



## CONCEPT NOTE

### Improving Infrastructure Service Delivery and PPPs in Morocco (ID: P163820)

Morocco(MIDDLE EAST AND NORTH AFRICA)



**BASIC INFORMATION**

**Activity Information**

Project ID P163820	Product Line Advisory Services & Analytics
Short Name Improving Moroccan Infrastructures	Full Name Improving Infrastructure Service Delivery and PPPs in Morocco
Project Status Active	Completion Fiscal Year 2020

**Processing**

What kind of task description is needed?

Concept Note with a Review (Track 2, including Programmatic)

Is this a Programmatic activity? No	
Is this a joint Bank-IFC activity? Yes	Is this a Reimbursable Advisory Services (RAS) (CN is required for RAS activities)? No

**Accountability**

Region MIDDLE EAST AND NORTH AFRICA	Country, Regional or World Morocco
Requesting Unit MNC01(392)	Team Leader Daniel Camos Daurella
Responsible Unit GWA05(9395)	
Practice Area (Lead) Water	Contributing Practice Areas Energy & Extractives, Governance, Transport & ICT, Social, Urban, Rural and Resilience Global Practice

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**CONTEXT : STATEMENT OF PROBLEM**

**(a) Country Issues**

Morocco has witnessed major political and institutional developments in recent decades. The country has a population of about 33.8 million and is a constitutional monarchy with an elected parliament. Following the accession to the throne of HM King Mohammed VI in 1999, a series of reforms and new laws were adopted to gradually liberalize and open up the economy, privatize a number of public enterprises, restructure the financial system, and strengthen public governance and the rule of law. Morocco has recently engaged in a new set of wide-ranging political and institutional reforms in with the adoption of a new Constitution in 2011, which set the basis for a more open and democratic society, a more modern state of law and institutions, greater separation of powers, and increased decentralization. With these positive developments, the country has made important economic and social progress, including significant public infrastructure development (water, energy, ICT, and transport).

Having reached the status of lower middle-income country, Morocco has set its sights on becoming an upper-middle-income country and accelerating its economic convergence with more advanced countries. To that end, major infrastructure projects have been and are being executed, as well as a series of ambitious sectoral strategies covering all sectors of the economy, including energy and mining, water and sanitation, transport and equipment, and ICT. A high quality policy framework and complementary public investment management framework (for instance in infrastructure) would increase the impact and efficiency of investments, invite higher private investment, facilitate faster job creation, and improve the productivity of labor.

However, disparities in access to services and assets persist. In terms of access to basic services (water supply and sanitation, roads), and the quality of those services, rural areas still experience a large gap compared to urban areas. The residents of lagging areas have significantly lower/poorer access to basic services and infrastructure. This comprises peri-urban populations and rural ones. Access to services differs greatly between rural and urban areas, and within urban areas: while access to improved water is close to full coverage in urban areas, it is not there yet in rural or peri-urban areas; access to improved sanitation is lower in rural areas but its converging faster to higher levels; and access to electricity is almost universal in rural and urban areas.

**(b) Infrastructure cross-sector challenges**

**b.1 Public investment management**

Public investment is an important lever of the Morocco's development strategy, insofar as it allows to accompany the structural transformation of the national economy through the dynamics of the large infrastructure projects. Public investment has an important role in regional and local development, but also in reduction of social and spatial disparities and opening up to remote areas. Public investment in Morocco has more than doubled over the last decade, increasing from about US\$ 7 billion to US\$ 19 billion in the 2006 to 2016 period. An important share of this spending has been devoted to key infrastructure sectors, including roads, ports, railways, airports, electrification, wind and solar energy, drinking water, and sanitation. Public investment is executed by SOEs (around 55%), the State (around 30%), and local governments (around 15%) which include regions, provinces, and municipalities.

The Public Expenditure and Financial Accountability (PEFA) is a methodology for assessing public financial management (PFM) performance. It provides a framework for assessing and reporting on the strengths and weaknesses of PFM using

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quantitative indicators to measure performance. PEFA is designed to provide a snapshot of PFM performance at specific points in time using a methodology that can be replicated in successive assessments, giving a summary of changes over time. The 2016 PEFA for Morocco analyzed the performance of the Moroccan public finance system and identified a number of shortcomings<sup>1</sup>, including the following:

- Weaknesses in the *institutional arrangements*, characterized by inefficiencies in the coordination of numerous players, most notably: Directorate of Budget (unit in charge of the appraisal and programming of the investment projects), the unit in charge of monitoring the public investment management (PIM) framework (not yet operational), the Directorate of State Owned Enterprises and Privatization (DEPP), the various SOEs, the line Ministries, and the regions, provinces and municipalities.
- The Directorate of Budget - which plays a coordinating role during the preparation of the annual budget by reviewing the investment projects - is not endowed with tools to ensure an adequate monitoring the investment projects.
- There is no *harmonized appraisal and selections criteria* of the investment projects. Currently, each line ministry defined its own criteria. Third, there is no both at the ministries and central levels, a *unified database of the investment projects* which could inform the execution pace and the total cost (recurrent cost /capital expenditures) incurred for better programming of the future budget allocations and transparency.
- The socio-economic performance the investments project remains below the effort and financing spent, compared to the emerging countries where with the same levels of investments higher growth and levels of inclusion rates were achieved.

The implementation of a unified public investment management (PIM) framework (including PPP procedures) will ultimately lead to allocate public resources to projects with the best social and economic returns, in line with the strategic directions of the country policy appears as critical. This will also help improve the average execution of investment budgets, which was only at 63% between 2010 and 2014. The above fits perfectly into the PFM Act No 130-13 adopted on June 2015 which calls from value for money in the public spending performance, including multi-annual programming of public investments, and the Public Private Partnership Act No. 86-12 to the extent where it would allow the strengthening of the distribution of the fruits of growth by providing the needed infrastructures to the adequate regions. As an important share of the public investments is implementing by the SOEs, linking the PIM reform with the SOE regulatory reforms will be a key factor of success. This will help to ease the dialogue among the players and ensure a smooth implementation of the new PIM cycle.

## b.2 Government's oversight

The overseeing role of the State on state owned enterprises (SOEs) has its legal basis in article 89 of the Constitution and in the organic law number 65-13 (April 2015) on the conduct of Government's activities, as well as other legal texts supporting the implementation of this law. The oversight of SOEs by the Ministries with the mandate of doing so (*Ministère de Tutelle*) is not uniform, and often insufficient. This is due to a number of factors, one of them being the existence of an information asymmetry between the *Ministère de Tutelle* and the SOEs that does not allow the *Ministère de Tutelle* to effectively monitor the performance of the SOEs.

This is a problem for infrastructure service delivery as most of these services are provided through SOEs and that there may be space for improving the service delivery efficiency of some SOE. And this is important for public investment, as a

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1 The 2016 Moroccan PEFA did not rate very highly performance indicator on management of public investments. It rated it with a C, with D being the worst score and A the best.



quarter of public investment in Morocco is undertaken by only three infrastructure SOEs: ONEE (12%), ONCF (7%), and ADM (7%).<sup>2</sup>

According to the 2016 Court of Auditors report<sup>3</sup> on Moroccan SOEs, there are two aspects of Government's oversight that should be strengthened:

- The role of the State in strategic monitoring (*pilotage stratégique*); and
- The role of the State-shareholder (*Etat-actionnaire*)

On strategic monitoring, the problem is that despite sector strategies should be elaborated by relevant Ministries, very often the link between these Ministries and the SOEs they oversee are weak, and the latter end up taking decisions that should in principle be the responsibility of the State. Contracting the relationship between the State and SOEs by defining reciprocal obligations in a negotiated framework has shown to be a useful manner of overcoming – at least partially – this limitation. For example, ONEE and ONCF today have framework contracts (*Contrats Programme*) in place with the state that last several years.

On the role of the State-shareholder, this relates particularly to the Ministry of Economy and Finance who executes the control of finances of the State on SOEs. The Directorate of State Owned Enterprises and Privatization (DEPP) has a key role in this task, but often lacks capacity or legal tools to induce change in SOEs, particularly with regards to movements of portfolio and governance – e.g. DEPP does not have a say in choosing managers of SOEs. Today, the Ministry of Economy and Finance lacks a shareholder strategy to manage the assets invested in SOEs. A last point that is necessary to strengthen the role of State-shareholder is improving the quantitative data provided by SOEs, which accounting systems are often non homogeneous, sometimes compromising the quality of the data.

### b.3 Private sector participation in infrastructure sectors

Over the past decade Morocco has also invested steadily in expanding or upgrading its infrastructure especially in the energy and transport sectors mostly through public investment. Significant expenditures are still needed in order to maintain, upgrade and increase the existing infrastructure assets, to meet the increased demand associated with demographic trends and economic growth. It is likely that public financing alone would be insufficient to meet these investment needs. Given the tightened budget and the increasing level of debt, finding new resources including the increased use of private sector as well as improving investment efficiency would be critical.

The Moroccan authorities have in the past few years developed a PPP Framework including passing a general PPP law in 2015 with the PPP executive decree, any PPP project must undergo a prefeasibility study. In the current institutional framework line ministries are in charge of developing their PPP projects including undertaking the prefeasibility study, and the PPP unit (DEPP, which is part of MoF) is in charge of reviewing and approving the studies and subsequently providing project support during tendering/implementation phase.

Several line ministries and public entities have now started considering PPP as an alternative delivery model for part of their pipeline of projects. The Ministry of Transport has started working on a large pipeline of projects ranging from ports, roads, airports and rail. Sectors such as Energy and Irrigation are building on previous track record to structure projects with increased private sector participation. Other sectors with limited experience in this field are also considering projects

<sup>2</sup> Another 38% is implemented by three other SOEs not pertaining explicitly to infrastructure sectors: OCP group (18%), CDG group (11%), and Al Omrane group (9%).

<sup>3</sup> Cour des Comptes, Juin 2016. Le secteur des établissements et entreprises publics au Maroc : ancrage stratégique et gouvernance.



such as health and education. However, a large portion of these stakeholders lack capacity to build robust frameworks to identify, select and assess viable PPP projects as well as implement processes that could support the PPP agenda and streamline the project delivery.

### **(c) Sector Issues**

Infrastructures (energy, ICT, transport, and water) are a key driver of economic growth and social inclusion in Morocco. This country has done considerable efforts in the last few decades to expand access to basic services like electricity, water, roads, and more recently ICT. Despite this effort, important investments will be needed in years ahead to maintain these assets, universalize access, improve the quality of infrastructure services, and keep managing the increasing demand associated with demographic and urbanization dynamics. Consequently, it is imperative to improve the efficiency of current infrastructure operators and spending, as well as to mobilize innovative sources of financing.

Morocco's ongoing urbanization calls for increased investments in urban infrastructure. Morocco has urbanized very quickly over the last decades and more than 60% of Morocco's population now lives in cities compared to 35% in 1970. The urbanization process is expected to continue in the coming decades, with around 70% of the population expected to live in cities by 2035. Morocco's urban population will continue to grow by more than 400,000 persons per year over the last decade. In order to accommodate this increasing urban population, and to remediate the existing lack of urban infrastructure in many underserved neighborhoods, the current levels of investment in urban infrastructure will need to be increased significantly. In parallel, spatial inequalities in access to infrastructures (the urban versus rural divide, across regions, etc.) will need to be tackled.

#### Water

Although Morocco has demonstrated admirable progress in improving access to water services, there remain significant challenges in the face of growing urban populations and still underserved rural and peri-urban groups. The rapid growth of Morocco's coastal cities – in particular Casablanca and Agadir – as well as Marrakesh, have put significant strains on basic water supply. While there is likely scope for considerable rationalization of current water supplies through customer demand management, improved network management and enhanced water recycling, there are nonetheless a number of high profile water supply projects anticipated, including desalination and water conveyance facilities.

In terms of basic service provision, while an estimated 99% of urban population have access to piped water services, coverage in rural areas and some peri-urban communities remains primarily based on community standpipes. Providing household connections remains a major challenge. Another critical area is to improve access to sanitation, for which a National Sanitation Plan is being used, and a rural plan is under preparation. But the heavy investments required to be done by municipal multi-service utilities will also put them under high financial pressure. Modernization of irrigation is also a major agenda given problems of groundwater depletion and continued export growth, and Morocco has with Guerdane a track record for implementing the first PPP in irrigation worldwide with the support of IFC advisory.

#### Energy

Morocco's power sector has experienced transformational changes during the last 20 years, evolving from a vertically integrated public monopoly to a current hybrid single buyer model characterized by the strong involvement of the private sector in power generation, and distribution in big cities. Currently, there are a range of models for power generation: from privately owned and financed for coal plants, to privately owned but mostly financed with public sector IFI debt for wind and solar projects, all the way to publicly owned (by ONEE) and financed for some older assets. ONEE has a monopoly over



transmission and is the single buyer and wholesaler to distribution companies; it also distributes power in smaller cities and rural areas. In large cities, distribution is undertaken by private companies under concession contracts.

Morocco is pursuing the liberalization of the energy sector triggered by law 13-09, which granted the possibility for private operators to develop renewable energy projects. The electricity market in Morocco is mature and, as such, a regulating agency is needed to ensure fair competitiveness, continuity of service and compliance by the electricity operators with regulatory requirements. This resulted in the development of law 48-15 related to the regulation of the electricity sector and the creation of ANRE. This future agency aims to accompany the profound changes and the future developments in the electricity sector, increase the attractiveness of the electricity sector for the private sector, ensure competition, transparency and the proper functioning of the free electricity market, while progressively lessening public financing burden on renewable energy infrastructure.

### Transport

The development of the roads network has been a priority for Morocco up to today. Significant results have been achieved, particularly regarding the extension of the roads network. In order to improve the efficiency of the roads sector, a progressive transition should take place, going from the initial phase of developing the network to a new one in which the focus is on managing and maintaining this network. Private sector participation for efficiency purposes is particularly important in this regard, notably through performance-based contracts through PPPs for Road networks. Decentralized maintenance, including via rural microenterprises involving local population for preventive maintenance, is also an important challenge in this regard.

While the sectoral Ministry is in charge of roads, Autoroutes du Maroc (AdM) is the SOE in charge of developing and managing highways in Morocco. It currently is in a precarious financial situation of AdM (stemming from a high level of debt, exposure to foreign exchange risk, insufficient revenues given current toll prices, etc.), and would need to be improved in the next few years through a restructuring that is under discussions. This would allow AdM to directly access international capital markets (i.e. bonds without sovereign guarantee), or allow the Ministry to plan new highways sections via public-private partnerships (PPP). The Road Financing Facility (CFR) is also in the process of optimizing its institutional, technical and financial processes to potentially evolve into a full-fledged road agency in charge of the main network.

In the railways sector, ONCF is the SOE in charge of developing and operating railways in Morocco, is already partly financed by the private sector (bonds in the local capital market, often without sovereign guarantee). ONCF is both considering necessary reforms to access international debt markets, as well as the creation of joint-ventures (JV) between ONCF and private operators for specific business purposes (real estate, maintenance of rolling stock, etc.), mostly to leverage the technical expertise of private actors. ONCF is also looking into a new business model or its operations, through internal restructuring, to create specialized subsidiaries for its different business activities and attract private equity investments.

In addition to the Ministry of Economy and Finance (MEF) and the Ministry of Equipment, Transport, and Logistics(METL), the main actors in this sector are the National Agency of Ports (ANP), the Tangier-Med Special Agency (TMSA), and the Nador WestMed. The port subsector in Morocco has one of the best framework for private sector financing in the MENA region after the implementation of several reforms in the last decade. As a result, the port of Tangier-Med has been carried out as a PPP for operations (while still requiring substantial public investments). The ports of Kenitra, Safi, Jorf Lasfar and Nador West Med that are under construction are following the same business model (or are due to follow it according to the Government plans). The historic public port operator (Marsa Maroc) has recently been privatized through the Casablanca Stock Exchange.



The National Airports Agency (ONDA), the SOE in charge of developing and managing airports in Morocco, is already partly financed by the private sector (bonds in the local capital markets). ONDA is planning to change its organizational structure by creating separate subsidiaries for each of its major airports under management. These entities could then be potentially partly privatized or put under a concession agreement, primarily to attract international partners from the private sector to increase the efficiency of operations and expertise. ONDA is also working with the private sector on potential PPPs for new terminals or airports (Tangier and Marrakech primarily).

Information and communications technologies (ICT)

The Government’s Maroc Numéric 2020 Plan’s objective is to provide a broadband access to 100% of the population by 2020 (compared to 41% in 2015) so as to promote the development of the digital economy and the creation of 125,000 new jobs. In line with this plan, the World Bank is recommending a reform program that is based on several evidences: (i) the level of competition and private investment in the broadband sector is low and the current operators are not on track to meet the Government targets (ii) the sector regulation is both incomplete and inefficient and does not foster competition and investment; (iii) although the Government’s Plan has high investment costs, the Universal Service Funds for Telecommunications is severely underused and mismanaged. In this context, the proposed reform program aims at improving the legal and regulatory framework in order to: increase the level of competition and private investment in the broadband market.

Morocco maintains legal barriers to entry for players who wish to deploy their own infrastructure without radio spectrum auctions. Thus, Morocco should encourage the entry of new players on all segments of the market by introducing an authorization or standard license regime (less limiting than a licensing regime requiring competitive bidding and relies on the discretionary power of the State or the regulator) and by simplifying administrative procedures.

Broadband infrastructure (copper and optic fiber) regulation is inefficient. Regulation decisions do exist regarding access to the incumbent operator's local loop, but they are not sufficiently enforced, which brought the ANRT to request authority to impose stronger sanctions with regard to the encountered problems: insufficient on-site controls, slow responses to requests related to the catalogues of ANRT-approved services, absence of civil engineering catalogues. Regulation is also incomplete as no decision exists on regulating the incumbent operator's dark fiber, which implies that negotiations between operators are not regulated and fail. Lastly, access to the networks of alternative infrastructure operators is legally authorized, but not regulated to ensure open and non-discriminatory access to all operators.

**DEVELOPMENT OBJECTIVE**

To increase the efficiency of infrastructure spending, facilitate the mobilization innovative sources of financing, and enable the participation of the private sector through PPPs.

**ACTIVITY SUMMARY**

Significant investments in infrastructure will be needed in years ahead in Morocco in order to achieve its economic growth and shared prosperity objectives, in addition to achieving the sustainable development goals and tackling climate change. This will require improving public spending efficiency, and ramping up private financing for infrastructure, and developing the PPP agenda. In order to address these challenges, the first component of the proposed joint Bank-IFC project focuses on improving the efficiency of public

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investment in infrastructures, while the second one focuses on private financing and implementing PPPs in infrastructure sectors. In a nutshell, the project will be structured around the following two components and sub-components:

**Increasing the efficiency of public spending in infrastructures (WB executed)**

1. Implementing the public investment management framework
2. Support to Government’s oversight of SOEs
3. Improving performance of infrastructure SOEs

**Private financing and implementing PPPs in infrastructures (IFC and WB executed)**

1. Private financing and competition for infrastructure SOEs and local governments (WB executed)
2. Operationalizing the PPP agenda (IFC executed)

The key recipient of this project will be the Ministry of Economy and Finance, including the Budget Directorate, the Directorate of Public Enterprises and Privatization, and the Treasury Directorate and External Financing. Given the cross-sector nature of this proposal, each activity of this proposal will have multiple operational team members, which will include relevant sector Ministries, SOE, as well as other key stakeholders. The project will promote implementation of key reforms through technical assistance, capacity building, analytical work, and introduction of international best practices.

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**ACTIVITY DESCRIPTION**

This activity will apply to the MENA Transition Fund in order to obtain financial support.

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- 1. Increasing the efficiency of public spending in infrastructures (WB executed)**
  - 1.1 Implementing the public investment management framework
  - 1.2 Support to Government’s oversight of SOEs
  - 1.3 Improving performance of infrastructure SOEs
- 2. Private financing and implementing PPPs in infrastructures (IFC and WB executed)**
  - 2.1 Private financing and competition for infrastructure SOEs and local governments (WB executed)
  - 2.2 Operationalizing the PPP agenda (IFC executed)



We now proceed to describe in detail each of the above components and sub-components.

### **Component 1: Management of public investment (WB executed)**

This component will provide technical assistance to support the Ministry of Finance to set up a functional unified Public Investment Management (PIM) framework. It will also aim at increasing the efficiency of state owned enterprises, as a way of ensuring a judicious use of their resources while providing a service of good quality. It will focus only on SOEs providing infrastructure services - defined as the energy, water and sanitation, transports, and ICT sectors. It will have the following sub-components:

- 1.1 Implementing the public investment management framework
- 1.2 Support to Government's oversight of SOEs
- 1.3 Support to selected infrastructure SOEs to assess and improve their performance

#### **1.1 Implementing the public investment management framework**

This sub-component is designed to complement ongoing activities in the area of PIM, specifically:

- the Public Investment Management Assessment (PIMA) to be jointly carried out by International Monetary Fund and World Bank in June 2017 which will focus on the diagnosis of the institutions involved in the PIM;
- a diagnosis of the processes and ex post review of a sample of investment projects including drafting of an action plan to be financed under the Governance MDTF. This component will focus on the implementation/operationalization of the key recommendations from the abovementioned studies with the view to establish a new PIM cycle with a focus on the investment projects to be executed by the SOEs (sub-component 1.2).

This sub-component will implement the following three activities: (i) unified PIM framework (budget: USD 150,000); (ii) unified investment projects database (budget: USD 250,000); and (iii) change management to implement the PIM framework (budget: USD 50,000).

##### **(i) Unified PIM framework**

Based on the detailed findings of the PIMA and the diagnosis of the processes above mentioned, a unified PIM framework will be drafted to clarify the role of the players. Support will be provided to operationalize the Directorate of Budget Unit in charge of monitoring investment projects. The unified PIM framework will allow to harmonize the management of the investment projects and to establish common rules to be enforced from the formulation stage the ex-post evaluation. The legal framework will need to be sufficient clear to ensure buy-in of the various players, particularly the line ministries and the SOE which should be confirmed in the implementation roles of the investment projects under their responsibilities. It will be substantiated by the production of guides and manuals, technical guidelines and methodologies for evaluation of projects to be implemented. Training and hands-on-support will be provided to ensure enforcement/dissemination of the guidelines.

##### **(ii) Unified investment projects database**

The unified system aims to operationalize the new PIM framework. More specifically, it intends to: improve the coordination and monitoring of the projects at each stage; enable the various stakeholders to have an up-to-date and comprehensive overview of the implementation of projects; facilitate timely/pertinent decision making process; increase



the relevance, the effectiveness and the efficiency of public investment; and promote transparency and accountability. The activities will comprise, (i) the development of ToR for the future database including the various functionalities in line with the provision of the unified PIM framework, (ii) the development of the database customized to the Government of Morocco's conditions, and (iii) the piloting of the database with selected SOEs.

### (iii) Change management to implement the PIM framework

Change management efforts will be a key factor of success to create a conducive environment for the transition from the current situation to the new PIM system. Without these, the PIM framework has the risk of not being adopted for key stakeholders, or not being sustainable over time. The basic principle of the Rapid Results Initiative will be applied to create a safe space to experiment, plant ideas and methods that create new team dynamics and work habits among the various players before institutionalization. It will aim at fostering credible commitment from leaders, coordination and collaboration between departments and Ministries.<sup>4</sup> The activities under this topic will comprise, leadership trainings, coaching, facilitation, and workshops to lift the various constraints that could prevent achieving the common goal of efficiency and effectiveness of the investment projects.

## 1.2 Support to Government's oversight of SOEs

This subcomponent (budget: USD 250,000) will support the Ministry of Economy and Finance (particularly the Directorate of SOEs and Privatization - DEPP) to (i) strengthen its capacity to oversee infrastructure and services SOEs (energy, water and sanitation, transports, and ICT sectors) via the introduction of a robust monitoring dashboard to facilitate monitoring, reporting and verification of SOE performance. This tool will aim to better inform MEF on the performance of SOEs with regard to technical, operational, commercial, and financial key performance indicators, and assess the challenges and bottlenecks faced by Morocco in transitioning to competitive provision of infrastructure and public services and (ii) provide support in the increase of professionalization of select infrastructure and public services SOEs via (a) the identification of their specific needs in terms of capacity building activities based on the above-mentioned assessment, (b) design of said recommended activities (trainings, workshops, toolkits, etc.) based on identified needs, international best practices, and existing capacity building material, (c) and delivery of these capacity building activities to the relevant human resources. Topics covered are likely to cover revenue and expenditure management, demand and supply management, governance and performance focus, and energy efficiency, among others.

## 1.3 Improving performance of infrastructure SOEs

This subcomponent (budget: USD 900,000) will support the MEF and selected infrastructure SOEs (energy, water and sanitation, transports, and ICT) to shed light on areas in which efficiency can be improved (be it technical and operational, commercial, or financial). This will be done with performance assessments when needed, or with providing specific support to improve certain aspects of performance on a need basis for specific infrastructure SOEs.

In the electricity and water sectors, for example, the current framework contracts (*Contrat Programme*) between the Government of Morocco and the national operator (2014-2017) will come to its end in a few months. It is thus a critical moment to take stock of the successes of this contract, and to lay the ground for what will happen afterwards – be it through the preparation of a new framework contract or in any other regulatory manner decided by the authorities. This sub-component could support the transition period following the end of this framework contract looking at the current financial, operational and institutional situation, and assist in preparing an action plan outlining the required measures to

<sup>4</sup> See World Development Report 2017 notions of Credible Commitment, Coordination and Cooperation to ensure policy implementation and fostering behavior change.



ensure its financial stability for the period 2018-2021. This could be done through a study that aims at identifying required measures to increase revenues, reducing operational and investment costs, and identifying the benefits from a corporate modernization policy.

Staying in the electricity, and water and sanitation sectors, there are a number of multi-sector sub-national operators that provide these services to about two thirds of Moroccan households. While the challenges and performance of these operators varies widely, most of them are under increasing financial stress given the investments they are to undertake in sanitation – the bulk of electricity and water supply investments have already been executed and financed. This sub-component could analyze the investment and operational costs of sanitation of these operators, and propose solutions to optimize them and to mobilize new sources of financing to make sure these utilities maintain their already fragile financial equilibrium.

In the transport sector, there are a number of operators in the roads, highways, railways, ports, and airports sectors facing a variety of challenges and with potential scope for efficiency improvements in financial, commercial, and operational aspects. This component could select some of these operators to provide assessments that would cover: (i) institutional framework and operations (revenue and expenditure management, demand and supply management, governance and performance focus, clean and efficient transport...), and (ii) financial management (annual and medium term financial framework including budgeting, reporting auditing, liquidity and cash management, asset/liability management). The activity would also entail the preparation of financial sustainability plans for each covered entity based on the conclusions of the above-mentioned assessment performance. These plans will have to include actions, reforms, policies or implementation strategies tailored for each of the select entities to improve its efficiency and viability. These recommendations will in particular have to include actions to increase private sector participation as well as efficiency gains.

## **Component 2: Private financing and implementing PPPs in infrastructures (IFC and WB executed)**

This component will aim at mobilizing commercial financing for infrastructure SOEs and at facilitating private investment in selected segments of infrastructures that can be open to competition, as well as provide support to operationalize the PPP agenda.

2.1 Private financing for infrastructure SOEs and local governments (WB executed)

2.2 Operationalizing the PPP agenda (IFC executed)

### **2.1 Private financing and competition for infrastructure SOEs and local governments (WB executed)**

This sub-component will aim at mobilizing commercial financing for infrastructure SOEs and at facilitating private investment in selected segments of infrastructures that can be open to competition. It will implement the following two activities: (i) Private financing for infrastructure SOEs and local governments (budget: USD 200,000); and (ii) Private sector competition in infrastructure (budget: USD 200,000)

#### **(i) Private financing for infrastructure SOEs and local governments**

This activity will provide credit advisory services to selected infrastructure SOEs - to be determined during implementation based on interest and relevance - to recommend, inter alia, reforms, approaches, policies, or implementation strategies which would improve the overall creditworthiness and facilitate commercial borrowing (potentially without sovereign guarantee). It will look both at domestic financing – for those SOEs that have not tapped it with all its potential yet – and to international financing for those SOEs that are interested in further diversifying financing sources.



This component will also assess a shareholder strategy for the Ministry of Economy and Finance to manage its assets invested in SOEs. This will be done by reviewing experiences at the international level and suggesting models and actions for implementation. The underlying diagnostic is that the State could obtain higher returns on assets for some of the good performing SOEs, and could then use these additional financial resources for public investment or other needs.

Recognizing that a non-negligible share of infrastructure public investment is undertaken by local governments, this subcomponent will include a review of the local governments regulatory framework for borrowing, and provide technical assistance to update the said framework in light of the ongoing decentralization reforms for improved access of LGs to private financing to ease the burden of fiscal transfers from the State.

**(ii) Private sector competition in infrastructure**

This activity will focus on some segments of infrastructures in which fostering competition can help to attract private investment, helping to improve the quality and quantity of services, as well as relieving scarce public resources available. This component will pilot this approach focusing on three subsectors: information and communication technology, decentralized electricity generation, and transport logistics. This subcomponent will provide support to:

- update and/or strengthen the outdated, inadequate or incomplete legal and regulatory frameworks (laws, decrees and orders - *arrêtés*) relative to the specific modalities of operation of these subsectors in order to promote private competition and investment with the objective to lessen public investment burden and
- strengthen the capacity of the relevant authorities of these subsectors (the National Authority for Electricity Regulation – ANRE , the National Authority for Telecommunications Regulation – ANRT, the Universal Service Fund for Telecommunications – FSU, and the Moroccan Agency for Logistics - AMDL) to respectively regulate in a proper fashion competitive internet, renewable energy and logistics markets, including through dedicated training programs dedicated to support these authorities in their overall missions.

**2.2 Operationalizing the PPP Agenda (IFC executed)**

With the current growth in the demand for infrastructure and the interest to develop PPP projects and the mandate given to DEPP to support and develop the PPP agenda in the country, DEPP has requested IFC’s assistance in scaling up its PPP agenda. IFC expects this component to be a structured initiative around (i) capacity building to improve project identification and selection, (ii) conducting prefeasibility studies on selected projects and (iii) providing transaction advisory services on a few viable pilot projects could provide a solid base for a strong and credible PPP program in the country.

**(i) Capacity Building Initiatives**

In-country Training and Workshops for key public stakeholders (DEPP, Line Ministries, Municipalities, etc.), that would be involved in identifying, selecting and developing potential PPP projects to maturity. IFC will organize two of the following trainings and seminars as well as three sectorial workshops among the following list. The selection will be based on GoM priorities.

Capacity building initiative	Targeted entity
Foundation course on PPPs	Line Ministries, Municipalities
Developing and implementing Public Investment Plans	DEPP, Line Ministries, Municipalities
Undertaking basic Cost Benefit Analysis of PPPs	Line Ministries, Municipalities



Identification, Screening, Selection and Prioritization of PPP projects out of existing Pipeline	Line Ministries, Municipalities
Sectorial Workshops: Transport (ports, roads, air and rail); Municipal Services (Urban Transport, water and sanitation, solid waste; management and water treatment); Social sectors (health and education)	Specific Line Ministry, Municipalities

(ii) Pre-feasibility studies

A number of projects that could be pre-identified through this process could benefit from additional upfront pre-feasibility studies that to research necessary data, clarify technical. Legal or institutional details as well as assessing the viability of the business case. Based on available data of current investment plans and sectors, two of the following pre-feasibility studies are expected. The selection will be based on the priority of the government as well as suitability of the sector for private sector participation.

Sector	Potential Project	Targeted entity
Transport	Ports : Kenitra, Jorf Lasfar	Ministry of Transport
Transport	Roads and Highways	Ministry of Transport
Transport	Roads O&M	Direction des Routes, Ministry of Transport
Irrigation	Irrigation Gharb	Ministry of Agriculture
Municipal Services	City Busses and BRT	Municipality of Casablanca
Health	Diagnostic Centers and Labs	Ministry of Health

(iii) Transaction Advisory work

A few projects that either (i) are well defined and can be taken directly to due-diligence and tendering phase or (ii) have undergone successful pre-feasibility studies can be supported by IFC Transaction Advisory services. Based on available data of current investment plans and sectors, the following transactions could qualify:

Sector	Potential Project	Targeted entity
Irrigation	Irrigation Gharb	Ministry of Agriculture
Municipal Services	City Busses and BRT	Municipality of Casablanca
Transport	Port of Kenitra	Ministry of Transport

DELIVERABLES

Group By: Pillar

Name	Lead	Completion Date	Processing Type
○ Final activity report	---	31-Oct-2019(P)	DR Required

EXPECTED RESULTS AND OUTCOMES



**PDO level results indicators**

- (1) Investment projects in selected SOEs subject to the unified PIM framework and its operational tool
- (2) Infrastructure SOEs benefiting from performance improvement support
- (3) Private financing development strategies of SOES and local governments informed by the project
- (4) Number of PPP agreements signed

PDO indicators 1 and 2 correspond to component 1: the first one to sub-component 1 and the second one to sub-components 2 and 3. PDO indicators 3 and 4 correspond to component 2: the first one to sub-component 1 and the second one to sub-component 2.

Do you want to track result indicators for this activity?

No

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**RISKS**

Please describe the risks related to this activity and how they can be managed.

While Ministry of Economy and Finance will be the main counterpart for this activity, several infrastructure sector actors (Ministries, state owned enterprises, regulatory agencies) will be involved. This generates a coordination risk. In order to mitigate this risk, this activity is being designed as Bank executed. In addition, a consultative steering committee will be formed.

**DISSEMINATION and OUTREACH STRATEGY**

Dissemination workshops with key stakeholders will be prepared to disseminate specific results from this activity.

**MILESTONES**

**Schedule**

Name	Original	Revised	Actual
AIN Sign-off			05-Apr-2017
Management Approval of Concept	28-Apr-2017		
Completion Summary	31-May-2019	31-Oct-2019	



**BUDGET**

**Budget Plan vs Actual (USD)**

Source of Fund	Cumulative Budget			Current FY (2017)			
	Activity Plan	Actual Expenditure to Date	Actual vs Plan (%)	Activity Plan	WPA Plan	Expenditure (YTD)	WPA Burn Rate (%)
Bank Trust Fund	2,300,000	0	0	0	0	0	0

**Budget Plan (USD)**

Do you want to plan the budget by FY?

No

Source of Fund

Cumulative Budget

**Grand Total**

Grand Total Direct Cost 2,300,000

Bank Trust Fund 2,300,000

**Clients or Audience**

Does this activity have a client?

Yes

**Organizations & Contacts**

Ministry of Economy and Finance  
Central Ministry, Activity Leadership/Oversight  
Morocco

**Contacts**



**TEAM**

**Project Team**

Name	Role	Title	Unit
Daniel Camos Daurella	Team Leader ( ADM Responsible )	Senior Infrastructure Economist	GWA05
Arthur Denis Pascal Foch	Team Member	ICT Policy Specialist	GTI11
Augustin Maria	Team Member	Senior Urban Development Specialist	GSU11
Claudine Kader	Team Member	Program Assistant	GWA05
Khadija Sebbata	Team Member	Program Assistant	MNCMA
Kolie Ousmane Maurice Megnan	Team Member	Sr Financial Management Specialist	GGO23
Manaf Touati	Team Member	Energy Specialist	GEE05
Nabil Samir	Team Member	Transport Specialist	GTI05

**Extended Team**

Name	Title	Organization	Location
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**INSTITUTIONAL DATA**

Does this activity address climate change adaptation, mitigation or both?

Yes

Is this activity an Impact Evaluation (IE)?

IE is an assessment measuring casual links between the change in outcomes and specific policy actions. IE employs counterfactual analysis to evaluate policy interventions that are either Bank-financed or financed by other governments and institutions.

No

**Climate Change**

Did the activity address adaptation, mitigation or both through?

Category	Adaptation	Mitigation	Explanation
Diagnostic and Policy Advice	Yes	Yes	This activity will provide advice on both adaptation and mitigation potential of infrastructure sectors in Morocco.

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Knowledge Management	No	No
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Tools and Data	No	No
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**ANNEX A. DELIVERABLES DETAILS**

**Not Categorized**

Deliverable Name	Decision Review Required?
Final activity report	Yes
Status	Deliverable Creation Date
Planned	10-Apr-2017
Planned Delivery Date	
31-Oct-2019	
Lead	
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Provide a brief description of the deliverable

This deliverable will provide summaries of all studies undertaken, and summary outcomes of all TA and capacity building activities undertaken.

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**ADDITIONAL INFORMATION**

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