1 Background

The European Bank for Reconstruction and Development (“EBRD” or the “Bank”) has recently reviewed its concept of transition and what constitutes a well-functioning market economy. The EBRD has defined 6 qualities of transition which its investments and policy dialogue should promote. These are: competitive, well-governed, green, inclusive, resilient and integrated.

To support the assessment of transition impact and action on climate change, the EBRD has decided to undertake an economic assessment of prospective projects which would entail high greenhouse gas (GHG) emissions. The economic assessment is a complement to other tools that are routinely applied by the Bank to assess its portfolio, such as sound banking principles, environmental and social due diligence, proof of additionality, etc.

The economic assessment will be guided by a methodology published by the EBRD in January 2019 titled “Methodology for the economic assessment of ERBD projects with high greenhouse gas emissions”. It will, amongst other things, put an economic value to the carbon emission externality, value local pollution emissions impacts, reliability and flexibility of electricity supply, and other economic distortions as applicable in each case.

For the above purpose, the Bank seeks to engage a firm (the “Consultant”) to assist the Bank at the time of conducting the economic assessment in four investments in its Countries of Operation. The details of the four projects will be shared after contracting, but are likely to focus on energy and industrial projects.

2 Objective and scope of Services

The overall objective of the assignment is to assist the Bank in the assessment of the economic merits of four projects that entail high GHG emissions. The projects will be defined by the EBRD and the specific circumstances of the project will need to be taken into account to develop the analysis.

Issues to be addressed in the economic assessment

For each project, the selected Consultant will conduct an economic analysis using the methodology approved by the Bank. The analysis should take into account relevant environmental and non-environmental factors.

As per the methodology, the following factors will be taken into account in the analysis:

- Identification of the boundaries of the project (if different from the financial case).

• A brief market assessment: describe the current operating environment for the project.

• Identification of at least three plausible counterfactuals and potential project alternatives.

• Quantitative assessment of greenhouse gas, local emissions and other environmental externalities if relevant both for the project and for the alternative scenarios.

• Relevant adjustments to financial and market values, where market distortions mean prices need to be adjusted to reflect opportunity costs in the project and its counterfactuals (e.g. energy subsidies, labour market distortions, trade distortions).

• Qualitative assessment of significant factors impacting the economics of the project, where it is not possible to quantify these factors.

• Sensitivity checks around key variables, e.g. social discount rate and shadow price of carbon prices.

To inform the assessment of aligning financial flows with the Paris Agreement, the Consultant will also provide an assessment of the extent to which the projects identified is consistent with the aims of the Paris Agreement and long run decarbonisation. The consultant should propose a high level approach to undertake this assessment, which could include some or all of the following approaches (quantitatively included in the economic assessment if possible):

• Benchmark of the project against similar projects elsewhere in terms of its environmental impact (e.g. benchmark with the EU ETS)

• The extent to which the project is consistent with the long-run trajectory of emissions in that sector (e.g. assessed against any available low-carbon sector pathways, understanding the potential role of breakthrough technologies, and using insights from the Energy Transitions Commission).

• The extent to which the project leads to lock-in of GHG emissions, and technological solutions can mitigate the impact (e.g. The lock in effect compared in line with the Paris agreement and the path to implementation (rapid, slow, BAU) acknowledging that this will again depend on the extent of potential breakthrough technologies and broader decarbonisation efforts in other sectors). It should also consider the risk that the asset may be stranded.

In general, all significant economic, environmental and social should at least be identified. The Consultant should then indicate the ones that have been incorporated quantitatively into the economic assessment – and those unquantifiable externalities which may require qualitative description to contextualise the results.
Sector considerations

In energy sector projects it is important that a quantitative assessment of reliability, flexibility and security of supply are included. This quantification should be based on that countries energy sector and the EBRD methodology for approaching these issues.

In manufacturing and/or industrial projects, the distortions caused by trade policies can also impact the economic outcomes of a project. Particular attention should be devoted to the assessment of the impact of tariff and non-tariff trade measures imposed by the countries where the project is developed, which may constitute fundamental drivers of the analysed investments. With reference to the EBRD’s Guideline on the Assessment of Projects in Protected Sectors, the following issues should be considered where relevant:

- Tariff barriers – for which shadow prices based on competitive counterfactuals should be identified.
- Non-tariff barriers – for which an *ad-valorem* equivalent should be identified for economic return calculation.
- Other forms of distortive industrial policy support (including any form of state incentives and state aid including). This could include tariff jumping FDI, where investments are determined by policies that aim at localising production by strongly penalising imports such as local contents requirements and premium

The specific approach to analyse trade distortions for each of project will discussed and agreed with EBRD prior to analysis. Other potential project impacts in terms of relocation of economic activity, in addition to the creation of new activity should be assessed.

Presentation of results

The results of the economic assessment should be presented on a gross (i.e. standalone) and net basis (i.e. compared to alternatives). The Consultants should also consider the most appropriate way to present the results of the work. For example whether it makes sense to present results as a cost-benefit analysis (i.e. as a Net Present Value or Economic Rate of Return) and/or a cost-effectiveness analysis, although it is expected the Consultant will provide results for both.

Sources of information

The main sources of information of the project that will be supplied by the EBRD are likely to include:

- The financial model used to determine the financial viability of the project and will include the major cost items of the projects and relevant cash flows.
- The commodity prices linked to the financial calculations (e.g. electricity and fuel price projections).

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2 EBRD’s Guideline on the Assessment of Projects in Protected Sectors will be provided once the Consultant expresses interest in the assignment.
• The environmental and social due diligence conducted by the EBRD, which quantifies key environmental and social impacts, including GHGs and other air pollutants for the selected project. In some circumstances, the Consultant may be requested to participate in the on-site visits related to due diligence activities of the EBRD, and meet with relevant counterparts, including EBRD clients, during the visits. Such visits and meeting with relevant counterparts should be agreed by and coordinated with EBRD beforehand.

• A detailed project document describing the project which includes a summary of the projects aims and other relevant information.

Any further information which would be required will be provided by the Consultant. This may include estimating the impact of taxation, calculating the shadow price of certain inputs (e.g. energy prices and wages), extrapolation of financial calculations to cover the full lifetime of the project, long term price projections of relevant commodities (e.g. electricity, gas), etc. Detailed assumptions should be based on good quality academic and policy literature.

Regarding the alternative scenarios, the EBRD will seek to facilitate the Consultant data (e.g. based on its own knowledge or on past transactions), but these will need to be validated and, where necessary, obtained and or/complemented by the Consultant. Concrete circumstances and data availability will be discussed with the Consultant in the context of the specific project.

**Main outcomes for each project**

The outcomes of the work on each project will be twofold:

• A modifiable excel file model for the project, including all the relevant variables to convert it from the financial information provided to an economic assessment. The excel file should have fully modifiable, editable, and un-protected/non-locked cells, and should show all the functions and formulas.

• A power point presentation reflecting the main conclusions of the economic assessment and discussion of the overall economic viability of the project, including with reference to project alternatives. This should also include incorporating sensitivity analysis to the key variables and detail key assumptions.

3 Implementation Arrangements and Deliverables

**Reporting:**

The Consultant will report to the Operational Leader (OL) for this assignment: William Battye, Principal Economist in the Economics, Policy and Governance (EPG) department of the EBRD. The Consultant will also work closely with the EBRD project team responsible for the project and other staff members of the EBRD as required.

The Consultant is expected to work closely with the OL and keep weekly calls to update the status of the dossier. Up to three meetings per project are expected to be organised – further
meetings to be arranged if needed following request of the OLs. These meetings are envisaged to be:

- An inception meeting to finalise the definition of the assignment and raise important issues (within one week after the commencement of the contract).
- Meeting to discuss the first draft results.
- Meeting to discuss the final results and underlying calculations for comments from the EBRD.

The Consultant may be asked to provide a presentation on the outcomes of the study to EBRD staff. This is additional to the three internal meetings to agree and discuss the progress of the work.

If there are any trips envisioned or needed for the projects, it should be agreed with and coordinated by EBRD.

**Major deliverables**

Three deliverables are expected per project:

**Project 1 (25% of budget)**

1. A short inception report to define the scope of work and proposed timeline outlining the approach to be taken and key assumptions.
2. A PPT presentation (max 25 slides) in English, outlining main outcomes of the economic analysis. If the Consultant participates in on-site visit(s), the PPT presentation will include relevant environmental and financial information gathered during the site visit(s).
3. All of the underlying calculations used in the economic analysis in Microsoft Excel format, which can be fully modified by EBRD team in the future.

**Project 2 (25% of budget)**

1. A short inception report to define the scope of work and proposed timeline outlining the approach to be taken and key assumptions.
2. A PPT presentation (max 25 slides) in English, outlining main outcomes of the economic analysis. If the Consultant participates in on-site visit(s), the PPT presentation will include relevant environmental and financial information gathered during the site visit(s).
3. All of the underlying calculations used in the economic analysis in Microsoft Excel format, which can be fully modified by EBRD team in the future.

**Project 3 (25% of budget)**

1. A short inception report to define the scope of work and proposed timeline outlining the approach to be taken and key assumptions.
2. A PPT presentation (max 25 slides) in English, outlining main outcomes of the economic analysis. If the Consultant participates in on-site visit(s), the PPT presentation will include relevant environmental and financial information gathered during the site visit(s).
3. All of the underlying calculations used in the economic analysis in Microsoft Excel format, which can be fully modified by EBRD team in the future.

Project 4 (25% of budget)

1. A short inception report to define the scope of work and proposed timeline outlining the approach to be taken and key assumptions.
2. A PPT presentation (max 25 slides) in English, outlining main outcomes of the economic analysis. If the Consultant participates in on-site visit(s), the PPT presentation will include relevant environmental and financial information gathered during the site visit(s).
3. All of the underlying calculations used in the economic analysis in Microsoft Excel format, which can be fully modified by EBRD team in the future.

All deliverables produced under this assignment shall include the following disclaimer:

*Please be advised that the report has been prepared exclusively for the EBRD. The EBRD make no representation or warranty, express or implied, as to the accuracy or completeness of the information set forth in this report. The EBRD have not independently verified any of the information contained in the report and EBRD accepts no liability whatsoever for any of the information contained in the report or for any misstatement or omission therein. The report remains the property of EBRD.*

**Timeline**

It is envisaged that the contract will likely finalise 12 months after its signature.

The Consultant will need to undertake assessments of four projects. The economic assessment for each project is expected to take around 10 weeks, with potential overlap between the four projects. This is to allow time for EBRD to collect relevant data, the Consultant to undertake analysis and the EBRD time to review outputs and provide feedback.

The assessment of each project is expected to follow the indicative timeline below:

- Inception meeting.
- Inception report. 1 week after inception meeting.
- 4 weeks after inception meeting - submission of a first draft economic analysis presentation for comments from the EBRD.
- 6 weeks after inception meeting - submission of a final draft economic analysis presentation, and underlying calculations for comments from the EBRD.
- 10 weeks after the inception meeting – submission of a final economic analysis presentation addressing all EBRD comments, and underlying calculations.

Any changes to timelines should be mutually agreed in writing between EBRD and the Consultant.

**Budget**

EUR 120,000 with the budget distributed evenly across the four projects\(^3\).

\(^3\) *The Consultant may be requested to participate in the on-site visits related to due diligence activities of the EBRD for the project. Additional budget may be allocated for the on-site visits as deemed necessary.*
4. **Profile of Consultant**

The analysis in the project should be rigorous, incorporating the latest intellectual thinking around economic assessment of projects. The analysis and the conclusions should also be presented in a way suitable for technical experts and senior decision makers.

The selected Consultant(s) for this Assignment will be a firm or a group of firms with lead experts combining a mix of the following skills:

- Significant experience at developing and implementing economic assessments based on cost-benefit analysis principles.
- Strong experience and ideally publication track record in the field of economic assessment of industrial and energy projects.
- Understanding of, and experience with working in, the context of the EBRD region and the challenges the region faces with respect to energy and energy intensive industry and manufacturing.
- Experience in producing compelling visual materials to show the outputs of economic assessments.
- Demonstrative evidence of communicating the outputs of economic assessments for senior decision makers in Government and Multilateral Development Banks.
- Strong quantitative and statistical skills for data work.

The experience above should be backed by a list of the delivered reports, preferably international/scientific publications, as well as citations in reputed forums.

The Consultant's expert team is expected to include the following key experts (the 'Key Experts'):

**Key Expert No 1 - Project Manager**, with:
- Preferably 15 years’ experience in project management;
- International experience in developing and performing cost-benefit and cost-effectiveness analyses for both the public and private sectors, with specialisation in economic assessment of investments in sectors with significant levels of GHG emissions;
- Leading and implementing similar projects in the region or similar to EBRD’s countries of operations; including experience with procedures of international financing agencies (preferably EBRD procedures);
- Fluent spoken and written English is essential;

**Key Expert No 2 - Financial/Economic Expert**, with:
- Preferably 5 years’ experience in financial and economic analysis
- Experience in economic assessment of projects in the region or similar to EBRD’s countries of operations; Relevant project experience in the project country will be considered an advantage;
- Practical and technical experience in developing and performing cost-benefit and cost-effectiveness analyses using shadow carbon prices;
- Master’s degree or equivalent in economics, finance, engineering,
Fluent spoken and written English is essential;

**Key Expert No 3 - Industrial Expert (as required), with:**
- Preferably 10 years’ experience of manufacturing and industry
- Experience in economic assessment of manufacturing and industrial projects in the region or similar to EBRD’s countries of operations; Relevant project experience in the project country will be considered an advantage;
- Master’s degree or equivalent in economics, finance, engineering, or banking
- Fluent spoken and written English is essential;

**Key Expert No 3 – Energy Expert (as required), with:**
- Preferably 10 years’ experience of energy
- Experience in economic assessment of energy projects in the region or similar to EBRD’s countries of operations; Relevant project experience in the project country will be considered an advantage;
- Master’s degree or equivalent in economics, finance, engineering, or banking
- Fluent spoken and written English is essential;