**Terms of Reference (ToR)**

**IDRIMA – AFD Portfolio**

**Pre-feasibility Study and Solution Development for a risk transfer instrument**

**Embedded in AFD’s Climate Shock Loan**

1. **Context**

Countries in the Global South are among the most vulnerable to the impacts of climate change, facing increasing challenges such as extreme weather events, rising sea levels, and agricultural disruptions. These climate risks exacerbate existing vulnerabilities, threaten food security, damage strategic infrastructure and hinder sustainable development efforts. In this context, it is imperative to strengthen the resilience of States, economic actors and communities to ensure their long term financial stability.

In this regard, insurance actors and development banks have a crucial role to play. Insurers bring expertise in risk management and the design of innovative financial products to cover potential losses related to climate events. Development banks, on the other hand, have the resources and financial mechanisms needed to support climate-resilient development projects and contingent mecanisms. However, to maximize their impact, these actors must better articulate and combine their expertise and financial solutions to offer States, sub-sovereign entities and

The objective of this study is to seek an innovative solution for AFD Group to better combine loans and insurance solutions to better protect and strengthen the resilience of actors in the Global South against climate risks. By integrating insurance/risk transfer mechanisms into its loan products, AFD Group seeks to offer more comprehensive and effective financial protection to its borrowers, enabling them to better manage climate shocks and continue their economic activities safely. This new product offer would be seen as very complementary to the Climate Resilient Debt Clauses (CRDCs), that AFD introduced in a very few country to allow borrowers to defer the payment of principal, interest and other loan charges in case of certain natural disasters (but without any contribution of the insurance industry)[[1]](#footnote-1).

**II. Objectives of this Study**

In response to the increasing frequency and severity of climate-related events, the AFD Group aims to introduce a new loan product where loans offered to (some of) its clients are bundled with climate risk insurance so that in the event of a predefined climate event, its borrowers are guaranteed that their payment obligations will be taken on by the insurance for a predefined period. This means for AFD borrowers that they would not have to use their funds to repay their loan instalments and instead can use this liquidity to go towards emergency responses and reconstruction. As the loan does not default, the insurance also protects the creditworthiness of the borrowers. The intention would be to have mechanism at AFD level, so that the Climate Resilient Loan could be offered to a range of client to be determined, enabling thus risk diversification for the (re)insurance actors.

The primary objective of this assignment is to explore and recommend the structure of a mechanism that would allow AFD to offer a loan product that integrates climate resilience features. Specifically, the consultant will assess the feasibility of incorporating insurance mechanisms to cover loan repayments during climatic events and outline the financial and operational framework for such a product. The proposed service will be structured around **two main stages: (i) a scoping phase and (ii) a solution development phase, should the scoping phase be conclusive.**

1. **Scoping phase : Understanding AFD Group needs to increase its clients climate risk protection and identifying mecanisms and solutions**

During this phase, the Consultant(s) will be required to:

* **Conduct an Initial Assessment**: This initial assessment should help clarify the specific needs and objectives of the AFD Group regarding this climate-resilient loan product. This includes determining the target client segments (e.g., sovereign vs. non-sovereign clients), the types of loans or sectors to be covered (energy utilities, water, transport, other utilities), the scope to be covered (existing portfolio or futures loans only,..), the structure which could better suits to AFD (AFD must remain the primary loan issuer ; solutions must be viable in sovereign or utility contexts; no direct payout to clients – only debt service, …)
* **Market Segmentation**: early assessment of (re)insurance market appetite and capacity for specific client segments, perils, and geographies within the market segmentation task. Prioritize segments where the insurance solution is most likely to be affordable, attract (re)insurance capacity, and where data supports robust product design. This avoids developing solutions for segments that prove uninsurable or prohibitively expensive later. Delivery of a climate risk mapping overlays to support segmentation would be welcome…
* **Feasibility Analysis**: Assess the feasibility of offering the product to the entire client base versus specific segments, considering factors such as risk exposure, regulatory environment, and operational capacity.
* **Insurance Mechanism Feasibility**: Describe and evaluate the different mechanisms / options for the feasibility of the AFD subscribing to an insurance policy that would allow clients debt payments obligations to be taken over by the insurance in various countries in the event of major climatic events. This includes:
  + **Mecanism Structuring**: Develop a preliminary proposal describing the different options for AFD to be able to offer a loan product, including the integration of insurance mechanisms to cover climatic risks. Consultant(s) should present at least two credible structuring options, for the climate resilient loan mechanism, with pros/cons, trade-offs on complexity, scalability, pricing and insurability ; one should prioritize simplicity ; the other may explore more innovative, pooled or layered designs…
* **Trigger Conditions**: evaluate and develop the structure of the insurance pool, whether parametric or indemnity, triggers per country/portfolio, whether centralized risk aggregation is allowed. In case of parametric, develop the insurance triggers (ex specific rainfall deficits in mm, wind speeds in km/h at defined locations, pre-agreed area yield index levels, etc…). The feasibility assessment must critically analyze the availability, reliability, and granularity of historical and real-time data required for such triggers in target countries/sectors. This is crucial to minimize basis risk (where the insurance doesn't pay out despite actual losses, or vice-versa) and ensure rapid, transparent payouts, which is key for value.
* **Country-Specific / Client specific triggers**: Assess whether different triggers are needed for different countries based on their unique climate risks and vulnerabilities. Determine if these triggers need to be defined in advance and how they can be standardized or customized.
* **Regulatory and Operational Considerations**: Identify the regulatory and operational considerations for implementing such an insurance mechanism, including compliance with local and international financial regulations.
* **Cost Evaluation**: explicitly explore and propose a cost-benefit analysis of at least two viable structuring options. It would also be interesting if thought could be given to a **sustainable premium financing models and how we could shift from donor-financed premiums to self-sustaining models (**who pays the premium – AFD, the borrower (and if so, how does this impact loan interest rate and its affordability), or a cost-sharing/subsidy model? This is fundamental to the product's viability, uptake, and overall "value for money" for the end borrower and AFD. This should be a key consideration in the "preferred option" analysis.
* **Prefered option to be implemented**: Advise on which mechanism (if any) the Consultant(s) would rather recommend to develop/implement and why(pros & cons). Advise on the timeline of such solution development.

In terms of deliverable for this Scoping Phase, the Consultant(s) will be requested to provide a report summarizing the findings from the initial assessment, market analysis and preliminary product structuring and initial evaluation of the costs associated with the proposed mechanism.

Based on the Scoping Phase report to be provided by the Consultant, an AFD management decision will be required to move into solution development phase.

**II - Solution Development Phase**

During this phase, the Consultant(s) will be required to :

* **Detailed Structuring :** Develop a detailed and finalized structure for the preferred mecanism, incorporating feedback from the scoping phase and further refining the integration of insurance mechanisms. A strong emphasis should be put on features that enhance scalability and attract broad (re)insurance participation through effective risk diversification. This includes exploring structures like a central AFD-managed facility or the creation of an SPV that pools diverse risks (across geographies and potentially perils if appropriate) to present a more attractive portfolio to the market, potentially leading to better pricing and capacity.
* **Insurance Cost Estimation**: Conduct a thorough estimation of the costs associated with the insurance coverage required to support the loan product, including negotiations with potential insurance partners.
* **Regulatory and Compliance Review**: Identify and analyze regulatory requirements and constraints associated with the proposed mechanism, ensuring compliance with local and international financial regulations.
* **Stakeholder Engagement**: Engage with key stakeholders, including potential (re)insurance partners & brokers, to gather insights, validate the proposed product structure, and secure necessary agreements.
* **Structure of the loan product**: provide and suggested a drafting of the clause to be included in the AFD loan to make the mechanism work. The Consultant(s) shall also address the need for capacity building within AFD to ensure internal understanding of the instrument.

**III. Purpose and main features of the proposed contract**

The subject of the proposed contract is the implementation of a service as defined above.

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| **Nature of the prizes** | All-inclusive price |
| **Runtime.** | 8 months |
| **Place of performance of the contract** | AFD & Expertise France headquarters, Paris |
| **Currency of payment** | Euros |

***Main deliverables***

The consultant(s) will be responsible for delivering the following:

Phase 1: Scoping Phase

1. Inception Report: Outlining the methodology and work plan for the assignment.
2. Scoping Report: Summarizing findings from the initial assessment, market analysis, and preliminary product structuring and initial evaluation of the costs associated with the proposed mechanism.

Phase 2: Solutions and scenarios (Optional tranche)

1. Detailed Product Structure Proposal: Finalized proposal for the mechanism, including insurance integration and financial modeling.
2. Final Report: Comprehensive report summarizing all findings, recommendations, and next steps for implementation.

***Proposed Timeline***

The service will span approximately six months, from June 2025 to December 2025, following the timeline below:

| **Stage** | **Period** | **Expected Outcome** |
| --- | --- | --- |
| Launch of work | August 2025 | Kick-off and initial discussions. |
| Phase 1: Scoping Phase | Nov. 2025 | Deliverable 1: Scoping report. |
| Phase 2: Solutions and scenarios | February 2026 | Deliverable 2: Final report. |

*Proposed Working Methods*

* Regular virtual meetings an/ or physical meetings with the AFD staff
* The IDRIMA team in Paris will facilitate interactions and ensure smooth collaboration.
* Two workshops to share findings with all stakeholders.

A data protection declaration will be required between the different partners.

1. **Procedure’s schedule**

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| --- | --- | --- |
|  | **DATE\*** | **TIME** |
| **Information meeting** | Friday, 11th July | 15:00 (Paris Time) |
| **Deadline for submitting tenders** | 22/07/2025 | 18:00 (Paris Time) |
| **Completion date for evaluating technical offers** | 08/08/2025 |  |
| **Notification of award** | 14/08/2025 |  |
| **Contract signature** | August 2025 | - |
| **Start date** | 25th August 2025 | - |

**\*Provisional date**

**IV. Expert Profiles**

To carry out this mission, a multidisciplinary team will be mobilized, comprising experts from insurers/reinsurers/brokers, funded through the IDRIMA initiative as part of the AFD-IDF partnership.

Estimated expert time for the scoping phase: **50 days**

Estimated expert time for the Solution Development Phase: **80 days**

The Consultant(s) will have the support of AFD Group team throughout the process

**IV. Deadline for the submission**

The deadline for IDF member to submit their expression of interest is: 22th July 2025 (18:00 CET).

**Submission Requirements:**

Interested entities should submit:

* Expression of budget in the application (including travel costs if any)
* Can submit joint proposals should they want to be in consortium or articulate an offer with another entity.

1. To ensure clarity, this « Climate Resilient Loan » will not apply in the few countries where CRDCs apply. [↑](#footnote-ref-1)