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Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 10-Jan-2019 | Report No: PIDC175378

BASIC INFORMATION

A. Basic Program Data

Country	Project ID	Parent Project ID (if any)	Program Name
Morocco	P168147		Municipal Performance Program
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Does this operation have an IPF component?**
MIDDLE EAST AND NORTH AFRICA	03-Jun-2019	30-Oct-2019	No
Financing Instrument	**Borrower(s)**	**Implementing Agency**	**Practice Area (Lead)**
Program-for-Results Financing	Ministry of Finance	Ministry of Interior	Social, Urban, Rural and Resilience Global Practice

Proposed Program Development Objective(s)

The Program Development Objective is (i) to improve the institutional performance of participating municipal governments and (ii) to strengthen inter-municipal coordination for local service delivery in selected urban agglomerations.

COST & FINANCING

SUMMARY (USD Millions)

Government program Cost	500.00
Total Operation Cost	500.00
Total Program Cost	499.25
Other Cost	0.75
Total Financing	500.00
Financing Gap	0.00

FINANCING (USD Millions)

Total World Bank Group Financing	300.00
World Bank Lending	300.00

Total Government Contribution	100.00
Total Non-World Bank Group and Non-Client Government Financing	100.00
Multilateral and Bilateral Financing (Concessional)	100.00

B. Introduction and Context

Country Context

1. **Morocco's government coalition appointed in 2017 has moved along with rolling out the pro-poor reforms initiated under the previous government, focusing mainly on social protection programs, job creation and reducing economic disparities across the country**. On the economic front, Morocco's economic growth remains sluggish in 2018 despite unexpected positive growth of cereal production. GDP growth decelerated from 3.5% in the first quarter of 2017 to 3.2% in the same period of 2018. Inflation increased but has been kept under 2 percent reflecting the continued prudent monetary policy. The overall unemployment rate declined to 9.1 % in 2018-Q2 but remained high among the urban young (23.1%) and educated (16.5%).

2. **Given Morocco's sustained urbanization trend, supporting the development and governance of cities is a key challenge for the future of the country.** The population growth in Morocco is mainly driven by the lasting increase of its urban population**,** largely due to rural-urban migration and the regular extension of urban perimeters. Although the rate of population growth has been decreasing in the wake of a rapid demographic transition (it went from 1.38% in 2004 to 1.25% in 2014), the country continues to urbanize. According to UN World Urbanization Prospects (2014), 74% of Moroccans will live in cities in 2050 as opposed to 60.3% in 2014. Moroccan cities will be house to an additional population of 5.8 million in the next 15 years, 50% of which will be concentrated in larger cities.

3. **While Moroccan cities have proven to be engines of economic growth for the country, they have not been fully delivering on their potential.** Along with the concentration of people, urbanization has led to the increasing concentration of economic activities in cities, which are estimated to account for about 75% of the country's GDP. Whilst absorbing rural poverty (14.5% compared to 4.8% in urban areas) through in-migration and accounting for 80% of total tax revenues and 60% of all jobs, cities remain plagued by important pockets of poverty. Roughly 1 million people in urban areas live below the relative poverty threshold (USD 1.3 per day) and an additional 13.6 % (2.3 million) is economically vulnerable, with higher likelihood of falling into poverty when exposed to shocks. Urban unemployment stands at 14% compared to 3.8% in rural areas[1]. The recent Morocco Urbanization Review[2] shows that Moroccan cities have created less agglomeration economies than cities in comparable countries.

4. **The country political stability is increasingly tied to the shifting importance of cities.** Youth unemployment remains an essentially urban phenomenon (36% vs 8.4% in rural areas)[3]. Local service delivery is marred by a sharp mismatch between municipal mandates and cities' technical and financial capacity, compounded by poor coordination

[1] National Employment Survey, Haut-Commissariat au Plan, 2013.

[2] Morocco Urbanization review, World Bank, 2018.

[3] National Employement Survey, HCP, 2013.

between central and local agencies. If left unmanaged, urbanization will further strain urban infrastructure and service delivery, with both economic and political consequences.

Sectoral (or multi-sectoral) and Institutional Context of the Program

5. **Morocco has engaged over the past decades in a decentralization process that has been further reinforced with the new 2011 Constitution.** The first Communal Charter issued in 1976 was replaced by a new Charter in 2002, which unified the 6 larger cities (of over 500 000 inhabitants) into single municipalities to strengthen the integrated development of these agglomerations. The level of financing of Moroccan municipalities is currently higher than in other countries of the region (3.5% of GDP as against 1% in Tunisia) and municipalities have been entrusted with a wide range of mandates (including roads, public spaces, collective urban transport, solid waste, water and sanitation, hygiene, etc.). While the Title dedicated to Local Governments[4] (LGs) included 3 articles in the 1996 Constitution, it is composed of 12 articles in the 2011 Constitution. The first article of the new Constitution states that "the territorial organization of the Kingdom is decentralized". Through its article 136, it also establishes the principle of administrative freedom of LGs, thus acknowledging the end of the "tutelle" of the Central Government over municipalities. This has been confirmed in the Organic Law n°113-14 of July 15, 2015 pertaining to municipalities, which confirms cities' primary role in local governance and service delivery and reinforces the "own mandates" of municipalities (compétences propres), while entrusting them with new "shared" and "transferred" mandates (*compétences partagées* and *compétences transférées*).

6. **Nonetheless, Moroccan cities still face strong challenges in delivering the infrastructure needed to accommodate the continued increase in urban population.** The Morocco Urbanization Review estimated that investment requirements for urban infrastructure, equipment and services in Moroccan cities amount to around MAD 320 billion (US$33.6 billion equivalent) over the 2017-2027 period, with an estimated 69% of this – or MAD 22.2 billion (US$2.33 billion equivalent) per year over the ten-year period – to be financed by urban municipalities themselves. In comparison, the total capital expenditure of urban municipalities has stagnated at around MAD 4.5 billion (US$0.47 billion equivalent) per year over the 2009-2015 period, around 20% of the estimated annual investment required to provide cities with the infrastructure, equipment and services they need to support improved living standards and economic activity in their territories. This stagnation is partly due to 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[5]) thus limiting net savings and investment capacities of Moroccan municipalities.

7. **Beyond the crucial financial needs to finance urban infrastructure and services, the limited capacity 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 from municipal investment prioritization and planning including citizen participation and oversight to quality project management, including procurement and environmental and social management[6]. Many municipalities have not yet voted their 5-year Municipal action plans (Plans d'action communaux, PAC) as provided for by the Organic Law on municipalities. Municipalities often execute less than 50% of their yearly investment plans, and the total accumulated surplus amounts to MDH 29.5 billion.

8. **The institutionnal framework for inter-municipal cooperation needs to be strengthened to help manage cities at the right level**. Although rapid urban growth calls for addressing service delivery needs at metropolitan level and reap network synergies and economies of scale, the inter-municipal cooperation institutions (ECI) necessary to optimize the planning and furniture of key facilities and services (such as transport, water and sanitation, solid waste, etc.) at the most

[4] Local Government includes but is not limited to Municipalities.

[5] Morocco Urbanization Review, World Bank, 2018

[6] Morocco PEFA 2016 / Casablanca PEFA 2016

relevant scale are not yet operational. The introduction of the ECI in the 2015 Organic Law on Municipalities responds to the need to provide metropolitan agglomerations with a framework for service provision at the inter-municipal level. Morocco already has several ECIs. In order to provide municipalities with the right tools, institutional framework for inter-municipal cooperation will require further development. ECIs need to be provided with a framework for financial sustainability and autonomy. The existing ECIs currently rely on voluntary contributions from municipalities which are not sufficient and too unpredictable for them to fulfill even their limited mandates.

Relationship to CAS/CPF

9. **Strengthening the institutional and service delivery performance of the municipal sector in Morocco is a continuing focus of the Bank's engagement in the country, as reflected in several country partnership strategies.** The World Bank reaffirmed its strong engagement on local governance support in Morocco after the constitutional reform of 2011, with, among others, the objectives to improve service delivery to citizen and bringing citizens into decision-making processes. Strengthening the capacity of municipalities and improving their services was already a strategy outcome of the Morocco Country Partnership Strategy (CPS) 2014-2017, including more specifically the need to "improve capacity to plan, manage and assess the delivery of key services, especially at the local level". The new Morocco Country Partnership Framework (CPF) 2019-2024 which is under preparation[7] already includes as one of the 10 pre-identified specific priority objectives "Enhance performance of systems of cities and towns", as part of the more general third pillar of the CPF which aims at promoting inclusive and resilient territorial development. This objective includes: (i) linking citizens (including poor, women, and people with limited mobility) to economic opportunities; ii) boosting municipal capacity to deliver urban services and infrastructure with special attention to underserved neighborhoods; iii) improving urban mobility; and (iv) strengthening capacity for mobilizing and managing financing, governance, and public and private investment for urban infrastructure. This engagement also aligns clearly with the WBG MENA Regional Strategy pillar of Rebuilding the social contract by improving the quality of service delivery.

10. **For urban municipalities to better achieve their mandates, the Directorate General of Local Governments (Direction Générale des Collectivités Locales, DGCL) of the Ministry of Interior (MoI) has prioritized improving municipal performance in terms of financial management as well as in terms of investement planning and implementation**. Supporting the financial and institutional empowerment of urban municipalities and enhancing local governance are part of the measures accompanying advanced regionalization and decentralization, defined as a priority of the Kingdom's economic and social development program. Increased municipal performance would also allow Moroccan cities to contribute to leading urbanization rather than suffering from its pressures.

Rationale for Bank Engagement and Choice of Financing Instrument

11. **The client's request for Bank's support stems from a longstanding and articulated partnership and robust portfolio on local governance and service delivery.** Such partnership was built through both analytical work (WB support to the National Urban Strategy in 2009) as well as lending operations: IPFs (particularly in water and sanitation); Development Policy Loans (the Urban Transport DPL, Municipal Solid Waste series and Hakama Governance series) and PforRs (National Initiative on Human Development II and Urban Transport). Through a 200 million USD Program for Results (PforR), the Bank is also currently supporting the City of Casablanca to (i) increase its investment capacity, (ii) improve the business environment in the Municipality of Casablanca and, (iii) enhance access to basic services. Effective since February 2018, this Program is a useful pilot which will help conceive and implement this operation. The Bank has also been contributing to subnational government capacity building in Morocco via the Local Government Support Program – *Programme d'Appui aux Collectivités Territoriales* – PACT) and the New Governance Framework implementation support

[7] Consultations on the new CPF were launched in July 2018 and public survey is available here

project, two grants funded by the Deauville Partnership Trust Fund, to a) provide LGs access to decentralized support services and assistance to institutionalize inter-municipal cooperation; and b) strengthen fiscal decentralization and financial management.

12. **In particular, the Client's request for Bank support seeks the Bank's value added on the following aspects:**

- *Convening power*: time and again Bank operations have demonstrated a capacity to bring together diverse stakeholders and focus their attention around complex, multi-stakeholder agendas;
- *Incentive framework:* The Client seeks to leverage the Bank's operation to increase accountability towards collaboration and results through a strong incentive framework. The request to use the PforR instrument (see below) stems directly from this intention;
- *Technical support:* The Bank has expertise on the result areas supported by the Program (Financial and institutional performance; Inter-Municipal cooperation; local governments capacity building).
- *Channeling and harmonization of donors' support:* as illustrated by the co-financing with the French Agency for Development (AFD) from which this operation would benefit, the Bank has a trackrecord of rallying other donors' support around coherent packages of interventions. In accordance with the new Joint Partnership and Co-Financing Agreement signed on June 13, 2018 by the World Bank and AFD, the AFD would align its intervention with the preparation/ follow up procedures of the Bank. The WB and AFD would thus co-finance (via the formalization of two loan agreements with the Moroccan government) one single Program to support the performance of selected urban municipalities, with the same supervision and disbursement procedures (i.e. Bank procedures).
- *External control and evaluation:* through the Bank's engagement, the client is also seeing an opportunity to strengthen external monitoring, control and feedback on Program implementation, both through the Bank's expertise in developing GRMs and CE mechanisms, as well via the Bank's own analysis carried out during implementation support missions and periodic Program reviews.

13. **The Bank supports the Client's request for the use of the Program for Results instrument, which closely fits with the Program's focus on institutional support and performance improvement.** After pioneering the instrument with the first PforR Bankwide (Morocco INDH2), the Government of Morocco has requested its use for a range of operations in various sectors such as health, urban transport, tourism, integrated risk management and municipal support. The PforR instrument fits the programmatic approach to municipal investments and its focus on municipal performance. It has been adopted in several countries on similar operations as the instrument allows to : (i) support an ambitious government program of reforms ; (ii) the latter being based on performance improvement and the achievement of concrete results; (iii) with the aim to finance several investment projects developed by a broad range of municipalities and (iv) including technical assistance as a key element (at the local and national levels). The PforR instrument will also help reorient the expenditure planning of selected municipalities away from a mere focus on inputs to one on outcomes, by placing incentives and technical support to key results.

C. Program Development Objective(s) (PDO) and PDO Level Results Indicators

Program Development Objective(s)

The Program Development Objective is (i) to improve the institutional performance of participating municipal governments and (ii) to strengthen inter-municipal coordination for local service delivery in selected urban agglomerations.

PDO Level Results Indicators

14. PDO-Level Indicators (PIs) will measure progress towards the achievement of the Program Development Objective. These can include:

- **PI1**: Performance improvement of selected urban municipalities (eg X% of municipalities obtain a score > Y%);
- **PI2**: Strengthening inter-municipal cooperation (eg number of ECIs to which the service X been transferred, mapping of ECIs, etc.);
- **PI3**: Overall revenues improved in the 80 selected urban LGs.

D. Program Description

PforR Program Boundary

15. **The proposed World Bank-financed Program is expected to contribute substantively to the attainment of key results identified in the Government program.** By combining support for increased and improved allocation of government transfers to LGs, with institutional mechanisms to enhance the performance of LGs in efficiently and effectively managing public resources in a participatory manner, and incentivizing and supporting the inter-municipal collaboration, the Program will contribute to deepening the process of fiscal and administrative decentralization in Morocco. The Program will support a selected set of activities as defined in the Program boundaries:

- *Duration*: The Program duration is aligned with the Government program's first phase and will run between 2019 and 2023.
- *Program Area:* The Program area includes the regions of Tanger-Tétouan-Al Hoceima, l'Oriental, Fès-Meknès, Rabat-Salé-Kénitra, Béni-Mellal-Khénifra, Casablanca-Settat, Marrakech-Safi, Draâ-Tafilalet, and Souss-Massa.
- *Targeted Municipalities and ECIs:* The Program will include support under the Government program to the targeted Municipalities and ECIs within the Program Area. The Government program is expected to target the 78 municipalities in Morocco with a population of more than 50,000 inhabitants, where infrastructure financing needs and issues related to urban planning and local governance are particularly significant. The combined population of the targeted municipalities was 16.7 million in 2014[8], representing more than 80% of the Morocco's urban population and nearly 50% of its total population. Targeted ECIs are expected to be in the 10 largest urban agglomerations in the country.
- *Exclusions*: Municipal investements under Sub-program 1 will be excluded from Program financing if they have the potential to cause significant adverse impact on the environment and/or affected people as defined in the World Bank Policy and Directive on PforR Financing, or if they involve works, goods, and consultancy contracts above the Operations Procurement Review Committee (OPRC) thresholds.

[8] Haut Commissariat au Plan, 2014, Recensement General de la Populaiton et de l'Habitat 2014 (RGPH 2014)

16. **The table below summarizes the scope of the Government program and the definition of the PforR Program boundaries within the Government program:**

Table 1. Government program and Boundaries of the PforR Program	
Within Program Boundary	***Outside Program Boundary***
Pillar 1: Strengthening the financing environment of LGs and piloting a performance-based grants transfer system on a selected group of LGs.	
Design and operationalization of a performance-based grants transfer system Municipal investments in selected municipalities – low to moderate risk investments in the Program Area	Municipal investments in selected municipalities –high risk and/or outside the Program Area
Pillar 2: Set-up and operationalization of selected inter-municipal cooperation bodies (ECI).	
Technical assistance to ECIs and municipalities to support the setting up, interested in setting up, operationalization and strengthening of selected ECIs. Technical assistance to improve the regulatory and organization framework of ECIs	Incentive-based grant transfers to ECIs for operation and/or investments.
Pillar 3: Enhancing the organization and human capacities of LGs.	
Development of a comprehensive capacity building program available to targeted municipalities Capacity building and technical assistance activities for municipalities in the Program Area. Technical assistance to improve the legal and regulatory framework for decentralization. Development and implementation of improved information systems and management tools for municipalities (programming, dashboards, indicators, etc.) Development and implementation of a training curriculum for municipal employees and elected officials.	Capacity building and technical assistance activities for municipalities outside the Program Area.

E. Initial Environmental and Social Screening

17. Based on a preliminary assessment and available information the proposed operation is compliant with OP/BP 9.00 and is not expected to have significant adverse impacts on the environment and/or affected people. Potential negative, individual or cumulative environmental and social impacts associated with the Program are considered negligible to moderate. No physical population displacement is likely to occur, and temporary or permanent land requirements under the service delivery pillar are expected to be limited and will likely be met through public land. The initial risk assessment and the key risk management measures planned to be undertaken during the preparation and implementation periods of the PforR operation, have been identified in close consultation with the borrower and relevant partners; the

borrower who has solid experience in implementing PforR programmes (INDH, Casablanca Municipality Support, Urban Transport, …), is committed to their execution.

18. In fact, the Program is expected to generate positive social impacts, through increased quality and accessibility of municipal services including in disadvantaged neighborhoods, incuding women and youth. In addition, as required by Constitution 2011 and Organic law relative to the Communes (advanced regionalization) establishing, strong participatory processes for planning public investments, opportunities for citizen feedback, robust GRMs, and access to information will be a key elements of the PforR.Performance incentives for municipalities will be adjusted to emphasize outcomes and outputs and to provide incentives for municipalities to close the feedback loop with citizen.

19. To inform the preparation of this PforR, an Environmental and Social System Assessment (ESSA) will be conducted by the Bank to identify potential environmental and social impacts of the Program. The ESSA will examine the environmental and social management systems with a view to evaluating their compliance with the provisions of OP/BP 9.00. The ESSA will consider the compliance of the Program's systems, by assessing: (i) national laws, regulations, and efficiently. The results of the ESSA will inform program design and key measures to improve E&S risk management will be included in the Program Action Plan and/or in the results framework. The development of the ESSA will additionally provide a platform to engage program stakeholders in public consultations regarding E&S aspects and the final version of the ESSA document will be made public before appraisal. The operation will support the Program's capacity to identify potential negative effects in advance and implement effective mitigation measures.

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