MOBILISING PRIVATE FINANCE FOR DEVELOPMENT, CLIMATE AND BIODIVERSITY IN EMERGING MARKETS AND DEVELOPING ECONOMIES

Financing our futures

OECD Business and Finance Policy Papers, No. 91

OECD

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Emerging markets and developing economies (EMDEs) face a historic investment opportunity: delivering USD 7.5 trillion annually of investment to reignite growth, reduce poverty, and meet the broader set of Sustainable Development Goals. While public finance remains crucial, private finance must fill the bulk of the gap. Three critical barriers, however, constrain private investment flows to EMDEs, including the lack of robust data and transparency on private finance, the shortcomings of development finance in mobilising private investment, as well as policy and regulatory frameworks that limit capital flows.

To address these barriers, the OECD proposes a systemic approach grounded in data, more and better development finance, and supportive policy environments. Unlocking the right kind of finance at the right time and scale will require bold political leadership and international co-ordination. This paper sets the foundation for that effort - turning the promise of private capital into tangible outcomes for people, the planet and prosperity.

This paper is part of the series "OECD Business and Finance Policy Papers", https://doi.org/10.1787/bf84ff64-en.

Disclaimers

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Executive summary

Reigniting global progress on development, decreasing poverty, addressing climate change and protecting nature demand urgent, system-wide action. Responding to this challenge requires unprecedented levels of investment for development, climate and biodiversity – in particular from private sources into emerging markets and developing economies (EMDEs). In the next 18 months, the United Nations Fourth International Conference on Financing for Development (FfD4), 30th Conference of the Parties (COP30) of the United Nations Framework Convention on Climate Change (UNFCCC), and 17th Conference of the Parties (COP17) of the Convention on Biological Diversity (CBD) represent opportunities to transform political will to scale up private finance mobilisation for EMDEs into real-world results.

Despite high-level political commitments and increasing investor interest, private finance flows remain far below what is needed. While recognising broader priorities and challenges faced by developing countries, this policy paper highlights three specific areas where the international community must act decisively to scale up private finance for development, climate and biodiversity:

- **Build trust through transparency by closing the data gap**. Private investors often perceive EMDEs as high-risk environments, partly influenced by lack of data on investment performance, risks, and returns. The absence of sound data and evidence leads to information asymmetries and inflates perceived risks, which increases financing costs and ultimately discourages investment. At the same time, data on private finance mobilisation through development finance, while available, is not always publicly disclosed at the transaction level, undermining both policymaking and investor confidence. Finally, although the scope, information requirement and accountability mechanisms relating to the New Collective Quantified Goal on climate finance remain to be clarified, this goal represents an opportunity to improve the availability and transparency of climate finance data.
- **Embed private finance mobilisation at the core of development finance**. Blended finance models – such as guarantees, insurance and structured funds – have demonstrated effectiveness but remain underutilised. In 2023, official development finance interventions mobilised only USD 70 billion of private finance – and less than one-fifth of development finance providers' portfolio had private finance mobilisation as a core objective. Development finance needs to be disbursed with scalable mobilisation strategies. This means a rethinking to address fragmentation and lack of standardisation, and embed private finance mobilisation as one of the core functions of the development finance system. Scaling and standardising blended finance must be coupled with the tailored and adequate use of blended finance instruments against sectors, technologies and country contexts.
- **Tackle policy and regulatory barriers in advanced, emerging and developing economies**. EMDEs continue to face political, regulatory, and market risks – real or perceived – that deter investment. High financing and transaction costs, shallow domestic capital markets and difficulties in accessing global markets, indebtedness and fiscal constraints, limited capacities to implement enabling policy frameworks, and to develop project pipelines further deter capital flows. Strengthening domestic green financial markets in EMDEs is also indispensable to achieve just energy transition and unlock investment. Additionally, financial regulations in advanced economies may unintentionally constrain investment in EMDEs, including by mispricing risk in long-term, high-impact investment opportunities such as sustainable infrastructure projects. Local policy reform and international regulatory alignment must go hand-in-hand to foster investment for sustainable development in EMDEs at sufficient scale and pace.

1 Who will fund the twenty-first century? Mobilising trillions for development, climate and biodiversity

Projections suggest that emerging markets and developing economies (EMDEs) will seek around USD 5.5 trillion annually by 2030 and USD 7.5 trillion by 2035 to deliver their development priorities, up from a spending level of USD 2.2 trillion in 2022 (Bhattacharya et al., forthcoming[1]). Looking at specific sectors, EMDEs' annual investment needs in 2035 are most pronounced in the energy transition sector (USD 2.2 trillion), followed by other sustainable infrastructure (USD 1.5 trillion), and health (USD 1.2 trillion). Annual investment needs in adaptation and resilience, natural capital and sustainable infrastructure, and just transition are estimated at USD 340 billion, USD 204 billion, and USD 50 billion respectively.

International investors are beginning to recognise the increasingly compelling business case of EMDEs' sustainability transitions. Encouragingly, global clean energy investment continues to increase steeply (OECD, 2025[2]). Technological advancements, particularly the sharp decline in solar power costs[1], combined with supply-side growth present a unique opportunity for EMDEs to attract an increasing share of this investment to meet their growing energy demand without inefficient and polluting energy systems of the past. The opportunity is especially promising for African countries that hold 60% of the world's most powerful solar resources but have mobilised to date less than 2% of clean energy investments (IEA, 2022[3]; IEA, 2024[4]). Investing to address the interlinked climate-biodiversity-pollution crises – including to deliver on international commitments[2] – presents this century's key opportunity to reignite growth, build on past gains to reduce poverty, and deliver on the broader set of Sustainable Development Goals (SDGs).

The economic case for accelerated investment in climate and development enhancing opportunities in EMDEs is also compelling (OECD, 2017[5]; OECD/The World Bank/UN Environment, 2018[6]; OECD/UNDP, 2025[7]). Investment shows that such investment could sustain global GDP growth of 60% by 2040 compared to 2022 levels, with the largest benefits in developing countries where new opportunities arise and climate risks are reduced (OECD/UNDP, 2025[7]). By 2050, global GDP could be 3% higher than under current policies, and up to 13% by 2100. Aligning climate action with national development priorities would also yield broader benefits - lifting 175 million people out of poverty, improving outcomes in 90% of low-human development countries, and enhancing energy access, food security and public health.

Delivering this investment is a necessity. Climate change and biodiversity loss already jeopardise societies' abilities to protect people from poverty, satisfy basic human needs, and achieve sustainable, equitable growth and development. Even if CO_2 emissions were drastically reduced today, the global cost of climate change is projected to reach USD 38 trillion by 2050 (Kotz, Levermann and Wenz, 2024[8]). Biodiversity loss is ranked as the second most severe global risk over the coming decade (Elsner, Atkinson and Zahidi, 2025[9]), driven by accelerating anthropogenic pressures on biodiversity and ecosystems (IPBES, 2019[10]). The window to act is narrowing rapidly. To mitigate these risks, build resilience, and manage natural resources sustainably, bold action is needed now.

The challenge is compounded by debt management and liquidity issues in EMDEs. EMDE sovereign bond markets have grown substantially since 2007, with outstanding bond debt amongst this group having tripled since 2007, reaching nearly USD 12 trillion in 2024 (OECD, 2025[2]). At the same time, borrowing costs are surging, with 38% of developing countries now spending over 10% of their revenues to pay interest (OECD, 2025[11]). Growing refinancing risks are putting additional pressure on low-income and high-risk countries, where more than half of debt is coming due by 2027. Since the start of the pandemic, the number of EMDEs in very high risk or in default is at a ten-year high. Sovereign debt restructuring has also become increasingly complex – mainly due to a higher level of defaulted debt and a much broader creditor base (OECD, 2025[2]; Montague, Raiser and Lee, 2024[12]).

The lion's share of EMDEs' investment gap will have to be bridged through private finance. If the public sector were to fill the estimated investment shortfall in EMDEs, public debt-to-GDP ratios would increase significantly (OECD, 2025[2]). In EMDEs (excluding China), the increase would be 16 percentage points by 2040, beyond which further fiscal expansion may not be sustainable. Conversely, if private capital were to fund most investment, corporate borrowing would need to expand substantially. Bond markets for energy companies in EMDEs (excluding China), for example, would need to grow at an annual rate of 17% between 2024 and 2035 --representing an increase from 500 billion dollars to 2.8 trillion dollars These projections highlight the criticality of (1) the private sector in driving the low-carbon transformation, and (2) leveraging debt markets for this transition (OECD, 2025[2]).

There is no shortage of capital globally: with USD 486 trillion in assets available (FSB, 2024[13])**, the issue is not the amount of capital but its mobilisation and allocation**. Today, less than 20% of global financial assets are held in EMDEs, and much of the savings generated in EMDEs are invested in financial centres in advanced economies – often at low or negative returns (FSB, 2023[14]; Volz, Lo and Mishra, 2024[15]). This is compounded by the "persistent misallocation of global capital" to high-emitting activities, driven by policy misalignment that upholds the favourable risk-return profile of fossil fuel-related investments (Kreibiehl, 2022[16]; IPCC, 2022[17])). For example, since the adoption of the Paris Agreement in 2015, the world's 60 largest banks have provided USD 5.5 trillion in financing to the fossil fuel industry, with USD 673 billion in fossil fuel financing in 2022 alone (Fossil Free Funds, 2024[18]). Overall, initial analysis suggests a low degree of alignment of finance flows and stocks with mitigation (OECD, 2024[19]). Although evidence is scarce, there are also outstanding misalignments with adaptation and resilience goals, as well as broader biodiversity and nature goals (OECD, 2024[19]).

Since the landmark agreements of 2015,[3] international development co-operation has increasingly prioritised private finance mobilisation, and OECD members have continuously refined and renewed their commitment to working with and through the private sector in financing for sustainable development (OECD, 2018[20]; 2021[21]; 2025[22]; G7, 2018[23]). Yet, the mobilisation of private finance through official development finance remains at USD 70 billion in 2023 (OECD, 2025[24])[4], below opportunities, needs and expectations (World Bank Group, 2015[25]; OECD, 2025[11]).

There has been incremental progress, but this has not translated into the globally co-ordinated and transformative shifts needed – including to align financial systems with development, climate and biodiversity goals, in support of sustainable futures. Bridging EMDEs' investment gap requires not only mobilising finance from a range of sources, but aligning the financial system with development, climate and biodiversity goals. Indeed, countries have committed to align all financial flows, including from the private sector, with global climate and biodiversity goals (UNFCCC, 2015[26]; 2022[27]; UNCBD, 2022[28]). Countries increasingly recognise the need to transform the financial system and its structures and processes, engaging governments, central banks, commercial banks, institutional investors and other financial actors, e.g. in the Sharm el-Sheikh Implementation Plan (UNFCCC, 2022[27]). In this context, the

OECD is exploring a multi-year, whole-of-organisation programme to build a new vision and toolkit to align the financial system with climate, biodiversity and broader development goals.

Moving from billions to the trillions needed will require an international effort that goes beyond business as usual, and works towards system-wide and collective action to change the trajectory on the mobilisation of private finance for sustainable development (OECD, 2025[22]). The next 18 months – with the UN Fourth *International* Conference on Financing for Development (FfD4), the UNFCCC COP30, the implementation of the forthcoming Baku-to-Belém Roadmap, and CBD COP17with the scheduled global review of the Kunming-Montreal Global Biodiversity Framework by CBD COP17 in 2026 – are an immense opportunity for turning the mobilisation momentum into more and better development, climate and biodiversity outcomes in EMDEs and beyond.

This paper draws on OECD data and research to identify three thematic areas for private finance mobilisation: data and transparency, leveraging development finance and enabling policies. Working together with members and partners, the OECD is committed to facilitating the needed breakthrough on private finance for development, climate and biodiversity outcomes in EMDEs.

This paper is accompanied by three policy briefs -- on data, development finance and enabling policies. These policy briefs set out action points where the OECD can support private finance mobilisation, through work on data (OECD, 2025[29]); on making better use of development finance to leverage private finance and increase its impact (OECD, 2025[30]); and on support for EMDEs in developing local capital markets (OECD, 2025[31]).

Further such deep dive policy briefs will target key international processes and events in the next 18 months, such as UNFCCC COP30 and CBD COP17. They will outline available data, information and evidence and set out how the OECD is working to support its members, EMDEs, other international organisations, and private sector actors to collectively move the needle on private finance mobilisation.

2 Breaking the deadlock: Overcoming key barriers to mobilising private finance for EMDEs

Mobilising private finance at needed scale and speed requires a decisive shift from a deal-by-deal approach toward transformative, system-wide action. While private finance mobilisation is growing, increases are incremental and driven by isolated investment opportunities. Addressing persistent structural barriers that continue to inhibit private capital flows into EMDEs will help to translate growing investor interest into investment opportunities and unlock global pools of capital for EMDEs' sustainability transitions.

There are multiple challenges, chief amongst which is the need to better align the global financial system with global and local development, climate and biodiversity objectives. Weak real economy policy signals in advanced, emerging and developing economies, such as limited progress on carbon pricing and energy taxation, and insufficient incentives for biodiversity investment, exacerbate alignment challenges, including in the financial sector. The non-linearity and deep uncertainty of the climate and biodiversity challenges further compound these challenges, resulting in insufficient financial flows into EMDES' development priorities and our global futures.

While recognising broader, systemic challenges, key actions to enable private finance mobilisation for EMDEs fall into three interlinked themes:

- *Building trust through transparency and addressing gaps in investment data*: Improving the availability, quality, accessibility and disclosure of investment data can reduce information asymmetries, improve risk assessments, and support policymakers and investors in scaling effective instruments, structures and models, and solutions for allocating scarce development finance effectively.
- *Embed private finance mobilisation at the core of development finance*: Prioritising private finance mobilisation across strategies, operations, and institutional structures can help development finance actors maximise their impact and leverage scarce public resources to crowd in private investment at scale.
- *Tackle policy and regulatory barriers in advanced, emerging and developing economies*: Advancing enabling policy and regulatory frameworks – across both financial and real sectors – in advanced, emerging and developing economies can create more favourable conditions for private investment for development, climate and biodiversity in EMDEs.

2.1. Building trust and markets through transparency and addressing data gaps

Scaling private finance for EMDEs requires action to address data gaps. At present, lack of data and/or fragmented data disclosure hinders investors' and development finance providers' ability to accurately assess investment opportunities, constrains policymakers' capacity to design effective interventions, and holds back progress on tracking and monitoring private finance mobilisation and private investment. Data gaps affect both private investment per se and the role of development finance in mobilising those investments.

Further disclosure of data on private finance mobilisation can contribute to fill these gaps. While the OECD data provides the most comprehensive source of comparable and robust data on private finance mobilised by development finance, some of the major providers in this area still face confidentiality challenges hindering their full disclosure at activity level. Yet, limitations on publicly available data and information make it difficult to identify which mobilisation approaches are effective in which contexts, and where concessional finance has the greatest impact. In particular, the absence of transaction-level data across all development finance providers limits the ability to assess the role and efficiency of the use of scarce development finance in mobilising private finance.

Additionally, the absence of sound investment data fuels information asymmetries that inflate perceived risks and discourage investment. Investors often overestimate political, macroeconomic, and project-level risks due to limited access to reliable market and performance data. These misperceptions directly influence risk pricing, leading to elevated financing costs and ultimately reduced capital flows to EMDEs. While the release of default and recovery rates of investment with private and sub-sovereign borrowers in EMDEs by the Global Emerging Markets Risk Database (GEMs) Consortium is important, more progress is needed given that data is disclosed at aggregate regional levels only. These limitations significantly reduce the transparency needed to inform evidence-based decision-making for scaled-up private finance in EMDEs.

Many EMDEs face significant capacity gaps in collecting, managing, and disseminating investment data. National statistical systems often lack the institutional and technical resources to generate reliable, timely data on domestic and foreign investment activity, including foreign direct investment (FDI). The absence of credible national investment data further reinforces information gaps for both policymakers and private investors, weakening the evidence base for informed decision-making (OECD, 2022[32]).

There is also limited investment data in EMDEs at the subnational level which undermines the effective implementation of place-based investments. Subnational governments account for around 40% of total public investment on average across the globe and are critical catalysis of private finance (OECD, 2022[33]). The lack of reliable subnational investment and financial data complicates efforts to assess local fiscal capacity, investment needs and creditworthiness, constraining private finance mobilisation at the local level.

At the global level, the New Collective Quantified Goal (NCQG) on climate finance includes a broader call to scale up finance for climate action in developing countries to USD 1.3 trillion per year by 2035. This figure, intended to capture scaled-up finance from all public and private sources, remains to be specified in terms of specific scope, structure, tracking modalities, and transparency arrangements. Increased clarity, including in relation to information sources for assessing progress in scaling up private finance for climate action is essential to build trust and ensure effective implementation (Falduto, Noels and Jachnik, 2024[34]).

To help address these challenges, the OECD will:

- **Work to enhance data on private finance mobilisation**, including through improved methodologies and increased public dissemination of disaggregated, transaction-level data, in close collaboration with partners (OECD, 2025[29]).
- **Support partner countries in strengthening their investment data ecosystems,** working in close partnership with national and regional policy institutions, central banks, national statistical offices, and international organisations to build capacity and improve data quality to improve the evidence-base for policymaking and help attract private finance[5].
- **Work to improve data, information and evidence on financial flows and available resources of subnational governments to mobilise private finance,** by collecting and disseminating reliable and comparable data at regional and local levels across EMDEs, together with partners.
- **Contribute to global climate finance tracking efforts under the NCQG** together with developed and developing country Parties as well as civil society stakeholders, supporting the development of robust, transparent and trusted frameworks for tracking progress towards global climate finance commitments.

2.2. Embed private finance mobilisation at the core of development finance

Development finance can play a vital role in mobilising private finance, but is not yet fully leveraging its potential. Despite high-level commitments and innovations in blended finance[6] tools and increases in private finance mobilised by development, progress remains incremental – and the overall volumes of private finance mobilised by OECD members through their bilateral activities have remained largely stagnant since 2019 (OECD, 2025[24]). OECD data shows that official development finance interventions mobilised USD 70 billion in 2023 (OECD, 2025[24]), and only 18% of the portfolios of development finance providers had private finance mobilisation as a main objective (OECD, 2023[35]).

The effective allocation and use of development finance remains a critical determinant in scaling up private finance mobilisation. Blended finance – when strategically deployed – can serve as a powerful instrument to mitigate investment risks, unlock private capital at scale, and deepen financial markets. To fulfil its mobilisation and market-building role, blended finance and other mobilisation models need to be sufficiently backed by allocations of development finance. Yet, current allocation patterns remain limited. In 2023, OECD DAC countries disbursed USD 10.8 billion[7] in support of mobilisation activities, through concessional and non-concessional finance, towards public and private sectors as well as in the form of contingent liabilities such as guarantees/insurance (OECD, 2025[24]). Reaching the potential will require deliberate allocation choices to prioritise mobilising private finance, while ensuring that development impact and transparency remain at the heart of blended finance transactions. This in turn places a premium on limiting disparities in approaches to measuring and managing impact, and in encouraging greater evaluations of blended finance (OECD/UNDP, 2021[36]; OECD, Forthcoming[37]).

Development banks and development finance institutions (DFIs) are well positioned to anchor private sector participation, and have scope to expand private finance mobilisation (OECD/The World Bank/UN Environment, 2018[6]; OECD, 2019[38]; 2021[39]). The major multilateral development banks (MDBs) are moving to develop mandates, incentives, and internal capacities to strengthen their mobilisation function and impact. However, progress remains uneven across the development banking ecosystem to date.

There is a need for greater coordination to increase the scale and impact of mobilisation efforts. Among OECD members, their development banks, DFIs, funds and development agencies there scope for stronger systematic coordination on the financing side to avoid multiple small-scale efforts, as well as reinforcement of ongoing initiatives to harmonise and standardise financial structures. The ongoing MDB reform agenda can also provide useful insights for how the bilateral development finance system can work better as an efficient system in mobilising private finance (G20 IEG, 2023[40]; 2023[41]; IADB, 2025[42]).

Improved co-ordination between public and private actors, domestic and international actors, as well as efforts to build capacity in EMDEs to develop investable and bankable pipelines, are key for progress on private finance mobilisation. There is scope to assist EMDEs in addressing insufficiently conducive policy frameworks, regulatory uncertainty, and a lack of structured engagement between public and private, domestic and international actors. Tackling these issues will be important in closing the gap between the demand for and supply of finance, and avoiding a sub-optimal deployment of different sources of finance.

To help address these challenges, the OECD will:

- **Work with its members to increase the focus in development finance on private finance mobilisation** and its impact, ensuring that more and better development finance works to mobilise private finance, and supports country-led efforts in market development (OECD, 2025[30]).
- **Support its members in advancing a system-wide mobilisation roadmap for the bilateral development finance architecture**, to enhance co-ordination, reduce fragmentation and strengthen the collective capacity of bilateral development finance to unlock private finance at scale.

2.3. Tackle policy and regulatory barriers in advanced, emerging and developing economies

While investing in EMDEs can involve navigating a range of commercial, financial and political risks, many of these challenges are increasingly manageable to a certain degree with the right instruments and partnerships. Macroeconomic instability, currency fluctuations, weak legal and regulatory frameworks, contract enforcement issues can raise transaction costs and perceived risks – particularly for first movers and smaller-scale deals. Strengthening access to reliable project pipelines and improving regulatory predictability can help unlock more private finance and improve the investment case across a wider range of EMDEs.

Investments in climate and biodiversity also depend on supportive broader policy and regulatory environments. To date, weak policy frameworks in many EMDEs, fragmented sectoral strategies, regulatory uncertainty, and insufficient public investment in enabling infrastructure deter long-term private investment. Inadequate project preparation, weak procurement frameworks, and limited public-private partnership capacity further constrain the pipeline of investable projects.

Investors need clear signals on how investments will be backed by wider supporting measures. For example, the viability of renewables projects may depend on action by governments, e.g., through the construction of transmission grids, or actions to reform fossil fuels subsidies. This highlights the importance of anchoring individual projects within broader, long-term, economy-wide and sector-level strategies. Additionally, identifying and implementing the right financing schemes and business models for enabling infrastructure to create project pipelines is critical. In the power sector for instance, insufficient power grid capacity and investment have become the largest bottleneck worldwide for the integration of grid-scale renewable power and the main bottleneck to achieve just, clean energy transitions across developed countries and EMDEs (Denis and Schenk, Forthcoming[43]). Within the necessary shift to implement effective policies that provide a credible response to climate change, carbon markets are considered as an essential tool but remain largely untapped to date.

A multifaceted approach is essential to reduce issuers' currency risk, including the development of local institutional investors and improved market infrastructure to attract more investment – both domestic and foreign – in local currency-denominated securities. Many EMDEs lack developed and deep domestic financial systems, including capital markets, which limits EMDEs' ability to mobilise private finance at scale (OECD, 2018[44]; Taskin, Fortemps and Sedemund, 2025[45]; OECD, 2018[20]). These markets are often shallow, illiquid, with a heavy reliance on foreign currency financing that exposes economies to exchange rate volatility and external financing shocks. Strengthening domestic capital markets is also critical for enhancing debt sustainability by reducing the reliance on foreign currency mobilisation and extreme exposure to foreign exchange risk. However, progress is often hindered by a limited domestic institutional investor base, underdeveloped financial market infrastructure, and gaps in regulatory frameworks and corporate governance frameworks – factors that elevate the risk premia and limit the mobilisation of domestic savings.

Building future-proof financial systems in EMDEs requires domestic leadership and the alignment of international support. Tailored capital market development strategies are needed to reflect each countries' financing needs, institutional capacity, and macroeconomic conditions, including the balance between local and foreign currency financing requirements (Horrocks, P. et al., 2025[46]). Government-led reforms are central to strengthening enabling environments, but capacity constraints and co-ordination challenges often limit the translation of policy ambition into investable projects. More effective integration of domestic reform agendas with international support – combining financing, capacity building and policy support – alongside private sector engagement remains essential to convert national development priorities into scalable investment opportunities for the private sector.

Subnational governments – critical actors for infrastructure and service delivery – often face significant capacity challenges in mobilising private finance. Many lack financial management expertise, investor engagement capabilities, and legal authority to raise debt or enter into public-private partnerships, while rigid borrowing limits and complex administrative procedures further constrain access to private capital. Decentralised development co-operation (DDC) can help address these gaps by strengthening local capacity in project design, financial management and revenue mobilisation, and by facilitating knowledge exchange to improve investment readiness.

Elements of advanced economies' financial regulatory framework may also constrain investment flows to EMDEs. Prudential rules developed after the Global Financial Crisis, such as capital, liquidity and solvency requirements, may unintentionally limit long-term financing, such as for infrastructure investments that are critical to advance local and global development, climate and biodiversity objectives. Examples include:

- **Treatment of risk mitigation instruments:** the Basel framework's standardised approach to capital adequacy does not allow for the full recognition of some risk mitigation enhancements, such as partial credit guarantees and political risk insurance. These are significant tools available to MDBs and DFIs to mobilise finance and make projects bankable by materially reducing the risk to lenders. Even larger banks using more discretionary internal risk ratings may be influenced by the standardised approach, meaning the risk mitigation provided by such instruments may not flow through to risk weightings used to calculate bank capital requirements, and thus do not have their intended mobilising effect.
- **Treatment of project finance exposures:** At the same time, recent discussions at the OECD (2025[47]) have pointed to concerns around the Basel framework's prudential treatment of project-

based financing, for example for infrastructure, which is an important type of financing for EMDEs. Where projects are unrated (or where banks are not allowed to use external ratings) they attract a risk weighting comparable to lower-quality corporate debt assets. Projects that are externally rated often have little chance of being rated above the rating of the sovereign where the project is taking place (S&P Global, 2024[48]). As such, the performance of such project-based assets may be significantly better than the required risk weightings suggest. In addition, the creditworthiness of such projects generally improves over time, however risk weightings do not evolve with this dynamic, being split between only "pre-operational" and "operational" phases, meaning improvements in a project's risk profile are not reflected in its risk weighting and the capital banks must hold against this financing.

- **Inconsistent treatment between jurisdictions:** Some regimes differentiate between assets on a jurisdictional basics, with less favourable treatment applied to some EMDEs which may not be warranted. In the EU for example, the Solvency II prudential regime provides favourable capital charge treatment of infrastructure debt from OECD and European Economic Area jurisdictions only, despite scant evidence that EMDE infrastructure debt is inherently riskier (Mobilist, 2023[49]). This can serve to disincentivise institutional investors in advanced economies from funding EMDE projects.

There is a need for greater understanding of regulatory frictions, inconsistencies and unintended consequences impacting investment in EMDEs. Determining whether specific treatments of assets important to EMDE financing or projects based in EMDEs are justified from a risk perspective under regulatory frameworks can help identify opportunities to remove regulatory impediments to EMDE investment. This should remain consistent with the intent and desired outcomes of prudential and solvency regimes.

To help address these challenges, the OECD will:

- **Support EMDEs, including in Asia and Africa, in developing their capital markets** through the improvement of regulatory frameworks for institutional investors, market infrastructure and corporate governance (OECD, 2025[31]).
- **Promote dialogue on regulatory inconsistencies in the prudential and solvency treatment of EMDE infrastructure**, e.g., treatment of MDB guarantees and long-term equity investment, together with other relevant actors.
- **Support EMDEs in strengthening policy frameworks for investment and institutional capacity, including through policy reform, investment climate diagnostics, and capacity building** to increase the volume and quality of private finance mobilised and FDI for development specifically, both at the national and subnational levels, including through decentralised development co-operation.
- **Work with EMDEs to develop climate-aligned financial systems,** by embedding climate alignment across financial sector policies and market infrastructure, expanding sustainable bond markets, greening financial systems development support, scaling local currency financing solutions, supporting the establishment of investable Nationally Determined Contributions, and advancing carbon markets.

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Notes

[1] The collapse in solar photovoltaic (PV) prices has been significantly driven by industrial policy of the People's Republic of China (China), including substantial subsidies. While this has lowered global costs for the green transition, it has also reinforced China's dominance in the solar PV market, reducing opportunities for many EMDEs to participate in higher-value segments of the supply chain, beyond the export of raw materials, due to limited ability to compete with such large-scale subsidisation.

[2] These include notably the UAE Consensus, the New Collective Quantified Goals on climate finance (NCQG) and the Kunming-Montreal Global Biodiversity Framework. At the 28th Conference of the Parties (COP28) of the United Nations Framework Convention on Climate Change (UNFCCC) in 2023, governments set new global goals of accelerating the transition away from fossil fuels, tripling renewable energy capacity, doubling energy efficiency progress and substantially reducing methane emissions by 2030, often referred to as the UAE Consensus (COP28 UAE, 2023[50]). At UNFCCC COP29, governments reached an agreement to triple finance to developing countries, from the previous goal of USD 100 billion annually, to USD 300 billion annually by 2035, and to secure efforts of public and private actors to scale up finance to developing countries to USD 1.3 trillion per year by 2035 (UNFCCC, 2024[51]). Additionally, following Target 19 of the Kunming-Montreal Global Biodiversity Framework, providers are to increase their biodiversity-related international financial resources to USD 20 billion per year by 2025 and USD 30 billion per year by 2030, contributing to mobilise at least USD 200 billion per year by 2030 from all sources (UNCBD, 2022[28]).

[3] i.e. the Agenda 2030 (United Nations, 2015[52]); Addis Ababa Action Agenda (United Nations, 2015[53]) and the Paris Agreement (UNFCCC, 2015[26])

[4] According to preliminary OECD DAC CRS statistics, private finance mobilised for climate objectives through official development finance reached USD 29 billion in 2023, and private finance mobilised through for biodiversity through official development finance reached USD 4 bn in 2023, up from USD 1.8 bn in 2022 (OECD, 2025[24]).

[5] To help address investment data gaps and improve risk perceptions, the OECD and the African Union Commission are jointly developing the Africa Virtual Investment Platform (AVIP). AVIP will provide timely, high-quality information on investment opportunities and conditions across Africa, aiming to cover 30 countries by 2029 and support evidence-based policymaking and investment mobilisation.

[6] 'Blended finance' refers to the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries (OECD, 2018[54]).

[7] This includes private sector instruments (PSI) activities, whether they are mobilising private finance or not, and non-PSI activities that mobilise private finance.

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