



Kingdom of Morocco
Municipal Performance Program (P168147)

DRAFT TECHNICAL ASSESSMENT (TA)

June 20, 2019



A. Program Strategic Relevance and Technical Soundness

A.1. Program Strategic Relevance

1. **The Program strategic relevance is High.** As noted in the Country Economic Memorandum for Morocco released by the World Bank in 2017, urbanization and decentralization are two critical transformations which contribute to framing the challenges and opportunities faced by Moroccan policy makers when considering policy options to pursue the two objectives of boosting economic growth and promoting social equity. In this context, the Program's support to improving the institutional performance of participating municipalities, while strengthening inter-municipal cooperation for local service delivery in selected urban agglomerations, is highly relevant.

2. Morocco has engaged over the past decades in a decentralization process that has been further reinforced with the new 2011 Constitution. The latter establishes the principle of administrative freedom of municipalities (article 136), thus acknowledging the end of the *'tutelle'* of the Central Government over municipalities. As for the Organic Law no.113-14 of July 15, 2015, pertaining to municipalities, it has reinforced the *'own mandates'* of municipalities (*compétences propres*) pertaining to service delivery, while entrusting them with new *'shared'* and *'transferred'* mandates (*compétences partagées* and *compétences transférées*). Nonetheless, Moroccan municipalities do not have sufficient autonomy, whether from a financial or a technical point of view, to fulfill their mandate. While their revenues have increased over the last decade, the potential increase in terms of municipal own source revenues remains significant and their capital expenditure have stagnated. On the technical side, municipal competencies cover a wide range of key municipal services,¹ requiring specific internal skills for selecting, preparing, and executing local investments.

3. Beyond the crucial financial needs to finance urban infrastructure and services, the limited capacity, and the lack of incentives of Moroccan municipalities to strategically plan and effectively execute their investment budgets is a binding constraint. Moroccan municipalities have weak capacities across a broad range of functional responsibilities and in terms of municipal investment prioritization and planning, including citizen participation and oversight.² This is due to weak capacities in terms of quality project management, including procurement and environmental and social management, and a lack of sufficient qualified human resources. In addition, the weak accountability relationship between municipalities and their citizens does not provide any incentives for the municipalities to perform effectively, which further undermines their capacity in terms of planning, budgeting and operation and maintenance of their assets. The institutional framework for inter-municipal cooperation also needs to be strengthened and further operationalized to enable and structure the management of local services at the most relevant scale (including the metropolitan level) and reap network synergies and economies of scale for key facilities and services such as transport, water and sanitation, solid waste, and so on.

A.2. Program Technical Soundness

¹ Municipal mandates include the provision of key services, such as drinking water supply, sanitation, the distribution of electricity, municipal solid waste collection and disposal, streetlighting, urban transport, traffic signs and parking management, slaughterhouses, markets, and socio/cultural/sports centers.

² Morocco PEFA 2016/Casablanca PEFA 2016.



4. **The Program’s design rests on solid technical bases.** In recent years, Morocco has acquired experience with developing territorial development programs anchored around large urban agglomerations such as Tangiers, Rabat, and Marrakesh. A large body of analytical work on the challenges facing municipalities and the provision of urban infrastructure and local public services has recently been developed.³ For the first time in Morocco, the improvement of municipal performance would be supported through the development of a comprehensive assessment system and the introduction of incentive-based grants. The international conference on the ‘Performance of Municipal Management’ organized by the DGCL, with the support of the World Bank, on September 20, 2018, gathered the mayors and Director General of municipal services (*Directeurs Généraux des Services*) of the 36 municipalities with 100,000 inhabitants or more and allowed them to present international experiences and lessons learned (including from the Tunisian and West Bank and Gaza cases). This event confirmed the Government’s will to focus on a results-based approach and shift from ‘a legal and technical approach of local services to a management approach based on concrete results driven by citizen demand’.⁴

5. **The Program’s design reflects lessons learned from the World Bank’s global experience with similar operations in several countries.** These include the following:

- (a) **The need for a strong institutional champion at the national and local levels.** As mentioned, the Program relies on solid ownership by the DGCL of the MoI, which reaffirmed its will to support the deepening of decentralization and accompany municipalities through this process. As for municipalities, the mayors of the cities with over 100,000 inhabitants clearly expressed, during the conference organized in September 2018, their strong interest for the results-based approach to be used through the Program as it would enable them to compare the achievements of their city with those of other comparable cities while allowing them to use objective data to exchange with their citizens.
- (b) **Attention to jointly strengthening the interlocking elements of municipal capacity.** The Program includes reforms addressing essential aspects of decision making, financing, and management. Similarly, the Program places concomitant incentives on institutional, fiscal, and investments objectives, in line with other municipal support PforRs.

6. **The Program also aims at maximizing finance for local development.** By improving the credit-worthiness of targeted urban municipalities, this Program aims at increasing their capacities to leverage private resources and skills for municipal investments. The *Fond d’Equipement Communal*, the largest lender to municipalities in Morocco, identified low municipal revenues and their lack of predictability on one hand, and the lack of municipal capacities to effectively implement their projects as the primary roadblocks for increased municipal lending on one hand, and private sector engagement on the other. The team is also collaborating with IFC as they identify key client subnational stakeholders to leverage additional impact financing.

7. **Program activities and expenditures** are aligned with the Program’s overall objectives and subprograms. They reflect the GoM’s commitment to advancing decentralization through supporting urban municipalities to become real drivers of development in their territories. Program activities are

³ See, for example, the 2018 World Bank *Morocco Urbanization Review*.

⁴ Opening Statement by H.E Nour Eddine Boutayeb, Minister Delegate to the Minister of Interior.



aligned with and build on the long-standing dialogue of the World Bank and other donors with the MoI and more specifically the DGCL.

- **Subprogram 1.** Subprogram 1 activities aim at developing a novel performance-based approach focused on urban municipalities. Under this subprogram, the Government will develop a municipal performance framework consisting of a set of indicators against which the targeted municipalities will be evaluated on an annual basis. The subprogram will incentivize municipalities to improve their performance through financial incentives consisting of performance-based investments grants. The performance grants will be allocated to municipalities based on a transparent formula based on their performance and selected objective criteria such as population, area, and poverty rate.
- **Subprogram 2.** Subprogram 2 activities aim at strengthening inter-municipal cooperation to optimize and coordinate investments and resources management on one hand and to enhance the capacity of municipalities to tackle rapidly growing needs such as urban mobility and solid waste management by (a) developing a national cooperation scheme for LGs; (b) establishing a sustainable operating framework for ECIs (including the adoption/enforcement of a new financing model and the implementation of the newly adopted organigrams), and (c) setting up an on-demand TA to coach municipalities interested to collaborate under an ECI model, and support the created ECI.
- **Subprogram 3.** Strengthening the municipal financing environment and enhancing the organization and human capacities of municipalities. Under this subprogram, the DGCL will strengthen its support systems for municipalities. Activities under this subprogram will include (a) the development and implementation of a comprehensive capacity-building program available to municipalities seeking to improve their performance; (b) TA to improve the legal and regulatory framework for decentralization; (c) the development and implementation of improved information systems and management tools for municipalities (programming, dashboards, indicators, and so on); and (d) the development and implementation of a training curriculum for municipal employees and elected officials.

A.3. Program Institutional Framework

8. **The Program's institutional architecture relies on clear roles, accountability lines, and high-level ownership.** The Program will be managed at the Government level by the (DGCL at the MoI, which has largely demonstrated its capacity to coordinate the work of Moroccan municipalities and support them in fulfilling their mandates, including through its strong coverage at the local level ensured by key stakeholders (Walis at the regional levels and governors at the level of prefectures). It will be responsible for the development and implementation of the performance-based grant system, the provision of technical and capacity building to targeted municipalities and ECIs, as well as the implementation of activities aimed at improving central support systems to municipalities. IGAT, under the MoI, will be responsible for carrying out the annual performance assessment of municipalities.

9. At the local level, the beneficiaries of the Program will be select municipalities ('communes' in French). Although their capacities are limited, the Program will allow to assess the risks on a continuous basis (through the setting up of clear and objective PIs) and manage them through the development of a



comprehensive capacity-building program. More specifically and on fiduciary aspects, targeted municipalities will benefit from a fiduciary capacity-building program, which will help enable municipalities to implement modern and innovative approaches to procurement, for the implementation of planned investments and the delivery of quality services to citizens.

10. Based on the vision developed by the DGCL to improve the quality of service delivery in the country through to strengthening of inter-municipal cooperation, the Program will also provide technical support to ECIs. ECIs are public operators endowed with legal status and financial autonomy to implement specific mandates transferred by municipalities to optimize the quality and efficiency of local service delivery (through integrated planning of urban public services, optimal use of territorial resources, economies of scale, equalization processes, and so on). Seven ECIs have been created so far (see table 3.1). Although the key mandates have been transferred to them, these ECIs sometimes lack financial and technical skills. Pursuing the work initiated through the PACT, the Program will support the development of a strengthened regulatory and policy environment framework for ECIs (the adoption of which by the Government has been defined as a DLI). The Program will also provide technical support to identify institutional/financial arrangements to further strengthen the existing ECIs and potentially create new ones. This technical support will be leveraged through the allocation by the DGCL of financial incentives to ECIs.

Table 3.1. List of Existing ECIs

| Name | Headquarters | Number of Municipalities | Population | Transferred Mandates |
|-------------------|--------------|--------------------------|------------|--|
| Al Assima | Rabat | 15 | 1,864,245 | <ul style="list-style-type: none"> Urban public transport and preparation of the municipal urban mobility plan Distribution of water and electricity; sanitation |
| Al Baïda | Casablanca | 18 | 3,570,132 | <ul style="list-style-type: none"> Urban public transport and preparation of the municipal urban mobility plan Solid waste treatment Sanitation and solid waste management and wastewater treatment plants Distribution of water and electricity and public lighting |
| Grand Agadir | Agadir | 9 | 816,073 | <ul style="list-style-type: none"> Urban public transport and preparation of the municipal urban mobility plan |
| Grand Nador | Nador | 11 | 393,000 | <ul style="list-style-type: none"> Urban public transport and preparation of the municipal urban mobility plan Solid waste management |
| Oued El Makhazine | Larache | 10 | 412,874 | <ul style="list-style-type: none"> Urban public transport and preparation of the municipal urban mobility plan Solid waste management |

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| Name | Headquarters | Number of Municipalities | Population | Transferred Mandates |
|-------------------------|--------------|--------------------------|------------|---|
| | | | | <ul style="list-style-type: none"> • Creation and management of economic and industrial activity zones |
| Le Grand Safia El Hamra | Laâyoune | 4 | 236,716 | <ul style="list-style-type: none"> • Distribution of water and electricity and sanitation • Urban public transport and preparation of the municipal urban mobility plan • Solid waste management • Hygiene and public health • Sanitation and solid waste management and wastewater treatment plants • Maintenance of municipal roads |

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11. IGAT has agreed, in principle, to taking the responsibility of assessing the performance of municipalities. Owing to its successful involvement in several PforRs, IGAT (put under the authority of the MoI) has developed a solid reputation as a reliable verification agent in Morocco and its involvement in the proposed operation would constitute a strong plus for monitoring the Program results.

12. Cooperation between the Program stakeholders will be ensured by the DGCL, a structure that has both the experience and the institutional mandate to coordinate with all municipalities and relevant central departments.

A.4. Institutional Arrangements

13. The Program will be implemented under the supervision of the DGCL at the MoI. Implementation and good governance of the Program will be ensured through the establishment of the following:

- (a) A Program Steering Committee will ensure efficient cooperation and ownership of the Program’s objectives and activities within the relevant directions of the MoI. The Program Steering Committee will be chaired by the Wali DGCL and will include governors of the relevant directorates within the DGCL/MoI. The committee will review Program implementation progress and will ensure coordination among key Program stakeholders. It will oversee overall Program reporting, including the results verification process, results achievement notification, and Program audits. To this effect, the Steering Committee will review the draft Annual Program Report submitted by the PMU. The committee will meet at least on a quarterly basis and as often, as necessary. Officials from other institutions involved in the Program (including IGAT, TGR, DGI, and so on) will be invited to the committee’s meeting as and when needed.
- (b) A (PMU) within the DGCL was set up on May 28, 2019, to support day-to-day implementation and M&E. It will be responsible for ensuring the timely implementation of the performance-based grant system, coordinating the provision of TA and capacity building to targeted municipalities and ECIs, and implementing activities aimed at improving central



support systems to municipalities. The DGCL has appointed dedicated staff to oversee Program implementation, including (i) a program coordinator; (ii) focal points in charge of each subprogram; (iii) a social and environmental management focal point, (iv) a fiduciary focal point covering financial management and procurement aspects; and (v) a municipal liaison officer, in charge of acting as a liaison with municipalities for optimal support and communication.

14. To ensure efficient operationalization of the PMU, the DGCL has appointed dedicated staff to oversee Program implementation, including (a) a program coordinator, in charge of ensuring smooth cooperation of all engaged stakeholders and efficient implementation of the three subprograms. This key Program focal point is supported by a program assistant; (b) three program officers, in charge of supporting the implementation of each subprogram; (c) a safeguards and environmental officer, (d) a fiduciary officer covering both financial management and procurement aspects; and (e) a municipality focal point, in charge of acting as an interface with municipalities for optimal support and communication.

15. Municipalities will be responsible for the implementation of the municipal investments financed under Subprogram 1. Municipalities and ECIs benefitting from Subprograms 2 and 3 will have a technical responsibility in the implementation of TA and capacity-building activities which they will benefit from.

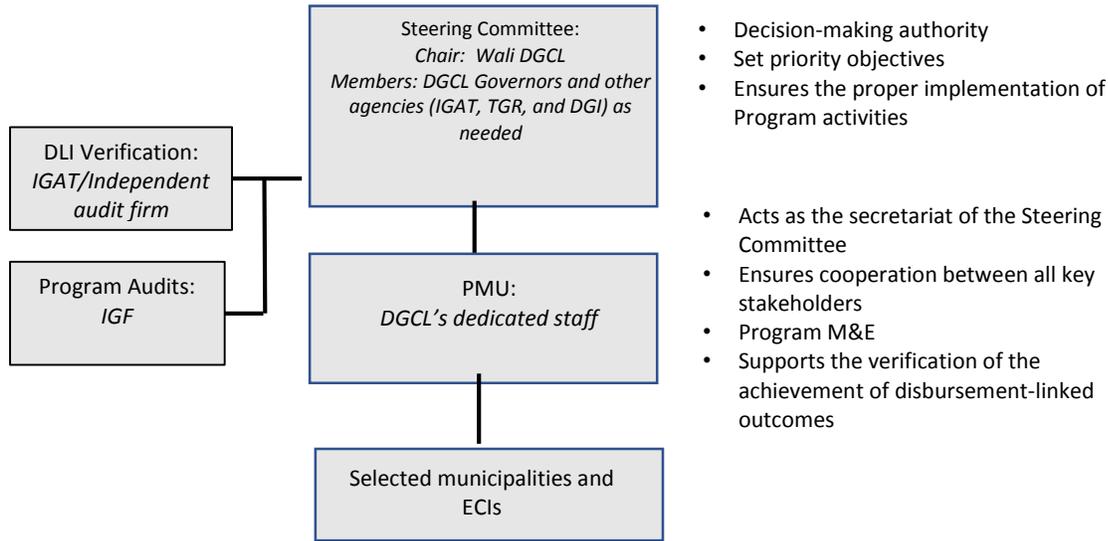
16. **DLIs verification.** IGAT will act as the verification agent under the Program except for DLI#1, 3, 4, and 9.⁵ Verification of these DLIs will be performed by an independent audit firm to be recruited on a competitive basis by the DGCL. IGAT already acts as a verification agent in other World Bank PforRs in Morocco (National Human Development Initiative [*Initiative Nationale pour le Développement Humain*]², Integrated Risk Management, Urban Transport, and Casablanca Municipal Support) with very satisfactory performance. Also given its specific mandate pertaining to the field of municipalities, IGAT has confirmed its readiness to ensure this mission within the framework of the proposed Program.

17. **External audit.** The IGF, a Department of the Ministry of Economy and Finance—will carry out the external audit of the program including the audit of the participating municipalities in collaboration with the IGAT.

⁵ IGAT will be involved in the achievement of these DLIs as part of the implementation of the performance assessment framework.



Figure 3.1. Program Implementation Arrangements



B. Expenditure Framework

18. Alignment of the budget with Government priorities, classification, sustainability, and predictability are assessed as more than adequate. The planned expenditures are adequate to achieve the PforR results. The key risks identified in the Program Expenditure Framework are addressed in the Program’s design.

Table 3.2. Program Expenditure

| Within Program Boundary | Amount (US\$ millions) |
|--|------------------------|
| <i>Subprogram 1: Developing and piloting a performance-based grants transfer system on a selected group of municipalities</i> | |
| Performance-based grants transfer system | 655 |
| <i>Subprogram 2: Strengthening the institutional framework for inter-municipal cooperation</i> | |
| TA to ECIs and municipalities to support the development of a national cooperation scheme | 2 |
| TA to improve the regulatory and organization framework for ECIs sustainability (including the adoption/enforcement of a new financing model and the implementation of the newly adopted organigrams). | 5 |
| <i>Subprogram 3: Enhancing the organization and human capacities of municipalities</i> | |



| Within Program Boundary | Amount (US\$ millions) |
|---|------------------------------|
| Capacity-building and TA activities for municipalities in the Program area. | 9 |
| TA to improve the legal and regulatory framework for decentralization. | 6 |
| Digitalization and simplification of selected administrative processes in line with the Mol's smart city agenda | 58 |
| Development and implementation of a training curriculum for municipal employees and elected officials. | 25 |
| Total | 760 |

19. **Alignment with GoM priorities.** The Program's activities contained in the expenditure framework meets the directions set by the Government and the regional authorities. They are aligned with the Programs' intended results and with the national efforts to improve public service delivery and social inclusion at the decentralized level. Activities pertaining to improving governance, transparency, accountability, and citizen participation fully meet the requirements of the new Constitution (Title XII) and Organic Law 113-14 on municipalities (Title VIII and articles 119 to 125). These activities are also aligned with the DGCL's action plan aiming to support the decentralization agenda.

20. **Budget structure and classification.** The Program budget structure is clear in terms of sources of funding, budgetary vehicles and categories of expenditures. The Program will use the CAS TVA, created in 1986, as special funds for capital grant transfer and other TA and non-investment related activities. The General Budget of the State is the main source of funding of the CAS TVA. The CAS TVA's budget structure is aligned with the General Budget of the State which conforms with the international budget classification (Classification of the Functions of Government, COFOG) as confirmed by the last PEFA report (rated A).⁶ The CAS TVA's budget composition has been stable over the last three years and includes 59 percent unconditional grants, 22 percent capital expenditures grants, 16 percent joint expenditures '*charges communes*', and 3 percent operating expenditures. In a review of the annual report on the state, the special fund did not reveal any major issues in terms of budget structure and allocation which have been stable over the last three years.

21. **Sustainability.** The Program's sustainability relies on the CAS TVA funded through an annual allocation from the General Budget of the State. As such in principle, the financial sustainability of the CAS TVA is closely linked to the General Budget of State which is assessed as exemplary owing to a robust macroeconomic framework. Lastly, with the view to reinforce the sustainability of the line ministries' budget, the GoM is introducing a Triennial Budget Program. The Mol is finalizing its Triennial Budget Program.

22. However, the Program may face two issues in terms of sustainability. First is the insufficient level of resources mobilized through the CAS TVA to meet the increasing infrastructure needs of the

⁶ 'A' being the highest score.



municipalities. From 2006 to 2015, the transfers from the General Budget to the CAS TVA has doubled. Yet, since 2015, it is stable because of the limits in the increase of the VAT. Second is the weak ability of the municipalities to mobilize their own resources to finance their infrastructures. To mitigate these two risks, the Mol has initiated a reform of the CAS TVA which includes the introduction of a performance-based grant transfer window. This system will also consider incentives to the municipalities to improve their own revenue mobilization. This reform supported by Subprogram 1 will be completed by the TA and training plan under Subprogram 3.

23. **Predictability.** Overall according to the national 2017 PEFA, the predictability of the General Budget of the State is robust with the indicator on predictability rated 'A' with timely release of the budget's appropriations to the budget holders. More specifically, the transfer of the resources from the CAS TVA to the municipalities is also adequate and there is no deviation between the estimated amount and the actual grant transfers. This is done in two tranches (June and December). Yet, the predictability of these transfers could be increased by the introduction of a more transparent procedure based on a performance-based scheme as suggested under Subprogram 1. Challenges associated with the human and technical resources at the municipalities may affect the predictability in terms of execution capacity. Subprogram 3 aims to address these challenges in a holistic manner by defining and implementing a training and TA plan to strengthen the municipalities' staff. In addition, a dedicated DLI was included to prevent any risk associated with the time line of funds transfer to the municipalities.

24. **Effectiveness and transparency.** The Program's activities included under the Expenditure Framework are subject to technical and financial assessments to ensure their timely execution at envisaged costs. In addition, all Program executing entities are subject to public procurement rules, allowing for the Program activities to be executed at the lowest cost. Finally, these entities will be supported by a TA and training plan as part of the implementation of Subprogram 3. Lastly, transparency will be streamlined in the Program's design through dedicated (a) minimum conditions and PIs covering the transparency and citizen engagement and (b) a DLI on publication of the audit report of the municipalities. The Program's own fiduciary risk control mechanisms (which are more fully assessed within the Fiduciary System Assessment) provide a further driver of efficacy of expenditures and transparency under the Program. All Program activities are subject to a comprehensive set of measures aiming to ensure effectiveness and transparency including the publication of the annual reporting on the execution of the special funds including CAS TVA which is annexed to the Budget Law approved by the Parliament (http://lof.finances.gov.ma/sites/default/files/budget/files/cst_fr_0.pdf).

C. Results Framework and M&E Capacity

25. **The Program's progress will be monitored through a detailed Results Framework.** The Program supports three interrelated subprograms in support of the PDO which is to improve the institutional and service delivery performance of participating municipal governments. The three subprograms are as follows:

26. **Subprogram1: Developing and piloting a performance-based grant transfer system on a pilot set of municipalities.** This will be achieved through the definition of PIs designed in collaboration with the Mol and municipalities to cover the core functions and services provided to the citizen, including (a) governance and transparency including citizen participation, (b) access to public services, (c) fiduciary, (d) human resources, (e) revenues, and (f) safeguards and environment. The subprogram will incentivize



municipalities to improve their performance through financial incentives consisting of performance-based investment grants. The performance grants will be allocated to municipalities based on a transparent formula based on their performance as well as selected objective criteria such as population, area, and poverty rate.

27. **Subprogram2: Strengthening the institutional framework for inter-municipal cooperation.** This will be achieved through strengthening the institutional environment around ECIs and through providing on-demand TA to existing ECIs and/or through coaching municipalities interested to collaborate under an ECI model. A national cooperation scheme for LGs will be developed and adopted to provide the enabling environment for the ECIs' development. In addition, a new financing model for the ECIs will be developed based on a memorandum of understanding, to be signed by the municipalities, aiming to transfer the needed resources for the functioning of the ECIs. Lastly, the ECIs will be supported to implement the newly adopted organogram through competitive recruitment.

28. **Subprogram 3: Enhancing the organization of human capacities of municipalities.** This will be achieved through a three-way approach. First is the digital transformation of the selected municipalities which will include the deployment of a set of information management systems including ICT tools that aim to improve service delivery to citizens (Government to citizen) or increase efficiency of administrative procedures within the municipalities (Government to Government). Second is the training aiming to strengthen the capacities of the selected municipalities to improve their performance. Third is hands-on-support to the municipalities to enhance their capacities.

29. **DLIs have been selected to reflect critical elements of performance required to achieve the PDO.** All Program DLIs are drawn from the Program Results Framework, containing a set of intermediate results indicators monitoring key inputs, outputs, and outcomes required to meet the PDO. DLIs identification was carried out to ensure they are (a) fully aligned with government priorities, (b) owned and monitorable by the responsible implementation entities; (c) achievable and yet challenging, (d) clearly measurable and independently verifiable, and (d) conducive to a smooth disbursement profile over Program implementation. Table 3.3 presents the results chain which articulates how the Program activities and their outputs support the Program objectives.

30. **Results M&E.** Reporting progress on the Results Framework will be the responsibility of the DGCL at the Mol. The PMU housed at the DGCL will report to the Steering Committee which will ensure the implementation of the Program objectives. The PMU will prepare an annual Program Results Report (including reporting on all PDO-level and intermediate results indicators, evidence of results related to DLIs, and evidence of compliance with requirements of the PAP). The Program Results Report will be reviewed by the Steering Committee and will be submitted to the World Bank no later 60 days after the end of the calendar year.

31. **Verification protocol.** Each DLI relies on a verification protocol, defined by a specific methodology for measurement and verification. All verification protocols foresee the following accountabilities:

- (a) **DLI data monitoring and collection.** Data collection is the responsibility of the various entities directly in charge of Program activities aimed at the attainment of Program results. They each feed results data under the Program's M&E system managed at the PMU level by the DGCL.



- (b) **DLI data aggregation and validation.** The PMU at the DGCL agglomerates the DLI data within the overall Program M&E system (which tracks and measures intermediate results indicators too) and supports the verification agent during the entire verification process.
- (c) **The verification of progress toward** the achievement of the Program's objectives is carried out by IGAT/independent audit firm.

32. **Program's result chain.** Figure 1 in the PforR Program scope presents the theory of Change.

D. Economic Analysis

D.1. Rationale for Public Provision and/or Financing

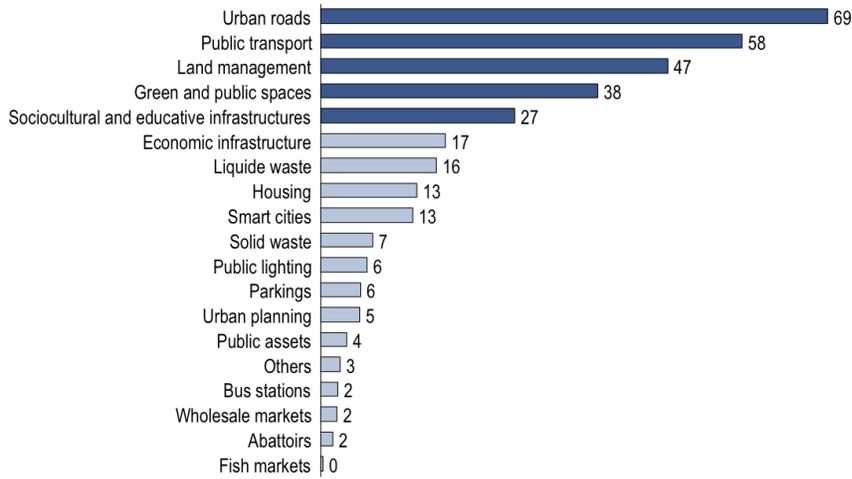
33. The recent decentralization reforms have confirmed the central role of municipalities in the development of equipment and provision of services that are critical to ensure efficient urbanization. Although municipalities have seen their autonomy increased by the reforms, they still face mounting challenges to step up to the task of delivering the infrastructures needed to accommodate the continued increase in urban population. Empowering municipalities, both financially and institutionally, is thus key to ensure more efficient public investment and better service delivery for the citizens. The Program will fund capacity-building and institutional capacity activities in support of Morocco's decentralization policy. The Program will adopt an approach based on demand and performance, which should contribute to improving municipalities' governance and accountability while reducing the funding cost of local public investment. Investments in terms of institutional strengthening will also contribute to the improvement of urban management and improvement of quality and sustainability of standard public services. Thus, the Program investments represent a judicious use of public resources, with a clear rationale for public provision and financing.

34. Delivering the infrastructure and services needed to accommodate the continued increase in urban population requires substantial financing, estimated by a recent study at around MAD 335 billion (US\$35 billion equivalent) over 2017–2027.⁷ These estimates consist of extrapolations based on available plans, studies, and technical standards and are focused on infrastructures whose provision falls within the mandates of Moroccan municipalities.

⁷"Etude d'évaluation des besoins en investissements des communes urbaines au Maroc", BM 2017, Rapport soumis au Ministère de l'Intérieur.



Figure 3.2. Investment Requirements for Urban Infrastructures in Moroccan Cities over 2017–2027 (MAD, billions)

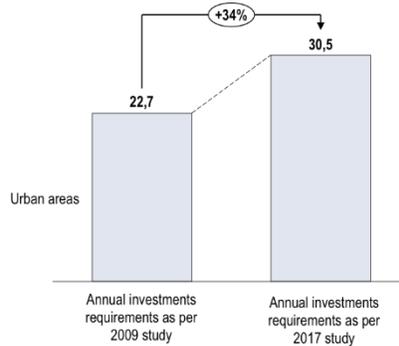


Source : World Bank, 2018, *Investment Requirements for Urban Infrastructures in Moroccan Cities over 2017–2027*, World Bank analysis prepared for DGCL

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35. According to the same source, an estimated 69 percent of this—or MAD 22.2 billion (US\$2.33 billion equivalent) per year over this 10-year period—would be financed by urban municipalities. In comparison, the Morocco Urbanization Review shows that the total capital expenditure of urban municipalities has stagnated at around MAD 4.5 billion (US\$0.47 billion equivalent) per year over 2009–2015, around 20 percent of the estimated annual investment required to provide cities with the infrastructure they need to support improved living standards and economic activity in their territories. This stagnation is partly because of the weak institutional capacities of municipalities which contribute to maintain the significant untapped fiscal potential (the collection rate of local taxes and fees is between one-third and one-half of the fiscal potential in most Moroccan cities), thus limiting the net savings and investment capacities of Moroccan municipalities. Moroccan urban municipalities will need to multiply their current investment level by six to accommodate future investment needs. Those estimates represent an update of similar estimates prepared in 2009 for the MoI.

Figure 3.3. Annual Investment Requirements





D.2. Economic Impact of the Program

36. Emerging evidence from similar Programs indicates that the activities supported by the proposed Program will likely result in a reduction of transaction costs associated with the delivery of local services because of (a) improved predictability and reliability of transfers from the Central Government to LGs; (b) improved PFM capacity at the local level resulting in better budget planning and execution, reporting, and accounting practices; and (c) improved administrative capacity at the local level resulting in improved responsiveness of municipalities to the needs of citizens.

37. While the Program is expected to contribute to improved public service delivery, the benefits accrued are not easily quantifiable. By design, the proposed Program provides municipalities with discretion in deciding on the types of infrastructure investments that will be financed through the conditional capital grant system. It is therefore impossible to determine, in advance, which infrastructure services will be implemented. Municipal infrastructure investments under the Program would include, among others, the building/upgrading and maintenance of urban roads, public spaces, economic and social facilities, public lighting, water supply and sanitation networks, solid waste collection, and so on. They would spur the demand in Morocco for labor, goods, and services and, ultimately support income levels and consumption capacities of the local population. The scope of this impact analysis is also limited by a lack of data pertaining to the effective impact of municipal investment on the local economy. Support for performance monitoring and other components of M&E is part of this Program to help improve expected outcomes and increase the availability of data to assess the merits of similar development interventions that may be undertaken in the future in Morocco.

38. Beside the expected financial gains to be generated by a more efficient local taxation as targeted in the Program, it is expected to allocate MAD 1 billion per year (US\$104 million equivalent) of performance-based grants in addition to existing intergovernmental transfers. The allocation would be split into a flat rate allowance (x percent) and a population-based allowance (1-x percent). This methodology was tested assuming different flat rates. Under each hypothesis, the allocation granted per capita to the largest city (Casablanca with 3,357,173 inhabitants) and to the smallest city (Harbil with 51,881 inhabitants) covered by the Program were compared with each other, and also compared, per category of population, to the average equipment costs for 2015, 2016, and 2017. The results of the simulations are presented in table 3.3.



Table 3.3. Simulations for the Allocation of the Performance-based Grant between Eligible Municipalities

| Flat rate x | Total Performance-based Grant Per Capita for the Largest City (MAD) (A) | Total Performance-based Grant Per Capita for the Smallest City (MAD) (B) | B/A | Ratio of Performance-based grant to Average Capital Expenditure for 2015, 2016, and 2017 For the 6 Largest Cities (%) | Ratio of Performance-based grant to Average Capital Expenditure for 2015, 2016, and 2017 For Cities from 100,000 to 500,000 Inhabitants (%) | Ratio of Performance-based Grant to Average Capital Expenditure for 2015, 2016, and 2017 For Cities from 50,000 to 100,000 Inhabitants (%) |
|-------------|--|---|-----|--|--|---|
| 20% | 48.62 | 97.28 | 2.0 | 26 | 30 | 33 |
| 30% | 43.02 | 116.01 | 2.7 | 23 | 30 | 37 |
| 40% | 37.42 | 134.74 | 3.6 | 21 | 31 | 42 |

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39. Based on the weight given to the population in the formula, allocation differences among cities are acceptable (the grant per capita being 2 to 3.6 times more important in smaller cities for a flat rate ranging between 20 percent and 40 percent). On the one hand, the projected grants would be significant and substantial for targeted municipalities as they would account respectively for around 25 percent, 30 percent, and 35 percent of the current capital expenditure for largest cities, medium range cities (from 100,000 to 500,000 inhabitants), and smallest cities (from 50,000 to 100,000 inhabitants). On the other hand, these grants would remain relatively limited compared to current intergovernmental transfers to municipalities, which amount to about MAD 18 billion per year (US\$1.9 billion equivalent). In these conditions, the targeted municipalities would thus be likely to uptake such an increase in their budget.

D.3. World Bank Value Added together with AFD

40. The design of this Program builds on a solid and long-standing collaboration between the World Bank, AFD, and the Kingdom of Morocco in support of local authorities and the decentralization process in Morocco. The World Bank adds value to the Program through financing relevant and operational expertise and through its ability to help leverage additional resources as illustrated through the current operation, co-funded by the AFD. The institution has extensive experience supporting intergovernmental fiscal transfer system reforms, programs to strengthen municipalities' capabilities, and programs to increase access to municipal services and infrastructure around the world. Globally, the World Bank has supported decentralization efforts in more than 89 countries since the 1990s, including in Tunisia, Jordan, and West Bank and Gaza in the Middle East. An Independent Evaluation Group (IEG) assessment of a subset of World Bank decentralization operations⁸ found that the impact of many of these operations was weak in the 1990s but improved considerably in the 2000s (IEG 2008). This improvement may be attributable in part to World Bank staff disseminating lessons learned as appropriate to other projects

⁸ IEG. 2008. "Decentralization in client countries, An evaluation of World Bank Support, 1990–2007."



over time. These lessons range from the importance of pairing certain reforms to the necessity of having effective performance monitoring systems in place and in use. Locally, the World Bank has engaged in local governance and service delivery in Morocco through both analytical work (World Bank support to the National Urban Strategy in 2009 and Morocco Urbanization Review 2018) and lending operations. In addition, the World Bank and AFD are long-standing partners in the sector of decentralization, having engaged in supporting local development and decentralized local governance in many countries, such as Senegal. The extent of financing proposed under the Program is substantial and places the World Bank and AFD as leading development partners in the financing of decentralization reform in Morocco. The lessons learned from these operations and the strong analytical basis are reflected in the design of the proposed Program and specifically the need to shift from project-based support to a program approach focused on strengthening the institutional basis for effective fiscal and administrative decentralization.

E. Technical Risk Rating

41. **Substantial technical program design risk.** The Program will introduce and fund a performance-based grant intergovernmental transfer system, which represents a brand new concept and mechanism for Morocco, thus entailing significant risk in terms of implementation. The relatively limited proportion of intergovernmental transfers to be allocated through the performance assessment system compared to the whole envelope of intergovernmental transfers also concurs to this technical risk. Indeed, uncertainties remain according to whether the level of incentives for targeted municipalities will be strong enough for them to effectively engage in the Program. Also, despite the commitment of the GoM to proceed with key reforms as part of their sectoral action plan, many of those remain to be better defined and fine-tuned. Those are primarily linked to the objective and shape of the performance-based grant transfer system, on one hand and, the drive and effective setup of inter-municipal/metropolitan entities, on the other. Another risk is that many of the approaches represent a shift in behavior toward more citizen-centric ways of managing. To mitigate the abovementioned risks, the task team will work closely with the DGCL on the design and effective phasing of the rollout of the performance-based grant transfer system and the selection of pilot agglomerations toward which a TA and incentive system will be initiated for the setup of inter-municipal cooperation bodies.

42. **Moderate risk pertaining to institutional capacity for implementation and sustainability.** The DGCL has largely demonstrated its institutional capacity to coordinate the work of Moroccan municipalities and support them in fulfilling their mandates, including through its strong coverage at the local level ensured by key stakeholders (walis at the regional levels and governors at the level of prefectures).

43. **Moderate stakeholder risk.** The DGCL has initiated a communication campaign toward the municipalities targeted by the Program. The international conference on the 'Performance of Municipal Management', organized in September 2018, already allowed to foster the engagement of municipalities in the Program. The event gathered the mayors of the 36 cities with over 100,000 inhabitants, who expressed their strong interest for the results-based approach to be used through the Program (as it will enable them to compare the achievements of their city with those of other cities while allowing them to use objective data to exchange with their citizen). The DGCL is to pursue this communication work and a member of the PMU—the Municipality focal point—will be specifically in charge of ensuring close cooperation with targeted municipalities for smooth implementation of the Program. Lastly, the DGCL has launched the performance test on May 15, 2019.



F. Inputs to the PAP

44. A PAP has been developed to identify key actions required to mitigate each of the risks identified (see previous section).

Table 3.4. Technical Assessment Suggested inputs to the PAP

| Risks to Hedge | Main Causes | Action Plan | Due Date | Responsible Party |
|---|---|--|---|-----------------------|
| Slower than expected reform of the CAS TVA (aimed at clarifying the allocation criteria for intergovernmental transfers and at progressively introducing an incentive-based approach for the allocation of most of the intergovernmental transfers) | Institutional inertia | Inclusion of the performance grant window in fiscal transfer reform to the municipalities (CAS TVA) Reform of the local taxes to provide municipalities with improved fiscal revenues | Definition of the action plan by Program effectiveness; implementation of the reform plan throughout Program implementation | DGCL/World Bank |
| Lack of dedicated staff to implement the Program | The DGCL staff already involved in the Mol tasks | The PMU at the DGCL is operational (done on May 28, 2019) | By Program effectiveness | Mol |
| Delays/misunderstandings /bottlenecks in the implementation of the performance evaluation cycle linked to the lack of experience pertaining to the performance-based grant transfer system | Absence of any incentive based intergovernmental transfers in Morocco | First performance evaluation cycle has been run for 2019 (Ongoing since May 15, 2019) | Development of guidelines for setting the rules of this first performance evaluation (verification of MMCs and PIs) finalized by end of April 2019 (to be used for developing the Performance Assessment Manual for the Program) Communication to target municipalities to be launched in May 2019 | DGCL/IGAT DGCL |
| Problems in Program implementation due to lack of clarity pertaining | Innovative and ambitious Program involving | The Program Operational Manuals have | The following manuals are to be shared with the World Bank 3 | IGAT |

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