

AFRICAN DEVELOPMENT BANK



PROJECT : COVID-19 RESPONSE SUPPORT PROGRAMME (PARC-19)

COUNTRY : KINGDOM OF MOROCCO

APPRAISAL REPORT

Date : May 2020

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Translated Document

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CURRENCY EQUIVALENTS

MAY 2020

Currency = Moroccan Dirham [MAD]

UA 1 = MAD 13.53

EUR 1 = MAD 10.77

USD 1 = MAD 9.9

FISCAL YEAR

1 January - 31 December

WEIGHTS AND MEASURES

1 tonne = 2,204 pounds (lbs)

1 kilogramme (kg) = 2.200 lbs

1 metre (m) = 3.28 feet (ft.)

1 millimetre (mm) = 0.03937 inch (“)

1 kilometre (km) = 0.62 mile

1 hectare (ha) = 2.471 acres

PROGRAMME INFORMATION

BENEFICIARY	: Kingdom of Morocco
SECTOR	: Multisector
PBO DESIGN MODEL	: Crisis Response Budget Support (CRBS)
EXECUTING AGENCY	: Ministry of Economy, Finance and Administration Reform (MEFRA) Treasury and External Financing Directorate (DTFE)

2020 Financing Plan in the form of Budget Support (in EURO million)

Source	Amount (2020)
AfDB	264

Key AfDB Financing Information

Loan currency	US dollars
Loan type	Fully Flexibility Loan
Maturity	20 years
Grace period	5 years
Average maturity	To be determined (based on amortisation schedule)
Reimbursement	Half-yearly payments at the end of the grace period
Interest rate	Base rate + financing cost margin + lending margin + maturity premium (This interest rate shall be above or equal to zero).
Base rate	Floating (6-month EURIBOR reviewed on 1 February and 1 August) or any other acceptable rate, with a free base rate-fixing option
Financing cost margin	The Bank's financing cost margin reviewed on 1 January and 1 July, and applied on 1 February and 1 August with the base rate
Lending spread	80 basis points (0.8%)
Maturity premium	0
Front-end fee	0.25% of the loan amount
Commitment fee	0.25% per annum on the undisbursed amount, effective 60 days following the loan signature date and due on interest payment dates
Base rate conversion option*	Besides the free fixing option, the Borrower may revert to the floating rate or reset the rate on all or part of the disbursed amount of its loan. Transaction fees apply.
Rate cap or collar option*	The Borrower may cap or collar the base rate for all or part of the disbursed amount of its loan. Transaction fees apply.
Currency conversion option*	The Borrower may change the currency of all or part of its loan, whether disbursed or not, into another loan currency of the Bank. Transaction fees apply.

*: The related conversion options and transaction costs are governed by the Bank's Directives on conversion available on the website <https://www.afdb.org/fr/documents/document/guidelines-for-conversion-of-loan-terms-july-2014-87643/>

** : A weighted average maturity calculator is available on the website <https://www.afdb.org/en/projects-and-operations/financial-products/africandevlopment-bank/loans>

TIMEFRAME – KEY MILESTONES (EXPECTED)

Activities	Dates
Appraisal	April 2020
Approval	May 2020
Effectiveness	June 2020
Disbursement	June 2020
First supervision	September 2020
Closing date	December 2020

LIST OF ABBREVIATIONS

ADB	African Development Bank
AFAWA	Affirmative Finance Action for Women in Africa
AFD	French Development Agency
BPAR	Bank Procurement Assessment Report
CCG	<i>Caisse Centrale de Garantie</i> (Central Guarantee Fund)
CFRA	Country Fiduciary Risk Assessment
CNCP	National Public Procurement Commission
CNDA	National Administrative Devolution Charter
CNSS	<i>Caisse Nationale de Sécurité Sociale</i> (National Social Security Fund)
CNT	Moroccan Tourism Confederation
CRF	COVID-19 Response Facility
CSP	Country Strategy Paper
CUT	Single Treasury Account
CVE	Economic Watch Committee
CwA	Compact with Africa
DTFE	Directorate of the Treasury and External Finance
E&S	Environmental and Social
EIG	Economic Interest Group
ESMS	Environmental and Social Management System
EU	European Union
LF	Finance Act
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
GIF	General Inspectorate of Finance
HCP	High Commission for Planning
IMF	International Monetary Fund
INPPLC	National Authority for Probity, Corruption Prevention and Control
ISS	Integrated Safeguards System
ISSAI	International Standards of Supreme Audit Institutions
JICA	Japanese International Cooperation Agency
KfW	<i>Kreditanstalt für Wiederaufbau</i> – German Cooperation
KPG	Key Partners Group
LOF	Organic Finance Act
LR	Audited Budget
MEFRA	Ministry of Economy, Finance and Administrative Reform
PAAPS	Social Protection Improvement Support Programme
PFM	Public Finance Management
PLL	Precautionary and Liquidity Line
PPoP	Purchasing Power Parity
PPP	Public-Private Partnership
RAMED	Medical Assistance Scheme
RMC	Regional Member Countries
SME	Small and Medium-Sized Enterprises
TFP	Technical and Financial Partners
UA	Unit of Account
UNDP	United Nations Development Programme
VSE	Very Small Enterprise
VSME	Very Small- and Medium-sized Enterprises
WHO	World Health Organization

I. INTRODUCTION

1.1. **Management hereby submits this proposal to contribute to finance the COVID-19 Response Support Programme (PARC-19)**, by granting the Kingdom of Morocco a EUR 264 million envelop from African Development Bank (ADB) resources. This is a crisis response budget support as defined by the COVID-19 Response Facility (CRF) approved by the Board of Directors on 8 April 2020.

1.2. The programme will support the Moroccan Government's efforts to tackle the health, social and economic crisis. Supplementary resources will be rapidly provided to the Kingdom to roll out emergency health and social interventions and build the resilience of the national economy. In preparing the programme, the Bank relied on its privileged position and presence in Morocco. At the onset of the COVID-19 pandemic, a strategic high-level dialogue was initiated with the authorities on the emergency measures and the needs identified. The dialogue confirmed the priorities of the programme components.

II. ECONOMIC AND SOCIAL IMPACT OF COVID-19 AND GOVERNANCE

2.1. **Recent Developments:** Alongside South Africa, Egypt and Algeria, Morocco is among the African countries with the highest COVID-19 cases. The first case was detected on 2 March 2020 in Casablanca, before spreading to all other regions in the country. On 4 May 2020, Morocco reported 5,053 confirmed COVID-19 cases, 179 deaths and 1,653 cured cases. With 1,306 confirmed cases, the Casablanca-Settat region is the most affected region, followed by Marrakech-Safi (1,076 cases), Fès-Meknès (662 cases) and Daraa-Tafilalet (548 cases) (Technical Annex 4 & 5).

At the onset of the COVID-19 pandemic, the Moroccan authorities declared a state of emergency, adopted confinement measures, including isolation, suspended all international passenger flights, prohibited public gatherings and closed all mosques, schools, universities, eateries and cafés. Similarly, they limited urban/inter-urban land transport and downsized Government and corporate staff.

Compulsory confinement, which started on 20 March 2020 and was later extended to 20 May 2020, has had a significant adverse impact on the national economy. Donors mobilised to support Morocco address the crisis. Under the Precautionary and Liquidity Line (PLL 2018-2020) agreement concluded with the International Monetary Fund (IMF), Morocco withdrew all resources under this line, equivalent to USD 3 billion. For its part, the World Bank disbursed a loan of USD 275 million.

2.2. **Economic Situation:** Like its key trading partners, Morocco's economy was hard hit by the crisis caused by COVID-19. The tourism sector has lost an estimated MAD 34.1 billion in turnover in 2020, with nearly 6 million fewer tourists, according to the Moroccan Tourism Confederation (CMT). In the automobile sector, the crisis affected the 250 equipment manufacturers operating in the country, leading to a significant drop in Morocco's balance of trade. The automobile sector accounted for 27% of total exports in 2019, making it the leading export sector. In the long run, this might impact the 180,000 jobs in the industry. The textile/dress-making sector is also affected by disruptions in supplies, especially from China and falling foreign demand particularly in the European Union. The textile sector, which employs over 160,000 individuals in 1,200 firms, is threatened.

With the double shock of drought and COVID-19, the real GDP growth rate will continue to decelerate in 2020. According to AfDB forecasts (Table 1), it will range from -4.6% to -3.3% in 2020, before rising to between 4.1% and 4.3% in 2021, based on worst-case and best-case scenarios. Various structural and contextual factors will contribute these scenarios. The economy will also suffer from the global recession, particularly in its four key economic partners (Spain, France, Italy and Germany) who make up 76% of its external trade (Technical Annex 1).

Table 1: Macroeconomic Indicators based on Scenarios prepared by AfDB

Indicators	2018	2019 ^(e)	Baseline Scenario, pre-COVID-19		Post-COVID-19 Scenarios			
					Best Case Scenario		Worst Case Scenario	
			2020 ^(p)	2021 ^(p)	2020 ^(p)	2021 ^(p)	2020 ^(p)	2021 ^(p)
Real GDP growth rate	3	2.5	3.7	3.9	-3.3	4.3	-4.6	4.1
Inflation	1.9	0.2	1	1.2	0.4	1.1	0.4	1.3
Budget balance (% GDP)	-3.7	-3.6	-3.5	-3.3	-6.5	-4.8	-6.9	-5.2
Current account (% GDP)	-5.3	-4.1	-3.9	-3.7	-7.1	-4.2	-7.8	-5.2

Source: AfDB Statistics Department, April 2020 for the 2020-2021 period and Data from national departments (2018-2019).

Due to its structure, Morocco's debt, including internal, is resilient to external shocks. The Treasury debt ratio, which stood at 65.3% of GDP in 2019, rose slightly in 2020 due to the combined effects of Government recourse to debt to finance the impacts of the COVID-19 crisis, a drop in the short and medium-term GDP growth rate, tax revenue and exports.

2.3. Social Impact of COVID-19: According to information obtained from the National Social Security Fund (CNSS), 800,000 workers have been laid off. Due to the crisis, the unemployment rate has risen from 9.2% at end-2019 to 16.9% in the first half of 2020. These figures concern only formal sector jobs but not the informal sector where the impact of the crisis might be more alarming (Technical Annex 5). Although monetary poverty has receded significantly since 2010, poverty – measured by the daily income of USD 5.2 in purchasing power parity (PPP) – might affect 10 million Moroccans due to COVID-19¹. Women are likely to be more affected by the economic consequences of the pandemic. The female labour force participation in Morocco stands at 21.3% and is concentrated in the agricultural and industrial sectors. Since approximately 17% of women with non-agricultural jobs work informally, they are particularly vulnerable to interruptions in their activity due to confinement².

2.4. Governance: Morocco has made significant progress in terms of budget reliability, public finance transparency, predictability and budget implementation control based on an effective system of standards and internal controls. The external audits of the Court of Auditors are also ISSAI-compliant. The National Authority on Probity, Corruption Prevention and Control (INPPLC) was set up in 2015 to strengthen the fight against corruption. In 2018, the Kingdom joined the *Open Gov.* Initiative. The progress has been achieved in governance, seen today in how the COVID-19 crisis is managed. The Economic Watch Committee (CVE), set up on 11 March 2020 and chaired by the Minister of Finance, is working to ensure the optimal and transparent management of public expenditure in these exceptional times and that expenditure targets priorities linked to the management of the crisis caused by the pandemic. It also works to prepare conditions for economic take-off in the post-crisis phase.

III. RATIONALE AND KEY DESIGN ELEMENTS

3.1. Linkages with the Bank Strategy: PARC-19 is in line with the Bank's CRF guidelines. It aims to rapidly provide Morocco with resources to tackle the negative impacts of the COVID-19 crisis, and support to build its economic resilience. In helping to protect the most vulnerable social segments of the population, PARC-19 participates directly in one of the High 5s ("Improve the quality of life for people of Africa"). By focusing on MSMEs, PARC-19 also fits into the Bank's Industrialization Strategy.

3.2. Government's COVID-19 Response Strategy and Related Short-Term Reforms: The strategic operational areas of the COVID-19 response are overseen by CVE, whose task is to closely oversee economic trends by means of strict monitoring and evaluation mechanisms and identify appropriate support measures for impacted sectors. CVE is preparing a new economic recovery plan for Morocco, while defining workable scenarios for the next two stages. The first stage is the gradual resumption of activities in various sectors in tandem with the strategy for lifting the state of health emergency, while the second is the establishment of suitable renewable mechanisms to put back the

¹ Social and Economic Impact of the COVID-19 Crisis on Morocco, UNDP, March 2020.

² COVID-19 Crisis in Morocco, OECD, April 2020.

national economy on a robust and sustainable growth trajectory. CVE has started preparing an integrated economic recovery plan that will be based on sector plans whose format and content will depend on each sector's specificities. Once finalized, these sector plans will be consolidated and aligned with a global recovery plan.

3.3. **Bank's Value-added:** The Bank has wide experience implementing programme-based reform support operations in emergency situations in Regional Member Countries (RMC), notably in North Africa. When commodity prices collapsed in 2016, the Bank helped to mitigate the impact of the crisis, mostly in Algeria and Mauritania. Furthermore, PARC-19 is complementary with two CRF operations planned in Morocco in 2020³, namely the supplementary financing of the Social Protection Improvement Support Programme (PAAPS) and a liquidity line to Attijariwafa Bank. While PAAPS will enable Morocco to obtain 200,000 rapid test kits for coronavirus screening and procure medical equipment, the Attijariwafa Bank support will enable it to finance export sector SMEs. For its part, PARC-19 will focus on emergency social, health and economic measures. By identifying preliminary measures that respond to the emergency, this program is in synergy with the actions of the IMF and the World Bank which are dedicated exclusively to the response to the crisis (§ 2.1).

3.4. **Lessons learned from similar past operations:** Among the lessons learned in the implementation of programs in response to the crisis in Algeria and Mauritania in 2016: i) the importance of focusing on social and economic emergency measures; ii) ensure that the chosen indicators can be verified during the evaluation of the results; iii) the need to set realistic targets in the results framework; iv) need to strengthen technical support and carry out targeted studies for budget supports. PARC-19 takes these lessons into account. It adopts a results framework dedicated to the crisis, with coherent and measurable results, directly linked to the crisis.

3.5. **Collaboration and Coordination with Other Partners:** This operation was designed in close collaboration with the other Technical and Financial Partners (TFP), through regular exchanges on the COVID-19 response in Morocco. The Bank, UNDP and KfW are co-chairs of the Key Partners Group (GPP) in Morocco. The Bank works within this Group to identify synergies between donors and their crisis response. In this context, and in addition to the contributions of the IMF and World Bank (§ 2.3), the French Development Agency (AFD) has earmarked EUR 100 million to support public service continuity and improvement at the local level. Discussions are underway between the Bank and the Japanese International Cooperation Agency (JICA) for a joint financing of PARC-19.

3.6. **Compliance with Eligibility Criteria:** Morocco fulfils all the budget support eligibility criteria: (a) Government commitment, notably to the COVID-19 crisis response, and availability of a short-term plan to tackle the crisis; (b) stability of the macroeconomic framework; (c) political stability; (d) satisfactory fiduciary risk; and (e) harmonisation (Annex III). The design of PARC-19 also complies with best practice principles for the application of conditionality. The identified measures, including disbursement measures, are based on Government's priorities in the fight against COVID-19. These measures are achievable within the timeframes set by the programme.

IV. THE PROPOSED PROGRAMME

4.1. **Programme Goal and Objective:** The goal of PARC-19 is to facilitate the response to the health, social and economic crisis caused by the COVID-19 pandemic. In this regard, its proposed objectives are to (i) protect citizens against health risks, (ii) protect the jobs of citizens and preserve their purchasing power and (iii) build private sector resilience to prepare for the resumption of economic activity.

4.2. **Programme Content:** PARC-19 is centred on emergency measures necessary to tackle the COVID-19 crisis. It will help to strengthen the Moroccan health system capacity to detect the virus by granting new authorizations for health centres to carry out tests. Households – including

³ These two operations can only be considered effective after their approval by the Board of Directors.

those living off the informal sector – will be supported through targeted indemnities. Businesses too will be supported with enhanced cashflow to further build their resilience to the crisis. Therefore, the programme is structured around two components: (i) Support for the health and social response and (ii) Support for private sector resilience.

Component 1: Support for the Health and Social Response

4.2.1. Context and Challenges: The Moroccan Government’s current top priority is the delivery of emergency health and social response. At the onset of the pandemic, it took adequate decisions and measures to address the situation. Morocco now has 1,826 intensive-care unit beds and 987 resuscitation doctors and anaesthesiologists. COVID-19 cases receiving treatment in intensive care units take up 5% of hospital bed space, which can rapidly rise to 15%. Thus, to be able to handle a possible wave of hospital admissions, Morocco must boost its intake capacity, mostly in terms of intensive care units. Besides, about 45,300 tests were conducted between 1 March 2020 and 4 May 2020. For economic activities to resume in the coming weeks as planned through a gradual lifting of confinement, a sufficient number of virology test kits must be available and the number of approved testing centres increase across the country.

On the social front, the COVID-19 crisis has had a significant impact on the purchasing power of Moroccan households (§ 2.3), the brunt being borne by poor households that lack adequate savings/financial resources and perform vulnerable jobs. Like in all developing countries, the small and belated support given to the most disadvantaged households can aggravate social tensions and weaken the effectiveness of the only solution available today to address the crisis, namely social distancing⁴.

4.2.2. Recent Government Actions: At the onset of the COVID-19 pandemic, a screening campaign was organized. On average, 2,000 tests were performed daily and at least one million kits were ordered from abroad. To strengthen the medical arrangement for fighting the spread of the virus, the Bank plans to support Morocco through a supplementary loan to PAAPS for the procurement of 1,000 additional beds and 500 ventilators to raise capacity to 3,000 equipped beds. Socially, the authorities have taken significant measures to support Moroccan households. About 16,000 aid distribution points were set up, including automatic teller machines. Moreover, two online portals were launched for citizens to register by status and benefit from indemnities. The first intended for employees registered at CNSS, and the second for households working in the informal sector.

4.2.3. Programme-supported Measures and Expected Outcomes: Measures planned under this first component will help to improve health response effectiveness and preserve the purchasing power of citizens. The proposed measures are the following:

i) Creation of a special Coronavirus pandemic management support fund: The fund is an important milestone in managing the COVID-19 pandemic. The goals of the fund are to (a) pay for expenditure incurred to upgrade the medical system, (b) preserve jobs and mitigate the social impacts of the pandemic and (c) support the national economy to withstand the shocks induced by the pandemic.

As expected outcome, this measure will create a financial tool capable of mobilising all stakeholders (public and private) to jointly finance the response to the health and social crisis. Regarding the health aspect, PARC-19 will concentrate on raising from 2 to 8 the number of hospitals authorised to carry out virological tests. This measure will supplement actions undertaken as part of the PAAPS additional financing, targeting mostly the purchase of tests and procurement of medical equipment and medication to respond to the crisis.

ii) Instituting an indemnity for workers declared at CNSS: This is a net monthly lump sum indemnity of MAD 2,000. It is an addition to the compulsory health insurance-related services

⁴ “COVID-19, What Repercussions for Developing Countries?”, H. Saadaoui, *Policy Center*, April 2020.

enjoyed by employees under absorption contract and laid-off marine fishermen declared at CNSS in February 2020, working for cash-strapped companies affiliated to CNSS, from 15 March to 30 June 2020.

Over 800,000 wage-earners affiliated at CNSS will benefit from a net monthly lump sum indemnity of MAD 2,000 until 30 June 2020.

iii) Instituting an indemnity for informal sector workers: To include informal sector employees, the programme supports an indemnity for household heads with a RAMED (*Régime d'Assistance Médicale* - medical assistance scheme) card and those without one. The indemnity ranges between MAD 800 and 1,200 depending on the number of family members.

Under this measure, 2.3 million household heads having a RAMED card and 2 million others not affiliated to RAMED will benefit from a fixed indemnity of between MAD 800 and 1,200. Thus, 4.3 million families operating in the informal sector will benefit from State support.

Component 2: Building Private Sector Resilience

4.2.4. **Context and Challenges:** COVID-19 has shown that a resilient private sector can be instrumental in lessening the economic and social impacts of such a serious crisis. One of the main repercussions of the crisis on businesses is tight cash flow. Consequently, the Moroccan authorities have placed access to finance and financial services at the heart of support mechanisms for the private sector. Morocco has indeed demonstrated its ability to adapt by offering innovative products for the benefit of businesses, including MSMEs, in record time. However, the private sector, including the MSMEs, needs to be accompanied by emergency measures to strengthen the cash flow of businesses. According to a survey by the High Commission for Planning (HCP)⁵, 57% of all formal businesses in Morocco said that they had permanently or temporarily stopped their activities.

4.2.5. **Recent Government Action:** At the onset of the pandemic, the authorities took a number of urgent measures, notably: (i) suspension of payment of payroll taxes (CNSS contributions) until 30 June 2020, (ii) exemption from income tax of any complementary allowances paid to wage-earners affiliated to CNSS by their employers, within 50% of the net average monthly salary, and (iii) activation of a supplementary line of credit to cover operating costs, granted by banks and guaranteed by CCG.

4.2.6. **Programme-supported Measures and Expected Outcomes:** Specifically, the operation will supplement measures taken by the Government to strengthen the cash flow of companies to build their resilience to shocks caused by the crisis.

i) Launch of *Damane Oxygène*, a product for businesses impacted by the COVID-19 crisis: This new guarantee product will mobilise financial resources for enterprises whose cash flow has deteriorated due to declining activity. It covers 95% of the credit amount and enables banks to rapidly put together exceptional overdrafts to finance the target companies' operating capital needs. For enterprises without short-term financing facilities, the overdraft can be up to MAD 5 million. *Damane Oxygène* targets mainly VSMEs whose turnover does not exceed MAD 200 million. Furthermore, due to the exceptional nature of the crisis, medium-sized enterprises with turnover of between MAD 200 and 500 million can also benefit from this facility.

This measure will target 10,000 VSMEs to benefit from guarantees, facilitating their access to bank financing. Such financing, which supplements already existing facilities, covers up to 3 months of operating costs (notably wages, rents, necessary purchases, etc.), and can be up to MAD 20 million.

⁵ "Business survey on the effects of Covid-19 on business activity", April 2020.

ii) Establishment of an interest-free credit scheme for self-employed persons impacted by the COVID-19 crisis: This credit, which can be up to MAD 15,000, is refundable over up to 3 years with a one-year grace period. Related interests will be borne entirely by the insurance sector which, in addition, contributes MAD 100 million to the guarantee scheme instituted by the State through CCG.

This measure targets self-employed persons impacted by the crisis. The credit is open to the 117,000 persons registered as self-employed in Morocco.

iii) Introduction of a moratorium for repayment of bank credit: This involves pushing forward the due dates for payment of bank loans and leases until 30 June 2020. However, no costs or penalties are paid.

Thanks to this measure, 400,000 loan repayment dates will be pushed forward.

4.3. Financing Needs and Arrangements: According to projections, Morocco's financing needs for 2020 stand at about MAD 42.286 billion (approximately EUR 3.92 billion). These needs will be covered by Morocco's own and external resources. The budget support for 2020 will cover 13.4% of the necessary external drawings.

Table 2: Financing Needs 2019 and 2020 (Source: MEFRA)

	Items	2019 (MAD Million)	2019 (EUR Million)	2020 FL* (MAD Million)	2020 FL (EUR Million)
A	Total receipts and grants	249,976	23,210	263,515	24,468
B	Total expenditure and net loans	291,648	27,080	305,801	28,394
C	Global balance (issue basis) (A - B)	-41,672	-3,869	-42,286	-3,926
D	Reduction of outstanding expenditure	-4,498	-418	0	0
E	Global balance (cash basis) (C + D)	-46,170	-4,287	-42,286	-3,926
E	Net external financing	16,999	1,578	14,619	1,357
F	comprising amortisations	-8,085	-751	-16,381	-1,521
G	including: AfDB amortisations	-6,258	-581	-3,595	-334
H	Comprising drawings	25,084	2,329	31,000	2,878
I	including: AfDB drawings	2,977	276	2,842	264
J	Domestic financing (net)	29,171	2,709	27,667	2,569

* These are initial forecasts made in the Finance Act. Updating work is underway to factor in the impact of contextual trends and measures taken to address them.

4.4. Programme Beneficiaries: The direct beneficiary of PARC-19 is the State of Morocco through the Ministry of Economy, Finance and Administrative Reform (MEFRA), since the loan resources will be included in the State budget. The indirect beneficiaries are Moroccan citizens who will receive indemnities during the crisis, thereby strengthening their purchasing power. The private sector, particularly VSMEs, will also benefit from the programme since the related products will help to build their resilience to the crisis.

4.5. Measures Precedent: The four actions precedent adopted under PARC-19 were all agreed with the authorities during consultations and based on the good practice principles for the application of conditionality.

Table 3: Measures Precedent

MEASURES	EVIDENCE OF IMPLEMENTATION
(1) Precedent Measure 1: Creation of a Special Fund for Management of the Coronavirus Pandemic – <i>Done</i>	Evidence 1: Official Gazette – Decree No. 2-20-269 creating an earmarked account called Special Coronavirus Pandemic Management Fund
(2) Precedent Measure 2: Grant of a net monthly lump sum indemnity of MAD 2,000 for wage-earners declared in CNSS – <i>Done</i>	Evidence 2: Official Gazette – Law 25.20 instituting exceptional measures for employers affiliated in CNSS and their declared employees
(3) Precedent Measure 3: Creation of the <i>Damane Oxygène</i> guarantee mechanism in response to the COVID-19 crisis – <i>Done</i>	Evidence 3: MEFRA Communiqué announcing the creation of the <i>Damane Oxygène</i> guarantee mechanism

(4) Precedent Measure 4: Introduction of a moratorium for repayment of bank credit – *Done*

Evidence 4: Communiqué announcing introduction of a moratorium for repayment of bank credit

4.6. **Policy Dialogue:** Measures adopted under this programme will form the basis of dialogue with the Moroccan authorities on managing the crisis and the post-COVID-19 period. The main subjects of this dialogue will include: (i) the pursuit of health measures taken to increase the number of screening tests conducted across the Kingdom and case management capacity, (ii) strengthening social measures for the most vulnerable populations in the regions, (iii) preparation of a deconfinement plan, and (iv) preparation of a Post-COVID-19 Economic Recovery and Public Finance Management Plan. The Bank will also support the strategic dialogue on PARC-19 to create a conducive environment for private sector investments.

4.7. **Impact on Gender, Poverty and Vulnerable Groups:** PARC-19 will help to preserve jobs and strengthen women’s entrepreneurship and financial inclusion. Women will benefit from the Special Coronavirus Pandemic Management Fund. In this regard, they will have access to inclusive financial services. They will also be the prime beneficiaries of the *Damane Oxygene* guarantee mechanism. Furthermore, the indemnity granted to wage-earners of cash-strapped companies will serve women. Women and young project developers will receive technical support that will build their entrepreneurial capacity. This will not only have a positive impact on women’s living standards but will further empower them, especially in rural areas. This programme is consistent with the guidelines of the Affirmative Finance Action for Women in Africa (AFAWA) programme which promotes women entrepreneurs’ access to financing and technical support. It is classified in Category 3 of the *Gender Marker System* (Technical Annex 8).

4.8. **Environmental and Social Impacts**

4.8.1. Regarding environmental and social safeguards, the programme is classified in Category 3 of the Integrated Safeguards System (ISS) dated 23 March 2020, meaning that environmental and social (E&S) impacts are few. Projects having Category 1 and 2 E&S risks (under ISS) and activities featuring on the Bank’s exclusion list are not accepted. Although most activities have limited risk, the procurement of one million test kits, the creation of more virological screening centres and the opening of about 16,000 aid distribution points come with the risk of pollution, seen in the production of biomedical wastes and possible infection of medical/hospital staff. There is also a risk for the health and safety of social and humanitarian workers.

4.8.2. **Institutional Capacity and Safeguards in place:** Selected to manage part of programme funds, CCG’s institutional capacity acquired during other projects financed by the AfDB and World Bank is adequate for it to manage the E&S risks of its programme-financed portfolio in accordance with Bank requirements. CCG has an E&S Coordinator. The staff of its operational services, trained in safeguard measures, are tasked with studying sub-projects financed and categorising activities according to their risks. Thus, CCG’s experience and the E&S management system in place were deemed satisfactory. MEFRA will ensure that the bio-medical wastes from virological screening centres are adequately managed and that staff are equipped with PPE to protect them against all risk of infection, also ensuring the hygiene, health and safety of aid distribution workers. Other environmental or social aspects especially emerging during implementation will be managed per the national legislation and the Bank’s ISS requirements. The budget, which adequately factors in these E&S measures, will be included in the overall cost of the programme. On completion of the programme, MEFRA will, in association with State organs involved, produce and submit to the Bank a report on the implementation of these E&S measures.

4.9. **Climate Change Impacts:** The program may have no direct effects on climate change, and it isn’t relevant to climate risk assessment using the Climate Safeguard System (CSS). However, climate change and its existing vulnerability drivers (e.g. negative impacts on water resources, food security, and livelihoods) do contribute to a weakening of the population’s immune systems, thus rendering them more vulnerable to infections and disease, which in turn will have potential implications on an already overburdened health system (infrastructure, equipment, supply systems,

human resources). In addition, the operation of the program activities should not be implemented in isolation but should also consider supporting the other national strategies and ensure alignment with the SDGs and the Paris Agreement on climate Change in order to facilitate longer-term transformation effects and sustainability of the program's outcome.

V. IMPLEMENTATION AND LEGAL INSTRUMENTS

5.1. Implementation, Monitoring and Evaluation

5.1.1. **Responsible Institution:** MEFRA will coordinate monitoring/evaluation via the Directorate of the Treasury and External Finance (DTFE), and place information at the Bank's disposal. It will produce half-yearly reports on the implementation of the programme and submit them to the Bank.

5.1.2. **Monitoring/Evaluation System:** The Bank's team will help to monitor and coordinate the implementation of this programme. It will field a supervision mission to analyse the operation's monitoring framework based on pre-defined performance indicators and the matrix of measures jointly adopted with the Government and the extent to which financial intermediaries such as CCG comply with loan conditions related to environmental and social safeguards. The identification and compilation of emergency statistics on urban employment (including the informal sector) will allow for analysis of the results of the monitoring/evaluation exercise in light of the possible economic and social impacts of emergency measures under the proposed programme. The statistics will be on the conventional sector indicators (jobs, revenue, women's empowerment, health, credit, savings, regionalisation, etc.) likely to be impacted by: (i) the creation of the Special Coronavirus Management Fund; (ii) the creation of the *Damane Oxygène* guarantee mechanism in response to COVID-19; (iii) the institution of an indemnity for wage-earners of cash-strapped companies; and (iv) the facilitation of credit.

5.2. Financial Management, Procurement and Disbursement

5.2.1. **Country Fiduciary Risk Assessment (CFRA):** The public finance management (PFM) framework was thoroughly overhauled in the last few years to align it with international standards as reflected in the satisfactory fiduciary assessments conducted by the Bank and other partners. The institutional framework of public finance in Morocco is well-defined and formalised. The budget is prepared based on guidelines contained in the Head of Government's circular and orientation letter urging authorising officers to prepare their three-year budget programming proposals with the corresponding objectives and performance indicators. Budget implementation rests on a procurement system that requires wide publication of all business opportunities and tender results. The system upholds open competition as the ideal method of access to public procurement and recognizes the right of all bidders. The basic principle of separation of the functions and responsibilities of authorising officers and public accountants is respected. Prior control procedures by State controllers and Treasury paymasters are clear and well-documented. The internal audit function of the General Inspectorate of Finance (GIF) is operational and the Constitution enshrines the independence of the Court of Auditors. The performance of the PFM system augurs well for achieving the budget discipline goal, but less well for the strategic resource allocation and quality public service delivery objectives. The CFRA conducted in March 2019 during the mid-term review of the Country Strategy Paper (CSP 2017-2021), concluded that the risk is "moderate". Since 1 January 2016, the current PFM reform programme is dominated by the implementation of the new LF, promulgated in June 2015. It envisages the deployment of performance-based management, the strengthening of transparency and development of the role of Parliament in the preparation of the Finance Act and the control of its implementation by Government.

5.2.2. If effectively implemented, the reform programme will help to mitigate the country fiduciary risk whose FM aspect is deemed "moderate". The Bank assessed Morocco's national procurement system in November 2017 using the OECD/DAC methodology and the national-level

procurement-related CFRA updated in 2019 and the risk was deemed “moderate”. Despite this risk level, the emergency context in which the project is implemented can escalate the risk.

5.2.3. **Financial Management Mechanisms:** Since this is a general budget support operation, programme resources will be managed via the public expenditure chain under the responsibility of MEFRA. They will be included in the 2020 Finance Act.

5.2.4. **Disbursement:** The loan will be disbursed in a single tranche. The Bank will disburse funds into an account of the General Treasury of the Kingdom expressly designated and opened in Bank Al-Maghrib.

5.2.5. **Accountability:** The Government submits the Audited Budget (*Loi de Règlement - LR*) annually to Parliament on the implementation of the Finance Act (LF) during the first quarter of year n+2. This law is tabled along with the Court of Auditor’s report on the implementation of the Finance Act and the general declaration of consistency between the management accounts produced by public accountants and the General Accounts of the Kingdom prepared by the Minister of Finance.

5.2.6. **Audit:** GIF will perform an annual audit of financial flows and a performance audit of the programme based on terms of reference approved by the Bank. The timeframe for submitting this report to the Bank will be six months following the closure of the fiscal year.

5.2.7. **Procurement Trend and Reforms:** Significant progress was made with the national public procurement system (about 25% of GDP). This was seen in the January 2018 commissioning of members of the national public procurement commission (CNCP) responsible mostly for studying procurement-related complaints from bidders and giving legal opinion on disputes between public contractors and the administration on the application of regulations governing such contracts. To further improve public procurement transparency and governance, the Bank will support CNCP with technical assistance approved in 2019 to enable it to prepare a procurement action plan, handbook and guides.

5.2.8. **Procurement of Goods and Services:** In line with the Bank’s commitments on harmonisation and alignment under the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action, and since this is a general budget support operation, resources made available by the Bank will be fungible with those of the Treasury and used for the country’s procurement and routine needs based on the national procurement system (Decree No. 2-12-349 of 20 March 2013). Using the national procurement system will guarantee the efficient use of resources to be granted, provided related procedures are acceptable and an effective and reassuring control mechanism is in place. Since the programme has components on the performance of regional-level public services and the strengthening of public investment transparency and efficiency, access to information and statistical data on public services/public buyers will be fostered and facilitated. The lack of reliable information can becloud transparency, affect trust in public management and thwart possibilities of economic analysis and monitoring/evaluation of the performance of public procurement action. To improve transparency and governance in regional-level public services, dematerialisation procedures must be expedited as this will enhance public service output and strengthen integrity and ethics (Pillar IV of BPAR 2017). Thus, the launching of the portal www.chafafiya.ma as a programme measure will improve transparency in access to information at the regional level.

VI. LEGAL DOCUMENTATION AND AUTHORITY

6.1. **Legal Documentation:** The legal instrument used for this programme is a Loan Agreement between the Kingdom of Morocco (Borrower) and AfDB (the Bank).

6.2. Conditions Associated with the Bank’s Involvement

6.2.1. **Conditions Precedent to Submission of the Programme to the Board:** Submission of the programme to the Board of Directors shall be subject to fulfilment of the measures precedent outlined in Table 3 of this report by the Kingdom of Morocco to the satisfaction of the Bank.

6.2.2. **Conditions Precedent to the Effectiveness of the Loan Agreement:** Effectiveness of the Loan Agreement shall be subject to fulfilment of the conditions set out in Section 12.01 of the General Conditions Applicable to Loan Agreements and Guarantee Agreements of the Bank.

6.2.3. **Conditions Precedent to Disbursement:** Apart from effectiveness of the Loan Agreement pursuant to the provisions of Section 12.01 of the General Conditions, the disbursement of the single tranche of the loan shall be subject to fulfilment by the Borrower of the following condition precedent to the Bank’s satisfaction: transmit to the Bank the references of the single Treasury account opened in Bank Al-Maghrib, meant to receive loan resources.

6.3. Compliance with Bank Group Policies: PARC-19 complies with Bank Group policies and guidelines on budget support operations. Furthermore, it contributes to creating a conducive environment for achieving the High 5s and the operational priorities of the 2013-2022 Ten Year Strategy and those of the Bank’s CSP (2017-2021) for Morocco. As such, no waiver is requested for this operation with respect to Bank guidelines.

VII. RISK MANAGEMENT

The risks that might affect the implementation of the programme are at five levels:

Table 4 : Risks and Mitigation

Risk	Mitigation
Negative impact of the COVID-19 global health crisis	The Moroccan authorities began by taking strong decisions to mitigate the impact of a post-pandemic crisis. Also, donors have mobilised to support Morocco to ensure macroeconomic balance.
Lack of banking sector liquidity which will prevent banks from financing businesses	Bank Al-Maghrib adopted a set of new monetary and prudential policy measures to facilitate access to bank credit for households and enterprises.
Financing of projects with high or moderate environmental and social (E&S) risks.	Mitigation Measures: CCG has an Environmental and Social Management System (ESMS) and capacity enabling it to comply with ISS requirements and Morocco’s legal and regulatory provisions governing environmental and social safeguards.

VIII. RECOMMENDATION

8.1 Management hereby recommends that the Board of Directors approve an ADB loan of EUR 264 million for the Kingdom of Morocco to finance PARC-19, pursuant to the conditions and modalities set out in this report.

8.2 As part of the Bank Group COVID-19 Response Facility⁶ (CRF Document) and particularly Management’s commitment to gradually raise the cap of budget support operations financed by the ADB Window, Management hereby informs the Board of Directors that a supplementary financing request will be submitted for its consideration in line with the Bank Group Policy for Programme-Based Operations, subject to the raising of the cap on budget support operations pursuant to the conditions described in the CRF document.

⁶ See document ADB/BD/WP/2020/72/Rev.3 - ADF/BD/WP/2020/49/Rev.3 titled “The Bank Group’s COVID-19 Rapid Response Facility (CRF): An Innovative, Scalable and Debt-Sensitive Approach to Assisting Regional Member Countries Deal with the Crisis”; and Resolution No. B/BD/2020/08 - F/BD/2020/04.

ANNEX I: RESULTS-BASED LOGICAL FRAMEWORK

A		PROJECT INFORMATION			
PROJECT NAME :		COVID-19 Response Support Programme (PARC-19)			
COUNTRY:		Kingdom of Morocco			
GOAL:		Contribute to the response to the health, social and economic crisis caused by COVID-19			
PROJECT ALIGNED TO:		CVE guideline: Take appropriate measures to respond to the crisis CRF: (i) Mitigate the social and economic impact of COVID-19; (ii) Build socioeconomic resilience and support economic recovery; and (iii) Strengthen the health response. Alignment Indicator: COVID-19 deaths avoided (9 000)⁷			
B		RESULTS MATRIX			
RESULTS CHAIN AND INDICATORS	UNIT	BASELINE	TARGET AT PROGRAMME COMPLETION	MoV	REPORTING
OUTCOME 1: Mitigation of the health impact of the crisis					
INDICATOR 1: New avoided contamination cases by the Coronavirus	Number	/	300,000 to 500,000	Ministry of Health – Statistics report	Semi-annual
INDICATOR 2: Screening centres in operation	Number of centres	2	8	Ministry of Health – General report	Semi-annual
OUTCOME 2: Mitigation of the social impact of the crisis					
INDICATOR 3: Households benefiting from the Special Coronavirus Pandemic Management Fund	Number (in millions)	0	4.3	MEFRA – Communiqué of the CVE	Quarterly
OUTCOME 3: Support for businesses and job preservation					
INDICATOR 3: Proportion of jobs on temporary or permanent leave preserved	% of preserved jobs	0	75% ⁸	MEFRA – Communiqué of the CVE	Semi-annual
OUTPUT 1: Improve health response effectiveness					
INDICATOR 1.1: Special Coronavirus Pandemic Management Fund	Amount (in MAD billion)	0	32	MEFRA – Communiqué of the CVE	Quarterly
OUTPUT 2: Preserve the purchasing power of citizens					
INDICATOR 2.1: Bill No. 25.20 instituting exceptional measures for employers affiliated in CNSS and their declared employees	Adoption by Parliament Yes/No	No	Yes	MEFRA – Official Journal	Monthly
INDICATOR 2.2: Indemnity for household heads employed in the informal sector	Decision of CVE Yes/No	No	Yes	MEFRA - Communiqué of the CVE	Monthly
OUTPUT 3: Strengthen the cashflow of enterprises					
INDICATOR 3.1: State-guaranteed loans via <i>Damane Oxygène</i>	Number	0	10,000	MEFRA – CCG Report	Quarterly
INDICATOR 3.2: Interest-free loans for self-employed persons	Decision by CVE Yes/No	No	Yes	MEFRA – MEFRA Report	Monthly
INDICATOR 3.3: Moratorium given businesses to pay back bank credit	Decision by CVE Yes/No	No	Yes	MEFRA - Communiqué of the CVE	Monthly
OUTPUT 4: Strengthen Environmental & Social Safeguard					
INDICATOR 4.1: Report on the E&S aspects of the implementation of activities related to the Covid-19 pandemic	Report made Yes/No	No	yes	Ministry of Health	Annual

⁷ estimated on the basis of a lethality of 3%.

⁸ According to the CNSS, 810,000 formal sector employees are on partial or permanent work stoppage.

ANNEX II: GLOBAL PORTFOLIO STATUS⁹

1. Global Portfolio Status

1.1. The Bank's active portfolio in Morocco at end-June 2019 comprises 35 operations for a total commitment of UA 2.5 billion (USD 3 billion). The portfolio covers seven operational sectors: Energy (31.5%); Transport (19.8%); Water and Sanitation (15.5%); Multi-sector and Social (12.66%); Private Sector (11.2%); and Agriculture (9.4%). Commitments are concentrated in infrastructure (66.8%) with a preponderance of the energy and transport sectors (51%). The portfolio orientation is consistent with the priorities of Government's 2017-2021 Programme outlined in successive Finance Acts 2017, 2018 and 2019, as well as with the Bank's High 5s targeting the structural transformation of Africa.

1.2. The portfolio is made up of four (4) non-sovereign operations: one line of credit to *Banque Centrale Populaire* for MAD 100 million; a programme of the *Office Chérifien des Phosphates (OCP)* to extend the Jorf Lasfar Phosphate Hub for USD 200 million; the TEKCIM Project for EUR 50 million; and an equity participation in *Fonds Azur Innovation* for EUR 5 million. At Government's request, major infrastructure projects are financed by the public window.

1.3. The Bank has actively supported national and continental policies via diverse MIC technical assistance funds. It approved two technical assistance packages: UA 400,000 to *Confédération Générale des Entreprises du Maroc* (General Confederation of Enterprises of Morocco – CGEM) to support the expansion of the private sector and its search for new markets in Sub-Saharan Africa, in line with the Kingdom's regional integration policy. Another technical assistance of UA 410,000 was approved to support the National Public Procurement Commission (CNCP) to diagnose the public procurement system in Morocco and produce practical guides. These technical assistance packages supplement (i) the support given to CAFRAD to transform it into a Pan-African Excellence Centre for Training and Research for public administrations, (ii) the Bank support to the Moroccan Investments and Exports Agency (AMDIE) to accompany the Moroccan private sector on the continent, (iii) the review of tariff policies between Morocco and the rest of Africa, and (iv) experience sharing between Morocco and other African countries on solar power through trilateral South-South cooperation.

2. Portfolio Monitoring and Evaluation

2.1. **The country portfolio performance is judged highly satisfactory overall, scoring 3.7 on a scale of 4.** The portfolio review conducted by the Bank in May 2019 concluded that the performance of the public sector portfolio is highly satisfactory (see Figure 7). The Bank's portfolio in Morocco is ranked among the most efficient according to the monthly Flashlight Report published throughout 2018.

2.2. The portfolio's global disbursement rate rose from 35.7% in April 2015 to over 75% in May 2019, due to the significant disbursement made, including the PADIDFA (EUR 200 million) and PAAIM II (EUR 134 million) budget support. Since 1 January 2019, the Bank has disbursed about EUR 256 million to Morocco. Thus, the cumulative disbursement rate from January 2019, excluding the PADIDFA and PAAIM II budget support packages, is 8% in the first quarter. This progression relative to the 23% rate (annual institutional indicator) is attributable to measures implemented by the Morocco Country Office to improve technical assistance performance. The trend is mostly linked to the progress registered in the procurement process.

⁹ Culled from the mid-term review of the Country Strategy Paper, 2017-2021, combined with the 2019 Country Portfolio Performance Review, September 2019.

ANNEX III: ELIGIBILITY CRITERIA

Criteria	Comments on the Current Situation
<p>Government commitment to reduce poverty and promote inclusive growth</p>	<p>At the onset of the pandemic, Morocco took robust health measures to stop the spread of the virus and thus protect Moroccan citizens. At the same time, economic and financial measures were adopted to mitigate the impact of the crisis, such as the creation of the Special Coronavirus Pandemic Management Fund, which has so far received an allocation of about MAD 32 billion (or EUR 3 billion) to finance indemnities to wage-earners and informal sector operators.</p> <p>Prior to the crisis, the National Human Development Initiative (INDH) captured the political commitment at the highest level to reduce rural poverty and fight urban exclusion and insecurity. Its specific objectives are to (i) improve access to basic social services, (ii) ensure gender mainstreaming, (iii) promote social, cultural and sports activities, (iv) promote income-generating activities, (v) promote sustainable local development, and (vi) strengthen local governance. Furthermore, the Rural Poverty Reduction Programme mostly targets actions and projects linked to (a) support for access to social services, infrastructure and basic health, educational, cultural and sports facilities, (b) social, sports and cultural activities, (iii) training and communication activities, and (iv) income-generating activities and micro-projects that generate stable jobs and income.</p>
<p>Macroeconomic stability</p>	<p>The slowdown of real GDP growth will continue in 2020 due to the combined effects of the double shock of drought and COVID-19. According to African Development Bank projections (see Tables 1, 2 and 3 and § 2.2.5.), the real GDP growth rate will range from 0.7% to 1.1% in 2020, based on best-case and worst-case scenarios. The impact of poor rainfall and COVID-19 and the time necessary for post-crisis economic recovery was also taken into consideration. Various structural and contextual factors contribute to these scenarios. Externally, water stress will limit agricultural sector performance (cereal and grain production), which occupies about 46% of the Kingdom's labour force and whose dynamism is decisive for the balance/imbalance of the rural world. In addition, the economy will suffer from the global recession and particularly that of the Euro zone that accounts for 76% of Morocco's trade.</p> <p>In the context of COVID-19, medium-term economic prospects remain favourable but limited. The speed of economic recovery will be influenced by the scale of the impact of COVID-19 on the national economic fabric and the Kingdom's key partners (Spain, France, Italy and Germany) and China. According to various worst-case scenarios linked to the post-crisis resumption of activities, the real GDP growth rate (all things being equal and without new cycles of drought) will range between 1.5% to 1.9% in 2021. Based on both scenarios, the current account deficit will range from 5% to 5.4% of GDP in 2020, then from about 4.7% to 5% of GDP in 2021.</p> <p>The resilience of the Moroccan to external shocks is also guaranteed by the USD 3 billion Precautionary and Liquidity Line (PLL) Agreement covering the 2018-2020 period concluded with the IMF, which enabled the Treasury to draw all resources. This drawing – equivalent to 3% of the Kingdom's current GDP – enabled the authorities to limit the social and economic repercussions of COVID-19 and maintain an adequate level of official reserves to mitigate balance of payment tensions (IMF Release of 8 April 2020). According to the IMF, Morocco continues to have relatively comfortable exchange reserves of USD 25.5 billion (equivalent to roughly 5.2 months of imports), representing 302.7% of the short-term callable debt. For now, and all things being equal, COVID-19-related risks do not appear significant enough to threaten the Kingdom's macroeconomic stability or change the exchange rate of the Dirham. Inflation remains low and the real effective exchange rate has not appreciated much these past years. Lastly, the risk of capital flight abroad has been brought under control thanks to the control of financial transactions with the rest of the world.</p>
<p>Political stability</p>	<p>Per the 2016 CFRA, Morocco's country fiduciary risk was deemed "moderate" on the date of the assessment. The fiduciary risk level can be low in the medium term judging from the implementation of short-term measures and medium-term reforms listed in LOF No. 130-13. The public finance institutional framework in Morocco is clearly defined and formalised, as evidenced by the existence of a Ministry of Finance and a quite comprehensive legal and regulatory framework. Budget preparation is guided by the guidelines set out in the Head of Government's circular and orientation letter inviting authorising officers to prepare their three-year budget programming proposals</p>

	<p>along with objectives and performance indicators. The fundamental principle of separation of the functions and responsibilities of authorising officers and public accountants is respected. Prior control procedures implemented by State controllers and treasury paymasters are clearly-defined and well-documented. The internal audit function of the GIF is operational and the Constitution recognises the independence of the Court of Auditors.</p> <p>The level of risk associated with the national procurement system (SPM) was considered moderate. The system was subjected to several quantitative reforms in the last decade. The progress registered these past few years was recognized by the recent PEFA, which scored the procurement management indicator B+ in 2016 against B in 2009. The SPM in place is characterised by a well-codified and hierarchically organised legal and regulatory framework.</p> <p>In a troubled regional context, Morocco enjoys political stability and security, even as the Kingdom continues its institutional transition. The coalition Government is implementing the political reforms provided for in the 2011 Constitution, comprising organic and normal laws, alongside putting in place constitutional institutions and authorities. The regional and communal elections of September 2015 were an important milestone in the delivery of the decentralisation process enshrined in the Constitution. These elections concretized the new organic laws related to the regions, prefectures and communes and allow greater citizen participation in the management of local affairs. The Kingdom joined the African Union (AU) on 30 January 2017 and a few years ago embarked on active diplomacy for political leadership on the continent. The next legislative elections are scheduled for 2021.</p>
<p>Fiduciary risk</p>	<p>The public finance management (PFM) framework was reformed several times in the last few years to align it with international standards, as reflected in the satisfactory fiduciary assessments by the Bank and other partners. The PFM institutional framework in Morocco is well-laid down and formalised. Budget preparation is based on the guidelines of the Head of Government’s circular and orientation letter inviting authorising officers to prepare their three-year budget programming proposals and the corresponding objectives and performance indicators. Budget implementation rests on a procurement system that requires publication of all business opportunities and the results of competitive bidding. Competition is the ideal method of access to public procurement and the system recognises all bidders’ right to seek redress. The fundamental principle of separation of the functions and responsibilities of authorizing officers and public accountants is respected. Ex-ante control procedures implemented by State controllers and Treasury paymasters are clear and well-documented. The internal audit function of the General Inspectorate of Finance (GIF) is operational and the Constitution grants the independence of the Court of Auditors. The performance of the PFM systems augurs very well for the achievement of the budget discipline objective, but less so for the strategic resource allocation and quality public service delivery objectives. The CFRA conducted during the mid-term review of the Country Strategy Paper (CSP 2017-2021) in March 2019 concluded that the risk was moderate. The current PFM reform programme focuses mainly on the implementation (since 1 January 2016) of the new LOF promulgated in June 2015. It plans to deploy performance-based management, strengthen transparency and develop Parliament’s role in Finance Act preparation and implementation control by the Government.</p> <p>If effectively implemented, the reform programme will mitigate fiduciary risks deemed moderate as far as financial management is concerned. The Bank recently conducted an assessment of Morocco’s national procurement system in November 2017 using the OECD/DAC methodology and the national-level procurement-related CFRA, updated in 2019, and deemed it “moderate”.</p>
<p>Harmonisation</p>	<p>This operation was designed closely with other Technical and Financial Partners (TFP) through regular exchanges on the COVID-19 response in Morocco. Discussions are ongoing with the Japanese International Cooperation Agency (JICA) for a joint financing of PARC-16. Furthermore, exchanges have taken place between the Bank and German Cooperation (KfW)¹⁰ within the framework of Compact with Africa (CwA) to identify transformational measures for financial inclusion. The Bank co-chairs the Key Partners Group (GPP) with KfW and works in this setting to identify synergies among donors in their response to the crisis.</p>

¹⁰ KfW plans a budget support of EUR 300 million in 2020.

ANNEX IV: DEVELOPMENT POLICY LETTER

To
The President of the African Development Bank
Immeuble CCIA-Plateau Avenue Jean-Paul II 01 B.P.1387 - Abidjan 01

Subject: Letter of Development Policy.

Mr. President,

As you are aware, the Moroccan economy has undergone major transformations in recent decades, resulting in improved performance, diversification of its fabric and increased resilience to exogenous shocks. These developments have been achieved thanks to a continuous effort to implement structural and sector reforms as well as major infrastructure projects on which the country has made a qualitative leap.

Aware of the challenges to overcome in terms of human development, social and economic inclusion and regional equity, Morocco is adopting an approach that seeks to match economic growth with the challenges of inclusive and sustainable development.

In this regard, **Morocco has adopted and implemented a series of social policies and programmes** aimed at improving the living conditions of low-income groups, including the National Human Development Initiative, the extension of social protection particularly for low-income groups, and the launching of targeted social programmes.

Furthermore, to promote entrepreneurship and employment, **Morocco has undertaken several ambitious programmes that have set a sustained momentum in motion.** In this regard, I would particularly like to mention the recent initiative launched by His Majesty the King on the "*Integrated Entrepreneurship Support and Financing Programme.*"

Prepared as part of a concerted approach between the public and private sectors and with the latter's support, this programme aims to trigger a leap in entrepreneurship in various regions of the Kingdom to promote a sustained and sustainable socio-economic integration. The first component of this project (the "*Intelaka*" Programme) became effective during the first quarter of this year.

In addition to supporting entrepreneurship, the "*Integrated Entrepreneurship Support and Financing Programme*" aims to provide solutions to enhance and promote access to financial services for households and VSEs in the rural area and the informal sector.

Regarding enhancing and promoting access to financial services for rural households, VSEs and the informal sector, it is worth mentioning the **National Financial Inclusion Strategy initiated from 2019 jointly with Bank Al-Maghrib**, with the support of all public and private sector stakeholders.

The goal of this strategy is to make financial inclusion a catalyst for the economic inclusion of target categories, particularly rural dwellers, VSEs, women and young people. To attain its objective, the strategy is based on 4 levers: (i) accelerate the development of alternative financing models adapted to the specificities of the target population, particularly women, young people, rural dwellers and very small enterprises, (ii) strengthen the role of "traditional" financing models in promoting financial inclusion, (iii) strengthen tools to better understand the risk of excluded population groups, and (iv) create conditions for greater use of financial products.

Therefore, given the scope of these programmes and their ambitious objectives, the Programme to Support Emergency Measures to Reduce the Impact of the Pandemic, Financial Inclusion, Entrepreneurship and Regionalisation Reforms - Phase I will contribute immensely to support efforts by the Kingdom and amplify their impact especially in this difficult context that has brought new constraints in its wake.

Mr. President,

As you are aware, **the Moroccan economy like others worldwide is facing a major health crisis**, the repercussions of which are already beginning to be felt in terms of both the health measures taken by the public authorities in the Kingdom and the impact of the recession observed among our country's main economic partners.

In this regard, I would like to recall that **Morocco has been highly proactive in the face of the economic and social challenges brought by the pandemic** by adopting a series of measures, such as the establishment of the Special Fund for the Management of the Covid-19 Pandemic, in line with Royal Instructions from His Majesty King Mohammed VI.

This Special Fund helped to mobilise significant financial resources to support the national economy in coping with the shocks induced by the pandemic. These resources are directed towards covering the costs generated by various emergency measures taken by the Economic Intelligence Committee. The Fund supplements other legal and regulatory measures taken by the Government and the supervisory authorities, as well as voluntary initiatives by the private sector, including the banking sector.

Given the current situation, the Programme to Support Emergency Measures to Reduce the Impact of the Pandemic, Financial Inclusion, Entrepreneurship and Regionalisation Reforms - Phase I, is particularly relevant to Morocco's efforts to overcome this health and economic crisis.

Mr. President,

Before reviewing the Programme components, it will be recalled that the priorities of the Moroccan Government listed above are fully in line with the pillars of the Country Strategy Paper (CSP) for 2017-2021, namely (i) green industrialisation by SMEs and the export sector, and (ii) improving the living conditions of young people, women and rural areas through employment.

These priorities also reflect a better targeting of social sectors and regions to make growth more inclusive and to better mainstream the ongoing reflection on the renewal of Morocco's development model, as agreed during the CSP mid-term review.

Accordingly, and following the example of previous successfully concluded programme in highly strategic and priority sectors in Morocco, your Institution's support and assistance are solicited to implement this new Programme to Support Emergency Measures to Reduce the Impact of the Pandemic, Financial Inclusion, Entrepreneurship and Advanced Regionalisation Reforms - Phase I, which will be structured around the following main thrusts: (i) support employment and strengthen entrepreneurship, (ii) financial inclusion, and (iii) support advanced regionalisation.

These thrusts are set out in the three Programme components designed using a two-phased programme-based approach, the first of which is proposed for financing by your Institution within the framework of the COVID-19 Response Facility recently set up by the Bank.

Support Employment and Strengthen Entrepreneurship

As mentioned earlier, the Government of Morocco has committed itself to introduce a broad range of measures to encourage entrepreneurial initiatives and support nascent businesses.

Moreover, as soon as the first cases of coronavirus appeared in Morocco, the Government took a series of urgent measures to reduce the impact of the COVID-19 pandemic on businesses and employment. Thus, the Programme component to support employment and strengthen entrepreneurship is structured around two pillars: support SMEs and jobs against the impacts of the COVID-19 pandemic and strengthen entrepreneurship.

Concerning supporting VSMEs and jobs against the impacts of the COVID-19 pandemic, and to mobilise the financial resources needed to confront the shocks induced by the pandemic, the Government has set up the Special Coronavirus Pandemic Management Fund with a budget allocation of MAD 10

billion. In addition to covering emergency expenses to upgrade the medical system, this Fund will support the national economy by backing sectors most impacted by COVID-19, protect jobs and mitigate the social repercussions of the pandemic.

In this regard, a lump-sum compensation has been introduced for the benefit of employees of businesses in difficulty affiliated with the National Social Security Fund (CNSS) scheme. Similarly, a support mechanism has been launched for workers in the informal sector who have lost their jobs.

Furthermore, to support businesses whose cash flow has deteriorated because of the decline in their activity due to COVID-19, the Government has set up a new guarantee mechanism called "*Damane Oxygène*", which aims to mobilise needed financing for such businesses.

To strengthen entrepreneurship, Morocco has launched a series of initiatives under the "*Integrated Entrepreneurship Support and Financing Programme*", mainly for project sponsors, the informal sector and VSEs. The Government has also launched the "*Intelaka*" Programme, which provides integrated support for young project sponsors and VSEs in the start-up phase.

Also, the "*Startup Hub*" portal was launched to dematerialise the processing of applications from companies wishing to obtain the "*Young Technologically Innovative Company*" label, particularly enabling them to benefit from advantages in terms of international payment.

In the same vein, a national entrepreneurship platform will be set up to meet the needs of entrepreneurs to access information on national business support mechanisms.

Besides, several measures aimed at coordinating the entrepreneurial ecosystem are envisaged. In this connection, an agreement to coordinate support measures at the regional level was signed, which provides for the establishment of regional coordination committees. A platform to coordinate the actions and programmes of various donors engaged in entrepreneurship was also set up.

On another aspect, to strengthen the financing of enterprises through the capital market, provision has been made to accelerate the operationalization of two texts, namely, the Law governing the Casablanca Stock Exchange and the regulatory texts governing the Sukuk certificates.

Furthermore, savings mobilisation and channelling them to finance enterprises remain at the very heart of priorities set by the authorities. In this regard, the Law on Undertakings in Collective Investments in Transferable Securities (OPVCM/UCITS) will be reviewed specifically to allow the listing of OPVCM/UCITS on the stock exchange and to broaden the types of OPVCM/UCITS possible.

Financial Inclusion

The Kingdom of Morocco has embarked on its National Financial Inclusion Strategy with ambitious objectives for 2023 and 2030 in terms of strengthening access to financial services by the various target population groups. Hence, the Strategic Committee on Financial Inclusion at its last meeting validated a roadmap summarising the conclusions and recommendations of the several working groups set up to implement the strategic orientations.

Therefore, to improve financial information and facilitate the granting of credit, **a bill governing the activity of credit information bureaux is being prepared**. This bill shall broaden the scope of information to include non-financial data.

Moreover, to unlock the potential for VSE financing, **the microfinance regulatory framework will be reviewed** to forge the institutional transformation of microcredit associations and diversify the range of services on offer, which will extend to microinsurance and savings. Similarly, **a co-financing and guarantee package dedicated to businesses financed by microcredit associations has been launched**.

Lastly, **the Moroccan Government is committed to supporting the launching of mobile payment**, which is a central vector of financial inclusion, to increase access to financial services at a reduced cost for a larger section of the population. To this end, the 2020 Finance Law introduced tax incentives to promote the mobile payment method among traders.

Support Advanced Regionalisation

Having made advanced regionalisation a strategic choice, Morocco plans to continue implementing the reforms needed to establish new regional governance and development mechanisms.

The Government undertakes to pursue efforts already initiated to implement Law No. 54-19 on the Public Service Charter. The aim is to establish equitable national coverage, improve the public service organisation system, promote public service quality and facilitate access thereto, strengthen the public service resource management performance, open up public departments to their environment, both internal and external, and involve various actors in improving services and service quality, and anchoring ethical values.

In the same context, key reforms to simplify administrative procedures have been deployed. These efforts were sanctioned following the adoption and publication of Law No. 55.19 on simplification of administrative procedures and formalities. This Law concerns the entire public administration at the central and decentralised level (local authorities, public establishments, etc.) and lays down the general principles and rules governing the relationship between users (citizens and businesses) as well as provisions that administrations must respect in terms of transcribing and posting administrative procedures, the time limit for responding to users' requests, and the channels for filing complaints and appeals.

Aware of the role of regionalisation in economic development, the Moroccan Government provides for the transfer of powers from the central administration to regional departments following the adoption by the Government Council of Organic Law 02-12 on appointment to senior positions. This Law makes provision for the establishment of regional directorates and the pooling of departments at the decentralised level.

Lastly, to strengthen transparency and fight corruption, an information access portal has been set up. This portal enables citizens to request information they need from the departments and agencies concerned via the portal www.chikaya.ma launched on 12 March 2020, the date of effectiveness of the Law on information access.

Mr. President, these are the main thrusts of the new Programme to Support Emergency Measures to Reduce the Impact of the Pandemic, Financial Inclusion, Entrepreneurship and Regionalisation Reforms - Phase I

I thank you for your valuable support in implementing this ambitious programme. Please accept, **Mr. President**, the expression of my highest consideration.

Mr. Akinwumi A. ADESINA,
President of the African Development Bank
CCIA-Plateau Building
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01 B.P.1387 - Abidjan 01
COTE D'IVOIRE

ANNEX V: ENVIRONMENTAL AND SOCIAL COMPLIANCE NOTE (ESCON)¹¹

A. Basic Information

Project Title: COVID-19 RESPONSE SUPPORT PROGRAMME (PARC-19)		Project SAP code : P-MA-K00-021	
Country: Morocco	Lending Instrument ¹² : DI <input type="checkbox"/> FI <input type="checkbox"/> CL <input type="checkbox"/> BS <input checked="" type="checkbox"/> GU <input type="checkbox"/> RPA <input type="checkbox"/> EF <input type="checkbox"/> RBF <input type="checkbox"/>		
Project Managing Sector: Governance		Task Team Leader: Ammar KESSAB	
Appraisal date: Not held because of travel restriction (Covid-19)		Estimated Board Date: 27/05/2020	
Environmental safeguards Officer: Ousmane FALL		Social safeguards Officer: Ousmane FALL	
Environmental and Social Category: 3		Operation type: SO <input type="checkbox"/> NSO <input type="checkbox"/> PBO <input checked="" type="checkbox"/>	
Is this project processed under rapid responses to crises and emergencies?		Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	
Is this project processed under a waiver to the Integrated Safeguards System?		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	

B. Disclosure and Compliance Monitoring

B.1. Mandatory disclosure

Environmental Assessment/Audit/System/Others (specify:)			
Was/Were the document (s) disclosed <i>prior to appraisal</i> ?	Yes <input type="checkbox"/>	No <input type="checkbox"/>	NA <input checked="" type="checkbox"/>
Date of "in-country" disclosure by the borrower/client	[Date]		
Date of receipt, by the Bank, of the authorization to disclose	[Date]		
Date of disclosure by the Bank	[Date]		
Resettlement Action Plan/Framework/Others (specify:)			
Was/Were the document (s) disclosed <i>prior to appraisal</i> ?	Yes <input type="checkbox"/>	No <input type="checkbox"/>	NA <input checked="" type="checkbox"/>
Date of "in-country" disclosure by the borrower/client	[Date]		
Date of receipt, by the Bank, of the authorization to disclose	[Date]		
Date of disclosure by the Bank	[Date]		
Vulnerable Peoples Plan/Framework/Others (specify:)			
Was the document disclosed <i>prior to appraisal</i> ?	Yes <input type="checkbox"/>	No <input type="checkbox"/>	NA <input checked="" type="checkbox"/>
Date of "in-country" disclosure by the borrower/client	[Date]		
Date of receipt, by the Bank, of the authorization to disclose	[Date]		
Date of disclosure by the Bank	[Date]		
If in-country disclosure of any of the above documents is not expected, please explain why: NA			

B.2. Compliance monitoring indicators



Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	NA <input type="checkbox"/>
Have costs related to environmental and social measures, including for the running of the grievance redress mechanism, been included in the project cost?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	NA <input type="checkbox"/>
Is the total amount for the full implementation for the Resettlement of affected people, as integrated in the project costs, effectively mobilized and secured?	Yes <input type="checkbox"/>	No <input type="checkbox"/>	NA <input checked="" type="checkbox"/>
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	NA <input type="checkbox"/>
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	NA <input type="checkbox"/>

C. Clearance

Is the project compliant to the Bank's environmental and social safeguards requirements, and to be submitted to the Board? Yes No

¹¹ Note: This ESCON shall be appended to project appraisal reports/documents before Senior Management and/or Board approvals.

¹² DI=Direct Investment; FI= Financial Intermediary; CL=Corporate Loan; BS=Budget Support; GU=Guarantee; RPA=Risk Purchase Agreement; EF=Equity Financing; RBF=Results Based Financing.

<i>Prepared by:</i>	<i>Name</i>	<i>Signature</i>	<i>Date</i>
Environmental & Social Safeguards Officer:	Ousmane FALL		15/05/2020
Task Team Leader:	Ammar KESSAB		15/02/2020
<i>Submitted by:</i>			
Sector Director/Manager:	Abdoulaye COULIBALY		19/05/2020
<i>Cleared by:</i>			
Director SNSC:			19/05/2020