



Output-based Aid: extending water and sanitation services to the poor in peri-urban Morocco

Xavier Chauvot de Beauchêne, World Bank

Type of tool: Output-Based Aid

Issue: cities

Location: Casablanca, Tangier and Meknes in Morocco, Northern Africa

Challenges

Morocco is a middle-income country and access to potable water and improved sanitation has seen significant improvements in the last decade, reaching 94 and 81 percent respectively in urban areas. However, infrastructure is lagging in slums and illegal settlements in urban and peri-urban areas, where the poor are deprived of access, particularly to the sewerage collection networks. In some cases, these settlements constitute a substantial portion of metropolitan areas. For example, in Casablanca, 1.2 million, or 30 per cent of the population, live in such illegal settlements.

The inhabitants of urban and peri-urban areas without access to adequate services must rely on contaminated water from shallow wells, water providers who charge relatively high unit price, or standpipes which may require women or children to queue for hours. The majority of households uses cesspits and poorly designed septic tanks, which risk further contamination of groundwater, and many of the poorest people have no form of sanitation at all. These deficiencies have serious and direct impacts on people's health, their ability to engage in economic activities, and children's school attendance. They also harm the finances of water utilities, which generally attain very low cost recovery from public standpipes.

Barriers

There are a number of barriers to extending water and sanitation services to the poor in these areas:

1. Unplanned growth of peri-urban areas has systematically excluded them from the service areas of water and sanitation operators.
2. Technical and administrative hurdles made it difficult for operators to intervene in illegal settlements, mostly because of a lack of basic access roads.
3. Operators have difficulty financing infrastructure for households perceived to be in the loss-making lowest brackets of existing water tariffs.





4. Connection fees are priced at marginal cost, topped with a ‘first settlement fee,’ thereby driving costs of access to unaffordable levels for many households, even when the option of payment by instalments is available through ‘social connection’ programmes.

Drivers of change

In response to these challenges, the National Initiative for Human Development (INDH) was launched in May 2005. One of the focuses of this initiative was on upgrading infrastructure, public utilities and social services in poor neighbourhoods, particularly in urban and peri-urban areas. The initiative addressed a critical barrier by recognizing and addressing informal settlements which were previously considered illegal and therefore ineligible for services. This provided a strong momentum for municipalities and utilities to explore the best mechanism to expand access to basic infrastructure among the poorest. Local governments and operators were encouraged to reduce connection fees for their inhabitants to meet the needs of the poor. The lack of financing to develop connections for onsite upgrading of services remained a key challenge faced by the INDH.

The government and operators of water utilities in Casablanca, Meknes and Tangiers requested a grant from the Global Partnership on Output-Based Aid (GPOBA) – a World Bank-administered programme – to pilot an innovative Output-Based Aid (OBA) approach with the objective of expanding access to water and sanitation service among the poor living in peri-urban settlements with a recognized right to access services through the INDH programme. The tool employed in the project was the introduction of an OBA approach, which are performance-based subsidies to encourage service expansion, but disbursed on the basis of realized and independently verified outputs.

Description of the tool and how it overcame barriers to extending service coverage

The project was launched in 2007 and implemented by the two private sector incumbents in Tangier and Casablanca, Amendis-Tanger and Lyonnaise des Eaux de Casablanca (LYDEC), and the Regie Autonome de Distribution d’Eau et d’Electricite de Meknes (RADEM), a public utility. The Government of Morocco also played an oversight and monitoring role. The pilots were funded through a US\$7 million grant from GPOBA and aimed to connect 11,300 households (approximately 56,000 people) to piped water and sanitation services in poor peri-urban neighbourhoods in the three cities.

The utilities that serve Tangier, Meknes and Casablanca arranged pre-financing for expansion of water and sanitation facilities to pre-selected communities. Targeting was geographical and identified neighbourhoods in the INDH’s shortlist of most disadvantaged urban and peri-urban communities. Water and sewerage connection networks were constructed on land belonging to





the municipality and once the connections were made, an OBA subsidy would be disbursed to supplement reduced connection fees by households. The pre-agreed subsidy was designed to bridge the gap between capacity to pay and the real cost of connection. All households located in selected areas were eligible for a subsidized connection fee, in addition to the fee waivers granted for INDH areas and payment facilities offered by ‘social connection’ programmes.

The outputs for which the subsidies were disbursed were simultaneous network connections to water supply and sewerage services for individual households, or in the case of Meknes, the connection to either service. The subsidy was operator- and service-specific (see Table 1) and paid in local currency in two steps: 60 percent upon certification by an Independent Technical Reviewer of a working water and sewerage connection to an eligible household; and 40 percent upon verification by the Independent Technical Reviewer of at least six months of sustained service.

City	Operator	Subsidy levels per connection (MAD/US\$ eq.)		Subsidy levels per connection (MAD/US\$ eq.)	Minimum house-hold monthly installment for connection fee*
		To water supply	To sanitation		
Casablanca	LYDEC	MAD 1,458 (US\$170)	MAD 3,609 (US\$421)	28%	MAD 60 (US\$7)
Tangiers	Amendis	MAD 1,467 (US\$171)	MAD 4,158 (US\$485)	24%	MAD 100 (US\$11.7)
Meknès urban areas (Ouislane, Meknès)	RADEM	MAD 1,422 (US\$166)	MAD 7,821 (US\$913)	53%	MAD 110 (US\$12.8)
Meknès rural areas (Dkhissa, Ait Ouallal, etc.)	RADEM	MAD 5,319 (US\$621)	Ineligible to OBA funding	74%	MAD 55 (US\$6.4)

MAD–Moroccan dirhams (U.S. dollar equivalent in parentheses), exchange rate of as March 2009

* For households choosing to pay their connections fees in installments over time.

Source: GPOBA/Infrastructure Développement Consultants

Table 1. Operator- and service-specific unit subsidy amounts per connection

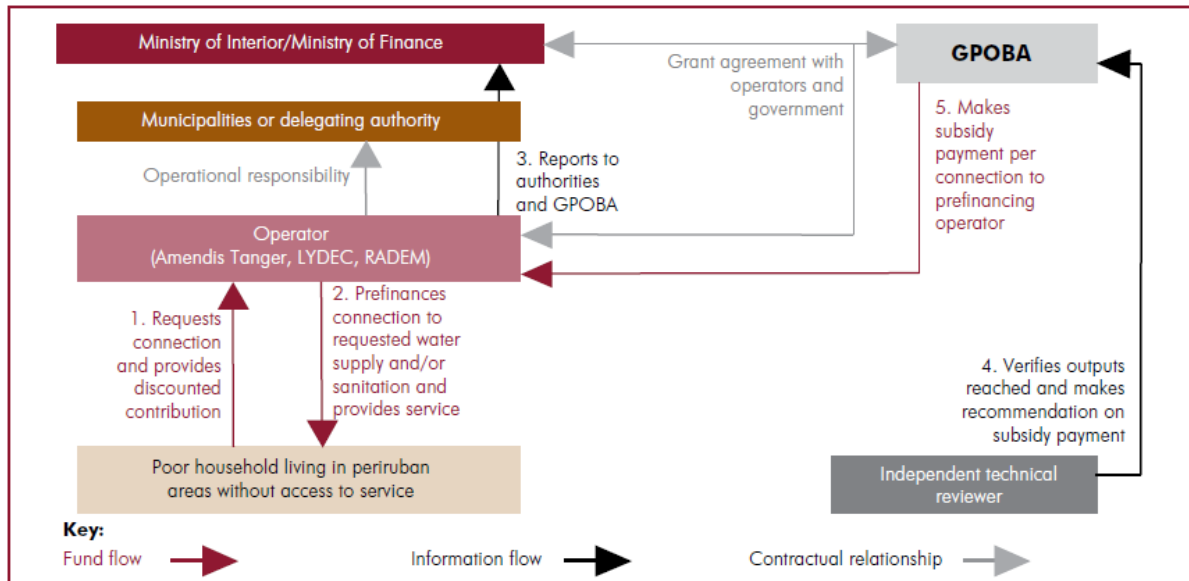


Figure 1. Project arrangements

The built-in incentives of the OBA approach are specifically designed to overcome traditional barriers of expanding services in marginal neighbourhoods, namely: inability to afford connection costs; operators' unsustainable financing for service expansion programmes to poor areas; complex technical and administrative obstacles to infrastructure development in poor unzoned areas; and reluctance of national and local governments to fund subsidy programmes with no accountability or guarantee for results.

Evaluation and lessons learnt from implementation

The pilots experienced a slow start, with about 2,000 connections (15 percent of the programme's three year objective) in the first year, but connection rates accelerated significantly thereafter. Demand exceeded expectations. An independent midterm review of the pilots showed that the delay was due to implementation difficulties unrelated to the OBA approach: World Bank procurement procedures, upstream investment delays, and lack of clarity over land tenure. By 2011, the grant made available by GPOBA was fully committed and subsidies allocated. The pilot provided subsidized access to water supply to a total of 10,504 households and sanitation services to a total of 9,036 households, benefitting more than 52,500 people. Households that were simultaneously connected to water supply and sanitation services totalled 5,593 in Casablanca and 2,909 in Tangiers. In Meknes, 2002 households acquired access to water supply services and 534 to sanitation services. The collection rates achieved were equal or superior to the average in each operator's service area.





The project has resulted in important direct benefits to households in terms of time savings, reduced health costs and improved hygiene practices. Beneficiary households report high satisfaction with the service provided, and operators and government are also satisfied with the pilot.

Lesson learnt:

- The use of performance-based subsidies helped refocus service provision on household demand, which has increased accountability, strengthened partnerships between local authorities and operators, and made monitoring of service delivery a priority.
- All parties agree that the OBA approach has proven an efficient and powerful tool to extend services to poor peri-urban areas in a cost-efficient and sustainable manner.
- Participation is strictly demand-driven. This creates an incentive for the operators to carefully assess demand from targeted beneficiaries during preparation and work with local authorities and partners during implementation to raise awareness and promote the programme.
- Operators developed proactive and dynamic approaches to integrate their new customers. E.g. they reached potential customers by sending dedicated teams to marketplaces or the centre of targeted neighbourhoods to record demand from beneficiaries who might not easily travel to one of the operator's agencies.
- The OBA approach was seen to play an important role in overcoming financing blockages, mobilizing stakeholders, and making sure funding reached the targeted people.
- The quarterly inspections by the Independent Technical Reviewer helped improve the operators' progress reporting requirements and implementation methods.

The World Bank will prepare an implementation completion and results report on the project in the coming months, to give a full account of results and disseminate final lessons

Scaling up and relevance for developing and transition countries

The OBA approach is seen as strategically relevant to Morocco, given the lack of targeted subsidy mechanisms for poor households, especially in informal urban settings. Despite the maximum number of connections being made through the pilot project, the need for additional connection remains great. The operators continue to deliver connections under the same conditions, but without the subsidy; there is an immediate need for concrete action from the government to implement a programme which continues to address the persistent service deficit in low-income peri-urban settlements throughout Morocco.

The Government of Morocco has expressed interest in replicating the OBA approach on a citywide or nationwide scale. The World Bank is now working with the government to plan a scale-up programme that could be adapted to address the needs of several large municipalities.





Such a programme would also aim to strengthen coordination between institutions in charge of the different aspects of peri-urban utility service, and reform tariff and connection fee structures, so as to prevent an expansion of unserved peri-urban neighbourhoods.

References

<http://www.gpoba.org/gpoba/sites/gpoba.org/files/GPOBA%20morroco%20urban%20-%20Final.pdf>

