

ANNEX 2: FIDUCIARY SYSTEMS ASSESSMENT – ADDENDUM

Expenditure Framework

- 1. As in the parent program, transfers to SDLs will constitute the AF expenditure framework.** The CC will continue to contribute in two ways to the financing of Program activities: (i) with the CC's own source revenues channeled through the CC's own budget, and (ii) with the CC's share of transfers from the VAT revenues earmarked for local government, channeled through the CAS-TVA. Approximately 77.5% of expenses are physical assets. Other expenses include services, operational expenses, technical studies, consulting, goods and equipment or IT. All expenses will be programmed between 2022 and 2025.
- 2. The planning and budgeting processes at the CC suffers from the lack of effectiveness of the triennial budget programming,** as flagged in the PEFA for the municipality of Casablanca¹; and the still untapped fiscal potential, mainly due to the shortcomings in the performance of the municipal tax administration. To mitigate these risks, the AF will continue to support municipality's effort to improve the performance of its tax administration and to increase the percentage of its own resources in its budgets. This would be implemented through DLI#1 and DLI#2.
- 3. The Program's expenditures will be included in the budgets of the implementing entities based on the MoUs that will be signed with the CC.** A periodic evaluation of these MoUs will be agreed with the CC to enable take stock on the progress in the execution of the PEF. The new DLI #10.2 will support close monitoring of contractual frameworks established between the CC and its SDLs. Periodic reports will be prepared for this purpose to ensure that the municipality's commitments within SDLs is timely and sufficient. Overall, the difficulties identified during the implementation of the parent program are mainly related to delays in the transfer of resources to the SDLs.
- 4. The type of expenditures supported under the AF remains the same as in the parent operation.** They will consist of investments in infrastructures, roads, rehabilitation of the municipality's real estate assets, procedures dematerialization and better management of the green's areas in the city. For Casa-Baia (newly added), expenditures relate to infrastructure, equipment, goods and services.
- 5. The AF will finance approximately 63.9 percent of total Program expenditures.** Including both Parent and AF, WBG would fund 31.18% of the Program. Specifically, the AF will include financing of US\$ 156.3 million, including an IBRD loan of US\$100 million and the government contribution of US\$ 56.3 million. The Program will use the CC's investment budget as depository of funds. It will thus scale up the overall program volume from US\$ 345 million to US\$ 501.3 million.

Table 1: Program costs and source of financing (US\$ million)

Financing Source	Original Program	AF Program	Total
BORROWER/RECIPIENT	145	56.3	201.3
IBRD/IDA	200	100	300
TOTAL	345	156.3	501.3

¹ Rated D PI-15 in the PEFA for the municipality of Casablanca in 2016.

6. The AF will maintain the same program expenditure framework as the parent program, with the addition of Casa Baia. Transfers to Casa Patrimoine will cover RA#1 to increase the program's impact on the municipality's own resources. RA#1 will have limited expenditures, compared to the other result area as it focuses on the performance of the tax administration. Transfers to Casa Patrimoine (Rehabilitation works of the city's heritage), Casa Prestations, Casa Baia, and Casa Aménagement will constitute RA#2.

7. The PEF is structured around two areas: (i) Increasing municipal revenues of the CC (3 percent) and (ii) Improving mobility and urban space as well as the quality of public services (97 percent). Based on the information provided by the Borrower on the implementation of the parent PforR over the period 2017-2021 and forecasts for 2022-2025, the program expenditures under these two areas can be grouped under three categories: (i) Works (81 percent), (ii) Goods and non-consulting services (16 percent), and (iii) Consulting services (3 percent). The procurement of works will consist of rehabilitation of infrastructures, maintenance of structures and roads upgrade. Regarding goods and non-consulting services category, it will consist of the purchase of goods and services related to the digitalization like setting up digital platforms and software development. Finally, consulting services category consists in legal assistance and expertise, and studies.

8. **An interim financial reconciliation has been carried out** including the determination of expenditures to date and detailed projections based on analysis of expenditures forecasts for the three areas of the AF. WB disbursement to date has reached \$US 190.2 million² (96.7 % of the loan amount, included an initial advance of \$US 52.9 million. The reconciliation between disbursement (excluding initial advance disbursed by the Bank) and expenditures made to date shows that the executed expenditures are higher than the realized disbursements with nearly US\$ 24.3 million. Besides, there are remaining investments to be made under the parent program, amounting to US\$38.8 million, which will also be monitored during the AF.

Table 2. Program Expenditure Framework (PEF)³
Interim Financial reconciliation and updated financial projections (\$US, million) Awaiting new expenditure framework

Program expenditures	To Date (December 2021)	Residual Parent Program Expenditures to be incurred	2022	2023	2024	2025	Total
RA1: Increasing municipal investment capacity	0,4	0	1,63	1,53	1,53	0	5,09
RA2: Improving the urban environment and the quality of public services	160,5	38,8	44,98	42,36	42,6	22,01	351,25
RA3: Improving the business environment	0,7	0	0	0	0	0	0,7
Total	161,6	38,8	46,61	43,89	44,13	22,01	357,04

9. The above table raises two main points. First, the importance of monitoring the execution of investments related to the parent program (US\$38.8 million) not yet achieved. Second, the gap between the borrower's contributions planned under the parent program and those effectively executed. Indeed, at end of 2021, the total expenditures incurred only represent 46.8 percent of the initial PEF forecasts,

² The source is Bank Operations Portal

³ Projections conducted by the WB, based on bi-annual implementation progress reports prepared by subproject implementers.

highlighting modest government's contribution to the PEF.⁴ To mitigate this risk, strong commitment from the CC on executing the expenditure framework is to be guaranteed. Besides, the PMU will prepare periodic (e.g., bi-annually) consolidated financial management and procurement reports during execution of the program, which will be submitted on a bi-annual basis to the Bank. A unified reporting model for all implementing entities will be adopted in agreement with the Bank and included in the MOP. This will enable to reinforce fiduciary execution and monitoring of the Program activities.

10. Program's financial sustainability and funding predictability. The CC will continue its progress to make these MoUs approved in the Municipal Action Plan 2022-2028 to be approved by October 2022 to ensure multi-year programming of activities to be implemented within this period.

Financial Management Systems

11. The Program's FM implementation arrangements have been assessed to evaluate the capacity of the implementing agency to record, control, and manage all program resources and produce timely, understandable, relevant, and reliable financial information for stakeholders.

Program Planning, Budgeting, and Transparency

12. The planning and budgeting processes is acceptable. However, some shortcomings in the investment prioritization/budget planning were identified during the implementation of the parent PforR.

Program Accounting and Financial Reporting

13. The program budget execution, accounting, and reporting procedures need to be strengthened. Bank fiduciary assistance on the ongoing PforR enabled to achieve positive results in the enhancement of the Program accounting and financial reporting. However, some aspects still need to be adjusted and/or strengthened.

Treasury Management and Funds Flow

14. The AF will use the funds flow arrangements used for the execution of the parent program. These arrangements were deemed acceptable during the implementation of the parent PforR. The AF agreement will be signed with the CC and covered by a sovereign guarantee of the Kingdom of Morocco. Therefore, the Program's funds will be directly disbursed to the CC upon achievement of the DLI in a dedicated account opened at Treasury of the Kingdom. This account will be reflected in the CC financial statements and be part of the Treasury Account. To mitigate the risk of delay in the release of the transfer and the payment, the actual monitoring mechanism between the CC and the contractors/SDLs will be reinforced through a bi-annual statements. This system will help to keep track on the payment lead time against the services standards. Disbursement of Bank proceeds will be made at the request of the Borrower upon achievement of DLIs. The disbursement arrangements for the Program may allow for advances up to 25% once the Program becomes effective. Justification and new requests for advance on DLIs will be stated in the DFIL and the revised version of the POM.

Disbursement arrangements

⁴ The Parent operation's PEF only captured part of the PDGC commitments.

15. The Program envisages disbursement throughout the Program implementation period based on the verification of achieved DLRs for 12 DLIs. Application for withdrawal from the WB's lending account, as per the amounts allocated to individual DLRs will be sent to the WB any time after the WB has notified the GoM in writing that it has accepted evidence of the achievement of the DLRs and the amount of the eligible payment. The withdrawal amount against the DLRs achieved will not exceed the amount of the financing allocated by the WB for the specific DLR. Details of the agreed disbursement procedures for each DLR are provided in the Results Framework as part of the Verification Protocol Table.

16. For scalable DLIs, payment would be made in proportion to the achieved results for each period after verifying the DLIs. An advance in the amount of up to US\$25 million may be disbursed once the loan becomes effective to facilitate the achievement of DLIs' results. This potential advance would be available throughout Program implementation on a revolving basis.

Program's Internal Controls, Including Internal and External Audit

Internal control and audit

17. The AF will apply the internal control procedures implemented by the CC and the SDLs which are found acceptable. As recommended in the Parent PforR, internal control systems will need to be strengthened for Casa-Patrimoine in terms of (i) holding of regular meetings of the sub-program monitoring committee, (ii) preparing a budgetary and accounting management procedures manual and (iii) the creation of a structure responsible for internal control and internal audit. These measures will be included in the AF PAP. At the CC level, like the government financial and accounting transactions, there is an adequate internal control platform including a strict segregation of duties between the budget holder and the accountant. The accounting records are based on the Integrated Expenditure Management System (GID), which ensures a high degree of reliability and traceability of accounting records and operations. Furthermore, to assess the soundness of the control environment over the AF implementation, the external audit reports of the entities of the Program will include management letters on the internal control.

Internal audit

18. The assessment of the internal audit arrangements in effect at the level of each entity of the Program is as follows.

1. CC. An internal audit entity exists but is not fully effective. The operationalization of this entity was introduced as a DLR in the AF.
2. Except for Casa-Patrimoine, all the SDLs involved in the program are endowed with an audit committee and an internal audit department. Although these departments have a small staff (between 1 and 2 auditors), they draw-up an annual audit plan, carry out regular mission on operational and financial aspects and are also responsible for updating their risk maps.

Program external audit

19. Each entity in charge of the execution of Program expenditures (CC and SDLs) will produce an annual financial statement on their respective share of Program expenditures. The IGF will carry out the financial audits of the Program expenditures incurred by the CC and the SDLs, based on the annual Program financial statements produced by each entity. The audit will cover Program expenses incurred on or after January 2022. The audits will be carried out following the Audit Terms of Reference (TORs) to

be agreed between IGF and the Bank and will include a specific clause about the reconciliation between the Bank's disbursements and the execution of the expenditure framework. The production of audit reports will be no later than 9 months after the closure of accounts. The WB has monitored the implementation of annual action plans to address IGF audit recommendations. Compliance with submission of audited financial statements were respected. No delays were observed in transmission of financial audits of the parent PforR, which were all with unqualified opinion. Overall, the performance of IGF as well as the quality of the audit reports received so far were deemed acceptable to the Bank.

Procurement

20. The implementation of the procurement processes and procedures for the parent project have been satisfactory. No shortcomings under the Program have been noticed during the implementation neither during the supervision missions. However, some weaknesses have been detected regarding the procurement KPIs reporting. The IAs have no systematic procurement performance reporting system to ensure the follow-up of the contracts execution and the bidding process in general. In addition, the IAs have no complaints management system in place, this point should be strengthened. Mitigation measures will be implemented by the IAs, as detailed in Table 5.

21. Regarding procurement data analytics, the annual number of contracts established by the SDLs over the last three years as well as the breakdown by procurement method and procurement times are summarized in the Table below.

Table 4. Procurement Data

	Average procurement lead time	Average advertising time	Average bids evaluation time	Number of tenders	% of ONCB	Average number of bidders
Casa-Aménagement						
2018	66	32	30	37	97%	4
2019	61	35	24	32	97%	3
2020	59	31	21	75	100%	4
Casa-Prestations						
2018	84	21	63	20	80%	3
2019	91	21	73	28	96%	3
2020	41	21	20	13	100%	3
Casa-Patrimoine						
2019	28	21	2	1	100%	3

22. The data received as for now shows a convenable procurement performance with good annual progress in procurement times. Indeed, the fiduciary questionnaire received from the IAs demonstrate that in the case of Casa Prestations and Casa Amenagement that the procurement lead time and the evaluation time made significant progress over the past three years, and almost all the tenders are open. In addition, those two agencies have experience in public procurement since they have handled several procurement cases, where no complaints have been received. Both have dedicated staff handling the procurement activity and good archiving system. Plus, they have procurement procedure explaining in detail how to procure. In the case of Casa-Prestations, they are using an ERP to process bidding requests and tenders.

23. Regarding Casa Patrimoine and Casa Baia, the data received shows that (i) they are using a procurement regulation aligned on the PPD, (ii) they are using the eGP, (iii) no complaints received during the last three years, and (iv) they have dedicated staff handling the procurement activity. However, the lack of procurement statistics doesn't permit an in-depth analysis of the performance at this stage. More data will be collected during the implementation

24. Moreover, the PAP includes an action related to the reporting of procurement information to monitor and assess the procurement performance, noticeably in the context of submission of bi-annual implementation reports. This reporting included in the PAP is also an opportunity to identify complaints that were expressed on procurement aspects, and their treatment by the IAs.

25. Procurement planning and publication of the procurement plans are made mandatory by the Public Procurement Decree - PPD (No. 2-12-349 of March 20, 2013) and by the procurement regulations of the SDLs which are aligned on the later. Each public procuring entity is required, according to the PPD, to publish its procurement plan which shall include all contracts planned for the fiscal year, under their budget. The publication should be done at least in two national newspapers (one in Arabic and one in foreign language) and on the procurement electronic portal⁵, no later than the end of the first quarter of each fiscal year. This requirement fosters the access to information on procurement opportunities for all potential bidders. The information received confirm that the procurement plans has been done and published as required during the past period of the parent program.

26. Procurement processes and procedures. The procurement processes and procedures at the level of different agencies were assessed based on virtual meetings with them and data provided by heads of agencies or procurement divisions. The different agencies procurement systems are acceptable, and they provide reasonable assurance on the achievement of core procurement principles. The procurement activity of the implementing agencies is carried out by the Public Procurement Decree (PPD) or a regulation based and aligned on this PPD. As a summary of the procurement systems of the agencies, it's noticed that the SDLs are using a procurement regulation aligned on the PPD and are well staffed to handle the procurement activity thanks to a dedicated team.

27. eProcurement. The procurement system relies on the national e-procurement portal, which is used by the SDLs included in the Program, and contributes to improving public access to information, by widely publishing a call for tender, making bidding documents available online to all potential bidders, and publishing results of tendering processes. Furthermore, on March 11, 2021, the government adopted a decree⁶ making the electronic submissions of bids mandatory through the portal. This new provision will be effectively applied starting from 2021. Overall, as anticipated, the main procurement method used for the Program expenditures is Open National Competitive Bidding (ONCB).⁷

Anticorruption arrangements

⁵ www.marchespublics.gov.ma. For Casa-Aménagement SDL, in addition to the portal, they are also publishing the procurement plan in their website.

⁶ Decree N°2.21.801.

⁷ Data received from the IAs shows that the procurement method used is exclusively the ONCB.

28. Risk of fraud and corruption. The Program ex-ante and ex-post financial controls were found adequate to address the risk of fraud and corruption. These arrangements comprise several effective institutions playing complementary roles: Ombudsman Office (Al Wassit), Court of Auditors, General Inspectorate of MoI (IGAT), the National Commission for Public Procurement (Commission Nationale de la Commande Publique- CNCP), the Central Body for Corruption Prevention (Instance Centrale de Prévention de la Corruption - ICPC), and IGF. The National Commission of Public Procurement (CNCP) has been strengthened following its effective operationalization in 2018, gaining more autonomy and independence. As of May 2021, 132 decisions have been made by CNCP and published on its website. As mentioned below, these decisions did not cover the ongoing PforR operation.

29. The country governance and anticorruption arrangements have been confirmed as adequate. No report on fraud and corruption complaints has been submitted to the Bank team during the implementation period of the parent program. Also, the data received from the sample of subprojects has not reported any complaints related to the procurement process or contract execution.

30. Actions related to fraud and corruption. The Borrower will: (a) take all appropriate measures to ensure that the Program is carried out in accordance with the Bank's Anti-Corruption Guidelines; (b) take all appropriate measures to prevent fraud and corruption in connection with the Program, including (but not limited to) adopting and implementing appropriate fiduciary and administrative practices and institutional arrangements to ensure that the proceeds of the Loan are used only for the purposes for which the Loan was granted; (c) promptly inform the Bank of all credible and material allegations or other indications of fraud and corruption in connection with the Program that come to its attention, together with the investigative and other actions that the Borrower proposes to take with respect thereto; (d) unless otherwise agreed with the Bank with respect to a particular case, take timely and appropriate action to investigate such allegations and indications; report to the Bank on the actions taken in any such investigation, at such intervals as may be agreed between the Borrower and the Bank; and, promptly upon the completion of any such investigation, report to the Bank the findings thereof; (e) if the Borrower or the Bank determines that any person or entity has engaged in fraud and corruption in connection with the Program, take timely and appropriate action, satisfactory to the Bank, to remedy or otherwise address the situation and prevent its recurrence; and (f) ensure that any person or entity debarred or suspended by the Bank is not awarded contract under or otherwise allowed to participate in the Program during the period of such debarment or suspension. The Bank's debarment list, which is easily accessible, will be checked by all procuring entities before awarding contracts. As regards the list of temporarily suspended firms, each implementing agency will access the same through Client Connection for which one representative from each of the implementing agency shall be nominated for granting access to the Client Connection by the WB. The borrower will develop and operationalize the mechanism of enforcing these requirements through the issue of instructions/circular to all the procuring entities requiring the procuring officers to check the eligibility of firms and individuals from the Bank's list of debarred and temporarily suspended firms and record the same in procurement award decision files. The borrower will report compliance to these requirements in annual Program Audit Report.