

DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

Approved by the Board of Directors on 20 July 2022¹

MOROCCO

PROJECT KASBAH

(UNDER REGIONAL: GREEN CITIES FRAMEWORK 2 – WINDOW II
EXTENSION 2)

[Redacted in line with the EBRD's Access to Information Policy]

[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]

¹ As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

For the avoidance of any doubt, the information set out here was accurate as at the date of preparation of this document, prior to consideration and approval of the project.

As permitted by paragraph 2.6 of Section III of the Access to Information Policy, disclosure of this Board Report was deferred.

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ABBREVIATIONS / CURRENCY CONVERSIONS

| | |
|-------------|--|
| BRT | Bus Rapid Transport |
| CapEx | Capital Expenditures |
| CO2e | Carbon Dioxide equivalent |
| DSCR | Debt Service Coverage Ratio |
| E&S | Environmental and Social |
| ESAP | Environmental and Social Action Plan |
| ECEPP | EBRD Client E-Procurement Portal |
| ESDD | Environmental and Social Due Diligence |
| EUR | Euro |
| FEC | <i>Fonds d'Equipement Communal</i> |
| FOPIP | Financial and Operational Performance Improvement Plan |
| GCAP | Green City Action Plan |
| GrCF2 W2 E2 | Green Cities Framework 2 – Window II Extension 2 |
| GDP | Gross Domestic Product |
| GHG | Green House Gas |
| GET | EBRD's Green Economy Transition |
| LED | Light Emitting Diode |
| MAD | Moroccan dirham |
| MRV | Monitoring, Reporting and Verification |
| PDU | Urban Development Program |
| PP&R | EBRD Procurement Policies and Rules |
| PRs | Performance Requirements |
| SSF | EBRD Shareholder Special Fund |
| TC | Technical Cooperation |
| VAT | Value Added Tax |
| MAD/EUR | 10.6 |

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of the City of Agadir (the “City” or “Agadir”), one of the major cities of Morocco and the capital city of Souss Massa Region in Morocco, are submitted for consideration by the Board of Directors.

The facility will consist of a subscription of up to MAD 420 million (~ EUR 39.7 million equivalent) of the City's MAD 1.2 billion (~ EUR 113.1 million equivalent) bond issuance. The issuance will be a domestic local currency, unlisted, privately placed bond and the Bank's investment capped at 40 per cent of final issuance amount will be used solely for refinancing purposes.

The overall proceeds of the issuance will be used to (i) finance the City's contribution to its 2020-2024 strategic investment plan also known as Urban Development Program (the “PDU”) and (ii) refinance existing loans. The proceeds of EBRD participation will be used solely for refinancing purposes, allowing the City to diversify its funding sources and to free up additional resources to implement its ongoing investment plan focused on green, environmental and inclusive projects within the PDU.

The proposed operation, under Green Cities Framework 2 - Window II Extension 2 (“GrCF2 W2 E2”), will also serve as a trigger investment for the City of Agadir to join EBRD Green Cities and will support the development of a Green City Action Plan (“GCAP”). The GCAP will be a valuable tool for the City in its effort to identify and address its most pressing environmental and climate change challenges, expand the list of green investments and prepare for future sustainable bond placements.

The expected transition impact of the project will be derived primarily from the *Green* quality as the bond refinancing will provide the City with more budget flexibility in the aftermath of the pandemic and its heavy impacts on municipalities to implement its ongoing investment plan focused on green and environmental challenges. The proposed transaction will also support the *Resilient* quality, by supporting the creation of an effective municipal bond market in Morocco as the Bond will be the first bond ever issued by a local authority in Morocco as well as supporting the City in developing a Financial and Operational Performance Improvement Plan (“FOPIP”).

The Bank's investment will be complemented by a Technical Cooperation (“TC”) assignment for the development of a GCAP for Agadir including gender and inclusion assessment and a TC assignment for the development FOPIP. [REDACTED].

I am satisfied that the operation is consistent with the Bank's Strategy for Morocco, the Green Economy Transition Approach 2021-2025, the Bank's Municipal and Environmental Infrastructure Sector Strategy, Strategy for the Promotion of Gender Equality and with the Agreement Establishing the Bank. The project is also in line with the objectives of the Bank's Local Currency and Capital markets Development Initiative (the “LC2” initiative), aimed at contributing to the increased use of local currency and local capital markets.

I recommend that the Board approve the proposed Bank's participation substantially on the terms of the attached Report.

Odile Renaud-Basso

BOARD DECISION SHEET

| MOROCCO – Project Kasbah - DTM 53815 | |
|---|---|
| Transaction / Board Decision | <p>Board approval² is sought for a bond investment of up to MAD 420 million (~EUR 39.7 million equivalent) in favour of Agadir (the “City” or “Agadir”).</p> <p>The Project will serve as Agadir’s trigger investment under Green Cities Framework 2 - Window II Extension 2 (“GrCF2 W2 E2”).</p> |
| Client | <p>Agadir is the capital city of the Souss Massa Region, one of 12 Moroccan regions established by the territorial division of 2015. The region is the 6th largest economy, hosting 6.7% of the country’s Gross Domestic Product (“GDP”). Main drivers of the City’s economy are tourism, fishing, and industry. [REDACTED]</p> |
| Main Elements of the Proposal | <p><u>Transition impact</u> will be derived from the following qualities:</p> <ul style="list-style-type: none"> • Primary Quality – Green. The Project will support City’s on-going investment plan focused on green, environmental and inclusive projects, including to further implement its infrastructure investment programme. The Project will also serve as a trigger investment for the City of Agadir to join EBRD Green Cities and will support the development of a Green City Action Plan (“GCAP”). • Secondary Quality - Resilient. The Project will contribute to the creation of Morocco’s domestic municipal bond market with the issuance of the first municipal bond by a local authority in Morocco as well as developing a Financial and Operational Performance Improvement Plan (“FOPIP”). <p><u>Additionality:</u> The Bank remains highly additional given the nascent stage of Morocco’s municipal bond market. EBRD participation will ensure the success of the bond placement, marking a key transaction towards the creation of an effective municipal bond market in Morocco.</p> <p><u>Gender Smart:</u> Gender additionality will be achieved by following the GCAP’s 2.1 methodology, which covers gender and inclusion considerations.</p> <p><u>Sound banking</u> – This will be the first municipal bond to be issued on the Moroccan capital market on a sub-sovereign basis. A review of financial projections and stress testing demonstrates that the Project is consistent with sound banking principles.</p> |
| Key Risks | <p>Completion/Demand risk: As the Project would be the first municipal bond issuance on the Moroccan market, investors’ demand might not be sufficient for this bond. EBRD’s participation will help close any funding gap and help raise investors’ confidence.</p> <p>Repayment risk: By law, debt repayments are considered mandatory expenses for municipalities [REDACTED].</p> |
| Strategic Fit Summary | <p>The proposed Project is in line with the Bank’s Strategy for Morocco, the Green Economy Transition Approach 2021-2025, Municipal and Environmental Infrastructure, Strategy for the Promotion of Gender Equality, and the Agreement Establishing the Bank. The Project is also in line with the objectives of the Bank’s Local Currency and Capital markets Development Initiative (the “LC2” initiative), aimed at contributing to the increased use of local currency and local capital markets.</p> |

² Article 27 of the AEB provides the basis for this decision.

ADDITIONAL SUMMARY TERMS FACTSHEET

| | |
|---|---|
| Client | The issuer is the City of Agadir. Agadir is the capital city of the Sous s Massa Region, one of 12 Moroccan regions established by the territorial division of 2015. The region is the 6 th largest economy, hosting 6.7% of the country's GDP. Main drivers of the City's economy are tourism, fishing, and industry. [REDACTED] |
| EBRD Transaction | <p>The transaction consists of a subscription of up to MAD 420 million (EUR 39.7 million equivalent) of a local currency senior unsecured bond of MAD 1.2 billion (EUR 113.1 million equivalent) (the "Bond" or the "Project") to be issued by the City of Agadir (the "City" or "Agadir"). The Bank's investment capped at 40% of the final issuance amount will be used solely for refinancing purposes with the final subscription amount not exceeding the refinancing portion.</p> <p>The proposed operation will serve as a trigger investment under GrCF2 W2 E2, and will initiate Agadir's participation in EBRD Green Cities.</p> |
| Existing Exposure | None to Agadir City. [REDACTED]. |
| Maturity / Exit / Repayment | [REDACTED] The final tenor will be confirmed at a later stage and before subscription [REDACTED] |
| Potential AMI eligible financing | None |
| Use of Proceeds | <p>The proceeds of EBRD participation will be used solely for refinancing purposes, allowing the City to free up additional resources to implement its ongoing investment plan focused on green, environmental and inclusive projects.</p> <p>The overall proceeds of the Bond issue will be used to (i) finance the City's contribution to fund infrastructure projects under its 2020-2024 strategic investment plan also known as Urban Development Program (the "PDU") as described in Annex 3 and (ii) refinance existing loans.</p> |
| Financing Plan | [REDACTED] |
| Key Parties Involved | City of Agadir as Issuer CDG Capital, Upline Corporate Finance and Attijari Finances Corp as Arrangers |
| Conditions to subscription / disbursement | [REDACTED] |
| Key Covenants | [REDACTED] Compliance with standard Bank policies and procedures (environmental and social procedures, the EBRD Performance Requirements and fraud and corruption) [REDACTED] |
| Security / Guarantees | None |
| Other material agreements | [REDACTED] |
| Associated Donor Funded TC and co-investment grants/concessional finance | <p>A. Technical Cooperation (TC)</p> <p><u>Post signing:</u></p> <p>TC1: Green City Action Plan ("GCAP") – EUR 350,000 funding will be sought [REDACTED] to help the City identify and prioritise its most pressing environmental challenges, and support the development and implementation of a plan outlining investments and policy actions for Agadir. The GCAP will also cover digital, inclusion and gender considerations. [REDACTED]</p> <p>TC2: Financial and Operational Performance Improvement Plan ("FOPIP") – EUR 650,000 funding will be sought [REDACTED] to support the City with both improving the collection of their revenues and optimising their operating expenses by promoting energy efficient solutions and digitalisation. [REDACTED]</p> |

| | |
|--|---|
| | <p><i>Reimbursement:</i> The above TC assignments will be non-reimbursable TCs required to support the Project.</p> <p><i>Parallel Contribution:</i> City of Agadir will make all VAT (standard rate 20%) and other required indirect tax payments associated with TC2.</p> <p>B. Co-investment grants / Concessional Finance (Non-TC)</p> <p>None</p> |
|--|---|

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

There is significant scope to develop municipal sub-sovereign lending in Morocco where the Bank has not yet engaged. The proposed transaction will enable the development of sub-sovereign lending by participating in the first ever municipal bond issuance in the country.

Adopted in 2015 in Morocco, the advanced regionalisation reform, and the subsequent decentralization have placed investment decisions for infrastructure services at local government level. The positive effects of the decentralisation and transfer of public investments from the central to the local governments are still at an early stage. So far, sub-sovereign lending was provided mainly by Fonds d'Équipement Communal ("FEC"), a subnational development finance institution [REDACTED]. In order to boost the contribution of local authorities to the economic and social development of the country, the central government has enacted a new legal framework early 2022 to encourage local authorities including municipalities to gain further autonomy and raise financing on a sub-sovereign basis, on the capital markets in particular. Agadir city will be the first mover and the pioneer in line with its strategic positioning in the country [REDACTED].

The Bank's involvement in the Project is highly additional as it contributes to the creation of a properly functioning municipal bond market in Morocco. [REDACTED] The transaction will also support Agadir through EBRD mobilized technical cooperation to develop a Financial and Operational Performance Improvement Plan ("FOPIP") to allow access to external financing as an additional source for local infrastructure investment thereby facilitating successful decentralization.

The overall proceeds of the Bond issue will be used to (i) finance the City's contribution to its 2020-2024 strategic investment plan also known as Urban Development Program (the "PDU") and (ii) refinance existing loans. The proceeds of EBRD participation (as defined in the Framework Agreement that the Bank plans to enter into with the issuer) will be used solely for refinancing purposes, allowing the City to free up additional resources to implement its ongoing investment plan focused on green, environmental and inclusive projects within the PDU. The fiscal headroom created by the bond will be achieved by a combination of interest rate savings and extended tenor and will enable the development of the City's first Bus Rapid Transport ("BRT") line as well as the replacement of street lights with energy-saving Light Emitting Diode ("LED") lights. The green investments, both of which have been prioritised in the PDU, are expected to lead to [REDACTED] Green House Gas ("GHG") emissions reduction making the Project eligible for EBRD Green Cities.

The proposed transaction will serve as a trigger investment under EBRD Green Cities, formally initiating the participation of the City in the programme, enabling Agadir to become the first Moroccan city to join EBRD Green Cities. Through the project, the City will commit to develop a Green City Action Plan ("GCAP"), which will identify the City's priority environmental challenges and the measures, namely investments and policy actions, to address them. The Project will also help initiate the Bank's engagement with Moroccan cities under EBRD Green Cities and provide a strategic platform to finance projects at a later stage on a sub-sovereign basis in line with opportunities identified

under the GCAP. The list of prioritised investments addressed by the GCAP will also include gender and digital components to support the City's primary focus of green impact.

The proposed investment is consistent with the Bank's Strategy for Morocco, the Green Economy Transition Approach 2021-2025, Municipal and Environmental Infrastructure, Strategy for the Promotion of Gender Equality, and the Agreement Establishing the Bank. The MEI strategy notes the need to *"support sub-sovereign lending in new markets to build capacity and diversify funding sources"* and *"act as a catalyst for capital market transactions to increase market confidence"*. Furthermore, the proposed investment is in line with the Bank's Local Currency and Capital markets Development Initiative (the "LC2" initiative) aimed at contributing to the increased use of local currency and local capital markets. [REDACTED].

1.2 TRANSITION IMPACT

The Project is presented under EBRD Green Cities. Agadir will be the first Moroccan city to join the programme. The GrCF2 represents a strategic and multi-project approach seeking to help identify and address environmental challenges in selected large cities in our countries of operation. The primary goal is to achieve significant environmental improvements and to promote the Green transition quality within the relevant cities. In addition to the environmental objective, the GrCF2 also promotes sustainable cities through inclusive, resilient, well-governed and smart urban development. Depending on which area can generate the strongest and most relevant transition impact, either Well-governed, Inclusive, Resilient or Competitive will be pursued and presented as the secondary transition quality for each sub-Project under the framework. These transition objectives are supported by the development and implementation of a city-specific GCAP aiming to identify environmental challenges, facilitate better coordination and buy-in among stakeholders and help to prioritise and develop the best ways to address the environmental challenges through targeted investments, services and policy instruments. The Project will also serve as trigger investment, enabling Agadir to become the first Moroccan city to join EBRD Green Cities and develop a city-specific GCAP.

The Project will primarily help to promote the Green transition quality as the proceeds of EBRD participation [REDACTED] will be used for refinancing purposes, allowing the City to free up additional resources to implement its ongoing Urban Development Plan focused on green, environmental and inclusive projects. Ongoing and future investments are structured around ambitious goals to reduce carbon intensity of the City and are hence expected to be in line with decarbonisation priorities for the municipal sector. The fiscal headroom created by EBRD use of proceeds will enable the City to prioritise and invest in City's first BRT line and acquisition of a new bus fleet for the line reducing City's urban transport emissions as well as the replacement of conventional (high pressure sodium) street lighting with energy efficient LED lights reducing electricity consumption and hence GHG emissions. The urban transport and street lighting replacement investments are expected to reduce City's GHG emissions [REDACTED].

The transaction will also support Agadir through EBRD mobilized technical cooperation to develop a FOPIP to allow access to external financing as an additional source for local infrastructure investment thereby facilitating successful decentralization.

The Project will also support the [R]esilient objective through improving access to new sources of financing, namely facilitation of access to bond markets for the first time. Recent changes in the regulatory framework have opened up the market now allowing the municipalities to issue bonds. Thus, the transaction is the first municipal bond to be issued on the Moroccan capital market on a sub-sovereign basis.

The Transition Impact objectives and the relevance for this sub-project are detailed in section 2. Measuring / Monitoring Success.

1.2 ADDITIONALITY

1.3

| Identified triggers | Description |
|---|--|
| A significant share (at least 30%) of the project is for refinancing purposes. | Around 40% of the bond issuance will be directed to the refinancing of the City's existing loans. |
| Financial additionality | Description |
| EBRD investment will help create a new municipal bond market. | The transaction will be the first bond to be issued by a municipality in Morocco. EBRD's participation will help raise investor confidence. |
| EBRD investment is needed to close a funding gap. At the same time, EBRD does not crowd out other sources, such as from IFIs, government, commercial banks and/or complements them. | [REDACTED] EBRD's participation will help close any funding gap and the Bank will likely be scaled back in case of oversubscription. |
| EBRD's involvement in a debt capital market transaction provides comfort to other investors and further widens market participation. | The proposed Bond amount is substantial. EBRD participation will ensure the success of the bond placement, marking a key transaction towards the creation of an effective municipal bond market in Morocco |
| Non-financial additionality source | Description |
| Client seeks EBRD expertise on governance improvements, including for higher financial transparency | The City is interested to work with the Bank, in seeking expertise with further governance improvements via a FOPIP TC assignment. |
| Client seeks EBRD expertise on higher environmental standards, above 'business as usual' in view of future green priority investments | The Bank will support the City with its green investments through the preparation of a GCAP. |
| Client seeks/makes use of EBRD expertise on higher inclusion and gender standards. | The Project will support the City's GCAP development, which will cover digital, inclusion and gender considerations. |

1.4 SOUND BANKING - KEY RISKS

| Risks | Probability / Effect | Comments |
|-----------------------|----------------------|---|
| Macroeconomic context | Low/ High | Standard & Poor's credit rating for Morocco stands at BB+ with stable outlook. Moody's credit rating for Morocco was last set at Ba1 with negative outlook, while Fitch last reported ratings stand at BB+ with stable outlook. |

| | | |
|----------------------------|-------------------|---|
| Financial risk | Low/ Medium | [REDACTED] The City demonstrated resilience in the past and the ability to maintain an operating surplus despite the Covid-19 crisis. [REDACTED]. |
| Regulatory Risk | Low/High | [REDACTED] [C]hanges in regulations and/or changes in the application thereof may negatively affect the City's financials. However, the decentralization is a key long-term strategic initiative of the State, aiming at empowering the local governments by building their capacity and autonomy (including on the financial level) as per the existing sub-sovereign legal framework. |
| Completion/ Demand risk | Medium/ Medium | [REDACTED] EBRD's participation will help close any funding gap and help raise investors' confidence. The Bank's participation will increase the probability of the placement being successful and will send a confirming signal to other investors. |
| Repayment risk | Low/High | By law, debt repayments are considered mandatory expenses for municipalities [REDACTED]. |

2. MEASURING / MONITORING SUCCESS

| <i>Overall objectives of project</i> | <i>Monitoring benchmarks</i> | <i>Implementation timing</i> |
|--|------------------------------|------------------------------|
| - Capacity development - Good financial and operational performance - GCAP development | [REDACTED] | [REDACTED] |

| Primary quality: Green | | | | | | | | |
|-------------------------------|--|--|--|---|------------------------|----------------------|---------------|--------------|
| Obj. No. | FW Monitoring Indicator | Corresponding Sub-Project Monitoring Indicator | Details (FW) | Details for Specific Sub-Project | Baseline (Sub-Project) | Target (Sub-Project) | Due date (FW) | TC-related ? |
| 1.1 | Number of recommended policy or strategy agreed by relevant stakeholder(s) | Recommended policy or strategy agreed by relevant stakeholder(s) | New Green City Action Plans: [REDACTED] new GCAPs finalised and submitted for approval by relevant authorities, and includes priority actions and a monitoring strategy in each participating City. Baseline target of the GrCF and GrCF2 combined is [REDACTED] GCAPs. | Agadir's GCAP sent to the City Council (or equivalent) for approval including an implementation and monitoring strategy | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| 1.2 | Performance or action plan implemented by the client | Performance or action plan implemented by the client | Strong follow-on support: [REDACTED] of transactions (under GrCF2 and future extensions) are follow-on investments addressing priority environmental challenges identified in the GCAPs. | Trigger – the Project is the City's first with EBRD Green Cities, and includes a GCAP that will enable follow on opportunities. | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |

| | | | | | | | | |
|-----|--|--|--|---|------------|------------|------------|------------|
| 1.3 | Performance or action plan implemented by the client | Performance or action plan implemented by the client | Multiple green investments: Each participating city makes [REDACTED] investments (with or without EBRD financing) that address priority environmental challenges identified by the GCAP, where all EBRD financed projects will meet the extended Framework's eligibility criteria for investments. | The project, which will enable the financing of a new BRT line, will be signed and implemented and meets the eligibility criteria for investments under GrCF2 as it leads to [REDACTED] reduction in GHG emissions. | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| 1.4 | Performance or action plan implemented by the client | Performance or action plan implemented by the client | Effective GCAP implementation: The Framework achieves at least 50 per cent of all verifiable targets, set in the GCAP, [REDACTED] (including both investments and well-defined policy measures). | Trigger – the Project will support the City to develop a Green City Action Plan that sets verifiable targets | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| 1.5 | Improved environmental standards | Improved environmental standards | Environmental impact: The Framework achieves significant environmental improvements for at least one priority environmental challenge, i.e. the promotion or protection of certain performance levels (colour codes) for priority environmental challenges as specified in the GCAPs, for more than 50 per cent of the Green Cities. | While the Project will lead to GHG emissions reduction, improvements within the respective cities will not be monitored at project level. | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |

Secondary quality: Resilient

| Obj. No. | FW Monitoring Indicator | Corresponding Sub-Project Monitoring Indicator | Further Details Sub-Project level | Details for Specific Sub-Project | Baseline (Sub-Project) | Target (Sub-Project) | Due date (Sub-Project) | TC-related ? |
|----------|---|--|--|--|------------------------|----------------------|------------------------|--------------|
| 2.1 | Number of clients introducing new financing instrument or method: green bonds | New financing instrument or method introduced: other | Improved access to new sources of financing or funding e.g. demonstrated access to fully commercial bank debt or access to bond markets for the first time; or introduction of land value capture or congestion charges. | The transaction will be successfully placed as planned and is the first municipal bond to be issued on the Moroccan capital market on a sub-sovereign basis. | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |

Additional Indicators

| Objective | FW level aggregate indicator | Indicator (sub-Project) | Details (sub project) | Baseline (Sub-Project) | Target (Sub-Project) | Due date (Sub-Project) | TC-related ? |
|-------------------------------|---|---|--|------------------------|----------------------|------------------------|--------------|
| Core client indicators | Total Population benefitting (individuals) | Total Population benefitting from improvements in urban transport (new BRT line) as well as street lighting in the City (individuals) | 480,000 inhabitants of Agadir City. | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| | Annual reduction in tonnes of CO ₂ equivalent savings (tonnes CO ₂ eq / yr) | Annual reduction in tonnes of CO ₂ equivalent savings (tonnes CO ₂ eq / yr) | Annual reduction of [REDACTED] tonnes of CO ₂ emissions [REDACTED]. | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| Gender SMART | Number of Cities in which Gender-responsive GCAPs was agreed | Recommended policy or strategy agreed by relevant stakeholder(s) | The GCAP for the City of Agadir includes a gender assessment, which aggregates the analysis and information gathered throughout the GCAP development (such as gender-disaggregated data, and the analysis the gender specific needs and barriers in access to services and infrastructure in cities in the various sectors covered by the GCAP 2.1 methodology), and the recommendations to address gender and inclusion in the City (as subset of Green city actions) that are the results of the analysis. | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |

3. KEY PARTIES

3.1 BORROWER

Agadir is one of the major cities of Morocco, with around 480,000 inhabitants. Considered as the capital of the South, Agadir experienced an economic boom in modern times hereby becoming a central economic hub between south and north of Morocco. Main sectors of its economy are fishing, tourism and industry. Please refer to Annex 2 for further information about Agadir municipality.

The City has stable revenue sources, with growth prospects in line with national GDP growth. Based on its capital status, Agadir is less dependent on central government transfers, State transfers accounting for a low share of the City's revenue. [REDACTED]

4. MARKET CONTEXT

Adopted in 2015 in Morocco, the advanced regionalization reform sets three levels of decentralization: the regions, the prefectures/provinces, and the municipalities. The municipality is the smallest entity of the administrative division, and oversees local services to citizens. It shares several competences with the State and for the execution of its competences, it benefits from a large part of the fiscal resources.

The laws governing the local authorities that were instituted in 2015 set the conditions for the management of territorial collectivities (region, prefecture/province, and municipality). They also describe for each type of territorial collectivity, their competences, the attributions of the council, the administration of the collectivity, its financial system, governance rules, and other provisions.

The subsequent decentralization has placed investment decisions for infrastructure services at local government level. The Moroccan government has encouraged local authorities to gain further autonomy and raise financing on a sub-sovereign basis. To that end, a legal framework was recently enacted to set the rules governing external financing by local authorities. Agadir Bond will be the first municipal bond in Morocco. A successful issuance will support the development of a municipal yield curve, offering a valuable pricing benchmark for peer municipalities that are contemplating raising finance through the local capital market.

In general, the Moroccan bond market remains small [REDACTED].

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS

[REDACTED]

5.2 SENSITIVITY ANALYSIS

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT AND SOCIAL

Categorised B (ESP 2019). The Project is a capital markets transaction involving a municipal bond. The proceeds of the EBRD participation in the new bond will be used solely for refinancing of the Client's existing loans [REDACTED] for past municipal investments and are not envisaged to be directed at specific physical assets or any new CAPEX investments and will explicitly exclude any

new high-risk or category A projects. Therefore, the Environmental and Social Due Diligence (“ESDD”) was focussed on assessing the risks and impacts associated with the Agadir City’s existing Environmental and Social (“E&S”) management systems and capacity, and review of the risks associated with the existing operations. This has been done through review of the corporate ESDD questionnaire and additional documentation provided by the Agadir City. The available information allowed for an assessment of the Client’s E&S capacity and the associated environmental and social risks of this Project in accordance with the Bank’s 2019 ESP Performance Requirements (“PRs”).

ESDD identified that the City is currently implementing a Sustainable Energy Action Plan and working towards achieving their energy efficiency management certification in line with ISO 50001, aiming also to reduce the carbon intensity of its municipal operations [REDACTED]. The City will also need to ensure that the implementation of the GET enabled investments in its Urban Development Plan (“PDU”) is in compliance with the PRs. This will be addressed through the Environmental and Social Action Plan (“ESAP”) [REDACTED]. After subscription, the Bank will also require the Client to comply with the PRs, and the EBRD proceeds will not be used for any new high-risk or Category A projects in line with EBRD’s E&S Policy 2019.

Based on the bond issue Information Memorandum (“IM”) from the City, the indicative portfolio of Enabled EBRD’s Green Economy Transition (“GET”) investment projects of the City is likely to be driven by their PDU until 2024 and focused on green investments related to public transport and street lighting. [REDACTED] The Project supports Paris Agreement goals for mitigation based on Enabled GET investments.

Given the anticipated focus of the Agadir City on predominantly green investments, this bond project will be a ‘trigger’ project to develop a GCAP and enable Agadir to join the EBRD Green Cities. The proposed ‘enabled GET’ investments are subject to review of ESDD reports and future monitoring to allow the Bank verify the GET impacts.

Post-signing Financial and Operational Performance Improvement Programme consultants will also be expected to assist the Client with the capacity building to implement E&S commitments in the Framework Agreement, including the ESAP implementation and annual E&S reporting to the EBRD. The Bank will monitor the Client’s performance through reviewing annual reports and site visits, if deemed necessary.

6.2 INTEGRITY

In conjunction with OCCO, integrity due diligence was undertaken on the City of Agadir (the Client or the Issuer), its senior management, the bond arrangers and other relevant parties [REDACTED]. The review [REDACTED] concluded that this project does not present unacceptable integrity or reputational risks to the Bank. [REDACTED].

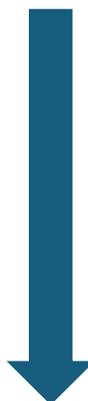
All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the project, and the project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the Project.

ANNEXES TO OPERATION REPORT

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ANNEX 1 – SHAREHOLDING STRUCTURE WITH OWNERSHIP CHAIN AND NAMED JURISDICTIONS

Kingdom of Morocco



100%



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مدينة أݢادير
VILLE D'AGADIR

ANNEX 2 – SNAPSHOT OF AGADIR CITY / SOUSS MASSA REGION

Geography: Agadir is the capital city of the Souss Massa Region, one of 12 Moroccan regions established by the territorial division of 2015. The Region is composed of two primary districts – Agadir-Ida Ou Tanane and Inezgane Aït Melloul – and four provinces – Chtouka Aït Baha, Tiznit, Taroudant and Tata. Souss Massa occupies a strip of land between the Atlantic Ocean to the west and the Algerian border to the east. The region is well suited to agricultural activities given its semi-arid to arid climate. Average precipitation is 275 mm per year and temperatures range from 11°C to 27°C, with an average of 19°C. These climate conditions helped Souss Massa become the largest producer of vegetables and citrus fruits in Morocco. The region also benefits from a 180-km stretch of coastline from Imsouane in the north to Arbaa Sahel in the south. Given its long coastline, warm climate and diverse countryside, Souss Massa has become a key source of both tourism and fishing revenue.

Economy: The region is the 6th largest economy, hosting 6.7% of the GDP with a regional GDP of c. EUR 7bn. Going forward and emerging from the Covid-19 crisis, the region’s contribution to national GDP is expected to grow in light of the massive regional programs that are undertaken. Initiated in 2018, the Souss Massa Industrial plan covers a potential capex of c. EUR 1bn, while Agadir’s Urban Development Plan was launched in 2020 and foresees a total investment of c. EUR 600m. The regional economy relies mainly on tourism, agriculture and fisheries, with more than 50% of the regional GDP in the tertiary sector and 19% in the primary sector. In terms of GDP per capita, the Souss Massa region ranks 8th at USD 2,275, lower than the national average USD 3,317. However, in Agadir-Ida Ouatane, the GDP per capita is higher than the national average with USD 4,050.

Municipal companies: The City has a 50% stake in the SDL “Souss Massa Amenagement”, a 48.5% stake in “ECI Grand Agadir”, an intermunicipal cooperation establishment, and a 30% stake in the SDL “Agadir Mobilité” (including ~29% through ECI Grand Agadir). The SDL “Souss Massa Amenagement” is in charge of the project management of various projects within the City, including projects under the PDU. The SDL Agadir Mobilité is in charge of the implementation of projects included in the Greater Agadir (Agadir and neighbouring municipalities) urban transport plan, including the first BRT line in Agadir.

Agadir population might be misleading when it comes to assessing Agadir’s strategic position or its potential to act as a driving engine of the national economy. For the time being, GDP disparities between regions are a reality in Morocco with 3 regions out of 12 accounting for nearly 60% of the national GDP: Casablanca-Settat Region (33%), Rabat-Kenitra-Sale Region (15%) and Tanger-Tetouan-Hoceima Region (11%). At the moment, Souss Massa Region accounts for nearly 7% of the GDP ranking 6th in terms of GDP contribution, with a regional GDP of c. MAD 75bn. However, the Souss Massa region’s economy being built on agribusiness, fishing and tourism, the Region is a great contributor in these key sectors. For example, Agadir is for example the 1st fishery port, accounting for c. 25% of the sector’s national added value. The region is also the 1st producer of vegetables and citrus in the country. Agadir is the second touristic destination in the country after Marrakech, and the region accounts for c. 15% of the national tourism’s GDP. The city’s airport is the third most important airport of the country, with over 2 million passengers in 2019. The Region’s economy begun to pivot to more industrial operations following the adoption of the Industrial Acceleration Plan in 2018, aimed to diversify the regional economy. Finally, to support the transformation of the region and highlight the central role of Agadir and the Souss Massa Region, King Mohammed VI officially announced the launch of the Agadir Urban Development Programme 2020-24 in 2020 with a total cost of MAD 6 billion.

Source : Oxford Business Group (The Report : Morocco – Souss Massa 2021), City of Agadir, Arrangers

ANNEX 3 – OVERVIEW OF AGADIR 2020-2024 PDU

The Urban Development Program of Agadir ‘PDU’ (2020-2024) has been launched in February 2020, mobilizing investments of around 6 billion dirhams. The main objectives of the PDU are to consolidate the city's positioning and strengthen its attractiveness as a national and international tourist destination, improve human development indices, the promotion of the living conditions of the populations, in particular of the inhabitants of under-equipped districts, the reinforcement of basic infrastructures and the consolidation of the road network of the city for better mobility. The PDU has been structured around 6 main axis:

1. **The construction of the first BRT line** on 15.5 km, connecting the port of Agadir to the Tikiouine district and surrounding industrial areas, and serving the administrative district of the city, Hassan II Avenue, Souk El Had, Hassan I Avenue, the Ibn Zohr University Complex and the Tassila Industrial Zone. This first line, which will have 35 stations, will contribute to the promotion of public transport, to the resolution of problems related to urban mobility, to the improvement of road safety conditions and to the strengthening of the attractiveness of the city.
2. **The reinforcement of the infrastructures and the decongestion of the city**, through the development of the first section of the North-East bypass road with a length of nearly 25 km, linking the airport of Agadir to the commercial port of the city, the development of new entrances to the city from this future road and the widening and rehabilitation of the expressway. Among the structuring projects also planned within this second axis, there is the rehabilitation of the East-West road axis over 5 km and its extension over 2.5 km so that it is connected to the national road number 11, the upgrading of the urban road network (almost 100 km), the development of the main avenues (Mohammed V, Laayoune, El Milaha) and around 30 roundabouts, the construction of two underground car parks in the Al Inbiaât park (600 spaces) and in Souk Al Had (1,000 places), the reinforcement of the public lighting network and the installation of a modern video surveillance network.
3. **The urban development of the tourist area of Agadir** and the strengthening of its attractiveness through the realization of several projects, in particular the rehabilitation of the corniche, the construction of public facilities (tourist information office, Timitar museum), the connection of the city with the coastal zone, the reinforcement of the road system and the lighting network, the redevelopment of the green spaces of the zone, the rehabilitation of the "Bird Valley" park, the renovation of street furniture and the creation of themed tourist circuits (commercial, recreational, cultural and sport).
4. **The preservation of the environment and the development of green spaces** in the city, with the development of the Tikiouine park (28 ha) and the Al Inbiâat park (25 ha), the restructuring and upgrading of the Ibn Zaidoun park and the Olhaou garden, the rehabilitation of several gardens and squares public buildings and the modernization of street furniture. The green spaces of the city of Agadir, as well as the golf courses, will be watered with treated wastewater.
5. **The cultural promotion and the enhancement of the city's heritage**, with the rehabilitation of the Kasbah of Agadir Oufella, the development of the "Memory of the city of Agadir" square, the creation of a Museum of Amazigh heritage, the redevelopment of the former headquarters of Bank Al-Maghrib and its conversion into a museum retracing the history of the reconstruction of the city, as well as the rehabilitation of several buildings and squares created during this same period. The "Cultural promotion" component also involves the creation of a media library and an archives centre, the setting up of a public reading network covering the various districts of the city, the construction of a Cultural Center in the Founty district, the rehabilitation of the open-air theater on Boulevard Mohammed V and the construction and equipment of a Center for cultural and artistic development.
6. **The strengthening of basic social facilities**, by the upgrading of under-equipped neighbourhoods, to support the demographic and urban development of the city and improve the living environment of citizens.

The City's financial contribution to the PDU represents about a third of the total investment, i.e. c. MAD 2bn. The remaining part of the investment plan is mainly financed by the Souss Massa region as well as different ministries.

ANNEX 4 – FINANCIAL INFORMATION

[REDACTED]

ANNEX 5 – GREEN ASSESSMENT

Introduction

The facility will consist of up to 40 per cent of a senior unsecured bond of MAD 1.2 billion (EUR 113.5 million equivalent) to be issued by the City of Agadir in Morocco (EBRD participation up to MAD 420 million equivalent to EUR 39.7 million). The proceeds of the Bond will be used to (i) finance the City's contribution to its 2020-2024 strategic investment plan also known as Urban Development Program ("PDU") and (ii) refinance existing loans. The Bank's participation to the Bond would be directed to the refinancing portion only.

The successful implementation of the Project, will provide the City with more budget flexibility to implement its ongoing investment plan focused on green and environmental challenges.
[REDACTED]

The Project is assessed as **aligned** with the goals of the Paris Agreement. The Project's **GET** share is **50 per cent**. The transaction will serve as a 'trigger' investment for the City of Agadir joining EBRD Green Cities.

Paris alignment assessment

The bond refinancing has no immediate use of proceeds and thus Paris Alignment is not directly applicable. The proposed enabled investments in the urban transport sector and street lighting are considered Paris aligned for mitigation and adaptation.

Both investments are also subject to review of regular reporting to be supplied by the Client, addressing any gaps with EBRD PRs through the Framework Agreement and future monitoring of some specific indicators (incl. number of buses purchased, km of BRT installed and number of LEDs installed) to allow the Bank verify the GET impacts. City becoming an EBRD Green City will allow the Bank to closely monitor the developments and help the administration continue investing in green projects overcoming its environmental challenges.

Alignment with the mitigation goals of Paris Agreement

- The project/economic activity is included in the 'aligned list'. The Project consists of a new BRT line in the City of Agadir and refurbishment of street lighting with more efficient LED fixtures.
- Regarding project/economic activities, there are no activities included in the 'non-aligned list'.

Alignment with the adaptation goals of Paris Agreement

- [REDACTED] Identified risks will not pose direct material impacts on the assets covered by the use of proceeds.
- The Project does not face any potentially material physical climate risks and it is unlikely to undermine climate resilience of the system in which it operates.

GET attribution

The ‘enabled GET’ allocation is 50 per cent on the basis that the refinancing will allow the City to invest the equivalent percentage from the bank participation in the refinancing in urban transport and street lighting projects as part of the PDU. Due to the nature of the bond transaction, limited and only public information has been made available.

BRT:

The City is planning a new BRT line that will connect the port and Marina of Agadir to Tikiouine, a south-east suburb. The line will be 15.5 km long with 35 stations, 5 of which will be serving as new interchanging hubs with other public transport modes. The City plans to purchase 33 high-capacity (either 18m or bi-articulated 24m) buses for the line 3 of which are to serve as reserve buses in order to transport up to 60,000 passengers per day. The investment will include cycling paths, sidewalks and pedestrian crossing as well [REDACTED].

The BRT is expected to result in substantial GHG emission reduction improving efficiency of the overall urban transport system and increasing the number of low-emission fleets. According to the Environmental Impact Assessment³ of the project, the BRT is expected to reduce GHG emissions [REDACTED].

Street Lights:

Approximately 15 per cent of the street light fixtures in Agadir are reported to be LED fixtures/lanterns. As part of the PDU, The City aims to convert the remaining share of street lights from conventional high-pressure sodium (“HPS”) vapour lamps to LEDs. [REDACTED]

The LED replacement investment is expected to reduce energy consumption [REDACTED] and consequently leading to reduction of GHG emissions [REDACTED] per annum.

The bond transaction, via creating a fiscal headroom for urban transport and street lighting projects, is expected to lead to [REDACTED] energy savings leading to GHG emissions reduction of [REDACTED] tCO_{2e} per year. The Project is also found eligible for EBRD Green Cities as emission reduction are above 20 per cent compared to the baseline.

Compliance with Enabled GET approach:

The project will comply with the required criteria under Annex 5.10 – Enabled Get investments [REDACTED]

Climate-related financial risk

[REDACTED]

ANNEX 6 – IMPLEMENTATION PROGRESS OF GrCF / GrCF2

Since 2016, the GrCF and GrCF2 have mobilised nearly EUR 5 billion in EBRD and donor funding. The Green Cities Framework (GrCF), approved by the Board in November 2016, set an ambitious agenda for the Bank’s municipal business, with the over-arching aim being ‘to serve as a sector-wide catalyst for addressing environmental challenges at the City level’. [REDACTED] [I]n October 2018 a new Framework was approved by the Board, Green Cities Framework 2 (GrCF2) [REDACTED]

ANNEX 7 – PROCUREMENT

[REDACTED]