EU Sustainable Finance Legislation: Joint statement by European DFI

November 2025

Joint Statement

EDFI strongly supports the creation of a harmonised, fit-for-purpose, and globally interoperable EU sustainable finance framework. Such a framework should serve the ambition of 'Global Europe', as formulated through the Global Gateway (GG) strategy, and in the draft proposals for the next Multiannual Financial Framework (MFF). This approach would enhance transparency, unlock capital, strengthen the EU's global leadership and competitiveness while unleashing sustainable development and investment opportunities in developing countries, ultimately advancing the EU's geostrategic and sustainability agenda.

This position is grounded in a clear rationale that can be grouped into three core dimensions: (i) fundamental principles guiding our EDFI commitment, (ii) practical benefits to financial systems and investors, and (iii) the strategic advantages that reinforce Europe's global leadership.

Sustainability as a fundamental strategic principle.

The priority remains on people and planet with financial returns as a condition for long-term sustainability - this is essential in addressing climate risks and building resilient economies and societies where people live and work. Sustainability is best embraced as a strategic imperative, beyond political battles. This is not a shift in direction for European DFIs: sustainability has always defined our mandate, guiding our alignment with the SDGs and Paris Agreement and our commitment to the highest environmental, social, and human-rights standards.

Practical benefits to the financial system, including to investors.

Fit-for purpose sustainable finance framework will contribute to closing the SDG financing gap through mobilizing public and private finance to achieve the goals of the Paris Agreement, as well as green and social finance goals. Such a system will thus aim for global interoperability of frameworks defining "sustainable investments" through e.g. taxonomies, thereby avoiding market fragmentation and spurring private financial sector mobilization.

It will, moreover, improve transparency and accountability through proportionate, standardised sustainability reporting, not as a compliance and mere reporting exercise, but as a tool to track commitments, assess delivery, and inform strategic decision-making of DFIs and the broader Global Gateway agenda. Reporting should enable institutions to rethink, measure, and adjust business models and strategies and to redirect capital toward sustainable economic activities.

Finally, fit-for-purpose and predictable rules enhance operational efficiency and investor confidence by reducing fragmentation, harmonising disclosure requirements lowering compliance costs and providing the clarity needed to attract long-term sustainable investment.

Strategic advantages under Global Gateway and the next MFF

Beyond the Sustainable Finance regulatory agenda, DFIs are main delivery agents within the broader EU external investment framework - namely the Global Gateway (GG) and the European Financial Architecture for Development (EFAD). The GG sets the EU strategic direction for external investments in key DFI investment sectors. The Multiannual Financial Framework (MFF), the EU long-term budget, is the GG financial backbone, providing grants, guarantees, blended finance, and investment instruments like the European Fund for Sustainable Development+ (EFSD+). To maximise impact including through DFI's mobilisation of private financial actors regulated under EU Sustainable Finance legislation, these three pillars - strategy (GG), budget (MFF), and regulation (EU SF legislation) - must be coherent and mutually reinforcing.

DFIs play a key role in supporting partner countries' sustainable transitions and in particular of their private sector - mobilising finance, sharing expertise, and fostering innovation. By aligning operations with global standards and local priorities, they help inspire and guide pathways toward inclusive, climate-resilient, and coherent development. At the same time, DFIs contribute to enhancing EU competitiveness and its sustainable footprint by strengthening European supply chains and helping European suppliers meet the highest environmental and social standards, promoting a level playing field for European businesses and positioning the EU as a leading partner in sustainable investment globally. A fit for purpose sustainable finance framework will strengthen EU global leadership and competitiveness by aligning its regulatory, financial, and strategic instruments behind a common external investment agenda.

European DFI are well positioned to support this transformation. With strong national government backing, active presence in Emerging Markets and Developing Economies (EMDEs), and vast global networks, EDFI bridges public policy goals and private capital. Together with European and global partners, the EDFI stand ready to help develop a sustainable finance framework that delivers on many fronts: globally interoperable, ambitious, and practical. The EDFI play a three-fold role to catalyse finance at scale, support market development, and direct resources where they are most needed.

Policy Recommendations

1. Ensure strategic coherence across the EU's external investment toolkit

Align the EU sustainable finance rules with the EU's main external investment agenda (i.e. Global Gateway strategy) and budgetary framework (MFF) to ensure a unified and effective policy framework. Only through this coherence can the European Union deliver on its external action objectives, mobilise capital at scale, and drive sustainable, resilient development in emerging and developing economies. Please see **Annex I** for more information.

2. Adapt Sustainable Finance regulation to emerging markets and developing economies' contexts

Ensure that EU Sustainable Finance legislation, such as SFDR, EU Taxonomy, CSRD and others, are adapted to reflect the mandates and operating models of DFIs, and the specific challenges of investing in EMDE and of the private sector operating in these countries. These include divergent transition pathways, limited data availability, and local legal frameworks that differ from EU legislation frequently referenced as a baseline in the EU Taxonomy. Current requirements often presume a developed market context, creating barriers to implementation and limiting the true impact of development finance. A more proportionate and context-sensitive approach - including clearer provisions for interoperability and transition finance - is essential to ensure that the regulatory framework helps, not hinders, sustainable investment and transformation in EMDE. Please see **Annex II and Annex III** for more information.

3. Build in DFI dialogue within EU sustainable finance policy crafting process

Create a formal and regular mechanism for engaging EDFI and other key actors investing in emerging markets to ensure that EU sustainable finance rules reflect operational realities on the ground. We stand ready to work with like-minded practitioners and policymakers - across the European Commission and beyond - to promote greater join-up in three areas: sustainable finance regulation, the EU external investment agenda, and its broader climate and development goals. Such an approach ensures that sustainable finance policy supports, rather than constrains, impact-driven investment in developing economies.

4. Support SF implementation through MFF-backed capacity building

Leverage the EU Multiannual Financial Framework (MFF) to strengthen the capacity of European DFI and their investees - particularly in EMDE - to meet sustainability reporting and impact measurement requirements. Technical assistance (TA), advisory support, and grant-based resources should be mobilised to build local capabilities, improve data quality, and support alignment with evolving EU rules. This includes supporting the development of local sustainable finance taxonomies and disclosure systems, where relevant, to promote interoperability with EU standards. In parallel, MFF-backed TA should reinforce local financial ecosystems - including support for local banks, SMEs, and capital-market institutions - to build pipelines of bankable projects and enable sustainable finance to scale in EMDEs. Targeted MFF-backed support will be essential to make compliance feasible, scalable, and impactful in challenging markets.

Annexes

Annex I. Sustainable Finance legislation, Global Gateway and Multiannual Financial Framework

EDFI recognizes the need for better alignment between the EU Multiannual Financial Framework (MFF), the Global Gateway strategy (GG), and the sustainable finance regulatory framework (SF) as a key factor in unlocking the EU's development finance potential, and sets out the following recommendations:

- **Further enhance structured inter-DG coordination:** MFF, GG and SF are being developed by different directorates of the EC: DG BUDG (MFF), DG INTPA/DG TRADE /DG GROW/EEAS (GG), and DG FISMA (SF regulations)**.** To avoid silos and ensure coherence and consistency a coordination between the DGs is crucial to ensure the SF regulatory framework accounts for the objectives and realities of Global Gateway investments and the financial tools made available by the EFAD and within the MFF. Integrate DFIs through the dialogue – please refer to Policy Recommendation 3.
- **Align impact indicators across budgetary and regulatory frameworks:** Future reporting under the MFF will be guided by the Performance Regulation, which links financed projects to horizontal priorities- such as environmental and climate objectives - and measures their outcomes through defined performance indicators. Similarly, the current EFSD+ framework ReMF (Results Measurement Framework) requires reporting on impact indicators. These indicators are not fully aligned with the EU Sustainable Finance framework, creating duplication and inconsistencies. Aligning these indicators would streamline reporting, enhance data comparability, and strengthen the coherence and effectiveness of EU development finance.
    - Horizontal priorities, such as **environmental and climate objectives**, are defined inconsistently across EU budgetary and regulatory frameworks. EDFIs call for **greater alignment and clarity** between these definitions, including where they differ from EU Sustainable Finance concepts such as the EU Taxonomy. At the same time, this alignment must respect the Paris Agreement principle of *Common but Differentiated Responsibilities and Respective Capabilities,* which acknowledges that while all countries are responsible for addressing climate change, they have different capabilities and responsibilities based on their individual circumstances. EMDEs will follow different transition pathways and timelines. Therefore, mechanically applying EU-internal sustainability definitions and expectations to external action risks undermining development objectives and limiting EU investor participation. A **coherent but flexible approach is needed to reflect partner-country realities while ensuring strategic consistency across EU instruments**.
    - Horizontal principles include Do No Significant Harm (DNSH) principle. Definition used in the Performance Regulation is not aligned with the DNSH criteria of the EU Taxonomy. EDFIs call for greater consistency or flexibility, including the possibility for mutual recognition ("fungibility") between frameworks - to avoid duplicative assessments, ensure coherent implementation consistency and proportionality in EU external action.

- **Ensure EU sustainable finance rules support private capital mobilisation into EMDEs:** To maximise the impact of Global Gateway, the MFF and the EU Sustainable Finance framework must work together to support the mobilisation of private capital - particularly from EU institutional investors who are regulated under EU Sustainable Finance legislation. DFIs act as a critical bridge between EU policy objectives and private investment into EMDEs, but regulatory misalignment can hinder our ability to mobilise European private capital at scale. Ensuring coherence between strategy (Global Gateway), budget instruments (MFF/EFSD+) and regulation (EU Sustainable Finance) is therefore essential to unlock the EU's full development finance potential and strengthen Europe's competitive positioning internationally.
- **Ensure the Global Gateway Investment Hub is enabled by EMDE-fit sustainable finance rules:** A strong pipeline alone does not deliver investment. The Global Gateway Investment Hub can generate bankable projects, and DFIs stand ready to deploy capital - but without EU Sustainable Finance rules that work in EMDE contexts, EU investors cannot follow. This risks creating visibility without scalability: projects are prepared, DFIs commit, yet EU private capital remains *regulated out*, local firms face disproportionate compliance demands, and other global actors step in. Ensuring the Hub is paired with an EMDE-fit, interoperable EU sustainable finance framework will turn pipelines into investments, accelerate deployment, reduce transaction costs, and reinforce Europe's competitiveness and strategic credibility in partner countries.
- **Address fragmentation of the external investment architecture:** The future Global Gateway Investment Hub currently refers only to DG INTPA regions, without encompassing DG NEAR, DG MENA, or DG ENEST. This fragmentation risks undermining strategic coherence and weakens the EU's ability to deliver a unified and impactful external investment approach. Expanding the Hub's scope and ensuring coordination across all relevant DGs would enhance efficiency, alignment, and the overall effectiveness of EU external investments.

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Annex II. Sustainable Finance Disclosure Regulation (SFDR)

EDFI welcomes the SFDR as a cornerstone for transparency and greenwashing prevention. Building on existing reporting practices and anticipating the Q4 2025 SFDR review, EDFI members set out the following areas of support and recommendations to ensure the framework remains fit for purpose in EMDE contexts:

- **EDFI recommends to remove entity level PAIs (Principal Adverse Impacts) reporting:** Support only product level reporting for EMDE investors to reduce the amount of resources needed for SFDR reporting. Increased cost of entity level reporting hinders urgently needed investment in EMDEs. In addition, the broad variety of products at an entity level hinders transparency efforts needed to mobilise private capital.
- **EDFI supports the introduction of a structured product categorisation scheme**: As highlighted in the 2024 EDFI Mapping Report, clear product categorisation, would allow for consistent definitions and communication of sustainability profile of investment products. We appreciate the Platform on Sustainable Finance's (PSF) proposal[1] of defined categories, in particular we recognise the value of the two following categories: 'Sustainable', and 'Transition'. We also see merit in ESA's proposal[2] to develop a sustainability indicator, which avoids using potentially time-limited category labels.
- **EDFI recommends flexibility over strictly linking 'Sustainable Investment' (SI) definition to the EU Taxonomy**: EDFI supports maintaining the current SFDR Article 2(17)[3] flexibility in the definition of 'Sustainable Investment', rather than linking it strictly to the **EU Taxonomy, which is not yet fully fit for purpose for EMDE investors - please refer to Annex III** for further details. This broader approach allows DFIs to use credible, transparent methodologies to demonstrate sustainability outcomes, while recognising that the EU Taxonomy requires adaptation to better reflect EMDE-specific conditions in the future.
- **EDFI recommends flexibility in applying the 'Transition' category criteria:** the 'Transition' category remains crucial for EDFIs operating in EMDEs, where early-stage investments may have higher emissions but are essential for long-term real-economy transitions. While the PSF report proposes three criteria: (i) alignment with the EU Taxonomy, (ii) linkage to EU climate benchmarks, and (iii) credible transition plans or science-based targets, EDFI recommends a broader definition to allow for all credible transition pathways. EDFIs suggest not linking the category to i) the EU Taxonomy until this framework is adapted and fit for

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[1] Categorisation of products under the SFDR: Proposal of the Platform on Sustainable Finance

[2] JC 2024 06 Joint ESAs Opinion on the assessment of the Sustainable Finance Disclosure Regulation (SFDR)

[3] Art 2(17): '*sustainable investment' means an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance*;

EMDE contexts, ii) EU benchmarks, iii) science-based transition plans. This would enable a more comprehensive support for the transition, allowing investment to flow toward those at early transition stages who may not yet have formal transition plans. A broader transition category would also reflect the specific circumstances of emerging markets and developing economies, including limitations in data availability, regulatory development, and technology readiness.

Annex III. Omnibus, EU Taxonomy and the Corporate Sustainability Reporting Directive (CSRD)

Sustainability Omnibus Uncertainty

EDFIs recognise the effort for simplification of the sustainable finance legislation and seek to ensure that the EU Sustainable Finance framework evolves in a way that acknowledges the specific role, constraints and added value of DFIs in delivering the EU sustainability agenda.

- **Ensure predictability and clarity of law:** Legal ambiguity undermines predictability, complicates compliance planning, and delays decisions that depend on a stable and coherent regulatory environment. Uncertainty remains high regarding sustainable finance legislation because of the ongoing Omnibus discussions. As of November 2025, DFIs still lack final clarity on who will fall within scope of the legislation.
- **A fit for purpose legislation for EMDE investors**: please see amendment suggestions in the following sections of this annex.

EU Taxonomy

EDFI recognizes the EU Taxonomy as an important tool for driving sustainable investment and supporting the EU's external finance agenda. To ensure the framework is fit for purpose in EMDE contexts, EDFI members set out the following recommendations:

- **Adjust the Green Asset Ratio (GAR) to include EMDE investments:** the EU Taxonomy GAR calculations primarily reflect EU-based activities, which limits the applicability and relevance for DFIs operating globally. The Omnibus proposal aims to address the previous asymmetry by removing non-CSRD exposures (i.e. EMDE exposures of DFIs) from the denominator. While the Omnibus introduces the possibility for non-CSRD entities to be included in GAR calculations if they report voluntarily - a positive development - voluntary reporting by EMDE investees is expected to remain limited in the near term. As a result, a large share of DFI EMDE exposures may continue to fall outside the mandatory GAR. To ensure that these exposures can be appropriately reflected in GAR reporting, further work is needed to develop practical pathways for assessing non-EU investments against EU Taxonomy criteria (see bullet point below). Adjusting the GAR alongside enabling practical application of EU Taxonomy criteria to EMDE contexts would provide a more accurate reflection of sustainable finance outcomes and incentivise sustainable investment in emerging markets. See below selected case studies:

FMO Case Study: GAR

Due to the challenges posed to DFIs operating outside of the EU in applying the GAR, FMO, the Dutch Entrepreneurial Development Bank, reported in its 2024 Annual Report a GAR of zero percent. This is despite FMO investing over €1 billion in green projects—with over 2'130 ktCO2e in avoided GHG emissions—in the same year. FMO raises money from investors to channel private capital into

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sustainable projects in developing countries. The current GAR calculation misrepresents FMO activities and may negatively impact the mobilisation of private finance for these regions.

- **Review and adapt TSC, DNSH, and MSS for EMDE relevance:** current Technical Screening Criteria (TSC), Do No Significant Harm (DNSH), and Minimum Social Safeguards (MSS) requirements may not fully account for EMDE realities, including data availability, regulatory context, or technology readiness. Also, the criteria are often EU-centric and strongly rely on linkages to EU laws. EDFI recommends reviewing and adapting these criteria to ensure they are meaningful, achievable and globally interoperable. More specifically:
    - EDFIs call for **interoperability** between EU Sustainable Finance regulation and other international standards such as **MDB common principles** and **International Finance Corporation (IFC) Performance Standards** (IFC PS). Interoperability would enhance investor confidence and facilitate the mobilization of blended finance by aligning sustainability criteria globally, while reducing duplication of reporting and due diligence requirements. It also simplifies co-financing with multilateral and bilateral partners and helps prevent regulatory fragmentation, ultimately fostering a more coherent and efficient global sustainable finance architecture.
    - **Interoperability** shall be ensured between DNSH and MSS and globally recognized, international standards such as a.o. the IFC PS. DFIs commonly apply them for monitoring and managing ESG risks in EMDE operations. The **ongoing review of the IFC PS** offers a timely opportunity for the EU to promote interoperability, enabling coherent and practical application across jurisdictions.

Standards commonly used by DFIs and impact investors
The below standards pre-date the European sustainable finance regulations, are widely used, and were developed specifically for international application:
1) IFC Performance Standards on Environmental and Social Sustainability
2) Common Principles for Climate Mitigation Finance Tracking
3) UN Guiding Principles on Business and Human Rights

These and other related standards represent a valuable resource that could be leveraged to apply the EU Taxonomy in countries without a domestic equivalent. In certain cases, as with the IFC Performance Standards, the standards are already incorporated by reference into the European regulatory framework.

- **Develop a Transition GAR to recognise credible transition activities:** early-stage investments in EMDEs may not yet meet full Taxonomy criteria but are essential for long-term decarbonisation. A dedicated Transition GAR would recognise activities with credible transition plans, supporting the scaling of climate-aligned investments while acknowledging EMDE-specific challenges.

DEG Case Study: Transition-related commitments
Rather than merely supporting companies that are already climate leaders, DFIs view their mission as being to promote the transition of their investees to better environmental practices.
For example, DEG, the German DFI, in its Impact Climate Commitments 2024, identifies three commitments "which form the backbone of our business", namely: impact, climate change and transformation.
DEG notes that it understands transformation as "supporting our clients on their own transformative journeys towards positive impact and more climate resilience".

- **Extend eligible activities under the EU Taxonomy** – to cover for other sectors, such as a.o. agriculture, which have a transformative role to play in the sustainable transition in EMDEs.

FMO investment eligibility: Earlier in 2024, FMO, the Dutch DFI, approved a USD 15 million investment in Camimex, a Vietnamese shrimp producer that sources organic shrimp from over 1,200 smallholder farms, directly employing approximately 1,100 people. FMO's funding will support Camimex to strengthen the climate adaptation and resiliency of shrimp farmers and sequester carbon through increasing mangrove coverage. This sustainable aquaculture investment, however, cannot be considered either eligible or aligned under the current Taxonomy framework.

Corporate Sustainability Reporting Directive (CSRD)

EDFI recognises the CSRD and ESRS as important frameworks for improving sustainability transparency and accountability across value chains. To ensure their relevance and practicality in the development finance context, EDFI members put forward the following recommendations:

- **Further strengthen fit for purpose for FIs and EMDEs:** European DFIs recognise that the current ESRS framework does not yet fully reflect the unique characteristics and complexities of financial institutions—particularly those active in emerging and developing economies. As a result, EDFI is committed to ongoing collaboration, both internally and with EU institutions and other stakeholders, to help shape sector-specific reporting standards that are more appropriately aligned with the realities of financial actors, development finance institutions, and investment contexts in EMDEs.
- **Apply the proportionality principle and ensure alignment with data availability:** Reporting expectations for companies in lower-income markets should reflect local data availability, capacity constraints, and feasibility. EDFIs therefore call for proportionate reporting requirements for EMDE exposures, ensuring meaningful disclosures while avoiding undue administrative burden. Proportionate approaches would allow reasonable efforts in disclosure while recognising practical limitations in these markets.