NOTE
From: General Secretariat of the Council
To: Delegations
Subject: Feasibility study on options for strengthening the future European Financial Architecture for Development - final report

Delegations will find attached the first part of the main report (doc. ST 6961/21 ADD 1) of the Feasibility study on options for strengthening the future European financial architecture for development.
Feasibility Study
on Options for Strengthening the Future European Financial Architecture for Development

Final Report
Volume I — Main Report

March 2021
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Feasibility Study on Options for Strengthening the Future European Financial Architecture for Development

March 2021

(Lead Implementing Partner) (Implementing Partner) (Framework Contract Lead)

The opinions expressed in this document represent the authors’ points of view which are not necessarily shared by the European Commission or by the other stakeholders involved.
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1. INTRODUCTION

1.1. Rationale and Nature of the Study

Context of the Study
Europe – through the European Union (EU) and its Member States – is currently the world’s leading partner in international development cooperation. Together with its partner countries and their institutions, it has committed itself to the implementation of the Paris Climate Agreement and the 2030 Agenda for Sustainable Development of the United Nations (UN), including the Sustainable Development Goals (SDGs). Maximising the efficiency and effectiveness of constrained resources is becoming increasingly critical if Europe is to achieve its global development impact and climate goals. The European Financial Architecture for Development (EFAD) thereby complements the traditional technical cooperation of the EU by leveraging substantial resources for external investment. Prior to the COVID-19 pandemic, estimates of the investment requirements to achieve the SDGs were already considered insufficient\(^1\); now all the more, actors in development finance and beyond will need to collaborate closely to ‘build back better’\(^2\).

Over the years, there have been recurring calls for reform or rationalisation of the existing EFAD. The contemporary geopolitical and development challenges faced by countries in Sub-Saharan Africa (SSA), the EU’s Neighbourhood and elsewhere in the world are making it more critical than ever to adapt the existing institutional set-up and operational framework, in line with the European Commission (Commission or EC) Communication of September 2018\(^3\), and the proposed regulation to establish the ‘Neighbourhood, Development and International Cooperation Instrument’ (NDICI)\(^4\), and within the time horizon of the EU Multiannual Financial Framework (MFF) 2021-2027 and beyond.

In April 2019, the Council of the EU commissioned the ‘High-Level Group of Wise Persons’ (Wise Persons Group or WPG)\(^5\) to produce an independent analysis of the existing development finance instruments managed by the Commission, the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), and the European national development banks (NDBs) and development finance institutions (DFIs). The WPG report of October 2019\(^6\) called for the consolidation and streamlining of European development finance and climate activities outside the EU into one single entity – a European Climate and Sustainable Development Bank (ECSDB) – to avoid overlaps and to strengthen the EU’s presence, role, and long-term capacity to deliver on development priorities. In particular, the WPG report considered three options for such consolidation: Option 1: ECSDB building on the EBRD and the external financing activities of the EIB; Option 2: New mixed-ownership ECSDB; and Option 3: ECSDB based on an EIB minority-owned subsidiary.

Background, purpose, and coverage of the Study
The Council Conclusions of December 2019\(^7\) note that key institutional changes to the EFAD would require further reflection taking into account the global system. Therefore, a specific ‘Feasibility Study on Options for Strengthening the Future European Financial Architecture for Development’ was requested.

The Terms of Reference (ToR)\(^8\) for the Study were prepared by the Commission in consultation with the Council preparatory bodies, namely the Working Party of Financial Counsellors (FICO) and the Working Party on Development Cooperation (CODEV), and approved by the Council of the EU. The corresponding tender procedure was launched through the Framework Contract SIEA 2018 – Lot 6 (EuropeAid/138778/DH/SER/Multi). The Study team (see further information on names and background in Volume III, Annex 3) of the Consortium of Participants, as Lead Implementing Partner, and Lion’s Head Global Partners, as Implementing Partner, with ADE as Framework Consortium Lead, has been commissioned\(^9\) to conduct the independent Feasibility Study in four phases throughout end of August 2020 to beginning of March 2021.

The nature of this Study is an independent technical assessment with the service providers and experts of the Study team identifying themselves as independent and impartial consultants, free of conflict of interests or undue influence that may compromise the assessment.

The purpose of this Study is to independently review the feasibility and the conditions for the implementation of Option 1 and Option 3 of the WPG report (hereinafter Scenario A and B) and to assess specific questions related to the legal and statucracy/governance, financial, and operational implications and thereby specifically look at the development impact of the different options.

The Council also requested to analyse further possible enhancements in the current institutional set up, referred to as ‘Status Quo’, as one of three scenarios to be reviewed by the Study (hereinafter Scenario C). Such analysis entails a review of the effectiveness and efficiency of the existing architecture and seeks to determine how to maximise the visibility and development impact of the EU’s development cooperation, without pursuing fundamental reforms of its institutional and structural features.
Figure 1: Coverage of the Study – the three scenarios to be investigated

Source: Study team, based on the ToR

The Study aims to review and compare the three alternative scenarios and to allow for a clear understanding of the added value of each of them. It also looks at their comparative advantages and potential shortcomings. The report aims to facilitate informed decision making. As requested by the ToR, the report does not formulate recommendations on a preferred option.

The progress of the Study was supervised by the Secretariat of the External Investment Plan (EIP), DG INTFA (former DG DEVCO), and closely followed by a Steering Group (SG) chaired by the rotating Presidency of the relevant Council preparatory bodies, the Council Secretariat, the Commission (DG INTFA, DG NEAR, DG ECFIN), the European External Action Service (EEAS) and representatives of the previous and incoming rotating Presidencies (Croatia – Germany – Portugal – Slovenia).

1.2. Study Approach and Methodology

Study approach

The Study adheres to the principles and criteria outlined in the ToR and follows good international practice and guidance in assessments and evaluations. The applied evidence-based assessment framework (see Volume II, Table 19) constitutes the backbone of the Study and guided the work undertaken to assess the high-quality evidence to answer the 67 Study Questions (Qs.) identified in the ToR in an independent manner. The Study has applied specific study criteria, covering the principles and indicators to review the (future) EFAD, as per the ToR (page 4f):

- A “policy first approach” in which finance for development is steered by development needs, the 2030 Agenda, EU external policy objectives and geopolitical interests as reflected in the multi-annual programming, promoting EU values, and strengthening EU visibility in partner countries.

- A “strong and coherent European approach” with inclusive ownership of its financial vehicles to preserve the EU strategic autonomy.

- An “open and inclusive architecture” that combines the strengths of all relevant European DFIs, and other International Financial Institutions (IFIs), with a strong European ownership.

- A “system that delivers”, namely concerning development impact, policy coherence, institutional design, effective coordination, and technical expertise.

- Budgetary and timing constraints to ensure “cost efficiency and minimise additional costs” for the EU Member States and the EU budget.

Each Study Question relates to one or several of the three scenarios; to a specific time perspective (present situation; transition period from the present to a future status; future situation) and to one or several of the above presented study criteria. In order to enable comparability throughout the analysis, the presentation of each Q. provides a quick overview on which of these dimensions are addressed. The detailed matrix on the structuring of the Study Criteria is attached in Volume II, Annex 6.

Study methodology

The Study relies on a mixed-methods approach, namely a combination of qualitative (document analysis, key informant interviews and focus group discussions) as well as quantitative methods (quantitative data analysis). The approach and methodology were discussed and agreed upon with the SG during the Inception Phase. A key feature of the analysis was a highly participatory approach with a very strong involvement of the EBRD and the EIB in the information analysis work and a broad consideration of stakeholders. A more detailed overview of the individual steps of the methodological approach can be found in Volume II, Table 1.
Data collection activities were carried out mainly during the Desk Phase and the remote Field Phase. The Study team reached out to all main stakeholders, including the EU Member States, the Commission services, the EBRD as well as a representative regional selection of EU Delegations, Members of the European Parliament, the EIB, the EBRD, the relevant national development finance actors at European level (DFIs and NDBs), international financial institutions (IFIs), private sector, civil society organisations (CSOs), and several local and regional intermediaries and institutions.

The Study team issued detailed data requests to both the EBRD and the EIB and organised a structured process for collecting as much data as possible under a short timeframe (see Volume II, Annexes 11 and 12). The data requests involved several rounds of highly technical discussions with departmental heads of both institutions, including in the ‘Corporate Strategy’, ‘Risk Management’, and ‘Treasury and Capital Management’ areas. During all phases, the Study team verified that the methods and involved stakeholders were sufficiently broad to ensure a high level of data reliability and validity of conclusions – given the short period of time.

The data analysis process consisted of a combination of tools and techniques assembled to provide specific evidence-based answers to each Q. Multiple data sources, methods and analytical tools, i.e. literature review, data mining, financial analysis, and stakeholders interviews (see further information on the persons and documents consulted in Volume II, Annexes 3 and 4) were systematically combined to triangulate the information collected, whenever possible. The Study team consulted more than 140 documents (see Volume II, Table 4) and 232 representatives from 70 stakeholders in 106 interviews and conducted additional technical consultations with staff of the EU, the EIB and the EBRD. In Volume II, Table 3 provides an overview of the stakeholders interviewed.

The assessment process adopted a systematic approach that used various building blocks to gradually construct an answer to the Qs. The conclusions have been formulated based on the answers provided to the Qs during interviews and in writing.

### Limitations and challenges

The evidence for this Study was collected in a limited period of time – between September 2020 and January 2021. It strictly followed the rigid specifications of the 67 Study Questions prescribed by the ToR, and focused on the predefined three scenarios to be assessed. This facilitated a thorough technical review, but it also implied that deviations from the predefined Scenarios and a broader review of the EFAD could not be covered. The Study does not provide a roadmap for the implementation of any of the three Scenarios. This would be a task after a political decision on the selection of one of the options.

Against this background, the most important challenges and limitations were related to the understanding of the baseline scenarios, the timely collection of accurate and comprehensive data and information and the condensed timeframe of the Study. More details on the challenges and limitations and the related mitigation measures are presented in Volume II, Table 2.

The COVID-19 pandemic has compelled the Study team to remain flexible and innovative in the data collection process. The envisaged physical meetings, and interviews were organised to take place remotely. Practically, this meant the introduction of a so-called “remote” Field Phase, whereby the Study team met with stakeholders via videoconferencing facilities. It allowed to consult a considerably larger number of stakeholders than originally envisaged. The consultations with the two Banks were very intense. The Study team is confident that the quality of the data and information collected was not impaired by the situation, albeit some background information that can usually be collected during on-site face-to-face meetings might have been missed.
2. FINDINGS

2.1. Legal and Statutory/ Governance Implications

2.1.1. Shareholding

How and at what cost to ensure an EU controlling majority, considering the applicable legal framework and the resulting political complexities?

In Scenario A, because of the number of non-EU shareholders in the EBRD and the qualified voting structure, having a simple majority of the ownership as the EU interests currently enjoy is not sufficient to control all decision-making. To reach that position, EU interests would need 80% of the shares or more. If approval cannot be reached to change the voting procedures to allow all decisions to be made by the majority shareholder, the EU would need to buy out other shareholders or participate in a capital increase in the EBRD. For Scenario B, the EU already has a controlling majority in the EIB as its shareholders are the Member States.

The Agreement Establishing the Bank (AEB) ensures that EU Member States, together with the EU and the EIB, hold a majority of its total subscribed capital stock. In fact, the EBRD is the only development bank alongside the EIB and the World Bank where all EU Member States are shareholders, and the only multilateral bank where EU interests (being EU Member States, the EU and the EIB) have a majority. The EBRD is owned by 69 countries from five continents, as well as the EU and the EIB. The EU Member States, the EIB and the EU itself together currently hold 53.92% majority stake in the shares of the EBRD. The other shareholders comprise non-EU recipient countries (8.19%), such as the Russian Federation (4.2%) and Turkey (1.15%) as well as other third countries, as well as the United States (US, 10%), the United Kingdom (UK, 8.52%), Japan (8.52%), Canada (3.40%), Switzerland (2.28%), Norway (1.25%), Korea (1%), Australia (1.9%), Brazil (0.65%), Mexico (0.15%), China (0.1%), and five more countries – combined at 37.07% – see Volume II for the full list in Table 6. The remaining authorised shares are not subscribed (0.82%). There are 23 Board constituencies of which 14-15 are EU directors with Finland and Norway alternating. The EU is thus in a strong position to shape strategic decisions at the Board of Directors and the Board of Governors level and to garner support for its priorities.

An agreement of the EBRD’s current shareholders to change the shareholding structure to remove the pro-rata requirement in Article 5.3 of the AEB would require unanimous approval of the members. An alternative could possibly be a change in the voting limits such that 80% would give exclusive control over all major decisions to EU interests. Given that this would require approval of 75% of the shareholders having not less than 85% voting power, it would be important to demonstrate to the non-EU shareholders the benefit of such a change in meeting the aims and objectives of the EBRD.

An increase in EU-related shareholding could be possible in three ways: (a) transfer of the EIB’s non-EU portfolio in exchange for shares in the EBRD (b) increase in their capital subscription above their pro rata (which would need a unanimous shareholder decision to waive the pro rata requirement), and/or (c) the withdrawal/buyout of other shareholders. Modifying the voting limits to allow a simple majority for all governance decisions would be another way to give EU shareholders exclusive control. This option would require the acceptance of the major non-EU shareholders. Transferring the EIB’s non-EU portfolio to the EBRD is not really considered to be practical in view of the legal and operational complexities, with many current beneficiaries, co-financiers and guarantors required to approve any change in ownership.

EU interests could accept 80% ownership to allow major decisions to be under their control (see Q.2). The cost of increasing their holding from 53.92% to 99.18% would be EUR 8.1 billion (note that 0.82% of the shares are unsubsribed). However, this would go against the EBRD’s model of having beneficiary countries as shareholders. Increasing the EU interests to 80% would cost EUR 4.65 billion. To reach 80% by increasing the capital of the EBRD, the EU would need to inject around EUR 24.3 billion with no other shareholders subscribing (see Volume II, Annex 5, Table 5). It is assumed that the EU would have to pay for shares at book value and not just the par value. The EU might also have to guarantee that departing shareholders were not liable for past liabilities. This is contrary to Article 3 of the AEB; however, the terms might be different as it is the EU requiring these changes.
Note also that the subscribed capital is only 21% paid-up, and therefore in this scenario, EU interests would adopt this liability. It should also be noted that the steps proposed for EU interests to buy out other shareholders or to have an increase in capital that is not pro-rata are not in line with the regulations of the AEB which would need to be rewritten to meet the legal protection sought by EU interests. It should also be noted that the figures quoted, particularly for the share increase option, are therefore based on an AEB that would have had to be suspended or modified by unanimous shareholder decision to allow such changes.

The EIB is owned by the Member States, with the number shares of each originally subscribed based on Gross Domestic Product (GDP). The major shareholders are Germany, France, and Italy, each with 18.78% of the shares, followed by Spain with 11.27%. The EU through its Member States therefore has a controlling majority/exclusive control in the EIB. Total capital subscribed is EUR 248,769 billion of which only 9.0% has been called (EUR 22,191 billion).

To what extent would this require a strategic controlling majority by the EU, its 27 Member States (following the withdrawal of the United Kingdom) and the EIB (in the EBRD), beyond the current 54% shareholding?

The EBRD has a qualified voting system for decision-making, with certain major decisions requiring unanimous approval of the shareholders and other key decisions requiring at least 75% approval. As discussed above, AEB amendments require 80% – subject to Article 56.2 exceptions.

The pertinent voting limits are as follows under the AEB:

- Unanimous: Amendment of purpose and functions of the EBRD (Articles 1 and 2) per Article 56.2 (i);
- 2/3 of Governors having not less than 75% voting power: Approval of potential recipient country status (Article 1, Article 3, and Article 11.2 (ii));
- 75% of members having 80% of voting power (including two beneficiary countries from Central and Eastern Europe): Approval of amendment of geographic scope (Article 56.1);
- 2/3 Governors representing 75% voting power: Capital increase (Article 4.1).

Major changes to the AEB require unanimous approval of the shareholders, in particular the amendment of purpose and functions of the EBRD. However, very few of the provisions of the AEB require unanimity: the right of a member to withdraw, purposes and functions of the Bank, rights of members to purchase pro rata portion of share increases, and liability of members pro rata to their unpaid shares. To be able to have formal control of all major decisions that can be taken by the Board of Governors, the EU Member States, EU and EIB would need to have together a minimum of 75% of Governors representing at least 80% of voting power. The AEB includes qualified voting thresholds for the Bank’s Board of Governors and at other levels of governance for certain types of institutional decisions. For instance, to change the geographic scope of the EBRD, there is a requirement for approval by 75% of shareholders with not less than 80% voting power. The voting requirements are set out in the AEB, although some have been subject to interpretation by legal counsel. Majority decisions which give EU interests substantial control, are required for most policies relating to the Bank’s operations, such as the environmental and social safeguard policy, domiciliation, procurement, vice president and independent department head appointments as well as the approval of projects. To ensure the EU’s legal control of major decisions would require a substantial dilution of other shareholders’ holdings (apart from recipient countries, this amounts to 37.07% of the shares).11

The EBRD is widely perceived as a development bank with an EU identity reflected in the shareholding majority, leadership, values and with a global shareholding. For instance, all the EBRD Presidents since establishment have been EU nationals. Q. 2 pre-supposes that legal control by the EU interests is required for the EU to ensure its policies and strategic priorities are applied by the EBRD. The history of the EBRD shows, however, that with a simple majority and with substantial financial support, the EU has so far been largely successful in getting non-EU shareholders to agree to necessary policy and strategic changes (by consensus) and during the consultation process has been recognised by stakeholders as an institution with a strong European character.

In addition to EU shareholders having a majority at the EBRD, the EU influences the institution through numerous channels in informal and formal ways, including using its voice, vote, policy influence at the country level and convening power. Practical experience to date suggests that EU interests at the EBRD have largely been realised with the current majority it enjoys. Specifically, there are three main avenues
through which the EU, with EU Member States and the EIB, exercise influence over, and align their policy priorities with, the work of the EBRD:

- As a majority shareholder (strategic directions and political guidance);
- As the largest donor to the EBRD (binding operational and policy alignment), and;
- As a policy partner (advocacy, social, environmental and procurement standards).

An effective way to maximise the EU influence at the EBRD could be to ensure that the EU Member States, the EU and the EIB act consistently and fully with ‘one voice’. By doing this in a multilateral institution, the EU has a louder voice, more effectively spreads best standards, gains credibility, and strengthens impact. This EU unity could be ensured through coordinated action and votes.

3. What are the possible steps [and] the prerequisites in terms of agreement by non-EU EBRD shareholders and related political issues?

As covered in the responses to Qs. 1 and 2, any changes to the current structure and decision-making of the EBRD would require consensus of the shareholders.

A Transition Process

Putting aside the question of whether it is necessary, radically changing the shareholder structure would first and foremost require a political agreement. There would need to be a clear consensus of the EBRD shareholders to amend the AEB to give EU shareholders legal control over major decisions including EU policy adherence. This would need to be approved by the non-EU shareholders unless the EU buys the shares of all the non-EU shareholders (which would require amending the AEB) or reduces their percentage ownership by a substantial capital increase subscribed to by EU-interests alone.

The major non-EU shareholders like the US would have to allow the EU interests to have the power to make key decision without their necessarily having a clear legal power of veto through the voting limits. The costs of acquiring shares from non-EU shareholders or being the sole participant in an increase in EBRD’s capital to obtain majority are set out in response to Q. 1.

4. What would be the implications of having new partner countries as shareholders of the EBRD on maintaining an EU controlling majority?

The EBRD’s model requires each beneficiary country to become a shareholder. If this model would continue to be followed, the EU would have to set an upper limit on the total shareholding of beneficiary countries to guarantee that the controlling majority by EU interests remains.

A Present & Future Situation

The impact of new partner countries joining the Bank is negligible on the capital stock and thus voting power, although a number of decisions require a minimum proportion of Governors voting by number, and not purely voting strength (see Q. 2). Each non-EU recipient country currently has a shareholding representing between 0.01% and 4.0% (Russian Federation) of the EBRD shares. These are countries in South-Eastern Europe, Eastern Europe and the Caucasus, Central Asia and Southern and Eastern Mediterranean which in total currently hold 8.19% of the shares.

In case an expansion to new regions is approved by EBRD shareholders, new recipient countries, which would initially come from SSA, would most likely not have holdings each of more than 0.1% of the shares. As the global coverage increased, the EU shareholders would be able to decide on the level of new shareholding and voting limits of any resulting shareholding structure.

5. What would be the appropriate participation of Member States, National Development Banks, European Commission and EIB?

In Scenario A, the EBRD statutes currently require EU interests to have majority ownership – although this does not give it strategic control. Whatever the final shareholding structure in the EBRD, having a mix of Member States, European NDBs, the EU, and the EIB would ensure coherence of policy and project priorities. In Scenario B, the EIB already has the Member States as the sole shareholders. Assuming the establishment of a new minority-owned subsidiary, as advocated in the WPQ report, with the EIB, Member States, European NDBs and the EC on behalf of the EU as shareholders, this could similarly maintain coherence of policy and project priorities. In each case, the appropriate participation would depend on the final shareholding structure and governance issues discussed later.
If Scenario A is chosen, it could be beneficial for the EIB to continue to have a shareholding in the EBRD, along with Member States and the EU. In this way, EU shareholders would continue to have a majority and be able to influence policy, lending strategy and operational decisions through the Board of Governors and the Board of Directors. The inclusion of European NDBs as shareholders could be helpful from the aspect of policy coherence, and it is expected that their ownership by Member States would mean that they would support decisions of the EU in areas of policy and strategy. Having NDBs as shareholders would of course require an amendment to the AEB. On the other hand, including NDBs as shareholders might affect their impartiality and independence when it comes to the strategies and priorities of the new entity.

The WPO recommended the EIB to create a subsidiary for its extra EU activities and to participate in it as a minority shareholder alongside Member States, the European Commission, and national development banks. In other words, Member States and the EU would have a majority shareholding in the new EIB minority-owned subsidiary to be able to influence policy, lending strategy and operational decisions through the governance and management structure. This is the model that the Study team has used as the base case for Scenario B.

As for Scenario A, the inclusion of NDBs as shareholders might be helpful from the aspect of policy coherence. The considerations related to their independence also applies for this Scenario and we note the potential imbalance that this would cause as certain countries do not have an NDB. The Study team would like to highlight that numerous stakeholders interviewed pointed out that Member States (directly or via their NDB) and the EU should maintain a significant shareholding in a new EIB subsidiary to be able to fully influence its mandate, strategic focus, and major operational decisions through the governance and management structure.

The EIB has proposed a variation of the original Scenario B whereby the subsidiary is structured with a majority ownership by the EIB. The Study team notes that the WPO’s recommendations explicitly stated the criticality of independent governance control and of the subsidiary being external to the EIB. This position is in conflict with an EIB majority-owned subsidiary. A model whereby operational governance is separated from “ownership” would need to be created. Such a model exists with the European Investment Fund (EIF). In the case of the EIF, the EIB has a majority ownership but operational control is separated. With 11.2% of its shares being owned by public and private financial institutions, the balance is owned by the EIB and the EU. In such variation, the governance and managerial aspects should be clearly separated from ownership aspects to guarantee the strong development impact focus of the subsidiary. The separation can only be achieved if the Board of the EIB majority-owned subsidiary has strategic autonomy from the EIB with the EIB Board’s role being limited to financial oversight. If governance and managerial aspects cannot be clearly separated from ownership aspects, as pointed out by numerous stakeholders, there might be a risk that the above presented advantages will not be fully exploited and the EIB majority-owned subsidiary might not to the same extent adhere to the EU ‘Policy first’ principle in its strategy and operations.

It is assumed that in Scenario B the EIB will remain a shareholder in the EBRD as this would be beneficial for business coherence, and also for supporting the EU interests’ policy voice in the EBRD.

Under the current statutes of the EBRD, having the EBRD as a shareholder of the EIB, does not appear to be feasible, although the EBRD might be able to accomplish this under the existing terms of the AEB.

Under its current mandate, the EBRD can only invest (a) in the equity capital of private sector enterprises and (b) in state-owned enterprises that are moving to participation in the market economy or to assist their transition to private ownership and control to allow for investment by private and foreign investors. If the current AEB limitation could be waived in this special case, the EBRD can possibly become a shareholder in the EIB or its potential subsidiary.

While the EIB’s Statute, Article 3, which is in accordance with Article 308 of the Treaty on the Functioning of the EU, requires that all the Bank’s members to be EU Member States, no amendments to the EIB Statute or EU Treaties would be necessary to allow entities other than EU Member States, such as the EBRD, to...
become shareholders of an EIB subsidiary (as is the case of the EIF). It would have to be agreed by the Member States, as represented in the EIB’s Board of Governors, and acting unanimously.

If the changes were to be resolved for the two organisations, there could be benefits in having the cross shareholding for policy coherence, although this policy coherence could also be covered within their own mandates and the EBRD shareholding would also weaken strategic control of the subsidiary by the EU because of the indirect impact of EBRD’s non-EU shareholders.

Similar objectives could be achieved by a representative from the EBRD participating in the EIB Board as an expert. The statutes of the EIB allow up to six such experts (three non-voting experts and three alternates) participating in the Board meetings in an advisory capacity. Such representation would improve policy coherence and coordination between the institutions and would also result in a more balanced reciprocal relationship.

Explore the feasibility of including countries of operations as shareholders and the potential benefits in terms of alignment with partner country needs.

The development model used by the EBRD requires all recipient countries to become shareholders of the Bank. If the EIB is to set up a subsidiary for the new development-type activities, this model could be adopted to give the recipient countries ‘ownership’ in the decision-making of the organisation.

B Present & Future Situation

One of the key requirements of the future EFAD is to have a strong and coherent European approach with inclusive ownership of its financial vehicles, building on a controlling European majority (i.e., the EU and its Member States) eventually in combination with non-EU shareholders in particular countries of operation, with due regard to the preservation of the EU’s strategic autonomy.

Including countries of operation as shareholders could be quite beneficial following the model of Multilateral Development Banks (MDBs) like the EBRD. Having recipient countries as shareholders would tie them more closely to the aims of the EU and its policies, and also allow a formal sharing of pertinent information which would assist the new entity better to assess the recipient countries’ needs. It also gives a shared ownership of its objectives/tasks and development goals by those most affected by its actions. While the EIB is currently running a non-profit approach, the statutes of a new subsidiary could foresee the generation of an appropriate return on its resources (similar to the EIF). The possibility of cash dividends would add to the potential benefits for beneficiary countries of being shareholders added to having access to information and possible relationship building and lobbying for support. However, including beneficiary countries could weaken the position of an EIB subsidiary as a wholly EU-owned development bank, and make it harder to distinguish it from that of other MDBs. There could be other ways to achieve the same result through consultative mechanisms.

As mentioned in Q. 6, the current Statute of the EIB – Article 3 – as well as the Treaty requires that all the Bank’s members shall be the EU Member States. However, no amendment to the EIB Statute or EU Treaties would be necessary to allow other countries to become shareholders of an EIB subsidiary. It would have to be agreed by the EIB’s Board of Governors acting unanimously that recipient countries could become shareholders in an EIB subsidiary if the initial shareholders agreed (as per the EBRD model).

The aggregate shareholding of the EBRD’s non-EU recipient countries might need to be replicated in a new EIB entity to have similar benefits of inclusion and coherence. If new recipient countries in SSA and other parts of the world were invited to join, this would have to be with the provision that the new entity continues to have a clear ownership by EU interests allowing the EU to have total decision-making capability. However, this would change the EIB subsidiary’s character to being similar to an MDB.

2.1.2 Governance Structure

To what extent would changes to the governance structure be required to operationalise the ‘Policy first’ approach and underpin the specific development focus intended for the new entity?

How to ensure that the system remains agile and flexible to align interventions to evolving EU’s policy priorities and standards?

Both the EBRD and the EIB’s activities are aligned to the EU’s policy priorities and standards and can respond to changes required by the EU in this respect – albeit not fully enforceable due to the given governance structure. For the EIB, this is a requirement of the EU Treaty and clearly written into its Statutes facilitating a ‘Policy first’ approach. Governance system changes however would be to further sharpen the
development impact orientation & monitoring of the Bank. For the EBRD, the adherence to the EU Policy first principle currently relies on a level of consensus and its dependence on EU funding/ guarantee support, although this could be more formalised with a new ownership structure.

The EBRD reports that it already embeds the EU’s ‘Policy first’ approach (e.g. priorities on policy reform, capacity building and investing in private sector development and support and advisory to small- and medium-sized enterprises (SMEs)), as well as global objectives which the EBRD has committed such as achieving the SDGs and the implementation of COP21. These priorities are reflected in the EBRD’s new strategy for 2021-2025, the Strategic and Capital Framework (SCF), which was unanimously adopted by the shareholders.

Overall, the EBRD’s policy stances on issues are well aligned with EU policies, albeit not fully enforceable due to the given governance structure. Indeed, the EU has a strong influence within the EBRD through various channels, including its voice, vote, policy influence at the country level, and convening power. Importantly, for several EBRD countries of operation, the convergence with EU standards provides a strong policy anchor. Many of EBRD’s own policies draw on EU Directives and broader principles and aims. This is particularly the case for the Bank’s Environment and Sustainability Policies. Through the Board of Directors, the EU Member States work to make sure that strategic directions and institutional developments are in line with the EU’s agenda, and use their convening power to garner support beyond EU members. The EU is also integrally involved in the delivery of the EBRD’s policy mandates through joint missions, on-the-ground collaboration and the formulation and implementation of special initiatives. Because of the alignment of many EBRD activities to the EU policy priorities, the Commission has been, by far, the Bank’s most important donor – contributing to 35% of the total donor funds received by the EBRD (cumulative) and over 50% in recent years. This donor funding further reinforces the alignment between the EU and the EBRD. In a Scenario A, further agreements could be envisaged with the shareholders, and particularly the non-EU shareholders, to guarantee the EU ‘Policy first’ approach. This could possibly be a separate agreement between the shareholders, although the approval of projects, which requires only the EU’s simple majority, is a key component of ‘Policy first’ principle.

If the EBRD becomes the EU’s development bank, and as a further point for investigation that was not covered by the ToR, a decision might have to be taken whether its head office remains in London or – for visibility purposes – is transferred to an EU country, with all its associated impact on existing human resources (HR).

The EBRD is pillar-assessed which means that it has passed an independent verification that its governance standards and rules meet relevant EU standards and expectations. There is built-in flexibility as any major changes to the EBRD’s standards and rules must be reported to the EU to ensure that new practices continue to meet EU standards. When the EU updates or changes its rules, the EBRD must undergo a new assessment. Such an assessment is currently ongoing, the third in the past seven years to reflect the latest EU requirements and that their systems, rules, and procedures are equivalent to those of the Commission.

At operational level, the alignment could be handled by regular updating and coordination meetings between the EC and the EBRD head office respectively EU Delegations and the EBRD local offices. Regional and country offices could continue to work with EU Delegations to maintain a close level of cooperation in respect of policy coordination.

As a 100% EU-owned financial institution, the EIB is the only institution that, as per its governance structure, institutionally orientated towards full alignment with EU development policy. More specifically, the alignment of EIB operations with EU policies is institutionally ensured by:

- The EIB shareholding structure, being fully owned and exclusively controlled by the EU Member States.
- The EIB’s Board of Directors which comprises representatives nominated by the EU Member States and the Commission and joined by the EBAS as an observer.
- Article 19 of the EIB Statutes, where financing proposals proposed by the EIB are submitted to the Commission for an opinion prior to submission to the Board of Directors for approval to ensure compliance with EU policies, directives, guidelines, and regulations.
- Most of the EIB activity outside the EU being backed by EU mandates which are decided directly by EU legislators and follow policies set by the EU. Mandates received by the EIB under the new NDICI will benefit from this policy coherence.
- Each operation as part of the EIB project assessment and Additionality and Impact Measurement (AIM)
Framework needs to clearly demonstrate how it contributes to the EU policy objectives identified in the specific country, thus ensuring policy coherence with EU policy priorities.

Moreover, the EIB is engaged in the Commission/EEAS-led EU programming process and is closely involved in the pre-programming process, and recently started its engagement in the programming discussions with EU institutions. The EIB has actively contributed to the different ‘Team Europe’ initiatives. Cooperation also takes place in EU Delegations where the EIB is frequently co-located to discuss the national and regional Multiannual Indicative programmes including the focus areas and potential pipelines and its own intended involvement.

However, in spite of the above requirements, there have been reports and voices during the consultation process that this is not necessarily working as it could. As it appears, there could be a further improvement in the EIB’s alignment with EU policies in its implementation of operations, as pointed out both by Non-Governmental Organisations (NGOs) and the Commission itself specifically. The External Lending Mandate (ELM) evaluation published in 2019, as an example, suggests strengthening the alignment of ELM operations with EU policies through stronger policy steer from the EU and closer coordination between the EIB, the Commission and the EEAS. As a conclusion, fully aligned EIB governance structures are a strong advantage, but not a sufficient prerequisite, for the actual operationalisation of ‘Policy first’ principle.

Assuming that EU interests continue to have a controlling majority, then the subsidiary’s overall objectives/tasks can confirm these requirements, which could be further enhanced and stipulated in its statutes. To further development activities into its busines mix, the new entity would need a new governance structure by including country representatives with a knowledge of development, with some Ministers of Finance being replaced by Ministers of Development or similar.

| 10 | While the mandate should be global in scope, how to ensure increased focus on SSA – including LDCs and fragile countries – and climate, while maintaining an appropriate level of activity in the EU’s Enlargement and Neighbourhood regions?
| 11 | Recalling those in force, what would be the necessary legal and institutional steps to extend its [the EBRD’s] mandate globally over time?
| 12 | What would be the impact on the EBRD’s capital structure?

For the EBRD, making such changes will require approval under the current voting limit structure, i.e. 80%. The EBRD’s new strategy document, the SCF, notes the Bank’s strategic interest in an incremental expansion into SSA. The EBRD model would require the opening of new offices in any new recipient countries. For the EIB, its mandate is already global in scope and the increased focus on a particular area is a decision of the Governors whereby the local presence in partner countries and its development approach would need to be considerably strengthened.

The EBRD’s new strategy, the SCF for 2021-2025 already indicates a strategic interest in expansion to SSA during the strategy period and has a strong focus on climate, including a firm commitment that more than 50% of the Bank’s annual investment will be in the green economy by 2025. As for potential expansion to SSA, the EBRD Board of Governors as per the SCF will have an internal discussion in 2021 to give further guidance, and internal discussion between the EU Member States, the EU and the EIB will be held to adopt a unified European approach on moving ahead with this possible expansion. Moreover, for the EBRD to carry out its functions in any SSA country, the geographic scope set out in Article 1 of the AEB would need to be amended and any beneficiary countries would need to become a shareholder.

Assuming that these changes are feasible, and to ensure that in the short term there is the inclusion of SSA and increased focus on climate while maintaining an appropriate level of activity in the EU’s Enlargement and Neighbourhood regions, a new strategic plan would need to be drawn up respectively already existing strategic planning and approved putting in place clear exposure limits for all its regional activities and putting the appropriate focus on the various priorities agreed with the EU, especially for an expansion beyond Africa. Whilst starting initially in SSA with a limited number of countries, the EBRD would be expected by EU interests to broaden coverage to most SSA countries over time. In its new role, the EBRD would also be expected to start development and investment activities in the remainder of the countries currently covered by the EIB.

It will need to be clarified to what extent the EBRD’s AEB would need to be modified to ensure a new focus on SSA – including least developed countries (LDCs) and fragile states – while maintaining an appropriate level of activity in the EU’s Enlargement and Neighbourhood regions either with the agreement of the major
non-EU shareholders if they remain as shareholders or by the EU interests if they gain a controlling interest in the new entity. In both cases, the new strategy would need to include other regions for the EBRD to develop global coverage. Given that the new SCF for 2021-2025 has already been agreed by the shareholders, a similar strategy could be adopted over time to extend its mandate globally.

To increase its activities globally, the EBRD would need to establish offices in all the regions of its new operations possibly by working within or in proximity to EU Delegations for the purpose of working together on project prioritisation and in policy dialogue. The EBRD would also need to adapt its business model to include additional forms of ‘sovereign’ lending and support for public sector infrastructure projects globally.

The impact on the EBRD’s capital structure is covered in the answers to Q. 1.

The global scope of EIB’s mandate is discussed in detail in Q. 13 below.

The EIB already has a global mandate. The steps for it to become the new entity are related to governance aspects as it will need to broaden its development focus to existing activities. The increased focus on a particular area is a decision of the Governors whereby the local presence in partner countries would need to be considerably strengthened.

The EIB already operates globally, including in SSA, the Neighbourhood, LDCs and fragile states, and there are no constraints to expanding further its operations in those regions’ countries if mandates, appropriate protections and EIB’s license to operate and capital are available, as discussed in later sections of this Study in Qs. 35 & 36. The EIB is able to finance operations in more than 140 countries outside the EU, including in SSA, the Neighbourhood, LDCs and fragile states. There are no constraints to expanding its operations in those regions/ countries provided sufficient risk-bearing capacity is available through mandates. In particular, the EIB benefits from the Cotonou Agreement and its successor in ACP countries and dedicated framework agreements in most other countries of operation (see Qs. 35 & 36). By approval of the EIB Board of Governors, specific policies and strategies could be established to further increase the focus on SSA and climate, and also work towards a more enhanced development focus through the development of financing proposals and the implementation of operations.

The EIB would need to considerably strengthen its local presence in partner countries (further details are assessed in the Section ‘Operational Implications’). Operationally, the EIB would need to receive approvals from relevant national authorities through a ‘Host Country Agreement’ to establish operations in any new target countries where it currently has no representation, although it might not be necessary if subsidiary offices are located within EU Delegations. These approvals would be different in different target countries according to local regulations and political issues in those countries. New links would need to be developed with private sector representatives and with government agencies more attuned to private sector development. There would need to be a new recruitment focus to bring in more employees experienced in development and private sector support through smaller direct operations which are not the main constituents of the EIB’s activities at present and locate more experienced staff on the ground.

If the non-EU activities are handled through an EIB minority-owned subsidiary, the subsidiary would have its own governance structure different from the EIB with Governors comprising more development policy experts and private sector specialists. Decisions of this new entity would be taken independently of the EIB, although a certain level of cooperation in various areas could be included to avoid unnecessary duplication, e.g. IT/ MIS, HR, Administration as well as benefitting from synergies with EU operations, e.g. in the area of climate finance.
2.1.3. Transition Processes

What would be the possible processes for transition from the current institutional set-up to the set-ups envisaged under Options 1 and 3 of the Wise Persons’ Report, if operational disruptions are to be minimised?

In Scenario A, the EBRD would need to expand its activities in a number of new regions and open offices in new recipient countries. It would also need to add ‘sovereign’ lending to its current development banking focus. To minimise operational disruptions, the EIB should continue to manage its existing exposure and the EBRD would slowly assume responsibility for the regions where the EIB would decrease its activity.

For Scenario B, the EBRD would continue to manage existing exposure and the EIB would slowly assume responsibility for the activities of the EBRD in countries being removed from the EBRD’s mandate, whilst strengthening its own capability in development activities. This would clearly depend on the agreement of the non-EU interests in the EBRD’s shareholding.

<table>
<thead>
<tr>
<th>A</th>
<th>Transition Process</th>
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<tr>
<td><strong>Policy first Approach</strong></td>
<td><strong>Corporation Approach</strong></td>
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</table>

The legal requirements, including possible changes to the AEB, by which the EBRD would transition from its current institutional set-up to Scenario A or B are set out in the answers to Qs 10, 21 and 43 (inter alia). From an operational perspective, the transition would be a matter of significantly increasing scale and deploying the required resources in Headquarters (HQ) and in the field-based Resident Offices as described in greater detail in Qs. 22 and 23.

To become the new proposed EU development bank, EBRD would need to adapt its resources and operational focus to allow for a possible increased focus on infrastructure operations and greater activity in the public sector and to continue a strong focus on climate. The geographic scope would then need to be expanded to include every region, including Latin America, South America, South Asia, and Asia. Shareholders have recently noted the EBRD’s strategic interest in expanding activities to SSA in the Bank’s new strategy document, unanimously approved by all Governors. Thereafter, the best way to handle the changes would be for both institutions to continue handling existing business, with a gradual handover by the EIB of responsibility for new operations in countries that will form part of the EBRD’s new mandate, expected to begin with SSA. The timing of the full transition would depend on EIB’s current exposures from a maturity profile.

<table>
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<tr>
<th>B</th>
<th>Transition Process</th>
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<tbody>
<tr>
<td><strong>Corporation Approach</strong></td>
<td><strong>A system that delivers</strong></td>
</tr>
</tbody>
</table>

To begin with, the Governors would have to unanimously agree to the establishment of a subsidiary and the proposed shareholding structure. From then on, the best way to handle the changes would be for both institutions to continue handling existing business, with a gradual handover by the EBRD to the ECSDB based on the EIB of responsibility for countries that are not a continuing part of the EBRD’s mandate. The timing of the full transition will depend on the EBRD’s current exposures from a maturity profile.

The new entity would be required to establish a governance structure more attuned to development and private sector support, as mentioned under Q. 13.

To carry out the steps envisaged in this scenario, the Governors of the EBRD would also have to agree to cease new activities in many of its current countries of operations outside the EU, and also agree to stop any expansion of its geographic mandate.

15 What would be a realistic length for the transition from the current setup of EBRD and EIB to the new steady state of either Option 1 or 3?

17 At what speed could the geographic mandate of the ‘European Sustainable Development and Climate Bank’ reach a global scope?

In both Scenarios, it is to be expected that the transition time to reach a steady state with a full global scope would most likely require up to 10 years to have the positive overall development impact envisaged by the WPG report, although there could be potential differences between the scenarios that cannot be forecast at this stage. In Scenario A, the EBRD would be expanding its mandate to many new regions and also becoming involved in the types of activities currently handled by the EIB. For Scenario B, the EIB already has a global scope but will have to establish many new offices to have a development impact.

A phased approach could be deployed under Scenario A and B with positive development impact delivered progressively as the phases of expansion are completed. For instance, if SSA is targeted in priority in selected countries, positive impact could probably start to be felt in one to three years following approval of
the Governors to the expansion, in the case of the EBRD, and following the set-up of the new steady state entity and operational offices in the case of the EIB.

<table>
<thead>
<tr>
<th>Present Situation &amp; Transition Process</th>
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<tbody>
<tr>
<td>Policy first Approach</td>
</tr>
<tr>
<td>Implement Approach</td>
</tr>
<tr>
<td>Open accountable</td>
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<tr>
<td>A system that delivers</td>
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The timing for transition set out in Scenario A relies on many factors, including changing the AEB as detailed in Q. 10 and approval of both membership and country of operations status. The EBRD has already conducted detailed feasibility work in discussion with shareholders to expand its activities in SSA using its existing models.

If the EBRD follows its existing business model, any expansion to new geographic areas would require opening at least one new Resident Office in each of the countries (or in some cases regions) of operation. This is necessary to maintain the high level of country and sectoral knowledge necessary to achieve maximum development impact. Opening Resident Offices in new countries of operations would require the Board of Directors' consent. The EBRD would want to enter into Resident Office agreements with those countries to confirm and/or supplement its status, privileges, and immunities. Security assessments and UN liaisons are also required, and identification of suitable office space.

Normally, it is possible that the EBRD could open a new Resident Office in 6 to 12 months, assuming full consents are available. Even if full agreement to the necessary changes could be obtained, the consensus among other institutions interviewed is that the likely timing for all the changes could be at least 5-7 years and most probably 10 years before the EBRD began to have the positive overall impact envisaged by the WPG report as there would probably have to be a special team not involved in normal activities to handle the expansion project, and additional capital to finance the expansion, bearing in mind that at least 60 new offices (with 26 offices in SSA) would have to be established to cover the new geographical scope.

In practice, a phased approach could be deployed with positive developmental impact delivered progressively as the phases of expansion are completed. Regional “hubs” in an initial phase could speed up the deployment on the ground and a positive impact could probably start to be felt in a first set of SSA countries in one to three years following approval of the Governors to the expansion.

The EBRD’s internal study of the timing suggests that the most effective approach would require four phases to reach the global scope, with the final phase commencing around 10 years from the start of the changes (see Section “Operational Implications” for further details on the phased approach). However, the required new focus on SSA could be managed more quickly. In this case, the coverage of key countries in SSA could be achieved in a two-year period according to the EBRD’s study.

The EIB already has a global scope. The speed of transition to the ECSDB would depend on key decisions taken and approvals from Member States, as well as the agreement of a modified operational strategy to further broaden its development focus in its activities. Given that EU interests control the EIB, the governance-related timeframe required to establish and roll out a subsidiary could be relatively shorter. It would be a question of an approval of the shareholders, the confirmation of new entity’s location, on additional staffing to meet the different development strategy, and also an increase in staff in the target regions.

The EIB currently has six offices in SSA, comprising four Regional Offices (Cameroon, Côte d’Ivoire, Kenya, and South Africa) and two representative offices (Ethiopia and Senegal). None of these are self-sufficient offices as most of the support work is carried out at Head Office, through a rather centralised model of operations, although this is likely to change with the ongoing process. The opening of stand-alone offices in all countries of target regions was never a strategy proposed for EIB expansion outside EU.

The EIB proposes to consolidate and expand its presence in and representation on the ground through EU Delegations. In this way, the entity would rely on synergies with existing EU representation, including of the EC, in countries of operation for development and sector expertise. In this model, the EIB would provide staff (i.e. bankers and engineers) within EU Delegations. This would significantly reduce the need for additional staff and new offices for the entity and contribute to a strengthened coordination. Such a model could be implemented from day one with all existing EU Delegations taking on a role representing the new subsidiary. However, if activities should be decided to be handled through independent offices in all countries of operation, similar to the EBRD, new ‘Host Country Agreements’ would first have to be concluded with the various countries of operation.

The subsidiary would need to be built up over time, but it could have positive impact on EU visibility and strategic autonomy in the short term if resources are well deployed and allocated to selected priorities. This transition is not only a question of money, but of developing new relationships and trust also at private sector
level and identifying possible sources of new developmental projects. The existing strong co-financing relationships between the EIB and European NDBs should be maximised in order to build on mutual private sector development expertise and to further build up their contacts and expertise. Similar to the EBRD, under a phased approach (e.g. targeting specific SSA countries as priority), the Study team estimates that positive developmental impact probably start to be felt in a first set of SSA countries in one to three years following the set-up of a new steady state entity.

Again, these discussed additions to the existing business model would be a major endeavour, and it is unlikely that it could be accomplished within 10 years, especially if operational offices are to be established in all the non-EU countries which are currently beneficiaries, possibly up to 100 new developmental offices.

Conversely, how long would today’s non-EU activities of EIB/EBRD (the entity not chosen in the respective option) still be expected to be performed by the respective institution as currently set up?

The EIB, or the EBRD respectively, would be expected to manage its existing non-EU activities until the repayment or rundown of existing exposure, with responsibility for all future exposure in non-EU countries covering both development and wholesale activities to be assumed by the EBRD, or the EIB respectively. An analysis of the maturity profile of the existing non-EU portfolio is reported under Q. 25.

Regardless of which scenario is chosen it is not recommended that a portfolio transfer occurs. This issue is discussed at length in the answer to Q. 25.

2.2. Financial Implications

2.2.1. Lending Capacity and Financing Instruments

What is the lending capacity of EBRD/EIB in SSA, Enlargement, the Neighbourhood, LDCs and/ or fragile countries within the limits of their existing capital subscription, risk frameworks and current credit rating? Is additional capital required in order to be able to fulfil the EU policy objectives aimed at? Could lending capacity be freed up without increasing the capital of the banks? The point of departure should be the capital currently available in the system.

The current lending of the EBRD is EUR 10 billion per annum, with 72 % outside of the EU (EUR 7.2 billion). Assuming stable credit conditions after the COVID-19 pandemic, the Bank has the capital capacity to increase this to EUR 13 billion per annum during 2021-2027, of which about 80 % (EUR 10.5 billion) could be dedicated to operations outside of the EU. This can be achieved entirely at the Bank’s own risk without the need to raise additional capital. This represents 2.5x the implied average pace of incremental investment implied under the European Fund for Sustainable Development Plus (EFSF+) for ECSDB.

The EIB’s current lending capacity is EUR 76.8 billion per annum, of which 13.3 % are outside of the EU (EUR 10.2 billion). For the next seven years, the EIB intends to execute an average of EUR 7.3-7.5 billion per annum for operations outside the EU. This capacity is predominantly contingent on EU or Member State guarantees and an off-balance sheet vehicle for investments in African, Caribbean, and Pacific countries (ACP) and therefore, given the smaller mandates during the next MFF the pace of investment may be lower than that of the last 7-year period. From a volume perspective, the EIB can absorb the proposed pace of investment under Scenario B.

The total envelope of lending to ‘meet the EU policy objectives’ still needs to be determined. Europe can thereby leverage its full family of DFIs including the World Bank Group, the regional MDFs, and the European DFIs to meet its primary policy objectives regarding the 2030 Agenda and the Paris Climate Agreement. The Study team assumes that the External Action Guarantee (EAG) will remain in the range of EUR 55-60 billion per 7-year budget cycle (the size for the next 7 years is EUR 53.4 billion) – increasing with EU GDP. Furthermore, approximately EUR 12.5 billion (23 % per cycle) will be applied to Macro Financial Assistance loans directly from the Commission, with 77 % available as guarantees through the EIB, the EBRD and other implementing partners. 50 % of the total (EUR 26.7 billion) is earmarked for the EIB’s dedicated windows.

Under Scenario A, if the EBRD were to access a portion similar in size to the EIB’s dedicated windows as well as 10-20% of the remaining 27% of the ‘Open Architecture’ (OA) window, it would imply a total share of 53-55 % of the EFSF+ programme (EUR 28-30 billion per cycle). This would translate to an annual
ECSDB disbursement of EUR 4.0-4.2 billion, with the remaining EUR 1.6-1.8 billion per annum shared between the other members of the European family of DFIs under the OA window. For the sake of the calculations, the Study team assumes that the ACP Investment Facility (ACP IF) will remain with the EIB. Clearly this could change, but as the ACP IF is a separate mandate from the Member States, considerations of where it is managed is beyond the scope of this Study.

The Table below summarises the expected annual lending capacity of the Banks outside the EU on their own risk and under EU/Member State guarantees in EUR. It also details the total estimated lending capacity. In Scenario B, it is expected that the EBRD will continue to lend outside the EU, however, the volume is anticipated to decline over time.

**Table 1: Expected annual lending capacity outside of the EU**

<table>
<thead>
<tr>
<th>EUR billions</th>
<th>Scenario A</th>
<th>Scenario B</th>
<th>Scenario C</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Expected Annual Lending Capacity outside of the EU</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Own Risk</strong></td>
<td>10.5</td>
<td>-</td>
<td>7.2</td>
</tr>
<tr>
<td><strong>With EU/MS guarantees in EUR (assuming that ACP IF mgmt. stays with EIB)</strong></td>
<td>4.0-4.2</td>
<td>0.7</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Annual Lending Capacity</strong></td>
<td>15.2-15.4</td>
<td>14.5-14.7</td>
<td>18.1-18.4</td>
</tr>
<tr>
<td><strong>Capital requirement in EUR</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

*Source: Study team estimates and assumptions, based on EIB and EBRD data*

Taking into account future EBRD and EIB investment capacity, the Study illustrates that Scenario C has the capacity to provide the maximum volume of lending from the combination of the two Bank’s activities. Volumes under Scenario A are anticipated to be greater than under Scenario B, as under Scenario B, the Study team foresees a reduction in activity at the EBRD, which cannot be compensated by increased lending from the EIB, unless additional capital is allocated.

The EBRD has been operating with an annual investment level of approximately EUR 10 billion, divided between EU operations 28% and non-EU operations 72% between 2016 and 2020. Assuming a return of economic growth after the COVID-19 pandemic, the Bank has the capacity to support a progressive increase of its annual lending from this level of EUR 10 billion to EUR 13 billion per annum during the period equivalent to the next MFF. With the exception of the current pandemic response in Europe, there has been a decline in the ratio of the EBRD lending inside versus outside the EU and the Study team expects this ratio to decrease further in the years ahead. Even if current volume of EU lending is maintained, about 80% of the proposed EUR 10-13 billion annual programme will be outside the EU. Importantly, the EBRD is able to execute this expected programme without additional capital or the requirement to ‘free-up capital’, whilst maintaining its current AAA credit rating (assuming no material deterioration of the risk environment, including significant increases of Non-Performing Loans and the maintenance of its risk standards)^15.

In the event that the EBRD’s annual lending were to increase by EUR 3 billion, operating assets are forecast to build from EUR 31.8 billion at the end of 2019 to EUR 42.1 billion by 2025. If the EBRD was to increase its pace of incremental investment by EUR 4.0-4.2 billion in addition to the currently potential EUR 3 billion with the support of EU guarantees, this would raise the operating assets by a further EUR 14 billion. This outcome would result in a multiplier for the EU with the EUR 4.0-4.2 billion of EFSD+ supported investment complementing the EBRD’s base EUR 13 billion programme of annual investment capacity. Of this EUR 13 billion annual investment, up to EUR 10.5 billion would be invested outside the EU. This would result in the total annual investment capacity of the EBRD up to EUR 14.5-14.7 billion per annum outside the EU.

This pace of investment will create a capital requirement in the medium term even in the event of credit support from the EU due to the EBRD’s Statutory Capital Utilisation threshold. This threshold limits the
value of net operating assets (after specific provisions) to no more than 92% of the total capital stock, including callable capital. This limit includes all loans even those covered by a third-party guarantee.

The EBRD uses a risk-based capital adequacy approach to preserve its AAA rating with a threshold of 90% of members equity as a ratio to operating assets. Based on the current risk level of the EBRD’s assets, the Bank estimates that it can increase its operating assets from EUR 31.8 billion in 2019 to EUR 49.2 billion by 2025. In terms of the risk-based capital utilisation threshold, loans covered by an EU guarantee would hold a minimal risk weighting implying that this ratio will not be a limitation under this scenario.

The current Statutory Risk limit for the EBRD is not a well-designed control for Scenario A, as it would require regular capital increases to match the guarantees provided by the EU. However, the EBRD to add EU guarantees to its capital base calculation for the ‘Statutory Capital Base’, then this constraint would be alleviated. In light of the proposed increase usage by many donars of guarantees, the Study team recommends that EBRD shareholders consider this change regardless of the EU’s chosen strategy.

One further consideration for the EBRD under Scenario A is the prevailing goal of achieving a private sector share of at least 75% in the EBRD’s Annual Bank Investments (ABI) consequently limiting lending to the state sector (‘sovereign’ and ‘quasi-sovereign’) to below 25% of new programmes under the SCF for 2021 to 2025. Although the precise allocation between ‘sovereign’ and ‘non-sovereign’ activities under EFSD+ is not fixed, precedent under the ELM and the current provisioning rate for EFSD+ would imply that 60-80% of allocations under the programme would be executed as ‘sovereign’ lending, especially if there is a greater focus on low income and fragile states. If under Scenario A the EBRD was expected to execute an additional programme of EUR 4.0-4.2 billion per annum of which up to EUR 3.4 billion are ‘sovereign’ programmes and all of its non-EU guaranteed lending (up to EUR 10.5 billion) was focused on ‘non-sovereign’, the ratio of ‘sovereign’ to ‘non-sovereign’ would very close to the 25% level and might represent a constraint on the Banks core programme going forward. Addressing this issue could be achieved if EBRD shareholders were to exclude any programmes executed with an external EU guarantee from the calculation.

Under Scenario B, as defined for Option 3 of the WPG report, it is proposed that the EIB establishes a new subsidiary in which the Bank holds a minority shareholding. This structure would require substantial capitalisation of the subsidiary as described below if the lending capacity of the subsidiary is not to be severely curtailed.

The EIB operates with a statutory lending limit to ‘Capital Base ratio’, set at 2.5x. The Bank also uses a Risk Adjusted Capital approach, where EU guaranteed facilities are considered AAA for the calculation. From a volume perspective, the EIB could therefore comfortably absorb the proposed pace of investment under Scenario B. Indeed, over the next MFF period, the EIB estimates that it may provide up to EUR 51-52 billion of new financing, including a combination of their own balance sheet (up to EUR 17.5 billion), the dedicated windows under EFSD+ (up to EUR 26.7 billion), plus up to a further EUR 1.4-2.8 billion under EFSD+’s ‘Open Architecture’ programme, and up to a maximum of EUR 5.2 billion under a renewed ACP IF private sector mandate, together with ACP refinements. The future lending capacity would therefore average EUR 7.3-7.5 billion per annum, which is slightly below the average pace of investment during the last MFF period.

While the pace of at-risk investment is significant at EUR 2.5 billion per annum, the EIB is constrained by its overall capital position. This implies the need for full or partial guarantee to accompany any substantial increase in its loans to sub-investment grade borrowers outside the EU, to mitigate the risk to a point where the risk assumed is in compliance with the EIB’s overall risk tolerance. The EIB’s 2.5x leverage limit is an advantage for the efficiency for donor capital, but the impact is a lower risk tolerance and a greater reliance on external guarantees. This impact will be especially felt if the EIB is to further expand its exposure to LDCs and fragile states. This constraint may not be binding if the EU capitalises the subsidiary sufficiently.

Standard & Poor’s provides the market leading assessment of supranational institutions and defines their paid-in capital to risk adjusted assets ratio as ‘Adequate’ when the RAC (Risk Adjusted Capital) is between 7% and 10%, ‘Strong’ 10-15%, ‘Very Strong’ 15-23% and ‘Extremely Strong’ above 23%. Note that the EIB recorded a RAC of 21% in 2019.

It is theoretically possible that the EIB subsidiary could operate with a RAC in the region of 10-15% (‘Strong’) if it relied upon the EIB for all its funding, implying a paid-in capital requirement from the subsidiary shareholders of EUR 5-7.5 billion. With this capital base, the subsidiary would meet the credit standards necessary to receive funding from the EIB without the need for significant additional capital impairment to be allocated within the EIB’s current balance sheet. However, under such a model, the Study team foresees single borrower constraints building over time, that may not be a limit within the EIB’s statutes but
would be a concern with external parties such as the rating agencies. It would also raise Governance considerations, as the Board of the EIB would have a fiduciary responsibility to closely monitor the risk position and capital utilisation of any entity that was such a large borrower. Indeed, even today when a European bank borrows from the EIB to on-lend under one of the EIB’s mandates, that Bank would expect oversight over how the funds were invested. A similar degree of financial oversight from the EIB board over any subsidiary can be expected if the EIB is the sole lender to the institution, although operational and strategic decision making could be placed under the control of development stakeholders in the governance structure.

If a minority-owned subsidiary were to borrow in the capital market in its own name, then it would need to secure standalone AAA ratings. Any rating below this would increase the cost of funding for the subsidiary and make it uncompetitive relative to lending peers, such as the World Bank. AAA ratings could be achieved but given the developmental nature of the subsidiary a much higher RAC ratio minimum limit of 23% would be recommended, with a target range of 25-30%. With the presence of the EU guarantee, the subsidiary could be perceived to be operating with an equivalent level of capital but under such a model, in order to achieve a paid-in capital ratio of 23-27% of risk-adjusted loans, the subsidiary would need to be capitalised with EUR 11.5-13.5 billion of paid-in capital for a EUR 50-60 billion programme. Given the volume of facilities already guaranteed by the EU or a bilateral donor on the EIB balance sheet, the Study team does not see the ability to free-up capital from the EIB’s current balance sheet to finance such a programme.

As mentioned above, the EIB has proposed a variation of the original Scenario B whereby the subsidiary would be structured with a majority ownership by the EIB. This structure would allow consolidation of the two balance-sheets and would be the most efficient from a capital perspective, as a majority-owned subsidiary could operate on the minimum capital base (set as a percentage of operating costs e.g. one year of operating costs) and all funding could be provided from the EIB Treasury. In terms of capital required, if the EIB has a majority shareholding, there is no difference whether the EIB creates a majority-owned subsidiary for operations outside the EU or these remain within the EIB as it is currently the case.

Under the Status Quo+ Scenario, the EBRD can use its access to the ‘Open Architecture’ window to further leverage its existing capital base. It would be for the Bank’s shareholders to decide on whether these resources are best deployed through increased activity in current countries of operation, or whether as already proposed to its shareholders, the Bank expands into SSA. As discussed above in Scenario A, the EBRD has the capital to pursue such an expansion although the Study team anticipates a slower pace of expansion under Scenario C. Such an expansion could include a first ‘wave’ of 7-10 countries in SSA, comprising 3-4 of the larger countries and 4-6 medium-sized countries. The primary focus would be utilising the Bank’s existing capital, with a target to secure 15-20% of the ‘Open Architecture’ EFSD+ programme (EUR 300-400 million per annum). Under this scenario, the EIB in turn would also look to strengthen its focus on its operations outside the EU.

The EBRD combines the full range of investment instruments with technical assistance and policy dialogue deploying capital across ticket size ranges with substantial presence on the ground presence and the explicit aim of progressing countries of operations in their transition to well-functioning market economies, which represents a large group of countries across SSA, the EU Neighbourhood and Enlargement regions, however, the model would need to be adapted to meet needs in LDCs and Fragile states. The EIB has a greater focus on debt instruments and participates less in policy matters, which is currently covered by the EEAS and EU Delegations.

Although the core business models of the EIB and the EBRD are fundamentally different, both Banks have similar priorities. To an extent, both have the capacity and experience of using the full suite of financial investment products and services that are used by peer organisations to meet the challenges of developing countries. Both Banks have a strong interest and some experience in the area of blending, but culturally approach all projects with a core focus on financial sustainability while also aiming to achieve development impact. Feedback from interviews with civil society groups highlighted concerns around an adequate balance between financial aspects and development impact of both Banks. While the Banks cannot be expected to disregard the financial sustainability of their operations, if the Banks were seen to be filling financing
gaps to address a defined development challenge through tailored solutions, as opposed to executing a stand-alone transaction, then potentially without significantly changing their product suite, the perceived development impact could be enhanced. The EBRD’s investment products and services are designed to address the challenge of economic transition in their current target markets. These align with key EU priorities, especially with regards to the Paris Climate Agreement and many, but not all of the SDGs. The EBRD’s current geographical focus does not include SSA and the Bank’s experience in LDCs and fragile states is very limited. The financing tools needed for SSA, LDCs and fragile states are per se no different to the EBRD’s current markets although LDCs and fragile states would require an adaption of the EBRD business model with a higher proportion of lower ticket sizes and a heavier focus on blending, technical assistance, and policy reform than they undertake in their current countries of operations. In its countries of operation, the EBRD’s local relevance and adequacy of operations are high due to the Bank’s strong ties with its countries of operation facilitated through their role as shareholders and extensive local office presence. The Bank’s model is to develop distinct country strategies, which are updated on a rolling basis to ensure a country led approach.

Acknowledged by its peers and the WPG report, the distinctive feature of the EBRD’s business model is its combination of the full range of investment products at varying ticket size ranges with technical assistance, blending and particularly policy engagement and dialogue to create a business enabling environment and investor-friendly regulatory framework with a holistic focus on the transition of economies. The EBRD has a business model that has proven highly adaptable to different economic circumstances in its range of current countries of operations. The Bank has particular expertise in the area of commercialisation and privatisation of state-owned enterprises.

The EBRD’s current portfolio consists of private sector and ‘sovereign’ debt (59% and 27%, respectively), the EBRD could increase the portion of both equity and guarantee instruments (currently at 12% and 2%, respectively) to better address local needs, particularly in less developed countries, where the COVID-19 pandemic has again emphasised the importance of junior capital investment by MDBs/DFIs to the private sector. However, it is important to note that the EBRD’s extensive expertise in equity investment is recognised by European DFIs as a key complementary strength in the EFAD. Some interviewees from civil society organisations highlighted the lack of transparency in relation to end-beneficiaries when engaging in on-lending activities through financial intermediaries.

The scale of the EBRD’s investments outside the EU range from EUR 0.1 million to over EUR 200 million with a 2020 average investment size of EUR 11.4 million. To reduce clients’ exposure to currency volatility, 25% of all loans committed from 2016 to 2020 were in local currency. In addition, the EBRD has an established syndication practice, which enables the crowding-in of other DFIs and private sector investors through various instruments, including A/B loan syndications. To date, the EBRD underwrites and manages financial risk on its own balance sheet without significant support through guarantees. It just recently started making use of EFSD unfunded guarantees.

While covering a wide range of sectors, the EBRD’s currently portfolio outside the EU shows a key focus on the infrastructure and transport, energy, financial institutions and agriculture sectors. In order to better meet local financing needs, the EBRD would need to strengthen its activities in the social sectors, e.g. in education or health, where the Bank’s activity is currently very modest. The Bank has a strong climate focus; targeting over 50% green investments of the overall EBRD portfolio by 2025. However, this number was only 29% in 2020, as the EBRD was adapting its operations to respond to the COVID-19 pandemic.

The EBRD serves a broad range of clients from ‘sovereign’ and public ‘non-sovereign’ entities to corporates and SMEs. When investing in SMEs, the EBRD has the capacity to increase its volume of direct investment, which currently only account for 14%. To adapt to local development needs, when increasing its operations in less developed countries with a higher need of public sector investment, the EBRD might need to adjust its AEB prescribed maximum public sector allocation of 40% and the recently approved SCF aim to limit public sector annual investments to 25% between 2021 and 2025. In September 2020, private sector operations in the EBRD’s non-EU portfolio accounted for 59.5%.

The EBRD uses policy dialogue, technical assistance and blending in combination with its investment products to de-risk particularly risky projects and increase their bankability, progress countries towards sustainable, inclusive, green market economies and promote reforms for private sector development. Through its policy dialogue activities, EBRD contributes to furthering a business enabling environment. Technical assistance activities include supporting project preparation, innovation, regional development, resource efficiency and environment and inclusion. Blending activities include providing CAPEX grants, incentives, risk sharing or equity contributions.
When combined with its suite of guarantees and support mechanisms, EIB’s is an important financier in SSA, Enlargement, Neighbourhood and ACP regions. Benefitting from its mandate model, the EIB is able to react quickly to changing EU policy priorities. For example, during the COVID-19 pandemic, the EIB was demonstrably nimble than its MDB peers. The EIB can harness its sector expertise gained within the EU to those sectors in beneficiary countries, and increasingly, the Bank is locating sector experts in its external offices. Independent evaluations have concluded that the EIB’s mandates overall contributed directly or indirectly to poverty reduction, integration into the world economy and sustainable development as well as to regional integration and climate change objectives. The EIB was a pioneer in the area of Climate Finance and has contributed to setting new international standards in development areas, such as the importance of gender, environmental and social protection, procurement, fraud investigations, complaints handling, and tax compliance.

However, as acknowledged by the EIB itself, there are some key areas, in which it needs to further adjust its approach and its potential to contribute to development was not fully exploited. The key focus area of the EIB’s business model remains larger scale infrastructure projects and ‘wholesale’ on-lending to financial intermediaries. Operations outside the EU are, by agreement between the EIB’s shareholders, the EU Member States, and the Commission, to a large extent executed through mandates covering the EIB credit risk or political risk with guarantees with the EIB taking little risk on its own balance sheet. While the EIB offers a range of financial products, its primary focus is debt. The EIB provides technical assistance to projects directly but does not engage in direct policy dialogue activities. The Bank is seen to focus on individual transactions instead of seeing the transaction as part of an overall vision for development of a country or sector. Peers and market participants interviewed see the shortage of technical and loan officer staff outside HQ as one reason for the EIB coming across as more reactive and opportunistic in origination and transaction structuring. The EIB is often seen as relying on other development partners or joining transactions when they are far progressed outcompeting others on price, but the EIB was commenced by its MDB peers for its comparable high standards for project approval and requirement for co-lending. The ACP IF review suggests an increase of the ACP IF management fee paid to the EIB to enable greater investment into project development of opportunities with higher development impact. In 2019, the EIB had a total signed portfolio exposure of EUR 71.6 billion outside the EU, which represents 13 % of EIB’s global portfolio in the same year. 2019 annual signatures outside of the EU were EUR 7.8 billion. While the EIB covers all regions in question, its involvement focuses more on developed markets in candidate countries, Mediterranean countries and Russia, Eastern Europe and the South Caucasus (together 18 countries in these regions account for 72 % of signature value from 2015-2019), compared to ACP states (together 38 countries accounting for 18 %). However, the Study team notes that this is reflective of geographical priorities provided by the EU and its Member States through the mandates.

In the ACP IF, which due to its specific geographical focus and comprehensive risk coverage in the private sector can be regarded as the main vehicle of EIB in developing countries and fragile states, the signatures in individual countries between 2015 and 2019 (which account for 38 % of overall ACP IF signatures with 62 % allocated to regional projects) show that 20 % were committed to low income countries with 69 % in low-middle income countries and 10 % in upper middle income and high income countries. 37 % of individual country commitment were in fragile states, while 49 % were committed in LDCs. It is important to note that the ACP IF solely represents a small portion of overall non-EU lending by the EIB (see Q. 20 for additional detail).

In terms of instruments deployed, the Bank’s statutes highlight a focus on loans and guarantees and restrict the use of equity to situations, in which it is “required to safeguard the rights of the Bank in ensuring recovery of funds lent”. However, the Bank does make use of indirect equity products through its off-balance sheet vehicle, the ACP IF, as well as with its own resources under the Own Risk Facilities. Outside of the EU, the EIB occasionally invests equity in financial institutions but not at all into SMEs. The largest external mandate, the ELM, focuses exclusively on debt products. As a result, equity, or quasi equity signatures between 2015 and 2019 had a total value of EUR 614 million, representing 18 % of ACP signatures and only 3 % of overall non-EU signatures. Loans accounted for 95 % and guarantees for 1 %. 35 % of lending is done through multiple beneficiary intermediated loans, whose end-beneficiaries are often SMEs. Evaluation reports, including from the EIB’s independent evaluation function, noted that the EIB was successful in passing on the financial advantage provided by guarantees to beneficiaries by providing advantageous borrowing terms and motivating other IFIs to participate in projects. In ACP countries specifically, the EIB has been seen to enhance access to finance for projects and through on-lending activities to micro, small and medium enterprises (MSMEs).
Interviewees commented that to increase its development impact under Scenario B, the EIB would need to extend its product portfolio to include smaller facilities more appropriately sized for the economies targeted allowing for direct lending and additional technical assistance to the private sector, where many large companies in a country would be classified as medium or even small companies from a global perspective. Further expansion of the direct equity and local currency product offering would be beneficial. Lending in local currency represented EUR 646 million (20%) of the ACP IF exposure as of June 2020, reflecting the limits agreed with EU Member States. It was also recommended that the EIB consider expanding its products related to supply chain and trade finance. The EIB’s ability to pass on its low cost of borrowing to its clients is a strategic advantage, but the provision of loans on favourable terms carries the risk of crowding out other local financial institutions.

Outside the EU the EIB has a strong track record in larger projects in transport, water, and sewerage and energy, which combined represent 24% of EIB commitments outside the EU between 2016 and 2019 with on-lending activities accounting for 33% in the same period. Outside the EU, the EIB has strong sector expertise in climate change, digitalization, energy, mobility and water. The proportion of end-beneficiaries in terms of private and public sector is nearly equally split in commitments between 2015 and 2019. The average ticket size of the EIB outside the EU was EUR 72 million in 2019 and EUR 89 million in 2018. 32 41% of EIB commitments in 2019 supported climate action. Service, industry, and agribusiness sectors are less in focus, as are social sectors, including education and health, all of which are key sectors for countries to achieve the SDGs and would need to be targeted to align more with local financing needs. Of the exposure signed in 2020, 72% of private sector lending was lending to financial institutions, mostly for on-lending to SMEs, while 28% represented other corporate activities. Interviewees stated that to better meet local needs, the EIB could tailor its approach to increase the proportion of transactions in which they transact with corporates directly and increase the number of transactions with smaller ticket size ranges taking on own risk on instead of transferring it to local financial institutions. However, the use of local financial institutions as intermediaries can also be viewed as a mechanism to ensure local ownership and build local financial sector capacity in additional to providing access to finance to MSMEs. Interviewees also highlighted the lack of transparency in the EIB on-lending activities, particularly regarding environmental and social performance and details around final beneficiaries.

The EIB uses technical assistance and blending to complement its lending activities outside the EU to de-risk projects and address any shortfalls throughout the project cycle. On average, the EIB spends 5% of signed commitments on technical assistance and blending. The largest portion of these resources is in ACP states (43% between 2015 and 2019) and are used for providing investment grants (48%), technical assistance (21%), interest rate subsidies (17%) and financial instruments (14%). Technical assistance in combination with financing increased capacity and financial performance of recipient entities, particularly in the EIB’s work with financial intermediaries.

However, with access to appropriate grant resources, the EIB could increase the use of blending through guarantees, interest rate subsidies in the private sector and use blending resources for other innovating financing mechanisms, e.g. outcome- or programme-based structures. Interviewees (including EIB staff) and review reports highlighted that in order to better meet local needs and achieve higher development impact, the EIB would need to move beyond sole transaction focus and engage more broadly in policy dialogue to drive overall sector and country development and address bottlenecks related to investment climate or improve intra-regional trade. This could also be done in collaboration with other EU entities, such as EU Delegations, the EEAS, etc.

19b Are there any legal operational (e.g. credit rating) limits to their extension, and, if so, to what extent can these be overcome?

While the EBRD is currently not present in SSA and LDCs and has very limited fragile state experience, the Bank’s approach is regarded by interviewees as relevant and adequate beyond their current countries of operations including in SSA. The EBRD would benefit from further developing its product offering for weaker economies, particularly LDCs and fragile states, by expanding its portfolio to use more direct equity, guarantees local currency and a broadening of sectors to include health and education, where it is currently not present.

The EIB is operating across all regions in question but would also benefit from further developing their offering by adding junior capital instruments and increasing capacity to execute smaller ticket investments.
### Present Situation & Transition Process

The EBRD is currently not active in SSA, South East Asia or Latin America and the Caribbean including in LDCs and many fragile states. It would consequently have to set up operations in these countries, which would have to be achieved through an incremental build-up of a presence in new geographies. This is connected to a range of legal changes outlined below. Both the EBRD and national DFIs stressed the importance of local networks when expanding locally, which the EBRD would need to build. There are two key areas of legal changes that the EBRD would be facing when expanding the Bank’s activities to new countries of operations. First, the AEB sets geographical limits to the EBRD’s operations, which would have to be amended. Please refer to Q. 10 and endnote xi, which set out the required changes in line with the AEB. New countries of operations would need to become members, i.e. shareholders, of the EBRD. Amendments of the AEB entail several steps, which in all cases requires consent by a dual supermajority of members and voting power. In order for the EBRD to be able to operate in a country, it also must be committed to and applying the principles of multiparty democracy, pluralism and market economics, be a member of the EBRD, which also requires membership of the IMF, and either be a recipient member or a potential recipient member. Membership requests must be approved by no less than two-thirds of governors representing no less than three-fourths of the total voting power of members. However, there are some instances where activities in non-member and non-recipient countries can be funded through trust fund resources and cooperation funds, which has been the case in e.g. Kosovo, Mongolia and the territory of West Bank and Gaza. Second, the AEB limits the extent of public sector operations to 40% of the total portfolio. In some contexts, particularly in LDCs and fragile states, it may be required to lend more to the public sector, reflecting a weaker private sector. For this reason, there may be the need to adapt the AEB to reflect the needs of a portfolio targeting a higher number of less developed countries. Alternatively, the AEB could be amended to mitigate this impact for example excluding loans with a AAAA guarantee from the calculation.

### Present Situation & Transition Process

There are two key areas of legal challenges that EIB is facing: First, the mandates given to the EIB under the ACP IF, Cotonou Own Resources and ELM limit the Bank in terms of product offering and ability to invest time and human resources per transactions. A redefinition of these mandates, including allowing for more of the activities mentioned in Q. 15a, can enable EIB to extend the range of investment products and services to address gaps and better meet local demands. As mentioned in Q. 20, the ELM will expire and be replaced by the dedicated window under NDICI in the new MFF to which part of the ACP IF reflows will be contributed. Second, statutory limitations of the EIB restrict its ability to take significant risk on its own balance sheet, which could be a key challenge to extent financial products and services in new geographies, focus on a weaker credit portfolio. Consequently, the request to take on more risk might (a) require a change of the EIB statutes if such risk would be expected on its own balance sheet, (b) an extension of guarantee mandates to enable the Bank to implement such mandates on balance sheet, and/or (c) the outsourcing of activities to an independently capitalised subsidiary, which is not bound by the same statutes, to the extent the consolidation of the subsidiary would not risk breaching any statutory, regulatory, or rating thresholds.

Operationally there is consensus that the EIB would need to expand its in-country staff. In a Scenario B, as well as a Scenario C, the EIB proposes to co-locate with the EU Delegations, which would enhance synergies with EU Delegations and could help to address the areas of improvement outlined above, such as having loan officers and technical staff on the ground to more proactively source and structure innovative and/or more complex, smaller ticket size transactions as well as providing technical assistance, which is transaction and non-transaction specific. National DFIs stressed the importance of strong local networks when expanding locally.

To what extent does the EIB/EBRD currently draw on EU funds and guarantees, including blending, the European Fund for Sustainable Development (EFSD), the External Lending Mandate (ELM) and the ACP Investment Facility (ACP IF)?

The EBRD is drawing between EUR 280-330 million in EU grants and blending resources annually and has to date signed agreements of a total value of EUR 150 million in guarantees under EFSD. The EBRD was not eligible for ELM guarantees or for the management of the ACP IF. The EIB is drawing on an average of EUR 266 million in EU grants annually for technical assistance and blending. Guarantees to the EIB under the EFSD currently total EUR 588 million. Under the ELM mandate, the EIB can exclusively rely on guarantees up to EUR 32.3 billion, while a total endowment of EUR 5.2 billion was approved under the ACP IF. The Cotonou Own Resources guarantee facility has a ceiling of EUR 2.6 billion.
The support the EBRD receives from the EU is limited to grants, financial instruments accessed through blending facilities and EFSD guarantees, as the Bank was not eligible for dedicated EIB windows (e.g., ELM or ACP IF under the Cotonou Agreement).

**Grants’ Blending Resources**

Of the EBRD’s EUR 9.4-10 billion annual investment between 2016 and 2019, the overall percentage of grants and concessional finance used as a share of the ABI is approximately 6%. The EU is the EBRD’s largest donor with an average of EUR 303 million contribution between 2016 and 2019 representing around 50% of overall donor funds. The EBRD receives EU grants through various funding channels at HQ and local levels and mobilises EU support locally, where individual agreements range in size between EUR 1-60 million.

The grants have mainly been used for private sector development support, support to SMEs finance, financial sector capacity building, sustainable infrastructure and access to basic public services, climate change and energy efficiency, economic inclusion, trade promotion and the agribusiness sector. The EBRD has used EU grants to design and extend blended finance transactions, expand the number of bankable projects, mobilise additional resources from private and public partners as well as to build capacity of partners and institutions, promote policy, legal and regulatory reform, bring key stakeholders into local development debates and engage in advancing global public goods and the global development debate.

**EFSD**

The EBRD received an initial guarantee allocation of EUR 265 million under the EFSD in 2018 (18% of the total allocated). The EFSD was restructured for the COVID-19 crisis in 2020, when the EBRD’s allocation increased to EUR 300 million across four programmes. The first of the EBRD’s EFSD programmes was signed in November 2019 – a EUR 50 million guarantee to scale up renewable energy investments in Ukraine and the Southern Neighbourhood region. A second agreement for EUR 100 million was signed in August 2020 to support municipal, infrastructure and industrial projects to mitigate the negative consequences of COVID-19 and contribute to the transition to green, low carbon economies in the EU Neighbourhood regions.

The EIB relies significantly on EU and Member State funds and guarantees for its operations outside of the EU through dedicated mandates (ELM, Cotonou Agreement) as well as through the open access architecture (blending, trust funds, EFSD). The use of EU grants and guarantees enables the EIB to operate in higher risk countries. In 2019, more than 80% of EIB’s operations outside the EU were supported by EU or Member State funds, such as EU guarantees or financial instruments and implemented under their mandates. This has averaged 74% over the past five years.

**Grants/Blending Resources**

The EIB makes use of a range of blending mandates to complement its non-EU lending activities. When using grants outside the EU, the EIB either takes on the role as implementation agent or trust fund manager. For blending, the EIB makes use of the two types of mandate:

1. EU blending facilities established by the EC, the majority of which are dependent on 100% EU grants, however, several facilities also benefit from bilateral donor contributions, and
2. Trust Funds, managed by the EIB and financed by EC, Member States or other donors. EIB typically receives a fee for the management of Trust Funds or facilities. At an average of EUR 266 million per annum, the EIB has leveraged EUR 1.3 billion of grant funding from EU and Member states between 2015 and 2019.

**EFSD**

Guarantees to the EIB under the EFSD total EUR 538 million, which represents approximately one third of the EFSD overall capacity. The EIB signed its first project with a focus on SME access to finance with a value of EUR 20 million under the EFSD in January 2020, which has subsequently been increased to EUR 100 million. In the wake of the COVID-19 pandemic, EFSD was reoriented by the EC, which resulted in EIB signing the European Health Platform for an amount of EUR 438 million.

**ELM**

The ELM represents the backbone of EIB’s operations outside the EU and provides the EIB with a comprehensive portfolio guarantee (capped at 65% on a portfolio basis) for public sector operations, which includes...