

Derisking and Development Finance

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Abstract

The «from billions to trillions» slogan, calling for the mobilization of trillions of dollars in private capital for sustainable development, has inspired the derisking policies of development banks. Its quantitative failure is not that of derisking itself — a concept potentially carrying a new form, demanding but promising, of public-private partnership. This paper reviews the rationale for derisking, its historical and theoretical foundations, its role in bringing private returns closer to societal returns, and the conditions that can make it effective.

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Summary and Key Messages

The needs-based approach — estimating the volumes of financing required to meet the Sustainable Development Goals (SDGs) — leads, especially in an environment marked by acute budgetary constraints, to the observation of a considerable and growing gap between financing needs and available financing. This gap can only be closed by mobilizing more private financing and directing it sufficiently toward developing countries, including the poorest among them. This approach has led to a new stage in the expected division of roles between the public and private sectors in development finance. Public development financing is now conceived less as a substitute for, or an addition to, private capital than as a lever intended to mobilize it.

This paper considers *derisking* as a form of intermediation based on the use of public funds to induce the private sector to generate social returns. It relies on a range of instruments: direct protection against identified risks, financial structuring to hierarchize and allocate risk, and standardization to certify its nature. Numerous derisking operations have been carried out, with promising quantitative and qualitative results at the microeconomic level. This paper traces the historical and theoretical foundations of derisking, describes available instruments, and discusses its results and limitations. Six main messages emerge from this analysis.

- ***The quantitative failure of the "from billions to trillions" slogan is not that of derisking***

The quantitative results of two decades of derisking fall well short of the stated ambitions. Multilateral development banks mobilize less than thirty cents of private capital for every public dollar invested in climate. Foreign direct investment flows to developing countries, far from having increased, have instead stagnated since the 2010s. These flows also remain concentrated in a handful of emerging economies, leaving low-income countries, fragile states, and Sub-Saharan Africa largely on the sidelines. But this failure is not that of the derisking concept: it is rather the failure of setting unrealistic volumetric targets for political communication purposes. The idea that trillions of dollars in private savings could be redirected toward developing countries through derisking operations is macroeconomically incongruous: existing stocks of financial assets — over \$460 trillion in 2023 — are for the most part already-allocated claims, not flows available for reallocation. An inflow of several additional trillions to developing countries raises serious absorption problems and would trigger considerable macroeconomic spillovers — on inflation, exchange rates, fiscal balances — that the quantitative ambition ignores. Distinguishing the assessment of derisking from that of the slogan that popularized it is a precondition for appraising its potential.

- **The relevance of derisking rests on the societal impact it can generate**

On a theoretical level, the use of public funds to mobilize the private sector is justified only when (1) the societal (social and environmental) return of an investment exceeds its private

return, (2) the latter is insufficient to trigger a private investment decision, and (3) there is no more efficient alternative use of public funds. This is the framework that distinguishes well-designed derisking — a purchase, by the community, of a societal impact that the market would not produce on its own — from a simple subsidy to private capital. The quantitative leverage effect on private investment is therefore an incomplete criterion for judging success. What also matters is the scale of the social and environmental impacts generated relative to the cost to the taxpayer. The SDGs, unanimously adopted by the UN General Assembly, provide in this respect a prescriptive and statistical framework for better grasping and tracking the economic and societal objectives pursued. Significant efforts are still needed, however, to formalize and standardize the definition and measurement of these impacts, operation by operation.

- **Derisking can be understood as an ambitious new form of public-private partnership**

Beyond correcting market failures, derisking can be read as a new phase in understanding the respective roles of the state and the private sector. It involves moving from a logic of division of labor — typical of a classical view of capitalism in which the public sector merely creates the conditions for private dynamism — to a partnership-based logic that recognizes that every investment, private or public, produces an economic and societal impact, and that builds the public/private relationship needed to maximize the societal return of their combination. This reformulation is reinforced by the growing importance of global public goods — climate, biodiversity, health — and by rising concerns about inequality and the distribution of the fruits of growth. It also fits within an understanding of the public authority's role in steering the allocation of private savings toward new markets in their development phase, before they become profitable — renewable energy being an example. This partnership-based vision is not without risk, since a poorly informed practice of derisking could lead to subordinating the definition and pursuit of societal objectives to the interests of private investors. Derisking therefore requires capacities of independent risk and impact assessments, and vigilant attention to the counterparts to be required in any partnership. Promoting derisking also means promoting this vigilance and the analytical qualities that underpin it.

- **The practice of derisking requires careful analysis of risks and barriers, and rigorous financial engineering**

Derisking cannot be reduced to a catalogue of financial instruments: it is also a set of methods for precisely analyzing the risks and barriers that steer private decisions away from the pursuit of the best social return, and then for choosing and combining suitable instruments to mitigate them. These risks are numerous and heterogeneous in developing countries: political and institutional risks, macroeconomic risks, market and liquidity risks, legal risks, operational risks, environmental and social risks — to which have been added, since 2025, geopolitical risks of a new nature, linked to international trade disorder, the war between Russia and Ukraine, the Middle East, and the American withdrawal from

multilateralism. Three broad categories of instruments, which can be combined, help mitigate these risks: direct risk-protection instruments (guarantees, political risk insurance, currency hedging); financial structuring approaches (subordinated tranches, credit enhancement, blended finance); and standardization and securitization operations (infrastructure as an asset class, green bonds, synthetic portfolio securitization). The choice among these instruments and their combination depend on the precise nature of the problem to be addressed, which requires analytical skills and financial engineering that development finance institutions still need to strengthen. The examples of *Room2Run* — the first synthetic portfolio securitization between the African Development Bank and private investors — and the *ILX* fund — enabling institutional pension funds to co-invest in multilateral development bank loans — illustrate both the potential of these approaches and their cost in time and skilled resources (four years to set up Room2Run, five years to launch ILX). Advancing derisking therefore requires greater cooperation between multilateral and bilateral development banks, better alignment of internal incentives within these institutions, and an effort to standardize structures to reduce transaction costs.

- **Guarantees are the most effective instruments, but remain structurally underused**

Among the available instruments, guarantees occupy a special place: although they account for only about 5% of multilateral development bank operations, they concentrate 45% of their total private resource mobilization, reflecting their relative effectiveness compared to other instruments. Yet they remain systematically underused. Several reasons explain this: the statistical accounting of official development assistance long disadvantaged them relative to more traditional instruments; provisioning rules, modelled on those for loans even though claim rates are historically much lower, needlessly tie up capital; and finally, the internal incentive structures of development banks do not favour bespoke arrangements, which are more demanding in time and expertise than conventional loans. Precisely understanding these obstacles and lifting the regulatory and institutional constraints weighing on the use of guarantees is one of the most promising levers for improving the effectiveness of derisking.

- **Reducing the cost of capital in developing countries is a priority**

One of the deepest reasons why international private investment shies away from developing countries — particularly low-income countries and Sub-Saharan Africa — lies in the cost of capital, which is structurally higher in these geographies. Equity risk premiums there are noticeably higher than those observed in developed countries, often disproportionately relative to the actual risks measured ex post. This differential constitutes an underdevelopment trap: it raises the financing cost of any investment, particularly penalizes capital-intensive sectors such as renewable energy, and holds back any dynamic of capital accumulation. It partly stems from a gap between perceived and actual risk, with several studies suggesting that investors structurally overestimate the risks associated with developing countries, whether from unfamiliarity with these geographies or from

information asymmetry. Derisking — whether through guarantees that reduce perceived risk, better information on the actual performance of these markets, the pooling of development banks' analytical expertise through vehicles such as the ILX fund, or the standardization of assets enabling risk diversification — is one of the tools best suited to reduce this differential. This is where its potential is greatest, and where efforts should be prioritized.

Derisking, reformulated as a financial intermediation engineering in the service of clearly defined social and environmental impacts, appears as a promising and intellectually coherent approach. This approach entails constant critical scrutiny of social and environmental impacts and of the integrity of its implementation. It deserves to be pursued and deepened, even though the current geopolitical context makes its realization more difficult. It is a concrete, project-level approach, capable of fostering cooperative initiatives even in this troubled context, and of giving meaning to a financial effervescence that continues to fall short of adequately addressing the main collective needs.

Introduction

The term ‘derisking’, a buzzword¹, has been used to describe a variety of different approaches. It refers, for example, to the strategy adopted by financial institutions to cease or reduce business relationships with clients in order to avoid (rather than manage) risk. More specifically, the term ‘de-risking’² is used by the US Department of the Treasury to describe the decision taken by financial institutions, in a context marked by stringent anti-money laundering and counter-terrorism regulations, to terminate their relationships with entire categories of clients rather than adopting a targeted risk management approach for each client (The Department of the Treasury, 2023). Alternatively, since the pandemic and the war in Ukraine, the term has come to reflect the management of supply chains by diversifying them to span multiple geographies and companies. The OECD (OECD 2025) warns of the very serious consequences for developing countries of the ‘de-risking’ practised by financial institutions, noting that the number of active correspondent banks fell by 20% between 2011 and 2022, and that the cost of migrant remittances, the main source of international financing for many developing countries, may suffer as a result. To combat this ‘de-risking’, countries must be helped to strengthen their financial standards and reputation, to combat financial crime, to attract private capital and to expand access to financial services for individuals and businesses.

¹ The Financial Times selected it as its word of the year for 2023 (Foroohar 2024)

² Generally spelled with a hyphen, which distinguishes it from *the ‘derisking’* discussed in this paper.

In this paper, we adopt a developmental definition of ‘de-risking’, namely the rationale for bilateral and multilateral donors to mitigate risk for private investors in order to encourage them to allocate more funding to sustainable development. Derisking is not merely a matter of risk reduction; it also concerns the risk/return trade-off and other interventions that may influence the perception of risk without necessarily affecting the allocation of actual risk.

This approach is not specific to development finance. It is also found in the context of financing the energy and climate transition (or, more broadly, the ecological transition) in developed countries³. Indeed, it is in pursuit of the Sustainable Development Goals (SDGs) that the theme of mobilising private capital through ‘derisking’ has become a new watchword in development finance.

The aim of this paper is to present derisking and to discuss its value and its capacity to mobilise private capital in a significant way. We begin by reviewing its quantitative foundations, which are characteristic of an approach based on the estimation of financing needs. The following section provides a historical overview of how financing institutions have engaged with the private sector. The third section discusses the theoretical foundations of the role of public finance in mobilising the private sector. The following section offers a definition of the concept of derisking and describes the main instruments. Section 5 provides a provisional assessment of derisking. Section 6 concludes.

1. Private sector mobilisation: the quantitative arguments

The call for private sector mobilisation is the institutional and political response to the considerable financing needs estimated for achieving the Millennium Development Goals, the international community’s roadmap⁴. Several estimates have been put forward regarding these needs, both for climate action and for the SDGs as a whole. These estimates differ significantly, but converge on the order of magnitude, namely several ‘trillions’ (US trillions, i.e. thousands of billions). In its 2025 report on financing sustainable development, the OECD (OECD 2025) summarises (Table 1.1, p.25) the various estimates of the annual funding gap for the SDGs.

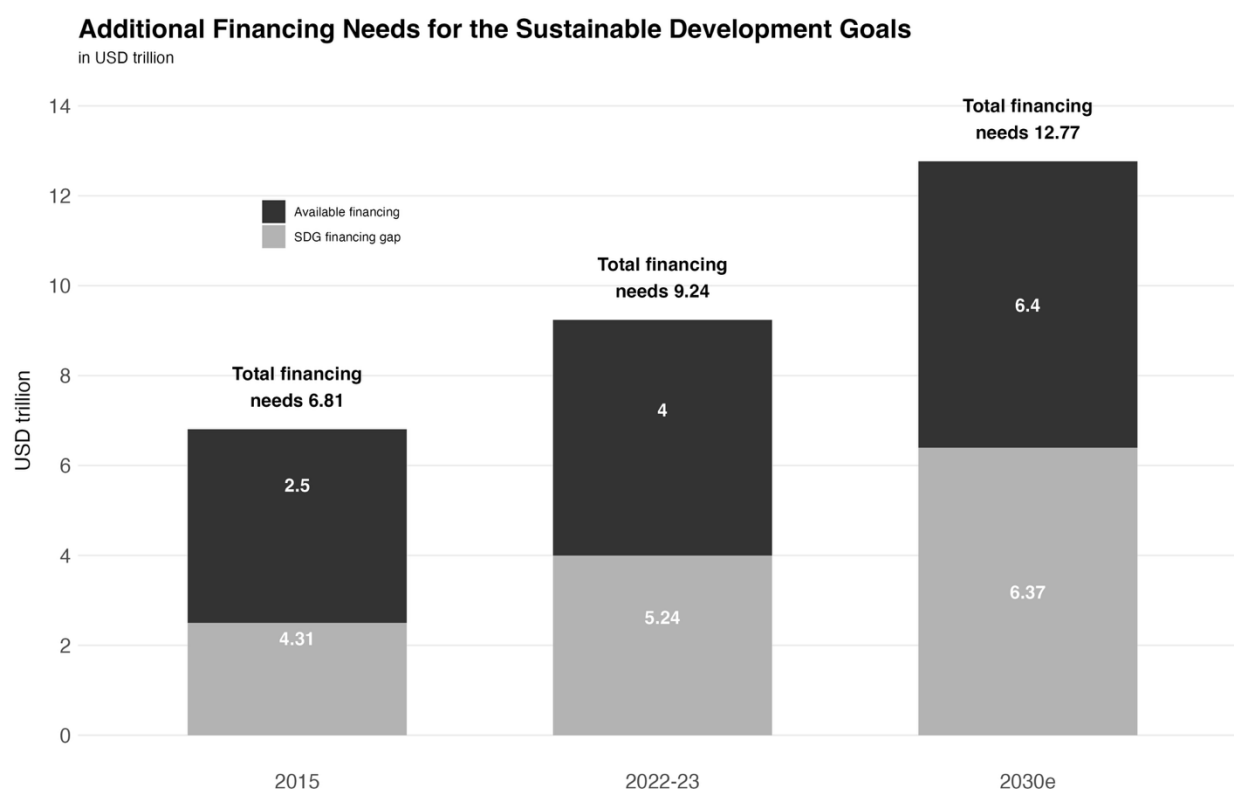
³ It is, for example, one of the approaches recommended by the Draghi report to finance the green transition in the European Union (Draghi 2024)

⁴ However, the Trump Administration distanced itself from this on 4 March 2025, during a speech by Edward Heartney, US Minister-Counsellor to ECOSOC: ‘Although couched in neutral language, the 2030 Agenda and the SDGs implement a programme of soft global governance that is incompatible with US sovereignty and undermines the rights and interests of Americans’ (translated by the author).

1.1. A growing gap between needs and available funding

Figure 1 below, taken from OECD (2025), illustrates the growing annual gap between available funding and the funding deemed necessary to achieve the SDGs in developing countries⁵: According to the OECD, by 2030 this gap is projected to exceed 6 trillion per year, a 156% increase compared to the estimated gap in 2015 and a 60% increase compared to that of 2022–2023, with the majority of the needs and the gap attributable to climate change, particularly the energy transition (OECD 2025).

Figure 1



Source: Chart reproduced from OECD (2025, fig. 1.7 p.26)

The climate emergency has also led to estimates of investment needs, particularly in developing countries. (Choi and Laxton 2023) point out, for example, that annual climate finance flows of \$5.2 trillion per year will be required from 2030 onwards, whereas only \$600 billion was allocated to this cause in 2020. Other estimates suggest an annual requirement of between 3,000 and 6,000 billion by 2050 (Georgieva and Adrian 2022). Still others (Schumer et al. 2025) consider that a target of limiting global warming to 1.5°C (which,

⁵ This refers to all countries eligible for official development assistance (as defined by the OECD's Development Assistance Committee), excluding China.

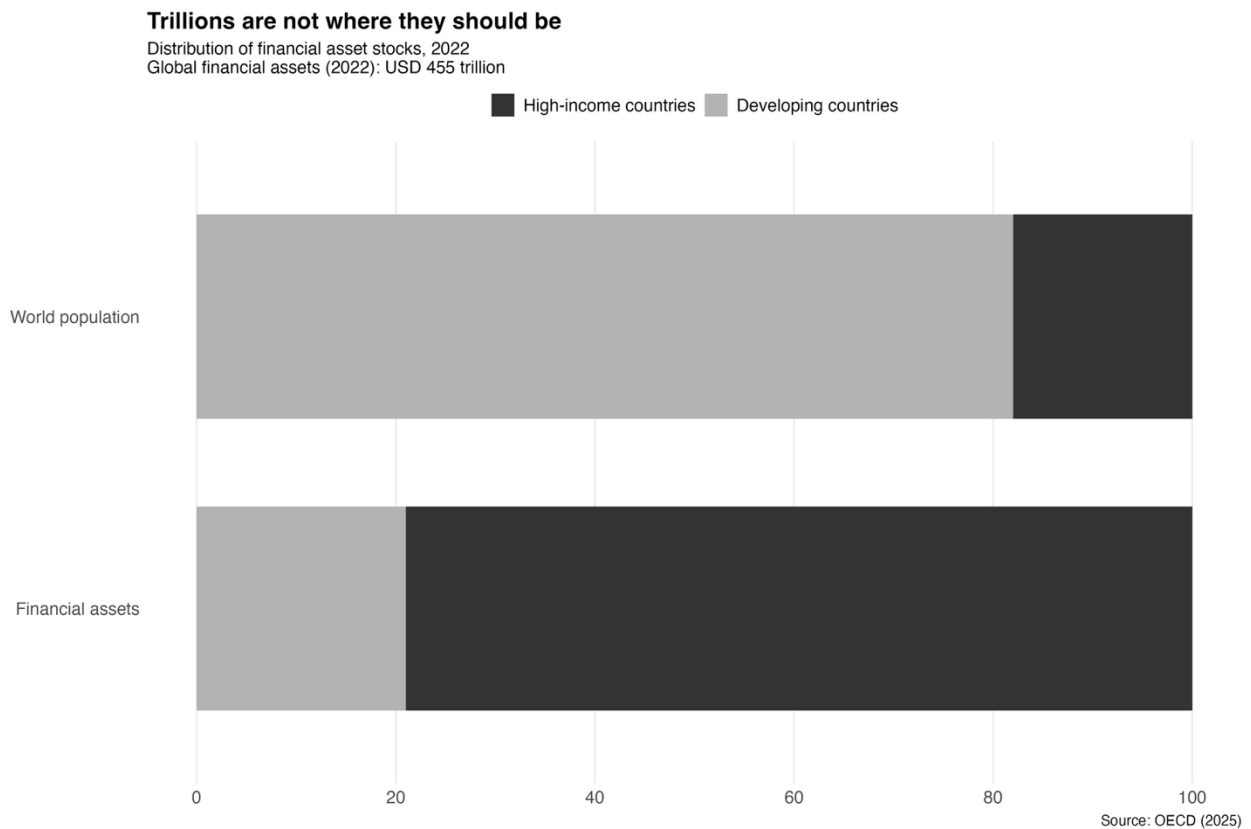
however, seems out of reach) would require between 6,800 and 11,000 billion per year by 2030 to fund adaptation and mitigation needs, and they estimate climate finance flows in 2023 at 1.9 trillion. *The Climate Policy Initiative* confirms this estimate and notes that the first available data, from 2025, show that annual climate finance flows (mitigation and adaptation) exceeded 2 trillion dollars for the first time in 2024. Developed countries and China play a major role in this regard. However, only a small fraction (196 billion) of the climate finance available is committed to developing countries (Climate Policy Initiative 2025). For the latter, the financing needs for climate change adaptation are estimated at an average of 222 billion per year over the period 2024–2030, rising to 248 billion per year between 2031 and 2050, whilst the funding available in 2023 amounted to 46 billion (Climate Policy Initiative 2025).

1.2. Trillions are available but poorly distributed

However, these ‘trillions’ do exist, but they are considered to be poorly allocated and locked up in assets primarily in high-income countries, as shown in Figure 2. Between 2015 and 2022, the global stock of financial assets grew by 47%, reaching over 460 trillion⁶. Despite an increase in the share of these assets held in developing countries, developed countries still hold nearly 80%. Noting that 21% of global financial assets are already invested in developing countries, where they have the potential to contribute to economic and social progress, the OECD considers (OECD 2025) that even a modest shift in investment priorities towards the rest of the world, with some regulatory adjustments, could have a significant impact on capital flows for development in poor countries. From there, it is only a short step to suggesting that the financial solution is within reach and that it is a matter of redirecting (and in particular convincing institutional investors to do so) a few trillion dollars annually towards emerging and developing countries – or at least that is what the slogan ‘from billions to trillions’ suggests (AfDB et al. 2015), an initiative launched by the major multilateral development banks in 2015, which calls for the mobilisation of the private sector, which is partly responsible for generating and holding all these trillions.

⁶ We retain the Anglo-Saxon term ‘trillion’ here, which is equivalent to 1,000 billion and allows for a more concise formulation. Using the French metric system, one would instead have to write ‘billions to trillions’.

Figure 2 : The trillions are not where they should be



This quantitative assessment, which highlights the gap between the anticipated availability of funding and the actual needs, underpins the call to mobilise private finance. It prompts an examination of why private investment is failing to meet these needs despite the overall availability of resources. Attention naturally turns to the project and country-specific risks that deter private investment. Derisking refers to the use of public resources through appropriate methods and instruments to mitigate these risks or improve the risk-return profile (as opposed to an approach based on improving the investment climate, which also contributes to risk reduction, albeit in a less targeted and more underlying and structural manner).

2. The private sector and development finance: a historical overview

Interest in the role of the private sector in development processes is not new. However, the way in which the complementarity between the public and private sectors is understood has undergone significant changes. After the Second World War, it was the opportunity and *raison d'être* of a multilateral public lending institution that was the main focus of debate

(Gavin and Rodrik 1995) . Indeed, from the very start of the negotiations on the creation of the World Bank under the Bretton Woods agreements, one of the questions raised was that of the role and justification of public financing and its potential complementarity with private investment. The promotion of private investment is one of the statutory objectives (Article I(ii) of the Articles of Agreement) of the Bank (World Bank 1954; Mason and Asher 1973) . The quotation below usefully summarises the issues surrounding the creation of the World Bank during the Bretton Woods negotiations.

‘The participants at the Bretton Woods Conference realized that, at the conclusion of hostilities, there would be a pressing need for international capital to finance both the reconstruction of productive facilities destroyed by the war and an increase in productivity and living standards in the underdeveloped area of the world. The requirements were recognized as being so great, and the risks so large, that private capital would be unable to fulfill them without some form of government guarantee. The Bretton Woods Conference felt that the problem could best be solved by the creation of a new type of international investment institution which would be authorised to make or guarantee loans for productive reconstruction and development projects, both with its own capital funds and through the mobilization of private capital, and which would be provided with a financial structure under which the risks of such investment would be shared by all member governments roughly in accordance with their economic strength. This is the solution which was embodied in the Bank’s Articles of Agreement. (World Bank 1954, pp. 4–5).

Thus, the role of the private sector was recognised, and the mobilisation of private investment was already a priority. The argument put forward was quantitative, as it is today. This quotation also illustrates several issues that arose at the time and remain relevant 80 years later. One of these concerns the nature of international investment risks and their optimal allocation and remains one of the key challenges in putting the concept of derisking into practice. Another question, left open, present in the quote through the call for “some form of government guarantee”, concerns the choice, for the World Bank in its early years, between granting loans (which was the option chosen) or guaranteeing investments. This was the subject of one of the debates between White and Keynes – which centred in particular on the amount of equity capital required for the Bank to operate. The European countries and Keynes would have preferred the Bank to use its capital solely for providing guarantees. As regards the possibility of the Bank granting loans, Keynes even considered this proposal ‘absurd’ , since it would effectively amount to making international investment dependent on the borrowing countries (and, one might add, to transferring at least part of the risk of that investment to those countries through the loan: this is one of the lesser-recognised aspects of debt crises in developing countries).

Broadly speaking, the way in which the complementarity between the public and private sectors is understood and implemented has historically gone through three major phases.

2.1. 1950–1980: public–private division of labour

The first phase, covering roughly the period 1950–1980, involved a division of labour and the indirect mobilisation of the private sector by creating an environment conducive to its dynamism. Public policy (in the economic sphere) is justified by the need to address market ‘failures’⁷ (the presence of externalities, imperfect competition, information asymmetries, imperfect financial markets) and to ensure a fair distribution of income. The dominant growth model is the Harrod-Domar model, with a constant capital coefficient, which assigns investment (almost by definition) a decisive role in growth (but also leads to the idea of generally unbalanced growth). (Chenery and Strout 1967) extend this model to the economies of developing countries facing a dual constraint (*two-gap model*): the internal constraint of insufficient savings (and skills) and the external constraint of access to foreign exchange and the balance of payments. The question, therefore, is whether, and how, development aid can bridge the savings and foreign exchange gap and enable the financing of import requirements.

During the 1950s and 1960s, the World Bank primarily provided loans to the public sector for infrastructure, a capital-intensive sector requiring heavy investment and long-term financing that the private sector could not undertake. Gradually, it also turned its attention to agriculture and human capital, education and health – other areas where returns only materialise in the long term and where the private sector fails to meet needs. It also expanded its support for public policies through technical assistance and support for better governance. But this division of labour is also a way of contributing to the dynamism of the private sector, by creating the conditions for better returns on capital. This package of funding is in fact a response to the famous ‘Lucas paradox’ (Lucas 1990) , although formalised much later: in poor economies and within the neoclassical paradigm, capital being scarcer should yield a higher rate of return than in developed countries, and one would therefore expect savings from the latter to flow there to benefit from it. Yet this is not what we observe, and one reason is that the return on private capital depends on all these complementary public investments, without which its productivity will remain low. However, development aid does not yet have the explicit objective of mobilising the private sector. Moreover, most developing countries in the 1950s and 1960s emphasised the role of the state and left little room for private sector development.

⁷Within a well-established theoretical framework, summarised in (Wolf 1990) . In particular, he analyses the issue of allocation between the two imperfect alternatives: markets and governments. In the immediate post-war period, however, and within a Keynesian intellectual environment, the imperfections of the latter were often overlooked.

2.2. 1980–1990: the neoliberal turning point

The second phase began in the 1980s, with the liberalisation movements launched by Margaret Thatcher and Ronald Reagan. The emphasis was placed on the dynamism and efficiency of the private sector as the main driver of development. Prescriptions for liberalisation, privatisation, and any policy favouring market development thus became part of the standard recipe recommended to developing countries and formed part of what John Williamson (Williamson 1990) called the ‘Washington Consensus’ (which eventually became absorbed into the neoliberal ideology that took hold in the 1990s and 2000s). The importance attributed to the private sector is also evident in the 1981 Berg Report on sub-Saharan Africa. This report notes that African public sectors are often overdeveloped and calls on African governments to increase the efficiency and improve the performance of public spending, to recognise the role and responsibility of local private sector actors, and to give greater scope to national and international private capital (Berg 1981). The 1980s and 1990s, marked by the rise of financial liberalism and the debt crisis in developing countries, were years of structural adjustment, aimed at restoring order to macroeconomic management and making more room for the private sector.

This neoliberal shift was amplified by the debt crisis (Mexico’s default in August 1982), which raised awareness of the risks of excessive public debt and reinforced calls for liberalisation, privatisation and private sector involvement. The role of institutions and their quality also became central, notably through the work of Oliver Williamson and Douglass North, and then in the late 1990s, the World Bank’s slogan ‘institutions matter’ (Burki and Perry 1999). After several years of debate on the use of guarantees, the Multilateral Investment Guarantee Agency (MIGA) was established in 1988 within the World Bank Group. The liberalisation of capital movements and the call for private resources to finance investment needs linked to the development of emerging economies also led to a new boom in sovereign rating activities among the major credit rating agencies (Sylla 2001).

2.3. The 2000s: The private sector as a partner in sustainable development

The third phase began in the early 2000s. The adoption by the United Nations General Assembly (UNGA) of the Millennium Development Goals (MDGs) in September 2000 provided the international community with a set of values and of eight goals (to be achieved by 2015) combining sustainable growth and poverty reduction. The ‘Millennium Declaration’ (United Nations General Assembly 2000) mentions the private sector in three places: the decision to ‘forge strong partnerships with the private sector and civil society organisations to promote development and eradicate poverty’; the recognition (for Africa) of the need to increase foreign direct investment; and the decision “to give the private sector, non-governmental organisations and civil society in general the opportunity to contribute more

to the achievement of the Organisation's objectives and programmes". In this United Nations vision of development, the private sector, together with civil society organisations, is recognised as a potential contributing partner, and is seen above all as a provider of resources (finance, technology, know-how, particularly through direct investment), in a sense exogenous, which must be mobilised.

It was with the 'Monterrey Consensus' (United Nations 2003) that support for the private sector became formalised both as one of the objectives and as one of the means of development policies and development aid, which must be the subject of active support policies, both in terms of the business environment and the use of export credit instruments, co-financing, venture capital, guarantees, and various services provided to investors. However, this conviction is scarcely developed in the declaration of the Paris Conference on Aid Effectiveness (OECD 2005) and in the Accra Agenda for Action (OECD 2008), which gives the impression that the private sector is still regarded as somewhat external to development efforts and dynamics: efforts are defined and undertaken by public, national, bilateral and multilateral actors, and the aim is to involve the private sector in them.

The setting of shared goals provides a structuring framework for international action, enabling the monitoring of action taken on each of the goals. In July 2015, the Addis Ababa Action Agenda (United Nations 2015) defined a global framework for development finance. This Action Plan calls on governments to align public policies and regulations so that private-sector incentives are consistent with public objectives (paragraph 36), to develop the small and medium-sized enterprise sector (paragraph 43), to develop financial markets and attract foreign direct investment (paragraphs 44, 45), to integrate infrastructure development plans into national sustainable development strategies and provide technical assistance for project preparation (paragraph 47), to develop public-private partnerships and blended finance (*blending*) (paragraph 48), and to strengthen the catalytic role of international public finance, particularly official development assistance, in mobilising other sources of financing by improving tax collection and structures, enhancing the investment climate, and utilising various joint financing and risk-reduction instruments (paragraph 54).

In September 2015, as the MDG timeline was coming to an end, the UN General Assembly unanimously adopted the Sustainable Development Goals (SDGs), with 2030 as the new target date (United Nations General Assembly 2015). One of the characteristics of this method (setting targets and a timetable), however, is that it leads to the development of implementation strategies based on a quantified estimate of needs and a call for the mobilisation of the corresponding resources. It quickly became clear that public finances would not be sufficient, and the watchword became the mobilisation of private savings to achieve the SDGs, with 'derisking' emerging as one of the key approaches.

This mobilisation involves, through various financial instruments, using public funds to encourage private funds to join the effort. It is an innovative approach, measured by leverage, namely the amount of private funds mobilised per euro (or dollar) of public resources used for this purpose⁸. This quantitative approach has found its communication strategy in the slogan ‘From Billions to Trillions’, launched in 2015 by the multilateral development banks and the International Monetary Fund to address the financing needs of the SDGs (AfDB et al. 2015). Its principle is to mobilise private resources on a large scale to supplement limited public funding. Implementation relies on the use of official development assistance to mobilise private investment, notably through blending and guarantee mechanisms.

Two years later, for the Development Committee meeting in October 2017, the World Bank outlined the operational approach ‘*Maximising Finance for Development*’ (MFD), aimed at systematising the mobilisation of private finance for development (World Bank Group 2017). The MFD principle involves prioritising private-sector-led solutions where viable and using limited public resources only where necessary. Implementation involves a systematic analysis of constraints to private investment in key sectors and the use of tools such as guarantees, public-private partnerships, co-financing and regulatory reforms to attract investors. This approach has led to an increase in World Bank operations involving the private sector.

In 2017, the International Development Association (IDA) established a Private Sector Window (PSW) designed to provide resources to mobilise the private sector in IDA countries, with a total allocation of nearly \$5.5 billion since its inception (Mathiasen et al. 2024). This is a Blended Finance Facility (BFF), which enables the International Finance Corporation (IFC), MIGA and third-party private investors to engage in risky transactions in eligible IDA countries and fragile and conflict-affected states. In addition to the BFF, this PSW financing window includes a local currency facility, which helps to hedge currency risk in countries where capital markets are underdeveloped; the option to subsidise MIGA guarantees and supplement them with reinsurance and first-loss guarantees; and a risk mitigation facility offering project guarantees to attract private investment into IFC projects and public-private partnerships in infrastructure. According to the independent evaluation of the PSW (Independent Evaluation Group 2024; Mathiasen et al. 2024), the BFF blended finance

⁸ Thomas Melonio and Jean-David Naudet distinguish between two combined leverage effects: the first is the ratio between the volume of public funds transferred to developing countries and the cost to the taxpayer in the donor country; the second is the multiplier effect of using public funds to mobilise private funds (Melonio et al. 2025). They note, for example, that in 2022, AFD generated five times more climate finance than the budgetary cost incurred by France, and subsequently further increased the volume of climate finance by mobilising private funds.

facility was the most utilised, whilst the risk mitigation facility was the least utilised⁹. The PSW subsidises IFC and MIGA's access to high-risk transactions in eligible countries, to which local borrowers would not have access due to the cost of risk. *The Independent Evaluation Group* (IEG) estimates that every dollar committed through this PSW window since 2018 has mobilised an additional \$2.70 in capital from IFC and MIGA, and an additional \$2.00 from public and private third parties. (Mathiasen et al. 2024) consider the success to be mixed, particularly when comparing the private capital mobilised in the various projects by the IFC with or without the support of the PSW facilities. It should, however, be noted (Independent Evaluation Group 2024) that projects submitted to the PSW are riskier than others and therefore attract less interest from investors, whether private or public.

Since 2018, the G20, the OECD and the World Bank have also been promoting the idea of presenting infrastructure projects as an asset class¹⁰, by standardising and aggregating them to make them more attractive to long-term and institutional investors such as pension funds (G20/OECD/WB 2018). This initiative also aims to facilitate infrastructure financing in developed countries.

In light of these various developments and initiatives, the following conclusions can be drawn: the general philosophy underpinning the work of development finance institutions has shifted from a vision focused almost exclusively on the use of public funds – which could be used to create a favourable environment for private investment and recognised the role of private investment in growth strategies – to a general call for the mobilisation of private investment. This new philosophy, officially launched with the Action Plan (AAAA) adopted in Addis Ababa in 2015, has spread to most development finance institutions and has led to a multitude of initiatives. The slogan 'from billions to trillions', which encapsulates this philosophy, appears to hark back to the quantitative vision that prevailed in the 1950s and 1960s, and this is, as we shall discuss later, one of the weaknesses of the current approach to development finance.

⁹ Up to March 2024, 55% of approved PSW projects utilised BFF, 27% the local currency facility, 16% MIGA guarantee subsidies and 2% risk mitigation (Mathiasen et al. 2024). According to (Independent Evaluation Group 2024), differences in the use of PSW facilities reflect their ability to meet client needs. The BFF facility has the advantage of being highly flexible, and the under-utilisation of the risk mitigation facility can be explained by the existence of MIGA and the partial risk guarantees offered by the IDA, which provide similar services.

¹⁰ On the principle, see in particular (Inderst 2010). This is reminiscent of the concept of 'Nature as an Asset Class', which aims to make natural capital 'investable'.

3. Concepts and Theoretical Foundations

3.1. *Private returns and social returns*

The economic literature justifies public intervention – beyond sovereign expenditure, which could incidentally be interpreted within this framework¹¹ – through arguments of efficiency (correcting market failures, including externalities) and arguments of equity (social justice and income distribution)¹². These arguments require forms of public intervention, but do not necessarily lead to recommending the use of public funds to mobilise the private sector, let alone setting the maximisation of the volume of private funds used as an objective. More precise arguments are therefore required.

These arguments can be found in the theoretical approach developed by Arthur Pigou in the early 20th century (Pigou 1920). What externalities, public goods and other market failures, as well as equity considerations, entail are discrepancies between private returns and social returns. The latter encompass the costs and benefits of an investment for society as a whole, and include both financial returns and social and environmental effects. Private return is therefore one component of social return. The difference between the two reflects market failures, either in terms of social efficiency (and not just economic or financial efficiency), or in terms of equity. (Pegon 2023) deduces three conditions that must be met jointly to justify the use of public funds to mobilise private funds (*blended finance*):

- The net social return is positive and exceeds the private return
- The private return (excluding blended finance) is below the (risk-adjusted) return threshold required by the private sector, typically between 12% and 15% (Georgieva and Adrian 2022)
- No other use of public funds would lead to a higher net social return.

The first condition states that public intervention only makes sense if it generates a higher social return than no intervention or private-sector intervention alone: in other words, the objectives of the public intervention must be specified and it must be demonstrated that it is necessary to achieve these objectives. The second condition means that the private sector would not undertake the operation on its own. The third condition concerns the opportunity cost of using public funds: it must be verified that they would not be better used in another intervention.

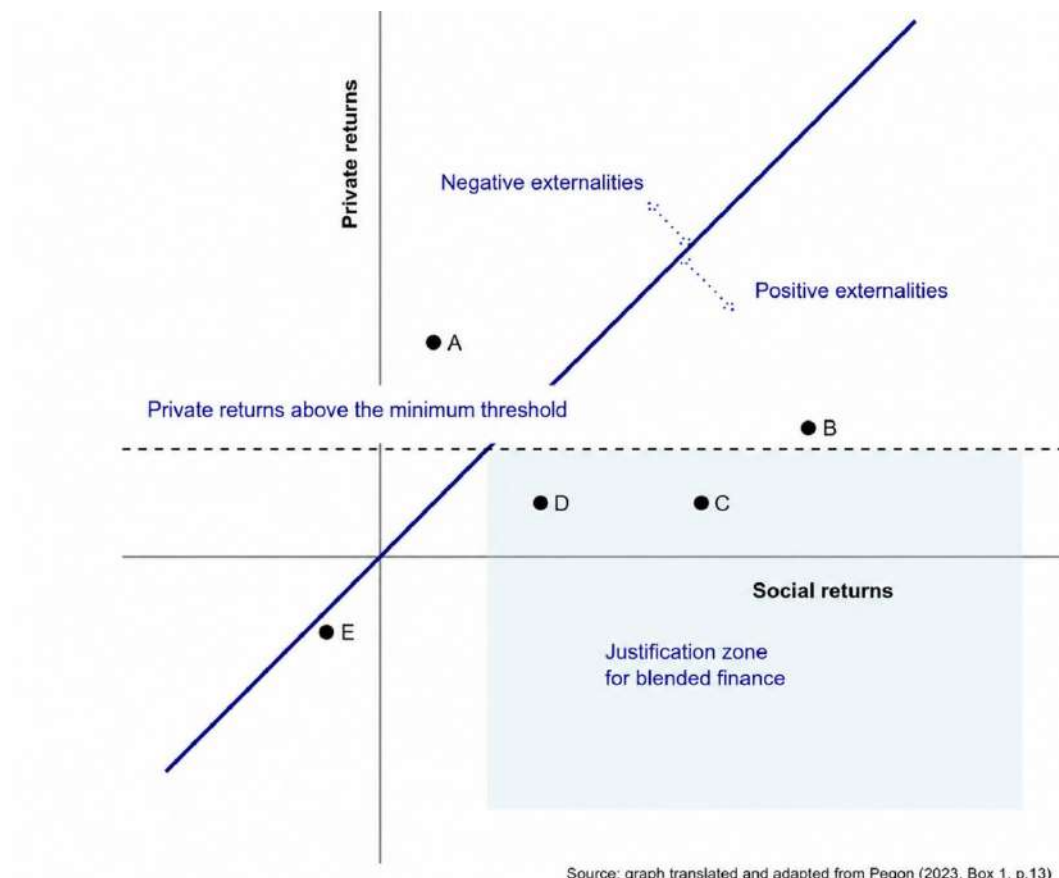
(Pegon 2023) illustrates these various conditions in a graph, reproduced below (Figure 3). Several projects representing different combinations of social and private returns are shown by

¹¹ Markets are not, in fact, natural entities and require security and a robust institutional and legal framework to thrive.

¹² See the discussion in (Wolf 1990)

points A, B, C, D and E. Private investors require a minimum (risk-adjusted) return to invest in the project, represented by the horizontal dotted line. On the bisector, private returns are equal to social returns. Externalities correspond to the distance from the bisector: above it, they are negative (private returns exceed social returns); below it, they are positive. At point A, there are negative externalities and the private return exceeds the intervention threshold: it is obviously out of the question to subsidise the project, and one might instead consider taxing it to offset the negative externalities; At point B, the positive externalities (distance from the first bisector) are high, but the private rate of return is above the threshold, and it is therefore not necessary to provide public funds for the project. Projects C and D have a social rate of return higher than the private rate of return, the latter being below the threshold required for a private investment decision: they are therefore candidates for mixed financing, but project C has a higher social rate of return for the same cost (the latter is represented by the vertical distance from the threshold): Project D must therefore be excluded, and Project C is the only one meeting all the conditions, since Project E has a negative social rate of return.

Figure 3: Social rates of return and private rates of return



This analysis has some limitations, which do not detract from its relevance. It is static and neglects the effect of existing or future investments on the social returns of the proposed

projects. (Pegon 2023) notes, for example, that private R&D expenditure, investment in innovation, investment in the creation of knowledge beneficial to the economy as a whole, or cluster effects can increase the social (and also private) returns of investment projects. One of the ideas behind blended finance is also that it comes with conditions that alter the nature of an investment that might otherwise be undertaken by the private sector, and that its terms and conditions increase the social returns. The proposed analysis can therefore be extended by considering that, in certain cases and because the project is transformed (through conditions or incentives), public funding may be legitimate and desirable even when the initial project yields a private return above the required threshold – but for the private sector to participate, the pursuit of the social return targeted by this transformation must also increase the private return on the operation.

Four key messages can be drawn from this theoretical framework:

- Seeking private sector involvement solely for the volume of funding it provides is not a socially relevant objective: yet this is the direction suggested by the quantitative targets and monitoring of ‘private sector mobilisation’.
- Using public funds to support private investment is justified provided that the expected social returns are established and sufficiently significant, and that the private sector would not undertake these investments on its own (this is the ‘additionality’ criterion at the heart of the blended finance approach). Derisking is sometimes understood as a guarantee provided by the public sector for private-sector returns: but beyond this narrow conception of derisking, it is useful to incorporate into a broader approach the idea of the public sector purchasing an economic and social impact generated by the private sector (and which would not otherwise be generated): in a sense, a purchase of the gap between social returns and private returns.
- This requires detailed analysis as part of project evaluation, including an assessment of the risks involved, expected private and social returns, and additionality, as well as careful financial engineering.
- These analyses are carried out ex-ante, based on assumptions, judgements and experience gained. It is therefore also necessary to strengthen the experimental aspect of the approach by combining it, from the moment projects are identified, with a rigorous – and as far as possible independent – monitoring and evaluation process of the generation of social returns.

This complementarity between the public and private sectors (which could be termed ‘mobilisation’ of the private sector if the emphasis is on activating the latter) can be exercised across four dimensions that may be combined:

3.2. Mobilisation through savings transfer

The intermediary role played by development banks, which borrow on the markets and on-lend to developing countries, is in itself an important form of derisking, as they substitute claims on themselves for riskier claims on developing countries within private portfolios. This derisking is effective under two conditions: that development banks maintain a sufficiently favourable credit rating (the World Bank, for example, is very attached to its AAA rating, and all development banks value their credit ratings), and that they are able to correctly analyse the risks they take in developing countries. There are three significant limitations to this form of derisking. One is the capital base of development banks, which determines their lending capacity and risk-taking ability. The second limitation is the need for the development bank to preserve its credit rating: it therefore remains very selective regarding the nature of the risks it takes. Finally, the ability of borrowing countries to manage their debt limits the potential of this intermediation, as the recurrence of debt problems demonstrates. It is not this method of risk redistribution that will generate the trillions sought. There is an additional limitation, as the development banks' status as senior creditors means that the growth of this intermediation increases the residual risk on private debt.

The constraint on their capital base has led development banks to innovate in order to free up capital to increase their lending, by transferring the risk of certain parts of their asset portfolios—a process that Choi and Laxton (2023) refer to as the 'portfolio approach to risk reduction'¹³: there is then, in a sense, a two-stage derisking process: firstly, through the role of financial intermediation, as mentioned above, and secondly, through the resale of claims (or risks) on developing countries that have been 'derisked' since it is the bank, backed by its credit rating and credibility, that has chosen to acquire them: it therefore finds private buyers. But it is also a 'double *derisking*' insofar as the Bank, in doing so, reduces its own risk by offloading its portfolio, which frees up its capital.

This derisking through asset management has led to some interesting financial innovations. (Choi and Laxton 2023) cite the example of Room2Run, the first synthetic portfolio securitisation established in 2018 between the African Development Bank (AfDB) and private investors: the AfDB retains the loans in its portfolio, which allows it to control the development focus of its lending, but transfers the associated credit risk. This securitisation covers a portfolio of 50 non-sovereign loans (African Development Bank 2019) and not just individual loans. It comprises several tranches: the AfDB retains the junior and senior

¹³ This approach is not new. (Mason and Asher 1973) recalls that in its early days, the World Bank overcame private investors' reluctance towards international investment by selling, with its guarantee, the bonds acquired from its borrowers (for example, Belgium, in March 1949): it thus guaranteed the borrower's credit whilst freeing up its capital. This practice subsequently faded as the Bank began to sell its own bonds more actively to the public – and thus to borrow on the capital markets.

tranches, which maintains the incentive to control and manage risks, whilst the mezzanine tranche is transferred with a guarantee from the European Commission to make the risk/return profile attractive to private investors. This mechanism increases the AfDB's lending capacity to Africa, without additional capital injection, by \$650 million (PRI (Principles for Responsible Investment) 2019) . The success of this operation led to the announcement in 2024 of a new project (which has yet to be set up and implemented) involving synthetic securitisation between the AfDB, the Development Bank of Southern Africa (DBSA) and several institutional investors, covering a portfolio of \$1.5 trillion (African Development Bank 2024). Building on the spirit of Room2Run, the UK government announced in 2022 the introduction of a 'Room2Run guarantee' on \$2 billion of the AfDB's sovereign loan portfolio(Ecofin Agency 2022) , effectively unlocking \$2 billion in capital for the AfDB. As noted by (Choi and Laxton 2023) , however, the transaction costs involved in developing such financial innovations are high. It took nearly four years to launch Room2Run. Taking these transaction costs into account is an integral part of derisking strategies.

(Choi and Laxton 2023) document a second example of a risk-reduction portfolio approach, the ILX I fund (based in Amsterdam), established in 2022, which enables institutional investors (notably Dutch pension fund asset managers) to co-invest (in the form of B-Loans) in loans from multilateral development banks and development finance institutions (DFIs) in support of the SDGs and, in particular, climate action. The latter retain part of the loans in their portfolios, whilst the remainder is subscribed to by institutional investors, who thus benefit from the development banks' ability to identify high-impact private projects and operate in developing countries, whilst generating attractive returns; this enables them to diversify their portfolios and invest in asset classes linked to sustainable development and climate finance. For this innovation too, transaction costs were high, as it took five years to launch the ILX I fund. With a commitment of 750 million from the Dutch pension fund APG in 2022, the fund reached its 1 billion target within six months. By the summer of 2024, it had deployed \$650 million across 30 projects in 15 countries (Lewis 2024) . Following this success, a new ILX II fund was launched in 2024 with a target of \$2 to \$3 billion. This fund, which reduces the risk perceived by private investors by sharing with them the expertise of development banks—both in terms of geographical knowledge and the pursuit of impacts relating to climate change and, more generally, the SDGs—uses neither public funds nor guarantees to mobilise private investors. To set it up, however, grants were awarded to the Dutch company ILX Management BV by the German, Dutch and British governments (African Development Bank 2023) .

3.3. Mobilisation through catalysis

Development and growth require a dynamic and productive private sector: it is up to public policy to create the framework within which the private sector can mobilise. This is, in a sense, a form of ‘passive’ mobilisation, in that public policy does not act directly to involve the private sector, but rather influences the business environment: infrastructure, human capital, institutions, governance and regulation. In its typology of private sector mobilisation, the World Bank refers to this as ‘catalysed’ mobilisation¹⁴ (World Bank 2021). Intervention to correct negative externalities can be conceived within this framework. This vision is supported by growth theories, both within a neoclassical framework such as the Solow-Swan model, which highlights the importance of total factor productivity, and within the framework of endogenous growth. The World Bank’s early emphasis on public investment in infrastructure (one of the priorities in the 1950s and 1960s), then in agriculture, education and health, as well as technical assistance to improve public policies and governance, all contribute to reducing risk and increasing the returns on private investment within this logic of mobilisation, which we have termed ‘passive’, as these interventions have their own rationale that does not necessarily involve private sector investment.

(Cull et al. 2024) examine this catalytic aspect of mobilisation within a neoclassical framework, using a production function that depends on human capital, physical capital (both private and public), and a total factor productivity factor. The private sector invests when the marginal productivity of private capital covers the cost of capital and depreciation. However, the marginal productivity of capital depends on the available human and physical (private and public) capital and on total factor productivity. When public intervention (in this case, funding from multilateral development banks) acts on these factors, it can increase the marginal productivity of capital and thus encourage the private sector to invest more. The authors summarise work carried out at the World Bank using a Cobb-Douglas production function and statistics on private and public capital stocks, which finds that one dollar of investment financed by multilateral development banks can catalyse between 0.28 and 0.80 dollars of private investment in low-income countries, and between \$0.42 and \$1.20 in emerging economies¹⁵, a very modest result. This framework is admittedly indicative and focuses solely on the catalytic aspect of private capital mobilisation, and

¹⁴ The other two forms are direct mobilisation (the development bank actively seeks the involvement of private entities, which provide financing on market terms for a given project or programme) and indirect mobilisation (where the private sector decides to participate in operations financed by development banks without the latter playing a deliberate role in its involvement). In the context of so-called ‘catalysed’ mobilisation, the private sector’s involvement is not linked to specific operations of development banks.

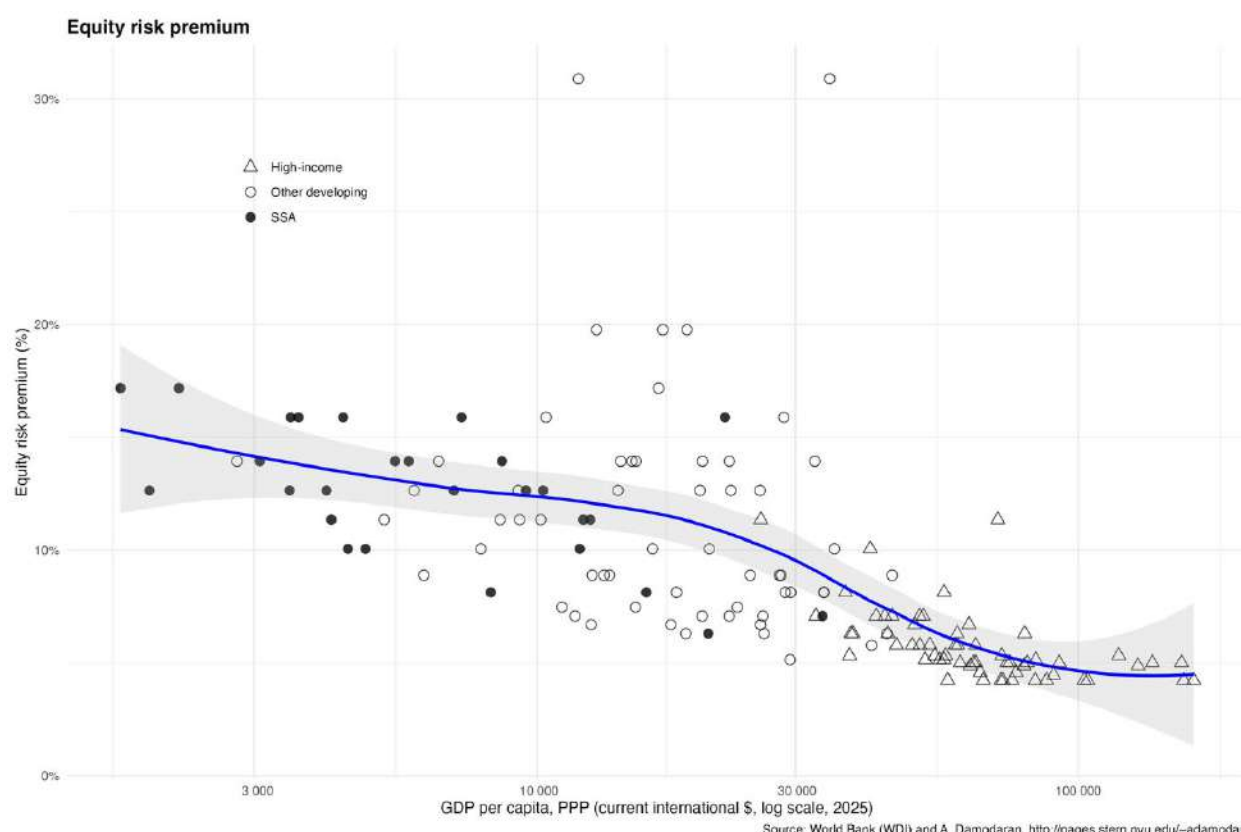
¹⁵ In the paper by Cull et al. (2024), the impact of a dollar of investment financed by multilateral institutions is proportional to the ratio of private capital to public capital, which explains why it is greater in emerging economies where this ratio is higher. The investment climate is intuitively better when private capital is abundant relative to public capital.

does not document the potential of *risk-reduction* operations; however, it gives pause for thought regarding the capacity to generate the trillions needed to achieve the SDGs and places the bulk of expectations on the other three forms of mobilisation.

3.4. Mobilisation through targeted reduction of risks and barriers to investment

The second approach, more directly linked to derisking, relates to the risks—whether real or perceived—faced by the private sector that do not fall within the scope of market risks specific to private decisions, and aims to improve risk-adjusted returns using instruments or approaches that mitigate these risks. This involves the use of public funds to mobilise private funds, which falls under *blended finance* approaches.

Figure 3: Equity risk premiums



However, these risks are particularly high in developing countries, especially the poorest among them. They result in an average cost of capital that is significantly higher than in developed countries, and is generally inversely proportional to per capita living standards (Sweerts et al. 2019). Figure 4 illustrates this phenomenon for one of the key components of the average cost of capital, namely the equity risk premium (i.e. the difference in required

return between an investment in shares and a risk-free investment)¹⁶. This graph confirms that the cost of capital differs significantly between countries and represents a major handicap in developing countries, particularly in the poorest countries, and, as the graph clearly shows, in sub-Saharan Africa (though with substantial variation suggesting the importance of country-specific factors, notably the quality of governance). The renewable energy sector is a good example: the equity costs of an investment in developing countries (UNDP 2013) account for 18% of total costs, compared with 10% in developed countries, whilst debt costs account for 10% of total costs, compared with 5% in developed countries. Overall, the costs of onshore wind power in developing countries are 40% higher than those in developed countries, whereas this gap is only 6% for gas, the difference being due to the higher capital intensity of renewable energy.

The cost of capital is one of the pitfalls of underdevelopment, as it results in high capital costs that stifle any development momentum. This suggests that the nature of the funds available is even more important than their volume: the financing gap in poor countries is primarily a shortage of equity and venture capital. As analysed by Jean-Michel Severino¹⁷, it is not the emphasis placed on the business environment, however important it may be, that will alone meet the African continent's need for entrepreneurial creation.

Several classifications are possible for identifying and categorising the risks faced by investors in developing countries. However, without this classification being exhaustive, the following categories of risk can be distinguished, which may interact with one another:

- Political and institutional risk: regime changes, government costs, conflicts; risk of expropriation and nationalisation, sudden changes in regulations, corruption, institutional failures. The Trump administration is reinforcing the geopolitical dimension of this type of risk, particularly in relation to damaged international relations, characterised by protectionism, sanctions and extraterritoriality. The resulting climate of uncertainty in 2025 and 2026 may increase risk aversion and lead investors to stick to the alternative options already available to them before considering new investments in developing countries

¹⁶ The data used is drawn from the work of Aswath Damodaran at New York University's Stern School of Business. Risk premiums are calculated in US dollars. For the United States, the risk-free rate is taken as the Treasury bill rate, minus the country's default spread (following Moody's downgrade of the US credit rating). For other countries, a risk premium is added, calculated on the basis of the sovereign default spread and adjusted for the relative volatility of equities compared to bonds. For detailed explanations, see <http://pages.stern.nyu.edu/~adamodaran>.

¹⁷ Presentation at the FERDI 20th anniversary conference in Clermont-Ferrand, 1 February 2024. See also Fatoumata Ba's presentation at this conference on the need to 'de-risk' start-ups.

- Macroeconomic risk: exchange rate volatility; inflation; debt crises; fiscal sustainability. This risk is exacerbated by the often poor quality of available data
- Financial risks: underdeveloped local financial markets; access to liquidity and hedging; information asymmetries; counterparty risks; restrictions on capital movements and the repatriation of profits; exit conditions for investments
- Legal and compliance risks: legal uncertainty; intellectual property protection; contract enforcement; non-compliance risks
- Operational risks: infrastructure deficiencies; shortage of skilled labour; vulnerability of supply chains; logistical challenges
- Environmental and social risks: vulnerability to natural disasters, climate change, social tensions, health risks
- Market risks: volatility in commodity prices, small market size, competition from the informal sector, administrative barriers to imports and exports.
- To this list must also be added the specific risk associated with technology. The high capital intensity of investments in renewable energy development, for example, makes such development much more sensitive to higher financing costs than is the case for fossil fuel plants (Calcaterra et al. 2024)

To this list, we can add reputational risks, which may be linked to the various risks mentioned above and may reinforce perceptions of them. International prudential regulations for banks and insurers also impose higher capital requirements for investments in developing countries and may deter investment in these countries. The lack of regulatory harmonisation also increases entry and compliance costs. Beyond risk management, there are therefore also regulatory challenges.

3.5. *Promoting impact investment*

Thirdly, the private sector's resources and expertise can be harnessed to generate positive externalities or produce public goods, i.e. to pursue social or environmental impacts. Regulatory policies can contribute to this, notably through transparency requirements, the consideration of economic, social and governance (ESG) factors and reporting on ESG impacts, or through the taxonomic clarification of these impacts and the introduction of labels. However, it is worth considering the contribution of public resources to encourage the private sector to generate these impacts whilst ensuring an appropriate risk/return profile. The adoption of the SDGs and the need to embark on the energy transition, combat global warming and protect biodiversity make this dimension highly topical. However, the emphasis on the volumes of funding 'mobilised' must not divert attention from what really matters in this approach, namely the scale of the social and environmental impacts thus generated in relation to the cost to the taxpayer. However, leverage on private investment is

often understood as the ratio between the private funds thus mobilised and the public funds involved. Instead, evaluation approaches should be systematised to demonstrate how public money, through the mobilisation of private funds, leads to the desired impacts.

This category may seem redundant, insofar as the theoretical framework specifies that any public intervention must aim for a social return greater than the private return, which suggests that a social impact (in the broad sense, including the environmental dimension) must be sought in return for the use of public funds to support private investment. However, there are three reasons for making this a separate category. The first relates to the focus on so-called ‘impact’ investments and the issue of global warming, which justifies examining separately the actions that contribute to this and that have to address specific barriers. The second relates to the intentional pursuit of social or environmental impact, which is not found in the previous category. The third is that the ‘social’ impacts sought may also be essentially economic in nature, whilst the barriers to private investment are, in principle, insurmountable (meaning that the investment does not fall within the logic of the previous category): (Collier 2013) thus justifies subsidising private investment in small island economies because, due to the size of their market, potential private investors will not invest there, whereas the social return on this investment justifies it (for several reasons, notably the fact that the alternative is emigration). As neither the aid donor nor the government can or should take the place of the private entrepreneur, incentives must be offered to the latter.

Many investments lie at the intersection between the need to lower barriers to private investment and the pursuit of specific environmental impacts. This is particularly the case with the energy transition, which poses specific challenges in developing countries. It also relates to the issue of pioneer investments that (Collier 2013) addresses in the context of small island economies. Private investment may prove profitable once markets have reached maturity (provided they are of sufficient size), but this is not the case initially. In the field of renewable energy, the social benefits far outweigh the private returns available to investors (Schwerhoff and Sy 2017) . However, this is a highly capital-intensive sector, requiring substantial initial investment. National capital markets are not sufficiently developed to meet capital requirements, and the credit ratings of poor countries, particularly in Africa, are not high enough to attract international investors.

Furthermore, these markets are insufficiently mature and not well known to investors. (Mazzucato 2017) notes that the traditional approach to the division of labour between the public and private sectors often overlooks the essential role of public authorities in the creation and growth of new markets. Mazzucato calls for new forms of cooperation between the public and private sectors in which derisking plays a significant role.

Identifying impacts lies at the heart of these new forms of cooperation, which go far beyond cooperation between the public and private sectors. (Deep et al. 2025) note that the climate finance available rarely allows for the funding of green infrastructure projects in developing countries. These projects indeed involve country-specific risks that go far beyond the global risks associated with climate change. The authors propose breaking down these projects analytically according to their climate or development impact, and propose an innovative financial solution: the ‘Green Swap’. Through this mechanism, climate finance would cover only the additional costs and risks associated with decarbonising the infrastructure (valued at the international cost of capital, rather than the higher local cost of capital), and would capture the project’s climate benefits. Basic infrastructure and developmental impacts would be funded through traditional development finance resources.

4. Derisking: definition and instruments

4.1. *Derisking as a form of targeted intermediation*

A broad definition of derisking, inspired by the experience of development banks, might consider that all their activities over the past decades have, in one way or another, involved improvements to the risk/return profile that fall under derisking. However, this would then lose sight of the intentionality that the term implies in terms of mobilising private finance. Yet this is a key focus of public development finance efforts, one that deserves particular and specific attention.

A strict definition of derisking might, conversely, be limited to public interventions designed to reduce or transfer the risks faced by private investors and which hinder or prevent their investment decisions. But this is not sufficient, for several reasons. On the one hand, what matters to the investor is not risk per se, but the risk-return profile. There is little logic in proposing a range of instruments limited to risk management and making this a specific concept¹⁸. On the other hand, the perception of risk probably matters more than the reality of risk. Some consider that investors have a misguided view of the risks associated with developing countries, and African countries in particular, and that they greatly overestimate these risks¹⁹. This may be for various reasons, relating to a lack of knowledge or insufficient available information, or for reasons akin to those described by Kahneman and Tversky (Kahneman and Tversky 1979) concerning the asymmetry of low-probability, high-cost

¹⁸ (Barder and Talbot 2015) also recommend subsidising returns (subject to performance conditions) rather than covering risks.

¹⁹ For example, (Fofack 2021)

situations. Attempting to bring perception closer to reality, for example by improving information, is naturally part of derisking.²⁰

It seems reasonable, however, to reserve the term ‘derisking’ for the direct and explicit mobilisation of private capital, that is, the use of financial instruments likely to encourage private investors to invest in projects or programmes in developing countries. The principle behind this intervention is to alter the risk/return profile faced by the private investor: this may involve sharing or reducing risks, but in a broad sense, derisking can also be seen to include actions by public sources which, without affecting the risk per se, guarantee a sufficient return. It is not, in fact, risk that determines private investment decisions, but the (expected) risk-adjusted return. The choice made here is therefore to include within derisking interventions designed to attract the private sector by guaranteeing it sufficient (risk-adjusted) returns. This includes, for example, the blending of public and private funds for investments where the social return exceeds the financial return, and which private investors would not be prepared to consider spontaneously.

We therefore propose defining derisking as the active intermediary role played by public development banks in projects, sets of projects or programmes in which the private sector invests. This intermediation provides a range of financial services (in the broad sense, including information, analysis—particularly regarding risk and impact—and innovations) that alters the risk/return profile perceived by private investors and thereby mobilises their participation. These services are provided within the framework of the analysis proposed above, namely the pursuit of a social return that exceeds the private return alone, in cases where the private return is insufficient to attract private investors. The perspective is therefore that of optimal resource allocation, from the point of view of social return.

To identify these various services, it is useful, as recommended by (Cull et al. 2024), to return to Robert Merton’s functional approach to financial intermediation (Merton 1995) : rather than viewing intermediation as a set of institutions enabling different actors to meet their financing needs, it is instead a matter of defining it by its economic functions and asking how best to fulfil these functions. Merton identifies six main functions performed by the financial system:

1. Providing a payment system for the exchange of goods and services

²⁰ It should be noted, however, that the conclusion that risk premiums on developing countries are excessive is often based on an examination of past performance, comparing it with returns achieved in regions considered less risky. But the risk perceived by the investor is not determined solely by past experience (especially when it comes to that of other investors), and the fear stemming either from a lack of knowledge of the regions or from uncertainty about future developments is a legitimate component of perceived risk.

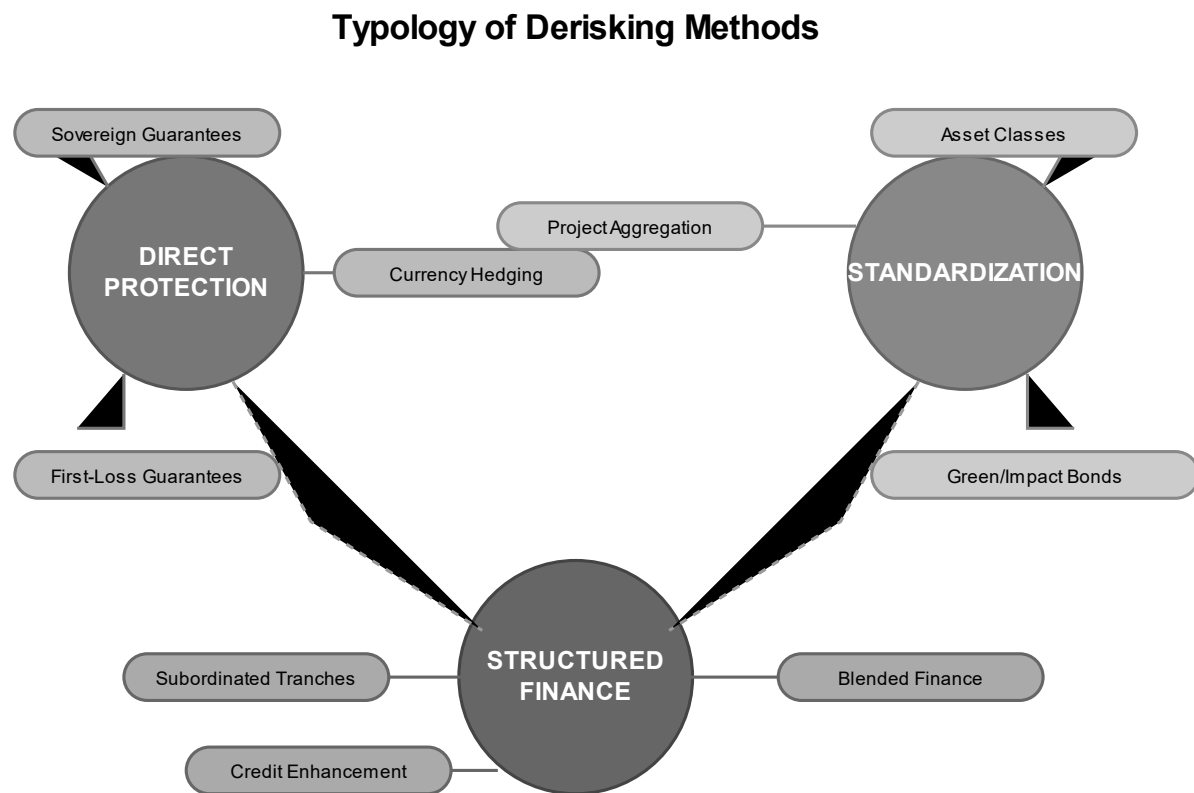
2. Providing a mechanism for pooling funds to undertake large-scale, indivisible projects
3. Providing a means of transferring economic resources across time and between different geographical regions and industries
4. Providing a means of managing uncertainty and controlling risk
5. Providing price information that helps coordinate decentralised decision-making across various sectors of the economy
6. Providing a means of addressing problems of information asymmetry and incentives when one party to a financial transaction has information that the other party does not possess

Derisking does not concern only the technical function of risk management and control (function 4). It involves all functions from 2 to 6. And it is these functions that determine the choice of instruments used to ‘mobilise the private sector’. Moreover, this concept of mobilising the private sector is not particularly meaningful: all public funds, in one way or another, come from the private sector themselves—either through borrowing or taxation. Its invocation stems from the emphasis placed primarily on volumes at the expense of the nature, objective and impacts of the actions undertaken. Derisking, rather than mere private sector mobilisation, is a form of intermediation aimed at pursuing clearly defined societal objectives. This naturally involves seeking adequate volumes, but this must not be the primary objective.

4.2. *Types of derisking instruments*

Derisking instruments can be classified into three broad functional categories, which partially overlap and can be combined (Figure 5):

Figure4 : Simplified typology of derisking methods



- Direct risk protection instruments, which include guarantees and insurance, including political risk insurance²¹.
- Structured finance approaches, which improve the risk/return profile and risk allocation: these include various mixed financing mechanisms combining public and private capital, the creation of multiple credit tranches (junior or subordinated tranches absorbing first losses, senior tranches, mezzanine tranches), and credit enhancement through partial guarantees.
- Standardisation and securitisation operations, which involve the creation of standardised asset classes (such as the concept of treating infrastructure as an asset class), the aggregation of projects or receivables into portfolios, or certain types of

²¹ We often speak of guarantees against political risk (for example, the guarantees offered by MIGA), but these are most often forms of insurance. The two terms are often used interchangeably. There are technical differences. A guarantee covers a specific risk, for a limited duration; insurance covers broader risks linked to unforeseen events. A guarantee binds the guarantor, and the guarantee service is purchased *in advance* by the beneficiary. Insurance binds the insurer, and the insured pays regular premiums to maintain cover.

bonds, such as green bonds or impact assets. Standardisation can also contribute to regulatory efficiency and risk control.

These different approaches can naturally be combined, which can lead to a myriad of financial innovations and instruments, to be used depending on the risks to be covered²².

4.3. Guarantees

Direct instruments are primarily used to protect private investors in programmes or projects against identified risks. Among these instruments, one of the best known – and recognised for its effectiveness (in mobilising private capital, relative to other instruments) – is that of guarantees (Gabarcz et al. 2021; Blended Finance Taskforce 2023). Development finance institutions only really began to use them from the 1980s onwards. A full range of guarantees now exists.

A guarantee typically involves three parties: the borrower financing a project, the investor investing in the project, and the guarantor, who covers, in full or in part, specific risks associated with the project. The investor and the borrower are bound by a financing contract; the guarantor and the borrower by an agreement allowing the guarantor to seek recourse from the borrower in the event of a claim; and the guarantor and the investor are bound by the guarantee contract.

Development finance primarily uses three types of guarantees (Blended Finance Taskforce 2023):

- Credit guarantees, credit enhancement products (which reduce credit risk) that protect the lender (either partially or fully) against non-payment of the debt;
- Political risk guarantees, which protect the investor (usually partially) against predefined political risks;
- Currency guarantees, products that hedge against currency risk. The main provider of such guarantees is the TCX fund.

Guarantees and insurance can be provided by private entities, but their cost, when it comes to financing developing countries, can be prohibitive. The main public providers of guarantees include multilateral financial institutions (the World Bank Group, development finance institutions (DFIs), regional development banks), bilateral development agencies, and export credit agencies. The main multilateral development banks have established guarantee instruments since the 1980s, notably the World Bank Group (MIGA, IDA, IFC), the

²² (Venugopal and Srivastava 2012) provide a very detailed analysis of the risks associated with low-carbon markets and the instruments and mechanisms available to mitigate these risks in order to facilitate private investment.

Inter-American Development Bank (IDB), the European Bank for Reconstruction and Development (EBRD), the Asian Development Bank, the African Development Bank (AfDB), and the European Investment Bank (EIB). Specialised guarantee funds or facilities have also been established, such as GuarantCo (2005), InfraCredit, or the African Guarantee Fund (AGF) (Gabarcz et al. 2021) .

Among these various guarantees, political risk insurance plays an important role, as the various components of this risk are generally cited as the most serious barriers hindering private investment in developing countries. In this area, the World Bank plays a key role, which is understandable given its status as a multilateral organisation, enabling both the various governments of member countries to participate in the overall risk coverage and to diversify that risk. As we have highlighted, from the very establishment of the World Bank after the Second World War, the idea of offering guarantees for private investment was part of the debates on financing reconstruction needs. The World Bank's main instrument for encouraging private capital flows (to developing or developed countries, since the Bank's Articles of Agreement make no such distinction) was to be the guarantee of 'loans or other investments made by private investors' (Article I(ii) of the Articles of Agreement) (Mason and Asher 1973) . However, the establishment of public guarantee instruments, including within the World Bank Group, took several decades. In the 1950s, plans to establish international insurance instruments administered by the World Bank were debated, but the Bank feared being caught between, on the one hand, the need to discipline its 'clients'—or even to exert pressure on them should the guarantees be triggered—and, on the other, the need to support them in their development (Mason and Asher 1973) . However, nationalisations and expropriations in several developing countries highlight the significance of the political risks faced by investors. Several projects and proposals for the establishment of political risk guarantees are under discussion. In 1968, the Pearson Commission (Pearson Commission (Commission on International Development) 1969) noted the existence in certain industrialised countries of credit insurance protecting exporting companies, and recommended (pp. 108–109) the extension of this system and the establishment of a multilateral investment insurance mechanism. Subsequent discussions initially stalled over loss sharing and administrative costs. It was not until 1988 that MIGA was established.

MIGA provides two main types of products. The 'historic' product is political risk insurance (PRI), which covers restrictions on transfers, currency inconvertibility, expropriation, war and civil unrest, and breach of contract (subject to conditions, following legal recourse).

In 2009, following the global financial crisis, MIGA introduced a second coverage product, known as 'Non-Honouring of Financial Obligations' (NHFO), a credit enhancement product that covers the risk of sovereign (or sub-sovereign, or state-owned enterprise) obligations

not being honoured, thereby protecting an investor or lender from non-payment of sums due. It provides more immediate cover than PRI and offers protection on first demand, without the need for prior legal recourse. It thus better meets the needs of investors and lenders and has enabled a substantial increase in MIGA's business.

First-loss guarantees also play a very important role in encouraging private investment, absorbing the initial losses in a portfolio.

As regards insurance against exchange rate risk, the main provider is the TCX Fund, which offers cover against this risk in markets where hedging products are not available.

4.4. Other instruments

The other categories of instruments reflect approaches rather than specific instruments. Financial structuring allows risks to be prioritised and distributed across investor categories and enables the creation of structured financing combining public and private funds (blended *finance*). It may include partial guarantees to enhance credit quality, and is most often based on risk segmentation through tranches of varying seniority. Junior debt tranches absorb the first losses, thereby protecting senior investors.

Standardisation aims to harmonise investment frameworks, enabling effective communication on risk classification (by ensuring the reliability and credibility of this classification) and securing investments for investors who have no other sources of information on the investments in question. In some respects, this approach resembles certification. For example, it enables the definition of types of impact investments (such as climate funds and green bonds).

It also makes it possible to bundle small-scale projects, offering securities that already benefit from a degree of risk diversification, based on a credible project selection process (using standardised criteria), thereby signalling reliability to investors and attracting their interest, even though they would not typically invest in the small projects themselves. This is the approach mentioned above for infrastructure or for nature conservation. This standardisation also enables and involves regulatory derisking to reduce or at least harmonise barriers to investment. This includes harmonising reporting standards, aligning with international taxonomies, and adapting prudential regulations to better incorporate the effect of public guarantees on the actual risk of investments.

It is also used to mobilise climate finance. At the Davos meeting in 2025, the director of the Morgan Chase Institute for Development Finance recommended extending this approach to development finance, defining the latter as a class of assets (Mahtafar 2025). But this is already what bonds issued by multilateral organisations or development banks in donor

countries do indirectly, with the difference that these bonds are secured against their entire portfolio.

4.5. Comparative effectiveness of instruments

Guarantees account for around 5% of multilateral development banks' operations, but 45% of their total mobilisation of private resources (Cull et al. 2024), which demonstrates the relative effectiveness of guarantee instruments. This finding is confirmed by studies from the Blended Finance Taskforce (Blended Finance Taskforce 2023) : guarantees are shown to perform better, with a potential to mobilise private finance of around 150% (1 dollar of public funding mobilises 1.5 dollars of private funds, compared with 25% for loans and equity investments, and 33% for credit lines. They are also financially efficient instruments (based on past events), as provisions for expected losses under guarantees are typically higher than actual losses by a factor of between 7 and 20.

Cull et al. (2024) highlight, however, the greater potential for mobilisation of contracts in capital markets, where forms of 'sustainable financial contracts' (bonds, green funds, voluntary carbon markets) have become important vehicles for mobilising private investment in the climate sector. The sustainable finance market is thus estimated to have exceeded \$6 trillion in 2022²³ . However, the effectiveness of this approach depends on the ability to establish robust global standards to prevent 'greenwashing'.

5. Quantitative assessment

5.1. A disappointing quantitative assessment

Despite a popular and inspiring slogan ("*from billions to trillions*"), the quantitative results have not materialised (Le Houérou and Lankes 2023) . According to the 2023 report by the Blended Finance Taskforce (Blended Finance Taskforce 2023) , multilateral development banks, for example, mobilise less than 30 cents of private capital for every dollar of public investment in climate action. Even private development finance institutions (DFIs) fare little better, rarely exceeding a ratio of 1 dollar mobilised for every dollar invested.

The international private sector's interest in investments in developing countries can also be gauged, for example, through the flows of inward foreign direct investment into these countries. Figure 6 shows how this has evolved.

²³ According to the World Bank, 27 emerging markets accounted for 2.7% of this total. Emerging and developing countries are underrepresented in global sustainable bond issuances. (The World Bank 2025)

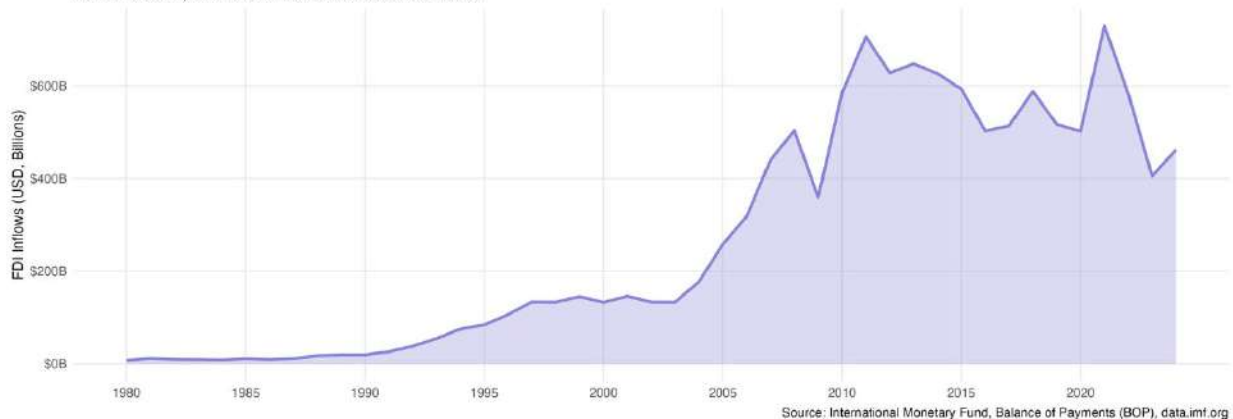
Figure 5

FDI Inflows to Developing Countries (1980-2024)

Harmonized sample of 103 countries with consistent data availability

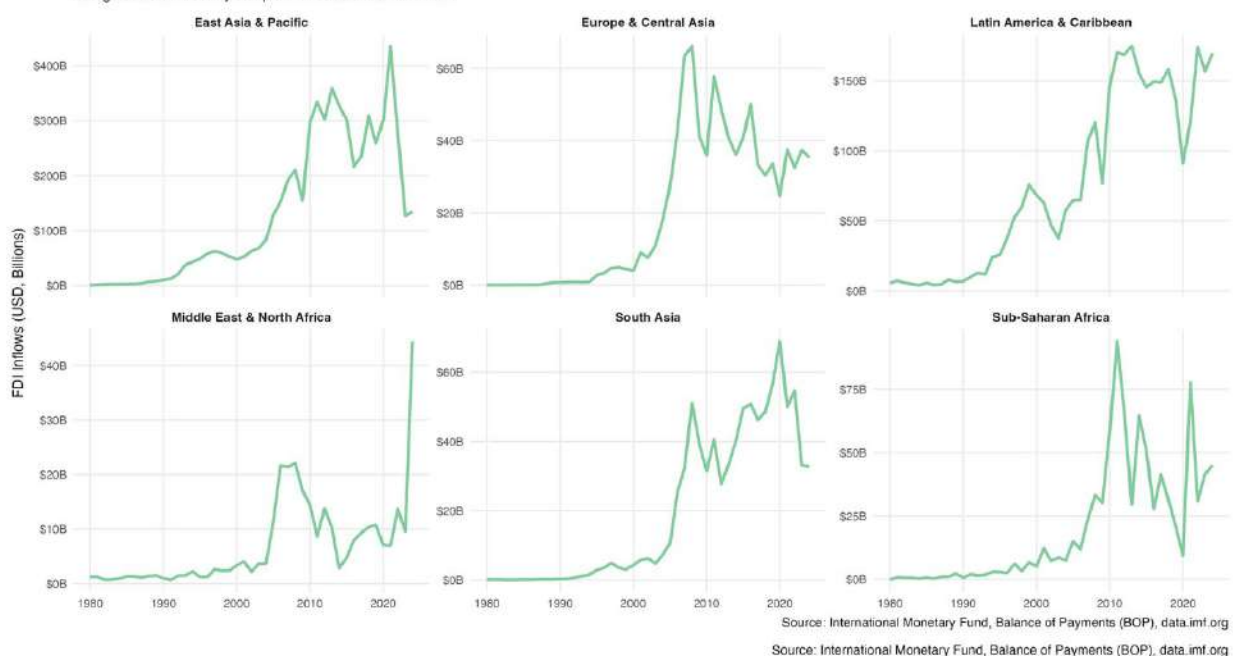
Total FDI Inflows to Developing Countries (1980-2024)

Harmonized sample of 103 countries with data available in 2024



FDI Inflows by Developing Region (1980-2024)

Using consistent country sample with data available in 2024

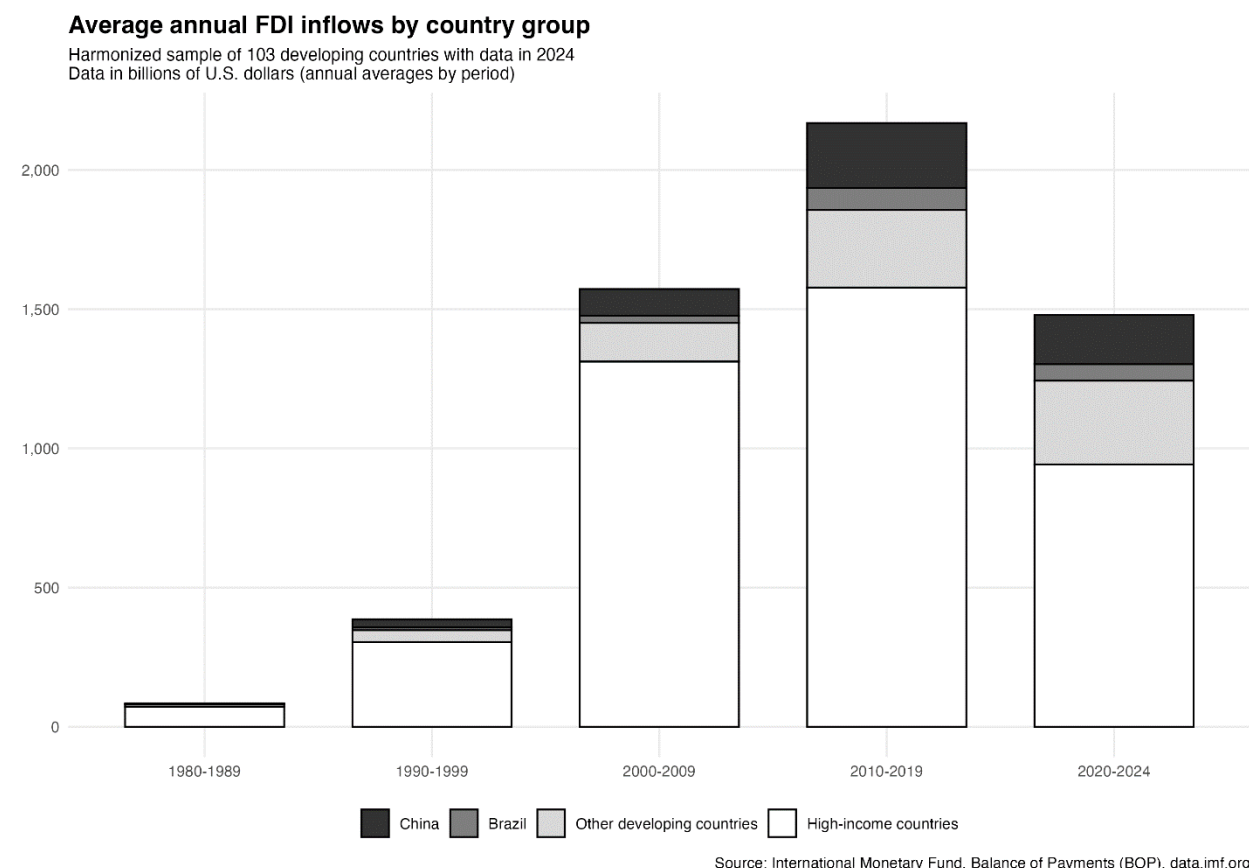


Far from increasing, these flows, across all developing regions, have—beyond significant volatility linked in particular to commodity prices—tended to stagnate or have clearly declined since the 2010s, with 2023 marking a sharp drop. They had risen sharply in the 1990s and 2000s.

Furthermore, foreign direct investment is highly concentrated in a few countries, notably China and Brazil, as shown in Figure 7. The ten leading developing-countries receiving

foreign direct investment in 2023²⁴, received more than two-thirds of all foreign direct investment destined for developing countries that year.

Figure 6



These data suggest that two related but distinct questions arise: how to mobilise the private sector for development financing in general, and how to attract it to underserved regions, particularly low-income and fragile countries. A third question, highly relevant in the context of the SDGs, climate change and the energy transition, concerns the sectoral focus of private financing – particularly towards the financing of global public goods.

The macro-financial assessment of the various initiatives and instruments – as reflected in the leverage generated – therefore falls well short of expectations.

²⁴ These are, in order (in 2023), Brazil, China, Mexico, India, Argentina, Indonesia, Vietnam, Colombia, Turkey and Egypt.

6. The limitations of the idea

Admittedly, the trillions do exist. But the idea that such volumes can be easily reallocated through derisking operations in developing countries makes no sense. Not to mention the limitations stemming from the business environment, institutions and public policies in low-income or fragile countries (since one of the objectives of derisking is also to offer solutions in these environments), four types of constraints can be identified: the macroeconomic framework, insufficient project pipelines, intermediation costs, internal obstacles within development finance agencies, and an inadequate culture of risk and impact measurement.

6.1. Low macroeconomic plausibility

This idea already seems incongruous from a macroeconomic perspective.

Table 1

Savings and investment in 2025

Region	Savings (US\$ bn)	Investment (US\$ bn)	Savings rate (%)	Investment rate (%)
China	8,345	7,616	42.5	38.8
East Asia & Pacific (excl. China)	1,015	979	27.4	26.5
South Asia	1,492	1,536	30.7	31.6
Latin America & Caribbean	1,110	1,191	17.5	18.7
Middle East & North Africa	413	439	24.6	26.1
Europe & Central Asia	705	793	25.0	28.1
Sub-Saharan Africa	368	392	16.8	17.9
Developing Country Total	13,447	12,947	32.6	31.4
High income	17,239	17,300	22.5	22.6

Source: International Monetary Fund, World Economic Outlook (data extracted in July 2026)

The table above shows, for various developing regions and for high-income countries by way of comparison, the volumes (estimates, in billions of U.S. dollars) and rates (as a percentage of GDP) of national savings and investment (gross fixed capital formation). It shows that, across all developing countries, trillions (thousands of billions) are already being invested and saved. Channelling further trillions into these countries raises at least three sets of questions. At the expense of which equally viable alternatives for private investors would these funds be released, and how? Where are the investments likely to be financed in this way? How should we manage the considerable macroeconomic repercussions that such an influx of funding would cause in developing countries (given that it is on the same scale as existing savings and investment flows), in terms of inflation, exchange rates and debt? The prospect lacks any credibility whatsoever due to the upheaval that its implementation would entail.

6.2. *Insufficiently stocked project pipelines*

The weaknesses of project pipelines are, moreover, the subject of recurring comments used to explain the relative weakness of the volumes of international private funds mobilised. The quantitative approach overlooks these difficulties. Talking about ‘needs’ to be financed and estimating them assumes that the issue of the project pipeline – that is, concrete, credible and robust means of meeting those needs – has been resolved. Yet this is not the case, and it is in fact one of the most glaring weaknesses in developing countries.

6.3. *High transaction costs*

Structuring financial products tailored to specific intermediation needs takes time and requires skills and resources. In addition to the technical assessment of projects, there is the assessment of risks and expected impacts. Negotiations between the various stakeholders then take a considerable amount of time. Finally, the contractual agreements and various partnerships must be finalised.

We cited the examples of the *Room2Run* project and the ILX fund earlier: it took nearly four years to put the *Room2Run* financial structure in place, and five years to launch the ILX fund. To scale up, many more examples are needed, enabling a better understanding of the various stages and approaches, and, if possible, formalising them to standardise suitable products and structures as much as possible. As long as the focus remains on innovation, transaction costs will remain high. This is a normal and necessary stage, but one that puts the quantitative ambitions of mobilising private finance into perspective. In a way, scale, which enables economies of scale, is necessary for quality, which puts the criticism of the volume-based approach presented here into perspective.

Transaction costs also dampen demand for such products, which appear complex and are often poorly understood.

6.4. *Internal obstacles*

Despite the recent buzz and innovations surrounding the mobilisation of private capital, several internal obstacles within multilateral development banks are hindering the development of derisking instruments. Such instruments have existed for a long time, but they are relatively underused. This is particularly the case for guarantees, despite their recognised effectiveness (Choi and Laxton 2023). Nancy Lee (Lee 2025) notes that low volumes of aid—less than 1% of the total amount of official development assistance in 2022 (i.e. \$2.5 billion)—were allocated to the establishment of blended finance. There are several reasons for this.

Firstly, the position of the shareholders of development banks (multilateral and bilateral) is sometimes ambiguous, torn between the conservatism required to maintain their credit

rating (AAA for the World Bank) and the desire to innovate and meet needs, which requires risk-taking. We have also seen that several examples of derisking approaches involved development banks offloading their risks. As Nancy Lee notes, the requirement for additionality in private sector mobilisation implies that development banks must be prepared to take on greater risks, since the private sector would not do so.

Secondly, the incentive structure generally does not encourage teams to think outside the box and take the time to innovate by seeking bespoke arrangements. Significant efforts have been made, particularly within public, bilateral and multilateral institutions for private sector financing (DFIs), and within the framework of specific approaches such as the PSW established at the World Bank. However, there remains a tension between the desire to scale up and an institutional routine that is not yet sufficiently aligned. Expertise in structuring financing is also scarce and concentrated in certain departments or subsidiaries. Not all components of development banks are aligned behind the objective of mobilising the private sector²⁵.

Thirdly, accounting rules sometimes create obstacles to scaling up. Guarantees, for example, are accounted for by those providing them in the same way as loans – even though the claims that trigger them are less frequent than loan defaults. Their use competes with loans, yet they do not provide equivalent financial resources, which acts as a disincentive to their use (Pereira Dos Santos and Kearney 2018). Furthermore, until 2023, guarantees were not counted as official development assistance (ODA) at the time of their issuance; only amounts actually drawn down could be counted as such, which did not incentivise aid agencies to provide guarantees, as this did not contribute to the ODA effort. Since 2023, ODA financing instruments have been recorded on a ‘grant equivalent’ basis, and a technical agreement has been reached on the methods for calculating the grant element included in a guarantee upon its issuance (OECD Development Co-operation Directorate 2024). This reform removes an accounting barrier to the development of guarantees, which can now contribute to ODA. However, the technical assumptions used for the calculations may still be subject to debate.

Finally, as mentioned above, prudential constraints penalise derisking innovations insofar as they do not take into account the actual reduction in risk following mitigation by derisking instruments (guarantees).

²⁵ With regard to the World Bank Group, where the IBRD, IDA, IFC and MIGA are involved in private sector mobilisation operations, see, for example, the evaluations of this mobilisation carried out by the independent evaluation group (World Bank 2021)

6.5. A culture of risk and impact needs to be established

The raison d'être of derisking is the private sector's more active participation in generating a social return that exceeds the private return. This presupposes a culture of partnership between the private and public sectors, which is still insufficient, given how common it is to pit the two against each other. It also requires a developed financial culture, to identify and analyse risks, and to organise their effective allocation to the stakeholders best placed to bear them. It also requires increased, precise and systematic attention to impacts that are not only economic and financial, but also societal, with the ability to forecast and monitor them, and a move beyond the quantitative measurement of volumes to quantitative and qualitative measures of impact²⁶. Finally, we must avoid the risk of development issues being hijacked by the interests of capital holders, which requires transparent information and decision-making, the disclosure of expected social returns and monitoring of their achievement, and sustained attention to the issue of additionality, which is difficult to measure empirically.

7. Real potential, to be developed and harnessed

It is unproductive to judge derisking on the basis of the quantitative failure of the 'from billions to trillions' slogan or by assigning it the role of bridging a funding gap (Lee 2017; Cull et al. 2024). Although the volume of funding appears very limited compared to the targets set (the 'trillions'), development finance institutions, both multilateral and bilateral, have succeeded in mobilising private finance using a variety of risk mitigation instruments, and in generating social impacts from private investment.

7.1. Mobilisation works

Many recent examples confirm the feasibility and value of mobilising private finance. This is particularly the case for renewable energy projects in developing countries, where we have highlighted the significant risks deterring investment and the benefits of derisking. For example, interventions by the Foreign, Commonwealth & Development Office (FCDO) in the Democratic Republic of the Congo have helped to develop the renewable energy market by reducing investment risks (Oxford Policy Management 2020). We can also mention the derisking facility implemented by the UNDP, UNIDO and UNCDF as part of integrated financing for sustainable energy in Madagascar, to combat increasing dependence on fossil

²⁶ The Global Partnership for Effective Development Co-operation (GPEDC) conducted a study of 919 development projects involving public donors and the private sector in four developing countries for the period 2017–2018. This study found that only 17% of the projects examined included a project-specific monitoring framework, that only 4% of the projects served rural, underserved or remote areas, and that 4% of them aimed to benefit women, and 5% to serve the poorest populations (GPEDC 2019).

fuels (UNDP 2024). This facility provides access to concessional loans, guarantees and performance-based grants for small and medium-sized private enterprises that are ready to invest but constrained by access to financial resources. Private sector financing appears essential to increase investment in renewable energy. The challenge of derisking lies in designing a portfolio of public policy instruments capable of cost-effectively mobilising private investment (UNDP 2013) .

7.2. A new public/private paradigm

Derisking works when unrealistic and irrelevant quantitative targets are replaced by substantive and development-oriented targets (Mazzucato 2017) . These objectives must be defined based on the expected societal return: they are environmental and social impact objectives, which can be formulated on the basis of the SDGs, adopted unanimously by the United Nations General Assembly. They must be specified for each operation involving derisking. Impact measurement plays a vital role, both in specifying how each operation can achieve a particular objective and in testing innovative approaches and learning how to design projects in which both the private and public sectors have a role to play.

Just as the quantitative approach is wholly insufficient to justify derisking, it is not intended to save public funds either. Many of the SDGs require significant public investment, which cannot be replaced by private funding.

But the derisking approach goes far beyond this. It can be interpreted as a new phase in understanding the respective roles of the state and the private sector in the economy. It involves moving from an approach essentially governed by the idea of the division of labour and the allocation of roles—typical of a liberal capitalism in need of renewal— to a much more partnership-based approach, which recognises that every investment , whether private or public, has an economic and social impact; which invests in understanding this impact; which understands that private actors seek financial returns; which precisely maps the risks of private investments across different regions; and which builds the public-private relationship to maximise social returns. This is therefore a promising and fruitful approach, to which the slogan ‘from billions to trillions’ does not do justice because it obscures its potential behind an illusory quantitative façade. It is, in a sense, a matter of establishing a new public-private partnership based not on the financial risk/return profile, but on the social risk/return profile.

This vision of derisking renews public policy beyond the correction of market failures. It is also, as in the case of renewable energy, about creating and growing new markets that will produce goods with high social returns and serve as a basis for new private investment. In the same vein, Mazzucato (2017) proposes the implementation of a ‘mission-oriented innovation policy’, in which the public and private sectors cooperate on ambitious joint

projects that contribute to the public good. The ‘mission’ here is the result of shared visions, developed by public and private actors (and civil society), regarding the creation of social wealth and how to share the resulting risks and value.

Some, for example (Gabor 2023; Gabor and Sylla 2023) , fear that the establishment of such a ‘derisking state’²⁷ will define a state-capital relationship in which the interests of capital dominate (including in the definition of social goods) and that derisking will not sufficiently discipline capital, with the conditions imposed by the state to guarantee profitability ultimately being diluted²⁸ . Others (Bayliss et al. 2020) also object that the use of development aid resources to mitigate risks and contribute to the profitability of private investments may prioritise the perspectives of private investors at the expense of development outcomes, and may also lead to the use of public funds for the benefit of private shareholders at the expense of developing sectors and regions where these funds would be more needed. These are serious arguments – once stripped of their obvious ideological connotations. They confirm that derisking approaches require significant efforts in terms of design, preparation, definition of the social objectives pursued, transparency and debate. But one could also argue that the current situation is hardly any more conducive to social returns (including social welfare, the environment and the climate). This is a reason to continue down the path of derisking, without treating it as a panacea.

8. Conclusion

To conclude this discussion, we summarise the key messages:

1. Derisking, conceived as the engineering of intermediation between public development finance institutions and private investors, is a useful and necessary approach to increasing the social return on public and private funds. The clear failure of the ‘from billions to trillions’ slogan in terms of the private funds mobilised is not a failure of derisking, but rather of setting targets for communication purposes without any realistic basis. The aim is certainly to mobilise the largest possible volumes of private funds with the smallest possible public contribution (leverage), but setting unrealistic targets is counterproductive and undermines the very essence of the idea.

²⁷ (Gabor and Sylla 2023) refer to “Derisking Developmentalism” to denounce a paradigm that plays into the hands of capital holders, based on a critique of the Namibian initiative (in 2022) to create a public fund to support investment in green hydrogen.

²⁸ Geographer Emma Mawdsley goes further (and considers that derisking represents a new stage, moving beyond the private-sector-led approach to development towards the financialisation of development at the expense of a deeper understanding of it, noting that aid donors are pursuing the derisking strategy without concern for the threats posed by this trend towards financialisation (Mawdsley 2028).

2. Indeed, its value is not solely a matter of quantity, and it is unproductive to declare it a failure simply because the volumes of private funds mobilised fall far short of the targets. The value of derisking is defined by the additional societal impact it generates compared to the use of public funds alone. Much work is still needed to formalise and standardise the definition and measurement of this impact, to make derisking a fruitful approach that renews the practice of development aid. The SDGs provide a prescriptive and statistical framework for better understanding economic and social objectives.
3. Derisking represents a new conception and practice of complementarity between the public and private sectors, based on the relationship between social return and private return. The growing prominence of the issue of global public goods, as well as increasing concern over questions of inequality and the distribution of the fruits of economic growth, are creating the conditions for greater attention to be paid to the social returns of both private and public decisions, which reinforces the relevance of derisking.
4. Derisking involves analysing the risks and barriers that prevent private decisions from pursuing the best social return, and combining financial and regulatory instruments to mitigate these risks or barriers. The choice between these instruments and their combination depends on the nature of the problem to be addressed. Regulatory derisking also determines the effectiveness of derisking. It involves the revision of international prudential standards to take account of the risk mitigation enabled by derisking, the harmonisation of regulatory frameworks across countries, and the development of common standards (particularly for impact investments).
5. Several recent examples demonstrate the potential of derisking. The progress of this approach, however, requires greater cooperation between multilateral and bilateral development banks and the alignment of incentives within these banks. Derisking, as a form of financial intermediation engineering, consumes resources in terms of time and qualified, competent staff.
6. Among the derisking instruments commonly used, guarantees are recognised as the most effective for mobilising private investors. Yet they remain under-utilised in the portfolios of development finance institutions. It is important to better understand why this is the case and to promote their use.
7. One of the priorities in developing countries is to reduce the cost of capital for private investors. This is one of the areas where derisking can make a significant contribution.
8. Finally, implementing derisking in accordance with these principles requires discussions between the various public and private stakeholders, and an open and transparent development process, as one of the key objectives is to improve societal

impacts. Perhaps we should consider institutionalising the objective of derisking, by entrusting a specific body—comprising public representatives and private investors—with the task of developing it along these lines. As a first step, it would be useful to examine how existing institutions and initiatives, such as the GPEDC or the Blended Finance Taskforce, could better fulfil this mission.

Beyond the irrelevant quantitative logic, derisking could form the basis of a new partnership paradigm between the public and private sectors, in the pursuit of social returns. This is an ambitious and demanding agenda. Unfortunately, global geopolitical turmoil, the erosion of the values of openness and humanism that (albeit imperfectly) underpinned the multilateral world order, and the decline in funding flows available for international objectives make its realisation seem utopian. This utopia is worth fighting for.

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