

Donors, implementing agencies and DFI/PDB cooperation

The case of the Netherlands and the Dutch Fund for Climate and Development

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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](#).

AN INNOVATIVE COOPERATION FRAMEWORK

The Dutch government has a longstanding and comprehensive cooperation with the Dutch Entrepreneurial Development Bank (FMO) via the Ministry of Foreign Affairs (MoFA) and Ministry of Economic Affairs and Climate Policy. The cooperation is geared towards catalysing private sector investment for sustainable development impact, including through blended finance. The Dutch government is a founder and majority shareholder of FMO, accounting for 51% of its shares. It is thus at the heart of FMO's governance. This allows the Dutch government, particularly, the MoFA, to steer and influence FMO operations and ensure that they contribute to the government's development policy objectives and priorities. At the strategic level, the cooperation is supported by biannual policy meetings, and joint working groups facilitate exchanges of knowledge and experience on specific issues. These groups address, for instance, project development and environmental, social and governance (ESG) standards. Beyond its shareholder role, the MoFA channels funds directly to FMO through a number of facilities, funds and projects. These include the Partnership Development Facility, the Development Accelerator and the Dutch Fund for Climate and Development (DFCD).

The DFCD is a particularly interesting example, due to a number of distinctive features:

- Its focus on climate, particularly financing climate adaptation,¹ whereas most climate finance is directed towards climate mitigation. Moreover, it is explicitly interested in engagements in least developed countries (LDCs), which are often overlooked by financial institutions for development.
- Its bottom-up origin. Whereas most collaborations between the MoFA and FMO are the product of a direct agreement, the DFCD was established through a competitive tendering procedure. Recognising that achieving the climate objectives and targets set in the MoFA tender would require complementary expertise and resources, FMO swiftly reached out to form a partnership with the SNV Netherlands Development Organisation and the World Wildlife Fund (WWF) – an internationally recognised civil society organisation (CSO) – as well as Climate Fund Managers (CFM) – an innovative investment manager.
- An innovative partnership. The collaborators combine complementary resources and strengths in pursuit of ambitious, targeted policy objectives. In short, FMO and CFM provide investment firepower in their respective sectors (land and water), while SNV and WWF bring technical expertise, field presence and knowledge of local contexts.
- Mobilisation of private sector actors and their capital. Based on the €160 million provided by the MoFA, the DFCD aims to mobilise €500 million to €1 billion in climate investment (including for adaptation). In addition to CFM, the fund has attracted external private financiers, such as Triodos Bank – for engagement on smaller innovative investment operations (between €1 million and €3 million). It targets other private actors as well, such as pension funds, for greater scale and transformative impact.
- Spanning the full investment lifecycle, including project origination. The DFCD fosters the development of a pipeline of bankable projects, which is key for donors, implementing agencies and financial institutions to effectively catalyse investments at scale for sustainable development and transformative impact.



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BACKGROUND ON THE DFCD

The DFCD invests in innovative water and sustainable land use projects to strengthen the climate resilience of vulnerable populations and ecosystems in all countries listed by the OECD Development Assistance Committee (DAC) as eligible to receive official development assistance (ODA). At least 25% of the fund must go to LDCs and 25% to the Netherlands' focus countries. Between 2019 and 2021, 34 projects were contracted (DFCD 2022):

- €1.3 million disbursed in grants, for €14.8 million invested
- €6.1 million committed in grants, for €41 million in committed investment
- €10 million of private finance mobilised
- 50.8% of commitments promote climate adaptation, while 83.2% promote climate mitigation

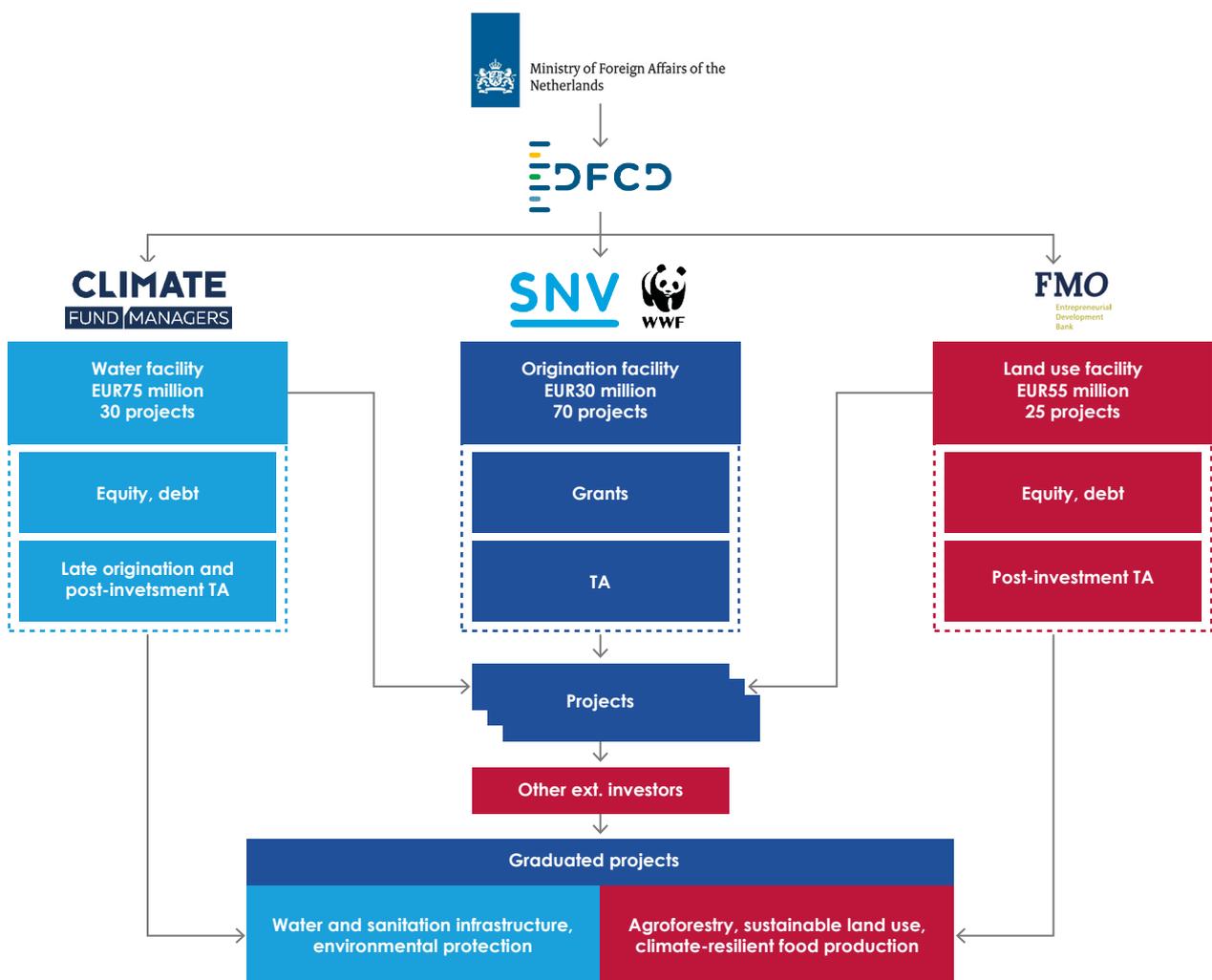
The DFCD comprises three interrelated facilities (Figure 1). The origination facility, managed by SNV and WWF, provides grants and technical assistance to help identify and develop a pipeline of innovative projects that are bankable. A total of €15 million in grant funding is available to the origination

1. Climate adaptation is one of the key priorities of the Netherlands, further detailed in the Adaptation Communication, the Netherlands' submission to the United Nations Framework Convention on Climate Change.

facility, of which €1.3 million has already been disbursed, and €6.1 million has already been committed. The origination process consists of three phases: discovery, structure and development. The idea is to get bankable projects ready (i.e., "graduated" or investible.). SNV and WWF can rely on their field presence, including in the priority countries for Dutch development cooperation, as well as an understanding of the local context and strong technical networks, expertise and experience in the water and food sector.

The water facility, managed by CFM, and the land use facility, managed by FMO, each play the investor role. They provide financial instruments, such as loans (the preferred modality for FMO) and equity (CFM) to investable projects. In parallel, both facilities can either directly source investible projects or develop investment opportunities themselves, following an approach that is distinctive from that of SNV and WWF. FMO can offer some project origination support, for instance, through its Climate Investor 2 programme. CFM uses mostly reimbursable investment to make projects bankable; that is, projects that have been successful in raising equity financing reimburse the funding initially provided.

Figure 1. Structure of the Dutch Fund for Climate and Development (DFCD)



TA = technical assistance. Source: Authors' elaboration



CHALLENGES

Coordination between donors, implementing agencies and development finance institutions (DFIs) is a complex endeavour. The actors often speak 'different languages', work following different processes and think based on different interests, while sharing the overall objective of the coordination.

In the case of the DFCD, all the actors invested time and resources to make the coordination work. For instance, SNV and WWF had to understand what FMO and CFM meant concretely by 'bankable' projects and adapt their processes accordingly. In practice, the DFCD defined bankable projects by their ticket size (minimum €10 million), their return on investment, the capacities and track record of the project promoters, and their potential for scaling up. SNV and WWF adapted by hiring in additional human resources with competencies in banking and investment to help them source appropriate projects. This also facilitated communication with FMO and CFM. FMO and CFM had to get acquainted with SNV and WWF processes, including their terms and criteria for development and project assessment. Likewise, FMO and CFM had to better understand what CSOs meant by maximising development impact, local ownership and, more broadly, management of environmental and social impacts. This cross-learning experience, overcoming differences in approaches between the partners, has become one of the consortium's main strengths.

The timing of activities and the time horizon of the collaboration has to be carefully considered and readily adjusted if needed. The DFCD illustrates this challenge in several ways:

- Each actor operates at a different pace. FMO and CFM, the financiers, have a short timeframe, more in line with private financiers' speed of operations, while the local officers accompanying the project 'graduation' process may need more time for their assessments. The pace is also dictated by the maturation speed of the investment proposal, which depends on the company or sponsor developing it and the local context.
- The DFCD in principle follows a linear approach, with technical assistance leading to project graduation and then investment, but it has had to adapt to the reality on the ground. Because of the lengthy time required to proceed from investment approval to disbursement – up to one and a half years – FMO now sometimes starts the investment process before a project graduates, if the SNV/WWF assessment is favourable. Doing so enables it to respond more adequately to the private sector needs on the ground.

- The origination facility took three years to deliver its first graduated projects to FMO (though slightly less to deliver projects that CFM considered bankable). The lengthier than expected timeline is explained in part by challenges encountered in generating bankable projects meeting the DFCD's typical €4-5 million investment threshold.

The DFCD showcases cross-sectoral collaboration anchored in the Dutch development architecture. Nonetheless, the fund's governance does not involve other European actors, or perhaps more importantly, private or public actors in partner countries. Including them could further leverage local expertise and networks, while contributing to the in-country entrepreneurial ecosystem and capacities regarding financing climate adaptation projects. Nonetheless, at the more operational level, this limitation is somewhat mitigated by local organisations' involvement in the provision of technical assistance. Indeed, part of the multi-stakeholder process of the origination facility is its alignment with national public policies linked to the countries' Paris Agreement commitments. For instance, cooperatives are sometimes trained and hired to strengthen the capacities of smallholder farmers.

Another challenge has been the need for the origination facility (and hence the DFCD) to be financially sustainable in the long term. As yet, the origination facility is set to end when its grant, or technical assistance capital, is consumed. SNV and WWF are now assessing the potential for using revolving instruments, specifically convertible grants in cases of project graduation. In this, however, they are limited by their legal status, as their legal nature prohibits them from making profit. One option is for project development grants to be included to some extent as part of the investment (equity/loan) and returned to the investment facility lead. Providing some form of 'revolving technical assistance' – that is, technical assistance that can be repaid or transferred into equity/debt – would significantly enhance the financial sustainability of project origination support. Beyond the financial aspects of the origination facility, the disbursement process is not yet sufficiently flexible. In particular, the fact that technical assistance can only be provided after a project has been identified has limited a more proactive project sourcing.

KEY LESSONS

Inclusive collaboration for innovation. The MoFA published a call for tender, in line with state aid rules, to allow inclusion of non-state actors (CFM, SNV and WWF) in the implementation of the DFCD. The aim was not only to improve donor coordination with their DFIs, but also to mobilise DFIs' own networks, in both civil society and the private sector, towards the achievement of development policy objectives. Issuing the public tender brought other benefits as well. For example, it allowed testing the market, as the MoFA received six proposals in the final stage, allowing it to compare the approaches and benefits of different consortia. Developing the call required the MoFA to reflect up front on the criteria and concrete objectives it wanted to achieve through the call for tender. Finally, analysing the different approaches put forward by the competing consortia added to the MoFA's own knowledge.

Raison d'être and benefits of the collaboration – tackling systemic issues.

- Originating projects. Each actor in the partnership focuses on its own core business, while contributing its particular expertise and savoir-faire to the coordination. The origination facility is led by the implementing agency SNV and the CSO WWF, while investment is in the hands of the DFI FMO and a private sector actor, CFM.
- Benefiting from complementary knowledge and expertise. Working together, the donor (MoFA), the implementing agency (SNV), the DFI (FMO) and other non-state actors (CFM and WWF) pool a unique set of complementary resources – human and financial. DFIs and private sector actors – in this case, FMO and CFM – possess solid banking and financial expertise, while implementing agencies – here, SNV and WWF – bring strong technical knowledge and networks in sustainable development and conservation (including on ESG and climate dimensions). However, the DFCD case also demonstrates the key role played by the MoFA in pulling these various actors and their respective know-how together through an open tendering process. It further indicates that making such collaboration work may require implementing organisations to upgrade their banking and financial skills. SNV and WWF did this primarily to ensure that the originated projects matched the expectations of the DFI (FMO) and the private sector partners (CFM and the other financial actors mobilised). Nevertheless, these new capacities have served SNV and WWF beyond the scope of the DFCD, allowing them to better engage and leverage private sector solutions in other contexts as well.



While DFIs often operate on a project basis, collaboration with donors and implementing agencies brings a strategic dimension, as these latter actors require the financed projects to demonstrate contributions to systemic change and economic transformation.



- Anchoring investments in the local context. In this coordination example, the DFI and private sector actors benefited from the field presence of the donor, implementing agency and CSO. This has enabled investments to be anchored in the local context, while improving environmental and social risk management and contributing to local economic transformation. A field presence is even more critical when investing in poorer and riskier contexts, such as LDCs, and in climate adaptation operations, where investment tickets tend to be relatively low. While SNV and WWF have been able to engage and build on their extensive local networks, their success is highly dependent on the participation of local actors, without whom there can be no real local ownership and appropriation.
- Investing in the missing middle through aggregation models. Investment ticket size matters, especially for large investors such as FMO, which do not usually engage below the €10 million threshold. However, delivering bankable projects over a €5 million threshold, in climate adaptation, in LDCs, is no easy feat. Collaboration with other private financiers, such as commercial banks, can offer a solution in this regard. For instance, as part of the DFCD, FMO has invested in a fund set up by Triodos Bank, which provides loans to smaller projects on a pari passu basis (i.e., for every euro provided by FMO, another is mobilised by Triodos or other investors in the fund). Another way to aggregate projects is through local financial intermediaries with relevant project portfolios and expertise in climate adaptation (they can be supported through technical assistance). In some cases, a credit line can be channelled to such intermediaries.

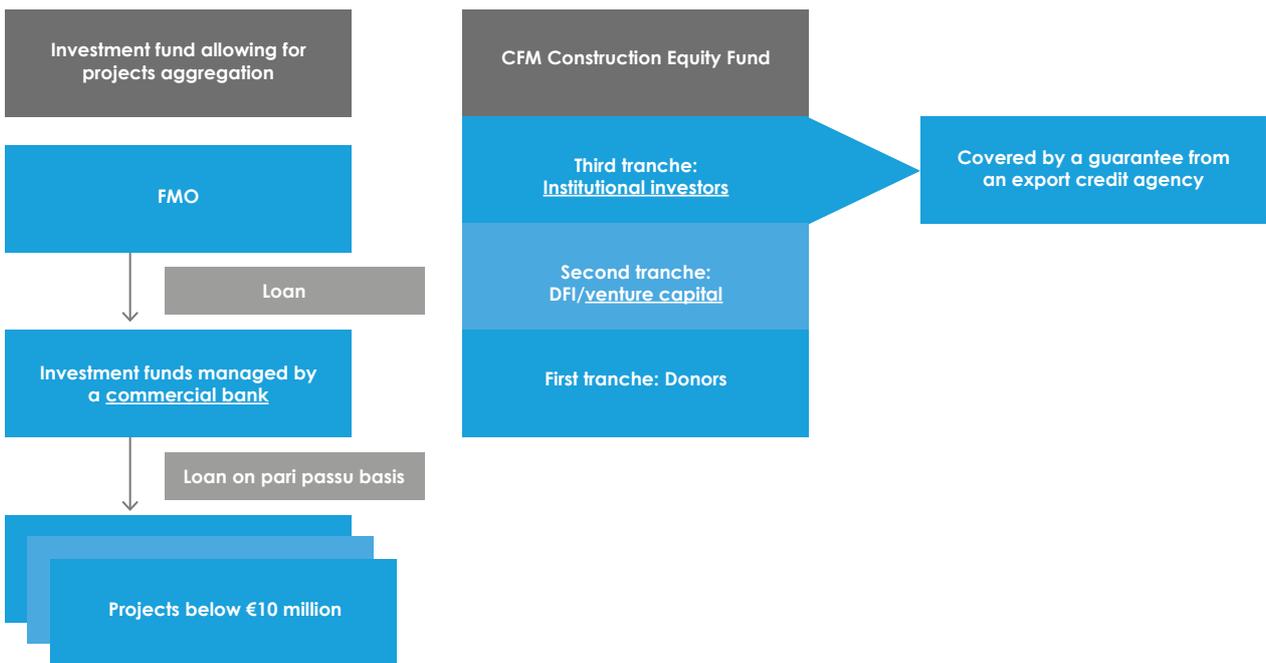
- Shift in focus from individual projects to strategic (development) objectives. While DFIs often operate on a project basis, collaboration with donors and implementing agencies brings a strategic dimension, as these latter actors require the financed projects to demonstrate contributions to systemic change and economic transformation. Field presence is key in this regard, as implementing agencies' and embassies' knowledge and networks can be leveraged to identify investments that effectively advance industrialisation processes and sustainable development.

Mobilising private capital. Relying on the private sector and institutions with a vast investor network and aggregation facilities (such as an investment fund) can facilitate private investor engagement. Such broader engagement can mitigate potential non-financial risks, by providing greater diversification potential (instead of one-off project investments), as well as access to existing business relationships and overall fund management capacities. Within the DFCD, CFM set up a construction equity fund to facilitate investments from both its existing network and additional investors. Figure 2 presents some different ways that private investors have been involved in the DFCD.

Needs-based partnership. Each actor brings unique assets to the table and a good understanding of the incentives and constraints of their partners:

- Within the MoFA, there is recognition that public funding is not sufficient to achieve the Sustainable Development Goals (SDGs) and Paris Agreement objectives. Finding a model that leverages public funds to mobilise and attract private investment is therefore a necessary condition to scale up investment in climate action and sustainable development. In this respect, it is critical to clearly identify the objectives pursued in mobilising private capital. Table 1 outlines some examples.
- Within FMO and CFM, there is recognition that engaging in climate adaptation investment requires significant technical expertise and knowledge. Sourcing and developing bankable projects (which are often too small) present particular challenges, especially in riskier contexts such as LDCs. In-country presence is important to mitigate financial, social and environmental risks related to investments.

Figure 2. Ways private investors have been involved in the Dutch Fund for Climate and Development (DFDC)



Source: Authors' elaboration

Table 1. Objectives for private sector capital mobilisation

Objective	Explanation
Direct mobilisation at fund level	Donors or DFIs can set up investment funds or facilities on specific issues (e.g., green transition, digitalisation or climate adaptation) or targeting certain private sector actors (micro, small and medium-sized enterprises (MSMEs) or youth business) that European (and African) private sector actors can invest in (e.g., a senior tranche).
Demonstration effect	Donors and DFIs can showcase that investing in projects in given countries and sectors is profitable, incentivising private investors to finance similar projects.
Catalysing private investors sequentially (at project level)	Donors and DFIs can work upstream to generate a pipeline of bankable projects, by providing technical assistance and other forms of support. As projects mature, they become attractive to private sector investors.
Market creation and development	By getting involved in market creation early on, donors can help mitigate risks and generate a conducive environment for investment. As markets develop, private investors may enter the scene to finance projects.

- Within SNV and WWF, there is recognition that achieving transformative and systemic impacts requires significant financing power. Technical assistance and grants can help develop and de-risk innovative project proposals, creating bankable projects that investors are willing to support for scalable solutions.
- Among all the partners, there is recognition that grants are needed to facilitate and cover the costs of their cooperative endeavour, in close alignment with the strategic impetus of the MoFA.

Donors do not drive collaboration. While the MoFA incentivised and paved the way for cooperation with non-state actors through its call for tender, it was FMO that mobilised its network and quickly got in touch with SNV, CFM and WWF. Critical factors in making this collaboration work have been the partners' capacity to react swiftly, their ability to solve issues collaboratively and their willingness to adapt to feedback from one another in the field. While donors should be involved at the strategic level, they need to give the DFIs and implementing agencies enough flexibility and autonomy to manage things in the field – as overseeing each and every operational decision would be unnecessarily resource-intensive and counterproductive.

Collaboration between donors, implementing agencies and DFIs requires a long-term perspective and flexibility regarding the timeline and sequencing of activities, to adjust and fit realities on the ground. Although funds disbursement was initially set for a four-year period (€40 million per year for a total of €160 million), the period has now been extended to five years due to the activity getting a slower start than expected. Support from the MoFA was planned

to go beyond this timeframe – up to 2037 – to allow for long-term loans and the revolving nature of the fund. The longer time frame was also deemed important to allow for analyses of the financial commitments and disbursements and to gather information on ESG and development impacts of the investments. In addition, there was recognition from early on that establishing such a partnership and achieving the objectives set would be challenging and there would likely be delays. In this regard, trust and effective communication have been highlighted as critical factors underlying the flexibility of the collaboration.



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Be prepared to spend additional resources, while considering the financial sustainability of the cooperation and potentially opening the cooperation to others. Additional resources may well be required, as benefits will not arise overnight. While grants might be necessary for some contexts, in particular, to initiate multi-actor cooperation, it is important that longer term financial sustainability be considered. For example, reimbursable or convertible grants might be explored for this purpose. Regarding the boundaries of the cooperation, inclusion of other donors, implementing agencies, DFIs, private financiers and civil society actors could be explored. However, the coordination does need to remain manageable. Involvement of local actors should be more explicitly considered, to safeguard the initiatives' local appropriation as well as its sustainability. ■

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