Report No: PAD5668

PROGRAM PAPER

ON A

PROPOSED ADDITIONAL LOAN

IN THE AMOUNT OF US$ 250 MILLION EQUIVALENT

TO THE

KINGDOM OF MOROCCO

FOR A

MOROCCO PUBLIC SECTOR PERFORMANCE (ENNAJAA) PROGRAM ADDITIONAL FINANCING

ADDENDUM TO TECHNICAL ASSESSMENT

Strategic relevance and technical soundness of AF & restructuring.

1. **The strategic relevance and technical soundness of AF and restructuring are confirmed.** The assessment reflects 1) the performance of the parent Program to date; 2) documented progress in the implementation of the PFM reforms initially supported by the parent Program in the 2024 PEFA assessment; and 3) the government efforts to broaden and deepen the implementation of the overarching policy and legal framework of PFM reforms, namely the organic law of finance (LOF).

2. **After almost two years of implementation, the Program has achieved significant results towards its development objective and is disbursing satisfactorily**. Progress towards achievement of the Program's Development Objective (PDO) is rated satisfactory, as is Implementation Progress (IP) according to the latest Implementation Status and Results (ISR) report (archived on 26-Apr.-2024). The disbursement rate is at 41 percent (including 18 percent net advance).

3. **AF and Restructuring build on the findings of the 2024 PEFA assessment, which reflects significant progress in PFM since the enactment of the organic law of finance (LOF), by addressing identified opportunities for improvement.** The 2024 PEFA assessment highlights significant improvements of Morocco's scores since 2015, with ratings of A or B+ across 14 indicators (Performance Indicators, PI) and improvements in 27 sub-indicators. Yet the assessment also reflects lasting weaknesses on public access to budget information; public investment management; management of public assets; public debt management; accounting and reporting; and parliamentary oversight and external auditing. Concurrently, while the performance drive instilled by the 2015 Organic Law has taken hold, it is not uniformly applied, and challenges remain. These include the application of quality standards across all ministerial departments, evaluation and accountability in relation to performance, or alignment of performance projects with key service providers (such as SOEs). Gender budgeting is being promoted, yet the tracking of related expenditures or the inclusion of gender criteria in public investment projects is still pending. Critical preparatory steps are taking place for Climate-Budgeting, but delays have been incurred in rolling it out. These challenges are to a large extent critical aspects of the Government program which the ENNAJAA PforR accompanies, yet some of which (such as PIM or public asset management) were not included in the parent operation.

Table 1: Improved scoring under the 2024 PEFA assessment

Indicators	2016 rating	2024 rating
Budget reliability	**A**	**A**
PI-2 on Expenditure composition outturn	B+	A
Budget transparency and comprehensiveness	**C+**	**B**
PI-5 on Budget documentation	D	B
PI-6 on Central Gvt. Operations outside financial reports	B	A
PI-8 on Performance information for service delivery	B	B+
Predictability & Control in Budget Execution	**B**	**B+**
PI-20 on accounting for revenue	B+	A
PI-22 on Expenditure arrears	D	A
PI-26 on Internal audit	C	B+

Table 2: Identified weaknesses and areas for improvements by the 2024 PEFA assessment[1]

Indicators	2016 rating	2024 rating
Budget transparency and comprehensiveness		

[1] Based on the draft PEFA report dated February 16, 2024. The report has received the PEFA Check and has been reviewed internally but it not published yet.

PI-7 on Transfers to sub-national gvts PI-9 on public access to fiscal information	D+ C	C C
Management of Assets and Liabilities	**C**	**C**
PI-10 on Fiscal risk reporting PI-11 on Public Investment Management PI-12 on Public Asset Management PI-13 on Debt Management	B C B C	C C C C
Policy-Based Fiscal Strategy & Budgeting		
PI-16 on Medium-Term Perspective in expenditure budgeting	D+	B
Accounting & Reporting	**C**	**C+**
PI-28 on In-year budget reports	D+	C+
External scrutiny & auditing	**B**	**C+**
PI-30 on External auditing PI-31 on Legislative scrutiny of audit reports	B NA	C+ C+

4. **The AF and restructuring are also justified both by the willingness and efforts of the government to extend and deepen the reach of PFM reforms under the organic law of finance (LOF).** The implementation of the 2015 Organic Law of Finance (LOF), which underpins the Program, has been successful as reflected in improvements in Morocco's ratings in the 2024 PEFA assessment from 2015 to date. The Government of Morocco (GoM) is preparing amendments to the Organic Law of Finance in order to address some of the opportunities for improvements identified by the 2024 PEFA assessment, including on budget transparency and comprehensiveness, and public investment management. The thrust towards improved service delivery through far-reaching ongoing reforms (e.g., social protection, health etc.), pressing infrastructure needs (e.g., transport bottlenecks, hydric stress etc.) and various contextual challenges (Al Haouz Earthquake, War in Ukraine etc.) has led the GoM to bolster performance culture in public policy under the LOF and enhancing domestic revenue mobilization.

5. **The Climate-Co Benefits identified in the parent project remain valid and are enhanced by the AF.** The ENNAJAA AF will continue the efforts initiated by the parent project on Climate-Budget Tagging (DLI#2). It will build on a strong technical assistance program to help MEF's Climate Unit in getting the appropriate expertise to adapt its PFM system to climate change[2]. Besides, the AF will support and additional DLRs that will improve monitoring of SDGs-related investment projects at the local level. The results contributing to climate change adaptation and mitigation of the ENNAJAA Program are summarized in annex.

Updated assessment of implementing agencies

6. **The institutional set up has proved effective and remains mostly unchanged with the inclusion of two departments within the MEF.** The MEF will continue to manage ENNAJAA and the addition of two of its departments to the institutional set up for implementation, the Directorate of the State domain and the Department of Public Enterprises, does not add to its complexity as both fall under the coordination responsibility of the Directorate General of Administration and General Affairs (DAAG) at the Ministry of Finance (MoF) which anchors the PMU and has ensured seamless horizontal coordination between implementing agencies to date, fostered reforms at municipal level and allowed for close monitoring of Program implementation.

Updated Program definition and boundary.

7. **The initial Program definition and boundary remain relevant as changes to the result framework fall under its scope.** All changes are within Result areas 1 & 2 as initially defined.

Detailed description of changes.

8. Most changes pertain to the result framework and are described in detail in the main text. A detailed updated

[2] TF0B7861 and TF0C0501

Theory of Change is presented in tables 4 and 5 below for RA#1 and RA#2. The ToC remains the same as the parent project for RA#3.

Color coding:

- **DLR 1.5: new DLR added by the AF**
- **DLR 1.1: DLR from the parent project**
- **PDO: PDO-level indicator**

Table 3: Detailed Theory of Change for Results Area 1 (improving the efficiency of public expenditure)

RA1	Outputs	Intermediary Outcomes	Outcomes	LT Outcomes
Improving Efficiency of Public Expenditure	**Budget Reform and Transparency**			**Spending efficiency** **Increased Accountability** **Increased transparency**
	Circular (or equivalent administrative/legal act) establishing the quality standards to be met by the PPs, (DLR 1.1), which includes gender	11 ministries[3] have implemented at least two quality standards (in line with circular or equivalent administrative/legal act) (DLR 1.3) Increased number of ministries adopting and using common priority indicators	Increased proportion of performance indicators achieved **(PDO)** and gender-related indicators achieved **(PDO)** Summary of PPs and Citizen Budget published annually	
	Circular (or equivalent administrative/legal act) establishing a model of Management Charter (DLR 1.2)	19 ministries have adopted Management Charters (DLR 1.4)	Increased number of ministries implementing their performance management charters	
		16 ministries have adopted a roadmap to implement management control (DLR 1.5) Increased number of SOEs adopting management tools (DLR 1.7)		
	Legal provision introduced to cap Special Treasury Accounts' revenue (DLR 1.6.a)	Special Treasury Accounts' revenue reduced (DLR 1.6.b)	Fiscal fragmentation reduced	
	Open Budget Platform giving access to user-friendly budget documentation (DLR 9.2)		Morocco's score on the Open Budget Survey is improved to 61/100 with the roll out of a transparency action plan (DLR 9.1 and 9.3) **(PDO) (new)**	
	200 civil servants trained on gender-budgeting	Circular on gender-expenditure tagging (DLR 2.4.a) 8 ministerial departments have tagged and tracked their gender-related expenditure (DLR 2.4.b)	Gender-sensitive budget published annually	
	Circular on climate budgeting (DLR 2.1)	Climate-sensitive budgeting piloted (DLR 2.2)	Climate-sensitive budget published annually (DLR 2.3)	
	Regionalization			
	Publication of a circular applying on the regions three-year investment programing (DLR 3.1) The platform monitoring Regional Development Plans, with a SDGs-tracking module (DLR 3.4), is operational in at least three Regions (DLR 3.2)	Enhanced and improved use of and access to the local IFMIS GID system (DLR 3.4; 3.5)	Enhanced transparency through (i) timely publication by three Regions including Fes Meknes of semestrial financial and physical public investment execution reports (DLR 3.3); (ii) publication of 6 municipal and regional citizen's budgets (DLR 3.6)	

[3] Or ministerial departments.

	Public Procurement			
	Public Procurement Observatory (OMP) operational (DLRs 4.1 and 4.2) Open Contracting Data Standards Feasibility Study completed	Open Contracting Data Standards Action Plan adopted. Digitization of post-contract awarding documentation (DLR4.4)	Six OMP's statistical reports on procurement published (DLR 4.3) Open Contracting Data Standards piloted for the *Invitation to Bids* stage	
	Public Investment Management			
	Legal provision introduced to prioritize public investments (DLR 10.1)	Improved planning and monitoring of public investments through interoperability of the PIM system with the budget programming system (DLR 10.2 and 10.3)		

Table 4: Detailed Theory of Change for Results Area 2 (improving public revenue management)

RA2	Outputs	Intermediary Outcomes	Outcomes	LT outcomes
Improving Public Revenue Management	**Data-Driven Tax Administration for Better Performance**			**Improved domestic revenue mobilization efficiency**
	Multi-year action plan to improve tax compliance (DLR 5.1) National tax compliance management and risk analysis unit operational (DLR 5.2) DGI database interoperable with key partners databases	Increased exchange of information between the DGI and key partners[4] Tax Compliance Risk Management Committee is operational (DLR 5.3) Taxpayer satisfaction survey with gender-disaggregated data completed	60 percent of the actions proposed to address tax compliance risks have been subject of decision for action (DLR 5.4) Increase in targeted additional revenue collected by the DGI **(PDO)**	
	Local Tax Administration			
	Arrêté relating to the application of Law 07-20 on local taxation (DLR 6.1) Integrated Revenue Management System for Local Governments (*Gestion Intégrée de la Recette, Collectivités Territoriales* - GIR-CT) implemented in at least 100 large municipalities (DLR 6.2) Adoption of a new local taxation law improving the local tax base (DLR 6.5)	New governance framework is operational in 400 municipalities. (DLR 6.4) Increased municipalities' coverage of GIR-CT The electronic declaration and payments system for municipal taxes is operational (DLR6.3)	Increase in revenue from local taxes in the targeted municipalities **(PDO)**	

[4] Selected key partners for DGI to exchange information with include customs, social security, vehicles licenses (National Authority for Road Safety [NARSA]), overseas remittances (exchange office).

	Multi-year action plan to improve tax compliance (DLR 5.1) National tax compliance management and risk analysis unit operational (DLR 5.2) DGI database interoperable with key partners databases	Increased exchange of information between the DGI and key partners[5] Tax Compliance Risk Management Committee is operational (DLR 5.3) Taxpayer satisfaction survey with gender-disaggregated data completed	60 percent of the actions proposed to address tax compliance risks have been subject of decision for action (DLR 5.4) Increase in targeted additional revenue collected by the DGI **(PDO)**	
	Improved management of state's assets and indirect revenue			
	Arrêté relating to the application of Law 07-20 on local taxation (DLR 6.1) Integrated Revenue Management System for Local Governments (*Gestion Intégrée de la Recette, Collectivités Territoriales* - GIR-CT) implemented in at least 100 large municipalities (DLR 6.2) Adoption of a new law on the State's private assets (DLR 11.3.a) Risk-mapping of DDE's revenue collection process (DLR 11.3.b)	New governance framework is operational in 400 municipalities. (DLR 6.4) Increased municipalities' coverage of GIR-CT The electronic declaration and payments system for municipal taxes is operational (DLR6.3) Adoption of an action plan to reduce risks related to DDE's revenue collection (DLR 11.3.b) DDE has collected and digitized relevant data through a GIS (DLR 11.2)	Increase in revenue from local taxes in the targeted municipalities **(PDO)** Increase in public establishments' revenue collection rate (DLR 5.6) 90% of the State's assets are registered (DLR 11.3) Increase by 8% in revenue generated from the State's assets (DLR 11.3.c)	

[5] Selected key partners for DGI to exchange information with include customs, social security, vehicles licenses (National Authority for Road Safety [NARSA]), overseas remittances (exchange office).

Updated institutional capacity assessment.

9. The initial capacity assessment has proved relevant to the parent Program and remains so for AF & restructuring. Overall implementation progress under the parent Program is rated satisfactory under the latest ISR. Technical performance, fiduciary systems and M&E are also rated satisfactory while E&S system are rated moderately satisfactory. This reflects strong institutional capacity and robust coordination under the Directorate General for Administrative Affairs (DAAG) of the ministry of Finance. Further progress is needed on the operationalization of the Program Grievance Redress Mechanism and remedial measures are being discussed between the team and the client to that effect. The client is requesting technical assistance from the WB, including under a Reimbursable Advisory Services (RAS) across a range of activities and the team is exploring 1) opportunities for synergizing with ongoing technical assistance from other donors; 2) the availability of trust funds to finance Bank-Executed activities; and 3) contemplating the creation of a broad-ranged RAS to strengthen capacity.

Updated assessment of the Program expenditure framework

Updated result framework

10. The updated result framework is detailed in the main text.

Updated economic analysis.

11. The initial economic analysis remains fully relevant. AF & restructuring will further support the implementation of program budgeting by extending the reach of the Program to public investment management and non-tax revenue:

- **Strengthening public investment management should contribute to improving the multiplier effect of physical capital accumulation in the public sector on growth and development.** Two-thirds of the GDP expansion of the past two decades is explained by fixed capital accumulation, reflecting a sustained large investment effort led primarily by the public sector, which has resulted in a noteworthy improvement in the quality of infrastructure. Indeed, investment averaged close to 30 percent of GDP between 2000 and 2019, which compares favorably with most emerging and developing economies, with few exceptions in Asia. Yet GDP growth has been substantially lower than in other countries with comparable investment levels, such as Vietnam, India and Indonesia. This weaker growth performance is mostly due to the lower contribution of Total Factor Productivity (TFP), which on average (2010-2019) added 0.7 percentage points of growth per year in Morocco, against 3.5 percentage points in India, 1.5 percentage points in Vietnam, and 1.1 percentage points in Indonesia. It is expected that the Program will help enhance the outcome effectiveness of capital expenditure.
- **Further support to tax and non-tax revenue mobilization will help address financing needs for the implementation of the New Development Model.** AF & restructuring will support recent government efforts to further bolster local tax (including through the enactment of the 2021 framework law on fiscal reform) and non-tax revenue, i.e. the revenue yield of state assets (beyond innovative financing recently introduced to that effect) and revenue collection by public establishments. The AF will support the adoption and implementation of a new local tax law, which will revamp the current local tax policy and increase the local tax potential. Along with the modernization of the local tax administration governance framework and tax payment digitization, both supported by the Parent Program, these endeavors will positively impact the municipalities' financial autonomy. On non-tax revenue, the AF will support the State's Asset Agency (DDE) plan to reap the benefits of digitization and geographic information systems

to improve assets registry and their monetization.

12. The AF will support increased revenues through non-fiscal sources. These include revenues from public establishment and non-moveable state private assets. With regards to the latter, revenues fall into two categories: (i) income from leasing, in its various forms (agricultural, urban and suburban) and sales of property, charged to the general budget; and (ii) income from real estate sales and payments by government departments for public facilities which are charged to the *Fonds de Réemploi Domanial* (with the exception of sales of land for agrarian reform, which are charged to the *Fonds de la Réforme Agraire*). Under the 2022 Finance law, the target set for the State Domains Direction in terms of state revenues was set at MAD 2580m. Actual revenues amounted to 27.1bn, representing an achievement rate of 1050% of the target set. This exceptional performance is explained by the proceeds from the sale of real estate assets to institutional investors within the framework of innovative financing mechanisms, worth MAD 25.07bn.

13. Innovating financing schemes are essentially asset monetization processes. Introduced by the 2019 Finance Law, they are centered on active management of the State's real estate assets and consist in selling functional buildings to institutional investors (CDG, pension fund) while preserving their public service use through long-term leases. Revenues are accounted for as non-tax income. Rents are paid once property titles have been exchanged, creating a future liability. The buying entity uses the assets to raise money in the markets through an investment vehicle. To this end, real estate transactions involving 98 properties in the State's private domain were concluded in 2022 with real estate investment trusts (OPCI) managed by AJARINVEST, a CDG subsidiary raising an additional MAD 25.5 bn in financing (DDE Annual Report 2022).

14. According to the IMF (International Monetary Fund), such schemes have generated MAD 74.3bn of revenues between 2019 and 2023 and are expected to generate MAD 35bn of revenues per year over the next three years. Considering their importance, adding more details on the planned sales in the Medium-Term Expenditure Framework would provide further assurances about the capacity to meet announced fiscal targets (IMF, Article IV, 2024). These schemes are however not supported by the AF to the extent that they are not structural and in fact depend on critical actions by authorities to secure asset registration.

Updated expenditure framework.

The detailed updated expenditure framework is presented in table 6 below.

Table 5: Detailed updated expenditure framework

RA	Ministry	Depart.	Type of expenditure	Budget Program	Parent PForR 2021-2025 (Million US$)	AF 2025 (Million US$)	AF 2026 (Million US$)	AF2027 (Million US$)	AF2028 (Million US$)	Total amount (Million US$)
RA1	MEF	DB	General Budget – Investment and Operating expenses (GB – OP)	P115 Economic policy and public finance strategy	5.7	0.5	0.5	0.5	0.5	**7.7**
	MEF	DAAG		P130 Steering and Management	84.6	4.7	4.7	4.7	4.7	**103.4**
	MEF	TGR		P117 Execution of public expenditure and public accounting	32.4	0.8	0.8	0.8	0.8	**35.6**
	MI	DGCT	3.2.0.0.1.08.006 Special Fund - (Investment & operating)	Fès-Meknès Region	352.0	77.7	77.7	77.7	77.7	**662.8**
TOTAL RA1					**474.7**	**83.7**	**83.7**	**83.7**	**83.7**	**809.5**
RA2	MEF	ADII	GB – OP	P116 Facilitating and securing trade and consumer protection	47.7	0.3	0.3	0.3	0.3	48.9
	MEF	DGI		P118 Tax revenue mobilization and collection	45.3					45.3
	MEF	DDE	3200113003: State Reemployment Fund	P119 Management of the State Private Domain: 20 – Acquisition of administrative building		7.9	7.9	7.9	7.9	31.6
TOTAL RA2					**93.0**	**8.2**	**8.2**	**8.2**	**8.2**	**125.8**
RA3	MEF	DAGG	GB – OP	P140 Steering and Management	**5.3**					**5.3**
	MTNRA	DRA	GB – OP	P124 Administrative reform and improvement of public services	17.0					17.0
		ADD	GB – OP	P429 Digital Economy	35.0					35.0
TOTAL RA 3					**57.3**					**57.3**
			Total		**625.0**	**91.9**	**91.9**	**91.9**	**91.9**	**992.6**