-aligned, a DFI must orient its operations to be entirely consistent with recipient countries' low-emission climate-resilient development pathways.[54] However, DFIs tend to require a steer from their respective governments on this and may need to go beyond the concept of alignment and consistency to ensure maximum contribution to climate action.

Most DFIs refer to internationally agreed definitions of climate objectives. 87% of the DFIs reference the MDB Joint Principles for Paris Alignment in their reporting and 52% reference the EU Taxonomy. In interviews, and more broadly in the literature, several DFIs have highlighted the challenges related to the interoperability of taxonomies globally.[55] This is especially important for DFIs, as they operate cross-border.

There is some evidence that development of ambitious climate objectives can spur deepening or increased climate investment efforts. For example, following the EIB Board's decision to become Europe's Climate Bank and the approval of the 2021–25 Roadmap, GSS+ issuance increased significantly from 7% of overall issuance to 27% 2019–2022. The Roadmap aims to support EUR1tn in investment for climate action and sustainability by 2030.[56] A few interviewees stated that signing the EDFI Statement on Climate and Energy (see Box 3), spurred their development of climate financing, while others highlighted concerns over reputational risks of implementing ambitious targets with limited certainty on whether such targets could be achieved.

All DFIs interviewed signalled that climate would become more important to their mandates and activities, and most interviewees similarly expected mobilisation efforts to also gain importance. Most interviewees also expected to increase overall climate investment, which suggests that more of their activities will become oriented to meeting climate targets.

Mobilisation targets

While there is strong understanding amongst the DFIs of the need to increase capital mobilisation to address the climate finance gap, only 37% of the DFIs analysed have published a private capital mobilisation target. All these also have some form of climate objective, although the two objectives are not linked by the DFIs. Indeed, DFIs do not state that mobilisation targets are specifically aimed at increasing climate investments. Targets can be total financial targets or ratio targets. Most DFI interviewees expected capital mobilisation to become more important to meeting DFI objectives.

Private capital mobilisation targets can vary widely in scope and definitions. These range from quantitative targets focused on specific instruments, such as IFU's aim to mobilise DKK3-4bn in private capital under the IFU Guarantee Facility, to qualitative targets such as SIFEM's priority to mobilise additional funds from private and institutional investors where they otherwise would not invest.[57,58]

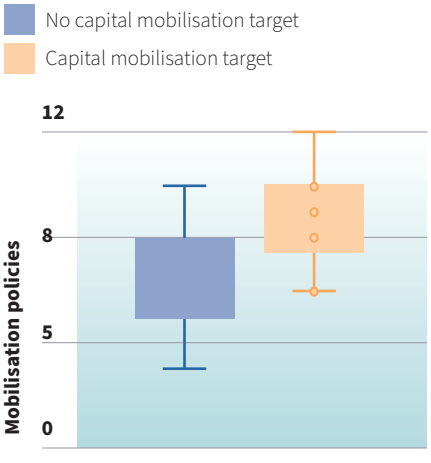
Such variation means that mobilisation rates cannot be easily assessed and compared as they are not consistently reported. There are some exceptions, for example, EIB, EBRD, and the EDFI Association report their mobilisation levels as part of the MDB Task Force on Mobilisation, based on the same methodology.

Based on the small sample of DFIs that provide consistent mobilisation reporting, mobilisation ratios are not high and vary widely, reflecting global patterns. In 2022, the EBRD and EIB reported total mobilisation of USD15.6bn and USD87.4bn, respectively, equivalent to only 20% and 15% of their respective overall balance sheet size. For EDFI members combined however, the level of mobilisation was USD5.2bn; 1% of all 14 members' balance sheets combined.[59] The lower level of mobilisation by EDFI members may be caused in part by reporting challenges, particularly given lower resources relative to the EBRD or EIB. While data is not available, it seems unlikely that the seven other European DFIs not contributing to the Task Force reporting would see significantly higher levels of mobilisation.

3.2. Mobilisation and green financing tools used by DFIs

Although only 37% of DFIs have published capital mobilisation targets, those with a published mobilisation target appear to make use of a greater variety of capital mobilisation tools (see Figure 4). There is also a correlation between presence of mobilisation targets and range of tools utilised (0.42).[60] As highlighted earlier, currently it is not possible to determine whether the establishment of a mobilisation target results in a higher level of mobilisation, due to the lack of consistent reporting. More mobilisation activities, as measured by use of a greater variety of tools, may however indicate a greater awareness of private capital mobilisation across a wider range of activities within the DFI.

Figure 4: Number of capital mobilisation tools used by DFIs with or without a capital mobilisation target



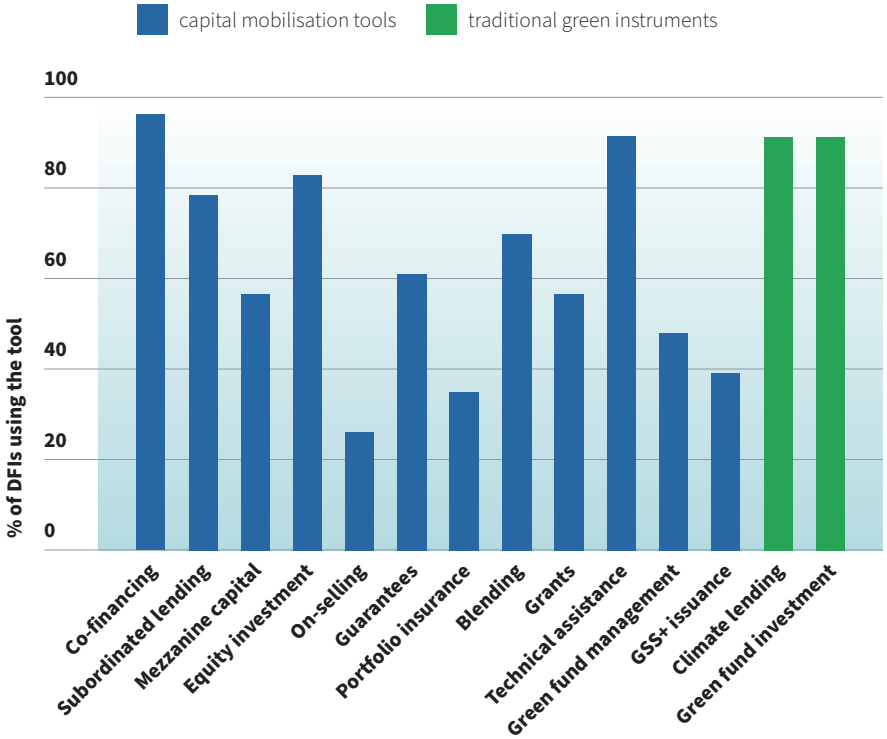
Source: Climate Bonds Initiative, based on DFI annual reports (2022, 2023) and DFI publications.

Generally, the use of traditional green financing tools is much more prevalent than the use of mobilisation tools (see Figure 5). All DFIs use more than one of 12 capital mobilisation tools identified (see Box 1). The number of different instruments used by each DFI can range from three to the full range of the 12 instruments. Bar green fund management and GSS+ issuance, it cannot be assumed that these tools are targeted at green projects. While there is reporting and case study evidence on each tool's use for climate projects across DFI publications, it cannot be taken for granted that all the DFIs are systematically using those tools for climate projects.

DFIs with larger balance sheets appear to have greater capacity to deploy a wider range of mobilisation tools. There is a small positive correlation (0.29) between balance sheet size and number of mobilisation tools utilised by each DFI, which is mostly caused by the wide range of mobilisation tools used by large DFIs such as EBRD, EIB, and CDP.[61] Overall, mobilisation tools are dwarfed by traditional financing tools, for example, 80% of AFD commitments are in the form of loans.[62] The interaction between mobilisation tools and traditional green tools is described in further detail below.

The MDB Task Force on Mobilisation, of which EBRD, EIB, and EDFI are members, has reported an increase in instrument innovation, such as the use of blended finance, for capital mobilisation. The Task Force noted better growth rates for mobilisation from new products and variations compared to traditional products and they also acknowledged there is further room to innovate in order to further scale mobilisation.[63]

Figure 5: Use of capital mobilisation and green tools among the 23 DFIs, percentage of DFIs using each tool



Source: Climate Bonds Initiative

Capital mobilisation is often only measured and reported when it takes place at the transactional level, but mobilisation can occur without being tied to specific transactions. This may be due to the definitions used or the difficulties in measuring mobilisation, as discussed in section 4.1.[64] Examples of non-transaction specific instruments include leveraging the DFI's balance sheet (see Figure 6 for details). The transaction-level approach may be driven by real or perceived ease of reporting and measurement capabilities at that level. Figure 6 shows the range of approaches included in in this report, however, a DFI's own reporting of mobilisation ratios may not include all these approaches.

Figure 6: 12 capital mobilisation tools per level of application

Transaction Level	Co-financing		Equity investment	On-selling	Blending	Guarantees	Grants	Technical assistance
	Subordinated lending	Mezzanine capital				Portfolio insurance		
Portfolio Level								
Institutional Level	GSS+ issuance			Management of green investment funds				

Source: Climate Bonds Initiative, adapted from BII, see Box 1 for explanation of classifications.[66]

Choice of mobilisation instruments will be determined partly by the specific market failures that the DFI is trying to address. This requires strong understanding of the failure being addressed and will also inform the level of concessionality applied.[65] DFI mobilisation efforts address market failures while minimising the level of concessionality to ensure efficient use of limited concessional resources and prevent any market distortions. For example, in interviews, some DFI respondents highlighted concerns over subsidising mature renewables technologies in particular and of inadvertently causing the market to wait for DFI subsidies.

Transaction-level and portfolio-level mobilisation

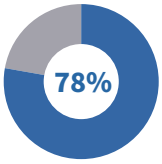
Mobilisation can take place either at transaction or portfolio level. When mobilisation occurs at transaction level, namely at the point of deal creation, it will likely meet definitions of PDM and be counted in traditional mobilisation calculations. Some transaction-level mobilisation may occur after deal creation, possibly meeting PIM definitions. Portfolio-level mobilisation occurs when transaction-level tools are applied to a portfolio of projects. While explored separately, several instruments (subordinated lending, mezzanine financing, guarantees, and grants) can be used standalone or as part of a blended structure.

All the DFIs with a published capital mobilisation target employ transaction-level mobilisation tools. BIO, CDP, EBRD, EIB, FMO, IFU, SIFEM and Swedfund all use co-financing, subordinated lending, equity investment, and technical assistance (TA), the use of which among the DFIs with mobilisation targets suggests that the target incentivises them to take on more risk in the pursuit of mobilising a greater level of private capital; although a lack of reporting inhibits any further conclusions to be drawn.

Subordinated lending and mezzanine financing

With subordinated lending and mezzanine financing, a DFI mobilises private investment by taking on the higher risk portion of a loan leaving the higher ranking, and lower risk senior debt for commercial investors. The senior debt is likely to be secured. Mezzanine financing is a form of subordinated debt that can be converted to equity in case of borrower default. Subordinated lending is often provided as part of a blended finance structure (see below).

Subordinated lending bears higher credit risk, which could constrain its use by some DFIs, but risk-sharing solutions are being trialled. For example, the EIB and EDFI members have invested in the Interact Climate Change Facility (ICCF), which is a EUR383m renewable and clean energy fund offering a range of instruments including mezzanine debt, as well as senior loans and guarantees. Investment risk is also shared across the DFIs involved and such a risk-sharing model may allow for greater levels of subordinated lending.[67]



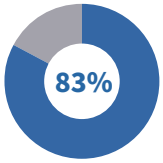
Subordinated lending is used by 78% and mezzanine financing by 57% of DFIs. This high uptake shows DFIs are working to mobilise private capital, even without published mobilisation targets. In addition, of the USD33bn climate finance provided by global bilateral DFIs in 2021–2022, 64% was in the form of low-cost project debt, although it is unclear how much of this is provided as subordinated lending.[68] However, traditional climate lending is provided by 91% of the DFIs, which suggests that capital mobilisation approaches may not be embedded in all climate financing strategies.

Equity investment

Equity investment can crowd in private capital through co-investment or through strengthening the investee's balance sheet. In some cases, equity investment can help the investee to raise further capital, as a first round of equity investment can increase commercial investor confidence. Unlike debt, equity investment does not require repayment so places less pressure on the investee's cash flows even if there are some expectations of a return on investment. This can shield the investee in early years, when investment needs and capital expenditure are highest. DFIs can offer long-term equity, which enables a company to become more established in the local market.

Equity investment is particularly important for climate projects. A BCG and GFMA estimate suggests 35% of all climate finance needs to be provided as equity. This is driven by high-risk technologies requiring high-risk equity capital, particularly at an early stage of development; largescale infrastructure financing requirements; and expected levels of new market entrants.[69]

When selecting projects' forecasted impacts and returns, most DFIs will place high emphasis on supporting knowledge transfer, infrastructure buildout, and opportunities for technical assistance, which can help the local market develop so that it can operate independently of concessional financing in the future.



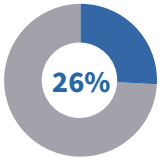
Despite equity investment presenting a higher risk than lending, 83% of DFIs provide equity investment, particularly to investees that lack local capital, such as SMEs and MSMEs in frontier markets.[70] Equity investors are last in line for repayment after senior and mezzanine in the event of financial distress or liquidation and due to equity carrying devaluation risks. Examples of equity investment include the EIB offering venture debt and investment funds aimed at supporting innovative early-stage companies, which has a signalling effect and can catalyse funding from private investors.[71] The European Investment Fund, part of EIB Group, also manages equity investments supporting climate neutrality under the Recovery and Resilience Facility on behalf of Member States.[72]

Some DFIs follow a policy of only taking minority stakes to ensure the investee retains control over decision-making and streamlines exit or on-selling of the stake. For example, BIO specifies that it always take a minority stake, tied to a seat on the board that is intended to be ceded once the company has matured.[73] Equity investments account for a large portion of BIO's exposures; around 40%.[74]

On-selling

While DFIs tend to hold assets or loans to maturity, on-selling investments can free up balance sheet space for new activities, including further mobilisation.[75] While on-selling may not be included in traditional mobilisation calculations, it does support the mobilisation of private investment by contributing to the pipeline of projects available for private investment; projects that would otherwise have stayed on the DFI's balance sheet. It also allows the DFI to originate more investments, increasing mobilisation efforts.

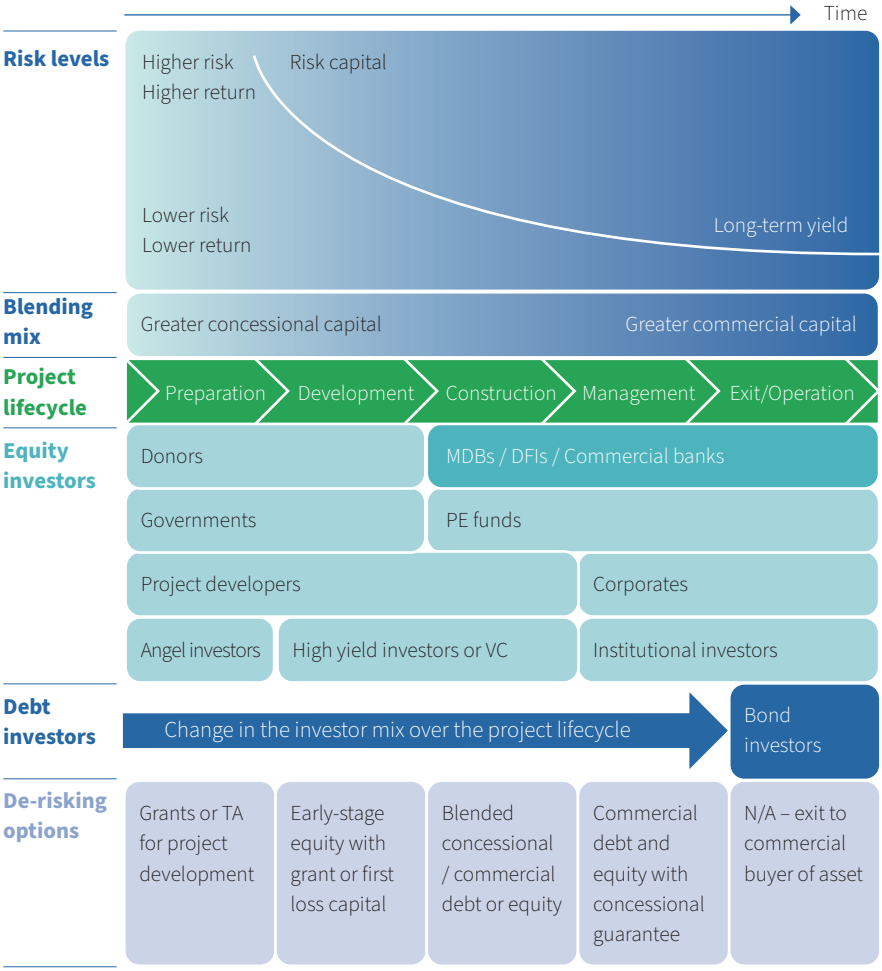
On-selling decisions by DFIs can be driven by additionality assessments and impact efficiency.[76] The DFI can on-sell their equity or loan to commercial investors once the additionality of their holding the investment is lower. For example, BII's Responsible Exist Guidance focuses on sustainability of impact.[77] In the early stages of a project, the DFI can help the company to grow and address various project risks. As the project progresses and becomes operational, the impact of the DFI's participation will likely reduce and the project risk profile will be lower and more attractive to commercial investors (see Figure 7). This is not the same as an 'originate to distribute' model where loans are distributed immediately after origination, for commercial efficiency. However, on-selling decisions will have to include commercial considerations such as pricing and secondary market liquidity to ensure coverage of origination costs and sustainability of the strategy.



Only 26% of the DFIs specify that they use on-selling as a mobilisation strategy. While other DFIs may sell investments before they reach maturity, to count as a mobilisation tool, on-selling has been included in this count only when used strategically to free up the balance sheet or mobilise private investment. In other words, for the purpose of this report, on-selling is counted as a mobilisation tool when such a strategy is stated publicly by the DFI. For example, BII highlight it as a particular strategy for mobilisation and EBRD aim to exit investments within 4–8 years.[78,79] Of the DFIs, 83% invest in equity, which is the more standard asset to on-sell, and so could develop an on-selling assessment process, which would be a significant evolution from many existing DFI strategies.

On-selling may require securitisation, particularly for smaller-scale projects in emerging markets. Aggregation facilities or other forms of project pooling can play an important role in driving standardisation of contracts and credibility of green loans by setting out minimum requirements for green securitisation. This is critical for targeting large institutional investors and scaling for additional investment over time. This model has also been proposed for large-scale guarantee schemes.[80] This would involve selling guarantees on the secondary market, once an infrastructure project has achieved completion and there are no further construction risks. Reinsuring in this way would free up balance sheet capacity and reduce EMDE exposure to the DFI, potentially qualifying country clients for further loans.

Figure 7: Changes in risk levels over the project lifecycle



Source: Climate Bonds Initiative, adapted from OECD.[115]

Guarantees

Guarantees enable private investment to flow to transition by addressing specific project risks such as currency, transfer, and political risks. This therefore reduces required rate of return, significantly reducing cost of capital for the recipient.[81] Guarantees have high mobilisation potential, with World Bank guarantees mobilising USD4 for every USD1 of guarantee provided.[82] Guarantees can build relationships between investors and EM borrowers, which results in a potentially wider mobilisation impact beyond a specific transaction, by fostering knowledge and confidence in a sector or borrower.[83] This could in turn foster a deeper appreciation of risks by private investors, thereby impacting the premium, or the extent of guarantee, required to execute transactions. EM borrowers might otherwise struggle to gain exposure to international investors by their limited ability to carry out investor roadshows or attend investor events.

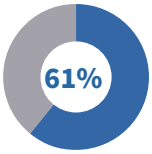
Guarantees do not require an immediate outflow of funds, are not always drawn upon, and so maturity is typically shorter than for standard loans, meaning that capital can be recirculated more quickly.[84] With a guarantee, the DFI stands behind potential liabilities on the issuance of a green loan or bond, using their credit strength to improve the risk profile of the instrument. As they are not always drawn upon, this implies a small capital reserve increase, representing more efficient use of balance sheets.[85]

Box 4: The Global Emerging Markets Risk Database (GEMs)

The GEMs database pools data relating to credit defaults on loans from its member organisations. The members contribute anonymised data on EMDE project recovery rates and defaults which are aggregated to provide statistics on observed default rates; rating migration matrices; and recovery rates by geography, sector, time-period, etc.

The consortium members apply the GEMs statistics in benchmarking, provisioning estimates, probability of default and loss given default model calibration, and regulatory and economic capital calculations.[114]

The DFIs will have access to historical data on guarantee draw-downs in the Global Emerging Markets Risk Database (GEMs) database, informing assessments of the likelihood of guarantees being called upon and therefore of disbursement capacity. In addition, use of partial guarantees, which cover one type of risk such as political risk but not credit risk, or cover interest payments up to a certain limit, will imply even smaller capital reserve increases. AFD, CDP, EIB, and KFW provide partial risk guarantees to cover non-payment risks for Sub-Saharan Africa RE plants under the European Guarantee for Renewable Energy (EGRE).[86]



Of the DFIs, 61% offer guarantees, either through their own funds or by leveraging their expertise to channel other funds as guarantees.[87] For example, CDP, CEB, EBRD, EIB, KfW, and NIB, among others, are implementation partners for InvestEU and the European Fund for Sustainable Development Plus (EFSD+). The InvestEU Fund provides a EUR26.2bn EU budget guarantee to mobilise public and private capital for projects that meet the EU's policy objectives but require some risk transfer. Currently, InvestEU is aimed at investments within EU countries, but it could offer a model for DFIs to invest in EMDEs using EU Commission support.[88]The InvestEU mechanism is a useful illustration of how guarantees do not have to be provided from a DFI's own funds, and how DFIs can instead contribute their expertise to efficiently deploy other funds as guarantees.

Box 5: The Green Guarantee Company

The Green Guarantee Company (GGC) was launched in February 2024 by the Development Guarantee Group and Cardano Development to guarantee debt instruments in ODA-eligible countries that meet the Climate Bonds Standard for Certification.[116] Its current coverage is green bonds listed on the London Stock Exchange and green loans in the private credit market with plans to expand to other exchanges.[117]

Initial investors, including UK FCDO, which is closely linked to BII and Norfund, contributed USD100m which is expected to mobilise up to USD1bn.[118]

Investment in the GGC therefore provides the DFIs with another mobilisation pathway, particularly useful for DFIs that do not have near-term plans to build guarantee expertise in-house.

However, guarantees account for very small proportions of DFI business, with average own-account guarantee disbursement at around 2% of balance sheet size for DFIs. This suggests there is room to scale provision. The average was calculated based on the ten DFIs that provide data on guarantee provision. The outliers are EBRD and Proparco, with guarantee provision at around 4% and 8% of balance sheet size, respectively.[89] Similar levels are seen globally, with guarantees accounting for 2% of global MDB books.[90] Without further granular reporting, it remains unclear what proportion of these guarantees is for green projects

Some DFIs support green guarantee facilities, which can scale up de-risking provision, streamlining decision-making compared to project-by-project allocation. Facilities provide investees with transparency on eligibility requirements, application processes etc., and provide investors with visibility of project pipeline. EBRD's Climate Syndication Platform targets mobilisation specifically, providing EUR30m of first-loss guarantees and TA to mobilise up to EUR225m for climate mitigation and adaptation.[91] Facilities are often coupled with TA as is the case in the NDF-supported Green Guarantee Facility run by the African Guarantee Fund, which provides lending and equity guarantees to African SMEs.[92] Existing facilities without climate objectives could be tilted to provide preferential terms for green projects. For example, AFD's Support for the Risk of Financing Private Investment (ARIZ) guarantee facility covers between 50-75% of an individual loan or portfolio of loans to SMEs and micro-finance institutions in developing countries. It is a final loss facility but its presence in a deal reduces required collateral levels and improves solvency ratios, helping companies to access private investment loans.[93]

Guarantees could also be provided at the portfolio level rather than transaction level. This is also known as portfolio insurance. Portfolio-level guarantees can help scale mobilisation, addressing a larger number of projects at once, thereby reducing transaction costs. It also broadens the pool of potential investors as it enables participation by large investors who are under minimum transaction size requirements. For example, the EFSD+ guarantees enabled pension fund participation in a 2023 EU partnership investing in climate projects across southern and eastern Europe, and central Asia. The partnership aimed to mobilise EUR300m in pension fund investments over three years. EFSD+ credit enhancements enabled Dutch pension asset manager ILX to co-invest alongside EBRD with the same risk-return profile, and without the guarantee, the projects financed would most likely have struggled to attract private sector involvement.[94] This last point is significant as given the availability of some private sector guarantee offerings and markets, there is also a risk that any guarantee provided is crowding out a cheaper private sector alternative. Green investment funds can also include a guarantee to help de-risk the investment and crowd in private investors (see FMO's SDG Loan Fund outlined below).[95]

Box 6: The Global Green Bond Initiative

A coalition of DFIs and MDBs including EIB, EBRD, CDP, KfW, and Proparco have established the Global Green Bond Initiative (GGBI). The GGBI aims to mobilise private investors through a public-private investment fund which would provide anchor investment to acquire a portion of issuances by private, sovereign, and sub-sovereign bond placings in EMDEs, seeking to attract further private investment.

The coalition will advise EMDEs on how to develop credible and inter-operable green bond frameworks to identify a pipeline of green projects. To date, the GGBI has signed strategic agreements with the African Development Bank and Inter-American Development Bank.[119,120]

Blended finance structuring

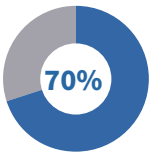
Blended finance structuring is the actual process of combining concessional catalytic capital with additional commercial capital to finance sustainability projects (see Annex II for further details). Mobilisation levels therefore depend on the proportions of commercial and concessional capital and the level of commercial investment mobilised will also depend on investee cost of capital considerations with higher concessionality required for high-risk investments. Blended finance deals, as defined by Convergence, globally mobilise USD4 commercial capital per concessional dollar, however only USD1.10 of this is from private investors.[96]

Blended finance structuring is a critical area where DFIs can help strengthen project viability, irrespective of their capital contribution.[97] Deal structuring is time- and resource-intensive. However, good deal structuring has the potential to change the risk-return profile of projects and hence reduce the cost of capital for the borrower. DFI involvement may also ensure concessional capital is secured to fund higher-risk portions.

Blended finance structuring is time- and resource-intensive but 2023 appears to have marked the development of larger-scale blended finance provision which can improve efficiency of structuring. Following a decline in aggregate blended finance in 2022, the market, as tracked by Convergence, rebounded to USD15bn in 2023 despite 25% fewer deals.[98] This mix of lower deal count but higher aggregate financing

emanated from several large climate funds being announced around COP28, including the SDG Loan Fund. Over 51% of climate finance transactions exceeded USD100m in 2023, a substantial increase on 24% in 2022. This is particularly important as blended finance can otherwise bear very high transaction costs due to the bespoke, non-replicable nature of the transactions, which take far longer to design, negotiate, and execute than other mobilisation tools. The Blackrock-managed Climate Finance Partnership Fund, for example, has attracted private funders, including Standard Chartered Bank, Dai-ichi Life Insurance, and MUFG Bank.[99] It aims to make climate investments with risk-adjusted returns in Southeast Asia, Africa, and Latin America. A combination of Governments, DFIs including KfW and AFD, and climate philanthropies, invested catalytic capital of USD112.5m.[100] The Fund's scale, straightforward structure, and alignment with investor sustainability goals makes it a strong model for capital mobilisation at scale and at speed.[101]

Standardisation of processes is critical to scaling the provision of blended finance. The DFI Working Group on Blended Concessional Finance, which includes the EIB, EBRD, and EDFI, seeks to develop common standards for implementing blended finance projects, provide transparent and consistent data on blended finance activities, and discuss existing blended finance approaches.[102]

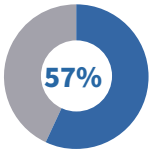


Of the DFIs, 70% participate in blended transactions either through provision of own funds or through deal structuring support. This is one of the most popular mobilisation instruments used by the DFIs, reflecting its strong potential to achieve high mobilisation ratios. However, the supply of concessional DFI/MDB capital for blended financing has stagnated since 2017, although commercial DFI/MDB capital has seen recent growth. In addition, climate financing accounts for only 57% of aggregate blended financing.[103]

Grants

Grant financing often mobilises private capital by financing the riskiest portion of an investment, sometimes provided as part of blended finance structures. KfW, for example, blends grants and loans to provide low-interest rate lending. This can ensure efficient use of grants, covering only a small portion of the investment. The use of grant financing also reduces debt burdens on investees.

Grants can mobilise private investment by enabling a project to reach a lower risk stage of development, and strengthening its management and governance structures (see Figure 7). DFIs may work with local intermediaries to best disburse grant financing, for example through Challenge Fund models where entities submit project ideas for selection for grant financing.[104] Such mobilisation tends to be defined as indirect mobilisation.



Of the DFIs, 57% provide grant financing, often when lending is not possible, for example, at the very early stage of a project when it is not yet generating returns or for resilience projects without clear revenue streams. This is a result of the limitation placed on DFIs in the level of grants that they can provide due to the lack of returns on grant financing, the capabilities of which will be determined by the level of donor capital provided by shareholders. DFIs will also help disburse official development assistance (ODA), a high proportion of which is provided by European countries as grant financing, with 92% of Italian bilateral ODA provided as grants in 2021, 80% of German, and 56% of French.[105] However, the link between grant financing and mobilisation does not always exist and where it does, it is not always specified.

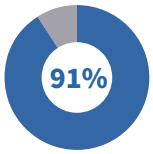
Technical assistance and capacity building

Technical assistance (TA) and capacity building mobilise commercial capital by improving the ability of project developers to access and attract private investors. It can inform and strengthen project development, reducing project risk and enabling private participation (see Annex II for definitions of TA and capacity building). TA and capacity building can be considered a form of grant financing because they are provided for free, which helps investees develop financial products such as bonds or to make an IPO, enabling them to access capital and/or equity markets. TA and capacity building for green bond market development is sought after in EMDEs, hence, for example, the establishment of the Global Green Bond Initiative (see Box 6).

TA and capacity-building to sovereigns can be an impactful indirect mobilisation tool, helping develop the market infrastructure and enabling policy environment required for sustainable investment. This often addresses transaction costs for private investors by reducing the level of due diligence required for investment or providing certainty on permitting processes. For example, the EBRD supports national governments in development of renewable energy auction policies and processes, helping develop the business environment for private renewables investment.[106]

TA is often used to increase the impact of financial support, enabling investees to best utilise the financing provided and 26% of blended finance transactions have a TA component.[107] This can cover areas such as development of investment plans, development of governance processes, and training on new technologies and processes which boost the likelihood of success. As an example, an FSD-Africa Challenge Fund programme had greater success when non-financial support was combined with the financial award, allowing the programme to work with promising applicants to refine their ideas pre-award, and providing TA during the piloting and testing phase post-award.[108,109] DEG is the exclusive provider of TA for the AfricaGrow Fund, a EUR200m fund of funds which aims to promote sustainable development in Africa by financing around 150 SMEs and startups by 2030.[110,111]

TA and capacity building can be used in order to enable DFI engagement with investees to encourage greater climate ambition. Capacity building on transition planning, climate-related risk management, climate disclosures, etc., can provide investees with a greater understanding of their exposure to climate-related risks and need to act, as well as their transition capabilities. EBRD has established the Corporate Climate Governance Facility to support the private sector and state-owned enterprises to identify gaps in their disclosure frameworks as well as providing capacity building and strategy advice for firms to improve their climate risk management.[112] The Facility aims to support over 100 EBRD clients from 2022–2025 and open up new climate investment opportunities.[113]



Of the DFIs, 91% provide TA and capacity building for private and/or public entities, reflecting the centrality of those activities to the role of DFIs in EMDEs. This is across activities, both social and green, however the high levels of green guidance provision by the DFIs, also 91%, suggests it is likely that many TA providers will be providing it for climate investments and/or on climate-related activities.

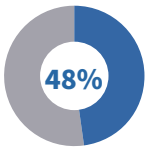
Institutional-level mobilisation

Institutional-level mobilisation is not tied to specific deals and is often not recognised in traditional mobilisation ratios. This may be a reason for the lower popularity of these tools among the DFIs. However, these tools have potential to mobilise commercial capital at a significant scale.[121]

Management of green investment funds

Fund management increases a DFI's investment capabilities without expanding its balance sheet. In addition to using its own balance sheet, a DFI can leverage its knowledge, skills, and expertise to manage the funds of others. Such green funds can attract commercial capital from the EU and national governments, but they also attract financing from philanthropies and private investors, offering appropriate risk-return profiles for all stakeholders. For example, NEFCO manages trust funds valued at EUR653m on behalf of Nordic governments, with EUR412m committed to green investments and projects. Comparing this with NEFCO's EUR149m balance sheet highlights the significance of these managed funds.[122] These trust funds, which can be disbursed as grants or concessionary loans, are also accompanied by feasibility studies and TA to enhance project implementation. Other examples include CDP managing the EUR4.4bn Italian Climate Fund (Fondo Italiano per il Clima) on behalf of the Italian Government which represents the main instrument to pursue Italy's commitments to the COP15 collective USD100bn/year climate finance commitment.[123] The Fund aims to finance mitigation and adaptation projects in ODA-eligible countries by providing project finance, public and private sector financing, fund investments, and guarantees.[124] ODI and ECCO have noted that the Fund may need a stronger emphasis on financing climate adaptation.[125]

Management of blended funds will directly mobilise private investment and can achieve very high mobilisation ratios. For example, FMO's USD1.1bn SDG Loan Fund reached 90% private sector commitments, achieving a 9:1 mobilisation ratio through FMO's first loss investment and a donor guarantee.[126] This is one of several commercial mobilisation-focused funds managed by FMO Investment Management. The EIB and KfW Green for Growth Fund blends public and private capital and also finances financial institutions (FIs) for on-lending. The Fund additionally provides these FIs with support to develop green finance products and promote green finance as a business line, increasing its mobilisation potential.[127]



Of the DFIs, 48% manage green investment funds, leveraging technical expertise in project selection, design and implementation, as well as strong relationships with EMDE governments and financial markets.[128] However, 91% invest in green funds with several DFIs investing in funds managed by other DFIs, suggesting capacity for peer learning and development of their own fund management capabilities. EDFI members are shareholders in EDFI Management Company (see Box 7).

Box 7: EDFI Management Company

The EDFI Management Company SA (EDFI MC) was established in 2016 by the members of the EDFI Association. EDFI MC is owned by the Association and nine European DFIs, namely BIO, COFIDES, DEG, Finnfund, FMO, IFU, OeEB, Proparco, and Swedfund. The company focuses on two main areas of climate mitigation: electrification and sustainable agriculture.

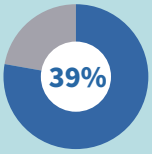
It was established to focus on business models and geographies that other investors may find challenging given their resources and investment criteria.[144] EDFI MC manages two main market development facilities: the EUR120m Agriculture Financing Initiative (AgriFI), which is managed along with FMO, and the EUR275m Electrification Financing Initiative. These facilities are funded by the EU and provide equity, equity-like options, and debt to the private sector. For AgriFI the focus is on providing medium to long-term financing to smallholder farmers.[145] ElectriFI focuses on providing TA and risk capital to early-stage private companies in EMDEs developing new electricity connections or improving existing ones, and also for projects that improve generation capacity from sustainable energy.[146] Both facilities aim to provide catalytic capital to de-risk investments and crowd in other investors, including private ones.

EDFI MC also manages the first joint guarantee facility under EFSD+, called the MSME Platform.[147] This EUR80m facility is designed to help micro, small, and medium-sized enterprises in Sub-Saharan Africa and the EU Neighbourhood. It is open to 11 EDFI members and aims to enhance their capacity to invest in local financial intermediaries. It is expected to unlock an extra EUR200m in investment from the DFIs, which will in turn generate a total of EUR500m of finance by enhancing the lending capacity of local lenders.[148]

GSS+ bonds to leverage DFI balance sheets

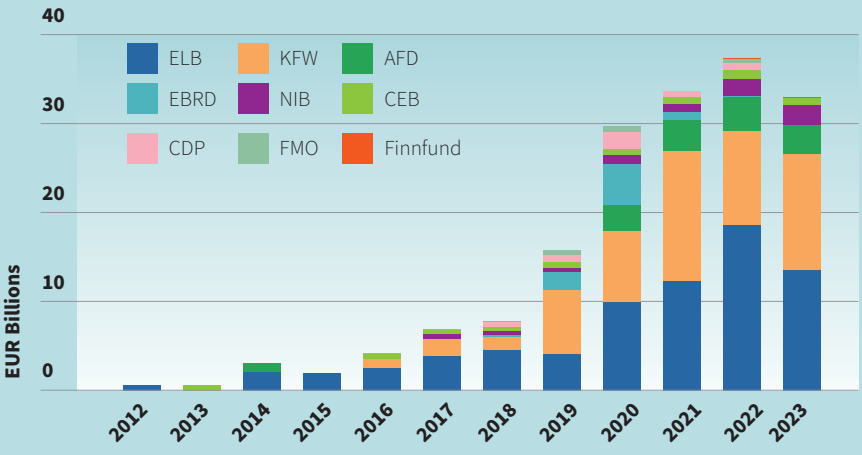
GSS+ bond issuance allows DFIs to access long-term private capital for green and sustainable expenditure. It increases their financing capabilities through the crowding in of private investment. High demand for labelled debt also means GSS+ bonds usually obtain larger oversubscription compared to vanilla equivalents. In some instances, this can enable DFIs to obtain tighter pricing, or a greenium, compared to vanilla deals.[129]

GSS+ bond issuance can also provide DFIs with signalling opportunities on climate and social objectives and broaden their investor base, particularly by engaging sustainability and impact investors and investors outside of Europe.[130] For example, AFD noted that their first USD-denominated sustainable bond received 66% allocation in America, Asia, Oceania, UK, and MEA compared to 62% for a vanilla USD-bond.[131] The experience of issuing GSS+ bonds can also be leveraged to provide TA and capacity building for prospective issuers and arrangers in EMDEs, (see Box 6).



Of the ten DFIs that have issued debt, nine have issued GSS+ labelled debt, namely, AFD, CDP, CEB, EBRD, EIB, Finnfund, FMO, KfW, and NIB, which accounts for 39% of all DFIs. BSTDB has signalled an intention to issue green bonds in future, citing the capital-raising benefits as a key motivation.[132] However, not all the DFIs have issued debt or are allowed to under their mandates or statutes, for example, Norfund's statutes prohibit it.

Figure 8: Cumulative outstanding GSS+ bond issuance by the European DFIs



Source: Climate Bonds Initiative, issuance to end of 2023.
Note: EUR exchange rate as of 29 Dec 2023

By the end of 2023, Climate Bonds had recorded EUR175.2bn of cumulative aligned GSS+ bonds from these nine DFIs (see Figure 8).[133] Of these, 77% were labelled green, 13% sustainability, and 10% social. To date, DFIs issuing GSS+ bonds tend to have large balance sheets: all nine are over EUR10bn except for Finnfund (see Table 2). Eight of the nine DFIs have a cumulative GSS+ outstanding bond issuance to balance sheet ratio of between 10–21%. CDP's much lower ratio of 1% is due to its funding from mainly postal savings instruments.[134]

GSS+ issuance accounts for 15–35% of outstanding bond issuance for eight of the DFIs. This shows that they have space to green their outstanding issuance (see Table 2). Finnfund has raised only labelled bonds, meaning 100% of its outstanding debt is labelled.[135] Its 2023 EUR100m green bond issuance was explicitly linked to the goal of mobilising private capital as a catalytic investor, financing climate mitigation and adaptation green lending, equity investments, and mezzanine capital.[136]

A smaller proportion of DFI GSS+ debt is labelled as social compared to the rest of the market. This is despite high levels of social investments among the DFIs. CEB, the social bank for Europe, is the exception and is one of the largest issuers of social bonds.[137] During interviews, some DFIs highlighted that a lack of commonly agreed definitions for social expenditures created challenges for allocating investment.

Table 2: The relationship between total GSS+ bond issuance, balance sheet sizes and total bond issuance

DFI	Balance sheet size (EUR bn)	Outstanding long-term debt securities (EUR bn)	Cumulative aligned outstanding GSS+ volume (EUR bn)	GSS+ volume as percentage of DFI balance sheet size	GSS+ volume as percentage of DFI total issuance
AFD	69.9[149]	53.74	14.69	21%	27%
BSTDB	2.2[150]	0.70	-	0%	0%
CDP	475.0[151]	19.25	4.59	1%	24%
CEB	34.4[152]	28.02	5.66	16%	20%
EBRD	73.9[153]	32.79	7.79	11%	24%
EIB	547.3[154]	406.29	74.61	14%	18%
Finnfund	0.881[155]	0.18	0.18	20%	100%
FMO	10.6[156]	4.76	1.67	16%	35%
KfW	560.7[157]	401.13	58.43	10%	15%
NIB	39.6[158]	24.93	7.55	19%	30%

Note: balance sheet figures taken from 2023 annual reports and FMO 2024 interim report.[159]
Outstanding long-term debt securities from Bloomberg, EUR exchange rate as of 31 December 2023.
GSS+ bond data from Climate Bonds databases.

Local currency bond issuance

Four DFIs have issued GSS+ bonds in EMDE currencies such as BRL, CNY, IDR, INR, MXN, and ZAR, which are EIB, EBRD, KFW, and NIB. Bond issuance by DFIs can attract large amounts of capital at lower rates and longer tenors than may be possible for EMDE actors, largely due to their stronger credit ratings.[138]

On-lending of the issuance's proceeds can be a particularly interesting mobilisation tool in lower-rated countries where corporates will be limited by the sovereign ceiling on credit ratings. Financing will often need to be made in local currency and repaid in local currency, to ensure investees' debt and revenue currencies match and insulate them from currency risk.[139] On-lending could hence provide EMDE entities with lower-cost debt than they would be able to access on local markets. This is also known as back-to-back funding and is an effective hedge against currency risks although it does present repayment risks.[140] It may not be possible in shallow local markets such as in LMICs or some EMDEs (see section 4.3 below). Lending in these markets may require alternative hedging mechanisms, such as those provided by TCX (see Box 8). EIB has issued GSS+ bonds across 23 currencies, including EMDE currencies, and so could be able to provide back-to-back funding in multiple jurisdictions. Such a level of currency diversification is not unusual for such a large issuer, particularly given EIB's diversified portfolio, and global range of investments.

Local issuance provides local investors with credit diversification opportunities beyond sovereign bonds, thereby helping to deepen the local market.[141] International investors also gain exposure to local markets at lower credit risk and may be encouraged to increase their exposure to other assets such as local government debt in future. EBRD, with an AAA credit rating, has highlighted its presence in local markets as a precursor for international investors to consider local government bonds and investing in local corporates or banks.[142] EBRD has issued across a basket of 15 currencies, including BRL, IDR, INR, MXN and TRY.

While local currency issuance can help kick-start local markets, it also requires a programme of technical, legal, and policy support for the market to mature and to develop necessary infrastructure such as regulation, local verifiers, stock exchange segments, etc. EBRD first issued in a local currency in 1994 with the aim of enabling EMDE countries to build their capital markets sustainably and to become self-sufficient. EBRD notes that without a local and liquid bond market, currency risk may be addressed in the short term, but in the longer run other risks, such as pricing and counterparty risks, often remain pervasive if the market does not further mature and expand.[143]

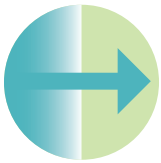
Box 8: TCX, the currency exchange fund

TCX provides currency risk solutions for currencies where other hedging options may not be readily available, such as emerging markets.[160] It de-risks development finance, enables local capital market creation, and advocates for local currency financing.

TCX provides hedging for currencies with very shallow local markets, passing the currency risk on to its investors, therefore reducing the cost of finance for the local borrower, and enabling local currency development financing. Hedging is also provided on longer timeframes than many private facilities may be willing to provide.

Of the DFIs, BIO, COFIDES, EBRD, EIB, FMO, KfW, and Proparco are investors in TCX.

4. Assessment of barriers and recommendations



DFIs aim to overcome barriers to investment and are designed to address market failures and financing gaps, stepping in where private finance cannot or will not go. It is important to differentiate between the barriers that DFIs are designed to overcome and the additional barriers that limit their actions, either due to severity of market failures, or additional issues. Considering those barriers, both external and internal, that limit deployment or efficacy of capital mobilisation efforts will inform capital mobilisation strategies and help maximise their potential.

Barriers and recommendations are structured around four key themes: 1) policy and regulatory environment, 2) financial market, 3) shareholder decisions, and 4) DFI operating models. Recommendations are given for each barrier theme, but several recommendations are cross-cutting and will address barriers across the themes.

In addition to the barriers listed above, green capital mobilisation efforts are hindered by common challenges facing climate investment (see Box 9). It is important to take these cross-cutting challenges into consideration when designing green capital mobilisation policies.

Box 9: Common challenges in climate investment

Incorrect pricing of climate risks

Across the world, climate risks and opportunities are not correctly priced, hindering the flow of investment to green projects. The lack of consideration for negative climate externalities is at the source of the market failure that DFIs are tackling. More recently, as awareness and understanding of negative externalities have grown, issues have persisted due partly to a lack of climate information architecture and an absence of policies that capture negative climate externalities, such as carbon pricing or pollution charges. This results in projects not being adequately priced for the services they provide, not capturing co-benefits such as climate resilience, and challenges in bringing them to commercial viability.

Current risk modelling does not fully account for climate risk due to short time horizons and reliance on historical data. This partly explains why current risk management regulatory frameworks do not take climate risks fully into account.[161] Capital requirements can also discourage climate investments due to their reliance on these frameworks.[162] Mispricing of climate risks and opportunities causes investment decisions to favour high-carbon over low-carbon opportunities, thereby creating a market-wide bias away from climate investments.

Technology risks

The risk profile of transition technologies and geographies can lead to high capital costs, generally upfront, that reduce project viability. Every 1% increase in the cost of capital increases transition cost by USD40bn/year in EM.[163] Innovative technologies face demand uncertainty, pipeline, and technological viability risks, adding to EM currency, political, and macroeconomic risks. It is notable that the regional average cost of capital in the Middle East and Africa was nearly double that of Europe for solar, offshore and onshore wind technologies while in EMDEs, a much larger proportion of total RE project cost is financing cost, compared to the regional average cost of capital for European projects.[164]

Lack of project pipeline

The lack of pipeline is a key constraint to sustainable finance globally, with demand significantly and consistently outstripping supply of projects. All DFIs interviewed mentioned not having sufficient project pipeline in their target sectors. However, at the real economy level, there is huge need for sustainable investment. As discussed with some DFI interviewees, and as per the literature, the issue is not so much a lack of pipeline but one of pipeline identification and supply/demand mismatches. There is a lack of investments with acceptable risk/return profiles and level of maturity for private investors.

Difficulties in project identification hinder DFI ability to invest in high impact projects. These include a lack of capacity/awareness at project end to apply for support, possibly leading to self-selection bias in the pipeline, particularly when identification is often driven by the outreach of project owners rather than DFI engagement on the ground, and outreach opportunities require a high level of project development by DFIs. For example, some DFI websites ask potential financing partners to already have a well-structured, economically viable project in place, and to self-disclose whether the project meets the DFI's investment criteria and climate objectives.[165]

However, it can also be limited by challenges in defining green projects, with projects often not meeting EU standards. Other internal reporting requirements and selection criteria, while key to ensuring impact and legitimacy of projects, could limit the pool of potential recipient projects and countries, thereby potentially preventing flow of capital where it is most needed. For example, BIO has a focus on financing SMEs but reporting requirements may limit SME participation.[166]

Critical projects such as renewable energy or other transition projects are also often too small for the investment screening of large institutional investors (e.g., less than USD200m). This supply/demand mismatch is exactly what DFI capital mobilisation tools aim to address, by pooling and de-risking investments to meet private investor risk appetite. A very large mismatch will make capital mobilisation more challenging and require more resources, for example, if the pipeline is dominated by small projects.

4.1. DFI operating models

Maintenance of high credit ratings

Efforts by DFIs to maintain high credit ratings in order to maintain their low cost of borrowing may be overly cautious, impacting risk appetite. Debt issuance, while expanding DFI lending capacity and mobilising private investment, may cause investments to shift towards lower risk projects if credit ratings are seen to be at stake. This is because of the need for reliable cash flows with which to repay loans or bonds and because of the need to preserve high credit ratings to keep the cost of debt low.[167] This therefore reduces mobilisation potential as the DFI is reluctant to take on the higher risk. However, with many DFI credit ratings pegged to government credit ratings, there may be more room for risk taking than is currently perceived. For example, Fitch classifies AFD and CDP as government-related entities and equates their ratings with those of the sovereign.[168,169] While EIB's rating is not linked to a sovereign, it is positively impacted by its access to the ECB's refinancing window.[170]

Investment strategies

The 'originate and hold' approach where DFIs traditionally hold assets or loans to maturity can limit project origination capacity and private capital mobilisation. A project's risk profile will change over its lifetime, moving from higher risk in the early stage to decreased risk once the project becomes operational and certainty over the project viability, including commercial viability, increases. In later stages, this means that some projects that were originally high risk can become investable for private investors. Holding to maturity therefore decreases the additionality of the DFI's investment and reduces opportunities for private investment mobilisation.

Some DFIs have a preference, or are required, to involve businesses headquartered in the DFI shareholders' country of origin in EM projects. This is the case for DFIs such as AFD, which may dampen the impact of the investment if profits flow out of the country. It also impacts local expertise development, reducing the multiplier effect, and level of mobilisation, of investments.

A minority of interviewees have highlighted the lack of proactive search for investment projects, as DFIs sometimes rely instead on being approached by potential investees. This has the potential to bias investment choices by each DFI and systemically, at the global level.[171] This demand-led, on a deal-by-deal basis, approach could hence limit the efficient allocation of concessional capital globally.

Operational approaches

There is a lack of transparency around investment performance, including on the risk profile of blended finance projects. DFIs do not regularly and consistently publish data on blended finance performance. Investors experience challenges with access to commercial data for blended finance transactions and access to MDB databases, such as the GEMs database (see Box 4).[172] This lack of access to performance data impacts the risk assessment of climate opportunities, and limits information on performance of climate investments. In turn, it can also impact perceived risks by investors and ultimately pricing, affecting the willingness of private investors to participate in blended finance structures. Several of the DFIs currently score lowly on the DFI Transparency Index.[173]

There is a lack of clarity on how to identify blended finance transactions and who to partner with. Investors interested in participating in blended finance transactions or in emerging market sustainability opportunities may have little clarity on where to start, including simply who to contact at the DFIs, which is a problem highlighted by a few DFIs during interviews.

Although national development banks (NDBs) can help access and mobilise local private investors, cooperation between NDBs and DFIs can be lacking. This is a greater issue among MDBs, with business models more dependent on dissemination of resources through NDBs. However, there exist challenges within NDBs themselves, arising from variability in NDB climate strategies, capacity, and data transparency. MDB reporting on climate finance revealed only USD7bn of transactions between MDBs and NDBs for the period 2015–2022 compared to the 93.1bn/year of total climate finance flows from MDBs.[174,175] This indicates a low level of cooperation, but could also be the result of a lack of reporting and transparency. DFIs will tend to see limited dissemination of resources through and co-financing with NDBs, which reduces the impact of investments, as they lack the local knowledge brought by the NDCs, and hinder local private investor mobilisation due to the lack of local contacts held by NDBs.

Challenges inherent in mobilisation tools

Blended transactions are highly bespoke and tend not to be replicable across markets. Blended finance structures take far longer than transactions such as direct loans to design and implement.[176] Some interviewees highlighted how the large number of stakeholders potentially involved in a blended transaction can increase the time and resource intensity of transaction structuring. This not only slows the rate of mobilisation but could also discourage private investor participation. This lack of standardisation also limits aggregation of blended structures, resulting in investments tending to fall short of institutional investors' minimum investment sizes. This reduces pooling and diversification benefits, and attractiveness to institutional investors.

The potential complexity of mobilisation structures and policies means DFI staff may require capacity building in order to implement them. For example, debut GSS+ issuances often require upskilling of relevant staff, particularly on use of green definitions.[177] One interviewee raised the issue of limited staff capacity as an explanation for their using a more limited range of mobilisation tools. This also echoes the finding in section 3.2, that DFIs with larger balance sheet sizes tend to make use of a greater variety of mobilisation tools.

Grants, guarantees, and other mobilisation tools which reduce project cost have the potential to distort the market. For example, this could cause the private sector to expect DFI support, thereby constraining investment volumes according to each DFI's own capacities.[178] This can limit private capital investment, reducing wider mobilisation potential. One interviewee raised the risk of market distortion as a particular concern, particularly in proven technologies, such as solar PV, which do not have a viability gap.

Challenges in measuring and reporting on climate impacts and mobilisation

Measuring impact is complex and impact metrics can pose challenges. Impact metrics are not standardised at an industry level, presenting comparability issues, although EDFI members have made efforts to harmonise impact approaches. Data may not be available to measure environmental impact, in particular as climate impact timescales may not match with project timescales.[179] In addition, selection of impact metrics may in turn effect project selection. Projects with quantifiable, near-term impacts could end up being prioritised over those with longer-term, harder-to-attribute impacts, possibly reducing the efficacy of mobilisation efforts.

While mobilisation ratios are often used as the measure of success of mobilisation tools, this does not always translate into sustainable development impact.[180] Mobilisation ratios are an output-level indicator that do not capture data or evidence that supports a fuller impact assessment, which is the end result of the investment, i.e., the social and environmental impacts. This makes them a less robust impact indicator than outcome-level social and environmental impact indicators. The use of mobilisation ratios as a proxy for impact metrics must therefore be carefully evaluated.

Using mobilisation ratios as an impact indicator may also encourage the use of only a limited number of mobilisation tools that contribute to the ratio, thereby limiting action.[181] This is because mobilisation ratios do not include or assess all mobilisation pathways. The use of narrow measurements and a lack of granularity on individual tools will also hinder a DFI's ability to assess their efficacy.[182]

Relationships with investors

Several DFIs interviewed mentioned the challenges in sharing information and aligning priorities with private sector investors. Different timelines and ways of working between DFIs and private investors have stymied efforts to establish investor matchmaking such as investor platforms or clearing houses. Public communication from DFIs to private investors may also be more limited than required, which indicates that a shift to considering private investors as a key audience requiring the requisite data is required for private investors to be able to act. Currently, 43% of DFIs have an investor page but these mostly provide regulatory disclosures to bond investors. Only 13% of the DFIs analysed have partner pages that cover co-financing opportunities and invite contact from private investors.[183] Disclosure of financial information data is the lowest-scoring component of the DFI Transparency Index, published by the 'Publish What You Fund' campaign, due to a lack of disaggregated and project-level data.[184]

Recommendations

Broad approach to mobilisation to ensure investment decisions maximise impact

1. Adopt a clear definition of mobilisation that encompasses all capital mobilisation tools available to DFIs. In this report, mobilisation is defined as when private investment occurs that would not have otherwise happened without a DFI's actions, either directly or indirectly.[185] Breadth of definitions ensures all possible mobilisation tools are considered in investment decisions. Coherence of definitions among DFIs and other actors is also key to ensure common understanding, streamline reporting, and enable comparability. Interviewees disclosed that European DFIs are engaging with the MDB Task Force on Mobilisation on adaptation of the MDB definition of mobilisation to include a wider range of instruments.

2. Develop mobilisation targets that maximise climate impacts and encourage breadth of use of mobilisation tools based on needs. Expanding the current narrow scope of many existing mobilisation targets that focus on direct mobilisation, to align with broad mobilisation definitions, will enable the choice of mobilisation tool to be driven by maximising climate and sustainable development impact and not preference for one tool over another.

The following principles are proposed for wide, yet robust, mobilisation targets that can support impact:

- Objective. Mobilisation targets should include considerations at both output- and outcome-levels. Use of outcome-level impact metrics such as number of jobs created, emissions avoided, and SDG contribution provides greater information on the contribution of mobilisation to DFI objectives and mandates. Increasing the focus on the impact of mobilisation (outcome-level), as well as mobilisation efforts themselves (output-level), ensures that mobilisation is not seen as an end in itself, but as a way to maximise efforts for the DFI to contribute to meeting its climate and social objectives. Incorporating impact metrics into investment strategies can also help improve mobilisation efforts over time, informing project prioritisation.
- Measurement. Mobilisation targets should be multi-faceted, looking at both direct and indirect mobilisation, and using both quantitative and qualitative methods and metrics. This is to reflect and capture the wide-ranging aspect of private capital mobilisation, including both direct and indirect mobilisation. Broadening the scope of mobilisation targets would also avoid the prioritisation of some mobilisation tools based solely on the ease of reporting for certain tools.
- Comparability. Mobilisation targets should be commonly agreed upon to provide comparability, which supports and promotes peer learning and progress. Such efforts should be in line with the existing MDB Task Force methodology.

3. Revamp how mobilisation is reported on to provide sophisticated incentives for effective mobilisation. This requires a broader definition of mobilisation than is often used, and the use of multiple metrics for comprehensive reporting. As outlined above, mobilisation does not only occur at the transaction level, but also at the investee and institutional level.[186] This comprehensive reporting will incentivise every mobilisation tool, preventing distortions to how investment strategies are selected. Mobilisation and impact reporting should enable strategic and investment decisions to be made in a more informed way.

The following considerations on mobilisation metrics are proposed:

- Quantitative metrics, including traditional mobilisation ratios based on transaction-level mobilisation, should remain important KPIs. Using the MDB Task Force on Mobilisation's methodology to calculate this will ensure comparability with other DFIs and generate confidence in reporting.[187] Quantitative metrics should also capture institutional-level and portfolio-level mobilisation.
- Qualitative metrics should also be used to capture mobilisation efforts for which absolute levels of capital mobilisation cannot be readily quantified. For example, grant financing for project initiation that does not look to crowd in private finance at that point would not be captured in existing mobilisation ratios. However, such early-stage work to strengthen the project would likely reduce project risks, increasing attractiveness to private investors in the future. Qualitative observation-based reporting can help capture this delayed mobilisation effect. Qualitative reporting provides greater information on more indirect efforts made in mobilisation, as for example, EBRD's explanations of how they assist banks in transition planning.[188] Including such case studies in annual reports helps increase understanding of the contribution of these other mobilisation tools.

From a reporting perspective, the following principles are critical:

- Disaggregated disclosure is important to provide meaningful information on performance of different mobilisation tools, allowing evaluation of efficacy in various contexts and sectors.[189]
- Reporting should feed back into decision-making, providing information on progress against DFI objectives and mandate. Therefore, reporting should provide information at both the output level, i.e., mobilisation, and the outcome level, i.e., social and environmental impacts.
- Effective reporting starts with the design of a monitoring plan, ensuring that impact measurement is done in the most complete way possible. This can also address the differing levels of data availability, granularity, and confidence that can be achieved in measuring different mobilisation pathways.

Ensure targets incentivise mobilisation and maximise impact

4. Develop portfolio diversification targets to ensure climate investment reaches the countries and sectors with greatest need. This will ensure that climate investment is not captured by lower risk countries and instead deployed according on a needs-basis. These targets could adapt existing country and sector limits to focus on maximising impact. As an example, FMO uses country and sector limits to ensure diversity of EM portfolio. Country limits range from 8% for higher risk countries to 22% for better rated countries, depending on the country rating, with higher limits in lower risk countries. Sectoral exposures are also limited within each country.[190]

Scale and standardise mobilisation provision

5. Standardisation of investment structures can facilitate transparency and improve risk perception by private investors by providing them with clearly understandable products and information. Standardisation of investment structures would not only accelerate provision of investments but also improve investor familiarity with them. Standardisation of investment products can also enable aggregation for on-selling to institutional investors.[191] This should not hinder diversification of instrument provision, with different tools being more effective for different project maturities, sizes, and sectors.

To accelerate investment, blended finance structuring needs to become large-scale and repetitive. This will allow for the speed and scale of transaction to increase, contributing to greater impact.

There are several ways in which DFIs can support the scaling up of blended finance, including:

- Assessing the potential for scaling up and standardisation of each transaction, and including those considerations in decision-making and prioritisation.
- Internally, setting up the processes and frameworks that support standardisation, such as templates, benchmarks, and frameworks for green blended finance deals. The aim should be to facilitate deal-making by decreasing transaction costs over time.
- Systematically assessing transactions, post-ante, to aim for the replication of successful transactions. Such a systematic assessment can be built in as a regular item. Standardisation can facilitate replicability, for example, through developing standard structures for certain project sectors and risk levels.
- Communicating, through reporting, on standardisation efforts and processes, which should include maximising the standardisation of reporting on transactions or projects that share similar features.
- Increasing collaboration to develop common understanding and approaches to blended finance, including through participation in the DFI Working Group on Blended Concessional Finance of which EIB, EBRD, and EDFI are members. The group seeks to develop common standards for implementing blended finance projects, provide transparent and consistent data on blended finance activities, and discuss existing blended finance approaches.[192] Ensuring these standards align with science-based and commonly agreed green definitions can help ensure climate ambition is embedded in the projects.

6. Scale up market creation facilities to grow investable project pipelines for private investors. DFIs can help support market development, as well as early-stage sectoral development, through market creation facilities, particularly as many DFIs are already pioneers in this area and could expand and green these activities with more concessional funding. For example, Proparco's investment continuum for African start-ups, FMO's Dutch Fund for Climate and Development, and BII and FMO's Africa Resilience Investment Accelerator, which bring together investors to unlock investments and build investment ecosystems in frontier African markets.[193,194,195] See also EDFI Management Company's AgriFI and ElectriFI programmes (Box 7).

Prioritising efforts to maximise balance sheets

7. An investment strategy that prioritises on-selling will increase financing capabilities and maximise additionality. On-selling is recognised as an important way to free up balance sheets and mobilise private investors, currently underused by the DFIs (discussed in section 3.2 above). DFIs should establish an on-selling committee, responsible for reviewing investments to identify projects ready for on-selling. This should be based not just on active assessment of commercial viability and coverage of origination costs, but also on an impact assessment of whether continued presence of the DFI will increase impact or whether it can be achieved without the DFI's contribution. This additionality assessment can be used to guide exit timing, i.e., when additionality can no longer be proven.[196]

BII's responsible exit guidance covers deal timing, exit readiness, exit structuring, and buyer-alignment considerations. It includes multiple principles to ensure sustainability of impact after exit and the exit approval process assesses commercial and impact returns equally.[197] On-selling also helps develop project pipelines for private investors and can increase their confidence in a region or sector.

8. Balance sheet segmentation can increase leverage while maintaining risk levels in line with appetite. Bond issuance, leveraging the balance sheet, is an important way to increase financing capabilities by bringing in private capital but can change risk appetites. A modest level of leverage can be achieved while maintaining a riskier tilt to investments but segmenting the balance sheet can increase leverage capabilities as the low-risk portfolio financed by bonds is separate from high-risk portfolio financed by public capital. FMO, for example, has an off-balance sheet segment managing public funds that can support higher risk and blended finance transactions.[198,199]

9. Increasing proportions of labelled debt can provide a clear signal to investors on climate commitments, and may enable the DFI to access better pricing, discussed in section 3.2 above. DFIs climate objectives could be used as the basis for the development of sustainability-linked bond (SLB) KPIs. Currently, none of the DFIs has issued sustainability-linked bonds (SLBs), which can be used to raise finance across DFI expenditure and could enable them to significantly raise the proportion of labelled debt. This would increase green capital mobilisation and help encourage ambition across investment departments in order to align with GSS+ frameworks.[200]

Improve transparency and communication towards private investors

10. The DFIs that are not yet members of the GEMs Database Consortium should look to join to improve their own abilities to assess risk levels and apply the most appropriate mobilisation tools. Currently, 43% of the DFIs are members of the Consortium. The Database provides credit risk data for members' EM operations (see Box 4).[201]

11. The DFIs that are members of the GEMs Steering Committee can increase availability of information from the database for private investors to encourage participation in EM deals. Private investors in particular have requested information on loan defaults to improve understanding of lending risks. The EIB has stated that the consortium is committed to making GEMs statistics available.[202] This information would not only encourage private sector participation in DFI deals but also indirectly mobilise investment by providing investors with the information needed to invest independently.

12. Clear investor pages outlining co-financing opportunities and providing information on past performance will provide much needed transparency to investors on how to participate in investments. FMO's investor page invites expressions of interest in its syndicated loans as well as for investing in its bonds.[203] OeEB and SIFEM both have pages where project proposals can be submitted for feedback.[204] DFIs could review their investor or partnering pages to collate high-level information on co-financing and other capital mobilisation tools offered by the DFI in one place, provide contact details for a named contact or team at the DFI for investors to request further information, provide information on expected service levels and when investors can expect to be contacted, or offer secure access to a portal matching potential investors with investees for specific projects. Such pages can also include financial performance data at the project level if possible, or aggregated, to facilitate investor decision-making.

DFIs' own transparency and reporting on past performance should be significantly enhanced to support private investors' participation in mobilisation structures. Reporting on performance of mobilisation deals, aggregated by sector or structure, would provide historic information needed for investors to make decisions.

Increase collaboration to achieve eco-efficiencies

13. Further and improved collaboration, among DFIs but also with key actors, is necessary to tackle most barriers to capital mobilisation, whether those barriers relate to a DFI's own operations or its external environment. Organisation channelling efforts, such as EDFI, already exist and can be leveraged to achieve this. More specifically:

DFIs can engage with policy-makers and regulators to push for better regulatory frameworks. The DFIs will need to engage with the European Commission and other bodies on Taxonomy improvements and regulatory change. The EDFI Association has already begun such engagement, providing a united front for the DFIs on sustainable finance regulation.[205]

DFIs can increase knowledge sharing to help build capabilities across the range of mobilisation tools. The DFIs can facilitate knowledge exchange between their staff to help develop understanding of mobilisation tools and strategies.

DFIs can further coordinate financing provision. Collaboration already exists among the DFIs, with many, such as AFD and KFW, regularly co-financing projects.[206] Transparency and coordination, such as on priority regions and focus areas, can help ensure mobilisation efforts are distributed across countries and sectors, reflecting each DFI's experience and capabilities.

14. Closer collaboration with recipient country actors including NDBs and country-led platforms can help scale mobilisation. Country-led platforms are local government-led coordination platforms that can help bring together the actors needed for successful mobilisation structures: policymakers, investors, and project developers.[207] They can help with identifying project pipeline, local investors, and donor funds. For example, EBRD and EIB have partnered with North Macedonia's country platform to facilitate its just energy transition.[208]

NDB cooperation can focus on co-financing and maximising NDB capabilities in project pipeline identification. Of the funding provided between International Development Finance Club (IDFC) members, 75% is currently provided through lending and credit lines.[209] Increasing co-financing opportunities would increase private capital mobilisation, utilising the DFI participation to crowd in private investment. IDFC members include AFD, BSTDB, and KfW. Capacity building can prioritise NDB private capital mobilisation capabilities, strengthening their abilities to structure blended finance deals or in project feasibility assessments. IDFC members provide knowledge-sharing, TA, and capacity-building.[210] In contrast, co-financing requirements imposed on the investees may add an additional barrier for them to access financing and therefore should be applied on a needs basis.

4.2. DFI shareholder decisions

Mandate and prioritisation

DFIs' multiple objectives of social development, climate action, and local market support can pose a challenge in terms of prioritisation. Many MDBs and DFIs were founded with the objective of improving social outcomes in their countries of operation, and some interviewees expressed that at times, there may be trade-offs between achieving social and climate outcomes, especially as certain social projects may increase emissions, for example by increasing access to the grid. In addition, existing climate projects are more likely to be based in more developed countries and have more limited social ambition and impact.

DFIs often lack objectives on capital mobilisation, especially when it comes to climate and transition finance. Only 37% of the DFIs analysed have any form of private capital mobilisation target, and these are not linked specifically to climate objectives. Teams within DFIs are often given total disbursement objectives, rather than total leverage objectives or impact objectives, which reduce incentives to initiate more sophisticated capital mobilisation tools.[211] More traditional, straightforward funding tools, such as direct loans will often be a more cost- and time-efficient method of disbursement. This will support a DFI team's objective, while not necessarily improving overall impact.

Risk appetite

Shareholders have a significant impact on DFI risk appetite, which has consistently been criticised for being too low. Shareholders impact DFI risk appetite through expected rates of return and level of loss acceptance. As 70% of the DFIs are fully publicly owned, while the remaining 30% are majority publicly owned, governments play a key role in determining DFI risk appetite. This is further constrained by shareholders sending mixed signals on risk tolerance, with uncertainties over likelihood of capital increases and treatment of callable capital.[212]

Dividends from some DFIs are near commercial levels, suggesting a lack of concessionality from shareholders. A simple estimation of the return on equity (ROE) for the DFIs analysed, based on publicly available data, ranges from -8.51% to 12.69% in 2023 (see Annex IV).[213] This compares to 22.8% total return for the Stoxx 50 or 7.9% for the FTSE100 in 2023.[214,215] While this is a point-in-time comparison that does not cover the full economic cycle, the wide range of ROEs not only illustrates the volatility of the markets that DFIs invest in but also the possibility that some of the DFI stakeholders may be expecting rates of return in line with traditional investments.[216] While high rates of return may support DFI functioning throughout the economic cycle, it is still the case that some DFI dividend payments constitute a very high proportion of annual net profit. In 2023, CDP paid 48.96% of its net profit as a dividend, AFD paid out 19.68%, COFIDES paid 8.76%, and FMO paid its shareholders a much lower 1.57%.[217] KfW does not distribute profits under German law.[218] High dividend payouts may impact the availability of finance to reinvest in climate capital mobilisation structures and could call into question the primary objective of DFIs.

Low risk appetite by some DFIs may also cause those DFI investments to be competing with or crowding out private investment.[219] This could occur if both DFI and private investors are looking to invest in similar projects/instruments such as senior debt, which reduces additionality of investment and limits mobilisation potential.[220] In addition, dependence on senior debt investments as opposed to mobilisation tools such as blending, limits their ability to take an active structuring role and mobilise private capital.

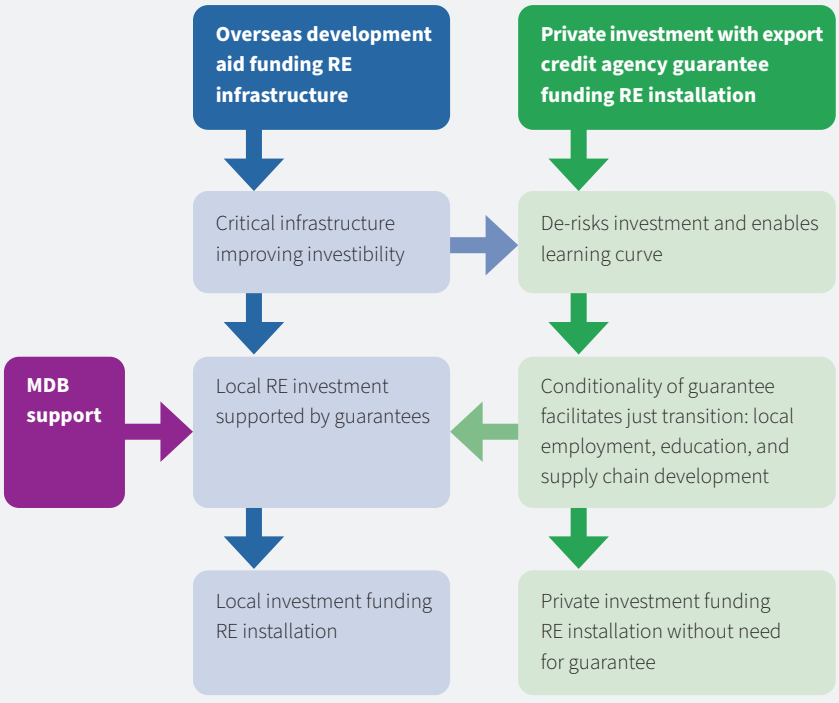
Recommendations

Align DFI approach with wider government policy

15. DFI shareholders and governments need to embed climate change considerations in all international policy, including DFI strategy, international diplomacy, and trade to maximise the impact of DFI investments. To meet climate goals, governments need to tilt every area of policymaking to green.[222] DFIs represent one part of their tool kit to address climate change. Whole of government thinking can increase impact of DFI investments and capital mobilisation efforts by ensuring alignment of international diplomacy and trade policies such as carbon border adjustment mechanisms, green trade windows, and export finance guarantees.

Trade policy can be aligned with DFI policy to maximise mobilisation potential for climate impact. Export credit guarantees are an important tool that could be provided to de-risk renewables development in conjunction with DFI efforts to develop grid infrastructure and de-risk local renewables infrastructure projects. However, safeguards will be needed to ensure entrance of export finance does not lead to international players outcompeting local project developers (see Figure 9 for a potential model for this). Many DFIs have policies in place to ensure investments are not tied to the national interest, which can help ensure any preferential guarantee allocation is based on potential climate impact but may limit the extent to which the tools can be aligned.

Figure 9: Export Credit Finance for international energy transitions



Source: Climate Bonds Initiative.[221]

In addition, climate diplomacy efforts and peer-to-peer knowledge exchange can be aligned with DFI policy to avoid duplication of efforts, and instead create synergies, such as on sovereign issuance capacity building or taxonomy interoperability.

Integrated green and social objectives

16. Social and green go hand in hand, and this should be better reflected in DFI mandates and objectives. Both DFIs and shareholders can develop a more comprehensive vision of social and green objectives as a multiplicity of objectives including just transition, resilience, etc., all contributing to sustainable economic prosperity. This would enable integration of social and green objectives in investment decisions and ensure that one does not take precedence over another or have unintended consequences. It would ensure climate investments are made where there is the greatest need for concessional financing, preventing capture by more developed countries with ready pipelines. It would also ensure social investments do not hinder climate action, such as by locking in dependency on fossil fuels. One way this could work in practice would be to incorporate social considerations, beyond minimum social safeguards such as compliance with international human rights and labour laws, into climate investments. This would ensure the DFI is financing a just transition and prevent perceptions that climate and social investments are in contention.

17. Climate objectives must be rooted in robust definitions of eligible green investments in order to ensure climate impact of investments and standardise allocation of financing. Notwithstanding the challenges of applying the EU Taxonomy outlined below, requiring a level of alignment with the EU Taxonomy or similar robust taxonomy such as the Climate Bonds Taxonomy would ensure credibility of investments and alignment with investor expectations. It could also allay concerns about the climate impact of investments with green labels, as with recent concerns over the World Bank's climate portfolio.[223] Use of definitions for climate objectives can occur while the issues laid out below are resolved. This will likely require use of internal proxies, special treatment for sectors for which criteria are not available, or flexibility windows, but will provide a clear signal of direction of travel and prevent credibility issues.

Rebalance return expectations

18. Shareholders can reduce their return expectations which would allow for greater risk taking in DFI operations. The DFI is not a commercial investment for the government but a way of efficiently distributing development and climate finance, where DFIs and MDBs are viewed by their shareholders as vehicles through which to realise the USD100bn climate finance pledge and expected NCQG.[224] Return expectations should align to reflect this. Certain DFIs have room to target a lower ROE (see Annex IV), which would effectively increase the level of concessional investment that they can make, as investments would not be expected to make commercial returns.

19. Shareholders can revise downwards their dividend expectations. Reducing the proportion of profits paid as dividends would increase reinvestment capabilities.[225] The case for dividends payments should be critically assessed, which would enable DFIs to increase provision of concessional lending and mobilisation tools.[226]

4.3. Financial market environment

Low sovereign credit ratings in countries of operation

There is a persistence of very low credit ratings, capped by very low sovereign ceilings in EMDEs, driven by their deteriorating macro-fiscal environment. Almost all developing countries do not have investment-grade credit ratings (below BBB-), with 60% of EMDEs experiencing credit rating downgrades since 2019.[227] The 'sovereign ceiling' means private issuers in these countries will also fail to obtain an investment-grade credit risk rating for their projects, regardless of the strength of the company.

This can limit the scale and effectiveness of capital mobilisation tools, which are intended to address low credit ratings and high investment risks through risk-sharing. However, very low ratings will mean each project will require a higher proportion of concessional capital in order to enable private investor participation. With increasing deterioration of credit ratings, this could severely reduce the number of projects that can be supported with limited levels of concessional capital.

DFIs may not be able to crowd in long-term investors to certain EMDE climate finance projects. Indeed, the DFIs appear to deploy fewer capital mobilisation tools in countries with credit ratings below investment-grade or unrated countries (see section 2). Long-term investors, such as pension funds and insurers, tend to invest in investment-grade products, reflecting their need for long-term stable returns. In addition, regulations can discourage or prohibit regulated entities from holding EMDE assets.[228]

Currency risk

80% of DFI and MDB EM lending is made in hard currency, primarily USD, but climate projects will mostly generate local currency revenue to support debt repayment, causing challenges in the event of local currency devaluations.[229] This currency mismatch issue sees assets (revenue), OPEX, and CAPEX in local currency but liabilities (debt to the DFI) in hard currency. Currency, or foreign exchange, risks include the risk of long-term local currency depreciation, increasing effective cost of capital over project lifetimes, and the risk of short-term local currency volatility, leading to repayment difficulties.[230] Managing currency risk is crucial for DFI operations and will become increasingly important with heightened geopolitical instability and supply chain shocks.[231]

Financing local currency lending through commercial cross-currency swaps is very expensive, limiting the ability of DFIs to crowd in international investors.[232] In a cross-currency swap, a DFI borrows in hard currency, which is swapped for local currency and on-lent in that local currency. This means that the DFI pays interest on the hard currency, a margin on the swap, and a risk premium on the risk of local currency depreciation. In addition, these swaps do not typically cover long (5–10 year) maturities because of the significant margins required against the credit risk alone, which introduces acute refinancing risks.[233] This significantly restricts international investor participation in local currency deals and limits the DFI's own capacities to finance projects.

Local currency issuance to provide local currency lending will be similarly expensive, possibly prohibitively so, in countries without local capital markets. This is due to the lack of local investors and international investors purchasing the bond will be exposed to the same currency depreciation risk as a currency swap provider so would require very high interest rate payments. Private capital mobilisation might therefore come at too high a cost for the DFI. Interest rate parity conditions require the interest rate to match implied depreciation, in either case.[234] In addition, any mismatch between repayment times of the bond and the loans will create a structural exposure in the local currency for the DFI.[235]

Policy uncertainty in countries of operation

A lack of local enabling climate policy environment, in some cases exacerbated by political instability, can hinder operations. Investor confidence, and ability to operate, is generated by financial standards and regulations such as sustainable finance taxonomies, disclosure requirements, and robust listing rules. Without these, the DFI and private investors will need to carry out greater due diligence on projects, and operate with greater policy and legal uncertainty, thereby increasing transaction costs. In addition, local regulatory restrictions, such as foreign equity restrictions and onerous licensing requirements, can also contribute to a complex operating environment and deter institutional investors.[236] Lack of climate definitions and disclosures may limit participation in deals by sustainability investors who are seeking projects in alignment with sustainable investment criteria and domestic regulations. Wider regulatory gaps will also disproportionately impact climate investments that tend to be long-term infrastructure projects requiring regulatory certainty.[237]

Private finance in EMDEs not matched to financing needs

A lack of long-term domestic investment appetite may limit the efficiency of market-based financing. Companies may be dependent on short-term bank lending if local equity and debt markets are not well-developed. This may make it challenging to develop longer-term capital mobilisation structures, such as equity or long-term blended structures, which are needed to finance long-term climate projects such as renewables infrastructure.[238]

Recommendations

Improving local currency lending capabilities will increase capital mobilisation

20. Increasing local currency GSS+ bond issuance can stimulate local capital markets and provide local currency lending. In countries with a developed local capital market, local currency issuance, currently only seen from four of the nine DFIs issuing GSS+ bonds, could be the cheapest way for the DFI to provide local currency lending. This is because local investors who operate in the currency will not experience currency risk exposure by participating in the bond and so interest rates can remain low. However, this back-to-back funding could expose the DFI to heightened repayment risks. Local currency GSS+ issuance in a nascent capital market may still result in high borrowing costs for the DFI but will result in additional mobilisation impact. The impact of demonstration effect to issuers and confidence-building among investors could help boost the local GSS+ market and mobilise local private sustainable finance flows.[239]

Issuing across a wide range of currencies provides the DFIs with diversification benefits. While not fully addressing depreciation risks, strong diversification across a large enough portfolio will protect the DFIs from specific tail risks, allowing them to offer cheaper financing. Existing limits on the amount of capital deployed in any particular country, tied to a rating on economic, political, banking, currency, and default risk can be used as the basis of strong diversification policies.[240]

21. Smaller DFIs, which may be constrained in their ability to significantly diversify local currency exposure, can foster key collaborations. Such DFIs should consider working with TCX (see Box 8) or set up similar collaborative structures. Seven of the DFIs are already investors in TCX, which provides cross-currency hedging for currencies where hedging options may not be available.[241] The other DFIs could also invest in TCX to secure lower-cost hedging. In addition, the DFIs could set up a collaborative structure to pool their currency exposures so as to achieve the diversification levels that would otherwise only be available to the DFIs with large enough balance sheets.[242]

DFIs can strengthen local markets to address investment risks

22. Engaging with local market regulation and climate policy frameworks will help improve the real and perceived investment risks or regulatory limits to international investor participation. For example, EBRD TA for development of renewable energy auctions (in section 3.2).[243] Such efforts can be developed through country platforms (see above). DFIs can play a key role in addressing regulatory uncertainty in countries of operation and local taxonomy development is one way they can do so.

23. Where and when adequate, green policy-based lending can provide the incentives for policy reform, aimed among others at addressing sovereign ceiling limits in the longer term. This can help address structural issues, including climate vulnerabilities, which limit the sovereign credit rating, enabling the government to improve its rating, and the upper limit for national ratings, over time. In the long run, this can reduce the cost of capital for borrowers and enable increased private investment in the country; a form of indirect mobilisation. Strong local markets would also enable local currency issuance, reducing the level of currency risk the DFI needs to accept in order to mobilise private investment (see above).

Unlock domestic investment

24. DFIs can work to mobilise domestic investors in EMDEs, leveraging an investment pool that is expected to grow significantly in the future. Some EMDEs are seeing increasing levels of domestic savings.[244] Local currency issuance is one method to mobilise domestic investors. In addition, DFIs can target domestic investors with risk-sharing products, work with project owners to help them to develop financial offerings suited to local investor demand, and engage with local policymakers on supportive policies to encourage domestic investors to invest in green and sustainable projects. For example, the Indian central bank's efforts to control inflation helped to boost local FI confidence and grow domestic RE investment to four times foreign investment in 2022.[245]

Credit ratings for mobilisation vehicles

25. Engage with credit rating agencies on ratings for mobilisation vehicles, differentiating between sovereign and underlying asset risks. DFIs can reach out to credit rating agencies to work together to define an appropriate risk rating for mobilisation vehicles, instead of the blanket application of its country's sovereign risk rating. This would allow private investors to better assess the risk-return profile of a specific vehicle, as the rating would speak directly to that profile, instead of only to the country's own credit rating. This could support better decision-making by private investors, and where appropriate, significantly reduce hesitation. It could also contribute to providing evidence that a well-managed company in a challenging country context is indeed able to provide an attractive return on investment.

4.4. Policy and regulatory environment

Policymakers hold dual roles when it comes to DFIs: as shareholder and regulator. Their regulatory role is quite fragmented compared to the more straightforward shareholder role. For example, DFIs are not in the scope of the Basel prudential banking regulation as government-owned entities unless they are carrying out commercial banking activities (in which case those entities will report under Basel) or if DFIs make the decision to report voluntarily. In addition, some DFIs can also be regulated as financial entities, as issuers of publicly traded stock. For example, KfW is supervised by BaFin in collaboration with the central bank while AFD is supervised by the national banking authority (ACPR).[246] This disparity may leave policymakers without the universal regulatory levers to influence DFIs.

Fragmentation and unsuitability of definitions and standards

There is a lack of global consensus on standards or criteria for climate investments. The closest are the ICMA Green Bond Principles, among others (relevant for debt and at a principle level only); the MDB Common Principles for Climate Finance; the Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment; and taxonomies, particularly the EU Taxonomy for EU DFIs, which is generally used as a benchmark on which other taxonomies are based. The IPSF and Climate Bonds Initiative are working to achieve consensus and harmonisation between global taxonomies, most notably through the development of the Common Ground Taxonomy, but significant differences in global standards remain.[247]

The Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment do not provide specific investment criteria in the way that a taxonomy does.[248] There is a list of universally climate-aligned activities, but these do not use emissions thresholds or metrics as they are intended to be very flexible. While they are used by 87% of the DFIs in their reporting, they cannot be used alone to identify credible transition investments in the way that a transition taxonomy would do, as they do not have criteria for substantial emissions reductions. They are therefore more relevant for risk screening, to ensure the DFI does not finance unaligned projects. Similarly, the Common Principles for Climate Mitigation Finance Tracking adopted by EDFI members and MDBs provide only a list of activities. They also deem any activity with net greenhouse gas reductions to be eligible.[249] This may promote incremental emissions reductions and risk encouraging carbon lock-in.[250]

The EU Taxonomy is not easily applicable or usable for investments outside the EU and has a relatively narrow scope. Only 52% of the DFIs reference the EU Taxonomy in their reporting. Barriers encountered in the use of the EU Taxonomy mean that very small proportions of DFI balance sheets are Taxonomy-aligned, or even eligible. These are as follows:

- **The references within the EU Taxonomy to existing EU legislation and standards, render it inapplicable outside of the EU**. Several interviewees accented the difficulties DFIs often encounter trying to bridge local practice with the standards needed for international investment when designing or applying investment criteria, given the EU Taxonomy incorporates pre-existing international standards to a very limited extent. For example, the do no significant harm (DNSH) requirement was found to be the main impediment to Taxonomy eligibility for IFU investments.[251] Furthermore, non-EU investments are excluded from the regulation's key disclosures.
- **The EU Taxonomy lacks definitions for several key sectors, such as agriculture, as well as social investments**. Hard-to-abate sector data requirements may pose a barrier for use, particularly in emerging markets, or lack usable transition pathways. This limits usability for DFIs which frequently invest in transition projects and social projects. BIO, in particular, is a DFI with a large number of sustainable agriculture projects which are outside the scope of the EU Taxonomy, while a Finnfund assessment found only 20% of investments to be eligible, with an even smaller share Taxonomy-aligned.[252]
- **The EU Taxonomy's delegated act on adaptation and resilience is mostly process-based and not particularly user-friendly, which limits its use**. A lack of granularity on classification of a resilience investment may be impacting financial flows. In 2022, only 14% of blended finance transactions were purely focused on adaptation.[253]

Regulations giving investors mixed signals

The Green Asset Ratio (GAR) is described in the Disclosures Delegated Act as the main KPI for institutions such as DFIs but issues regarding calculation of non-EU exposures hinder this. The GAR is calculated to show how much of an entity's on-balance sheet financing is aligned with the EU Taxonomy. However non-EU exposures are excluded from the numerator of the ratio, while still being included in the denominator. To give an example, the inclusion of OeEB renewable energy investments in the denominator of the OeKB (its parent company) GAR calculation, reduces the entity's overall GAR.[254] FMO reports a Green Asset Ratio of 0% because of the ineligibility of overseas lending, which prevents use of the GAR as a meaningful indicator of sustainability performance for DFIs.[255] However, even if non-EU assets were included in the denominator, the EU Taxonomy applicability issues outlined above would still significantly impact ratios.

There are concerns among the DFIs and the EDFI Association that low GARs could discourage sustainability-focused private investors from purchasing DFI GSS+ bonds in the medium-term. This is because the low GARs would negatively impact a DFI's reputation as an issuer and private investors' own reporting requirements would not provide incentives to invest in DFI issuance. While this appears unlikely to impact the high demand for DFI debt issuance, it remains a concern from a reporting and usability of the GAR perspective.[256,257] Additionally, the inability to label overseas investments as sustainable or Taxonomy-aligned tends not to favour private co-investment in projects. There is concern among the DFIs that investors who use the EU Taxonomy to guide investments may decrease funding to DFI projects and debt as a result.[258]

Lack of data from investees in LMICs hinders the application of Sustainable Finance Disclosure Regulation (SFDR) by DFIs, which diminishes the appeal of co-investment for private investors. As highlighted by members of EDFI, investors in LMICs tend to struggle to obtain the data to make relevant and necessary disclosures under SFDR, despite existing means set out in the RTS to use third-party data.[259] Several interviewees noted challenges in mobilising private finance for projects in LMICs with potentially high environmental and social impact which do not meet EU Taxonomy definitions, and where investees may not be subject to Central Securities Depositories Regulation (CSDR) disclosure requirements that would then support SFDR reporting. Interviewees were concerned that these investments would be disqualified under SFDR, and so less appealing to private investors looking for SFDR Article 8 or Article 9 investments.

Regulatory constraints for investor participation in mobilisation deals

The current financial regulation environment can create constraints for investors to invest in parallel with DFIs, countering the broader policy of increasing private capital mobilisation. This is a broad barrier encompassing several aspects of the regulatory framework, including but not limited to the following:

- Risk-rating issues and capital charges. Lack of nuance in assessment and risk rating for projects in high-risk countries leading to arbitrary outcomes in terms of

capital charges. For example, under Basel III and Solvency II, in the standard model, an infrastructure project requires a capital charge of 25% if it is deployed in an OECD country, while a similar project would require 49% if it is deployed in a non-OECD country. However, the OECD is currently a set of 38 countries that display great diversity in terms of macroeconomic fundamentals, all currently incurring the same capital charges.[260]

- More complex treatment of blended finance structures by investors and regulators compared to more traditional asset classes, regulatory treatment of credit insurance, and financial guarantees from MDBs.[261]
- Regulatory requirement related to pension funds and asset managers that limit their participation in EMDE blended finance transactions, as well as fiduciary duty restrictions for investment funds.[262]

Recommendations

Although the recommendations listed below are for policy-makers to action, DFIs can engage in dialogue to encourage changes in the regulatory framework and make it more fit-for-purpose. DFIs could engage with their own national policy-makers, as well as with those in countries of operations. Collectively, DFIs can also engage with the European regulatory authorities, for example, through the EDFI Association. DFIs can also engage regulators on challenges posed to increased private sector participation, such as issues under prudential regulatory frameworks outlined below. This could further consolidate EDFI efforts to raise awareness of the challenges posed by EU sustainable finance regulation.[263]

While such efforts are being made, DFIs can still extend application of different frameworks, including the EU Taxonomy, or other global standards such as the Climate Bonds Taxonomy, to provide assurance of a project's green credentials. This will likely require flexibility in windows and proxies (see section 4.2) but increased use of such frameworks provides DFIs with greater insights in what and how to improve them, and tangibly demonstrate issues to regulators.

Increasing DFI use of the EU Taxonomy would provide confidence to EU investors and facilitate greater capital mobilisation

26. The European Commission can work with the DFIs to improve usability and global applicability of the Taxonomy, several aspects of which will require adaptation. The Platform on Sustainable Finance could ensure that DFI concerns over the Taxonomy and sustainable finance regulation feed into an official process for improving Taxonomy usability, a key focus of the Platform's mandate.[264] These would be positive steps towards ensuring the use of the Taxonomy by DFIs, as well as private actors which have also been calling for change. More specific actions include:

- **Expanding the EU Taxonomy to encompass sectors such as agriculture**. Agriculture is a key area for DFI climate mitigation and resilience investments in developing countries and many taxonomies around the world include agriculture criteria, as do the Common Principles for Climate Mitigation Finance Tracking used by the DFIs.[265] Adoption of agricultural criteria in the EU Taxonomy, aligned with global standards, would help DFIs mobilise private investment towards these projects.[266]
- **Renewing efforts to define social investments, such as through social reforms to the EU Taxonomy**. Policymakers can support DFIs to tap the high demand for social and green assets, such as affordable low-carbon housing and green infrastructure.[267]
- **Enabling application of the EU taxonomy outside of the EU**. This would mean DFIs could provide investors with de-risked and Taxonomy-aligned investment opportunities, enabling increased private capital mobilisation. In order to do so, the European Commission could also map EU-based technical criteria and international standards, including those utilised by the DFIs, MDBs, and IFC to enable interoperability and broaden incorporation of existing international standards.[268] In particular, do no significant harm criteria require analysis of their applicability in developing countries. The EU Commission could also specify which types of investments and geographical areas should adhere to the standards and possible exemptions, for which European DFIs experienced in implementing the Taxonomy and other climate finance frameworks in these regions could provide guidance.

Address regulatory constraints to capital mobilisation

27. The European Commission can amend the GAR calculation to include non-EU investments.[269] The Disclosures Delegated Act anticipates a review of the exclusions provision. EDFI suggests an amendment to 'permit the optional inclusion of sustainable, non-European assets (or, alternatively, assets based in countries eligible for official development assistance) in both the numerator and the denominator of the GAR'.[270] This would address asymmetry issues where such assets contribute only to the denominator of the GAR. Inclusion of non-EU investments would potentially require increased flexibility over the use of estimates or proxies, and increased usability of the EU Taxonomy (see above).

28. The European Commission can undertake, or commission, a comprehensive review of its financial regulation, as well as sustainable finance regulation, to ensure it does not create unnecessary barriers to the flow of finance to achieve SDGs, especially in EMDEs and LMICs. Such reviews have not traditionally been undertaken with the objective of increasing capital mobilisation for green, and such a review was not included in the scope of the work of the EU High-Level Expert Group on scaling up sustainable finance in LMICs.[271] Undertaking such a review, including clear recommendations on what amendments can be made in the different regulatory frameworks, should provide a clear path forward for regulatory changes and how they can be included in the policy-making cycle.

Global interoperability and robust local taxonomies can streamline investment processes for the DFI and develop local markets.

29. The IPSF can work with the DFIs, leveraging their observer status on mapping international standards and developing the Common Ground Taxonomy.[272] Inclusion of the Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment in the mapping process will help ensure alignment of existing frameworks and avoid fragmentation of definitions.[273] The Joint Principles could also be included in the CBI/UNPRI taxonomy navigation tool.[274]

30. Those DFIs that are working with local governments can support taxonomy development and help to ensure interoperability. Some interviewees have supported local taxonomy development for this reason. Engaging local governments on taxonomy development can also encourage wider work on sustainable finance policies, empowering local governments to mobilise private capital.

Conclusions

Private capital mobilisation is the means by which DFIs can maximise efforts to meet climate and sustainable development targets. The DFIs have the tools at their disposal to increase capital mobilised for climate action. There is now a need to scale (portfolio level, increased transaction size, aggregation) and standardise these mobilisation tools to increase private capital mobilisation.

If all the DFIs matched the EBRD and mobilised 20% of their balance sheet size, they would together mobilise EUR370bn/year.[275] If they doubled this best effort then they would mobilise EUR740bn/year.[276] Focusing this mobilisation on climate investments would have a tremendous impact on global climate finance levels which currently stand at just over EUR1tn/year.[277]

Targets can help accelerate mobilisation efforts for climate impact if based on strong definitions. Mobilisation definitions need to encompass all mobilisation tools to ensure all mobilisation pathways are incentivised. Institutional-level tools often result in more indirect mobilisation, which is less likely to be included in narrow mobilisation definitions, but which can reach very significant levels of mobilisation, such as through market-building, contributing to growth of self-sufficient sustainable finance markets.

30 recommendations are set out in this report. Many of the actions proposed are already being undertaken to a certain extent, demonstrating the value of increased collaboration among the DFIs to learn from each other and share best practice.

To move the needle on green capital mobilisation, the DFIs and their shareholders should prioritise the following:

- Developing mobilisation targets that maximise climate impacts and encourage breadth of use of mobilisation tools based on needs.
- Basing climate objectives on robust definitions of eligible green investments to ensure climate impact of investments and standardise allocation of financing.
- On-selling to increase financing capabilities and maximise additionality.
- Increasing availability of information from the GEMs database for private investors to encourage participation in EM deals.
- Shareholders reducing their return expectations which would allow for greater risk-taking in DFI operations.
- Increasing local currency GSS+ bond issuance to stimulate local capital markets and provide local currency lending.

Annexes

Annex I: Summary of literature review

There are several key themes emerging from a literature review on these topics, which are explored below. The following topics were considered: the scale of mobilisation needed to meet climate goals, the current level of capital mobilisation by DFIs, the type of mobilisation tools available to DFIs, the barriers that have been identified that limit capital mobilisation for climate as well as existing commonly agreed recommendations.

There is strong consensus of the central role of DFIs in addressing climate change and supporting the financing of the transition. DFIs, MDBs, and NDBs provide more than half of all public climate finance, committing EUR335bn/year of EUR589bn/year in 2021 and 2022.[278] In addition, bilateral and multilateral DFIs provide 33% and 30% of international concessional climate finance, respectively, with international concessional finance globally reaching EUR75bn in 2022.[279] Climate mitigation and resilience is also seen as strongly aligned with DFI mandates to deliver sustainable development, and many DFIs have also specified climate action as a key priority or target.[280] While some DFIs globally may need mandate expansion or clarification to increase climate action, this does not seem to be an issue for European DFIs.

There is an overwhelming consensus in the literature on the need to increase private capital mobilisation for climate. Estimates of the annual global climate investment gap vary between USD2.5tn and USD4tn.[281,282,283]

European DFIs have significant financing power. Assets of EU Member State public development banks were estimated at EUR3.2tn in 2020.[284] European DFIs, particularly EIB and EBRD, demonstrate strong histories on green investment. The volume of the EIB's climate finance provision for developing economies (EUR2.52bn in 2022) is on par with that of the European Commission's provision.[285] There is variation in the level of integration between green and social investment from full alignment, such as the EBRD which has aligned all financing with the Paris Agreement since 2023, to others which do not tend to combine the two. In addition, EBRD's statute includes mobilisation as a key function of the bank.[286]

There is, however, significant variation in estimates of current levels of mobilisation. Estimates include ratios as low as 1:0.14 to 1:1.3 to far higher ratios of 1:7.[287,288] This report draws on the MDB Taskforce on Mobilisation's own reporting on mobilisation levels which reported total mobilisation ofUSD7.1bn in middle- and low-income countries in 2022.[289] However, only EBRD, EIB, and the Association of European DFIs (EDFI) are members, with the EDFI members reporting collectively. MDBs and DFIs have raised issues with the use of mobilisation ratios, citing limitations in impact reporting and limited of coverage of mobilisation tools.[290]

Variation stems from difficulties in measuring and defining mobilisation. DFIs, MDBs, governments, and research institutes do not measure the same metrics when calculating levels of mobilisation. For example, some only assess private direct mobilisation (PDM); financing resulting from active and direct involvement, while others include private indirect mobilisation (PIM); financing provided in connection with an activity for which a DFI/MDB provides financing. These definitions are used by the MDB Task Force and OECD, with total reporting levels divided into PDM and PIM by the Task Force.[291] Other actors will use different definitions, which with varying definitions of mobilisation used by DFIs hinders assessment, data aggregation, and comparison.[292]

There is also a lack of data on the use of individual mobilisation tools by the DFIs. While data is available on the MDBs' use of some of the mobilisation tools, this is not the case across the range of available tools. It is also not consistently and generally reported at a global level and is not reported by and for all DFIs.[293] This hinders comparison of the efficacy of each tool and across different tools.

Mobilisation assessments also do not tend to make a distinction between capital mobilisation for the purpose of supporting climate objectives, or any other objective. For example, the MDB Task Force data does not include climate finance figures and highlights comparability issues with the MDB climate finance tracking methodology and results.[294] Convergence does track climate deals in its blended finance database, finding that 57% of global aggregate blended financing is climate focused.[295] However, a breakdown of such data is not available at the individual institutional level, nor for mobilisation tools beyond blended finance transactions. Thus, the scope is too narrow for broader conclusions on how private capital mobilisation contributes to climate finance to be drawn.

In addition, there is a lack of solutions proposed for green capital mobilisation. Mobilisation solutions and policies are proposed across DFI priorities, both green and social. However, there are specific challenges to mobilising investment for climate projects in particular, which often have multiple risk exposures, present high upfront costs, and require long-term investment (see Box 9).

There is a strong focus on the role of blended finance in development finance since the 2015 Addis Ababa Action Agenda. This set out the first definition of blended finance and its value in meeting the SDG investment gap.[296] However, there has not been a significant acceleration in blended finance provision since then, with annual financing volume of around USD15bn remaining relatively stable for the past decade. Convergence Finance, which uses a broader definition of blended finance than the DFI Working Group on Blended Concessional Finance, does identify a recent increase in deal sizes, with 40% of 2023 deals reaching ticket sizes of over USD100m, compared to 17% of 2022 deals.[297]

This focus on blended finance while useful can, at times, overshadow the importance of other, sometimes simpler, mobilisation tools. For example, there is little focus in the literature on the role of grant financing in mobilising private finance, except in the context of its inclusion in blended structures. Market-building tools such as local currency bond issuance also seem to receive less research and academic coverage.

Across the literature, there is consensus on some of the key barriers to capital mobilisation that DFIs encounter. This includes data availability and transparency, limited project pipelines, and the bespoke nature of mobilisation structures.[298] Low credit ratings in EMDEs is seen as a key barrier, and a growing issue with 60% of EMDEs seeing their credit rating downgraded since 2019.[299]

A key recommendation across the literature is a call for DFIs to increase risk tolerance, with many studies assessing DFIs to be under-leveraged, and questioning their targeting of high credit ratings.[300] There are also suggestions that DFI staff are challenged by low levels of risk-tolerance and focus on profitability, preventing pursuit of high developmental impact projects.[301] DFIs raise the issue that debt issuance causes investments to shift towards lower-risk debt because they need reliable cash flows to repay loans.[302]

However, the literature does not provide clear guidance to DFIs on how they might increase risk taking or assess whether they are able to make such changes to their investment strategies. While there is significant research on MDBs recalculating capital adequacy frameworks to increase investment capacity, there is less research on DFI capital frameworks.[303] There are also calls for increased collaboration with local DFIs and NDBs.[304]

Annex II: Mobilisation tool definitions

Technical assistance and capacity building

Technical assistance is targeted expert advice and can be provided to a range of stakeholders including banks, investors, corporates, and governments. This advice or support can be financial, such as how to structure financial products or investments; operational, such as how to improve engagement with private banks; or technical, such as advice on engineering aspects of an infrastructure project, although it is generally recommended that knowledge transfer such as this should take the form of capacity building.[305]

Capacity building involves longer-term support for local skills, economies, professional services, and any other elements of an enabling environment for EMDEs to grow their own green markets in a more holistic way. For example, it might involve training local professional services firms to advise corporates on green technologies, rather than directly providing the advice.

Blended finance

Blended finance is a subset of capital mobilisation. Climate Bonds defines blended finance as combining concessional capital with commercial capital, at the transaction or portfolio level, to address the SDGs and mobilise private resources.[306] There are other mobilisation processes which do not combine capital sources at the point of transaction which are excluded from this definition for the purpose of this report.[307] However, other organisations often take varying definitions.

- The DFI Working Group on Blended Concessional Finance states 'combining concessional finance from donors or third parties alongside DFIs' normal own account finance, or commercial finance, from other investors, to develop private sector markets, address the Sustainable Development Goals (SDGs), and mobilize private resources'.[308] In this definition, the sources of concessional finance are explicitly and narrowly listed.
- The OECD DAC states 'the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries'.[309] This definition is broader and could hence include all mobilisation tools discussed in this report.
- Convergence states 'the use of catalytic capital from public or philanthropic sources to increase private sector investment in sustainable development'.[310] This definition does not require the combination of concessional and commercial capital to happen at the point of transaction and could hence include all mobilisation tools discussed in this report.
- The NGFS states 'the strategic use of a limited amount of concessional resources to mobilize financing from public and private financial institutions to achieve climate impacts'.[311] This definition includes a principle on the minimum use of concessional resources, and explicitly lists different sources of financing.

Variety in definitions impacts comparability of data. While this report aligns with the DFI Working Group definition of blended finance, it uses data from Convergence, which is based on a broader definition.

DFI involvement in blended finance deals will commonly include:

- **Grants** (either refundable or gifted) or concessional capital provided at below market rates, including funds for early-stage transaction design and project feasibility to support the deal.
- **Subordinated debt or equity** that reduces risk exposure for higher tranches for private investors.
- **Guarantees**, either full or partial, that address risk across tranches.
- **Deal structuring**, possibly leveraging concessional finance from other sources such as philanthropy.

Note that TA is not considered blended finance by the DFI working group but is included by Convergence. Although not part of the blended finance structure, the DFI will often accompany blended finance structuring with TA and capacity building throughout the deal and project development.[312]

Annex III: Overview of methodology

The report is informed by three key sources of evidence: a comprehensive literature review, quantitative and qualitative assessment of DFI publications (including annual reports and websites), and expert interviews with European DFIs and associated organisations.

Literature review

- The literature review was carried out to assess the current market understanding of the role of DFIs and progress in private capital mobilisation. It encompasses a broad range of sources including academia, think-tanks, multilateral development banks, supranational organisations, and DFI research. Topics included assessments of global climate finance needs, the rationale for and history of mobilisation, DFI operating models, mobilisation tools, barriers to capital mobilisation, and barriers to EM climate investment.

Landscape overview: assessment of DFI public information

- A machine learning tool was used to analyse the annual and sustainability reports of the 23 European DFIs. The tool was provided with the reports and presented with the questions below. Answers were manually checked on the relevant pages identified by the tool to ensure accuracy.
  - Could you please identify the key highlights mentioned in the company's annual, sustainability, and ESG reports according to the documents provided?
  - What is the total value of assets reported in the balance sheet mentioned in these documents?
  - What information do the company's documents provide with respect to their involvement in green, climate, or sustainable lending and investments?
  - What percentage of the total balance sheet is related to green, climate, or sustainable lending or equity investments according to the company's documents?
  - What information about private capital mobilisation is mentioned in the company's documents?
  - Does the company have a Green Bond Framework in place according to its documents? How much capital has been mobilised under this Framework?
  - What do the company's documents mention about 'blended finance'?
  - What information do the documents provide about any funds or instruments that the company uses to attract private investment?
  - Identify the types of funds or financial instruments mentioned in the documents that are aimed at achieving climate objectives?
  - What evidence is there in the documents of the company's investments in emerging markets or developing countries?
- For the overview of mobilisation tools used by the DFIs, their websites and publications were assessed to compile a list of the tools used by each. This information was codified to allow quantitative analysis and comparison of the DFIs.
- A shortlist of DFIs was selected for more extensive analysis, including their capitalisation, investment strategy, methods, and focus, and in-house research. This material was used to deepen the overview of mobilisation tools and support the analysis of best-practice examples. The shortlist includes **EBRD, BIO, AFD, FMO, KfW, and CDP**, which collectively finance projects across the globe, and all have objectives that include references

to sustainability. Only two, CDP and EBRD, have explicit capital mobilisation targets.[313] In addition, together they show a variety of shareholder structures, activities, and national characteristics (country size, GDP, etc.)

Interviews with selected DFIs

- The interviews were carried out with seven DFIs and associated organisations.
- A questionnaire was prepared in order to guide the interviews carried out with five DFIs and ensure comparability of data, see Annex IV. The responses were anonymised for analysis and short answers were codified to allow for some level of quantification of relevant questions.
- The interviews covered DFI approaches to capital mobilisation, challenges experienced, and lessons learned. These informed the stocktake of mobilisation tools, the barriers assessment, and the report recommendations.

Annex IV: Estimated return on equity for the DFIs

DFI return on equity (RoE) is estimated using net profit as the numerator and member or shareholder equity as the denominator. All calculations use figures from 2023 financial reports, except SOFID for which only 2022 reporting is available. The DFIs' average RoE for 2023 using this methodology is 3.09% with a range from -8.51% to 12.69%.

Alternative methodologies are reported by some DFIs. EBRD uses total closing members' equity minus total opening members' equity as the numerator, with total opening members' equity as the denominator. CDP uses net income as the numerator, with opening equity as the denominator.

	Net (loss) or profit (EUR m)	Members' or shareholders' equity (EUR m)	Return on Equity
Bilateral DFIs			
AFD	371	8,990	4.13%
BII	(44.1)	8,496	-0.52%
BIO	(13)	1,101	-1.18%
BSTDB	20.8	859	2.42%
CDP	3,307	41,787	7.91%
COFIDES	27.4	216	12.69%
DEG	51	3,105	1.64%
Finnfund	3.8	315	1.21%
FMO	134	3,669	3.65%
IFU	19.6	696	2.82%
KfW	1,559	38,073	4.09%
NDF	(26.5)	1,097	-2.42%
NEFCO	10.8	130	8.31%
NIB	250.7	4,350	5.76%
Norfund	160.8	1,679	9.58%
OeEB	3.3	60	5.55%
Proparco	3.3	1,354	0.24%
SIFEM	(54.5)	641	-8.51%
SOFID	(0.2)	18	-1.11%
Swedfund	-3.3	897	-0.36%
Multilateral DFIs			
CEB		3,519	3.10%
EBRD	2,098	22,268	9.42%
EIB	2,272	87,651	2.59%

Annex V: DFI Questionnaire

This questionnaire was completed by all interviewed DFIs, either during or prior to interview.

A. Long-form questions

1. How do you balance green and social objectives when formulating strategy?

- Do trade-offs exist between the two objectives? If so, what (if anything) is needed to increase alignment?

2. How has the implementation of green and/or sustainability objectives impacted your operations?

- Has this been a smooth process and how do you think this will further evolve?
- What would be your main advice for other DFIs doing this?

3. In your opinion, are capital mobilisation targets (or ratios) useful tools to focus efforts?

- If you have a target, how is it defined?
- How does having such a target interact with your DFI's green objectives?
- What does success look like in private capital mobilisation?

4. What are the advantages/disadvantages of using a taxonomy (EU or other) in your operations?

- With or without a taxonomy, how easy is it to define green/identify green investments?

5. What are the best and/or most efficient tools to achieve private capital mobilisation (see list in Box 1 below)?

- How do you assess a tool's efficiency and effectiveness? (i.e., impact, time, transaction costs, etc.)
- How long does an average blended transaction take to execute? And what could be done to accelerate this?

6. Do you target the financing of non-investment grade products/projects? If so, what are the key challenges in doing so?

- Is there potential for crowding in (more) private finance for such products/projects?

7. What are, according to you, the main challenges in private capital mobilisation for green?

- Do you encounter different challenges depending on financial instruments and/or and location?
- What enabling factors would you want to see put in place to support increased private capital mobilisation?
- Do you have a success story to share with us?

B. Short-form questions on direction of travel

1. Do you think climate will become more, or less, important to DFI's mandates and activities?

2. Do you think private capital mobilisation will become more, or less, important to meeting DFIs' objectives?

3. Moving forward, do you think DFIs will increase or decrease green investment?

4. How much impact does the macroeconomic context have on your operations?

5. What are, according to you, the top three macroeconomic trends impacting your operations?

6. How much impact does the (geo)-political context have on your operations?

7. What are, according to you, the top three (geo)-political trends impacting your operations?

8. According to you, are the project pipelines sufficient in the sectors that you are targeting?

9. What are the top three challenges to building sufficient pipelines of investible projects in the sectors that you are targeting?

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