

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

Approved by the Board of Directors on 22 July 2020¹

MOROCCO

VISP ADM 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.

TABLE OF CONTENTS

	Page
TABLE OF CONTENTS	2
ABBREVIATIONS / CURRENCY CONVERSIONS.....	3
PRESIDENT'S RECOMMENDATION.....	4
BOARD DECISION SHEET	5
ADDITIONAL SUMMARY TERMS FACTSHEET.....	6
1. STRATEGIC FIT AND KEY ISSUES.....	7
1.1 STRATEGIC CONTEXT.....	7
1.2 TRANSITION IMPACT	7
1.3 ADDITIONALITY	8
1.4 SOUND BANKING - KEY RISKS	9
2. MEASURING / MONITORING SUCCESS.....	10
3. KEY PARTIES	11
3.1 BORROWER.....	11
3.2 GUARANTOR	11
4. MARKET CONTEXT	11
5. FINANCIAL / ECONOMIC ANALYSIS	12
5.1 FINANCIAL PROJECTIONS	12
5.2 PROJECTED PROFITABILITY FOR THE BANK.....	12
6. OTHER KEY CONSIDERATIONS.....	12
6.1 ENVIRONMENT	12
6.2 INTEGRITY.....	13
6.3 PROCUREMENT	13
ANNEXES TO OPERATION REPORT	14
Annex 1 – Shareholding Structure	15
Annex 2 – Historical Financial Statements.....	15

ABBREVIATIONS / CURRENCY CONVERSIONS

ADM	Société Nationale des Autoroutes du Maroc
AfDB	African Development Bank
AFD	Agence Française de Développement
BOT	Build Operate Transfer
CAPEX	Capital Expenditure
DEPP	Directorate of Public Enterprises and Privatisation
DSCR	Debt Service Coverage Ratio
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
FOREX	Foreign Exchange Market
GDP	Gross Domestic Product
HSE	Health, Safety and Environment
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
SOE	State Owned Entity
PP&R	Procurement Policies & Rules
TC	Technical Cooperation
VAT	Value Added Tax

CURRENCY EQUIVALENT

1 EUR = 10.8273 MAD

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of Société Nationale des Autoroutes du Maroc (the “Company” or “ADM”), Morocco’s national motorway operator incorporated in the Kingdom of Morocco, are submitted for consideration by the Board of Directors. This operation is submitted under Window 2 of the Vital Infrastructure Support Programme (“VISP”) under the EBRD COVID-19 Solidarity Package [REDACTED] at the same time as the VISP ONEE Water Stabilisation Facility and VISP ONDA 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 100 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 a programme at the level of ADM to improve the debt and forex exposure management of the Company.

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 and to support the implementation at ADM level of debt management and foreign exchange management systems.

I am satisfied that the operation is consistent with the EBRD COVID-19 Solidarity Package, the Bank’s Strategy for Morocco, Transport 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 ADM Stabilisation Facility - DTM 52335	
Transaction / Board Decision	Board approval ² is sought for a sovereign guaranteed loan of up to EUR 100 million in favour of Société Nationale des Autoroutes du Maroc (the “Company” or “ADM” or the “Borrower”), Morocco’s national motorway operator incorporated in the Kingdom of Morocco to finance short-term obligations payable within 12 months.
Client	Société Nationale des Autoroutes du Maroc is Morocco’s national motorway operator responsible for a 1,800 km highway network [REDACTED].
Main Elements of the Proposal	<p>The Project is presented under Window 2 of 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 ADM, 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 enterprises, supported by a TC assignment provided at MEFAR level. This will be accompanied by measures at the level of ADM to improve performance on debt and forex exposure management.</p> <p><u>Additionality</u> – COVID-19 crisis response: ADM 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 Transport Sector Strategy 2019-2024, Strategy for Morocco and the EBRD COVID-19 Solidarity Package, as it (i) facilitates the financial stability of a vital infrastructure service provider whose revenues have been severely 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 proposed transaction involves a EUR 100 million sovereign guaranteed loan to ADM.
Existing Exposure	The Bank's total sovereign portfolio in Morocco is EUR 629.0 million [REDACTED]
Maturity / Exit / Repayment	[REDACTED]
Use of Proceeds	<p>The use of proceeds will include utilities, refinancing of short-term debt, salaries and payment of the Front-end Fee. [REDACTED]</p> <p>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.</p>
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	<p>ADM as the Borrower.</p> <p>Kingdom of Morocco represented by the Ministry of Economy, Finance and Administration Reform ("MEFAR" or "Ministry of Finance"), as guarantor of ADM's financial obligations and key counterpart for the SOE reform agenda through the Department for Public Enterprises and Privatisation ("DEPP") of MEFAR.</p>
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> ADM 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 severely 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 traffic and collection rates for utility services have led to significant falls in revenues, imposing severe 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 an acute shortage of cash flows due following substantial loss/delay of revenues.

Société Nationale des Autoroutes du Maroc (“ADM”), the state-owned company in the motorway sector, manages the entire motorway network of 1,800 km. ADM has reported [REDACTED] reduction in traffic during the first weeks of the inter-city travel ban following Morocco’s state of emergency announcement. [REDACTED] As the Company manages highways on a pay-per-use service, the sudden drop in traffic, together with the ongoing maintenance services and capex programmes has had and will have a significant impact on ADM’s financial stability.

The stabilisation facility proposed under this Project falls under the EBRD COVID-19 Solidarity Package [REDACTED], Vital Infrastructure Support Programme (“VISP”) Window 2 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, ADM 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 ADM’s resilience to deliver infrastructure services by ensuring that the Company has adequate liquidity. [REDACTED]

[REDACTED] Managing [REDACTED] debt in an efficient matter is a key performance area for the Company. [REDACTED] In order to provide support to ADM and modernise its practices in this key area, the reform programme will also include actions at the level of ADM to improve debt and forex exposure management, including developing tailored systems for debt management and forex exposure management. This will ultimately enhance the financial soundness of the Company as well as provide better quality information [REDACTED].

1.2 TRANSITION IMPACT

TI Quality: Resilient

Obj. No.	Objective	Details
1.1	Stabilisation facilities for key	In line with the VISP, the loan proceeds will be used to provide emergency liquidity to Morocco’s national utility

	infrastructure providers.	company to compensate for cash shortfalls due to the COVID-19 pandemic related issues (whether delayed payments or loss of revenues). Transition will be derived by creating resilience in the system by providing financial support to ensure the continuity of the vital services provided by ADM and ensuring that the capacity is maintained throughout and beyond the COVID-19 pandemic. [REDACTED]
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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	ADM corporate development	The Project will support ADM's corporate development through technical assistance [REDACTED]. Given the debt structure of the Company, debt management is a key strategic issue for ADM [REDACTED].

1.3 ADDITIONALITY

Identified triggers	Description
A significant share (at least 30 per cent) of the project is to finance working capital	The proposed liquidity facility will help ADM mitigate the effects of the COVID-19 crisis, including [REDACTED] and continue to provide vital services [REDACTED].

Additionality sources	Evidence of additionality sources
Financing structure Crisis response: The EBRD offers a large volume instrument that fills a market funding gap and is required to structure the project Public sector: the EBRD investment is needed to close the funding gap.	ADM is expecting a [REDACTED] loss of [REDACTED] revenues following the intercity travel ban [REDACTED] due to COVID-19. [REDACTED]. ADM is therefore 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

Additionality sources	Evidence of additionality sources
At the same time, the EBRD does not crowd out other sources, such as from IFIs, government, commercial banks and/or complements them.	Morocco on the response to the COVID 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.	The envisaged transaction will be accompanied by a programme to be developed by the Government of Morocco on reform of SOEs [REDACTED]. The Company will implement, as part of the loan covenants, an Environmental and Social Action Plan (“ESAP”) in accordance with EBRD standards to improve governance standards across operations.
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.	[REDACTED] the programme to implement debt and forex exposure management systems will ultimately strengthen the financial soundness of the company, as well as provide better quality information [REDACTED].

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Sovereign risk	Low/ High	Public debt sustainability and the creditworthiness of the Moroccan sovereign is a key risk concern. <u>Mitigation:</u> Morocco’s current level of debt is around [REDACTED] 70% of GDP, which is [REDACTED] an acceptable debt ratio for emerging markets. [REDACTED] 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.
Reform Implementation risk	Medium/ Medium	Reform implementation risk regarding the SOE modernisation and reform project. 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. <u>Mitigation:</u>

		Bank is working closely with the Government of Morocco, through 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].
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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 - Improvement in debt and forex exposure management 	<ul style="list-style-type: none"> - Continued operational performance in the face of COVID-19 disruptions - Implementation of tailored tools to manage debt and forex exposure of the company 	[REDACTED]

Primary Quality: Resilient

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
1.1	Continuity of vital services	Recovery of toll revenues to levels forecasted by the Company	[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	Improved operational standards - development of debt and forex exposure management tool	[REDACTED] implementation of tailored tools to manage debt and forex exposure of the company	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES

3.1 BORROWER

ADM was created in 1989 following the State's transfer of authority for expressway development, operation and maintenance to the Company. It is in charge of the operation and maintenance of the country's current 1,800 km highway network as well as the planning and construction of future road projects. [REDACTED].

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 have severe impacts on the largest contributors to exports namely the automotive and aeronautics sectors, which accounted for c.30% 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

ADM is responsible for all motorway network construction, operation and maintenance in Morocco. The country's current motorway network consists of 1,800 km, [REDACTED]. The motorway network, out of which 1,124km are express motorways, represents 3% of total roads (57,000km). Currently, 1,183 km of expressways are in service [REDACTED]. The Moroccan Ministry of Equipment, Transport, Logistics, and Water aims to build an additional 3,400 km of expressway and 2,000 km of highway by 2030. Apart from the motorway network, each local authority in Morocco is responsible for its own development of transport plans and regional transport networks.

The motorway sector in Morocco is supervised by the Ministry of Infrastructure and Transport and governed by the law 4-89 related to motorways promulgated by Dahir n° 1-91-109 in 1992 and decree n° 2-189 in 1993 for the application of this law. This main

legal framework regulates the construction and operation of motorways, particularly by concessions.

- *Construction:* the government is responsible for national motorway network planning and further development through Build Operate Transfer (“BOT”) contracts with ADM. A framework agreement between the government and the SOEs that sets the goals, means and priorities of the SOEs’ interventions is outlined in the *contrat programme*. The State, acting as the procuring authority, pays ADM for the works as work is progressing at an agreed price.
- *Operation:* Tolls charged by ADM are discussed and defined together with the Ministry of Transport under the *contrat programme*.
- *Maintenance:* ADM is responsible for the maintenance of the total motorway network and this service accounts for most of its operating cost.

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 and COVID-19 Questionnaires, as well as phone interviews with the Company’s Management. [REDACTED]. As the use of proceeds is for Working Capital only and 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. [REDACTED]

The Company conducts local environmental impact assessments (“EIA”) for every new highway or highway extension project, as required by national regulation. [REDACTED]

The ESAP requires the development of an E&S management system, road safety awareness programmes for communities, as well as development of a Stakeholder Engagement Plan.

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 ADM (“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 VISIP 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 ADM to enable it to meet short-term obligations [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

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

Annex 2 – Historical Financial Statements

[REDACTED]