



Donors, implementing agencies and DFI/PDB cooperation

EBRD and donors comprehensive coordination



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This study is part of a series of analyses covering 8 European case studies ([France](#), [Germany](#), [Italy](#), [the Netherlands](#), [Spain](#), [United Kingdom](#), the European Bank for Reconstruction and Development - [EBRD](#) and the European Investment Bank - [EIB](#)) as well as a [synthesis report](#).

THE EBRD APPROACH TO COORDINATION

The European Bank for Reconstruction and Development (EBRD) has longstanding experience in coordinating and working with donors. The EBRD relationship with donors takes different forms, such as co-financing (e.g., grant support, concessional finance and guarantees), technical assistance and policy dialogues. The focus ranges from strategic considerations to more concrete actions. The relationship can be materialised through donor facilities, such as the Green Climate Fund, or through EBRD-established multi-donor funds, agreements with bilateral donor countries, such as the United States, Switzerland and Japan, or collaborations with the European Union (EU), for example, involving the European Commission and several EU member states.

Certain countries in which the EBRD operates also provide grant funding to the Bank to be deployed in that same country. The Bank terms these 'country of operations donors'. The EBRD has a broad network of offices in the countries in which it operates, with more than one office in larger countries.



Coordination between the EBRD and donors is articulated at two levels: the strategic level and the operational level. At the strategic level, most bilateral donors are shareholders of the EBRD. Through their participation in EBRD governance, they are able to work together with the Bank to shape its policies and development priorities. The dialogue through which this occurs strengthens donors' commitment and trust in the EBRD and encourages the Bank to keep innovating to address development challenges, while operating on market terms. Beyond the governance level, donor staff have opportunities to be seconded to the EBRD, allowing them to exchange expertise and knowledge and help develop EBRD's approach and operations.

Donor support allows EBRD to take a holistic approach to investment, from policy expertise and dialogues, to investment support and enhancement, as well as technical assistance and capacity building.



At the operational level, coordination between donors and the EBRD focuses on supporting investments and the local ecosystem. It is materialised by donors providing grants, concessional finance or guarantees to the Bank (Table 1). Unlike grants, guarantees are a relatively flexible though arguably complex instrument whose terms can be tailored (e.g., risk coverage, guarantee cap) after careful negotiations to account for the local and economic

context. Donors also support policy dialogue and reform processes supported by the Bank in the countries where it operates. Such donor support allows the EBRD to take a holistic approach to investment, from policy expertise and dialogues, to investment support and enhancement, as well as technical assistance and capacity building.

Table 1. Instruments underlying donor-EBRD coordination

Instrument	Objectives
Grants	<ul style="list-style-type: none"> • Finance technical assistance needs to upgrade the capacities of a project promoter or beneficiary • Subsidise loans to provide affordable financing for innovative projects • Promote policy reform and capacity building • Finance part of the capital costs of a project
Concessional loans	<ul style="list-style-type: none"> • Provide more affordable financing, for example, by extending tenures, offering grace periods or providing below-market interest rates
Co-lending and equity investments	<ul style="list-style-type: none"> • Provide project promoters with larger and more beneficial offers, and undertake deeper capital exposure with clients
Risk-sharing and guarantee facilities	<ul style="list-style-type: none"> • Increase lending in challenging markets, where the risk level is higher • Provide incentives to project promoters and final beneficiaries, for example, to innovate or address common externalities
Local currency lending	<ul style="list-style-type: none"> • Develop local capital markets and encourage local currency lending • Reduce interest rates on local currency loans by hedging currency risks
Incentives in the form of advice	<ul style="list-style-type: none"> • Encourage financial institutions and sub-borrowers to invest in a particular area (as in, e.g., the EBRD Green Economy Financing Facility)

Source: Adapted from [EBRD \(2022\)](#).

CHALLENGES AND RECOMMENDATIONS

Different communication and working cultures. Donors and the EBRD may have different objectives and starting points for their joint actions. While the EBRD is supposed to operate under commercial market terms to stimulate the development and growth of private investment finance in its countries of operations, donors are typically driven by value-based policy aims for their grants. The EBRD is thus obliged to respond to a moving market reality, whereas donors can plan and programme their fund use in line with set aims and policy objectives. This can lead to lengthy discussions in the design phase of any joint EBRD-donor programme and different expectations of results. In many instances, it has also led the Bank to adjust its approach to accommodate donor expectations and requirements. However, different aims and working cultures and a certain lack of understanding of how processes work in the respective institutions can make collaboration more challenging.

Complying with donors' requirements. The EBRD needs to comply with donors' requirements in order to use their financial support. Yet, requirements such as implementing certain gender indicators and reporting on the number of jobs directly and indirectly created by an operation can be challenging to adopt. In some cases, compliance is not possible as it would require the use of EBRD client data, which may not be available, either because of commercial confidentiality reasons or because clients do not need to collect such data for their businesses. Given donors' more limited direct engagement with private sector partners, this is not something they are necessarily aware of. At the same time, donors' evolving requirements have led the EBRD to adapt some of its processes to be able to access and analyse more beneficiary data.

Working at a different pace. The different paces of donors and the EBRD can make coordination more challenging. For instance, while investment deals can often be concluded in a timeframe of one to three months, a donor agreement (especially for guarantees) can take a year or more to be signed and operationalised. Market volatility may mean that some investments disappear while donors are preparing to support them with grant funding. This may, in turn, affect the type and level of support that the EBRD can provide to the private sector.

LESSONS LEARNT AND INSIGHTS

Implementing a comprehensive approach combining investment, technical assistance and policy dialogue. The EBRD's approach to financing development does not focus only on the investment itself. It also includes a policy angle – aiming, for instance, at improving the business environment in a manner that paves the way for building markets and mobilising private investment at scale, geared towards transformative impact. In doing so, the Bank has accumulated solid experience and expertise in policy development and implementation, which can be leveraged and strengthened by donors' own resources and programmes (including through budget support, for instance). In other words, though the investment component is the main pillar of the EBRD's approach, it is often used as leverage to foster the implementation of sustainable development-oriented policies. In addition to the policy angle, the EBRD often provides, thanks to the support of donors, grants or technical assistance to project promoters and beneficiaries. This helps make complex projects bankable by, for instance, supporting long-term capacities of the promoters (Box 1).

Box 1. The EBRD's holistic approach to investment

One example of a holistic approach to investment is the Regional Energy Efficiency Programme (REEP) in the Western Balkans. Here, the EBRD, together with KfW, provides direct and intermediated investments in energy efficiency. These investments are complemented by technical assistance and investment grants funded by the EU and managed by the EBRD and KfW. The technical assistance support is channelled through local actors, to strengthen the capacities of municipalities and enterprises.

Going through local actors allows the project to build on local expertise and ensures a degree of local ownership. Finally, the EBRD supports policy dialogue to remove legal barriers to investments in energy efficiency.

Through this approach, the EBRD also translates into practice the EU's ambition to coordinate and combine investment, technical assistance and policy dialogue, as initially framed in the 2016 EU External Investment Plan.



Investing in challenging markets. The collaboration between donors and the EBRD is rooted in the fact that the Bank should address a market failure, characterised by the absence of or very limited private sector investment and entrepreneurship and under-developed markets. In that sense, donors' grants (including in the form of technical assistance) and guarantees allow the EBRD to lend in riskier contexts and to a market segment usually ignored by traditional financiers. It thereby also has a demonstration effect, potentially incentivising other commercial actors to explore new markets. Recently, the EU has provided guarantees to the EBRD for investments in Ukraine. Following the Russian invasion, these guarantees were adjusted to reflect the different levels of risks involved (up to 50% of the total lending amount).

Strengthening and complementing existing capacities. Collaboration with the EBRD increases donors' weight when it comes to policy dialogue. Through the Bank's network at the policy level and its investment firepower, the EBRD can support donors in incentivising policy dialogue and reforms. In this regard, the EBRD's in-country presence can play an important role. Besides increasing the weight of donors, the EBRD also complements donors' resources through its ability to mobilise its large network of private sector actors.

Donors often provide grants or guarantees to the EBRD, which manages these instruments independently, subsequently reporting on their use and results to donors. In this sense, the EBRD is driving the collaboration – which is an important aspect considering that the Bank is the one investing and in contact with the operational level. At the same time, donors' development aims and policy priorities have impacted the Bank's way of working, particularly by including and monitoring development-related targets in EBRD investments, thereby contributing towards achieving broader strategic aims. ■

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