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Resetting the private capital mobilisation narrative: from rhetoric to reality

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Theme

This paper examines the challenges of Private Capital Mobilisation (PCM) in financing sustainable development, highlighting regulatory, structural and behavioural barriers. It calls for a reset in the PCM narrative, advocating a nuanced approach, reforms to Multilateral Development Bank (MDB) and Development Finance Institution (DFI) business models, and systems-level approach that integrates policy reform, risk mitigation and market development to unlock private capital for sustainable development at scale.

Summary

Private Capital Mobilisation (PCM) has been positioned as a key pillar of financing sustainable development, yet its implementation has been constrained by structural, regulatory and behavioural challenges. While the initial 'Billions to Trillions' rhetoric emphasised mobilising capital at scale, this narrow focus has often overlooked the complexities of investment in Emerging Markets and Developing Economies (EMDEs). This paper argues that resetting the PCM narrative is essential to aligning expectations with reality, advocating a more differentiated approach that recognises the spectrum of PCM strategies. It examines key barriers, including regulatory constraints, the behavioural biases, and the mismatch between available capital and investable opportunities. Additionally, the paper highlights the need for Multilateral Development Banks (MDBs) and Development Finance Institutions (DFIs) to refine their business models, enhance data transparency and adopt a more strategic use of blended concessional finance. As the international community prepares for the United Nations Fourth International Conference on Financing for Development, this paper underscores the importance of a systems-level approach that integrates policy reform, risk mitigation and market development to unlock private capital for sustainable development at scale.

Analysis

1. Introduction

The promise of the Sustainable Development Goals (SDGs) was bold: a global transformation driven by trillions in new investment, leveraging private capital to bridge the vast financing gap. Yet, nearly a decade later, the 'Billions to Trillions' vision has been overshadowed by the hard reality that mobilising private capital at scale is far more complex than anticipated. While the private sector plays a crucial role in financing sustainable development, the current Private Capital Mobilisation (PCM) narrative has often fixated on numbers rather than impact, creating unrealistic expectations. The upcoming United Nations Fourth International Conference on Financing for Development

(FFfD4), which will be held in Seville (June/July 2025) presents a critical moment to reset this discourse, shifting from a one-size-fits-all mobilisation narrative to a more nuanced approach that acknowledges market-specific challenges, regulatory hurdles and behavioural barriers. The recent revisions to the FfD4 outcome document which downplay the importance of official development assistance and further spotlight PCM and Multilateral Development Banks (MDBs) makes it even more critical to get the narrative straight. If we are to unlock capital at the scale required, we must rethink the system, aligning incentives, recalibrating policy frameworks, and ensuring that both supply and demand factors are addressed holistically. Only then can PCM fulfil its potential as a driver of inclusive and sustainable economic growth.

2. Resetting the PCM narrative

The adoption of the Sustainable Development Goals (SDGs) and the Addis Ababa Action Agenda on Financing for Development (FFD3) marked a significant paradigm shift. These frameworks embraced an integrated approach to economic, social and environmental development, placing a greater emphasis on a model where the private sector complements public efforts. This shift redefined how development is pursued, recognising that sustainable progress cannot be achieved without private investment playing a critical role in driving productivity, inclusive economic growth and job creation. The 'Billions to Trillions' rhetoric that initially accompanied the SDGs was meant to inspire a new era of development finance, yet it quickly became synonymous and overly focused on private capital mobilisation (PCM) as a numbers game focused on mobilising commercial capital at scale, rather than prioritising impact and quality.

PCM can be conceptualised along a continuum, with different strategies employed depending on the specific investment objectives and market conditions. At one end of the spectrum, PCM focuses on investment for impact in frontier markets and sectors, often supporting high-risk or pioneering projects including through the use of blended concessional finance. These investments aim to catalyse development and innovation in areas where commercial capital is scarce. However, a key challenge in this approach is the limited availability of investable projects, which constrains short-term mobilisation potential. As a result, the strategy is more suited to long-term objectives, fostering market creation and laying the groundwork for future investment opportunities.

At the other end of the spectrum, PCM strategies emphasise mobilisation at scale, focused on mobilising institutional investors who may be risk averse. In this case, the primary challenge is not the lack of projects but rather risk perception. To address this, risk-mitigating mechanisms sometimes supported by the use of blended concessional finance such as guarantees, first-loss capital or structured financing models can be used to provide a cushion for investors, making large-scale mobilisation feasible. The specific instruments and structuring approaches will vary depending on where an investment falls along this spectrum, highlighting the need for tailored financial solutions to optimise capital mobilisation across different market environments.

FfD4 is an opportunity to reset the narrative to recognise this spectrum. This is important as a potential tension exists between market creation and pipeline development versus commercial mobilisation at scale. Achieving both objectives simultaneously can be challenging, underscoring the need for differentiated approaches in different markets. Some markets require a stronger focus on pipeline development and early-stage project support, while others are better suited for scaled mobilisation efforts. To navigate this, it is essential to establish a system that leverages the comparative advantages of different MDBs and Development Finance Institutions (DFIs). Not all MDBs and DFIs should take the same approach; instead, a coordinated and complementary strategy is needed to ensure that capital is deployed effectively and efficiently across the spectrum of PCM objectives.

3. Resetting PCM expectations

In 2023, MDBs and DFIs mobilised US$87.9 billion in private capital. To put this into perspective, Official Development Assistance (ODA) in the same year amounted to US$223 billion, meaning PCM was just over a third of ODA (39%). We can expect this volume to grow as MDBs and some DFIs move from a strategy of 'originate-to-hold' to 'originate-to-share'. Instead of focusing on single-asset mobilisation, they are shifting towards pooled portfolio approaches, where investors can buy financial instruments backed by a diversified set of transactions. However, future volumes of PCM by MDBs and DFIs will be bound by the available assets on MDB and DFI balance sheets, as well as the investment in and consequent rate of origination of new assets.

While there is growing interest in sustainable investment by investors, an oversimplified narrative persists: that vast pools of capital exist, and if only a tiny fraction could be redirected, the SDG financing gap would be closed. The reality is much more complex. Not all institutional capital such as that of pension funds and insurance companies have the capacity –or risk appetite– to invest beyond their domestic borders, particularly in Emerging Markets and Developing Economies (EMDEs). As a result, the actual pool of capital available for such investments is smaller than assumed in the narrative.

By way of illustration, a recent study by ODI Global examined the potential size of the market in five of Europe's largest asset markets. The study estimates that with increased ambition, we could realistically see a doubling of current combined investment flows of Europe's top 35 largest asset owners leading to an annual EMDE flow of around US$120 billion in five years –equivalent to the annual investment volume of the World Bank Group–. However, these flows are likely to be highly concentrated in publicly listed and investment grade assets in large emerging markets, reflecting the risk constraints and preferences of institutional investors.

Ultimately, while the scale of potential PCM is more constrained than many policymakers assume, the opportunity remains significant across global financial centres. However, a number of regulatory and behavioural pinch points would need to be addressed to realise this.

4. Barriers to private capital mobilisation in EMDEs

When trying to understand why private capital is not being mobilised at the scale needed, it is useful to consider the issue through the dual lenses of the demand and supply of capital. On the demand side, there is a pressing need for investable projects and business opportunities that require capital. On the supply side, there is a vast pool of capital seeking productive deployment. The role of MDBs and DFIs is therefore twofold: first, to act as intermediaries that channel available capital into investable opportunities by creating and structuring viable investment products; and, secondly, to actively support the generation of demand by working upstream on strengthening the enabling environment and downstream creating viable investment opportunities. This dual function is particularly crucial given the limited depth of public capital markets in many EMDEs, where much of the opportunity remains concentrated in private credit and equity.

5. Demand-side challenges

On the demand side, assuming that an SDG financing gap automatically translates into demand for capital is misleading. First, not all SDGs naturally align with PCM as many require public funding or policy interventions. Secondly, a funding gap does not necessarily mean there are sufficient investable opportunities; challenges such as weak project pipelines, underdeveloped capital markets and poor enabling environments often hinder PCM. To effectively address this gap, it is crucial to create demand for investment by fostering conditions that make markets more attractive.

National governments play the most important role here. This involves improving governance, strengthening macroeconomic fundamentals and regulatory frameworks, as well as developing bankable projects and investable opportunities. MDBs and DFIs can support by stepping up their upstream policy work and increasing their investment in pipeline development. Critically, there is a need to move to more coordinated and collaborative ways of working, including more programmatic deployment of blended concessional finance to create investment opportunity. Moreover, economic growth and investment are mutually reinforcing; while investment can drive growth, sustainable economic expansion also generates new investment opportunities, creating a cycle of financial and developmental progress. This aspect of the PCM equation must feature much more prominently at FfD4.

Furthermore, as set out in the latest version of the FfD4 outcome document it will be crucial to tackle debt sustainability issues. When debt levels spiral, governments struggle to fund essential services, financial markets grow wary and investors shy away from uncertain environments. High debt fuels economic instability, weakens currencies and tightens credit, making it harder for businesses to grow. By easing debt pressures – through restructuring, relief or better financing terms– countries can create a more stable and investable landscape, restoring confidence and attracting the private capital needed to drive sustainable growth.

6. Supply side challenges

The collapse of international commercial bank lending due to Basel III underscores the urgent need for innovative structures and instruments to attract new types of investors. To bridge this gap, efforts at the upper end of the spectrum must focus on mobilising capital from pension funds and insurance companies, tapping into their long-term investment potential to drive sustainable development. However, several regulatory and behavioural barriers continue to impede efforts to mobilise these kinds of investors into

EMDEs. Addressing these barriers will be key to unlocking the full potential of institutional capital for sustainable development.

7. Regulatory hurdles: the Solvency II challenge

For insurance companies in Europe, regulation is a binding constraint, with Solvency II at the heart of the issue. Solvency II is the European regulatory framework for insurance companies, establishing risk-based capital requirements, governance standards and reporting obligations to enhance policyholder protection and financial stability. Two key aspects of this framework –capital charges and the matching adjustment– have made it particularly difficult for insurers to allocate capital to EMDEs.

8. Capital charges: a mismatch between risk and reality

Under Solvency II, capital charges for EMDE investments are disproportionately high compared with actual risk levels. When the framework was calibrated in 2016, a lack of high-quality data led to conservative estimates, resulting in capital charges that significantly penalise non-OECD investments. For example, unrated 10-year infrastructure project loans in non-OECD countries face a steep 13% capital charge.

Since then, new default data from Moody's has shown that loss rates for infrastructure debt in low- and middle-income countries (LMICs) are relatively low, and even lower than in some high-income countries. A 2020 study by Risk Control found that, in both African high-income and middle-income countries, a fair recalibration would bring the capital charge down to around 4%, far lower than the current 13%.

With a revised Solvency II framework expected by 2026, there is an opportunity for European regulators to revisit these capital charges. There is a precedent for such adjustments: the European Insurance and Occupational Pensions Authority (EIOPA) revised Solvency II in 2015/16 to lower capital charges for OECD infrastructure investments after conducting stress tests. A similar approach should be taken for non-OECD investments to better reflect actual risks.

9. The 'matching adjustment': a built-in bias against EMDEs

Another regulatory barrier comes in the form of the Solvency II 'matching adjustment', a beneficial countercyclical mechanism that helps insurers from liquidity risk. However, this benefit is only available for investment-grade assets, creating a major disincentive for insurers to allocate to anything below BBB.

This is particularly problematic for EMDEs, where the average sovereign rating is around BB-. In practice, this creates a structural bias against these markets, as insurers are discouraged from holding assets that do not meet the minimum investment-grade threshold.

The UK has already taken steps to address this issue post-Brexit, relaxing MA criteria under Solvency UK. The new framework now allows insurers to include assets with 'highly predictable' cash flows, removing the cap on sub-investment-grade assets. EU regulators should explore a similar reform to avoid locking out EMDEs from institutional capital.

10. The behavioural barrier

While insurance companies face regulatory constraints, pension funds –especially in major European markets– have no such barriers. Yet their allocations to EMDEs remain strikingly low. The reason? Deep-seated behavioural biases and cultural factors that lead to overly conservative investment strategies. For instance, UK pension funds allocate just 0.5% of their assets under management (AUM) to EMDEs, despite having no regulatory restrictions preventing them from investing more.

Investment advisors and asset managers often prefer domestic or nearby markets due to comfort and easier access to information, avoiding unfamiliar markets perceived as risky. However, MDBs and DFIs have a strong track record in private asset investment across EMDEs. The GEMS dataset, which includes credit default and recovery data from 21 MDBs and DFIs, challenges these risk misconceptions, showing lower-than-expected private debt loss rates in EMDEs. Despite its valuable insights, the data have yet to be published in a form that institutional investors can use for risk modelling.

This home bias, combined with risk aversion, has resulted in chronic under allocation to high-growth EMDE markets. The irony is that EMDE investments offer strong risk diversification and, in many cases, attractive risk-adjusted returns. Studies analysing representative indices show that these markets can deliver comparable, if not superior, performance relative to developed markets. The challenge is shifting mindsets and investment approaches to reflect this reality.

To effectively scale investment in EMDEs, we must go beyond MDBs and DFIs and address the systemic regulatory and behavioural barriers that hinder capital flow. Achieving this transformation demands both political commitment and investor leadership. FfD4 must establish a strong foundation to inspire and drive systemic and behavioural change. To succeed, it must secure broad support from key stakeholders beyond the development finance community, an essential step towards meaningful progress.

11. The political and economic case

There are strong political incentives for investing in EMDEs. Geopolitically, it strengthens diplomatic ties and expands soft-power influence, fostering alliances, stability and strategic advantages in global negotiations. It also enhances cooperation on international issues like trade and security.

Climate change is another compelling driver. The global fight against climate change hinges on EMDEs, especially in Asia, where carbon emissions are set to rise significantly under current policies. Investing in sustainable development, including clean energy and green infrastructure, is a pragmatic strategy to mitigate climate risks that ultimately affect all economies. The investment opportunity is vast: clean energy investment (excluding China) in EMDEs is expected to grow sevenfold in the coming years.

Beyond the political, EMDEs hold the key to future global growth. They currently contribute more than 60% of global GDP and will be the primary drivers of global economic expansion in the coming decades, with their share of global market capitalisation also on the rise. Many of these economies are experiencing rapid population growth, further strengthening their role as important markets to consider. They will be vital in meeting Europe's future pension obligations and offer higher long-term investment returns, with emerging markets projected to grow at over 4% compared with the EU's 1.5%. Capitalising on these opportunities can drive increased trade, job creation and economic expansion, benefiting both investors and recipient economies alike.

Conclusions

For too long, the narrative around PCM has been framed as a simple capital reallocation problem: redirecting a small portion of global assets under management towards SDG-aligned investments. As mentioned above, this view underestimates the complexity of PCM and has created unrealistic expectations. FfD4 must reframe the narrative and anchor expectations.

For too long, the focus has been narrowly placed on the role of MDBs and DFIs as intermediaries, rather than addressing the broader structural challenges that limit capital flows. While MDBs and DFIs play a crucial role, their efforts alone cannot create the conditions necessary to unlock large-scale PCM. A systems-level approach is needed, one that tackles both the supply and demand for capital.

Political and investor leadership will be critical. On the demand side, real progress requires fundamental changes in EMDEs, including addressing macroeconomic and sector-specific risks through political stability, policy reforms, regulatory certainty and infrastructure investment that can help lower the cost of capital and create more investable opportunities. To increase the supply of capital governments, regulators and industry leaders must work together to remove regulatory barriers, increase data transparency and promote cultural shifts within institutional investment communities.

MDB and DFI business models must also adapt to better connect the supply and demand for capital. Shareholders should set clear objectives and recognise the trade-offs between different investment approaches. A greater focus on risk-taking in challenging markets and structuring products that better align with institutional investor needs in more commercial markets is necessary to mobilise capital at the scale required. The strategic use of blended concessional finance can play an important role, not as a subsidy for MDB and DFI led projects, but as a targeted tool to address genuine bottlenecks and de-risk investments and crowd in commercial capital.

A critical part of the solution also lies in improving data transparency. Investors need better, more disaggregated data –ideally at the sector level by country– to properly assess risks and opportunities. While there have been recent disclosure improvements, this granular data remains unavailable from MDBs and DFIs. Shareholders of these institutions should apply pressure to ensure greater transparency.

In resetting the PCM narrative, FfD4 must acknowledge the complexities of mobilising private capital for sustainable development and move beyond the simplistic assumption that vast financial resources can be easily redirected. A more realistic and effective approach requires recognising the spectrum of PCM strategies, addressing structural barriers and fostering a stronger alignment between investor incentives and development needs. Regulatory reforms, enhanced data transparency and a shift in investment culture are critical to unlocking institutional capital at scale. Furthermore, MDBs and DFIs must refine their business models to balance risk-taking in underserved markets with structuring investment products that appeal to institutional investors. Political leadership will be essential in driving systemic changes that create an enabling environment for investment in EMDEs, ensuring that both public and private capital contribute meaningfully to global economic and social progress. By taking a holistic, systems-level approach, FfD4 can set a more pragmatic and impactful course for PCM, ultimately bridging the gap between ambition and reality in financing sustainable development.