TECHNICAL ASSESSMENT – ADDENDUM

- **Strategic Relevance**

1. **The strategic relevance of the proposed Additional Financing (AF) as identified in the detailed technical assessment of the parent program remains valid**. The proposed operation is aligned with the results areas (RAs) of the parent project and aims at scaling up RA1 "Increasing municipal investment capacity" and RA2 "Improving the urban environment and the quality of public services". The Program's strategic relevance is high, as urbanization and decentralization remain two critical transformative levers which have contributed and will continue to position Moroccan cities as key drivers of growth. Stated under Organic Law 113-14, the key role played by municipalities is promoting the enabling environment for increased competitiveness and productivity. This was recently reaffirmed in the "New Development Model", NMD (2022-2035), a strategic vision document prepared under the leadership of King Mohamed VI. The AF will build on the encouraging achievements made under the Parent operation and will contribute to increasing the investment capacity of the Municipality of Casablanca along with the country's economic recovery. The proposed AF will also include an additional focus on the city's resilience to Climate Change in support of both adaptation and mitigation efforts. Furthermore, ensuring increased social inclusion and gender equity remains a paramount objective under the AF operation.

2. **Casablanca is a key driver of Morocco's economy, and the proposed AF would further consolidate the pivotal role of the economic capital as the country's main growth pole and an important gate to international markets.** With the rapid urbanization of the country over the past four decades, the share of urban population has increased from 30 percent in the 1970s to over 60 percent nowadays and is expected to reach 73.6 percent by 2050[1]. Cities, especially large agglomerations, have become important engines of the Moroccan economy, as they are contributing to around 75 percent of the national GDP, 70 percent of investments, and 60 percent of total employment at the national level[2]. Casablanca, the largest city and the country's economic capital, embodies the opportunities of Morocco's urbanization. With roughly 35,000 additional people moving to the city every year, the Casablanca-Settat region concentrated over 25% of the total urban population (5.7 million people out of 22.7 million urban inhabitants nationwide) in 2020[3]. The region of Casablanca-Settat is one of the engines of national economic growth, generating one third of national GDP – 31.8% in 2019 –, i.e., more than half the contribution of the second ranked region, Rabat-Salé-Kenitra, with a share of 15.3%[4]. Furthermore, Casablanca being one of Africa's leading financial and services centers is a key driver of Morocco's economic diversification and structural transformation. The proposed operation will participate in consolidating the leading position of the economic capital, including through further supporting the financial and institutional capacities of the CC in the framework of the implementation of the Greater Casablanca Development Plan (PDGC), an integrated regional development plan (worth US$3.4 billion) aimed at fostering investments, increasing capacity, and improving central-local coherence at the regional level.

[1] Leveraging urbanization to promote a new growth model while reducing territorial disparities in Morocco, The World Bank, 2018.
[2] Ibid.
[3] *HCP, Le Maroc en chiffres 2021, p. 14.*
[4] HCP, note d'information sur les comptes régionaux 2019.

3. **While Casablanca embodies the opportunities of Morocco's urbanization, it also encapsulates its main challenges**. Indeed, Casablanca faces several challenges that consist of persisting social inequalities and inadequate infrastructure and services in some of its neighborhoods. Casablanca displays persistent poverty pockets with around 150,000 urban poor living in the city. Also, Casablanca's Gini index remains significantly higher than the national average (0.52 vs 0.395)[5]. In addition, the city is facing weak financial capacities and large investment needs, preventing it to deliver the urban services required at the metropolitan scale to ensure economic and social inclusion. Sustained urban growth combined with a lack of investment over the past decades has led to very unequal levels of access to services throughout the economic capital.

4. **Although the parent operation has contributed to alleviate some of these challenges through the achievement of substantial results, the impact of the Covid-19 pandemic has exacerbated the socio-economic challenges faced by the economic capital.** Municipal revenues showed positive, yet uneven, progress before the covid-19 pandemic. Municipal revenues showed a good progress between 2015 and 2018, mainly thanks to a significant increase in taxes administered by the State (16 percent increase in the taxes managed by the State), allowing for an investment capacity 3.5 times higher (reaching 21.5 percent of municipal revenues). However, 2019 performance was disappointing with an increase of only 8 percent compared to the 2015 baseline (MAD 3.276 billion against MAD 3.038 billion), namely due to a large share of revenue cancellation (see Annex 6 for more detail). The pandemic as well as the 2021 municipal elections had a noticeable impact on Program implementation: while the pandemic severely impacted the CC's own source revenues (DLI#1), the lockdown delayed the execution of works pertaining to access to basic services (DLI#4), including street upgrading works (DLI#5). In addition, municipal elections led to a political transition delaying decision making and further hindering program implementation, leading to the restructuring of the Program in April 2021. The Municipality of Casablanca (*Commune de Casablanca*, CC) is however still facing considerable financial challenges, limiting its ability to implement significant capital investments. In 2021, the municipality's financial situation became fragile with no net savings reported.

5. **Casablanca is also impacted by climate change, jeopardizing the sustainability of its growth path.** The city is highly vulnerable to extreme weather events including floods, heatwaves, droughts, as well as sea-level rise and coastal erosion. In the Casablanca-Settat region, average annual temperatures have increased from 1.0 to more than 1.8°C and precipitation has experienced up to 30% decline between 1960 and 2005. In parallel, the region has been facing increasing variability in rainfall, with increasing episodes of short and very intense rainfall which overwhelm the existing drainage systems. This has left Casablanca vulnerable to increased flooding. From 2002-2011, nine out of the top ten natural disasters in Morocco were floods and flooding remain the main risk in term of spatial coverage and recurrence[6]. This trend has pursued, and Casablanca experienced its last flooding episode from January 6-11, 2021, resulting from heavy rains with a cumulative maximum of 250 mm, an event that alone represents 69% of the annual rainfall[7], thus well illustrating the increased magnitude of precipitation episodes. Both drought frequency and intensity have increased in recent decades and are projected to worsen further in

---

[5] UN Habitat (2011). Gini figures are calculated here based on consumption. If based on income, the degree of inequality would be even larger.

[6] Ministère de la Transition énergétique et du développement durable, ECI, Mise en place d'un dispositif de suivi-évaluation du PCT de la Région Casablanca-Settat (mission 5), Elaboration d'un Plan Climat Territorial pour la région de Casablanca-Settat.

[7] *"Casablanca floods: Lydec breaks silence, tries to make up"*, Morocco World News, January 13, 2021. [8] See *HCP information note* for the 4th semester of 2021

the future. The drought hazard has also intensified rural-to-urban migration contributing to environmental and climate change externalities. Total GHG emissions in the Casablanca – Settat region are expected to increase by 44% between 2016 and 2030 (from 35,890 Gg.eq CO2 in 2016, to 40,837 Gg.eqCO2 by 2020 and 51,607 Gg.eqCO2 by 2030). As a result of the decentralization process, a number of mitigation measures fall within the mandate of municipalities, namely in areas related to solid waste management, urban transport, street lighting, etc. Furthermore, the Casablanca – Settat region has limited green spaces with the average ratio being less than 1sq.m. per inhabitant. This is far from the international standards of 10 to 12 sq.m. per inhabitant as a minimum threshold set by the WHO. With the above in mind, the region has developed the Territorial Climate Plan of Casablanca – Settat (PCT-CS). Yet climate action planning is still nascent at the city level. In alignment with the MNA Strategy and the SD Strategy, as well as with the strategic orientations of the government's New Development Model that positions subnational government, especially in large metropolitan areas, at the heart of a new integrated, resilient, and inclusive growth dynamic, the proposed AF will include an additional focus on the city's resilience to Climate Change and support the CC in its efforts to increase its climate action, in terms of adaptation and mitigation.

6. **The AF will build on the encouraging achievements made under the parent operation and will contribute to increasing the municipality's investment capacity in a context showing signs of economic recovery.** National GDP has rebounded by 7.4% in 2021 (by far one of the highest rates in the MENA region)[8] and economic recovery is expected to be sustained in the coming years[9]. Such a recovery is largely based on budgetary and monetary stimulus measures supported by the Government. This is also witnessed at the municipal level, where municipal revenues increased by 12.9 percent in 2021 after they had dropped by 13.7 percent in 2020 (also see Figure 1 below). Despite such encouraging figures, Moroccan municipalities must further strengthen their revenue and expenditure management efforts to ensure quality and inclusive service delivery and support economic development at the local level. The CC municipal finances have also shown first signs of recovery in 2021 with positive trends in terms of revenue mobilization. Current revenues increased by 10.6 percent compared to 2020. This progress is mainly due to positive trends in terms of taxes administered by the State with an unprecedented level of increase (which reached 29.4 percent from 2020 to 2021 and 14.5 percent compared to 2019) (see Figure 2). Two main factors can explain this progress: an amnesty on late penalties for the payment of taxes, and the increase in the share allocated to the municipality in application of the new local taxation law (07-20). The analysis of the composition of revenues in 2021 shows however: (i) a downward trend in terms of state transfers through the VAT CAS (MAD 190 million in 2021, compared to MAD 462 million in 2018); (ii) a decline in the revenues directly administered by the municipality, showing the suboptimal performance of local tax administration.

Figure 1 – Evolution of Municipal Revenues (in millions MAD)[10]

[8] See *HCP information note* for the 4th semester of 2021

[9] IMF (https://www.imf.org/fr/News/Articles/2021/12/10/pr21370-morocco-imf-staff-completes-2021-article-iv-mission-to-morocco).

[10] Source: National Treasury.

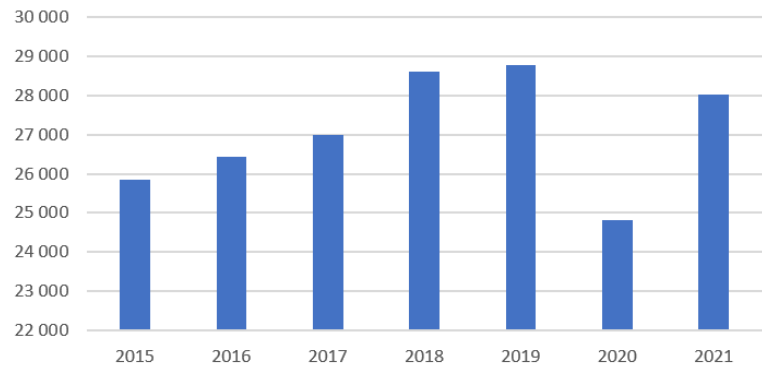
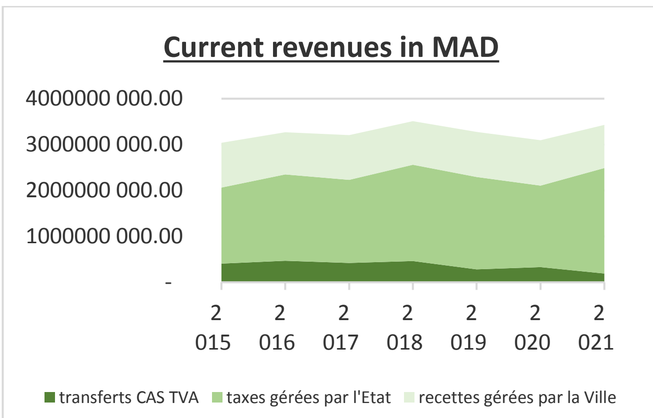


Figure 2: current revenues progress between 2015 and 2021



7. **A financial and debt sustainability analysis of the Municipality of Casablanca was carried out by the World Bank Team. The aim being to carry-out a due diligence on the ability of the AF to** contributing towards increasing investment capacity of the CC. Achieving the above necessitates a minimum of 10 percent annual increase in own-source revenues with a maximum of 3 percent annual increase in current expenditures by the Municipality. In fact, During the period between 2015 to 2021, current revenues increased by 12.7 percent[11] while expenditure increased by 10.7 percent. This resulted in weak gross savings of only 4.5 percent of current revenue and net savings that barely covered debt repayment in 2021. The debt ratio (stock of debt to gross savings) is currently above 20. Technical expenses for the upkeep and maintenance of the city's assets are very low, as is the capital expenditure (section 4 of the budget), 70 percent of which is paid to the SDLs for various operations. With the start of the new mandate, the challenge is to fully untap the city's resource potential, which could potential triple according to a 2009 study[12]. Out of the four simulations a minimum of 10 percent annual growth in revenue has been retained by the CC as it would allow the municipality to invest up to 10 billion MAD over the period of the current municipal mandate. This scenario aligns well behind a debt ratio target of 7.5 (see Annex 6 for more details). The above targets could be achieved through: (i) the ongoing reforms of local taxes as well

[11] Composed by a more significant increase in State-administered taxes, an overall stability of municipality-administered revenue, and a decline in transfers under the VAT CAS

[12] Philippe Laurent Consultants-Charles Riley Consultants International, 2008.

as (ii) the modernization of revenue management systems (namely under DLI#2), and (iii) the implementation of the revenue mobilization roadmap established by the CC. In order to achieve the above, the Municipality of Casablanca will submit by end of October 2022 a time-bound Financial Reform Action Plan endorsed by its Municipal Council. World Bank approval of the said plan is a condition for disbursement under IDL1.

8. **Like the parent project, the proposed AF benefits from strong political ownership both at local and central levels**. The parent operation has led to the first World Bank loan to a local government in the MENA region. The sovereign guarantee provided by the Moroccan Ministry of Finance to the CC in 2017 illustrates the importance of this operation for the GoM. This coupled with the reform of local taxation currently under implementation by the Directorate of Local Finance (DFL) at MoI should contribute to increasing LGs' own resources. Program support to the city of Casablanca remains a national priority, given its transformative impact and its strong replicability potential. The AF would also have spillover effects on other municipalities in Morocco as well as cities in the MENA region. Box 1 illustrates the scaling-up potential of successful initiatives piloted in Casablanca namely through the Municipal Performance Program (P168147), co-financed by IBRD and the French Development Agency (AFD). Following the municipal elections held in September 2021, the newly elected municipal engaged into pursuing and deepening the transformative initiatives launched under the PDGC (government program), while stating its intent to incorporate these into the updated municipal action plan, due in October 2022. It is also worth mentioning that the PDGC continues to enjoy a great leadership at the regional and central levels. In addition, the newly elected mayor (one of the three women elected at the head of larger Moroccan cities)[13] confirmed the council's strong political will to increase municipal revenues while improving expenditure management and introducing a new focus on climate change mitigation and adaptation.

Box 1: Building on the replicability potential of Casablanca, the case of the Municipal Performance Program

Key initiatives piloted under the Casablanca Municipal Support Program are now being replicated at the national level to improve local service delivery within Moroccan urban municipalities. The PACC has supported the development of several reforms to improve: (i) the city's investment capacity through enhanced own source revenue mobilization, as well as (ii) the access to quality local services, namely through a more transparent and equal access to municipal services. To this end, the city ramped up its digitalization efforts and several platforms have or are being operationalized, namely to : (i) improve municipal resource management (integrated information system for revenue administration called GIR-CT, Single addressing system, inventory and valuation of municipal real estate assets…), and (ii) enhance administrative procedures efficiency, improving the city's attractiveness for investors (information system for the issuance of building permits and commercial authorizations called Rokhas). These pilots are being deployed in a large set of urban cities covering about half of the Moroccan population, through a national level Program (the Municipal Performance Program – P168147) launched by the ministry of interior in April 2020. Since then, Rokhas platform and GIR-CT have been deployed at the level of all Moroccan local governments (ie. all municipalities, provinces and wilayas). Other platforms development and operationalization is tracked under the municipal performance assessment framework, with related incentives and capacity building. In addition, the focus on financial sustainability initiated under the PACC has fed into the PAPC performance framework, which includes several indicators pertaining to financial planning, budgeting, as well as indicators monitoring municipal own source revenues enhancement.

- **Technical Soundness**

[13] In addition to Casablanca, Rabat (the capital city) and Marrakech are also headed by female mayors.

9. **In line with the parent operation, the AF has been assessed as technically sound.** Building on the innovative approach adopted under the parent operation and leveraging the reform momentum established, the AF will scale up the parent operation to foster an inclusive, sustainable, and resilient growth dynamic. More specifically, the AF will deepen the ongoing engagement focusing on enhancing the investment capacity of the CC through diligent and responsible revenue and expenditure management. Furthermore, ensuring increased social inclusion and gender equity remains a key objective under the AF operation. In parallel, the AF will address emerging priorities identified by the CC as having both direct and indirect impacts on the CC's fiscal and socio-economic sustainability, namely the increased resilience to climate change. Finally, it will also leverage World Bank development assistance whenever possible with the aim of greater development effectiveness.

10. **The parent project relies on solid technical bases, while new analytical work on the financial sustainability of the CC has fed into the design of the proposed AF.** The parent operation relied on a large body of analytical work on the challenges facing Casablanca, which emerged since the mid-2000s. in the framework of the PDGC, and to bring to fruition these analytical foundations and increase ownership of key stakeholders, the authorities organized a large consultative process involving think tanks, associations, academic institutions, NGOs and government agencies over a nine-month period. Additional analytical work has been conducted to inform the preparation of the proposed AF. Given the AF's focus on enhancing the investment capacity of the CC, a thorough analysis has been conducted to assess and confirm the city's financial and debt sustainability. This analysis has been conducted in a two-stepped approach. First an assessment of the current financial situation of the CC was conducted based on an historical analysis of the financial statements of the Municipality between 2015 and 2021. Second, different growth trajectories have been identified based on the current situation as well as assumptions on revenue and expenditures future trends. These scenarios have been defined in collaboration with the municipality and based on the knowledge of the ongoing reforms that could enhance revenue mobilization and strengthen municipal debt sustainability (see Annex 6 for more details).

11. **The proposed operation has benefited from five years of project implementation, which have allowed to draw lessons learned and highlight value added of the parent project that have strengthened the AF's technical soundness.** The alignment of the PACC behind the Greater Casablanca Development Plan (PDGC) has been a key success factor for the PACC. This has encouraged parallel reforms including the modernization of municipal revenue management systems and the implementation of digital platforms for the provision of administrative services (see box 1), thus improving the overall business environment.

12. **The proposed AF aims to scale up the operation's development impact and accelerate the city's post pandemic recovery, while reinforcing the social inclusion objectives included under the parent project and introducing an additional focus on resilience to climate change and fiscal sustainability.** The Program will continue to focus on two Results Areas (Ras) initially supported under the PDGC, namely RA1 "Increasing municipal investment capacity" and RA2 "Improving the urban environment and the quality of public services", while no additional results will be included under RA3 "Improving the business environment". The AF will also include additional initiatives carried out by the CC while ensuring their alignment behind the results areas identified under the PDGC.

13. **Through Results Area 1/ Subprogram 1**, the AF will continue to support the Municipality's investment capacity through efficient expenditure management, enhanced revenue mobilization and improved municipal creditworthiness. The additional activities identified build on both the achievements

and tools developed under the parent program as well as the reform momentum established in the wake of the economic recovery and the setting up of a new Municipal Council for a 5-year mandate. They also leverage the improved coordination among the institutional entities in charge of the collection of the three taxes administered by the central state (TGR, DGI). Also, the development of an comprehensive and geolocated addressing database, conceived and implemented under the PACC, is expected to significantly improve the efficiency of the collection operation. The municipal real estate assets' inventory carried out within the framework of the parent program has also highlighted the very significant untapped fiscal potential the CC could progressively release: while municipal real estate assets revenues remained at a weak level of around 0.6% of overall municipal revenues in 2019 and while the CC related expenditures have exceeded real estate assets revenues by 30% over the past 4 years, the inventory has allowed to identify over 1 900 municipal property assets, among which 600 assets yet need to be officially registered. According to an initial valuation exercise conducted, these assets have been estimated at MAD 75.6 billion. The systematic registration of the assets belonging to the CC through the AF, will make it possible to derive significantly higher income from municipal real estate assets. Based on the municipal real estate asset management strategy to be developed under the proposed AF, this expected gradual, yet tangible increase will be operationalized through a revision in the rental conditions of some assets (which has not been done for decades) or through making untapped assets available for rent, or by allowing the development of dynamic management of acquisitions and disposals. In addition, projects aimed to strengthen and improve the operation of municipal services responsible for managing revenue (AFC, Dar Al Khadamat, state management, administrative police, etc.), must result in increased efficiency. The support provided to the CC's investment capacity through the proposed AF will also include a municipal credit rating exercise by an internationally recognized credit rating agency, a process identified as an international best practice in order to promote an enabling environment for accessing financial markets. The support to be provided in the framework of the AF to the introduction of international financial reporting standards and asset-based accounting (as part of the implementation of the reform on local taxation) will also contribute to enhancing the CC's creditworthiness.

14. ***Through Results Area 2,*** the World Bank will continue to support the Municipality of Casablanca in enhancing local service delivery, including through providing technical and financial support to improve road maintenance while pursuing the digitalization of administrative services. The parent operation aimed at upgrading/constructing key urban transport/mobility expenditure, with over 103 km of priority urban roadways already built/rehabilitated to date (subject to verification in the coming weeks) – the final 116 km target under DLI≠3 is expected to be met in 2023. Rather than scaling up this DLI, the AF will focus on ensuring that effective operations and maintenance are carried out on municipal roads, including on the infrastructure developed under the Parent Program. Indeed, the value-for-money and sustainability of public investments remain as key issues for the CC. Annual planning of O&M works depends on the CC budget balances, resulting in highly fluctuating financial envelopes dedicated to road maintenance from a fiscal year to another: MAD 62 millions in 2015; MAD 23.2 million in 2017; MAD 95 million in 2019; MAD 23 million in 2021. Beyond the variability of available resources, identification and prioritization of investment by the CC are conducted on an "emergency-based" approach rather than on a wholistic analysis of the existing state of urban roads. As a result, intervention are often programmed at a late stage, on already significantly degraded roads, thus leading to additional costs. The parent operation supported the definition of an integrated regulatory framework for maintenance (*règlement de voirie*) laying down norms and procedures applicable to all network operators intervening on Casablanca's Road network. Based on the need identified for a consolidated vision in terms of planning and implementation of O&M works for the different types of existing urban roads and structures (such a bridges) falling under the mandated of the CC, the proposed AF will focus on the development of an in-depth diagnostic of the existing road network managed by the municipality, to be updated on a regular basis, as well as on the

programing of annual road maintenance investments involving all the relevant stakeholders (the SDL Casa Aménagement, the municipality and its districts). As highlighted in the previous section, there is a strong rationale for enhancing the CC resilience to climate shocks while providing equitable access to quality services. Building on the engagement of the new municipal council, the additional financing (AF) will focus on supporting the City's climate action on both the adaptation and mitigation fronts as well as the City's social Inclusiveness through climate smart municipal investments (including through the operationalization of wastewater reuse mechanisms in selected green spaces and the upgrading/creation of green spaces with an inclusive design) to improve the city's livability and promoted enhanced access to municipal services.

- **Program definition and boundaries and description of changes**[14]

15. **The proposed AF expands the PDO of the Parent Program through introducing an additional focus on resilience to climate change and fiscal sustainability**. The original PDO is "to increase the investment capacity of the Municipality of Casablanca, improve the business environment in the Municipality of Casablanca, and enhance access to basic services in the Program Area." The revised PDO would aim: *" to increase the investment capacity of the Municipality of Casablanca, improve the business environment in the city, strengthen the city's climate resilience and enhance access to basic services in the Program Area"*.

16. **The Program boundaries will be slightly expanded** within the initial results areas identified under the PDGC, while reflecting priorities to be embedded in the new municipal action plan. The AF boundaries are defined as following:

- ***Activities***: The AF would finance activities to broaden and deepen the engagement under the first two RAs identified within the PDGC. Activities include technical assistance, studies, and information technology (IT) systems to support the financial and institutional strengthening of the CC, investments to improve the urban environment and resilience to climate change in the Program Area
- ***Duration***: the AF will extend Program implementation to June 30, 2026, aligning with the ongoing PDGC commitments and the municipal action plan to be developed for the period of 2023-2028.
- ***Program area***: the AF retains the same geographic boundaries as the Parent Program.
- ***Results:*** The AF maintains the focus on the first two results areas identified under the PDGC *(Increasing municipal investment capacity and improving the urban environment and access to basic services)* while reflecting priorities to be embedded in the new municipal action plan, considered as part of the Government program.

17. A **parallel restructuring will capture the proposed changes under existing DLIs and extend the parent program closing DLIs**. Proposed changes will target DLI2 and DLI4 to reflect challenges faced during Program implementation as well as changes in the design of DLI 4. Specific changes in scope and / or duration, are expected under DLI 1, 2 and 4. The closing date of the Parent Program will also be extended to align with the AF closing date set at June 30, 2026 (instead of March 31, 2023).

[14] Changes are described in more details in the main body of the Program Paper.

18. The first PDO indicator (“*Percentage of annual increase in Municipal Revenues excluding transfers”)* (DLI1) will be expanded in scale and duration to align with DLI 1 new targets.

19. The third PDO indicator (“Households in disadvantaged neighborhoods provided with improved access to basic services (at least, Number)”) will be restructured to cap the end target, given the emerging changes in the implementation of part of the investments.

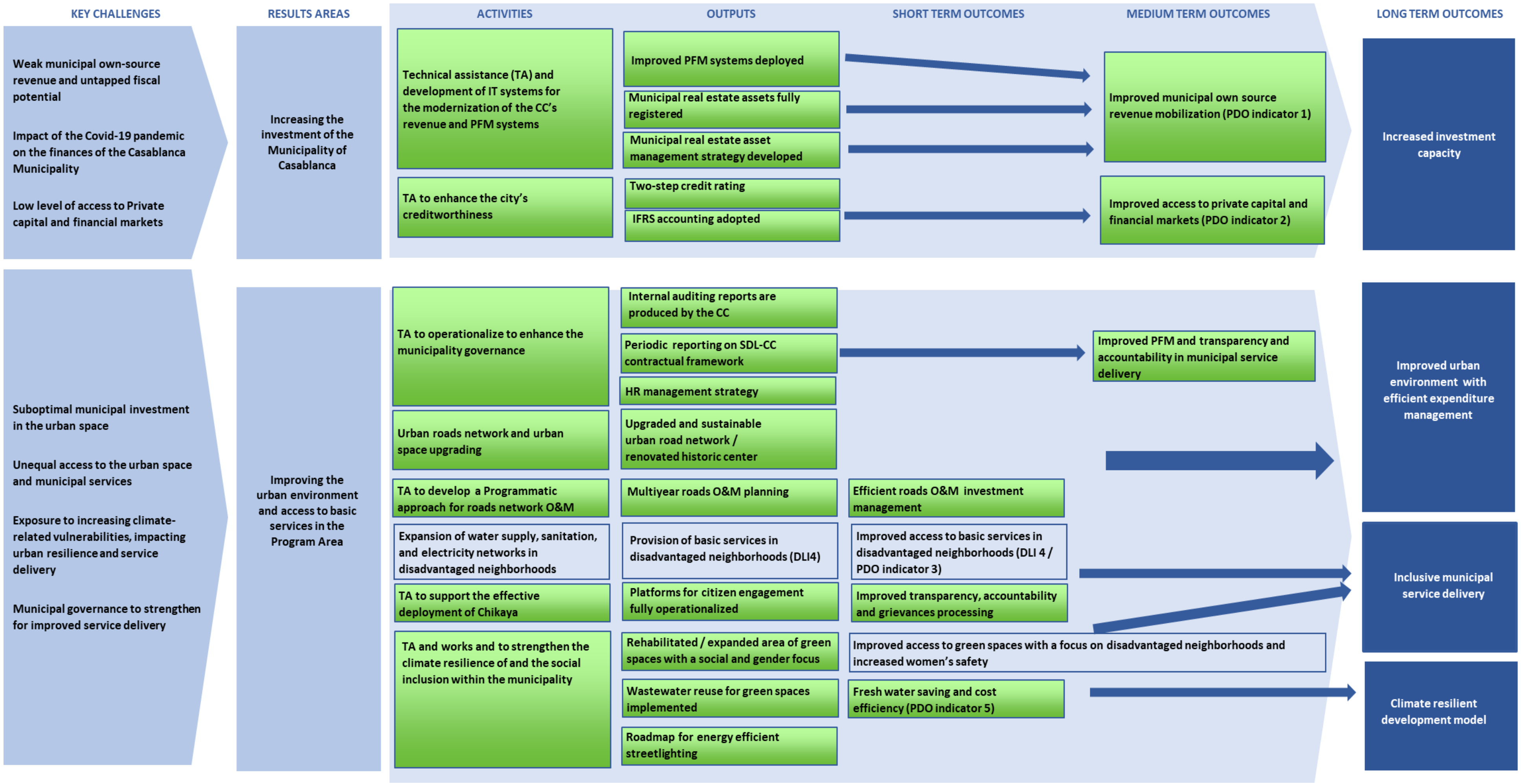
20. An additional PDO-level indicator will be included to reflect the Climate change focus of the AF, measuring the “Fresh water savings from watering green spaces through reused waste water”.

21. Results Area/ Subprogram 1 will be restructured, while including new results. Five DLRs under DLI2 will be restructured (DLR 2.3, DLR 2.4, DLR 2.6, DLR 2.7, DLR 2.8) with extended deadlines and DLI2 will also include new results (under new DLR 2.9) relating to the operationalization of a new module on financial reporting. An additional DLI will also be introduced to untap the city’s financial potential in terms of municipal real estate assets (DLI7 “Improved municipal real estate assets management implemented”) by leveraging on the inventory and valuation of these assets conducted under the Parent Program (DLR 2.5). A new DLI12 aiming at “Improving access to private capital and financial markets” will also be introduced through the carrying out of a two-step credit rating exercise and that of periodic reporting on SDL-CC contractual framework.

22. Results Area/ Subprogram 2 will be restructured, and new results will be included. While DLI4 will be capped, four additional DLIs contributing to increase the municipality’s governance to further enable the provision of quality services will be introduced, namely: DLI8 “Strengthening the sustainability of key municipal infrastructure through evidence-based Operations and Maintenance (O&M) and targeted rehabilitation”; DLI 9 “Strengthening Casablanca’s climate action; DLI 10 “Strengthening the CC’s governance” and DLI11 “Effective digitalization of the municipal administration for a quality service delivery and improved accountability toward citizens”. DLI5 will also be extended to support the improvement of the urban environment through street upgrading and renovation of the historical center.

23. Subprogram 3/Results Area 3 will not be extended with new results as all relevant results initially set to improve the business environment of the CC have been achieved, namely through the simplification and digitization of procedures for obtaining building permits and business licenses. Two IT platforms were developed for this end (DLI#6), which has allowed to significantly reduce the number of days to issue these permits and licenses (e.g., the number of days for obtaining a building permit went from 72 to 39 days).

Figure 1: Program results chain reflecting the AF contribution to the PDO achievement as well as longer term government program goals



- **<u>Institutional Framework and Program Implementation Capacity</u>**

24. **The AF will rely mostly on the same institutional and implementation arrangements as the parent operation**, as the latter have proven their efficiency through the successful implementation of the Parent Program. The Program builds on strong ownership at the local and Government levels. The PDGC's institutional architecture relies on clear roles and accountability lines. The institutional arrangements will be updated to reflect the inclusion of new implementing agencies in charge of new results (i.e., Casablanca Baia, in charge of climate-related results, especially under new DLI9). As for the additional activities under the proposed AF not included under the PDGC, they will be implemented following the same arrangements. The proposed operation will continue to be based on close partnership among key stakeholders including the MoI through the DGCL (responsible for LGs' oversight) and the Wilaya representing the Government at the regional level and in charge of the broader PDGC implementation. The Municipality will be executing the Program activities either directly or through agencies under its authority such as the Local joint ownership companies Companies (*Sociétés de Développement Local, SDLs*) (see box 2 below).

25. The overall management of the Program will remain under the responsibility of the Program Strategic Committee (*Comité Stratégique*), entrusted with decision-making power to set priority objectives. As for the Steering Committee (Comité de Pilotage, COPIL), it will remain responsible for Program implementation at an operation level, for ensuring coordination among key Program stakeholders, as well as for overseeing Program reporting. Managed by the CC, the Program Management Unit (PMU) will remain at Casa Prestations with reinforced staffing and direct reporting to the Mayor and Municipal Council and close and regular coordination with the municipal administration. Program implementing agencies would include: the municipality of Casablanca and the SDLs of Casa Prestations, Casa Aménagement, Casa Mawarid, Casa Patrimoine, and Casa Baia.

Box 2 : Local Joint-Ownership Companies (SDLs) in Casablanca

Since the mid-2000s, the CC has set in place a series of SDLs entitled to act and intervene on its behalf in specific areas included within the municipal mandate, such as : the carrying out of major urbanization and development projects (Casa Aménagement, created in 2008), the development of a set of public transport lines with dedicated routes (Casa Transport, created in 2009), or the rehabilitation and promotion of the historical and interest heritage of the City (Casa Patrimoine). Based on innovative and flexible institutional arrangements, the creation of these SDLs has allowed the CC to achieve significant and measurable results in a large array of sectors. In 2021, these entities implemented about 70% of the CC's investments (in volume).

Most Program activities have been and will continue to be implemented through these SDLs. In addition to the 3 SLDs mentioned above, Casa Baia (literally "Casa Environment") will be in charge of the implementation of activities under new DLI9. Previously named Casa Développement, the activities of Casa Baia have been focused since October 2018 on the design and implementation of the city's commitment to environmental protection, in particular through the supervision of the delegates in charge of the cleanliness of the city, the follow-up of the quality air pollution, beach management, pest control and the management of parks and public gardens.

- **Expenditure Framework**

1. The proposed Additional Financing consists of US$ 100 million of IBRD financing, complemented by a government contribution of US$ 56 million. It will thus scale up the overall program volume from US$ 345 million to US$ 501 million.

Table 2: Program Financing (in US$ million)

Financing Source	Original Program	AF Program	Total
BORROWER/RECIPIENT	145	56	201
IBRD/IDA	200	100	300
OTHER	-	-	-
TOTAL	**345**	**156**	**501**

26. **Expenditure Framework.** The Program expenditure framework is expanded to align behind the anticipated CC's Municipal Action Plan. AF-related expenditures will be incurred by the following agencies:

Table 3: AF Program Expenditure Framework

Implementing agency	Activity	Allocated envelope (in MAD)	Allocated envelope (in USD)
Casa Patrimoine	Technical assistance for improved Municipal asset management	46,000,000.00	4,684,317.72
	Rehabilitation works	280,000,000.00	28,513,238.29
Casa Baia	Green spaces rehabilitation and management	240,000,000.00	24,439,918.53
	Water reuse investment programs	189,000,000.00	19,246,435.85
Casa amenagement	Rehabilitation and upgrading for the roads network	721,000,000.00	73,421,588.61
Casa Prestation	IT systems for improved digitalization	59,000,000.00	6,008,146.64
Total		**1,535,000,000.00**	**156,313,645.64**

27. An interim financial reconciliation has been carried out (see Table 6 and FSA Addendum for more details).

Table 4: Program Expenditure Framework – Interim financial reconciliation

Implementing agency	Expenditures to date in MAD	Expenditures to date in US$
Casa-Prestations	7,170,000.00	717,717.72
Casa-Patrimoine	3,548,680.00	355,223.22
Casa-Aménagement	858,402,598.90	85,926,186.08

Casa-Transport	559,103,589.96	55,966,325.32
Lydec	187,929,164.00	18,811,728.13
Total	**1,616,154,032.86**	**161,777,180.47**

- **Program Results Framework**

28. **The Program Results Framework has been updated for the AF**, in accordance with changes indicated in section C (and further detailed in the body of the Program Paper). As the Program Appraisal Document (PAD) for the parent operation did not include a formalized Theory of Change (TOC) given that it only became a formal requirement by OPCS from 2018, a results chain has been developed, which includes both the Parent Program and AF contribution to the PDO achievement (see figure 1 above).

- **Program's Economic Analysis**

29. **Fiscal and economic relevance.** The potential for increased municipal revenues of the Casablanca Municipality remains very significant. Studies carried out over the past decade[45] indicate that the own-source revenues collected by the municipality of Casablanca are at least 3 times lower than their potential, if their tax base was properly identified and if tax collection was effectively operated. The weak revenue growth witnessed for over 12 years, which corresponds at most to inflation and to Casablanca's economic and demographic development, indicates that the gap remains quite unchanged. The financial and debt sustainability analysis of the CC conducted in the framework of the preparation of the proposed AF shows that the additional initiatives supported by the parent operation, which are to be further operationalized through the AF, should largely contribute to a significant increase of the City's own-source revenues (for a 10% annual increase under DLI1). In light of such positive potential impact on the CC finances, the scope of the Program and the proposed AF have a high fiscal and economic relevance.

30. **Rationale for the Use of Public Funds and Direct Program Economic Impact.** Supporting the Program through the provision of public funds to implement the activities of the proposed AF remains appropriate. Regarding the investment targeting the rehabilitation and/or construction of green spaces, a growing body of research conducted in various contexts confirms the net economic benefits, both direct and indirect, of initiatives to create or improve green spaces, thus acknowledging the important role of greenspace in sustainable development as well as the creation of attractive and economically vibrant communities[15].

[45] Philippe Laurent Consultants-Charles Riley Consultants International, 2008.

[15] See for example *Kolimenakis, A.; Solomou, A.D.; Proutsos, N.; Avramidou, E.V.; Korakaki, E.; Karetsos, G.; Maroulis, G.; Papagiannis, E.; Tsagkari, K. ; The Socioeconomic Welfare of Urban Green Areas and Parks; A Literature Review of Available Evidence. Sustainability 2021, 13.* See also *"Economic benefits of greenspace. A critical assessment of evidence of net economic benefits", Forestry Commission: Edinburgh, Vadim Saraev, 2012.*

31. **Value added of the Bank.** The World Bank has global expertise in key Program areas such as public finance management, PPP advisory, citizen engagement, urban upgrading, and climate change, which justify its involvement.

32. **Economic benefits.** Assessments of economic benefits for selected Program activities have been carried-out for new activities.

Rehabilitation / expansion of green urban spaces

The rehabilitation / expansion of urban green spaces (UGSs) in Casablanca under the AF contributes to the quality of life in the city and provides great benefits to its citizens. The expansion of UGSs promotes a better physical and social environment and contribute to better health, improved equity, and environmental sustainability. In addition, expanding UGSs in Casablanca generates financial returns that exceed the investments made by the CC including the associated maintenance costs. The economic analysis under the AF adopts similar cost-benefit principles adopted for the parent project with the key features presented below:

- The Costs: The costs associated with the provision of UGSs in the city are limited to the: i) costs associated with developing the site, including design and construction costs and (ii) costs associated with operation and maintenance carried-out by the SDL Baia. As per the parent project, the analysis assumes that land used for expanding UGSs in Casablanca is a public good. It also excludes the opportunity cost associated with the loss of property tax income that the CC would have received if the UGSs had been developed for other purposes. The latter widely depends on both the location and the specific design characteristics of the UGSs being established as part of the CC's investment program.

- The Benefits: Investing in the rehabilitation and expansion of UGSs in Casablanca under the AF yields considerable socio-economic and environmental externalities. Such investments contribute to the appreciation of property values in proximity to the UGSs, thereby increasing property tax revenues. In terms of climate change mitigation and adaptation, UGSs play an important role first by reducing atmospheric $CO2$ concentrations and then by lowering the higher temperatures that may be accentuated by the "urban heat island" effect. Also, being pervious, UGSs do absorb rainwater, recharge ground water supplies, and allow storm runoff to be released slowly. In turn, reduced runoff increases water storage and decreases the cost of stormwater management systems in the city and leads to significant savings in water treatment costs.

Wastewater reuse

The wastewater reuse Program in Casablanca under the AF contributes to reducing the impact of water scarcity and participates in the effort to reduce pressure on conventional water resources by reusing wastewater to water green spaces using passive design for green spaces to improve rainwater retention, aligned with NDC climate change adaptation provisions. The analysis carried out captures the following:

- The Costs: the associated costs include the initial capital investment. Operating expenses are currently being refined with the Client.
- The Benefits: the analysis captures the cost savings from using treated wastewater rather than fresh water to water an area of 204 Ha.

Urban Roads rehabilitation

An economic analysis was carried out under the parent program highlighting that Program-supported urban roads typically have a positive NPV (Net Present Value) of USD 16 million and an ERR (Economic Rate of Return) of 15% while traffic management systems have a positive NPV of USD 34 million and an ERR of 14% and corridor upgrades have a positive NPV of USD 23 million and an ERR of 25%. The typical expenditures supported by the Program are consequently worthwhile and beneficial for society at large.

H. Technical Risk Rating

33. **The Technical design risk is raised to substantial.** As mentioned in the Proposed changes, DLI# 1 target is required institutional coordination, with key levers to unlock to achieve it, justifying the change in the technical risk level. To mitigate the risk around this DLI, the Municipality of Casablanca will prepare by end of June 2022 a time-bound Financial Reform Action Plan to be endorsed by its Municipal Council, by October 2022. World Bank approval of the said plan is a condition for disbursement under DLI# 1.

I. Suggested Inputs to the Program Action Plan

34. Based on the technical risk assessment, the following actions will be included in the PAP:

- *Action 1: Submittal of an approved time-bound Financial Reform Action Plan to improve the CC own-source revenues.* This represents a condition for disbursement for DLI# 1.
- *Action 2: Preparation of a roads network diagnostic to inform O&M planning a*nd achievement of DLR# 8.2.