

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: 76828.....

Project Name	Local Government Support Program (PACT)
Region	Middle East and North Africa
Country	Morocco
Sectors	Subnational government administration, urban transport, solid waste management, water supply, sanitation
Lending Instrument	Specific Investment Loan
Project ID	P144438
<i>{If Add. Fin.}</i> Parent Project ID	n.a.
Borrower(s)	Kingdom of Morocco
Implementing Agency	General Directorate for Local Governments, Ministry of Interior
Environmental Screening Category	<input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
Date PID Prepared	April 16, 2013
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I. Introduction and Context

A. Country Context

1. **Since the first Municipal Charter (Charte Communale) in 1976, Morocco has very gradually been expanding the legal and administrative autonomy of local governments (LGs).** The last ten years, in particular starting with a major overhaul of the *Charte Communale* in 2002, have seen no fewer than a dozen laws and many more decrees, each a small step away from centralization. Most notably, the changes eliminated an array of ex-ante controls by the Ministry of Interior and the Ministry of Finance. The process for distributing LGs' 30% share of national Value Added Tax (VAT) receipts has been made more transparent. Municipalities have also been required to systematically develop participatory medium term investment plans (*Plans de Développement Communal*).

2. **However, key areas of centralization remain either formally or informally in place, including a number of ex ante controls by the central Government.** In particular, most key decisions of a LG (budgeting, borrowing, taxing, creating subsidiaries, naming a Secretary General, procurement decisions) remain subject to the approval of the Ministry of Interior.

3. **This is reinforced by the fact that the deconcentration process has proved even slower than decentralization,** with the result that the necessary dialogue between local governments and the State cannot take place at local level through the regional or provincial representative of the State (the Governor or Wali). As a consequence, LGs feel that they lack a counterpart.

4. **The 2011 Constitution has introduced important changes with the aim of furthering decentralization.** It follows in a large part recommendations contained in the 2011 report of the Consultative Committee on Advanced Regionalization (*régionalisation avancée*). In particular, it enshrines two strong principles: the administrative autonomy of LGs (*libre administration des collectivités locales*) and subsidiarity. In addition, transfers of responsibilities from the central to the local level must be accompanied by a transfer of resources. These principles are to be translated into a revised fundamental law on LGs (*loi organique des collectivités territoriales - LOCT*), which will constitute a new step forward towards a more legally decentralized government system.

5. **The LOCT will be followed by several related laws and decrees, among which in particular a revamping of the LG finance law (*loi de finances locales*).** The process to transform new constitutional principles, in particular on regionalization, into a detailed and consistent set of laws, regulations, and financial flows is still at an early stage.

6. **Yet, while the legal framework for this new step towards decentralization is being defined, for various reasons, LGs have not yet developed sufficient implementation capacity to fully take on the responsibilities inscribed in the pre-2011 laws.**

B. Sectoral and Institutional Context

7. **Morocco has been investing heavily to improve local service delivery, but there are risks regarding the long term sustainability of these investments in great part due to institutional and capacity constraints.** Over the last decade, several national sector plans have directed large financial incentives to infrastructure investments for local services. Yet, the policy dialogue conducted between the Bank and the Government under parallel sector Development Policy Loans (DPLs) has identified risks regarding the long-term sustainability of these investments. These risks stem not only from financial constraints to maintain and expand existing investments, but also in a large part from institutional challenges – whether of capacity, ownership, or both.

8. **Municipal financial data seems to indicate that LGs have insufficient capacity to plan and prepare investment projects.** Although the situation is not homogeneous, urban municipalities have consistently been running cash surpluses in recent years. While there is a clear need to modernize municipal financial management, for instance, to improve tax collection, the low indebtedness/cash surplus conjunction points to delivery capacity issues, more than to financing issues, as a key cause of insufficient investment in local services.

9. **There are problems with the private provision of infrastructure services, which studies have shown to come in large part from insufficient project and contract management capacity in municipalities.** The existence of a lively market of private provision of infrastructure services and the strength of national-level operators have been Morocco's main assets in improving local service delivery over the last two decades. Private provision is however currently suffering setbacks, in the form of some operators pulling out of the market, of payment arrears accumulating, of service lapses and general recurrent media questioning of the “*gestion déléguée*” model.

10. **As a response, the central government, supported by donors and the Bank through its DPLs, has been carrying out many capacity building activities to the benefit of LGs.** This has not had sufficient impact.

11. **Many foreign aid agencies have also financed projects to support LGs in the decentralization process.** These projects have mainly focused on local development planning, citizens' participation at the local level, promotion of transparency, and the organization and management of municipalities. They focus mainly on training and awareness rising and do not provide hands-on support to implement projects.

12. **Urban growth requires dealing with service delivery needs at the level of the geographical conurbation.** The rapid growth of Moroccan cities has led to a situation where few of the essential infrastructure services required in an urban context can be managed at the communal level. Network synergies or economies of scale require large investments to be made at a metropolitan level.

13. **The institutional arrangements for inter-municipal cooperation have not yet been generalized in the large metropolitan areas.** Various options for inter-municipal cooperation are provided by law. The ongoing inter-municipal cooperation experiences are sector-specific and limited in scope. There is also a risk that the multiplication of inter-municipal bodies with different geographical boundaries and "ad-hoc" financing schemes through new local taxation lead to considerable complexity of the decentralized government system. This would not allow for the economies of scale and synergies that Morocco needs.

14. **There is a relative consensus around the need to experiment with new service delivery models to serve inter-municipal cooperation.** In addition to the Bank-supported 2008 study on utility reform in Morocco, actions considered under the Second Urban Transport DPL and the Third and Fourth Solid Waste Sector DPLs support creating or experimenting with new institutional structures to remedy identified coordination and capacity weaknesses in the delivery of these services.

15. **These new service delivery models could become the entry point to reform state-owned utility operators.** New service delivery models would bring the management of water, electricity and sanitation services closer to municipalities and provide them with an opportunity to tap the capacities the state-owned companies.

16. **The reform and modernization of service delivery, especially at inter-municipal level, will require central expertise (*Assistance à la Maîtrise d'Ouvrage*) and incentives.** Sector-specific reforms and investment plans in Morocco over the last few years have shown that none of the issues described above can be tackled without a systematic, reinforced delivery of existing central expertise and incentives to struggling LGs. The proposed Local Government Support Program (PACT) aims at setting up a comprehensive program that would generalize this delivery while clearly leaving LGs in the driver seat.

C. Relationship to CAS

17. Territoriality is a cross-cutting beam set forth under the 2010-2013 Country Partnership Strategy (CPS) and confirmed in the 2012 CPS Progress Report, whereby the Bank committed to

“support the Government’s objective to [...] increase the role of local government, its performance, accountability, and empowerment.” The proposed grant would fall squarely within this objective. Further, the proposed grant would also be completely consistent with the second CPS pillar: service delivery to citizens.

18. The proposed grant is also fully in line with the objectives of the Transition Fund. It would support the transformative decentralization process underway in Morocco by funding technical cooperation to strengthen LGs, and thus foster sustainable and inclusive economic growth while advancing a key pillar of the reforms included in the new 2011 Constitution.

19. In particular, the proposed grant would fall within two of the Transition Fund’s chosen thematic areas:

- Primarily, **Enhancing Economic Governance**, through creating new and innovative government agencies related to new transitional reforms, building capacity for local government and decentralization, and reforming public service delivery in the local social and infrastructure sectors.
- Secondly, **Investing in Sustainable Growth**, by creating enabling conditions for increased investment in improving the urban environment, and in particular urban transport, solid waste management and wastewater collection and treatment, while strengthening the delivery of these services by the private sector.

II. Proposed Development Objective(s)

20. The **Development Objective** of the proposed Grant is to set up a lasting program to provide LGs access to decentralized support services and assistance to institutionalize inter-municipal cooperation.

III. Preliminary Description

21. **Component 1 – Deconcentrated LG Support Centers (US\$ 1,950,000 of which US\$900,000 in kind contribution from the Ministry of Interior)**. This component will design and set up the support mechanism that will provide LGs with technical assistance to prepare and manage projects. These may include infrastructure projects, the improvement or introduction of a new public service or the contracting of a public service to the private sector. This component will draw on existing LG support experiences and mechanisms to establish local single-window Support Centers for LGs, possibly linked to a support unit at central level. In these Support Centers a small team of well-trained staff will be able to either directly provide assistance to elected local officials and municipal staff or direct them to available resources and programs at national level or in other LGs.

22. These Centers will mostly function on a demand-driven basis by providing expertise and information to help officials and technical staff transform ideas or broad objectives into actual projects through assisting with carrying out the steps required to implement a project, from identification through feasibility studies, bidding, contract management, etc. The Centers could also take a pro-active role in raising local decision-makers’ awareness of existing support programs and tools offered by central Government departments or partner SOEs, including

investment incentive programs for service modernization (such as the National Solid Waste Program, the National Sanitation Program, the National Urban Upgrading Program, etc.), training programs for staff, ICT tools, sector-specific technical assistance, etc. Finally, the Centers could foster networking and knowledge exchanges among LGs. Incentive and M&E systems will be set up to ensure the Support Centers' responsiveness to LG demand and a high quality of services, evaluate their performance and draw lessons for their expansion.

23. *Sub-component 1.1 - Initial studies and implementation planning.* The proposed Grant is expected to fund expertise to assist the Moroccan Government with reviewing implementation options and organizing a consultative process to define, in partnership with LGs, central government departments and other stakeholders, the optimal legal and administrative form, territorial mapping, and deployment plan of such Support Centers. This will include staffing requirements, IT and other resources, budget, etc. The centers will be placed geographically close to the LGs to avoid the perception that "everything is decided in Rabat". A distinction will also be made between large and small municipalities, which have different needs and capacities.

24. *Sub-component 1.2 - Setting up and operation of a small number of Support Centers on a pilot basis.* The proposed Grant would also fund the establishment of the first two to three Support Centers and possibly the strengthening of a centralized support unit, covering possible consulting services and their incremental operating costs for a defined duration. It is likely that these Support Centers will be set up by gradually incorporating different support services and sectors.

25. *Sub-component 1.3 – Tools development.* In the area of municipal service delivery, many tools, how-to guides, procedure books, model organizational diagrams, etc. already exist for the benefit of LGs. The proposed grant is expected to fund an inventory of existing resources and the system to make them publicly available, so that each Support Center can offer them to LGs. If the inventory shows significant gaps, it would also fund the design of new tools, including possible software and hardware, and/or selected studies.

26. **Component 2 – Inter-Municipal Cooperation and Institutional Reform for Local Service Delivery (US\$ 2,950,000 and a contribution of US\$ 3,000,000 from the Ministry of Interior for the incentive mechanism).** This component will include specific consulting services and incentives towards accelerating the formation of inter-municipal cooperation structures and the creation of new service delivery models on a pilot basis. Inter-municipal cooperation structures are necessary to manage local network services, such as urban transport which often needs to go beyond municipal borders, in an efficient and effective way. There are two types of inter-municipal structures in Moroccan law. To date, few associations of municipalities have been created. There is only one conurbation association, which is responsible for urban transport services in the Rabat-Salé-Temara area. It is likely to be expanded to other municipalities and the other services listed in the law. It has no executing structure yet.

27. Within the framework of these associations, the grant will also finance the creation of inter-municipal or regional public asset companies (*sociétés de patrimoine* or SP) or other types of institutional arrangements in charge of the day-to-day service delivery on a pilot basis. These companies would have the responsibility of planning and financing infrastructure investments and contracting the operation of service to public or private operators. Whether they would be

multi-sector or sector-specific would be decided in a feasibility study. They would likely include in their shareholding national-level operators who would provide technical and management expertise.

28. *Sub-component 2.1 – Technical Assistance to LGs to set up associations.* The grant would finance consulting services to provide hands-on expertise to a limited number of municipalities wishing to form an association on a pilot basis. This assistance would help them design adequate arrangements for governance, budgeting and financial transfers, staffing, incentive mechanisms, etc. This will ensure that such associations are (i) effectively operated, (ii) financially sustainable, (iii) not subject to decisional uncertainty for their daily operations, and (iv) not adding costs to the existing overhead but rather seeing matching transfers of responsibilities, costs and resources.

29. *Sub-component 2.2 – Stocktaking of private sector participation (PSP) issues, design and set up of asset companies (SP).* This would include studies, such as a brief study to re-assess what conditions would be optimal in Morocco for preserving effective private sector involvement. Such study would be based on the results of existing sector-specific studies and complement them to draw generic lessons, with a view to designing the new pilots. The Grant would also finance the review of possible designs for SPs or other types of institutional arrangements based on international benchmarks, possibly including issues of general nature such as the legal structure, the relationship with municipalities and private operators, financing, etc.

30. Sub-component 2.2 would also finance the support necessary to set up a number of SPs or other executing structures for the associations mentioned in Sub-component 2.1. on a pilot basis. This could include high-caliber expertise to municipalities to provide them with legal, financial, and operational transaction advisory services to guide them through the roadmap, economic and business planning, staffing requirements. Although the advice will not include the preparation of any specific investments (for instance the program will not fund feasibility studies), it will incorporate the need for SPs to have an Environmental and Social Management System, with the necessary expertise (staffing, budgeting, etc.) to be able to meet the Moroccan environmental impact assessment requirements for downstream investments.

31. Possible pilot urban areas for both sub-components could include Rabat-Salé-Temara, Agadir, Tangier and the greater Casablanca. Finally, the pilot arrangements set up under this operation will be evaluated and recommendations will be prepared to extend and generalize their use.

32. *Sub-component 2.3 - Incentive mechanisms.* The proposed program will also fund an incentive mechanism for the formation of new associations, which could be in the form of a contribution to set-up costs or to all or part of the associations' incremental operating costs for a defined period. The incentive formula will be determined in the initial design studies and will only be covered by the program for a limited time period.

33. **Component 3 – Program Management (US\$450,000 + US\$100,000 for contingencies).** In addition to normal implementation functions, such as project management, procurement and financial management, this component would include planning the deployment

of the project activities with participating government departments, regularly following up with each of them on progress towards meeting their commitments, and organizing continued consultations with stakeholders and in particular LGs all along project implementation. The Grant would also finance incremental operating costs for the Program Management Unit (PMU) and monitoring and evaluation (M&E). The PMU will be in charge of ensuring the overall quality of services provided to LGs through the deconcentrated Support Centers and bringing in international experience and benchmarks as needed. Such international knowledge exchanges could also be in the form of study tours.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment (OP/BP 4.01)		X	
Natural Habitats (OP/BP 4.04)		X	
Pest Management (OP 4.09)		X	
Physical Cultural Resources (OP/BP 4.11)		X	
Involuntary Resettlement (OP/BP 4.12)		X	
Indigenous Peoples (OP/BP 4.10)		X	
Forests (OP/BP 4.36)		X	
Safety of Dams (OP/BP 4.37)		X	
Projects in Disputed Areas (OP/BP 7.60)*		X	
Projects on International Waterways (OP/BP 7.50)		X	

V. Tentative financing

{Same as in AUS}

Source:	(\$m.)
Borrower/Recipient	3.90
IBRD	0
IDA	0
Others (specify): MENA Transition Fund	4.55
Total	8.45

VI. Contact point

World Bank

Contact: Francois Boulanger

Title: Senior Urban Economist

Tel: +331-77-134-059

Email: fboulanger@worldbank.org

Borrower/Client/Recipient

Contact: Abdelouahad OURZIK

Title: Gouverneur, Directeur des Affaires Juridiques, des Études, de la Documentation et de la Coopération, Ministère de l'Intérieur, Direction Générale des Collectivités Locales

Tel: +212 537 28 64 27 / 25

Email: aourzik@interieur.gov.ma

* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas

VII. For more information contact:

The InfoShop

The World Bank

1818 H Street, NW

Washington, D.C. 20433

Telephone: (202) 458-4500

Fax: (202) 522-1500

Web: <http://www.worldbank.org/infoshop>