

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 FIDUCIARY ASSESSMENT

Background and Institutional Arrangements

Institutional Framework

1. **The Program will utilize existing institutional arrangements and include a new implementing agency, the Directorate of State Domains (DDE), within the Program and its Expenditure Framework (PEF).** The Ministry of Finance's Directorate of Public Enterprises and Privatization (DEPP) will also be involved in the program, but its activities are not covered by the PEF. The DDE, as per Decree No. 2.07.995, is responsible for managing the State's private domain, including property acquisitions, real estate management, and facilitating transactions to promote investment.

2. **The expenditures to be incurred under the Program will continue to form part of the national budget systems of the government ministries and PIUs.** The Program will be subject to the Government's PFM arrangements, which have been assessed through various analytical pieces. ^[OBI] A summary of applicable PFM systems, rules, procedures, and oversight mechanisms is described in the following paragraphs.

Legal Framework

3. **There are no changes in the legal Framework for this additional financing.** The below laws continue to apply on the new added implementing agencies:

- (a) **The Organic Budget Law:** *Organic Law No. 130.13 on Finance Law and Decree No. 2-15-426 of 15 July 2015 on the preparation and implementation of finance laws.*
- (b) **Anticorruption legislation:** Dahir No. 1-15-65 of 9 June 2015 promulgating Law 113-12 on the national body for probity, prevention, and fight against corruption (INPPLC). It is an independent authority responsible for coordinating anti-corruption efforts in Morocco, conducting investigations, and proposing recommendations to improve transparency and integrity in the management of public affairs. Morocco has also revised its penal code to strengthen sanctions against acts of corruption and is a signatory to the UN (United Nations) Convention against Corruption.
- (c) **Public Procurement:** The new Public Procurement Decree (PPD) No. 2-22-431 published in Official Bulletin No. 7176, dated March 9, 2023.

Planning and Budgeting

4. **The updated assessment for existing agencies and the assessment conducted for the newly added governmental agency (Directorate of State Domain-DDE/Ministry of Economy and Finance (MEF)) confirm that the budget systems are adequate for the Program.** This conclusion is based on the review of budget performance during project implementation until FY23.

5. **The development objective of the program, which is to enhance the performance and transparency of administration and service delivery, remains the same as in the original program.** An additional \$250 million in funding will support two main areas: 1) Increasing the efficiency of public expenditure, and 2) Enhancing the management of public revenues. The program has been restructured with an extension of the closing date for the parent loan to December 31, 2028.

6. **The Program Expenditure Framework (PEF) for the parent PforR was established with the MEF, covering budget allocations up to 2025 for various departments, including the MEF, MNTRA, ADD, and the Fes-Meknes region.** For the 2026-2028 phase under AF, the PEF will focus on Results Areas 1 and 2, with continued participation from the MEF and the Fez-Meknes region. The DDE has been newly included under Results Area 2, with an expected contribution of \$8 million per year. Results Area 3 will be excluded

from the AF, removing ADD and MNTRA from the AF ENNAJAA expenditure framework. The inclusion of the Directorate of Public Enterprises and Privatization (DEPP) as a new implementing entity with new DLIs under RA#1 and RA#2 is planned, but it will not be integrated into the PEF. The parent loan's PEF, totaling \$625 million, includes \$450 million from the World Bank and \$175 million from government contributions, with 43% already disbursed. The estimated PEF for the PforR Additional Financing is approximately \$367 million, with the World Bank financing \$250 million. Expenditures are planned between 2025 and 2028.

7. Overall, the planning and budgeting of the central entities involved in the parent program follows a structured, timely and disciplined process. It is consistent with the Public Financial Management (PFM) cycle of the country and ensures that allocations are within the available budget envelope. The Project Implementation Unit will need to improve the monitoring of the execution of the expenditure framework and provided the Bank, on each supervisory mission, with a detailed statement on the budgeting of activities. Planning and budgeting processes are acceptable. However, some weaknesses remain in the coordination between the DDE and the ministerial departments regarding the programming of acquisitions of administrative buildings assigned to these ministries.

8. The planning and budgeting process at DDE suffers from the lack of coordination and effectiveness of three-year budget programming. This was indicated in the 2021 Court of Auditors' report on the management of public property and particularly on the acquisition of administrative buildings. It was also noted that there were no standards governing the procurement and allocation process for administrative buildings. To mitigate these risks, the AF will continue to support the efforts of the DDE to improve the performance of its information system and management of the state's private public heritage, particularly the amicable acquisition of administrative buildings. To mitigate the risks related to DDE, the AF will support the efforts through DLI#12 to improve the performance of its information system and management of the state's private public heritage, particularly the amicable acquisition of administrative buildings.

9. The budget planning for the Special Fund of State Reemployment (FRD), overseen by the DDE, is effectively regulated and supervised. This fund, as all Special Treasury Funds (CST), is separate from the General State Budget and is strictly regulated, with rules governing their use for reinvestment in public real estate, maintenance, renovation, or infrastructure projects. The FRD's activities are transparently reported, with funds allocated based on development priorities and regional needs. It is integrated into government budget planning, with varying annual allocations based on development needs and government decisions. Replenishing the State's land reserves via acquiring administrative buildings, included in the PEF, enhances land resources and ensures proactive utilization of available land bases. **The annual budget planning** is deemed satisfactory, with monitoring conducted by (i) the Head of Government, prompting ministries to propose budgets in line with Organic Law (LOF), and (ii) the Directorate of Budget (DB) for budget commitments, aligning with government directives. Budget allocations delegation follows guidelines set in a note from the MEF Secretary General. **Decentralized services actively contribute to the Strategic Management Action Program.** Budget needs are determined based on past operational trends and carryover status.

Table 1: Evolution of revenue and expenditure of the FRD for the period 2020/2022 (in billion MAD):

FRD/Civil Year	2020	2021	2022
Revenues	29,8	32,3	53,6

Expenses	11,2	5,4	18,9
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Source: Special Accounts Report, Fiscal Law Project 2023

10. The use of the budget line "Acquisition of Administrative Buildings", extracted from the FRD, in the PEF is adequate. The MEF, through the DDE, allocates State-owned real estate (part of the State's private domain) to various ministerial departments, essential for their operational needs. These assets are managed by these departments according to their responsibilities and within the limits of their allocated budgets. It is worth noting that the number and size of administrative buildings utilized by public administrations are increasing, with 90,186 hectares accommodating 12,454 real estate units. This budget allocation falls under the following budget structure:

Table 2: State Land Reuse Fund budget structure

Authorizing department	Directorate of Domain - CST FRD
Chapter	3200113003: State Land Reuse Fund
Program	119: Management of the State's Private Domain
Region	00: Common services
Project	10: Real Estate Acquisition
Budget Line	20 Purchase of administrative buildings

11. The Directorate of State Domains (DDE) acquires administrative buildings only through amicable means, not expropriation, as the public interest justification for expropriation does not apply to these buildings as it does for land. Over the past ten years, all purchases of administrative buildings have been amicable. If a property owner rejects the purchase offer, the DDE advises the concerned public administration to consider alternative buildings and restarts the amicable process. These transactions are allocated to the budget line 3200113003119001020 for the purchase of administrative buildings, which is included in the Program Expenditure Framework (PEF) and has been carefully reviewed for safeguards.

Table 3: Evolution of the implementation of authorized allocations on line 3200113003119001020: Purchase of administrative buildings from 2020 to 2021

Budget year	Authorized credits	Total Commitments	Rate Commitment	Total Emissions	Rate Emission
2022	74 867 646	74 772 456	100%	72 149 216	96%
2021	99 666 869	2 623 240	2.6%	0%	0%
2020	161 000 000	151 664 434	94%	149 041 194	98%

Source: DDE, Administrative account

Commitment and issue rates rose considerably in 2020 to over 95%. However, data on payments would

also have made it possible to assess the evolution of payment rates.

12. Program expenditures will be included in the budgets of implementing entities based on the budget supports used (General Budget or Treasury Special Accounts). A periodic assessment will be agreed with the MEF to update on progress in the expenditure framework execution. Periodic reports will be prepared for this purpose to ensure that the authorized budgetary appropriations, commitments, and issues on the Domanial Employment Fund (FRD) for the acquisition of administrative buildings are timely and sufficient.

13. Specifically, the AF will include \$367 million in funding, including a \$250 million IBRD loan and a \$117 million government contribution. The overall volume of the program will increase from \$450 million (parent program) to \$700 million with additional funding of \$250 million.

Table 4: Program costs and source of financing (US\$ million)

Financing Source	Original Program	AF Program	Total
BORROWER/RECIPIENT	175	117	292
IBRD	450	250	700
OTHER	-	-	-
TOTAL	625	367	992

14. The Additional Financing (AF) will maintain the same spending framework as the parent program, including the addition of the Directorate of State Domains (DDE) in the budget. The MEF budget lines, with the DDE, will support reforms for results-based budgeting and better public revenue management, covering Results Areas 1 and 2. The Fez-Meknes State-Region Contract Program (RFM) projects will continue to support the improvement of public spending efficiency and focus on enhancing the region's attractiveness and natural resource protection.

15. Procurement profile. The Program procurement profile remains practically with the same breakdown of categories. Notably, it will include 55 percent of services, 16 percent of goods, and 29 percent of work, while the expenditures added under DDE will not imply procurement activities as per say since the acquisition of buildings is process through common law.

16. An interim financial reconciliation was conducted to ensure alignment between PEF execution and the Bank's effective disbursement. The analysis shows that the actual expenses incurred in 2022 and 2023, amounting to 1,133,171,310 Moroccan Dirham (MAD), equivalent to €104,661,875, surpassing the disbursements made by the Bank to date, which totals €94,509,600, not accounting for the advance on DLIs not achieved yet (Table 4 below). This underscores the program's robust financial performance and suggests that the PforR is advancing at a commendable pace, demonstrating its financial sustainability and the effective utilization of allocated funds in pursuit of the program's objectives. The World Bank Task Team will continue to monitor financial reconciliation closely throughout the period of additional financing including the settlement of the advance on DLI not achieved under the parent program.

Table 5: Disbursement status of Parent PforR

Date	Disbursed Amount (EUR)	DLR
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August 1st, 2022	96,550,000	Avance
March 13, 2023	69,514,500	#1.1; #1.2; #4.1; #5.1; #5.2; #5.3; #6.1; #7.3
February 2024	24,030,100	#1.3 (partially); #1.4 (partially)
Disbursement forecast for 1 st semester 2024 (ongoing verification).	54,924,400	#1.3; #1.4; #3.1 #5.4; #7.2; #7.4; #8.1; #8.6
Disbursement forecast for September 2024	52,351,000	#3.2; #4.2; #6.2

Accounting

17. The program's financial management processes, including budget implementation, accounting, and reporting, are to be continuously improved. The World Bank's fiduciary support has positively impacted the program's accounting and financial reporting practices. All financial and accounting activities of the program must comply with the public sector accounting standards as mandated by the Royal Decree on Public Accounting No. 330-66 of April 21, 1967. The accounts are maintained by accountants on a fiscal year basis using the double-entry method, encompassing both budgetary and general accounting. The GID information system aids the accountants, and authorizing officers are responsible for overseeing the implementation of the State budget, which includes the General Budget and Special Funds such as the FRD. Specifically for the DDE, there is a "Public Accounting" service that handles budgetary and accounting management for the acquisition of administrative buildings.

18. The accounting system adheres to Moroccan public accounting principles and regulations. The GID system is used for accounting oversight, and the AMLACS system tracks the acquisition of administrative buildings and their registration with the ANCFCC. Purchases are regulated by common law rules, and risk analysis is conducted for budgetary flows. AMLACS, which is designed to modernize public asset management and combat corruption, has been criticized by the Court of Auditors in their 2021 report for having incomplete, unreliable, and outdated data, which affects the optimal management of the State's real estate assets.

Cash management and cash flow

19. The AF will use the cash flow arrangements used to deliver the parent program. These arrangements were considered acceptable during the initial PforR implementation. The funds of the Program will be paid directly into the government account open to the General Treasury of the Kingdom. The disbursement of the Bank's proceeds will be made at the request of the borrower upon completion of the DLIs. The disbursement terms of the Program may allow for advances of up to 25% once the Program comes into force. Rationale and new DLI advance requests will be identified in the MAP and revised MOP.

Disbursement terms

20. The Program anticipates disbursements throughout the implementation period of the Program based on verification of the DLR obtained. The request to withdraw from the WB loan account, in

accordance with the amounts allocated to the individual DLR, will be sent to the WB at any time after the WB has informed the GoM in writing that it has accepted proof of completion of the DRLs and the amount of the eligible payment. The amount of withdrawal from the DLRs will not exceed the amount of funding allocated by the World Bank for each specific DRL. Details of the agreed disbursement procedures for each DLR are provided as part of the results in the verification protocol table and in the Technical Assessment.

21. For DLIs, payment would be made in proportion to the results for each period after DLI verification. An advance of up to 25% of the additional funding may be made once the loan is in effect to facilitate the achievement of DLI outcomes. This potential advance would be available throughout the implementation of the Program on a renewable basis.

Internal control

22. The internal control systems for the MEF, MTNRA, ADD, and MI-Fez-Meknes Region are considered sufficient. They have manuals for procedures, segregation of duties, and risk assessments. The MEF uses RIMAD, an expenditure chain control system based on COSO. The DAAG has the AMAN project for risk management across all functions. The ADD employs controls based on duty segregation and procedures. The TGR has updated its controls for new finance law requirements. IMD established an internal control department in 2021. The MTNRA is implementing a control system with risk mapping and management structures. The IGF, as external auditor, evaluates and makes recommendations for these internal controls, which are then incorporated into an action plan by the program's management entities.

23. The addendum reveals that the DDE understands internal control in the context of regulatory compliance, but not in the broader sense of the COSO framework, which aims at achieving operational efficiency and reliable financial information. The DDE has yet to implement mechanisms to meet these additional objectives of the internal control system.

24. However, the tasks and responsibilities are clearly assigned and defined within the framework of the DDE's organizational chart which declines the various functions in Divisions and Services and is adapted to its missions, making clear hierarchical and functional links. The technical functions are distinct from the support functions and the audit function ensures its independence by its direct connection to the Director of Domains and by compliance with its ethical and operational standards.

25. In terms of business operational services, there is an appropriate division and separation of tasks considered incompatible. For example, in terms of technical functions, the property valuation function, which determines the value of the land to be acquired or transferred, is independent of the operational departments for managing acquisitions or disposals. However, the expertise and topography functions fall under the same Division while being independent of other business services.

26. The regulatory procedures governing public activity are formalized, disseminated, and updated as guides that can be consulted on the Management intranet. However, the management procedures that define how managers will have to organize themselves to comply with these public regulatory procedures are not formalized. Each of the managers is therefore limited to compliance with legislative and regulatory texts without worrying about the effectiveness of the operations carried out or their reliability and performance.

Inspection and Internal Audit.

27. The parent program has taken steps to manage risk and oversee internal audit activities. The ADD has an Audit and Inspection Division for regular and targeted reviews. An audit committee under the Board evaluates internal control and risk management systems. The TGR's internal audit department conducts audits in line with international standards and trains auditors. The DGI has internal audit and inspection units to evaluate risks and controls for achieving its objectives. The MTNRA has committees to

implement audit recommendations. The Fès-Meknès region has an internal audit service and an annual plan. However, the internal audit function in Ennajaa program is not effective yet.

28. The DDE's internal audit and inspection functions are carried out by the Control, Audit and Inspection Division (DCAI), which is part of the DDE's upper management.

29. The DDE is enhancing its risk management system but currently lacks a dedicated risk map. The DDE has not fully identified or assessed the impact of operational risks related to its strategic objectives. The DCAI has introduced a new Charter of Values and Code of Ethics, which outlines the roles and procedures for inspection and internal audit functions. A new Audit Charter, effective July 1, 2022, and accessible on the DDE Intranet, establishes the rights, duties, and ethical guidelines for auditors and the entities they audit. A system to track the implementation of recommendations is reviewed regularly by the Director of State Domains. Additionally, the DDE requires asset declarations from its officials in line with the Court of Auditors' guidelines.

External Audit

30. The existing Program external audit arrangement remain unchanged under the AF. FY22 audit report prepared by the IGF, was provided to the Bank on time and deemed acceptable. In this report, the auditor expressed an unmodified “clean” opinion on all the activities carried out under the program by the various implementing agencies. The main recommendations made concerned: (i) the establishment of the Strategic Steering Committee to help the agencies to carry out their tasks and ensure rigorous monitoring of the actions of the program; (ii) coordination and communication between Council partners in the FM region; (iii) development of reporting models in line with budget accounting principles and (iv) preparation of reporting models in accordance with budgetary accounting principles and centralization of financial statements; (v) regularity and conformity of expenditure. No action plan for the follow-up of audit recommendations was provided to the Bank. The next report for 2023 is due September 30, 2024.

31. The Court of Auditors (CoA) audited the DDE's management of administrative buildings and found it lacking a clear policy for asset allocation and acquisition based on actual needs, as well as standards for building occupancy. The CoA recommended defining a policy for state land assigned to ministries, particularly administrative buildings, to enhance performance, ensure coherence, and establish coordination mechanisms among stakeholders, reinforcing the DDE's role in strategy proposal and coordination.

Fraud and corruption

32. The DDE pays increased attention to complaints made by users and does not hesitate to engage inspection missions to the departments concerned to ensure the veracity of the reported grievances.

Anticorruption arrangements

33. There is in place a strong framework of institutions designed to address fraud and corruption, including the Ombudsman Office, Court of Auditors, IGAT, INPPLC, and IGF. The INPPLC is highlighted for its independence and financial and administrative autonomy. However, there is a noted lack of detailed reporting on fraud and corruption cases, especially those involving Bank-financed operations, due to the absence of a mandatory reporting requirement. This has prevented the IFSA team from evaluating the effectiveness of these institutions in the portfolio and the supported Program. As a result, the operation will necessitate additional efforts to ensure adherence to anti-fraud and corruption measures, which will be closely monitored throughout the implementation period.

34. Actions related to fraud and corruption. The Borrower commits to implement the Program

following Bank's Anti-Corruption Guidelines "Guidelines on Preventing and Combating Fraud and Corruption in Program-For-Results Financing Dated February 1, 2012, and Revised July 10, 2015". The borrower will report to the Bank allegations occurring under the Program through the bi-annual and annual progress reports during Program implementation.

35. Fiduciary arrangements for combating fraud and corruption are recently being discussed between INPPLC and the World Bank team in Rabat. Following the evaluation of the INPPLC, it was determined that INPPLC meets satisfactory standards. Consequently, the agreement protocol with the Bank should be signed in the next stage to meet the requirements of the World Bank's Anti-Corruption and Fraud Guidelines (ACG).

36. The Bank Task Team emphasized the importance of ensuring that the INPPLC agrees to the three requirements of the PforR ACGs: (i) Ensuring firms on the World Bank's debarment and suspension lists are not awarded contracts; (ii) Regularly reporting on and addressing corruption allegations; (iii) Cooperating with the World Bank's investigative branch (INT) if an investigation into corruption complaints is initiated. These commitments can be formalized through various means, such as a protocol with the Anti-Corruption agency, a legal covenant, or in the Minutes of Negotiation, in line with the PforR Anti-Corruption Guidelines.

37. A Fraud and Corruption Case Reporting Template has been developed by the World Bank fiduciary team and is being finalized before validation.

38. Corruption cases are heard by a specialized chamber. According to information gathered from the INPPLC website, there are no complaints or denunciations being processed in 2021 and 2022 because prior to November 2022, it was legally impossible for the INPPLC to cover investigations. It was only in November 2022, after the installation of the members of the Board of Directors and the appointment of the SG, that the INPPLC began its investigative activities. To date, a dozen investigators have been recruited and it is planned, according to the 2023-2025 budgets, to increase the number to a hundred.

39. Reflections are underway to refine the profiles (qualifications, training, experience, etc.) of interviewers, particularly by continuing the capacity-building program. A project to build dedicated premises for the INPPLC is planned for the coming years. The INPPLC received 15,743 calls reporting corruption, which led to 164 arrests according to annual reports for 2021, i.e. before the entry into force of Law 4619 published in BO 6986 on May 13, 2021. The cases reported concern several sectors such as water, forestry, civil protection, health, justice, equipment and transport and others. The "Financial Crime Chambers" service has received 606 complaints, 239 of which are being investigated in 2019 and 367 in 2020.

40. The INPPLC's annual report does not provide sufficient detail on cases of fraud and corruption, and specifically on those relating to operations financed by the World Bank. In several ongoing operations financed by the Bank, the status of fraud- and corruption-related actions is not systematically reported. Therefore, for this operation, additional efforts are required and compliance with anti-fraud and anti-corruption measures (detailed below) will be monitored during the implementation period.

41. A representative of each implementing entity will be designated to grant access to the World Bank's Client Connection. The Borrower disseminated an instruction to all procuring entities requiring procurement officers to verify the eligibility of firms and individuals on the Bank's list of excluded and suspended firms, and to record this information in contract award decision files. The borrower will report on compliance with these requirements in the program's annual audit report.

42. The World Bank's prerogative to conduct administrative investigations into allegations of fraud and corruption was clarified to the Borrower during program preparation. During the program

preparation, the borrower confirmed collaboration with the World Bank on administrative investigations into allegations the Bank chooses to pursue. Implementing entities will record and report these allegations in semi-annual and annual progress reports, following the format outlined in the MOP. This includes details such as the complaint's place and date, the allegation's description, investigation progress, and outcomes, along with the names of the agencies involved in handling and receiving the allegations. Additionally, there will be a focus on allegations of fraud and adherence to the Bank's guidelines, with terms of reference for the involved institutions incorporating specific provisions to verify compliance with the Bank's fraud and corruption prevention guidelines.