

Building a collaborative recovery

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Collaboration among European DFIs has continued to grow during the pandemic and has helped these institutions achieve their investment objectives based on complementary expertise, networks and capacities. This approach also represents an important example for the mobilisation of private co- finance, which will be crucial to achieving the SDGs and objectives of the Paris Climate Agreement.

The Covid-19 pandemic has generally been the cause of separation. This has applied to families, friends and colleagues. We have all had to learn the phrase “social distancing” and to practice a great deal more of it than we would like. This separation has also marked the reality among staff, clients and partners of European development finance institutions (DFIs) for most of the past two years. The pandemic has been the cause of togetherness as well, however, particularly where it has presented challenges that are insurmountable for a single individual, or a single institution. This has been the experience of the European DFIs, where colleagues in home offices from Lisbon to Helsinki have found it valuable - and reassuring - to work together in unprecedented ways. This collaboration has been a response to factors that, in many cases, predate the pandemic and will continue after it ends, though the disruption of the pandemic provided added impetus for new approaches and innovation. In this way, the experience of the European DFIs - a collaborative association that will be 30 years old this year and which has grown steadily both in terms of membership and annual investment - will be common to others in the private sector development and impact investing communities, and the example of what has been achieved (and what lies ahead) may be instructive.

COLLABORATION BEFORE AND DURING THE CRISIS

Prior to the onset of the Covid-19 pandemic, DFIs already faced challenges to their prevailing

business models. The regulatory environment in which DFIs operate has become increasingly complex and rules-based, occasionally in ways that do not take into account the unique circumstances of DFIs and their clients in the private sector in low and middle-income countries. The Sustainable Finance agenda, and the EU Taxonomy, in particular, will impact development finance in a manner that is still unfolding and presents challenges as investors become subject to rules that are often written for advanced economies. DFIs will strive to overcome these impediments to operating in their target markets over the coming years. Simultaneously, DFIs are being called on to demonstrate the alignment of their business practices with the UN Sustainable Development Goals (SDGs) and the Paris Agreement, and the public's expectation that DFIs will play a central role in delivering on the response to climate change and the ambitions of COP26. These challenges have been both strategic and operational for DFIs, relevant to how they do business but also to how they conceptualise their mission as publicly backed, impact-focused investors. The pandemic itself also brought new challenges, including impediments to travel that have limited DFI's ability to form new business relationships and conduct due diligence, a shift towards remote working, challenges in monitoring and delivering impact without face-to-face interactions with investees, along with the effects of the pandemic on profitability, among others. As for so many, perhaps the greatest challenge has been the high level of uncertainty for both clients and DFIs, which has complicated efforts to respond.

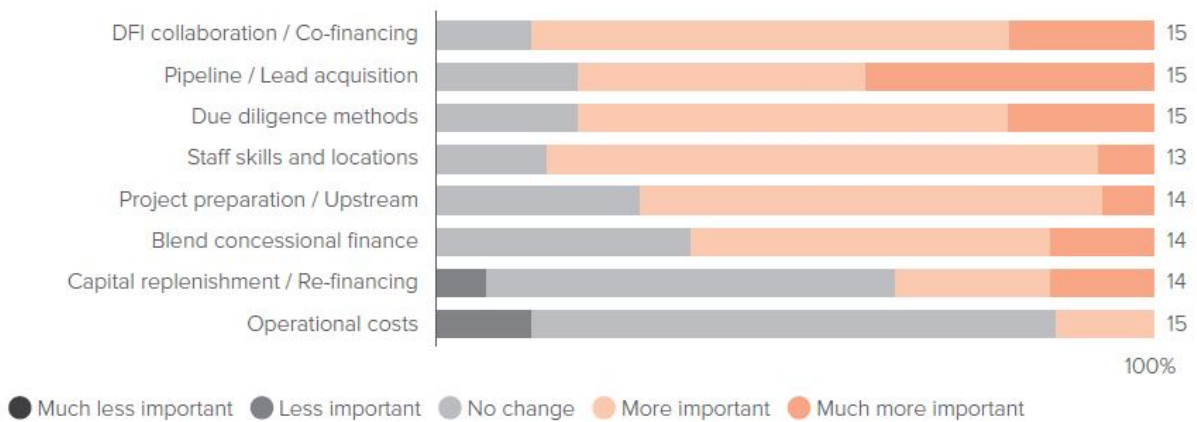
This collaboration has been a response to factors that, in many cases, predate the pandemic and will continue after it ends, though the disruption of the pandemic provided added impetus for new approaches and innovation.

Collaboration was already a major feature of the pre-pandemic DFI landscape. "Co-investment" among the European DFIs already accounted for approximately 50% of total investment commitments (with two or more member institutions financing the same client). This percentage has grown steadily because of the benefits co-investment offers in terms of increased efficiency, scale, shared experience, and diversification. Co-investment has been most pronounced in the financing of financial intermediaries (funds and banks) and in infrastructure project finance, but it has also helped boost capacities to grow financing in other sectors. In responding to the challenges outlined above, DFIs have demonstrated the continued relevance of collaboration and have enhanced their ways of working together, such as by creating a dedicated task force bringing together the chief investment officers of institutions in the EDFI and DFI Alliance networks to discuss the investment-related impact of the crisis on their institutions, their approach to supporting clients and staff, and principles for working together amid these new challenges. EDFI also continued its work on harmonisation, in particular in relation to climate matters, developing a shared methodology to align DFIs' investment projects and portfolios with the objectives of the Paris Agreement¹. New partnerships were also built and expanded with private institutional investors through the Climate Finance Leadership Initiative (CFLI)² and initiatives such as the Global Energy Alliance for People and Planet³. In each case, rather than hunkering down and focusing narrowly on their own institutions in response to external challenges, European DFIs have recognised the need to face the challenges collectively and to lay the foundation for more cooperation going forward. These collaborative efforts have helped ensure a strong recovery in investment activity and client performance. Following a decline of 18% due to Covid-19 in 2020, EDFI members' investment activity recovered fully to pre-pandemic levels in 2021 with record levels in Africa and in priority impact themes of climate, gender-lens and SMEs. These results were also helped by a step-up in technical assistance and collaboration with donor agencies on blended finance solutions.

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Figure: Survey results showing EDFI members' pandemic changed priorities ▼



THE FUTURE OF DFI COLLABORATION

In a recent survey (see figure), more European DFIs identified increased collaboration and co-financing as having become “more important” or “much more important” since the onset of the pandemic than any other issue. One aspect of this discussion is how the pressures and shifting expectations described above are affecting a change in the role of DFIs. Increasingly, DFIs are focused on supplementing their investment support of clients with expertise and technical assistance, and on de-risking private sector investment with blended concessional finance. As European DFIs seek to navigate these changes, they are exploring new forms of collaboration that could ease this process, including implementing high standards, facilitating greater reliance among institutions, avoiding duplication for DFIs and clients, and delivering different forms of value-added support to clients. Emerging priorities for DFI collaboration include:

- *Deepening Harmonisation* - Working together to harmonise impact measurement approaches and reporting requests made to direct clients and financial intermediaries, thereby reducing client burdens and increasing. Additionally, engaging at an industry level to promote wider convergence in impact measurement and reporting.
- *Process Innovation* - Developing new forms of operational coordination - such as shared tools, systems and capacities - that will help to streamline investment processes and thereby enhance co-financing for DFIs as well as
- *Joint Facilities* - Continuing to promote and strengthen joint financing facilities, including the co-financing facility European Financing Partners (EFP) and the market development and guarantee facilities delivered by the EDFI Management Company in a “Team Europe” partnership with the EU institutions
- *Promoting Collaboration at all Levels* - Continuing to fuel DFI collaboration by valuing partnership and a culture of joint work among investment and other staff, as well as acceptance from the institutions’ boards and shareholders

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EDFI members

The 15 EDFI members are focused on the development of private sector enterprises and operate in developing countries and emerging economies. They are mandated by their governments to contribute to the SDGs by creating jobs, boosting growth, fighting poverty and climate change.





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Importantly, this effort will not be limited to EDFI member institutions. As has been demonstrated by the increased engagement with the U.S. International Development Finance Corporation (DFC), FinDev Canada, as well as multilateral partners in the pandemic response, collaboration can increase its benefits when it extends more widely. This also applies to EDFI's harmonisation efforts, which must necessarily be part of a broader convergence in impact measurement and reporting at the industry level. This has also been the thinking behind EDFI's participation in the development and launching of the Joint Impact Indicators⁴, the signing of an MOU⁵ with the European Bank for Reconstruction and Development (EBRD) in 2021, and the participation in the new Alliance for Entrepreneurship in Africa⁶.

Just as the pandemic has helped to usher in new forms of cooperation that are already delivering benefits, deeper collaboration will also help DFIs respond to long-term challenges and to build resilience in the face of future crises. At the same time, DFIs that are highly oriented towards collaboration will be well positioned to mobilise more co-financing from private investors. This is a journey that the entire industry is on, and one that we expect to result in more support to clients, new capabilities and better delivery on our development mission in the long-term.

1 <https://www.edfi.eu/news/edfi-adopts-harmonised-paris-alignment-approach/>

2

<https://www.edfi.eu/news/climate-finance-leadership-initiative-details-approach-for-unlocking-climate>

-finance-in-emerging-markets/

3

<https://www.edfi.eu/news/edfi-supports-launch-at-cop26-of-alliance-to-accelerate-renewable-energy-climate-solutions-and-jobsg>

4

<https://www.edfi.eu/news/leading-impact-investors-make-progresstoward-harmonised-impact-measurement-with-release-of-jointindicators/>

5 <https://www.edfi.eu/news/together-towards-more-impact/>

6

<https://www.edfi.eu/news/ifc-african-and-european-partners-launchalliance-to-support-private-sector-growth-in-africa/>

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