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EDFI Position Paper on the SFDR Review

April 2026

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1. Introduction

EDFI policy 'asks'

- **Globally Applicable Framework:** SFDR 2.0 must be designed to function in EMDE markets, with alternative eligibility routes and interoperability with international standards.
- **Flexible, Noncumulative Criteria:** Eligibility must remain based on noncumulative, pragmatic routes to avoid excluding high impact EMDE investments due to EU centric requirements.
- **Use of Proceeds (UoP):** UoP rules must clearly apply to all relevant instruments and support credible transition finance while maintaining coherence across Articles 7 and 9.
- **Grandfathering:** Clear, operational grandfathering rules for existing closed-ended funds are essential to ensure continuity, avoid unintended reclassification, and support a smooth transition.
- **Product-Level PAIs:** A focused, materiality-driven PAI set is needed to ensure usability, comparability and alignment with global practices in EMDE markets.
- **EMDE Working Group:** A dedicated EMDE Working Group is needed to ensure Level-2 rules and future revisions are informed by EMDE operational realities.

EDFI, responsible finance, and SFDR

This position paper outlines (i) the elements European Development Finance Institutions (EDFI) who comprise the EDFI Association support and (ii) the key adjustments required to ensure SFDR 2.0 truly becomes a practical, globally applicable and transition-enabling framework capable of supporting high-impact investment in EMDE markets.

The EDFI position is formed by their mission and mandate: mobilise capital to advance sustainable development in emerging and developing economies (EMDEs), where financing needs and market conditions differ substantially from those in Europe. Together, the 15 EDFI manage an aggregate portfolio of almost €60 billion, of which 31% is dedicated to climate finance, reflecting a rapidly expanding commitment to climate-aligned investment in EMDE markets.

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EU sustainable finance legislation – including the Sustainable Finance Disclosure Regulation (SFDR) – plays an important role in strengthening transparency, reducing greenwashing, and helping direct capital towards sustainable economic activities.

However, the current framework does not sufficiently accommodate the operational realities of investors operating in global and EMDE markets, where methodologies, data and regulatory structures differ materially from those assumed in the European Union. EDFI have long engaged with the EU sustainable finance agenda and consistently advocated for a framework that is effective, usable, and globally relevant. EDFI therefore welcome the European Commission review of the SFDR (“SFDR 2.0”) and support its aims for simplification, improved usability, and enhanced clarity – while emphasising that ambition and integrity must be preserved.

2. What We support

EDFI welcome Commission efforts to **simplify the SFDR**, as the current framework is widely recognised among EU institutions, supervisors, and market participants as complex, operationally burdensome, and as is recognised by industry feedback to be challenging to apply for investors operating in EMDE markets. In this context, we welcome, among others, the removal of entity level PAI reporting and the shift toward relevant, decision useful PAIs at product level, an aspect on which we offer more detailed recommendations in Section 3.5 below. At the same time, simplification must not dilute the core ambition of the SFDR: to strengthen transparency, establish a credible and comparable disclosure regime, enhance sustainability reporting and support the redirection of capital toward sustainable and transition aligned economic activities. EDFI fully support this ambition in line with the recommendations set out in our recent [Joint statement on the EU Sustainable Finance Legislation](#).

Against this backdrop, EDFI welcome the introduction of a **clear and usable categorisation regime**. A dedicated **transition** category is particularly important, provided it genuinely supports real economy decarbonisation and “brown to green” trajectories in EMDE contexts, where transition pathways differ significantly from those of EU economies. In this respect, we reiterate our 2025 recommendation that transition products should not be narrowly defined only by EU specific frameworks and should instead allow for context-appropriate transition pathways or criteria in diverse markets, consistent with our call in Section 3.1 for a globally applicable, non-

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EU centric framework. European DFI also support the creation of **impact- oriented subcategories** that reflect the development impact dimension central to EDFI mandates. EDFI also welcome the inclusion in the Article 9 Sustainable category of an eligibility route for investments benefiting from a **Union budgetary guarantee** – an important recognition of EU external financing instruments such as **EFSD+**, which play a central role in mobilising sustainable investment in EMDE markets.

Finally, the categorisation system must remain pragmatic, globally interoperable and underpinned by **flexible yet internationally recognised and credible eligibility routes** – consistent with our call in Section 3.2 for a flexible and pragmatic criteria structure. It must function not only for EU-based products, but also for investors mobilising capital for investments in emerging and developing economies. This is essential for achieving shared global sustainability goals and avoiding a framework that inadvertently constrains high-impact investment where it is most urgently needed.

3. EDFI Main Calls for Clarification, Adjustments

1. Globally applicable framework

EDFI emphasise that for SFDR 2.0 to be effective and usable, it must be designed as a **globally workable and fit-for-purpose framework**. In its current drafting, several requirements across all three categories of products, remain EU-centric (e.g. EU Taxonomy, EU ESG ratings, EUGBS criteria). Those requirements rely on methodologies, tools, and datasets often unavailable or unsuitable in EMDE markets. This creates structural barriers which risk excluding high-impact investments and undermining sustainable development objectives in regions where capital is most needed. EDFI therefore call on the EU policymakers to:

(i) **revise and adjust EU Taxonomy (EUT)** to make it workable for EMDE markets – building on EDFI’s feedback submitted in December 2025 and the ongoing revisions of the EUT criteria under the third mandate of Platform on Sustainable Finance.

(ii) **ensure interoperability** between EU and EMDE taxonomies, including recognition of credible transition-oriented classification systems.

(iii) maintain the use of EUT and EUGBS for EU-based products, while **providing alternative eligibility routes** for EU investors operating in EMDEs to avoid

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overreliance on EU-specific frameworks and datasets (as further detailed in Section 3.2 below); and

(iv) for **bond-type instruments, recognise internationally used frameworks** such as the ICMA Green Bond Principles as well as internationally recognised MDB sustainable bond frameworks (e.g., World Bank, IFC, EBRD, AfDB) as equally reliable routes to demonstrate environmental integrity and robust use of proceeds structures. In this context, we **welcome the flexibility reflected in the current SFDR drafting**. In particular, the alternative eligibility routes in Articles 9(2)(e) and (g) and 7(2)(c), (g) and (h) play a crucial role in ensuring that high-impact EMDE investments can continue to meet the Sustainable and Transition category criteria.

EDFI support the need to leverage international conventions and standards such as the **UN Global Compact, UN Guiding Principles on Business and Human Rights, or OECD Guidelines for Multinational Enterprises¹ exclusions considerations**. To ensure consistent and practical implementation, European DFI encourage the Commission to provide clear guidance on how violations of those conventions should be assessed in practice – this includes expectations for screening, engagement, remediation, and potential exit processes. At the same time, minimum safeguards must **remain interoperable** with other widely used international frameworks, in particular the **IFC Performance Standards**, which serve as the operational backbone for many development finance institutions as well as other investors in EMDE markets and are undergoing review.

For the Article 7 Transition category in particular, SFDR must also recognise that **transition contexts and starting point in EMDE** economies differ from those of EU Member States. While EDFI fully support Paris-aligned criteria, in line with our own [Paris Alignment commitment](#), it is essential to distinguish the EU Climate Law's 2050 trajectory – binding only for the EU – from the Paris Agreement framework. Under the latter, EMDEs set their own nationally determined contributions (NDCs) and follow **differentiated, context-appropriate transition pathways** and timelines. SFDR 2.0 should therefore enable Paris-aligned criteria and transition pathways that reflect EMDE realities and remain consistent with the **EU external objectives under Global Gateway and EFSD+**.

¹ As an OECD instrument, adherence to the relevant declaration is structurally skewed toward developed countries; this nuance should be recognised without limiting global applicability

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A globally applicable framework is essential not only for EDFI mandates but also for ensuring that the EU sustainable finance architecture reinforces, rather than restricts, the **mobilisation of private capital** in the Global South. An overly EU-centric approach would risk undermining Global Gateway objectives by deterring investment in EMDEs, where EU-specific taxonomies and datasets are often unavailable. Such a scenario would reduce private capital mobilisation precisely in regions where impact and additionality are greatest, weakening European capacity to crowd-in private finance for sustainable development and climate action globally. Such an outcome would thus move directly against the objectives of SDG 17 Partnership for the Goals, strengthen the means of implementation and revitalise the Global Partnership for Sustainable Development.

2. Flexible, non-cumulative approach to criteria

Building on these considerations, EDFI strongly support maintaining a **flexible, non-cumulative** (*“any of the following”; “any or a combination of the following”*) approach to eligibility criteria within all SFDR categories for what concerns Financial Market Participants which operate predominantly in EMDE countries. A cumulative structure would be unworkable for investors in EMDE markets, where data availability is limited and as outlined in Section 3.1, many of the referenced criteria are inherently EU-centric (e.g. EU Taxonomy, EU ESG ratings, EUGBS related requirements). Under a cumulative model, EDFI investments would fail not because of insufficient sustainability ambition, but simply because the required methodologies, frameworks, tools, and datasets do not exist in EMDEs.

This flexibility proves particularly important given that across the proposed Article 7 (Transition), Article 8 (ESG basics) and Article 9 (Sustainable) categories, eligibility is rightly structured around multiple alternative routes. Those routes include credible transition plans, engagement strategies, Union budgetary guarantees backed investment or programmes pursuing environmental or social objectives, or justified approaches – rather than rigid cumulative requirements. There is an essential need to preserve this structure to enable transition-aligned and additionality-rich investments in EMDEs, particularly in carbon-intensive sectors where finance is most needed to deliver real-economy decarbonisation.

Meantime, flexibility must be **supported by clear and market-credible guardrails** to avoid greenwashing, strengthen eligibility criteria robustness for sustainable and transition products, and support consistent application across eligibility routes. EDFI

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therefore recommend **clarifying broad and open-ended terms – including “other justified approaches”** – with a structured set of parameters for use and disclosure, to ensure consistent interpretation while preserving the adaptability needed for global, context-appropriate implementation.

A **non-cumulative, pragmatic criteria** structure, proves central to ensuring SFDR 2.0 does not inadvertently limit investment in EMDEs and remains aligned with EU broader objectives around sustainable finance, development policy, and Global Gateway.

3. Use of Proceeds: clarity, scope, coherence

EDFI welcome the introduction of Use of Proceeds (UoP) as an important element of SFDR 2.0 and **support attributed (use-based) reporting**. To ensure UoP genuinely enables transition and sustainable finance in EMDEs, the approach must be designed to reflect how development finance institutions, structure and deliver real-economy transition investments, particularly in capital-expenditure (capex)-heavy sectors where financing needs are highest. This is especially relevant for the Article 7 Transition category, where ringfenced, transition-oriented capex is precisely the type of investment EDFI provide to support credible “brown to green” trajectories, even where investees are not yet fully aligned with green performance benchmarks.

Further clarity and alignment are required, however, to ensure that UoP mechanisms function effectively and consistently, namely:

- **Scope of instruments:** The legislation should explicitly clarify that UoP treatment applies not only to bonds, but also to loans, guarantees, credit lines, blended-finance instruments, and others, where the underlying financing structure allows for clear attribution, ring-fencing, or earmarking of eligible investment. In this regard “*instruments issued by*” should be replaced by “***facilities provided or instruments issued by***”. Leaving this unclear, risks fragmenting the market and unintentionally excluding mainstream development-finance instruments.
- **Legal coherence:** The UoP carve-out in Article 7 should be aligned with the more practicable formulation in Article 9. Misaligned wording inadvertently penalises Article 7 products, increases interpretational risk and complicates supervision.

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- **Alignment with transition finance:** UoP rules must enable, not hinder, credible transition finance. It is essential to maintain consistent application of UoP carveouts and fossil fuel exclusions to ensure transition-aligned capex is recognised appropriately. EDFI support robust fossil fuel exclusions reflected in the [EDFI Fossil Fuel Exclusion List](#). European DFI also underline that UoP is key to distinguishing prohibited fossil activities from legitimate transition investments. UoP should reinforce these exclusions while allowing EDFI members to back Paris aligned transitions in EMDEs.

Clear, coherent and inclusive UoP rules are essential for ensuring that SFDR 2.0 supports the types of real-economy, high-additionality investments EDFI specialise in, particularly in sectors and geographies where transition finance needs are most acute.

4. Grandfathering: ensuring clarity and continuity

Grandfathering forms an important consideration for EDFI, particularly for closed-ended funds whose investment periods have lapsed and for which reclassification under the new regime would be impractical, while its non-applicability to open-ended funds seems generally acceptable. While SFDR 2.0 currently addresses this only in Preamble (26), allowing existing products closed to new investors to opt out of the revised Regulation, EDFI recommend that policymakers clarify and, where appropriate, elevate this provision into the core legislative text.

Clear and operational grandfathering rules are essential to avoid unintended reclassification of established vehicles and to ensure a smooth transition, especially as implementation timelines remain under discussion. EDFI also note that the current approach, which does not extend grandfathering to open-ended funds, is generally acceptable for our portfolios.

5. Product level PAI indicators (Principal Adverse Impacts): relevance, materiality, complementarity

EDFI welcome the Commission proposal to remove entity – level PAI reporting and **focus instead on relevant, decision-useful indicators at product level**. At the same time, EDFI support preserving simple narrative, entity-level disclosure – without reintroducing entity-level indicator reporting – on the policies and processes investors use to identify, prioritise and mitigate adverse impacts.

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To be effective in EMDE markets, the PAI framework must be grounded in a materiality-based approach, ensuring that indicators are meaningful, feasible to report on, and aligned with global practices. EDFI therefore support **retaining a core set of mandatory PAIs** – such as GHG emissions (PAI 1), carbon footprint (PAI 2) and board gender diversity (PAI 13) – which are already systematically collected across DFI portfolios.

At the same time, several PAIs are either not universally relevant, not feasible to report on in EMDE contexts, or only applicable to specific sectors, and should either **be made optional or subject to a clear materiality filter**. Examples include:

- non-renewable energy production/consumption (PAI 5) and energy consumption intensity (PAI 6), which are meaningful only in high-emitting sectors;
- emissions to water (PAI 8), hazardous waste (PAI 9), and biodiversity-sensitive areas (PAI 7), where definitions are not internationally aligned and data availability is low across diversified financial portfolios; and
- indicators such as the unadjusted gender pay gap (PAI 12), for which reliable data are typically unavailable in EMDEs.

A calibrated, sector-specific approach is therefore essential to avoid generating irrelevant, incomparable or misleading disclosures.

Furthermore, PAIs related to responsible business conduct – such as violations of the UN Global Compact or OECD Guidelines (PAI 10) – should not rely on investor judgement. As mentioned in Section 3.1. above, EDFI recommend that the Commission **anchor such assessments in authoritative public lists or recognised public third-party sources**, ensuring consistency and avoiding subjective determinations. This approach should remain **complementary to minimum safeguards and exclusion frameworks**, including fossil-fuel exclusions, thereby maintaining coherence across the SFDR architecture.

EDFI therefore encourage the EU policy makers to: (i) define a **set of key and mandatory PAIs** that are globally usable and aligned with international practices²; (ii) allow **additional PAIs** to be applied based on sectoral materiality; and (iii) ensure that PAIs operate in **full complementarity with minimum exclusions**. A product-level, materiality-driven PAI framework will improve the usability of SFDR 2.0,

² Such as MDB common principle for Climate, 2X principles, UN women, etc.

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strengthen comparability, and ensure that sustainability reporting remains meaningful, proportionate and workable for investments in EMDE markets.

6. EMDE Working Group: strengthening EMDE-relevant implementation

To ensure that SFDR 2.0 is meaningfully applicable in emerging and developing markets, EDFI recommend establishing a dedicated **EMDE Working Group** bringing together the European Commission, European DFI and other relevant bodies and practitioners with on the ground experience. This builds directly on the **EDFI November 2025 Joint Statement** and aligns with calls from other EMDE-focused investors and stakeholders for structured engagement with policymakers.

Such a mechanism would ensure that Level 2 measures and future revisions are **informed by EMDE operational realities and reinforce coherence** between sustainable finance rules, the EU external investment agenda, and its broader climate and development objectives – ensuring EU policy supports, rather than constrains, high-impact investment in developing economies.

It would mirror existing EU advisory structures on the EU Taxonomy such as the [Platform on Sustainable Finance](#) and complement international coordination through the [International Platform on Sustainable Finance](#) (IPSF), where EDFI is also an observer; and it would build on the EU [High-Level Expert Group on scaling sustainable finance in low and middle income countries](#) – an initiative in which EDFI participated as observers and which issued a series of reports in 2024 – demonstrating the value of structured EMDE-focused expertise.

4. Conclusion:

SFDR 2.0 provides a rare opportunity to build a more coherent and globally workable framework for sustainable finance. With targeted adjustments – **ensuring global applicability, flexible criteria, coherent UoP rules, clear grandfathering, proportionate PAIs, and the establishment of an EMDE Working Group** – SFDR 2.0 can better support high-impact investment in emerging and developing economies.

EDFI stand ready to work with EU policymakers to help shape a framework that is ambitious, practical, and capable of delivering meaningful impact in the Global South.