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REPORT NO: 67496-MA

PROGRAM APPRAISAL DOCUMENT
ON A PROPOSED LOAN
IN THE AMOUNT OF EURO 227 MILLION
(US\$300 MILLION EQUIVALENT)
TO THE
KINGDOM OF MOROCCO
FOR A
NATIONAL INITIATIVE FOR HUMAN DEVELOPMENT 2 PROGRAM

June 4, 2012

Sustainable Development Department
Middle East and North Africa Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective April 30, 2012)

Currency Unit: MAD

1 Euro = US\$ 1.321

1 US\$ = EUR 0.76

1 US\$ = MAD 8.43

FISCAL YEAR: January 1-December 31

ABBREVIATIONS AND ACRONYMS

ACGs	Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing (Anti-Corruption Guidelines)
ADS	<i>Agence de Développement Social</i> (Social development agency)
AGR	<i>Activités Génératrices de Revenus</i> (Income-generating activities)
CAS	Country Assistance Strategy
CDD	Community-driven development
CFFA	Country Financial Accountability Assessment
CLDH	<i>Comité Local de Développement Humain</i> (INDH commune-level governance body)
CPDH	<i>Comité Provincial de Développement Humain</i> (INDH provincial-level governance body)
CPS	Country Partnership Strategy
CRDH	<i>Comité Régional de Développement Humain</i> (INDH regional-level governance body)
CSO	Civil society organization
DAS	<i>Division d'Action Social</i> (INDH provincial-level support teams)
DLI	Disbursement-linked indicator
EAC/Q	<i>Equipes d'Animation Communal/du Quartier</i> (INDH commune-level social mobilization teams)
EMP	Environmental Management Plan
ESMS	Environmental and Social Management System
ESSA	Environmental and Social Systems Assessment
EU	European Union
F&C	Fraud and corruption
GoM	Government of Morocco
HCP	Statistical agency
ICR	Implementation Completion Report
IGA	Income-generating activities
IGF	<i>Inspection Générale des Finances</i>
IGAT	<i>Inspection Générale de l'Administration Territoriale</i>
ILDH	<i>Initiative Locale de Développement Humain</i> (INDH Local Development Plan)
ILICR	Intensive Learning Implementation Completion Report
INDH	<i>Initiative Nationale de Développement Humain</i> (National Initiative for Human Development)
ISP	Implementation Support Plan
KFSPI	Key Fiduciary Statistical Performance Indicator
KfW	<i>Kreditanstalt für Wiederaufbau</i> (Reconstruction Credit Institute)
MAD	Moroccan Dirham
M&E	Monitoring and evaluation
MIS	Management information system
NGO	Nongovernmental organization
ONDH	<i>Observatoire Nationale de Développement Humain</i> (National Human Development Observatory)
ONEE	<i>Office National de l'Eau et de l'Electricité</i> (National Office for Water and Electricity)
O&M	Operations and maintenance
PAD	Project Appraisal Document
PAP	Program Action Plan
PCF	Provincial Competitive Fund
PDO	Program Development Objective

PFM	Public financial management
RI	Result indicator
RPF	Resettlement Policy Framework
SRA	Special revenue account
SWAp	Sector wide approach
TGR	<i>Trésorerie Générale du Royaume</i> (General Treasury of the Kingdom of Morocco)
ToR	Terms of Reference

Vice President:	Inger Andersen
Country Director:	Simon Gray
Sector Director:	Junaid Kamal Ahmad
Sector Manager:	Franck Bousquet
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KINGDOM OF MOROCCO

National Initiative for Human Development 2 Program

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PAD DATA SHEET***Kingdom of Morocco******National Initiative for Human Development 2 Program*****PROGRAM APPRAISAL DOCUMENT*****Middle East and North Africa Region******Sustainable Development Department***

Basic Information			
Date:	June 4, 2012	Sectors: Other Social Services (60%); General Public Administration (20%); General Agriculture, Fishing and Forestry Sector (10%); General water, sanitation and flood protection sector (10%). Themes: Participation and Civic Engagement (23%); Other social development (22%); Urban services and housing for the poor (22%); Rural services and infrastructure (22%); Vulnerability assessment and monitoring (11%)	
Country Director:	Simon Gray		
Sector Manager/Director:	Franck Bousquet/ Junaid Ahmad		
Program ID:	P116201		
Team Leaders:	Mohamed Medouar and Andrea Liverani		
Program Implementation Period:	Start date: January 31, 2012 End date: December 31, 2015		
Expected Financing Effectiveness Date:	September 30, 2012		
Expected Financing Closing Date	June 30, 2016		
Program Financing Data			
<input checked="" type="checkbox"/> Loan	<input type="checkbox"/> Grant	<input type="checkbox"/> Other	
<input type="checkbox"/> Credit			
For Loans/Credits/Others (US\$M):			
Total Program Cost :	1,115	Total Bank Financing :	300
Total Co-financing :	815	Financing Gap :	0
Financing Source		Amount	(US\$ Million)
BORROWER/RECIPIENT		815	
IBRD		300	
Others			
Total		1,115	
Borrower: Kingdom of Morocco			
Responsible Agency: Ministry of Interior, National Coordination of the National Initiative on Human Development			
Contact:	Ms. Nadira Guermai	Title:	Governor, National Coordinator of INDH
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Expected Disbursements (in USD Million)

Fiscal Year	2013	2014	2015	2016
Total	60	60	90	90

Program Development Objective(s)

To improve access to and/or use of enhanced participatory local governance mechanisms, basic infrastructure, social services and economic opportunities in the Program Area.

Compliance**Policy**

Does the Program depart from the CAS in content or in other significant respects? Yes [] No [X]

Does the Program require any waivers of Bank policies applicable to Program-for-Results operations? Yes [] No [X]

Have these been approved by Bank management? Yes [] No []

Is approval for any policy waiver sought from the Board? Yes [] No [X]

Does the Program meet the Regional criteria for readiness for implementation? Yes [X] No []

Overall Risk Rating: Moderate**Legal Covenants**1. Program Institutions

Without limitation on the generality of Part A of this Section I, the Borrower shall maintain the implementation arrangements for the Program as set forth in the INDH 2 Program during the implementation of the Program, and, except as the Bank shall otherwise agree, the Borrower shall not amend or waive any of such arrangements if, in the opinion of the Bank, such amendment or waiver may materially and adversely affect the carrying out of the Program or the achievement of the objective thereof.

2. Operations Manuals and Guides

The Borrower shall carry out the Program in accordance with the Operations Manuals, the Environmental and Social Guide and the Fiduciary Guide, and, except as the Bank shall otherwise agree, the Borrower shall not amend or waive any provision of said Manuals and Guides if, in the opinion of the Bank, such amendment or waiver may materially and adversely affect the carrying out of the Program or the achievement of the objective thereof.

3. Additional Program Implementation Arrangements

Without limitation on the generality of Part A of this Section I, the Borrower shall carry out the Action Plan in accordance with such schedule as shall have been approved by the Bank.

Team Composition**Bank Staff**

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Andrea Liverani	Sr. Social Development Specialist	Co-TTL	MNSSO

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I. STRATEGIC CONTEXT

A. Country Context

1. While facing equally compelling demands for increased social and economic inclusion, Morocco has not experienced the same levels of political upheaval of other countries in the Region. Part of the reason lies in the vast reform program that Morocco has put in place over recent years. Since the early 2000s, sustained growth, effective economic management, and wide-ranging reforms have helped attenuate mounting social demands — de facto anticipating the pressures to come in neighboring countries and within Morocco itself. Key to these reforms was the 2005 launch of the National Initiative for Human Development (INDH, *Initiative Nationale pour le Développement Humain*), a nationwide social inclusion program aimed at fostering social development and cohesion while furthering more open governance.

2. Spurred by the uprising in the region and demonstrations in the country, the King of Morocco initiated a process of constitutional change in March 2011, leveraged by anticipated elections in November 2011 and a change of government in January 2012. The launch of the second phase of INDH in June 2011 is set against this context.

3. INDH aims to address critical gaps in Morocco's development trajectory. GDP growth rates averaging 5 percent over recent years have combined with active social investment programs to reduce the poverty rate from 15 percent in 2001 to 9 percent of the total population (2.8 million people, 2007 data). Persistent disparities however remain. Morocco's high Gini coefficient (0.41) has not changed for the last 10 years. The rural-urban gap remains large, with widespread rural poverty and roughly 17 percent of Moroccans living just above the poverty line. In addition to supply-side weaknesses, insufficient voice and accountability mechanisms affect the performance of social expenditures, with investments in basic services not fully translating into real improvements in human and social outcomes, particularly for young people and women.

4. Morocco's youth (15-24 years old) represents roughly 30 percent of the population and about 44% of the total working age population. Morocco's large youth population suffers from particularly poor social indicators resulting in low participation in decision making and challenges to economic inclusion.¹ 21 percent of male youth and 42 percent of female youth are illiterate; this figure climbs to nearly 70 percent for rural female youth. The average unemployment rate of 9.1 nationwide reaches to 22 percent for young Moroccan men and 38 percent for young women, rising to a combined men-women average of 34.5 percent in urban areas.

5. Despite notable progress since introduction of Morocco's family code, women are still marginalized from the economy and decision-making processes. Cultural, social, and institutional barriers to the full participation of women remain, limiting their physical mobility and access to opportunities and resources. At least 72 percent of rural women cannot read, and maternal and infant mortality is high in relation to regional standards. Although women in rural areas actively contribute to the economy (nearly 42 percent of the labor force is female), the vast majority are non-salaried members of the family. Poverty in urban areas is also increasingly feminized, in contrast to rural areas where women and men are exposed to similar degrees of poverty.

6. The INDH was launched with the objectives of combating social and economic exclusion and improving the living conditions of poor and vulnerable groups through enhanced economic opportunities, better access to basic services, and improved governance. INDH is based on local participatory governance and community-driven development (CDD) principles, and incorporates core values of inclusiveness, accountability and transparency. The first phase, INDH 1 (2005-2010), received financing from the central government (60 percent), local government (20 percent), and

¹ « *Promouvoir les Opportunités et la Participation en faveur des Jeunes* », World Bank, 2011, based on a national representative survey administered between December 2009 and March 2010.

international grants (20 percent). During 2005-2010, INDH 1 invested MAD 14 billion (US\$1.7 billion) in about 700 local participatory plans, financing more than 22,000 activities that reached 5.2 million beneficiaries. INDH 1 was successful in setting up an inclusive institutional architecture and in efficiently starting to address welfare gaps for the target population.

7. The King launched the second phase, INDH 2, on June 4, 2011, expanding the target population and geographic scope, and increasing resource allocation, as inscribed in the INDH 2, 2011-2015 Platform. The new Government established in January 2012 also retained INDH as a priority. Targeted results aimed for improved supply and access to basic services, infrastructure, and economic opportunity for poor and vulnerable groups; and strengthened local participatory governance. INDH 2 will invest MAD 17.1 billion (US\$2.1 billion), financed by central government (55 percent), local government (33 percent), other public agencies (6 percent), and external grants (6 percent). The Initiative is expected to continue through a third phase and beyond since the King has defined it as “*Un Chantier de Règne*” (“a reign-long effort”), thus associating INDH with the entire duration of his rule.

8. Ownership of the Initiative is high among all program stakeholders. Unlike the launch of phase 1, when the INDH approach was new and untested, the launch of phase 2 is grounded in high levels of ownership among key stakeholders, including sector ministries, the Ministry of Finance, the national social welfare agency (*Entraide Nationale*), and the social development agency (*Agence de Développement Social, ADS*), as well as local elected representatives, NGOs, and beneficiaries. The King’s launch of INDH 2 reconfirms high-level backing of its objectives and funding.

9. Over the medium term, Morocco faces a challenging economic outlook due to the impacts of the global downturn, recession in Europe, and potential external shocks to the agricultural sector. The Initiative helps the Government address some of these challenges. Downside pressures on the budget are however not expected to impact INDH directly. The Initiative absorbs a relatively small part of total social expenditures (3 percent). The program expenditure framework appears adequate for the achievement of key objectives, and funding is officially committed and available to INDH, as firmed up through a specific medium-term framework (2011-2015) contained in the INDH 2 “Platform” approved by the King. If downside fiscal pressures materialize, INDH’s high visibility and government-wide ownership, its solid financing framework, and its relatively small share of total social expenditures would shield it from possible budget cuts to social programs.

B. Sectoral and Institutional Context

10. The challenge facing INDH is that of inclusion: *how to bring social and economic development to the poor and vulnerable and include them in nationwide governance improvements*. Sustained social investments by sector top-down programs have been slow to translate into concrete results. The hitherto slow rollout of Government’s decentralization program has constrained the demand-responsiveness of expenditures and limited voice and accountability mechanisms. INDH was specifically conceived as a response to these problems. It follows a CDD approach that (a) sets up inclusive and participatory bottom-up governance mechanisms; and (b) identifies the priority gaps in social and economic development at the grassroots level, bringing in locally managed investments linked to decentralized public services to fill those gaps.

11. INDH 1 set up a governance and coordination system linking poor local communities to a hierarchy of over 700 participatory decision-making committees comprising equal numbers of government officials, elected officials, and representatives from civil society, and assisted by over 700 local support and facilitation teams. As shown by the Implementation Completion Report (ICR) of the World Bank funded operation supporting INDH 1, this institutional architecture delivered the targeted results, in terms of inclusiveness, transparency, accountability, and use of infrastructure and services.

12. INDH 1 delivered important results on gender and youth, both by providing opportunities for voice and participation in decision-making as well as opening opportunities for economic and social inclusion. In terms of representation in governance bodies, women's participation in local INDH committees reached 17 percent, while participation in local facilitation teams was about 16 percent. Additionally, women benefited from large number of projects, including delivery centers and women-dedicated professional training centers. Based on a 2009 survey, women represented 35 percent of direct beneficiaries of income-generating activities.

13. Under INDH 1, the participation of young people (under 30) in the local committees was 7% percent, while participation of youth in the *Equipes de'Animation Communale* (EAC), commune-level social mobilization teams, remained at a less-satisfactory rate of about 4 percent.² These young people benefited from more than 6,000 different projects (e.g., 25 percent of the total), including youth centers, sport and socio-cultural centers, vocational training, and school accommodation. In 2009, young people represented 38 percent of direct beneficiaries of income-generating activities.

14. Key performance issues under INDH 1 included (a) slower than planned uptake of participatory approaches and sluggish devolution of decision-making to local levels, (b) shortcomings in the targeting approach, (c) sustainability issues involving operations and management (O&M) for infrastructure investments and viability of income-generating activities, and (d) capacity gaps. Progress was made in addressing most of these issues, and lessons learned have been incorporated into INDH 2.

15. INDH has been an integral and a pioneering element of the Government's overall push toward decentralization. The introduction of CDD principles and the transferring of resources to communes and neighborhoods were aimed at an overall strategy of bringing decision-making closer to the end-beneficiary and reinforcing local government capacities in order to improve service delivery. These objectives are at the core of the decision to further empower regional governments. Regionalization is inscribed in the new Constitution and it is expected that a new law will operationalize it shortly. INDH 2 remains relevant to Morocco's decentralization policy and aligned with its ongoing regionalization agenda with regards to its role in strengthening sub-regional levels of Government.

C. Relationship to the CPS and rationale for the use of instrument

16. For INDH 1, the Government invited the World Bank to be the strategic and lead technical partner in helping to raise the technical soundness of the program and assisting with mobilizing additional external funding. Through common consent between Government and donors, the Bank took the lead in coordinating donor support for the Initiative. In 2006, the Bank provided a Specific Investment Loan of US\$100 million through a sectorwide approach (SWAp) under which the Bank financed almost 10 percent of all expenditures and released annual tranches based on the satisfaction of disbursement conditions and indicators.³ In its role of lead technical partner, the Bank allocated a large supervision budget each year and provided implementation support to the Initiative in its entirety. This comprehensive approach to such a large program enabled the Bank to provide effective support to implementation.

17. Following the experience of INDH 1, the Government has invited the Bank to support INDH 2, focusing on key areas of improvement based on the recognition that the Bank can bring added value to the Initiative due to its (a) global expertise in community-driven development; (b) knowledge on developing participatory mechanisms and social accountability measures to improve service delivery; (c) knowledge on improving economic inclusion, particularly developing income-generating activities to stimulate job creation and revenue generation by linking them to value chains; and (d) focus on results.

² *Rapport d'Activités INDH*, Coordination Nationale INDH, 2009

³ P100026 and Loan Number 7415-MOR, dated December 12, 2006

18. Based on discussions with the Bank, **Government adopted the Bank's Program-for-Results (PforR) instrument**, with a view to enhance the impact of the Bank's financial and technical support and increase the overall results orientation of the Initiative. The Government's decision was based on the following considerations:

- **Program ownership.** INDH is an ongoing national program with a coherent program policy and expenditure framework and high levels of government-wide ownership.
- **Using program systems and procedures.** During Phase 1, the Government repeatedly stated its interest in using the Initiative's own systems instead of the Bank's investment lending procedures.
- **Results orientation.** The Government wishes to push forward the results orientation of the overall Initiative by establishing clear links between Bank disbursements and delivery of results.
- **Leverage.** Given that the Bank's own contribution is likely to provide only 25 percent of overall financing, the PforR instrument will help support systems changes across the program by leveraging the actions contained in the Program Action Plan (PAP), Results Indicators (RIs) and Disbursement Linked Indicators (DLIs) to reward positive responses on needed improvements.
- **Donor harmonization and alignment.** The PforR instrument is expected to allow for increased harmonization of donors' approach and greater use of country systems and procedures along a coherent vision of expected results.
- **Manageable risks and adequate capacities.** Technical, Fiduciary, and Environmental and Social System Assessments have highlighted that risks are moderate and manageable, mainly due to (a) the small size of INDH-financed projects;⁴ (b) adequate systems and capacities for environmental and social management; (c) FM and procurement systems appropriate for PforR; (d) Government interest in increasing systems performance, including through the introduction of risk-mitigation measures.
- **Implementation support.** The Government is aware of lessons from Phase 1 and areas in need of improvement, and has a clear vision regarding the Initiative's future direction. Government welcomes the switch from Bank *supervision of compliance* to *implementation support* introduced under PforR, with a view to fostering improvement actions and delivering results, including through the mobilization of technical assistance.

19. The Government choice of a PforR operation is also based on the perceived limits of the IL based programmatic approach under Phase 1. Based on previous experience with investment lending operations, including for INDH, the Government has expressed the wish to see further alignment of Bank's operational policies with program systems to allow for a reduction of transaction costs induced by the adoption of Bank procedures. Government is also keen to benefit from the additional flexibility in disbursement through the PforR disbursement-linked indicators. The option of a development policy operation was rejected because the reform aspects of the program remain rather implicit and therefore difficult to leverage through policy lending.

20. The proposed program is one of the main lending vehicles to support the second pillar of the Country Partnership Strategy (CPS): "increasing access to and quality of service delivery for all". The program will contribute directly to the CPS Program Area 2.4, "Reducing vulnerability and social exclusion" and in particular to the following CPS outcomes: (a) improved access to basic infrastructure, social services and economic opportunities for poor and vulnerable groups, including

⁴ Under Phase 1, the average cost of an INDH subproject was US\$45,000 for the Rural subprogram; US\$120,000 for the Urban subprogram; and US\$160,000 for the Crosscutting subprogram. Income Generating Activities cost a maximum of US\$25,000 under the Rural and Urban subprograms and US\$60,000 under the cross-cutting subprograms.

women and youth; (b) provision of sustainable and improved quality of services to vulnerable groups; (c) better coordination of national policies and institutional mechanisms to reduce vulnerability; and (d) consolidation of participatory approaches to ensure that basic infrastructure and socio-economic services meet the basic needs of excluded and vulnerable groups, particularly women and youth. Results from INDH 1 have already met all CPS indicators. Support to INDH 2 also contributes to the CPS cross-cutting objective of improving governance. The relevance of Bank support to INDH as part of the CPS engagement is increased due to the Initiative's critical role in promoting voice and participation in development, in reaching out to disenfranchised and marginalized groups, and in tackling poverty and vulnerability. These development priorities are further emphasized in the Morocco CPS Progress Report (May 15, 2012).

21. Additionally the proposed operation is in line with the World Bank's Regional Update for the MENA Region, presented to the Board on February 28, 2012. The Update underlines the need to (a) improve governance through transparency and accountability measures; (b) create jobs, particularly for youth and the poor; and (c) increase social and economic inclusion of disadvantaged groups. The proposed operation directly responds to each of these strategic priorities.⁵

II. PROGRAM DESCRIPTION

A. Program Scope

INDH 2 description

22. INDH 2 (2012-2015) builds on the institutional architecture and approaches which were developed during INDH 1, but expands its scope. The number of targeted communes and neighborhoods nearly doubles. A new subprogram (Territorial Upgrading) addresses basic infrastructure and social service needs of the most isolated rural communes in mountainous areas. The institutional architecture is maintained with the addition of key sectors (Education, Health, Equipment and the *Office National de l'Eau et de l'Electricité* [National Office for Water and Electricity (ONEE)]) in the Steering Committee and the planned creation of regional INDH co-ordinations. INDH 2 cost increases to US\$2.1 billion⁶ to be implemented over a five-year period (January 2011 to December 2015). The INDH 2 comprises five subprograms:

- (a) **Rural subprogram** (US\$374 million). The objective is to improve living conditions of the target population in 702 targeted poor rural communes by financing activities in four categories: (i) small infrastructure construction or rehabilitation and provision of services; (ii) income-generating activities (IGA); (iii) social, cultural, and sporting activities; and (iv) capacity development activities.
- (b) **Urban subprogram** (US\$410 million). The objective is to fight social exclusion and improve living conditions and quality of life of the population in 532 target urban neighborhoods (*quartiers*). The range of activities financed is the same as for the rural subprogram.
- (c) **Cross-cutting subprogram** (US\$331 million). The objective is to support activities promoting the social and economic inclusion of poor and vulnerable persons in poor areas not targeted under other subprograms. The range of activities financed is the same as for the rural and urban subprograms. There is no overlap with the rural and urban subprograms, as target groups differ geographically as explained above. An important feature of the cross-cutting subprogram is that 40 percent of its budget is earmarked for financing income-generating activities through a competitive fund, thus making this subprogram the principal INDH 2 vehicle for income-generating activity financing. The cross-cutting subprogram also finances

⁵ Annex 4, section on Relationship to the CPS, shows in detail how the operation directly addresses three of the four MENA Regional Strategy Pillars: (a) strengthen governance, (b) enhance inclusion, and (c) create jobs.

⁶ Total INDH 2 cost includes the cost of each of the five sub-programs as well as US\$215 million to be allocated.

INDH 2 management, communication, capacity building, and technical support to activity sponsors.

- (d) ***Vulnerability (précarité) subprogram*** (US\$168 million). The objective is to improve the quality of life of vulnerable persons in 10 targeted categories (widows, disabled persons, orphans, street children, drug users, and HIV affected people).
- (e) ***Territorial upgrading subprogram*** (US\$602 million). The objective is to improve the living conditions of populations in mountainous and isolated areas through investments in basic infrastructure in 503 isolated rural communes.

The Program

23. The Program to be supported by the Bank (the Program) covers a major portion of INDH 2 as a whole, with boundaries defined in terms of (a) Program duration; (b) Geographic scope; (c) Support to three of the five INDH 2 subprograms:

- (a) ***Duration***. Program implementation period is from 2012 to 2015.
- (b) ***Geographic scope***. The Program will finance activities in the same geographical areas (the Program Area) covered by the precedent INDH Support Project (INDH 1). These include the regions of: Tanger-Tétouan, Taza-Al Hoceima-Taounate, Fes-Boulemane, Meknès-Tafilalet, Tadla-Azilal, Doukkala-Abda, Rabat-Sale-Zemmour-Zaër, Grand Casablanca, Oriental, Marrakech-Tensift-Al Haouz, Chaouia-Ouadigha, Gharb-Chrarda-Beni Hssen, and Souss-Massa-Draa, as well as the provinces of Guelmim, Assa-Zag, Tan-tan and Tata.
- (c) ***Sub-programs to be supported***. Based on the need identified at the completion of INDH 1 for increased selectivity of Bank support, the Program will include three of the five INDH 2 subprograms: the rural, urban, and cross-cutting subprograms. These three subprograms were selected for the following reasons: (i) they provide a sizable part of the INDH-financed basic service provision, in line with the proposed Program focus on enhancing access and quality in service provision; (ii) they provide most of the support to strengthening participation and demand-side governance, matching the proposed Program's focus on participatory local governance and social accountability; (iii) the cross-cutting subprogram contains a specific envelope dedicated to income-generating activities, the main mechanism for the focus on enhancing economic inclusion; and (iv) the cross-cutting subprogram also finances capacity building and systems improvement, in line with the focus on supporting capacity and systems development.

24. Sub-program activities to be supported by the Program will essentially replicate those under INDH 1. As such, the activities are not expected to require procurement contracts for goods, works, or services with values above the Bank Operational Procurement Review Committee (OPRC) thresholds or to be classified as Category A activities likely to entail significant and irreversible adverse impacts on the environment or people.⁷ Contract values will typically remain low in line with the nature of CDD-type activities to be financed. No activities are expected to require resettlement. For the activities to be supported by the Program, in-depth fiduciary, environmental and social, and risk assessments, as well as possible mitigation measures have been conducted. It is confirmed that risk levels are manageable and that appropriate screening and mitigation measures have been identified jointly with the client.

⁷ The same exclusion defined in the Environmental and Social Management Plan for INDH 1 shall continue to apply under the Program, namely that activities likely to have significant and/or irreversible impacts shall not be eligible for financing, including: (i) activities that may impact on natural habitats; (ii) activities that may impact physical cultural resources; (iii) activities that involve procurement of pesticides; and (iv) construction of dams higher than 15 meters.

25. Program target groups for INDH 2 are segments of poor and vulnerable populations. The target groups of the rural subprogram are (a) the populations of 702 rural communes, of which 403 were covered by INDH 1 (193 with a poverty rate above 20 percent; 151 with a poverty rate of 14-20 percent, and 59 with a poverty rate below 14 percent); and (b) 299 newly targeted communes with a poverty rate above 14 percent. The target groups of the urban subprogram are the populations of 508 urban neighborhoods (*quartiers*), of which 264 were covered under INDH 1. The neighborhoods were selected according to rates of unemployment, poverty, access to basic services, exclusion of women and young people, illiteracy, and housing conditions. For the cross-cutting subprogram, the target groups are poor and vulnerable populations nationwide in otherwise non-targeted areas, notably those organized in associations, cooperatives, or small private companies to create income-generating activities.

26. In order to enhance selectivity of Bank support and to better leverage its comparative advantages, the Government and the World Bank agreed that the Program would focus on four thematic areas: (a) Enhancing access and quality in service provision; (b) Strengthening participatory local governance and social accountability; (c) Enhancing economic inclusion; and (d) Supporting capacity and systems development. These thematic areas provide the structure of the Program Results Framework, including results indicators and disbursement-linked indicators (Annexes 2 and 3) and the Program Action Plan (Annex 8).

27. As outlined in the INDH 2 platform, improving social and economic inclusion of women and youth through participation in decision-making processes, as well as direct beneficiaries of projects, remains a strategic priority for INDH 2. The Program will support these objectives through specific result indicators and DLI monitoring gender and youth inclusion: (a) Percentage of girls who reside in the educational dormitories (*Dar Taliba*) graduating to the next grade (DLI-1); (b) percentage of women and youth (18–35 years old) in local governance bodies: CLDH and CPDH (DLI-5); (c) number of women benefitting from pre-natal care in Dar Al Oumouma (RI-5). Additionally, the Program performance in delivering economic opportunities to women and youth through income-generating activities will continue to be monitored during implementation support.

INDH 2 Costs			INDH 2 Financing			
<i>Sub-program</i>	<i>MAD million</i>	<i>US\$ million</i>	<i>Financing</i>	<i>MAD million</i>	<i>US\$ million</i>	<i>%</i>
1. Rural	3,144	374	1. Central Government ⁸	9,400	1,170	55%
2. Urban	3,461	410	2. Local Government	5,700	690	33%
3. Cross-cutting	2,800	331	3. Public agencies	1,000	120	6%
4. Vulnerability	1,400	168	4. Donors (Grants)	1,000	120	6%
5. Territorial Upgrading	5,000	602				
<i>Other categories</i>						
Support to INDH implementation	300	36				
Unallocated	995	179				
TOTAL INDH 2	17,100	2,100	Total	17,100	2,100	
Of which Program costs	9,405	1,150				

28. The total estimated cost of INDH 2 is MAD 17.1 billion (US\$2.1 billion), compared to INDH 1's initially estimated cost of US\$1.2 billion.⁹ Total Program costs (total cost of rural urban, and

⁸ The Bank's US\$300 million loan contributes to the Central Government financing share.

⁹ Budget allocation for INDH 1 was MAD 10 billion (US\$1.2 billion) over five years (2006-2010), with financing from central government (60%); local government (20%); and international donors (20%). World Bank financing was EUR 78.9 million (US\$110.5 million equivalent) over four years (2007-2010), accounted for under central government's share. Total support from 14 grant donors was US\$197 million, including an EU grant of 60 million Euros (US\$78 million), focused on the rural component. Other grant financing included

cross-cutting subprograms is US\$1.15 billion. INDH 2 contributions from central and local governments have been secured. Regarding external financing, only the World Bank (EURO 227 Million, US\$300 million equivalent) and the EU (Euros 20 million) currently have expressed a formal offer; but informal expressions have been received from several other donors, including Saudi Arabia and the Arab funds. Donor interest remains very high, and it is unlikely that problems would arise in securing or exceeding the level of donor financing planned. The Government considers the proposed Bank loan as an integral part of its own financing share and has selected a Variable Spread Loan with a final maturity of 29 years, including a grace period of 6 years.

B. Program Development Objective

29. The Program development objective (PDO) is to improve access to and/or use of enhanced participatory local governance mechanisms, basic infrastructure, social services, and economic opportunities in the Program Area.

C. Program Key Results and Disbursement Linked Indicators

30. Four key results indicators¹⁰ have been selected to measure success in achieving the program development objective:

- (a) Percentage of girls who reside in the educational dormitories (*Dar Taliba*) graduating to the next grade;
- (b) Percentage of the population provided with access to improved water supply in targeted rural communes by the Program;
- (c) Percentage of income-generating activities implemented by cooperatives, associations or companies (*sociétés de personnes*) which are viable two years after having benefited from financing under the Program; and
- (d) Percentage of the sampled population in the targeted areas stating that they have taken part in the participatory diagnostic or in the monitoring and evaluation of INDH 2 activities.

31. These indicators are designed to capture the fundamental goals reflected in the PDO by measuring the following:

- (a) Improvement in rural children's education, reflecting the need to improve the educational status of rural Morocco, particularly for girls, in terms of access to education;
- (b) Improvement in access to safe drinking water in rural areas, reflecting the need to improve a key determinant of health status;
- (c) Success of income-generating activities, reflecting not only the need to improve social services for the target population but also to increase household incomes through the growth of enterprises; and
- (d) Increased engagement of the target population in participatory programming and evaluation of benefits, reflecting the demand and CDD objective of the Program, thus contributing to mitigating elite capture risks.

Saudi Arabia (US\$50 million); France (US\$6.3 million); Italy (US\$6.3 million); Millennium Challenge Corporation (US\$9.3 million); Germany (US\$3.9 million); Belgium (US\$3.1 million); Japan (US\$4 million); China (US\$4.7 million); Arab Fund for Economic and Social Development (US\$25.3 million); Islamic Development Bank (US\$1.0 million); Equatorial Guinea (US\$1 million); and OPEC Fund (US\$0.3 million).

¹⁰ Under INDH communities decide on how to use the funds. The choice of results indicators took this into account by considering investment patterns of INDH 1 as benchmark. These show significant investments for education and safe water against other type of investments such as health and basic infrastructure.

32. The first two indicators (for education and access to water) link to the Millennium Development Goals.

33. Disbursement-linked indicators (Annex 3) are a subset of the results indicators (RIs) included in the Program Results Framework (Annex 2). They have been identified with the Government over the course of preparation to reflect specific areas of improvement made under the Program, particularly in terms of design, capacity, and systems. The Government is in full agreement on all disbursement-linked indicators currently proposed. These are:

- **DLI-1 (RI-1).** Percentage of girls who reside in the educational dormitories (*Dar Taliba*) graduating to the next grade;
- **DLI-2 (RI-2).** Percentage of the population provided with access to improved water supply in targeted rural communes by the Program;
- **DLI-3 (RI-3).** Percentage of income-generating activities implemented by cooperatives, associations or companies (*sociétés de personnes*) which are viable two years after having benefited from financing under the Program;
- **DLI-4 (RI-6).** Percentage of infrastructure projects financed under the Program judged by the auditors as conforming to technical specifications, after final commissioning;
- **DLI-5 (RI-8).** **#5.1:** Percentage of women in the following local governance bodies: CLDH and CPDH; and **#5.2:** Percentage of youth (18–35 years old) in the following local governance bodies: CLDH and CPDH;
- **DLI-6 (RI-9).** Percentage of projects under the rural and urban subprograms of the Program contracted by local government (communes and *Conseil d'Arrondissement*), associations, or cooperatives;
- **DLI-7 (RI-14).** Percentage of provinces and prefectures in the Program Area which have put in place a plan of action to address audit recommendations;
- **DLI-8 (RI-15).** Percentage of priority audit recommendations included in action plans which are implemented; and
- **DLI-9 (RI-17).** **#9.1:** Preparation of Environmental and Social Guide related to the Program; and **#9.2:** Percentage of key actors (DAS and local facilitation teams) trained in the use of such guide on environmental and social safeguards.

Lessons Learned and Reflected in the Program Design

34. INDH 1 showed that new participatory approaches could be implemented in Morocco, and that large numbers of activities could be launched in a very short period. The INDH 1 supervision process, the evaluation with the Government at completion of INDH 1, and workshop discussions with stakeholders as part of the Intensive Learning Implementation Completion Report (ILICR) process, also highlighted areas requiring performance improvements. Combined with global experience, this led to the identification of lessons to be reflected in the design of INDH 2. These lessons directly informed the actions included in the Program Action Plan (Annex 8) supported by the proposed operation, many of them to be supported by Bank assistance (Annex 9) and tracked by results indicators (Annex 2) and DLIs (Annex 3).

35. Under INDH 1, an initial focus on physical infrastructure raised concerns about operation and maintenance (O&M) costs. INDH 2 will provide more focus on sustainability through the inclusion of criteria requiring detailed O&M plans at activity selection, the application of more stringent norms and standards to construction works, and the establishment of systematic delegation of contract management. The Bank will help develop the necessary criteria and procedures (see Annex 8, Program Action Plan, and Annex 9, Implementation Support Plan).

36. Some INDH 1 activities were *poorly coordinated with the programs of line ministries*, leading to gaps or overlaps in investment programs or shortfalls in O&M of infrastructure and services. Under INDH 2, the issue is addressed through the general shift toward decentralization, the

creation of coordinating units at the regional level, and the identification of modalities to improve coordination between INDH and each line ministry (PAP-1, Annex 8).

37. While the tripartite governance bodies' set-up proved generally effective, there was scope to *improve accountability and improve transparency*. This lesson is incorporated into INDH 2 by a range of provisions, including new conflict of interest rules, greater transparency, generalization of social accountability tools (grievance redress mechanisms, and participatory M&E), and strengthened internal control and external checks (see PAP-3, PAP-4, PAP-8 in Annex 8). The Bank will provide technical assistance to support all these improvements.

38. With a view to improving the *results of income-generating activities* under INDH 2, a dedicated subcomponent has been included under the cross-cutting subprogram, which will provide improved technical assistance and continued business management support to activity sponsors. In addition, global experience showed the possibility of opening a second window to finance community-managed, revenue-generating services. The Bank will provide support to updating the Operational Manual for income-generating activities (PAP-7), which would include clearer criteria for appraising, approving, and monitoring performance of income-generating activities, including through increased responsibilities and expertise within provincial support units in order to strengthen the implementation of the income-generating activities component (PAP-6).

39. During INDH 1, the *M&E system* was established, including a management information system (MIS), monitoring by the national and provincial levels, and an impact evaluation. There were initial challenges of ensuring adequate reporting and data analysis; and throughout INDH 1, monitoring focused on inputs rather than on outputs or outcomes. The Program supports improvements in INDH 2, including an improved and more transparent management information system, more complete reporting, and strengthened participatory monitoring.

40. *Targeting criteria* under INDH 1 could have been refined to improve objectivity in selection, and to match available resources to the size of the target population. The Program supports the refinement of the targeting approach during INDH 2, including through dedicated analysis and technical assistance (PAP-9).

41. Stark disparities in the *capacities* of INDH local governance bodies and support units signal the need for continued capacity building through a broad range of measures. The rollout of INDH 2 to new communes and neighborhoods will be based on coherent training plans (PAP-10).

42. Finally, the design of INDH 2 also benefits from lessons learned from global experience with CDD operations as captured in two recent draft World Bank reports that have looked at the accumulated evidence on the impacts of such programs.¹¹ As these reports highlight, the success of CDD programs in delivering upon their intended development objectives has depended on several factors, including (a) establishing a more participatory and inclusive model of service delivery; (b) provision of high-quality and adequate facilitation and technical assistance; (c) capacity building for communities; (d) utilization of poverty maps to target resources to poor areas; (e) block grants of sufficient size over several years, which are used for economically productive purposes; and (f) flexibility in project design and implementation with an approach to “growth in learning” over the medium and longer term. Most of these elements have already been noted above in lessons from INDH 1 experience and will be the subject of improvements during Program implementation. Specifically regarding social accountability measures, which global experience suggests have been key in improving both resource sustainability and infrastructure quality, and the provisions aimed at piloting these under the Program will be key. The proposed improvements with regards to the M&E

¹¹ G. Mansuri, and V. Rao, *Localizing Development – Does Participation Work?*, World Bank Policy Research Report (forthcoming); and S. Wong, *What Have Been the Impacts of World Bank CDD Programs? CDD Impact Evaluation Review and Operational and Research Implications* (Social Development Department, World Bank, forthcoming).

system also addresses the global finding that these systems, although critical, are often under-developed in CDD programs as noted in both reports.

43. Table 2.1 summarizes the way key issues identified in the PforR technical, environmental and social, and fiduciary assessments are addressed under the Program, including through its specific components (Results Framework, Disbursement Linked Indicators, Program Action Plan, and Implementation Support Plan).

Table 2.1. Summary of Key Issues and Related Actions

Recommendations	Action	Measure
Improve results orientation of subprojects	Impacts of investments in key INDH 2 sectors is monitored	DLI-1, 2, 3 ISP-1
Increase sustainability of Program investments	Arrangements for O&M are improved	PAP-1 ISP-2
Enhance beneficiaries' involvement in, and responsibility for, subproject implementation	Delegated operation of INDH physical assets is made mandatory	DLI-6 PAP-3, 4 ISP-3
Fully entrust decision making on planning and investments decision to local governance bodies	Responsibility for validation of participatory development plans is clarified	PAP-3 ISP-1
Enhance accountability of INDH 2 Governance bodies vis-à-vis beneficiaries	Community-level participatory M&E tools are introduced	PAP-4
Strengthen beneficiaries' participation and implementation capacities	The arrangements for the recruitment and operation of local level support teams are revised.	DLI-5, 6 PAP-10 ISP-3
Improve technical quality of Program investments	Projects' adherence to technical standards is consistently monitored	DLI-4
Improve the performance of income-generating activities	Income-generating activities are subject to improved selection criteria aimed at increasing their viability	DLI-3 PAP-6 ISP-4
Improve pro-poor targeting	Revision of resource allocation criteria to better reflect poverty distribution	PAP-9 ISP-4
Improve the performance of environmental and social risks management under the Program	Risk assessment and mitigation tools are improved, a capacity building program is carried out and oversight responsibilities are clarified	DLI-9 PAP-11 ISP-7
Enhance fiduciary management	The control and audit framework is strengthened; provincial level fiduciary capacities are reinforced; the Anti-Corruption Guidelines (ACGs) are applied	DLI-7, 8 PAP-10, 12 ISP-6

III. PROGRAM IMPLEMENTATION

A. Institutional and Implementation Arrangements

INDH Institutional Architecture

44. The Program will be implemented through the same institutional architecture used under INDH 1. INDH institutional architecture links governance and coordination functions at central and local level. The INDH *Strategic Committee*, chaired by the Head of Government, establishes the INDH strategic framework and ensures a coordinated approach, and the *Steering Committee*, chaired by the Minister of Interior, oversees implementation progress. Under INDH 2, representatives from Ministries of Education, Health, Equipment and the National Office of Electricity (ONE) serve on the steering committee. The Ministry of Interior, through its INDH coordination unit (*Coordination Nationale*), is responsible for program coordination and results. The Coordination Nationale provides technical support, oversees INDH procurement and financial management, and monitors and reports on implementation. It is expected that during INDH 2, the Government will set up regional INDH coordination units, in line with the country's regionalization agenda.

45. *Governance committees* at the local, provincial, and regional levels are responsible for Program implementation. At each level, the committees comprise elected representatives of local government, staff from public agencies, and representatives of civil society. A notable feature in INDH 1 was participation of women (17 percent) and young people (12 percent) in INDH governance committees. Under INDH 1, these governance committees numbered more than 700; and under INDH 2, further committees will be set up in the expanded target area.

46. Technical support is provided by the provincial-level support teams, *Division d'Action Social* (DAS). These teams are responsible for rolling out the program in each province and accompanying local-level actors. At the local (*commune/quartier*) level, INDH 1 was supported by almost 700 local facilitation teams (EAC/Q), composed of 2,500 facilitators (16 percent women), tasked with supporting the participatory process and the identification and selection of activities at the community level. Under INDH 2, additional teams will be set up in the expanded target area. It is expected that the percentage of women facilitators will increase.

47. Independent of the INDH structure is the National Observatory for Human Development, *Observatoire Nationale de Développement Humain* (ONDH), responsible for various studies, including the INDH impact evaluation.

Planning, Targeting and Programming

48. Procedures for the three INDH 2 subprograms (rural, urban, cross-cutting) to be supported by the PforR operation are set out in four Government operational manuals, one for each subprogram, and one for income-generating activities, which are specific activities financed under each of the three subprograms. The Government developed the four operational manuals under INDH 1 with Bank support. The operations manuals have provided adequate support to the implementation of the rural, urban and cross-cutting subprograms under Phase 1, including with respect to income-generating activities. The Government decided to continue using the four manuals under INDH 2, reflecting as needed any Program-level improvements that will result from the implementation of the Program Action Plan.

49. The budget framework for the five subprograms during implementation (2011-2015) was included in the INDH 2 proposal presented to the King in June 2011. Allocations to the rural and urban subprograms are made on the basis of poverty rates and socio-economic exclusion criteria. Procedures for each subprogram are set out in the operational manuals. Programming of INDH investments differs according to the different subprograms. The rural and urban subprograms follow a participatory approach involving local stakeholders and beneficiaries and the preparation of a five-year participatory development plan. The local-level governance committee then presents the plan to the provincial-level governance committee for approval. Under the cross-cutting subprogram, the provincial committee allocates INDH financing to sponsors through a competitive selection process. Eligible sponsors are rural and urban communes, associations, cooperatives, and professional organizations. The cross-cutting subprogram finances also some key activities (e.g., capacity building, communication, M&E, support to national, provincial, and local technical support units).

Activity Design and Execution

50. INDH involves beneficiaries at each stage of the activity cycle. In the rural and urban subprograms, activity design is decentralized to the level of communes and neighborhoods, and sponsors normally carry out execution. Under the cross-cutting subprogram, sponsors — typically NGOs, cooperatives, associations, and municipalities — submit proposals directly to the provincial-level authorities. Most activities are small in size (averaging US\$50,000 under INDH 1).

Fiduciary and Environmental and Social Management

51. The Head of Government, as the authorizing officer (*ordonnateur*) of the INDH special appropriation account, has overall responsibility for financial management, allocating INDH funds to sub-authorizing officers (*sous-ordonnateurs*) and Prefectural Governors, based on an annual disbursement schedule planned in the budgetary framework of INDH 2. These funds are then committed and disbursed according to applicable public expenditure regulations under partnership agreements with activity sponsors, or direct payments by sub-authorizing officers to contractors. Procurement obeys to the national public procurement rules and INDH guidelines set out in the procurement fiduciary guidelines (RI # 13 and 16 for compliance with procedures). These guidelines will be updated for INDH 2 in consultation with the Bank to improve efficiency and mitigate F&C risks. Technical oversight of procurement is the responsibility of the Ministry of Finance (TGR) in conformity with laws and regulations in effect including contracts already concluded for INDH 2. The terms of reference of the auditors (IGAT (Ministry of Interior) and IGF (Ministry of Economy and Finance) used under INDH 1, will be revised to include the procurement activities and procedures and the anticorruption guidelines (ACGs). These audits will cover the annual audit of the Program Financial Statements, procurement activities, and two performance audits covering respectively the periods of 2012-2013 and 2014-2015. These reports will be published under INDH website. The individual audit reports for provinces and prefectures as well as the management letters will continue to be transmitted to managers as it has been done during INDH 1. In addition, under INDH 2 a new permanent 'Fiduciary Coordination Committee' will be created to substitute the "Fiduciary Innovation Team" under INDH 1. This committee is composed of Government representatives (INDH, CN, budget directorate, TGR, IGF and IGAT, or any other competent resources). Among its tasks, this committee will: (i) review guidance tools on bidding documents and contract templates, (ii) design a fiduciary training program for sponsors and the governance and support teams, and (iii) elaborate a user friendly Fiduciary Guide supporting the application of rules and guidelines.

52. Strengthened *grievance redress systems*¹² and more effective procurement reporting in the management information system will also increase efficiency and strengthen risk management for fraud and corruption. The Program reinforces the overall audit framework and follow-up through specific disbursement-linked indicators (DLI-7, DLI-8). In addition, the Government is committed to abide by the provisions of the PforR Anti-Corruption Guidelines.

53. Regarding *environmental and social (E&S) management*, INDH governance committees, assisted by the provincial support teams (Division d'Action Social) and the Coordination Nationale, are responsible for ensuring compliance with E&S requirements as per the provisions contained in the operation manuals (for details on environmental and social management issues under the Program, please see section IV C, and Annex 6).

Monitoring and Evaluation

54. During Phase 1, INDH progressively built up its M&E system. In the rural and urban subprograms, commune- and neighborhood-level committees help the provincial support teams (*Division d'Action Sociale* - DAS) collect data on physical and financial implementation. Under the cross-cutting subprogram, the DAS monitor activity implementation directly, reporting to the provincial-level committee, and issuing a semi-annual report. The provincial support units collate all the information at the provincial level and input the data into an intranet-based management information system. The management information system allows for detailed reporting of expenditure and physical outputs.

55. At the national level, the Coordination Nationale M&E Unit consolidates data and produces M&E reports, drawing on the management information system and on special surveys and evaluation

¹² A full description of grievance redress systems applying to and within INDH 2 is provided in the Technical Assessment and summarized in Annex 1.

studies which include monitoring and evaluation of the indicators in the Program Results Framework (Annex 2). Under INDH 2, upgrading of the management information system will factor in specific indicators to track progress and strengthen detection and mitigation of fiduciary risks, such as accessible procurement reporting. INDH external partners, with Bank coordination, also play a key monitoring function, carrying out harmonized supervision missions and extensive field visits, and providing detailed feedback. In particular, EU support includes an external financial and performance audit, which will be applied to INDH 2. The EU will also continue its focus on strengthening INDH monitoring capacity as part of its support to Phase 2.

56. ONDH is responsible for independent impact evaluation, and will continue to carry out this function during INDH 2. During INDH 1, ONDH carried out an impact evaluation (“baseline survey”) with World Bank support. Completed in 2009, with the follow-up in 2011, the survey covered 3,570 households in 121 rural communes (61 treatment and 60 control) and 114 urban quarters (57 treatment and 57 control). Since it was not possible to randomize, a regression discontinuity, quasi-experimental approach was used to identify control groups. The impact evaluation results are due out in July 2012. For INDH 2, ONDH is exploring the possibility of implementing an independent quasi-experimental survey as with INDH 1. A second possibility is for ONDH to piggyback on an annual 6,000-household panel survey by over-sampling in INDH 2 areas.

57. During implementation, a Program Progress Monitoring Report will be submitted annually to the Bank. The outline of this Report will include financial statements, physical realizations, environmental and social management data and information,¹³ progress on results indicators, achievement of disbursement-linked indicators, reporting on grievances, and allegations of fraud and corruption.

Role of Partners

58. INDH 1 developed a number of working partnerships. Various line ministries and government agencies provide institutional and technical support. INDH has formal partnership arrangements with line ministries for technical support, the Social Development Agency, *Agence de Développement Social* (ADS) for local planning and capacity building in community-driven development, with the National Welfare Agency (*Entraide Nationale*) for the vulnerability subprogram and with the National Federation of Micro-credit Associations in order to assist the micro-credit associations to cover the rural areas and provide matching grants to the poor. INDH also has partnership arrangements with more than 6,000 NGOs to support the participatory process and to implement and carry out activities. These partnerships will continue under INDH 2, thus capitalizing on the social mobilization skills of the Agence de Développement Social and certain NGOs, and including NGOs in capacity building under the Program. Improvements will be made to better define the cooperation and synergy with line ministries by the conclusion of formal cooperation agreements and by strengthened coordination, particularly at regional level.

59. INDH 1 received financing from 14 donor partners¹⁴. Donor harmonization during INDH 1 benefited from joint government/donor review missions, notably Bank-led supervision in which the EU also played an important role. Donors also provided direct technical assistance, such as the EU on M&E, sub-project sustainability and income-generating activities, and the Millennium Challenge Corporation on income-generating activities. The role of the World Bank as a key technical partner will continue and other donor partnerships are expected, including with the EU on technical assistance and external financial and performance audit.

¹³ These will include a summary of Environmental and Social Screening tools and mitigation measures applied to projects and activities financed and implemented under the INDH 2.

¹⁴ In addition to the World Bank, INDH 1 was supported by multilateral donors (the EU, UNDP, the Islamic Development Bank, OPEP Fund, the Arab Fund for Social and Economic Development) and bilateral donors (France, Belgium, China, Italy, Germany, Spain, Japan, Saudi Arabia).

B. Results Monitoring and Evaluation

60. The Coordination Nationale M&E Unit will be responsible for consolidating and reporting monitoring data on the results indicators (Annex 2). For most indicators, the quantitative data will be drawn from the management information system or audit reports. The Government is currently upgrading the INDH management information system. Some specific system improvements for INDH 2 are to (a) streamline information collection and reporting; (b) add several important fields (e.g., unit costs, utilization of and access to services, results of supervision, contractual and procurement information, including selected results indicators, environmental and social data and information); (c) improve access by local MIS users at all times; (d) make easier report generation for regional and provincial levels; (e) improve the clarity and analysis of INDH 2 reports in terms of investment trends and issues; and (f) make the activity database and province-specific activity information readily available on the intranet for greater utilization. Improvements to the M&E system are included as an indicator in the Results Framework (RI-12).

C. Disbursement Arrangements and Verification Protocols

61. Disbursement arrangements under the operation have been structured to foster Program performance improvements. No disbursements will be made if Program performance under any of the disbursement-linked indicators is below baseline levels. Disbursements will be proportionate to progress made between the baseline levels and the DLI target levels. Should Program performance remain at baseline level throughout the Program duration, only less than 10 percent of the loan amount would be disbursed. This means that over 90 percent of the loan proceeds are earmarked to go towards fostering performance improvements. Disbursements will be made based on achievement of DLI results, after verification by the Bank. All disbursement-linked indicators will be scalable (i.e., proportional to the results achieved). The disbursement-linked indicators and related disbursement formula are detailed in Annex 3. The DLI baselines are provided in Annex 2.

62. Advance financing will be available to the Government, up to a ceiling of EURO 56.75 million (US\$ 75 million equivalent), or 24.9% of the loan amount. The Government has expressed its interest to avail itself of advances to be disbursed prior to the achievement of specific disbursement-linked indicators. Indeed, in order to ensure achievement of results, INDH 2 will have to increase expenditures in certain areas such as building and equipping additional residential facilities (*Dar Taliba*) for students. DLI 1 (2013 value) and DLI 5 (2012 value) have already initially been selected for advance financing, for a total of US\$25 million (Annex 3, Table A3.3). Advance financing is expected to be made available against other DLIs, following agreement with the Bank. The Bank will recover any advances from disbursements due when the respective indicators are actually achieved.

63. The *verification protocols* were discussed during preparation. Proposed verification modalities vary according to the nature of the disbursement-linked indicators. The primary information base will be the INDH management information system and the reports of the audit agencies (IGAT/IGF). It is expected that an external firm to be contracted by the World Bank based on Terms of Reference (ToR) agreed with the INDH National Coordination will make an independent verification of 6 of the 9 disbursement-linked indicators. IGAT/IGF will verify the remaining 3 indicators (related to technical quality of infrastructure works and follow up on audit recommendations). The World Bank will further review the evidential base for disbursement-linked indicators during implementation support. See Annex 3 for the disbursement-linked indicators and verification protocols.

IV. ASSESSMENT SUMMARIES

A. Technical

64. INDH 1 was at the heart of Morocco's movement for poverty reduction, improved governance, inclusion, and equity. The Initiative was conceived in 2005 within Government's overall effort to improve the conditions of poor and vulnerable groups by establishing a bottom-up approach and more inclusive mode of local governance, empowering the poor and the vulnerable, and improving their standard of living. The King and the new Government confirm those priorities; and following the success of INDH 1 in achieving its goals, INDH has become even more relevant today. The socio-political pressures intensifying since the spring of 2011 have sharpened this *strategic relevance*.

65. Overall, INDH 1 showed the *technical soundness* of the proposed Program. The INDH 2 approach to *targeting* is sound and builds appropriately on INDH 1 and its lessons. Close attention has been paid to the income-generating component, reflecting the lessons of INDH 1, ensuring a pro-poor approach, sustained support to sponsors to strengthen viability, and efficient delivery following a single approach across three subprograms (see Annex 5, *Income-Generating Activities* for details). Some further refinements will increase the poverty reduction impact of the overall Program, notably revision of criteria for the rural subprogram to better align resources with the number of poor per commune (see PAP-9, Annex 8). Overall, the INDH 2 *planning and programming process* builds appropriately on the largely successful implementation experience under INDH 1. Limitations to the power of the provincial level to alter community proposals have been agreed (see PAP-3), just as the measures to seek a better integration of INDH programs with those of the local authority and of line ministries (see PAP-1). INDH governance, audit and grievance redress mechanisms provide additional control and recourse for the respect of these (and all) Program procedures.

66. Regarding the *participatory process*, INDH 1 demonstrated that key features of best practice CDD projects can be successfully implemented in Morocco, including participatory bottom-up activity identification and programming, integration of local associations and NGOs into the process, and inclusive and accountable representative local governance bodies. INDH 2 will be able to capitalize on best practice participatory processes developed during INDH 1. An indicator will track overall satisfaction of the target population with the participatory programming process and its results (RI-7). One area where INDH 1 indicated scope for improvement is in *accountability* since local stakeholders may lack information or feedback channels. Under INDH 2, participatory M&E, grievance redress mechanisms, and other participatory M&E tools will be introduced to enhance the transparency of the process, increase accountability, and mitigate leakage risks (PAP-4, PAP-8, RI-4).

67. For the cross-cutting subprogram, which targets poor groups nationwide but does not pass through a bottom-up participatory planning process, eligibility criteria and grievance and control mechanisms are designed to reduce patronage risks.

68. Under INDH 1, *implementation* worked well overall, and support provided to sponsors generally proved adequate. The program management structure and decision-making framework have shown they can work together constructively to complete activities. Clear structures of accountability exist within and across the various agencies. Capacity constraints in contracting at the commune level have generally been addressed; and the selection of contractors, as well as contract execution and supervision, has generally been on time and within budget. The decentralized nature of execution imposed some moderate constraints in terms of technical quality. It is not clear whether there were significant efficiency-derived cost savings. However, these shortcomings were outweighed by the gains from meeting program objectives of empowering activity sponsors at the community level. Updating the operational manual for income-generating activities is a specific priority (see PAP-7). Indicators will track key results of the income-generating activities activity (RI-3, DLI-3, RI-10, RI-11).

69. Further improvements in implementation are needed in two specific areas. First, despite the goal of local execution, many activities under INDH 1 were still implemented by sector Ministries on behalf of communes. Under INDH 2, in order to strengthen community ownership and cost-effectiveness, execution is to be systematically delegated to local sponsors, especially communes (RI-9 and DLI-6). Second, clearer guidance on technical standards is needed in order to ensure quality and value for money and to mitigate risks of irregularities. Under INDH 2, periodic technical audits will monitor quality, and an indicator will track activity quality and sustainability (RI-6 and DLI-4).

70. The setup and effective operation of *institutional arrangements* were key achievements under INDH 1. Rapidly developed procedures and institutional capacity allowed a full-scale rollout in spite of complex issues. The operation manuals ensured consistency in approach and inherent tensions between central coordination and decentralized empowerment proved largely positive. As this structure has overall proved effective, it will be maintained under INDH 2 and extended to newly targeted communes and neighborhoods.

71. The tripartite composition of the hierarchy of *governance committees* effectively promoted inclusion, transparency, and sound governance. The participation of women and youth in these committees was a notable success in INDH 1; this is targeted to increase further under INDH 2 (to be tracked by RI-8 and DLI-5). INDH allows eligibility of a wide range of formal and non-formal civil society organizations, so the risk of exclusion is limited. New rules introduced under the Program in relation to membership of INDH governance bodies will further reduce risks of conflict of interest.

72. Key capacities were built into *support agencies* during Phase 1. The Coordination Nationale has the ability to oversee implementation effectively, although the environmental and social and M&E functions need strengthening. The provincial support units are generally capable but also need strengthening in environmental, social, and income-generating activities (PAP-6, PAP-11). Local support teams are often effective, but capacity and institutional limitations do exist. They will be strengthened under the Program (PAP-5).

73. *Monitoring and evaluating* improved during INDH 1 but there is scope for further strengthening. Indicators will track overall improvement of the M&E system (RI-12). The *Results Framework* links results to outcomes in the Program development objectives, and the indicators capture the goals of improving the quality of life for the target population as well as improvements in inclusiveness, accountability, and transparency in local participatory governance.

74. *Capacity building* was a success under INDH 1, with 105,000 persons trained. However, disparities in the capacities of INDH governance bodies and support units signal the need for continued capacity-building activities within a coherent capacity-building strategy (PAP-6, PAP-10, PAP-11, RI-17, DLI-9). As during Phase 1, the Bank will continue to provide technical assistance, including through the World Bank Institute.

75. *Sustainability*. During INDH 1, the sheer number of activities (22,000), their geographical dispersion, and the wide range of sponsors posed a considerable challenge for post-completion operations and therefore the *sustainability* of benefits.

76. According to the Commune Charter (*Charte Communale*), communes have a direct or transferred maintenance responsibility for the infrastructure and equipments they own, as well as the operation responsibility for the provision of public services such as solid waste management, water supply, sanitation, and electricity. Particularly in large cities, communes have delegated the operation and maintenance of the latter three to public or private professional operators financed by user fees. Other O&M costs are funded from the general communal income, constituted of local taxes and fees such as the property tax, and a share of the 30 percent of national VAT that is redistributed to local governments. The latter transfers an amount typically between one-third and one-half of total municipal income (and up to 90-100 percent for the smallest poorest communes), and they contribute to keep communal budgets in equilibrium.

77. Following concerns over asset maintenance and activity sustainability raised in ONDH evaluations of INDH 1, Government is fully committed to ensuring the sustainability of INDH-financed subprojects. Particularly toward the end of Phase 1, INDH established partnerships with line ministries (such as the Ministry of Youth and Sports and the Ministry of Education) and agencies (such as the Entraide Nationale) aimed to clarifying the responsibility for operations and maintenance of INDH-financed physical infrastructure. This is expected to continue and be reinforced under INDH 2. Additionally, the Program introduces specific actions in the Program Action Plan (PAP-1, PAP-2; see Annex 8), which will strengthen the quality of activity selection and arrangements for operations and management in order to ensure sustainability of assets.

78. Regarding the **economic evaluation**, there is a sound *rationale for public provision* as most Program investments are in public goods. Support through income-generating activities to private goods is justified by the evident market failure in enabling poor people to launch new businesses. There is no negative substitution effect of public financing. Regarding the Program's *economic impact*, a study of a small sample of INDH 1 activities identified positive results overall. Infrastructure activities evaluated had an average internal rates return of 12 percent, although results from income-generating activities were mixed, underscoring the need for an overhaul of the approach. As clarified above, INDH 2 incorporates measures to improve the performance and sustainability of investments and hence enhance economic returns.

79. Typically, CDD approaches are expected to improve *cost effectiveness*, but under INDH 1, the evidence was in some cases, mixed with variable quality of infrastructure and cost savings probably more attributable to lower specifications than to efficiency gains. Under INDH 2 it is proposed to increase the cost effectiveness of investments through measures incorporated in the operations manuals, including improved selection criteria, and audit and inspection arrangements to follow up on activity quality and sustainability. Regarding *welfare gains*, the results of INDH 1 show that benefits reached the actual intended beneficiaries: half the targeted households participated in activity identification, and three-quarters showed an increased use of services or infrastructure from INDH activities. Mechanisms for improving welfare gains and their sustainability are being built into INDH 2, to be tracked by the annual panel survey. An impact evaluation study on INDH 1 will be published in the second half of 2012.

B. Fiduciary

80. A fiduciary assessment was conducted covering the Program institutional framework, fiduciary management capacity, and implementation performance.¹⁵ The assessment was based on the knowledge of Moroccan public procurement and financial management systems developed through previous Bank diagnostics¹⁶. Morocco has launched an ambitious PFM reform program, which is leading to improved alignment of the Moroccan public procurement and financial management system with international practices. Overall, public procurement and financial management systems are considered as having experienced a very positive development over the past decade. Some remaining issues identified that could affect the Program include (a) lack of an independent procurement appeals system and clear process for handling complaints; (b) quality and timeliness of annual audited financial statements; (c) effectiveness of internal audit function and follow-up of audit recommendations; (d) heavy reliance on management information systems for DLI verification protocol; (e) low capacity of procurement staff in small and remote procuring entities, which leads to low-quality technical specifications, terms of reference, and bidding documents; (f) lack of thoroughness/rigor of bid evaluation; and (g) questionable quality (at time) of works, goods, or services delivered. Government is taking action on these weaknesses through the ongoing public procurement reform and through new laws and decrees, as well as standard documents currently under preparation. In the meantime, specific measures to deal with these issues in relation to INDH are built into the Program.

¹⁵ This assessment is done according to draft Pfor Financing Guidance Notes (dated January 3, 2012).

¹⁶ 2010 Use of Country Services Pilot Review Report, 2009 PEFA, and 2007 CFAA.

81. The evaluation of national systems, the analysis of fiduciary performance under INDH 1, as well as the review of a sample of 20 executing agencies (provinces, prefectures, communes) highlighted the issues and related measures presented in Table 4.1.

Table 4.1. Fiduciary issues specific to the Program

<i>Topic</i>	<i>Issue</i>	<i>Mitigation or Resolution</i>
<i>Planning and budgeting</i>	In certain cases, the time spent to establish credits in favor of walis (regions) and governors (provinces and prefectures) has delayed subproject implementation.	Since 2012, the authorizing officer has delegated the entirety of the annual credits to the sub-authorizing officers (regions and provinces) at the beginning of each year.
<i>Bidding and contracting</i>	Risks are related to: (i) quality of technical specifications and terms of reference; (ii) quality of bidding documents; (iii) rigor of bid evaluation; and (iv) quality of works, goods, or services delivered. The procedures and control framework are adequate, but the risks persist because of the large number of contracts and sponsors with low capacity, dispersed over more than 1,200 locations.	Mitigation measures comprise: (i) Elaboration of a fiduciary guide including procurement guidance tools on bidding documents and contract templates and systematic inclusion of a technical support clause in partnership agreements ; (ii) expanded audit TORs to include in detail procurement activities (iv) fiduciary training program and systemic assessment of sponsors capacity; (v) strengthened grievance processing procedures; and (vii) more effective procurement reporting in the MIS with KFSPI. (PAP#8, #10, #12; RI 13 and 16).
<i>Program reporting</i>	Current MIS does not provide sufficient information on procurement matters.	Ongoing MIS upgrade will allow systematic reporting of procurement data and contract execution, through the main Key Fiduciary Statistic Performance Indicators (KFSPI), (RI 12)
<i>Procurement oversight, technical supervision and internal control and audit</i>	Procurement oversight is carried out periodically by the Ministry of Finance, for some subprojects, however there is a need to support the subprojects beneficiaries Technical supervision of works contracts: Technical studies and technical supervision by external services are not used systematically for works contracts. Internal Audit: INDH-dedicated Provincial Internal Auditors are operating only in some provinces, and don't always have terms of reference, and in sufficient capacity to complete their mission.	The Program includes the development of standard tools and documents and a capacity-building program (PAP-12). New formal technical support clause added to sponsors partnership agreements (RI-13). The verification of technical standards is ensured by IGAT-IGF through revised Program audits ToRs (RI-6) Extend internal auditors to all provinces, build their capacity and include in their terms of reference set-up action plans to implement recommendations stemming from IGAT-IGF audits (PAP-10; RI-14/DLI-7; RI-15, RI-16).
<i>Program audit</i>	<i>Program audit</i> is carried out by IGAT and IGF. These institutions are not independent agencies vis-à-vis the executive but have proven to be credible. Audit reports are candid and provide reasonable assurance of the use of funds by executing agencies. However, follow-up of audit recommendations needs to be improved.	The terms of references of the joint audit IGAT/IGF will be reviewed in consultation with CN and the Bank. The implementation of audit recommendations will be prioritized (DLI # 7, 8)

82. Overall reforms and specific mitigation measures of fiduciary risks included in the program, procedures and control framework are overall adequate. However, risks inherently stem from the large number of sponsor agencies, and will persist with several hundreds of new agencies added under

INDH 2, due to their lack of financial management and procurement expertise. As, The assessment of fiduciary risk at this stage remains substantial due to the fact that the impact of mitigation measures will only have an impact during implementation of the Program.

83. The supreme audit institution, Court of Accounts (*Cour des comptes* - CDC), and the Regional Courts of Account are the main institutions in charge of external audit within the Morocco PFM system. The scope of their mission was broadened to include management audit and to ensure the control of accounts and management of the territorial communities (*Collectivites territoriales*). Statutory financial audits conducted by the CDC are satisfactory with respect to the application of international standards and the scope of their mission. Even though the CDC has indicated that it cannot express a separate opinion on the Program or any other Bank-financed project but also that INDH falls under its scope and could be audited in the context of its work program. The Bank will continue country-level dialogue with the Court of Accounts to explore its potential involvement in the external audit oversight of Bank-financed activities with a view to improving the overall assurance framework for the Bank's Morocco portfolio.

84. IGAT and IGF were designed by the Government to conduct external audits for INDH. An audit charter, signed by these two entities, defines the objectives and methods of the joint audit that covers financial management and procurement. IGAT and IGF are not independent agencies vis-à-vis the executive but have proven their credibility and have been accepted by the Bank. The same arrangement will be maintained under the Program. Audit reports candidly identify the main shortcomings in the implementation of INDH and make relevant recommendations. Under INDH 1, audit opinions issued in 2010 for 83 provinces were unqualified for 74 provinces, qualified for 8, and adverse for 1. Qualified opinions were mainly due to ineligibility of projects, the adverse opinion was motivated by a conflict of interest between CPDH, CLDH, and a beneficiary in one prefecture. However, the synergy with the provincial internal audit teams, and follow-up and monitoring of audit recommendations, were not fully effective during INDH 1. In order to improve the audit framework under the Program, Provincial Action Plans will be developed for IGF/IGAT audits (DLI-7), and indicators (RI-15/DLI-8) will track follow-up and implementation of audit recommendations. The independence of the external audit function will be improved by greater reliance on EU's external audit and potentially by the closer involvement of the Court of Accounts. Overall, the assessment of the expenditure framework and the fiduciary arrangements provide reasonable assurance regarding oversight arrangements under the Program-for-Results operation.

C. Environmental and Social

85. The assessment of environmental and social system under the Program has taken into consideration the lessons learned from the implementation of INDH 1 (based on the preparation of Bank support to INDH 1, four years of supervision, and the ILICR) as well as information collected during the preparation of Bank support to INDH 2. The assessment included participation of Program stakeholders in a broad consultation process.

86. The Program's environmental and social system was assessed as adequate as per OP 9.00, *Program-for-Results Financing*. INDH-financed activities are by their nature, size, and environmental and social impacts essentially CDD-type activities without substantial negative impacts on the environment and society, and leading in fact to beneficial and positive social outcomes in terms of participation and socio-economic gains.¹⁷ INDH 1 financed more than 22,000 activities in almost 700 administrative areas across the country. During more than 4 years of Bank supervision of INDH 1, no cases of significant negative impacts on the environment or society were encountered. No involuntary

¹⁷ The same exclusion defined in the Environmental and Social Management Plan for INDH 1 shall continue to apply under INDH 2, namely that activities likely to have significant and/or irreversible impacts shall not be eligible for financing, including (i) activities that may impact on natural habitats, (ii) activities that may impact physical cultural resources, (iii) activities that involve procurement of pesticides, and (iv) construction of dams higher than 15 meters.

land acquisition through expropriation or forced displacement occurred. Land needed for infrastructure was provided by local government bodies (communes), acquired through voluntary land acquisition, and rented or donated by INDH 1 stakeholders.

87. Despite the nature of the activities and absence of substantial negative environmental and social impacts, INDH 1 adopted an Environmental and Social Management System (ESMS) in order to further enhance its environmental and social risk management framework. The Environmental and Social Management System under INDH 1 was (a) based on Moroccan regulatory and legislative framework and (b) compliant with the Bank's environmental and social safeguard requirements for Bank investment lending operations through the adoption of an Environmental Management Plan and a Resettlement Policy Framework. The main purpose of the Environmental and Social Management System was to (a) ensure the ineligibility of any proposed activity entailing substantial negative impacts to INDH financing through a 'screening out' process; and (b) manage and monitor risks of activities with the potential to entail moderate negative impacts on the population (land acquisition, physical relocation of households, loss of access to assets, revenue opportunities, livelihoods or public services) or the environment.¹⁸ The Environmental and Social Management System included screening processes, environmental and social management tools, mitigation measures and procedures, a monitoring system, and institutional arrangements for implementation. These tools, processes, and arrangements are additionally articulated in the operation manuals regulating INDH subprograms and fully adopted by the Government.

88. Because of the decentralized nature of the Program, in addition to ensuring that INDH-financed activities have no negative social or environmental effects, the setting up of the Environmental and Social Management System helped raise awareness among INDH stakeholders and provided them with tools, knowledge, and capacity for environmental and social management.

89. The Program will support a continuation and extension of three INDH subprograms. The nature and scope of the activities to be financed will not change and hence the risks, and the risk management needs, will essentially remain the same as under the first phase.

90. Based on the performance of the Environmental and Social Management System under INDH 1, the INDH Coordination Nationale decided to maintain the same System for the entire duration of INDH 2. Its related documents, tools, processes, and arrangements, including the Environmental Management Plan and the Resettlement Policy Framework, as well as the operation manuals regulating the three INDH 2 subprograms (rural, urban and cross-cutting) included in the Program will remain in force for the full duration of the Program.

91. Under the Program, like INDH 1, only CDD-type activities of limited size and small negative impact will be financed. The potential environmental and social impacts of each activity to be financed will remain subject to ex ante screening. Each proposed subproject or activity will be required to describe its environmental and social footprint and provide mitigation measures as appropriate. In line with the provisions laid out in the Environmental and Social Management System, no activity with potentially significant or irreversible detrimental impacts on the environment and/or communities will be supported. In case projects or activities with the potential for moderate environmental and social impacts are retained for financing, the Environmental and Social Management System includes specific provisions for continuous monitoring of potential impacts and implementation of mitigation measures. As appropriate, the implementation of cumulative impact assessments of activities will be considered.

92. In addition, the Program introduces additional measures to improve environmental and social risk management and increase the Environmental and Social Management System performance. These include the strengthening of capacities of local, provincial, and regional stakeholders (from DAS to EAC/Q) through a capacity-building program carried out by the INDH Coordination Nationale

¹⁸ INDH Environmental Management Plan.

in partnership with the provincial Division d'Action Social and based on the development and dissemination of a user-friendly Guide on Environmental and Social Management. This will include, among other items, (a) improved and simplified environmental and social management tools; (b) dissemination and disclosure of all environmental and social information to activities sponsors and consultation; and (c) enhanced responsibility for monitoring environmental and social risks within INDH 2 provincial-level governance bodies (CPDH). These activities are built into the Program Action Plan (Annex 8) and will be tracked by disbursement-linked indicators as follows:

- A three-year capacity-building program on environmental and social management will be built into INDH 2 based on a Guide on Environmental and Social Management (DLI-9);
- INDH 2 provincial support units will include a focal point for environmental and social risk management (PAP-11).

D. Integrated Risk Assessment Summary

93. In view of the generally moderate level of country, stakeholder, and Program risks and based on agreement on risk management measures, all risk ratings apart from fiduciary (assessed as “substantial”) are assessed as “moderate” (Table 4.2). Government and stakeholder commitment and the track record of INDH 1 confirm that risks are likely to be manageable. Needed improvements and risk management measures are built into the Program, as reflected in the Program Action Plan, results, and disbursement-linked indicator framework and the Implementation Support Plan (ISP). The overall risk rating of the operation is therefore assessed as “moderate”.

Table 4.2. Risk Ratings

<i>Risk Category</i>	<i>Rating</i>
Country	M
Stakeholder	M
Technical	M
Fiduciary	S
Environment and Social	M
DLIs	M
Other	M
Overall Program Risk	M

E. Program Action Plan

94. Based on the technical, fiduciary, and environmental and social systems assessments (Annexes 5-7), and drawing on the lessons from INDH 1, a time-bound Program Action Plan (Annex 8) has been developed with the Government. The actions programmed will make essential improvements to INDH 2 and help the Program to deliver its proposed results. The actions, as summarized from Annex 8 and shown in Table 4.3 below, are organized according to the four thematic areas of Bank support. Specific Bank assistance is detailed in the Implementation Support Plan (Annex 9). Government’s full commitment to implementing the PAP actions has been confirmed. The Bank will systematically monitor compliance to and implementation of the Program Action Plan during implementation support phase.

Implementation Support

95. Implementation support by the task team will include (a) reviewing implementation progress and achievement of Program results and disbursement-linked indicators; (b) providing support for implementation issues as well as institutional capacity building; (c) monitoring systems’ performance to ensure their continuing adequacy through Program monitoring reports, audit reports, as well as field visits; and (d) monitoring changes in risks to Program-for-Results and compliance with legal agreements and, as needed, the Program Action Plan.

Table 4.3. Summary of the Program Action Plan

<i>Action</i>	<i>By when</i>	<i>Rationale</i>
<i>Thematic Area 1: Enhancing access and quality in service provision</i>		
1. Identification of financing and institutional arrangements to improve O&M of projects.	12/2013	Increased sustainability of projects by encouraging sector departments to align at the territorial level. .
2. Delegated operation of infrastructure projects is made mandatory.	12/2013	Increased sustainability of infrastructure projects by enforcing contractual relationship between owner and manager to ensure O&M and service quality
<i>Thematic Area 2: Strengthening participatory local governance and social accountability</i>		
3. Responsibility for Local Development Plan (ILDH) validation is clarified.	12/2013	Increased local ownership of ILDH and increased transparency in the projects identification and selection process.
4. Social accountability at local level are introduced	12/2014	Enhanced community ownership of Projects, increased transparency of INDH governance decisions, and increased monitoring and evaluation on execution and implementation.*
5. Modalities of Local Facilitation Teams (EAC/Q) selection and functioning are revised.	12/2013	Improved performance of EAC/Q in order to increase transparency and participation in INDH processes at local level.
<i>Thematic Area 3: Enhancing Economic Inclusion</i>		
6. Designation of an Income Generating Activities (IGA) focal point within each Provincial support unit (Social Action Division, DAS)	12/2012	Improved technical assistance for evaluation, approval and monitoring of IGAs*
<i>Thematic Area 4: Supporting capacity and systems development</i>		
7. Reflect Program improvements within existing Operation Manuals	12/2012	Program Improvements are reflected within existing Operation Manuals
8. INDH Grievance Redress Mechanism (GRM) are upgraded.	12/2014	Increased transparency and accountability of INDH governance bodies.*
9. Refining of targeting approach	12/2013	Identify improvement areas of targeting approach.*
10. Capacity building program on participatory approach and fiduciary management is launched	2012-15	Improved participatory approaches and fiduciary management.*
11. A focal point for Environmental and Social issue is designated in the provincial support unit (DAS).	12/2013	Improved quality and reliability of f E&S risk assessment of activities and related mitigation meausures.*
12. Establishment of a Fiduciary Coordination Committee.	12/2012	Identify fiduciary procedures improvements*

* Bank support provided under the Implementation Support Plan (see Annex 9).

96. Government has requested that the Bank continue in the role it played during INDH 1 as lead technical partner, integrating specific support to the identification and resolution of implementation bottlenecks, and providing a framework of coordination for Government with other external development partners. Therefore, in addition to reviewing implementation progress, the Implementation Support Plan aims to provide an integrated package of technical support to the client for implementation of the Program Action Plan and the achievement of results indicators and disbursement-linked indicators. In order to reduce the risk of being spread too thinly, the Bank will focus its support on the four thematic areas and the three subprograms included in the Bank-supported Program (Table 4.4 below).

Table 4.4. Proposed Focus of Bank Implementation Support (details in Annex 9)

	<i>Focus</i>	<i>Tasks and links to the Program Action Plan</i>
1	Periodic monitoring	<ul style="list-style-type: none"> • Review implementation progress and achievement of RI/DLI and PAP • Help resolve emerging Program implementation issues. • Help build institutional capacity. • Monitor the adequacy of systems performance. • Support Government in monitoring changes in risks.
2	Improve access to basic infrastructure and social services	<ul style="list-style-type: none"> • Support to the clarification of roles and responsibility for O&M of INDH investments (PAP-1) • Support to the elaboration of delegated operation contracts
3	Local governance and social accountability	<ul style="list-style-type: none"> • Support revisions of the Operation Manuals (PAP-7) • Help in designing social accountability and GRM processes (PAP-4, PAP-8).
4	Economic inclusion	<ul style="list-style-type: none"> • Support revision of the IGA Operation Manual, and the development of term of reference for focal points at provincial level (PAP-6, PAP-7).
5	Capacity building and system improvement	<ul style="list-style-type: none"> • Guidance on revision of the targeting approach (PAP-9). • M&E skills and CDD expertise to help revamp the INDH MIS and build in result emphasis. • Support ONDH in the development of the annual panel survey for impact evaluation.
6	Fiduciary	<ul style="list-style-type: none"> • Support and monitor achievement of key fiduciary DLI, RI, and PAP actions (DLI-7, DLI-8; PAP-10, PAP-12). • Monitor overall financial management, integrity and procurement systems. • Check progress on the fiduciary environment at country level. • Check Program effects of anti-corruption and grievance redress initiatives • Assess the impact of introducing the Organic Budget Law.
7	Environment and Social	<ul style="list-style-type: none"> • Monitor performance against relevant RI/DLI. • Support development of simplified and improved screening plus risk mitigation tools at local level (E&S management Guide). • Help design the E&S capacity-building program (DLI-7), terms of reference for focal points (PAP-11).

97. The Implementation Support Plan highlights actions to be taken by the Bank and associated needs in terms of skills and resources. The first 12 months are expected to require particularly intensive inputs; a budget of US\$300,000 is recommended, leveling off at US\$250,000 a year for the following 3 years (compared to average supervision costs of US\$200,000 a year during INDH 1). A combination of Bank budget and trust fund resources will be required. As during preparation, the task will require a diverse skill mix (see Annex 9 for details). The proposed approach is to mobilize the Bank's global expertise, particularly during the first year of implementation, to provide integrated guidance on design and system changes, while relying on a core in-country group to ensure a permanent dialogue with the client. The client is also considering leveraging expertise from the World Bank Institute on key aspects of the Program's four thematic areas. It is also expected that technical assistance to INDH from the EU will be provided.

Annex 1. Detailed Program Description

98. This annex provides a detailed description of the Program to be supported by the Bank. The annex first lays out the program development objective, and then describes the overall INDH 2, followed by a description of the scope of the Program, range of Program activities, and implementation arrangements.

INDH 2 Program Development Objective

99. The program development objective (PDO) is to improve access to and/or use of enhanced participatory local governance mechanisms, basic infrastructure, social services and economic opportunities in the Program Area.

INDH 2 Description

100. INDH 2 (2011-2015) continues and builds on the successful INDH 1 (2005-2010), which used participatory approaches to build inclusive and accountable local governance structures for community-driven development and to improve access to services and quality of life for almost 5.2 million direct beneficiaries, investing US\$1.7 billion¹⁹ in more than 22,000 activities in poor target communities nationwide. INDH 2 continues the approaches developed during Phase 1 but expands the scope. The number of targeted communes and neighborhoods nearly doubles. A new subprogram (territorial upgrading) addresses basic infrastructure needs in the most remote and deprived areas. The basic institutional architecture is maintained, and strengthened by the inclusion of key sectors (education, health, equipment and ONEE) in the Steering Committee, and by the proposed creation of regional coordination of INDH. Total five-year program cost also nearly doubles to US\$2.1 billion.²⁰ Activities financed under the Program are of a CDD nature.

INDH 2 subprograms

101. INDH 2 comprises five subprograms, to be implemented over the five-year period, January 2011 to December 2015:

- (a) *Rural subprogram* (US\$374 million). The objective is to improve living conditions of the population in 702 targeted poor rural communes by financing activities in four categories: (i) small infrastructure construction or rehabilitation and provision of services; (ii) income-generating activities (IGA); (iii) social, cultural, and sporting activities; and (iv) capacity development activities. During INDH 2 implementation, the 403 rural communes included in INDH 1 will each receive block grants of between US\$240,000 and US\$480,000, based on poverty rates, and 298 newly targeted communes will each receive US\$720,000.
- (b) *Urban subprogram* (US\$410 million). The objective is to fight social exclusion and improve living conditions and quality of life of the population in 532 targeted, urban neighborhoods (*quartiers*). The range of activities financed is the same as for the Rural subprogram. The 264 urban neighborhoods included in INDH 1 will receive US\$600,000 each, and 266 newly targeted neighborhoods will each receive US\$960,000 over INDH 2 implementation.
- (c) *Cross-cutting subprogram* (US\$331 million). The objective is to support high-impact activities nationwide in poor areas not targeted under other subprograms, and to promote

¹⁹ Initial allocation for INDH 1 was US\$1.2 billion, but total outlays by end of Phase 1 reached US\$1.7 billion, mainly through the additional contributions of different stakeholders, including line ministries, to INDH 1 projects.

²⁰ Total INDH 2 cost includes the cost of each of the five sub-programs as well as US\$215 million currently left unallocated.

economic inclusion of poor and vulnerable persons. The range of activities financed is the same as for the rural subprogram, except that the subprogram is the principal INDH 2 vehicle for financing income-generating activities through a competitive fund. The subprogram also finances INDH 2 management, communication, capacity building and technical support to projects sponsors. Each province will receive, over the five-year period, a fixed amount of US\$300,000 and a variable amount indexed on the province population.

- (d) *Vulnerability (précarité) subprogram* (US\$168 million). The objective is to improve the quality of life of vulnerable persons in 10 targeted categories (widows, disabled, orphans, drug users, HIV affected people, etc.). The subprogram finances activities aimed at (i) reintegrating vulnerable people within their families and in society; (ii) skills development to help the vulnerable into employment; and (iii) capacity building for NGOs managing social care centers. Each province will receive, over the five-year period, a fixed amount of US\$205,000 and a variable amount indexed on the province population.
- (e) *Territorial upgrading subprogram* (US\$602 million). The objective is to improve the living conditions of the population of mountainous and isolated areas, to reduce regional gaps in standards of living, and to strengthen alignment with sectoral programs. The subprogram finances investments in basic infrastructure in 503 isolated rural communes in five areas: health infrastructure and services; electricity transmission; water and sanitation; rural roads; and education.

The Program

102. The Program to be supported by the Bank operation covers a major portion of the entire INDH 2, with boundaries defined in terms of (a) duration; (b) geographic areas; (c) support to three out of the five INDH 2 subprograms. The Program will support the whole range of INDH 2 activities (see below) in the three selected subprograms. Bank financing will cover a share of all the costs of the Program as defined by these boundaries.

- (a) **Duration.** The Program implementation period is 2012–2015.
- (b) **Geographic areas.** Program activities will be implemented in the following regions: Tanger-Tetouan, Taza-Al-Hoceima-Taounate, Fes-Boulemane, Meknes-Tafilalet, Tadmora-Less, Doukkala-Abda, Rabat-Sale-Zemmour-Zaër, Greater Casablanca, Oriental, Marrakech-Tensift-Al Haouz, Chaouia-Ouardigha, Gharb-Chrarda-Beni Hssen, and Souss-Massa-Draa, as well as in the provinces of Guelmim, Assa-Zag, Tan-Tan and Tata.
- (c) **Subprograms.** Based on the need for selectivity of Bank support, the Program will include three of the five INDH 2 subprograms: rural, urban, and cross-cutting. These three subprograms were selected because: (i) they provide the bulk of INDH-financed basic service provision, in line with the focus on enhancing access and quality in service provision; (ii) they provide most of the support to strengthening participation and demand-side governance, meeting the object of the focus on participatory local governance and social accountability; (iii) the cross-cutting subprogram contains a specific envelope dedicated to income-generating activities, the main mechanism for the focus on enhancing economic inclusion; and (iv) the cross-cutting subprogram also finances capacity building and systems improvement, matching the focus on supporting capacity and systems development.

Range of Program activities

103. Under INDH communities decide on how to use the funds and the specific activities to be financed based on the budget allocation they receive. Experience from INDH 1 shows that the average cost of INDH projects is US\$45,000 for the rural subprogram; US\$120,000 for the urban subprogram; and US\$60,000 for the cross-cutting subprogram. Income-generating activities are subject to a cost ceiling of US\$25,000 under the rural and urban subprograms and US\$60,000 under the cross-cutting subprogram. The type of activities financed under the Program include:

- *Small infrastructure construction, or rehabilitation, equipment and provision of services.* Activities include the construction, rehabilitation, extension or improvement of road and street infrastructure, electricity and water supply, sanitation and solid waste services, schools, local health centers and community centers, together with more limited support to sports or other public facilities. All three subprograms supported by the Program (rural, urban and cross-cutting) finance these activities, though in different geographic areas.
- *Income-generating activities.* Activities include financial support for developing small businesses together with business training; and support to community-managed revenue-generating services such as household waste collection, water management, and recycling management. All three subprograms supported by the Program finance income-generating activities, though in different geographical areas.
- *Social, cultural and sports activities.* Typical activities in this category involve support for local NGOs and community organizations in managing and running social, cultural and sports facilities, such as health centers, school dorms, sport complexes, and cultural and youth centers. All three subprograms finance this type of activity.
- *Capacity development activities.* Activities under this category provide technical, fiduciary and environmental and social management training for provincial and municipal employees and local managers of INDH; management training for local communities (e.g., running an NGO); and other activities to enhance local capacities, such as M&E training for INDH committee members or activity sponsors, or training in participatory analysis and methods for local facilitation teams etc. All three subprograms can finance capacity-building activities, but much of the funding comes from the cross-cutting subprogram.

Bank financing

104. The proposed Bank loan amount of Euro 227 million (US\$300 million equivalent) would finance about 25 percent of Program costs of US\$1.1 billion (three subprograms), equivalent to roughly 15 percent of overall INDH 2 costs of US\$2.1 billion (all five subprograms). The Project will be financed under an IBRD loan disbursing over a period of four years, on standard IBRD terms for a Variable Spread Loan with 29 years maturity including a 6-year grace period.

Thematic areas

105. As agreed with the Government, the Program will focus on four thematic areas linked to results and improvement actions pursued under the Program through the application of DLIs, the development of specific actions in the Program Action Plan (Annex 8), and the provision of dedicated technical assistance during Implementation Support (Annex 9). The four thematic areas provide the structure of the Program Results Framework and the Program Action Plan. These include: (a) Enhancing access and quality in service provision; (b) Strengthening participatory local governance and social accountability; (c) Enhancing economic inclusion; and (d) Supporting capacity and systems development.

Implementation arrangements

INDH Institutional architecture

106. INDH institutional architecture connects the central governance and coordination functions to governance and support entities at each level of administration, and through them to targeted communities and their organizations at the base. The Program is implemented through the same institutional architecture used for the overall INDH 2 (see Figure A1.1).

107. The INDH *Strategic Committee*, chaired by the Head of Government, establishes the INDH strategic framework and ensures a coordinated approach. The *Steering Committee*, chaired by the

Minister of Interior, oversees implementation progress. In Phase 2, representatives from Ministries of Education, Health, Equipment and ONE will be included in the steering committee

108. The Ministry of Interior, through its INDH coordination unit (Coordination Nationale), walis, and provincial and prefectural governors is responsible for program coordination and results. The Coordination Nationale provides technical support to the local-level governance structures and support agencies through guidelines, operations manuals, capacity development, and communications. The Coordination Nationale also oversees INDH procurement and financial management, and environmental and social risk management, and monitors and reports on implementation.

109. Implementation of the Program is the responsibility of governance structures at the local, provincial, and regional levels. At each level, the committee comprises elected representatives of local government, staff from public agencies, and representatives of civil society. A notable feature in INDH 1 was participation of women (17 percent) and young people (12 percent). In INDH 1, these governance committees numbered more than 700: 667 *Comités Local de Développement Humain* (CLDH) at the rural commune or urban quartier level, responsible for preparing the participatory local plans and overseeing their implementation; 70 *Comités Provincial de Développement Humain* (CPDH) chaired by the governor at provincial level, responsible for no-objection on the local plans and overseeing their execution; and 16 *Comités Régional de Développement Humain* (CRDH) chaired by the wali at regional level, responsible for the vulnerability component. Under INDH 2, further committees will be set up in the newly targeted rural and urban communes under Phase 2.

110. In order to improve coordination and ‘convergence’ between INDH and line ministries, the Program provides for representatives of all concerned ministries to sit on the CDPH where the community-level plans (ILDH) are presented and discussed. For INDH 2, the Government aims to set up regional coordination units to promote intersectoral convergence in line with the countrywide regionalization agenda.

111. Technical support is provided by provincial-level support teams (*Division de l’Action Sociale*, DAS) tasked with rolling out of the program in each province and accompanying local level actors. The *Division d’Action Social*, of which there were 83 in INDH 1, are units of the provinces/prefectures, under the authority of the Ministry of Interior. They act as secretariat of the CDPH and are responsible for (a) support to the local level participatory process and the local facilitation teams; (b) screening of the participatory local plans submitted by the CLDH (including environmental and social screening); (c) oversight of activity implementation; and (d) M&E, reporting, and communications.

112. At the local (commune/quartier) level, the Program is supported by almost 700 facilitation teams, *Equipes d’Animation Communal/du Quartier* (EAC/Q), composed of 2,500 local facilitators (16 percent women), tasked with supporting the participatory process and with engaging the community in the identification and selection of activities at community level, supporting the preparation and implementation of subproject, including the environmental and social management side, as needed.

113. Additional institutional and technical support is provided by various line ministries and government agencies. Under INDH 1 formal partnership arrangements had been established with the Social Development Agency, *Agence de Développement Social* (ADS) for capacity building in community-driven development, and with the National Welfare Agency, *Entraide Nationale*, for the vulnerability subprogram. INDH 1 also developed partnership arrangements with more than 6,000 NGOs.

114. Independent of the INDH structure is the National Observatory for Human Development, *Observatoire Nationale de Développement Humain* (ONDH), which reports separately to the King. ONDH is responsible for a range of study activities, including impact evaluation of INDH.

Planning, targeting, and programming

115. The Budget Framework for the five subprograms over the five years of INDH 2 implementation (2011-2015) is set in the INDH 2 Platform presented to the King in June 2011. Allocations to the rural and urban subprograms are made on the basis of poverty rates and indicators of socio-economic exclusion. Poverty rates were established through poverty maps produced by Morocco's Statistical Agency (HCP) based on the 2007 Living Standards Measurement Survey (LSMS). The methodology was developed in partnership with the Bank. On this basis, 702 rural communes and 532 urban neighborhoods nationwide are targeted under INDH 2, for a total of 1,231 communes and neighborhoods, up from 667 during INDH 1. The poverty rate threshold for rural communes to benefit from INDH 2 funds has been reduced from 22 percent to 14 percent, which is the 2007 national average for rural areas. Communes and neighborhoods, which benefited from INDH 1 are automatically included in INDH 2 (irrespective of their poverty rate), but at lower levels of financing than newly targeted communes/neighborhoods with the same poverty rates and social exclusion conditions

116. Programming of INDH 1 investments differ according to the different subprograms. Each subprogram has an operational manual developed at the start of INDH 1 that describes the process.²¹ In the rural and urban subprograms, programming follows a participatory approach involving local stakeholders and beneficiaries. Supported by the DAS and the CLDH, the EAC/Q work with the target population to draft a rapid assessment (Monographie Participative) and list of possible activities. The CLDH prepare a proposed five-year participatory development plan, Initiative Locale de Développement Humain (ILDH), following criteria: (a) response to problems identified; (b) ownership demonstrated by commitment to contribute to the financing, implementation and maintenance of the project; and (c) targeting the most vulnerable groups within the community. The CLDH presents the ILDH to the CPDH for approval, which is based on validation of (a) INDH eligibility criteria, (b) avoiding overlap with line ministry programs, and (c) the possibility that line ministries could provide support to both financing and implementation.

117. Under the cross-cutting subprogram, the CPDH allocates Program financing to activity sponsors through a competitive selection process in communes and neighborhoods, which are not targeted under the rural and urban subprograms. Eligible project sponsors are communes and municipalities, associations, cooperatives, and professional organizations. In addition, this subprogram finances the recurrent costs for Program implementation, capacity, and communication programs, M&E, and safeguards.

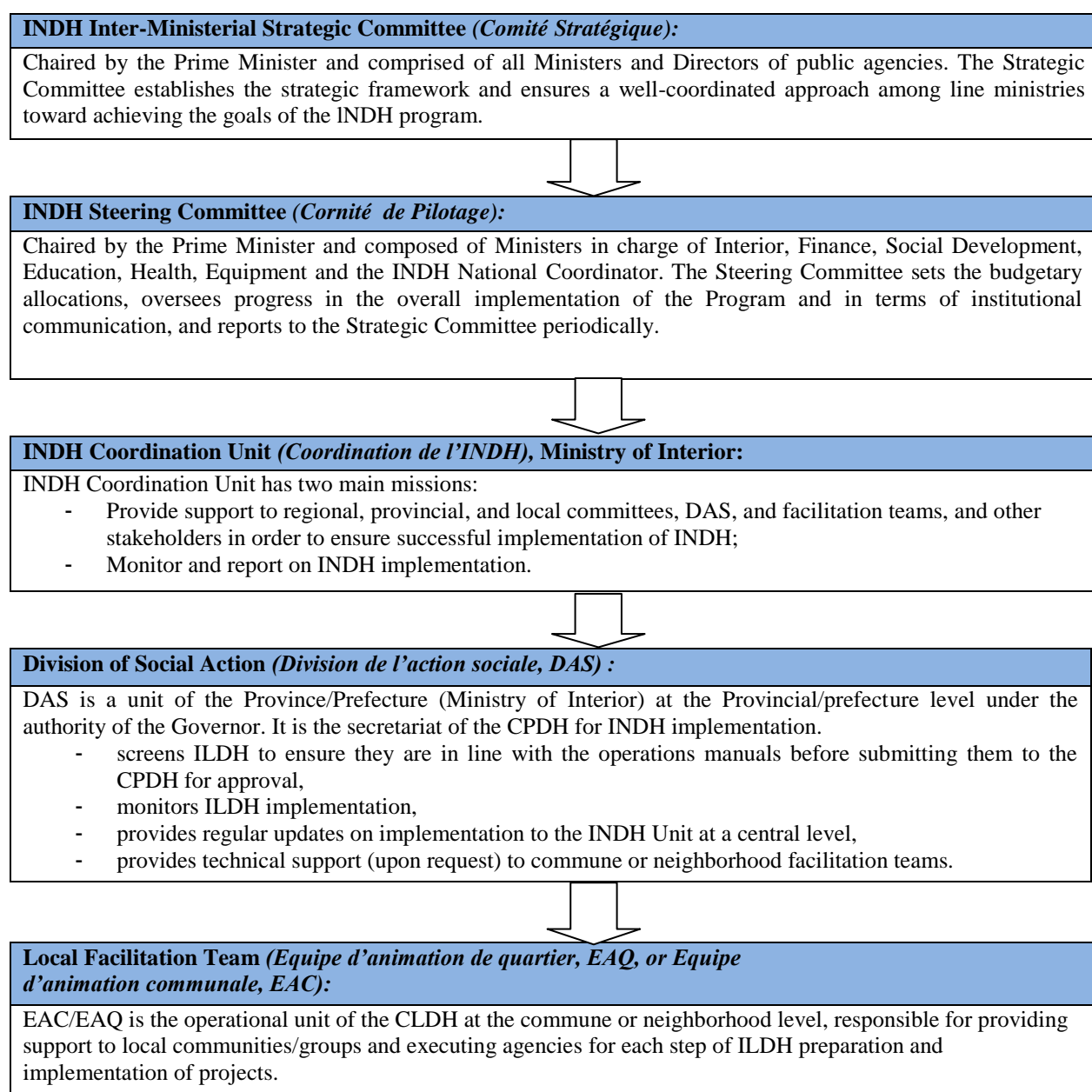
118. Although all four categories of activity are offered under rural, urban, and cross-cutting subprograms, the different targeting approach used for each subprogram ensures the avoidance of overlap. The tailoring of activities financed under each subprogram to community needs explains the different shares of financed activities (Table A1.1).

Table A1.1. Spread of activities selected by communities during INDH 1

Activity	Rural	Urban
1. Infrastructure	76%	60%
2. Income-generating activities	14%	13%
3. Social, cultural, sports	3%	22%
4. Capacity building	7%	5%

²¹ Additional operational manuals guide procurement and income-generating activities.

Figure A1.1 INDH Institutional Arrangements



Ensuring quality of activity design

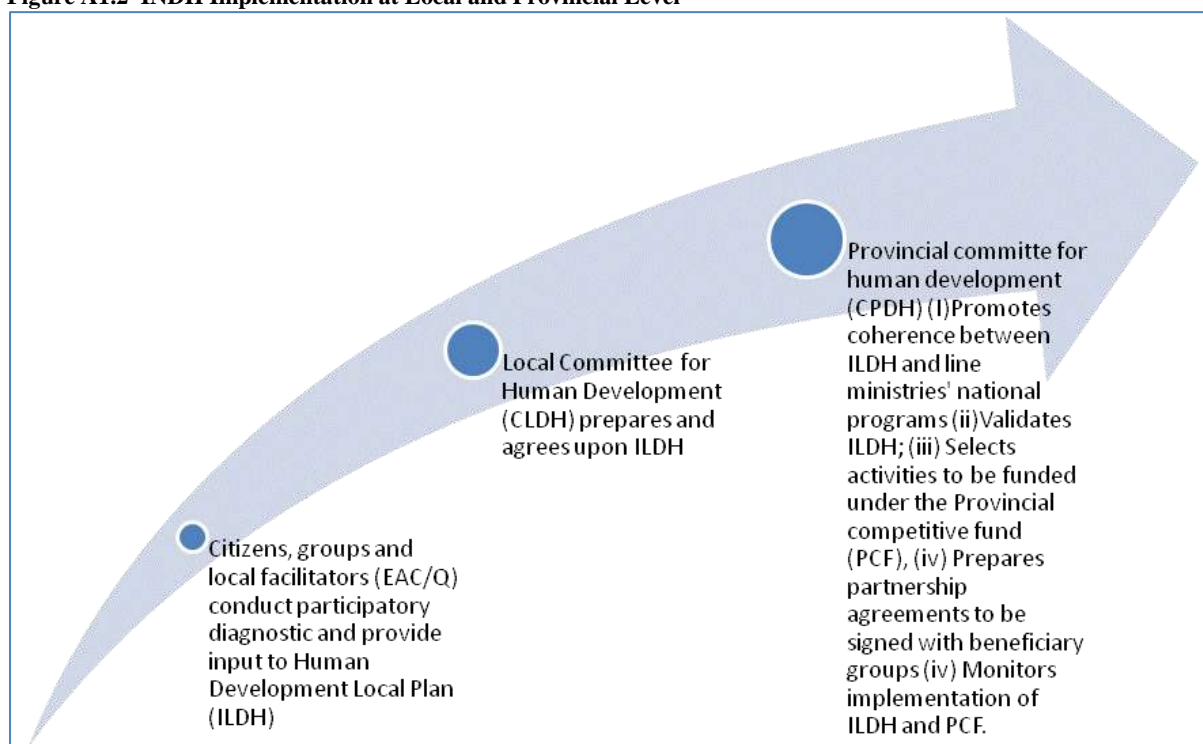
119. INDH 1 involves beneficiaries at each stage of the project cycle. In the rural and urban subprograms, activity design is decentralized to the level of communes and neighborhoods and is normally carried out by project sponsors in collaboration with the local facilitation teams, the technical services of the communes, and the DAS. Public technical services at commune and provincial level ensure respect of technical standards. Under the cross-cutting program, activity proposals are approved directly by the provincial committee. Most activities are small in size. There are no set technical standards but activities generally adopt line ministry standards.

Activity execution

120. Implementation of INDH 2 activities is primarily the responsibility of project sponsors — typically NGOs, cooperatives, associations, and municipalities. Under the Program, execution will be systematically delegated to local sponsors, especially rural communes. For each project, an

agreement is signed between the governor of the province and the group or institutions implementing the project. Project sponsors are assisted by the DAS at provincial level, as well as by the technical services of line ministries, which provide technical and financial support as needed.

Figure A1.2 INDH Implementation at Local and Provincial Level



Fiduciary and E&S Arrangements

121. The Head of Government is the authorizing accounting officer, allocating INDH 2 funds to executing agencies (Ministry of the Interior, walis, and governors), based on an annual disbursement schedule by subprogram. These funds are then committed and disbursed according to applicable public expenditure regulations, either through partnership agreements with activity sponsors, or through direct payments to contractors. Activity sponsors will carry out *procurement* following national public procurement rules and INDH guidelines. A 'Fiduciary Guide' aimed to help executing agencies address capacity constraints in the application of fiduciary rules and regulations will be developed in the early phase of the Program through Bank assistance, with a view to improving efficiency and mitigating fraud and corruption risks. Technical oversight of procurement is the responsibility of the Ministry of Finance (TGR and IGF), and under Phase 2 the terms of reference of the auditors (IGAT/IGF) will be expanded to cover review of technical standards and include procurement aspects with sufficient details. In addition, fraud and corruption risks in INDH 2 will be mitigated by additional oversight provided by the instatement of a permanent Fiduciary Coordination Committee, replacing the previous Fiduciary Innovation Team, which with expanded terms of reference will develop and review guidance tools on bidding documents and contract templates, design and execute a fiduciary training program for sponsors and the governance and support teams, and oversee fiduciary performance. Strengthened grievance redress procedures and more effective procurement reporting in the management information system will also increase efficiency and strengthen fraud and corruption risk management. *Audits* will be conducted by a joint team from the Ministry of the Interior (IGAT) and the Ministry of Finance (IGF), and covers financial and procurement audit, and activity and performance audits. Results are published and detailed management letters are sent to the governance bodies. Although adequate, audit performance can improve in relation to timeliness — the opinion on the main special revenue account (SRA) at the

central level was not issued timely, and the reports covering 2009 and 2010 were only shared with the Bank in May 2012 — and follow-up of audit recommendations (DLI-7, DLI-8).

122. Regarding environmental and social management, the governance committees, assisted by the DAS and the INDH Coordination Nationale, are responsible for ensuring compliance with *environmental and social* requirements inscribed in the operation manuals. The local facilitation teams (EAC/Qs) further support the DAS in ensuring that Program-financed projects are identified and implemented according to the Program environmental and social management system. The environmental and social capacity-building program will target specifically DAS and EAC/Q members charged with environmental and social management.

Program Grievance Redress Mechanism

123. Program-related grievance redress takes place through a *grievance redress mechanism* set up in a variety of institutions. At national level, the National Integrity and Anti-Corruption Agency (NIAA), the Ombudsman Office, and the National Council of Human Rights can all receive any allegation, grievance notice, and complaint related to the Program from any actor or simple citizen. Additionally, both IGAT and IGF have internal grievance redress procedures.

124. Specifically for INDH, the IGAT has developed a system whereby it can receive complaints from INDH 1 implementing agencies, associations, private sector actors, or citizens. The IGAT Audit Pole deals with the INDH-related complaints. The Inspection Pole deals with complaints of a more general nature. INDH-related complaints are dealt with as follows: (a) if the complaint lacks sufficient background information but seems to require further investigation, an inspection commission is tasked with following up and collecting additional information; (b) if the information backing the complaint is sufficient but the substance does not require priority handling, its treatment is planned in the context of the audit missions with a view to increasing efficiency; c) if the complaint has an urgent character, IGAT Audit Pole launches an inspection mission in concert with the Inspection Pole.

125. At Program level, the internal regulation of INDH governance bodies as inscribed in the operational manuals foresees mechanisms for receiving and addressing grievances with a view to enabling the mediation mandate of these organs.²² The forms these local-level mechanisms take tends to vary, reflecting the decentralized nature of INDH allowing for consideration of local factors. However, common elements include:

- Provincial-level Social Action Division includes a grievance office charged with receiving and addressing complaints, including fraud and corruption allegations;
- At provincial level, a complaint unit is set up reporting directly to the governor;
- At commune level, INDH set up complaints box allowing for anonymity of the plaintiff;
- The presence of civil society organization (CSO) representative within the governance bodies, together with technical services and elected members, allows for addressing fraud and corruption allegations brought to the knowledge of CSO representatives.

126. INDH 1 was the first program that introduced specific grievance redress mechanisms at local level. This often results in the INDH bodies, particularly DAS, ending up with having to manage the follow-up on grievances unrelated to INDH 1. The degree of variance in the application of the

²²The rural subprogram operational manual states local authorities are tasked with receiving complaints, addressing them, and attempting to resolve them in the context of their attributions. It also notes that the CLDH are to develop a “process of mediation and management of complaints”. The urban subprogram manual states that the functioning of CLDH and CPDH needs to be regulated by a document addressing, among other issues, the management of “misunderstanding and grievances”.

operational manuals' provisions for grievance redress is in line with the decentralized nature of INDH, and its adaptation to local and context-specific factors. However, the lack of a systematic organization also limits their performance. Only a few provinces today have performing internal grievance redress mechanisms.

127. Therefore, the Program introduces elements in order to improve the effectiveness and reliability of INDH grievance redress mechanisms to be implemented during INDH 2. The goal is to enable a more systematic application of processes and procedures within governance bodies starting from the provincial-level DAS and reinforcing the capacities of the actors in charge of receiving and following up of complaints. Particular attention will be given to ensuring that Program target groups, often among the most excluded members of the community, have access to the Program grievance redress mechanisms. Technical assistance will be provided during implementation support to the provincial and local levels to design a practicable system that will then be written up in the operational manuals and generalized. Grievance redress data will be integrated within the overall MIS so that findings can be used for supervision by the Coordination Nationale and for oversight and control by governance and audit functions. The Program Annual Report will be the vehicle to report on grievances submitted under the Program.

Monitoring, management information system, and reporting

128. For the rural and urban subprograms, the CLDH and local facilitation teams typically perform the monitoring of activity implementation. CLDH provide semi-annual reports to the CPDH with progress on indicators for expenditures and physical realization. At the provincial level, the CPDH through the DAS also carries out close monitoring of execution and provides updated information for the central MIS. Additionally, under the Program, civil society representatives on the CLDH will assume an important role in participatory M&E.

129. Under the cross-cutting subprogram, the provincial DAS monitors activity implementation, reporting to the CPDH and issuing a twice-yearly evaluation report. The data collected is fed into the web-based information system and consolidated at national level. Governors identify staff in the provinces to carry out regular ex post reviews. All activities funded under this component are subject to random audits. An MIS is in place linking provincial and central level allowing for detailed reporting of expenditure and physical outputs.

130. Activity monitoring is complemented by program-level M&E activities. The CLDH collect quantitative and financial data on implementation and on key outcome indicators; the DAS collate the information at the provincial level and input it to a web-based information system. At the national level, the national coordination team consolidates the data and produces reports. During implementation a Program Progress Monitoring Report will be submitted annually to the World Bank. The outline of such report will include financial statements, physical realizations, progress on results indicators, achievement of disbursement-linked indicators, reporting on grievances, and allegations of fraud and corruption.

131. Two sets of external monitoring complement the INDH M&E system. First, the audits and inspections by IGAT and IGF cover not only procurement and financial aspects but also governance and compliance with procedures. Second, INDH external partners also play a key monitoring function. During INDH 1, 14 external financial partners along with the Bank supported INDH; and key agencies among this group (EU, KfW, UNDP, Italian and Belgian development cooperation, and World Bank) carried out harmonized supervision missions and extensive field visits. This added an important monitoring function.

Social accountability

132. To support transparency and accountability under INDH 2, social accountability tools — citizens' perception surveys, grievance redress mechanisms, participatory M&E — are incorporated into the M&E system and results will be available on the web-based MIS.

Impact evaluation and future studies

133. ONDH is the independent public body responsible for impact evaluation of INDH. For INDH 2, ONDH is planning an annual 6,000-household *panel survey*, which will include a battery of questions on citizens' engagement and satisfaction with INDH 2 processes. This survey will be complemented by *specific evaluation studies* planned around the DLI achievement. An *infrastructure technical quality audit* will check a random sample of main types of infrastructure to assess if they are in compliance with norms and standards as described in the operations manuals. This will include a check on environmental and social safeguards.

Table A1.2 INDH 2 (2011-2015) Details by Subprogram

Total budget and financing	MAD 17.1 billion (US\$ 2.1 billion) <ul style="list-style-type: none"> Central budget: MAD 9.4 billion Local government: MAD 5.664 billion International cooperation (Grants): MAD 1 billion Public institutions: MAD 1 billion
1. Rural subprogram	
<i>Objective</i>	Improve the quality of life of the rural population
<i>Number of rural communes</i>	702 Communes
<i>Targeting criteria</i>	<ul style="list-style-type: none"> 193 communes covered by INDH 1 with a poverty rate equal or above 20% 151 communes covered by INDH 1 with a poverty rate between 14% and 20% 59 communes covered by INDH 1 with a poverty rate lower than 14% 299 newly targeted communes with a poverty rate above 14%
<i>Supported activities</i>	<ul style="list-style-type: none"> Support of access to basic infrastructure and social services Income-generating activities Social, cultural, and sport activities Communication and capacity-building activities
<i>Total subprogram budget</i>	MAD 3.1 billion (US\$374 million)
<i>Subprogram budget per commune over 5 years</i>	Commune covered under INDH 1: <ul style="list-style-type: none"> MAD 4 million (US\$482,000) for communes with a poverty rate equal or above 20% MAD 3 million (US\$360,000) for communes with a poverty rate 14% - 20% MAD 2 million (US\$240,000) for communes with a poverty rate lower than 14% Newly targeted communes: <ul style="list-style-type: none"> MAD 6 million (US\$723,000) for communes with a poverty rate above 14%.
2. Urban subprogram	
<i>Objective</i>	Fight social exclusion; and improve condition of living and quality of life of the population
<i>Number of neighborhoods</i>	532 neighborhoods (<i>quartiers</i>), of which 264 were covered under INDH 1
<i>Targeting criteria</i>	<ul style="list-style-type: none"> Unemployment Poverty rate Access to basic services Women and youth exclusion rate Illiteracy Housing conditions
<i>Supported activities</i>	<ul style="list-style-type: none"> Support of access to basic infrastructure and social services, Income-generating activities Support social, cultural, and sport activities Communication and capacity-building activities
<i>Total subprogram budget</i>	MAD 3.4 billion (\$410 million)
<i>Budget per neighborhood over five years</i>	<ul style="list-style-type: none"> MAD 5 million (US\$600,000) for neighborhoods covered under INDH 1 MAD 8 million (US\$965,000) for new neighborhoods
3. Crosscutting subprogram	
<i>Objective</i>	<ul style="list-style-type: none"> Support high-impact projects in non-targeted areas; Promote economic inclusion of poor and vulnerable persons
<i>Target areas</i>	Nationwide
<i>Supported activities</i>	<ul style="list-style-type: none"> Provincial Competitive Fund for income-generating activities Support to social, cultural, and sporting projects INDH 2 management (capacity building, communication, capitalization, and exchange of experiences)
<i>Total subprogram budget</i>	MAD 2.8 billion (US\$337 million)
<i>Budget per province</i>	<ul style="list-style-type: none"> Fixed allocation of MAD 2.5 million (US\$300,000) per province Additional allocation based on the provincial poor population 40% of the budget dedicated to income-generating activities
4. Vulnerability (<i>précarité</i>) subprogram	
<i>Objective</i>	Improve the quality of life of vulnerable persons
<i>Target areas</i>	Nationwide
<i>Targeting criteria</i>	Ten categories of vulnerable groups
<i>Supported activities</i>	<ul style="list-style-type: none"> Support to family and social reintegration Coaching for socio-economic integration Core skills development and support to help the vulnerable back into the labor market Specific services for different target groups through dedicated care centers NGO capacity building Support to the management of centers
<i>Total subprogram budget</i>	MAD 1.4 billion (US\$168 million)
<i>Budget per region</i>	<ul style="list-style-type: none"> Fixed allocation of MAD 1.7 million (US\$205,000) per province Additional allocation based on the provincial population
5. Territorial Upgrading subprogram	
<i>Objective</i>	<ul style="list-style-type: none"> Improve the living conditions of the population of mountainous and isolated areas, Reduce regional gaps in standards of living Strengthen alignment with sectoral programs
<i>Target areas</i>	503 poor target communes in 22 provinces
<i>Supported activities</i>	Basic infrastructure (electricity, water, roads, education, health)
<i>Total subprogram budget</i>	MAD 5 billion (US\$602 million)

Annex 2. Results Framework and Monitoring

Program Development Objective (PDO): The objective of the Program is to improve access to and/or use of enhanced participatory local governance mechanisms, basic infrastructure, social services and economic opportunities in the Program Area.

PDO Level Results Indicators*	DLI	Unit of Measure	Baseline/ Benchmark	Cumulative Target Values				Frequency	Data Source/ Methodology	Responsibility for Data Collection
				2012	2013	2014	2015			
Indicator 1: % girls who reside in the educational dormitories (<i>Dar Taliba</i>) graduating to the next grade	#1	%	50% (2011)	55%	60%	65%	70%	Annual	MIS	National coordination of INDH (CN INDH)
Indicator 2: % population provided with access to improved water supply in targeted rural communes by the Program	#2	%	50% (702 rural communes)			72%	77%	Twice, in 2014 and 2015	ONEE	ONEE
Indicator 3: % income-generating activities implemented by cooperatives, associations or companies (<i>societies de personnes</i>) which are viable two years after having benefited from financing under the Program	#3	%	25%	-	-	30%	40%	Two times, 2014 and 2015	MIS	CN INDH
Indicator 4: % of sampled population in the targeted areas saying that they have participated in the participatory diagnostic or monitoring and evaluation of activities.		%	20% for diagnostic, 0% for social accountability	-	22% for participatory diagnostic		12% for the social accountability	2 times, 2013 & 2015	Survey	HCP or others

INTERMEDIATE RESULTS										
Thematic Area One: Enhancing access and quality in service provision										
Intermediate Results Indicators*	DLI	Unit of Measure	Baseline/ Benchmark	2012	2013	2014	2015	Frequency	Data Source/ Methodology	Responsibility for Data Collection
Indicator 5: Number of women benefitting from pre-natal care in Dar Al Oumouma		#	7000		7700		10500	2 times, 2013 and 2015	MIS	CN INDH
Indicator 6: % infrastructure projects financed under the Program judged by the auditors as conforming to technical specifications, after final commissioning	#4	%	60%			65%	70%	2 times	IGAT/IGF reports	IGAT/IGF
Thematic Area Two: Strengthening participatory local governance and social accountability										
Intermediate Results Indicators*	DLI	Unit of Measure	Baseline/ Benchmark	2012	2013	2014	2015	Frequency	Data Source/ Methodology	Responsibility for Data Collection
Indicator 7: % of households in the targeted rural and urban areas who have participated in the participatory diagnostic and are satisfied with ILDH processes		%	40 %		60%			1 time	Survey	CN INDH
Indicator 8: #8.1: % women in the following local governance bodies: CLDH and CPDH # 8.2: % of youth (18–35 years old) in the following local governance bodies: CLDH & CPDH	#5	% for women and youth	17% for women 12% for youth	20% women 15% youth				1 time, 2012	MIS	CN INDH

Indicator 9: % projects under the rural and urban subprograms of the Program contracted by local government (communes and <i>Conseil d'Arrondissement</i>), associations, or cooperatives.	#6	%	50%		57%	64%	70%	3 times, 2013, 2014, 2015	MIS	CN INDH
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Thematic Area Three: Enhancing Economic Inclusion										
Intermediate Results Indicators*	DLI	Unit of Measure	Baseline Benchmark	2012	2013	2014	2015	Frequency	Data Source/ Methodology	Responsibility for Data Collection
Indicator 10: % of IGAs implemented by cooperatives, associations, and private firms		%	18%		25%	30%	35%	3 times, 2013, 2014, 2015	MIS	CN INDH
Indicator 11: % IGA implementing agencies receiving capacity building		%	20%		50%	60%	70%	Annual	MIS	CN INDH

Thematic Area Four: Supporting capacity and systems development										
Intermediate Results Indicators*	DLI	Unit of Measure	Baseline	2012	2013	2014	2015	Frequency	Data Source/ Methodology	Responsibility for Data Collection
Indicator 12: Improvement of the M&E system.		actions	N/A	Update MIS, revise and simplify manual, add agreed data to reports	Make project info and reporting more accessible at local levels			Actions to be taken in 2012 & 2013	MIS reports	CN INDH

Indicator 13: a. Elaboration of a user-friendly fiduciary guide in Arabic and French b.% of partnership agreements with a technical assistance provision (measure to enhance procurement capacity)		actions	0	Dissemination of simplified fiduciary guide	50%	60%	70%	3 times	MIS	CN INDH
Indicator 14: % provinces and prefectures in the Program Area which have put in place a plan of action to address audit recommendations	# 7	%	15%		50%	60%	80%	3 times	Annual reports, annual audit reports	CN INDH, IGAT, IGF
Indicator 15: % priority audit recommendations included action plans which are implemented	# 8	%	0			90%	95%	2 times, 2014, 2015	Annual reports, Annual audit reports	CN INDH, IGAT/IGF
Indicator 16: % of subproject sponsors mastering procurement and financial management procedures		%	TBD in 2012	Baseline definition	Baseline +10%	Baseline+ 20%	Baseline+30 %	3 times	Audit reports, annual reports	CN INDH, IGAT/IGF
Indicator 17: # 17.1: preparation of environmental and social guide related to the Program #17.2: % of key actors (DAS & local facilitation teams) trained in the use of such guide in environmental and social safeguards	# 9	%	0	Preparation and dissemination of environmental and social guide	100% of DAS and local facilitators trained			1 time, training in 2013	MIS,	CN INDH.

- Reporting for indicators #5, #8 is gender disaggregated

Annex 3. DLI, Disbursement Arrangements, and Verification Protocols

134. This annex presents the standard Disbursement-Linked Indicators Matrix, together with the proposed Verification Protocols, highlighting the responsibility for the verification, how it will be carried out, and at what frequency, as well as the formulas for calculating the indicators.

Table A3.1 Disbursement-Linked Indicator (DLI) Matrix (US\$)

DLI (RI ²³)	Values				Totals	
	2012	2013	2014	2015	Total disbursement by DLI (US\$)	% total loan amount
DLI-1 (RI-1) % girls who reside in the educational dormitories (<i>Dar Taliba</i>) graduating to the next grade	55%	60%	65%	70%		
<i>Disbursement amount (US\$ million):</i>	10	10	10	10	40	13%
DLI-2 (RI-2) % population provided with access to improved water supply in targeted rural communes by the Program			72%	77%		
<i>Disbursement amount (US\$ million):</i>			20	20	40	13%
DLI-3 (RI-3) % income-generating activities implemented by cooperatives, associations or companies (<i>sociétés de personnes</i>) which are viable two years after having benefited from financing under the Program			30%	40%		
<i>Disbursement amount (US\$ million):</i>			20	20	40	13%
DLI-4 (RI-6) % infrastructure projects financed under the Program judged by the auditors as conforming to technical specifications, after final commissioning			65%	70%		
<i>Disbursement amount (US\$ million):</i>			10	10	20	7%
DLI-5 (RI-8) % women in the following local governance bodies: CLDH and CPDH % of youth (18–35 years old) in the following local governance bodies: CLDH & CPDH	20% women 15% youth					
<i>Disbursement amount (US\$ million):</i>	30				30	10%
DLI-6 (RI-9) % projects under the rural and urban subprograms of the Program contracted by local government (communes and <i>Conseil d'Arrondissement</i>), associations, or		57%	64%	70%		

²³ Each DLI corresponds to a Results Indicator (RI) as presented in the Results Framework (Annex 2)

DLI (RI ²³)	Values				Totals	
	2012	2013	2014	2015	Total disbursement by DLI (US\$)	% total loan amount
cooperatives.						
<i>Disbursement amount (US\$ millions):</i>		15	10	10	35	12%
DLI-7 (RI-14) % provinces and prefectorates in the Program Area which have put in place a plan of action to address audit recommendations		50%	60%	80%		
<i>Disbursement amount (US\$ million):</i>		15	10	10	35	12%
DLI-8 (RI-15) % priority audit recommendations included in the action plans which are implemented			90%	95%		
<i>Disbursement amount (US\$ million):</i>			10	10	20	7%
DLI-9 (RI-17) #9.1: preparation of environmental and social guide related to the Program #9.2 % key actors (DAS & local facilitation teams) trained in the use of such guide on environmental and social safeguards	Preparation of environmental and social guide	100% trained				
<i>Disbursement amount (US\$ million):</i>	20	20			40	13%
Total loan amount disbursed (US\$ millions)	60	60	90	90	300	100%

Disbursement-Linked Indicators

135. The disbursement-linked indicators are a subset of the Results Framework results indicators (Annex 2). Table A3.1 shows the DLIs and their correspondence to the results indicators (RI) from Annex 2. The DLIs cover all four main thematic areas of support for improvement of access to services, income-generation activities, participatory governance, and systems improvements. The DLIs have been developed in partnership with the Government and in coordination with the European Union, a co-financier of INDH. The EU also proposes to use a DLI-based approach for Phase 2 financing. For most DLI, the primary information base will be the INDH 2 MIS reporting and audit reports from IGAT-IGF. The primary information source depends upon the indicator as listed in the Results Framework. The World Bank plans to hire a competitively selected firm to conduct independent verification for six of the nine DLI; the other three will be done by the independent audit agency, IGAT-IGF (see Table A3.2). The verification will be reinforced by regular World Bank supervision missions.

Disbursements determination

136. Disbursements will be made based on achievement of DLI results (Table A3.2), after verification by the Bank (Table A3.3). With the exception of the 2012 result for DLI-9 (which is an

action), all DLIs are scalable (i.e., they entail disbursement proportional to the results achieved). The disbursement calculation follows a simple approach of linear scalability according to the following formula:

$$[\text{DLI-\# amount}] \times [\text{achieved DLI value} - \text{DLI baseline}] / [\text{target DLI value} - \text{DLI baseline}]$$

137. For example, for DLI-1 (Percentage of girls who reside in the educational dormitories (*Dar Taliba*) graduating to the next grade) and in the hypothesis of the achievement of a value of 53 percent in 2012 (when the target value is 55 percent), and the corresponding DLI amount of US\$10 million, the calculation of the indicator would be:

$$[\text{US\$10 million}] \times [53-50] / [55-50] = \text{US\$6 million}.$$

Advances on results to be achieved in the future

138. Advance financing will be available to the Government, up to a ceiling of EURO 56.75 million (US\$ 75 million equivalent), or 24.9% of the loan amount. The Government has expressed its interest to avail itself of advances to be disbursed prior to the achievement of specific disbursement-linked indicators. Indeed, in order to ensure achievement of results, INDH 2 will have to increase expenditures in certain areas such as building and equipping additional residential facilities (*Dar Taliba*) for students. DLI 1 (2013 value) and DLI 5 (2012 value) have already initially been selected for advance financing, for a total of US\$25 million (Annex 3, Table A3.3). Advance financing is expected to be made available against other DLIs, following agreement with the Bank. The Bank will recover any advances from disbursements due when the respective indicators are actually achieved.

Table A3.2 Disbursement-Linked Results

Category (including Disbursement Linked Indicator as applicable)	Disbursement Linked Result (as applicable)	Amount of the Loan Allocated (expressed in EURO)
(1) DLI #1: Percentage of girls who reside in the educational dormitories (<i>Dar Taliba</i>) graduating to the next grade	DLR #1.1: 55% in FY12 DLR #1.2: 60% in FY13 DLR #1.3: 65% in FY14 DLR #1.4: 70% in FY15	30,300,000, of which 7,575,000 for each DLR
(2) DLI #2: % of the population provided with access to improved water supply in targeted rural communes by the Program	DLR #2.1: 72% in FY14 DLR #2.2: 77% in FY15	30,300,000, of which 15,150,000 for each DLR
(3) DLI #3: % of income-generating activities implemented by cooperatives, associations or companies (<i>sociétés de personnes</i>), which are viable two years after having benefitted from financing under the Program	DLR #3.1: 30% in FY14 DLR #3.2: 40% in FY15	30,300,000, of which 15,150,000 for each DLR
(4) DLI #4: % of infrastructure projects financed under the Program, judged by the auditors as conforming to technical specifications, after final commissioning	DLR #4.1: 65% in FY14 DLR #4.2: 70% in FY15	15,200,000, of which 7,600,000 for each DLR
(5) DLI #5: #5.1: % of women in the following local governance bodies: CLDH and CPDH #5.2 % of youth (18 – 35 years old) in the following local governance bodies: CLDH and CPDH	DLR #5.1: 20% in FY12 DLR #5.2: 15% in FY12	22,700,000, of which 11,350,000 for each DLR
(6) DLI #6: % of projects under the Rural and Urban Sub-programs of the Program contracted by local governments (communes and <i>Conseils d'Arrondissement</i>), associations, or cooperatives.	DLR #6.1: 57% in FY13 DLR #6.2: 64% in FY14 DLR #6.3: 70% in FY15	26,500,000, of which 11,250,000 for DLR #6.1 and 7,625,000 for each of DLRs #6.2 and #6.3
(7) DLI #7: % of provinces and prefectorates in the Program Area which have put in place a plan of action to address audit recommendations	DLR #7.1: 50% in FY13 DLR #7.2: 60% in FY14 DLR #7.3: 80% in FY15	26,500,000, of which 11,250,000 for DLR #7.1 and 7,625,000 for each of DLRs #7.2 and #7.3
(8) DLI #8: % of priority audit recommendations included in action plans which are implemented	DLR #8.1: 90% in FY14 DLR #8.2: 95% in FY15	15,200,000, of which 7,600,000 for each DLR
(9) DLI # 9: #9.1: preparation of the Environmental and Social Guide related to the Program; and #9.2: % of key actors (DAS and local facilitation teams) trained in the use of such guide on environmental and social safeguards	DLR #9.1: preparation of the Environmental and Social Guide in FY12 DLR #9.2: 100% of key actors trained in FY13	29,432,500, of which 15,000,000 for DLR #9.1 and 14,432,500 for DLR #9.2
TOTAL AMOUNT		<u>227,000,000</u>

Table A3.3 Summary Protocol for Verifying Achievement of DLIs

#	DLI	Definition/Description of achievement	Expected timing of achievement	Advances and recovery	Scalability of Disbursements	Draft protocol to evaluate achievement of the DLI and data/result verification	
						Data source /agency	Procedures
1	% girls who reside in the educational dormitories (<i>Dar Taliba</i>) graduating to the next grade	Girls who reside in the educational accommodation facilities (<i>Dar Taliba</i>) completing the school year, over total number of girls residing in Dar Taliba.	Each year	US\$10 Million on 2013 target value	Yes	Primary source of info: MIS of the Coordination Nationale of INDH (CN INDH) Verification: Competitively-selected external firm contracted by WB, based on a ToR agreed with the CN INDH	Firm will conduct spot checks in a minimum. of 5 provinces on the information provided by INDH national team
2	% population provided with access to improved water supply in targeted rural communes by the Program	population provided with access to improved water supply in targeted rural communes by the Program, over total population of targeted rural communes by the Program	2014, 2015	No	Yes	Primary source of info: ONEE Verification: Competitively-selected external firm contracted by WB, based on a ToR agreed with the CN INDH	Firm will conduct spot checks in a minimum of 5 provinces on the information provided by ONEE
3	% income-generating activities implemented by cooperatives, associations or companies (<i>sociétés de personnes</i>) which are viable two years after having benefited from financing under the Program	Number of viable IGAs implemented by cooperatives, associations or companies (<i>sociétés de personnes</i>) which are viable two years after having benefitted from financing under the Program over total number of IGAs implemented by cooperatives, associations or companies (<i>sociétés de personnes</i>) and financed at least two years prior	2014, 2015	No	Yes	Primary source of info: MIS of the C N INDH Verification: Competitively-selected external firm contracted by WB, based on a ToR agreed with the CN INDH	Firm will conduct spot checks in a minimum of 5 provinces on the information provided by INDH national team
4	% infrastructure projects under the Program	infrastructure Projects financed under the Program, judged by	2014, 2015	No	Yes	Primary source of info: MIS of the C N INDH	The audit ToR will be updated to include the

	judged by the auditors as conforming to technical specifications, after final commissioning	the auditors as conforming to technical specifications, after final commissioning over total number of infrastructure Projects financed under the Program which have received the final commissioning				Verification: IGAT/IGF Audits	Project's conformity to technical standards.
5	#5.1 % women in the following local governance bodies: CLDH and CPDH #5.1 % of youth (18–35 years old) in the following local governance bodies: CLDH & CPDH	Number of women within local and Provincial governance bodies (CLDH and CPDH) over total number of members of local and Provincial governance bodies (CLDH and CPDH); Number of youth (18-35 years old) within local and Provincial governance bodies (CLDH and CPDH) over total number of members of local and Provincial governance bodies (CLDH and CPDH) .	2012 2012	US\$7.5 Million on 2012 target value US\$7.5 Million on 2012 target value	Yes	Primary source of info: MIS of the C N INDH Verification: Competitively-selected external firm contracted by WB, based on a ToR agreed with the CN INDH	Firm will conduct spot checks in a minimum of 5 provinces on the information provided by INDH national team
6	% projects under the rural and urban subprograms of the Program contracted by local government (communes and <i>Conseil d'Arrondissement</i>), associations, or cooperatives.	Number of Projects under the Rural and Urban Sub-programs of the Program contracted by local government (communes and <i>Conseils d'Arrondissement</i>) associations or cooperatives over Total number of Projects under the Rural and Urban Sub-programs of the Program	2013, 2014, 2015	No	Yes	Primary source of info: MIS of the CN INDH Verification: Competitively-selected external firm contracted by WB, based on a ToR agreed with the CN INDH	Firm will conduct spot checks in a minimum of 5 provinces on the information provided by INDH national team
7	% provinces and prefectorates in the Program Area which have put in place a plan of action to address audit recommendations	Number of Provinces and Prefectorates in the Program Area which have put in place a plan of action to address audit recommendations , over total number of Provinces and Prefectorates in the Program Area	2013, 2014, 2015	No	Yes	Audit agency will assess share of provinces which have put in place a plan of action to address previous year's audit recommendations Primary source of info: Audit agency, IGAT/IGF	The audit ToR will be updated to include the verification of the existence of an action plan standards.

						Verification IGAT/IGF Audits	
8	% priority audit recommendations included in action plans which are implemented	Number of priority audit recommendations included in action plans which are implemented over total priority audit recommendations included in action plans	2014, 2015	No	Yes	Audit agency will assess share of critical priority recommendations which have been addressed by INDH. Primary source of info: Audit Agency IGAT/IGF Verification: IGAT/IGF Audits	The audit ToR will be updated to include the verification of the implementation of priority audit recommendations standards
9	#9.1: preparation of Environmental and Social Guide related to the Program #9.2: % key actors (DAS & local facilitation teams) trained in the use of such guide on environmental and social safeguards	Development of acceptable Environmental and Social Guide (2012) Number of DAS and local facilitation Teams (EAC/Q) in the Program area, with at least one member trained in the use of such guide in environmental and social over total number of DAS and EAC/Q in the Program area	2012, 2013	No No	No scalability for 2012 value (action, binary disbursement) Yes	Primary source of info: MIS of the C N INDH Verification: Competitively-selected external firm contracted by WB, based on a ToR agreed with the CN INDH	Firm will conduct spot checks in a minimum of 5 provinces on the training information provided by INDH national team

Annex 4. Summary Technical Assessment

139. This annex provides a summary of the technical assessment of the Program. It covers: (a) strategic relevance; (b) technical soundness; (c) expenditure framework; (d) results framework and DLIs; and (e) economic justification of the Program. The annex includes evaluation of the technical risks, and links the assessment to the proposed improvements as part of the Program Action Plan.

1. Strategic Relevance

Macroeconomic and socio-economic context

Recent performance on socio-economic indicators has been improving

140. Morocco has made considerable progress in its socio-economic development in recent years, with GDP growth averaging around 5 percent despite the global downturn. Overall economic performance and sound fiscal management allowed for a fall in absolute poverty rates from 15 percent (2001) to 9 percent (2007). Unemployment rates are at historic lows.

But there is room still to improve

141. Human and social development indicators show ample room for progress. In addition to the 9 percent of Moroccans who are poor, a further 17.5 percent are living just above the poverty line. Illiteracy among the 15-24 cohort remains high (24 percent, compared to 6 percent in Tunisia); and 60 percent of rural women cannot read. Almost half (44 percent) of rural people lack access to safe drinking water, and over two-thirds have no improved sanitation. Maternal and infant mortality are also high by regional standards at 132 out of 100,000 and 30 out of 1,000, respectively (2009 data).

Inequality remains a challenge

142. Inequality rates are high relative to regional standards (GINI 0.4070 and are rising, and large segments, particularly women, youth, and the rural population, fail to benefit from growth.

The large youth population has limited access to employment and education

143. Although Morocco's population growth rate is declining, its age structure is still very young: in 2004, 36 percent of Moroccans were between ages 15 and 35 years, generating high demand for jobs and education. Youth participation in the economy is limited, with 64 percent of young people, age 19-25, unemployed. Education remains a prime area of youth exclusion, with youth from poor backgrounds suffering from a poor-quality public education system with weak linkages to the job market.

Social and institutional barriers to the full participation of women remain

144. Gender gaps in education persist, particularly for secondary education. While 91 percent of 11-year old girls are in school, only two-thirds (65 percent) of their 14-year old sisters are. Recent reforms are beginning to effect change: a more progressive family code, as well as nationality, labor, and electoral codes. However, gender biases continue to limit women's physical mobility and their access to opportunities and resources. Only a little over one-quarter (27 percent) of women participate in the labor force versus 80 percent of men.

The rural urban gap remains large, with widespread rural poverty

145. Almost one in every four people living in rural areas is poor, compared to one in ten in urban areas (2004 data). The rural poor account for two-thirds (66 percent) of all of the country's poor, and practically all rural regions contain pockets of severe poverty.

Sustained social investments have not yet translated into concrete results

146. There are supply-side issues of weak cross-sectoral coordination, continuing top-down approaches, and weak targeting. Social assistance programs remain characterized by fragmentation and low coverage. Insufficient coordination results in overlaps and coverage gaps: even while several institutions support some programs, important risks remain uncovered (e.g., early childhood development). The largest social protection program (5.5 percent in 2011), fuel and food subsidies, benefits mostly the non-poor: the richest quintile receives nearly five times as much as the bottom quintile.

In addition to supply-side weaknesses, insufficient voice and accountability mechanisms affect the performance of social expenditures

147. While important progress has been made in terms of freedom of expression and public disclosure, access to information such as budgetary information and government statistics remains uneven and does not always enable adequate consultation or scrutiny of public policies. Disclosure is often subject to discretion, further impeding transparency.

Against this backdrop, Morocco faces compelling demands for increased social and economic inclusion.

148. A new Constitution, approved by referendum in July 2011, strengthens the roles of democratic institutions (prime minister and parliament); provides for greater independence of the judiciary; and enshrines human rights, gender equality, and the identity of Morocco's important *Amazigh* minority. Inclusion and accountability are strengthened by a clear roadmap for decentralization allowing for a shift of power and resources from the center to elected regional councils. Institutions are set up to protect human rights and to fight corruption. Following the 2011 events in the region, Morocco has engaged in a new phase of governance reforms, including an anti-corruption action plan, and the right of citizens to access government information.

INDH 1 achievements

149. INDH 1 was launched by the King in 2005 as Morocco's flagship program to fight social and economic exclusion. It is the first ever program in Morocco to allocate resources to communes and neighborhoods based on poverty and social exclusion criteria and to roll out nationwide procedures aimed at including beneficiaries in the decisions concerning their use. Following program objectives of inclusiveness, accountability, and transparency, INDH 1 was successful in setting up a complex but generally well-functioning institutional architecture and in financing about 700 local participatory plans with more than 22,000 projects reaching 5.2 million beneficiaries.

INDH 2 fits squarely in the national agenda for poverty reduction, improved governance, inclusion and equity

150. INDH was conceived in the light of Morocco's pressing development priorities and to redress the legacy of social exclusion. Its launch in 2005 was specifically cast within the overall Government effort to improve the conditions of poor and vulnerable groups by establishing a more inclusive mode of governance aimed at putting the population in poor and marginal areas at the center of decision-making. There has been no shift in those priorities, and INDH has — if anything — become even more relevant today given the socio-political pressures intensifying since the spring 2011 and the new Government agenda of increasing voice, transparency and participation of the vulnerable and excluded.

INDH 2 will continue to be Morocco's flagship economic and social inclusion program and the main government instrument ensuring citizen's participation and the targeting of resources to disadvantaged groups and areas. The launch of INDH 2 by the King and the expansion in the INDH budget and the near doubling of its geographic scope are testament to the national commitment to the program.

Relationship to the Country Partnership Strategy

The proposed Program is one of the main lending vehicles to support the second pillar of the Country Partnership Strategy (CPS): "increasing access to and quality of service delivery for all".

151. The Program will contribute directly to the CPS Program Area 2.4, "Reducing vulnerability and social exclusion" and in particular to the following CPS outcomes: (a) improved access to basic infrastructure, social services, and economic opportunities by poor and vulnerable groups, including women and youth; (b) sustainable and improved quality of services to vulnerable groups; (c) better coordination of national policies and institutional mechanisms to reduce vulnerability; and (d) consolidation of participatory approaches to ensure that basic infrastructure and socio-economic services meet the basic needs of excluded and vulnerable groups, particularly women and youth. Support to INDH 2 also contributes to the CPS cross-cutting objective to improve governance. With the impact of the events in the Region, the centrality of Bank support to INDH 2 as part of the CPS engagement is given further importance due to the project's critical role in promoting voice and participation in development, in reaching out to disenfranchised and marginalized groups, and in tackling poverty and vulnerability. These development issues have taken on renewed relevance in the Bank's program as discussed in the Morocco CPS Progress Report (May 15, 2012).

152. Furthermore, the Program is fully aligned with MENA's Regional Strategy and will be contributing directly to three of its four priority pillars:

- 1) *Strengthening governance* by
 - expanding local actors' role and capacities in managing investments (DLI-6; DLI-9; PAP-2; PAP-3; PAP-4)
 - increasing transparency in local government (DLI-7, 8; DLI-PAP-4, PAP-8).
- 2) *Ensuring social inclusion* by:
 - providing quality social infrastructure and services to vulnerable groups (DLI-1, DLI-2, DLI-4; RI-5; PAP-1)
 - enhancing participation of traditionally excluded groups in decision-making (DLI-5; RI-4)
 - providing avenues for voice and increasing accountability of decision-makers (RI-7; PAP-4, PAP-8).
- 3) *Creating jobs* by:
 - increasing the share of income-generating activities managed by commercially oriented actors (RI-10)
 - providing economic opportunities through viable micro-enterprises (DLI-3; PAP-6)

2. Technical Soundness

Targeting

Overall, the INDH 2 approach to targeting builds on Phase 1 and its lessons, and is sound. Some further refinements to criteria could increase the poverty-reducing impacts.

153. Although targeting for the rural subprogram under INDH 1 undoubtedly benefitted much of the poor rural population, it missed deep poverty pockets in otherwise slightly less poor rural areas and allocated the same level of resources to all target communes regardless of how pronounced their

poverty problem was. INDH 2 provides for differentiation between poverty levels but do not yet make full use of the 2007 Poverty Map to match resources to the severity of poverty. Resource allocation criteria for the rural subprogram could be revised to align resources with the number of poor per commune as shown by the Poverty Map (PAP-9). In addition, it is suggested that ranking of rural areas based on poverty mapping should be subject to robustness checks and that areas that have experienced sharp changes in poverty between 2004 and 2007 should be screened to better understand why these changes have occurred.

Under INDH 1, the selection of towns for the urban subprogram paid more attention to administrative criteria than to social exclusion criteria, targeting criteria were left broad and subject to the interpretation of each provincial authority, and the selection of neighborhoods did not rely on the poverty maps available. INDH 2 is more inclusive, covering all municipalities with more than 20,000 inhabitants. Criteria for neighborhood selection are being refined. This is an opportunity to set the selection criteria and financial allocations for neighborhoods based on criteria of social exclusion, using poverty maps.

Planning

Overall, the INDH 2 planning and programming process builds appropriately on the largely successful implementation experiences under INDH 1.

154. The bottom-up preparation of the participatory development plans (ILDH) will enter a second round, following the same approach as under Phase 1 but with improved procedures and strengthened technical support.

155. One area of weakness in the participatory planning process is that currently the CPDH can modify the local development plan (ILDH) presented by the CLDH, undermining the intended empowerment of the local community. Under INDH 2 the rural and urban sub-program operational manuals will be revised to specify that responsibility for ILDH approval should clearly lie with the CLDH, with CPDH's power to intervene limited to the act of validation or rejection in case the ILDH (a) does not respect the INDH rules and criteria or (b) if the ILDH contains projects with a bearing beyond the boundaries of the concerned INDH commune (PAP-3). Where rejection is proposed, a dialogue would then be initiated between the provincial level and the CLDH to improve the ILDH. INDH governance, audit and grievance redress mechanisms (GRM) provide control and recourse for the respect of this (and all) INDH rules.

156. The cross-cutting sub-program opens INDH 2 to all poor communities nationwide that are not targeted under other components. The 'competitive' nature of the application and assessment process, and the fact that the process does not pass through the local bottom-up participatory planning process, raises concerns about elite capture. However, the eligibility criteria set out in the operational manual are clear and restrictive, the CPDH includes broad representation from civil society, women, and youth who can act as watchdogs, and the strengthened GRM under the Program will reduce patronage risks.

Convergence

157. Another area where Phase 1 encountered problems was integration of ILDH investments with line ministry investments. INDH normally aims to enhance 'convergence' (i.e., to seek synergies with existing or planned larger initiatives financed by line ministries in order to ensure social inclusion impact, avoid overlap, and leverage investment and O&M financing). The pursuit of complementarities proved difficult during the first years of implementation as line ministry investment plans were often not known at the local level. Convergence has improved as INDH 1 became more established and particularly with the introduction of a commune-wide planning process in 2010 (*Plan de Développement Communal*), which includes INDH 1 investments and commune-financed investments as well as investments proposed by line ministries. Under INDH 2 it is proposed to go a step further and submit to the steering committee recommendations to enhance

convergence between INDH and the line ministries, with a view to improve the integration of investment programs but also ensure that line ministries provide the complementary inputs (e.g., personnel, equipment, O&M budget) for the sustainable operation of activities once completed (**PAP-1**).

158. Convergence between the INDH and local government and line ministries will be further strengthened by: (a) provisions for all concerned ministries to sit on the CPDH; and (b) requirements that all activity proposals show how O&M will be assured, including engagement of line ministries, where relevant. In addition, Government intends to decentralize fiscal programming to regional level by the end of 2012, at which time INDH intends to establish regional coordination offices that will track harmonization of line ministry and INDH investments and O&M arrangements.

The participatory process

159. INDH 1 demonstrated that key features of best practice CDD projects can be successfully implemented in Morocco, including participatory bottom-up project identification and programming, integration of local associations and NGOs in the process, and inclusive and accountable representative local governance bodies. Under INDH 1, almost 700 participatory diagnostics and local investment plans (ILDH) were prepared and implemented, covering 5.2 million beneficiaries. Contrary to the outset of the program when there was no one clear model of how to develop ILDH, INDH 2 will be able to capitalize on these best practice participatory processes developed during INDH 1 and will also integrate social accountability processes to increase transparency. Additionally, indicators will track overall satisfaction of the target population with the ILDH process and results (**RI-8, DLI-6**).

160. One area where the participation of beneficiaries in planning and executing could be enhanced is in accountability. Local stakeholders may participate actively in problem identification and the proposals for activities, but they lack clear information on how decisions get taken and do not have channels to give feedback on implementation and operation of activities. It is therefore proposed that participatory M&E piloted under INDH 1 will be scaled up and other social accountability tools will be introduced to enhance the transparency of the process, and increase accountability (**PAP-4, PAP-8**). Indicators will track levels of participation both in the participatory diagnostic and in participatory M&E (**RI-4, DLI-4**).

Execution

161. Activity implementation has in general worked well. The program management structure and decision-making framework allowed sponsors and support agencies to work together constructively to deliver activities (22,000 activities valued at US\$1.7 billion in just five years). Clear structures of accountability exist within and across the various agencies. Capacity constraints in contracting at the commune level were normally addressed through support from provincial staff, and the selection of contractors and contract execution and supervision have generally been on time and on budget.

162. Under INDH 1, there was a tendency to give priority to hard infrastructure investments over activities involving social capital formation and shared know-how. This is usual for a first phase CDD project and can be expected to gradually change over time. The decentralized nature of execution clearly imposed some moderate constraints in terms of technical quality, and it is not clear whether there were significant efficiency-derived cost savings. However, overall, these shortcomings were outweighed by the gain from meeting program objectives of empowering project sponsors at community level.

163. The operational manuals are useful, although they need to be updated regularly. Changes and improvements are introduced through circulars and orientation notes issued by the Ministry of Interior during the annual programming process. For INDH 2 the National Coordination plans to update and streamline the operational manuals in time for the installation of new CLDH following the 2012 local

elections. Updating of the IGA operational manual (see below) is a priority for income-generating activities to introduce clearer criteria for appraising, approving, and monitoring of activities. There are several areas where further improvements are needed.

164. First, although the involvement of local sponsors such as NGOs, in activity conception and implementation was often successful, much of actual activity implementation was carried out by public agencies on behalf of communes. During the first year of INDH 1, provincial authorities often refrained from delegating execution responsibility to activity sponsors such as communes and NGOs, partly to manage fiduciary and quality risks. However, the rate of decentralized execution improved after 2008/9 in line with the increase in capacities of project sponsors. In order to strengthen community ownership and responsibility for activities, it is proposed under Phase 2 that execution should be systematically delegated to local activity sponsors, especially communes. A DLI will track this (**RI-10, DLI-7**).

165. Second, there is scope to provide clearer guidance on technical standards in order to ensure quality and value for money. Under Phase 1, activities tended to adhere to the same technical standards followed by line ministries, but the absence of prescribed technical standards for INDH 1 investments led to a certain range in design variation throughout the Program. This is partly a function of the decentralized nature of execution, which leaves project sponsors enough leeway to adapt design to specific circumstances. There is thus scope to provide clearer guidance on technical standards. This would also reduce fraud and corruption risks related to over specification or lack of adherence to technical standards. It is also proposed that periodic technical audits verify assets and operations and check quality according to specifications. A result indicator will track activity quality and sustainability (**RI-7, DLI-5**).

166. Under INDH 1, arrangements for subsequent O&M were not always well structured: the ILICR reported that only three-quarters of infrastructure activities were fully operational. It is therefore proposed that under Phase 2 (a) O&M arrangements are laid out in the partnership agreements clauses on delegated operation (PAP-2) and (b) the responsibility of communes over investment decisions is clarified (**PAP-3**).

Income-generating activities

167. Given the vital need to complement improved provision of infrastructure and services with improvement of incomes, the Government is giving high priority to income-generating activities in Phase 2 and is requesting particular Bank support to the activity. However, results of Phase 1 implementation of income-generating activities were overall disappointing. Clearly additional risks are associated with income-generating activities and the model needs to be refined, building on existing global knowledge. The ILICR found in particular a need for: (a) development of a typology and adaptation of appraisal and financing arrangements for different categories; (b) clear structured linkages to micro-finance; and (c) much better technical assistance and continued business management support to sponsor associations.

168. In Phase 2, the model is being revised to take account of the weaknesses identified. A revised operational manual will set out clearer criteria for eligibility, approval and follow-up of activities, and for increased involvement of the private sector throughout the process. A separate technical assistance facility, staffed by a dedicated team of experts at the national and subnational level, will be established that can provide tailor-made, long-term capacity building to the small and medium-size enterprises and associations beyond just funding (e.g., business planning, marketing, financial accounting, technological support). In addition, a second important opportunity is being added to finance community-managed, revenue-generating services.

169. Given its track record, the income-generating activities operational manual should be revised to simplify and streamline project-cycle procedures and to improve income-generating activity identification (PAP-7). In addition, it is proposed that specific income-generating activity focal points

be established within each Division d'Action Social in order to mobilize and coordinate structured and professional support to income-generating activities during identification, execution, and operations (**PAP-6**). Indicators will track key results of degree of sponsorship by grassroots organizations (**RI-11, DLI-8**); and capacity building (**RI-12**). Overall contribution of income-generating activities to the Program development goal will be tracked by a specific DLI measuring the percentage of income-generating activities operating successfully two years after completion of financing (**RI-3, DLI-3**).

170. Concern has been expressed that the inclusion of income-generating activities in three subprograms (urban, rural, cross-cutting) may dilute the technical support function and risk confusion between the public and private goods aspects of the subprograms. In fact, the technical support teams at national and provincial levels will be common and operate across all three subprograms. Essentially, there will be a single income-generating activity support facility offered across all geographical regions to the different poor populations targeted under each subprogram. The offer of private goods through a predominantly public goods program is dictated by reasons of efficiency (a single planning and programming sequence), and the risks are mitigated by the open eligibility, including for community-based, income-generating activities.

Institutional Architecture

171. *Under Phase 1, the Government invested heavily in building a decentralized governance and support structure for INDH, linking the center with the three levels of local governance and execution.* The structure involved over 700 joint public/private governance bodies; almost 700 social mobilization teams, *Equipes d'Animation Communal/du Quartier* (EAC/Q); 70 provincial-level support teams, *Division de l'Action Sociale* (DAS); over 1,000 local-, provincial-, and regional-level participatory plans; and several thousand largely nongovernmental activity sponsors. The setting up and effective operationalization of this structure was one of the key achievements of Phase 1. Rapidly developed procedures and institutional capacity allowed full-scale roll-out despite the apparent complexity. The operation manuals ensured consistency in approach. The inherent tensions between central coordination and harmonization and decentralized empowerment proved largely positive. Wide geographical dispersion made central control hard, and obliged the Coordination Nationale to take a hands-off approach to programming and implementation. While this posed problems of harmonization, it also released considerable local energies and innovation. Tensions between the center and the numerous decentralized bodies was implicit in the set-up but allowed for some creativity, and imposed a 'low-key' approach from the center (for example in *notes orientation* rather than instructions). This was consistent with the bottom-up, demand-driven intention of INDH.

This structure overall has proved effective, and INDH 2 will maintain the key institutional and program management arrangements in place under INDH 1, and extend them to newly targeted communes and neighborhoods. The process of institution and capacity building will need to be replicated for the new INDH 2 communes and neighborhoods but will benefit from established processes and best practices.

Governance and Oversight Bodies

172. *The Strategic and Steering Committees* proved effective under INDH 1, particularly in the earlier stages of roll-out. It is expected that the launch of INDH 2 and the installation of a new Government in January 2012 will reinvigorate these key governance bodies.

173. *The tripartite composition of the hierarchy of INDH committees (CLDH, CPDH, CRDH)* proved effective in promoting inclusion and transparency and in providing sound governance to the process. The participation of women and of young people in these committees was a notable success, and this is targeted to increase further in INDH 2 (to be tracked by **RI-9**). One noted weakness — the problem of the CPDH substituting for the CLDH power of decision over the ILDH — will be corrected in Phase 2 (**PAP-3**). The risk that participation of civil society organizations might be limited to 'officially approved' NGOs is overcome by INDH policy that allows eligibility of a wide

range of informal civil society organizations, including cooperatives, ‘groups of economic interests,’ and community-based associations like water user groups or school PTAs. In addition, the process of registering for eligibility is quite straightforward and, compared to other countries in the region, non-political.

174. *The National Observatory for Human Development (ONDH)* will continue to be the key agency tasked with evaluating INDH. Its autonomy and independence will receive a boost from Government’s recent decision to separate its financing from that of INDH through a dedicated budget line.

Support Agencies

175. Key capacity constraints within support agencies were partly overcome during Phase 1. After a hesitant start, these agencies grew in strength with the implementation of the program, although some weaknesses remained.

176. The National Coordination unit, *Coordination Nationale*, was initially relatively weak in most project activities, particularly in relation to capacity-building programs and development communications. These functions improved over the implementation period, and today the INDH coordination unit is highly motivated, and has developed capacity to oversee implementation effectively. The staff is now generally adequate in number, although management and coordination of environmental and social management activities remains understaffed, as noted under the Environmental and Social Assessment (Annex 6). In addition, monitoring and evaluation needs further strengthen.

177. The Government’s proposal to set up *regional coordination units* could help integrate INDH with the country’s overall regionalization agenda and facilitate convergence between INDH and sectoral programs. However, there are risks — loss of focus and competence, or dissipation of responsibility — and the process will need to be carefully designed and implemented.

178. *Division d’Action Social*, whose organizational chart includes capacity building, communication, and M&E is generally capable but needs strengthening in environmental and social and income-generating activities. In Phase 1, the DAS provincial-level support teams were from the start energetic and responsive, and grew greatly in strength over the period to become the Program’s crucial pivot. However, capacity gaps remain that will be reinforced under Phase 2. Environmental and social management functions will be strengthened under the three-year capacity building program (DLI-9), and a focal point will be formally designated for environmental and social risk management (PAP-11). DAS will also establish focal points for the income-generating activities (PAP-6).

179. *EAC/Q are often effective but there are capacity and institutional limitations.* The local mobilization teams (EAC/Q) are the key support for participatory planning, yet team members are often commune staff and lack training in social mobilization. They receive lump-sum compensation without regard to performance, so the incentive structure is weak. The accountability structure is unclear since the commune or urban neighborhood pays the team members, but they report to the CLDH. It is therefore proposed that under Phase II the approach to EAC/Q recruitment and functioning be revised, putting the teams on a full-time basis and properly trained and equipped, and providing standard methodologies that can be adapted to local contexts (PAP-5). At this time, the possibility of increasing the proportion of facilitators who are women (currently 16 percent) should be considered. Another possibility that Government is considering is outsourcing social mobilization functions to dedicated agencies and/or NGOs with participatory expertise. A result indicator will track progress with the capacity-building program for EAC/Q (RI-15, DLI-10).

Cross-cutting Functions

M&E

180. INDH 1 set up an M&E system, with officers responsible both in the Coordination Nationale and in all 70 DAS. Over time, a flow of information on implementation resulted, allowing the Coordination Nationale to prepare good progress reports and to justify tranche releases. INDH 1 also commissioned qualitative surveys and impact evaluations in 2009 and 2011.

181. For the scale-up, the national coordination team recognizes that the M&E system needs improvements in several areas, and these refinements were discussed during the preparation phase. For example, the reports could be more analytical in nature, provide more information on types of projects and their quality, and contain more discussion of some of the challenges faced. Second, the CLDH and the DAS are responsible for monitoring of activities but that information was not well entered into the MIS for recording. Third, M&E data was used only partially to inform decision-making and resource allocation. In general information flowed up to the national level but not back down to the provincial or local levels where the data could be used to check progress against benchmarks and comparators for their projects and ILDH local development plans. Lastly, the national coordination team was not fully responsive to ONDH recommendations.

182. Some of the specific system improvements the mission recommends for the Phase 2 are to (a) streamline some of the information; (b) add several important fields (e.g., unit costs, focus on utilization and access of services, results of supervision, contractual and procurement information); (c) improve the access by local users to MIS at all times; (d) make easier report generation for regional and provincial levels; (e) improve the clarity and analysis of INDH 2 reports in terms of investment trends and issues; and (f) make the subproject database and province-specific project information readily available on the website for greater transparency.

183. The National Coordination team is aware of many of these issues, has consulted with the provinces, and is in the process of improving the Program MIS. Improvements to the M&E system is included in the Results Framework (**RI-12**).

184. INDH 2 benefits from IGAT-IGF (audit agency) periodic audits and ONDH evaluation studies, which provide important feedback loops for evaluating and acting on emerging issues. It is planned that ONDH will continue to conduct the impact evaluations for INDH 2 as they did for INDH 1. Also, IGAT-IGF will play an important role in reviewing the technical specifications of the infrastructure works, as well as following up on audit recommendations and provincial plans of actions to remedy issues arising during the audits (**DLI-4, DLI-7, and DLI-8**).

185. There are several potential areas of capacity-building related to M&E. More exposure to impact evaluation techniques and international practices for measuring results would be beneficial for the national coordination team and ONDH. For future impact evaluations and studies, the World Bank should continue to provide guidance on the studies, and ONDH will benefit from the continued advice of the international evaluation expert who assisted with the impact evaluations under the INDH 1. In addition, exposure to how other countries are incorporating social accountability and monitoring mechanisms would be useful (e.g., conducting social audits, improving grievance redress mechanisms and IT, and community participatory monitoring). Lastly, the World Bank and EU should continue to provide technical advice on the MIS, progress reports, and what information is needed for management purposes.

Building capacity

186. The success of capacity building under INDH 1 included the training of local actors and associations and the creation of a professional cadre of 6,300 university-trained social workers. Seventy provincial training plans were drawn up and 105,000 persons were trained, compared to the

target of 70,000. This greatly contributed to the rise in status and competence of NGOs, the professionalization of social work, and the raising of the competence of the INDH governance and support bodies. However, disparities in the capacities of INDH governance bodies and support units signal the need for continued capacity-building activities. This, together with the needs generated by the roll-out of the Program to new communes and neighborhoods, will be addressed by a coherent capacity-building plan, including training and communication activities. Capacity-building actions will strengthen fiduciary and environmental and social activities at the municipal level (**DLI-9**). Revisions to arrangements for recruitment and operation of the local facilitation teams (EAC/Q) will develop capacity for supporting participatory processes and follow-up of activity implementation.

Grievance redress mechanisms

187. During INDH 1, only a few provinces ran a grievance redress mechanism, and design and implementation were limited in scope. Information on issues and their resolution usually did not go beyond a notice posted in the provincial offices. Under INDH 2, professional support, including Bank support, will be provided to design and implementation (see the Implementation Support Plan, Annex 9). The new systems will roll out as of 2012 and be operational by 2013 (**PAP-8**).

Partnerships

188. Collaboration with *line ministries* proved fruitful under Phase 1, but with some difficulties over convergence, with weak integration of INDH and sectoral investment programs, and mismatch when INDH activities were handed over to line ministries for operations. With efforts by the steering committee, these problems should be resolved through measures under Phase 2 (**PAP-1**).

189. Already under INDH 1, the program formed strong and effective partnerships with the Social Development Agency (ADS), which has gathered considerable experience in the management of CDD programs and the National Welfare Agency (Entraide Nationale), which has experience on vulnerability issues. This experience will be consolidated and extended during Phase 2.

190. Phase 1 also relied on increasingly effective partnerships with NGOs, which grew in strength during the period, thanks to capacity building and experience. Under Phase 2, further capacity building will be provided to NGOs, and partnerships for both implementation and operation will be extended, with an increase in formal contracts to ensure O&M and service-quality standards (**PAP-2**). Finally, INDH 1 greatly benefitted from selective technical assistance provided by several aid agencies. The EU for instance provided technical assistance to improve the INDH M&E system, while the Millennium Challenge Corporation helped enhance the quality of the income-generating program. Under Phase 2 these partnerships are likely to continue. In addition, Government wishes to see increased harmonization of donor approaches and alignment with government systems and procedures.

Adequacy of the general legal, regulatory, and institutional environment

191. ACAP is generally satisfactory, with gaps, which are being acted upon. Although Morocco's compliance with rules and regulations and existing accountability arrangements provide an adequate framework for the use of public funds and public financial management is considered broadly transparent, anti-corruption rules suffer from capacity gaps within control agencies. The new Government aims to address this, and has made the fight against corruption and "the moralization of public life" one of the pillars of its "social compact" for the country and a key priority to re-establish trust between state and citizens.

3. Expenditure Framework

Funding appears adequate to achieve key objectives. Funding has been committed and will be made efficiently available to INDH 2

192. Government has expanded the number of target locations and added the territorial upgrading subprogram. To finance this greater scope, a 40 percent increase over INDH 1 financing allocation is programmed, with outlays programmed to total MAD 17.1 billion over 2011-2015, equivalent to US\$2.1 billion, up from US\$1.2 billion initial allocation during INDH 1. About 55 percent of the total funding is expected to come from central government (down from 60 percent), 38 percent from local government (up from 20 percent), and 7 percent in grants from international donors (down from 18 percent). Contributions from central and local governments have been secured. Due to the success and popularity of this high-profile program, initiated and strongly supported by the King, annual contributions from central and local government should be made available promptly and unblocked to the implementing agencies. Donor interest remains very keen, and there is likely to be no problem in securing or exceeding the level of external financing programmed. In addition it is expected that other stakeholders will contribute to the financing of INDH 2 subprojects as they did during INDH 1, thus increasing the total investment amount over the planned US\$2.1 billion. The proposed Bank loan of US\$300 million will contribute to the central government's funding share.

INDH 2 Costs			INDH 2 Financing			
Subprogram	MAD million	US\$ million	Financing	MAD million	US\$ million	%
1. Rural	3,100	374	Central government	9,400	1,170	55%
2. Urban	3,400	410	Local government	5,700	690	33%
3. Cross-cutting	2,800	331	Public institutions	1,000	120	6%
4. Vulnerability	1,400	168	Donors	1,000	120	6%
5. Territorial Upgrading	5,000	602				
Unallocated	1,400	215				
TOTAL INDH 2	17,100	2,100		17,100	2,100	
Of which Program costs	9,300	1,150				

193. *INDH 2 will remain a small part of overall social expenditures, and leveraging sectoral programs is an important goal.* Despite the increase in program size, INDH 2 costs will remain at roughly 3 percent of Government's total social investments. To increase the impact of INDH 2, Government aims to leverage further socio-economic and infrastructure investments in poor communities. This will be achieved through: (a) measures to seek further complementary investment from line ministries (*PAP-I*); (b) establishment of INDH regional offices to network with all agencies to ensure overall integration of investments through the regionalization process; and (c) ensuring complementarity and targeting at the local level through the *plans de developpement communaux*.

4. Results Framework and DLIs

194. The program development objective is to improve access to and/or use of enhanced participatory local governance mechanisms, basic infrastructure, social services, and economic opportunities in the Program Area. The Program targets four outcomes, corresponding to the four thematic areas identified by the Bank and the Government:

- Enhancing access and quality in service provision;
- Strengthening participatory local governance and social accountability;
- Enhancing economic inclusion;
- Supporting capacity and systems development

195. The PDO and outcomes follow the log frame prepared by Government for INDH 2 as a whole but apply only to the Program. They have been discussed and agreed with Government.

The PDO and the four PDO indicators (Annex 2) are designed to be SMART (specific, measurable, attributable, realistic, and relevant and time bound). They capture the fundamental aim of improving the quality of life of key segments of the target population by measuring: (a) improvement in rural children's education, reflecting the need to correct the poor educational status of rural Morocco, particularly for females; (b) improvement in access to safe drinking water in rural areas for some of the nearly half of the population (44 percent) who currently lack access; (c) success of income-generating activities, reflecting the need to bring not only improved social services to the target population but also to increase household incomes through the growth of enterprises; and (d) increased engagement of the target population in participatory programming and evaluation of benefits, reflecting the demand-responsive community-driven essence of the Program.

196. The intermediate results indicators are similarly SMART. In contrast to INDH 1 where indicators focused on the setting up of the participatory process and governance entities, Program indicators for Outcomes 1 and 3 concentrate on measuring changes in the standard of living of the target population through access to services and improvement in economic opportunities. Indicators for Outcome 2 will capture results of the INDH process, but with elements related to specific improvements leveraged by the Program (RI-7, the quality of the local planning process; RI-8, rise in the participation of women and young people in the governance committees; and RI-9, increase in the number of activities actually implemented by local people). Indicators for Outcome 4 measure the specific improvements in INDH 2 management promoted by the Program: M&E, capacity for local-level social mobilization, and improvements in fiduciary and safeguards management.

197. There is an emphasis on sustainability of outcomes in the several indicators requiring follow up on completed activities (RI-3, RI-7). The collection of information for most of the indicators will require active participation of beneficiaries through participatory M&E and field surveys, strengthening the engagement of the target population and increasing the reliability of the information.

DLIs and Verification Protocols

198. Disbursement-linked indicators (DLI) are a subset of the Results Framework results indicators. They have been agreed with Government and discussed with the EU. The verification protocols were also discussed during project preparation. Verification modalities vary based on DLIs. The primary information base to be used will mostly be produced by Coordination Nationale through internal monitoring systems (MIS) and the audit agencies IGAT/IGF. Under INDH 2, the upgrading of the information system will factor in specific indicators to ensure adequate progress in strengthening integrity risks detection and mitigation, including through reporting on the indicator related to the effectiveness of social accountability tools (**RI-4, DLI-4**). Verification of the nine DLIs will rely on an externally contracted firm to be hired by the World Bank to verify six of the indicators while IGAT/IGF will verify the remaining three indicators related to technical quality of infrastructure works and follow up on audit recommendations. The World Bank will further review evidence regarding DLIs during implementation support missions, as deemed necessary. See Annex 3 for the DLIs and verification protocols.

5. Economic evaluation

Rationale for public provision

199. Most Program investment is in public goods such as basic infrastructure and social services, which the Moroccan Government finances to strengthen the social and economic basis for stability and growth and to develop human capital. Government also has a pro-poor equity objective in INDH, to improve access of the low-income and vulnerable population, which lack the means to pay for basic infrastructure or services such as health, social protection, or education.

200. The *rationale for Government to support income-generating activities is essentially market failure*. Contrary to the financing of public goods, the financing of interventions such as income-generating activities normally covers a limited number of beneficiaries, as opposed to the whole target population. However, in Morocco there is little or no commercial private sector engagement in income-generating promotion and hence limited development of micro and small-scale enterprises to benefit the poor and vulnerable. The poor are subject to liquidity constraints and cannot access market finance. More generally, starting up of enterprises by very poor people is impeded by lack of trust, information asymmetry, the absence of mechanisms to enforce contracts, etc.

201. *There is no negative substitution effect of public financing*. The risk that INDH 2 finance will have a negative substitution effect on traditional public service and infrastructure investment is negligible. INDH 2 financing is just 3 percent of the total public social sector budget. In fact, as with Phase 1, INDH 2 will likely leverage increased line ministry funding through the arrangements for convergence. Nor will INDH 2 crowd out private financing since the investment capability of the target population is very limited. In fact, INDH 2 will leverage private financing by requiring contributions from the project beneficiaries and a clear financing plan for operating and maintaining the infrastructure or services financed under INDH 2. For income-generating activities, the beneficiary share is as high as 40 percent.

Program Economic Impact

202. Most infrastructure and services investments under the Program can be the subject of standard economic analysis. In fact, international experience suggests that, if appropriately managed, community-based, participatory approaches can achieve high internal rates of return. This result also generally applies to INDH-financed activities. A study of a sampling of INDH 1 activities reported overall positive results. *Infrastructure activities* evaluated had an average internal rate return of 12 percent, with electrification activity returns ranging from negligible to 10 percent, roads activities from 17 to 50 percent, potable water activities from negative to 47 percent, and urban upgrading activities from negative to 43 percent. Returns tended to be higher for simple activities that were not very capital intensive. Rates of return were not calculated for *social services activities*, but the study found that in addition to evident direct benefits, health and education activities brought indirect social returns in terms of social capital formation and socio-economic dynamic. However, the evaluation also found uneven levels of use, and inadequate cost-effectiveness assessment of alternatives. Half of the sample of *income-generating activities* had good rates of return (12-14 percent) while half had rates below 8 percent and three had already failed, confirming the need for an overhaul of the income-generating approach. The study identified key success factors through linkages to downstream markets, quality of support provided, adequacy of fixed and working capital, and the education and skills of the entrepreneurs. The successful activities also had a multiplier economic effect and contributed to leveraging more investment.

Potential for enhancing returns under the Program

203. On the basis of INDH 1 experience, the PforR operation introduces measures to improve the performance and sustainability of investments and hence enhance economic returns, including (a) improving the geographic targeting for resource allocation; (b) factoring cost-effectiveness considerations into activity identification and selection; (c) measures to standardize design and rationalize and track unit costs; and (d) the arrangements for ensuring O&M.

Cost Effectiveness

204. Typically, CDD approaches are expected to improve cost effectiveness. In INDH 1, the evidence on cost effectiveness was mixed. Project implementation and the quality of infrastructure were of variable quality, mostly good: a limited sample of infrastructure projects was evaluated 75 percent of “good quality” and 25 percent of “moderate quality”. Costs were about 20 percent lower

than usual costs for public contracts, although it was unclear if this could be imputed to efficiency gains or to variations in specifications or quality of works. Sustainability was a concern, with limited provision for maintenance, particularly for drinking water, urban cleansing, and social care centers.

Potential for enhancing cost effectiveness under the Program

205. Under INDH 2 it is proposed to increase the cost effectiveness of investments through measures incorporated in the operations manuals, including selection criteria that require (a) adoption of a value-for-money approach, demonstrating an adapted and efficient solution to the problem; (b) identified financial or in-kind contribution of project sponsors (10 percent minimum);²⁴ (c) demonstration of capacity of the project team to implement the project; and (d) an appropriate and credible financing plan for operations and maintenance of the project. The M&E system and audit and inspection arrangements are designed to follow up on project quality and sustainability.

Welfare gains

206. Overall, observation and preliminary evaluations during INDH 1 showed that the delivery of activities brought substantial benefits to the target group and that this had a material impact on their poverty status. Preliminary results also show that benefits tend to reach the actual intended beneficiaries. A qualitative survey published in 2011 found that 54-58 percent of households in INDH 1-targeted areas participated in the identification of the activities, and 73-78 percent of households claimed increased access to and use of services or infrastructure from INDH 1 activities. Results of the INDH 1 Impact Evaluation are expected to be available July 2012.

207. Mechanisms for improving welfare gains and their sustainability are built into the Program, including (a) revised targeting approach aimed at a better alignment of geographic targeting for resource allocation with severity of poverty; (b) more adherence to business plan requirements for income-generating activities coupled with tailored technical assistance; (c) revised framework for operationalizing the capacity and assistance functions at local level (EAC/Qs); and (d) increased attention to monitoring of the technical quality of activities.

Value Added of Bank Support

208. For INDH 1, Government invited the Bank to be the lead technical partner in order to provide expertise and advice to raise the technical soundness of the Program and to take the lead among the 17 external financiers. The Bank accepted the role, supported the program in its entirety, and allocated a large supervision budget each year. This allowed task teams to work closely with the Coordination Nationale on the overall design and implementation of INDH 1, and to provide assistance with the setting up of procedures and systems across all subprograms. The downside of this comprehensive approach included high supervision costs and relatively less capacity to focus on key issues in need of improvement. The overall conclusion of both Government and Bank was that Bank support was effective but sometimes thinly spread.

209. *Based on INDH 1 experience, Government has invited the Bank to support INDH 2 in a strategic way.* This is based on recognition that the Bank can bring value to the Program in specific areas due to its (a) global CDD expertise; (b) knowledge on developing participatory mechanisms and social accountability measures to improve service delivery; and (c) improving economic inclusion, particularly on turning income-generating activities into real drivers of jobs and revenue generation by linking them to value chains. Government also recognizes the Bank's capacity for acting as lead among multiple donors.

210. In line with this more strategic role, Government and Bank have agreed that it would be appropriate to use the Program-for-Results instrument to encourage changes in the four thematic areas. The operation aims to encourage such changes through: (a) the strategic application of Project

²⁴ The co-pay requirement strengthens incentives to choose valuable, cost-effective investments.

Action Plan, results indicators, and disbursement-linked indicators; (b) focused Bank supervision; (c) the provision of dedicated technical assistance; and (d) harmonization of processes and priorities with other external partners of INDH 2. More specifically:

Thematic Area 1, *Enhancing access and quality in service provision*. The PforR operation brings value added by:

- increasing the results orientation of social service and infrastructure activities (DLI-1, DLI-2; RI-5) thus enhancing the impact of Program investments on targeted groups;
- increasing the sustainability of INDH 2 investments by ensuring that sector departments are aligned toward provision of complementary inputs (PAP-1);
- ensuring quality of basic infrastructure (DLI-4);
- improving pro-poor resource allocation criteria for Program investments (PAP-9).

Thematic Area 2, *Strengthening participatory local governance and social accountability*. The operation introduces changes aimed at:

- increasing local ownership of INDH local development plans (ILDH) and transparency in the identification and selection process (PAP-3);
- reinforcing community ownership of INDH activities and transparency of INDH governance bodies' decisions, through sounder beneficiary controls on execution and implementation (PAP-4; RI-7; DLI-5, DLI06).

Thematic Area 3, *Enhancing economic inclusion*. The PforR operation promotes involvement in economy and job creation through:

- better selection and monitoring of income generating activities (PAP-6);
- higher emphasis on commercial viability of income-generating activities investments (DLI-3; RI-10, RI-11)

Thematic Area 4, *Supporting capacity and systems development*. The operation aims to:

- improve the assessment of environmental and social risks at activity identification, and ensure adequate screening out and/or implementation of necessary mitigation measures (PAP-11; DLI-9);
- improve awareness, understanding and management of fiduciary processes and risks by Program stakeholders (PAP-10);
- improve performance of the Program control and audit framework (PAP-12; DLI-7, DLI-8).

Annex 5. Summary Fiduciary Systems Assessment

211. This annex is based on the fiduciary system assessment of the Program. It covers: (1) Summary assessment; (2) Background and institutional arrangements; (3) Program fiduciary performance and significant fiduciary risks; (4) Fiduciary performance monitoring; (5) the Implementation Support Plan. The annex includes evaluation of the fiduciary risks, and proposed improvements to be carried under the Program.

1. Summary Assessment

212. A Program Fiduciary System Assessment (FSA)²⁵ was conducted during Program for Results preparation. The FSA covers the Program institutional framework, fiduciary management capacity and implementation performance. The FSA was carried out based on current knowledge of Moroccan public financial management systems and fiduciary performance of INDH 1, in addition to a field assessment of a sample of 20 procuring entities.

213. Morocco has embarked on an ambitious PFM reform program that is leading to an improvement of the level of alignment of the Moroccan system of public procurement and financial management with international practices. Overall public procurement and PFM reforms are considered as having experienced a very positive development over the past decade.

214. The main deficiencies raised by previous diagnostics that could affect the Program are: (a) the lack of an independent procurement appeals system and clear process for handling complaints; (b) quality and timeliness of annual audited financial statements; (c) staffing and segregation of duties of internal audit function and follow-up of audit recommendations; (d) a heavy reliance on Management Information Systems (MIS) for DLIs verification protocol; (e) low capacity of procurement staff in small and remote entities, which often leads to low quality of technical specifications, ToR, bidding documents; (f) weak thoroughness of bid evaluation and links to criteria and scoring system; and (g) occurrences of questionable quality of works, goods or services delivered. The Government is talking measures to address these weaknesses, including through the ongoing procurement reform and new laws and decrees, as well as standard bidding documents. Pending the implementation of the above measures, improvement actions are built in the Program.

215. The procedures and control framework are adequate, but the risks persist because of the large number of small contracts and sponsors, often with low capacity, dispersed over more than 1,200 locations.

216. Most of the country-level weaknesses will be addressed under ongoing reforms and new legislation including the Organic Law to be enacted and the public procurement reform in progress (including draft laws or decrees currently under preparation). The new public procurement decree currently under preparation will apply to local Governments; introduce improved complaints handling mechanism and e-procurement procedures. In the meantime, specific measures to deal with these issues in relation to INDH are going to be built into the Program as agreed with the Government of Morocco (GoM), such as an improved Grievance Redress Mechanism (GRM) to be implemented at all levels of the program (including the decentralized level) and which will include features contributing to handle procurement-specific complaints.

Specific Risks

217. *Planning and budgeting.* The Morocco PFM system lies on well organized planning and budgeting functions. The budget is built on a credible macro-fiscal framework in line with government policies. However due to unpredictability of funds availability and delays in the release of

²⁵ This assessment is done according to draft Pfor Financing Guidance Notes (dated January 3, 2012)

spending authorizations, a critical risk is delays in project implementation. A set of measures has been taken by the Ministry of Finance to improve the transfer to spending units. There was a lack of procurement planning under Phase 1. The new Public Procurement Decree will address this deficiency by making the elaboration and dissemination of procurement plans mandatory for Local Governments. Under the INDH 2 program, the updated operational manuals will also mandate the completion of Procurement Plans as the first step of procurement cycle.

218. **Bidding and contracting.** As previously stated, the main risks are related to (a) the quality level of technical specifications and ToR, (b) the quality level of bidding documents (e.g.: choices made for qualification criteria and evaluation criteria) and therefore to (c) the thoroughness of bid evaluation and (d) the quality of works, goods and services delivered. These risks stem in part from the low capacity of staff, especially in remote rural communities and in community associations and NGOs. Mitigation measures include: (a) the development and dissemination of a user friendly Fiduciary Guide; (b) expanded audit reviews; (c) new guidance tools for bidding documents preparation and contract templates; (d) a fiduciary training program; (e) Fiduciary Coordination Committee oversight of fiduciary performance; (f) strengthened grievance mechanisms procedures in the improved program GRM (at the decentralized level) which include the handling of procurement-related complaints; (g) more efficient and elaborate procurement reporting in the MIS; (h) formalized technical support available through a clause in project sponsor agreements and provincial capacity building programs and (i) monitoring of Key Fiduciary Results Indicators during implementation support. These measures are covered by RIs and Program Action Plan – see PAD, Annexes 2 – 4 (PAP-8, -10, -12, RI-6, -12 -13, -16; DLI-7, -8).

219. **Program accounting and financial reporting.** Budget expenditures are classified under three aggregate-type headings of the general budget (operating costs, investment, and public debt). An administrative classification is also cross-cutting expenditures according to the level of the administrative authority by which expenditures are implemented (ministry, central or deconcentrated unit, regional and provincial). A third classification, derived from the two other classifications, provides for functional classification in line with COFOG norm. The INDH 2 accounting system is based, as the INDH 1, on the same General Accounting Regulation (Order No. 330-66 of April 21, 1967) than described above. The executing agencies and accountants will maintain separate accounting systems, i.e., administrative accounting and treasury accounting, as described above. All these data will then be recorded and reported in details and aggregated level in the INDH's special purpose account (*compte d'affectation spéciale*). These two types of accounting systems are reconciled on a monthly and annual basis to compare disbursements made by the executing agencies and the general accounting network. All these budget transactions from commitments until disbursements are reflected in IFMIS (*Gestion Integree de la Depense- GID*) and the Coordination Unit is connected to this system. The current Program information system has been developed to optimize the use of financial information; however it does not provide adequate standard procurement and fiduciary reporting. The ongoing upgrade of the INDH information system would allow better functionality of the tool, provide regular reports on procurement and contract progress, and provide the ability to extract customized synoptic data including selected fiduciary statistic indicators. The IS Upgrade is tracked by RI 12 – see PAD, Annex 2.

220. **Internal controls and internal audit.** The ex ante control of expenditures of local governments is still performed by the TGR but only on a limited scope (availability of appropriations and classification of the expenditure) and The Coordination Nationale plays a facilitating role vis-à-vis the Division d'Action Social with respect to procurement control or oversight. The technical procurement oversight is under the responsibility of finance ministry (TGR). The mitigation measures will be to: (a) set-up Fiduciary Coordination Committee that will provide Program oversight, and develop standard tools and documents, and (b) design and implement a capacity building program (PAP10 & PAP-14, Annex 8).

221. **Technical supervision of works contracts.** Technical design and technical supervision by external services are not used systematically for works contracts. Under Phase II, the Fiduciary Guide

will assist Program executing agencies to perform systematic use of (simplified) technical design studies for each works contract, and technical review and supervision by external services or consultants will be required. The Bank will monitor the system performance.

222. **Provincial Internal Auditors (PIT).** During Phase 1, Provincial Internal Auditors have been hired and deployed to improve the control framework. However PITs have not been appointed in all provinces due to resource constraints. In some cases, they perform incompatible tasks such as also acting as procurement specialists, or do not use professional audit methods, including risk assessment techniques. Under Phase II, the capacity of these auditors will be built into the provincial action plans (PAP-9, RI-14, Annex 8). To improve fiduciary performance monitoring of the Program, the multidisciplinary Fiduciary Innovation Team will be reinstated with clearer TORs, scope and authority.

223. **Program Audit.** The Court of Accounts, and the Regional Courts of Account set up in 2004, perform the statutory external audit function for management and use of public funds. The CDC has 9 regional offices to ensure the control of accounts and management of the local Governments or “*Collectivites territoriales*”. Even though the CDC doesn’t express a separate opinion on this program or any other projects financed by the Bank, INDH falls under their scope of audit and could be audited in the context of their work program. The Bank will continue country level dialogue with the CDC to explore their involvement in the external audit oversight of the Program which would complement internal audit function. The Supreme Audit Institution (*Cour des comptes-CDC*) and the Regional Courts of Account are the main institutions in charge of external audit within the Morocco PFM system. The scope of their mission was broadened to include management audit, and to ensure the control of accounts and management of the territorial communities (*Collectivites territoriales*). Statutory financial audits conducted by the Court of Accounts (CDC) are satisfactory with respect to the application of international standards and the scope of their mission. CDC reports are available to the public on their website. The CDC goal is to no longer focus control on compliance but to review the regularity, efficiency, economy, efficiency, and ethics.

224. IGAT and IGF conducted audits for INDH 1. An audit charter, signed by these two entities, defines the objectives and methods of the joint audit that covers FM and procurement. IGAT and IGF are not independent from the executive but have proven their credibility and have been accepted by the Bank. The same arrangement will be maintained. Audit reports have identified the main shortcomings in the implementation of INDH I and have made relevant recommendations. . Under INDH 1, audit opinions issued in 2010 for 83 provinces and prefectures were unqualified for 74 provinces, qualified for 8 and adverse for 1. Qualified opinions were mainly due to ineligibility of sub-projects, the adverse opinion was motivated by a conflict of interest between CPDH, CLDH and a beneficiary in one prefecture. However the audit performance needs improvement in the following areas: (i) the audit reports of the CAS account covering 2009 and 2010 were not issued in a timely fashion and were shared with the Bank in May 2012 due to the late completion of the SAR financial statements; (ii) need to provide an overall opinion on the program instead of 83 opinions for each Program’s implementing entity; (iii) lack of prioritization and follow-up of audit recommendations; (iv) Synergy with Provincial Internal Auditors.

225. IGF and IGAT TORs will be reviewed, in collaboration with the Bank, in line with ISA international audit rules applicable to the Program, in order to address the need to: a) issue a consolidated audit on the Program Financial Statements; b) include coverage of Procurement activities; c) identify priority recommendations. Under INDH 2, acceptable action plans will be developed following IGF/IGAT audits (RI-14, Annex 8). Follow up and implementation of key audit recommendations will be tracked by indicators (RI-1, RI-15; DLI-7, DLI-8).

226. **Fraud and Corruption.** Fraud and corruption risks are assessed as low given Morocco’s robust framework and the nature of the Program. The Program mainstreams a range of measures at fiduciary and technical level to mitigate fraud and corruption risks. Key measures include: (a) the strengthening of the control framework through the introduction of provincial action plans for the

implementation of IGAT-IGF audits recommendations; (b) the establishment of a permanent Fiduciary Coordination Committee, replacing the previous Fiduciary Innovation Team (*Equipe d'Innovation Fiduciaire* –EIF) to provide oversight to the Program fiduciary system; (c) the strengthening of the INDH Grievance Redress Systems through the upgrading of local level GRM and the introduction of a central database for monitoring the submission and treatment of complaints and facilitating reporting; (d) the enhancement of the existing MIS in order to produce relevant and representative procurement related information enabling the assessment performance (Key Fiduciary Results Indicators); (e) the introduction of participatory M&E processes at local level, in order to enhance scrutiny of decisions and mitigate the risk of elite capture; and (f) the clarification of procedures for validation of the ILDH by provincial authorities, to increase transparency and reduce patronage risks²⁶.

2. Background and Institutional Arrangements

2.1. Institutional Framework

227. The INDH institutional structure connects the central government to the lowest levels of administration which involves hundreds of entities across all levels (i.e., central, regional, provincial, and municipal / neighborhood or community).

228. The Steering Committee responsible for the program is chaired by the Head of Government and its membership is composed of an INDH National Coordinator and the Ministers of Interior, Finance, and Social Development. This committee oversees progress in the overall implementation of the program and reports to the Strategic Committee.

229. The Ministry of Interior, through its INDH Coordination Unit, is ultimately accountable for meeting the objectives of INDH. This INDH Coordination Unit provides technical support to the various levels of committees (regional, provincial and local) as well as other stakeholders that participate in the program. Importantly, it oversees the execution of procurement and financial management and centrally gathers all technical and financial data related to the program as a whole, which it uses to prepare consolidated reports for monitoring program implementation. Additional institutional and technical support is provided by various line ministries and government agencies.

230. From a financial perspective, the Head of Government has overall responsibility for the INDH special revenue account (SRA, *Compte d'affectation special*). As such, he allocates funds to the eligible executing agencies (Ministry of Interior, “Walis” of regions and governors of provinces/prefectures) based on an annual disbursement schedule by program. These funds are then executed according to applicable public expenditure regulations, either through partnership agreements with project sponsors or through direct payments to providers of goods and services.

231. The Ministry of Interior, through its INDH Coordination Unit, is ultimately accountable for meeting the objectives of INDH. The INDH Unit provides technical support to the regional, provincial and local committees and other stakeholders that participate in the program. The INDH Unit oversees execution of procurement and financial management, and implementation and centralizes all technical and financial data related to the program as a whole. It also prepares consolidated reports on the monitoring of Program implementation.

232. Additional institutional and technical support is provided by various line ministries and government agencies.

²⁶ The Technical Assessment, Environmental and Social Assessment and the Fiduciary Assessment contain extensive treatments of mitigating measures to address Fraud and Corruption risk, as well as a description of the Government anti-corruption framework

2.2 Program Activities

233. The Program is implemented through a decentralized and participatory process wherein projects are undertaken by project sponsors (such as municipalities, NGOs and community associations) or by the decentralized executing agencies (Walis or Provincial Governors) themselves. Some activities such as studies or technical assistance can also be carried out at the central level by the eligible executing agencies (i.e. the *Coordination Nationale*).

234. The program is implemented by hundreds of implementing agencies, many of them inexperienced in fiduciary activities and located in remote rural areas or difficult-to-access municipalities. The Program essentially finances the same activities as INDH 1. Therefore, the typical types and values of contracts under the Program are expected to be similar to those under INDH 1 and will include two main types of expenditures: (a) small value contracts for social infrastructure (construction, rehabilitation, extension or improvement of road and street infrastructure, electricity or water supply, sanitation or solid waste services, schools, local health centers or community centers, public gardens, sports or other public facilities, etc.) and (b) financial support for developing small and local businesses with regard to improved organization, product quality, or marketing, business training as well as activities allowing for the participation of INDH target population in infrastructure or service projects (e.g. local household waste collection, water management, and recycling management) that generate revenues for the local communities. As with INDH 1, the subprograms of INDH 2 which the Bank will support are not expected to encompass high-value contracts and certainly none subject to Operational Procurement Review Committee clearance.

235. Based on the information provided during the assessment, in INDH 1 works contracts represented more than 75% of the cost of all contracts awarded, followed by goods contracts with about 15% of the total cost. Consultant contracts represented less than 5%. Though the number of contracts awarded through open national competitive bidding (ONCB) and shopping procedures are both about equal, the corresponding amounts are dramatically different: the value of ONCB contracts represents more than 90% of the total amount.

2.3 Fiduciary Arrangements

236. The “Walis” and governors are responsible for the management of INDH funds including implementation. They may delegate their authority to the project sponsors they select (i.e., municipalities, NGOs and associations). If the “Walis” or governors decide that the project sponsors do not possess adequate capacity to implement the project, it would instead be implemented using the provincial services (Division d’Action Social, DBM and Division Technique), although the vast majority of the projects will be implemented at the decentralized level.

237. Authority delegations for procurement and FM activities granted by the Walis/governors were decided during INDH 1 without prior formal capacity assessments of the municipalities and NGOs undertaking implementation. Under INDH 2, systematic and benchmarked assessments of the fiduciary capacity of project sponsors will be implemented before Walis/governors decide whether their procurement activities will be delegated to provincial services.

238. The executing agencies manage delegated funds by programming activities, which results in allocating funds under budget lines defined jointly by the accounting department and the Division of Social Action (Division d’Action Social). This programming exercise results from a strategic planning process described in the operations manuals, which involves the population and the decision-making entities (CLDH, CPDH and CRDH). These funds are executed according to the Decree no 2-12-86 of May 16, 2012 which offers more flexibility than traditional public expenditure procedures.

239. The execution of the INDH is based on administrative structures and existing communal and associations will be involved. Responsibilities within the administrative services and municipalities are clearly defined but less so in NGOs.

240. In order to assist Program executing agencies in the application of fiduciary rules and regulations, the Fiduciary Coordination Committee, with Bank support, will develop a user friendly 'Fiduciary Guide' which will clearly explain the role of each administrative entity or project sponsor in the Program.

241. The fiduciary innovation team which was put in place for INDH 1 is a good mitigation measure but unfortunately it did not work efficiently during the first phase, partly because it was not empowered to enforce its proposals and partly because it was not permanent and faded out in the last years. The new Fiduciary Coordination Committee, which will also be piloted by Coordination Nationale, will be instituted under INDH 2 and will include representatives from TGR, IGF and IGAT. The Coordination Nationale will chair the committee and manage the secretariat. The Committee will be permanent and have clear, detailed TORs reviewed by the Bank as well as a mission letter. Its role would include the review/elaboration of (a) Fiduciary Guide, (b) standard documents and other tools, (c) fiduciary capacity building plans, and (d) fiduciary activities under the program.

PFM reforms

242. A new organic budget law has been drafted and should be submitted to parliament before the end of 2012 according to authorities. Its implementation will be phased over 5 years, starting with pilot testing in the most advanced ministries in 2013. This reform will introduce a programmatic budget structure with corresponding performance objectives, indicators and reports. This would improve the transparency of budget allocations to the Government's policies and programs and increase accountability on their outcomes, both internal (within the administration) and external (towards the parliament and the public). The administration's performance will be reviewed by the Government, the Parliament and subjected to performance audits.

243. The budget comprehensiveness should be improved by including in the finance law all public sector entities relying on transfers from the budget and by subjecting them to the same performance management approach. Furthermore, the special treasury accounts will be consolidated in the budget to improve transparency. The revision of the accounting rules and the adoption of modified accrual accounting will further improve financial information. The authorities are currently finalizing the evaluation of the State's assets, which is necessary for the adoption of accrual accounting.

Budget classification, predictability and composition (at time of assessment)

244. The classification system is detailed, stable and viable, and consistent with GFMS 2001. Investment programming system in Morocco includes a sophisticated multi-year budgeting including a multi-year commitment authorization (*autorisations d'engagement*) consistent with an annual payment system (*crédits d'engagement*). Regarding the predictability of donors' aid, Government is targeting a total contribution of external (bilateral) donors of 7% (Bank contribution is counted towards the General Budget share). At the moment only the EU has pledged a contribution for Phase II of Euro 20 mil (roughly 1% of total program cost), with the possibility of increasing in the context of a new PIN. Additional contributions from other donors are likely.²⁷

²⁷ During appraisal, the team will review if donors, involved in INDH, provide complete budget estimates for disbursement of project aid at stages consistent with the Government's budget calendar and with a breakdown consistent with the Government's budget classification.

245. Overall, funding appears adequate to achieve the Program objectives and is likely to be sustained. The planned allocation is US\$2.1 billion, up from US\$1.2 billion during INDH I. About 55 percent of the total funding is expected to come from central government (down from 60 percent), 38 percent from local governments (up from 20 percent) and 7 percent in grants from international donors (down from 18 percent). Contributions from central and local governments have been secured. Due to high level and widespread ownership of the program, funding is expected to continue over the years. The proposed Bank loan of US\$ 250 million over four years (2012-2015) will contribute to the Central government's funding share. However, despite the increase in resources from INDH I to INDH 2, INDH 2 funding will remain at roughly 3% percent of GOM's total social investments. The economic and financial reports annexed to the draft budget bills introduced to Parliament, along with the Budget Directorate's activity reports, provide details of overall targets and achievements of special government programs, and targets and allocations for the current year. For INDH, the reports indicate the quantified goals for the year including employment, literacy etc.

3. Program Fiduciary Performance and Significant Fiduciary Risks

246. The preliminary financial management assessment was carried out based on current knowledge of Moroccan public financial management systems, and fiduciary performance of INDH 1.

3.1 Fiduciary Performance

247. Main deficiencies raised by previous diagnostics (UCS Pilot review report, 2009 PEFA and 2007 CFAA) that could affect the Program are: (a) the lack of independent procurement appeals system and clear process for handling complaints; (b) quality and timeliness of annual financial statements; and (c) effectiveness of internal audit function and follow-up of audit recommendations. Most of the country level weaknesses will be taken into account in the new set of laws: Organic Law and public procurement reform in progress.

248. The main issues encountered during the execution of INDH 1 are: (a) the low quality of technical specifications and ToR, (b) variable quality of bidding documents (e.g. choice made for qualification criteria and evaluation criteria); (c) lack of thoroughness of the bids evaluation; (d) poor quality control of works during the implementation; (e) the absence of monitoring system for the implementation of audit recommendations; and (f) the lack of technical oversight of procurement process for the program. For a program involving a huge number of implementing agencies (thousands) like INDH, the absence of credible appeal mechanism is a considerable weakness.

249. These issues are related to the low capacity of staff especially in remote rural or difficult to access communities and Associations / NGOs. This structural weakness is in most cases characterizing rural communities, and almost all associations / NGOs (sponsors).

250. The executing agencies use existing structures for activities they are in charge of, i.e., the existing procurement and accounting department for expenditures through the Division of Budget and Procurement in cooperation with the technical division and the Division d'Action Social. Overall expenditure processing is handled by the Treasury General of the Kingdom (TGR) and its decentralized units; and is based on confirmed revenues and a simplified classification for supporting documentation. An assessment of human and organizational capacities at the regional and provincial/prefecture levels shows that: (a) accounting and budgetary activities are well covered in the organizational set-up even if there are uneven; and (b) although there are few managerial staff, the accounting staff is generally well experienced and benefits from support from the TGR network.

251. Timeliness and Procurement Planning - Under INDH 1, central agencies only followed the national requirement to publish procurement plans and bidding opportunities in national newspapers and online. Compliance with this requirement, especially at decentralized levels, as well as increasing the amount of contract information, needs to be improved under the Program.

252. Under INDH 2, elaboration of more accurate and detailed procurement plans will become mandatory for all including local governments thanks to the new PPD currently under preparation. In addition, improvements to the information system will track key fiduciary results indicators (KFPIs) of the procurement process that will allow a more in-depth analysis of the timeliness of procurement activities. (A full list of the KPIs related to procurement can be found in Annex 3 of this document).

Bidders' qualifications, bids evaluation, and contract award

253. The PPD states that bidding documents (DAO) must state the qualification criteria of bidders (*éligibilité*) and bid evaluation criteria (*classement des offres*). However, bidding documents for complex works and supply contracts may use rating systems that can be subjective. In addition, it is not explicitly stated that the bid evaluation criteria, other than price, must be expressed in monetary terms. Such practices can decrease the level of transparency in procurement processes as they increase the potential for procurement processes to unjustifiably favor a specific candidate.

254. The potential negative impact on the INDH 1 program of these practices was limited given the standardization of bidding documents, although in some cases the rating/scoring system was also used for qualification. To further mitigate this risk, the GoM has prepared guides and made them available in the public procurement portal that explain the preparation of bidding documents, however inexperienced staff may need more details than is provided in the guides. For example, in the sites visited, the team noted that standard bidding documents are used in a very mechanical manner due to lack of fiduciary skills or training (implementation strictly following "word for word" the Standard Forms rather than procurement principles) even if it could lead to some inconsistencies.

255. In INDH 2, this risk will be mitigated in part by increasing the knowledge of responsible stakeholders through a large capacity building initiative including (a) development and dissemination of a user friendly Fiduciary Guide; (b) availability of other documentation tools (electronic web based etc.), by training strategy and (c) implementation of provincial fiduciary capacity building plans.

256. In addition, technical support of external services (provided by provincial, line ministries, or SOEs such as ONEE) to project sponsors to assist with bidding documents and specs preparation, TOR design, project preparation and works supervision during implementation will be systematically formalized and customized through a specific clause in the partnership contracts/agreements.

Competitiveness and compliance in Procurement process

257. The PPD requires that public procurement announcements of specific bidding opportunities be advertised in at least two newspapers (one in Arabic and other in foreign language) and on the public procurement portal. In all sites visited, this requirement was enforced except in some rare cases in rural communes where the publication is limited to newspapers due to the difficulty/impossibility of accessing the Internet. As stated earlier, the new PPD will also increase exposure to bidding opportunities by requiring all levels of government (including the local level) to publish procurement plans.

258. One potential way of limiting competition is to split larger contracts into smaller ones to allow the use of less competitive procurement methods. In Morocco, the practice of splitting of contracts is ring-fenced because the PPD limits the use of shopping method (one of the least competitive methods) to 200,000 DH (<25,000 USD) per empowered person, by fiscal year and by type of expenditure (see further the corresponding reference of PPD article). As part of the INDH program, this rule has been relaxed and the threshold is applied to type of expenditure only instead of including the empowered person and fiscal year. Currently, the lack of details in the annual procurement plans does not allow an analysis to identify where possible procurement processes could be merged together to increase efficiency and competition.

259. Bidding documents are free of charge and can be downloaded from the online procurement portal. Bids opening sessions are public. Although the PPD allows administrative and financial envelopes to be opened at different times, in most cases these openings are held on the same day and during the same meeting due to the simplicity of related operations. This was not an issue in INDH 1 as the simultaneous opening of envelopes was required in the aforementioned “NCB List.” The list of attendees during bid opening is not systematically established. Under the Program, this risk would be mitigated mainly by clarifying the specific procedure (in this case simultaneous opening) in the Fiduciary Guide.

Compliance: Procurement review and oversight

260. As explained earlier public contracts executed by the administrative departments or municipal services are subject to systematic ex ante control by the regional services of the TGR. An exception is made for contracts awarded by municipalities in the INDH program, which limits the scope of the review to only a verification of the availability of funds.

261. Although the governance body set-up proved generally effective under INDH 1, there was scope to improve accountability, reduce residual fraud and corruption risk, and avoid elite capture. An earlier section of this assessment covered the controls and oversight mechanisms in place for contracts awarded by the associations/NGOs and the joint audits of the IGF / IGAT. The Governors and Walis as INDH managers are the recipients of audit interim reports and they have a time given to respond before finalization of the report. The National Coordination annually forwards the joint audit recommendations to the entities responsible for implementing the program (“Lettre d’orientation”). Nevertheless, it is noteworthy that auditors highlighted a list of recommendations that remained recurrent from year to year. This indicates a lack of close monitoring and follow-up of auditors’ recommendations under INDH 1.

262. It is also worth noting that the findings of ex-post reviews by the World Bank and the independent review conducted for INDH overlap substantially with and corroborate IGF / IGAT’s joint audit findings. The main findings for INDH 1 were in general caused by weakness of staff capacities as evidenced by (a) unclear or imprecise technical specifications and ToRs, (b) poor quality of bid evaluation reports due to poor quality of bidding documents; (c) non-compliance with contract terms, (d) additional work not formalized contractually; and (e) short-lists including unqualified bidders. As indicated earlier, in INDH 2, a formal agreement providing for technical support in various areas (technical and bidding document creation, works supervision, etc.) will be included which will help to mitigate these risks.

263. The other main issue identified in previous Bank’s diagnostics that could affect the program is the lack of an independent procurement appeal system and a clear process for handling complaints, which is discussed in the following section. The GoM is taking action on this weakness in the ongoing public procurement reform process through new laws or decrees currently under preparation as well as through the procurement complaints handling features of an improved program Grievance Redress Mechanism (GRM) for INDH 2 which will be rolled out at the national and local level.

Complaints handling mechanism

264. The existing PPD, which was used under INDH 1, provides a basic complaint mechanism relating to public procurement procedures. According to the PPD currently in force, (Décret n° 2-06-388 du 16 Moharrem 1428 (5 février 2007, article 95), a bidder who wants to raise a complaint must do so first with the contracting authority (i.e., the official procuring entity). If the response received is not satisfactory, the bidder may only address it to the Minister and, if not satisfied with his answer, to the Secrétaire General du Gouvernement. The latter can (but not “shall”) transmit the request to the “Commission Centrale des Marches” which would render a simple advice without any means for enforcement. In comparison to international best practices, this complaint mechanism for

procurement procedures lacks three vital elements: (1) No independent bodies to which an appeal can be made, (2) No provision guaranteeing processing time or granting the power to suspend the process pending the closing of the complaints, and (3) No publishing of information arising from complaints, even in redacted form.

265. In the sites visited, very rare cases of complaints to the contracting authority had been reported (but not beyond this first level), and in each case, the complainant received a response letter from the contracting authority (under INDH 1, no complaints were recorded at the central level.) There is no system in place to track complaints managed by entities that implement contracts or at the National Coordination level, and the systematic recording of procurement complaints and tracking their resolution is not a common practice.

266. The proposed new public procurement decree contains significant improvements to the complaints-handling system by introducing direct referrals to the Contract Review Committee and a direct response to the complainant, and power to freeze procurement process and award proceedings pending closing of the complaint. These improvements are nevertheless dependent on the reform transforming the Central Procurement Board (CPB) (*Commission Centrale des Marchés*) from an ad-hoc committee composed solely of representatives of different administrations into a permanent, more independent and powerful *Commission de la Commande Publique* which will give it the level of independence required. The GoM appears to be preparing the draft decree to reform the CPB which aims at (a) reinforcing the representation of the public procurement key stakeholders (local governments, ministries, SOEs and private sector); (b) enhancing the authority of the CPB with regards to administrative complaints handling procedures; (c) setting time limits for complaints treatment; (d) providing the possibility for complainants to address their complaints directly to the CPB; and (e) defining the minimum professional and ethical qualification criteria for members of the CPB. Once the new PPD and CPB decrees are passed, Morocco will have laid the groundwork for a modern complaints handling mechanism based on good international practices.

267. In the interim, procurement complaints under INDH 2 will be addressed through an agreed-upon DLI discussed later in this assessment that aims at establishing an improved broader cross-sectoral (and decentralized) Program Grievance Redress System.

3.2 Fiduciary Risks

268. The overall fiduciary risk for INDH 2 is rated “substantial” Risk mitigation and capacity-building activities have been proposed in the Program Action Plan to address identified risks.

269. The main risks are due to: (a) the lack of an independent procurement appeals system and clear process for handling complaints; (b) quality and timeliness of annual audited financial statements; (c) staffing and segregation of duties of internal audit function and follow-up of audit recommendations; and (d) low capacity of procurement staff in small and remote entities which often leads to low quality of technical specifications, ToR, bidding documents; lack of thoroughness of bid evaluation; and sometimes questionable quality of works or services delivered. The procedures and control framework are adequate, but the risks persist because of the large number of small contracts and sponsors, often with low capacity, dispersed over more than 1,200 locations.

270. Risk mitigation and capacity-building activities have been proposed for inclusion in the Program Action Plan to address identified risks including: (a) ensuring that the improved program MIS is robust and effective so that quick disbursement is not jeopardized and it will enable better procurement reporting; (b) monitoring KFPI during implementation support; (c) mainstreaming anti-corruption efforts by strengthening the borrower’s systems (Community of Practice on Fraud and Corruption for IGF); (d) improving assurance framework; (e) development and dissemination of a user-friendly Fiduciary Guide; (f) expanding audit reviews covering procurement; (g) providing new guidance tools for bidding documents preparation and contract templates; (h) implementing a fiduciary training program; (i) establishing a Fiduciary Coordination Committee to oversee fiduciary

performance; (j) strengthening grievance mechanisms procedures which include the handling of procurement-related complaints; and (k) providing formalized technical support through a clause in project sponsor agreements.

271. The findings of the fiduciary assessment highlight firstly the national procurement system related risk, then those related to the capacity of implementing agencies, and finally those related to the organization of the program. The main risks identified are the following:

- The contractual imbalance of power between partners (employers - bidders) and lack of transparency in the procurement process due to lack of independence of the entity to which complaints and claims are made, the lack of monitoring of complaints and the non-disclosure of their outcomes.
- Implementing agencies are relatively respectful of formal rules of procurement. Control is also restricted to formal compliance. The risk is mainly related to the capacity of staff to execute procurement properly, and this capacity is often low especially in remote rural or difficult to access communities and Associations / NGOs.
- Matrix structure of the institutional arrangement under INDH 1: the Coordination Nationale did not have any power in terms of procurement control or oversight; and procurement technical oversight was under the responsibility of Ministry of Finance (TGR and IGF). The Fiduciary Innovation Team which was put in place for INDH-1 was a good mitigation measure for this risk but unfortunately it did not work efficiently for the first phase, partly because it was not empowered to enforce its proposals and partly because it was not permanent and faded out in the last years of INDH 1. Hence the improvements to be brought in the creation of the INDH 2 permanent “Fiduciary Coordination Committee” (see above its roles, provision for TORs and mission letter, and composition).

272. Improvement of program fiduciary systems linked to RFI/DLI indicators and Program Action Plan: During preparation, consensus was reached with Moroccan counterparts on the following:

- Two fiduciary DLIs: DLI-7, formalizing the gradual elaboration by provinces of Action Plans reflecting Audits recommendations; and DLI-8, measuring yearly implementation of (priority one) audits recommendations or incorporation of longer-term ones in implemented action plans;
- Two other specific fiduciary results framework indicators: RI-13, related to elaboration and dissemination of the Fiduciary Guide, and to contractual institutionalization of technical support by administrative services to project sponsors through incorporation of a specific customized clause in project partnership agreements, and RI-16, focused on procurement capacity and yearly measuring fiduciary compliance/capacity of project sponsors in terms of satisfactory procedures;
- The incorporation of fiduciary modules into cross-sectoral indicators and multi-disciplinary actions of PAP: (a) one complaints-handling module in the GRM indicator and (b) a fiduciary module, including the production of key fiduciary performance indicators (KFPIs) in the improvement of the program information system.

3.3 Governance and Anti-Corruption

273. The arbitration system is required by law but has not been reflected in the existing General Contract Conditions (GCCs). GCCs for goods contracts will be prepared and disseminated at the beginning of Program implementation, as part of the elaboration of the Fiduciary Guide.

274. Past experience has justified in the ongoing reforms the inclusion of measures to fight fraud and corruption in the new Constitution, which is an enhancement very few countries have enacted to date. However until the new anticorruption framework included in the new Constitution will trickle

down with the elaboration and enactment of the full set of necessary decrees and regulations, old behaviors and malpractices might persist.

275. In addition, the country has taken a number of measures to promote ethics and fight against fraud and corruption including the creation of an institution for the prevention of fraud and corruption (Central Institution for the Prevention of Corruption – ICPC/NIAA) and an agency to fight against money laundering. The ICPC has established an electronic system of anonymous reporting of corruption and fraud, although no mechanism of investigation or sanction, other than judicial, is in place. In the spirit of the new constitutional reform, the ICPC/NIAA should see an evolution of its independence and be fully in charge of the fight against corruption with new increase and autonomous powers of investigation, and sanctions, which will be enforceable once the set of corresponding law/decrees is enacted.

276. Complaints handling mechanism: the main remaining issues identified in previous Bank's diagnostics that could affect the program are the lack of an independent procurement appeal system and of a clear process for handling complaints. Government is taking action on these weaknesses within the ongoing public procurement reform and through new laws or decrees currently under preparation, and under the Program GRM system for INDH 2 a procurement module will be included and implemented at the decentralized level.

277. The number of anonymous whistle blowing cases declared by ICPC/NIAA (the national agency fighting corruption) is still small even after the launch of the secured electronic site (about 100 allegations on national level over the first year). During the implementation of INDH 1 program, no fraud and corruption case was declared at all. In certain cases, auditors reported situations of conflict of interest and several contracts awarded to the same firm. These red flags had not stimulated any complaint. It is therefore more likely that the absence of complaint and the limited number of whistle blowing cases is a sign of lack of confidence of bidders in the systems with regard to appeal mechanisms or judicial process, and of their fear to be penalized. The judicial system, which is currently considered by the Government as in need of reform (the Bank is supporting the judicial reform agenda) and still characterized by very lengthy and dubious outcome practices, is not trusted by bidders who are victims of flawed or biased award processes.

278. The existing Public Procurement Decree provides that any entity engaged in fraud may be excluded from award of contracts with a given department or from all public contracts procured by the State by decision of the concerned minister in the first case and of the Head of Government in the second case. In both cases the decision has to be submitted to the opinion of the national Central Procurement Tender Board (CPB). The mission, powers and independence of this body will be dramatically increased once the new decree under preparation, transforming it into a new *Commission de la Commande Publique* will be enacted.

279. As to accountability, the execution of the INDH is based on administrative structures and existing provincial or municipal staff and associations or NGOs will be involved. Responsibilities within the administrative structures are clearly defined. This is not always the case with small NGOs and associations of recent formation, which often lack of formalized organization with clearly defined responsibilities.

280. The involvement of each administrative office and each project in the INDH is defined by the operational manuals. Project implementation is delegated to the Governors who may delegate to the decentralized services of the state, municipalities or NGOs / Associations whenever the entity has the management capacity. But the level of capacity required was not defined anywhere and no evaluation mechanism was established. Capacity building and training programs to be implemented under INDH 2 aim to contribute to solving this.

281. Public procurement decree provides the list of evaluation committee's permanent members: three representative of the project owner, one representative of TGR and one representative from

Ministry of finances if the amount of contract is above 30 million MAD. The committee should invite a representative of Ministry of Commerce if contract amount is above 1 million MAD.

282. The status of public servants contains general provisions on the obligations of officials and there are penalties for misconduct. Accountabilities for decision-making and disclosure of financial information are stated in the law on the responsibilities of authorizing officers and public accountants. The consequences for misconduct are administrative or criminal liability.

4. Fiduciary Performance Monitoring

283. The considered fiduciary indicators are as follows:

- (a) *Availability of a credible program and /or decentralized-level complaint mechanism.* Baseline: no (provincial/central) database for monitoring complaint mechanism is in place at the end of INDH 1 (PAP-8);
- (b) *Procurement and financial management capacity building.* Baseline: capacity assessment template to assess project sponsors /procuring entities capacity does not exist; provincial capacity building plans are not developed (PAP-10)
- (c) *Documentary tools to simplify preparation of bidding documents and contract management* (Fiduciary Guide, standard contracts, templates, forms, etc.). Baseline: the tools are not available nor prepared for INDH 2 version (RI-13)
- (d) *Expansion of Audit TORs to cover procurement aspects with more details, and development of effective and timely follow-up/implementation mechanism for audit recommendations* (DLI-7 and -8). Baseline: see DLIs.

Effectiveness of the external audit function.

- (e) *Technical Support:* Use of technical design studies for each works contract (construction, rural roads, water supply, power grids etc..) as a prerequisite to contracting or systematic possibility to rely on technical support of provincial /external services contractual clause (% in partnership contracts). Baseline: No formalized technical support clause in partnership agreements. (RFI-13)
- (f) Involvement of external services in developing (or reviewing) CPS (*Cahier des Prescriptions speciales*) as improvement of BDs/quality and technical supervision of works contracts. Number of completed infrastructure contracts complying with technical CPS specification (RFI-6 and RFI-13). Baseline: see RFI-6.
- (g) Improvement of the former Fiduciary Innovation ad-hoc team replaced with permanent and strengthened Fiduciary Coordination Committee with clear TORs, role and responsibilities to oversee and monitor fiduciary performance, develop the Fiduciary Guide and review reports. Baseline: Fiduciary Innovation Team intervened punctually and faded out/was dissolved before end of INDH 1 (PAP-12).
- (h) Systematic production and periodic review of Key Fiduciary Performance Indicators (KFPI) and aggregate on 83 provinces, see Fiduciary System Assessment, Annex 2. Baseline: At the end of INDH 1, the new MIS could not produce representative and exhaustive statistic aggregated procurement performance indicators (*less than 45 provinces data available*). Therefore, the operational baseline will be the first set of KFSPI produced at the beginning of INDH 2 implementation for the aggregate of 77/83 provinces. (They will be reflected in the yearly activity report and reviewed during Bank supervision missions and in each joint Audit – see new expanded Audit TORs) (RFI-12, third target for year 2012).

284. Additionally, an important improvement of the Program fiduciary systems includes the periodic production by the INDH 2 Information System (MIS) of Key Fiduciary Performance

Indicators (listed in Annex 2 of the Fiduciary System Assessment). Consensus was reached for a selection of 12 most significant and representative procurement performance indicators extracted from the national TGR Data Base for homogeneity and comparability with the national system. Among the FM ones, three would be produced by MIS, the others, more qualitative than statistically measurable, would be included in Audit reports.

5. Implementation Support Plan

285. In providing Implementation Support, the Bank will monitor overall performance and improvement of financial management and procurement systems. Specifically the Bank will: (a) check progress of the fiduciary reform at country level, (b) assess the efficiency of fiduciary oversight system, (c) support design, implementation and evaluation of fiduciary capacity building plan, (d) provide technical assistance and training complaints mechanisms (e) check implementation in the Program grievance redress initiatives, (f) assess the impact of the introduction of the Organic Budget Law, and (g) monitor achievement of key fiduciary DLIs.

286. Key Fiduciary Performance Indicators (KFPI) in Annexes 2-3 of the Fiduciary Systems Assessment will be used to monitor fiduciary system performance. KFPIs will be checked and analyzed by the Bank twice a year during implementation support missions and appropriate follow-up will be undertaken when red flags arise from analysis of these indicators.

Box 1. Fiduciary Implementation Support Plan

- Support and monitor achievement of the two key fiduciary DLI-7 and DLI-8 and actions twice a year (DLI-7 and DLI-8 with ref. to verification procedure, RI-13-16, *PAP- 8, -10, -12 and -13*).
- Monitor overall financial management and procurement systems RI-12 (during each supervision mission).
- Check progress on the fiduciary environment at country level (in procurement reform and program missions).
- Check effects on the Program of anti-corruption and grievance redress initiatives (during program supervision missions).
- Assess the impact of the introduction of the Organic Budget Law (legal expert/FM mission).

Annex 6. Summary Environmental and Social Systems Assessment

287. This annex summarizes the Program's Environmental and Social Systems Assessment (ESSA). The assessment was carried out following the *Guidance Note on Program Management of Environment and Social Effects*.²⁸ The summary is structured as follows: (A) ESSA objectives, scope and process; (B) Program context; (C) Program's Environmental and Social Management System (ESMS); (D) ESSA outcomes, including an evaluation of environmental and social risks; and (E) Environmental and Social Management Actions to be implemented as part of the Program Action Plan (PAP). Additionally, the annex summarizes the consultative process used in the formulation of the ESSA.

A. Environmental and Social Systems Assessment

288. As part of the preparation of the World Bank support to INDH 2, and in accordance with the requirements of OP 9:00, *Program-for-Results Financing*, a comprehensive assessment was conducted to identify the strengths, weaknesses, and shortcomings of the Program's ESMS, with a view to assessing the adequacy of the Program environmental and social system for PforR financing, and identifying key actions to improve the environmental and social management performance of the Program.

289. The ESSA, conducted by the World Bank with support and collaboration of the borrower and stakeholders, had the following objectives:

- Assessing the actual implementation and experience of the ESMP of INDH 1;
- Verifying that the potential environmental and social risks and impacts of the Program are subject to an adequate initial screening;
- Ensuring that environmental and social mitigation measures to avoid, minimize, offset, and/or compensate any adverse impacts and promote environmental and social sustainability will be applied to projects and activities that will have potential environmental and social negative impacts; and
- Identifying suitable measures to strengthen the INDH ESMS. These measures to be implemented by the borrower would be agreed upon between the borrower and the World Bank. The proposed measures shall be part of the Program Action Plan.

The ESSA was based on:

- A desk review of relevant documents including:
 - Annual reports of the Coordination Nationale of the INDH;
 - Aide-memoires of World Bank supervision during INDH 1;
 - Applicable laws and regulations governing INDH 1 including its environmental and social aspects;
 - Ongoing proposed reforms that would affect the implementation of the INDH 2; and
 - Literature on global best practice on social and environmental safeguards.
- Participatory assessment involving NGOs, beneficiaries, and INDH 2 institutional stakeholders (Coordination Nationale, Division d'Action Social, CLDH) as well as line ministries. Interviews and focus group discussions, including the brainstorming sessions held

²⁸ The detailed assessment was prepared by two distinguished and well established environmental and social specialists, independent of the borrower, under terms of reference prepared by the World Bank and discussed and agreed upon by the borrower and the World Bank. The detailed assessment was prepared originally in French to facilitate its release for discussion with stakeholders in the field: *INDH 2: Revue des systems de gestion environnementale et sociale dans l'INDH* (112 pages, January 9, 2012).

December 6-23, 2011, were carried out in partnership with key groups of stakeholders, including staff of the Coordination Nationale in charge of the ESMS, and staff of the departments in charge of environment, agriculture, interior and local government, health, water, and social affairs;

- Field visits (Marrakesh, Fez, and Nouaceur) and interviews with key stakeholders²⁹ to gather information and data about ESMS implementation and practices. These consultation meetings in these three provinces were held December 27-30, 2011;
- Consultation workshops on the themes of participatory local governance: the role of NGOs in the governance bodies and mechanisms of social accountability, with the participation of civil society organizations and individuals.³⁰ These workshops were held in three provinces (Tahanaoute, Marrakech and Rabat) from December 7-9, 2011.
- A final consultation held in Rabat on April 4, 2012, including a sample of INDH 2 institutional representatives, beneficiaries, NGOs;
- A public consultation on the draft ESSA, through dissemination on the Bank Morocco website.

B. Program Context

290. INDH 1 was launched in May 2005 in response to (a) the persistence of poverty; (b) the low ranking of Morocco in terms of human development indicators; and (c) the predominance of top-down sectoral approaches lacking location-specific and social-specific analysis and anchoring.

291. Despite its wide geographic scope and the complexity of its implementation, INDH 1 recorded gains, putting in place the institutional architecture, programs, procedures, capacity building and strengthening, without delaying the funding and implementation of activities. Lessons learned from INDH 1 highlight some shortcomings and weaknesses that need to be addressed during INDH 2. Environmental and social mechanisms were closely woven into the INDH 1 approach, and will be strengthened under the Phase 2 Program.

C. INDH 1 Environmental and Social Management Systems

292. INDH 1 was supported by the Bank through an investment lending operation. In addition to being aligned with Moroccan legislation, the ESMS adopted and implemented during INDH 1 was compliant with World Bank safeguards requirements. Specific provisions were developed to ensure compliance with Bank procedures, including development of an Environmental Management Plan and a Resettlement Policy Framework as well articulation of environmental and social management processes in the INDH operational manuals.

More specifically, the ESMS under INDH 1 developed provisions to:

- Identify and assess potential impacts of proposed activities to be funded;
- Screen out projects with substantial negative impacts on the environment or society;
- Deploy mitigation measures to be applied in case projects entailing low or moderate impacts are retained;
- Monitor and evaluate implementation progress; and

²⁹ Stakeholders include EAC/Q, and PCHR CLCH members, associations, project developers; and Chief, DAS in charge of communication, M&E training, information system, urban development, environment, agriculture and handicrafts and other decentralized administrations.

³⁰ Rural associations, members of CLDH, EAC/Q, project leaders attended the workshop in Tahanaoute; urban associations, members of PCHR, EAC/Q, project sponsors attended the workshop in Marrakech; national associations attended the workshop in Rabat.

- Report systematically.

293. These processes were equipped with the following tools for screening and reporting on activities: environmental and social screening form; information system linked to the INDH MIS, and an annual report. Consistent with these processes and tools, subproject proposals for INDH funding were screened for environmental and social impacts. Subproject proposals entailing risks for substantial negative impacts, notably not conforming to the ESMS requirements³¹ were screened out as ineligible. For retained projects entailing low-to-moderate negative impacts, mitigation measures were adopted as needed and reported on.

294. The ICR conducted for the INDH 1 revealed that (a) no substantial environmental or social safeguard issue was raised or had to be addressed; (b) stakeholders ranging from local government at regional, provincial, and municipal levels; NGOs; local groups; and cooperatives across the country were exposed to environmental and social management of development activities and involved in defining, selecting, using and implementing environmental and social mitigation measures and tools for their respective activities; and (c) no land acquisition, through expropriation or forced displacement occurred. Local government bodies provided the land needed for activities from their own assets (state-owned public or private land). By doing so the INDH 1 contributed to raising awareness and providing stakeholders with environmental knowledge and capacities.

295. The ESMS developed during INDH 1 remains fully in place during INDH 2, as well as the application of the key documents, procedures and tools it is based on. This same ESMS applies to the Program. It includes the same screening process, environmental and social management tools, mitigation measures and procedures, a monitoring system, and institutional arrangements for implementation, as reflected in the INDH Environmental Management Plan, Resettlement Policy Framework and articulated in the operational manuals.

D. Environment and Social System Assessment conclusions

The ESSA concluded that:

- The Program ESMS is adequate for PforR financing.
- The projects and activities to be funded under the Program will essentially replicate those funded by INDH 1. By their nature, characteristics, and size, these are CDD-type projects and activities with low-to-moderate environmental impact and generally beneficial and positive social impact.³²
- The ESMS is equipped with tools and processes to identify, mitigate, and report on possible environmental and social impacts of activities.
- The risk of environmental and social impacts is addressed through relevant ESMS provisions, including in the Resettlement Policy Framework, Environmental Management Plan, and operational manuals.
- The subproject screening system in place avoids large infrastructure or investment activities that would have major significant and/or irreversible detrimental or negative impact on environment and/or communities. Additionally, proposed activities have to demonstrate their limited environmental footprint, and clear availability of land for the

³¹ Notably for projects and activities, the same exclusion defined in the Environmental and Social Management Plan for INDH 1 shall apply under INDH 2. Activities likely to have significant and/or irreversible impacts shall not be eligible for financing, including (a) activities that may impact on natural habitats, (b) activities that may impact physical cultural resources, (c) activities that involve procurement of pesticides, and (d) construction of dams higher than 15 meters.

³² Same exclusions as INDH 1 apply (see footnote 4 above).

activity. As appropriate, cumulative impact assessments of projects and activities would be implemented.

- The Program does not entail any real risk related to cultural appropriateness³³ but, on the other hand, entails positive effects on social cohesion.

Measures identified and agreed upon to strengthen the Program ESMS include:

- Refining and further improving the environmental management tools used by INDH 1 that include (i) screening forms; and (ii) identification and definition of appropriate mitigation measures; and
- Strengthening the institutional arrangements to better include environmental and social aspects in the overall management of the INDH, which would include (i) involvement of environmental and social specialists at all levels of the decision-making processes, notably at DAS level; and (ii) capacity building for all stakeholders at local, provincial, and regional levels.³⁴

296. To achieve the above measures, the borrower agreed on actions to improve and simply environmental and social management tools; prepare and disseminate a practical guide for environmental and social management; strengthen capacities for environmental and social management of stakeholders;³⁵ and improve monitoring and evaluation and report.³⁶ These activities are built into the Program Action Plan (Annex 4) as follows:

- A capacity-building program on environmental and social management will be built into INDH 2 based on a how-to practical guide for dissemination to all stakeholders and INDH decision-makers (DLI-9).
- CPDH will include representatives of the Department of the Environment, and a focal point for environmental and social risk management will be designated within each Division d'Action Social (PAP-11).

297. The Bank team will work closely with the Borrower throughout the implementation support period to assist toward the effective implementation and completion of the above-defined actions to improve and strengthen the Environmental and Social Management System.

³³ There are no specific ethnic issues of relevance to the social, political, and legal context of Morocco.

³⁴ The regional level was established under the newly adopted Constitution (2011).

³⁵ The training and dissemination program shall target all stakeholders, including project sponsors, civil servants, NGOs, decision-makers in the governance structure of INDH. An indicative program is included as an annex to the ESSA, and the training shall be repeated to cover the whole territory and range of stakeholders.

³⁶ Actions are fully developed in the more comprehensive ESSA.

Annex 7. Integrated Risk Assessment

1. PROGRAM RISKS				
1.1 Technical Risk	Rating:	Moderate (M)		
Description: An assessment of the Program’s technical soundness was carried out during preparation. Capacity of the implementing agency is substantially higher now than at the outset of Phase 1. Processes and procedures are tried and tested. There is a clearer understanding of program’s objectives and constraints. The technical assessment identified key areas in need of improvement, mainly related to M&E, quality of participation, income-generating activities, and mitigation of key F&C risks related to accountability, transparency, and elite capture. The PforR operation addresses key technical shortcomings through dedicated DLI and PAP actions. Furthermore, specific technical areas for improvement will be addressed by the EU support operation.	Risk management: Key technical risks are addressed through <ul style="list-style-type: none">• PAP-1-7• DLI-3, -4, -5, -6• Implementation support (see section on Technical ISP, Annex 9) Application of PAP actions and DLI achievement will be monitored during implementation.			
	Responsible: Client (INDH Coordination Nationale), EU, World Bank	Stage: Implementation	Due date: DLI and PAP actions target years	Status: In progress
1.2 Fiduciary Risk	Rating:	Substantial (S)		
Description: Fiduciary risk for INDH 2 at appraisal is rated “substantial”. The rating is due to (i) the fact that INDH 2 will include numerous untried sponsor agencies with low capacity; (ii) quality and timeliness of annual audited financial statements; and (iii) effectiveness of internal audit function and follow-up of audit recommendations.	Risk management: Key fiduciary risks, including F&C risks, risks are addressed through <ul style="list-style-type: none">• PAP-8, -10-12• DLI-7, -8• Implementation support (see ISP section on Fiduciary Issues, Annex 9)			
	Responsible: World Bank, Client (INDH Coordination Nationale)	Stage: Implementation	Due date: From effectiveness through 2013	Status: In progress
1.3 Environmental and Social Risk	Rating:	Moderate (M)		
Description: E&S risks are moderate. Potential impacts are limited. Systems were put in place during INDH 1 to comply with Bank safeguards OP/BP. Program support includes actions and DLIs to enhance uptake and mainstreaming of E&S management frameworks and increase level ownership of E&S management processes at central and local level. This will be aimed at filling persisting capacity gaps particularly with	Risk Management: An Environmental and Social System Assessment was carried out during preparation. In addition to identifying key risks, the ESSA lays out a framework for revising E&S management tools (screening checklists), providing capacity building, and reinforcing accountabilities over E&S at central and local level.			
	Key E&S risks are addressed through <ul style="list-style-type: none">• PAP-11• DLI-9			

provincial-level DAS and improving the identification of risks at project identification.	● Implementation support (see ISP section on E&S Issues, Annex 9)			
	Responsible: World Bank, Client (INDH Coordination Nationale)	Stage: Implementation	Due date: Throughout implementation	Status: In progress
1.4 Disbursement-linked indicator risks	Rating:	Moderate (M)		
Description: The risk of not reaching DLIs is a matter of concern for GOM, particularly the Ministry of Finance and the INDH Coordination Nationale. The risk is low for DLIs not being met due to discontinuities in budget allocations or lack of stakeholder ownership. In order to temper risk stemming from over-ambitious and complex DLIs, DLI design attempts to capture results that are fully attributable to Program investments. This reduces the potential to capture impact-level results but enhances attribution.	Risk Management: DLIs have been firmed up during appraisal. Key risk management measures included: a) using straightforward and scalable DLIs as much as possible; b) exert realism in setting DLI; c) computing DLI targets in a conservative fashion, d) building prudent scenarios in terms of the program budget ceiling; e) ensuring budget predictability and f) seeking synergies and alignment with other donors (EU) results indicators/DLI in order to alleviate reporting burden on client. Risk management during implementation will include: a) continuous monitoring of DLI progress; b) strengthening capacities in weak areas potentially affecting DLI achievement.			
	Responsible: Client (INDH Coordination Nationale) World Bank	Stage: Implementation	Due date: Throughout implementation	Status: In progress
1.5 Other Risks (Optional)	Rating:	Moderate (M)		
Description: A. Sector ministries’ and agencies’ commitment to enhancing sectoral coordination might remain low. Phase 1 showed that involvement of sectoral ministries in INDH needs to be strengthened, and that the technical services were not sufficiently deconcentrated. This might affect the objectives in terms of capacity to leverage sector investments in favor of INDH-targeted communities. A specific action is included to mitigate this risk (PAP-1). B. <i>Regionalization agenda.</i> The full implications of GOM regionalization agenda on INDH remain to be defined, although what is clear is that (i) INDH will preserve its relevance due to its sub-regional significance; and (ii) GOM plans to create INDH regional coordination. The latter will reinforce the relationship between INDH and the provinces (which are key in INDH decision-making structure). Irrespective of the outcome of regionalization reform, GOM decentralization goals (upon which INDH 1 is predicated) are	Risk management: A. The inclusion in the INDH steering committee of key line ministries (Education, Health, Equipment and ONEE) will enhance sectoral coordination. Realistic DLI need to be set concerning ‘convergence’ goals. The PAP includes an action to strengthen INDH line ministries collaboration. Responsible: World Bank, Client (INDH Steering Committee) Stage: Preparation Due date: By end appraisal Status: done			
	B. The planned creation of INDH Regional Coordination Units should help the coordination between regions and provinces. Responsible: Client (Ministry of Interior) Stage: Implementation Due date: Expected end 2012 Status: In progress C. Under INDH 2, a climate-proofing, screening tool will be introduced as part of activity identification.			

confirmed. C. Exogenous risks. In recent years, natural disasters such as flooding and drought have had a major impact on rural income as well as on the country's physical infrastructure. This can have impacts on the sustainability of INDH 1 infrastructure and income-generating projects.	Responsible: Client, GIZ Stage: Preparation and implementation Due date: by end 2012 Status: In progress
2. OVERALL RISK RATING:	Moderate
<p>In view of the generally moderate level of country, stakeholder and program risks, and taking into consideration the level of Fiduciary Risk at this stage, the overall risk rating at appraisal is assessed as moderate.</p> <p>Government and stakeholder commitment and the track record of INDH 1 confirm that risks are likely to be manageable, and needed improvements at the margin. Risk management measures are built into the Program, supported by the PAP and tracked by results indicators and DLIs. The risk level will be subject to continuous monitoring and, if needed, re-assessment during implementation.</p>	

Annex 8. Program Action Plan

#	Action description	Expected impact	Deadline	Responsible party	Completion Monitoring	Link to Result Indicators and DLIs	Covenant ³⁷
Thematic Area 1: Enhancing access and quality in service provision							
1	Identification of financing and institutional arrangements to improve Operation & Maintenance (O&M) of Projects.	Increased sustainability of Projects by encouraging sector departments to align at the territorial level	FY 2013	National Coordination for Human Development (CN INDH)	Carrying out an O&M study.	[RI 7/DLI 5]	[X]
2	Delegated operation of infrastructure Projects is made mandatory	Increased sustainability of infrastructure Projects by enforcing contractual relationship between owner and manager to ensure O&M and service quality.	FY 2013	CN INDH Provincial Committee of Human Development (CPDH) Local Government	Orientation Note from the Ministry of Interior (MoI). Operational Manual (OM)	[RI 7/DLI 5]	[X]
Thematic Area 2: Strengthening participatory local governance and social accountability							
3	Responsibility for Local Development Plan (ILDH) validation is clarified	Increased local ownership of ILDH and increased transparency in the Projects identification and selection process.	FY 2013	CN INDH CPDH	Orientation Note from MoI. Revision of OMs	[RI 8/DLI 6]	[X]
4	Social accountability	Enhanced community ownership of Projects,	FY	CN INDH	Revision of OMs,	[RI 4/DLI 4]	[X]

³⁷ The entire Program Action Plan is included in a covenant in the Loan Agreement.

	processes at local level are introduced	increased transparency of INDH governance bodies decisions, and increased monitoring and evaluation on execution and implementation of Projects.	2014	CPDH <i>[with Bank support, see ISP]</i>	Orientation Note from MoI. Testing of Participatory Monitoring and Evaluation Tools in two provinces		
5	Modalities of Local Facilitation Teams (EAC/Q) selection and functioning are revised	Improved performance of EAC/Q, in order to increase transparency and participation in INDH processes at local level.	FY 2013	CN INDH CPDH Local committee of Human Development (CLDH)	Revision of OMs, Orientation Note from MoI. New EAC/Qs in place	<i>[RI 8/DLI 6]</i>	[X]
Thematic Area 3: Enhancing economic inclusion							
6	Designation of an Income Generating Activities (IGA)focal point within each provincial support unit (Social Action Division, DAS)	Improved technical assistance for evaluation, approval and monitoring of IGAs	FY 2012	CN INDH <i>CPDH</i> <i>[with Bank support, see ISP]</i>	Focal points designated, Orientation note from MoI	<i>[RI 3/DLI 3]</i>	[X]
Thematic Area 4: Supporting capacity and systems development							
7	Reflect Program Improvements within existing Operation Manuals	Program Improvements are reflected within existing Operation Manuals	FY 2013	CN INDH <i>[with Bank support, see ISP]</i>	Revised OMs disseminated; Orientation note from MoI	<i>n/a</i>	[X]

8	INDH Grievance Redress Mechanism (GRM) systems are upgraded	Increased transparency and accountability of INDH governance bodies.	FY 2013	CN INDH CPDH [with Bank support, see ISP]	Revision of OMs, Orientation Note from MoI , capacity building	[RI 8/DLI 6]	[X]
9	Refining targeting approach	Organization of a workshop in order to identify improvements areas of targeting approach	FY 2014	CN INDH [with Bank support, see ISP]	Organization of a workshop	[RI 1/DLI 1 RI 2/DLI 2 RI 5, RI 6]	[X]
10	Capacity building program on participatory approaches and fiduciary management is launched	Improved participatory approaches and fiduciary management.	FY From 2012 to 15	CN INDH CPDH [with Bank support, see ISP]	Capacity building program laid out	[RI 15/DLI 10]	[X]
11	A focal point for Environmental and Social (E&S) issues is designated in the DASs.	Improved quality and reliability of E&S risk assessment of activities and related mitigation measures.	FY 2013	CN INDH [with Bank support, see ISP]	Orientation note from MoI. Term of References for DAS E&S focal point laid out.	[RI 16]	[X]
12	Establishment of a Fiduciary Coordination Committee	Suggest fiduciary procedures improvements	FY 2012	CN INDH	Term of References for Fiduciary Coordination Committee laid out.	[RI 17]	[X]

Annex 9. Implementation Support Plan

298. The implementation support plan (ISP) is based on the implementation support guidelines for Program-for-Results operations, adapted to the design and risk profile of the Program. The borrower is responsible for the Program's overall implementation, including its technical aspects. The basic mandate for Bank implementation support under Program-for-Results is to:

- Review implementation progress and achievement of Program results and DLIs (GN 93-95);
- Provide support for resolving emerging Program implementation issues (GN 96-97);
- Provide technical support to the client for implementation of the Program Action Plan, the achievement of DLIs and other results, and for institutional development and capacity building (GN 96-97);
- Monitor systems performance to ensure their continuing adequacy through Program monitoring reports, audit reports, and field visits;
- Monitor changes in risks to Program-for-Results and compliance with legal agreements and, as needed, the Program Action Plan (GN 92),

299. The ISP focuses on actions that the Bank will perform and on associated needs in terms of skills and resources, but it also includes reference to the future technical assistance contribution of the European Union, the other main development partner supporting the Initiative. The operation-specific *Strategy and Approach for Implementation Support* covers technical areas, fiduciary issues, and environmental and social matters.

300. In addition to the basic mandate listed above, technical areas on which implementation support will be needed are:

- For **local governance and social accountability**, there will be a need to work with the client to:
 - (i) Support revision of the INDH operation manuals;
 - (ii) Help to design a program of local-level awareness raising and training based on improved development communication and social marketing approaches;
 - (iii) Assist in designing the operational modalities for social accountability and upgrading of grievance redress mechanisms (supporting implementation of **PAP-4, PAP-8**); and
 - (iv) Provide exposure on how civil society representative selection onto governance bodies is carried out in other CDD-type operations.
- For **economic inclusion**, support will be required in:
 - (i) Revision of the income-generating activities operations manual and the terms of reference for income-generating activity focal points at provincial level (requiring specific expertise on income-generating activities, supporting implementation of **PAP-6, PAP-7**); and
 - (ii) Revision of the targeting approach, expected to take place by end of 2013 (requiring poverty specialists with experience of Morocco's poverty maps, supporting implementation of **PAP-9**).
- For **monitoring and evaluation**, the emphasis on results and the potential for progress in the Program M&E systems will require:

- (i) Support to revamp the INDH MIS, revising the operations manual, and expanding the reports format; and
- (ii) Support to ONDH in the development of the annual panel survey for impact evaluation. This will require M&E skills combined with expertise on impact evaluation of community-driven development.

301. Implementation support related to **fiduciary issues** will be geared to:

- Supporting the borrower in implementing fiduciary elements in the Program Action Plan (provincial action plans for IGF/IGAT audits **DLI-7**, **DLI-8**; fiduciary capacity-building program **PAP-10**; reinstatement of the fiduciary innovation team **PAP-12**);
- Helping the borrower to resolve issues that arise during program implementation;
- Monitoring fiduciary systems' performance and compliance with the legal agreements;
- Reviewing periodic fiduciary reports, including audit and verification reports;
- Monitoring achievement of key fiduciary DLIs and actions;
- Regarding FM-related anti-corruption efforts, carrying out institutional capacity building, providing advice and support to the client to make operational /enhance;
- Regarding FM-related fraud and corruption risks, reviewing the client's progress in setting up systems for monitoring and responding;
- Confirming that systems exist to monitor and confirm existence of fixed assets;
- Checking progress on the fiduciary environment at country level, specifically in relation to the publication and application of the two procurement decrees currently in the pipeline;
- Closely assessing the concrete effects on the Program of the recent empowerment of key agencies tasked with anti-corruption and grievance redress tasks; and
- Evaluating the impact of the introduction of the Organic Budget Law.

302. Support in the area of **environment and social management** will be focused on:

- Carrying out regular implementation support for the Program, including monitoring performance, and monitoring implementation of any agreed actions to improve performance;
- Reviewing Program monitoring results and/or system audits periodically in conjunction with key counterparts and stakeholders;
- Conducting periodic site visits to review Program implementation under field conditions;
- Regularly reviewing performance of grievance redress mechanisms, and Program responsiveness to grievances received;
- Evaluating proposed changes to systems during implementation that may be necessary to adapt to changing circumstances or unforeseen conditions; and
- Providing technical support for systems improvement, including supporting the development of simplified screening and risk mitigation tools at local level for environmental and social management and the design of the capacity-building program (**DLI-9**), and designation of focal points (**PAP-11**).

303. Borrower's compliance with the Program Action Plan is ensured by referring the whole PAP in a covenant to the legal agreement. During implementation support the Bank will monitor progress on the implementation of the various actions. In the first year, support will focus on frontloading technical

assistance, particularly for actions requiring design input upfront. In the following years, implementation support will focus more on monitoring progress. Lack of progress on any PAP action will be assessed on the basis of:

- Emergence of needs for extra technical assistance;
- Changing environment and emergence of circumstances external to the Program impinging on the implementation of any specific PAP action;
- Confirmation of client commitment toward PAP actions implementation;
- Confirmation of relevance of PAP actions.

304. Based on these elements, the Bank will assess how to encourage progress or revise the Program Action Plan.

Table A9.1 Main Focus of Implementation Support

<i>Time</i>	<i>Focus</i>	<i>Skills Needed</i>	<i>Resource Estimate</i>	<i>Partner Role</i>
<i>First 12 months</i>	Provision of dedicated TA related to the implementation of the PAP actions and monitoring of DLIs will be needed in the following fields: <ul style="list-style-type: none"> • Local governance and participation • Income-generating activities • GRM • Fiduciary • E&S management systems • MIS upgrading 	Skills mix needed: <ul style="list-style-type: none"> • Social Accountability • Rural Development • Income-generating activities • Procurement and FM • M&E/Communications • E&S 	US\$300,000 per year	The EU has expressed the possibility of utilizing part of its TA budget (Euro 2.5 million) to cover some TA costs associated to PAP implementation. The specific work program will be firmed up during appraisal and early implementation.
<i>12-48 months</i>	Provision of dedicated TA related to supervision of actions above and implementation of <i>targeting</i>	In addition to the skill mix above: <i>Poverty mapping</i>	US\$250,000 per year	[Same as above]

305. Successful support and monitoring of Program implementation will require a task team including a diverse skills mix. The approach is to mobilize the Bank's global expertise at the outset to help with operationalizing design improvements while relying on a core group of experts normally based in the country to conduct permanent dialogue with the borrower. Given that the bulk of actions in the Program Action Plan are expected to be implemented within 24 months of effectiveness, this approach entails higher upfront costs during the first two years of implementation.

Table A9.2 Task Team Skills Mix Requirements for Implementation Support

<i>Skills needed</i>	<i>Staff weeks</i>	<i>Trips</i>	<i>Content</i>
Task management	10	0	Overall support and monitoring of implementation and compliance with legal agreements, including Program Action Plan and DLIs achievement, and overall team coordination
Rural development and micro-enterprise	6	1-2	TA related to income generating activities
Engineering	2	1	TA related to the development of technical audits
Social development	12	2-4	TA related to social risk management, beneficiary participation and inclusion, local governance arrangements, decentralization of decision-making, social accountability and civil society participation, grievance

<i>Skills needed</i>	<i>Staff weeks</i>	<i>Trips</i>	<i>Content</i>
			redress mechanisms
Health and Education	2	0	Health- and education-related DLIs and investments
Water and Sanitation	1	0	Water- and sanitation-related DLIs and investments
E&S management	2	1	TA and support to actions related to Environmental and Social Risk Management
Poverty	1	1	Targeting
M&E	5	2	Support to redevelopment of MIS; monitoring of DLIs
FM and Procurement	3	1	Support and monitoring of fiduciary related actions and DLIs

Table A9.3 Role of Partners in Program Implementation

<i>Name</i>	<i>Institution/Country</i>	<i>Role</i>
<i>Stephanie Druguet</i>	<i>European Union</i>	Coordination of EU support to INDH

Annex 10. Consultations Summary Note

306. During preparation of the Program-for-Results (PforR) operation supporting Phase II of the National Initiative for Human Development (INDH), the World Bank conducted various consultations with the support of the INDH Coordination Nationale. The consultations were held during project identification, preparation, and pre-appraisal, between September 2011 and January 2012. This annex lays out the process followed to engage stakeholders during the consultations. Five multi-stakeholders sessions were put in place with the objective of grounding support for INDH 2 within Government as well as learning nongovernmental players' perspectives of the program.

307. The note is a synopsis of the views and opinions expressed during the consultations. It makes no claims or presumption of exhaustiveness or to represent any official position of any groups or audiences consulted. The note complements the summary of consultations held specifically on environmental and social aspects of the Program and contained in the Environmental and Social System Assessment of the INDH 2 PforR operation.

Process

308. *Throughout the implementation of INDH 1, the World Bank was engaged in a process of consultations with the Government as well as a broad range of INDH players and stakeholders.* The consultation process continues to be implemented and is expected to cover the whole period of INDH 2 implementation. This ongoing process helped INDH teams align and adapt project activities on the stakeholders' needs and views to strengthen local participation and ownership.

309. An inclusive consultation process was designed to facilitate an open and constructive discussion with the World Bank teams and most importantly among the participants. The five consultation sessions were conducted at national and local levels with rural and urban audiences. Special formats and efforts were invested to capture weaker voices, particularly among youth in semi-urban areas, women in rural areas, and persons with disabilities.

310. *The objectives of the consultations was to gather and understand stakeholders' views regarding the overall design of the operation supporting INDH 2, and get their feedback on specific aspects such as the participatory component, the role of NGOs in the INDH governance bodies as well as safeguard issues.* The following main elements structured the discussions:

- Stakeholder views on the specific themes proposed for World Bank support to INDH 2,
- Discussion and feedback on safeguard issues,
- Local governance, the role of NGOs in the governance bodies and social accountability mechanisms,
- Opportunities and challenges related to income-generating activities.

311. *Participants representing large civil society organizations as well as small, local-level NGOs engaged in a dynamic discussion with other INDH representatives from CLDH, CPDH members, and EAC/Q teams.* A national-level consultation was first organized on September 7, 2011, in Rabat where participants discussed the overall approach of INDH and its implications in the new context following the regional events.

312. To allow for more in-depth thematic discussions and to gather range of views from the small communities and urban neighborhoods, consultation sessions were organized in the following provinces:

- **Tahannout**, targeting local rural stakeholders;
- **Marrakech**, targeting urban and semi-urban areas as well as youth groups and persons with disabilities;
- **Rabat**, targeting large umbrella civil society organizations and opinion leaders; and
- **Agadir**, targeting urban and rural areas as well as representatives of the CPDH and CLDH.

313. These consultation sessions can be characterized as having had an encouraging atmosphere for an open dialogue. Although the debates were at times passionate and expressed some frustration regarding INDH 1 development impact, the recommendations and suggestions were constructive and focused on the aspects that would need specific attention in INDH 2 such as local governance and participation. Additionally, the consultations facilitated a positive dialogue with representatives of the INDH Coordination Nationale.

Content and Key Lessons

314. The views and recommendations stemming out of the consultations helped inform the design of INDH 2 operations around the key four thematic areas described in the Project Appraisal Document. The main recommendations and comments of consulted audiences, structured around the operation's framework, are summarized as follows.

“CSOs participation in the CLDH should be standardized with clear CSO selection criteria. The process should also be supported by a CSO charter of ethics”.

**Marrakech rural consultations,
December 2011**

Thematic Area 1: Enhancing access and quality in service provision

- Improve integrated planning and convergence;
- Increase the decentralization/deconcentration of line ministries staff to the Provinces;
- Seek further harmonization between *Initiative Locale de Developpement Humain* (ILDH) and sectoral programs.

Thematic Area 2: Strengthening participatory local governance and social accountability

- Decentralize decision-making at the local level (CLDH);
- Strengthen the participatory approaches to include community representatives and local NGOs more fully;
- Establish mechanisms for a two-way communication between all levels of governance bodies and stakeholders;
- Reinforce participation mechanisms to include gender aspects more effectively.

Thematic Area 3: Enhancing economic inclusion

- Revamp the income-generating activity component by supporting innovation, improving the focus on support to marketing;
- Building links with micro-finance organizations at an early stage.

Thematic Area 4: Supporting capacity and systems development

- Capacity building emerged as a main recommendation from all consulted audiences. It is therefore central to INDH at all levels, particularly with regard to strengthening the following:
 - (i) Community base of the INDH;
 - (ii) Technical and managerial capacity of project sponsors (both nongovernmental and governmental); and
 - (iii) Governance bodies and support agencies.
- Various actions were recommended to improve the M&E system such as a more performance-oriented M&E, ensuring follow up after the completion of infrastructure works.
- Put in place mechanism for a participatory M&E and build beneficiaries capacity to monitor projects.
- Enhance the use of social media, INDH web-site and experiment with use of new ICT tools to monitor and follow up activities at the local and national levels.
- Integrate the EAC/Q teams as full-time professionals adequately trained and equipped. The EAC/Q teams have a key role as they are working directly with communities in urban and rural areas. They need to be trained and better prepared to perform adequately and support participation at the local level.
- The development of the NGO sector has been impressive but its role needs to be strengthened. Recommendations included more targeted capacity building, facilitating networking initiatives amongst NGOs, and support actions that help empower local ones.
- Reinforce systems to allow for the smaller and quieter *voices* to be conveyed and acted upon by Program players.

“The EAQ/C teams have to work as community organizers. They need to be trained and integrated by municipalities.”

**Agadir urban consultations,
January 2012**

“CPDHs need to reach out more to youth and establish links with university students who could contribute with capacity building and help CLDH better monitor projects.”

**Rabat national consultations
September 2011**