

Ex-Ante Evaluation (for Japanese ODA Loan)

Private Sector Investment Finance Division,

Private Sector Partnership and Finance Department, JICA

1. Name of the Project

Country: Kingdom of Morocco

Project: Local Government Infrastructure Support Project (the “Project”)

Loan Agreement Date: March 31, 2021

Borrower: Fonds d'Équipement Communal (FEC)

2. Background and Necessity of the Project

(1) Current State and Issues of the Infrastructure Sector in Morocco

The Moroccan government has laid out a five-year program (2017-2021) to promote stable economic growth, control the unemployment rate, reduce poverty, redress social inequalities through local development, and promote investment. In this context, the government is striving to improve infrastructure in urban areas in order to increase investment from foreign private enterprises, including those from Japan. In addition, it is recognized that there are considerable differences in the levels of infrastructure development between urban areas and the surrounding areas, and there is a need for investment promotion not only in the short-term, but also to establish better living conditions and an investment environment for the areas surrounding the cities, to help the medium and long term expansion of local private businesses. There are massive infrastructure needs over the country, but the funding gap is estimated to come to around US\$ 35 billion, and it is becoming more difficult to adequately respond to its gap by the central government led infrastructure development only, due to financial and human resources constraints.

The Moroccan government announced its decentralization promotion plan in 2010, and set out to enhance the power and authority of regions in the revised new constitution that was announced and enacted in 2011, making the promotion of the decentralization of authority to local governments one of its priority issues. In addition, the law concerning decentralization of power was enacted in June 2015, and policy initiatives were established for development investment at each level of local government. Apart from for government led key infrastructure, regions, provinces/prefectures, and communes are all expected to play a major role as the entities responsible for implementing infrastructure development, from both the financial and technical aspects.

Under this Moroccan government policy, the FEC, as a state-owned financial institution, is supporting infrastructure development projects through loans to local governments. Specifically, it supports infrastructure development such as road improvements, establishment and extension of power lines, construction of water supply facilities, greening of public spaces, and provision of street lighting by providing relatively low-interest loans to local governments and offering technical cooperation, with the aim of improving the ability to carry out these projects. In 2019, the FEC loans accounted for 25% of the total overall investment in Morocco's local infrastructure development, which is the biggest proportion of the past ten years. While promoting the independence of local governments and sustainable local development, in order to meet the infrastructure development needs of local governments that will continue to expand in the future, the FEC, as well as expanding and diversifying its financing, is providing loans that are as concessionary as possible, in its policy of trying to accelerate infrastructure improvement by offering low-interest, long-term loans and technical support to local governments.

(2) Japan's and JICA's Cooperation Policy and Operations in the Infrastructure Sector

The Japanese government's Country Development Cooperation Policy for the Kingdom of Morocco (May 2012) has a policy of contributing to sustainable economic growth and enhancing economic competitiveness, by promoting industrial development and job creation through the development of infrastructure that will become a foundation for industry. Moreover, in the JICA Country Analysis Paper for the Kingdom of Morocco (March 2013, updated November 2014), cooperation with Morocco's avid demand for infrastructure development through the "strengthening of the industrial infrastructure foundation" was analyzed as a priority area. Up to now, JICA has provided ODA loans and grants in Morocco to work on infrastructure development projects such as water supply and sewage, electric power, roads, and schools, and in recent years it has supported sustainable economic growth through projects such as the Sewerage System Development Project (III) and the Fez and Meknes Regions Water Supply Project. The Project is consistent with these policies and analyses, and contributes to Goal 9 (infrastructure), 11 (sustainable cities), and 17 (partnerships) of the SDGs.

3. Project Description

(1) Project Objective

The objective of the Project is to support local government infrastructure projects and expand the investment environment as well as improve the basic infrastructure for local living in both cities and their surrounding areas in Morocco, by providing a long-term loan to the FEC, a state-owned financial institution, thereby contributing to sustainable economic growth in the country.

(2) Project Outlines

By providing a long-term loan to the FEC, the project promotes the lending of funds to local governments to be utilized for infrastructure development. The loaned funds will only be on-lended by the FEC to local governments of Tangier-Tétouan-Al Hoceima, Fès-Meknès, Rabat-Salé-Kénitra, Casablanca-Settat, Marrakech-Safi and Souss-Massa.

(3) Loan Amount for Project

165 million US dollar

(4) Project Implementation Period

2021 – 2036

(5) Project Implementation Structure

1) Borrower: Fonds d'Équipement Communal (FEC)

(6) Environmental and Social Consideration / Poverty Reduction / Social Development

1) Environmental and Social Considerations

1) Category: FI

2) Reason for Categorization: The Project's categorization is based on the JICA Guidelines for Environmental and Social Considerations (announced in April 2014), as it is assumed that subprojects cannot be specified before JICA's loan agreement, and that those subprojects will have an effect on the environment.

3) Other/Monitoring: The main purpose of the loan is for funds for local governments' infrastructure development. In the Project, the FEC will categorize each subproject according to Morocco's domestic legal system and the JICA Guidelines, and take the necessary countermeasures

appropriate for each category. The projects which are classified as category A are excluded from subprojects.

2) Cross-Cutting Issues: Nothing in particular

3) Gender Category: [Not applicable] ■ GI (Gender mainstreaming needs investigation and analysis items)

<Reasons for classification> As although gender mainstreaming needs were confirmed, specific efforts to promote gender equality and women's empowerment were not included. On the other hand, the percentage of women who are management or employees of the FEC is 45%, which satisfies the eligibility criteria for the financial sector, and thus we plan to apply to have the Project recognized as a 2X Challenge project.

(7) Other Important Issues: Nothing in particular.

4. Targeted Outcomes

(1) Quantitative Effects

Indicator	Baseline (2020)	Target (5 years after completion of disbursement: Current state 2029)
Amount loaned to local governments targeted in the Project *	7,460 million MAD***	15,800 million MAD
Number of subprojects for local governments covered **	-	40

* The cumulative total amount of money disbursed since FEC concluded loan agreements in 2015. Not limited to JICA loan funds.

** Number of subprojects that JICA loan funds are allocated to.

*** Moroccan Dirham

(2) Qualitative Effects

Infrastructure improvements in the six regions that are the target of this loan.

5. External Factors and Risk Control

Nothing in particular

6. Lessons Learned from Past Projects

(1) Evaluation Outcomes of Similar Projects

In the ODA loan to the Philippines for the Local Government Units Support Credit Program, while the evaluation indicators for the whole program were limited to confirming the number of sub-loan projects carried out, the loan and repayment amounts, and the number of beneficiaries, the monitoring and evaluation of the indicators of the effects of individual sub-loan projects were relied on independent effort by local governments and relevant authorities. For substantial, durable and systematic monitoring and evaluation, it was recommended to require the submission of monitoring records as a condition of the loan and to set up evaluation indicators before the start of a project and for thorough documentation and records.

(2) Lessons for the Project

For the Project, the progress report of some indicators related to the effect of the sub-project is required as one of the conditions of the loan, which enables JICA to monitor its effects on a regular basis.

7. Evaluation Results

The Project is consistent with Morocco's developmental issues, development policies, as well as Japan and JICA's cooperative policies and analyses, and by financially supporting local governments' infrastructure development it will help expand the investment environment, improve the basic infrastructure for local living in the areas surrounding the cities, promote sustainable economic growth in Morocco, and contribute to Goals 9, 11, and 17 of the SDGs. Therefore, it is highly meaningful support through overseas investment and lending.

8. Plan for Future Evaluation

(1) Indicators to be used for Future Evaluation

As indicated in Section 4.

(2) Timing

Scheduled for 2029