PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF €5.8 MILLION (US$5 MILLION EQUIVALENT)

TO THE

KINGDOM OF MOROCCO

FOR A

SUPPORT FOR THE SOCIAL DEVELOPMENT AGENCY PROJECT

May 3, 2002
CURRENCY EQUIVALENTS
(Exchange Rate Effective October 31st, 2001)

Currency Unit = Moroccan Dirham (MAD)
MAD1 = US$0.09
US$1 = MAD11.44

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ADS    Agence de Développement Social (Social Development Agency)
CAS    Country Assistance Strategy
DFA    Direction Financière et Administrative (Administrative and Financial Division)
DG     Director General
EA     Environmental Assessment
EMP    Environmental Management Plan
ESW    Economic and Sector Work
FMS    Financial Management System
GDP    Gross Domestic Product
HD     Human Development
IBRD   International Bank for Reconstruction and Development
IGF    Inspection Générale des Finances
LSMS   Living Standard Measurement Survey
MEFPDSS Ministère de l'Economie, de la Formation Professionnelle, du Développement Social et de la Solidarité (Ministry of Economy, Training, Social Development and Solidarity)
MENA   Middle East and North Africa
MF     Micro Finance
MFI    Micro Finance Institutions
MIS    Management Information System
MOF    Ministry of Finance
NCB    National Competitive Bidding
NGO    Non Governmental Organization
NS     National Shopping
OM     Operational Manual
O&M    Operation and Maintenance
PAD    Project Appraisal Document
PHRD   Policy and Human Resources Development (Japanese grant)
PN     Promotion Nationale
PTA    Parent-Teacher Associations
QCBS   Quality Cost Based Selection
UNDP   United Nations Development Program
TA     Technical Assistance
TOR    Terms of Reference

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Country Manager/Director: Christian Delvoie
Sector Manager/Director: Jacques Baudouy
Task Team Leader/Task Manager: Yasser El-Gammal
MOROCCO
SUPPORT FOR THE SOCIAL DEVELOPMENT AGENCY PROJECT

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   2. Other

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MAP(S): IBRD No.31436
MOROCCO
Support for the Social Development Agency Project

Project Appraisal Document
Middle East and North Africa Region
MNSHD

Date: April 19, 2002
Team Leader: Yasser El-Gammal
Country Manager/Director: Christian Delvoie
Sector Manager/Director: Jacques Baudouy
Project ID: P073531
Sector(s): SF - Social Funds
Lending Instrument: Specific Investment Loan (SIL)
Theme(s): Social Development; Social Protection
Poverty Targeted Intervention: Y

Project Financing Data

[X] Loan   [ ] Credit   [ ] Grant   [ ] Guarantee   [ ] Other:

For Loans/Credits/Others:
Amount (US$m): 5.00 (€5.8 million equivalent)

Borrower Rationale for Choice of Loan Terms Available on File:
Proposed Terms (IBRD): Variable-Spread Currency Loan (VSCL)

Financing Plan (US$m): Source

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Borrower: GOVERNMENT OF MOROCCO
Responsible agency: SOCIAL DEVELOPMENT AGENCY
Agence de Développement Social (ADS)
Address: 22 Rue Jbel Ayachi, Agdal, Rabat.
Contact Person: Mr. Najib Guedira - Director General - ADS
Tel: 212-37-65-54-65 Email: ads@iam.net.ma
Fax: 212-37-65-55-29

Estimated Disbursements (Bank FY/US$m):

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Project Implementation period: five years
Expected effectiveness date: 08/01/2002 Expected closing date: 12/31/2007
A. Project Development Objective

1. Project development objective: (see Annex 1)

The overall goal of the "Agence de Développement Social" (ADS) is to introduce new approaches and mechanisms for reaching poor communities and vulnerable groups. The project supports this goal and its specific objectives are to:

a) test new approaches for delivering social services in a more relevant and cost effective manner by supporting the establishment of a participative demand-driven mechanism that will reach out to poor communities; and

b) better organize local communities to take charge of setting development priorities and implementing development activities by strengthening the capacity of local NGOs.

2. Key performance indicators: (see Annex 1)

| * The ADS uses a participative and demand-driven approach to identify sub-projects. |
| * The ADS funds at least 100 sub-projects by mid-project and 200 by project end in different geographical rural and urban slum areas. |
| * The ADS is reaching the poor and vulnerable. |
| * At least 200 thousand beneficiaries are reached by mid-project and 400 thousand by end of the project. |
| * At least 35% of project beneficiaries are girls/women. |
| * At least 70% of ADS funds are targeted to rural areas. |

B. Strategic Context

1. Sector-related Country Assistance Strategy (CAS) goal supported by the project: (see Annex 1)

Document number: 22115-MOR Date of latest CAS discussion: May 7, 2001

The project addresses two of the four main core objectives of the CAS:

- To develop and strengthen participative and decentralized programs to reduce poverty and fight exclusion, and
- To reduce vulnerability of the poor especially in rural areas.

The project also addresses three of the four key development challenges identified in the CAS;

**Equity:** by improving the poverty focus of public policies and expenditures;

**Efficiency:** by introducing new alternatives for the provision of social services that are based on participation of local communities, cross-sectoral approaches and decentralization; and

**Vulnerability:** by providing short-term coping mechanisms for the vulnerable groups as well as opportunities for diversifying the sources of income for the rural poor.

2. Main sector issues and Government strategy:

**Poverty, vulnerability and urban-rural disparities**

Although access to basic services has improved in recent years, poverty and vulnerability have increased. Poverty increased from 13 percent of the population in 1990/91 to 19 percent in 1998-99 (or from 3.4 to 5.3 million) and vulnerability (defined as those who are at or below 50 percent above the poverty line) increased from 35 to 44 percent during the same period. The disparities and gaps in social services between rural and urban areas (or poor and rich areas) remain one of the main challenges despite recent
improvement. Morocco has unfavorable social indicators compared to lower-middle income countries with similar GDP. These indicators reflect the disparity between urban and rural areas in Morocco (for example: 43 percent of rural households with access to clean water versus over 90 percent in urban households, 49 percent rural access to electricity versus more than 85 percent in urban areas, 47 percent rural female primary enrollment as percentage of school-age population versus over 80 percent in urban areas).

Weakness of economic infrastructure in rural areas

The weak economic infrastructure in rural areas restricts the rural population from effectively benefiting from agricultural-based activities or diversifying their sources of income. This is manifested in the lack of markets, access to main roads (especially in rainy seasons when some areas are cut off from the main roads) and weak infrastructure like irrigation canals and water harvesting projects. This situation continues to fuel rural-urban migration and increases the pressure on urban slum areas where people are already living in harsh circumstances.

Potential demand for Micro Finance (MF) that is much greater than the supply

Due to the instability and seasonality of agricultural income and the weak economic infrastructure mentioned above, many of the poor and vulnerable groups in both rural and urban slum areas are involved in micro-enterprises to increase and diversify their income. These micro-entrepreneurs are in need of both financial and non-financial services to support their activities. A number of NGOs embarked on micro credit programs since the early 1990s and have developed sound programs reaching a significant number of poor families in rural and urban areas. However, the current programs respond to less than 5 percent of the estimated potential needs in this area (Making Micro Finance Work in the Middle East and North Africa, World Bank, 1999).

Ineffectiveness of public programs

Urban-rural disparities have been the focus of the government in recent years. However, the results have been limited in terms of better access to social services by poor rural and urban slum populations. There are many reasons for this:

Most government programs are single-sector interventions that fail to adopt a comprehensive and integrated look at poverty issues in rural and urban slum areas. This is mainly caused by institutional and coordination problems where, for example, those in charge of rural water do not communicate with those in charge of rural electricity.

A top-down approach characterizes most government interventions in Morocco. Priorities of the population are not seriously considered, decisions are not made based on local needs, and there is no consultation with communities. Although the Government has been promoting civil society organizations, especially NGOs, in the last few years, it still is not well-informed about very successful NGO activities in rural areas. Because of this lack of information, government officials are sometimes skeptical about demand-driven community-based approaches for delivering social services.

A very centralized approach is being used in delivering social services. This creates a very slow pace of implementing development projects and causes many logistical problems which decrease the effectiveness of project impact. Not only are the decisions on the types of investments taken centrally, but the intermediaries used are also dictated with little consideration to actual capacity on the ground.
Involving civil society and NGOs

There is a need for innovative and comprehensive approaches to be used by government agencies in tackling developmental issues using multidisciplinary approaches, particularly in rural areas. Approaches are needed that would allow local communities to express their needs, participate in developing action plans and help in their implementation. Experiences across the world and in Morocco show that these participative approaches, besides being more cost effective in the delivery of social services, provide a good starting point for local ownership and better chances for the sustainability of these development activities.

The recent NGOs' involvement in provision of social services and social infrastructure in Morocco was built on an old tradition of self-help and community organization and quickly became very strong. Thousands of NGOs in the country (the official figures vary, but the number is well above 25,000) work at the national, regional, and local levels. Although many of these NGOs are not very active, a considerable number of them are very successful in mobilizing resources from several internal and external organizations and implementing a large number of very successful development projects. In a regional context, one can say that Morocco now has some of the strongest NGOs in the region in terms of capacity and professionalism.

Government strategy

In the last five years, there has been greater focus on poverty reduction in Morocco. The Government has initiated a number of programs and established a number of complementary mechanisms to directly target poverty, and help create employment, especially in rural areas. This is most noted in the creation of the Hassan II fund, the Mohamed V foundation, and the ADS.

The Bank is finalizing with the Government a comprehensive social protection note which will form the basis for establishing a social protection strategy. The note identifies the specific target population and assesses the effectiveness of the instruments of the social protection system. It provides specific recommendations for each government sponsored program for the future (some programs are recommended to be expanded, others to be phased out or restructured). In the Micro Finance area, the Government has been supportive of the excellent initiatives of a number of local NGOs that have initiated successful "best-practice" micro credit programs since the early 1990s. The Government issued a micro finance law in 1999 which regulates the work of Micro Finance Institutions (MFIs) and has not hampered the development of this industry since it did not restrict the application of commercial interest rates to allow MFIs to cover their operational costs. The law requires that NGOs involved in MF and other social sectors have their MF operations registered separately (all active NGOs in the country now comply with this rule). Micro savings is still a gap that needs to be filled as NGOs are not allowed to mobilize savings.

The Government of Morocco has entered into discussions with the World Bank for the last three years, through the intermediary of the Ministère de l'Emploi, de la Formation Professionnelle, du Développement Social et de la Solidarité (MEFPDSS), on issues governing different aspects of Social Funds. The World Bank facilitated a considerable transfer of knowledge in areas related to the institutional and operational aspects of Social Funds to the Government. In August 1999, the Government issued Law No. 12/99 which established the Agence de Développement Social (ADS). The ADS, with the status of a public establishment, has the mandate of improving the living conditions of the most vulnerable populations.
3. Sector issues to be addressed by the project and strategic choices:

Poverty and vulnerability in rural and urban slum areas: characterized by low access rates to social services and basic needs and many rural areas being remote and isolated. Most government programs dealing with poverty are poorly targeted, single-sector programs that lack efficiency because resources are not allocated on the basis of poverty. Most government programs also lack the ability to test new approaches or expand others that have been successfully tried by NGOs.

A non-participatory urban dominated allocation of resources: the top-down, non-participatory approach of resources allocation is biased to urban areas. This project will include NGOs in the decision-making process and support small sub-projects that, by nature, favor rural areas.

A low, heavily agriculture-based income in rural areas: where rural populations are not using their resources efficiently due to weak economic infrastructure and lack of technical and financial support to other sorts of income generating activities.

The nonexistence of a systematic and sustained mechanism to help strengthen the capacity of local NGOs: many valuable experiences by NGOs in Morocco are not being considered due to the lack of experience-sharing among NGOs and the absence of a practice of supporting the smaller, less experienced NGOs to benefit from the experiences of the larger ones.

Strategic Choices

Expanding the existing "Promotion Nationale" (PN) program could be an alternative strategic choice as it supports rural infrastructure as well as generates employment opportunities. However, the top-down, non-participative approach used by PN favors the support to the ADS.

Using the existing Mohamed V foundation could have been an alternative choice, but the mixed developmental and charitable nature of this foundation would not have made it the appropriate vehicle. The Hassan II fund may have been a host for the project but this fund lacks the institutional structure that is needed for ADS activities and is a temporary fund. Placing the responsibility of the project in a line ministry was not a possibility due to the multidisciplinary nature of the activity and the demand-driven orientation. The project is also trying to introduce a private sector environment in a public agency which would have been difficult in a line ministry. Furthermore, the project increases the funds allocated for poverty reduction in Morocco, which has relatively low (by regional standards) spending on this area.

C. Project Description Summary

1. Project components (see Annex 2 for a detailed description and Annex 3 for a detailed cost breakdown):

In all the following project components, the ADS will work in collaboration with, and to complement the work of, various line ministries, and other government entities at both the central and regional levels. Coordination mechanisms are already in place, and will continue to be developed between the ADS and other entities and ministries.

1- Community development and social infrastructure (US$9 million): this component will support sub-projects to enhance the social infrastructure of selected poor rural and urban slum areas. Support will be based on demand and will cover areas from basic education and primary health care to literacy activities and rural drinking water. Support will be extended to various aspects from construction and training activities to helping communities coordinate to maintain and operate the infrastructure.
2- Support to economic infrastructure and income generation (US$3.75 million): This component will support three kinds of activities:

- Sub-projects that enhance the economic infrastructure in rural and urban slum areas. Examples are irrigation, small markets and rural roads sub-projects;
- Sub-projects that finance training and non-financial support to activities that are directly related to creating employment opportunities or expanding existing micro or small businesses; and
- Sub-projects that support the expansion of the existing micro finance operations to new geographical areas.

3- Institutional development for intermediaries (US$1.5 million): this component increases the effectiveness of the first two components by supporting the capacity of ADS' intermediaries to identify, appraise and implement sub-projects. The component would strengthen selected NGOs in Morocco by building their capacity to assess local needs, formulate, implement, operate and maintain local development projects. It will also assist communities in taking charge of the Operation and Maintenance (O&M) of social and economic infrastructure. This component will also help the ADS to reach remote areas with no local structures by contracting large and institutionally capable NGOs to act as ADS agents in these areas.

4- Studies and ADS capacity building (US$0.75 million): this component will support (in the form of studies) institutional and operational aspects of the ADS that will assist the Agency in learning from experiences with similar operations in other countries. It will also help enhance the ADS management and Board of Directors' understanding of specific technical areas like micro finance. The component will also support the establishment of a comprehensive monitoring system to monitor its sub-projects.

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2. Key policy and institutional reforms supported by the project:

The main institutional reform measure was the establishment of the ADS in 1999. The Board of Directors of the ADS has been nominated and held its first meeting in April 2001. The Director General (DG) of the ADS has been appointed and the sub-projects Approval Committee members have been nominated. Meetings to determine the rules for sub-projects approval have been held.

The main institutional issues that need to be addressed during the course of the project are:

**ADS autonomy**: the Government needs to ensure that the ADS is working according to the rules and procedures that are laid out in its Operational manual (OM), and that activities are targeted and funds
allocated in a manner consistent with the project’s poverty alleviation objectives.

**Participative demand driven approach:** the Government, and the Bank through its regular supervision of the project, should ensure that the ADS does not embark on financing activities before a full active consultation process is followed with the concerned communities.

**Coordination with line ministries and local authorities:** the Government and ADS management should ensure that full coordination is taking place with central ministries, their offices in different areas and local authorities. This coordination will ensure that (a) ADS is complying with overall sectoral policies, (b) no duplication of activities or over allocation for certain regions is taking place, and (c) all O&M requirements for sub-projects funded by the ADS are agreed on beforehand with local authorities and/or line ministries.

**Creation of a flexible and responsive private sector orientation in the ADS:** The Government should ensure that recruitment rules of the ADS are competitive enough for it to attract personnel of high caliber from the labor market. The current "Statut du personnel" of the ADS restricts it from recruiting a certain category of personnel. Annual contracting is also hampered by the rigid "Statut." The ADS is discussing this issue with the MOF to ensure that the ADS will have the flexibility to attract the desired personnel. Also, prompt arrangements for hiring consultants will need to be in place to ensure that the ADS will be able to respond to funding proposals in a reasonable time period.

3. **Benefits and target population:**

The project components will provide three main benefits to local communities:

**Improved access to services:** the ADS will provide support to social infrastructure and services. In basic education, for example, support can be extended to build an elementary school, rehabilitate an existing one, train teachers or organize communities to take an active role in school maintenance.

**Greater access to economic opportunities:** the ADS will also support activities that enhance the ability of the local population to make better use of available resources or create new income opportunities. This will be achieved through the second component where support will be extended to build economic infrastructures like irrigation activities, rural access roads and construction of small marketplaces. Under the same component, support will also be extended to provide financial and non-financial services to the economically active poor through new programs in partnership with the existing MFIs.

**Enhanced community organization:** the third project component will work to mainly support the first two and will enhance the level of organization of local communities by:

- Strengthening the capacity of local communities to assess their needs and jointly formulate ideas into project formats that could be submitted to the ADS or other funding institutions;
- Strengthening the coordination capacity of local governments with offices of line ministries and communities;
- Enhancing the effectiveness of the existing social services by organizing communities to take an active role in the O&M of different development activities; and
- Introducing new forms of community organizations such as parent-teacher associations (PTAs), water user associations, local development committees and health committees in order to carry out the projects identified by the communities.
Target population

The ADS will target the poor and vulnerable groups in both rural and poor urban areas of precarious habitat. Priority will be given to the following populations:

- Populations living in remote isolated areas;
- Populations in rural areas with social indicators below the country's average;
- Populations with limited access to social services;
- Female-headed households;
- Poor population who are economically active;
- People with special needs;
- Unskilled unemployed; and
- Populations with no regular stable income.

The proceeds of the Bank loan will be used to support sub-projects in 8 of the 16 regions in the country that were selected based on socioeconomic indicators, as follows: (i) Meknès – Tafilalet, (ii) Fès – Boulemane, (iii) Taza – Al Hoceima – Taounate, (iv) Makarech – Tensift – Al-Haouz, (v) Doukala – Abda, (vi) Souss – Massa-Draa, (vii) l’Oriental (région de l’est), (viii) Tanger - Tétouan.

4. Institutional and implementation arrangements:

The project will be implemented over five years. The Government of Morocco will be the borrower and the ADS will be the executing agency. A loan agreement will be signed between the Government and the World Bank, and a project agreement will be signed between the ADS and the World Bank. The Government will pass on the proceeds of the loan to the ADS as a grant.

The ADS set-up

The ADS was established by law in 1999 as a public establishment. The ADS' highest authority is its Board of Directors. The Board is headed by the Prime Minister and includes:

- Six representatives from the Government (Ministers of Interior, Social Development, Finance, Agriculture, Equipment and Trade and Industry);
- Three representatives from the private sector; and
- Three representatives from the civil society.

Representatives of the private sector were nominated through a consultation process that involved the most representative entities of the private sector. NGO representatives were also selected through a transparent and competitive process involving advertisements in the newspapers and a neutral committee selection of the members based on objective criteria. The Board oversees the ADS and is concerned mainly with policy issues. It approves major documents like the Operational Manual of the ADS, the annual budgets and audits and annual work plans. It also approves major decisions such as opening regional representations for the ADS.

For the approval of sub-projects, a Sub-Project Committee has been formed as part of the Board. The committee approves sub-projects above the agreed-upon threshold of the DG (the Board of Directors decided during its meeting on January 25, 2002 to set that threshold at 0.5 million Dirhams for now). The committee has four representatives from the Government (representatives from Ministries of Interior, Social Development, Finance and Equipment), two from the private sector and two from NGOs. The DG of the ADS manages its day-to-day operations including recruitment of personnel, dealing with external parties, and acts as the secretary of the Board.
A draft operational manual laying out the funding criteria for sub-projects and eligibility criteria for intermediaries has been developed and approved by the Board of Directors. The manual will guide the work of the ADS and help the sub-projects approval committee decide on sub-projects.

The ADS will start with a small core group of staff in Rabat and the regions. A "Statut du personnel" for the ADS has already been developed and approved by the Board of Directors and the MOF. The ADS finalized the process of recruiting the first group of personnel. Regional representation will start with three coordinating offices to be opened during 2002. The coordinating offices will represent the ADS' front line in dealing with NGOs to identify and prepare projects.

Targeting

The ADS will target poor communities in both rural and poor urban areas. It will build on the experience of other Social Funds to use specific targeting mechanisms to ensure that those who benefit from its funding are in the most need. Three main pillars will constitute the ADS' targeting mechanism:

**Geographical targeting:** the relatively advanced statistical database in Morocco will help the ADS in targeting its beneficiaries. A set of social indicators (already determined) will be used for the allocation of funds. Based on this set of indicators, the various regions of the country will be ranked according to their population access to social services. Funds will then be allocated to the provinces and "jmadi" within these regions.

**Targeting based on the nature of sub-projects:** another aspect of the targeting mechanism to be used by the ADS is to partially rely on the nature of the eligible activities to be financed, which in many cases implies that communities that request these activities are those with limited access to social services. The operational manual focuses mainly on the basic activities to be financed by the ADS.

**Criteria-based targeting:** the operational manual includes sectoral criteria to ensure compliance with overall policies in the country and to avoid sectoral distortions. During the pilot phase, it will be considered whether a prioritization points system for different sectors could be used.

Implementation mechanisms

The ADS will be demand-driven. The ADS has already embarked on a promotional campaign covering the entire country to inform national, regional and local NGOs and local authorities of its activities and eligibility criteria. NGOs have begun to submit sub-project proposals to the ADS for consideration. Fifteen sub-projects are being appraised with local communities and should be contracted by the end of 2001. Sub-projects will be implemented by local NGOs/communities in collaboration with local governments with several modalities used. In the case of sub-projects with relatively large infrastructure components, local contractors will be used (with the ADS helping in procurement if needed).

Procurement

A Country Procurement Assessment was undertaken by Mr. Maurice Gress, Procurement Advisor, and issued in February 2000. The report pointed out that although the Moroccan legislation on procurement is generally in line with the Bank’s Guidelines, certain rules and procedures are not acceptable to the Bank, as follows:
(i) The two-envelope procedure for the submission of bids for works and goods, and opening those envelopes in two different phases, should not be applied. The two envelopes should be opened simultaneously, without requiring the bidders' representatives to leave the room. However, only essential documents that can easily be verified can be opened before opening the financial envelope. These documents concern: the Déclaration sur l'honneur, proof of payment of taxes, bid security, and technical qualification certificate.

(ii) The procedure for hiring consultants through open competitive bidding should not be used, instead a short list of consultants should be invited. In this case, the public opening of the financial envelopes is conducted in accordance with Bank procedures following completion of the technical evaluation report.

Goods, works and services will be procured in accordance with Bank's guidelines for "Procurement under IBRD Loans and Credits" - January 1995 and revisions up to January 1999 and for "Selection and Employment of Consultants by World Bank Borrowers" - January 1997 and revisions up to January 1999.

Under the project, procurement will take place at two levels: (i) at the central level, within ADS, for activities related to components 3 and 4; and (ii) at the community level for sub-projects with community participation included in components 1, 2 and 3. The bulk of procurement work will occur at the community level to implement sub-projects which absorb 85 percent of the loan. An operational manual, detailing procurement arrangements and procedures, has been prepared and agreed with the Bank. ADS will oversee procurement management and will ensure that procurement procedures, funding and eligibility criteria for sub-projects agreed with the Bank and described in the operational manual are satisfactorily complied with.

Procurement undertaken for the sub-projects will be carried out by NGOs on behalf of the communities. Procurement capacity and procedures of these entities vary widely, with a limited number having the capacity to undertake large procurement or to operate within established procedures set out by the country's regulations and/or by the financiers; others lack capacity, especially those operating in remote rural areas. The procurement risk assessment is rated "average." Project design has taken this risk into consideration by incorporating the following features: (a) a component to provide technical assistance to develop and strengthen the institutional capacity of the intermediaries, including implementation and procurement (Component 3); (b) the loan amount is of small value; (c) the size of the sub-projects is kept small, with an average value of US$50,000 and not exceeding US$200,000; and (d) participation of the communities in every stage of the procurement processes, which can constitute a good control element. In addition, during appraisal, a plan of action was established with ADS to mitigate the procurement risk. Details and project additional information on procurement arrangements and methods are presented in Annex 6.

Financial Management and Flow of Funds

The ADS is a legal, financially autonomous public entity established by its charter on August 25, 1999. It is subject to government regulations as regards staff rules, procurement, and accounting. Its organizational structure is still being shaped. This would be the first project financed by the World Bank that the ADS will implement. ADS operations fulfill two functions: one in which the Agency acts as the "donor" of funds vis-à-vis its social partners, which implement the sub-projects, and another in which it develops its partners' institutional capacity. Thus the ADS' own financial management structure and procedures must address both these functions. The ADS needs control systems tailored to its own operations as well as to its responsibility to build institutional capacities of local communities, NGOs, and other social partners. This requires a decentralized structure in order to (a) be closer to the partners in places where projects are being carried out; (b) practice flexibility and speed; (c) allow strict monitoring
and familiarity with the financial status of the projects and the risks incurred, together with the ability to intervene at short notice; and (d) provide ongoing training of the partners in the various aspects of execution, including integrated project management.

To this end, the ADS will introduce standardized, user-friendly procedures, appoint staff close to the projects to ensure proper monitoring and training is provided as needed, and to put in place a set of financial and operational controls, including a good reporting system.

A review of financial management at the ADS shows that, given the short time since it was established, the Agency has not been able to set up a comprehensive financial management system tailored to the requirements of its operations. The Bank's appraisal mission noted shortcomings in accounting. The accounting records are not up-to-date and are not in accordance with generally accepted accounting standards. The staffing arrangements for the financial management function are insufficient to cope with the volume of work expected and the nature of decentralized operations. There are no clearly written administrative and accounting procedures. In its present state, the financial management system does not meet the Bank's minimum requirements in this area.

The ADS is committed to implementing a certain number of measures before the effectiveness of this loan, with a view to ensuring sound financial management of its activities and taking on its fiduciary responsibilities. Those measures are summarized in the Action Plan in Annex 6.

The measures referred to envisage strengthening the ADS' financial management structures by: (a) hiring a full time internal auditor and additional personnel to monitor sub-projects in accordance with regional needs; (b) introducing up-to-date accounting based on generally accepted accounting principles; and (c) establishing an accounting and administrative procedures manual and an integrated accounting information and reporting system for the Bank's reporting, as well as other donors and creditors. In addition, the MOF will assign a full time financial controller, known as the Agent Comptable. The Bank also discussed with the ADS its expectations with respect to an annual external audit; the recruitment of auditors acceptable to the Bank for grants and loans, their terms of reference (TOR), and deadlines for submission of auditors' opinions. The Action Plan also included the measures that need to be taken with regard to audits. Audit TORs including the Bank's requirements, the contents and form of audit reports were discussed and a final version was given to the ADS as part of the Aide-memoire of the appraisal mission (documents are kept also in the Bank project files). As indicated earlier, ADS is in its first year of operations and as such has not yet been audited. Its own establishment law dictates that it should appoint annually an independent external auditor to audit its annual accounts. Moreover, ADS is subject to a bi-annual a posteriori control from the MOF by a "Comité d'Experts". Project accounts will be subject to annual audits by independent auditors acceptable to the Bank. In this instance, the "Inspection Générale des Finances (IGF)" will be retained as the auditors, as is the case in the majority of Bank-financed projects.

Prior to loan effectiveness, ADS has agreed to set up an up-to-date accounting system, including the installation of an accounting software, finalize its accounting and financial procedures manual, and appoint independent external auditors acceptable to the Bank for the first year of operations according to agreed TORs. ADS will submit to the Bank before loan effectiveness, the auditors' management letter detailing the internal control system based on the first year audit. A Bank mission is scheduled before loan effectiveness. It will review implementation progress of the action plan and the quality of the actions implemented. If actions agreed were not taken or proven to be unsatisfactory. The mission will agree with ADS on remedial actions to be taken prior to loan effectiveness as needed. Funding for the action plan will be provided by the PHRD and ADS own operational expense budget (case of Agent Comptable and external auditors). ADS is committed to having an adequate FMS in place as soon as possible and before effectiveness.
During its appraisal mission, the Bank discussed with the ADS its comments on the operational manual, the standard agreement of sub-projects funding to include the missing financial management procedures needed. Simplified financial reports from the social partners to the ADS were also discussed and drafted as part of the standard documents.

The ADS will undertake an evaluation of each sub-project and the implementation capacity of each implementing agency to determine their needs in terms of technical assistance and training in financial management, procurement and project management. The NGOs will be responsible for keeping a simplified cash accounting of the funds received from ADS and from beneficiaries contributions for the implementation of the project. They will receive at least one training session before the start of the project on the accounting system, the ADS’s operational manual, and on the reporting requirements. These social partners will be audited regularly as part of ADS overall annual external audit on a sample basis. They will also be audited by the internal audit of the ADS based on their internal audit procedures to be developed on a risk based approach. They will also receive training on particular issues as these arise. Close follow-up will take place by the ADS’s agents de suivi following the receipt of the monthly reports.

A Bank mission will visit the ADS before loan effectiveness to assess implementation of the Action Plan and the financial management system in place. If these prove to be unsatisfactory, the mission will discuss further actions needed to strengthen the FMS before effectiveness of the loan.

**Flow of Funds**

The Agency will continue to receive funding through a government annual budgetary allocation transferred from the Ministère de l’Emploi, de la Formation Professionnelle, du Développement Social et de la Solidarité (MEFPDSS) budget.

The government allocation is transferred in installments by the MOF, once the MEFPDSS gives authorization in writing to the MOF to make the allocation to the operating and investment budgets of ADS.

The funds are then transferred to ADS’ respective accounts in the Treasury (Trésorérie Générale). In turn ADS uses those funds in accordance with its work schedule to cover operating costs and to carry out approved projects.

The same applies to funds received from the World Bank. Being a financially autonomous public entity, the ADS is permitted to hold one special account for government funding and one for IBRD loans. These accounts will be directly managed by the ADS. As with other Bank projects implemented by the Moroccan public sector, requests for recovery of advances and for reimbursements based on statements of expenses will be presented to the Bank by the Budget Directorate of the MOF. A detailed section of the special account’s authorized allocation, ceilings and operations can be found in Annex 6. The special account will be opened in the Treasury and will receive advances from the Bank at the request of the Budget Directorate based on the ADS’ request. ADS will provide supporting documentation to the Budget Directorate which will, in turn, submit it to the Bank as needed. These procedures are described in the Bank’s disbursement manual and will be explained when the project is launched.

The ADS will submit quarterly project management reports to the Bank once the integrated accounting and information system is up and running and in line with the (attached) schedule of activities under the Action Plan agreed upon by the Bank and ADS management.
Once funds have been disbursed the ADS would directly manage the two accounts in the Moroccan Treasury in the MOF. Both accounts would be replenished via the MOF.

As provided for in the ADS procedures manual, ADS disburses funds for projects based on the contract it signs with its partners, in tranches. These tranches must reflect the cash needs of each project as stated at the time of the sub-project appraisal.
For their part, the social partners are required to submit regular (monthly) reports to the ADS on the forms attached to the agreement and to keep the accounting documentation, supporting expenditures and receipts.

The pilot phase

The ADS will initiate activities under a pilot-phase which will extend for 2-3 years. During the pilot phase, the ADS will:

- **Establish its main core administrative structure** in Rabat and the regions, as well as its main systems and internal procedures. The ADS will start with a small core structure which consists of the DG, two technical officers, a financial officer, an MIS specialist, a communications officer, 3-4 regional representatives and the required support staff (all already hired). This structure will grow based on the pace of project implementation.

- **Identify and support a number of pilot sub-projects** in low-income provinces to learn from this experience of what works and to acquire some knowledge for the operational phase.

- **Finalize the operational manual** of the institution which will govern the functioning of the ADS. An international consultant is supporting the elaboration of the operational manual incorporating lessons learned in other countries with Morocco's conditions. The manual includes a detailed explanation of the sub-project cycle, detailed sectoral criteria for sub-project approval, details of monitoring and evaluation of sub-projects, standard forms to be used, etc. Feedback from the initial sub-projects to be financed will feed into the operational manual, as well as shared experiences from other social funds, especially those in Egypt and Yemen.

D. Project Rationale

1. **Project alternatives considered and reasons for rejection:**

It was decided that only small scale sub-projects will be financed to ensure that activities will have a rural and poverty focus. The scope was also focused on supporting development-oriented rather than including charity-oriented sub-projects, given the project objectives and the presence of other agencies that focus on charity oriented activities.

Financing credit lines to create and expand small enterprises was considered to be financed under the project given the high unemployment rate in Morocco and the political importance of the issue. However, this activity was not included in the design (under Bank finance but the Government may decide to include it under its own financing) for two main reasons: (1) experience in other countries with Social Funds involved in small enterprise development has not been very encouraging and it is evident that activities of that sort need to be sponsored under financial operations, and (2) the problems facing small enterprises in Morocco are not strictly financing ones, but include issues related to skills, business management, markets ...etc.- areas that the current project does support.

Financing credit lines to Micro Finance Intermediaries (whether existing ones or creating new ones) was considered but was not included under the project since there does not seem to be an issue with regard to access to funds facing the existing MFIs. On the other hand, issues related to MFI's capacities to expand are addressed under the project. Creating new MFIs would not be a viable option since a large number of very efficient MFIs with continuously expanding portfolios exist in Morocco.
2. Major related projects financed by the Bank and/or other development agencies (completed, ongoing and planned).

<table>
<thead>
<tr>
<th>Sector Issue</th>
<th>Project</th>
<th>Latest Supervision (PSR) Ratings (Bank-financed projects only)</th>
</tr>
</thead>
</table>
| Bank-financed| * BAJ (Social priorities program) - health  
* BAJ (Social priorities program) - Education  
* BAJ (Social Priorities Program) - Coordination  
* Integrated Rural Development for Mountainous Areas  
* Rural water supply and sanitation | Implementation Progress (IP) Development Objective (DO) |
|              | S       | S                                                             |
|              | S       | S                                                             |
|              | S       | S                                                             |
| Other development agencies | UNDP | * "The fight against poverty" project  
The basic human needs program |
| WHO          |         |                                                               |

IP/DO Ratings: HS (Highly Satisfactory), S (Satisfactory), U (Unsatisfactory), HU (Highly Unsatisfactory)

3. Lessons learned and reflected in the project design:

There are two dimensions to lessons learned that are reflected in the proposed design of the project; the Bank's experience in Social Funds and its experience in Morocco. On the former, lessons learned from global Social Funds experience were already reflected in the design of the ADS (i.e. private sector and NGO representation on the Board, the ex-post financial control rather than ex-ante, the separation of authorities and responsibilities between the Board and the DG, etc.). During implementation, the finalization of the operational manual and the modalities of implementation mechanisms to be used are areas where other lessons learned will be applied (and have been reflected in the project design). Full involvement of local communities from the onset of the sub-project cycle will be enforced. The World Bank's operations and evaluations department's recent report on Social Funds also draws a number of lessons learned around the world.

At the country level, other lessons have been learned, especially from the BAJ program, such as:

- Deciding on what to finance must come from local communities. This point largely affects the chances of a of sub-project's sustainability. Some priorities that may look clear to some development practitioners may not be so obvious to villagers.
- The use of local consultants enhances the closeness between the project and local communities and the technical quality of projects.

The importance of coordination with and involvement of line ministries and local governments is an important lesson learned both internationally and in Morocco. At the policy level, the Board of Directors will represent a platform for the ADS to address policy issues and how the ADS can complement, rather than compete with, existing government programs. It will also serve as a platform to ensure that the ADS adheres to the sectoral policies in the areas in which it intervenes. The DG of the ADS will need to
continue to be very active in coordinating with other government agencies that are not represented on the Board of Directors. At the local level and on a sub-project basis, local stakeholders (whether governmental or nongovernmental) need to be fully involved from the inception stage of sub-projects. It will be considered, during project implementation and based on feedback of the early sub-projects, whether to create local committees headed by representatives of the local governments to serve as ADS focal points in their areas.

4. Indications of borrower commitment and ownership:

Following a long period of discussions related to various aspects of the functioning of Social Funds, the Government indicated its full commitment to this operation. The following issues reflect government commitment to the ADS:

- The government issued law No. 12/99 establishing the ADS. Some design elements of Social Funds' "best practice" have been incorporated in the law (for example, NGO and private sector participation on the Board of Directors and some exemptions concerning MOF's ex-ante review of expenditures).
- The Government included the ADS as a main poverty reduction tool in its five year development plan. A budget of DH362.8 million has been allocated in the government plan to support the ADS during 2001-2004.
- Other government agencies have initially allocated other sources of funds for the ADS (US$10 million are allocated by the Hassan II fund).
- The Government is including the ADS as a priority in its discussions with foreign donors.
- The nomination of members of the Board of Directors of the ADS is complete and the first Board meeting was held on April 3, 2001, where a number of important documents were approved.

5. Value added of Bank support in this project:

The Bank's main value added in this project is its accumulated experience with Social Funds' type projects and in the human development sector in Morocco. The Bank would provide "best practice" experience in two main areas; institutional aspects related to the design of the ADS (which has already been part of the dialogue with the Government so far to establish the agency and during the identification and preparation phases). The other area would be related to different modalities of community driven development and participatory approaches. The Bank will provide lessons learned in other countries (especially regional lessons from Egypt and Yemen) in terms of possible scope of activities for the ADS, possible intermediaries to be used for sub-projects implementation, different procurement methods to be used, etc. Areas of special importance, based on experiences in other countries, include targeting mechanisms to ensure reaching the poor, and sustainability of sub-projects. The Bank will also facilitate an experience sharing exercise to take place by organizing a study tour for the ADS personnel to other successful Social Funds and by including the ADS in the MENA Social Funds cluster. It is also foreseen that bilateral cooperation agreements will be signed between the ADS and both the Yemen and Egypt Social Funds. Collaboration will cover both the institutional and the operational aspects of the operation of the ADS. The project represents a main component of the Bank's HD strategy in Morocco which aims at increasing the efficiency of the social protection programs by reaching the most needy population, reducing leakages of the system, and enhancing coordination and cross sectoral approaches.
E. Summary Project Analysis (Detailed assessments are in the project file, see Annex 8)

1. Economic (see Annex 4):

- Cost benefit NPV=US$ million; ERR = % (see Annex 4)
- Cost effectiveness
- Other (specify)

The rationale for public financing of social services has been widely documented. First on distributive grounds (poverty reduction) in the presence of imperfections in capital markets; second, given that the social benefits associated with the consumption of these services tend to be higher than the private benefits, thus leading the private sector to under-provide them. International experiences suggest that Social Funds can constitute a cost-effective mechanism to channel public resources towards the provision of social services. In general, unit costs are considerably lower when compared to direct public provision mechanisms, thus generating positive savings even after accounting for administrative costs. Moreover, crowding effects dominate over the potential substitution between Social Funds investments and other public and private investments in the social sectors. There is also preliminary evidence that Social Funds are more effective in targeting the poor. Finally, Social Funds can generate other economic gains, which are more difficult to measure, linked to community development and social capital formation.

The economic analysis of the project elaborates on these issues in the context of Morocco. Nonetheless, the focus will be on identifying mechanisms to maximize the social benefits resulting from the implementation of sub-projects. These include minimum standards in terms of unit costs and guidelines for the regional allocation of resources and the composition of the portfolio along broad project categories. These guidelines could then be used to assign the points system in the operational manual. To this end, a basic typology of investment projects will be developed. The latest national household survey for Morocco is used to estimate access constraints to the type of services associated with these projects. Given international statistics on relative unit costs per project and average number of beneficiaries, exploratory modeling methods are used to assess the welfare gains resulting from alternative compositions of the portfolio of investments and alternative regional allocations (appropriate welfare measures will be identified).

2. Financial (see Annex 4 and Annex 5):

NPV=US$ million; FRR = % (see Annex 4)

The budgetary impact of the administrative structure of the ADS is minimal. The ADS will keep a minimal central structure, with small regional representation, that will not be a heavy burden on the budget. The investments budget (i.e. funds for the sub-projects) has been budgeted for in the current five-year plan by the Government and it is expected, that once the ADS is operational, donor funding will be available in considerable amounts. If the ADS, during the course of this project, proves to be a relevant and cost-effective mechanism for poverty reduction, its annual budget will continue to be part of the social protection allocation in Morocco. Most of the O&M costs of the investment projects to be financed are going to be absorbed by the communities. Coordination at the sub-project level will ensure that contributions of line ministries for operations (e.g. assigning teachers to schools) are guaranteed prior to embarking on the sub-project.

Fiscal Impact:

The project does not have any significant fiscal impact. No incremental taxes or subsidies would result from the project. The increase in recurrent costs is marginal and will be more within a realignment process of distribution of personnel. Counterpart funds are available and budgeted for the project.
3. **Technical:**
The project's participative and demand-driven nature is very appropriate for Morocco. The feasibility of this approach will depend on the level of independence given to the ADS during implementation.

Technical soundness and conformity with sectoral technical standards of the sub-projects are two main aspects that will be monitored closely during project implementation. The quality of sub-projects will be ensured by (a) the guidelines in the operational manual; (b) the utilization of specialized consultants in identifying and appraising sub-projects; and (c) the provision of international technical assistance during the course of the project. Periodic technical audits will be conducted to ensure these aspects.

4. **Institutional:**
Law No. 12/99 includes best practice elements of setting up social funds (please see above) but also has the following shortcomings:

* The ADS was placed under the Ministry of Social Development. A better approach would have been to have placed it just under the Prime minister.

* Financial control is carried out through a committee appointed by the Minister of Finance that looks every six months (ex-post as an exemption from law 1/59/271) at all financial documents of ADS' contracts. The committee has the authority to ask for any documents at any time to perform its function. This whole process is separate from a regular annual audit of the ADS. This committee may represent a hindrance to the ADS to be responsive and flexible - an issue that will be closely monitored during project implementation.

4.1 Executing agencies:

The main executing agency is the ADS which will contract with intermediaries (mainly NGOs) at different levels to implement sub-projects.

* Capacity of local NGOs, which are the main development partners for the ADS, could be an issue once the ADS develops capacity to reach out to remote rural areas. Institutional capacity building activities will be supported by the ADS to better organize local communities to assess local needs and implement development projects. The ADS will also contract with large and more experienced NGOs to help develop the capacities of local ones and support the formulation of sub-projects.

* Selection of partner NGOs may cause a political problem given that some NGOs are politically oriented. The operational manual has clear criteria for the ADS to follow for the selection of its intermediaries.

4.2 Project management:

The following are the main issues that may hinder the operation of the ADS and recommended coping methods:

**Ensuring the ADS will attract staff of high professional caliber** is a main factor for the ADS to succeed. Two main issues can help: (1) using a transparent, competitive and open process for recruitment; and (2) developing a competitive salary scale for ADS personnel. The ADS has just finished the recruitment of the first group of personnel using a transparent and open process by advertising in more than one widely distributed newspaper. The "Statut du personnel" of the ADS is considerably better than that of the Government which will allow it to attract personnel. However, the "Statut" being lower than the private sector may pose some problems for the ADS in hiring personnel.
in some areas like information technology. This will be overcome by hiring some personnel on contract basis, hiring individual consultants and consulting firms for technical areas where it will prove difficult to attract personnel of high professional caliber.

**Establishing a sound financial system and MIS:** during the pilot phase, the financial system of the ADS will be developed using local TA and an outline of the overall MIS will be drafted with a temporary system to be used for the initial two years. PHRD resources are now being used to contract a regional consultant with a similar experience with the Yemen Social Fund to support the overall analysis of the MIS.

Separation of authorities and responsibilities between the Board of Directors and the ADS management will also be a key issue that will ensure the smoothness and quickness of the ADS and that will be closely monitored during implementation.

### 4.3 Procurement issues:

No major procurement is expected under the project. The ADS will mainly finance sub-projects of small value (maximum size of sub-project is US$ 200,000 as per the operational manual) that will involve small works and goods contracts. Procurement will take place at the sponsoring agency/intermediary level and will include small works for social infrastructure (which may be done using local contractors or by contracting communities directly), and goods for building materials in cases where communities will be contracted directly.

* Capacity of local NGOs and community groups may be an issue particularly in remote areas. Technical assistance will be provided by the ADS as part of its support to local NGOs and community groups. This TA will be provided by hiring individual consultants to support intermediaries or by having a larger and more capable NGO support procurement activities for smaller ones.

* Selection of consultants will be mainly done at the ADS level for work related to institutional aspects of the ADS (like the development of the MIS) and Quality cost based selection (QCBS) will be used when IBRD money is involved (it is expected that most TA will be financed out of government or grant funds).

### 4.4 Financial management issues:

The aforementioned Action Plan comprises measures designed to mitigate the financial management risks identified during the appraisal mission. Although the Bank has not conducted a Financial Accountability Assessment in Morocco, the country risk is considered negligible given that ADS has financial autonomy, in addition to the existence of strict regulations governing this kind of entities (strict public accounting rules, in addition to an internal control by a financial controller appointed by the MOF, and the existence of a committee of experts that examines the ADS's operations a posteriori every six months).

There are however, three potential risk areas, namely:

**Disbursements:** The risk here could stem from (a) delays by MOF personnel in presenting the disbursement requests to the Bank and/or, (b) failure to disburse the Government’s counterpart tranches on time. These aspects have been discussed with officials in the MOF who have confirmed that ADS requests for disbursements will be processed within a week of being received by the Ministry. It is, therefore, important that the ADS manage its cash needs properly, plan ahead, and present its requests for disbursements ahead of time to ensure that it has the liquidity it requires on time.
Risk inherent in the project: This could arise out of the lack of experience of the social partners, especially local communities, with project management and simplified bookkeeping. This risk is mitigated by the fact that the ADS will provide training for all the social partners in project management, including financial management and procurement.

Risk related to insufficient management capacity at ADS. This risk may appear if the volume of activity increases before the ADS organizational structure is able to administer it. This structure will, however, be strengthened gradually as the ADS' workload increases and in accordance with regional needs. During supervision, the Bank will ensure that a sufficient capacity is in place to manage the level of activity reached at any time.

5. Environmental: Environmental Category: B (Partial Assessment)

5.1 Summarize the steps undertaken for environmental assessment and Environmental Management Plan (EMP) preparation (including consultation and disclosure) and the significant issues and their treatment emerging from this analysis.

Except for component 4 which will deal primarily with capacity building of the ADS, other components could potentially have some environmental impact that might appear minor for each individual sub-projects, but whose cumulative effects might be substantial, particularly for the sub-projects dealing with water supply, sanitation, small dams and rural roads. It is recognized however that some of the sub-projects might have positive impacts on the environment. In order to mitigate these risks an EMP was designed during project preparation. This EMP, besides assessing the environmental context within the country and within the Agency, provides means for strengthening the capacity of the Agency to mainstream environmental concerns in its operations. A set of environmental guidelines/procedures for mainstreaming environmental concerns in the implementing agency's operations has also been prepared. Due to the nature of this project, consultation at the early stages will be essentially with other institutional stakeholders as the Ministry in charge of Environmental protection. The guidelines that will be included in the Agency's operational manual include procedures for stakeholder consultation. The EMP has been disclosed in the country in a manner acceptable to the Bank and has been disclosed through the InfoShop of the Bank.

5.2 What are the main features of the EMP and are they adequate?

The EMP (a) describes the institutional and regulatory framework with regards to environmental protection; (b) assesses the capacity of the implementing agency to conduct the necessary actions in order to mitigate environmental impacts and (c) outlines the procedures to be implemented in order to ensure proper screening of the sub-projects as well as supervision and monitoring. In order to ensure implementation of the said measures, they will be translated into procedural requirements that will be integrated in the implementing agency's operational manual.

5.3 For Category A and B projects, timeline and status of EA:

Date of receipt of final draft: 11/15/2001

At this date, the EMP is available, as well as the procedural guidelines to be integrated in the operational manual.
5.4 How have stakeholders been consulted at the stage of (a) environmental screening and (b) draft EA report on the environmental impacts and proposed environment management plan? Describe mechanisms of consultation that were used and which groups were consulted?

Consultation will be meaningful at the sub-project level as part of the sub-project submission requirements. Provisions to ensure appropriate public consultation at the sub-project level will be integrated in the procedural guidelines to be integrated in the Operational Manual. At the project preparation level, consultation with concerned institutional stakeholders has been conducted as they were informed of the preparation of the EMP and asked if they wished to have special requirements to be included in the EMP or in the environmental guidelines.

5.5 What mechanisms have been established to monitor and evaluate the impact of the project on the environment? Do the indicators reflect the objectives and results of the EMP?

The EMP includes explicitly appropriate guidance for proper supervision and monitoring together with the identification of responsible parties and indicators against which performance of the project will be evaluated.

6. Social:

6.1 Summarize key social issues relevant to the project objectives, and specify the project's social development outcomes.

The ADS will meet its primary development objectives by targeting the benefits of assistance to the poorest groups of the Moroccan population by strengthening the local capacities to form efficient and representative organizations, and to carry out, through local associations or other organizations, a better delivery of services to meet the identified needs of the population. This will be done by (i) reaching out to remote rural areas with social indicators worse than the country's average, as well as urban slum areas; and (ii) ensuring that both men and women of vulnerable populations have a fair opportunity to express their needs and demands during identification of sub-projects. The ADS will streamline gender issues in its operation and continually monitor the beneficiaries of the sub-projects (both men and women) and establish clear indicators to identify who is benefitting.

6.2 Participatory Approach: How are key stakeholders participating in the project?

The concept for the ADS and for this project is based on community participative development. Local NGOs will partner with local communities, and in many cases may join with the community to form associations. These associations will be integrally involved at all stages of sub-projects from identification to evaluation. Individual members of communities will also participate mainly during sub-project formulation - through individual interviews, focus group meetings, and other forms of interaction. Communities will also be directly involved in sub-project implementation (either by using community resources to implement directly or managing the contracting out to an individual local contractor). NGOs have been heavily consulted during the identification and preparation of the project. Workshops and meetings were held with a large number of national, regional and local NGOs to get their feedback on ADS’ proposed scope of activities, procedures for submitting proposals and the kind of help NGOs need to be able to sponsor activities with the ADS - all of which is reflected in the project design.

The project will also involve local elected authorities at all stages of sub-projects. Contracts will include more than one party to ensure cooperation and collaboration amongst all parties concerned (a primary school project, for example, can be contracted with an NGO to rehabilitate/conduct the extension of a school where the local education office commits the teacher, the local authority commits the land and the
elected "commune" commits the maintenance through a parents association to be formed). ADS has also begun holding regular consultations with other donors active in the same areas as the ADS to coordinate activities and learn from other experiences in Morocco.

6.3 How does the project involve consultations or collaboration with NGOs or other civil society organizations?

The project involves NGOs at all levels. At the policy level, three NGO representatives sit on the Board of Directors of the ADS and two are part of the sub-projects Approval Committee. These representatives are involved in the decision making process for issues related to main policies of the ADS, as well as approving individual sub-projects. At the operational level, the ADS will use NGOs and other forms of community organizations as intermediaries for sub-project implementation. During preparation, the ADS embarked on a promotional campaign by conducting several regional and national workshops to familiarize local NGOs with its objectives and operating procedures.

6.4 What institutional arrangements have been provided to ensure the project achieves its social development outcomes?

The involvement of local communities and NGOs is the main arrangement to ensure that the project achieves its social development outcomes. Also the nature of the ADS with NGO representation on its Board of Directors will help ensure the social development outcomes. During the pilot phase, the ADS will develop appropriate organizational arrangements to assess the development outcomes. Towards the end of the project, an impact study will also be conducted to assess the social development outcomes and impact.

6.5 How will the project monitor performance in terms of social development outcomes?

* The project expects (through partnerships between local communities and local organizations or NGOs) to train the beneficiaries in monitoring their sub-projects and evaluating their own progress and benefits. By so doing the proceeds of the ADS will be more certain to reach the poor and most vulnerable to ensure that there are no exclusions based on gender, age, status or other reasons.

* Technical audits: will be conducted annually during supervision missions to ensure that the OM is being complied with in terms of targeting.

7. Safeguard Policies:

7.1 Do any of the following safeguard policies apply to the project?

<table>
<thead>
<tr>
<th>Policy</th>
<th>Applicability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Assessment (OP 4.01, BP 4.01, GP 4.01)</td>
<td>Yes</td>
</tr>
<tr>
<td>Natural Habitats (OP 4.04, BP 4.04, GP 4.04)</td>
<td>No</td>
</tr>
<tr>
<td>Forestry (OP 4.36, GP 4.36)</td>
<td>No</td>
</tr>
<tr>
<td>Pest Management (OP 4.09)</td>
<td>No</td>
</tr>
<tr>
<td>Cultural Property (OPN 11.03)</td>
<td>No</td>
</tr>
<tr>
<td>Indigenous Peoples (OD 4.20)</td>
<td>No</td>
</tr>
<tr>
<td>Involuntary Resettlement (OP/BP 4.12)</td>
<td>No</td>
</tr>
<tr>
<td>Safety of Dams (OP 4.37, BP 4.37)</td>
<td>No</td>
</tr>
<tr>
<td>Projects in International Waters (OP 7.50, BP 7.50, GP 7.50)</td>
<td>No</td>
</tr>
<tr>
<td>Projects in Disputed Areas (OP 7.60, BP 7.60, GP 7.60)*</td>
<td>No</td>
</tr>
</tbody>
</table>
7.2 Describe provisions made by the project to ensure compliance with applicable safeguard policies.

The only safeguard policy triggered in this project is the Policy relative to environmental assessment. Compliance has been ensured through the preparation of an EMP and a comprehensive set of environmental procedures and guidelines that have been integrated in the operation manual of the agency.

The project areas covered are listed under section C3 above and do not involve any disputed areas.

F. Sustainability and Risks

1. Sustainability:

The sustainability of the ADS will be ensured as the Government will be financing its administrative structure as well as its investment funds until 2004. Sustainability will then depend on how efficient the ADS will be in the coming years in terms of reaching poor population and supporting various kinds of development projects, in a cost-effective manner, to ensure the availability of funds whether from outside donors or the general budget of the country. The ADS will have to develop a market niche for itself during the course of this project. This could be its ability to reach very remote communities and/or its ability to reduce unit costs and duration of implementation of specific development activities. Historically, donors have continued to support structures like the ADS once the Agency proves its efficiency and cost-effectiveness.

Another dimension of sustainability is the individual sustainability of sub-projects supported by the ADS. Communities will contribute to the costs of sub-projects (with different percentages of the cost depending on the nature of the activity financed). This has proven to be a good way to ensure communities will sustain the facility/activity in other parts of the world in similar projects and also in community-based projects sponsored by NGOs in Morocco. Communities will also take an active role in operations and maintenance of sub-projects through structures like PTAs in education projects, water users' associations in water, and health committees in health. The ADS will support capacity building activities to ensure that local communities and NGOs are better organized to sustain the services to be provided.

2. Critical Risks (reflecting the failure of critical assumptions found in the fourth column of Annex 1):

<table>
<thead>
<tr>
<th>Risk From Outputs to Objective</th>
<th>Risk Rating</th>
<th>Risk Mitigation Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>The sub-project approval committee becomes a bottleneck for the ADS.</td>
<td>S</td>
<td>During its last mission, the Board of Directors decided to authorize the DG to approve sub-projects valued at under DH500,000.</td>
</tr>
<tr>
<td>The &quot;Statut du personnel&quot; of the ADS does not enable it to attract personnel of high professional caliber.</td>
<td>S</td>
<td>The ADS is discussing the issue with MOF to allow the ADS more flexibility on contracting personnel. This issue is highlighted in the appraisal mission's aide memoire.</td>
</tr>
<tr>
<td>Local communities are not willing to operate and maintain the infrastructure provided.</td>
<td>M</td>
<td>Early involvement of local communities in sub-project identification and provision of capacity building and technical assistance to local NGOs will be sought.</td>
</tr>
</tbody>
</table>
Local governments and line ministries do not provide resources for post sub-projects operations. | S | Regular coordination by the ADS with line ministries and local governments at both the policy and sub-projects level will be sought. |
--- | --- | --- |
From Components to Outputs | ADS becomes subject to political pressure to target certain areas. | S | The operational manual would lay out the criteria for the funding and selection of sub-projects. The Board of Directors and sub-projects approval committee would use the operational manual as a guideline. |
--- | --- | --- |
Line ministries and local governments do not cooperate effectively with ADS. | M | ADS would continuously brief and update line ministries and local governments and to deal with them as a partner rather than a competitor. |
--- | --- | --- |
Communities are not willing to enter into partnerships with local authorities and contribute to the costs of sub-projects. | N | ADS would work as the catalyst for this process. |
--- | --- | --- |
Overall Risk Rating | S | |

### Risk Rating
- H (High Risk)
- S (Substantial Risk)
- M (Modest Risk)
- N (Negligible or Low Risk)

#### 3. Possible Controversial Aspects:
A common possible controversial issue for similar projects has been the possibility of political pressure on the ADS management to target certain geographical areas or support specific projects. Experience suggests that sticking to the criteria in the operational manual and using an objective approach to targeting can best mitigate this risk.

#### G. Main Loan Conditions

1. **Effectiveness Conditions**
   - (i) Establishment of a chart of accounts for ADS operations;
   - (ii) Acquisition of an accounting software;
   - (iii) Finalization of the Operational Manual.

2. **Other**
   - None.

#### H. Readiness for Implementation

- ☑️ 1.a) The engineering design documents for the first year's activities are complete and ready for the start of project implementation.
- ☑️ 1. b) Not applicable.
2. The procurement documents for the first year’s activities are complete and ready for the start of project implementation.

3. The Project Implementation Plan has been appraised and found to be realistic and of satisfactory quality.

4. The following items are lacking and are discussed under loan conditions (Section G):

   I. Compliance with Bank Policies

   1. This project complies with all applicable Bank policies.

   2. The following exceptions to Bank policies are recommended for approval. The project complies with all other applicable Bank policies.

   Yasser El Gamal  
   Task Team Leader

   Christian Delvoie  
   Country Director

   Jacques Baudouy  
   Sector Director
### Annex 1: Project Design Summary

**MOROCCO: Support for the Social Development Agency Project**

<table>
<thead>
<tr>
<th>Hierarchy of Objectives</th>
<th>Key Performance Indicators</th>
<th>Data Collection Strategy</th>
<th>Critical Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector-related CAS Goal:</td>
<td>To develop and strengthen participative and decentralized programs to reduce poverty and vulnerability and fight exclusion in rural and urban areas.</td>
<td>A decrease in absolute poverty and vulnerability (measured as those who are at or below 50% above the poverty line). Better access to social and economic infrastructure in rural areas.</td>
<td>An economic framework that is conducive to poverty alleviation coupled with a sustained level of economic growth. Government to continue its current focus on social sectors by increased resources allocation.</td>
</tr>
<tr>
<td>Sector Indicators:</td>
<td>Periodic ESW in social protection (i.e. poverty assessments). Periodic LSMS surveys done by the Observatoire.</td>
<td>(from Goal to Bank Mission)</td>
<td></td>
</tr>
<tr>
<td>Sector country reports:</td>
<td>(from Goal to Bank Mission)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Project Development Objective:</th>
<th>Outcome / Impact Indicators:</th>
<th>Project reports:</th>
<th>(from Objective to Goal)</th>
</tr>
</thead>
<tbody>
<tr>
<td>To develop a relevant, cost effective and participative approach to delivering social services.</td>
<td>Identification of sub-projects is achieved through a participative and demand-driven approach.</td>
<td>Project progress reports.</td>
<td>ADS is given the operational independence needed.</td>
</tr>
<tr>
<td>To better organize local communities to take charge of their own development activities.</td>
<td>The ADS reaches the poor and vulnerable.</td>
<td>Technical audit of the ADS.</td>
<td>Local communities and governments collaborate to operate and maintain the infrastructure funded by the ADS.</td>
</tr>
<tr>
<td>100 sub-projects funded by mid project and, 200 by project end in different geographical rural and urban slum areas.</td>
<td></td>
<td>Supervision missions. Beneficiaries assessment.</td>
<td>Local communities adopt inclusive approaches to make sure all groups are benefiting from social services provided.</td>
</tr>
<tr>
<td>Beneficiaries reach at least 200 thousand by mid project and 400 thousand by the end of the project.</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>At least 35% of project beneficiaries are female.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At least 70% of ADS funds are targeted to rural areas.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hierarchy of Objectives</td>
<td>Key Performance Indicators</td>
<td>Data Collection Strategy</td>
<td>Critical Assumptions</td>
</tr>
<tr>
<td>------------------------</td>
<td>---------------------------</td>
<td>-------------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>Output from each Component:</td>
<td>Output Indicators:</td>
<td>Project reports:</td>
<td>(from Outputs to Objective)</td>
</tr>
<tr>
<td>To develop small-scale community development sub-projects, in a cost effective manner, that provide local communities greater access to various social services.</td>
<td>ADS social infrastructure unit cost is less than similar non-ADS projects.</td>
<td>Technical audit of the ADS.</td>
<td>The sub-projects approval committee does not represent a bottleneck for the ADS. The &quot;statut du personnel&quot; allows the ADS to hire personnel of high caliber.</td>
</tr>
<tr>
<td>To develop small-scale economic infrastructure and micro finance sub-projects developed, in a cost effective manner, that enhance income opportunities for the local population.</td>
<td>ADS economic infrastructure and MF sub-projects unit cost is less than similar projects.</td>
<td>Mid term review.</td>
<td>Communities are willing to organize to operate and maintain the infrastructure provided.</td>
</tr>
<tr>
<td>Better organized local communities to assess their development needs and maintain infrastructure.</td>
<td>ADS uses more local NGOs than national ones to sponsor its activities</td>
<td>Implementation completion report.</td>
<td>Local governments and line ministries provide resources for post sub-projects operations.</td>
</tr>
<tr>
<td>Enhance ADS capacity.</td>
<td>Facilities well operated and maintained.</td>
<td>Beneficiary assessments to check the effectiveness of the targeting mechanisms used.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sub-projects valued at US$ 5 million annually by project end are processed.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hierarchy of Objectives</td>
<td>Key Performance Indicators</td>
<td>Data Collection Strategy</td>
<td>Critical Assumptions</td>
</tr>
<tr>
<td>------------------------</td>
<td>----------------------------</td>
<td>--------------------------</td>
<td>----------------------</td>
</tr>
<tr>
<td>Project Components / Sub-components:</td>
<td>Inputs: (budget for each component)</td>
<td>Project reports:</td>
<td>(from Components to Outputs)</td>
</tr>
<tr>
<td>1. Community development and social infrastructure</td>
<td>1. US$ 3.00 million</td>
<td>Quarterly progress reports.</td>
<td>ADS is not subject to political pressure to target certain areas.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Quarterly disbursement reports.</td>
<td>Line ministries and local governments cooperate effectively with ADS.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bi-annual supervision reports.</td>
<td>Communities willing to enter into partnerships with local authorities and contribute to costs of sub-projects.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Annual audit reports.</td>
<td></td>
</tr>
<tr>
<td>2. Support to economic infrastructure and income generation</td>
<td>2. US$ 1.25 million</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Institutional development for intermediaries</td>
<td>3. US$ 0.5 million</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Studies and ADS capacity building</td>
<td>4. US$ 0.25 million</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Annex 2: Detailed Project Description

MOROCCO: Support for the Social Development Agency Project

By Component:

Project Component 1 - US$9.00 million

Community development & social infrastructure:
This component will support sub-projects to enhance the social infrastructure of several poor rural and urban slum areas. Support will cover areas from basic education and primary health care to literacy activities and rural drinking water. Support will be extended to various aspects from construction and training activities to helping communities organize in order to operate and maintain the necessary infrastructure. Implementation will mainly be carried out in partnership with local communities represented by local NGOs or CBOs. Communities will be heavily involved at all stages of sub-projects and will contribute to sub-projects costs whether in cash or in kind. Local consultants will be used by the ADS to support communities appraise sub-project and later implement the activities.

Allocation of resources over sectors: since this operation is demand driven, it is not possible to indicate up front what percentage of funds will support which activities/sectors. Needs of local communities vary according to many factors such as distance from the closest urban center, proximity of the water sources, the dominant economic activity in the community, etc. Experience with other social funds indicates that requests for education and health activities are the greatest. However, given the considerable recent expansion of basic education in Morocco, it is not foreseen that education will represent the first priority for the majority of communities. Based on the field work and promotional campaigns done during preparation, it is foreseen that rural water, electrification and roads will likely represent the priority for a large number of communities.

Funds allocation for geographical areas: as the project is trying to deal with the urban bias in allocation of resources and development projects, it has a rural focus. At least 70% of the funds will be targeted to rural areas. Rural and urban will be defined as per the administrative system in the country. The ADS is not going to start from scratch to draw a poverty map for Morocco. There does exist a relatively advanced database for social conditions and indicators in the country (largely supported by the Bank under the Social Priorities Program). The Ministries of planning and social development have produced, in coordination with the UNDP, a comprehensive ranking for the various provinces in the country using a mix of social indicators like enrollment rates in primary education, infant mortality, access to drinking water, etc. In most provinces this ranking extends to the lowest level of the administrative structure. The ADS will use this ranking to allocate resources to geographical areas.

Stimulating demand for ADS services: it is foreseen that the requests/proposals that the ADS will receive during the pilot phase will exceed its administrative capacity to process sub-projects. However, it is also expected, based on experiences elsewhere, that the most remote and poorest regions are not the ones to come forward first. This is mainly attributed to the fact that community structures in these regions are always weak, if at all present, and they learn last about initiatives like the ADS. To deal with this problem, the ADS, during its pilot phase, will focus its field visits and promotional activities to areas that are ranked very poor and where no project requests/proposals were received. This may be done directly by ADS personnel, local consultants, or through larger NGOs whose services will be rendered by the ADS to stimulate demand in the poorest and most remote areas.
Provision of social services to special groups: During the pilot phase, the ADS will also pilot social services activities targeting special groups, including the disabled, street children, and women in difficult circumstances. Activities will aim at empowering these groups and integrating them into society.

Employment generation: the main objectives of the ADS is the enhancement of the quality of life of the poor. It is not an employment agency nor a public works program. Employment generation will be a positive externality to some of the activities the ADS will do but not a criteria on which activities will be selected.

Coordination and partnerships: the ADS will coordinate on a regular basis with line ministries, development agencies and local governments. Policy issues will be coordinated at the central level while project specific issues will be coordinated at the regional level. For example, if the ADS receives a number of requests for rural water sub-projects from a certain area, it will centrally coordinate with ONEP or the ministry of equipment, depending on whose responsibility it is, to determine priorities based on the severity of water shortages. At the local level, this coordination will extend to examine what water sources are available and what contribution the local rural water office can provide. Sub-projects will then be carried out through a series of partnerships, either with community groups directly or through an NGO that is active in the area.

Project Component 2 - US$3.75 million

Support to economic infrastructure and income generation:
Funds allocation and allocation of resources to the sub-component will follow the same trend as the first component. This component will support three kinds of activities:

Sub-projects that enhance the economic infrastructure in rural and urban slum areas: Examples are irrigation, small markets and rural roads. Under this sub-component, the ADS will finance sub-projects that enhance economic opportunities for local communities. Many communities in Morocco, whether with a typical agricultural based economy or with special hand craft products, face the problem of being isolated from the nearest urban center or the closest market. This phenomena, in many cases, can be dealt with by financing small rural access roads or in other cases, financing the construction of a local market for a cluster of villages in a central location. Water harvesting and irrigation activities are other examples of sub-projects that can enhance the ability of local communities to mange their resources. In urban slum areas, other sorts of activities under this sub-component are also relevant. Daycare centers for children under school age in areas where women have access to some formal employment can be the sort of sub-projects that can free up time for women to seek employment and, at the same time, prepare the child for formal schooling.

Sub-projects that finance training and non-financial support to activities that are directly related to creating employment opportunities: the small and micro enterprises sectors support a large number of the poor in Morocco, especially in urban areas. They also supports the rural population who are engaged in agriculture on a seasonal basis. The small enterprise sector faces many obstacles that hinder its development. Although the ADS will not be directly involved in providing finance to small enterprises, it will help to support some non-financial activities for small enterprises. The ADS will create partnerships with associations like local chambers of commerce, NGOs involved with small businesses to provide general support, such as conducting short courses in basic business management, and finance and bookkeeping. The ADS will also support these associations to help small enterprises overcome marketing problems by financing local exhibitions and helping small enterprises to link with potential markets. Other capacity building activities for small enterprises will also be supported.
Sub-projects that support the expansion of the existing microfinance operations to new geographical areas: in the microfinance sector, Morocco, through a number of very active and successful NGOs, has developed over the past decade an emerging MF industry that is reaching out to some of the poor population in the country. Foundations like Zakoura, Al-Amana, FONDEP and others managed to build very healthy and sustainable loan portfolios. These programs are helping mainly urban poor populations expand their micro economic activities or start new ones. While it would not be justified for the ADS to start new microfinance programs, it will work with existing programs to support their expansion to new areas, especially rural ones, where their services are needed. The ADS may support the initial cost for a microfinance intermediary to start operations in a new province by financing the training of new loan officers, enhancing the loan tracking system or simply buying computers. These sub-projects can encourage more coverage to the poor, especially in rural areas, where microfinance intermediaries have not been very active.

**Project Component 3 - US$ 1.50 million**

This component will support local NGOs to build their capacity to assess local needs, formulate, implement and operate and maintain local development projects - activities that will enhance the effectiveness of the first two components. It will also help communities to better organize the O&M of social infrastructure. This component will help the ADS to reach remote areas with no local structures by contracting large and institutionally capable NGOs to act as ADS agents in these areas. In some cases, institutional development activities will form components of sub-projects, while in other cases, the ADS will finance stand alone sub-projects of this sort. A rural water sub-project, for example, may include an institutional development component by finance the salary of a sub-project manager to help the local NGO implement the sub-project, or financing the training of members of a small water users' association who will take over the O&M of the sub-project after completion. Due to the expected large demand for the ADS services and its initial limited capacity, the ADS will sign a number of contracts with reputable national or regional NGOs to support the institutional building of smaller local NGOs.

These large NGOs will work as ADS' agents in the agreed areas. The outcome of these contracts will either be specific sub-projects that the small local NGOs will then contract with the ADS to implement, or a larger sub-project that will be contracted with the large NGO involving activities in more than one village with communities of these villages participating in implementation. ADS may also finance training activities for local NGOs in general areas like management and book-keeping and accounts for NGOs.

**Project Component 4 - US$0.75 million**

This component will provide support to different institutional and operational aspects of the ADS to learn from experiences with similar operations in other countries and in Morocco. It will also help enhance the ADS management and Board of Directors' understanding of specific technical areas like microfinance. The component will finance studies that are directly related to the operational activities of the ADS.

**ADS capacity building:** two main areas will be the focus of this component - MIS and monitoring. The existence of a fully integrated MIS which links sub-projects tracking systems with financial data has proven to be a must in order for these kinds of operations to expand. With two state-of-the-art MISs in both the Egypt and Yemen Social Funds, the ADS could get very useful help in this area. The development of a monitoring and evaluation system is another area where ADS can use the help of other Social Funds. During the pilot phase, the ADS will develop a monitoring system that enables it to track the progress of its sub-projects and anticipate delays in implementation. The component will also support the exchange of information in certain organizational and operational aspects of the work of the ADS. It will support visits to other Social Funds that have been successfully operating for some years, the inclusion of the ADS into the MNA Social Funds cluster, and invitations for professionals from similar
programs in other countries to advise on different aspects. The development of an integrated MIS is one area where cooperation can be of great benefit to the ADS.

**Operational studies:** during the course of its operations, the ADS will need to assess either the modality of a possible intervention or the preliminary impact of an earlier intervention in a specific area or sector through operational studies. If, for example, the ADS has financed a large number of literacy sub-projects using a variety of approaches or implementation mechanisms, it can launch a study to look at these activities and determine the lessons that were learned. Alternatively, the ADS can, before it gets involved in financing literacy sub-projects, assess through a study the different efforts that have been made in the country and identify the most proper mode for its intervention. Following the pilot phase, the ADS will also conduct a beneficiary assessment to identify the scale and depth of its targeting mechanism, better understand its clients and adjust its operation accordingly. Resources from this component will also be used to study the cost effectiveness of the ADS interventions versus other players in different sectors at the end of the pilot phase.

**The sub-projects cycle:**
The sub-project cycle of the ADS includes the following main steps (the operational manual includes full details of this cycle);

**Promotion:** the ADS conducts regional promotional campaigns (which it has already started), especially in poor areas and areas where demand for funding has not been received. The purpose of these campaigns are to

- Inform local communities of the existence of the ADS;
- Familiarize local communities with the ADS' scope of activities (what it can and cannot fund) and the requirements in terms of participation and contributions; and
- Explain the procedure for submitting proposals.

**Identification:** sub-project ideas/proposals are submitted by communities through their representatives or local NGOs using a standard format that is part of the operational manual which ensures a minimum level of data to be available for project screening. At least one field visit will be conducted to the proposed project sites by the ADS (either by an ADS employee, consultant or NGO that is contracted by the ADS). The field visit is conducted following a desk review of the funds availability for this specific area. The purposes of the initial field visit are to:

- Ensure that the project idea represents a priority for the majority of the population;
- Ensure that the proposed beneficiary group is part of the target group of the ADS;
- Assess the initial technical feasibility of the proposed activity; and
- Make initial agreements with the communities regarding their contribution to the project costs.

**Screening:** an internal process in the ADS is to be undertaken by an internal screening committee. The screening committee mainly looks at whether the activity could or could not be funded under the ADS and assesses the potential target group and expected impact of the activity. The screening committee initially accepts or rejects the project idea/proposal. If the proposal is rejected, the submitting community/NGO is officially informed of the reasons of rejection. If the project idea/proposal is initially accepted, it is included in the ADS' pipeline and is appraised according to its date of submission.

**Appraisal:** sub-project appraisal is a joint effort between the ADS and the NGO/submitting agency. The ADS may use staff, consultants or NGOs to conduct appraisals of sub-projects. The sub-project appraisal looks at all aspects of the sub-project (technical, institutional, financial, implementation, environmental, etc.). The output of the appraisal process is a project document that lays out all details of the sub-project including a budget, disbursement table and the milestones for disbursing each tranche. This project
document is then submitted to the appraisal committee (an internal committee at the ADS) for review. At this point, and since the project concept was approved earlier, the appraisal committee does not look at the main concept but rather at the details of the sub-project (i.e. budget, duration, milestones, etc.). The committee either approves the sub-project without changes or recommends some changes. Once changes, if any, are incorporated in the project, the project is contracted. In cases where the sub-project budget exceeds the authority of approval of the ADS' DG, the project will be submitted to the Board of Directors' approval committee at its following meeting prior to contracting.

**Contracting:** The project document is included in a standard contract indicating the main party/ies responsible for project implementation and the contribution of each party (including the ADS). Projects' contracts may have two or more parties (with the ADS as the first party in all cases). A project contract will always have a main intermediary (which will be a NGO in most of the cases) and may include other agencies (such as a local government, a regional office of a line ministry, etc.). Once the sub-project contract is signed, implementation begins.

**Monitoring and evaluation:** sub-projects are monitored using three main ways:

- **A reporting system:** is agreed on in the sub-project document and includes monthly, quarterly and annual progress, technical and financial reports to be submitted by the implementing agency to the ADS.
- **Field visits:** to be conducted by the ADS project officer in charge of the sub-project at least once before the disbursement of each tranche to ensure that progress is satisfactory and no major obstacles are foreseen.
- **Monitoring consultants:** each sub-project (or group of sub-projects in one region) will have a local consultant responsible for its monitoring. The implementation agency's reports will be paralleled by other reports that are submitted by the ADS consultant (it could later be the ADS' regional representation that conducts the sub-project monitoring).

Evaluation will be done either at mid sub-project stage and final stage (in the case of a relatively large sub-project) or simply at the end of the project. The project document will include details of the evaluation process (such as who performs it, the evaluation technique to be used, the budget for evaluation, etc.).

**Hand-over and operation:** sub-project assets, if any, are handed over based on the agreements reached and included in the project document (some sub-projects will be handed over to community committees while others will be handed over to government agencies). The ADS will continue to monitor the project operation for two years following project handover to ensure the sustainability of the sub-project (in sub-projects such as literacy classes, for example, would not apply). Areas of weaknesses in O&M will be identified during this period and ADS support may be further extended to enhance the community's capacity for O&M.
The ADS Organizational Structure

The following is the organizational structure of the ADS during the pilot phase. This structure will be revised in light of feedback from the experience of the pilot phase.
# Annex 3: Estimated Project Costs

**MOROCCO: Support for the Social Development Agency Project**

<table>
<thead>
<tr>
<th>Project Cost By Component</th>
<th>Local US $million</th>
<th>Foreign US $million</th>
<th>Total US $million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community development and social infrastructure</td>
<td>6.50</td>
<td>1.50</td>
<td>8.00</td>
</tr>
<tr>
<td>Economic infrastructure and income generation</td>
<td>2.50</td>
<td>0.50</td>
<td>3.00</td>
</tr>
<tr>
<td>Institutional development for intermediaries</td>
<td>1.20</td>
<td>0.50</td>
<td>1.70</td>
</tr>
<tr>
<td>Studies and ADS capacity building</td>
<td>0.50</td>
<td>0.50</td>
<td>1.00</td>
</tr>
<tr>
<td><strong>Total Baseline Cost</strong></td>
<td>10.70</td>
<td>3.00</td>
<td>13.70</td>
</tr>
<tr>
<td>Physical Contingencies</td>
<td>0.50</td>
<td>0.10</td>
<td>0.60</td>
</tr>
<tr>
<td>Price Contingencies</td>
<td>0.50</td>
<td>0.20</td>
<td>0.70</td>
</tr>
<tr>
<td><strong>Total Project Costs</strong></td>
<td>11.70</td>
<td>3.30</td>
<td>15.00</td>
</tr>
<tr>
<td><strong>Total Financing Required</strong></td>
<td>11.70</td>
<td>3.30</td>
<td>15.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Project Cost By Category</th>
<th>Local US $million</th>
<th>Foreign US $million</th>
<th>Total US $million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods</td>
<td>1.00</td>
<td>0.50</td>
<td>1.50</td>
</tr>
<tr>
<td>Works</td>
<td>5.50</td>
<td>1.80</td>
<td>7.30</td>
</tr>
<tr>
<td>Services</td>
<td>5.20</td>
<td>1.00</td>
<td>6.20</td>
</tr>
<tr>
<td>Training</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>Total Project Costs</strong></td>
<td>11.70</td>
<td>3.30</td>
<td>15.00</td>
</tr>
<tr>
<td><strong>Total Financing Required</strong></td>
<td>11.70</td>
<td>3.30</td>
<td>15.00</td>
</tr>
</tbody>
</table>

Identifiable taxes and duties are 0 (US$m) and the total project cost, net of taxes, is 15 (US$m). Therefore, the project cost sharing ratio is 33.33% of total project cost net of taxes.
Annex 4: Cost Effectiveness Analysis Summary

MOROCCO: Support for the Social Development Agency Project

In recent years, there has been a fast diffusion of social funds and other similar community based projects across the developing world. During the last decade, the World Bank alone has lent US$ 3.5 billion to social fund projects. When other donor and government resources are considered, investment in social funds project approximate US$ 8.2 billion. Recent evaluations suggest that, in general, social funds and community based projects can be costs-effective instruments to alleviate unmet demands of social services, particularly among low-income population groups. There is also evidence that social funds can contribute, indirectly, to community development and the accumulation of social capital.

In this section, we assess the economic rationale for the ADS. The project has a cost of US$ 15 million (65 percent financed through local resources and 35 percent financed by the World Bank) and has been designed around four components: (i) community development and social infrastructure; (ii) economic infrastructure development and income generating activities; (iii) institutional development for intermediaries; and (iv) studies and ADS capacity building. Given the demand-driven nature of the Project, and therefore the uncertainty in terms of the structure of the portfolio of projects, it is difficult to assess ex-ante potential welfare impacts. Nonetheless, international experience suggests that social gains will be almost completely determined by how the ADS is designed and implemented. The results of an exploratory analysis of potential costs and benefits suggest that even in the case of pessimistic assumptions about costs, and conservative assumptions about benefits, the social rate of return of the ADS project could range between 26 and 61 percent.

The economic analysis has four elements. First, we evaluate the links between the ADS, the country assistance strategy, and available knowledge on social protection systems in Morocco. Second, we discuss the justification for Government financing of the ADS's different components and assess the potential cost-effectiveness of the interventions on the basis of international evidence. Third, we highlight areas where policy makers and ADS's management will need to focus to maximize the social rate of return of the investments. Finally, we summarize the results of an exploratory analysis of potential social costs and benefits, under different assumptions about administrative efficiency, portfolio composition, and unit costs.

Links to CAS and ESW

The recent Country Assistance Strategy for Morocco (see World Bank, 2001a) emphasizes the need to improve efficiency in the allocation of public resources, as a necessary condition to reduce poverty and vulnerability. To this end, it recommends strengthening participative and decentralized approaches, and promoting community development in rural areas. As discussed below, based on international experiences, the ADS can be instrumental in achieving these objectives by: (i) improving the poverty focus of pubic expenditures; (ii) generating efficiency gains through community involvement in the allocation of resources and through lower production and distribution costs; (iii) providing risk coping mechanisms to vulnerable population groups; and (iv) stimulating social interactions and social capital formation.

The need to provide access to basic services and infrastructure as a way to reduce social risks and prevent further erosion of human capital, was stressed in the recent Morocco Social Protection Strategy Note (World Bank, 2001b). Today, 50 percent of the rural population lacks access to basic health services, and health insurance is virtually nonexistent. Less than 30 percent of the rural
population has access to potable water, only 20 percent has access to electricity and many villages do not have access to roads. Water scarcity as a result of salination is a growing problem as well. It has been estimated that by 2010 Morocco will become a water deficient country. Low-income population groups are also constrained in their opportunities. Lacking access to capital markets and appropriate risk reduction and risk mitigating mechanisms, they cannot engage in high-risk, high-return activities. Households whose major source of income is in the agricultural sector are highly vulnerable to frequent adverse weather. Manifestations of poor infrastructure, constrained access to basic services and economic opportunities are high infant and maternal mortality rates (comparable to low-income countries), and wide spread malnutrition and micro nutrient deficiencies. Poverty and vulnerability have increased as well (see World Bank, 2001c).

The ADS aims at expanding access to basic services and infrastructure, and developing mechanisms that facilitate access to markets for low-income population groups, thus expanding their economic opportunities. As discussed in the following sections, these objectives could be achieved using cost-effective interventions. As experience accumulates and efficiency in management increases, the ADS has the potential to become a key instrument to address Morocco’s challenges in terms of reducing poverty, vulnerability and inequality.

**Justification for government financing of social fund activities**

Governments are called to intervene in the social sectors to improve efficiency and equity. In terms of efficiency, it is now recognized that often individuals fail to capture the full social benefits of the consumption of services such as education and health, and therefore markets tend to under provide. Thus, governments have a role in subsidizing the consumption of these services. Regarding equity, markets do not have built-in mechanisms that guarantee an equitable distribution of income and access to basic services. Governments have, therefore, a role in devising financing mechanisms to ensure that low-income/vulnerable population groups have access to basic services. The need for this type of intervention is reinforced in the presence of imperfections in capital markets, which preclude households from acquiring debt to finance investment in human capital.

The existence of these markets failures, however, is not a sufficient condition to justify government involvement. It is also necessary that cost-effective interventions are available to correct the market failures. Indeed, if the cost of correcting the market failure is higher than the resulting social benefits, societies are better-off if governments do not intervene. Below, we apply this framework to the different components of the ADS.

**Financing access to social services and basic infrastructure**

As previously discussed, in the case of Morocco there are clear social spillovers from expanding access to social services such as education, health and basic infrastructure. There are also important equity issues to resolve, as access is more restricted among low-income population groups. Thus, in principle, there is a role for the Government to finance part of the production costs of these goods and services. In addition, international experience suggests that, if appropriately managed, a social fund or similar community based programs can be a cost-effective mechanism to correct market failures (see, Rawlings and Van Domelen, 2001). Indeed, there is strong evidence that community-based approaches have lower unit costs in all sectors and across all countries (see Figure 1 for an illustration), than traditional approaches. Where social funds tend to have higher costs than traditional programs (e.g., Honduras and Nicaragua), little community involvement, more complex works, few comparators, and costs increasing during construction are usually the main causes.
The effectiveness of social funds and community based programs can also be measured by the impact they have on social outcomes. The study by Rawlings and Van Domelen shows that social funds have tended to increase access to and the quality of social services versus comparisons groups. In most cases, this has resulted in greater utilization of basic services. Nonetheless, results vary across sectors. Usually, the major impacts have been achieved in water and education projects. There is less evidence of impact in the health sector.

**Financing community development and economic infrastructure**

The rationale for financing other interventions such as the creation of markets, and promoting community development, could be less obvious. Indeed, the question that emerges is why private actors do not engage in these activities if there are positive returns for all participants? Research has shown that coordination problems, lack of trust, the absence of mechanisms to enforce contracts, as well as liquidity constraints, can lead to situations where socially optimal collective actions are not undertaken. Governments have a role in facilitating coordination and social capital formation. The ADS can be a powerful instrument to achieve this objective.

**Crowding-in and crowding-out**

Other economic analyses view the potential substitution of services provided/financed through traditional public systems as a negative outcome. These analyses get around the problem by arguing that social funds expenditures are low relative to the social sector budget. The fact, however, is that this substitution effect is desirable and should be encouraged if the social fund constitutes a more cost-effective instrument to deliver social services. This being the case, it is conceivable that the problems of financial sustainability of the social funds could be solved, in part, by reallocating resources from traditional government programs.

The risk of crowding out private financing, on the other hand, has been down played. Yet, this is an area where ADS' management needs to focus. While the ADS is trying to address the market failure of an insufficient provision of basic services and infrastructure and its unequal distribution, the optimal level of the subsidy is certainly not 100%. The financial sustainability of the ADS will be in part determined by the existence of mechanisms that maximize cost-recovery. This would require conducting rigorous willingness to pay studies (see next section).
The ADS has also the potential to crowd-in, additional resources from donors. International experience suggests that social funds which have demonstrated that they can deliver social services in an efficient way while targeting poor and vulnerable population groups, have received support from the donors community. The Yemen Social Fund, for instance, has attracted over USD 46 million in foreign funding (excluding IDA financing).

Maximizing social rates of return

The evidence of social funds' cost-effectiveness comes from other countries. For policy purposes, it is also necessary to assess what is the likelihood that the ADS will achieve similar levels of efficiency. There are no particular structural constraints in Morocco that would prevent an efficient implementation of the ADS, as in other countries with similar or lower levels of income. Nonetheless, neither are there automatic mechanisms to ensure that the design and implementation will be conducted as to maximize welfare gains. Moroccan policy makers and ADS management are aware of this issue, and have developed an operational manual aiming at reducing implementation risks and enhancing social outcomes. In this section, we discuss key areas that will affect the performance of the ADS.

Adequate institutional capacity

Good management, well-trained-high-quality human resources, and appropriate information systems are the pillars of a successful social fund. Defining policy strategies, preparing and executing financial plans, evaluating, selecting and monitoring projects are highly specialized tasks that require human resources with appropriate training. Malleability is also a necessary condition for improved efficiency. Social fund managers need to have the capacity to adapt/adjust regulatory frameworks as new information in terms of the performance of alternative projects becomes available. This cannot be achieved without adequate information systems that allow for a detailed monitoring of project activities, unit costs, and rigorous beneficiaries assessments. ADS management can now rely on an extensive literature about methods and international experiences in social funds impact evaluation (see for example, Pradhan et al. 1998, Castillo and Lema, 1998, and Salmen, 1999).

Regional allocation of resources

Public financing of social funds is justified, in part, in terms of equity, and procedures are necessary to ensure that resources are targeted to low-income and vulnerable population groups. Most evaluations of social funds indicate that resources tend to reach poor districts and households and even some of the poorest of the poor. However, there is room to improve progressivism. While at the local level this can be achieved through decentralized approaches where communities are directly involved, regional allocations generally require a centralized approach. The methods for achieving efficient regional allocations vary, but usually require identifying priorities in terms of population groups which need to be targeted (e.g., poor, children, the elderly) and then allocating resources in proportion to population shares for each of these groups. This requires updated household surveys. Morocco has made considerable progress in conducting this type of survey and monitoring different social indicators at the regional level. This will greatly facilitate the design and implementation of appropriate regional allocation mechanisms.
Criteria to select projects

A defining characteristic of social funds is the fact that activities are driven by communities' demands. Under ideal conditions and with unlimited resources, there would be no need for regulating the allocation of resources. Given limited resources, however, and the fact that different communities do not necessarily coordinate demands, social funds managers have a key role in defining and setting priorities. This is all the more important when we take into account that communities tend to be highly heterogeneous and that community leaders' preferences may not be necessarily consistent with average preferences (see also Carvalho 1997, for problems related to demand induced by politicians, social fund staff, and private contractors). There is also heterogeneity between communities, and in the absence of appropriate regulations those communities with higher institutional capacity (usually better-off communities) are likely to claim a higher share of funds resources (see Salmen, 1999). Finally, some activities bring higher social gains than others, and social funds are not equally efficient across sectors. For instance, there is evidence that better results have generally been achieved in terms of providing access to basic education and health, than in developing economic infrastructure (see Carvalho, 1997).

The allocation of resources, however, is a delicate issue, since over regulation would undermine one of the core comparative advantages of the ADS, that is to improve efficiency through local demand-driven initiatives. The ADS, in its operational manual, considers various policies to improve efficiency and equity in the selection projects, without discouraging community participation. First, priority is given to projects which have been designed with strong community involvement and where a continuous dialog with community members has been carried-on (indicators used include the source of the request, minutes of the meetings, and proof of financial commitment). Second, preference is given to projects which are directly connected to large development initiatives in the region (indicators used include the existence of other activities in the region). Finally, priority is given to projects with a strong poverty component (indicators include income level of beneficiaries relative to average income in the region). As discussed, below, there are also regulations in terms of project costs, and implementation capacity. Furthermore, different sectors are subject to different financing schemes which encourage or discourage demand. Through these mechanisms, social fund managers can influence (not determine) the portfolio of projects. If this is done on the basis of high quality data and rigorous analysis, there can be important social gains.

Regulations in terms of unit costs

Social funds need to have built-in mechanisms to promote costs-effectiveness. Some of these mechanisms are market driven, such as promoting competition in the allocation of contracts among intermediaries. Centralized approaches on the other hand, impose ceilings in terms of unit costs, and/or constraints to the allocation of inputs. The risk with the latter approach is that in the absence of reliable data on unit-costs, regulations can generate biased allocations. Initially, a flexible stance is recommended. On the other hand, as experience accumulates and micro-level data about projects becomes available, standards can be adjusted and enforced. As communities and intermediaries gain experience, it is also desirable to move towards market driven systems. The ADS envisages in its operational manual selecting projects on the basis of detailed economic assessments, based on evolving minimum unit-costs standards (see Table 1, for an estimate of baseline unit-costs). It also gives priority to projects which are intensive in the use of local physical and human resources (see ADS 2001, Ch. 4).
Table 1: Morocco: Estimated average unit-cost per program and beneficiary (DM)

<table>
<thead>
<tr>
<th>Unit Costs</th>
<th>SF</th>
<th>Line Ministry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health equipment</td>
<td>86,445</td>
<td>157,870</td>
</tr>
<tr>
<td>Water supply projects (pumping unit with head 199m-150m &amp; discharging 4-6 lit/s)</td>
<td>85,725</td>
<td>89,493</td>
</tr>
<tr>
<td>School average cost</td>
<td>1,038,282</td>
<td>1,765,080</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Costs per beneficiary</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>748.4</td>
<td>852.2</td>
<td>439.8</td>
</tr>
<tr>
<td>Health</td>
<td>36.3</td>
<td>92.3</td>
<td>57.9</td>
</tr>
<tr>
<td>Water</td>
<td>206.2</td>
<td>105.0</td>
<td>143.8</td>
</tr>
<tr>
<td>Capacity building</td>
<td>762.4</td>
<td>752.9</td>
<td>259.0</td>
</tr>
<tr>
<td>Roads</td>
<td>-</td>
<td>-</td>
<td>75.7</td>
</tr>
<tr>
<td>Sewerage</td>
<td>-</td>
<td>310.6</td>
<td>100.6</td>
</tr>
</tbody>
</table>

Source: Authors calculations on the basis of international data.

Financial sustainability

One of the major weaknesses of social funds is the dependence on donors support. Few social funds have achieved financial sustainability (see World Bank 2001a, Ch. 3). Addressing the issue of financial sustainability in Morocco will first require determining an efficient mix of private (communities) and public funds. This mix depends on the type of activity, demographic and socioeconomic characteristics of the targeted groups, as well as their geographic location.

Available public funds will be constrained by the sustainable flows of foreign assistance and relocations from the social sectors budget. Given these fiscal constraints, the number and scope of projects that the fund can undertake will be determined by the availability of private resources. Today, Morocco spends 12.5 percent of GDP in the social sectors, while the costs of the ADS over a five years period are equivalent to only 0.16 percent of GDP (65 percent financed by local resources). The same level of expenditures could be maintained (or even increased), if relocations are made from the social sectors (see World Bank, 2001b) and if foreign aid increases. It is important to note that, contrary to some other social funds, the ADS' administrative structure is supported by the Government. This increases the likelihood of a financially sustainable expansion of the system.

Private resources, on the other hand, will depend on cost-recovery mechanisms. ADS has embedded in its design several of these mechanisms. First, project selection is contingent on communities' commitment to absorb future recurrent costs (operation and maintenance). Second, communities are required to participate in the financing of investment costs. The exact nature of the financing arrangements depends on factors such as: (i) the type of project; (ii) the average level of income of households in the community; (iii) and whether or not the region has a favorable or adverse geographic location (see ADS, 2001, Ch. 5). In general, beneficiaries are asked to contribute 10 percent of investment costs in the case of social infrastructure, and 20 percent in the case of economic infrastructure. This is still a very broad criteria, but it should evolve as experience accumulates. More efficient pricing mechanisms will also require conducting willingness to pay studies for different goods and services (for discussions on international experiences and methods, see Ardila et al., 1998; and McConnell, 2001).
Community and intermediaries' capacity

The capacity of communities and NGOs to identify, prepare and implement projects is a key determinant of the success of a social fund. Lately, the issue of whether communities and local NGOs are really prepared for this central role has been raised (see Plateau and Abraham, 2001). Recent evaluations suggest, however, that communities in general have demonstrated high levels of organization and implementation capacity. This is true regardless of the country level of income. Some manifestations are faster disbursements than with traditional bank projects and a high degree of beneficiary satisfaction (see Rawlings and Domelen, 2001). Rawlings and Domelen also find no evidence that demand-driven mechanisms discriminate against the poor. Recent research also shows that management capacity at the community level need not be a precondition for the development of a social fund. On the contrary, the ADS can constitute a powerful mechanism to promote community development and the accumulation of social capital (see Jack, 2000). The social project includes a component to support community and NGO development. Through this component, the ADS will be able to reach remote areas with no local structures, by contracting capable NGOs to act as ADS agents.

Exploratory analysis of potential costs and benefits

In this section, for illustration purposes we summarize the results of an exploratory analysis of the potential costs and benefits of ADS. We concentrate on two broad categories of projects: education related projects, and water related projects. The focus is on the social benefits related to a lower infant mortality rate, and higher enrollment in primary education. We estimate social rates of return for alternative compositions of the portfolio projects, and alternative assumptions about costs and benefits (see the Technical Appendix for a detailed description of the methods used in the analysis).

The main message from the analysis is that even in the case of pessimistic assumptions about costs, and conservative assumptions about benefits, the rates of return of the ADS project could be in the order of 25 to 60 percent. The magnitude of the benefits increases in proportion to the growth rate of total factor productivity. The results also show that the social rate of return remains high, even when the composition of the portfolio of projects deviates from the social optimal. These results need to be interpreted with caution, given the series of simplifications and assumptions necessary for the calculations.

Estimating benefits

The analysis exploits the correlation between infant mortality rates and access to safe water in Morocco, as well the linkage between enrollment in primary education and access to schools. The latest household survey for Morocco shows that 62 percent of children aged 0 to 5 lack access to safe water. The analysis of the survey also suggests that having access to safe water can significantly reduce the probability of death, particularly between ages 1 and 3 (see Figure 2). In terms of education, the survey shows that 20 percent of children aged 7 to 10 are not enrolled in primary education, and that in 27 percent of the cases the main reason is that schools are too far or do not have appropriate teaching materials or human resources (see Table 2). The social costs associated with high infant mortality and lower enrollment are related, in part, to lost human capital and productivity. In this analysis we concentrate on the social benefits that ADS will have, by implementing projects that will reduce infant mortality and increase enrollment.
Figure 2: Access to safe water and infant mortality rates

Source: Author’s calculations on the basis of the 1998 household survey

Table 2: Reasons for not attending primary school

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Far away</td>
<td>14.7</td>
</tr>
<tr>
<td>No places</td>
<td>0.36</td>
</tr>
<tr>
<td>There are no schools in the area</td>
<td>12.54</td>
</tr>
<tr>
<td>Needs to help the parents</td>
<td>5.73</td>
</tr>
<tr>
<td>Has to work</td>
<td>0.18</td>
</tr>
<tr>
<td>Cannot afford costs</td>
<td>35.13</td>
</tr>
<tr>
<td>No interest</td>
<td>4.3</td>
</tr>
<tr>
<td>Parents attitudes</td>
<td>8.96</td>
</tr>
<tr>
<td>Family difficulties</td>
<td>1.79</td>
</tr>
<tr>
<td>Others</td>
<td>10.75</td>
</tr>
</tbody>
</table>

Source: Author’s calculations on the basis of 1998 household survey.
Applies to 20% of children aged 7-10

Estimating costs

Two cost functions were defined for the analysis (see Technical Appendix): one to capture the costs of reducing infant mortality, and a second to estimate the costs of increasing enrollment. These functions link changes in the infant mortality rate and enrollment in primary education, to changes in the level of access to safe water and schools. The costs functions were calibrated on the basis of the household survey. The general method was to predict changes in the average probability of enrollment in primary education, and the average infant mortality rate resulting from providing access to schools and safe water to different shares of randomly selected individuals. It was assumed that the costs of providing access to safe water and school to an additional individual are initially given by the average unit costs estimated in Table 1. Unit costs are then assumed to increase with the number of beneficiaries.
Estimating social rates of return

Social rates of return depend on the composition of the portfolio of investments. As previously discussed, given the demand driven nature of ADS, it is not possible to know ex-ante this allocation. Therefore, in the analysis we have focused on the rate of return under the assumption of a socially optimal allocation of resources. We then compute changes in the rate of return, resulting from deviations from the optimal allocation.

The results show, not surprisingly, that the socially optimal composition of the portfolio depends on the relative costs and benefits of water and education related projects (see Figure 3). For instance, as the unit cost of education project increases (unit costs are measured relative to the income of the lowest decile of the income distribution), the optimal share in the portfolio diminishes.

Figure 3: Optimal share of education expenditures

Regardless of the level of the unit costs, the social rates of return are likely to be considerably high, ranging from 26 percent to 61 percent, for an average of 44 percent (see Figure 4). This implies that for each dollar invested in ADS, society would get back between 1.26 and 1.61 dollars. This average has been taken over a wide range of model parameters (see Table 3 in the Technical Appendix). The rates of return are likely to be lower bounds of the true distribution, as the general approach has been to be conservative about benefits and pessimistic about costs.

Source: Author's calculations
The analysis also shows that even if deviations from the optimal portfolio are observed, social rates of return would remain considerably high. For instance, a 20 percentage points increase in the share of education expenditures relative to the optimal, would decrease the social rate of return by less than 5 percentage points on average (see Figure 3). Reductions in net social benefits would approximate 2 percentage points. The robustness of net social gains to deviations from the optimal portfolio, is explained by the fact that the interventions considered, if well implemented, are cost-effective on their own.

Figure 5: Changes in the social benefits resulting from changes in the optimal structure of the portfolio of investments

Source: Authors calculations
References


Technical Appendix

The model

We develop a simple model linking changes in mortality and enrollment rates to changes in the size of the labor force and its productivity. We consider a population of N children born between years t and t-5. We define by \( \alpha \) the share of children who are alive at the end of time \( t \); \( \beta \) the share of these children who will enroll in primary education, \( \gamma \) the share of these children who will graduate from high school, and \( \gamma \) the share of these children who will attend and graduate from university.

Assuming that labor productivity is proportional to wages (see Caballero and Lyons, 1992), the aggregate productivity of the population of N children during their working life is given by:

\[
H = N\alpha \beta [1 - \gamma]w_n + \gamma [1 - \eta]w_h + \eta w_u] + N\alpha (1 - \beta)w_n,
\]

where \( w_i \) is respectively the wage of workers with no primary education (i=n), primary level education (i=p), high school education (i=h), and higher education (i=u).

On the basis of empirical evidence, we assume that \( \alpha \) and \( \beta \) can be affected through education and water infrastructure related projects. We postulate that the cost of increasing \( \alpha \) by \( \varepsilon \) percentage points can be approximated by a function of the form:

\[
C_\alpha = a_1 (\phi_m l_w N) a_2,
\]

where \( l_w \) is the share of the population lacking access to safe water, \( \phi_m \) is the change in the level of access that would need to take place to reduce the mortality rate by 1, and \( a_1 \) and \( a_2 \) are parameters to be estimated. The parameter \( a_1 \) can be interpreted as the first unit cost, or the cost of providing the implicit service to an additional individual. The parameter \( a_2 \) is used to take into account increasing marginal costs.

Similarly, the cost of increasing \( \beta \) by \( \mu \) percentage points is given by:

\[
C_\beta = b_1 (\mu N)^{b_2},
\]

where \( b_1 \) is the initial costs and \( b_2 \) captures increasing marginal costs.

The problem faced by a policymaker trying to maximize aggregate labor productivity for the cohort of children in the absence of budget constraints is given by:

\[
\max_{\varepsilon, \mu} : H = \sum_{k=n+15} [\theta^k N \left[ \alpha \varepsilon (\alpha \mu + \varepsilon \beta + \varepsilon \mu) + w_n (e + \varepsilon \beta + a \mu + e \mu) \right] - a_1 (\phi N)^{a_2} - b_1 (\mu N)^{b_2},
\]
where $\theta = \frac{1 + g}{1 + r}$ is a discount factor taking into account, $g$, the growth rate of labor productivity (assumed to be uniform across types of labor), and $r$, the rate of time preference; $\omega = (1 - \gamma)w_p + \gamma[(1 - \eta)w_n + \eta w_w]$; and $\tilde{N} = \phi \mu t_\mu N$. We work directly with $\omega$, under the assumption that the social fund projects do not affect $\gamma, \eta$, or relative wages. Notice, that this approach excludes the benefits of the new cohort of children. We have opted for this conservative approach, given uncertainty in terms of the sustainability of the interventions.

The first order conditions of this problem are given by:

$$\left\{ \begin{align*}
\frac{\partial H}{\partial \epsilon} &= \sum_k \theta^k N(\omega(\beta + \mu) + w_n(1 + \beta + \mu)) - a_1 a_2 e^{a_1 - 1} \tilde{N}^{a_2} - a_2 a_1 e^{a_2 - 1} \tilde{N}^{a_1} = 0 \\
\frac{\partial H}{\partial \mu} &= \sum_k \theta^k N(\omega(\alpha + \epsilon) + w_n(\alpha + \mu)) - b_1 b_2 \mu^{b_2 - 1} N^{b_1} = 0
\end{align*} \right. ,$$

System (5) captures neatly the complementary effects of water and education related interventions. The marginal contribution to labor productivity of water related interventions ($\epsilon$), depends on education related interventions ($\mu$), and vice-versa. Given the value of $a_1, a_2, b_1, b_2, w_n, \tilde{w}, N,$ and $\tilde{N}$, system (5) can be solved for $\epsilon$ and $\mu$.

The case with a budget constraint is similar:

$$\text{Max}_{\epsilon, \mu} : H = \sum_{k=r+1}^{k=r+15} \theta^k N(\omega(\alpha \mu + \epsilon \beta + \epsilon \mu) + w_n(\epsilon \alpha \beta + \alpha \mu + \epsilon \mu)) - a_1 (\epsilon \tilde{N})^{a_2} - b_1 (\mu \tilde{N})^{b_2} ,$$

where $\lambda$ is the Lagrange multiplier and $Y$ is the budget, net of administrative costs.

We focus on system (6), using 80% of the project total cost as the budget constraints (the remaining 20 percent is assumed to be allocated to administrative activities). After solving for $\epsilon$ and $\mu$, we compute the total costs for water and education related interventions, using equations (2) and (3). Given the budget $Y$, the optimal share of each category of expenditure is then derived. The social rate of return is simply computed as:

$$srr = \frac{H}{Y / 0.80} .$$

We notice that this rate of return depends on the expected average growth rate of labor productivity, $g$, and the discount rate $r$. Net social gains of ensuring access to education and safe water will be enhanced in a rapidly expanding economy.

Model calibration and simulation

To calibrate model parameters we use the Morocco 1998 household survey. Logit and probit models were used to estimate correlations between the probability of death and enrollment in primary education,
and access to safe water and schools. The survey was also used to approximate levels of income for different levels of education attainment (codes and files are available from the author).

To take into account errors in the parameter estimates, we simulate results over a large space of model parameters. The model parameters and their range of variation are summarized in Table 3. All monetary values (unit costs and budget constraints) are expressed relative to annual average wage of a worker with no primary education.

Table 3: Model parameters

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Description</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>$a_1$</td>
<td>Cost function water related interventions.</td>
<td>[0.0528, 0.0702]</td>
</tr>
<tr>
<td>$a_2$</td>
<td>&quot;</td>
<td>[1.05, 1.3]</td>
</tr>
<tr>
<td>$b_1$</td>
<td>Cost function education related interventions.</td>
<td>[0.017, 0.0226]</td>
</tr>
<tr>
<td>$b_2$</td>
<td>&quot;</td>
<td>[1.05, 1.3]</td>
</tr>
<tr>
<td>$\bar{w}_n$</td>
<td>Average wage for a worker with no primary education.</td>
<td>1</td>
</tr>
<tr>
<td>$\bar{\tilde{w}}$</td>
<td>Expected wage for a worker who enrolled in primary education.</td>
<td>[1.1, 1.3]</td>
</tr>
<tr>
<td>$N$</td>
<td>Total population of children born between years 1993 and 1998 (death or alive).</td>
<td>3,142,545</td>
</tr>
<tr>
<td>$\tilde{N}/N$</td>
<td>Share of the population who would need to have access to safe water to reduce the mortality rate by 1 per 1000, other things being equal.</td>
<td>[0.005, 0.015]</td>
</tr>
<tr>
<td>$g$</td>
<td>Growth rate of the economy.</td>
<td>0.03</td>
</tr>
<tr>
<td>$r$</td>
<td>Discount factor.</td>
<td>0.10</td>
</tr>
<tr>
<td>$T$</td>
<td>Total budget ($Y=0.8T$)</td>
<td>19,329</td>
</tr>
</tbody>
</table>

Source: Author's calculations. Monetary variables (unit costs and budgets), are expressed relative to $\bar{w}_n$. 
Annex 5: Financial Summary

MOROCCO: Support for the Social Development Agency Project

Years Ending 2007

<table>
<thead>
<tr>
<th>IMPLEMENTATION PERIOD</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Year 6</th>
<th>Year 7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Financing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Required</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project Costs</td>
<td>1.3</td>
<td>2.7</td>
<td>3.6</td>
<td>4.6</td>
<td>1.3</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Investment Costs</td>
<td>0.2</td>
<td>0.3</td>
<td>0.4</td>
<td>0.4</td>
<td>0.2</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Recurrent Costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Project Costs</td>
<td>1.5</td>
<td>3.0</td>
<td>4.0</td>
<td>5.0</td>
<td>1.5</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Total Financing</td>
<td>1.5</td>
<td>3.0</td>
<td>4.0</td>
<td>5.0</td>
<td>1.5</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

| Financing             |        |        |        |        |        |        |        |
| IBRD/IDA              | 0.5    | 1.0    | 1.5    | 1.5    | 0.5    | 0.0    | 0.0    |
| Government            | 0.9    | 1.6    | 2.0    | 2.8    | 0.8    | 0.0    | 0.0    |
| Central               | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    |
| Provincial            | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    |
| Co-financiers         | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    |
| User Fees/Beneficiaries| 0.2    | 0.4    | 0.5    | 0.7    | 0.2    | 0.0    | 0.0    |
| Other                 | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    |
| Total Project Financing| 1.6    | 3.0    | 4.0    | 5.0    | 1.5    | 0.0    | 0.0    |

Main assumptions:
ADS capacity to process sub-project will build up gradually.
Annex 6: Procurement and Disbursement Arrangements

MOROCCO: Support for the Social Development Agency Project

Procurement

Procurement Arrangements

Under the project, goods, works and services will be procured in accordance with the Bank's guidelines for "Procurement under IBRD Loans and Credits" - January 1995 and revisions up to January 1999 and for "Selection and Employment of Consultants by World Bank Borrowers" - January 1997 and revisions up to January 1999.

Procurement will take place at two levels: (i) at the central level, within ADS, for activities related to components 3 and 4; and (ii) at the community level for sub-projects with community participation included in components 1, 2 and 3. The bulk of procurement work will occur at the community level to implement sub-projects which absorb 85 percent of the loan. At the central level, the loan will finance goods, consultant services and training. At the community level, the loan will finance sub-projects which include small civil works, goods, training activities and technical assistance. Detailed procurement arrangements are stipulated in the Operational Manual and agreed with the Bank.

A review of the decree no. 2-98-482 dated 11 ramadan 1419 (December 30, 1998), which ADS applies for its government-financed work program, shows that although the procedures prescribed by the decree are generally in line with Bank's guidelines, the following procedures are not acceptable to the Bank:

- a) for works and goods: (i) the submission of bids in two envelopes (one containing administrative documents and information on the qualifications of the suppliers, and the other one containing the bid itself) and the opening of these two envelopes in two different phases should not be applied. The two envelopes should be opened simultaneously, without requiring the bidders' representatives to leave the room; and (ii) the use of a point system for the evaluation and comparison of bids should not be applied. Instead, in addition to the bid price, other criteria used in the evaluation will need to be quantified.
- b) for consulting services, open competitive bidding should not be used, but invitation to bid should be addressed to a short list of firms, possessing the required qualification and experience. The financial proposals will be opened publicly following completion of the evaluation of technical proposals.

At the community level, procurement undertaken for the sub-projects is governed by an Operational Manual. ADS will oversee procurement management, and will ensure that procurement procedures, funding and eligibility criteria for sub-projects agreed with the Bank, and described in the Operational Manual, are satisfactorily complied with. Procurement will be carried out by NGOs on behalf of the communities. Procurement capacity of and procedures applied by these entities vary widely. A limited number of NGOs is able to undertake large procurement and operate within established procedures set out by the country's regulations and/or by the financiers. Others work under informal settings, without established procedures.

The size of the sub-projects is kept small, with an average value of $50,000 and not exceeding US$200,000. Due to the nature and size of the sub-projects, there will be occasions when competitive bidding will be based on simpler documentation. As such, models of simplified bidding documents have been developed and are included in the Operational Manual.
A General Procurement Notice will be published in the United Nations Development Business after project negotiations and will be updated annually. In addition, as soon as a set of sub-projects is presented for approval by ADS, a general advertising of the opportunities to bid (which serves the same purpose as the General Procurement Notice) will also be published, at the national level, in newspapers and places where potential suppliers and contractors are likely to visit. This will help improve transparency and increase competition and, at the same time, provide communities with valuable information on bidders' qualification and experience. A roster with the bidders' experience and track record will be established by the communities for actual and future bidding.

**Procurement risk assessment**

Procurement risk assessment covers mainly entities involved in the implementation of sub-projects which account for 85 percent of the loan and are rated "average". As stated above, the bulk of procurement activities are to be undertaken by community groups or by NGOs on behalf of the communities. The capacity of these entities varies widely. Although there is a small number of these entities which can carry out large procurement, following established rules and procedures, there exists a large number which lacks capacity and operates in informal settings, especially in remote rural areas. In order to mitigate these weaknesses, the following actions, to have been undertaken by December 2001, have been agreed during appraisal:

(a) Finalize the Procurement section of the Operational Manual, to include models of simplified bidding documents. A consultant, who specializes in community-based projects, is actually working with ADS in this matter.

(b) Develop an annex listing and explaining the procurement methods and procedures to all financing conventions signed between ADS and the beneficiary community.

(c) Train staff in the first regional antenna (Marrakech) on procurement, in particular the procedures established in the Operations Manual.

(d) Designate a resource person in ADS, at the central level, who will be familiar with Bank's procurement procedures and particularly those included in the Operations Manual and will also be responsible for all documentation related to procurement.

In addition, the project has built in its design the following aspects: (i) a component to provide technical assistance to develop and strengthen the institutional capacity of the intermediaries, including implementation and procurement (Component 3); (ii) the loan amount is small; (iii) the size of the sub-projects is kept small, with an average value of US$50,000 and not exceeding US$200,000; and (iv) participation of the communities in every stage of the procurement processes will add an important control element.

**Procurement methods (Table A)**

Competitive bidding will form the principal basis on which procurement work will be guided. The methods applied in the project will take into account a combination of factors, such as transparency, cost efficiency, optimization of the use of local labor and commerce as well as the budget value of contracts.

**Civil works:**

Civil works related to sub-projects will be of small scale, comprising works to enhance the infrastructure of poor rural and urban slum areas (e.g. construction/rehabilitation of classrooms, of primary health care facilities, rural water supplies/irrigation, small markets and rural roads). As these works will be geographically dispersed in local communities, with small contract values not exceeding US$200,000, since they will not attract foreign bidders, and will therefore be contracted using National Competitive Bidding (NCB) procedures and National Shopping (NS) **undertaken at the community level.**
Contracting will be acceptable when competition is not available or not practical and limited to small contract values.

For civil works with an estimated contract value equal or above US$25,000, NCB procedures will apply, with advertisement in two national newspapers. For contract values between US$10,000 and US$25,000, NCB procedures will apply, using simplified bidding documents with advertisement done at the level of the community, in newspapers and in public areas. These simplified bidding documents have been agreed with the Bank and are included in the Operational Manual. Contracts with a value below US$10,000 will be awarded through local shopping by soliciting at least three competitive quotations from local suppliers. Direct contracting may only be used for contract values below US$5,000 and in situations where no competition is foreseen.

Goods:
Goods will primarily include materials and equipment related to sub-projects. The procurement methods and thresholds are the same as for civil works. Vehicles and computer goods may be procured from the United Nations Inter-Agency Procurement Services Organization (IAPSO), in accordance with the Bank's guidelines.

Services:
Services will primarily cover technical assistance and training related to (i) sub-projects; (ii) institutional strengthening of ADS; and (iii) the carrying out of impact evaluation of interventions.

Given the small size and scope of the services undertaken in sub-projects, the services will be carried out in the majority of cases by individual consultants, selected on the basis of comparison of qualifications.

For other services related to institutional development activities, operational studies and impact evaluation, consulting firms will be selected, using the following methods: Quality and Cost-Based Selection (QCBS), Least-Cost Selection and Selection based on Consultants' Qualifications.

### Table A: Project Costs by Procurement Arrangements

<table>
<thead>
<tr>
<th>Expenditure Category</th>
<th>Procurement Method</th>
<th>ICB</th>
<th>NCB</th>
<th>Other</th>
<th>N.B.F.</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Works</td>
<td></td>
<td>0.00</td>
<td>3.50</td>
<td>0.30</td>
<td>3.15</td>
<td>6.95</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.00)</td>
<td>(2.50)</td>
<td>(0.30)</td>
<td>(0.00)</td>
<td>(2.80)</td>
</tr>
<tr>
<td>2. Goods</td>
<td></td>
<td>0.00</td>
<td>3.20</td>
<td>0.20</td>
<td>2.40</td>
<td>5.80</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.00)</td>
<td>(1.25)</td>
<td>(0.20)</td>
<td>(0.00)</td>
<td>(1.45)</td>
</tr>
<tr>
<td>3. Services</td>
<td></td>
<td>0.00</td>
<td>0.00</td>
<td>2.25</td>
<td>0.00</td>
<td>2.25</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.00)</td>
<td>(0.00)</td>
<td>(0.75)</td>
<td>(0.00)</td>
<td>(0.75)</td>
</tr>
<tr>
<td>4. Miscellaneous</td>
<td></td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.00)</td>
<td>(0.00)</td>
<td>(0.00)</td>
<td>(0.00)</td>
<td>(0.00)</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>0.00</td>
<td>6.70</td>
<td>2.75</td>
<td>5.55</td>
<td>15.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.00)</td>
<td>(3.75)</td>
<td>(1.25)</td>
<td>(0.00)</td>
<td>(5.00)</td>
</tr>
</tbody>
</table>

1/ Figures in parenthesis are the amounts to be financed by the Bank Loan. All costs include contingencies.

2/ Includes civil works and goods to be procured through national shopping, consulting services, services of contracted staff of the project management office, training, technical assistance services, and incremental operating costs related to (i) managing the project, and (ii) re-lending project funds to local government units.
Prior review thresholds (Table B)

**Civil works:** All contracts for NCB above US$200,000 equivalent will be subject to the Bank’s prior review. The first three sub-projects with civil works contracts above US$10,000 will be subject to prior review. Post-review will be conducted during supervision missions and procurement audits. Procurement audits will be carried out at least once a year.

**Goods:** All contracts for NCB above US$200,000 equivalent will be subject to the Bank’s prior review. The first three sub-projects with goods contracts above US$10,000 will be subject to prior review. Post-review will be conducted during supervision missions and procurement audits. Procurement audits will be carried out at least once a year.

**Services:** With respect to each contract for the employment of consulting firms estimated to cost the equivalent of US$100,000 or more, procurement documentation, including request for proposals (RFP), cost estimate, results of technical evaluation of offers, is subject to Bank’s prior review. With respect to each contract for the employment of individual consultants estimated to cost the equivalent of US$50,000 or more, the following is subject to Bank’s prior review: terms of reference (TOR), consultants’ CV and cost estimate. TOR and cost estimate are subject to the Bank’s prior review for all contracts for consulting firms as well as for individual, regardless of their value.

<table>
<thead>
<tr>
<th>Expenditure Category</th>
<th>Contract Value Threshold (US$)</th>
<th>Procurement Method</th>
<th>Contracts Subject to Prior Review (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Works</td>
<td>Equal or above US$25,000</td>
<td>NCB</td>
<td>Advertisement in 2 national newspapers; prior review of all contracts above US$200,000 and first 3 contracts above US$10,000.</td>
</tr>
<tr>
<td></td>
<td>US$10,000-US$25,000</td>
<td>NCB</td>
<td>Simplified bidding documents will be used. Advertisement at the community level, in newspapers and public areas.</td>
</tr>
<tr>
<td></td>
<td>Below US$10,000</td>
<td>NS</td>
<td>Shopping will be undertaken at the community level. Solicitation of at least 3 quotations.</td>
</tr>
<tr>
<td></td>
<td>Below US$5,000</td>
<td>Direct contracting</td>
<td>May only be used in situations where no competition is foreseen.</td>
</tr>
<tr>
<td>Expenditure Category</td>
<td>Contract Value Threshold (US$)</td>
<td>Procurement Method</td>
<td>Contracts Subject to Prior Review (US$)</td>
</tr>
<tr>
<td>----------------------</td>
<td>--------------------------------</td>
<td>-------------------</td>
<td>----------------------------------------</td>
</tr>
<tr>
<td>2. Goods</td>
<td>Equal or above US$25,000</td>
<td>NCB</td>
<td>Advertisement in 2 national newspapers; prior review of all contracts above US$200,000 and first 3 contracts above US$10,000.</td>
</tr>
<tr>
<td></td>
<td>US$10,000-US$25,000</td>
<td>NCB</td>
<td>Simplified bidding documents will be used. Advertisement at the community level, in newspapers and public areas.</td>
</tr>
<tr>
<td></td>
<td>Below US$10,000</td>
<td>NS</td>
<td>Shopping will be undertaken at the community level. Solicitation of at least 3 quotations.</td>
</tr>
<tr>
<td></td>
<td>Below US$5,000</td>
<td>Direct contracting</td>
<td>May only be used in situations where no competition is foreseen.</td>
</tr>
<tr>
<td>3. Services</td>
<td>Firms</td>
<td>QCSB, Least-Cost Selection, Selection Based on Consultants' Qualifications</td>
<td>For contracts equal or above US$100,000, RFP including TOR and short list, and cost estimate. For contracts below US$100,000, TOR and cost estimate.</td>
</tr>
<tr>
<td></td>
<td>Individuals</td>
<td>Selection of individual consultants</td>
<td>For contracts equal or above US$50,000, TOR, CV and cost estimate. For contracts below US$50,000, TOR and cost estimate.</td>
</tr>
</tbody>
</table>

1 Thresholds generally differ by country and project. Consult OD 11.04 "Review of Procurement Documentation" and contact the Regional Procurement Adviser for guidance.

Total value of contracts subject to prior review: US$300,000
Overall Procurement Risk Assessment

Average

Frequency of procurement supervision missions proposed: One every 6 months (includes special procurement supervision for post-review/audits). The procurement supervision missions will be part of regular supervision missions.

Disbursement

Allocation of loan proceeds (Table C)

<table>
<thead>
<tr>
<th>Expenditure Category</th>
<th>Amount in US$ million</th>
<th>Financing Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-project activities (Component 1)</td>
<td>3.00</td>
<td>100%</td>
</tr>
<tr>
<td>Sub-project activities (Component 2)</td>
<td>1.00</td>
<td>100%</td>
</tr>
<tr>
<td>Goods (Component 3 and 4)</td>
<td>0.20</td>
<td>100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally</td>
</tr>
<tr>
<td>Civil works (Component 3 and 4)</td>
<td>0.10</td>
<td>80%</td>
</tr>
<tr>
<td>Consultant services and Training</td>
<td>0.50</td>
<td>100%</td>
</tr>
<tr>
<td>Unallocated</td>
<td>0.20</td>
<td></td>
</tr>
<tr>
<td>Total Project Costs</td>
<td>5.00</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>5.00</td>
<td></td>
</tr>
</tbody>
</table>

Evaluation of the Financial Management System

The Financial Autonomy of the ADS

The ADS is a public entity established by its charter (Dahir No. 1-99-207 of 13 Jumada I, 1420) on August 25, 1999, as a financially autonomous legal entity. It is subject to government regulations as regards its staff rules, procurement, and accounting. However, once approved, its statutes are enforced by management under the supervision of its Executive Board. Under Moroccan regulations, the ADS must be subject to government oversight. That oversight function is fulfilled by the Ministère de l’Emploi, de la Formation Professionnelle, du Développement Social et de la Solidarité (MEFPDSS), without the ADS thereby losing its financial autonomy. The ADS budget is drawn up once a year and submitted, via the MEFPDSS’ budget, to the Government Council.

In practice, this financial autonomy is restricted and has to be applied in a predetermined framework. Thus the Agency may not pay its staff market wages, but it must abide by a pre-established pay scale set by the MOF, which also fixes the salary and grade corresponding to a given level of university graduates. To enable some flexibility with the restrictions imposed by the staff rules, the ADS is authorized to hire contractual employees. The scope of such contracts remains to be worked out between the ADS and the MOF.
Organizational structure of the financial management function

The financial management function is the responsibility of the Financial and Administrative Division (Direction Financière et Administrative - DFA). This division is in charge of administration, including human resources management, and accounting. DFA staffing is minimal: the Director of the division, an accountant, and an administrative assistant. The persons met by the Bank mission (the Director and the accountant) were clearly competent in this area and have the experience and qualifications required to perform their functions. The accountant was only recently recruited (in September, 2001) and is the sole person responsible for all stages of accounting from initial verification of expenditure vouchers to preparation of payment and transfer orders, as well as clearances [décharges] and other tasks. The accountant has not been trained, nor briefed by the previous temporary accountant. There are no job descriptions for those employed in this division, nor any written accounting or administrative procedures to be followed, except the public accounting and procurement laws.

The financial controller, known as the Accounting Officer, is appointed by the Minister of Finance. The Accounting Officer, who is only available one day a week, reviews expenditures to ensure that they are duly authorized and follow the procedures. This will only be a temporary arrangement given current needs plus those projected when the work load increases considerably, which is likely to occur next year when the financing of projects begins.

The current structure of the Financial Management (FM) function will unlikely be able to cope with the expected level of ADS' future operations, especially once project financing commences and the workload increases. Given the nature of ADS' operations and the volume of work projected in various parts of Morocco, it is essential to strengthen the Agency's organizational structure at three levels. First, a full-time, in-house financial controller is needed in the ADS; a post that would be financed out of the ADS budget. The second level concerns the regional offices. Depending on the volume of work in a given office, and as regional offices are opened, it is recommended that ADS considers the appointment of additional persons to monitor financial management and procurement, and to train ADS social partners (NGOs, local communities and beneficiaries). These people will provide social partners with the necessary training on ADS accounting and procurement procedures on one hand, and on techniques for sound management of their projects and the preparation of the financial and progress reports to be submitted to the ADS, on the other. These persons will be responsible for preparing disbursement schedules after they have received expenditure, procurement, and project implementation information, verified the information (especially the financial data), and have consolidated the information for transmission to the ADS for disbursement. During the first year, when not all regional offices will have been opened, the additional staff responsible for the monitoring of financial management and procurement could be located at ADS headquarters. This person's responsibilities will then be gradually transferred to the regional offices as the need arises.

With respect to the beneficiaries, the additional ADS staff will be in charge of training the social partners executing the projects in accordance with their needs in simplified financial management techniques, procurement, and the preparation of financial and progress reports.

Social partners' financial management capacity: The ADS will undertake an evaluation of each sub-project and the implementation capacity of each implementing agency to determine their needs in terms of technical assistance and training in financial management, procurement and project management. Each sub-project will maintain simplified cash accounting and reporting systems to ADS.

The Bank's mission reviewed the operational manual and the standard project agreement, and discussed its comments on these with ADS staff. A number of missing procedures and clauses from the operational manual and the standard agreement were discussed and will be added to these documents by the ADS.
prior to the effectiveness of the loan to ensure better financial management at the sub-project's level. Certain simplified financial reports from the social partners to ADS were also discussed and drafted as part of the standard documents. Comments and formats are attached to the FMS assessment and are included in the project files.

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The Social partners and beneficiaries will be responsible for keeping a simplified cash accounting of the funds received from ADS and from beneficiaries contributions for the implementation of the project. They will receive an initial training session before the start of the project on the accounting system, the ADS's operational manual, and on its reporting requirements. Social partners will be audited regularly as part of ADS's overall annual external audit on a sample basis. They also will be audited by the internal audit of ADS using their own audit procedures. The internal audit will adopt a risk based approach. Social partners will also have training on particular issues as these arise. A close follow-up will take place by the ADS' agents de suivi (in charge of follow-up) after the receipt of the monthly reports.

The Internal Control System

Financial Control. This control is exercised at several levels: the ADS as a whole, the Accounting Officer, and internal audits. As previously mentioned, the financial controller conducts routine checks of expenditure documentation before clearing them for payment or transfer orders. The fact that he is not available full-time could lead to bottlenecks in the DFA when the volume of work increases and leads to a higher number of transactions to be checked. Although it is contemplated in the ADS procedures manual, the internal audit function is not yet operational. It is expected to be in place next year.

Currently, control is concentrated at the central level in the ADS head office, because regional offices have not yet been set up and project financing has not yet begun. This situation should be re-examined in light of the work plan for 2002, especially the opening of three regional offices, in order to ensure that there is decentralized control and monitoring at the regional level. As mentioned, this control and monitoring function is to be strengthened by hiring monitoring staff, initially at headquarters and gradually thereafter in the regions, starting with those where the volume of work is highest and need to be monitored more closely. The staff hired to do the monitoring will, therefore, perform the aforementioned function of checking expenditure vouchers before presenting them to the ADS for financing. That requires that the staff involved must have received training in financial management, procurement, and monitoring.

Financial Management and Administrative Procedures. The ADS has developed a manual of procedures that has not yet been adopted by its Board of Directors (a preliminary version was approved by the Board and modifications were introduced to that version - the ADS will submit the latest version to its Board for approval at its first meeting). The manual contains the working procedures and the criteria governing eligibility for project financing by sector, and the approval procedures. A number of other procedures and forms have also been prepared. These refer in particular to the preparation of standard documents to be used when projects are implemented, i.e. the standard agreement, simplified procurement and accounting procedures, and regular reporting requirements by ADS on project implementation as well as the financing to be provided by the social partners.
A review of the standard agreement gave rise to certain observations that need to be incorporated in the final version of the standard agreement (these observations can be found in Annex 1 - in project files).

A list of standard documents discussed during the mission has been prepared and should be appended, along with the forms, to the procedures manual (see the simplified financial reports in Annex 2 - in project files).

The manual will be continually updated and refined as needed and in accordance with ADS experience in the field.

The ADS procedures manual refers to a manual of accounting procedures that does not yet exist. It is strongly recommended that the completed set of accounting procedures be gathered together in one manual. These procedures will make it possible to complete the accounting circuit by establishing financial reports and report frequency. It will specify the set of books to be kept by the accountant, the frequency with which they have to be updated, the financial and other reports to be prepared to meet management's needs, and the frequency with which they must be prepared, and the bank reconciliation required. The manual will also specify the financial and other statements required of the project implementing partners, and how these are to be processed and recorded. A procedure for cash payments also needs to be adopted and included in the procedures. As part of the cash management procedure, a ceiling for the amounts of cash on hands should be determined and applied. It should also be noted that there are no procedures on how to disburse or track advances for seminars and workshops and eligible expenses.

The manual should also be reviewed and updated once the acquired software has been purchased and applied, so that it can include the software application procedures.

A manual of administrative procedures should also be prepared in order to clarify the distinction between administrative and financial tasks.

**Budgetary Control**

Budgetary control is carried out in accordance with government regulations, which define the procedures to be followed. A statement of the budget (expenditure commitments and payments) is prepared regularly. A copy of this statement is attached. Despite its importance, budgetary control is currently performed manually. Once an accounting software application is in place, the budgetary control should be linked to the accounting system and computerized. It is also advisable to establish a link between project physical progress and the use of funds. Thus, a simplified managerial accounting that links the budget to the accounts and to physical progress of the project would yield more valuable information (such as unit costs) which in turn would provide an indication of the effectiveness of the use of funds and facilitate improved planning and budgeting.

**Internal audit**

The ADS should fill the internal auditor position as soon as possible in order to strengthen its internal control systems. It is recommended that an internal auditor position be filled early next fiscal year and that the corresponding remuneration be allocated in the following year's operating budget. As soon as the internal auditor is hired, he/she should put in place the procedures needed to ensure that this function is properly performed. Given the workload expected within a year or two, and the limited capacity of the internal audit unit (only one person is envisaged), it would be best to focus on auditing sub-projects in...
accordance with a risk based approach. As with the organizational structure of the ADS as a whole, the capacity of this unit – organizational structure, number and location of staff, and where they are located – should be re-examined once the volume of work reaches a certain level in order to ensure that it evolves in line with actual needs.

**Accounting**

The ADS is financed by the Moroccan Government under the Budget Law (Loi des Finances) in an amount not to exceed DH 46 million in 2001, and a World Bank loan of US$5 million, contracted by the Moroccan Government on its own account to finance the ADS’s activities over five years. Local communities will also help fund ADS activities. The legal terms and conditions of the loan are stipulated in Loan Agreement and may be further specified through supplementary letters and/or amendment to the Loan Agreement.

Pursuant to clause 4.01 of the Loan Agreement, the ADS is required to maintain an up-to-date financial management system, including records and accounts, and to prepare financial statements for the project in a format conforming to ADS rules and World Bank standards, in such a way as to account appropriately for the Agency’s operations, funds, expenditures, assets, and liabilities. The Agency adopts a double set of accounting records: one in accordance with government regulations, and the second to comply with the accrual type of accounting, given it is an autonomous institution. The ADS is also required to keep track of expenditures from the loan proceeds by category and component of the loan as described in the Agreement and to maintain the records, books, and supporting vouchers of all expenditures made from the loan account (the accounting records should refer to all expenditure categories, including SOEs, direct payments, and replenishment of special accounts).

The ADS’ financial statements must include: (i) a balance sheet of the Agency at the close of the financial year; (ii) a statement of funds received and expenditures incurred by the project for the financial year ending on that date; and (iii) a reconciliation of the end-year balance of the special account. With regard to procurement of supplies and services using loan funds, the ADS is required to adhere to the World Bank’s procurement Guidelines.

As a public institution, the ADS abides by the Government’s accounting regulations pursuant to Royal decree No. 330-66 of 10 moharrem 1387 (21 August 1967), which contains the general rules for public accounts. This decree governs accounting operations and the procedures to be followed. The accounting involved covers cash and commitments. Entries in the accounts are made under the headings used in the State budget and appear as such in the operating and/or investment budget allocated to the Agency for the year. Budgetary control is fairly strict.

As an autonomous institution, the ADS also maintains an accrual accounting system. Currently, the Moroccan chart of accounts is being adapted to ADS needs to take account of ADS operations. This chart of accounts has not yet been completed.

Accounting in the ADS today is rudimentary. It is conducted manually using a word-processing program (MS-Word) and is no more than an overall journal. It is not up-to-date and has not been checked against bank account movements. Salaries and salary related charges are not recorded and there is no overall cash flow accounting. Also notable is the lack of records of the ADS’ fixed assets and balance sheet at the start of the first year of operations. The previous accountant used an accounting software, but its outputs were not clear and could not be continued. As mentioned earlier, the current accountant was not introduced to the job by his predecessor and cannot access either the software nor the data produced by the latter. The Bank recommends contacting the predecessor with a view to achieving a smooth transition of job
responsibilities. It would also be worth considering the purchase of simple software pending implementation of the Agency's integrated information system.

There is currently a considerable risk that up-to-date accounting data will not be available for reliable and timely financial information, for the preparation of requisite financial reports, nor for verification by the committee of experts or the ADS's external auditor. There is a huge and growing accounting backlog.

The Bank recommends hiring a financial management and accounting firm to produce the manual of procedures, install the software, and help introduce complete and up-to-date accounting.

**Financial flows**

The Agency receives its funds through a government budgetary allocation according to the annual budget law transferred from the budget of the Ministère de l'Emploi, de la Formation Professionnelle, du Développement Social et de la Solidarité (MEFPDSS).

The government allocation is transferred in installments by the MOF, once the MEFPDSS authorizes them in writing (by addressing a letter to the MOF) to allocate the budgetary allocation to ADS's operating and investment budgets.

The money is then transferred to the respective accounts in the Treasury (Trésorerie Générale) under ADS's name. ADS, in its turn, uses those funds in accordance with its work schedule to cover operating costs and to carry out projects approved by its Board of Directors.

The same would apply to funds received from the World Bank. Being a financially autonomous public entity, the ADS is permitted to hold one special account for government budgetary allocations and one for Bank loans. These accounts will be managed by the ADS. As with other Bank projects implemented by the Moroccan civil service, withdrawal requests for recovery of advances and for reimbursements based on SOEs from the Bank, will be presented to the Bank by the Budget Directorate of the Ministry of Finance. Disbursement procedures are described in the Bank's disbursement manual and will be explained during the project's launch.

The ADS will submit quarterly project management reports to the Bank once the integrated accounting and information system is up and running. The Financial Management Report should be in line with the report format and content attached, as per the Action Plan agreed upon by the Bank mission and ADS management.

The ADS will also receive contributions from social partners, either in kind or in cash. For cash contributions from social partners, the ADS must establish a procedure for registering the deposit of such revenue in a bank account and preparing a summary statement, together with a bank statement confirming the deposit.

As provided for in the ADS procedures manual, ADS disburses funds for projects, once it has approved them, in tranches. These tranches must reflect the cash needs of each project as stated at the time of appraisal.
Diagram of the Flow of Funds

As stated earlier the social partners are required to submit regular (monthly) reports to the ADS based on the forms attached to the agreement, and to keep the accounting records and supporting documents for all expenditure and receipts.

ADS Cash Management

The Financial and Administrative Division of the ADS currently lacks clear cash management procedures. ADS funds are deposited into an account in the Trésor Public and earn no interest. In order to
achieve efficient management of its resources and protect them against inflation, or even to maximize the return on its available funds, the ADS should adopt cash management procedures as feasible in the country. It is advisable to invest cash surpluses in short term interest bearing accounts, while ensuring that they are accessible when needed.

**Special Account**

A Special ADS Account should be opened in the Trésor Public for the Japanese Policy and Human Resources Development (PHRD) grant to be received and managed by the ADS. The ADS has encountered delays due to red tape. The authorities at the MOF have informed the Bank mission that permission has already been given and for the ADS to proceed with opening this account around the end of October.

The proceeds of the IBRD loan would be disbursed against 100 percent of foreign expenditures for consultant services, goods, civil works and training while the percentage of financing would be 80 percent if same are procured locally. As projected by Bank’s standard disbursement profiles, disbursements would be completed four months after project closure. Disbursements would be made against standard IBRD documentation.

To facilitate disbursement of eligible expenditures for works, goods and services, the Government will open a Special Account at the General Treasury to cover part of IBRD’s share of eligible expenditures to be managed and administered by the ADS. Authorized allocation of the special account would be US$750,000 (after an initial period when the authorized allocation will be US$250,000 until the disbursed amount reaches US$1.5 million) covering an estimated 4 months of eligible expenditures financed by IBRD. The ADS will be responsible for submitting monthly replenishment applications with appropriate supporting documentation for expenditures incurred and will retain and make the documents available for review by IBRD supervision missions and project auditors. To the extent possible, all of IBRD's share of expenditures should be paid through the special account. All expenditures eligible for IBRD financing of less than US$100,000 equivalent would be paid from the Special Account.

The Special Account will be replenished through the submission of Withdrawal Applications (submitted by the MOF who will be responsible for their preparation following ADS’s request and submission of supporting documentation). This will be done on a monthly basis and will include reconciled bank statements and other documents as may be required. The authorities at the MOF have assured the Bank mission that they will submit the withdrawal applications to the Bank within 48 hours, and at most within a week, from the date they receive the ADS’s request and supporting documentation.

The ADS will have to manage its cash needs efficiently, make cash flow projections regularly, and prepare and present to the Treasury, well in advance, the documentation required. In doing so, the ADS will ensure that the Special Account with the Bank is funded as needed and will avoid delays that could affect the availability of resources and project implementation.

**External Audit**

According to its establishment law, the ADS must annually appoint annually an external independent auditor to audit ADS accounts and present a report to its Board of Directors. In addition, Bank policies require that an annual external audit of the project be carried out in accordance with International Standards on Auditing and that auditors are acceptable to the Bank. The audit TORs are subject to the Bank’s non objection. The audited financial statements of the project must be submitted to the World Bank as soon as they become available, and no later than six months after the end of the fiscal year.
In conducting the audit, the auditors will certify (i) that all supporting documents, records, and accounts have been kept in respect of all project activities (including expenditures reported via SOEs); (ii) that goods and services financed have been procured in accordance with the relevant financing agreement; and (iii) that all provided funds have been used in accordance with the conditions of the relevant financing agreements, with due attention to economy and efficiency.

In order to fulfill the audit requirement (per the Loan Agreement conditions), the ADS and the Bank mission discussed draft audit TORs (see Annex 3 - in project files) which can be expanded to include other stakeholders' audit requirements.

**Disbursement Methods**

**Use of Statements of Expenditure**

A World Bank disbursement manual was delivered to the ADS and additional copies are available from the Bank’s Field Office in Rabat. As mentioned, requests for disbursements will be drafted and sent to the Bank by the disbursement office in the Trésor. These disbursements will be made based on statements of expenditure and advances to fund the Special Account. The ADS may also use the direct payment procedure, depending on its needs. Reimbursement based on presentation of statements of expenditure applies for amounts equal to or below US$200,000 for construction works, US$100,000 for equipment procurement, and US$50,000 for consulting services. For all expenditures exceeding those amounts, supporting documents must also be submitted. The documentation corresponding to expenditures equal to or below these thresholds must be kept by the ADS and it will be examined by Bank supervision missions.

**Replenishment of the Special Account**

Upon request, the Bank will effect an authorized allocation of US$750,000. Initially, the allocation would be limited to US$250,000, and until the amounts disbursed and committed reach US$1.5 million. Requests for replenishment would be submitted on a monthly basis, or when approximately 33 percent of the initial deposit has been used, whichever occurs first. Replenishment requests would be accompanied by a Special Account bank statement extract and a bank statement reconciliation of the Special Account with World Bank documents.

As indicated earlier, the Special Account is located at the Trésor Public and managed by the ADS. Balance sheets, reconciliation, and documentation of withdrawals are kept and prepared by the ADS. Once payment has been approved and the payment and/or transfer orders have been issued, the Financial Division of the ADS may then prepare the withdrawal application along with the supporting documentation, payments summary, bank reconciliation, and the bank statement, and submit them to the MOF Budget Office, which will then proceed to request replenishment from the World Bank.

**Financial Monitoring Reports to be submitted to the Bank**

Three months after the initial funds are deposited in the Special Account, and every six months thereafter, the ADS will submit reports on sources and uses of funds, cash flow projections and cash needs in the Financial Monitoring Report (FMR). In addition, the report will contain a procurement monitoring section, and a third section on the physical progress of the project’s activities. The FMR summarizes the financial position of the project.

The formats for these reports are provided in Annex 4. They comprise: (i) a summary cash flow table showing revenue and expenditure for the project as a whole, regardless of the source of financing, for the
quarter just ended and the accumulated totals up to the date of the report; and (ii) a detailed breakdown of revenue and expenditure by project component for the quarter just ended and the amounts accumulated since the start of the project in addition to the projected figures in the project appraisal document. The report will also include an analysis of the discrepancies between the projected and actual figures.

The Financial Management Action Plan

Prior to effectiveness, ADS is expected, and has agreed, to set up an up-to-date accounting system, including the installation of an accounting software, appoint a full time internal control officer (Agent Comptable), finalize its accounting and financial procedures manual, and appoint independent external auditors acceptable to the Bank for the first year of operations according to agreed TORs. ADS will submit to the Bank before loan effectiveness, the auditors' management letter detailing the internal control system based on the first year audit. A Bank mission is scheduled to take place before effectiveness. It will review implementation progress of the action plan and the quality of the actions implemented. If actions agreed were not taken or prove to be unsatisfactory, the mission will agree with ADS on remedial actions to be taken prior to loan effectiveness as needed. Funding for the action plan will be provided by the PHRD and ADS' own operational expense budget (case of Agent Comptable and external auditors). ADS is committed to having an adequate FMS in place as soon as possible and before effectiveness.

<table>
<thead>
<tr>
<th>Action</th>
<th>Implementation Deadline</th>
<th>By whom</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Setting up an up-to-date Accounting system.</td>
<td>In progress</td>
<td>Administration and Finance Division (AFD).</td>
<td></td>
</tr>
<tr>
<td>• Appoint a consulting firm to assist ADS in establishing an accounting system.</td>
<td>In progress</td>
<td>AFD</td>
<td>Three firms have submitted a bid offer. The technical committee had a meeting on March 7, 2002 to select a firm. The contract will begin on April 8, 2002 and end June 4, 2002.</td>
</tr>
<tr>
<td>Set up an accounting code for the information needs of the ADS.</td>
<td>Before loan effectiveness</td>
<td>AFD</td>
<td>The accounting code used by the ADS should enable it to gather accounting data according to the public budget and the categories, components and sub-components of the project as per the loan agreement.</td>
</tr>
<tr>
<td>• Open and maintain accounting books (Cash book, salaries, fixed assets register, …)</td>
<td>In progress</td>
<td>AFD</td>
<td>Done on Excel tables</td>
</tr>
<tr>
<td>• Update the accounting books with all the transactions since ADS started operations.</td>
<td>In progress</td>
<td>AFD</td>
<td>Done on Excel tables</td>
</tr>
<tr>
<td>Task Description</td>
<td>Deadline</td>
<td>Responsible Party</td>
<td>Notes</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------------</td>
<td>----------------</td>
<td>-------------------</td>
<td>----------------------------------------------------------------------</td>
</tr>
<tr>
<td>Select and install an accounting software to enable ADS effectiveness</td>
<td>Before loan</td>
<td>DG</td>
<td>The procedures will be for ADS's own financial management and for the financial management of the sub-projects and the type of assistance ADS can provide according to the needs of the beneficiaries.</td>
</tr>
<tr>
<td>develop accounting, financial and administrative procedures.</td>
<td>December 31, 2002</td>
<td>DG and AFD</td>
<td></td>
</tr>
<tr>
<td>Update the procedures manual to take into consideration the Bank's mission</td>
<td>Done</td>
<td>DG and ADS</td>
<td></td>
</tr>
<tr>
<td>Strengthen ADS internal control system to enable it to play its role and</td>
<td>DG with the</td>
<td></td>
<td></td>
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<tr>
<td>meet its fiduciary requirements.</td>
<td>Board of</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recruit the Agent Comptable on a full time basis.</td>
<td>January 1st, 2003</td>
<td>DG</td>
<td></td>
</tr>
<tr>
<td>Fill the position of the internal auditor.</td>
<td>January 1st, 2003</td>
<td>DG</td>
<td></td>
</tr>
<tr>
<td>Prepare and implement an internal audit procedures manual</td>
<td>January 1st, 2003</td>
<td>DG and AFD</td>
<td>These procedures should be prepared in light of the overall procedures framework to be developed for the accounting and administrative system.</td>
</tr>
<tr>
<td>Bank's financial reporting requirements. The integrated information system</td>
<td>January 1st, 2003</td>
<td>AFD</td>
<td>The report can be produced by the temporary software in place-accounting system and Excel until it is later part of the planned integrated management information system. The first report will be sent to the Bank six months after the loan effectiveness.</td>
</tr>
<tr>
<td>should take into consideration the ADS and the various stakeholders reporting</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>requirements. A draft Bank Financial Management Report (FMR) containing all</td>
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<tr>
<td>the information requested by the Bank should be prepared and sent to the Bank,</td>
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<tr>
<td>once all the reports have been integrated. The draft should be sent to the</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank for review and comments before the FMR is finalized.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The project file contains the following in addition to this annex 6:
* Comments provided to the ADS on the standard contract with their intermediaries.
* Financial forms to be annexed to the contract with intermediaries.
* Terms of Reference for the external audit.
* Formats for the financial management reports to be submitted to the Bank.
Annex 7: Project Processing Schedule

MOROCCO: Support for the Social Development Agency Project

<table>
<thead>
<tr>
<th>Project Schedule</th>
<th>Planned</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time taken to prepare the project (months)</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>First Bank mission (Identification)</td>
<td>01/22/2001</td>
<td>01/22/2001</td>
</tr>
<tr>
<td>Appraisal mission departure</td>
<td>10/29/2001</td>
<td>10/16/2001</td>
</tr>
<tr>
<td>Negotiations</td>
<td>03/04/2002</td>
<td>03/04/2002</td>
</tr>
<tr>
<td>Planned Date of Effectiveness</td>
<td>08/01/2002</td>
<td></td>
</tr>
</tbody>
</table>

Prepared by:
Social Development Agency

Preparation assistance:
PHRD Grant TF026821

Bank staff who worked on the project included:

<table>
<thead>
<tr>
<th>Name</th>
<th>Specialty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yasser El-Gammal</td>
<td>Operations Officer - TTL / Procurement Accredited staff</td>
</tr>
<tr>
<td>Dung Pham</td>
<td>Operations Officer - procurement</td>
</tr>
<tr>
<td>Rafika Chaouali</td>
<td>Sr. Financial Management Specialist</td>
</tr>
<tr>
<td>David Robalino</td>
<td>Economist</td>
</tr>
<tr>
<td>Concepcion Esperanza Del Castillo</td>
<td>Sr. Social Scientist</td>
</tr>
<tr>
<td>Hocine Chalal</td>
<td>Environmental Specialist</td>
</tr>
<tr>
<td>Ferid Belhaj</td>
<td>Sr. Counsel</td>
</tr>
<tr>
<td>Hovsep Melkonian</td>
<td>Sr. Disbursement Officer</td>
</tr>
<tr>
<td>Emma Etori</td>
<td>Team assistant</td>
</tr>
</tbody>
</table>
Annex 8: Documents in the Project File*

MOROCCO: Support for the Social Development Agency Project

A. Project Implementation Plan
ADS Operational Manual
EMP

B. Bank Staff Assessments
Financial assessment
Procurement assessment

C. Other
* Comments provided to the ADS on the standard contract with their intermediaries.
* Financial forms to be annexed to the contract with intermediaries.
* Terms of Reference for the external audit.
* Formats for the financial management reports to be submitted to the Bank.

*Including electronic files
Annex 9: Statement of Loans and Credits

MOROCCO: Support for the Social Development Agency Project
07-Nov-2001

<table>
<thead>
<tr>
<th>Project ID</th>
<th>Purpose</th>
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<th>Undisb.</th>
<th>Orig</th>
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Difference between expected and actual disbursements

Original Amount in US$ Millions

Total: 809.67 0.00 9.80 72.79 372.06 380.21 27.05
MOROCCO
STATEMENT OF IFC's
Held and Disbursed Portfolio
MAY-2001
In Millions US Dollars

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<th>FY Approval</th>
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<th>Loan</th>
<th>Equity</th>
<th>Quasi</th>
<th>Partic</th>
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<th>FY Approval</th>
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<th>Loan</th>
<th>Equity</th>
<th>Quasi</th>
<th>Partic</th>
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Annex 10: Country at a Glance

MOROCCO: Support for the Social Development Agency Project

### POVERTY and SOCIAL

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<th>Year</th>
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<th>Lower-middle-income</th>
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<tr>
<td>GNI per capita (Atlas method, US$ billions)</td>
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<tr>
<td>GNI (Atlas method, US$ billions)</td>
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### Key Economic Ratios and Long-Term Trends

- **GDP (US$ billions)**: 18.8, 25.8, 35.0, 33.5
- **Gross domestic savings/GDP**: 13.7, 16.3, 20.1, 18.1
- **Gross national savings/GDP**: 17.4, 24.7, 23.0, 22.9
- **Current account balance/GDP**: -7.5, -0.8, -0.4, -1.5
- **Interest payments/GDP**: 3.5, 3.1, 3.0, 3.3
- **Total debt/GDP**: 49.2, 94.7, 54.5, 59.3
- **Total debt service/exports**: 33.1, 20.1, 23.9, 27.5

### Structure of the Economy

- **Agriculture**: 18.4, 17.7, 14.8, 12.6
- **Industry**: 30.9, 32.4, 32.7, 33.4
- **Manufacturing**: 16.8, 18.4, 17.3, 17.9
- **Services**: 50.8, 49.9, 32.6, 34.0
- **Private consumption**: 67.9, 65.2, 60.6, 65.6
- **General government consumption**: 18.3, 16.5, 19.3, 16.3
- **Imports of goods and services**: 27.9, 32.4, 34.2, 37.8

Note: 2000 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.
Morocco

PRICES and GOVERNMENT FINANCE

---|---|---|---
**Consumer prices (%) change** | 9.4 | 7.0 | 0.7 | 1.9
Implicit GDP deflator | 15.2 | 5.5 | 0.9 | 2.5

**Government finance (%) of GDP, includes current grants**

---|---|---|---|---
Current revenue | 20.9 | 24.0 | 27.1 | 26.2
Current budget balance | -0.5 | 2.1 | 1.1 | -0.3
Overall surplus/deficit | -9.7 | -3.5 | -3.3 | -5.4

TRADE

---|---|---|---
**Total exports (fob)** | 2,450 | 4,955 | 7,372 | 7,314
Agriculture and food items | 762 | 1,232 | 1,590 | 1,542
Phosphate rock | 755 | 437 | 434 | 431
Manufactures | 387 | 2,246 | 4,085 | 4,137
**Total imports (cif)** | 4,266 | 7,442 | 10,804 | 11,505
Food | 720 | 584 | 1,177 | 1,371
Fuel and energy | 1,005 | 1,171 | 1,330 | 2,022
Capital goods | 806 | 1,875 | 2,830 | 2,391
Export price index (1995=100) | 86 | 84 | 87 | 88
Import price index (1995=100) | 88 | 93 | 89 | 98
Terms of trade (1995=100) | 97 | 90 | 98 | 90

BALANCE of PAYMENTS

---|---|---|---
**Exports of goods and services** | 3,273 | 6,830 | 10,648 | 10,512
Imports of goods and services | 5,247 | 8,374 | 11,964 | 12,652
Resource balance | -1,974 | -1,544 | -1,317 | -2,140
Net income | -562 | -985 | -977 | -798
Net current transfers | 1,117 | 2,329 | 2,132 | 2,468
Current account balance | -1,420 | -204 | -156 | -531
Financing items (net) | 1,390 | 1,045 | 1,795 | 1,22
Changes in net reserves | 30 | -1,641 | -1,038 | 409
Memo:
Reserves including gold (US$ millions) | 2,130 | 5,920 | 5,714 | 5,714
Conversion rate (DEC, local US$) | 3.9 | 8.2 | 9.8 | 10.6

EXTERNAL DEBT and RESOURCE FLOWS

---|---|---|---
**Total debt outstanding and disbursed** | 9,258 | 24,458 | 19,060 | 19,856
IBRD | 539 | 3,099 | 3,194 | 2,837
IDA | 39 | 39 | 28 | 27
**Total debt service** | 1,446 | 1,794 | 3,047 | 3,534
IBRD | 78 | 428 | 514 | 497
IDA | 1 | 1 | 2 | 2
Composition of net resource flows
Official grants | 75 | 490 | .. | ..
Official creditors | 752 | 790 | -228 | -535
Private creditors | 642 | 176 | -212 | 396
Foreign direct investment | 99 | 165 | 839 | 103
Portfolio equity | 0 | 0 | .. | ..
World Bank program
Commitments | 148 | 402 | 358 | 8
Disbursements | 65 | 426 | 404 | 138
Principal repayments | 29 | 203 | 304 | 308
Net flows | 36 | 223 | 101 | -171
Interest payments | 49 | 227 | 212 | 191
Net transfers | -14 | -3 | -111 | -361

Memo:
Reserves including gold (US$ millions)
Conversion rate (DEC, local US$)
World Bank program
Commitments
Disbursements
Principal repayments
Net flows
Interest payments
Net transfers

Development Economics
9/20/01