



1. Project Data:		Date Posted : 08/22/2003	
PROJ ID: P005523		Appraisal	Actual
Project Name: Municipal Finance II	Project Costs (US\$M)	110.3	150.4
Country: Morocco	Loan/Credit (US\$M)	70.0	70.0
Sector(s): Board: UD - Power (25%), Other social services (25%), General water sanitation and flood protection sec (25%), Roads and highways (25%)	Cofinancing (US\$M)	0.2	0.2
L/C Number: L4231			
	Board Approval (FY)		02
Partners involved : France	Closing Date	12/31/2001	12/31/2002
Prepared by :	Reviewed by :	Group Manager :	Group:
Roy Gilbert	Christopher D. Gerrard	Alain A. Barbu	OEDST
2. Project Objectives and Components			
a. Objectives			
(a) Increase the provision of basic infrastructure services in small and medium -size cities;			
(b) strengthen Fonds d"Equipment Communal (FEC) as a commercially viable, autonomous financial institution specialized in providing financial services to the municipal sector .			
b. Components			
(i) Municipal Infrastructure (final cost US\$150.1 million). US\$70.0 million line of credit to FEC to be on-lent (for up to 15 years) to eligible municipalities to finance about 210 municipal infrastructure projects, the balance to be financed by municipalities themselves.			
(ii) Institutional Development - ID (US\$0.3 million). To implement an institutional development plan to transform the FEC especially by reforming its accounting and management information systems .			
c. Comments on Project Cost, Financing and Dates			
Counterpart funding by municipalities was US\$ 80m--twice the appraisal estimate. The Bank loan was fully disbursed at completion. Completion was one year later than forecast, owing to the increased scale of sub -projects financed under the loan and the slow progress with the ID component .			
3. Achievement of Relevant Objectives:			
(a) Fully achieved through financing and completing more municipal infrastructure sub -projects than envisioned. Nearly half the sub-projects were for "urban improvements". The next most important were in solid waste, urban transport, and commercial facilities.			
(b) Mostly achieved through improvements to FEC management and level of performance, even without full privatization. FEC's capital adequacy improved. Arrears fell to 7.2 percent of outstanding loans. Annual return as a percentage of net value of total assets was 2.1 percent, against a project minimum of 1.2 percent. FEC admin expenses were only 0.7 percent of assets versus an appraisal target of 0.9 percent.			
4. Significant Outcomes/Impacts:			
<ul style="list-style-type: none"> • Twice as many sub-projects were financed as planned and total funding increased by 35 percent thanks to municipalities doubling their expected counterpart contributions . • The project offered an opportunity for authorities in Morocco to engage in a fruitful dialogue about the reform of the relations between the central government and governments at the local level . • The project brought important benefits to smaller resource -poor municipalities that would otherwise have received no assistance. 			
5. Significant Shortcomings (including non-compliance with safeguard policies):			
<ul style="list-style-type: none"> • The project design did not provide technical assistance and institutional support to municipalities (as is normally provided through this kind of operation), as the borrower did not agree to such a component . This undermined the institutional development impact of the project at the level of local governments . • Despite assurances by the borrower, FEC was not transformed into a joint -stock company by completion as 			

agreed. During implementation FEC had to survive long periods without a General Manager . The lack of a borrower ICR and borrower input into the Bank ICR are further indicators of a less -than-full borrower commitment to the reforms sought by this project .

- Following the withdrawal of Treasury guarantees, FEC is now highly exposed to foreign exchange risks and has yet to put into place a mechanism for hedging such risks .

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Satisfactory	
Institutional Dev .:	Modest	Modest	
Sustainability :	Likely	Likely	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Unsatisfactory	Unsatisfactory	
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

- Decentralization and municipal finance reform can be more successfully implemented, when a project or reform program provides direct institutional development assistance to municipalities, especially to make local governments more creditworthy and able to sustain bankable investments .
- Well performing municipal finance markets and financial intermediaries require appropriate enabling controls by the regulatory authorities, enforced through ex -post verification and control .
- Projects should include financing for M&E activities by local governments together with central authorities in order to assess sub-project impacts upon local communities .
- Given the disparate resource endowment across municipalities, specific guidelines should address poverty reduction and equity objectives in small and medium -sized local governments in particular .

8. Assessment Recommended? Yes No

Why? To follow-up and update progress on these very important sectoral reforms . Ten years have lapsed since OED's last urban PPAR in Morocco .

9. Comments on Quality of ICR:

Satisfactory, with a good coverage of the issues affecting project implementation, together with candid acknowledgements of the project's shortcomings on the institutional side . A reader would leave with a better understanding of the types of sub -projects financed if the ICR had described (in one paragraph) the types of investments made, and reported FEC's estimates of their ERRs .