

**PROJECT INFORMATION DOCUMENT (PID)**  
**CONCEPT STAGE**

Report No.: PID 96374

<b>Project Name</b>	Transparency and Accountability Development Policy Loan II (Hakama II)
<b>Region</b>	MIDDLE EAST AND NORTH AFRICA
<b>Country</b>	Kingdom of Morocco
<b>Sector(s)</b>	Governance and public sector
<b>Lending Instrument</b>	IBRD Loan
<b>Project ID</b>	P154041
<b>Borrower(s)</b>	Kingdom of Morocco
<b>Implementing Agency</b>	Ministry of Economy and Finance (MEF) and Ministry of General Affairs and Governance (MAGG)
<b>Environmental Category</b>	C-Not Required
<b>Date PID Prepared</b>	2/11/2015
<b>Estimated Date of Appraisal Completion</b>	June 25, 2015
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<b>Decision meeting</b>	June 22, 2015
<b>Other Decision (as needed)</b>	

## I. Introduction and Context

1. **This Program Document describes the Second Transparency and Accountability Development Policy Loan (Hakama II)** which will take the form of a one-tranche budget support operation in the amount of USD 200 million (EURO 177.4 million equivalent). It is part of a programmatic series of two DPL operations in support of structural reforms strengthening economic governance across the public sector and new policies fostering more inclusive and open governance in Morocco. The DPL series has been prepared jointly with the European Union (EU) and the African Development Bank (AfDB), leveraging a further US\$ 250 million in support of the budget, procurement and open governance reforms. This operation follows the *First Transparency and Accountability Development Policy Loan* (Hakama I), which was approved by the Executive Board on October 29, 2013.

2. **While Morocco has been able to reduce extreme poverty, boosting shared prosperity and fostering more inclusive socio-economic development remain core priorities.** Despite progress towards achieving the Millennium Development Goals, vulnerability and inequality remain challenges as evidenced by the high and steady Gini coefficient (0.41), fueling a sense of deprivation and

discontent among the public<sup>1</sup>. Numerous development programs and substantial social spending (24.4 percent of total public expenditures excluding debt) have not yielded the expected results. Socioeconomic disparities and access to quality public services remain major issues particularly affecting the poor and vulnerable, which are dependent on public programs and services and most affected by their shortcomings.

3. **Persistent socio-economic disparities illustrate potential efficiency gains of development programs and public expenditures as well as underlying governance challenges of public policies and services.** The multiplication of public policies, programs and institutions has exacerbated coordination challenges and created redundancies and inefficiencies. The country's increasing regulatory and institutional complexity has blurred responsibility and accountability along the service delivery chain. Limited voice and accountability in the design and implementation of public policies undermine their effectiveness and hampers improvement. Insufficient checks and balances expose public institutions and services to capture, discretion and corruption, as shown by recent diagnostic studies undertaken by Morocco's Anti-corruption Institution (ICPC) in the health and transportation sectors.<sup>2</sup>

4. **The new Constitution aims to respond to public discontent and to address existing challenges by strengthening the country's governance framework** through a holistic and integrated approach. This approach includes the following elements: (i) empowering Parliament through greater legislative powers and increased oversight over the government; (ii) enhancing the role and electoral legitimacy of the Head of Government; (iii) strengthening the independence of the Judiciary; (iv) enhancing participatory democracy and citizen engagement; (v) strengthening the accountability of public institutions, and (vi) adopting far-reaching regionalization as a democratic and decentralized system of governance. The implementation of these provisions will require an overhaul of the country's legislative framework, including 21 organic laws and over 200 laws and regulations and require far reaching institutional and operational change.

5. **Despite important progress, implementation of this comprehensive governance reform agenda has proved challenging and witnessed delays.** Notwithstanding its clear mandate and priority, the government has struggled to deliver such a large legislative agenda against a background of pent-up social demands and an unfavorable external economic environment. In July 2013, the exit and replacement of the junior coalition government partner caused additional delays for the implementing of key legislation and reforms, including those supported by the DPL series. A new PJD-led coalition was installed in September 2013 and reiterated its commitment to implement the Government's program until the end of the legislative term in 2016. In line with the objective to strengthen participatory democracy, many reforms were subject to large public consultations, such as the year-long national dialogue on citizen engagement.

6. **In this context, the objective of the DPL II is to consolidate and deepen policy reforms supported in DPL I in the areas of transparency and accountability.** The DPL series was designed to address the cross-cutting nature of governance reform. The series thus targets a range of reform levers that address key principles of transparency, accountability and participation across the entire public sector, in order to improve the performance of public programs and services along the service delivery chain. The two track operation supports a package of inter-twinned measures including performance-based budgeting, procurement reform, a legal framework for public-private partnerships, governance and control of State-owned Enterprises (SOEs) and agencies, as well as decentralization

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1 The surveys conducted by the Arab Center for the Rule of Law and Integrity and the report from the Economic and Social Council's on the governance of public services, published in October 2011, substantiate these perceptions.

2 Corruption diagnostic studies conducted by ICPC in the transport and health sectors in 2011: <http://www.icpc.ma/wps/portal>

and local governance. It will foster a more open and inclusive mode of governance through policy measures strengthening citizen voice and participation. These measures will strengthen fiscal transparency, access to information, public consultation and citizen petitions, in line with the new constitution. They will further enable Morocco to join the multi-lateral Open Government Partnership<sup>3</sup>.

7. **The main challenges associated with the DPL series relate to the scope and complexity of the constitutional reform agenda, which is exacerbating governance and capacity constraints that previously undermined the effectiveness of well-intended public policies and reforms.** Previous experiences with public sector reforms have not always yielded the desired outcomes. Challenges such as limited public sector capacity, coordination issues, and weak accountability frameworks have undermined improvements to public services and thus lessened the potential impact of important reforms. The DPL series thus aims to address such governance constraints by supporting the development of key accountability and transparency mechanisms by which public services and programs can be improved and deliver the expected socio-economic outcomes for the poor and vulnerable.

## II. Proposed Development Objective(s)

**The development objective of the proposed DPL series is to support the concretization of the new constitutional rights and open governance reforms.** The governance policies and reforms supported by the program, across the public sector (central and local governments and SOEs), aim to (i) improve the effectiveness of public expenditures and services, and to (ii) strengthen citizens' access to information, consultation and voice. The operation is composed of two pillars of supporting inter-twinned reforms, aiming to:

- (i) Strengthen the government's transparency and accountability in the management of public resources; and,
- (ii) Foster open governance

### Key results:

**Pillar I: Strengthening transparency and accountability in the management of public resources,** through:

- A more open and transparent budget process, specifying the programmatic allocation of resources and the corresponding performance objectives and indicators for 5 ministries;
- A more consistent implementation of public procurement rules across the public sector evidenced by the increase from 1571 to 3345 in the number of procuring entities subject to the new procurement rules;
- Real time information on budget execution in 80% of municipalities through the roll out of an integrated expenditure management information system (GID).

**Pillar II: Fostering open governance** through:

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<sup>3</sup> <http://www.opengovpartnership.org/>

- Enhanced access to budget information evidenced by a higher score in the Open Budget Index as well as through adoption by Cabinet of a law on access to information;
- Strengthening citizen voice and engagement through the adoption by cabinet of an organic law on petitions and a 20 percent increase in citizens having voiced their opinion to officials measured by the Gallup survey;
- Improved citizen access to key administrative documents, evidenced by a five-fold increase in the number of birth certificates ordered online and delivered by registered mail.

### III. Concept Description

#### **Pillar 1: Strengthening transparency and accountability in the management of public resources**

**Component A: Adopting performance informed budgeting:** The budget reform is a building block of Morocco's governance and public sector reform agenda as it enhances government transparency and accountability, strengthens parliamentary oversight, and represents a strong lever for the modernization of the management of public expenditures and services. The priority is now to implement the new programmatic and performance-focused budget management approach, building on the long preparation phase and on the lessons learned from the previous DPLs. Therefore, a four-pronged approach is foreseen, focusing on: (i) the revision of the legal and regulatory budget management framework through the adoption of a new organic budget law and its implementing regulations and a sequenced reform action plan; (ii) the institutionalization of the reform by establishing a high level inter-ministerial steering committee, a specific unit within the Ministry of Economy and Finance, and reform nuclei in line ministries; (iii) the operationalization of the reform and performance management in line ministries; and (iv) the setting up of a comprehensive performance monitoring and evaluation system. Reform implementation will be sequenced over a five-year transition period, of which the initial building blocks will be supported by this DPL series. The prior actions will focus on the measures needed to concretize this policy change through the revision of the legal and institutional budget management framework and its early implementation in key service delivery ministries.

**Component B: Improving competition and transparency in public procurement and public-private partnerships:** The modernization of the procurement framework is a priority for the government and a lever for improving transparency and accountability in financial management and the effectiveness of public service delivery. After the modernization of the public procurement decree under DPL1, the priority is to establish a regulatory body – la Commission Nationale de la Commande Publique - entrusted with policy and training as well as with complaints handling.

**Public Private Partnerships (PPPs)** are not covered by the procurement regulation and are conducted on an ad-hoc and sector basis in the absence of a specific legal framework. This constrains the potential development of PPPs due to the legal and fiscal uncertainties both for less experienced public bodies and private companies. The combination of large unmet needs for public services and the important potential to leverage private sector expertise, management skills and financing to respond to these needs call for a more enabling framework. The development of a dedicated legal and regulatory framework and a dedicated unit within the Ministry of Economy and Finance to support such development and strengthen oversight thus aims to respond to this demand.

**Component C: Enhancing financial oversight and governance of SOEs and public agencies:** SOEs play a major role in Morocco in terms of public expenditures, public employment, and the

delivery of public services. This program supports the adoption of corporate governance standards in SOEs and efforts to integrate them in the new programmatic and performance focused budget management. In March 2012, the Prime Minister issued an inter-ministerial circular, instructing all Ministries and state controllers to ensure that SOEs that are under their purview adopt an implementation plan for the code. Ten SOEs and agencies, which have a strong interface with citizens, have been selected for the initial implementation of this new corporate governance code. Along with the implementation of this corporate governance code and the improvement of SOE's internal control frameworks, the Government will reform its oversight function and financial controls.

**Component D: Modernizing management of intergovernmental fiscal relations and local finances.** This DPL supports the advanced regionalization agenda and fiscal decentralization by supporting the revision of the legal framework governing the governance, financial management and competencies of empowered regional governments. It builds on the results of the first operation, which supported the strengthening of financial management information systems for local governments, through the roll out of a customized version of the central government's system (GID). Combined, these measures are expected to improve the management of local finances as well as to clarify the competencies sharing between the state and the new regional governments as well as their financing, which is supported by the implementation of the legal and operational foundations for the modernization of the transfer and equalization system.

## **Pillar 2: Fostering open governance**

**Component A: Enhancing fiscal transparency and access to information:** Access to information is a prerequisite for government accountability and meaningful citizen engagement. The demand is there but access remains discretionary and a challenge, as evidenced by a recent World Bank survey<sup>4</sup>. Beyond the governance dimension, there is also the economic dimension, which was a main driver of the Public Sector Information (PSI) "use and reuse" policies in OECD countries in recent years. Studies conducted in the EU have estimated the value of PSI to several billion of Euros. However, in the absence of a specific transparency policy and a unified legal framework concretizing the constitutional right to access information, disclosure is often *ad hoc* and subject to discretion. The new momentum generated by the Constitution and the government's commitment to transparency offers a unique opportunity to strengthen both the rights-based approach and the proactive disclosure of information in order to both strengthen governance and maximize economic benefits.

**Component B: Improving citizen engagement:** The new Constitution recognizes the right to citizen participation in government decision making and asserts the right to petitions and submission of legislative proposals (Articles 12-15). The first phase of the consultation reform will provide a transparent platform for public access to draft laws and regulations and more transparency in the decision making process by providing citizens with a means of comparing draft and final laws. The broad publication of draft laws will help to develop a culture of transparency across the public sector through a centralized online platform led by the Secretary General of Government (SGG). Through this policy action, greater access to information will provide the foundation for effective public engagement on draft laws and regulations. In the second phase of this reform, the government developed an organic law on petitions in a participatory manner through a year-long National Dialogue on the constitutional rights of civil society. The operation will support the adoption of this new policy concretizing the constitutional right to petition and is expected to strengthen citizen voice and government accountability.

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<sup>4</sup> <https://finances.worldbank.org/dataset/World-Bank-Morocco-Citizen-Engagement-Nano-Survey-/tg37-mj88>

## 2. Budget

The second Development Policy Loan is expected to be of the same amount of the first loan which was of USD 200 million. It is a multi-donor operation prepared jointly with the European Union (EU) and the African Development Bank (AfDB). The loan is to be disbursed in one installment upon declaration of effectiveness.

### IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		X	
Natural Habitats OP/BP 4.04		X	
Forests OP/BP 4.36		X	
Pest Management OP 4.09		X	
Physical Cultural Resources OP/BP 4.11		X	
Indigenous Peoples OP/BP 4.10		X	
Involuntary Resettlement OP/BP 4.12		X	
Safety of Dams OP/BP 4.37		X	
Projects on International Waterways OP/BP 7.50		X	
Projects in Disputed Areas OP/BP 7.60		X	

### V. Tentative financing

#### Financing Source

IBRD

#### Amount

USD 200 million

### VI. Contact point

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