I. Introduction and Context

Country Context

Morocco has a long history as a nation, and the country has been on a steady path of growth in the past decades, which has proved relatively resilient in the face of the recent global economic slowdown. Growth averaged 4.8 percent over 2001-12, compared to 2.8 percent in the 1990s, as Gross domestic product (GDP) per capita doubled to reach US$2,951 in 2012, unemployment declined from 13.6 percent in 2000 to 9 percent in 2012, and absolute poverty decreased from 15.3 percent to roughly 8.8 percent between 2001 and 2008.

Nonetheless, Morocco has been affected by the wave of protests that has swept the MENA region since 2011. Morocco had already engaged on a wide-ranging reform program to strengthen the roles of the regions and promote social solidarity and inclusion. In a speech on March 9, 2011, King Mohammed VI launched a process for constitutional reform, appointed a constitutional commission and set a three-month timeframe for the new constitution to be written. He also called members of
the commission to be ambitious and innovative in favor of broad and comprehensive political reforms. The new constitution was submitted to a popular referendum on July 1, 2011 and garnered the support of 98.5% of voters. It was then submitted to the vote of the Parliament and promulgated. The new constitution provides mechanisms for the construction of a modern state of law and institutions. It also lays the foundation for extended regionalization as a democratic and decentralized system of governance. In November 2011, parliamentary elections followed the promulgation of the constitution, leading to the formation of a four-party coalition government that has embraced the constitution's principles and called for more social solidarity and inclusion. This experience has shown that Moroccans are more inclined to seek evolution within the system – gradual change continuous with the country's history and religious values.

Morocco's unique experience reflects its political distinctiveness in the region, even though many of the same grievances among the population exist: a quarter of the population is still economically vulnerable (near-poverty), with persistent disparities as 70% of poverty is still rural, and most development indicators in rural areas lag behind urban areas. Moreover, rural poverty exacerbates gender disparity with relatively higher illiteracy and primary school dropout rates for rural women, and higher infant and maternal mortality. Against this background, Morocco has engaged in a dynamic process towards strengthening economic opportunities and social inclusion. Although several high profile development programs (e.g. the second phase of the National Human Development Initiative, the INDH) and new sectoral strategies in the areas of education, employment, and youth have been initiated, additional efforts are needed to support the country-led reforms. The movements associated with the political transition and constitutional changes represent real pressure on the Moroccan State for meaningful and quick change. While the people seem to be willing to support the Government and its mandate, they are expecting and indeed demanding that it break with the past and usher in more credible and faster reforms, notably in the areas of job creation and improvement of the quality of public services delivered.

**Sectoral and Institutional Context**

In Morocco, the urban-rural disparity is evident in the water supply and sanitation sector, as access to potable water in rural areas had long been neglected. Due to the limited financial and technical capacities of the Communes Rurales (CRs, responsible by law for ensuring public services such as water supply and sanitation) the average access rate to potable water supply in rural areas was only 14% in 1995. This meant that more than 8 in 10 rural Moroccans had no access to a safe and reliable water supply and had to rely instead on alternative resources, often of unregulated quality (groundwater resources of degraded quality), requiring long and frequent trips (a burden most often borne by women and children), or excessively costly (water tankers, informal water providers). Where it existed, access to publicly provided water supply in rural areas was most often granted through public standpipes (SP), and in rarer instances through local distribution systems to household connections.

In 1995, GOM launched a first rural water supply (RWS) program known as the Programme d’Approvisionnement Groupé en Eau Potable des Populations Rurales (PAGER). The responsibility for its implementation was shared between the Direction Générale de l’Hydraulique (DGH), and the Office National de l’Electricité et de l’Eau Potable (ONEE), a national utility created in 2009 by the Law 40-09 (promulgated through the Dahir 1-11-160 of September 29, 2011) to consolidate the former national water supply utility ONEP (Office National de l’Eau Potable) with the former national electricity utility ONE (Office National de l’Electricité). DGH would build standalone groundwater fed systems to be managed by Water Users Associations (WUA), whereas ONEE
would lay lateral pipelines to connect villages located along its regional urban potable water trunk pipelines. PAGER successfully raised RWS access rates from 14% in 1995 to 61% by the end of 2004, mostly through installation of SPs in thousands of villages or douars. Since 2004, ONEE was entrusted with the management of the entire PAGER program. It restructured it into the Programme de Généralisation de l’Eau Potable (GEP), with the objective to expand RWS coverage to exceed 90% access by 2012. To achieve this, ONEE relied mostly on the extension of piped RWS, limiting the supply from groundwater resources to places where they were proven reliable in terms of adequate quality and quantity.

The Bank supported ONEE in its mission as it implemented the on-going Bank-funded Rural Water Supply and Sanitation project (RWSSP), approved in 2005 to support the implementation of GOM’s GEP in selected provinces, jointly with AFD. In 2010, the Bank approved a loan for a Regional Potable Water Supply Systems Project (RPWSSP), aiming at supporting ONEE’s extension of regional trunk pipelines in rural areas. In addition, ONEE and the Bank have collaborated since 2005 on the implementation of multiple GPOBA-funded rural pilots for house connection (HC) service development, designing and piloting innovative outsourcing approaches to HC network development and operation through small-scale delegated management contracts. These efforts have enabled a dramatic increase in RWS access rates in the past 15 years, reaching 92% of the rural population in 2012, including 35% through local distribution networks to house connections.

Despite such impressive progress, where widespread deployment of SPs yielded undeniable benefits to rural populations who previously had no access to a safe and reliable water supply, the program faced a number of limitations, including:
(a) uneven access coverage between provinces, with those on the Atlantic coast, Rif and “pre-Rif” Mediterranean mountainous regions lagging behind the national average.
(b) very low SP consumption levels as SP uptakes measured on average at 8 liters/hab/day, while the networks were designed to convey 20 liters/hab/day in PAGER and 50 liters/hab/day in more recent projects;
(c) strong demand for HCs as the majority of the population in rural communities accept water supply service through SP as a temporary solution and would rather benefit from a HC which would significantly ease the burden of water-intensive non-drinking uses of water (washing, cooking, etc.);
(d) a limited and inconsistent choice of SP management models, including water users associations (WUA) promoted by DGH, and individual SP caretaker – gardiens-gérants (GG) promoted by ONEE; and
(e) insufficient attention to wastewater management (on-site sanitation) and hygiene promotion.

Taking these shortcomings into account, GOM is now facing two major challenges. Its main challenge is to continue increasing the rural access rate to water supply to reach near universal access. This means replicating ONEE’s current successful approach of constructing a network of lateral mains from its regional trunk lines to standpipes, in villages not yet served by previous ONEE projects where access rates are among the lowest in Morocco. As these communities still rely on high-burden low-quality alternatives to proper water supply, this would provide them with a significant improvement in safety and reliability of supply. Furthermore, as access rates have significantly increased everywhere, GOM will need to gradually shift its focus to extend service delivery from existing SPs to HCs, thus addressing increased demand for the perceived benefits of in-house water delivery, and capitalizing on the initial sizing of conveyance laterals in anticipation of HC-service.
GOM is pushing forward to address both of these challenges. In doing so, it would build on lessons learned from its significant experience in extending rural water supply and from the preparation and implementation of the ongoing Bank-funded projects. Three main lessons ought to be drawn from this experience:

(i) Replicate the new financing model developed in and applied since 2009: 15% contribution by CRs and 5% contribution from beneficiaries to the investment cost of rural access networks and, in the case of HC service deployment, eligibility criteria including the commitment of at least 70% of the population for HC, a household contribution of DH 3,500, and a CR contribution of 50% of the investment cost. This aims to address concerns over the financial sustainability of ONEE’s water activity;

(ii) Foster the development of promising management models, such as the ONEE contracted “caretaker” model in the case of SP-service, or delegating management to the private sector through small-scale performance-based PPP arrangements in the case of HC-service. This aims to address concerns that relying on Water Users Associations (WUAs) for the management of HC distribution schemes has shown its limits in terms of sustainability;

(iii) Foster the development of improved wastewater management, by screening villages where deployment of enhanced water supply is planned and determining the best wastewater management option. Options should include on-site sanitation where technically and environmentally feasible, limiting the development of wastewater collection and treatment facilities where indispensable.

Relationship to CAS
The Project is fully consistent with the Bank Strategy in Morocco and will directly contribute to achievement of the MDG objectives for Morocco. The Bank and GOM elected water as a pillar of the 2005-2009 Country Assistance Strategy (CAS) aiming at “improving water management and access to water and sanitation services”. Water remains an important focus of the 2010-2013 Country Partnership Strategy (CPS), with renewed commitments to develop equitable, sustainable and affordable WSS service. Bank support to the water sector has been underpinned by substantial analytical work and policy dialog. It builds on a solid experience of investment and development policy lending in support of urban sanitation, RWS, and efficient irrigation programs, as well as of reforms in sector governance, water resources management, irrigation, water supply and sanitation.

In supporting a new RWS project, the Bank will contribute to GOM’s objective of full access to improved water supply in areas still underserved in the selected provinces while assisting GOM in the development of promising approaches to financially sustainable household connections in rural areas and addressing wastewater concerns. It will also contribute to further exceed water supply MDG targets at a national scale, and to narrow the service gap between rural and urban areas. By improving the living conditions of the beneficiaries in rural areas, in particular for women and children, the project expects to contribute to social inclusion and develop economic opportunities.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)
The project development objective (PDO) is to provide access to safe and reliable water supply for rural communities in targeted underserved areas, while supporting the Borrower’s shift towards water service delivery through house connections in its service area.

Key Results (From PCN)
Note: core indicators are indicated with an *. Intermediate indicators B1/B2 and C1/C2 are linked to PDO indicators B and C respectively.
The achievement of the PDO will be monitored through the following indicators:
A. (a) Number of direct project beneficiaries*, (b) percentage of which female* or (c) extremely poor or (d) percentage of which feel the project reflected their needs*
B. (a) Number of people provided with access to “Improved Water Sources” under the project* and (b) corresponding improvement in access rates
C. Number of people provided with access to piped house connections under the project

Progress towards achievement of the PDO will be monitored through the following intermediate indicators, which are numbered in reference to the PDO indicator to which they contribute:
B1. Number of improved community water points constructed or rehabilitated under the project*
B2. Percentage of sub-projects or investments for which arrangements for community engagement in post-project sustainability and/or operations and maintenance are established*
C1. Number of new piped house connections that are resulting from the project intervention*
C2. (a) Number of households benefitting from the pre-financing mechanism for household connections, and (b) corresponding contributions as a percentage of total project cost*

In addition to this set of results indicators, ONEE will also separately monitor operational indicators such as the length of access or distribution network constructed, the incremental volume of water distributed or billed, the unit cost of service extension through house connections.

III. Preliminary Description

Concept Description

The origin of this project is an explicit request for Bank support to set-up the pre-financing mechanism for service extension through HC at the scale of its service area, and intensify its support for the latest phase of its GEP program. As such, the new project is proposed as a “repeater Project”. It substantially builds on previous efforts to help a high-capacity borrower consolidate its RWS mission in support of Morocco’s economic and social development.

The proposed Project aims to continue the World Bank’s support to the latest phase of GOM’s GEP program by intensifying its efforts to extend access to SP-service in areas that have none (component 1, consisting of 80% of Project investment costs), and by leveraging a household prefinancing mechanism to accelerate HC-service deployment (component 2, consisting of 20% of Project investment costs, half of which are allocated for the upgrading of upstream access networks that had been under-sized), with additional resources allocated for technical assistance and capacity building activities.

As such, the Project would include three components. Financing indicated below amounts to a total Project cost of EURO 61 million, out of which EURO 50 million is financed by the Bank. This corresponds to the actual cost estimates of ONEE, though the Government's official request mistakenly indicated these amounts in US$. This will be corrected in the future.

Component 1: Extension of access to water supply through standpipes in four priority provinces (Safi, Sidi Bennour, El Jadida and Skhour Rehamna). The cost of this component, with contingencies, is estimated at EUROS 45 million (US$ 58 million equivalent), of which EUROS 35 million (US$ 45 million equivalent) is financed by the Bank.
(almost 80%) and EUROS 10 million (US$ 13 million equivalent) is financed by local counterparts. This component consists of water production, conveyance and rural water supply in the Safi, Sidi Bennour, El Jadida and Skhour Rehamna provinces. This infrastructure component is comprised of three independent regional subprojects, or subcomponents, spanning respectively i) the Safi, Sidi Bennour, El-Jadida provinces, ii) the Skhour Rehamna province, and iii) the Beddouza douar in Safi province. Under each sub-component works will be contracted for the construction of storage tanks (elevated or grounded), pumping stations, and rural conveyance laterals connecting the trunk line to public standpipe delivery systems in targeted villages. It is estimated that this component will provide new access to potable water to approximately 270,000 rural citizens in more than 600 villages (douars).

Component 2: Supporting the shift towards water service delivery through house connections. 
The cost of this component, with contingencies, is estimated at EUROS 10 million (US$ 13 million equivalent), of which EUROS 9 million (US$ 11.7 million equivalent) is financed by the Bank (90%) and EUROS 1 million (US$ 1.3 million equivalent) is financed by local counterparts. This component aims to respond to the demand of an increasing share of the rural population for HC and will be implemented by ONEE throughout its service area (which does not include any of the disputed areas in Morocco) through two subcomponents:

a. Pre-financing mechanism: IBRD financing will contribute to an Infrastructure Development Fund, set up as a revolving fund or pre-financing mechanism available to households who opt for HC-service and request such facility. This pre-financing mechanism has been set up and is being managed by ONEE under the on-going Rural Water Supply and Sanitation project, but with a geographical limitation to households located in the project provinces. Under the proposed project, ONEE is to scale-up such pre-financing facility to its entire service area. The design will remain the same as under the ongoing project. Namely, the pre-financing mechanism will provide credits to demanding households to pre-finance a share of up to MAD2,500 of their contribution to the cost of their house connection (Full household contribution to its house connection is MAD3,500). Households will refund this credit in installments over time through their water bills, according to a pre agreed repayment schedule. The revolving fund will not directly finance any works or any contract. ONEE’s involvement to develop HC service delivery in a given commune will be conditioned by the following eligibility criteria: (i) commitment of at least 70% of the population to request a HC for water supply; (ii) the upfront payment by households of MAD 3,500 contribution to the cost of their house connection (either upfront or using the pre-financing mechanism); (iii) the payment by CR of a contribution of 50% of the investment cost; and (iv) households have or commit to develop a satisfactory sanitation solution, as defined in ONEE’s sanitation standards (to be reviewed during preparation). An environmental screening of each service extension through house connections will be performed (Component 3) as a prerequisite for the extension, including the existence of acceptable provisions for sanitation and to determine if local environmental and technical conditions allow satisfactory sanitation through on-site sanitation systems.

b. Works to increase the capacity of the regional access network in areas where villages are eligible for HC service, but where the regional network installed in earlier stages of PAGER and GEP is insufficient to provide an adequate service, due to lower design standards at the time (20 liters per capita per day). In these areas, ONEE will study the best technical solution and will procure and manage the works to implement it.

Component 3: Implementation Support and Capacity Building. 
The cost of this component, with contingencies, is estimated at EURO 6 million (US$ 7.7 million equivalent) entirely financed by the Bank.
This component will provide:
a. Technical assistance (TA) to ONEE’s project implementation to (i) enable efficient project
management & monitoring, (ii) strengthen participatory approaches to service provision including
helping communities prepare and organize for either SP-service or HC-service deployment and
operation, and (iii) the identification of the proper wastewater management solution for each village
and the promotion of sanitation to prevent any possible negative impacts from an inadequate
disposal of increased wastewater flows.
b. Capacity building (CB) through a series of studies informing its overall RWS program, increasing
its capacity to effectively manage the overall GEP program and improve the performance of RWS
SP-service and HC-service operations.

IV. Safeguard Policies that might apply

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V. Financing (in USD Million)

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VI. Contact point

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