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NOTE

From:	General Secretariat of the Council
To:	Delegations
Subject:	Terms of reference for a feasibility study on options for strengthening the future Euroepan financial architecture for development

Delegations will find attached the Terms of Reference (ToR) for a feasibility study on options for strengthening the future European financial architecture for development, prepared jointly by the Working Party of Financial Counsellors and the Working Party on Development Cooperation on the basis of a Commission proposal, as requested by the Council Conclusions on strengthening the European financial architecture for development of 5 December 2019 (14434/19).

FEASIBILITY STUDY on

options for strengthening the future European financial architecture for development

SPECIFIC TERMS OF REFERENCE

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1 MANDATE AND GENERIC OBJECTIVES

The European financial architecture for development plays an increasingly important role in support of the external policy objectives of the European Union (EU), by complementing traditional development cooperation tools and leveraging substantial resources for external investments. Nevertheless, there have been calls for a reform or rationalisation of the existing institutional and operational framework to ensure that it is fully commensurate to the current investment challenges in Sub-Saharan Africa (SSA), the EU's Neighbourhood and elsewhere in the world, and that it delivers impact efficiently and effectively. These challenges have been brought to the forefront by the ongoing Covid-19 crisis, the sanitary and socio-economic impacts of which are already significantly affecting vulnerable countries. Reforming the European financial architecture for development is more needed than ever to ensure the effectiveness and visibility of European external action, and to provide a coordinated and effective EU response to the medium to long term impact of the crisis in partner countries.

To this end, the Council of the EU established, with Decision (EU) 2019/597, a High-Level Group of Wise Persons. The Group was tasked with producing an independent report assessing the challenges and opportunities for improving and rationalising the European financial architecture for development and proposing possible scenarios for its evolution. The report was published in October 2019.[1]

The general purpose of this independent study is to provide a more detailed legal, governance, financial and operational assessment of the feasibility of two of the options put forward by the High-Level Group of Wise Persons and to assess also the option of possible enhancements in the current institutional set-up. As such, the study should inform future policy choices on the European financial architecture for development by comparing these options and allowing for a clear understanding of the added value of each of them in terms of efficiency, cost, speed of implementation, visibility, development impact and alignment with EU policy objectives as well as of the preconditions for their success**.** The report should be limited to an analysis of the feasibility and not formulate recommendations on a preferred option.

2 STUDY RATIONALE AND SPECIFIC OBJECTIVES

In line with the Council conclusions of 5 December 2019 on "Strengthening the European financial architecture for development", the specific purpose of this study is to assess the feasibility and the conditions for the implementation of options 1 and 3 put forward in the Wise Persons Group's report (hereinafter 'option 1' and 'option 3') as well as of possible

[1] https://www.consilium.europa.eu//media/40967/efad-report_final.pdf

enhancements in the current institutional set-up (hereinafter 'Status Quo+' – see Section 3 below for more details). The two options put forward by the Wise Persons Group to be covered as elements of this study involve important institutional changes and have significant implications on financial and human resources. The study shall assess the necessary legal and statutory pre-conditions for their possible implementation, their added value, their financial, governance and operational implications as well as the potential advantages and disadvantages of the 'Status Quo+'.

At the request of the Council, the EIB and EBRD provided in early February 2020 their proposals for concrete actions to achieve enhancements in the current institutional set up and maximal development impact. These would comprise a series of operational and practical measures to improve the effectiveness and efficiency of the existing set-up, rather than fundamentally reforming the existing architecture. In addition, the EBRD and EIB have been invited by the Council Presidency to submit information on financial, legal and operational implications for their institutions of both options 1 and 3 outlined in the Wise Persons' report, based on a specific set of questions to ensure comparability.[2] The study should make use of this input, in addition to other resources, when assessing options 1 and 3 as well as the 'Status Quo+'.

In carrying out the above assessment, the study should take into account the following principles and requirements to inform the future European financial architecture for development:

- 'Policy first' - steering by EU external policy objectives (including development needs and the 2030 United Nations Agenda for Sustainable Development), EU geopolitical interests as reflected in multiannual programming, an enhanced focus on Least Developed Countries (LDCs), SSA and countries subject to fragility, the implementation of EU enlargement and neighbourhood policies, as well as climate change mitigation and adaptation) promoting EU values, strengthening EU visibility in partner countries and providing the EU with financial and political leverage;
- 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;
- The principle of an 'open and inclusive architecture' whereby the EU seeks to make the best out of the respective strengths of all relevant European DFIs (EIB, EBRD and Member States development finance institutions) – as lead financiers whenever

[2] The Council Presidency addressed a set of questions to both banks on 6 December 2019, WK 13997/2019 INIT.

possible – and other International Financial Institutions (IFIs), particularly those with a strong European ownership, in support of EU policy objectives, norms and standards, while striving to maintain a level playing field between them and facilitating increased involvement of smaller European DFIs. In this spirit, the Commission makes available to IFIs/DFIs various types of blending contributions and budgetary guarantees;

- The "requirements for a system that delivers" identified in section 3 of the Wise Persons' report, namely requirements concerning development impact, policy coherence, institutional design, effective coordination, and technical expertise (including risk and debt sustainability management). This should also include how possible changes would impact smaller European DFIs as well as other multilateral organisations, and how the system as a whole can be made to work better.
- Budgetary and timing constraints, in order to ensure cost efficiency and minimise additional costs for the EU Member States and the EU budget, while anticipating and addressing possible disruptive effects on the EU's ability to deliver on its objectives.

Accordingly, the study will need to take into account, inter alia, the following criteria when examining the political, legal, governance, financial and operational implications of options 1 and 3 identified in the Wise Persons' report as well as the implications of the 'Status Quo+':

- The EIB's, the EBRD's and other actors' capacity to contribute to global development, to promote EU policy objectives, values, standards and norms[3], as defined by EU institutions, and to ensure EU visibility;
- Their development expertise and country/regional knowledge particularly with respect to SSA, the EU's Neighbourhood and Enlargement countries, but also beyond, benefitting from strong local presence and from a robust system for assessing the development impact of operations and feeding that knowledge into new operations;
- Their capacity to engage in advisory policy work and project generation and sustainable development in countries and regions of operation, including LDCs and fragile situations;
- Their capacity to carry out both private- and public-sector operations, without crowding out the private sector or distorting the market;
- Their capacity to crowd in private/public-sector finance and collaborate with other partners, in particular European DFIs (including smaller ones) and private investors as well as other multilaterals;
- Their capacity to deliver value added and balance between efficiency, financial sustainability and development impact;

[3] Including but not limited to, gender mainstreaming, taxonomy, social and environmental safeguard, combating fraud, list of non-cooperative jurisdictions

- Appropriate operational capacity, shareholding and capital structure, risk-taking capacity, product-pricing methodology, processes and standards to carry out operations as described above.

3 BACKGROUND

3.1 General background

The EU and its Member States are historically the biggest donor in the world. However, in order to reach the Sustainable Development Goals (SDGs) of the 2030 agenda and to respond to the increasingly complex challenges, including climate change, additional resources for development finance are necessary, particularly in response to the COVID-19 shock. In this context, the European financial architecture for development plays a crucial role.

The current set-up relies on the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and financial instruments of the European Commission managed through pillar assessed financial institutions, embedded in a landscape of European national as well as international multilateral development finance institutions (to many of which European shareholders are providing significant shares of capital). This set-up has been subject to discussions before, including in the "Camdessus report" of 2010, evaluating the EIB's financing activities outside the EU, and the Commission's 2018 Communication "Towards a more efficient financial architecture for investment outside the European Union".

Following the Franco-German initiative in the Meseberg Declaration (June 2018), the Council of the European Union established in April 2019 a "High-level Group of Wise Persons on the European financial architecture for development". Their report, published on 7 October 2019, provides a system-wide perspective on the challenges and opportunities for improving and rationalising the European financial architecture for development, looking in particular at the respective roles of the European Investment Bank and the European Bank for Reconstruction and Development.

The High-level Group of Wise Persons argues for the consolidation and streamlining of European development finance and climate activities outside the EU into a single entity, a European Climate and Sustainable Development Bank, to avoid overlaps, and strengthen the EU's presence, role and long-term capacity to deliver on EU development priorities. In particular, the report considers three options for such consolidation:

- Option 1 - European Climate and Sustainable Development Bank building on the EBRD and the external financing activities of the EIB
- Option 2 - New mixed-ownership European Climate and Sustainable Development Bank
- Option 3 - European Climate and Sustainable Development Bank based on a EIB subsidiary

Of these, options 1 and 3 have been retained in the Council Conclusions of December 2019 for further analysis through an independent feasibility study (see sections 1 and 2).

At the request of the Council, the feasibility study should also analyse further possible enhancements in the current institutional set up (referred to as 'Status Quo+'). These shall improve the effectiveness and the efficiency of the existing architecture, and maximise the visibility and development impact of EU development cooperation, without pursuing fundamental reforms of its institutional and structural features. Possible measures under the Status Quo+ may include – but not be limited to – steps to increase cooperation between EIB and EBRD as well as with European national development banks and other development finance institutions or their consortia (including in the fields of mutual reliance of procedures, cofinancing/syndication, refinancing and risk sharing). A number of short-term interim measures to that effect have been put forward by the Wise Persons Group and taken on board by the Commission in its report to the Council on 31 January 2020[4]. These echo to a great extent the proposals already put forward by the Commission in its 2018 Communication "Towards a more efficient financial architecture for investment outside the European Union" and its proposal for a Regulation establishing the Neighbourhood, Development and International Cooperation Instrument (NDICI).[5] Further technical discussions are currently ongoing.

3.2 Overview of the existing European system

The **European Commission** is managing development financing through both the EU budget and the European Development Fund (EDF). The European Union provides a significant amount of development funding through the EU budget – roughly EUR 95 billion allocated to external policies in the 2014-2020 programming period. The total financial resources for the EDF for the same period amount to EUR 30.5 billion. An important feature is the availability

[4] COM (2020) 43, 31 January 2020

[5] COM(2018) 460 final, 14 June 2018

of funds with varying degree of concessionality (from grants to non-concessional loans), which can be modulated to the specific development needs. The European Commission and the High Representative, in consultation with Member States, European Parliament, countries of operation and other various stakeholders, define the EU's medium and long-term priorities, objectives and funding allocations to support partner countries/regions through a process of multi-annual programming. More recently, the Commission has intensified efforts on coordinating with the main IFIs, European DFIs, banks and donors from partner countries. Cooperation with IFIs/DFIs also takes place through eight blending platforms covering all the regions where the Commission operates (e.g. Africa Investment Platform, Latin America and Asia Investment facilities, Western Balkans Investment Framework, Neighbourhood Investment Platform). The establishment of the European Fund for Sustainable Development (EFSD) in 2017 has also seen the introduction of a coordination process for the use of EU budgetary guarantees through the creation of the EFSD Strategic Board.

The Commission proposed significant changes to the existing external development funding framework for the period 2021-27 through the Regulation establishing the NDICI. This new instrument is intended to integrate a number of existing external financing instruments into a single one. This also includes the integration of all existing modalities of implementation, covering not only grants but also budgetary guarantees in the programming process, in order to improve the alignment between budgetary spending and EU external policy objectives. It also envisages a much stronger role for joint programming between the EU and Member States. The latter are to be involved in key decisions on the multi-annual indicative programmes and financing decisions, notably through a new NDICI Committee. The Commission also proposes that the governance established under EFSD with the EFSD Strategic Board be applied in the future to all blending platforms and budgetary guarantees.

The **European Investment Bank** is a Treaty-based EU body and is fully owned by the EU Member States. It is one of the largest public multilateral banks in the world, with over EUR 450 billion in outstanding loans, and its main focus is on investment inside the EU (around 90% of its overall annual disbursements). The EIB is also active in the EU’s Neighbourhood, SSA, Asia, Pacific, Latin America and the Caribbean in support of the Union's policies, based on existing EU instruments such as the External Lending Mandate[6] and the Africa, Caribbean and Pacific (ACP) Investment Facility. However, its extra-EU activities represent a relatively

[6] The implementation of the EIB’s External Lending Mandate has recently undergone an evaluation by the Commission, see SWD(2019) 333 final and SWD(2019) 334 final.

small part of the EIB's portfolio (around 10% of its overall annual disbursements) with 27 representative offices outside the EU.

The **European Bank for Reconstruction and Development** is a multilateral developmental investment bank – of which the EU Member States, the EU and the EIB are majority shareholders with 54% of the shares – which concentrates its efforts on Central European EU Member States, the Enlargement and Neighbourhood countries and Central Asia. It has developed substantial local expertise through an existing network of 53 resident offices in its 38 countries of operation and engages in policy work with partners as part of its activities, including by supporting reforms. Beneficiary countries are also shareholders of the EBRD.

An important component of the European financial architecture for development is the system of **National Development Banks and Finance Institutions** (DFIs), which together contribute a significant share to the implementation of the Union's policies and related operational actions on the ground.[7] Whilst they vary in nature, scope, knowledge and capacities, they have an important role as regards geographical coverage and resource mobilisation, especially in SSA, and have a good level of presence on the ground. In addition, an increasing number of regional development banks are becoming active partners.

3.3 Stakeholders

Taking into account the above, it is clear that there is a wide array of stakeholders concerned within the European financial architecture for development. The main stakeholders include: the EU Member States, the European Commission services and the External Action Service (EEAS) as well as the EU Delegations, European Parliament, EIB, EBRD, relevant national development finance actors at European level, international financial institutions, private sector, local and regional intermediaries, partner countries and their institutions, civil society organisations.

Relevant stakeholders for the purposes of the study should be defined in more detail during the desk/inception phase. To ensure that the recommendations are actionable in practice, appropriate involvement of the EIB and the EBRD should be pursued by the study team.

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[7] In 2018, the 19 DFIs of MS committed an estimated € 27.5 billion in new funding outside the EU. They implemented 41% of EU blended finance, compared to 25% for EIB and 12% for EBRD. With 225 offices and approximately 2 000 experts in the field MS FIs have developed very close relations with stakeholders of partner countries and knowledge of their constraints and needs.

4 SCOPE

4.1 Legal scope

The feasibility study is based on the Council conclusions on "Strengthening the European financial architecture for development" of 5 December 2019.[8] The present Terms of Reference were prepared in consultation with the Council preparatory bodies (Working Party of Financial Counsellors and Working Party on Development Cooperation) and approved by the Council of the EU.

4.2 Temporal scope

The feasibility study covers the herein described options for the future European financial architecture for development and their implementation within the time horizon of the EU Multi-annual Financial Framework 2021-2027 and beyond.

5 STUDY ISSUES

In line with the Council conclusions of 5 December 2019, the study shall assess:

- The feasibility of options 1 and 3 put forward by the High-Level Group of Wise Persons (hereinafter "options 1 and 3"). To this end, the assessment shall thoroughly analyse their political, legal, governance, operational and financial implications, both for the EU and for the concerned European Finance Institutions, namely the EIB and the EBRD (hereinafter "the banks").
- The option of possible further enhancements in the current institutional set up and their potential implications in legal, operational and financial terms (so-called 'Status Quo+').

The study should compare the different options and allow for a clear understanding of the added value of each of them in terms of efficiency, cost, visibility and development impact. The study should also identify potential shortcomings of each of the options. Emphasis should be on what is needed to make each option a success.

In carrying out the above assessment, the study should acquire accurate data on the total resources, including volume of grants, currently available in the system for financing

[8] http://data.consilium.europa.eu/doc/document/ST-14434-2019-INIT/en/pdf

activities outside the EU (including grant funding from the EU and the Member States' budgets) and, on this basis, estimate how much could be redirected to a possible new entity (option 1 and 3) or mobilised to finance additional investment programmes and enhancements in the current system (Status Quo +). The study should also estimate what could be the total target volume of operations under each option as well as the 'Status Quo+', taking in due consideration financing gaps in target regions compared to operations by other DFIs and/or MDBs. To this end, the study should develop working hypotheses about the required terms of lending (maturities, grace periods, rates and fees) based on assumptions about risk exposure to a sample of countries (including LDCs and fragile countries), with a range of balances between sovereign and private sector lending.

For the purpose of this study, the following issues need to be assessed in-depth:

5.1 Options 1 and 3 of the Wise Persons' Report

5.1.1 Legal and statutory/governance implications of options 1 and 3

The study shall assess the legal implications of setting up the appropriate structures corresponding to options 1 and 3. To this end, the study should look into the impact on the mandates of the two banks, the statutory prerequisites and constraints as well as the relevant procedures to implement options 1 and 3. It shall assess EU control over the banks in governance terms, and explore their relationship with the EU and how EU policies are incorporated into the banks' strategies and operations. The study should also look at the legal, governance and organisational implications and prerequisites or constraints of further expanding the banks' operations to or in SSA, the Neighbourhood and Enlargement countries, as well as to LDCs and fragile states and to underserved sectors.

More specifically on the two options covered in the Wise Persons report, the study shall address the following questions:

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

    i. For option 1, 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, beyond the current 54% shareholding? What are the possible steps the prerequisites in terms of agreement by non-EU EBRD shareholders and related political issues? What would be the implications of having new partner countries as shareholders of the EBRD on maintaining an EU controlling majority?

    ii. For option 3, what would be the appropriate participation of Member States, National Development Banks, European Commission and EIB? Having in mind the EIB currently being shareholder of the EBRD, explore the feasibility of EBRD becoming a shareholder of the EIB and the potential benefits in in terms of policy coherence. Explore the feasibility of including countries of operations as shareholders and the potential benefits in terms of alignment with partner country needs.

b) Governance and operational scope: For both options, 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? 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?

   i. For Option 1, recalling those in force, what would be the necessary legal and institutional steps to extend its mandate globally over time? What would be the impact on the EBRD's capital structure?

   ii. For Option 3, recalling those in force, what legal and institutional steps may be required for EIB to operate globally?

c) Transition process: 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 particular:

   i. What would be a realistic length for the transition from the current set-up of EBRD and EIB to the new steady state of either option 1 or 3? Conversely, for 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?

   ii. Under each option, at what speed could the geographic mandate of the 'European Sustainable Development and Climate Bank' reach a global scope?

5.1.2 Financial implications of options 1 and 3

The study shall assess the financial implications for the two banks of implementing options 1 and 3 with regard to the necessary set of financial instruments, related pricing strategy, legal / operational limits, including in terms of risk taking capacity and capital consumption. In addition, financial implications for the setting up and running of the structure (including necessary shareholding changes) should be considered. The study should provide an estimation of the implied needs in terms of additional capital and other costs for their shareholders. Costs should be assessed based on the estimated target volume of operations of a possible new entity. This should be determined on the basis of the total resources currently available in the system for financing activities outside the EU that could be redirected to the new entity.

More specifically on options 1 and 3 covered in the Wise Persons report, the study shall address the following questions:

a) What are the implications, including a cost estimate, capital needs as well as staffing implications, both at HQ and regional level, of widening the EBRD / EIB's operations to/in SSA, LDCs and fragile states? This should be based on the banks' current lending / financing strategy and allocations, and differentiate between private and public sector operations.

b) What would be the costs of setting up the appropriate structures as well as their prospective annual costs, and could these be covered by the banks? In particular, what would be the cost associated with scaling up local presence and acquiring the necessary expertise to match the development, policy and operational requirements of the new entity?

c) For option 1, what would be the underlying costs to increase EU shares to a controlling majority?

d) What would be the costs and financial risks of transferring a portfolio of operations from one institution to another? How would this portfolio fit into the recipient's pricing and risk strategy?

e) How relevant and adequate are the current lending instruments, other financial products and services of the two banks to the financing needs, particularly in SSA, Enlargement, Neighbourhood, LDCs and fragile states? Are there any legal/ operational (e.g. credit rating) limits to their extension, and, if so, to what extent can these be overcome?

f) 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.

g) 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?

h) What would be the level of reliance of each option on external enablers (including donor resources), in particular in support of policy engagement, technical assistance and blending?

i) Are there circumstances – and if yes, which – requiring to separate balance sheets and reporting between 'inside' and 'outside' the EU?

j) Is there the need to adjust EBRD / EIB's pricing / risk strategies and their management so that these better meet EU policy objectives? Assess how the eventual changes in pricing and risk strategies may affect the business model of EBRD / EIB.

In addition, and specifically for option 1:

a. Would the EBRD have to run down (part of) its present portfolio in certain countries of operation in order to free up capital for operations in new EU priority areas? If so, how, in what timeframe and at which cost?

b. What would be the impact for the remaining EBRD operations in EU Member States, if any?

In addition, and specifically for option 3:

a. How would the EIB separate its external development activities from its current balance sheet? What are the potential capital structures and implications for the shareholders?

b. What would be the impact for the remaining EIB operations in EU Member States, if any?

c. What would be the financial implications for EU Member States of a broader shareholding, i.e. EU Member States, National Development Banks, European Commission, EIB, EBRD and recipient countries?

Where relevant, the questions above should also be addressed for the option of enhancing the existing institutional set-up (Section 5.2).

5.1.3 Operational implications of options 1 and 3

Whilst taking into account the needs of partner countries and the complementarity with other DFIs and MDBs, the study shall assess the operational capacity and readiness of the two banks to a significant broadening of operations in the medium and long term, both geographically (particularly in SSA, LDCs, and fragile states) and thematically (most notably with respect to climate finance, but also underserved sectors). In this respect, the study shall also assess the availability and future needs in the two banks of the necessary expertise as well as the implications on their business model and requirements of development finance, including presence on the ground and product diversification. It should make use of inputs provided by the EIB and EBRD in response to the abovementioned Council conclusions.

More specifically on the two options covered in the Wise Persons report, the study shall address the following questions:

On both options :

a. What is the existing level of engagement and related business volumes of the EIB / EBRD in developing countries, particularly in SSA, Enlargement, Neighbourhood and LDCs/fragile states, including active exposure, number of operations and field offices?

b. What are the areas of increased efficiency and additionality that each option could bring in developing countries, particularly in SSA, Enlargement, Neighbourhood, LDCs and fragile states, particularly in complementarity to European DFIs and MDBs already active in the region and in accordance with the needs of the partner countries?

c. What would be the implications for the EIB's / EBRD's business model of conducting increased volumes of both public and private sector operations outside the EU, particularly in SSA, Enlargement, Neighbourhood and/or LDCs and fragile states? Provide an analysis of the possible long-term path that both institutions would have to go through from their current situation to those considered as Option 1 and Option 3, assessing the potential benefits, costs and restrictions involved.

d. What would be the appropriate distribution between public and private lending, particularly in SSA and LDC/fragile states, to achieve the EU's policy objectives. How would this balance affect debt sustainability, particularly in LDCs and fragile states?

e. What would be the operational capacity and constraints with respect to loans, concessional loans, direct and indirect equity, guarantees, technical assistance in target countries, including where needed in combination with public funding?

f. What are the operational capacity on financing under own risk vs. under guarantees? What is needed to enhance this capacity?

g. What is the operational capacity of EBRD / EIB to provide climate/green finance at the required levels in the relevant countries of operation?

h. Is there sufficiently "in-built" flexibility at operational level to ensure smooth alignment to evolving EU policy priorities, standards, rules and sanctions? Is there sufficient capacity in each bank to ensure EU policy coherence and promote synergies between different EU funds and instruments?

i. Do the present systems, operating culture and incentive/reward schemes ensure robust assessment and systematic measurement of development impact, including in terms of the SDGs? What would be the required changes, if any, to ensure that interventions will be covering in priority SSA, Enlargement, Neighbourhood, LDCs and fragile states?

j. To what extent are the banks in a position to provide country and sectoral expertise, as well as analytical input on policy reform needs in countries of operation? Would these capacities need to be beefed up and how/at which cost?

k. In this context, to what extent is there capacity to carry out advisory and policy dialogue work, in close cooperation with the European Commission services/EEAS and the EU Member States?

l. To what extent is there capacity to contribute to project generation and origination in countries of operation? What would be the required changes for project generation/origination?

m. To what extent is the current "in-house" development expertise, the country and sectoral knowledge coupled with the local presence adapted to meet the above policy requirements? What are the implications in adapting to be fit for the task?

n. How would appropriate local presence be ensured in the future countries of operation? How could this presence be graded / scaled-up according to priorities and countries of operation? What operational relations with EU Delegations should be envisaged?

o. To what extent adaptations will be required for the operationalisation of either of the two options, in order to effectively use the different types of EU support, e.g. as presently proposed under the NDICI Regulation? What would be the implications of both options for other actors of the European development financial architecture? Would EIB (in case of option 1) and EBRD (in case of option 3) continue to have a viable business model?

p. How would existing ways, means and practice of co-operation and co-financing with other European Development Finance Institutions (DFIs), International Financial Institutions (IFIs) and Multilateral Development Banks (MDBs), need to be adapted to enhance co-operation with all such actors (in particular European ones) and encourage greater inclusiveness of smaller DFIs, particularly on the ground in SSA, Enlargement, the Neighbourhood, LDCs and fragile states?

q. To what extent is there capacity to crowd in private/public-sector investors and address market failures / sub-optimal investment situations? What would be necessary to increase this capacity to match the needs, particularly with respect to operations in LDCs and fragile states?

r. How will each option improve the visibility of the overall EU action?

Where relevant, the questions above should also be addressed for the option of enhancing the existing institutional set-up (Section 5.2).

In addition, and specifically for option 1:

a) What is the operational capacity of the EBRD to a significant broadening of its public-sector operations?

b) To what extent is specific expertise available in the EBRD, in particular with regard to public and private operations in the EU Neighbourhood, SSA and LDCs? What would be the underlying costs and timeframes to address possible adaptation needs?

c) Would EIB's external portfolio (or parts of it) need to be transferred to the EBRD or run down on the balance sheet of the EIB? Would there be any legal constraints for such a transfer and what would be the cost of the different options? To what extent EIB capital would be freed up? In the event of a gradual run-down of the portfolio, what would be the time profile?

In addition, and specifically for option 3:

a) What is the operational capacity of the EIB to a significant broadening of its private-sector operations (excluding 'Apex loans'), while avoiding any crowding out effect on private sector operations not financed by the EIB?

b) To what extent can the EIB put in place a less risk-averse and more flexible risk culture to fulfil the development, policy and operational requirements of the subsidiary, particularly with respect to LDC’s and fragile states? What are the possible implications for the banks' capital needs?

c) To what extent is specific expertise available at EIB, in particular with regard to public and private operations in the EU Neighbourhood, SSA and LDCs? What would be the underlying costs and timeframes to address possible adaptation needs?

d) Is sufficient expertise available in the EIB, in particular with regard to project preparation, development impact and private sector operations? If not, how would this need to be further developed and expanded, and at which cost?

e) To what extent should the EIB scale up its local presence to match the development, policy and operational requirements of the subsidiary and what costs would this imply?

5.2 Enhancements in the current institutional set up (Status Quo+)

The study should also comprehensively address possible further enhancements of the current European financial architecture for development, building on the Council conclusions of 5 December 2019, the Wise Persons’ Report, the ‘policy first’ principle underpinning the proposed post-2020 NDICI and inputs that will have been submitted by the EIB and EBRD.

While the previous part of the study will have explored options for a major reconfiguration of EIB and EBRD activities towards one single entity that would emerge in the long term, this part should reflect on enhancements in a scenario where both the EIB and the EBRD as well as other actors better coordinate and possibly further expand their activities outside the EU.

a) This part of the study could focus on the questions below, without repeating the comprehensive analysis contained in the Wise Persons’ Report. In addition, the questions mentioned in section 5.1 that are relevant for this option should also be addressed. What steps would be required to enhance the visibility, efficiency, coherence and development impact of the current European financial architecture for development? What would be the costs and benefits of implementing such steps?

b) What specific steps could be envisaged towards greater harmonisation/alignment of strategies, standards (e.g. environmental and social standards or fight against tax avoidance), processes, strategies and approaches in development finance between the European DFIs, EIB, EBRD and the Commission as well as other IFIs, taking into account the expertise acquired at EU level in the framework of the EUBEC? How to advance mutual recognition of such procedures among all European FIs with a view to increase cofinancing and risk sharing among them?

c) How to facilitate greater policy coherence and operational focus – including through greater specification across different sectors/operations/counterparts – on SSA, LDCs and fragile countries, as well as on climate, in line with the relevant targets in the NDICI Regulation and following the priorities established in the multiannual programming documents?

d) How to enhance cooperation and complementarity between the European DFIs, EIB, EBRD and the EC, particularly on the ground in Sub-Saharan Africa, the Neighbourhood, LDCs and fragile states? Is there scope for "cross-shareholding" as it is currently the case with the EIB being shareholder of the EBRD? How to improve synergies with other Multilateral Development Banks (MDBs) active in the countries in question, particularly with the World Bank Group and the African Development Bank? How best could the concept of 'country platforms' be applied?

e) Which institutional and regulatory tools (including rules governing the implementation of the future EFSD+) could be used or strengthened to prevent or reduce any unwanted competition between EBRD and EIB? Should potential overlaps between EIB and EBRD be reduced in countries where both banks operate? If so, identify possible arrangements.

f) How to make the post-2020 EFSD+ more inclusive and accessible for smaller European DFIs? How to further promote the involvement of national European DFIs, e.g. through consortia?

g) How can the principle of European preference be applied when allocating EU support under the guarantee and blending facilities?

h) How to improve consistency in reporting and evaluation across European DFIs, EIB and EBRD?

i) Which measures could be taken to improve the visibility of the overall EU action in a scenario with more than one 'European development bank'? How large benefits in terms of development impact and efficiency improvements could be achieved through the Status Quo+ compared to options 1 or 3?

6 <u>RESPONSIBILITY FOR THE MANAGEMENT OF THE STUDY</u>

The progress of the study will be followed closely by a Steering Group consisting of: the rotating Presidency of the relevant Council preparatory bodies, the Council Secretariat, the European Commission, the European External Action Service (EEAS) and representatives of the previous and incoming Rotating Presidencies.

Its principal functions will be to:

- discuss and comment on these Terms of Reference with the study team;
- discuss draft reports produced by the study team and participation in workshops;
- ensure the study team has access to and consults all relevant information sources and documentation on activities undertaken;
- discuss and comment on the quality of work done by the study team and provide further guidance;
- provide feedback on the findings, conclusions and recommendations of the study.

The Steering Group will regularly report to and consult the relevant Council preparatory bodies on its activities and on the progress of the study. It will provide feedback to the study team and seek guidance from the relevant Council preparatory bodies as appropriate. The Steering Group will amongst others seek guidance from these preparatory bodies before finalisation of the inception report and acceptance by the Steering Group.

7 PROCESS AND DELIVERABLES

The basic approach to the assignment consists of three main phases. Deliverables in the form of reports should be submitted at the end of the corresponding stage.

The table below summarises these phases:

Study phases:	***Stages:***	***Deliverables:***
1. Desk phase	• Inception: Structuring of the feasibility study	o *Inception report and Slide presentation* o *Workshop with stakeholders based on the inception report* o *Final inception report incorporating comments*
	• Data collection (quantitative and qualitative) • Analysis	o *Desk report (optional) and Slide presentation*
2. Field phase	• Data collection • Verification of the hypotheses	o *Interviews with stakeholders, in particular EU Member States, European Commission, EEAS, EIB, EBRD and their shareholders, European DFIs, IFIs as well as representatives from the private sector, local and regional intermediaries, partner countries and their institutions, civil society organisations and think tanks*
3. Synthesis phase	• Analysis	o *Draft final report and Slide presentation*

Study phases:	***Stages:***	***Deliverables:***
	• Conclusions	o *Workshop with stakeholders on draft report* o *Final report and Executive summary incorporating comments from workshop*

Structure of the final report and executive summary

The contractor will deliver two distinct documents: the Final Report and the Executive Summary. They must be consistent, concise and clear.

The Final Report should not be longer than 80 pages. Additional information on the overall context of the Action, description of methodology and analysis of findings should be reported in an Annex to the main text.

The presentation must be properly spaced and the use of clear graphs, tables and short paragraphs is strongly recommended.

Executive Summary A short, tightly-drafted, to-the-point and free-standing Executive Summary. It should focus on the key purpose or issues of the study, outline the main analytical points, and clearly indicate the main conclusions, lessons to be learned and specific recommendations.

The main sections of the study report shall be as follows:

1. Introduction A description of the Action, of the relevant background and of the study, providing the reader with sufficient methodological explanations to gauge the credibility of the conclusions and to acknowledge limitations or weaknesses, where relevant.

2. Answered questions / Findings

A chapter presenting the points mentioned under "5. Study issues and criteria", supported by evidence and reasoning.

3.Conclusions and Recommendations

This chapter contains the conclusions of the study and elements of comparability between the different options (1,3 and Status Quo+), including their respective costs and benefits. The report should not formulate recommendations on a preferred option. Recommendations should be targeted on technical aspects of all options under study. These should be clustered and prioritised

4. Annexes to the report

The report should include the following annexes:

- The Terms of Reference of the independent study
- The names of the study team (CVs can be shown, but summarised and limited to one page per person)
- Detailed study methodology including: options taken and reasoning behind chosen methodology, difficulties encountered and limitations; detail of tools and analyses.
- List of persons/organisations consulted
- Literature and documentation consulted
- Other technical annexes (e.g. statistical analyses, financial data, tables of contents and figures, matrix of evidence, databases) as relevant
- Detailed answer to the study criteria

Comments on the outputs

For each report, the steering group will send to the Contractor consolidated comments received from the members and from the Council preparatory bodies. The revised reports addressing the comments shall be submitted within 10 calendar days from the date of receipt of the comments. The study team should provide a separate document explaining how and where comments have been integrated or the reason for not integrating certain comments, if this is the case.

Language

All reports will be submitted in English.

Number of report copies

The approved version of the Final Report will be provided in 5 paper copies and in electronic version at no extra cost.

Formatting

All reports will be produced using Font Arial or Times New Roman minimum letter size 11 and 12 respectively, single spacing, double sided. They will be sent in Word and PDF formats.

8 THE STUDY TEAM

Overall, the team must have the cumulative expertise detailed below.

The team should include a Team Leader (expert category I) for a minimum of 80 working days and at least one Development Finance/Banking Specialist (expert category II) for a minimum of 140 working days.

The study team as such, but not each individual member, is expected to possess expertise in:

- study / evaluation methods and techniques in general and, in particular, studies / evaluations in the field of development cooperation, development finance and the relevant institutional landscape; all members of the team should have a minimum of 6 years of experience in evaluation, with at least one member of the team having a minimum experience of 12 years;
- previous relevant experience in implementing development finance and investment banking;
- specific expertise in terms of financial analysis, risk management, accounting and legal issues, particularly related to banking;
- previous relevant experience in the regions will be an advantage;

The offer should clearly state the category of each team member and which tasks the proposed team members are supposed to take responsibility for and how their qualifications relate to the tasks (if this is not self-evident from their profile). A breakdown of working days per expert must also be provided.

The team members must be independent from the programmes/projects/policies evaluated. Should a conflict of interest be identified in the course of the evaluation, it should be immediately reported to the evaluation manager for further analysis and appropriate measures.

The team will have excellent writing and editing skills. The Contractor remains fully responsible for the quality of the report. Any report which does not meet the required quality will be rejected.

During the offers evaluation process the Contracting Authority reserves the right to interview by phone one or several proposed members of the evaluation teams.

Key expert 1: Team Leader

Qualifications and skills

- deep knowledge and understanding of the global development issues, the relevant institutional landscape and best practice for the implementation of development cooperation
- experience in banking and finance, and knowledge of judicial and risk management issues in challenging market conditions**;**
- knowledge and understanding of the EU's development agenda, the European financial architecture for development and related financial tools
- knowledge and understanding of organisational management/change management and business administration
- excellent interpersonal skills, sound judgment and high ethical standards
- proven successful experience in leading and managing teams (at least 5 years)
- solid analytical skills and proven successful experience in evaluations/studies
- excellent oral and written communication skills in English

General professional experience

- at least 12 years of relevant professional experience in development cooperation and finance
- post graduate/masters degree in areas such as international development cooperation, international relations, development finance, economics

Specific professional experience

- any experience working for a development finance institution will be an advantage

Key expert 2: Development Finance/Banking Specialist

Qualifications and skills

- deep knowledge and understanding of the mandates, business model, capital structure, risk assessment and management, development finance tools and regions of operation of the European and international finance institutions, with a particular focus on the EIB and the EBRD
- sound knowledge of financial sector issues and fluency in global development issues;
- specific expertise in terms of financial analysis, risk management, accounting and legal issues, particularly related to banking;
- excellent interpersonal skills, sound judgment and high ethical standards
- solid analytical skills;
- excellent oral and written communication skills in English

General professional experience

- at least 6 years of relevant experience in development cooperation
- relevant experience in the implementation of development finance
- post graduate/masters degree in areas such as international finance, development cooperation, international relations, economics

Specific professional experience

- any experience working for a development finance institution will be an advantage

The above provisions notwithstanding, the consultant is free to offer in addition to the Team Leader more than one individual expert in order for the proposed team to properly respond to the assigned tasks.

Language skills of the team:

- English: at least 2 members shall possess a level C1 expertise;
- French : at least 1 member shall possess a level B2 expertise;

Languages levels are defined for understanding, speaking and writing skills by the Common European Framework of Reference for Languages available at https://europass.cedefop.europa.eu/en/resources/european-language-levels-cefr and shall be demonstrated by certificates or by past relevant experience.

9 TIMING AND LOCATION

The project implementation is due to start in *[spring 2020]* and to end in *[autumn 2020]*. The expected duration is of *[6]* months. As part of the technical offer, the framework contractor must fill-in the timetable in the Annex 2.

The location of the assignment can be homebased, with the possibility of up to 20 missions of one day in Europe for all the experts.

10 INCIDENTAL EXPENDITURE

This Specific Contract is a global price where specified outputs are set out. The service will be paid on the basis of the delivery of the specified outputs. The Global price includes the total amount of sections 1 & 2 of the Indicative Budget Breakdown. The incidental expenditures are part of the price of the contract and are not paid separately.

It is the responsibility of the Consultant to elaborate its own Organisation and Methodology to achieve the expected results. The resources allocated by the Consultant to cover incidental expenditures (section 2 of the Indicative Budget Breakdown) should reflect and be linked to the Organisation and Methodology proposed in the offer.

Details provided in section 2 of the Indicative Budget Breakdown should cover, at least, the following items:

- Travel costs for missions outside the normal place of posting, corresponding to "field missions", undertaken as part of this contract.
- Per diems for missions outside the normal place of posting.

Indicatively, a provision of EUR 40,000.00 could be included in the budget.

11 BUDGET

This is a global price contract with a maximum budget of EUR 500 000. The reimbursable costs include up to twenty missions to Brussels or another European city for each team member, including for the kick-off meeting and the presentation of the final report.

12 OFFER FOR THE ASSIGNEMENT

The total length of the technical offer (excluding annexes) may not exceed 15 pages. References and data relevant to the assignment must be highlighted in bold (font minimum Times New Roman 12 or Arial, 11).

Should it appear during the process of the study that an activity envisaged in the methodology is impossible or inappropriate to be carried out for any reasons in the interest of the assignment; the change to the methodology as well as its financial impact must be agreed by the study Manager.

The offer is expected to demonstrate:

- How the team proposes to undertake the study: the independent study design and challenges, data collection tools and methods of analysis, how the tasks will be organized.
- The level of quality control (content/proof reading/copy editing), which will apply, at which points in the process and who will undertake them.

13 TECHNICAL OFFERS AWARD CRITERIA

The Contracting Authority selects the offer with the best value for money using an 80/20 weighting between technical quality and price.

Technical quality is evaluated on the basis of the following grid:

	Maximum	Score
Organisation and methodology:		
Rationale	20	
Strategy	50	

Backstopping and role of the involved members of the consortium	10	
Timetable of activities	20	
Overall total score	100	

Any offer falling short of the technical threshold of 75 out of 100 points, is automatically rejected.

14 ANNEXES

The Contracting Authority reserves the right to modify or to supplement the annexes during the study implementation.

ANNEXES

ANNEX 1: INDICATIVE DOCUMENTATION TO BE CONSULTED FOR THE PURPOSE OF THE STUDY BY THE SELECTED CONTRACTOR

- Council Conclusions on Strengthening the European financial architecture for development, 14434/19, 5 December 2019: https://data.consilium.europa.eu/doc/document/ST-14434-2019-INIT/en/pdf
- Independent report by the High-Level Group of Wise Persons on the European financial architecture for development - Europe in the World: The future of the European financial architecture for development, October 2019: https://www.consilium.europa.eu/media/40967/efad-report_final.pdf
- Meseberg Declaration - Renewing Europe's promises of security and prosperity, 19 June 2018:

  https://www.elysee.fr/emmanuel-macron/2018/06/19/meseberg-declaration-renewing-europes-promises-of-security-and-prosperity.en
- Council Decision (EU) 2019/597 of 9 April 2019 on the establishment of a High-level Group of Wise Persons on the European financial architecture for development: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019D0597
- Report from the Commission to the Council on the recommendations of the High-level Group of Wise Persons on the European financial architecture for development (COM (2020) 43, 31.1.2020):

  https://op.europa.eu/en/publication-detail/-/publication/58390a62-4410-11ea-b81b-01aa75ed71a1/language-en
- European Investment Bank's external mandate 2007-2013 Mid-Term Review, Report and recommendations of the Steering Committee of "wise persons" (« Camdessus report »), February 2010: https://www.eib.org/attachments/documents/eib_external_mandate_2007-2013_mid-term_review.pdf
- Communication from the Commission to the European Parliament, the European Council, the Council and the European Investment Bank (COM (2018) 644, 12.09.2018), Towards a more efficient financial architecture for investment outside the European Union: https://ec.europa.eu/commission/sites/beta-political/files/soteu2018-investment-outside-eu-communication-644_en_0.pdf
- Commission proposal of 14 June 2018 for a Regulation of the European Parliament and of the Council establishing the Neighbourhood, Development and International Cooperation Instrument: https://eur-lex.europa.eu/resource.html?uri=cellar:d2c24540-6fb9-11e8-9483-01aa75ed71a1.0002.02/DOC_1&format=PDF
- Regulation (EU) 2017/1601 of the European Parliament and of the Council of 26 September 2017 establishing the European Fund for Sustainable Development

(EFSD), the EFSD Guarantee and the EFSD Guarantee Fund: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R1601&from=EN

- European Commission Staff Working Paper, Investing in Sustainable Development - The EU at the forefront in implementing the Addis Ababa Action Agenda, 23 April 2018: https://ec.europa.eu/europeaid/sites/devco/files/report-investing-sustainable-dev-20180423_en.pdf

- Joint statement by the Council and the representatives of the governments of the Member States meeting within the Council, the European Parliament and the Commission (20-17/C 210/01), The new European Consensus on Development: Our world, our dignity, our future, June 2017: https://ec.europa.eu/europeaid/sites/devco/files/european-consensus-on-development-final-20170626_en.pdf

- External Investment Plan, 2017 Operational Report on the European Fund for Sustainable Development – Promoting investment in the Neighbourhood and Africa: https://ec.europa.eu/europeaid/sites/devco/files/efds-report_en.pdf

- European Commission Implementation Report on the EFSD (to be published)

- European Commission Staff Working Document, Evaluation of Decision No 466/2014/EU of the European Parliament and the Council of 16 April 2014 granting an EU guarantee to the European Investment Bank against losses under financing operations supporting investment projects outside the Union, SWD(2019) 333, 13 September 2019: https://ec.europa.eu/info/sites/info/files/economy-finance/elm_evaluation_swd_2019_333_f1_staff_working_paper_en_v3_p1_1048237.pdf

- European Commission Staff Working Document, Assessment of the effectiveness of the existing system of European public financing institutions in promoting investment in Europe and its neighbourhood, SWD(2016) 22, 4 February 2016 https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=SWD:2016:0022:FIN:EN:PDF

- Strategic Evaluation on Blending (2007 – 2014), December 2016: https://ec.europa.eu/europeaid/evaluation-blending_en

- Memorandum of Understanding between the European Commission, the European Investment Bank together with the European Investment Fund, and the European Bank for Reconstruction and Development in respect of cooperation outside the European Union, 29 November 2012: https://www.eib.org/attachments/mou_cooperation_outside_the_eu.pdf

- The 2030 Agenda for Sustainable Development: https://sustainabledevelopment.un.org/content/documents/21252030%20Agenda%20for%20Sustainable%20Development%20web.pdf

- Paris Agreement on Climate Change: https://unfccc.int/sites/default/files/english_paris_agreement.pdf

ANNEX 2 : TIMETABLE

Columns 1, 2 and 4 of the table below (Study Phases and Stages; Notes and Reports; and Meetings/Communications), are to be filled in by the evaluation manager based on the content of chapter 7 of these Terms of Reference.

Column 3 (Dates) of the table below is to be filled by the contractors and submitted as part of their technical offer.

Study Phases and Stages	*Notes and Reports*	*Dates*	*Meetings/Communications*