AFRICAN DEVELOPMENT BANK

INFORMATION NOTE

CTF MOROCCO – ONE WIND ENERGY PROGRAM

USD 30.71 MILLION REALLOCATION PROPOSAL

1. The financial terms provided to the borrower of the ONE Wind Program as provided in the Loan Agreement signed between AfDB acting as the CTF Implementing Entity and the Office National d'Electricite acting as the borrower include for a total amount of USD 125 million in CTF resources, a grace period of 10 years, a tenor of 40 years including grace period, plus a service fee of 0.25% and an administration fee of 0.25%, and benefits from a Sovereign Guarantee provided by the Government of Morocco to AfDB. This is in line with the Clean Technology Fund: Financing Products, Terms and Review Procedures for Public Sector Operations, a document approved by the CTF TFC that guides the pricing of public sector operations. The terms provided to the borrower were in line with the rules of the CTF and approved by the CTF TFC in 2011 when the initial proposal was brought forward. As explained in the Issues List submitted to the CTF TFC in the context of this ongoing review, the initial financial terms applied to the CTF funds under the proposed reallocation will not suffer any change since the Loan Agreement would remain in force. Furthermore, as an Implementing Entity of the CTF, AfDB or any other MDB is unable to change unilaterally the terms of funding midway through project/program implementation.

2. The CTF principles and criteria that define the review and approval of CTF public sector operations are less stringent than those used in CTF private sector operations. While both types of operations need to provide justification on (a) potential for GHG emissions savings, (b) cost-effectiveness, (c) demonstration potential at scale, (d) development impact, (e) implementation potential, and (f) additional costs and risk premium; for private sector operations, MDBs need in addition to the previous criteria provide information on (a) minimum concessionality, (b) avoidance of market distortion and crowding out, (c) leverage, (d) financial sustainability, and (e) absence of foreseeable losses. As such, it is important to highlight that public sector proposals have no demands in terms of the minimum concessionality provided as donors decided to mimic IDA terms for Public Sector operations.

3. The principle of minimum concessionality is not applicable to this program since the borrower is a public sector institution. Please see Paragraph 21 of the Clean Technology Fund: Financing Products, Terms and Review Procedures for Public Sector Operations document. This issue was not raised in 2011 during the approval of the USD 125 million in CTF resources in the context of the program.

4. Following the conclusion of a tender process that was initiated in 2012 and that ended in late 2015 in which ONE informed potential bidders that would provide up to 35% of the total equity in addition to make available shareholder loans in the tune of up to 80% of the total debt

required for those projects at a given cost of capital (equity and debt). Following the conclusion of the bidding process, ONE announced the selection of the preferred bidders following a competition in terms of price per kWh. Since the cost of capital to be provided by the Government of Morocco to the IPPs play a key role in allowing the record low tariff of USD 0.03 per kWh, any increase in ONE's cost of borrowing as a result of replacing CTF by other sources of funding may dwarf the bidding process by forcing ONE to sign PPAs at higher tariffs than those announced to the market.

5. The Government of Morocco informed AfDB that it gives priority to CTF funds in the financing of these assets as CTF represents the cheaper funding the Government was able to source in the markets.

6. As previously explained, there is no crowding-out of funding for a number of reasons:

a. CTF funds were approved by the CTF TFC in late 2011 and signed in early 2013. Since then, ONE is counting on these resources to fund the wind program. Back then, discussions with potential financiers including the EIB, KFW or others had not start and any ongoing discussions between the Government of Morocco and DFIs to close any funding gap do not change this fact.

b. The initial proposal in the Investment Plan included in addition to the USD 125 million implemented by AfDB, an amount of USD 25 million to be implemented by the WB for one of the proposed wind sub-components in this reallocation proposal. In 2014, at the time of a revision of the Investment Plan, the CTF TFC agreed on the reallocation of the WB's USD 25 million into another project following a request from the Government of Morocco. Roughly USD 18 million out of the total USD 30.71 million would be reallocated to this same component with the remained being reallocated to a sub-component (Midelt Wind Farm) that was not part of the initial project document.

7. We would like to highlight again that since there is a loan agreement currently in force for the entire CTF amount approved in the context of the program (USD 125 million), a possible rejection of the reallocation would, in practical terms, result in either one of the following situations:

a. A possible cancellation of USD 30.71 million in CTF funds in accordance with AfDB's Revised Guidelines on Cancellation of Approved Loans, Grants and Guarantees is considered but AfDB and the borrower do not reach an agreement. It is important to understand that any cancellation is made in close cooperation and following detailed discussions between the Borrower and AfDB. Usually both parties should agree that the effective cancellation is the best way forward. That being said, and given the importance of GoM as a client of AfDB, it is very unlikely that the Bank would force on the borrower the cancellation of any unutilized CTF resources. The client can argue that, even though the reallocation was not approved by the TFC, the approval granted in 2011 and the loan agreement remain in force. The utilization of the funds would then remain as initially planned, despite delays with the aforementioned hydro sub-component.

b. AfDB engages in discussions with the borrower informing that the TFC has not approved the reallocation. Options are put on the table and the borrower eventually accepts the cancellation of the funds following which AfDB transfer the USD 30.71 million back to the Trustee.