

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

Approved by the Board of Directors on 22 July 2020¹

MOROCCO

VISP ONEE WATER STABILISATION FACILITY

[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.

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ABBREVIATIONS / CURRENCY CONVERSIONS

ADM	Autoroutes du Maroc
AfDB	African Development Bank
AFD	Agence Française de Développement
CAPEX	Capital Expenditures
COGS	Costs of Goods Sold
DEPP	Directorate of Public Enterprises and Privatisation
DSO	Days Sales Outstanding
DPO	Days Payable Outstanding
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortisation
E&S	Environmental and Social
EHSS	Environment, Health and Safety and Social
EIB	European Investment Bank
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
EUR	Euro
GDP	Gross Domestic Product
IFI	International Financial Institution
IFRS	International Financial Reporting Standards
MAD	Moroccan Dirham
MEFAR	Ministry of Economy, Finance and Administration Reform
ONDA	Office National des Aéroports
ONEE	Office National de l'Électricité et de l'Eau Potable
OPEX	Operating Expenses
PP&R	Procurement Policies & Rules
SOE	State Owned Entity
TC	Technical Cooperation
VAT	Value Added Tax
WCR	Working Capital Requirement

CURRENCY EQUIVALENT

1 EUR = 10.8273 MAD

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of the Office National de l'Électricité et de l'Eau Potable (the “Company” or “ONEE”), a state owned utility company incorporated in Morocco, are submitted for consideration by the Board of Directors. This operation is submitted under the Vital Infrastructure Support Programme (“VISP”) under the EBRD COVID-19 Solidarity Package [REDACTED] at the same time as the VISP ONDA Stabilisation Facility and VISP ADM Stabilisation Facility given that all three operations benefit from a reform agenda on state-owned entities (“SOEs”) that will be developed with the Government of Morocco.

The facility will consist of a sovereign guaranteed loan to the Company in the amount of up to EUR 50 million. The loan will be guaranteed by the Kingdom of Morocco. The proceeds of the loan will be applied by the Company to cover short term obligations and operational expenditures and or to replace existing short-term bridge loan financing with term financing to enable the Company to continue to provide vital infrastructure services in Morocco.

The expected transition impact of the Project is derived from the Resilient TI Quality through the provision of liquidity support to ensure the continued delivery of vital infrastructure services in the face of the COVID-19 pandemic, and the Well-Governed TI Quality through a programme of measures to be developed by the Government of Morocco on reform of SOEs and improvement of the procurement function at the Company’s level.

TC support for this operation will be provided by a bi-lateral or multi-lateral donor or the EBRD Shareholder Special Fund (“SSF”) to facilitate the development of an SOE reform strategy.

I am satisfied that the operation is consistent with the EBRD COVID-19 Solidarity Package, the Bank’s Strategy for Morocco and the MEI Sector Strategy 2019-2024 and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed loan substantially on the terms of the attached Report.

Jürgen Rigterink
First Vice President, Acting President

BOARD DECISION SHEET

MOROCCO- VISP ONEE Water Stabilisation Facility - DTM 52334	
Transaction / Board Decision	Board approval ² is sought for a sovereign guaranteed loan of up to EUR 50 million to the Moroccan utility provider, Office National de l'Électricité et de l'Eau Potable (the “Company” or “ONEE” or “the Borrower”), in order to support liquidity needs of its water division due to the impact of COVID-19.
Client	ONEE is the state-owned water and electricity utility company in Morocco. The water division is the predominant water provider in Morocco, producing 80% of the country’s water and is responsible for the distribution of water to small towns and rural areas.
Main Elements of the Proposal	<p>The Project is presented under the Vital Infrastructure Support Programme (“VISP”) of the EBRD COVID-19 Solidarity Package [REDACTED].</p> <p><u>Transition impact</u></p> <p>Primary Quality – Resilient: Transition will be derived by reinforcing the resilience of the system by providing financial support to ensure the continuity of vital infrastructure services provided by ONEE, contributing to maintaining capacity throughout and beyond the COVID-19 pandemic.</p> <p>Secondary Quality – Well Governed: an SOE reform programme will be developed with the Ministry of Economy, Finance and Administration Reform (MEFAR), focussing on development of a strategy on state-owned entities, supported by a TC assignment provided at the MEFAR level. This will be accompanied by measures at the level of ONEE, which will involve undertaking steps to improve its procurement function.</p> <p><u>Additionality</u> – ONEE is facing the risk of financial instability that may undermine its ability to continue to provide vital infrastructure services. The Bank is providing support that will bridge the financing gap [REDACTED].</p> <p><u>Sound banking</u> – The EBRD loan will benefit from a sovereign guarantee to mitigate the repayment risk of the loan.</p>
Key Risks	<p><u>Key risks</u> (i) <i>Sovereign risk</i>: Public debt sustainability is expected to be preserved in the medium term; however, the extent of the coronavirus impact on the economy and public finances is subject to uncertainty. [REDACTED] Morocco is a creditworthy borrower rated as Ba1 Stable by Moody’s, BBB-/A-3 Stable by S&P, and BBB- Negative by Fitch; and (ii) <i>Reform Implementation risk</i>: The reform agenda [REDACTED] will be supported by a grant-funded technical cooperation assignment to ensure effective implementation.</p>
Strategic Fit Summary	The proposed Project is in line with the Bank’s MEI Sector Strategy 2019-2024, Strategy for Morocco and the EBRD COVID-19 Solidarity Package, VISP, as it (i) facilitates the financial stability of a vital infrastructure service provider, whose revenues have been impacted by the COVID-19 crisis and (ii) supports SOE reforms and reform at the level of the Company.

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

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	The transaction consists of an up to EUR 50 million stabilisation facility to be extended to ONEE (Water division), on a sovereign guaranteed basis.
Existing Exposure	The Bank's total sovereign portfolio in Morocco is EUR 629.0 million [REDACTED]
Maturity / Exit / Repayment	[REDACTED].
Use of Proceeds	The Use of Proceeds will include utilities, refinancing of short-term debt, salaries, and payment of the Front-end Fee. [REDACTED] No loan proceeds will be used to finance any capital expenditures and the loan proceeds will only be used to finance the items defined above.
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	ONEE as the Borrower. Kingdom of Morocco represented by the Ministry of Economy, Finance and Administration Reform ("MEFAR" or "Ministry of Finance"), as guarantor of ONEE's financial obligations and key counterpart for the SOE reform agenda through the Department for Public Enterprises and Privatisation ("DEPP") of MEFAR
Conditions to subscription / disbursement	<ul style="list-style-type: none"> - The execution and delivery of the Loan Agreement and the Guarantee Agreement on behalf of the Borrower and the Guarantor have been duly authorised or ratified by all necessary governmental and corporate action. - Legal opinion on the Loan Agreement and the Guarantee Agreement, of counsel acceptable to the Bank, has been furnished to the Bank.
Key Covenants	- [REDACTED] Implement the Environmental and Social Action Plan ("ESAP") [REDACTED]
Security / Guarantees	Financial guarantee from the Sovereign.
Other material agreements	None
Associated Donor Funded TC	<p><i>Post-signing TC:</i></p> <ul style="list-style-type: none"> • Regulatory Framework and Governance Support for SOEs – EUR 900,000 funding will be sought from a bi-lateral or multi-lateral donor or the SSF- to develop and facilitate implementation of a strategy on reform of SOEs. This TC will be provided under one coordinated approach through the MEFAR / DEPP and mobilised for the three SOEs proposed to benefit from the VISP and presented in parallel (ONDA DTM ID 52336, ADM DTM ID 52335 and ONEE DTM ID 52334). <p><i>Reimbursement:</i> The above TC assignment will be a non-reimbursable TC required to support the Project.</p> <p><i>Parallel Contribution:</i> the Government of Morocco will make a parallel contribution to the Project via the payment of any VAT (standard rate 20%) and other required indirect tax payments related to the TC assignment.</p> <p><i>In-kind Contribution:</i> ONEE will provide in-kind support in the form of office space, communication connections, and so on, for the consultants to work.</p>

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

Vital infrastructure providers in Morocco have been impacted by the extended lock-down measures imposed in response to COVID-19, which have had a significant impact on economic activity in Morocco. Significant falls in usage and collection rates for utility services have led to significant falls in revenues, imposing liquidity constraints across the sector, and leading to the risk of operational disruption, across both private and public sector entities. Public infrastructure providers are bearing the brunt of the crisis as they are being encouraged to honour payments owed to contractors and suppliers, in particular SMEs, in order to stop contagion to the supply chain while facing a shortage of cash flows due following substantial loss/delay of revenues.

Office National de l'Électricité et de l'Eau Potable ("ONEE"), the state-owned water and electricity company in Morocco, is experiencing a [REDACTED] shortfall in liquidity due to actual delays in collections and a potential loss in revenues. ONEE Water division produces 80% of the bulk water supply in the country and manages water distribution along with sanitation services in small towns and rural areas. ONEE announced its intention to ensure continuity of service of its water or electricity customers [REDACTED].

The stabilisation facility proposed under this project falls under the EBRD COVID-19 Solidarity Package [REDACTED], Vital Infrastructure Support Programme ("VISP") and will protect the delivery of vital infrastructure services by providing much needed liquidity to a key infrastructure provider. In the absence of the Bank's intervention, ONEE will be exposed to financial instability that may jeopardize its ability to continue to provide essential services to people and businesses. The stabilisation facility therefore aims to strengthen ONEE's resilience to deliver infrastructure services by ensuring that the Company has adequate liquidity. [REDACTED]

The reform programme will also include actions at the level of ONEE which will focus on undertaking steps to support improvements of the procurement function [REDACTED]. This will promote increased transparency and efficiency in public procurement processes.

1.2 TRANSITION IMPACT

TI Quality: Resilient

Obj. No.	Objective	Details
1.1	Stabilisation facilities for key infrastructure providers.	<p>In line with the VISP, the loan proceeds will be used to provide emergency liquidity to Morocco's national water utility company to compensate for cash shortfalls due to COVID-19 pandemic-related issues (whether delayed payments or loss of revenues).</p> <p>Transition will be derived by creating resilience in the system by providing financial support to ensure the continuity of the vital water services provided by ONEE and ensuring that the capacity is maintained throughout and beyond the COVID-19 pandemic. It will support the sustainability of a key infrastructure service provider and will benefit the</p>

		residents and the private sector by ensuring the viability and reliability of this vital infrastructure.
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TI Quality: Well-governed

Obj. No.	Objective	Details
2.1	Development and adoption of a Strategy on SOE modernisation and governance reform (targeting the development and adoption of a State Ownership Policy).	The Bank is working with the Government of Morocco, through the DEPP of the MEFAR, to develop a strategy on SOE modernisation and reform. [REDACTED]
2.2	Corporate development (procurement)	ONEE will also take specific steps towards improving procurement processes [REDACTED].

1.3 ADDITIONALITY

Identified triggers / Additionality sources	Description
A significant share (at least 30%) of the project is to finance working capital. A repeat transaction with the same client or use of proceeds.	The proposed liquidity facility will help ONEE to mitigate the effects of the COVID-19 crisis [REDACTED] and continue to provide vital services [REDACTED].
Financing structure – Crisis response: EBRD financing bridges a financing gap due to adverse market conditions and fills a market funding gap	ONEE is facing the risk of financial instability that may undermine its ability to continue to provide vital services [REDACTED]. The Bank has closely coordinated with other IFIs active in Morocco on the response to the COVID-19 crisis. [REDACTED]
Standard-setting: helping projects and clients achieve higher standards – Client seeks/makes use of the EBRD expertise on higher financial standards, including through development of SOE policy. Knowledge, innovation and capacity building – The EBRD provides expertise, innovation, knowledge and/or capabilities that are material to the timely realisation of the project's objectives, including support to strengthen the capacity of the client.	The Bank through relevant TC provides support to strengthen the capacity of ONEE and MEFAR in relation to improvement of procurement practices and with respect to developing a reform strategy for SOEs.

1.4 SOUND BANKING – KEY RISKS

Risks	Probability / Effect	Comments
Sovereign risk	Low/ High	<p>Public debt sustainability and the creditworthiness of the Moroccan sovereign is a key risk concern.</p> <p><u>Mitigation:</u></p> <p>Morocco's current level of debt is around [REDACTED] 70% of GDP, which is [REDACTED] an acceptable debt ratio for emerging markets. [REDACTED]</p> <p>Although the extent of the coronavirus impact on the economy and public finances is subject to uncertainty, considering the current Moroccan sovereign debt situation, the debt is assessed to be sustainable and resilient to various shocks. Morocco is a creditworthy borrower rated as Ba1 Stable by Moody's, BBB-/A-3 Stable by S&P, and BBB- Negative by Fitch.</p>
Reform Implementation risk	Medium/ Medium	<p>Reform implementation risk regarding the SOE modernisation and reform project.</p> <p>Even with substantial commitment and political support, implementing sector reform and reaping its benefits will take time, given the large number of stakeholders involved, and the potentially complex nature of the actions involved.</p> <p><u>Mitigation:</u></p> <p>The Bank is working closely with the Government of Morocco, through the DEPP of the MEFAR, to develop a strategy on SOE modernisation and reform. The Bank plans to engage in a dialogue on reforms at different levels to support implementation [REDACTED].</p>

2. MEASURING / MONITORING SUCCESS

<i>Overall objectives of project</i>	<i>Monitoring benchmarks</i>	<i>Implementation timing</i>
<ul style="list-style-type: none"> - Continuing provision of key infrastructure services - Improving procurement standards 	<ul style="list-style-type: none"> - Continued operational performance in the face of COVID-19 disruptions - Completion of the diagnostic study on procurement function and development of recommendations outlined in the diagnostic study 	<ul style="list-style-type: none"> - [REDACTED]

Primary Quality: Resilient

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
1	Continuity of vital services	Recovery of revenues [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Secondary Quality: Well-Governed

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due Date
2.1	Legal, institutional or regulatory frameworks in target areas improved – strategy on SOE modernisation	Development and adoption of a strategy on SOE modernisation and governance reform by the Government of Morocco [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2.2	Recommended policy or strategy agreed by relevant stakeholders.	[REDACTED] review of procurement practices for ONEE to improve transparency.	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES**3.1 BORROWER**

ONEE was created in 2012 as a result of a merger between Office National de l'Électricité ("ONE"), the state-owned national electricity utility, and Office National de l'Eau Potable ("ONEP"), the state-owned national water utility. By merging these two entities, the government has created a public multi-service provider with strong synergies. The Company's activities are governed by a framework agreement with the government (Contrat Programme) that sets the goals, means and priorities of its interventions.

ONEE (Water division) is the predominant water provider in Morocco, producing 80% of the country's water. The water division is responsible for the distribution of water directly to small towns and rural areas.

ONEE (Electricity division) generates c.29 per cent of electricity in the energy mix as of 2018. It can give concessions to private operators with purchase guarantees and has the status of single buyer of electricity produced, owns the complete transmission network and is responsible for operating and expanding the grid, and operates the majority of the distribution network (52 per cent) and is the main retail supplier.

3.2 GUARANTOR

The loan will be guaranteed by the Kingdom of Morocco as represented by the MEFAR. Morocco is a creditworthy borrower rated as Ba1 Stable by Moody's (March 2020) and BBB-/A-3 Stable by S&P (April 2020). On 28 April 2020, Fitch revised its outlook on its BBB- sovereign credit rating for Morocco from stable to negative.

COVID-19 Impact on the Guarantor

- The COVID-19 pandemic shock is expected to cause the sharpest GDP contraction in 25 years. [REDACTED]
- To finance the projected budget deficit, the Moroccan Government will need to raise additional debt. [REDACTED]
- Disruptions to global value chains, a depressed air transport industry, and the economic downturn endured by the European Union, Morocco's main trade partner, will impact on the largest contributors to exports namely the automotive and aeronautics sectors, which accounted for c.30 per cent of exports in 2019. With tourism receipts expected to collapse, the negative impact of containment measures will be widespread across many sectors. The expected decline in remittances will likely further suppress household disposable income.

4. MARKET CONTEXT

ONEE (Water division) is the dominant water provider in Morocco, producing 80 per cent of the country's water, but distribution is decentralised. In general, ONEE (Water division) is responsible for the distribution of water directly to end users where there is no *régie autonome* (government-owned local utility) or private concession. As such, ONEE (Water division) only distributes to 30 per cent of the population directly. Three private concessionaries are responsible for water distribution and electricity service in the cities of Casablanca, Rabat/Salé, Tangier and Tetouan covering 40 per cent of the population. Régies autonomes are responsible for the distribution of water to 30 per cent of the Moroccan population.

The water sector in Morocco is governed by the 1995 Water Law, which focuses on water use efficiency, resource allocation practices, protection of water quality and demand management (polluter-pays principle). Water and wastewater services in Morocco are regulated. The government is responsible for regulation of both tariffs and service levels:

- Tariffs are approved by the government on a yearly basis under the lead of the MEFAR [REDACTED]

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS

[REDACTED]

5.2 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised B (2019 ESP). Environmental and Social due diligence ("ESDD") has been undertaken in-house in line with the ESD's response to COVID-19 and consisted of a review of the Corporate ESDD and COVID-19 Questionnaires, review of recently updated Environmental Assessment Guidelines, as well as phone interviews with the Company's Management. [REDACTED]. As the use of proceeds is not to be directed to specific physical assets (no Capex), the Project is not expected to result in additional E&S impacts nor additional physical footprint. The Company will be required to align its corporate environmental and social management systems with the Bank's Performance Requirements. ONEE is an existing Client of the Bank, and its water division has been subject to an external ESDD in 2014. The Company has been reporting satisfactorily on its E&S performance, confirming that the ESAP is being implemented according to schedule.

ESDD findings show that the Company's corporate procedures are in line with national legislation. [REDACTED]

The ESAP requires i) further integration of existing EHSS policies and procedures into a systems approach including provision of more comprehensive EHSS training beyond the Environmental Department, ii) evidence of ONEE's commitment on Human Resources management, including non-discrimination, sexual harassment and grievance mechanism, iii) an update of the Environmental Assessment Guidelines to align with EBRD's 2019 ESP.

The Bank will monitor the Company's environmental and social performance in accordance with the Bank's PRs through review of reports and monitoring visits as required.

6.2 INTEGRITY

In conjunction with OCCO, integrity due diligence was undertaken on ONEE ("the Borrower"), its shareholders and senior management. [REDACTED] The Bank assesses the associated integrity and reputational risks as acceptable in view of the restricted use of proceeds and certain integrity safeguards that will be applied [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.

6.3 PROCUREMENT

The VISP is designed to help clients continue to provide essential public infrastructure services, strengthen resilience and protect reforms. The use of proceeds for the proposed Loan will be advanced to ONEE to enable it to meet short-term [REDACTED].

The proceeds of the Loan cannot be used for capital expenditure. On the basis that the Procurement Policies and Rules (PP&R) was specially designed to cover the procurement of capital expenditures, it is proposed that the Bank's PP&R will not be applicable. It is noted that the Bank's funds will not support Capex [REDACTED].

The TCs envisaged under the Project will be procured by the Bank in line with the Banks PP&Rs.

ANNEXES TO OPERATION REPORT

ANNEX 1	Shareholding Structure
ANNEX 2	Historical Financial Statements

Annex 1 – Shareholding Structure

Kingdom of Morocco



100%

المكتب الوطني للكهرباء و الماء الصالح للشرب
Office National de l'Electricité et de l'Eau Potable

Domiciliation annex is not required for the proposed Project under the Bank's Domiciliation Policy.

Annex 2 – Historical Financial Statements

[REDACTED]