

## **EDFI Harmonisation Initiative makes progress in 2020**

Briefing note - 21 December 2020

### **Introduction**

EDFI – the Association of European Development Finance Institutions – was established in 1992 to support and promote the work of bilateral Development Finance Institutions (DFIs). With a combined portfolio of €46 billion, EDFI’s 15 member institutions share a vision of a world where the private sector offers people in low- and middle-income countries opportunities for decent work and improved lives, and where private investment flows are aligned with the Sustainable Development Goals and the Paris Climate Agreement. EDFI’s mission is to promote its members professional networks, inform policy, and drive innovation in industry standards.

The harmonisation of standards and practices among members is central to EDFI’s work. By aligning the ways in which European DFIs measure the development impact of their operations and setting standards for responsible financing, DFIs operate more efficiently, clients are better served, and institutions are able to more effectively achieve their development missions. EDFI’s longer term vision is of a common minimum scope for impact reporting that would apply to all impact investors, covering the key impact metrics to which private enterprises and their investors contribute. Since 2019, the EDFI Harmonisation Initiative on Impact Measurement and Responsible Financing (the “Harmonisation Initiative”) has made significant progress in its alignment efforts among EDFI members, setting an example for the rest of the industry.

### **EDFI and the benefits of harmonisation**

Meeting the SDGs by 2030 is a key priority for international public institutions, national governments, development banks and a growing number of impact investors. Reaching these goals will require strong cooperation, a mix of public and private resources, and the need to measure the success of public, private and blended interventions in a transparent and harmonised way. European DFIs are able to contribute to these efforts through their close collaboration. EDFI is founded on a recognition of the value of cooperation and member institutions’ shared mission of delivering impactful private sector development. EDFI members are also significant investors in the developing world, with €9 billion invested in 2019 and significant amounts dedicated to fragile states and climate finance. EDFI aims to leverage these strengths and to facilitate international harmonisation with the aim of adopting credible impact standards in the context of the Sustainable Development Goals (SDGs) and in line with the [Operating Principles for Impact Management](#).

The potential benefits of greater harmonisation are clear. Harmonisation enables all EDFI member institutions to deliver high-quality development impact reporting to their stakeholders and facilitates EDFI consolidated reporting on impact. Improved reporting makes EDFI members more accountable to their shareholders, to providers of blending capital, and to private co-investors. In addition, because EDFI member engage in significant co-financing, harmonisation relieves many EDFI clients of multiple reporting obligations.

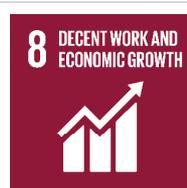
## Harmonisation achievements

Since its launch in 2019, the Harmonisation Initiative has already seen significant achievements. The Initiative set out to focus on five key impacts to which private sector enterprises contribute, including Gender Equality (SDG 5), Decent Work and Economic Growth (SDG 8), Reduced Inequality (SDG 10), and Climate Action (SDG 13), and to facilitate consolidated EDFI reporting of these impacts. Dedicated working groups, under the supervision of a task force including the EDFI General Manager and senior representatives of several EDFI members, have produced technical harmonisation approaches that will see members:



*Flows of gender smart investments:* Align voluntary counting of the number and amounts of gender smart investments using the 2X Challenge Criteria and report on this basis.

*Gender data collection:* Adopt the 11 indicators of the 2X Challenge for reporting on all new commitments.



*Direct jobs:* Harmonise the measurement of direct jobs supported by investment.

*Indirect jobs:* Harmonise the estimation methodology for jobs indirectly supported or induced by investment using the [Joint Impact Model](#).



*Flows to groups of countries in greatest need:* Harmonise the tracking of flows to countries in greatest need using the OECD Development Assistance Committee's country income group classifications for reporting on investment flows and the World Bank Group's Harmonised List of Fragile Situations as the basis for reporting on investments in fragile states.



*Fossil fuel exclusions:* Harmonise the exclusion of fossil fuels, as part of a wider set of joint commitments on climate action.

*Climate mitigation finance:* Adopt MDB/IDFC Common Principles for Climate Mitigation Finance Tracking; adopt the IFI Technical Working Group harmonised approach to GHG accounting for renewable energy, energy efficiency and transportation projects; report jointly on aggregate GHG emission reductions.



*Mobilisation of private co-finance:* Adopt the MDB Methodology for the Mobilization of Private Finance. Report jointly on the mobilisation of private co-finance, while specifically identifying climate mitigation finance.

*Domestic resource mobilisation:* Report jointly on clients' tax contributions to governments.

**Other Impacts** Adopt harmonised E&S standards for financial institutions clients.

As in the case of adopting classifications from the World Bank Group and the OECD, EDFI's philosophy is to make use of the important work that has already been done in other fora and institutions wherever possible in order to avoid duplicating efforts.

## EDFI's harmonisation ambitions

The Harmonisation Initiative will continue with a strong workplan in 2021, focused on the implementation of members' commitments on climate change (Paris-alignment, emissions reporting, TCFD), obtaining efficiencies from harmonised impact measurement approaches, and reviewing existing common approaches for E&S matters.

EDFI will also continue its strong engagement with the Harmonized Indicators for Private Sector Operations (HIPSO) partnership and the Global Impact Investing Network's IRIS+ System to

promote the value of harmonised indicators and the wider adoption of common core impact metrics by all impact investors. As the impact investing industry continues to grow, EDFI has a key role to play in maintaining and further elevating high standards, while avoiding fragmentation, and the Harmonisation Initiative serves as a strong example of the benefits and possibilities of collaboration.

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