

Response Matrix for CTF Program Approval Request III			
1. Country/Region	MENA	2. Date	07-11-2014
3. Project/Program Title	SPREF		
Second Round Comments from Germany			
Regarding the pricing of the MENA transaction, we are still of the opinion that a private sector transaction by its nature is riskier than a loan to the public sector and should be priced accordingly. As per the latest version of the financial model the pricing for senior private sector loans is around 1.2% and we believe that this would be an appropriate floor pricing for the MENA projects as well. With respect to EBRDs proposal to potentially apply equity and/or quasi-equity, pls see our comment below.	<p>We have considered that the CTF loan on Ouarzazate had a 40 year maturity, a 10 year grace period, a 0.25 percent per annum service charge and a one-time management fee of 0.25 percent, which was in line with the CTF guidelines for softer concessional products.</p> <p>By comparison, our pricing of a sovereign loan in Morocco had a 1% margin, while market-based finance for project finance transactions is around 300bps, i.e. a multiple of three. We applied this multiple to CTF and this coincides with the guidelines for harder concessional finance of 75bps, three times the 25bps of the CTF loan on Ouarzazate. We consider it appropriate to apply a multiple of up to 4, i.e. 100bps. We do however feel that going above this to 120 bps would not be consistent with the pricing spread applied by the local debt market to the private sector.</p>		
Use of higher risk financial products - we have noted that both the MENA and the Colombia project include the use of "higher risk" financial products, such as equity, first loss guarantees and quasi equity; thus we propose that these projects be sourced from grants, on an exceptional basis, until the risk sharing amendment is in place as was done for the most recent CTF investment Ukraine.	This is fine from our perspective as the implementing MDB.		
Comments from Canada			
The project proposal indicates the effective utilization of concessional finance is high, although it states there is a low need for concessional support. We request further clarification from the EBRD on this point, including how the use of CTF resources is consistent with the principle of additionality under the CTF investment criteria.	<p>'Low need for concessional support' should be seen in the context of the other CTF-supported programmes, such as Noor CSP. It is a relative assessment. When CTF and GEF are combined, concessionality on average across the proposed programme will be about 6%, while in specific projects it maybe higher, or lower. This fully depends on the project-by-project assessment.</p> <p>CTF has a high additionality here by providing the funding required to bring these projects forward, by providing long-term tenors and grace, apart from concessional pricing.</p>		
We note that the capital investments will be priced on a case-by-case basis, with a minimum floor of 75 bps. We would appreciate further details on the expected range for the pricing, including details on how the EBRD will ensure that CTF financing will be provided on terms that adhere to the principle of minimum concessionality.	<p>EBRD has an internal assessment process that determines the need for concessionality in any specific project. This is first tied to assessing the environmental benefits flowing from the project (thus providing a floor to the concessional elements), and then to looking at the specific project economics in the course of the independent credit and transition impact assessments. Depending on the outcome of the assessment specific concessional elements are offered to the client. These could be longer tenor, grace, lower pricing, or a mix thereof.</p>		

	Teams have a strong incentive to minimise concessional elements in projects since these normally lead to a lower rating for transition impact potential within the EBRD, and may lead to teams missing their internal performance targets for contributing to the transition impact of the EBRD.
Comments from Germany	
However, we consider the proposed targets and especially the timeline as rather ambitious.	We have a strong pipeline for the region, and we believe that these targets and the timeline are feasible. The first projects are currently in the pre-concept stage at EBRD, and are waiting for the programme to be approved.
We cannot agree to the proposed pricing of 75 bps. As a private sector project, it should be priced at least according to the pricing for private sector projects as agreed upon under the CTF rules.	<p>75 bps is the floor pricing proposed, it is not foreseen as universal pricing. At the level of each project concessionality would be calculated in line with CTF and EBRD rules, to only offer the least concessional conditions required to let the project achieve financial close, and thereby to avoid over subsidisation.</p> <p>It should be noted that the region is well supplied with cheap concessional and grant money for publicly funded renewable energy projects (including from the CTF), and that the private sector will have to compete with this.</p> <p>It should also be noted that the restriction on local currency finance relevant for the region in the CTF may lead to a requirement for lower interest rates to be charged, to make up for the F/X risk. This will be assessed at project level.</p>
Furthermore, we would like to seek confirmation that if and when EBRD would like to apply equity or quasi equity instruments that such financing would be as per the new risk sharing mechanism coming from grant funds.	This is not for us to decide, but we can prior to each investment being made revert to the Trustee for such a decision, with a suggestion from us based on the criteria to be developed.