World Economy Brief

July 3, 2026 | Vol. 16 No. 18 | ISSN 2233-9140

Mobilizing Private Investment: Time for Development Finance in Korea

Jione JUNG Senior Research Fellow, Center for International Development Research (jjung@kiep.go.kr)

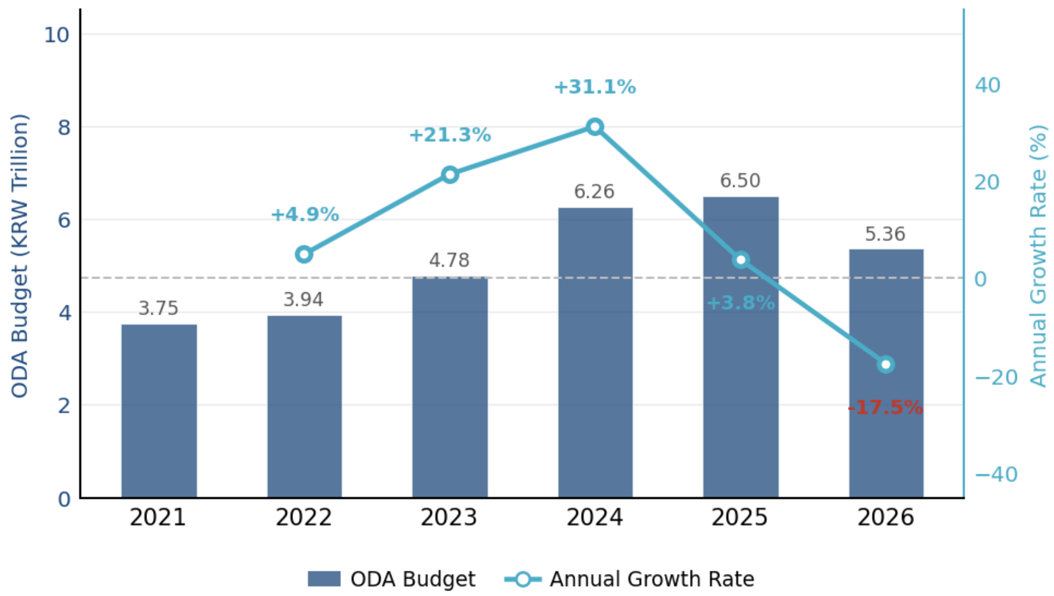
I. Introduction

The gap between supply and demand for financial resources to achieve the Sustainable Development Goals (SDGs) has widened progressively over the past decade due to compounding climate, geopolitical, and economic crises. According to the OECD's *Global Outlook on Financing for Sustainable Development 2025*, the annual SDG financing gap in developing countries has expanded significantly over time—starting at USD 2.5 trillion in 2015, rising to USD 3.5 trillion in 2020, and surging to USD 4.0 trillion today.

As traditional official development assistance (ODA) alone is insufficient to address this escalating shortfall, there is growing emphasis on the importance of mobilizing private finance, with public finance playing a key role in facilitating such mobilization. Recognizing this shift, major developed countries have been encouraging private sector participation through development finance institutions (DFI).

In this global context, Korea must establish a strategy to expand financial resources to continuously support developing countries. Korea's ODA budget has grown sharply in recent years, exceeding KRW 6 trillion in 2025. However, the 2026 ODA budget stands at approximately KRW 5.3 trillion, a decrease of about KRW 1.2 trillion from the previous year (Figure 1). Korea's ODA as a share of GNI remains at 0.21%, still below the OECD Development Assistance Committee (DAC) member average of 0.33%.

Figure 1. Korea's ODA Budget and Annual Growth Rate (2021-2026)



Source: Based on documents from the Office for Government Policy Coordination (2025) and the Ministry of Economy and Finance (2025)

Jung et al. (2025) explored strategies for securing financial resources for Korea's international development cooperation. The study reviewed the discussions in the DAC and analyzed the OECD data on mobilized private finance (MPF) and private sector instruments (PSI) and their characteristics. This study also reviews the characteristics of bilateral DFIs including BII, DEG, FMO, FinDev, and DFC by analyzing annual reports. This brief presents major findings from the study and policy implications for Korea as it considers establishing a facility or institution specialized for development finance.

II. Trends

1. OECD DAC Discussions

DAC defines blended finance as "the strategic use of development finance to mobilize additional resources for sustainable development in developing countries," and continues to publish guidelines containing policy considerations for mobilizing private resources. The Principles of Blended Finance (2017), the Guidance for Implementing the Blended Finance Principles (2021), and the Revised Guidance (2025) were published in sequence. The Five Principles consist of: (i) development purpose, (ii) mobilization of private finance, (iii) consideration of local context, (iv) effective partnerships, and (v) monitoring. Accordingly, development finance must also be implemented in alignment with these core principles and guidelines.

While the Total Official Support for Sustainable Development (TOSSD) [1] broadly measures all official resources for the SDGs, the PSI indicator measures DAC member countries' efforts to mobilize private finance. Following the 2016 decision to report PSI under ODA, DAC finalized reporting standards in 2023 after prolonged discussions. Loans, equity, and guarantee amounts to private sector are converted into ODA grant equivalents. The DAC members' reporting officially started from 2023, and the data is accessible through the OECD Data Explorer Creditor Reporting System (CRS) database.

At the 54th DAC High-Level Meeting in 2025, member countries reaffirmed the importance of ODA as a catalyst for sustainable and inclusive development investment and the importance of resource diversification. The roles of DFIs and expanded cooperation with MDBs were emphasized, and a "Scaling Mobilisation Implementation Plan" was set to be established.

2. Statistics: PSI and MPF

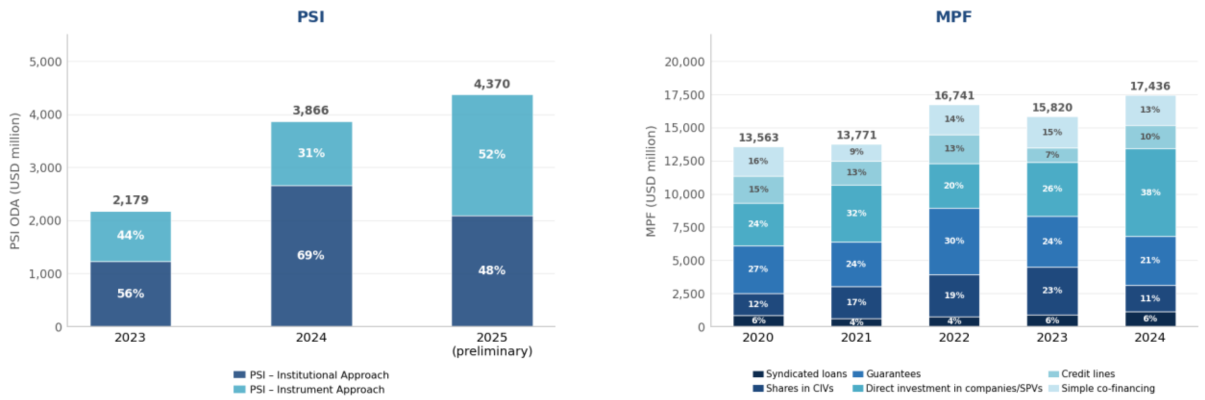
PSI, reported on a provisional basis until 2018, has been subject to new standards since 2023—including grant equivalent, cash flow, and additionality reporting—with 17 countries completing reporting in 2024. The volume of PSI ODA was USD 1.4 billion (Figure 2), which accounts for just 2.4% of bilateral ODA[2] among DAC members. The top PSI providing countries are UK, Germany, Canada, Japan, Norway, and France, accounting for more than 80% of the total volume.

The CRS dataset provides information on amounts mobilized from the private sector from members' official sector intervention. Mobilized private finance (MPF) through public resources has grown continuously, reaching USD 17.4 billion in 2024 (Figure 2). Guarantees and equity investments- including both direct investments and shares in collective investment vehicles (CIV)-are the most widely used instruments. For the US and Japan, guarantees dominate; for the UK, direct equity; for Germany, CIV investments; for France, credit lines. Data limitations restrict the ability to determine the exact leverage ratio of private finance mobilized by public interventions.

1 Initiated following the 2015 Addis Ababa Action Agenda, TOSSD serves as a global framework encompassing both DAC and non-DAC actors, and was recognized as an SDG indicator 17.3 data source by the UN in 2022.

2 In 2024, the total volume of bilateral ODA by DAC member countries was USD 163.4 billion dollars (grant equivalent).

Figure 2. DAC Members' Privates Sector Instrument and Mobilized Private Finance



Source: Author's visualization based on OECD Data Explorer, 'DAC1: Flows by provider' and 'CRS-Private: Mobilized private finance for development', respectively.

3. Development Finance Institutions

DFIs are public-sector institutions that contribute to driving economic, social, and environmental change by investing in the private sector—businesses, banks, and projects—in less developed countries. Their defining characteristic is willingness to take on greater risks than the private sector to support businesses and sectors where significant development impact is anticipated. Through proactive management of investment risks, DFIs create a sustainable private investment environment in the international development space. Most DFIs raise their own funds and reinvest investment returns, while also sometimes receiving additional capital injections from governments.

Major DFIs as public institutions are accountable to domestic taxpayers and have diverse portfolio compositions. The UK has publicly set a target return rate of 2% adjusted for risk tolerance. In 2024, loans generally accounted for the largest share across institutions. DFI fundraising through bond issuance can be a key mechanism for mobilizing private capital to address the global development finance gap. In 2021, France's Proparco and the Netherlands' FMO have raised funds from capital markets.

III. Policy Implications

Korea's engagement in PSI stands at an early stage, with its only reported volume amounting to approximately USD 13 million through Korea Eximbank in 2024. Furthermore, Korea has not utilized risk-sharing instruments in mobilizing private finance beyond simple parallel co-financing, remaining heavily reliant on traditional, risk-averse aid modalities. To transition from traditional aid to strategic investment, Korea must fundamentally restructure its development finance architecture across four critical policy imperatives.

1. Alignment with Foreign Policy

DFIs should be recognized not merely as implementing agencies but as key actors in executing national strategy. Major countries include international development cooperation as a key pillar in national foreign policy documents addressing national security and regional cooperation, reflecting foreign policy direction in international development cooperation strategies with DFIs as core actors in execution.

2. Financial Independence and Sustainability

To attain internationally recognized DFI status, newly established vehicles must reduce fiscal dependency. Major DFIs diversify their funding mechanisms. They issue bonds and leverage government-guaranteed borrowings on top of stable government equity. This ensures both operational flexibility and financial independence.

It is important for Korea to consider a phased approach:

- Early Stage: Secure external creditworthiness through government equity contributions.
- Transitional Period: Support growing operations via additional capital injections or borrowings from the government.
- Long Term: Establish a self-sustaining structure driven by direct bond issuance or fund management.

3. Risk Tolerance

The focus should be on sustainable resource management and risk distribution rather than high returns, managing risk by combining diverse instruments such as loans, equity investments, and guarantees. The objective of PSI is not to pursue high returns at the level of commercial banks, but to achieve development cooperation goals using a medium-risk, medium-return model that ensures resource recyclability and sustainability. The 2024 DAC Peer Review of Korea recommended political leadership on risk-taking by the government and public institutions. Rather than perceiving the uncertainty in developing country investment as vague risk, sophisticated analytical frameworks are needed.

4. Investment, Not Aid

Drawing on DAC member countries' experience, it is necessary to invest in areas with strong private sector linkages and to diversify financial instruments. Loans, equity investments, and guarantees are becoming core PSI instruments, with diverse methods such as CIV participation and syndicated loans increasingly utilized. Investment areas should diversify beyond social infrastructure to include digital infrastructure, business and banking, and production/industry, differentiating from existing ODA support targets.

Collaboration with the private sector through diverse financial instruments presents new challenges, necessitating strengthened expertise through knowledge-sharing partnerships with various overseas development finance actors. Co-investment with other DFIs should be leveraged as a collaboration channel, but domestic legal and institutional foundations for PSI operations and securing a private participation ecosystem must be established first to enable participation in international forums.