

AFRICAN DEVELOPMENT BANK



PROJECT: WATER ACCESS SUSTAINIBILITY AND SECURITY PROJECT (PPSAE) – ADDITIONAL FINANCING

COUNTRY: KINGDOM OF MOROCCO

PROJECT APPRAISAL REPORT

Date: July 2021

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September 2021

Translated Document

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The information and data in this report were collected by the project team led by Mr Belgacem BENSASSI, Chief Water and Sanitation Engineer (Task Manager), following the appraisal mission conducted from 2 to 11 June 2021.

Currency Equivalents¹

March 2018 (initial financing)

UA 1 = MAD 13.3723

UA 1 = EUR 1.18379

UA 1 = USD 1.44589

June 2021 (supplementary financing)

UA 1 = MAD 12.77998

UA 1 = EUR 1.18435

UA 1 = USD 1.44467

Fiscal Year

1 January - 31 December

Weights and Measures

1 km = kilometre = 1000 m

1 km² = square kilometre = 1000 m²

1 ha = hectare = 10,000 m²

1 ml = linear meter

1 m³ = cubic meter

1 m³/d = cubic meter per day

1 hm³ = million cubic metres

l/s = litres per second

inhab/ha = inhabitants per hectare

lpd = litre per person per day

Acronyms and Abbreviations

AFD = French Development Agency

AfDB = African Development Bank Group

AFESD = Arab Fund for Economic and Social Development

AGTF = Africa Growing Together Fund

AC = Advance Contracting

BD = Bidding Documents

COMA = AfDB Country Office in Rabat

CSP = Country Strategy Paper

DWS = Drinking Water Supply

EUR = Euro

EBRD = European Bank for Reconstruction and Development

EIB = European Investment Bank

ERR = Economic Rate of Return

ESMP = Environmental and Social Management Plan

EU = European Union

IBRD = International Bank for Reconstruction and Development

IRR = Internal Rate of Return

GIZ: German International Cooperation Agency

IsDB = Islamic Development Bank

ISS = Integrated Safeguards System

IWRM = Integrated Water Resources Management

JICA = Japan International Cooperation Agency

KfW = German Public Investment Bank

LAP = Land Acquisition Plan

MAD = Moroccan Dirham

MSME = Micro-, Small- and Medium-sized Enterprises

ONEE = *Office National de l'Electricité et de l'Eau Potable* (National Electricity and Drinking Water Authority)

ONEE-BO = ONEE - Water Branch

PAP = Project-Affected Persons

PCU = Project Coordination Unit

PNE = National Water Plan

PP = Procurement Plan

PPSAE = Water Access Sustainability and Security Project

RPF = Resettlement Policy Framework

SDF = Saudi Development Fund

TFP = Technical and Financial Partners

UA = Unit of Account

USD = US Dollar

WB = World Bank

WTG = Water Thematic Group

¹ Ref.: African Development Bank

Project Information

Client Information

BORROWER: *Office National de l'Electricité et de l'Eau Potable (ONEE)*
(National Electricity and Drinking Water Authority)

EXECUTING AGENCY: ONEE - Water Branch

GUARANTOR: Kingdom of Morocco

Financing Plan

Source	Amount (UA)	Amount (EUR)	Instrument
AfDB	15.2 million	18.0 million	ADB Loan
TOTAL COST	15.2 million	18.0 million	

Key AfDB Financial Information

Loan currency	EUR
Type of loan	Fully flexible loan
Maturity	20 years
Grace period	5 years
Reimbursements	Half-yearly equal payments at the end of the grace period.
Interest rate	Base rate + Funding margin + Lending margin + Maturity premium. (This interest rate must be above or equal to zero).
Base rate	Six-month floating EURIBOR, revised every 1 February and 1 August, with a free-floating base rate option.
Financing cost margin	The Bank's financial cost margin, revised every 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	N.A.
Front-end fees	0.25% of the loan amount payable latest 60 days from effectiveness of the loan agreement or the date of the first disbursement, whichever comes first.
Commitment fee	0.25% per annum of the undisbursed amount, effective 60 days following the date of signature of the loan agreement and payable on the due 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 loan amount. Transaction fees apply.
Loan currency conversion option	The Borrower may change the currency of all or part of the loan, whether disbursed or not, into another lending currency of the Bank. Transaction fees apply.

Timeframe - Main Milestones (anticipated)

Concept Note approval	May 2021
Project approval	September 2021
Signing of loan and guarantee agreements	October 2021
Effectiveness of loan agreements	December 2021
First disbursement	January 2022
Physical completion	December 2024
Date of last disbursement	December 2025

PROJECT EXECUTIVE SUMMARY

General Overview of the Project

1. The main goal of the Water Access Sustainability and Security Project (PPSAE) is to secure access to drinking water in the Guercif, Zagora, Al Hoceima, Tangier and Béni Mellal provinces. The project area includes all these regions' urban and rural agglomerations witnessing a significant industrial boom, in view of the new "Mohammed VI Tangier Tech" City in Tangier, the Tadla Agropole Project at Béni Mellal, as well as other industrial and agro-industrial zones in El Hoceima and Béni Mellal. The project aims to meet the increased need for drinking and industrial water in these areas up to 2040 (in line with the Morocco's Water Strategy 2040). The project was estimated in 2018 to cost UA 194 million (Bank-financed activities cost of UA 97 million, comprising an ADB loan of EUR 79.33 million and an AGTF loan of USD 43.36 million), and was expected to be implemented over five (5) years (2019-2023).
2. Following the award² of almost all the contracts for goods, works and services, a budget overrun in the ADB and AGTF loan resources for the Bank-financed activities was recorded. This overrun is attributable mainly to: (i) the increase in the price of steel; and (ii) the increase in the price of transport.
3. The project is designed to secure access to drinking water in both urban and rural areas in the designated regions. It will benefit the populations of Guercif, Zagora, Al Hoceima and Béni Mellal, currently about 1.2 million (60% of which live in rural areas). It will also benefit communities in and around Tangier, with an estimated population of 1.3 million. Therefore, the project will benefit over 2.5 million people initially, and over 3.3 million in 2040, within the project's time scale.
4. The project covers four regions, namely Tangier-Tetouan-Al Hoceima (Tangier and El Hoceima), Darâa-Tafilalet (Zagora), Oriental (Guercif) and Béni Mellal-Khénifra (Béni Mellal). These regions are classified among those with a Multidimensional Poverty Incidence (MPI) ranging from 9.5 to 13.4—higher than the national average of 8.2%. The national overall poverty rate is 11.7%, but it is significantly higher in Darâa-Tafilalet (20.7%) and Béni Mellal-Khénifra (19.1%)³.

Needs Assessment

5. The project design was based on the priority needs identified by ONEE-BO (ONEE Water Branch) under its 2016-2020 investment programme. The project implementation was driven mainly by the need to ensure the sustainability and security of drinking water resources for a population of about 2.5 million in regions characterised by: (i) insufficient infrastructure to meet the urgent water needs of the populations in El Hoceima and Zagora; (ii) a significant industrial boom (Tanger Tech and Tadla Agropole); and (iii) a significant depletion of the exploited water table (Guercif) and a risk of pollution of the existing raw water resources (Tanger).

The requested supplementary financing is justified by the particular social and health context, linked to the COVID-19 crisis, which broke out in Morocco in early 2020. It is also justified by the PPSAE's integrated and indissociable activities, and finally by the urgency of the water stress experienced in the regions benefiting from the loan, namely Tangier, Guercif and Zagora, and the need to find rapid solutions to remedy this problem.

²The last contract for the Souk Sebt treatment plant has been awarded but not yet notified due to the unavailability of funds pending the completion of the supplementary financing, which is the subject of this report.

³ According to the HCP report entitled "*Poverty and Prosperity in Morocco of the Third Millennium, 2001-2014*" ("*Pauvreté et prospérité partagée au Maroc du troisième millénaire, 2001 2014*")

The Bank's Value-added

7. The Moroccan government and ONEE-BO's decision to request the Bank's participation in this project financing (initial and supplementary) underscores the Bank's proven advantage in implementing such projects (including emergency operations benefitting urban and rural agglomerations).

Knowledge Management

8. The project will enhance ONEE-BO's experience in implementing and operating drinking water supply projects in urban and rural areas, as well as in securing and preserving water resources (Tangier and Al Hoceima). The introduction of new technical and economic alternatives reflects ONEE-BO's effort to consolidate its achievements in research and skills in project design and implementation.

RESULTS FRAMEWORK

RESULTS FRAMEWORK (the objectives, outputs, outcomes and activities are the same as the initial project; this solely involves a cost overrun on activities initially planned)					
A	PROJECT INFORMATION				
Project Name and SAP Code: WATER ACCESS SUSTAINABILITY AND SECURITY PROJECT (PPSAE) - Supplementary Financing (P-MA-E00-013)					Country/region: MOROCCO
Project Development Objective: Strengthen and secure access to drinking water in several urban and rural settlements					
Alignment Indicators:	a) Country/Regional strategy: Morocco's Water Strategy 2040/ONEE Infrastructure Plan 2019-2023 / Country Strategy Paper (2017-2021)				
	b) Bank's Sector priority/strategy: Ten-year Strategy, particularly the High 5s/AfDB Water Strategy (2021)				
	c) Alignment indicators: National drinking water access rate (urban and rural)				
B	RESULTS MATRIX				
Results Chain and Description of Indicators	RMC/ADOA indicator	Unit of Measurement	Reference (2018)	Target at Completion (2025)	Means of Verification
Outcome 1: Drinking water production and supply systems in project-affected areas secured and strengthened					
Indicator 1.1: Drinking water access rate for the urban population	□	%	100	100 ⁴	Reports and statistics from the ONNE-BO and local authorities
Indicator 1.2: Drinking water access rate of access for the rural population	□	%	Approximately 60%	100	Reports and statistics from the ONNE-BO
Outcome 2: Groundwater protected in affected areas					
Indicator 2.1: Boreholes drilled	□	%	70	20	SEE national statistics
Outcome 3: Number of jobs created					
Indicator 3.1: Number of direct (temporary and permanent) and indirect jobs	□	Number	-	1,500 (>20% women) 200 (>30% women) 100,000 (>35% women)	Reports on regional development in the regions concerned
Output 1: Secure access to drinking water in Al Houceima province					
Indicator 1: Security of the drinking water supply source	□	Type	Silted dam (SMBAK)	New dam (GHISS) to replace the silted dam	Project monitoring reports (ONEE-BO)
Output 2: Secure access to drinking water in Tangier province					
Indicator 2: Security of the drinking water supply	□	Type	Release of water from the dam	Water supply from the dam	Project monitoring reports (ONEE-BO)
Output 3: Secure access to drinking water in Guercif province					
Indicator 3: Security of the drinking water source	□	Type	Boreholes, wells and natural springs	New Targa Ou Madi dam	Project monitoring reports (ONEE-BO)
Output 4: Secure access to drinking water in Zagora province					
Indicator 4: Security of the drinking water supply	□	Type	Vulnerable catchment areas	New Agdez dam	Project monitoring reports (ONEE-BO)
Output 5: Secure access to drinking water in Béni Mellal province					

⁴ If the project is not carried out, the rate of access to drinking water for urban populations will fall below 100%.

Indicator 5: Increase in raw water treatment capacity	□	l/s	380	570	Project monitoring reports (ONEE-BO)
■ Activities			■ Resources		
<u>A. Strengthen the water supply of several urban and rural settlements</u> A.1 Strengthening of Tangier's DWS system (laying of pipes, pumping station, power lines). A.2 Strengthening of El Hoceima's DWS system (laying of pipes). A.3 Strengthening of Guercif's DWS system (laying of pipes, construction of a treatment plant, power lines). A.4 Strengthening of Béni Mellal - Souk Sebt's DWS system (laying of pipes, construction of a treatment plant, power lines). A.5 Strengthening of Zagora's DWS system (laying of pipes, construction of a treatment plant, power lines). <u>B. Technical support</u> B.1 Construction design by validated companies. B.2 Acceptance reports signed, attachments of completed works validated, monitoring reports prepared.			RESOURCES (UA million) <u>Initial funding (2018):</u> - ADB loan: UA 67.0 million. - AGTF loan: UA 30.0 million. - ONEE (co-financing): UA 17.0 million. - ONEE (parallel financing, with support from AFD, FSD and IsDB): UA 80 million. <u>Supplementary financing (2021)</u> - ADB loan: UA 15.2 million.		

MANAGEMENT REPORT AND RECOMMENDATIONS TO THE BOARD OF DIRECTORS CONCERNING A PROPOSAL TO GRANT A LOAN TO MOROCCO AS SUPPLEMENTARY FINANCING FOR THE WATER ACCESS SUSTAINABILITY AND SECURITY PROJECT (PPSAE)

Management hereby submits this report and recommendation concerning a proposal to grant an EUR 18 million (approximately UA 15.2 million) ADB loan to *Office National de l'Electricité et de l'Eau Potable* (National Electricity and Drinking Water Authority) (ONEE) as supplementary financing for the Water Access Sustainability and Security Project (PPSAE) in Morocco.

I - STRATEGIC THRUST AND RATIONALE

1.1. *Main Development Challenges*

1.1.1 *Morocco is making considerable efforts to improve the living conditions of its citizens and facilitate job creation in rural and urban areas.* However, the implementation of these policies is directly dependent on water resources and in turn affect their availability in rural and urban areas. *In* rural areas, employment is heavily dependent on vicissitudes of the weather (the agricultural sector employs more than 68% of the active population in rural areas). The integrated approach water resource sustainability is now essential for the development of agriculture, which creates sustainable and quality jobs in fragile rural areas. In urban areas, major efforts are being made to strengthen the country's industrialisation, which, in addition to increasing the use of water resources, requires substantial improvement in industrial waste management.

1.1.2 In view of the above, integrated water resources management emerged as the top environmental priority in the Bank's Country Strategy Paper for Morocco (2017-2021).

1.2. *Project Linkages with the Country Strategy and Objectives*

1.2.1 Morocco is fully aware of the importance of sustainable water resource management. It is for this reason that Morocco placed the issue of water at the heart of the COP22 debates that it organised in 2016. Morocco has made institutional and regulatory advances which has led to the establishment of frameworks for integrated and sustainable water resources management:

- The National Water Strategy 2009-2030 and Law 36-15 revising Law 10-95 on Water, promulgated in 2016, laid the foundations for a real demand-driven Integrated Water Resources Management (IWRM), more oriented towards demand management.
- The National Environment and Sustainable Development Charter (2014), supplemented by the National Sustainable Development Strategy (SNDD - 25 June 2017), promotes sustainable and economical use of water resources and the protection of these resources against pollution.
- Faced with water shortages, the government set up an emergency programme in 2017 to ensure drinking water supply in areas that depend mainly on vulnerable water sources (overexploited aquifers, polluted surface water, etc.).
- To ensure better coordination of interventions in the water sector, a National Drinking Water Supply and Irrigation Programme (PNAEPI) for the 2020-2027 period was presented to His Majesty the King in January 2020.

1.2.2 PPSAE is part of ONEE-Water Branch's updated investment programme approved by its Board of Directors for the period 2016-2020, and subsequently for the period 2019-2023. The updated programme is the operational implementation of the above texts. The project will promote demand management in fragile areas (particularly rural areas) while combating pollution (industrial development areas).

1.2.3 Morocco is also pursuing a dynamic policy to reduce regional disparities in human development and infrastructure. The poverty rates in the project areas are above the national average. The rural poverty rate is 20.1% in Zagora and 13.1% in Guercif (compared to the national average of 9.5%). The urban poverty rate is 12.5% in Guercif and 10.3% in Zagora (compared to the national average of 1.6%⁵). By targeting these rural areas, the project will help to secure agricultural employment by ensuring the sustainability of water resources and at the same time improve the quality of life for citizens⁶.

1.3 Rationale for the Bank's Involvement

1.3.1 The Bank supports the country in implementing its integrated water resource management policy. This support is through technical assistance, investment projects and budgetary support. This support covered: (a) the agricultural sector, which is the primary user of water resources (accounting for more than 80% of mobilised resources), through water saving infrastructure, integrated resource monitoring and management frameworks, tools for recovering wastewater and facilitating groundwater recharge (for example, PAPNEEI); (b) DWSS through infrastructure development for liquid sanitation, drinking water production, distribution and productivity improvement (13 projects financed); and (c) development of a legislative framework for water resource protection and management. PAS-EAU, approved in 2013, helped lay the regulatory basis defined by Law 10-95 for: (i) enhanced integrated water resource management; (ii) water tariff regulation; and (iii) reallocation of investment budgets within the sector. PADIDFA, approved in 2018, will facilitate the operationalization of the new Water Law 36-15.

1.3.2 The project responds to the two intervention pillar set out in the Bank's CSP 2017-2021 to sustain water resources and associated jobs: (i) Pillar I - Support to green industrialisation through SMEs and the export sector by ensuring industrial development, while limiting its impact on the environment and in particular on water resources; (ii) Pillar II - Improvement of living conditions through employment for youth, women, particularly in rural areas: promoting development that can safeguard rural employment through water resource allocation within a focused and controlled framework.

1.3.3 This project will contribute to the achievement of the Bank's Ten-Year Strategy and, particularly, the High 5s. By securing DWS, the project will improve the quality of life for the people. By making the water resource sustainable, it will facilitate the development of productive activities and thus support the achievement of the following High 5s: (i) "Industrialise Africa", by guaranteeing the availability of water for several new industrial units, including the new "Mohamed VI Tanger Tech" Industrial City; and (ii) "Feed Africa", by securing access to water in agricultural development areas. The project will contribute to the achievement of the Bank Group's new Water Strategy (approved in 2021) and, notably, to the improvement of the country's water security and the transformation of water resources to support sustainable, green and inclusive socio-economic growth and development. The project also aligns with the Bank's Gender Strategy "Investing in Gender Equality for Africa's Transformation (2014 - 2018)", particularly Pillar II, "Women's Economic Empowerment". Indirectly, the project also contributes to the Bank's 2018-2025 Multi-Sectoral Nutrition Action Plan.

1.4 Aid Coordination

1.4.1 The Moroccan government is making significant efforts to ensure aid coordination. It plans to set up a geographic information system (GIS) for real-time monitoring of the interventions of the

⁵ Source: Multidimensional Poverty Mapping 2004 - 2014: Territorial Landscape and Dynamics, High Commission for Planning, October 2017.

⁶ According to the HCP report entitled "Poverty and Prosperity in Morocco of the Third Millennium, 2001-2014" ("Pauvreté et prospérité partagée au Maroc du troisième millénaire, 2001-2014")

various technical and financial partners (TFPs) by geographical area, sector and amount. Donor assistance is well aligned with the government's strategic priorities, and there is no parallel project implementation unit. Several bilateral and multilateral donors—notably, AfDB, World Bank, EIB, EU, EBRD, AFD, KfW, JICA, IsDB, ADF and SDF, and the governments of Belgium and Spain—are involved in Morocco's water and sanitation sector. Coordination between the various donors in the water sector is done through a Water Thematic Group (WTG). Since 2011, the Ministry of Infrastructure, Logistics and Water has been involved in the organisation of some of the meetings of this group, which indicates an increasing involvement of national institutions in sector dialogue.

1.4.2 The Bank has regularly participated in these meetings since the establishment of its Country Office in Morocco in 2006. *Following the EU's withdrawal from WTG in February 2016, AfDB and the WB alternate the "WTG Facilitator Seat", alongside the Ministry of Water and AFD.* This Thematic Group meets regularly in Rabat to exchange on the sector's developments, particularly on country policies and strategies, intervention strategies and activity programmes of each donor, *for enhanced coordination and harmonization of interventions in the water and sanitation sectors.* Furthermore, *it should be noted that since January 2018, the Bank's Office in Morocco, together with UNESCO, has been running the Climate Change Thematic Group (Morocco) set up in 2018.*

II - PROJECT DESCRIPTION (INITIAL FUNDING)

2.1. Project Objectives and Components

2.1.1 The project aims to strengthen and secure access to drinking water in several urban and rural areas in Tangier, El Hoceima, Guercif, Béni Mellal and Zagora Provinces, by safeguarding and/or upgrading water production (water source, supply and/or treatment).

2.1.2 The project's various components and their initial costs are presented in the following table.

Table 2.1: Project Components and Initial Cost (excluding taxes, but including contingencies)

	Name of Component/Sub-component	Estimated Cost (MAD million)	Estimated Cost (EUR million)	Description
<i>A</i>	<i>Strengthen DWS in urban and rural areas:</i>			
	Sub-component A.1, "Tangier DWS": Raw water supply from the Ibn Battouta dam to the Mharhar treatment plant	127.8	11.32	<ul style="list-style-type: none"> ▪ Pipelines and related works ▪ New pumping station ▪ Power line
	Sub-component A.2, "Al Hoceima DWS": Raw water supply from the planned "Ghriss" dam to the Al Hoceima treatment plant	166.4	14.74	<ul style="list-style-type: none"> ▪ Pipelines and related works
	Sub-component A.3, "Guercif DWS": Strengthen water production in the Guercif region from the planned "Targa Ou Madi" dam	390.1	34.54	<ul style="list-style-type: none"> ▪ Pipelines and related works ▪ New treatment plant ▪ Power line
	Sub-component A.4, "Béni Mellal DWS": Strengthen treatment capacity for the Béni Mellal region	121.8	10.78	<ul style="list-style-type: none"> ▪ Pipelines and related works ▪ Extension of the treatment plant ▪ Power line

Table 2.1: Project Components and Initial Cost (excluding taxes, but including contingencies) - continued

	Name of Component/Sub-component	Estimated Cost (MAD millions)	Estimated Cost (EUR million)	Description
	Sub-component A.5 "Zagora DWS": Strengthen water production in Zagora region from the projected "Agdez" dam	429.8	38.05	<ul style="list-style-type: none"> ▪ Pipelines and related works ▪ New treatment plant ▪ Power line
	Sub-total A	1 235.9	109.43	
B	Technical support, procurement audit and project management			
	Technical support	60.0	5.32	<ul style="list-style-type: none"> ▪ Studies, works monitoring and supervision
	Procurement audit	1.0	0.08	<ul style="list-style-type: none"> ▪ Procurement audit missions
	Project management and land acquisition ⁷	227.1	20.13	<ul style="list-style-type: none"> ▪ Mobilisation of human and logistical resources ▪ Land acquisition
	Subtotal B	288.1	25.53	
C	Subtotal C: "Operations financing in project regions" ⁸	1,069.8	94.70	<ul style="list-style-type: none"> ▪ Construction of DWS infrastructure
	Total including contingencies ⁹	2,593.7	229.66	

2.2 Initial Project Costs and Arrangements

2.2.1 The project's total cost, excluding taxes and customs duties, is estimated at MAD 2,593.8 million. The portion financed by the Bank (ADB window and AGTF funds) amounts to approximately MAD 1,296.9 million, i.e., about EUR 114.83 million and approximately UA 97.0 million (at March 2018 exchange rate).

Table 2.3: Estimated Cost per Component for the Part Initially Financed by the Bank (excluding taxes and customs duties)

Components	MAD (million)			EUR million)			For. Exch. %
	Foreign Exchange	LC	Total	Foreign Exchange	LC	Total	
Component A: Strengthen DWS in urban and rural areas	894.6	227.3	1,121.9	79.20	20.12	99.32	79.7
Component B: Technical support and procurement audit	61.5	0	6.5	5.45	0	5.45	100
Total base cost	956.1	227.3	1,183.4	84.65	20.12	104.77	80.8
Contingencies	63.75777	18.6	86.15775	5.9829	1.66	7.6429	-
Price escalation	17.4	6.7	24.1	1.54	0.59	2.13	-
Miscellaneous (front-end fee) ¹⁰	3.24225	0	3.24225	0.2871	0	0.2871	-
Total project cost	1,044.3	252.6	1,296.9	92.46	22.37	114.83	80.5

2.2.2 The project was initially co-financed by the Bank (ADB window and AGTF funds) and ONEE (in parallel financing supported by AFD, FSD and IsDB).

Table 2.4: Sources of Financing

Sources of Financing	UA Million	EUR million	USD million	MAD million	%
ADB	67.0	79.33	-	-	34.5
AGTF	30.0	-	43.36	-	14.5
ONEE	17.0	-	-	227.1	8.8
Parallel financing (AFD, FSD, IsDB)	80.0	94.70	-	-	41.2
Total project cost	194.0	-	-	-	100

⁷ Activities co-financed from Morocco's resources (ONEE).

⁸ Activities financed through parallel financing from ONEE with support from other financial partners (AFD, SDF and IsDB).

⁹ This total includes an amount equivalent to EUR 287,100 (MAD 3.24225 million), which corresponds to the front-end fee.

¹⁰ The amounts of the front-end fee in Tables 2.3, 2.5 and 2.6 are indicative. As the ADB loan will be in EUR, and the AGTF loan in USD, the exact amount of the front-end fee is EUR 0.198325 million for the ADB loan and USD 0.1084 million for the AGTF loan.

2.2.3 The bulk of the national contribution (ONEE) came from other financial partners (AFD, SDF and IsDB). ONEE's limited contribution is justified by the country's commitment to the implement its overall development programme, the gradual improvement of ONEE's financial situation and the significant resources allocated to the drinking water and sanitation sector (see Annex IV).

2.3. Project Area and Beneficiaries

2.3.1 The project area encompasses the Tangier, Al Hoceima, Guercif, Béni Mellal and Zagora provinces. It will directly benefit the urban population through the strengthening of the DWS production systems, and indirectly benefit the rural population through the connection of their DWS systems to the consolidated supply lines. The regions covered by the project suffer from a recurrent water shortage during the summer months. The water shortage problem has become more acute recently, and the population is protesting more and more frequently, calling on the government to find urgent solutions.

2.3.2 The most affected regions are in the country's south (Zagora) and east (Guercif) owing to the arid climate. In addition to the arid regions, other areas with high and medium rainfall, such as Al Hoceima, Tangier and Béni Mellal, also face shortage of drinking water resources caused by large scale industrial and tourist development projects (such as the new "Mohamed VI Tanger Tech" industrial city and the Tadla Agropole in Béni Mellal), which put increasing pressure on drinking water supply.

2.4 Participatory Process for Project Identification, Design and Implementation

2.4.1 The project followed a participatory process, which started with preparatory and appraisal missions for the initial funding. The meetings and consultations held during these missions highlighted the key expectations of stakeholders and beneficiaries, namely: (i) improved quality of drinking water in the areas served; (ii) guaranteed availability of water for several new agglomerations; and (iii) access to affordable drinking water for peri-urban and usually underprivileged rural dwellers.

2.4.2 Various sensitisation and communication campaigns were conducted as part of the preparation of the technical studies, topographical surveys and site plans to educate the people about project features and objectives. The participatory approach and communication with the beneficiaries and local residents will continue through the ESMPs, the LAPs and the Communication Plan developed by ONEE-BO and validated by the Bank. They will be implemented with the support of Technical Assistance (TA) experts recruited at the start of the project (December 2018). The TA team includes, among others, a health, safety and environment (HSE) specialist, a sociologist and a social communication specialist.

2.5 Key Performance Indicators

2.5.1 *In the short term (2022):* The project aims to secure access to drinking water in the Tangier, Al Hoceima, Guercif, Béni Mellal and Zagora provinces. The project will also save about 40% of the water released from the Ibn Battouta dam along the wadi.

2.5.2 *In the medium term (2025):* The project will help to maintain drinking water access rate at around 100% in urban areas (cities covered by the project) and increase the rate in rural areas (provinces covered) from the current 60% to 100% by 2025. The project will also contribute to the creation of new sustainable jobs, particularly in the new "Tangier Tech" industrial city and the Tadla Agropole in Béni Mellal. The number of jobs created in Tangier Tech will eventually exceed 100,000 (at least 35% of them for women).

2.5.3 *In the long term (2030):* The project's key performance indicator is maintaining the national drinking water access rate at 100% in urban areas and close to 100% in rural areas by 2030. Furthermore, the project will help to significantly reduce: (i) rural poverty rate from 9.5% in 2014 to below 5% in 2030, (ii) infant and child mortality rate (share of waterborne diseases) from 30 deaths per population of 1,000 in 2014 to below 20 deaths per 1,000 from 2030, and (iii) the rate of

waterborne diseases from 22.9% in 2014 to below 10% in 2030 and (iv) the percentage of household health expenditure (water quality share) from 53% in 2014 to below 20% in 2030.¹¹

2.6. Project Implementation Status

2.6.1 Fulfilment of loan conditions

A – Conditions precedent to first disbursement: The conditions precedent to first disbursement as set out in the ADB and AGTF loan agreements were met in July 2019 (Legal Department Memorandum No. PGCL/IOM/VF/2019/07/24 dated 31 July 2019).

B - Conditions precedent to disbursements for works involving resettlement: A provisional schedule of works and compensation related to the PPSAE project was sent to the Bank on 2 April 2019. This schedule is monitored and updated within the framework of the project’s quarterly reports and supervision missions.¹²

C - Other conditions: The contract for the Consulting Engineer for the coordination, supervision and control of project works was approved on 14 December 2018, and the service order for the start of his mission was notified on 7 January 2019, i.e., before the effective date, which was set at 31 July 2019. This explains the Bank's interest in according ONEE-BO's request for advance contracting (AC) concerning the Consulting Engineer.

2.6.2 Procurement of goods, works and services

A - Advance Contracting (AC): On 21 June 2018, the Bank issued a no-objection notice for the AC request submitted by ONEE-BO for the following activities: (i) technical support for works monitoring and control; (ii) Tangier DWS works (2 lots); and (iii) Souk Sebt/Béni Mellal DWS works (4 lots).

B - Established contracts: To date, 19 contracts relating to this project have been established (17 goods and works contracts and two service contracts relating to technical support and procurement audits). Only the “power lines” lots of the sub-components are outstanding: Souk Sebt, Zagora and Guercif/Debdou, for which bid invitations are yet to be sent out. It should be noted that Lots 2 (pumping station) and 3 (power line) of the Tangier DWS were cancelled for purely technical reasons.¹³

2.6.3 Physical and financial status:

The project’s overall physical status is estimated at around 30% and is summarised as follows (details given in Annex B1):

- All ESMPs and LAPs have been finalised, validated and published on the Bank’s and ONEE-BO's websites (see detailed table in Annex B6).
- Most of the procurement has been launched (see 2.6.2 above) and the procurement audit mission has been completed by an audit firm. The mission’s provisional report was forwarded to the Bank in June 2021.
- The implementation of the various sub-projects has started with the construction design, the installation of the construction sites and the supply of pipes.

¹¹ According to the Ministry of Health.

¹² This condition has been met since the work on the various sub-projects has started.

¹³ After consultation between ONEE and ABH Loukkos, it was decided to convey water gravitationally from the dam (using the existing agricultural intake if necessary) and consequently to cancel Lots 2 (pumping station) and 3 (power line) of Sub-component A1, “Strengthen the Tangier water supply”.

- Disbursement rates are 35.4% on the ADB loan and 34.4% on the AGTF loan.¹⁴

2.7. Bank Group's Experience and Lessons Reflected in Project Design

2.7.1 The implementation performance of the latest projects with ONEE-BO, including the ongoing PPSAE, which is the subject of the supplementary financing, is considered satisfactory overall. ONEE-BO has a very good understanding of Bank policies and procedures, and the studies carried out by the Authority are of good quality. The key recommendations made in the completion reports of previous projects are presented below and have been taken into account under PPSAE, especially: (i) provide and strengthen technical support prior to the commencement of the works (for the PPSAE, the consultancy firm in charge of technical support was recruited in January 2019, i.e., two months following the approval of the loans and before the start of works); (ii) strengthen project supervision missions and ensure better project implementation monitoring (for the PPSAE, one inception mission and four supervision missions have been carried out since the beginning of 2019 with strong teams, including colleagues in charge of E&S monitoring); (iii) improve the turnaround time for the procurement of goods and services (this is the case for the PPSAE since almost all contracts have been awarded and the commitment rate is around 100%); and (iv) reduce the timeframe for land acquisition and expropriations (for the PPSAE, monitoring of land acquisition plans is considered satisfactory).

2.7.2 The 2020 end-of-year review confirmed that the overall performance of the Bank's portfolio in Morocco is satisfactory. The average rating is 3.5 on a scale of 1 to 4. This slight regression (3.7 in 2019) is largely related to measures taken by the Moroccan authorities to contain the adverse effects of the COVID-19 pandemic (travel restrictions, curfews, suspension of construction sites, etc.). Despite these constraints, virtual supervision missions were carried out to assess activities related to project implementation, financial management, procurement, and environmental and social management. The portfolio does not include any ageing or at-risk projects by the Bank's definition.

III – ASSESSMENT OF THE SUPPLEMENTARY FINANCING

3.1 Supplementary Financing Cost and Arrangements

3.1.1 The total project cost (excluding taxes and customs duties) was updated to factor in the actual costs of contracts already awarded, the revised cost of lots not yet awarded and fluctuations in the exchange rates of the MAD against the EUR and USD between 2018 and 2021. The updated total project cost also includes a provision of 5% for physical contingencies and 2% for price escalation.

3.1.2 The financing gap on the initial ADB and AGTF loans relating to committed contracts and attributable to fluctuations in the exchange rates of the MAD against the EUR and USD, amounts to approximately EUR 3.65 million for the ADB loan and USD 2.15 million (or about EUR 1.75 million) for the AGTF loan. The estimated cost of contracts pending signature is about EUR 12.60 million. Therefore, the estimated supplementary financing required for the project is EUR 18 million (details in Annex B2), or approximately UA 15.2 million, which represents 15.67% of the share of the initial project financed by the Bank (UA 97 million). ONEE will cover the expected overrun on the counterpart contribution.

3.1.3 The breakdown of Bank-financed costs (ADB window and AGTF), incorporating the supplementary financing, are outlined in the table below.

¹⁴ Disbursements on the different contracts of the initial project are pro-rated (69% on ADB loan and 31% on AGTF loan). The slight difference between the two disbursement rates (ADB and AGTF) is attributable to fluctuations of the value of the MAD against the EUR and USD (all contracts were signed in MAD).

Table 3.1: Sources of Financing

Sources of Financing	Initial Financing (2018)		Supplementary Financing (2021)		Total Financing		%
	EUR (million)	USD (million)	EUR (million)	USD (million)	EUR (million)	USD (million)	
ADB	79.33	-	18.0	-	97.33	-	73.3
AGTF	-	43.36	-	-	-	43.36	26.7
Total	79.33	43.36	18.0	0	97,33	43.36	100

3.2 Implementation Arrangements

Institutional Arrangements

3.2.1 The project is implemented under the supervision of the Development Division of ONEE-BO's Technical and Engineering Department (DTI). Project management is handled by the DTI's Development Divisions in each of the four regions covered by the project (North, for Tangier's DWS; East, for Hoceima and Guercif; Centre, for the Souk Sebt area's DWS; and South, for Zagora's DWS). The DTI is supported by:

- A consultancy firm as technical support for the coordination, monitoring and supervision of the works, as well as the preparation of periodic reports;
- DFI's Finance Department for financial management aspects and overall coordination with AfDB;
- Other support departments, namely (i) Audit and Organisation Department (DAO) for auditing; (ii) Procurement and Contracts Department (DAM), for matters related to procurement of goods, works and services; (iii) Sanitation and Environment Department (DAE) for monitoring measures to mitigate the project's impact on the environment; (iv) Legal Affairs Department (DAJ) and the relevant regional departments for land matters; and (v) Cooperation and Communication Department (DCC) for the communication aspects.

3.2.2 The technical support mission is in place. Its team comprises a general coordinator, two engineers (one for Tangier, Al-Hoceima and Guercif, and one for Béni Mellal and Zagora), eleven works technicians, a technician specialised in land, and specialists in specific fields (water treatment, electromechanics, civil engineering, automation, environment, sociology, social communication, geometry/topography).

3.2.3 The DTI has created an organizational chart (see Annex B1), which outlines the various responsibilities and reporting lines set out in a Manual of Physical and Financial Implementation Procedures. It has also appointed a coordinator (see Section 2.6.1) and designated the team members, who are supported by the technical support project mission mentioned above. The system put in place will ensure the satisfactory implementation of project activities.

Procurement arrangements

3.2.4 Applicable Procurement Policy and Framework: Procurement of all goods, works and consultancy services financed with Bank resources under this supplementary financing of the PPSAE project will be done in accordance with the Bank Group Procurement Framework for Operations Financed by the Bank Group ("AfDB Policy"), October 2015 edition and provisions contained in the Financing Agreement.

3.2.5 It will be recalled that most of the contracts covered by this supplementary financing have already been committed or are in the process of being committed, and their procurement methods were determined at the time of appraisal of the initial project in 2018.

3.2.6 Assessments conducted by the Bank at various levels (Country, Sector/Market Research, Executing Agency, and Programme) during the preparation of the PPSAE project approved in 2018 were confirmed for this supplementary financing in 2021. In accordance with AfDB Policy, all procurement will be carried out in line with the Borrower's procurement system ("National System")

as set out in the ONEE-BO Procurement Regulations (“Regulations”), using national standard bidding templates.

3.2.7 However, the Bank reserves the right to request the Borrower to revert to the use of the Bank's System if: (i) the Moroccan legal framework for public procurement is changed to a system that the Bank deems unsatisfactory; (ii) the provisions in force are flouted by ONEE-BO; or (iii) the appropriate risk mitigation measures included in the Risk Assessment Action Plan (jointly agreed to during the mission to assess the Borrower's procurement system) are not respected. The use of the National System enhances efficiency through the following actions, among others: (i) better ownership of the procurement system by the Executing Agency (EA); and (ii) absence of ex-ante control of bidding documents by the Bank.

3.2.8 *Risk assessment and procurement capacity:* During project preparation, the Bank assessed: (i) national, sector and project-level risks; and (ii) the capacity of ONEE-BO. The outcomes of these assessments led to the conclusion that the National System could be used, subject to compliance with the appropriate risk mitigation measures included in the agreed risk assessment action plan contained in the evaluation report submitted by the mission that assessed the Borrower's procurement system.

3.2.9 *Special conditions for use of the national system:*

(a) Eligibility waiver: The eligibility waivers already approved by the Bank's Boards on 5 November 2018 (Ref ADB/BD/WP/2018/224) for the PPSAE project apply to this supplementary project financing aimed at addressing the financing gap in the PPSAE project. Thus, the supplementary financing activities related to the PPSAE will be funded under the ADB window. Consequently, the eligibility rules specific to the ADB window are *a priori* applicable. However, based on the assessment of procurement risks and capacity, it was decided that the National Procurement System be used for the PPSAE project. Since the eligibility rules for public contracts under Moroccan law are not the same as those under the ADB window, any practical incompatibility must be prevented. To this end, as for the approved PPSAE, the supplementary financing of the project will benefit from the partial waiver (applicable only for contracts of a specified size) granted by the Bank's Board of Directors (“the Board”) in March 2017 (cf. Document ADB/BD/WP/2016/184/ Rev.2) for non-application of the ADB window Rule of Origin (as provided for in Article 17.1.d Management Principles, of the Agreement Establishing the African Development Bank, known as the Rule of Origin) for all goods contracts up to UA 1 million, all consultancy contracts up to UA 300,000, and all works contracts up to UA 6 million, financed under the ADB window and concluded in accordance with a national procurement system. For the single contract for goods above UA 1 million financed from ADB window resources and to be concluded in accordance with the Moroccan procurement system, the additional waiver already approved by the Board for the initial PPSAE project in 2018 *is requested* for the non-application, in the context of this supplementary financing, of the ADB window Rule of Origin (as provided for in Article 17.1.d Management Principles, of the Agreement Establishing the African Development Bank, known as the Rule of Origin) for the following procurement: Goods: Lot 1: Treatment plant for the Souk Sebt/Béni Mellal DWS project. The contract for the goods in question has already been awarded and the execution of this contract is awaiting the mobilisation of resources from the supplementary loan. For contracts under this project using the National System, the eligibility rules are national rules plus the provisions of Paragraph 5.c of the AfDB Policy. Consequently, even if the National System were used, Bank resources could not be used to finance a contract awarded to a bidder under African Development Bank Group sanction. If, despite these provisions, a contract is concluded with a bidder who is under Bank Group sanction, that contract shall not be financed from Bank resources (Annex B4.7.1 -a).

(b) Other proposed specific terms and conditions: To exercise its fiduciary obligations during the use of the National System, the Bank has agreed with the Borrower on a series of measures (see Annex B4.7.1 -b). These include a requirement to conduct a procurement audit every two (2) years. The audit will enable the Bank to determine how well the Borrower's system is functioning during project implementation.

3.2.10 *Procurement Plan (PP)*: An 18-month Procurement Plan (PP) has been submitted to and accepted by the Bank (Annex B4.8).

Disbursement arrangements

3.2.11 *Project disbursements*: The supplementary financing is backed by the PPSAE project financed with an ADB loan of EUR 79.33 million and an AGTF loan of USD 43.36 million. As of end-June 2021, the cumulative disbursements on the PPSAE project amounted to EUR 28,044,826.4 on the ADB loan and USD 14,897,964.65 on the AGTF loan. This translates to a disbursement rate of 35.4% on the ADB loan and 34.4% on the AGTF loan. Under the PPSAE project, the ADB and AGTF loans will be disbursed simultaneously in line with the *pari passu* principle. The ADB and AGTF loans will be disbursed in accordance with the applicable Bank disbursement rules and procedures as set out in the Disbursement Manual (2012 version). The financing rate is 69% for the ADB loan and 31% for the AGTF loan. The *pari passu* clause will not apply to supplementary financing that is covered exclusively by the ADB loan.

3.2.12 Disbursement of the supplementary financing will be carried out in accordance with the Bank's disbursement rules and procedures as stipulated in the Disbursement Manual (2020 version). Disbursements will be made using three (3) methods: special account, direct payment, and reimbursement. However, Bank rules require that only one disbursement method be applicable per contract. A Letter of Disbursement will be reviewed by both parties during the supplementary loan negotiations and transmitted to ONEE-BO once the Bank approves the project/financing.

3.2.13 *Special account method*: ONEE-BO will open a special account for this loan in a bank acceptable to the Bank. The account will be used to finance only eligible expenditures incurred on the said loan. It shall receive exclusively the resources of the supplementary loan and shall not receive any counterpart funds or other resources, including the resources of the original loans. ONEE shall furnish the Bank with proof of opening the special account for the supplementary loan.

Financial management arrangements

3.2.14 *Financial management arrangements*: As with the initial financing, the financial management of the supplementary financing will be carried out by ONEE-BO, through its Finance Department and according to the same modalities: (i) planning and schedule of activities by the technical departments; (ii) monitoring of project budget implementation by the technical departments and under the responsibility of the Project Coordinator; (iii) internal control; (iv) production of quarterly financial reports; (v) preparation of annual financial statements and (vii) external audit. These modalities, formalised in the Authority's procedures manual, guarantee transparency, traceability and reliable financial information on the use of the supplementary financing allocated to the project.

Audit arrangements

3.2.15 The audit of project financial statements covering all sources of financing (Bank and counterpart funds), including supplementary financing, will be conducted yearly by an independent external auditor and in accordance with the terms of reference for the audit of investment operations financed by the Bank Group. Project audit reports, including internal control reports, will be submitted to the Bank within six months of the end of the reporting period.

3.3 Economic and Financial Performance

3.3.1 Using the same cost-benefit approach adopted in the initial project appraised in 2018, the financial and economic analysis has been updated with new project data, including increased capital costs, revised implementation schedule, consideration of the new MAD exchange rates against the EUR and USD and inclusion of some unforeseeable elements. The new figures are more accurate and are based on nearly completed contracts. They also take the project costs and benefits review.

3.3.2 The update shows a slight financial profitability decrease to an IRR of 5.7% and a net value added of MAD 125 million, which is acceptable based on a discount rate of 5%.¹⁵ As for the economic profitability, by applying the dominant parameter of increase of the investment cost and by taking into consideration a conversion of the financial values into economic values, the expected gains of the operating costs of the renewed treatment plants (in particular the cost of energy and chemicals), the technical choice of resorting to surface water to the detriment of groundwater or desalination and the consumer surplus, the ERR stands at 10%, and the net present value is MAD 225 million based on a discount rate of 8%.¹⁶

3.3.3 The economic profitability would be even higher if it were possible to quantify other benefits such as the impact on the quality of life for the people and the health of the beneficiaries, the reduction of work absenteeism, the value of the groundwater saved in the aquifers, the small-scale vegetable and livestock farming activities, elements of food self-sufficiency for rural families representing about 30% of the additional water volumes.

3.4 Environmental and Social Impact

3.4.1 *Environmental aspects*: Insofar as (i) the supplementary financing requested will be used to finance the financial gap noted during the execution of the works to strengthen and secure the water supply of Béni Mellal, Tangier, Al Hoceima, Guercif and Zagora and (ii) the initial project is not modified, this project is the same as the initial PPSAE. Therefore, it is classified as Category 1, which was validated on 18 May 2021.

3.4.2 This supplementary financing appraisal does not require additional E&S assessments. The PPSAE has already been the subject of five (5) E&S impact assessments (on its five project components) published on the Bank's website on 20 June 2018 as part of the process towards obtaining the approval of the project by the Bank's Board of Directors on 5 November 2018. In accordance with the terms of the ADB and AGTF loan agreements signed on 21 December 2018 and effective on 31 July 2019, the Environmental and Social Management Plans (ESMPs) specific to the various sub-projects (Béni Mellal, Tangier, Al Hoceima, Guercif and Zagora Water Supply) were prepared and published on the Bank's website prior to implementation in accordance with the requirements of the SSI.

3.4.3 The main risks and impacts identified are centred on the works phase and mainly concern the following risks and negative impacts:

- Risk of landslides and subsidence in high relief areas due to the presence of unstable artificial slopes;
- Risk of accidental chemical pollution from the works;
- Risk of pollution linked to the poor management of solid and liquid waste in base camps and work sites;
- Risk of disruption and increase in traffic (risk of accidents); and
- Danger linked to the presence of abandoned materials and building site waste (pollution, health and safety risks).

3.4.4 *Monitoring the implementation of ESMPs*: Implemented by the PMU with the support of a technical assistance composed of an environmentalist and a social specialist serving as experts throughout the project duration, the current proven mechanisms for monitoring the implementation of ESMPs are maintained under this supplementary financing. It is expected that the Environment Division (DAE/V) will continue to support the PMU, the Consulting Engineer and the Technical Departments (Central and Regional) in monitoring the implementation of measures of each of the specific ESMPs by the companies awarded the works contracts. The quarterly ESMP implementation reports must be produced within the required timeframe. In accordance with the Bank's Integrated

¹⁵ The initially estimated IRR (in 2018) was 7.1% for an estimated net present value of MAD 301 million.

¹⁶ The ERR, initially assessed in 2018, was 11.5% and the net present value was MAD 780 million.

Safeguards System, project compliance will involve the conduct of an annual environmental and social compliance audit by an independent consultant¹⁷.

3.4.5 Land acquisition and expropriation: The Resettlement Policy Framework (RPF) produced for the initial PPSAE project was published on the Bank's website on 20 June 2018 as part of the process towards the Bank's Board of Directors' approval of the project on 5 November 2018. In accordance with the terms of the ADB and AGTF loan agreements signed on 21 December 2018 and effective from July 31, 2019, the Land Acquisition Plans (LAPs) specific to the different sub-projects (Béni Mellal, Tangier, Al Hoceima, Guercif and Zagora WSPs) were prepared and published on the Bank's website prior to their implementation (Annex B6).

3.4.6 Considering the efforts made to minimise the expropriation of private land for public utility purposes during the construction of water treatment plants and the laying of pipes, it *is gratifying to note that there is no physical displacement or total permanent loss of livelihood*. The private property affected is exclusively agricultural land, which is only temporarily occupied or minimally expropriated with the possibility of continued use of the land.

3.4.7 Public consultation with project-affected persons (PAPs): The PAPs (men and women) in each project area were consulted as part of the expropriation procedure, during the public (administrative) enquiry prior to the publication of the draft expropriation decree. The decree of Public Utility Decree (DUP) was posted in the localities affected by the project. Finally, the communication plan for the social mobilisation of stakeholders and the sensitisation of the local population is being implemented by ONEE-BO's Cooperation and Communication Department (DCC).

3.4.8 Monitoring of LAP implementation: LAP implementation by DAJ is ongoing under the responsibility of ONEE (DAJ/DRI). The project is subject to quarterly LAP implementation reports and an annual LAP implementation compliance audit. The terms and conditions of the current loan agreements remain in force.

3.4.9 The Environmental and Social Compliance Note has been prepared for the project and is appended to this report.

3.4.10 Social aspects: Suburban expansion (or the development of new districts in large centres), creates insecure access to drinking water, especially for underprivileged groups. Moreover, the increase in land prices and the spontaneous development of slums in outlying districts put available resources under greater pressure. Many districts are not connected to the water distribution network. This situation has worsened to the extent of sparking protests that have continued unabated in some regions, particularly Al Hoceima and Zagora.

3.4.11 By strengthening access to drinking water for vulnerable populations in urban and rural areas, the project will make it possible to (i) secure the water supply, which will have a positive impact on hygiene conditions and above all on health, with a significant drop in water-borne diseases and their corollary in terms of expenditure (savings for the families) and a drop in school and workplace truancy; (ii) create local jobs; (iii) keep girls in school (by eliminating the water chore); and (iv) develop income-generating activities for women.

3.4.12 Job creation: The project will generate new jobs, both during the construction phase and operation phases. It will also help to strengthen economic activities in the regions served, through the creation of income-generating activities as well as the development of SMEs in all project regions, particularly in Al Hoceima City, which is undertaking a major Government-monitored tourism and economic development programme. Thanks to resource availability, new units to be set up in the industrial sector will in turn generate local jobs in such cities. These include the Tadla Agropole in

¹⁷ This requirement was not mentioned in the initial loan agreement signed in 2018. To comply with the ISS, the Bank requested that the requirement to conduct the E&S audit be clearly mentioned in the supplementary financing loan agreement.

Béni Mellal and the new “Tangier Tech” City in Tangier (expected to create about 100,000 jobs when it is in full operation).

3.4.13 **Gender:** The project is classified as Category 2 in the Bank’s Gender Marker System.

3.4.14 Women are usually responsible for the provision of water in the household and devote a significant amount of their time and energy to this. Also, women and men have varying needs for and levels of access to water and sanitation. Furthermore, the lack of public (schools) and household sanitation facilities has greater impact on women (girls) than men. Moreover, while women are more affected than men by negative impacts related to the construction of water and sanitation infrastructure, they may receive lesser compensation for these impacts.

3.4.15 The project has a remarkable impact on women's living conditions because the reduction of water fetching improves women’s health by freeing time for leisure. The time saved will also be used for income-generating activities. In addition, access to better quality water has positive effects on the health of all family members and reduces the time that women spend on caring for the sick. The provision of safe water will also have a positive impact on school enrolment rates, particularly for girls, through improved access to water and sanitation services¹⁸, which is an important factor in girl education. It is likely to influence the socio-economic development of regions concerned, which will improve the living conditions of households and of women and children, in particular.

3.4.16 Furthermore, the project can strengthen sensitisation campaigns on the prevention of and fight against sexual harassment on construction sites, on gender-based violence and on fair treatment of employees on construction sites. Information, education and communication (IEC) campaigns will be organised on personal and environmental health, the preservation and management of hydraulic works, the sustainability of dams, the development of water resources, and other relevant themes. It will focus on developing measures to support the integration of the gender issue in the National Water Plan (PNE) and on strengthening women’s roles in sector leadership and governance. The resources for implementing these activities are included in the total project budget.

3.5. *Climate Change and Green Growth*

3.5.1 The project is not subject to climate-proofing as it aims to strengthen the supply of drinking water and provide technical support.

3.5.2 The supplementary financing requested will enable the project to achieve its anticipated outcomes, which bolster efforts to mitigate climate change impacts on water resources. In addition, the project can enhance the adaptation of local communities by improving water quality and supply, and – by extension - health conditions. Ultimately, the project is expected to contribute to the achievement of the following outcomes: (i) improved water availability and livelihoods; (ii) enhanced responses to climate change in water sector development plans and the overall improvement of water management capacity.

3.6 *Monitoring and evaluation*

3.6.1 The monitoring and evaluation system was put in place at the start of PPSAE. Steps were taken to collect baseline data to continue monitoring activities during project implementation. ONEE-BO has a monitoring-evaluation mechanism and an effective internal and external control, organization and audit system reinforced by a risk management policy based on a constantly updated and evolving risk map. Furthermore, in coordination with the World Bank, ONEE-BO is developing a platform for better project monitoring and regular preparation of periodic reports.

3.6.2 The Bank will monitor project implementation through its supervision missions, the assistance provided by the Bank’s Morocco Office (COMA), the project’s procurement and financial audits, and

¹⁸ Although PPSAE focuses solely on improving drinking water services, the enhancement of sanitation services in the regions concerned is scheduled under other projects/programmes (Annex C1 of the appraisal report approved in 2018).

the Completion Report jointly produced by ONEE-BO and the Bank. In addition, an independent consultant will conduct an E&S compliance audit of ESMP/LAP implementation.

3.7. Governance

3.7.1 ONEE-BO is constantly working to strengthen and improve its management, organizational and monitoring procedures. The current organisational chart attaches great importance to the principles of effective decentralisation to the regions, which enjoy considerable autonomy in project design, implementation, monitoring and operation. The conceptualisation of the project design was a collaborative effort—between the head office and the designated regions in the North (Tangier DWS), East (Guercif and Hoceima DWS), Centre (Souk Sebt DWS), South (Zagora DWS), whose combined knowledge and management are an additional asset for a rigorous implementation of the project.

3.7.2 The monitoring/evaluation, control and organization mechanism and the risk management policy are strong indicators of good governance of the project, and of ONEE-BO, in general.

3.8. Sustainability

3.8.1 The smooth take-off of various initial activities planned provides a guarantee of ONEE-BO's capacity to implement the project optimally to the Bank's satisfaction, as it had done in previous projects. ONEE-BO has set up the organizational framework, appointed a coordinator and secured technical assistance, according to plan. The available human and material resources are a guarantee for the proper implementation and operation of the infrastructure planned.

3.8.2 The increase in investment costs is relatively moderate (around 15%) and, all other things being equal, the update of certain data has had a limited impact since the financial and economic returns remain acceptable. The project generates the sufficient revenue (water sales) to cover recurrent costs and service the debt.

3.8.3 Project sustainability is contingent on a water pricing policy that aims to reconcile the interests of the various stakeholders and consumer categories and to achieve social equity through progressive pricing that protects low-income populations and encourages heavy consumers to use drinking water economically.

3.9 Risk Management

3.9.1 The possible risks associated with the initial project, which mostly concerned (i) the timeframe for land acquisition for the works and (ii) the timeframe for procuring goods, works and services, were largely mitigated. Hence (a) all land acquisition plans were validated by the Bank and published and are being implemented (see par. 3.4 above), and (b) most procurement initially scheduled was finalised and the initial ADB and AGTF loans have been fully committed (100%).

3.9.2 Furthermore, to sustain DWSS services, the relationship between ONEE-BO and the State is governed by a programme contract and equipment plans designed to achieve investment and management objectives in the common interest of the various economic players. The fulfilment of reciprocal commitments is a guarantee of the sustainability of the DWSS service and of the sector's institutional and financial stability.

3.10. Knowledge Building

3.10.1 ONEE-BO has a website that facilitates the sharing of experiences within and outside the country. It also has a training centre that helps to disseminate knowledge and research. In addition, by pursuing a policy of gradual outsourcing of certain technical and administrative activities, ONEE-BO is offering opportunities for the creation of local businesses and jobs for young people, at the same time making savings on maintenance costs and improving staff performance.

3.10.2 The current technical support is adequately resourced, diversified and tailored to the requirements of successful project implementation. Technical assistance for the project covers four important Moroccan regions and will certainly strengthen decentralisation and contribute to knowledge transfer and sharing.

IV - JUSTIFICATION OF THE SUPPLEMENTARY FINANCING IN LIGHT OF THE APPLICABLE BANK GROUP POLICY (Version approved in June 2021)

4.1 *Scope of the supplementary financing*: The project had an unforeseen budget overrun, beyond the control of the country and the executing agency (ONEE-BO), during the initial project activities.

4.2 The Bank provides supplementary financing only if the implementation of the initial project is deemed satisfactory. A sovereign project is successful when it meets the following criteria:

- The performance ratings in the Implementation Progress and Results Report (IPR) prepared in July 2021 are “highly satisfactory” for both the Development Objective (DO) and the Implementation Progress (IP).
- The outputs and outcomes recorded in the project’s latest IPR show that its impact to date has been in line with the expectations set out in the project's initial appraisal report.
- There is evident compliance with the main clauses of the loan or grant agreements, including audit and financial management and reporting requirements on environmental and social safeguards and compliance audits:
 - Conditions precedent: The conditions precedent to first disbursement, as well as the conditions precedent to disbursements for works involving resettlement, were met.
 - Other conditions: The contract for the Consulting Engineer charged with project works coordination, supervision and control was signed and the related mission started prior to project effectiveness.
 - All ESMPs and LAPs were finalised, validated and published on the Bank’s and ONEE-BO’s websites.
 - The Bank received and deemed acceptable the financial audit report for Financial Year 2019 (the FY 2020 report is expected in the next few weeks), and the first procurement audit report was finalised in June 2021.

4.3 *Compliance with supplementary financing thresholds*: the supplementary financing policy and the related guidelines limit supplementary financing for budget overrun to 30% of the initial project cost. This supplementary financing represents 15.67% of the Bank’s share of the initial project funding (supplementary financing of 15.2 / initial financing of 97.0), which is below the 30% threshold.

4.4 The Supplementary Financing Compliance Scoreboard for Budget Overrun is given in Annex V.

V - LEGAL FRAMEWORK

5.1 *Legal Instrument*

An ADB loan agreement will be signed between the Bank and ONEE, together with a corresponding guarantee agreement from the Kingdom of Morocco.

5.2 *Conditions for Bank Involvement*

5.2.1 The conditions precedent to the first disbursement, the conditions relating to disbursements for works involving resettlement, and the conditions and other commitments made by the Borrower under the initial loan agreements (AfDB and AGTF) will apply, particularly for environmental and social (E&S) safeguards.

5.2.2 Furthermore, the Borrower undertakes to conduct and submit to the Bank an annual project environmental and social compliance audit by an independent consultant recruited based on terms of

reference agreed with the Bank. The final validation of the audit shall be done by the Bank and the Borrower.

5.2.3 *Retroactive financing*: Notwithstanding the *Condition precedent to first disbursement* of the supplementary loan agreement, no disbursement shall be made for payments committed before the date of signature of the supplementary loan agreement except disbursements for a total amount not exceeding Five Hundred Thousand Euro (EUR 500 000) for payments made within three (3) months predating the signature, for the following eligible expenditures: Souk Sebt treatment plant.

5.3. *Compliance with Bank Policies*

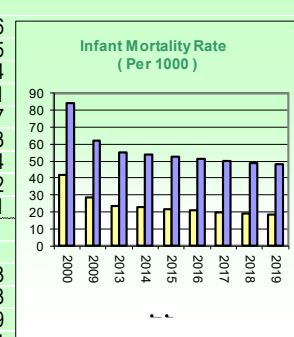
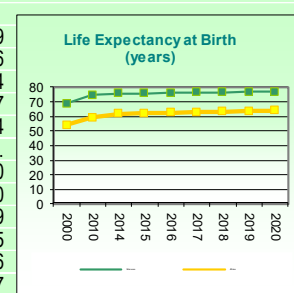
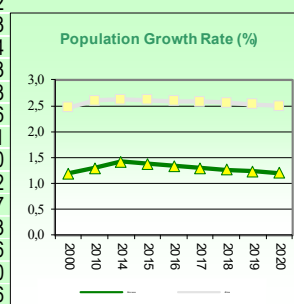
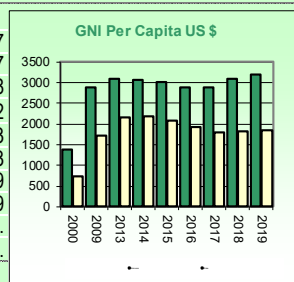
The project complies with all applicable Bank policies, in particular the Bank's Environmental and Social Management Policies, Guidelines and Procedures. It is a Category 1 project, and all ESMPs and LAPs were prepared, validated and published on the Bank's website latest 21 May 2021. A waiver is requested for the application of the Rule of Origin (see Section 3.2.9).

VI - RECOMMENDATION

Management recommends that the Board of Directors: (i) exceptionally waives the application of the Rule of Origin in Article 17 (1) (d) of the Agreement Establishing the Bank for the procurement referred to in paragraph 3.2.9 of this report and under the conditions set out therein; and (ii) approves that ONEE be granted a supplementary AfDB loan not exceeding EUR 18 million. The loan shall be accompanied by a guarantee from the Kingdom of Morocco, for the supplementary financing of the Water Access Sustainability and Security Project (PPSAE), according to the terms and conditions set out in this report.

Annex I: Country Development Indicators

	Year	Morocco	North Africa	Africa	Developing Countries
Basic Indicators					
Area ('000 Km ²)	2020	-	6 784	30 067	94 557
Total Population (millions)	2020	36,9	206,4	1 338,8	6 437,7
Urban Population (% of Total)	2020	63,8	56,1	43,8	50,8
Population Density (per Km ²)	2020	-	30,5	45,6	67,2
GNI per Capita (US \$)	2019	3 190	3 232	1 843	5 093
Labor Force Participation *- Total (%)	2020	42,6	42,8	61,3	58,3
Labor Force Participation ** - Female (%)	2019	21,6	24,1	55,8	45,9
Sex Ratio (per 100 female)	2020	98,5	101,2	99,9	106,9
Human Develop. Index (Rank among 189 countries)	2019	121
Popul. Living Below \$ 1.90 a Day (% of Population)	2007-18	0,9	2,3	34,4	...
Demographic Indicators					
Population Growth Rate - Total (%)	2020	1,2	1,7	2,5	1,2
Population Growth Rate - Urban (%)	2020	2,1	2,0	3,6	2,3
Population < 15 years (%)	2020	26,8	31,3	40,4	27,4
Population 15-24 years (%)	2020	15,8	15,7	19,3	16,3
Population >= 65 years (%)	2020	7,6	6,2	3,5	7,3
Dependency Ratio (%)	2020	52,4	60,0	78,1	54,6
Female Population 15-49 years (% of total population)	2020	26,0	25,2	24,2	25,1
Life Expectancy at Birth - Total (years)	2020	76,9	74,2	63,8	71,0
Life Expectancy at Birth - Female (years)	2020	78,1	76,1	65,6	73,2
Crude Birth Rate (per 1,000)	2020	18,1	22,8	32,6	19,7
Crude Death Rate (per 1,000)	2020	5,1	5,4	7,8	7,3
Infant Mortality Rate (per 1,000)	2019	18,3	18,8	47,9	30,6
Child Mortality Rate (per 1,000)	2019	21,4	22,4	69,5	41,0
Total Fertility Rate (per woman)	2020	2,4	2,9	4,3	2,6
Maternal Mortality Rate (per 100,000)	2017	70,0	76,1	432,3	231,0
Women Using Contraception (%)	2020	69,8	56,2	39,1	59,1
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2010-18	73,1	87,2	33,4	127,9
Nurses and midwives (per 100,000 people)	2010-18	138,9	192,0	107,8	247,6
Births attended by Trained Health Personnel (%)	2010-18	73,6	88,0	64,7	79,4
Peop. Using at least basic drinking water services (% of Pop.)	2017	86,8	94,9	66,3	87,7
Peop. Using at least basic sanitation services (% of Population)	2017	88,5	90,8	40,3	68,4
Percent of Adults (aged 15-49) Living with HIV/AIDS	2019	0,1	0,1	3,1	...
Incidence of Tuberculosis (per 100,000)	2019	97,0	42,3	198,2	152,0
Child Immunization Against Tuberculosis (%)	2019	99,0	96,2	81,0	88,0
Child Immunization Against Measles (%)	2019	99,0	91,1	71,9	84,9
Underweight Children (% of children under 5 years)	2010-19	...	6,4	18,1	14,5
Prevalence of stunting	2010-19	...	19,4	32,4	23,6
Prevalence of undernourishment (% of pop.)	2018	4,3	4,2	15,1	9,7
Current health expenditure (% of GDP)	2018	5,3	5,5	5,2	5,4
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2010-20	114,8	108,3	101,0	101,6
Primary School - Female	2010-20	112,7	107,8	98,8	100,5
Secondary School - Total	2010-20	81,2	79,2	53,5	72,4
Secondary School - Female	2010-20	78,2	88,9	50,5	72,1
Primary School Female Teaching Staff (% of Total)	2010-20	59,2	65,0	49,2	63,7
Adult literacy Rate - Total (%)	2010-18	73,8	72,4	67,9	84,3
Adult literacy Rate - Male (%)	2010-18	93,4	76,0	73,5	88,4
Adult literacy Rate - Female (%)	2010-18	64,6	64,9	61,7	80,2
Gouvenment expenditure on Education (% of GDP)	2010-19	...	6,0	4,8	4,1
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2016	18,2	3,5	8,0	11,3
Agricultural Land (as % of land area)	2016	68,5	20,8	38,2	38,3
Forest (As % of Land Area)	2016	12,6	1,4	13,2	31,9
Per Capita CO2 Emissions (metric tons)	2016	1,7	2,8	1,1	3,4



Sources : AfDB Statistics Department Databases; World Bank: World Development Indicators;

last update :

March 2021




UNAIDS; UNSD; WHO, UNICEF, UNDP; Country Reports.

Note : n.a. : Not Applicable ; ... : Data Not Available. * Labor force participation rate, total (% of total population ages 15+)

** Labor force participation rate, female (% of female population ages 15+)

Annex II : Table of Bank Active Portfolio in the Country (end June 2021)

Sector/Operation		Approval Date	Date of First Disbursement	Amount Approved (UA million)	Current Disbursement rate %	Closing Date
ENERGY  Light up & power Africa Eclairer & électrifier l'Afrique						
1	Power Transmission and Distribution Development Project	02-Dec-09	02-Dec-09	102,462,190	100%	31-Dec-20
2	MIDELT Solar Complex - Phase I - NOORM Plant I	06-Dec-17	06-Dec-17	84,780,489		31-Dec-23
	MIDELT Solar Complex - Phase I - NOORM Plant I (CTF)	06-Dec-17	06-Dec-17	8,831,301		31-Dec-23
3	PERG	13-Jun-12	13-Jun-12	125,000,000	94.5%	31-Dec-23
4	Al Koudia Al Baida Wind Farm	13-Jun-12	13-Jun-12	40,983,606	76.8%	31-Dec-23
	Al Koudia Al Baida Wind Farm (FTP)	13-Jun-12	13-Jun-12	22,516,556	93.0%	31-Dec-23
5	PIEFER - Tangier 2 Wind Farm	13-Jun-12	13-Jun-12	32,786,885	0%	31-Dec-23
	PIEFER - Tangier 2 Wind Farm (FTP)	13-Jun-12	13-Jun-12	20,529,801	0%	31-Dec-23
6	PIEFER - STEP Abdel Moumen	13-Jun-12	13-Jun-12	109,836,065	56.1%	31-Dec-23
	PIEFER - STEP Abdel Moumen (FTP)	13-Jun-12	13-Jun-12	39,735,100	66.7%	31-Dec-23
7	Power Transmission Network Development and Rural Electrification Programme	10-Dec-19		195,538,342	0.3%	30-Jun-24
Subtotal				876,612,125	42.6%	
TRANSPORT  Integrate Africa Intégrer l'Afrique						
8	Reinforcement of the Tangier-Casablanca-Marrakech Railway Line	27-Jan-16	07-Jun-16	81,507,341	98.6%	31-Dec-20
9	Nador West Med Port Complex Construction Project	16-Sep-15	01-Jun-16	90,440,663	54.7%	31-Dec-22
10	Rabat-Salé Airport Construction and Modernisation Project (PEMARS)	05-Nov-18		61,416,007	15.9%	31-Jun-22
Subtotal				233,364,011	59.1%	
WATER & SANITATION  Improve the quality of life for the people of Africa Améliorer la qualité de vie des populations en Afrique						
11	Twelfth Marrakech DWS Project - EUR loan	07-Nov-12	17-May-13	100,840,336	81.3%	31-Dec-21
	Twelfth Marrakech DWS Project - USD Loan	07-Nov-12	17-May-13	27,523,004	75.2%	31-Dec-21
12	Water Quality and Performance Improvement Project (13th DWS)	08-Jun-16	20-Jan-17	68,549,165	61.7%	31-Dec-21
13	Subcontracting the Management of Water Supply Networks in Rural Areas - FAPA grant	26-Apr-16	11-Apr-17	275,398	5.7%	31-Dec-22
14	Water Access Sustainability and Security Project (PPSAE) - ADB Loan	05-Nov-18	21-Dec-18	64,961,758	35.4%	31-Dec-24
	Water Access Sustainability and Security of Project (PPSAE) - AGTF loan	05-Nov-18	21-Dec-18	31,371,868	34.4%	31-Dec-24
15	Outsourcing the Management of the Drinking Water Supply Service	05-Nov-20	01-Apr-21	684,234	0.0%	31-Dec-25
Subtotal				293 521 529	56.8%	
SOCIAL SECTOR  Improve the quality of life for the people of Africa Améliorer la qualité de vie des populations en Afrique						
16	Support to UEFM MIC grant	29-Jan-16	27-May-16	398,000	89.5%	30-Jun-21
17	SOUK AT TANMIA	20-Sep-18		3,745,436	55.5%	
18	Employment Access Improvement Support Programme	13-Dec-18	03-May-19	69,836,542	51.1%	31-Dec-21
19	Social Protection Improvement Support Programme (PAAPS)	16-Dec-19		148,590,575	25.0%	30-Jun-24
20	Social Protection Improvement Support Programme (PAAPS) - Covid-19 Supplementary Funding	02-Nov-20		97,634,950	25.0%	30-Jun-22
Subtotal				222,570,553	50.0%	

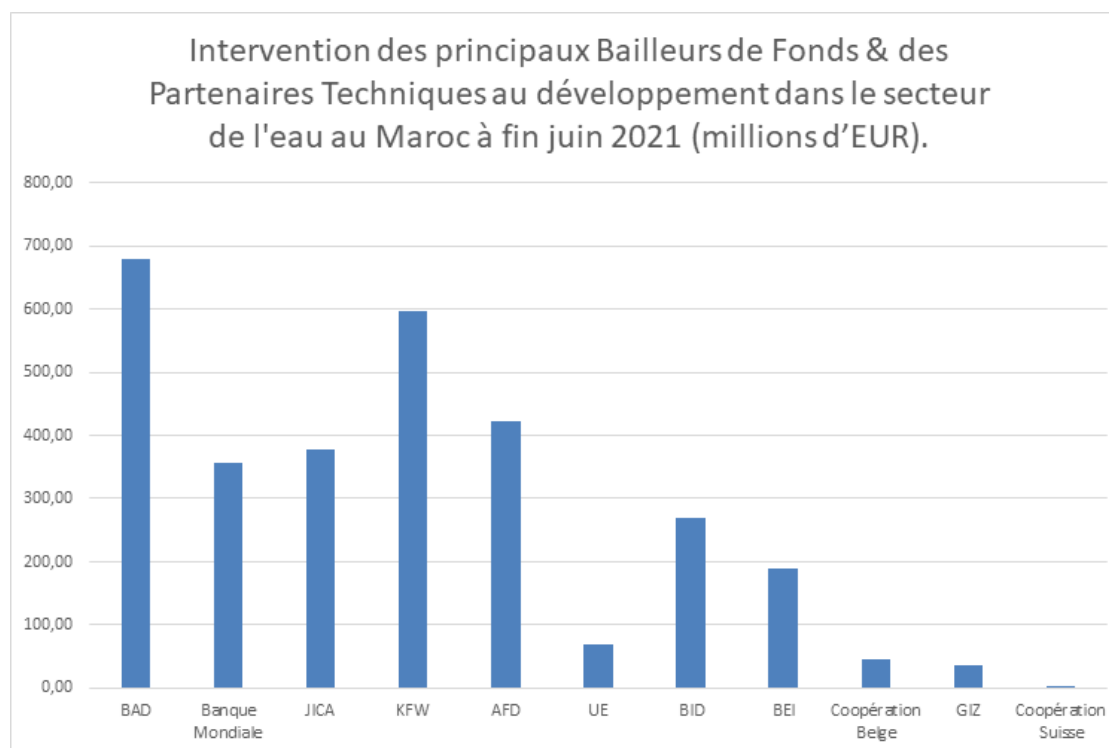
Sector/Operation		Approval Date	Date of First Disbursement	Amount Approved (UA million)	Current Disbursement rate %	Closing Date
AGRICULTURE 						
21	National Irrigation Water Saving Programme Support Project (PAPNEEI II)	13-Dec-16	04-Aug-17	62,617,332	23.7%	31-Dec-22
Subtotal				62,617,332	23.7%	
GOVERNANCE 						
22	Support for Modernisation of the Organizational Debt Management Framework - MIC Grant	27-Feb-13	10-Sep-13	536,976	76.8%	31-Sep-21
23	DTFE Strategic Study – MIC Grant	21-May-15	25-Sep-19	797,600	51.6%	31-Dec-21
24	Maroc Export - MIC Grant	25-Nov-15	19-Aug-16	630,000	55.7%	30-Apr-21
25	CAFRAD Transformation Support Project (TACAFRAD) - MIC Grant	29-Mar-17	30-Jun-17	479,000	97.0%	30-Sep-20
26	AMU Institutional Support (Phase II) - MIC Grant	30-Mar-17	21-Aug-15	495,365	61.1%	31-Dec-20
27	Capacity Building Support Project for the National Public Procurement Commission (CNCP)	12-Dec-18	03-Feb-20	410,000	4.1%	30-Dec-21
28	CGEM Support Project	29-May-19	21-Jun-19	400,000	8.0%	31-Aug-21
29	Project to Support the Development of the National Business Climate Improvement Strategy (CNEA)	11-Aug-19		670,000	0%	
30	Results-based Programme for Improving Regional Competitiveness in Morocco (PARACT-M)	18-Dec-19		160,244,737	0%	
Subtotal				594,438,750	39.4%	
PRIVATE SECTOR, FINANCE AND INDUSTRY 						
31	TEKCIM	06-Dec-17		41,126,199	32.0%	
32	Line of Credit for “Banque Centrale Populaire” (BCP)	27-Jun-18		84,803,256	100%	
33	Office Chérifien des Phosphates (Morocco Phosphates Authority) (OCP) - Jorf Lasfar Phosphate Hub Extension Programme	16-Dec-14		144,704,188	72.2%	
34	Municipal Infrastructure Fund (FEC)	28-Nov-19		80,861,662	0%	
Subtotal				351,495,305	52.0%	
TOTAL				2,713,252,854	46.22%	

Annex III : Key Related Projects Financed by the Bank and the Country's Other Development Partners

A list of the key projects financed by the Bank and other development partners in the DWSS sector is provided in Annex A.

The following table shows the distribution of the main donors' interventions in the DWSS sector in Morocco (in EUR million).

Donors/Cooperation Water Sector	AfDB	World Bank	JICA	KfW	AFD	EU	IsDB	EIB	Belgian Cooperation	GIZ	Swiss Cooperation	EBRD	Total
Total (EUR million)	679.05	357.03	377.00	595.94	422.50	70.41	270.12	189.00	45.60	35.45	4.30	185.00	3,231.40
%	21.01%	11.05%	11.67%	18.44%	13.07%	2.18%	8.36%	5.85%	1.41%	1.10%	0.13%	5.73%	100%



Annex IV : Rationale for ONEE Funding Level Below 50% of the Total Project Cost (Parallel Financing)
Country Financing Parameters

Criterion	Analysis
<p>Country's commitment to implement its comprehensive development programme</p>	<p><i>According to the 2019 Global Competitiveness Report, Morocco ranks 34th in the efficiency of public institutions and services.</i> This progress is the outcome of efforts made by the Government since 2017 to modernise public administration in line with Royal Instructions contained in the speech of the Feast of the Throne in July 2017 exhorting the adoption of principles of good governance that allow users to benefit from services that meet their needs. It is worth noting that two laws facilitating citizen access to administrative services were adopted recently, namely Law No. 55.19 on simplification of administrative procedures (adopted in March 2020) and Law No. 54.19 on the public services charter (adopted in June 2020).</p> <p><i>According to the Global Integrity Report 2017, Morocco has recorded an improvement in its accountability and transparency score,</i> rising from 35/100 in 2016 to 40/100 in 2017. The progress is largely attributable to the improvement of the Kingdom's accountability score of 61/100 in 2017, from 42/100 in 2016, thus positioning the country in the medium-level band (60 to 80). Progress has also been made in public management, with greater control over public funds (50/100 in 2007 compared to 25/100 in 2016).</p> <p><i>In March 2021, Morocco adopted the Law Governing the National Authority for Probity, Prevention and Fight Against Corruption (INPPLC).</i> Among the innovations under this law figures the possibility for the Authority to appear as plaintiff in corruption cases where the public ministry does not file an application on the State's behalf within three months. The purpose of this Authority is to concretise the anti-corruption strategy through several projects, particularly the simplification of administrative procedures and their digitization, thus reducing human contact and the risk of corruption. Furthermore, Morocco's ranking on Transparency International's Corruption Perception Index (1991) dropped six spots to 86th position out of 180 countries, with a score of 40 on 100.</p> <p>The authorities' commitment to implementing its development programme is bearing fruit.</p> <ul style="list-style-type: none"> • On the <u>social front</u>, Morocco has embarked on a policy of gradual transformation of its productive fabric to improve household income levels and create quality jobs. These efforts are reflected in the improvement of Morocco's Human Development Index (HDI), which rose from an average of 0.456 over the period 1990-1999 to 0.686 in 2019. These results are attributable to the impact of the emergency education plan, the improvement of basic services (water and electricity) and the establishment of medical assistance for the most disadvantaged citizens.) These efforts are also reflected in the reduction of the poverty rate, which fell from 6.2% in 2011 to 4.8% in 2019. • <u>Business climate</u>: According to the 2019 Doing Business ranking, Morocco moved up seven spots compared to 2018 and is ranked 53rd in the world out of 190 countries assessed and 3rd in Africa. This continuous improvement since 2009 is attributable to the major progress recorded in protecting minority investors (37th world ranking, + 27 positions) and getting electricity (34th world ranking, +25 positions). • <u>Infrastructure</u>: According to the World Economic Forum's Global Competitiveness Ranking 2019, Morocco has Africa's second-best infrastructure level and is 53rd out of 141 countries assessed, immediately behind Egypt (52nd world ranking). The Kingdom is particularly well positioned in terms of the quality of its port (24th), rail (44th) and road (41st) infrastructure. This performance reflects all the investment efforts undertaken since 2000 (development of the motorway network, development of the Tangier Med, Nador and Kenitra ports, development of Integrated Logistics Platforms and renovation of the railway network).

Criterion	Analysis
<p>Country financing to AfDB target sectors</p>	<p>As part of its dynamic planning and ongoing efforts aimed at strengthening its activity in drinking water and sanitation to support the country’s demographic and socio-economic development, ONEE has developed an action plan to implement an investment programme worth MAD 26 billion over the 2017-2021 period, as follows:</p> <ul style="list-style-type: none"> • Urban DWS: MAD 16.0 billion. • Rural DWS: MAD 4.6 billion • Sanitation: MAD 5.4 billion. <p>The Bank’s financing (financing of the present project) represents 3.8% of the overall amount of the total investment programme amount over the same period, and 19.23% of the annual investment amount. This capital master plan is structured around the following main areas:</p> <ul style="list-style-type: none"> • Sustaining existing production and distribution facilities while improving their efficiency to ensure the continuity of drinking water supply and the protection of water resources; • Strengthening drinking water production and distribution facilities in urban areas to support the country’s demographic, urban and socio-economic development; • Ensuring easy access to drinking water in rural areas; • Ensuring effective intervention in the field of sanitation for a comprehensive and integrated water cycle management, thereby contributing to the protection of the environment and water resources.
<p>Country’s fiscal situation and debt level</p>	<p><i>I) Budget</i></p> <p>In light of recent developments in public finance, it is proposed to update this paragraph as follows:</p> <p>Various public finance reforms carried out by Morocco since 2012 have helped to restore the State’s budgetary headroom, which was put to the test in the aftermath of the 2008 financial crisis.</p> <p>In terms of revenue, the reforms focused on improving tax collection, thanks to several measures deployed in line with the recommendations of the Second National Tax Conference (2013), and on optimising income from public establishments and enterprises (EEP). On expenditure, there is a continued commitment to implement the provisions of the new Organic Law on the Finance Act that came into force in 2016. Furthermore, efforts have been focused on continuing the reform of the subsidy system as well as rationalising operating expenditure and transfers to public enterprises.</p> <p>These measures helped to bring down the budget deficit, from 6.8% of GDP in 2012 to 3.6% in 2019. This trend was interrupted in 2020 by the COVID-19 pandemic. Public finances have suffered an unprecedented shock resulting from preventive measures and restrictions taken to contain the spread of the pandemic.</p> <p>These developments necessitated the adoption of the Amended Finance Act in July 2020 (LFR) to align with the downward review of the projected growth rate for 2020 from 3.7% to -5% and of the budget deficit from 3.5% to 7.5% of GDP. The execution of the LFR as of end-December 2020 shows a budget deficit of MAD 82.4 billion or 7.6% of GDP. This result was achieved despite several constraints and contingencies, and in line with the State’s commitments under the Social, Economic and Post-COVID Recovery Support Strategy.</p> <p>The ordinary revenue execution rate, based on net tax refunds, rebates and restitutions, was 103%, thanks to the good performance of fiscal receipts that gained MAD 13 billion, thus compensating for the non-tax revenue losses recorded. It is worth noting that this gain occurred while the State continued its efforts to refund VAT credits, which rose to MAD 10.4 billion at end-2020 compared to MAD 9.8 billion a year earlier.</p> <p>Expenditure execution was characterised by an effort to rationalise current expenditure through consolidating the budgetary effort dictated by the crisis. Despite the increase in compensation expenditure, ordinary expenditure posted a 97.7% execution rate thanks to savings made on goods and services and interest on debt.</p> <p>Regarding investment expenditure, the execution of the LFR was characterised by a sustained investment effort, with an execution rate of 121.3% and an increase of MAD 13.6 billion (+18.8%) compared to 2019. In addition to traditional State investments, this amount covers the projected allocation of MAD 15 billion to the Strategic Investment Fund called to play a leading role in the Recovery Financing Strategy.</p>

The Special Treasury Accounts posted a surplus balance of MAD 6.3 billion resulting from the MAD 5.3 billion surplus generated by the Special Fund set up to manage the COVID-19 pandemic. It will be recalled that this Fund has enabled the mobilisation of resources amounting to MAD 34.6 billion, including a contribution of MAD 10 billion from the general budget. Expenditure from the Fund stood at MAD 29.3 billion, including MAD 23 billion for households, MAD 3 billion to upgrade the health system and MAD 3 billion for the Central Guarantee Fund (CCG).

It should be pointed out that this allocation to the CCG is part of efforts to reform the Fund to enable it to cover the needs of the State guarantee system with its own resources for the benefit of public and private enterprises negatively impacted by the pandemic, within the framework of the new Recovery Financing Strategy.

Concerning the medium-term outlook, in view of the health, social and economic repercussions of the Covid-19 pandemic, fiscal policy must reconcile the continued effort to contain the impacts of the pandemic, support economic recovery and restore macroeconomic balances.

To pave the way for a gradual return to budgetary balance, the configuration of public finances in the medium term is strictly in compliance with the provisions of the Kingdom's Constitution and the Organic Law on the Finance Act, both of which enshrine the principle of balancing State finances.

Far from any option that could be likened to a budget austerity policy, the actions of public authorities in the coming years should focus on consolidating resources and re-channelling budgetary expenditure to address the priorities dictated by a context strongly impacted by the pandemic, while sustaining the pace of public investment as a lever for creating jobs and value addition.

II) Debt

The year 2020 was an exceptional one, marked by the COVID-19 outbreak and spread that sparked a global health, economic and social crisis. In this context and due to the increase in State financing needs, public debt rose by 11.4%, from 64.8% of GDP in 2019 to 76.4% in 2020. However, Morocco's debt remains sustainable with cost/risk indicators under control. Per debt component, the share of domestic debt stood at 76% against 78.4% in 2019 and the share of external debt increased by 2.4 points to reach 24%. This structure (76% domestic and 24% external) remains in line with the objectives set for the benchmark portfolio (70%-80% domestic debt and 20%-30% external debt).

As of end-2020, the stock of external debt stood at MAD 199.6 billion, up by MAD 38.1 billion year on year. In relation to GDP, the external debt amounted to 18.3%, 64.1% of which is owed multilateral and bilateral creditors. The external debt currency structure shows that 60.7% of the debt is denominated in Euro, 33.7% in US dollar and related currencies and 5.6% in other currencies. This structure is close to the current Dirham quotation basket (60% Euro and 40% dollar) and testifies to efforts made to converge the structure of the Treasury external debt portfolio towards the basket structure, thus helping to reduce the exchange risk exposure of the portfolio.

As of end-2020, Treasury financing on the domestic market was conducted under conditions marked by the easing of Bank Al-Maghrib's monetary policy. Thus, the rates retained by the Treasury dropped by 39.9 basis points on average compared to the last average weighted rate retained at end-2019, all maturities included. Furthermore, the average life of the State's debt stood at 7 years and 5 months, i.e. an improvement of nearly 6 months compared to end-2019.

Due to the considerable shock exerted by the coronavirus pandemic on the country's public and external finances, the rating agencies took a series of bearish actions on sovereign ratings in 2020. Morocco's rating was downgraded in October 2020 from "BBB-" to "BB+" by Fitch and by S&P in April 2021. However, Morocco continues to enjoy investor confidence, as demonstrated by the last international bond issue in December 2020 where it was able to raise USD 3 billion on an order book of over USD 12 billion dollars on very favourable conditions.

According to Bank Al-Maghrib's 2017 Financial Stability Report, corporate debt exceeded 70% of GDP. Bank debt accounted for 67% of total private debt (DH 467 billion) and was up by 3.7% compared to 2015. In comparison, household debt represented only 30% of GDP. Moreover, commercial debt amounted to DH 72.1 billion in the first quarter of 2017.

Annex V : Supplementary Financing (SF) Compliance Scoreboard for Budget Overrun

SF Conditions for Budget Overrun	Compliance (Yes/No)	Rationale/Reference to Relevant Paragraphs
<p>i. Satisfactory project performance:</p> <p>Score 3 and above on Development Objective (DO) (Satisfactory); Outcomes/outputs and results stated in the latest project IPR showing that impact had so far met expectations set out in the project appraisal report; The key loan provisions are largely fulfilled, especially requirements on audit, financial management and preparation of environmental and social safeguards; For projects facing fiduciary issues, problems related to environmental and social safeguards, or other difficulties mentioned in the IPR, these issues must have been resolved or an actionable plan developed prior to the supplementary financing proposal; For projects that experienced implementation difficulties in the past, such difficulties must have been resolved and the project should post good performance for at least six (6) months before the submission of the SF request.</p>	Yes	<p>General supervision during the last project supervision mission in March 2021 deemed the project as "<i>Highly Satisfactory</i>" with a rating of 4 > 3.</p> <p>All procurement requirements (procurement audit report prepared and submitted to the Bank), environmental and social aspects (all ESMPs and TAPs) were validated by the Bank and published.</p> <p>The consulting firm responsible for the Technical Assistance was recruited on time (before project commencement) and the quarterly monitoring reports are produced regularly.</p>
<p>ii. Providing supplementary financing is a better option than starting a new project.</p>	Yes	<p>The purpose of the SF is to finance the cost overrun of activities planned initially under the project (no new activity will be added) and for which contracts were signed or at least awarded and not signed (while awaiting mobilisation of the SF). Therefore, this cannot be said to be a new project.</p>
<p>iii. Overall¹⁹, the project is in line with relevant Bank Group strategies, priorities and policies vis-a-vis businesses, countries, regions²⁰ and sectors, and the general environment is favourable for its success.</p>	Yes	<p>The objectives, outputs, outcomes and activities remain similar to the initial project.</p>
<p>iv. Overall, the project complies with the initial project development objectives²¹</p>	Yes	<p>The project complies fully with the initial project development objectives.</p>

¹⁹ Initial project and the proposal for supplementary financing

²⁰ "Region" designates any formal RMC grouping whose mandate is in line with the Bank Group's mandate (Regional Economic Communities, river basin organisations, etc.).

²¹ Project objectives may be those of the initial project (for instance in the case of supplementary financing for cost overrun, financing shortfall or project modification) or revised objectives (following project modification or extension).

SF Conditions for Budget Overrun	Compliance (Yes/No)	Rationale/Reference to Relevant Paragraphs
v. Overall, the project is technically feasible.	Yes	The project is technically feasible since it has not been modified in any way compared to the initial design, except for the initial implementation schedule that will be extended for one year to take into consideration the delay caused by the fallout of the COVID-19 crisis and hope of mobilising the SF before the commencement of work on the Souk Sebt treatment plant.
vi. Overall, the project is economically and financially viable	Yes	Despite the increase in the investment cost, the project remains economically and financially profitable and viable (see §3.3 on <i>Economic and Financial Performance</i>).
vii. Overall, the project's institutional, fiduciary, environmental and social arrangements are satisfactory	Yes	Institutional, (§3.2.1-3.2.3), procurement (§3.2.4-3.2.10) and financial management arrangements (§3.2.14) put together under the initial project portend a satisfactory implementation of project activities. Therefore, they will be replicated for the SF.
viii. Overall, the related project risk mitigation measures are satisfactory ²²	Yes	All risks identified before the start of the initial project were mitigated with the measures proposed (§3.9 on <i>Risk Management</i>)
ix. The assessment of project quality at entry (QaE) and the global credit risk are deemed satisfactory for sovereign operations financed with ADB resources in ADF-only countries	Yes	Not applicable. This is an ADB-only country.
x. The reasons for cost overrun are beyond the Borrower's/Beneficiary's control; the reasons were difficult to predict during project preparation and the Borrower/Beneficiary provides justifications; the Borrower/Beneficiary is unable to make the SF available; it is also unable to find other financiers and presents the Bank Group with justification of the request for supplementary financing.	Yes	The additional costs are mostly from the substantial increase in steel prices (pipelines in pre-stressed concrete, steel pipelines) and transport cost. <i>These are circumstances beyond the Borrower's control and could not have been predicted during the initial project appraisal in 2018.</i>
xi. The project size cannot be reduced without compromising its capacity to attain its development objectives and sustainability.	Yes	The SF will concern activities contained in the initial project (no new activity will be added) and the initial project implementation schedule will only be extended for one year (2025 instead of 2024) to take into consideration the delay caused by the fallout of the COVID-19 crisis and the hope to mobilise the supplementary loan before the commencement of work on the Souk Sebt treatment plant (see above).
xii. The SF is below 30% of the initial project cost.	Yes	The SF represents 15.67% (< 30%) of the share financed by the Bank under the initial project.

²² Subject to the approval of the Credit Risk Committee with regard to exposure limits and availability of resources.

SF Conditions for Budget Overrun	Compliance (Yes/No)	Rationale/Reference to Relevant Paragraphs
xiii. Could the Borrower/Beneficiary or the entity responsible for project implementation have taken measures to remedy the cost overrun or proceed differently?	No	The Borrower could in no way take measures to offset the cost overrun engendered by an unforeseen event (COVID-19 pandemic and its impact on the cost of steel and transport). Similarly, for technical reasons, the nature (steel) of works planned could not be substituted.
xiv. Were the conclusions of the works control consultant taken into consideration in the analysis?	Yes	The consulting firm responsible for technical assistance (including the validation of the construction design and works control) helped the Borrower to prepare the Note on Cost Overrun. Its Coordinator also participated in the SF appraisal mission.
xv. Was enough time and budget allocated to pre-construction activities, especially the detailed preparation and review of technical designs, for instance the review of plans by incorporating updated information on costs, a more precise projection of trends in terms of the changing cost of civil engineering works input, and an in-depth technical study to guarantee the quality of engineering designs? Were adequate financial arrangements made to cover compensations and implementation of pre-construction mitigation measures?	Yes	All this work was undertaken with Technical Assistance support (Annex B2).
xvi. Were the engineer's estimates updated to market value during the appraisal and adequate provisions made for contingencies linked to delays in awarding contracts?	Yes	The costs were updated to take exchange rates and market trends into consideration. However, there is no major risk associated with award of contracts since practically all contracts had already been awarded (§2.6.2).
xvii. Was the period between project preparation and implementation reduced to the minimum to limit the possibility of cost overrun due to higher-than-expected commission?	Yes	The Advance Contracting (AC) procedure helped to mobilise the consulting firm responsible for providing Technical Assistance even before project start-up, thanks to which 19 contracts have so far been initiated and a maximum commitment (almost 100%) of the ADB and AGTF loans reached (cost overruns due to higher bidding prices than expected were caused principally by the COVID-19 pandemic and its impact on economic activities in the country and worldwide).

ENVIRONMENTAL AND SOCIAL COMPLIANCE NOTE (ESCON)



AFRICAN DEVELOPPEMENT BANK GROUP

A. Basic Information²³

Project Title: Water Access Sustainability and Security Project (PPSAE) – Additional Financing.		Project "SAP code": P-MA-E00-013
Country: Morocco	Lending Instrument²⁴: DI <input checked="" type="checkbox"/> FI <input type="checkbox"/> CL <input type="checkbox"/> BS <input type="checkbox"/> GU <input type="checkbox"/> RPA <input type="checkbox"/> EF <input type="checkbox"/> RBF <input type="checkbox"/>	
Project Sector: water and sanitation	Task Team Leader: B. BEN SASSI	
Appraisal date: June 11th, 2021	Estimated Approval Date: September 28th, 2021	
Environmental Safeguards Officer: B. BCHIR		
Social Safeguards Officer: P.H. SANON		
Environmental and Social Category: 1	Date of categorization: May 18th, 2021	Operation type: SO <input checked="" type="checkbox"/> NSO <input type="checkbox"/> PBO <input type="checkbox"/>
Is this project processed under rapid responses to crises and emergencies?		Yes <input type="checkbox"/> No <input checked="" 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: 5 ESIA and 5 ESMP s specific to each component)	
Was/Were the document (s) disclosed <i>prior to appraisal</i>?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> NA <input type="checkbox"/>
Date of "in-country" disclosure by the borrower/client	5 ESIA : 11/06/ 2018 ESMP Souk Sebt : 11/06/2020 ESMP Guercif-Debdou : 11/06/2020 ESMP Zagora : 11/06/2020 ESMP Al Hoceima : 27/06/2020 ESMP Tanger : 15/03/2021
Date of receipt, by the Bank, of the authorization to disclose	5 ESIA : 15/06/2018 ESMP Souk Sebt :10/06/2020 ESMP Guercif-Debdou :11/06/2020 ESMP Zagora :21/05/2020 ESMP Al Hoceima :28/10/2020 ESMP Tanger :15/03/2021
Date of disclosure by the Bank	5 ESIA : 20/06/2018 ESMP Souk Sebt : 10/08/2020 ESMP Guercif-Debdou : 13/06/2020 ESMP Zagora: 22/05/2020 ESMP Al Hoceima: 28/10/2020 ESMP Tanger : 18/03/2021
Resettlement Action Plan/Framework/Others (RPF, and 5 LAPs specific to each component)	
Was/Were the document (s) disclosed <i>prior to appraisal</i>?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> NA <input type="checkbox"/>
Date of "in-country" disclosure by the borrower/client	RPF: 18/06/2018 LAP AEP Souk Sebt: 08/04/2020 LAP AEP Guercif-Debdou : 16/04/2020 LAP AEP province de Zagora : 05/08/2020 LAP AEP d'Al-Hoceima: 06/08/2020 LAP AEP Tanger: 19/05/2021
Date of receipt, by the Bank, of the authorization to disclose	RPF: 18/06/2018 LAP AEP Souk Sebt: 08/04/2020 LAP AEP Guercif-Debdou : 16/04/2020 LAP AEP province de Zagora : 05/08/2020 LAP AEP d'Al-Hoceima: 06/08/2020 LAP AEP Tanger: 19/05/2021
Date of disclosure by the Bank	RPF: 20/06/2018 LAP AEP Souk Sebt: 10/08/2020 LAP AEP région Guercif-Debdou : 13/06/2020 LAP AEP province de Zagora : 13/05/2021 LAP AEP d'Al-Hoceima: 13/05/2021 LAP AEP de Tanger: 21/05/2021
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, as per the country's legislation, please explain why: NA.	

²³ Note: This ESCON shall be appended to project appraisal reports/documents before Senior Management and/or Board approvals.

²⁴ 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.

ENVIRONMENTAL AND SOCIAL COMPLIANCE NOTE (ESCON)



AFRICAN DEVELOPPEMENT BANK GROUP



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 checked="" type="checkbox"/> No <input type="checkbox"/> NA <input 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

<i>Prepared by:</i>	<i>Name</i>	<i>Signature</i>	<i>Date</i>
Environmental Safeguards Officer:	Beya BCHIR		06/07/2021
Social Safeguards Officer:	Pierre Hassan SANON		06/07/2021
Task Team Leader:	Belgacem BEN SASSI		07/07/2021
<i>Submitted by:</i>			
Sector Director:	Osward CHANDA		07/07/2021
<i>Cleared by:</i>			
Director SNSC:	Maman-Sani ISSA		09/08/2-21