

Technical Note

Impact and response of the Moroccan municipalities in the context of the COVID-19 crisis

April 8, 2020

Augustin Maria, Herve Hocquard, Chaymae Belouali, Lamia Zaki, Jean-Briac Ligot

Abstract

Moroccan municipalities are playing a key role in the emergency response to the covid-19 pandemic, by ensuring the continuity of essential services such as waste collection and urban transport, and by contributing to the fight against the spread of the virus through increased action in hygiene control and cleaning of public spaces. Municipalities are also expected to contribute in the recovery phase by resuming their investments and strengthening prevention and preparedness in anticipation of a potential resurgence of the epidemic.

Moroccan municipalities will need financial and technical support to fully play their role in the response and recovery phases. Indeed, the crisis is expected to have a significant impact on the budgets of subnational governments, especially at the municipal level. Estimates show that in 2020, the revenues of urban municipalities could decrease by 25% while recurrent expenditures could increase by 10%, which would significantly impact their ability to invest and could lead to significant deficits.

A. Municipalities' role in the response to the covid-19 crisis

1. **Municipalities are at the forefront of the emergency response to the covid-19 crisis, given their mandate in terms of local public service delivery.** Under the Moroccan institutional framework, Municipalities are responsible for the setting up and management of local public services and facilities which play a key role in the context of the covid-19 crisis, including : sanitization and public health (hygiene), transport of the sick and wounded, dead bodies transport and burial, cleaning of public roads and places, household waste collection, transport to landfill, treatment and recycling of solid waste. Municipalities are also responsible for measures to control disease vectors through the creation and organization of Municipal Hygiene Offices (*Bureaux Communaux d'Hygiène*, BCH). In addition, municipalities are responsible for ensuring continuity in the provision of other essential services such as urban transport, as well as municipal and wholesale markets.

2. **Municipalities have mobilized significant resources to provide specific and adjusted services to contribute in the fight against the covid-19 outbreak.** Special campaigns for sanitization of public spaces and administrative premises have been launched in many cities. Specific measures have also been taken by municipalities, often in collaboration with local authorities, to protect public health while ensuring the

supply of food and household essentials, namely through adjusted management of local and wholesale markets. In cities like Casablanca and Tangiers, daily prices are published on the municipality website to avoid any fraudulent price increase. The Municipal Administrative Police (PAC) has also been active in cities such as Casablanca to raise awareness and ensure compliance with the safety measures introduced by the government.

3. **To ensure public service delivery and payment continuity for service providers, municipalities have also increased efforts to simplify and digitalize their administrative procedures.** With the support of the Ministry of Interior, municipalities have accelerated the use of digital technologies to deliver administrative services remotely to citizens and firms, thus limiting physical movements. For instance, the government has accelerated the deployment of the digital platform “rokhas.ma”, which supports the digitalization of procedures for the issuance of building permits and commercial licenses. This platform is being rapidly deployed in all Moroccan municipalities after having been tested in Casablanca. The government is also responding to the crisis by accelerating the deployment of digital grievance redress systems and civil registry services.

4. **The Central government has provided municipalities with increased financial flexibility regarding budgeting processes while defining simplified procurement procedures.** Circular No. F/1248 has allowed Presidents of municipalities to release new financial resources or reallocate existing ones, without deliberation of their councils. Furthermore, Circular No. 2138/E of March 26, 2020 simplified the selection and execution procedures of public procurement carried out by local authorities to ensure an accelerated payment of private contractors in the crisis context.

5. **Municipalities are also providing special ad hoc financial assistance to vulnerable populations.** Ad-hoc initiatives have emerged in several municipalities that have been providing financial support to disadvantaged households.

B. COVID-19 crisis impact on municipal finance

6. **With the expected economic recession triggered by the COVID-19 crisis, it is estimated that municipal revenues will be severely affected.** Municipal revenues come from a mix of state transfers and municipal own revenues, respectively 54% and 46% on average. Both financing sources are very likely to be affected by the economic crisis which should result from the outbreak of the covid-19, as state transfers are funded through a share of VAT revenues, and a number of local taxes are linked to local economic activity. Estimates show that a 25% decline in municipal revenues should be expected in 2020¹.

7. **On the expenditure side, a significant increase is also expected on an annual basis.** Municipalities’ budgets present a high volume of fixed costs and rigidity on current expenditures, as staff costs and fees due to operators of local public services represent respectively 34% and 37% of usual recurrent revenues. In addition, a significant increase is expected in expenditures related to specific covid-related services. Some expenditures could be temporarily reduced, but this is not expected to fully compensate for the increase mentioned above. As a result, estimates show that a 10% increase in municipal current expenditures could be expected in 2020.

¹ See annex 1 for a presentation of the assumption used for these estimates.

8. **The impact on municipal finances will be high, in particular for urban municipalities.** Municipalities aggregate operating surplus² in 2019 amounted to MAD 8.4 billion (29% of the aggregate revenues), allowing them to pay capital and interest charges on their outstanding loans (MAD 1.8 billion), and finance their investments (MAD 6,2 billion). With a 25% decrease in revenues and a 10% increase in current expenditures, this operating income is expected to turn into an operating deficit of around 800 MDH in 2020. This would have serious consequences on municipalities financial capacity, making them unable to repay their debt, and to continue financing their investments.

9. **Regions and provinces will also be impacted, but with less severe consequences on their financial capabilities, than municipalities.** Regions and provinces are also expected to face a reduction in their revenues, which are mostly consisting of transfers funded by shares of VAT and income and corporate taxes, which are all expected to decrease significantly as a result of the crisis. However, the expenditures structure of regional and provincial governments is less rigid than the one of municipalities. Indeed, while the recurrent expenditures of municipalities including debt repayments represented 77% of municipalities revenues, this percentage is 62% for provinces, and 19% for regions. As a result, applying the same assumption of a reduction of 25% in revenues and increase in 10% of current expenditures for regions and provinces would lead to a significant reduction in their net operating surpluses, available to finance new investments, without the emergence of an operating deficit. The impact is once again uneven between provinces and regions, the latter seem to still have enough space to pursue local investments. Indeed, provinces would see their net operating surplus reduced from MAD 1.7 billion in 2019 to 462 million, and regions would see their net operating surplus reduced from MAD 7.7 billion to MAD 5.3 billion.

Table 1. Moroccan local government finances before the covid-19 pandemic and the estimated crisis impact

<i>Million DH</i>	Regions		Prefectures and provinces		Municipalities		Total ³	
	2019	2020 (estimate)	2019	2020 (estimate)	2019	2020 (estimate)	2019	2020 (estimate)
Own tax revenues	790	632	328	262	13 240	9 930	14 358	10 824
State transfers (including capital grants)	8 732	6 549	4 213	3 160	15 543	11 657	28 488	21 366
Staff cost	(182)	(191)	(2 117)	(2 223)	(9745)	(10 720)	(12 044)	(13 133)
Goods and services expenditures	(1 184)	(1 243)	(593)	(623)	(10 636)	(11 700)	(12 413)	(13 565)
Operating surplus	8 156	5 747	1 831	577	8 402	(832)	18 389	5462
Debt interest payment	(212)	(212)	(52)	(52)	(751)	(751)	(1 015)	(1 015)
Debt capital repayment	(247)	(247)	(63)	(63)	(1 044)	(1 044)	(1 354)	(1 354)
Net operating surplus	7 697	5 288	1 716	462	6 607	(2 627)	16 020	3123
Investments	7511		3 405		6 187		17 103	
Debt service coverage ratio	17	12	15	5	4	(1)	7	2

² The operating surplus (Epargne brute) of municipalities measures their remaining resources/revenues (state transfers and municipalities own resources) after deduction of operating expenses such as wages, cost of outsourced services ...

³ All 2019 data is based on aggregated municipal financials published by TGR for 2019 (year of reference). Data labeled 2020 (estimates) has been computed based on Bank team assumptions on the impact of the COVID crisis as detailed in the annex for municipalities. The line by line estimates for municipalities result in a projected decrease in current revenues by 25% and a projected increase in current expenditure by 10%. The same aggregate assumptions have been used to look at the potential impact for regions and provinces.

10. Municipalities will need significant financial support to maintain the provision of essential services, honor their commitments, and contribute to the economic recovery. Several levels of needs can be considered:

- (i) MAD 2,6 billion would be needed to ensure the continuity of municipal services and to allow municipalities pay capital and interest charges on their existing loans.
- (ii) MAD 3 billion would be needed for municipalities to honor municipalities' existing commitments for the purchase of goods and works, and to carry out the more urgent capital investments following the end of the confinement period.
- (iii) Finally, an additional MAD 3 billion would be needed to keep municipal investments at 2019 level.

C. Strengthening municipalities' preparedness and ability to contribute to the recovery phase.

11. **The health crisis has highlighted the need to support the improvement and adaptation of several local public services provided by municipalities.** Services which proved essential for the management of the crisis and the fight against virus spread have been under pressure. This illustrates the need for enhanced capacities and resources for municipalities to contribute to play their role in emergency, contribute to the recovery phase, and prepare for a potential re-emergence of the epidemic. Public health and sanitary measures in public spaces call for a continued strengthening of the municipal hygiene offices (BCH) and municipal administrative police departments (PAC). Lessons learned from the current crisis should be incorporated into strengthened procedures and technical standards for the delivery of local public services such as collection and management of medical and household waste. Finally, the ongoing accelerated rolling out of digital platforms for the delivery of administrative services should be continued to ensure that all municipalities are able to provide these services through online platforms.

12. **Municipal investment can be a key lever for local economic development.** With the anticipated economic recession, it will be key to support municipalities in resuming the implementation of investment projects, which would represent a source of job creation at the local level. This will undoubtedly require a reallocation of investments to new priority areas of intervention, which would imply the revision of municipal action plans (PACs), as well as the revision of investment contracts under implementation to take into consideration the impact of the crisis. Other administrative procedures may be simplified in order to ease this reallocation process. The role of municipalities in local economy and job creation as well as in fostering private sector investments must also be clarified, as co-financing rules and partnerships with the State have not been settled.

Annex 1: Simulation of the COVID-19 impact on municipal finances

	Expenditure/revenues in proportion per 100 Dh of revenue - Reference Year ⁴	Expected impact of Covid-19 ⁵	Expenditure/revenues in proportion per 100 Dh revenues - Covid impact	Rationale for expected impact assumption
Current expenditure				
Chapter 10 (except article 50) <i>General Administration</i>				
Staff salaries, allowances and non-wage labour costs	36.46	+10%	40.10	rigid expenses, that may increase due to the need of additional capacity, especially in the hygiene public health preservation area and bonuses paid out for extra hours/effort
Supply and maintenance contracts related to administrative operations	3.17	-10%	2.85	Expenses may slightly decrease with the temporary closing or underutilization of administrative buildings.
Chapter 20 <i>Social Affairs</i>				
Subsidies to social and charity institutions	0.87	+50%	1.31	Will rise due to social assistance needs and initiatives launched by municipalities to respond to these urgent / emergent needs
Sport-related expenditures including sport association subsidies	0.56	-20%	0.45	The lockdown and safety measures will affect outdoor and group-based activities leading to a temporary decrease in sport related expenditures
Hygiene-related expenditures, Municipal Hygiene Offices	0.68	+400%	3.39	Significant additional capacity needed with hygiene and public health preservation being one of the main services solicited in the fight against the virus spread : these services highly solicited during the outbreak will continue to be delivered at a higher level of effort (compared to before the crisis) even in the recovery phase
Cultural-related expenditures including cultural association subsidies	0.31	-40%	0.19	Same rationale as for the sport-related activities. It will take probably longer to resume the grouped cultural activities
Chapter 30 <i>Technical Affairs</i>				

⁴ The overall distribution of resources and expenditures per chapter is based on 78 municipalities aggregated financial data for 2017 extracted from the TGR database. The intra-chapter distribution is based on the financial structure of the accounts of the municipality of Casablanca (Casablanca's detailed accounts are the only ones we have for 2017).

⁵ The expected impact is not assessed scientifically. Based on the Bank team experience and discussions with the client, sensitivity levels have been assigned to each item (in both expenses and revenues) to reflect the short term (1 to 2 years) impact of the crisis on the municipalities operations and resources. A, -10% impact on a revenue item means that it is expected that the volume of this specific source of revenue will decrease by 10%. A +50% impact on an expenditure item means that it is expected that the cost of this item will increase by half.

Public spaces maintenance (street, parks, square etc.)	4.98	+10%	5.48	Road maintenance expenditures are expected to increase. Sanitization and public health preservation efforts in public spaces are factored under Chapter 20
Public lighting expenditures	4.42	0%	4.42	No disruption expected in the delivery of this service, implying an impact on its cost
Water expenditures	1.66	0%	1.66	No disruption expected in the delivery of this service, implying an impact on its cost
Chapter 40 <i>Economic Affairs</i>				
Chapter 50 <i>Support</i>				
Interest and damages paid for third parties, legal fees	1.50	0%	1.50	no impact identified
Waste collection and cleaning	15.94	+10%	17.53	The cost may increase due to a higher frequency of waste collection and cleaning and the need to purchase protection equipment needed for staff.
Payments to boroughs and Inter-municipal Cooperation Institution (ECI)	9.62	0%	9.62	No impact, these entities are supposed to continue to run as usual. Additional costs incurred their usual business are reflected in the other chapters (e.g. hygiene costs...)
Payments to Local joint ownership company (SDL)	3.01	0%	3.01	No overall impact on SDLs though particular individual issues and cost overrun may arise.
Total current expenditure	83.19		91.51	

Current revenues				
Chapter 10				
<i>General Administration</i>				
Share of VAT revenues	28.33	-25%	21.25	Lower purchasing power and the overall economic recession foreseen will affect VAT revenues at the national level
Miscellaneous (legalization fees, civil status fees, impound fees ...)	3.15	-20%	2.52	Economic slowdown and lockdown measures have an impact on administrative activities
Chapter 20				
<i>Social Affairs</i>				
City tax	1.29	-70%	0.39	The lockdown and the closing of the borders have impacted tourism related activities and related taxes collected by municipalities
Revenues from miscellaneous services (library, conservatory, swimming pools, museums, etc.)	0.23	-70%		The lockdown and the shutdown of all non-essential activities will temporarily freeze revenues coming from sports related and cultural activities
Chapter 30				
<i>Technical Affairs</i>				
Municipal services taxes, housing and urban taxes	27.74	-20%	22.19	Will be affected by a decrease in new issue and a slowdown in collection efforts.
Tax on unbuilt land	5.55	0%	5.55	no impact expected with a slowdown in the construction sector
Construction and subdivision tax	1.85	-50%	0.92	Significant impact of the crisis on the construction sector due to the lockdown measures, will lead to a decrease in related taxes
Fees for public place occupation for construction	0.74	-50%	0.37	Significant impact of the crisis on the construction sector due to the lockdown measures, will lead to a decrease in related taxes
Rental income	0.37	-50%	0.18	Impact of the economic recession on occupants' financials
Miscellaneous taxes (pavement deterioration, garden waste collection, etc.)	0.74	-50%	0.37	Expected temporary decrease with the restriction of movements and difficulties to collect tax
Chapter 40				
<i>Economic Affairs</i>				
Business Tax	19.81	-25%	14.86	Economic recession that will impact the creation of new businesses and the viability of existing ones, impacting the fiscal base and its ability to pay taxes
Fees for public place occupation	5.10	-40%	3.06	Recession and significant impact expected on restaurants and the catering sector in general, namely because of the lockdown, shutdown of all nonessential activities and social distancing measures imposed
Fees paid by agents of wholesale markets, fruit and vegetable markets, fish	3.00	-25%	2.25	Expected impact due to a slowdown of the activity (several markets were closed temporarily) and difficulties to collect fees
Miscellaneous taxes and fees related to an economic activity	2.10	-50%	1.05	Significant economic slowdown impacting these local taxes
Total current revenues	100.00		74.96	
Operating income	16.81		-16.55	
Debt service	10.79		10.79	

Net operating surplus	6.02		-27.34	
------------------------------	-------------	--	---------------	--

Sources: TGR, Municipality of Casablanca, WB calculations