

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

Approved by the Board of Directors on 22 July 2020¹

MOROCCO

VISP ONDA 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

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 / INVESTEE COMPANY	11
3.2 GUARANTOR	11
4. MARKET CONTEXT	12
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

ADB	African Development Bank
ADM	Autoroutes du Maroc
AFD	Agence Française de Développement
CAPEX	Capital Expenditures
COGS	Cost of Goods Sold
DEPP	Directorate of Public Enterprises and Privatisation
DSCR	Debt Service Coverage Ratio
DSO	Days Sales 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
MEF	Ministry of Economy and Finance
MEFAR	Ministry of Economy, Finance and Administration Reform
METLW	Ministry of Equipment, Transport, Logistics & Water
MIIDE	Minister of Industry, Investment & the Digital Economy
MoI	Ministry of Interior
MTATHSE	Ministry of Tourism, Air Transport, Handicrafts and Social Economy
ONDA	Office National des Aéroports
ONEE	Office National de l'Électricité et de l'Eau Potable
PP&R	Procurement Policies & Rules
SOE	State Owned Entity
TC	Technical Cooperation
VAT	Value Added Tax
WCR	Working Capital Requirements

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 des Airports (the “Company” or “ONDA”), the state-owned operator and administrator for airports and air navigation services, incorporated in 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 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 150 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 operational expenditures and or to replace existing bridge short-term 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 in the face of the COVID-19 pandemic, and the Well-Governed TI Quality through a reform programme of measures to be developed by the Government of Morocco on reform of SOEs, and an action plan aimed at strengthening its [REDACTED] management procedures [REDACTED].

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 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- ONDA Stabilisation Facility - DTM 52336	
Transaction / Board Decision	Board approval ² is sought for a sovereign guaranteed loan to Morocco of up to EUR 150 million to the airport service provider, Office National des Aeroports (the “Company” or “ONDA” or “the Borrower”), in order to support its liquidity needs due to the impact of COVID-19.
Client	ONDA is the state-owned operator and administrator for all airports and air navigation services. It manages a network of 25 airports that receive more than 20 million passengers annually. ONDA also supervises Moroccan aerospace through two regional air traffic control centres in Casablanca and Agadir. The Company was established in 1990 as a result of the state transfer of the airport management authority out of the Ministry of Transport. [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 ONDA, 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 at the ONDA level by an action plan to strengthen its internal organisation.</p> <p><u>Additionality</u> - ONDA 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 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 under a grant-funded technical cooperation assignment to ensure swift implementation.</p>
Strategic Fit Summary	The proposed Project is in line with the Bank’s Transport Sector Strategy 2019-2024, Strategy for Morocco and 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 transaction consists of a EUR 150 million stabilisation facility to be extended to ONDA on a sovereign guaranteed basis.
Existing Exposure	None
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	ONDA as the Borrower. Kingdom of Morocco represented by the Ministry of Economy, Finance and Administration Reform (“MEFAR” or “Ministry of Finance”), as guarantor of ONDA’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	- 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	<i>Post-signing TC:</i> <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 state-owned enterprises. 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 <i>DTM ID 52336</i>, ADM <i>DTM ID 52335</i> and ONEE <i>DTM ID 52334</i>). Funding will be sought from a bi-lateral or multi-lateral donor or the EBRD Shareholder Special Fund. <i>Reimbursement:</i> The above TC assignment will be a non-reimbursable TC required to support the Project. <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. <i>In-kind Contribution:</i> ONDA will provide in-kind support in the form of office space, communication connections, and so on, for the consultants to work.

[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.

Office National des Aeroport (“ONDA”), the state owned operator and administrator for all airports and air navigation services, is very heavily impacted by the COVID-19 pandemic as all international flights to and from Morocco have been suspended as of 15/03/2020 with the sole exception of cargo flights. ONDA is facing significant liquidity pressure [REDACTED]

The stabilisation facility proposed under this project falls under the Vital Infrastructure Support Programme (VISP) Window 2 [REDACTED] 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, ONDA will be exposed to financial instability that may jeopardise its ability to continue to provide essential services to people and businesses. The stabilisation facility therefore aims to strengthen ONDA’s resilience to deliver infrastructure services by ensuring that the Company has adequate liquidity. [REDACTED]

The consultancy support will also assist ONDA to prepare and implement a detailed action plan for an organisational reform. [REDACTED]

1.2 TRANSITION IMPACT

TI Quality: Resilient

Obj. No.	Objective	Details
1.1	Stabilisation facilities for key infrastructure providers.	In line with the Vital Infrastructure Support Programme, the loan proceeds will be used to provide emergency liquidity to Morocco’s national utility 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 ONDA 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 residents and the private sector by ensuring the viability and reliability of vital infrastructure.
--	--	--

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	Organisational reform	The Project will support ONDA's corporate development through technical co-operation assistance [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 ONDA to mitigate the effects of the COVID-19 crisis [REDACTED] and continue to provide vital services [REDACTED].

Additionality sources	Evidence of additionality sources
<p>Financing structure Crisis response: the EBRD financing effectively bridges a financing gap due to adverse market conditions sending strong signal to other market participants.</p> <p>The EBRD offers a large volume instrument that fills a market funding gap and is required to structure the project</p> <p>Public sector: the EBRD investment is needed to close the funding gap. At the same time, the EBRD does not crowd out other sources, such as from IFIs, government, commercial banks and/or complements them.</p>	ONDA 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	The envisaged transaction will be accompanied by a programme to be developed by the Government of Morocco on reform of SOEs and a programme at the

<p>Client seeks/makes use of the EBRD expertise on higher financial standards, including through development of SOE policy.</p> <p>Knowledge, innovation and capacity building 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.</p>	<p>level of ONDA to strengthen the Company's internal organisation and management procedures.</p> <p>Through this project, EBRD will support ONDA in taking specific steps to strengthen its operational efficiency [REDACTED].</p>
---	---

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> 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 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> 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>
- Continuing provision of key infrastructure services	- Continued operational performance in the face of COVID-19 disruptions - The revenue level recovered [REDACTED].	- [REDACTED]
- Strengthening its internal organisation through action plan with TA support	- Implementation of the action plan	- [REDACTED]

Primary Quality: Resilient

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
1.1	Continuity of vital services	Recovery of annual 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	Improved operational standards – strengthening of internal organisation	[REDACTED] Strengthening of ONDA's internal organisation and management procedures through definition and implementation of a detailed action plan [REDACTED].	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES

3.1 BORROWER / INVESTEE COMPANY

ONDA, created in 1990, is a state-owned entity with legal status and financial autonomy. ONDA is the state operator and administrator for all airports and air navigation services in Morocco. ONDA develops and manages Morocco's airport infrastructure and air navigation services providers. Currently, ONDA manages 25 airports (19 of them international), of which 6 host more than 1 million passengers annually, such as the Mohammed V airport. Mohammed V airport has the highest share of annual passengers among Moroccan airports (41%), followed by Marrakech (26%), Agadir (8%), Fès (6%), Tanger (5%) and Rabat (4%). ONDA also supervises Moroccan aerospace through two regional air traffic control centres in Casablanca and Agadir.

In addition to controlling air traffic, and operations and development of airports, ONDA's ancillary business includes providing education and training in the fields of civil aviation and airport operations management.

ONDA is under the supervision of the Ministry of Tourism, Air Transport, Handicrafts and Social Economy ("MTATHSE") and is subject to financial supervision from the State by MEFAR. ONDA's Board meetings are chaired by the Minister of Tourism, Air Transport, Craft & Social Economy, with representatives of MEFAR, Ministry of Interior ("Mol"), Ministry of Equipment, Transport, Logistics & Water ("METLW"), and the Minister of Industry, Investment & the Digital Economy ("MIIDE).

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

ONDA is the only entity that manages and provides airport and air navigation services in Morocco. Being the sole entity in charge of the aviation business in Morocco, ONDA is not exposed to intra-market competition.

ONDA is vested with strategic duties, in so far as it regulates not only the development of air transports in Morocco, but also related economic sectors, including management of international air traffic, aviation security and service quality.

To support and strengthen the development of its aviation sector, Morocco has adopted an ambitious National Airport Master Plan for 2030 to accompany other national development plans, notably: (i) tourism, which will have a strong impact on the traffic growth; (ii) logistics sector which aims to position Morocco as a regional logistics hub for Africa; and (iii) transformation of the industrial sector.

The recent COVID-19 pandemic has a strong negative impact on ONDA's business due to the closure of national borders. ONDA has included provisions for the negative impact of COVID-19 in its 2019 annual report, as all international flights to and from Morocco have been suspended as of 15/03/2020 with the sole exception of cargo flights. [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 and COVID-19 Questionnaires, a review of the Company's annual report that covers E&S issues, as well as phone interviews with the Company's Management. . 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.

ESDD findings show that the Company follows national regulation [REDACTED]

The ESAP requires further development and implementation of the Company's integrated management systems, reinforcement of HSE supervision for contractors, reinforcement of environmental monitoring, as well as development of a SEP inclusive of a grievance mechanism in accordance with PR 10 and specific requirements for engagement with communities located in the immediate impact area of the airports.

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 ONDA ("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 ONDA 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].

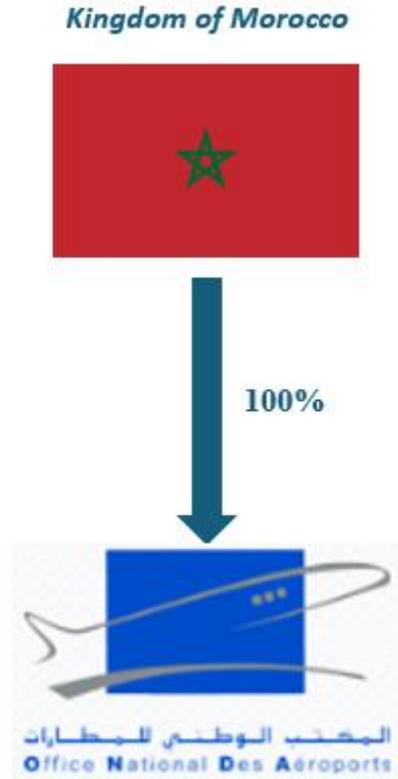
The TCs envisaged under the Project will be procured by the Bank in line with the Banks PP&Rs.

ANNEXES TO OPERATION REPORT

ANNEX 1	Shareholding Structure
ANNEX 2	Historical Financial Statements

Annex 1 – Shareholding Structure

ONDA is 100% owned by the Kingdom of Morocco.



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

Annex 2 – Historical Financial Statements

[REDACTED]