

June 9, 2014

Approval by mail: Morocco: Clean and Efficient Energy Project (CTF) IBRD

Dear Patricia,

Thank you for the opportunity to review and comment on the proposal entitled, Morocco, Clean and Efficient Energy Project, submitted by the Government of Morocco and the International Bank for Reconstruction and Development (IBRD). We recognize the important economic and development benefits associated with this project, as the provision of reliable, green energy will have positive impacts on the economy, health and quality of life for a number of local, regional and global beneficiaries, including women and those living in impoverished areas.

We do, however, have the following questions regarding the proposed use of soft terms for the CTF financing:

- We would appreciate the IBRD's clarification of how the proposed "soft terms" are consistent with the CTF financing guidelines (*CTF Financing Products, Terms, and Review Procedures for Public Sector Operation*), which state that softer concessional loans should only be used for projects with negative rates of return. We note that the sensitivity analysis indicates that the cash flows for the first phase of the solar program are positive under both scenarios using soft and hard concessional CTF financing. Additionally, the economic rates of return for the overall project show that it is economically viable.
- The project document indicates that ONEE and the Government are negotiating a Framework contract in view of improving ONEE's financial sustainability, with progressive increases in tariffs over a four-year period for most of ONEE's clients. It is not clear that this Framework can be implemented in the near-term, nor whether these changes will bring tariffs to cost-recovery levels. Therefore, we would appreciate receiving further information from the IBRD on the potential for this to occur. We note that soft CTF financing could be a disincentive for the necessary tariff reforms, as it provides a larger subsidy to maintain the status quo, and this not only would negatively impact the proposed investment, but also sustainable investment in the sector more broadly.

We look forward to receiving a response from the IBRD these questions, and request that the approval deadline for this project be extended, to two business days following the receipt of IBRD's response.

Best regards,
Jennifer

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