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#### 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

**DOCUMENT PARTIALLY ACCESSIBLE TO THE PUBLIC (23.07.2021)**

Delegations will find attached a corrected version of the Executive Summary of the final report of the Feasibility study on options for strengthening the future European financial architecture for development. The following paragraph has been moved from Scenario B to Scenario A in the Section on Main Conclusions - 'Policy first' Approach:

'For the EBRD to promote EU values, interests, objectives, and policies entirely and steadily, and to be seen as a 'pure' European institution, the merits of a strategic EU majority or changes in voting thresholds, need to be addressed. A controlling majority would ensure that the EBRD does not deviate at any time from EU legislation.'

No further changes to the text have been made.



# **Feasibility Study** **on Options for Strengthening the Future European Financial Architecture for Development**

**Final Report**

**Executive Summary**

March 2021  
*Feasibility Study carried out on behalf of the European Commission*

The Feasibility Study on Options for Strengthening the Future European Financial Architecture for Development (EFAD) was commissioned in line with the Council Conclusions (14434/19) of December 2019 which noted that key institutional changes to the EFAD would require further reflection taking into account the global system.

## PURPOSE AND COVERAGE OF THE STUDY

The Feasibility Study follows the independent report by the ‘High-Level Group of Wise Persons’ (WPG), which called for the consolidation and streamlining of European development finance and climate activities outside the European Union (EU) into a single entity – a European Climate and Sustainable Development Bank (ECSDB). The overall objective is to ensure a strong and coherent European approach and to deliver on the EU’s policy objectives. The WPG report considered three options for such consolidation: Option 1, an ECSDB building on the European Bank for Reconstruction and Development (EBRD) and the external financing activities of the European Investment Bank (EIB); Option 2, a new mixed-ownership ECSDB; and Option 3, an ECSDB based on a EIB subsidiary with a minority EIB shareholding.

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). It aims to assess specific questions related to the 1) legal and statutory/governance; 2) financial; and 3) operational implications with a focus on the effectiveness and development impact of the reviewed scenarios. 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).

## STUDY APPROACH AND METHODOLOGY

### Assessment criteria

The Study takes into account the following principles and requirements to inform the future EFAD:



A **“Policy first approach”** in which finance for development is steered by development needs, the 2030 Agenda, EU external policy objectives and geopolitical interests; promoting EU values and strengthening EU visibility in partner countries; and ensuring financial and political leverage.



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



An **“open and inclusive architecture”** that combines the strengths of all relevant European development finance institutions (DFIs), and other international finance 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 (MS) and the EU budget.

### Methodological framework

The Study’s methodological framework is designed to enable comparing the different scenarios. It aims to allow for a clear understanding of the added value of each of them, to identify potential shortcomings and what is needed to make each of the options a success. As such the work of the Study team has been guided by high quality evidence to answer the 67 Study Questions identified in the Terms of Reference (ToR) in a fact-based manner.

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 (data analysis and financial modelling). A distinctive feature was the highly participatory approach of the Study team. In carrying out the assessment, the Study team consulted more than 140 documents and 232 representatives from 70 stakeholders in 106 interviews.

The Study team reached out to all main stakeholders, including the EU Member States, the European Commission (EC) services and the External Action Service (EEAS) as well as the EU Delegations, Members of the European Parliament, the relevant national development finance actors at European level, international financial institutions (IFIs), private sector, civil society organisations and to local and regional intermediaries and institutions.

In a structured process, specific data requests were issued to both the EBRD and the EIB, as well as to national development finance institutions (DFIs) and national development banks (NDBs) and other organisations. The Study team also conducted numerous technical consultations with the EBRD and the EIB for data validation and fact checking.

The evidence for this Study was collected in a limited period of time – between September 2020 and January 2021. It followed the rigid specifications of the 67 Study Questions and the predefined three scenarios to be assessed. This facilitated a thorough technical assessment, but it also implied that deviations from the predefined scenarios and a broader review of the EFAD could not be covered.



## MAIN FINDINGS

### Scenario A – ECSDb building on the EBRD

#### Shareholding, legal and governance implications

The EBRD's Agreement Establishing the Bank (AEB) currently requires EU interests to have majority ownership – although this does not give the EU exclusive control. The adherence to the EU's 'Policy first' principle and coherence with a European approach relies on the level of consensus and the EBRD's dependence on EU funding/ guarantee support.

Having a mix of Member States, European NDBs, the EU and the EIB as shareholders facilitates the coherence with the EU's policy and project priorities. Because of the number of non-EU shareholders in the EBRD and the qualified voting structure, broad alignment with EU policies and agendas can be expected but cannot be guaranteed. To reach exclusive control, EU interests would need a minimum of 80 % of the shares.

Any changes to the current structure and decision-making of the EBRD would require consensus of the shareholders. An increase in EU-related shareholding at the EBRD can only be achieved in one of two ways. Either some non-EU shareholders are willing to sell their shares, or a capital increase is carried out in which only the EIB, the EU and its Member States participate.

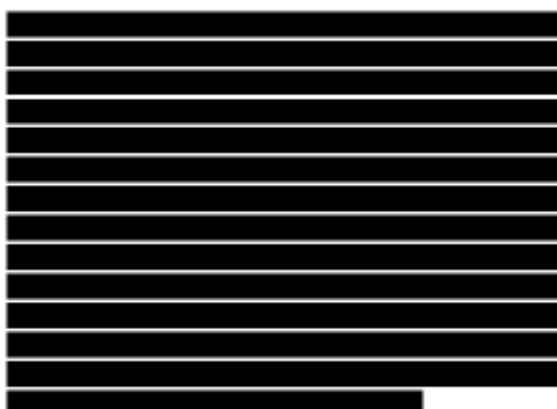
#### Financial implications

The book value cost of a share purchase would currently be EUR 4.65 billion to increase EU interest to 80 % and EUR 8.1 billion to increase it to a 99.18 % (note that 0.82 % of the shares are unsubscribed). To reach 80% by increasing the capital of EBRD, the EU would need to inject EUR 24.3 billion with no other shareholders subscribing. It should be noted that the figures quoted, particularly for the share increase option, are based on an AEB that would have had to be suspended or modified by unanimous shareholder decision to allow such changes.

The EBRD has the capacity to increase its lending to further expand its business model in EU priority areas. The current lending capacity of the EBRD is up to EUR 13 billion per annum during 2021-2027 without raising additional capital, 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 annual pace of incremental investment implied under the European Fund for Sustainable Development Plus (EFSD+) for ECSDb. These figures do not consider the potentially significant support through guarantee envelopes or capital under EFSD+/Neighbourhood, Development and International Cooperation Instrument (NDICI) or specific additional off-balance sheet mandates from EU Member States,

from which the EIB is currently benefitting, which would be added under Scenario A. The EBRD would not need to run down part of or its full portfolio in certain countries of operation to free up capital for operations in new EU priority areas.

The EBRD is drawing on 6 % of annual investment in grants and blending resources to support its activities. Between EUR 280-330 million annually (about 50%) are contributed by the EU. The EBRD has to date signed agreements of a total value of EUR 150 million in guarantees under EFSD. Under Scenario A, the EBRD expects their reliance on donor resources and use of support by external enablers to increase to 8-12 % of annual investment, due to the potential expansion to Sub-Saharan Africa (SSA), Least Developed Countries (LDCs) and fragile states.



All stakeholders unanimously believe that a portfolio transfer from the EIB to the EBRD would not be required and even if possible, would take years to complete. In Scenario A, key barriers are (1) questions around implications for EU guarantees when initially granted under an EIB mandate, (2) transfer pricing due to differences in EIB and EBRD pricing and hedging, and (3) integration considerations as all EBRD countries of operations must be members of the Bank. The Study team notes that a cost estimate for the transfer of portfolio from EIB under Scenario A is not feasible.

#### Operational implications

The EBRD has a strong focus on private sector development. It also operates in the public sector, especially at the sub-sovereign level and has built a strong track record in climate finance in the past years. The Bank avails of a strong development expertise on the ground and offers a combination of investments, policy engagement and technical assistance. In particular, the EBRD's expertise in policy dialogue and country-led approaches as well as 'Country Platforms' have proven to be critical for crowding in other private and public sector funding. Under Scenario A, the EBRD would need to broaden its sector-related development focus and expertise, particularly with regards to social sectors, such

as health, education, and social protection. Policy support in the scope of policy dialogue would need to be expanded also including LDCs and fragile countries and sectors that have not been in the focus of the Bank so far. Were the EBRD to seek to broaden its public activities beyond 40 %, it would require a shareholder decision to change the AEB though.

The EBRD combines a full range of investment instruments at varying ticket size ranges. However, to better meet local demands in SSA, fragile states and LDCs in particular, the Bank would need to consider further increasing financing in local currency on terms alongside local capital providers as well as equity and guarantee investments.

As mentioned above, the EBRD takes risk on its own balance sheet and manages it effectively to maintain financial sustainability. Its pricing and risk management is considered adequate for Scenario A.

The EBRD has a strong local presence in its current countries of operations through its well-staffed Residential Offices in Enlargement and Neighbourhood countries, including some countries in Asia. It is not active in SSA, Latin America and the Caribbean, and the Pacific. The Bank has no exposure to LDCs and only very limited experience in fragile states. Under Scenario A, the Bank's country geographic expertise would need to expand to SSA and other regions of EU focus, including LDCs and additional fragile states. In terms of operational capacity for treasury operations, additional resources will be required in Scenario A, if the Bank's operations became significantly more widespread, although at a slower pace than the growth in activities.

The transition time to reach a steady state with a full global scope would most likely require about 10 years to have the overall impact envisaged by the WPG report. However, a phased approach could be deployed with positive developmental impact delivered progressively as the phases of expansion are completed. For instance, if SSA is targeted as priority in selected countries, positive impact could start to be felt in one to three years following approval of EBRD Governors to the expansion.

#### **Development impact**

The EBRD has sufficient technical capacity to ensure EU policy coherence and promote synergies between different EU funds and instruments. The present EBRD systems, operating culture and incentive/reward schemes allow to measure development impact, including in terms of tracking progress against the Sustainable Development Goals (SDGs). Because of the nature of its business model geared towards transition and development, the EBRD shows a good track record of achieving and monitoring development impact in its current sectors of operation.

A new ECSDB based on the EBRD would bring an acknowledged reputation as a genuine development

finance institution. With the current governance model with partner countries becoming shareholders, ownership and inclusiveness would be strengthened.

The EBRD's experience in collaborating with other IFIs is wide ranging and examples vary with different levels of depth and formality. At the policy level, the EBRD leverages the resources and experiences of other IFIs' and Multilateral Development Banks' (MDBs) programmes to strengthen the impact of their operations on policy reforms. The EBRD has also the footprint and capacity to make its local offices in countries of operations available as a "port of call" for smaller DFIs who may not have a local presence in all countries.

#### **Scenario B – ECSDB building on a EIB subsidiary**

##### **Shareholding, legal and governance implications**

The EU already has a controlling majority in the EIB as its shareholders are the EU Member States. For the EIB, alignment to EU's policy priorities is written into its statutes facilitating a 'Policy first' approach and implemented through specific mandates supported by the EU budget and through consultations with and prior opinions of the EC on all operations. However, there is a need to further improve the alignment of the EIB with EU policies at operational and country level, in particular in relation to increasing the Bank's focus on least developed and low-income countries as well as the social sectors.

Assuming the establishment of an EIB minority-owned subsidiary (as set out by the WPG Report for Scenario B), Member States, European NDBs and the EC on behalf of the EU as shareholders would need to agree on precise governance principles that would ensure policy coherence and adherence to the Policy first principle.

##### **Financial implications**

The EIB's projected lending capacity for operations outside the EU in the next Multiannual Financial Framework (MFF) period is EUR 7.3-7.5 billion per annum. The pace of EIB investment outside the EU in this time period would thus be slightly lower than the average of the last 7-year period. By design, this capacity is predominantly contingent on EU or bilateral guarantees, e.g. the External Lending Mandate (ELM) or Own Resources under the Cotonou Agreement, and an off-balance sheet vehicle for investments in African, Caribbean and Pacific (ACP) countries (ACP Investment Facility (IF)) from EU Member States – all exclusive to the EIB.

The EIB is drawing on 5 % of annual investment in grants for blending and technical assistance for its operations using an average of EUR 266 million annually from the EU. Guarantees to the EIB under the EFSD currently total EUR 538 million. As in Scenario A, the reliance on external sources to support



operations under Scenario B is expected to increase to 8-12 % of annual investment.

As opposed to Scenario A, the balance sheets would need to be separated in Scenario B, as it is assumed that the EIB will establish a minority-owned subsidiary. The capital structure depends on the way the EIB would finance the new entity. With a minority holding in the subsidiary, between EUR 5-13.5 billion in additional capital would be required at the subsidiary level for a EUR 50-60 billion programme, which would either be provided by a mix of capital from EU, Member States, and the EIB, the EIB as sole lender, or the entity could issue bonds in the market in its own name.

Similar to EBRD, the current model of the EIB is highly efficient from a capital perspective. However, this requires that the Bank secures guarantees from EU, Member States or third parties for its higher risk operations outside the EU. The Bank has historically had a very low default rate on its guaranteed transactions implying that it could take more risk with higher potential for development impact. To achieve this, the subsidiary would need to put in place a less risk-averse strategy to fulfil the development, policy, and operational requirements, particularly with respect to LDCs and fragile states.

As for Scenario A, stakeholders interviewed without exception pointed out the complexity, difficulty as well as time and cost effort of a transfer of the EBRD portfolio to the EIB. As previously highlighted, a cost estimate is not feasible.

As an alternative to a minority-owned entity envisaged by the WPG report, the EIB proposes the establishment of a majority-owned subsidiary. This would allow the consolidation with the overall EIB balance sheet and to draw on EIB's AAA rating. This model could follow the one of the European Investment Fund (EIF) which, although funded from the parent, is strategically autonomous with its own governance. The oversight functions from the EIB main board would then need to be limited to financial oversight to ensure strategic and operational autonomy from the EIB. However, this subsidiary would definitionally be under the control of the EIB Board and as such there might be a conflict between the capital efficiency of the structure and the recommended and desired control set out in the WPG report.

### **Operational implications**

The EIB brings strong expertise, efficiency, and additionality in private and public sector large infrastructure financing in areas like energy, mobility, and water. The EIB has also built a strong track record and expertise in climate finance, environmental sustainability and digitalisation and has ambitious objectives in these sectors.

In the private sector, the EIB operates mostly through corporate loans and loans to financial intermediaries. It has a 'wholesale' approach relying to a great extent on partners and co-financing arrangements, in which other parties often take on the bulk of transaction development. In Scenario B, the EIB would benefit from further developing its product offering by adding junior capital and increasing their portion of local currency lending, guarantee and direct equity participations as well as improve their capacity to execute smaller ticket transactions.

The EIB has endorsed Organisation for Economic Co-operation and Development's (OECD) standards on blending and already reports on the standards endorsed by DFIs and MDBs to avoid crowding out private investment, in line with the DFI Working Group on 'Enhanced Principles for Blended Concessional Finance' and market-based pricing methodologies. These attributes should be included in the Statutes of the new subsidiary under Scenario B.

The EIB has a global mandate and global operations, including in Enlargement and Neighbourhood countries as well as in SSA, but overall has limited experience in LDCs and fragile states. They account for 5 % (in 18 countries) and 4 % (in 29 countries) of EIB's portfolio in term of volume, respectively. However, the EIB's presence in countries is very limited with the vast majority of staff being Luxembourg-based. An important operational implication of Scenario B would be that the Bank would strongly need to enhance its local presence and capacities on the ground. Under Scenario B, the EIB would thereby need to hire new staff in particular with development policy and financial sector expertise, including loan officers and technical experts. These experts should have local experience and the right sets of skills to operate in SSA, LDCs and fragile countries and be based there. The Bank would also have to increase its capacity to carry out additional technical assistance to develop and lead transactions and policy dialogue, especially at country level complementing existing bilateral EU and Member State efforts without duplicating efforts.

The long-term path would require an evolution of its business model for non-EU operations enabling a differentiation from the investment bank model applied to Europe to a development focused subsidiary. While the EIB does not foresee the decentralisation level of other DFIs, the business model of the subsidiary would need to be more decentralised than the current one. Similar to Scenario A, the full impact of Scenario B could take about 10 years. Benefitting from the EIB's presence in many countries of operation, the Bank would have a comparative advantage in the time required to scale up.

## Development impact

The EIB is already well positioned to deliver a single European message by virtue of its full ownership by EU Member States and its mandate. The Bank has sufficient institutional capacity to ensure EU policy coherence and promote synergies between different EU funds and instruments, but it should be strengthened at the operational and country level.

Although the mainstreaming of the development impact agenda within the EIB has progressed, there is a need for increasing its impact orientation when it comes to external operations. This would require substantial changes in governance, risk appetite, policies, and procedures, which could be achieved through a subsidiary with a strong development finance focus with a stronger local presence.

The EIB has a strong track record in cooperating with IFIs and European DFIs globally. It would need to continuously work on building further mechanisms to deepen cooperation. In particular, the EIB would need to do more to ensure that smaller European DFIs that bring valuable country specific knowledge and sectoral expertise are crowded in.

### Scenario C – Improving the effectiveness and efficiency of the existing architecture and maximising the visibility and development impact of the EU development cooperation

The existing architecture is built on a multitude of institutions already working well together. Due to cost and time implication, a new single EU development finance champion as foreseen in Scenario A or B may not necessarily be more effective than the existing system when it comes to EU development policy priorities. The key success factor of a Status Quo+ as captured in Scenario C would be to ensure that all the relevant institutions take steps to improve their contribution to the EFAD and work even more systematically together.

The Study team's analysis and interviews confirm that, under a Scenario C, a series of steps could and should be taken to make the EFAD stronger and more responsive to policy priorities and development challenges. It is key to highlight that in the absence of a strong steer from the EC and effective implementation of coordination mechanisms, a Status Quo+ – could not only lose its "plus" but may also result in a further fragmentation of the status quo with unintended consequences on the effectiveness and coherence of a European approach.

### Governance and operational implications

Institutional change is not envisaged in Scenario C, although operational changes to strengthen the EBRD's expertise in LDCs and fragile states and to strengthen the EIB's ability to deliver greater development impact could be pursued under this scenario. The Study team does not see a need for an additional Memorandum of Understanding (MoU) between the

EIB, the EBRD, and the EC. However, there needs to be more effective coordination and communication. As mandator, the EC should increase its monitoring of the existing MoU. A sharper division of labour between both Banks should be considered. The Western Balkans Investment Framework (WBIF) is an excellent example of this approach and should be considered at global level.

The Study team has identified several coordination and cooperation mechanisms in the current institutional set up to improve the effectiveness and the efficiency of the existing architecture without pursuing fundamental reforms. Some of these coordination mechanisms could be also considered for Scenario A and B and comprise, among the more important ones, the following:

The *EFSD+ Strategic Board* could further enhance its dialogue with non-members to discuss common standards for development finance and help build a coherent development narrative.

The '*Team Europe*' approach could continue to be a platform of concrete cooperation and regular dialogue between EU and Member States' institutions on EU development policy and a recognisable 'brand' outside the EU

*Regarding programming and joint programming* at central level, a 'top down' policy steer with all stakeholders will be critical to developing robust programmes under the EFSD+. Furthermore, (*joint*) *programming at regional and country level* with extensive and transparent 'bottom up' consultation with all stakeholders would be critical to developing robust project pipelines, including *Team Europe Initiatives*.

Operational coordination mechanisms could be also explored including EU Platform for Blending in External Cooperation (*EUBEC*). This platform could, with a broader mandate, serve for discussions on common set of rules and for increasing coordination across all EFAD stakeholders. The Study team notes the advantages of strengthening and utilising the *existing cooperation mechanisms instruments of Member States* and their institutions such as the 'Mutual Reliance Initiative' and the 'Currency Exchange Fund'.

Additionally, '*Country and Regional Platforms*' could be a useful tool for the EU development community to discuss development cooperation with country counterparts, to engage in policy dialogue, and to create and share knowledge. In the context of fragile states, for instance, 'Country Platforms' offer a significant and much needed path to enhance development cooperation, especially for governments and partners who are embracing more collaborative, risk-informed, and adaptive ways of working.

The principle of European preference can be applied by using the current regulations and procedures. Eu-



European and non-European DFIs should be further encouraged to collaborate both when they are in the lead on transactions and when they are not. This would be achieved by introducing incentives for co-operation, such as dedicated funding for smaller DFIs.

Finally, think-tanks and associations could play a more distinctive role in developing standards for the development community that would be used on a consensual basis.

### Financial implications

Building on individual strengths of each institution, in Scenario C, EBRD could still expand into SSA, LDCs and fragile states and the EIB increase its activities outside the EU. They could do so in a targeted way based on EU regional and sectoral priorities. This would likely occur at a slower pace in terms of annual investments for each institution in comparison for a Scenario A and B, however, the cumulative disbursements have the potential to exceed both Scenario A and B. The EU would focus its financial resources on actors within the EFAD making use of their specific technical and/or regional comparative advantages, which would lead to efficient use of DFI/MDB resources and optimisation of the EU budget to reach its policy priorities. 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.

Additional institutionalised mechanism could be created to increase risk sharing and co-financing, with a joint facility across institutions to be further explored under EFSD+. Furthermore, incentives for EIB and EBRD for further engaging in co-financing arrangements with other European DFIs could be considered so that they can act as "wholesalers".

The harmonisation of pricing practices could be facilitated by ensuring and monitoring that all stakeholders comply with international standards such as the DFI 'Enhanced Principles for Blended Concessional Finance' and market-based pricing methodologies is critical.

### Development impact

The added value of the Status Quo+ scenario with multiple actors intervening notably comes from the fact that the EU and Member States institutions should be able, together, to capitalise on complementary strengths, and to intervene on a wide array of projects, at different risk levels, and with complementary expertise. Large benefits from this, however, can only be guaranteed by an 'open and inclusive architecture' and the right conditions for a level playing field among implementing partners and by having strong steering from the EC. In Scenario C, if correctly implemented, policy coherence to promote EU policy objectives, values, standards, and norms

would be further strengthened by enhancing the dialogue between institutions at EU and Member State levels to include financial institutions such as DFIs and IFIs, with the EC in a steering and oversight role.

Also, under NDICI, proportionate reporting and evaluation requirements should be imposed on recipients of EU funds, including the EBRD, the EIB, and other European DFIs. This would be an important pillar for effective coordination and coherence. Especially under Scenario C, well-defined evaluation standards, e.g. the OECD DAC, should become the norm for all EU-funded projects outside Europe. A more standardised approach to reporting and evaluation with the EC as its centre would also contribute to measuring the aggregated development impact of DFIs' operations and increase accountability.

Even without a new ECSDB, the visibility of EU actions could be advanced much further. For all scenarios, but especially in the Status Quo+, the main boost to visibility, development impact and efficiency should come from the effective implementation of NDICI and the 'Team Europe' approach as well as clear communication of results. To make the EFSD+ more inclusive for smaller European DFIs, they should be supported through the pillar assessment applications and in the process for accessing fund. Smaller DFIs should also be supported from more established peer. This support could, for instance, include providing EU-funded consultancy services and/or service contracts in areas of specific need.

## MAIN CONCLUSIONS

### 'Policy first' Approach

Both Scenarios A and B are strong with regards to the global policy agenda and EU agenda items, such as promoting EU values, strengthening EU visibility, and providing the EU with political leverage.

### Scenario A

Although the EBRD's model is that of an MDB, with a resident board and each country of operation being a shareholder, the Bank is perceived as being 'European' in many ways by stakeholders. Culturally and strategically the Bank is aligned to EU values. The EBRD is strongly associated by its clientele as being an 'European' institution and as such can play a strong role in enhancing EU visibility. Yet, as a multilateral institution in which the EU has a majority but not an exclusive controlling majority, broad alignment with EU policies and agendas can be expected. But they cannot be fully guaranteed.

For the EBRD to promote EU values, interests, objectives, and policies entirely and steadily, and to be seen as a 'pure' European institution, the merits of a strategic EU majority or changes in voting thresholds, need to be addressed. A controlling majority would ensure that the EBRD does not deviate at any time from EU legislation.



## Scenario B

The EIB follows the 'Policy first' approach from a statutory and institutional governance perspective. The EIB's adherence to EU's policy objectives is institutionally embedded already today. Scenario B with an EIB minority-owned subsidiary which is wholly owned by European stakeholders has the advantage of not having to rely on consensus from any non-EU entity or Government. The new subsidiary would be also well placed to further strengthen the EU's visibility. However, to fully ensure alignment with the EU's 'Policy first' principle, a strong development finance focus would be required in its governance and operations. This includes a strong presence on the ground, particularly incorporating least developed and low-income countries. In addition, the finance portfolio in social sectors would need to be broadened.

## Scenario C

Scenario C would enable the EU to combine its 'Policy first' agenda with an effective 'open and inclusive architecture' approach. It can thereby seek to execute its development policy objectives via the institutions best suited to deliver 'Policy first', including the EIB, the EBRD, but also other European DFIs of the EFAD. Overall, all these stakeholders are committed to reinforcing their partnership with the EU under 'Team Europe' and to improving coordination in order to scale up their capacity to achieve long-term EU development ambitions.

With a strong policy steer from the EC/ EEAS as a prerequisite for this Scenario C, the EU could channel its resources to the institutions that are best aligned with specific priorities. In a Scenario C, the implementation of EU development and financing actions would need to be effectively streamlined, coordinated, and communicated, not least to ensure adequate EU visibility.

Scenario C seeks to play to the strengths of each institution to achieve the EU policy objectives. This would give the EU greater flexibility to achieve its policy objectives as no single institution is perfectly designed to meet every objective.

## Strong and Coherent European Approach

### Scenario A

The EU's current shareholding and voting rights in the EBRD provide the EU with unique influence and ensure a coherent 'European' approach. The Bank has a history of decisions taken by consensus, particularly helped by EU interests having a majority and being its major donor. Given the strong influence of the EU on its operations, it might not be necessary to change the shareholding to exert strong influence on the EBRD's way forward and to ensure a 'strong and coherent European' approach, particularly as the EBRD is already perceived as a European institution by many stakeholders inside and by beneficiaries

outside the EU. With the current shareholding structure, the EU benefits from the EBRD as a platform with significant potential for consensus building with non-EU shareholders. A more critical aspect of the actual governance situation relates to the visibility of the ECSDB as a true EU institution with the EBRD being the main financial vehicle which is currently based outside the EU.

### Scenario B

The EIB has a mandate to operate globally as the EU's investment bank. Scenario B would thereby ensure the EU's strategic autonomy as a pillar for a strong and coherent European approach. The envisaged EIB minority shareholding would ensure for meaningful participation by the EC, Member States and/or national DFIs. It would allow for policy alignment and effective cooperation among EU-based development institutions. Independent of the shareholder structure, to maximise the coherence of the European approach, it will be key to engage EU development ministers, agencies, and finance institutions directly in the governance to ensure synergy, division of labour and coherence among EU development actors.

### Scenario C

In Scenario C, if effectively steered and correctly implemented, policy coherence to promote EU policy objectives, values, standards, and norms could be further strengthened by enhancing the dialogue between EU Institutions, Member States, and financial institutions such as DFIs and IFIs, with the Commission in a steering and oversight role. In Scenario C, a 'strong and coherent European' approach could be backed by the cooperation and competition of complementary organisations working in the field with the EU able to champion and showcase the best operations of each in terms of development impact and EU visibility. Key to this vision is the ability to understand and build on the strengths of the multiple institutions that already exist so that they deliver development impact in their specific areas of expertise rapidly and at scale while making the most efficient use of taxpayers' money. The multi-pronged architecture offers a suite of strengths, instruments, and sectoral and country experience.

However, there is a danger that Scenario C is an endorsement and continuation of the status quo and/or lack of policy steer and that the involved institutions would not fundamentally further develop towards a more effective EFAD. This would be at the detriment of a 'strong and coherent European' approach to development finance. The cooperation of all EFAD stakeholders and particularly financial institutions in the effective implementation of the 'Policy first' principle is therefore essential to mitigate this risk.

## Open and Inclusive Architecture

### Scenario A

Building on the EBRD's business model, Scenario A is well suited for the 'open and inclusive architecture' and level playing field approach of the EU, as the EBRD both culturally and practically works seamlessly with its EU peers. Building on a long track record of collaboration, the EBRD has experience in using EU grant/ blending resources and budgetary guarantees, which it would be able to leverage in a truly open architecture and a level playing field resulting in money being allocated to organisations with a specific expertise and track-record on target geographies and sectors. Consequently, Scenario A would ensure efficient deployment and use of EU resources and facilitate increased involvement of smaller European DFIs in their respective niches. European NDBs see a specific value cooperating with EBRD for sectors requiring intensive policy dialogue, technical assistance and co-investment.

### Scenario B

In Scenario B, to maximize development impact, the EC would need to ensure that the principle of an 'open and inclusive architecture' is maintained, which does not eliminate or diminish the role and specific expertise of other stakeholders in the EFAD. The EIB would also need to continue its current strong cooperation with other financial institutions and in particular European financial institutions.

### Scenario C

Scenario C offers the strongest outcome under this criterion. It maximises the openness and inclusiveness of the EFAD enables the EU to raise the bar for all its development institutions crowding in both the private sector and the DFIs in a way that could not be replicated by the selection of a single institution. The spirit of EFSD+ would be enhanced with Scenario C. Furthermore, under this scenario, the EC could enhance the capacity of smaller European DFIs to contribute to crowd in finance by simplifying the access to EFSD+ funding, allowing them to work through joint cooperation platforms, and by facilitating the establishment of co-financing/ syndication platforms.

## A System that Delivers

### Scenario A

The EBRD's business model, which would need to be expanded in Scenario A to new geographies and sectors, is generally well positioned to meet the operational and technical requirements for a system that delivers. The Bank's experience with operations at all parts of the capital structure from equity to secured debt is also an asset. The EBRD works with a financially sustainable business model without extensive reliance on external guarantees and is highly valued as a key development bank in its countries of operation and among peers for its extensive local

footprint an in-depth local and sectoral technical expertise, including on policy dialogue and holistic focus on the transition of countries. Local operations are core to the EBRD's business model. In its current countries of operations, the EBRD has thus demonstrated a strong capacity to contribute to development and to promote EU policy objectives, values, standards. The Bank has a strong focus on private sector development. In terms of value added, the EBRD's business model has proven highly effective mainly in transition economies but also in some fragile states. In these areas, the EBRD's business model combines policy dialogue and technical assistance with a broad range of investment instruments across ticket sizes and sectors. It can also operate in the public sector catalysing systemic change beyond individual projects. It avails of a strong risk-taking capacity and a market-based pricing methodology to prevent crowding out of other private sector actors.

The EBRD's country geographic expertise would need to expand to SSA and other new countries of operation among LDCs and fragile states. The EBRD's balance of public and private sector work may need to change over time in Scenario A, with a foreseen increase of operations in the public sector. The EBRD would also need to increase its exposure in inclusiveness and the social sectors such as education, health, and social protections which are critical to achieving the SDGs.

### Scenario B

Under Scenario B, the EIB is valued in its countries of operation for its provision of low-cost financing. In the Neighbourhood region, the EIB has expanded operations in line with EU objectives and is seen as being effective. The Bank has delivered under the ELM and ACP IF mandate. The EIB's current strength lies in the execution of public sector operations, especially in large enabling infrastructure projects, where it operates on a par with its regional and global development bank peers. It has strong sector expertise in climate, environmental sustainability, and digitalisation.

If the EIB is to deliver the EU ambitions under Scenario B, substantial changes would be required in its governance, risk appetite, policies, and procedures. Moreover, in terms of financial instruments, the EIB would need to increase its operations in local currency loans, direct equity and guarantees as well as supply chain financing and trade finance, and loan syndications. The EIB has limited experience with respect to LDCs and fragile states. It operates through a centralised model with very limited presence on the ground. To significantly broaden its current operational capacity to serve new sectors in LDCs and fragile situations, the EIB would need to increase its in-country staff. The EIB would also need to strengthen its involvement in policy dialogue and technical assistance to develop transactions to complement its investment activities.



### Scenario C

The potential added value of a Scenario C with multiple actors intervening comes from the fact that European DFIs, altogether, are able to intervene on a wide array of projects. Collectively, the stakeholders of the EFAD are well able to carry out both private and public sector operations. This capacity could be enhanced by ensuring effective access to EU funds and implementation of EU-funded programmes by all eligible counterparts, large or small, and by expanding and strengthening co-financing and refinancing programmes across institutions. Overall, each institution, including, the EIB and the EBRD, has different, and very often complementary levels of development expertise, and country and regional knowledge, but as partly continued under the other two scenarios as well, better addresses the challenge of local presence.

If the concept of 'Team Europe' can be built upon, an environment could develop whereby each European actor, including the EIB and the EBRD, and indeed any non-European institution which are pillar assessed, would seek to play to their respective strengths and where the sense of community created by the 'Open Architecture' spurs innovation and creativity.

### Cost and Time Effectiveness

#### Scenario A

If the EU sought an exclusive controlling interest, a shareholding of 80 % would be required with a considerable cost. Any share restructuring, if executed, would require a number of co-ordinated steps and consent from all of the current shareholders of the Bank.

To execute the projected lending programme under Scenario A, the EBRD would not need to raise any additional capital at this stage. The EBRD is cost competitive with its multilateral peers and the bilateral DFIs despite its extensive local presence. However, currently the EBRD has a "transition economy" mandate and an increase in activities in less developed economies may put upward pressure on its cost model and need for additional grants and guarantees.

The Neighbourhood, Enlargement, and the SSA regions are expected to remain the regional priorities of the EU. While the EBRD has very limited experience in LDCs and fragile countries, it is already well established in the EU Neighbourhood and Enlargement countries. Currently SSA, the Americas and Southeast Asia are not regions of operation for the Bank. Hence, under Scenario A, a substantial expansion programme would be required. This would be challenging, and it can be expected to take around a decade to reach a global coverage. If the focus is on selected priority regions/ countries, e.g. SSA, development impacts might be reached on a shorter timetable (about three to five years).

### Scenario B

If the EIB is to establish a subsidiary in which it is a minority shareholder, it will require substantial paid-in capital, which would enable the Bank to operate under its own balance sheet and therefore rely less critically on a dedicated window, but rather would retain its pre-eminence in the field of sovereign financing on the basis of its more competitive product offering. The Study team would expect the subsidiary to require paid-in capital of EUR 5-13.5 billion for a EUR 50-60 billion programme depending on how it will be financed.

In terms of costs, based on the existing business model outside the EU, it was estimated the annual cost of an expansion to SSA, fragile states and LDCs would be 3.5 % of annual investment driven by the predominance of HQ staff. Under Scenario B, the Bank envisages the move to a less centralised model in the long run, which could result in comparable costs for Scenario B and Scenario A.

The EIB has a global mandate and representative offices across the world, some of them in a co-location with EU Delegations. However, to broaden its use of investment instruments and expand in less developed markets, especially in LDCs and fragile states, where average ticket size will be lower with a need for more time and effort per transactions, the Bank will need to substantially increase its operational capabilities including significantly higher on-the-ground presence and augmentation of its skill set. As such, in SSA, the challenge and timetable required to achieve full strength would not differ significantly to Scenario A. However, as the EIB does not require partner countries to be shareholders in the Bank, expansion to new countries could be achieved more rapidly than with a shareholder requirement for partner countries.

#### Scenario C

Under Scenario C, the EU would have the potential to leverage its entire existing suite of development partners to their maximum effect without significant institutional changes. Scenario C could be strongest by encouraging existing institutions to improve their development contribution and impact, with a redoubling of focus on the 'Open Architecture', enabling the EU to prioritise the allocation of every Euro to actors that are best able to allocate capital and to deliver on the 'Policy first' principle, especially on EU development impact objectives. Building on already existing resources, Scenario C would be the quickest of all three to implement.

Scenario C is the most cost-effective option, as both Banks can optimise their business model to work most efficiently to its strength rather than expanding into sector and market types, which do not match their expertise. This does carry the risk of unnecessary duplication of resources in the EFAD, which

will need to be prevented by a clear EU steer. If appropriately managed, this should create the opportunity for both individual EFAD actors to optimise operating expenses and the EU to optimise the use of its resources.

In contrast, building a new ECSDB may result in a more costly, time-intensive, and risky endeavour, duplicating institutions and business models. When EU Member States and partner countries need quick and effective collaboration and support to continue to navigate the impacts of COVID-19, building on already existing resources and complementarities, as foreseen in Scenario C, seems to be the most suitable

scenario to ensure a strong and coherent approach to address the current main development challenges.

#### Overview of financial estimates

The table below provides an overview of financial estimates in terms of lending capacity, grant and blending resource use, capital requirements as well as costs and projected future external grant support needed. Key assumptions and explanations are briefly outlined in the footnotes to the table.

Scenario A		Scenario B		Scenario C		Scenario D	
Lending capacity (€ billion)		Grant and blending resource use (€ billion)		Capital requirements (€ billion)		Costs (€ million)	
Initial		Initial		Initial		Initial	
2020		2020		2020		2020	
2021		2021		2021		2021	
2022		2022		2022		2022	
2023		2023		2023		2023	
2024		2024		2024		2024	
2025		2025		2025		2025	
2026		2026		2026		2026	
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2098		2098		2098		2098	
2099		2099		2099		2099	
2100		2100		2100		2100	

<sup>1</sup> These estimates excludes both Banks' current use of EFSD guarantees and EIB's dedicated windows from EU and Member States.

<sup>2</sup> This estimate is based on an expansion over four waves to 60 countries. This estimate does not assume co-location with EU Delegations, which could decrease costs significantly.

<sup>3</sup> The EIB anticipates that cost of establishment new offices will be covered by the administrative overhead as part of the total staff and non-staff costs outlined in the next row. EIB is not expecting incremental establishment costs, as it is planning to expand their existing presence and leverage where possible co-location with EU Delegations. However, this will subject to confirmation and available office space. Detailed future cost modelling with specific locations and FTE numbers in mind will determine the exact set-up cost of Scenario B.

<sup>4</sup> This estimate is based on an expansion to 22 countries. This estimate does not assume co-location with EU Delegations, which could decrease costs significantly.

<sup>5</sup> EIB's and EBRD's business models are expected to evolve in all three Scenarios. Consequently, when moving into less developed markets and dealing riskier transactions, there will be a need for increased external grant support. The exact figure depends on the country context. The % is expected to be higher in fragile, higher risk contexts, whereas it is expected to be lower in more established market economies.

<sup>6</sup> In line with their current level.







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