



**The World Bank**

Second Strengthening Human Capital for a Resilient Morocco DPF (P178382)

Document of  
**The World Bank**

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Report No: PGD407

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF EUR 468.9 MILLION (US\$500 MILLION EQUIVALENT)

TO THE

KINGDOM OF MOROCCO

FOR THE

SECOND STRENGTHENING HUMAN CAPITAL FOR A RESILIENT MOROCCO  
DEVELOPMENT POLICY FINANCING

November 20, 2023

Health, Nutrition & Population Global Practice  
Middle East And North Africa Region

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**CURRENCY EQUIVALENTS**

(Exchange Rate Effective as of October 31, 2023)

Currency Unit=Moroccan Dirham (MAD)

MAD 10.2478 = US\$ 1

US\$ 0.0976 = MAD 1

EUR 0.9377 = US\$ 1

**FISCAL YEAR**

January 1 – December 31

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**ABBREVIATIONS AND ACRONYMS**

ACAPS	Insurance and Pensions Regulator (Autorité de Contrôle des Assurances et de la Prévoyance Sociale)
AfDB	African Development Bank
AMO	Mandatory Health Insurance (Assurance Maladie Obligatoire)
ANC	Antenatal Care
BAM	Moroccan Central Bank (Bank Al-Maghrib)
CIT	Corporate Income Tax
CNSS	National Social Security Fund (Caisse Nationale de Sécurité Sociale)
COP26	2021 United Nations Climate Change Conference
COVID-19	Coronavirus disease 2019
CPF	Country Partnership Framework
CPI	Consumer Price Index
CT	Cash transfer
DPF	Development Policy Financing
DRM	Disaster-Risk Management
DRF	Disaster Risk Financing
DSA	Debt Sustainability Analysis
DSB	Direct Social Benefits
EMBI	Emerging Markets Bond Index
ESSP	Primary Health Care Facility (Etablissement de Soins de Santé Primaires)
EU	European Union
EUR	Euro Currency
FA	Family Allowance
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GFNs	Gross Financing Needs
GGs	Green Generation Strategy 2020-2030
GOM	Government of Morocco
GRS	Grievance Redress Service
GST	Territorial Health Groups (Groupements sanitaires territoriaux, GSTs)
HBS	Household Budget Survey
HCP	High Commission for Planning (Haut-Commissariat au Plan)
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
LOLF	Finance Law (Loi organique relative à la loi de finances)
LPG	Liquefied Petroleum Gas
MAD	Moroccan Dirham
MENA	Middle East and North Africa
MHSP	Ministry of Health and Social Protection
MEF	Ministry of Economy and Finance
MI	Ministry of Interior
MnhPRA	Morocco Natural Hazards Probabilistic Risk Analysis
MSME	Micro, Small and Medium Enterprise
NAP	National Adaptation Plan
NCD	Non-communicable Disease
NDC	Nationally Determined Contribution

NDM	New Development Model (Nouveau Modèle de Développement)
NPL	Non-performing Loans
ONDH	National Observatory for Human Development (Observatoire National du Développement Humain)
OoP	Out-of-Pocket
PDO	Project Development Objective
PER	Public Expenditure Review
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PforR	Program-for-Results
PLL	Precautionary Liquidity Line
PMT	Proxy-Means Test
RAMED	Medical Assistance Scheme (Regime d'Assistance Médicale)
RCAR	Collective Pension Allocation Regime (Régime Collectif d'Allocation de Retraite)
RNP	National Population Registry (Registre National de la Population)
RSF	Resiliency and Sustainability Facility
RSU	Unified Social Registry (Régistre Social Unifié)
SA	Social Assistance
SME	Small and Medium Enterprise
SOE	State-owned Enterprise
SP	Social Protection
SSN	Social Safety Net
TNS	Non-Salaried Workers (Travailleurs non-salaries)
VAT	Value-added Tax
WB	World Bank
WBG	World Bank Group

## KINGDOM OF MOROCCO

### SECOND STRENGTHENING HUMAN CAPITAL FOR A RESILIENT MOROCCO DPF

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**SUMMARY OF PROPOSED FINANCING AND PROGRAM**

**BASIC INFORMATION**

Project ID	Programmatic	If programmatic, position in series
P178382	Yes	2nd in a series of 3

**Proposed Development Objective(s)**

To improve protection against health risks, human capital losses during childhood and poverty in old age and to improve climate risk management and resilience against catastrophic events

**Organizations**

Borrower: KINGDOM OF MOROCCO

Implementing Agency: Ministry of Economy and Finance

**PROJECT FINANCING DATA (US\$, Millions)**

**SUMMARY**

<b>Total Financing</b>	<b>500.00</b>
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**DETAILS**

International Bank for Reconstruction and Development (IBRD)	500.00
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**INSTITUTIONAL DATA**

**Climate Change and Disaster Screening**

This operation has been screened for short and long-term climate change and disaster risks

**Overall Risk Rating**

Substantial



**Results**

Indicator Name	Baseline (2020)	Current (2023)	Target (2025)
Percentage of the population covered by health insurance	70.2%	80%	90%
Percentage of women and girls of all ages covered by health insurance	70.9%	TBD	90%
Percentage of men and boys of all ages covered by health insurance	69.4%	TBD	90%
Percentage of TNS in climate-vulnerable sectors covered by health insurance	0%	60%	90%
Share of the poorest quintile of the population covered by the non-contributory pillar of the Mandatory Health Insurance (AMO-TADAMON)	30%	TBD	65%
Percentage of births attended by skilled attendants in rural areas	74.2%	TBD	80%
Percentage of births attended by skilled attendants in urban areas	96.6%	TBD	97%
Percentage of pregnant women in rural areas who completed 4 skilled Antenatal Care (ANC) visits	38.5%	TBD	47%
Percentage of pregnant women in urban areas that completed 4 skilled ANC visits	65.6%	TBD	70%
Density of health care personnel per 1000 inhabitants in rural areas	0.51	TBD	0.6
Density of health care personnel per 1000 inhabitants in urban areas	2.28	TBD	2.4
Coverage of the direct social benefit program among households with children aged 0-17 years	43%	TBD	80%
Number of workers enrolled in a pension regime	4.5 million	TBD	6 million
Number of female workers enrolled in a pension regime	1.48 million	TBD	2.23 million
Number of male workers enrolled in a pension regime	3.02 million	TBD	3.77 million
Number of natural risk management units established at the local level	0	90	95
Number of livestock breeders having received subsidized animal feed	0	600,000	600,000



## IBRD PROGRAM DOCUMENT FOR A PROPOSED LOAN TO KINGDOM OF MOROCCO

### 1. INTRODUCTION AND COUNTRY CONTEXT<sup>1</sup>

1. **This Program Document proposes the second Strengthening Human Capital for a Resilient Morocco Development Policy Financing (DPF).** The proposed operation, in the amount of EUR 468.9 million (US\$ 500 million equivalent), is the second in a programmatic series of three operations that aim to improve protection against health risks, human capital losses during childhood and poverty in old age as well as to improve climate risk management and resilience against catastrophic events. The national reform program supported by this operation seeks to (a) expand mandatory health insurance; (b) improve the targeting and coverage of non-contributive health insurance for the poor and vulnerable; (c) overhaul the supply of healthcare, by expanding the availability of health professionals and enabling the adaptation of health services to increased health risks due to climate change; (d) progressively universalize an adaptive Direct Social Benefit program (DSB)<sup>2</sup>; (e) expand pension coverage; (f) improve the financial sustainability of the pension system and; (g) improve protection against climate shocks exacerbated by climate change.

2. **Morocco has undergone several overlapping shocks in recent years and climate change is projected to greatly impact future economic growth and shared prosperity.** The first recession in more than two decades was triggered by the coronavirus disease 2019 (COVID-19) pandemic and was exacerbated by a severe drought in 2020. A sound health, social protection and macroeconomic response to the pandemic fueled a strong recovery in 2021. In turn, 2022 and 2023 have been marked by the emergence of an inflationary shock aggravated by the surge in commodity prices and another severe drought in 2022 and continued unusually dry conditions in 2023, which have had significant impacts on private consumption and investment. Poor, vulnerable, and rural households are disproportionately suffering from the impact of the increased cost-of-living crisis.<sup>3</sup> Rainfall shocks are estimated to account for almost 37 percent of the recent volatility of Gross Domestic Product (GDP) growth in Morocco, while longer-term projections suggest that the reduction in water availability and the drop in crop yields due to climate change could reduce GDP by up to 6.5 percent in coming decades.<sup>4</sup> The recent earthquake constitutes yet another shock, having claimed close to three thousand lives, mostly in remote mountainous and rural communities in the high Atlas. While the human impact is high, the macroeconomic impact of the earthquake is expected to be modest.

3. **Climate-induced shocks, primarily droughts, floods, and sea level rise disproportionately impact vulnerable and rural households.** Morocco is one of the most water-scarce countries in the world. Rainfed agricultural land covers 80 percent of the country's cultivated area, which represents about a third of the total labor force. Rural areas lost 174,000 jobs in 2022 due to the drought, while urban areas added 150,000 jobs the same year, deepening a large urban-rural divide. Under an adverse climatic scenario, it is estimated that up to

<sup>1</sup> Refer to the Program Document of the 1<sup>st</sup> operation in this series (P176937) for more context.

<sup>2</sup> The Family Allowances (FA) program supported under Pillar 2 is now referred to as Direct Social Benefit Program, following Government's renaming it as *Programme d'Aide Sociale Directe*.

<sup>3</sup> Recent estimates suggest that annual inflation may be 30 percent higher for the poorer decile of the income distribution than for the wealthier populations, due to the impact of food price increases, which represent a higher share of poorer households' consumption baskets. After several years of decline, the poverty rate is estimated to have increased both in 2020 and in 2022. The survey-based household confidence index hit a 15-year low in the first quarter of 2023 and is now well below even the level it reached in the worst months of the pandemic outbreak. (Morocco Economic Update, "Responding to Supply Shocks". World Bank, 2023).

<sup>4</sup> Morocco Country Climate and Development report, World Bank, October 2022.



1.9 million Moroccans could be forced to migrate to urban areas in coastal areas, which are more exposed to the risk of flooding and rising sea-levels. Floods already cause an estimated US\$450 million of average direct losses per year, and their risk and severity are forecasted to increase. Finally, given that more than 65 percent of the population and 90 percent of industry is concentrated on the country’s coastline, sea-level rise is a long-term stressor, especially for low-lying areas which are at risk of floods. Morocco is also prone to certain non-climate geophysical hazards such as a high risk of landslides and medium risk of earthquakes and tsunamis.

**4. This reform program builds on significant results achieved since the first DPF.** The first operation in the series (DPF1) was approved by the World Bank (WB) Board on June 16, 2022. The insurance and pension laws passed in 2017 to expand AMO (*Assurance Maladie Obligatoire*, Mandatory health insurance) and pension coverage have been amended in 2021 and 2022 to include all TNS (*Travailleurs non-salaries*, non-salaried workers) and the implementation decrees needed to operationalize these schemes were adopted. The legal measures needed to create AMO-TADAMON (the non-contributory arm of the mandatory health insurance) have also been adopted. This has already led to an additional 4 million TNS and 10 million poor and vulnerable members being covered by the mandatory health insurance. The legal framework of the health sector has been overhauled, enabling the revamping of the national health system. The Bank is providing technical assistance to identify the necessary path towards a sustainable health sector resilient to climate change. The health workforce is being strengthened through a new Health Service, separate from the general civil service, which allows for better attraction and retention of health professionals. Substantive technical work has been done on the design of the DSB program and the legal framework has been adopted. An interministerial commission chaired by the Chief of Government has been created and provides oversight for the reform, including the design and implementation of the DSB, supported by a technical committee chaired by the Ministry of Economy and Finance (MEF) and four thematic commissions.

**5. The government has made significant investments in the health sector and continues to prioritize the sustainability of the reform program.** While health expenditures as a percentage of GDP had remained flat in the last decade, budgets allocated to the Ministry of Health and Social Protection (MHSP) have increased significantly since 2020, signaling the government’s commitment to investing in the health sector. Until 2018, increases in government health spending were aligned with general government budget increases, however in 2020, 2021, 2022 and 2023 the government health budget increased by 14, 6, 19 and 19 percent respectively compared to the previous year, exceeding the rates of increase of the general government budget. Furthermore, the health investment budget has more than doubled from 3.3 billion MAD (Moroccan Dirham) in 2021 to 8 billion MAD in 2023, which is being utilized, amongst others, for the rehabilitation of over 1,400 health facilities. The medium-term budget for 2023 through 2025 assumes an annual growth rate of 8 percent for this period, demonstrating funding predictability, commitment, and sustainability.

**6. This DPF series supports the legal and institutional actions required for the Morocco Social Protection and Health Reform and is complemented by four ongoing four WB lending operations to support its implementation.**

1. Health Reform Project (P179014)	Supports upgrading the supply side and revamping of the national health system [Pillar 1]
2. COVID-19 Social Protection Emergency Response Project Additional Financing (P180741)	Supports the implementation of AMO-TADAMON [Pillar 1] and the design of and transition to the Direct Social Benefit program [Pillar 2]



3. Identity and Targeting for Social Protection Project (P155198)	Supports the design and implementation of the Social Registry that will allow linking all health and social protection programs using one unique identifier [Pillars 1 and 2]
4. Climate Operation (P178763)	Supports the effective health insurance coverage of farmers by AMO- AMO TNS and poor and vulnerable rural households by AMO-TADAMON [Pillar 1]

## 2. MACROECONOMIC POLICY FRAMEWORK<sup>5</sup>

### 2.1. RECENT ECONOMIC DEVELOPMENTS

**7. After having decelerated in 2022, the Moroccan economy is gaining dynamism in 2023.** The strong post-COVID-19 recovery (growth of 8 percent in 2021) was followed by a deceleration in 2022 (growth of 1.3 percent in 2022) due to the collapse of agricultural production, a terms-of-trade shock triggered by the surge in commodity prices and resulting inflation. Real GDP growth recovered to 3 percent y/y in the first semester of 2023, sustained by the improved performance of agricultural output and the solid recovery of tourism.

**8. Inflation is declining, prompting the Moroccan Central Bank (BAM) to pause its tightening cycle.** After peaking at 10.1 percent in February 2023, inflation has declined to 4.9 percent in September 2023 due to lower energy prices and various measures adopted to stabilize the price of basic products and of inputs to the agricultural sector. BAM responded to the inflationary shock with a 150 basis points (bp) cumulative increase of its policy rate to 3 percent, which was left unchanged in June and September given downward trends in the Consumer Price Index (CPI).

**9. Risks to financial stability have remained limited.** Moroccan banks are well capitalized (tier 1 capital ratio of 12.4 percent in December 2022), and although the ratio of non-performing loans is relatively high (8.4 percent), it has remained stable despite recent shocks. The latest stress tests conducted by BAM suggest that the banking system would be able to absorb additional shocks. Financial regulation and supervision have been strengthened, and Morocco was removed from the gray list of the Financial Action Task Force in 2023.

**10. The solid performance of revenues has allowed for a reduction of the budget deficit in 2022.** The policy package adopted to cope with the shocks exerted significant pressures on public spending. However, strong tax and non-tax revenues allowed the government to reduce the budget deficit by 10.6 percent in nominal terms (from 6.0 to 5.2 percent of GDP between 2021 and 2022). Strong spending growth has temporarily increased the budget deficit between January and August 2023. The sovereign has retained good access to financial markets, as evidenced by a successful international bond issuance (US\$2.5 billion) in early March 2023.

**11. The current account deficit increased in 2022 but is narrowing in 2023.** Due to the surge in commodity prices, the current account deficit reached 3.5 percent of GDP in 2022, up from 2.3 percent of GDP in 2021. It has narrowed substantially in 2023 thanks to the strong recovery of tourism and the maintained dynamism of remittances inflows. Foreign exchange reserves provide a solid external liquidity buffer of more than five months of imports (as of August 2023).

### 2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

<sup>5</sup> More details on macroeconomic indicators and debt sustainability analysis can be found in Annex 5.



**12. GDP growth is expected to reach 2.8 percent in 2023 and accelerate to 3.1 percent in 2024 and 3.3 percent in 2025.** This recovery will be supported by the agricultural sector as key crops gradually recover from the drought, and services, through a buoyant tourism sector. A full assessment of impacts was not available at the time of writing to incorporate the effects of the recent earthquake into these projections. However, given that the disaster affected mostly remote areas with weak interdependencies with the national economy, its macroeconomic impacts should be modest unless it derails the recovery of tourism. Recent data suggest that this is not the case: international tourism arrivals have surprised on the upside, with a 7.1 percent y/y growth in September.

**13. The current account deficit is expected to narrow to 1.8 percent of GDP in 2023 due to lower commodity prices, remittances, and tourism inflows, and to widen to 2.5 percent of GDP in 2024 as domestic demand recovers.** Net foreign direct investment (FDI) flows are expected to continue covering a substantial portion of Morocco's external financing needs. The remainder is expected to be met with official debt flows, while international reserves and the newly approved Flexible Credit Line (FCL) provide a comfortable cushion to cope with new external shocks should they materialize.

**14. Despite the structural increase in public spending that is being driven by ongoing reforms, the budget deficit is expected to stay on a downward trend.** The overall spending associated with the deployment of AMO-TADAMON and the DSB program is estimated at 2.2 percent of GDP per year (0.6 and 1.6 percent of GDP respectively). These two programs will be partly financed by: (a) the savings due to the discontinuation of the Medical Assistance Scheme (RAMED) and of other social programs;<sup>6</sup> (c) the savings obtained from the progressive reduction of butane gas subsidies;<sup>7</sup> (d) the proceeds of the (temporary) solidarity contribution tax and other tax revenues assigned to the reform;<sup>8</sup> (e) the balance from the "Fund to Support Social Protection and Social Cohesion", a Special Treasury Account.<sup>9</sup> While additional information is still needed to fully appraise this financing strategy, the government estimates that the net impact of the reform on public finances will be moderate: approximately MAD 20 billion between 2024 and 2026, less than 0.5 percent of GDP annually. Public Revenues are projected to increase as the government progresses with the implementation of the ongoing tax reform while relying on the so-called innovative (asset recycling) financing operations. Overall, this would allow for a gradual reduction of the budget deficit, which would reach 3.6 of GDP by 2025, close to pre-COVID-19 levels. Insufficient information is yet available to anticipate how the MAD 120 billion reconstruction plan that has been announced for the provinces affected by the earthquake will affect the fiscal aggregates, which will depend on how this effort is financed.

**15. The central government's debt is sustainable under reasonably adverse shocks.** The debt-to-GDP ratio is expected to gradually decline over the coming years and reach 69.3 percent of GDP in 2025 (down from a peak of 72.2 percent of GDP in 2020) thanks to the subsidy and tax reforms, and to MEF's innovative financing operations. Gross financing needs (GFN) would reach an average of 19 percent of GDP between 2023-2025 and

<sup>6</sup> This assumes that the following programs will be absorbed by the DSB: DAAM, Tayssir; Collations scolaires; Fonds d'entraide Familiale (FEF), un million de cartables. Together with the discontinuation of RAMED, this will generate savings for approximately 0.5 percent of GDP.

<sup>7</sup> The government has announced that the price of gas cylinders will increase by MAD 10 in 2024, an additional MAD 10 in 2025 and an additional MAD 10 in 2026, from the current price, which is MAD 42 per cylinder. As a result, the savings generated by the decompensation policy is estimated at 0.1 percent of GDP in 2024, 0.3 percent of GDP in 2025 and 0.4 percent of GDP in 2026. The government has not yet announced whether other price subsidies on sugar and wheat will be removed to finance the reform.

<sup>8</sup> For an estimated amount of 0.3 percent of GDP in 2024 and 2025 and 0.1 percent of GDP in 2026.

<sup>9</sup> Currently at close to 0.5 percent of GDP.



will start declining in 2026 Debt and GFNs remain sensitive to changes in key macroeconomic outcomes as discussed in the debt and sustainability analysis (DSA) presented in Annex 5. However, in all the scenarios considered in the DSA, the debt ratio declines over the projection period. Moreover, Morocco's public debt profile and the government's good access to finance constitute important risk-mitigating factors. This result is consistent with the International Monetary Fund (IMF) staff assessment included in the Resilience and Sustainability Facility approved by the IMF in September 2023 (see the Executive Summary and link to full paper in Annex 2).

**16. The macroeconomic outlook is subject to substantial domestic and external uncertainty, with risks tilted to the downside.** On the domestic front, the main risks are an aggravation of the drought and more persistent than anticipated inflationary pressures. On the external front, risks include rising commodity prices (which are already materializing for oil, but not for wheat) and renewed global supply chain disruptions which could fuel inflation. The materialization of these shocks would reduce demand for Morocco's exports of goods and services and keep feeding domestic price pressures, potentially forcing BAM to engage in more forceful monetary tightening.

**17. On the other hand, the successful implementation of the structural reform agenda could enhance the long-term performance of the economy and Morocco's resilience to shocks.** Morocco has recently launched significant reforms consistent with the New Development Model (NDM), initially centered on the social agenda. The operationalization of the Mohammed VI investment fund, the state-owned enterprises (SOEs) reform, and the new investment charter have the potential to unlock private investment. The new ambitious development plan announced for the High Atlas provinces following the earthquake could also boost growth.

**18. Morocco's macroeconomic policy framework is adequate for the proposed operation.** The government has put forward a strong policy package to respond to recent shocks and support growth. A solid institutional framework has been built in Morocco, with a strong commitment to macro-fiscal sustainability and an independent BAM that has begun to transition towards an inflation targeting framework with greater exchange rate flexibility to increase the shock absorbing capacity of the economy, and with a strengthened financial sector oversight. The solid structure of Morocco's public debt and the government's good access to financial markets (domestic and international) and multilateral lending, together with the recently approved FCL constitute important risk mitigators. Morocco's banking sector presents sound indicators and risks to financial stability are limited.

### 2.3. IMF RELATIONS

**19. The IMF has approved a FCL and a Resiliency and Sustainability Facility (RSF) for Morocco.** The FCL, for an amount of US\$5 billion, is a precautionary instrument that provides insurance against exogenous shocks. It is reserved for countries with very strong macro fundamentals and policy frameworks. The RSF (US\$ 1.3 billion) will support reforms on climate change mitigation and adaptation. Morocco has also received Special Drawing Rights allocation of 1.2 billion.

**20. The last IMF Article IV report was approved by the IMF's Board in January 2023.** It analyzes the effect of global shocks and the drought on Morocco's economic recovery in 2023. It emphasizes Morocco's continued prudent macroeconomic policies, but recommends the acceleration of structural reforms, notably those that extend social protection and stimulate private sector investment.



### 3. GOVERNMENT PROGRAM

**21. The government’s ambitious social protection and health sector reforms have been in preparation since the King of Morocco announced his strategic vision for undertaking a review of the Kingdom’s development in 2019.** The reforms were given further impetus by the COVID-19 crisis. King Mohammed VI established the Special Commission on the Development Model (*Commission Spéciale sur le Modèle de Développement*, CSMD) in November 2019, which subsequently presented its vision for an ambitious and comprehensive NDM on May 25, 2021. The NDM was incorporated in the Government Program 2021-2026.

**22. The government’s 2021-2026 program prioritizes social sector reforms.** It presents four main reform imperatives: 1) expansion of protection against health risks and poverty in old age by expanding health insurance and pensions; 2) the creation of a “true” social assistance system with emphasis on the most vulnerable families; 3) the overhauling of the health sector; and 4) the reform of the public education system. The reform program includes substantive changes to both the demand and supply side of the health system. On the demand side, it aims to extend health insurance coverage to 22 million people<sup>10</sup>, universalizing the health coverage from 70 percent coverage. On the supply side, it proposes to build and upgrade health infrastructure, create a family and community medicine system, establish a new Health Service (separate from the general civil service), deconcentrate service delivery to the regions and territories, and implement an integrated health information system. It also includes the transformation of current social protection (SP) programs into an integrated DSB system with the dual objective of alleviating poverty and vulnerability and building the human capital of the children. Finally, the reform program proposes to improve the financial sustainability of the pension system and extend pension coverage to TNS. Consistent with the DPF1, this second operation (hereafter referred to as DPF2) supports the first three imperatives of the government’s reform program – the education reform is outside the scope of this operation.

**23. As a signatory to the Paris Agreement, Morocco is fully on board with international commitments to fight climate change and the government program supported by this operation is integral to and consistent with its National Adaptation Plan (NAP) and its National Disaster Risk Management (DRM) Strategy (2021-2031).** The NAP was developed in 2018. The National DRM Strategy (2020-2030) provides a comprehensive vision to reduce vulnerability and strengthen resilience of Morocco’s population and territory to natural disasters. It comprises five strategic axes: a) strengthening DRM governance, b) improving risk understanding and evaluation, c) disaster risk prevention and resilience building, d) disaster preparedness for early recovery and effective reconstruction, and e) promoting scientific research, international cooperation and capacity building through 18 programs. The first axis on risk governance includes a dedicated program on strengthening DRM at the national, regional and local level and is in part supported by this operation.

**24. The agricultural sector’s Green Generation Strategy (GGS) 2020-2030 is based on principles of human development, enabling 400,000 households to reach middle class status and stabilizing the livelihoods of 690,000 households, through four key pillars.** These pillars consist of improving farmers’ incomes; expanding agricultural insurance; establishing a special framework for farmers to benefit from social protection services; and reducing the difference between the legal Guaranteed Minimum Agricultural Wage and Legal Interprofessional Minimum Wage (SMIG) in non-agricultural sectors by 2030.

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<sup>10</sup> Including 10 million people originally covered by RAMED.



**25. The transition to a more climate-resilient and eco-efficient agriculture is one of the main axes of the GGS and is a condition for achieving the results of all the other axes of the Strategy.** This axis aims, among others, to expand coverage and access to crop insurance for small farmers. The GGS plans to increase the insured area from 1 million to 2.5 million hectares per year by 2030, thus increasing the coverage rate of crop insurance from 17 percent to 38 percent (and from 3 percent to 40 percent for small farmers). The GGS also aims to implement progressive social coverage for farmers and self-employed agricultural workers.

## 4. PROPOSED OPERATION

### 4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

**26. The DPF series has three pillars and supports three core reform imperatives of the government program.** Pillar 1 supports the universalization of health insurance and the revamping of the health system. Pillar 2 supports the expansion of pension coverage and reforms to implement the DSB program. Finally, Pillar 3 supports strengthening resilience to natural disasters and risks, including through the establishment of adequate institutional, coordination and response mechanisms.

**27. The policy actions under DPF2 systematically build on progress made under DPF1 and enhance both expected outcomes and the government's capacity to mitigate the impacts of crises and enhance resilience to climate events.** DPF2 will further advance the integration of the remaining four professional categories of TNS<sup>11</sup> (17 categories were already included during DPF1, among which were farmers, constituting 40 percent of TNS) into the AMO and the pension scheme; and support the transformation of RAMED into AMO-TADAMON, including the equalization of benefit packages and provider network. The supply side will be further strengthened by putting in place the legal framework underpinning the revamping of the National Health System. Concurrently, the health sector has conducted a climate vulnerability assessment and adopted a roadmap aiming to reduce the vulnerability of health facilities to climate change, improve their environmental sustainability and reduce their greenhouse gas emissions. This operation supports the institutional structures to develop innovative approaches for climate shock related insurance for farmers. On social protection, DPF2 supports the reforms to create the DSB Program – a crucial step in the unification and expansion of the social protection system.

**28. This operation is aligned with the goals of the Paris Agreement.**<sup>12</sup> First, the DPF reform program is consistent with the implementation of the country's Nationally Determined Contribution (NDC) – specifically to the objectives of reducing GHG emissions by 14% compared to a business-as-usual scenario (Prior Action 3.2 C will adopt a roadmap which will be informed by the MHSP's evaluation of the carbon footprint of health facilities to establish a sustainable health system) and strengthen resilience of the health sector to withstand identified climate hazards and respond to the expected climate change induced ill health burden. Prior Action 3.2 C on the adoption of a roadmap to establish a sustainable and climate resilient health system contributes to the NDC's recommendation to develop capacities to augment the resilience of health infrastructure and services. Prior Action 7.2 on improving climate risk management and resilience of farmers contributes to the NDC's recommendation to strengthen capacities to respond to extreme climate events. Expansion of health insurance to TNS in climate-vulnerable sectors under Pillar I, Prior Action 5.2 on introducing DSB programs and Agency to expand social protection and Prior Action 7.2 also contributes to CCDR's Principle #2: Protect the Most

<sup>11</sup> The four remaining TNS categories consist of Footballers (not salaried); Journalists (accredited and not salaried); Sportsmen and sportswomen in certain sport disciplines; Self-employed who keep accounts and are not covered by the previous decree.

<sup>12</sup> See Annex 8 for a detailed assessment of each of the Prior Actions.





Vulnerable. In terms of mitigation risks, the selected prior actions will not cause any increase in greenhouse gas (GHG) emissions or create any persistent barriers to transition to low-GHG emissions and a low development growth path determined by Morocco's long-term strategy. In particular, prior action 3.2 C will ensure health facilities which may increase GHG emissions in the long term, do not have a negative impact on GHG emissions. In terms of adaptation risks, Prior Actions 3.2. C and 7.2. embed risk reduction measures to ensure the health system and agriculture sector are resilient to the impacts of climate hazards. Thus, reducing any material adaptation risks to a low/acceptable level. Additionally, prior actions under Pillar I (expansion of health insurance to climate vulnerable workers and building resilience of health systems) and Pillar II (expanding and improving coverage of social protection systems to build resilience of beneficiaries to climate risks) actively contribute to resilience-building to expected climate variability and change.

## 4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

**29. The PDO remains relevant and is retained in this operation.** The PDO is to improve protection against health risks, human capital losses during childhood and poverty in old age and to improve climate risk management and resilience against catastrophic events.

### 4.2.1 Changes from triggers envisioned under DPF1

**30. As the reform program supported by this DPF series remains a top priority for the Kingdom and is being implemented as planned, the policy matrix remains largely the same as that presented in the Program Document of DPF1 [P176937].** The changes to the matrix include<sup>13</sup>:

- Considering that several legal changes enabling the management of AMO and the pension regime for TNS have already been made as part of the legal actions supported by DPF1, it was decided to move PAs 1.2B and 6.2 B as Indicative Triggers (IT) 1.3A and 6.3A for the third operation, and to modify and expand them to allow greater flexibility in defining the additional reforms needed to further improve the management of AMO and the pension system;
- Its 1.3B and 6.3B have been added to strengthen the effective coverage of health insurance and pensions for TNS;
- PA 3.2 A was modified to include a new health sector framework law as opposed to just an amendment of the existing health sector law as originally planned;
- IT 5.3B has been added to support the publication of law 59-23 that creates the DSB Agency;
- Due to delays in the adoption of the proposed decree, PA7.2B has become IT 7.3B.

### 4.2.2 Description of reforms and expected results

#### Pillar I: Improving Protection Against Health Risks

**31. This pillar supports demand and supply-side reforms aimed at improving protection against health risks.** The first two sets of reforms support the legal and institutional actions required to progressively cover the

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<sup>13</sup> See Annex 1 for a detailed description for all PAs and indicative triggers suggested for the final (third) operation in the series. Note that the social protection scheme supported under Pillar 2 has been renamed Direct Social Benefits program, compared to the Family Allowances Program under DPF1.



Moroccan population with health insurance by supporting the creation of the AMO-TNS and AMO-TADAMON regimes. The third set supports the legal and institutional framework underpinning the ambitious national health system revamping program that aims to improve the quality of health services and reduce inequities in access. Finally, the fourth set of reforms focuses on increasing the availability of health professionals especially in underserved regions.

### **Extending mandatory health insurance to TNS**

#### **Rationale**

**32. Morocco's health expenditure remains largely (42%)<sup>14</sup> dependent on households' out of pocket spending (OoP) – a very inequitable and inefficient financing mechanism, further exposing households, particularly the poorest ones, to catastrophic health expenditures.** The first DPF in this series supported the revision of the health insurance law (Law 98-15) and implementation decrees to extend mandatory insurance coverage to TNS under 17 professional categories, as well as those under the professional unique contribution and auto-entrepreneur regimes.

#### **Substance and Scope: Prior Actions 1.2 and Indicative Trigger 1.3 A and 1.3 B**

**33. Prior Action 1.2 supports the enrollment of four remaining categories of TNS into AMO; Indicative Trigger 1.3A will support legal/institutional changes to strengthen the management of AMO; Indicative Trigger 1.3 B will support amendments to the law governing AMO for the TNS to increase its effective coverage.** Prior Action 1.2 concerns the publication of decrees mandating the enrollment of 4 additional categories of TNS into AMO. Indicative Trigger 1.3A covers legal and institutional actions to revise the governance and management framework of AMO to ensure the efficient and robust functioning of the mandatory health insurance regime. Indicative Trigger 1.3B includes amendments to the AMO TNS law to incentivize the effective coverage of TNS, such as an amnesty for missed contributions (limited in time) and making social subsidies conditional upon AMO contributions.

### **Transforming RAMED from an Assistance Scheme to an Insurance Scheme**

#### **Rationale**

**34. While countries have adopted various ways to reaching Universal Health Coverage (UHC), practically all have done so by gradually harmonizing existing schemes and by exempting the poor from significant insurance premia or user fees for essential services.<sup>15</sup>** When public budgets are limited, effectiveness and efficiency of the targeting system to identify the most vulnerable populations is key. In Morocco, the effectiveness of RAMED had been limited because of targeting errors (using outdated data) and because of a provider network limited to the public sector. Relying on a unique registry across social sectors and unifying the benefit packages and provider networks across former RAMED and AMO is an important step towards UHC, and essential for allowing for cross subsidization and further efficiency gains in the future. DPF1 supported the establishment of an inter-ministerial steering committee to oversee and coordinate the social protection reform.

<sup>14</sup> Global Health Expenditure Database. <https://apps.who.int/nha/database/ViewData/Indicators/en>

<sup>15</sup> Michael R Reich, Joseph Harris, Naoki Ikegami, Akiko Maeda, Cheryl Cashin, Edson C Araujo, Keizo Takemi, Timothy G Evans, Moving towards universal health coverage: lessons from 11 country studies, The Lancet, Volume 387, Issue 10020, 2016, Pages 811-816.



### Substance and Scope: Prior Action 2.2A and 2.2B

**35. Prior Action 2.2 A supports the legal reform that enables the transformation of RAMED into AMO-TADAMON, the non-contributory pillar of the AMO regime.** Prior Action 2.2 A consists of promulgating Law No. 27-22 amending and completing the Basic Medical Coverage Law which created RAMED (No. 65-00) and adopting Decree No. 2.22.797, allowing the replacement of RAMED by AMO-TADAMON and mandating the harmonization of benefits and provider networks. This implies enrolling an additional 10 million beneficiaries previously covered by RAMED into AMO.

**36. Prior Action 2.2 B completes the legal framework of AMO. Law 60-22 sets the rules governing the AMO regime for people able to pay contributions and not engaged in any paid or unpaid activity.** This enables people under this category to be covered by AMO, subject to the general rules laid out by Law 65-00. The law stipulates that the eligibility for this regime will rely on the unified social registry (RSU, *Registre Social Unifie*) and entrusts the National Social Security Fund (CNSS, *Caisse Nationale de Securite Sociale*) to manage AMO for people under this category.

### Revamping the National Health System

#### Rationale

**37. Incentivizing demand for health services, through increasing insurance coverage, will only lead to better health outcomes if there is a supply-side ready to deliver quality services.** A strong focus on the primary care level as an entry point is essential for efficiency and cost control.<sup>16</sup>

### Substance and Scope: Prior Actions 3.2 A, B and C and Indicative Trigger 3.3

**38. Prior Actions 3.2 A and B support a new national health system framework law and four laws, including the law establishing the GSTs.** These laws will drastically redesign the health system. Each GST will be composed of the health facilities of different levels in the region and will provide services in accordance with a regional medical program, revised on a regular basis. A nationally set minimum package of services developed to maximize cost effectiveness will be rolled out by the GSTs. The national health system framework law (06-22) and three other laws (08-22, 10-22, 11-22) have been promulgated and published in the Official Gazette. Law 07-22 creating the High Authority for Health was adopted by the Parliament on November 13, 2023, and will be published in the Official Gazette in a timely manner following the Moroccan administrative processes.

**39. Prior Action 3.2 C supports the adoption of a roadmap to establish a sustainable and climate resilient health system, and the reduction of greenhouse gas emissions.** Following the commitment of the Government of Morocco (GoM) communicated to the COP 26 presidency on November 12, 2021 and the establishment of the steering committee (PA 3.1), the MHSP has evaluated the environmental sustainability and resilience of health care facilities to climate change risks, using well established checklists.<sup>17,18</sup> The evaluation tools were adapted to the local context, and customized to the seven climatic hazards risks in Morocco. The

<sup>16</sup> Hanson, Kara et al. The *Lancet Global Health* Commission on financing primary health care: putting people at the centre. *The Lancet Global Health*, Volume 10, Issue 5, e715 - e772.

<sup>17</sup> WHO guidance for climate-resilient and environmentally sustainable health care facilities. Geneva: World Health Organization; 2020. Licence: CC BY-NC-SA 3.0 IGO.

<sup>18</sup> Checklists to assess vulnerabilities in health care facilities in the context of climate change. Geneva: World Health Organization; 2021. Licence: CC BY-NC-SA 3.0 IGO.



assessment covers four main domains: (i) health workforce; (ii) water, sanitation, hygiene, and medical waste; (iii) energy; and (iv) infrastructure, technology, products and processes. The MHSP has also evaluated the carbon footprint of health facilities through an adapted version of an Aga Khan Development Network tool that assesses greenhouse gas emissions. Results from these assessments informed a roadmap towards a sustainable health system resilient to climate change.

### **Increasing the Availability of Health Professionals**

#### **Rationale**

**40. Constraints in the availability, distribution, and performance of the human resources for health pose one of the most substantial bottlenecks to the delivery of quality health services in Morocco.** The shortage of health professionals is the result of both limited production capacity and lack of retention. Beyond the deficit in levels, there are imbalances in the deficit of human resources across levels and specialties, and the system is faced with the challenge of an ageing workforce. The deficit is further aggravated by geographic inequalities. Increasing the number of health professionals is therefore an important priority of the ongoing health reform. To develop, attract, recruit, and retain health care workforce in rural and remote areas a multipronged approach is needed that is organized across the training, regulation, incentives, and support functions.<sup>19</sup>

#### **Substance and Scope: Prior Action 4.2 and Indicative Trigger 4.3**

**41. Improving the availability of human resources in the health sector was supported by DPF1 and is a priority under the NDM, with a target of reaching 4.5 health professionals per 1,000 inhabitants by the end of 2035.**<sup>20</sup> DPF1 supported an amendment to the legal framework governing the civil service (Dahir 1-58-008) to exempt health professionals from the public service law, enabling the management of health professionals to be customized to the objectives of the reform through the subsequent creation of the Health Service. DPF1 also supported the amendment of law 131-13 on the practice of medicine, allowing doctors from other countries to practice medicine under the same conditions as their Moroccan counterparts.

**42. Prior Action 4.2 is the promulgation of the Health Service law, providing an enhanced employment value proposition to existing health professionals and making the sector more attractive for future entrants into the labor market; indicative trigger 4.3 supports its operationalization.** The law 09-22 supported by the PA 4.2 adds three new elements to the Health Service by giving GSTs more flexibility on recruitment; changing the pay structure, which would now include a fixed and variable element; and allowing certain categories of health professionals to practice in both public and private sectors based on public-private partnerships. GSTs are responsible for continuous training of health professionals to develop and maintain competencies and increase their performance. These measures will reduce the differences in earnings between health professionals employed in the public and private sectors, making public service more attractive and helping improve the distribution of health professionals across advantaged and disadvantaged regions. **Indicative trigger 4.3** consists of the publication of the implementation decree (s) allowing the operationalization of the Health Service Law 09-22.

<sup>19</sup> World Health Organization. (2021). *WHO guideline on health workforce development, attraction, recruitment, and retention in rural and remote areas*. World Health Organization.

<sup>20</sup> The special commission on the development model, 2021. "The new development model: unleashing energies and restoring confidence to accelerate the march toward progress and prosperity for all".



### *Expected Results for Pillar I*

**43. The specific indicators tracked for each of the prior actions and Indicative triggers will reflect the progression in inclusion, equity, climate resilience, and health system performance as follows:** i) improved inclusion, as captured by the increase in the share of the population covered by health insurance from 70 percent in 2020 to 90 percent by the end of 2025; ii) improved equity, as captured by the share of the population in the poorest wealth quintile covered by the non-contributory pillar of AMO from 30 percent in 2020 to 65 percent by the end of 2025; as well as the improvement in the percentage of women whose delivery is attended by a skilled attendant in rural areas and the improvement of the percentage of women who complete 4 ANC visits in rural and urban areas; the increased number of health professionals per 10,000 inhabitants and a reduction in the gap in availability of health professionals between rural and urban areas. Significant inclusion, and equity, gains will also be reflected in the percentage of TNS engaged in climate-vulnerable sectors that will gain health insurance coverage, currently unavailable to them. The health insurance coverage gain for this population is expected to be nearly universal (90 percent) and is expected to improve resilience against consequences of extreme climate events. This indicator which will be calculated as the percentage of workers in climate-vulnerable sectors who have been enrolled in the AMO, is relevant to improving protection against health risks as these workers will be better protected against the new and increased health risks that they will be exposed to due to climate change.

### *World Bank Group Engagement and Sustainability for Pillar I*

**44. The prior actions proposed in this section are aligned with the technical work and policy dialogue undertaken by the WB in the health sector since 2015.** The WB has been engaged actively in the Moroccan health sector since 2015, which is when the Improving Primary Health in Rural Areas PforR (P148017) operation became effective. The PforR strengthened primary health service delivery in rural areas by shifting the focus toward non-communicable diseases. It also supported expanding the coverage of maternal and child health services and strengthening information systems and launching the measurement of different dimensions of quality of care for these services. The project also provided critical emergency support to address the impact of COVID-19 through an additional financing in 2020. The WB has also engaged in a substantial policy dialogue to inform transformational health system reforms. A comprehensive health financing diagnostic has been conducted, and costs of service delivery at primary health facilities have been analyzed. A national dialogue on health financing in 2019, informed the announcement of a comprehensive health sector reform initiative in 2020. The action items from the dialogue were included in the national health financing strategy.<sup>21</sup> The WB has supported the development of an integration roadmap for fragmented health insurance schemes, as well as an assessment of the basic medical coverage, the findings of which have been incorporated into the design of the prior actions and indicative triggers, as well as the government's operationalization of the health reforms. During the implementation of the DPF, the WB will continue providing targeted technical support to the government in line with priority areas, which can include assessments on the sustainability and targeting of the expansion of AMO, strengthening of purchasing arrangements, strengthening of monitoring and evaluation arrangements, as well as strengthening the quality of health services.

**45. Moving from de jure coverage to effective coverage will require further incentivizing uptake of AMO among the TNS.** While most of the TNS have been enrolled into AMO, a considerable share is not yet paying their contributions and hence lack effective insurance coverage.<sup>22</sup> The GoM is addressing this with measures such

<sup>21</sup> Ministry of Health, 2019. National Health Financing Conference Recommendations.

<sup>22</sup> Volume wise, the problem is concentrated in the farmers (only 2%) and the artisans (6%).



as improving identification of TNS, simplifying the payment of contributions, introducing incentives for uptake and through the above-mentioned investments on the supply of health services. The *Morocco Climate Operation/ Support to Nationally Determined Contribution* (P178763), approved by the WB Board on June 9, 2023, enabling services and improved coordination between the CNSS and farmers' professional organizations (facilitated by the Ministry of Agriculture) to increase uptake among farmers who constitute about 40 percent of TNS. The WB is providing technical assistance to the government to explore similar measures for other large professional categories such as artisans and transportation professionals.

**46. The extent to which health insurance coverage offers financial protection is to a large extent dependent on the generosity of the benefit package and the strength of the provider payment mechanisms to incentivize the supply side to deliver that package efficiently.**<sup>23</sup> While this operation supports an expansion of the benefit package to include the private sector for AMO-TADAMON beneficiaries, there is a risk that financial protection might remain limited because of low reimbursement rates (driven by low reference prices), and the low availability of quality services in certain regions. To address these risks, the purchasing function is being strengthened, e.g., a convention has been signed between MHSP, MEF, and CNSS to arrange for the payment of primary health care (PHC) facilities through monthly capitation payments from CNSS. For secondary and tertiary health services, health facilities will bill CNSS directly, based on an existing national price reference list, which is being updated. The ongoing Health Sector Reform PforR (P179014), approved by the WB Board on June 9, 2023, will provide implementation support for the overall supply side reforms including for the provider payment mechanisms.

**47. The extent to which effective insurance coverage then, in turn, translates to better health outcomes depends largely on the quality of care provided.** Improving quality of care remains a key challenge in Morocco.<sup>24</sup> Various initiatives have been started, including the institutionalization of quality assessment and seven rounds of a quality competition (*concours qualité*) have been conducted between 2007-2018. However, the absence of autonomy at the regional, territorial, and health care facility levels, amongst other, has constrained the extent to which quality improvement strategies have been implemented. This operation aims to remove some of the constraints to quality improvement by (i) clearly delineating care pathways; (ii) upgrading the supply (to increase structural quality); (iii) linking (part of) health professionals' salaries to performance; and (iv) increasing autonomy at the regional levels. These will be complemented by further investments, especially in relation to data use for decision making, by the Health Sector Reform PforR (P179014).

## **Pillar II: Improving Protection of Human Capital in Childhood and Against Poverty in Old Age**

**48. This pillar includes measures to gradually universalize the DSB program and expand the coverage of pensions.** In doing so, the social protection system is expected to become more comprehensive, equitable, and efficient and more adaptive to climate risks. DPF 1 supported the promulgation of Framework Law 09-21 to provide the legal framework for the health and social protection reform.

<sup>23</sup> Das, Jishnu; Do, Quy-Toan. *The Prices in the Crises: What We Are Learning from Twenty Years of Health Insurance in Low- and Middle-Income Countries (English)*. Policy Research working paper; no. WPS 10313 Washington, D.C. : World Bank Group.

<sup>24</sup> Kruk, M.E., Gage, A.D., Joseph, N.T., Danaei, G., García-Saisó, S., Salomon, J.A., 2018. Mortality due to low-quality health systems in the universal health coverage era: a systematic analysis of amenable deaths in 137 countries. *The Lancet* 392, 2203–2212.



### ***Implementing the Direct Social Benefit Program (DSB)***

#### ***Rationale***

**49. The social protection system is hampered by complexity, fragmentation and overlap.** Morocco spends about 5 percent of its GDP on social safety nets (SSN). The social protection system includes a set of 13 cash or in-kind transfer programs targeting poor and vulnerable households. While these programs represent only 12 percent of the total spending on SSNs, more than two-thirds of this spending finances regressive consumer subsidies for liquified petroleum gas (LPG), sugar, and flour. In addition, transfer programs and other social assistance are implemented by different public institutions with sometimes similar objectives and overlapping beneficiaries. The RSU offers an efficient tool to harmonize the SSNs and proceed with the targeted roll-out of the DSB program.

#### ***Substance and Scope: Prior Action 5.2 and Trigger 5.3 A and B***

**50. Prior Actions 5.2 and Triggers 5.3A and B support the introduction of the DSB program and Agency to expand and improve social protection universally for all Moroccans.** The DSB is expected to serve the dual purpose of providing income support and thus reducing poverty and vulnerability among households most in need, while also advancing the human capital of the children covered and buffering the impacts of climate change. The design of the DSB considers accompanying measures that improve the development of children deliberately and persistently, while responding to climate impacts. These accompanying measures focus on encouraging parental take-up of healthcare and education for better early childhood development, consequently stimulating the demand for these services complementing the supply side reforms. Prior Action 5.2 is the approval of the DSB law by the Government Council and Trigger 5.3A is the publication of its implementation decree(s) which will define a clear set of design parameters that recognize and tackle issues of coverage, adequacy, and limited human capital outcomes. This includes three key design elements: (a) establishing an appropriate package of services; (b) creating a strong set of accompanying measures to promote human capital; and (c) establishing the phasing of benefits and the digitalization of the process. The implementation of the DSB program will benefit from the progress made in the implementation of the National Population Registry (RNP, *Registre National de Population*) and RSU. The implementation of the DSB using the services provided by the RNP and the RSU will ensure an integrated system that identifies and authenticates beneficiaries, allowing for the universal coverage of children and providing the support that the poor and vulnerable need. Trigger 5.3B enables the creation of the DSB Agency to ensure the effective governance and management of the program.

**51. The DSB Law and its decree(s) will provide a clear and coordinated legal framework that eliminates overlaps and redundancies, while reinforcing complementarity with existing programs.** This is an opportunity to reduce some of the complexity and fragmentation of the existing system and learn from their experience to establish a more coordinated and effective SP system. This legal framework will provide a solid institutional set up with a clear mandate which would ensure a stronger coordination between contributory and non-contributory schemes.



### ***Reforming and Expanding the Pension System***

#### ***Rationale***

**52. The current rate of pension coverage of around only 10 percent of the old age population (60 years or older) is inequitable and inadequate to mitigate against the risk of poverty in old age.** Most older adults must rely on family, and /or other types of informal care, or state transfers. With falling birth rates, rising life expectancy, increased urbanization, climate change, migration, and changing family structures, these informal arrangements are weakening and do not offer an adequate safety net. Further, only 40 percent of the labor force (or 18 percent of the working-age population 15-64 years old), including civil servants, contractual staff of the public administration and local authorities, salaried employees of SOEs and some private sector employees, currently contribute to a pension scheme. Therefore, close to 60 percent of the active population, more than 5.5 million people, is not covered by a pension regime. Despite the growth of the labor force and the gradual transformation of the Moroccan economy, the coverage rate is still relatively low compared to other countries in the region such as Egypt, Tunisia or Jordan. DPF1 supported the legal and institutional changes needed to introduce a new pension regime for the more than 2 million TNS, as well as parametric reforms for certain pension regimes for salaried workers.

**53. The new TNS pension regime will be managed separately from other existing programs and schemes, and its financial sustainability is not related to the rest of the system.** The TNS regime design is a defined scheme where each contributor will have an individual account and the benefits are calculated through a point system. As for AMO, contribution rates are established for each professional category in the respective decree. Individual workers are also allowed to make additional voluntary contributions. Each TNS accumulates several points every year according to the annual contribution amount divided by an acquisition point value. The acquisition point value varies each year according to the increase in the average amount of the insured revenues. Upon retirement, the pension rights are expressed in points which are multiplied by the point value of that year. This design strengthens the linkages between contributions and benefits, and it is also more appropriate for covering workers with irregular incomes than the defined benefit schemes that currently cover salaried workers. Due to the demographics of Morocco, the point system is likely to be sustainable for many years, but it may eventually require adjustments in case financial sustainability challenges arise. Law 99-15 contemplates that the CNSS will regularly present actuarial studies of the TNS scheme to the regulator (*ACAPS, Autorite du Controle des Assurances et de la Prevoyance Sociale*).

#### ***Substance and Scope: Prior Actions 6.2 and Indicative Trigger 6.3***

**54. Prior Action 6.2 concerns the publication of decrees mandating the enrollment of four additional categories of TNS into the pension regime<sup>11</sup>.**

**55. Indicative Trigger 6.3A supports legal and institutional actions to strengthen the governance and management framework of the pension system** and ensure the efficient and robust functioning of the pension regimes. Indicative trigger 6.3B supports legislative actions to improve the effective coverage of the pension regime for TNS.

#### ***Expected Results for Pillar II***

**56. The reform actions are expected to accelerate the implementation of an adaptable, efficient, inclusive and climate-smart SP system.** The government objective is to ensure that all eligible children have





access to the DSB program. The proposed results indicator is an increase in children aged between 0 and 17 years old receiving a cash transfer through their family from a baseline of 43 percent in 2021 to 80 percent by 2025. Finally, the pension reform supports the expansion of pension coverage of salaried workers and TNS. To monitor this, the result indicator is an increase in the number of workers covered by the pension system by 1.5 million by 2025.

### ***World Bank Group Engagement and Sustainability for Pillar II***

**57. The prior actions and indicative triggers of this pillar are aligned with the WB engagement in the SP sector.** The WB has been supporting Morocco in building the foundation for the reform of the SP system. The Identity and Targeting for SP Project (SP-1) (P155198) supports the design and implementation of the building blocks of a modern safety net. SP-1 supports the design and deployment of the RNP and the RSU. The RNP and RSU were piloted in the Rabat-Kenitra region from December 2021 to November 2022. The national roll out started in December 2022. Thus, the overall health and SP reform will capitalize and build on the experience and lessons learned from SP-1. In addition, the COVID-19 SP Emergency Response Project (SP-2) (P172809) supports the harmonization of cash transfer programs and the design of the DSB. SP-2 supports the preparation of key design parameters of the program including the eligibility criteria, outreach and communication campaigns and the overall delivery system, from identification to payments and grievance mechanisms, as well as its monitoring and evaluation.

### **Pillar III: Improving Climate Risk Management and Resilience Against Catastrophic Events**

**58. Pillar 3 aims to enhance resilience to natural disasters and climate risks,** including through the strengthening of the institutional and coordination framework for disaster and climate-related risk management, the establishment of think tanks and coordination committees bringing together key stakeholders and the adoption of a Disaster Risk Finance (DRF) Strategy that considers the impact of drought risk on the most vulnerable farmers.

#### **Improving Climate Risk Management and Resilience Against Catastrophic Events**

##### ***Rationale***

**59. Morocco is highly vulnerable to the impacts of climate change that are increasing in frequency and intensity, particularly life-threatening extreme weather events including floods, heatwaves, and droughts.** These physical climate hazards have a widespread and pervasive impact on ecosystems, people, settlements, and infrastructure. Vulnerable people and systems are disproportionately affected. Every year, according to Morocco Natural Hazards Probabilistic Risk Analysis (MnhPRA), average losses related to flooding alone are estimated at over US\$ 450 million (MAD 4 billion). In this context, it is important to further strengthen the government's institutional and coordination framework for disaster and climate-related risk management, at both local and central levels. DPF 1 supported the establishment of disaster risk management units at the level of prefectures, provinces, and pashaliks to improve disaster and climate resilience at the local level.

**60. Morocco suffered its most severe drought in 40 years in 2022 and most crops will continue to underperform in 2023 due to a continuation of unusually dry conditions.** DPF1 supported the emergency program launched by Morocco to mitigate the effects of the 2021-2022 drought rainfall deficits in the agriculture sector. Rainfall shocks are already estimated to explain close to 37 percent of the recent volatility of GDP growth



in Morocco, while longer-term projections suggest that the reduction in water availability and the drop in crop yields due to climate change could reduce GDP by up to 6.5 percent in coming decades.<sup>25</sup>

***Substance and Scope: Prior Actions 7.2 and Indicative Triggers 7.3A and B***

**61. Prior Action 7.2 targets the long-term protection of farmers against the frequency of droughts** by setting up an inter-ministerial commission and by creating a space for dialogue and reflection between the private and public sectors to develop innovative tools for transferring climate risks, to cover drought through agricultural insurance. The indicative trigger will help define the different prerogatives of the involved stakeholders and identify feasible insurance schemes to develop an adaptive insurance offering for insurable farmers, while also setting-up a solidarity mechanism to cover the most vulnerable farmers, who are most often subsistence farmers. **Indicative trigger 7.3B** will follow up on the findings of the inter-ministerial coordination mechanism supported by PA 7.2 to improve and broaden the scope of DRF in Morocco. To do so, the Borrower will approve a DRF Strategy that considers the impact of drought risk on the most vulnerable farmers.

**62. Indicative Trigger 7.3A aims to strengthen the government's institutional and coordination framework for disaster and climate-related risk management.** This prior action concerns the establishment of a high-level, inter-ministerial commission for natural and disaster risk management with the objective of guiding the government's overall approach to strengthening resilience to natural disasters and climate risks. It will be strongly aligned with the first program of the National DRM Strategy, which focuses on strengthening DRM governance at the central level. It complements the Morocco Integrated DRM and Resilience PforR (P144539), which supported the development and adoption of Morocco's National DRM Strategy<sup>26</sup>.

***Expected Results for Pillar III***

**63. The proposed actions will improve the government's institutional and coordination framework for disaster and climate-related risk management.** Through Prior Actions 7.1 A (DPF 1) and IT 7.3 A, the government is strengthening the governance framework as well as institutional coordination of DRM and Climate Change Adaptation policies and investments, thereby increasing the government's ability to effectively promote disaster and climate resilience. To monitor this, the result indicator is the number of natural risk management units established at the local level.

**64. The committee and DRF strategy supported through Prior Action 7.2 and Indicative Trigger 7.3B will lay the groundwork for a coordinated and rationalized approach of the stakeholders to improve farmers' resilience to climate shocks, particularly farmers most vulnerable to drought risk.**

***World Bank Group Engagement and Sustainability for Pillar III***

**65. The prior actions and indicative triggers of this pillar are aligned with the WB engagement in disaster risk management (DRM) and financing, as well as the agriculture sector.** The GOM and the WB have established a strong partnership on DRM since 2008. Initially, this partnership focused on technical assistance, which led to the *Integrated Disaster Risk Management and Resilience PforR* (P144539) in 2016, extended through an Additional Financing (P176349) in 2021, which aims to improve the institutional framework to finance disaster

<sup>25</sup> Morocco Country Climate and Development report, World Bank, October 2022.

<sup>26</sup> [https://www.gestionrisques.ma/web/files/Livret\\_de\\_la\\_SNGRCN.pdf](https://www.gestionrisques.ma/web/files/Livret_de_la_SNGRCN.pdf)



risk reduction activities and strengthen financial resilience to natural disasters through the deployment of a dual insurance/solidarity coverage mechanism. The DRM PforR was complemented by the Morocco Disaster Risk Management Development Policy Loan with a Catastrophe Deferred Drawdown Option (P168580) in 2019 to provide contingent financing to the GOM in the case of a disaster event, and to strengthen the country's institutional framework for disaster and climate-related risk management as well as its institutional capacity to deal with the adverse financial impacts of disasters and climate-related shocks. Building on this DRM engagement, the IPF Small Grant *Strengthening the Financial Resilience of Morocco* (P175523) has recently been approved and is aiming to enhance existing risk models for floods and develop new models for droughts. In the agriculture sector, the WB is supporting several operations to strengthen the resilience of farmers in irrigated areas suffering from water scarcity, notably, the *Large-Scale Irrigation Modernization Project* (P150930) and the *Resilient and Sustainable Water in Agriculture* (P175747). In recent years, the WB has supported key climate-related programs in Morocco's agricultural sector, such as the *Plan Maroc Vert* and now the *Green Generation PforR* (P170419). In addition, the new *Morocco Climate Operation/Support to NDC* aims to increase the resilience of vulnerable groups by motivating farmers to access social protection, generating green jobs from climate-resilient activities, improving access to services, developing sustainable agriculture and livelihoods in lagging regions such as oases. This operation also aims to improve the quality of climate data, which will help deploy new climate risk management mechanisms such as parametric agricultural insurance, for small-scale farmers, enabling them to mitigate the effects of climatic shocks.

#### 4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

**66. The proposed operation directly supports the second and third pillars of the Country Partnership Framework (CPF) 2019-2025.** The operation is aligned with objectives #6 – Improve the quality and efficiency of health service delivery systems, #7 – Strengthen SP for the poor and vulnerable, and #10 – Enhance adaptation to climate change and resilience to natural disasters. This operation complements the Human Development (HD) portfolio in Morocco towards achieving the CPF and MENA Human Capital Regional Strategy objectives.

**67. The DPF contributes directly to the WB mission of ending extreme poverty and boosting shared prosperity on a livable planet.** In addition, the operation is strongly aligned with the new WBG Roadmap paper that was recently presented to the Development Committee. It is also aligned with the WBG's COVID-19 Crisis Response Approach Paper's Pillar 2 "Protecting Poor and Vulnerable People" and Pillar 4 "Strengthening Policies, Institutions and Investments for Rebuilding Better". The Program also directly contributes to the WBG Enlarged MENA Strategy (March 2019) pillar on Building Human Capital and is also in line with the WBG Gender Strategy (FY16-23) by contributing to increasing women's access to health and SP.

**68. This operation is in line with the WB's Climate Change Action Plan (CCAP 2021-2025). In particular, the operation supports the objectives of adaptation and mobilizing private capital for climate change risk coverage.** The DPF incorporates several adaptation measures strengthening country climate policies, strengthening the management of climate change-related disasters that already have a significant economic impact in Morocco, reducing the climate vulnerability of the population, including in rural areas and those working in the agricultural sector, and increasing public and private financing for climate action.



**69. This operation is part of the robust overall WB engagement in Morocco that has helped build the momentum for reform.** This operation builds on a Morocco portfolio that currently includes 24<sup>27</sup> active projects valued at US\$7.2 billion. The WB is also closely collaborating with Morocco on substantial analytical studies covering a wide range of sectors, including the Morocco Country Climate and Development Report published in November 2022, an ongoing Public Finance Review (PFR) and the Public Expenditure and Financial Accountability (PEFA).

#### 4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

**70. The government program supported by the proposed operation builds on an extensive consultation process.** Each new or amended legislation goes through a formal process of consultation embedded in Morocco’s parliamentary process. The reform vision benefited from the consultation process carried out by the CSMD. The NDM was the outcome of a broad and inclusive process of consultation and interaction with citizens and communities across the country. CSMD carried out 70 listening sessions, 113 workshops, and 35 citizen-specific listening sessions. The consultative process included visits to 30 different cities and listening to direct input from 10,000 citizens. CSMD put a particular focus on the regional development context, holding several meetings with representatives of the 12 Moroccan regions. These consultations are relevant since the reforms proposed by the CSMD are an integral component of the government program supported by this operation.

**71. The reform supported by the proposed operation has broad support from development partners active in Morocco.** The *Agence Française de Développement* (AFD) is supporting the reform through a parallel EUR 150 million loan. The instrument used by AFD includes disbursement indicators (comparable to Disbursement-Linked Indicators in WB PforR instrument) that are aligned with the policy actions in this DPF series as well as more operational indicators. The European Union (EU) is supporting through a parallel EUR 130 million grant that disburses against complementary actions to some focus areas common to this operation. The African Development Bank (AfDB) provided EUR 149 million loan as parallel financing through a policy matrix that was aligned with the PAs and Indicative Triggers of this series. The task team has been coordinating closely with the three agencies to ensure that the different operations are coherent and well-coordinated. Morocco is also benefiting from strong technical and financial collaboration from development partners to implement its climate change commitments, including a “Green Partnership” on energy with the EU and financing from the European Green Economy Financing Facility to foster climate mitigation and adaptation.

## 5. OTHER DESIGN AND APPRAISAL ISSUES

### 5.1. POVERTY AND SOCIAL IMPACT<sup>28</sup>

**72. The reform program supported by this operation is expected to have significant poverty reducing and equity improving effects and has the potential to contribute to improved living standards in the medium term.** The extension of the AMO to TNS, together with better and more comprehensive targeting for AMO-TADAMON, can reduce poverty by reducing OoP health expenditures. The reforms envisioned under the second pillar, including the establishment of an expanded DSB program as well as the extension of the pension scheme

<sup>27</sup> Including three grants of US\$12.85m

<sup>28</sup> Detailed analyses, data sources and references are described in Annex 9.



to TNS, can contribute to alleviating poverty and preserve human capital among children and elderly. Finally, the establishment of an insurance scheme for farmers against climatic shocks has a huge potential to increase resilience among this population, considering the increasing exposure to climatic shocks and their potential impacts.

**73. Prior actions supported under Pillar I may reduce poverty via direct and indirect channels. The incidence of OoP expenditures is higher for the poorest (90 percent) than for the most affluent households (59 percent).** Households in the low-middle quintiles spend most of their capacity to pay (measured as non-food expenditures) on health. Effective health insurance can hence reduce OoPs and the risk for catastrophic payments, increasing household welfare. In addition, increased access and quality of the services being delivered may improve the population's health status, leading to productivity gains and indirectly contribute to economic growth and poverty reduction. Increased protection against health risks and their financial consequences also reduces the need for savings and can allow for more productive investments.

**74. The extent to which increased AMO coverage to the TNS improves monetary welfare depends on the net income gain (or loss) defined as the difference between the contributions and the health transfer that each worker and his/her family receives.** Simulations conducted on different scenarios suggest that such net benefit – *on average*– is likely to remain very modest. Health insurance, however, should smoothen the *distribution* of OoPs and protect those households from catastrophic and impoverishing payments. The net poverty impact of this reform is likely small, however, as the TNS now eligible for AMO are not in the poorest quintiles. It should be noted that the simulations do not consider the potential positive effect on labor income due to the increased productivity and reduced need for savings, and the simulations do not account for the implicit gains in income from reduced expected future health expenditures resulting from improved and timely access to health services.

**75. Improving the health insurance coverage for AMO-TADAMON beneficiaries should increase their access to quality health care.** Increased utilization of health care can coincide with increased OoP health expenditures if insured at less than 100%. While the expanded benefit package should have positive health impact and reduce poor households' exposure to risk, its impact on household income will depend on implementation of the scheme, most specifically the strength of provider payment mechanisms.

**76. The risk of low compliance calls for careful design and implementation of the new contributory AMO scheme.** According to the Household Panel Survey of the ONDH, in 2019, only 1 in 2 private salaried workers contributed to AMO. The main reasons reported by households surveyed for low compliance were high costs compared to benefits, delays in reimbursement and high transactions costs of using the scheme.<sup>29</sup> Strengthening the capacity of CNSS, investing in quality of care and strengthening human resources for health, should increase the value proposition of AMO.

**77. Improving the targeting accuracy of the non-contributory pillar will lead to lower inclusion and exclusion errors.** Using the Proxy-Means Test (PMT) ranking should dramatically reduce the number of poor and vulnerable persons currently excluded from social protection. The GoM has established a transition mechanism for those *ex-Ramedistes* who would lose eligibility when the PMT is applied, though on average a much larger proportion of persons in the lowest quintile should be covered using the PMT.

**78. Implementing a well targeted DSB program is set to improve the living standards of most vulnerable households and their children.** Early experiences of deprivations may have long-lasting if not intergenerational effects. Climate change is likely to exacerbate existing fragilities. Providing cash benefits to

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<sup>29</sup> Analysis using data from the *Household Panel Survey (ONDH, 2019)*.



children belonging to poor and vulnerable households have been shown to improve children's wellbeing – through enabling better use of health services, dietary diversity and increasing school attendance.

**79. The implementation of the DSB program would allow to effectively tackle children's poverty by reducing the system's fragmentation and by improving targeting.** Currently, over 70 percent of children in the bottom 40 percent are not covered by any of the existing cash-transfer programs<sup>30</sup>. The current fragmentation across schemes generates transaction costs that would be avoided through a unification. Since the parameters were not yet finalized, several scenarios were considered to assess the impact of the new non-contributory DSB program. The total cost of the new DSB program is estimated to be around 1.6 percent of GDP. This is larger than the budget currently allocated to the liquified petroleum gas (LPG) subsidy. The DSB program will be a more progressive way of providing subsidies and will create more long-term impact through improved human capital.

**80. Extension of the pension scheme to TNS can help reduce poverty among older people and ensure the continuity of their health insurance coverage.** Pensions ensure income security and play a crucial role in preventing poverty and vulnerability after people withdraw from the labor force, particularly as life expectancy increases. Currently, the proportion of individuals above statutory retirement age receiving an old-age pension is relatively low (23.4 percent)<sup>31</sup>. Assuming a pension payout to each potential beneficiary equivalent to the lowest amount admissible by the Law, expansion of the pension scheme would disproportionately increase the incidence of payouts for the poorest deciles (five times larger than the richest) which would consequently lead to slight reductions in poverty and inequality.

**81. Improving climate risk management may attenuate income losses due to catastrophic events that dramatically increase the risk of poverty for the more exposed and vulnerable households.** Adverse weather events are most likely to cause income shocks for those employed in agriculture and tourism, which is most concentrated in the lowest two income deciles. Protecting these households from such income shocks can therefore have dramatic impact on poverty and inequality.

### Gender Impacts

**82. Pillar I reforms will contribute significantly to closing the gender gaps in health and socio-economic outcomes through three pathways.** First, increased coverage to a more effective health insurance program will disproportionately benefit women in the poorest quintile who are currently most lacking access to affordable and quality health services. Second, this improved access to health insurance has been shown to reverse the decline in female labor force participation. Third, as a large share of the health labor force is female (66 percent of medical doctors in the public sector are women), the introduction of better remuneration and career management will disproportionately improve working conditions for women working in the sector.

**83. Pillar II reforms will have a positive gender impact.** The expected positive impacts are threefold: (a) improved access to cash by women; (b) improvement in the human capital development of girls from poor households and rural areas; and (c) closing the gender gap in social insurance by 2025 by adopting parametric reform measures and expanding pension coverage to TNS. Since the agriculture, forestry and fishing sectors remain the main employers of women, these measures could help achieve Morocco's target to increase female labor force participation rate from the current 17 percent to 27 percent by 2025. The pension scheme currently

<sup>30</sup> Analysis using data from the *Household Panel Survey (ONDH, 2019)*.

<sup>31</sup> ILO. 2021. *World Social Protection Report 2020–2022. Social Protection at the Crossroads – In Pursuit of a Better Future*.



has twice as many men than women. The implementation of the pension regime for TNS is expected to significantly narrow this gap.

### Citizen Engagement

**84. Engagement with professional associations that have negotiated the terms of enrolment of their members into the AMO and pension regimes for TNS has been an important pathway for citizen engagement.** Beyond this and given the crucial role that take-up will have in achieving the potential positive impacts of the reform, inclusive outreach and communication with targeted campaigns toward vulnerable groups such as female workers in the informal sector, the elderly, residents of remote and rural areas will need to be carried out. Furthermore, implementing and publishing findings of annual health user surveys/citizen scorecards for public and private services, and developing action plans to address systemic issues identified through the feedback acquired through such surveys/scorecards will be necessary. Citizen engagement will be strengthened by the introduction of GSTs which will have financial and administrative autonomy, by making providers more accountable to citizens and giving administrators the flexibility to adapt to local needs. The health insurance scheme will include a mechanism for clients to be able to report satisfaction with services provided. Concerning the management of natural and climate risk, the establishment of units at the local level will further strengthen citizen engagement.

## 5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

**85. The activities supported by the project do not include any action that could cause or generate negative environmental impacts either on forests or on natural assets.** Morocco is well positioned to manage the increase in medical waste, following increased utilization. Within the framework of the recently closed Morocco Health Sector Support PforR (P148017), a budgetary line was created in March 2018 in the operational budget of the regional directorates for health and MSPS delegations, for the outsourcing of the medical and pharmaceutical waste management for the Primary Health Care Facility (ESSP, Etablissement de Soins de Santé Primaires) that was implemented in the 7 target regions of the program by May 2019 and is now being scaled-up with the support of the new Morocco Health Reform Program PforR. The COVID-19 pandemic provided an additional momentum to strengthen health security within public health facilities, and the MHSP recently developed new health security guidelines, along with standard operating procedures for medical and pharmaceutical waste management. Furthermore, the GSTs, through improved coordination between primary, secondary, and tertiary healthcare levels, will allow for an upgraded waste management system, including through improved waste collection and safe disposal from ESSPs, particularly in the rural and most secluded areas.

### Climate Co-Benefits<sup>32</sup>

**86. Climate change is a significant threat to human capital in Morocco.** Rising temperatures, droughts and floods lead to (i) crop and agricultural productivity losses, affecting food prices and incomes ; (ii) increases in or reemergence of previously eradicated climate-related infectious diseases such as malaria and schistosomiasis and heat-related medical conditions such as cardiovascular and respiratory disease; and (iii) reduced capacity of the social sectors (health and education) to deliver quality services.<sup>33</sup> Rising food prices combined with declining incomes risk halting or even reversing the progress on reducing childhood stunting and

<sup>32</sup> Annex 6 contains a table describing how each aspect of the Reform is contributing to climate adaptation and mitigation.

<sup>33</sup> World Bank analysis in 2018 determined that extreme heat could reduce learning and education attainment by up to 15 percent.



causing long term and even intergenerational human capital losses. The impact of these threats will be greatest among the poor and mostly rural populations – who are most exposed and least protected. Elderly people are especially vulnerable to climate change and heat-related conditions. Under a high emissions scenario, heat-related deaths in the elderly are projected to increase to almost 50 deaths per 100,000 by 2080 compared to the estimated baseline of just under 5 deaths per 100,000 annually between 1961 and 1990<sup>34</sup>.

**87. The social protection reform that is supported by this operation will contribute to both adapting to the consequences of climate change and mitigating future impact, though key emphasis is on the former aspect.** Universalizing access to an effective and accessible health system will better protect households from health shocks induced by climate change, while a universal and more flexible cash transfer scheme will increase resilience to climate related income shocks. Increased coverage of the pension scheme will allow the elderly to better cope with income losses linked to climate change shocks.

**88. The expansion of the social protection schemes supported by this operation is explicitly targeted to those population groups that are most vulnerable to climate related shocks.** Farmers, who are most exposed to both the physical and economic consequences of climate change, represent the largest group among the TNS (40%) that have been added to the health insurance and pension schemes. Improving the health insurance coverage for beneficiaries of AMO-TADAMON disproportionately benefits the poorest households, mostly concentrated in rural areas. The implementation of the DSB program supports families with young children, amongst others, and the improved and flexible targeting will ensure that the program can be quickly leveraged to support families in those areas confronted with (unexpected) climate shocks.

**89. The revamping of the national health system includes an explicit aim to reduce the sector's GHG emissions and increase its resilience to climate change.** The government is committed to reducing emissions by the sector to zero by 2050, and the current overhaul of the system is considered an important opportunity to make progress in that direction. See the evaluation and roadmap supported by PA 3.2C.

**90. Specifically for Pillar I, all prior actions are aligned around one key objective: increasing access to quality and affordable health services for all Moroccans, especially those groups that are most vulnerable to climate shocks.** This objective can only be achieved if supply and demand side reforms supported under Pillar I come together and reinforce each other. The table in Annex 6 summarizes how set of prior actions support adaptation to and mitigation of climate risks.

### 5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

**91. In recent years, Morocco has undertaken a series of strategic reform initiatives aimed at improving public financial governance, promoting efficient use of public resources, and strengthening the performance of public administration through, amongst others, digital transformation.** Five major reform initiatives are of particular importance in this regard: (a) the adoption of the *loi organique relative a la loi de finance* (LOF) of 2015; (b) the modernization of the governance framework of public procurement; (c) the modernization of the national tax administration as part of a strategic action plan covering the period from 2017 to 2021; (d) the continuation of the public administration reform process; and (e) the digital transformation of public administration. The Government of Morocco has recently adopted a new public procurement decree (Decree No2-22-431), the scope of which is now enlarged to include public entities besides ministries and local governments. The new decree

<sup>34</sup> World Health Organization, 2015. Morocco's Climate and Health Profile [www.who.int/publications/i/item/WHO-FWC-PHE-EPE-15.10](http://www.who.int/publications/i/item/WHO-FWC-PHE-EPE-15.10)





includes several enhancements such as the introduction of rated criteria, the selection of the most advantageous bid, competitive dialogue, and establishment of an observatory for public procurement. The implementation of the new decree is expected to achieve better value for money with adequate levels of transparency, competitiveness, efficiency, and fairness by all entities involved in the Program.

**92. Specifically, Organic Law No. 130-13 relating to the Finance Laws (*Loi organique relative a la loi de finance, LOLF*) was promulgated on June 2, 2015.** It established a new budget framework based on programs and laid the foundations for results-based public management, fostering greater accountability for public managers. It enshrined the three-year budget program (*Programme Budgétaire Triennal*) in its article 5. The provisions relating to multi-year budget programming came into force on January 1, 2019. Morocco's annual budget is made publicly available once approved by Parliament. In addition, a citizen budget is prepared and made public on the MEF website (<http://lof.finances.gov.ma>). The last Public Expenditure and Financial Accountability (PEFA) assessment carried out by the WB, AfDB, and the EU, in 2017, found that Morocco has a credible, comprehensive, and transparent budget. Two Bank initiatives support Morocco's PFM system: (a) a PforR operation (Morocco Public Sector Performance (ENNAJAA) Program-P169330) to improve the performance and transparency of government operations and service delivery and: (b) a new PEFA assessment is currently underway.

**93. BAM's safeguard framework is robust, with strong internal and external controls, supported by several good governance practices, according to the 2019 IMF safeguards assessments.** Existing safeguards and governance practices need to be complemented by stronger legal and financial reporting frameworks, which are needed to enhance the legal autonomy of BAM and strengthen the timely publication of audited financial statements. The controls to which the BAM is subject are vested in three bodies: the Government Commissioner, the Statutory Auditor (external auditor), and the Court of Auditors. BAM has implemented the recommendations from the assessment, including publication of audited financial statements. The World Bank has reviewed BAM's 2022 annual report, published on July 29, 2023. It includes a clean opinion issued by Deloitte Audit, the external auditor of the 2022 financial statements.

**94. The proposed operation consists of a single-tranche IBRD loan of EUR468.9 million (US\$500 million equivalent),** to be made available contingent upon effectiveness and disbursed based on a withdrawal application. Once the loan of this operation becomes effective, its proceeds will be disbursed in a single installment. Disbursement will be made provided that the World Bank is satisfied with the program being carried out by the Borrower and with the adequacy of the Borrower's macroeconomic policy framework. Loan proceeds will be deposited by IBRD in a dedicated account open for this loan by the Borrower in BAM upon presentation of a withdrawal request duly signed by the Borrower's representative. This account forms part of the country's official foreign exchange reserves. The flow of funds (including foreign currency exchange) is subject to standard PFM processes. The government budget is comprehensive, unified, and centralized to a Single Treasury Account. The Borrower will ensure that upon the deposit of loan proceeds into the account, an equivalent amount, in the local currency, will be credited to the Treasury current account at BAM. The borrower will promptly report to the World Bank within 30 days of disbursement by fax or email on the amounts deposited in the dedicated account and credited to the budget management system providing the exchange rate applied, name/account number and the date of the transfer. The loan proceeds will be administered by MEF.

**95. Residual fiduciary risk is low.** This rating is based on the status of Morocco's PFM system; the improvements observed in the BAM safeguards framework, accounting systems, and auditing arrangements; as



well as the findings of the review of the audit report of the 2021 financial statements of BAM published on the website together with the annual activity report.

#### 5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

**96. The responsibility for monitoring, evaluating, and implementing the proposed operation is with the Interministerial committee that was instituted by a decree as part of prior action 2.1 of DPF 1.** The technical sectoral committees, as well as the project management unit, will be accountable for implementing the relevant parts of the reform, as well as monitoring the results indicators included in this DPF to monitor and evaluate implementation progress and the achievement of program outcomes. The availability of timely and detailed data on health outcomes and household level outcomes, such as financial risk protection, exposure to shocks, and resilience remains a challenge in Morocco, as most recent data on financial coverage, health service utilization, household health expenditures, and SP coverage are at least three years old. A significant part of the health and SP reform is the transition towards a patient-level electronic medical record system, which will improve the availability of health outcome data and the utilization of an updated and dynamic social registry, which will be able to capture household vulnerabilities, particularly for the poorer and more vulnerable households. A pillar of the NDM is to move towards learning systems based on routine data for all public services, including health and SP. The accountability structures created by the high-level steering committee and technical committees, as well as the recent focus on strengthened information systems at all levels of the government as part of the NDM, will facilitate timely collection of indicators and strengthen government systems, which this DPF will rely on for results monitoring and evaluation.

**97. Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as Prior Actions or tranche release conditions under a WB Development Policy Financing may submit complaints to the responsible country authorities, appropriate local/national grievance mechanisms, or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted at any time after concerns have been brought directly to the WB's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the WB's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the Bank's Accountability Mechanism, please visit <https://accountability.worldbank.org>.

## 6. SUMMARY OF RISKS AND MITIGATION

**98.** The overall risk rating for the proposed operation is substantial due to macroeconomic, technical design, institutional capacity and sustainability and stakeholder risks, which are rated Substantial. The latter two have been revised downward compared to the first operation considering the strong implementation progress and consistent political commitment.

**99. The macroeconomic risk is rated as substantial.** Global market conditions and frequent droughts due to climate change may continue to put pressure on commodity prices and adversely affect the Moroccan



economy. Further downturns in the global economic outlook could reduce exports, tourism receipts, and foreign direct investment. Inflationary pressures remain significant, particularly for food, eroding household's purchasing power and thus consumption, while the monetary policy tightening has increased the sovereign's domestic borrowing costs. The net fiscal impacts of ongoing reforms could be larger than currently anticipated if the financing strategy announced by the authorities is only partially deployed. This could reduce the Government's ability to reverse the upward trajectory of the debt-to-GDP ratio over the medium term. Among the most relevant mitigation measures that are being adopted are: (i) the FCL agreement signed with the IMF, which provides an additional cushion of US\$5 billion to address external shocks as well as an important seal of approval on macroeconomic policies; (ii) the planned adoption of a new fiscal rule, which will set a public debt ceiling; (iii) the ongoing Public Finance Review, aimed at identifying policy options to create fiscal space; (iv) the continued deployment of structural reforms to boost the private sector as the key engine of growth in Morocco. Considering this context, it will be judicious to conduct a comprehensive fiscal sustainability analysis of the reform once full information available on the government's financing strategy. Concerning AMO, a continuous monitoring of the sustainability of different regimes will be needed to identify necessary adjustments.

**100. Residual stakeholder risk is substantial.** Reforms supported by this operation involve different ministries and public institutions and there is a high inherent risk that their interinstitutional coordination is not sufficient to achieve the development objective of the operation. The creation of inter-ministerial commissions, steering and technical committees that have been created as prior actions under DPF1 represent an important mitigation measure for this risk. There is also a substantial inherent risk that groups affected may organize to push back against the reforms. While there has been open debate on the mandatory nature of the health insurance (especially for TNS), implementation is largely on track. Consultations with professional associations that play a key role in liaising between CNSS and different categories of TNS informed the design of the pension and health insurance regimes for the TNS; as well is the supply side reform that seeks to improve quality and quantity of services offered to the insured. Considering this strong implementation progress, the stakeholder risk has been revised downward compared to the DPF1.

**101. Residual risk for institutional capacity for implementation and sustainability is also substantial.** While institutional capacity is relatively strong in Morocco, the main risks stem primarily from the high level of ambition of the reform. Successful implementation of the reforms included in the matrix will require the development of capacity to perform new functions or to perform existing ones at a higher scale leading to a high inherent risk that the capacity for implementation is not sufficient. To mitigate this risk, the GOM has invested substantially in institutional capacity, including the merging of health and SP under one ministry and the **transfer** of the CNSS under the tutelage of the MEF. The WB is also supporting capacity development through lending and non-lending tasks in both SP and health sectors.

**102. Residual risk for technical design is rated substantial as successful implementation of the reform requires collaboration and coordination across numerous entities.** Rolling out universal health insurance and social protection requires continuous engagement with many stakeholders across different sectors and an iterative process of evidence-based learning and decision making. While data on various aspects of the reform is available, it is not yet brought together systematically for continuous evaluation of the impact and sustainability of the reform and for steering course corrections in its implementation. To mitigate the risk, the WB will provide support with a monitoring and evaluation and implementation research agenda, which will also guide further Prior Actions for the third operation in this series.



**Table 8 Summary Risk Ratings**

Risk Categories	Rating
1. Political and Governance	● Moderate
2. Macroeconomic	● Substantial
3. Sector Strategies and Policies	● Moderate
4. Technical Design of Project or Program	● Substantial
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● Low
7. Environment and Social	● Moderate
8. Stakeholders	● Substantial
9. Other	
<b>Overall</b>	● Substantial



**ANNEX 1: POLICY AND RESULTS MATRIX**

Prior Actions and Indicative triggers			Results		
Prior actions for the first operation	Prior actions for the second operation	Indicative triggers for the third operation	Indicator	Baseline 2020	Target 2025
<i><b>Pillar I. Improving Protection Against Health Risks</b></i>					
<b>1. Extending Mandatory Health Insurance to TNS</b>					
<p><b>Prior Action 1.1 A</b> To extend mandatory health insurance coverage to workers under the professional unique contribution and auto-entrepreneur regimes, the Borrower has promulgated Law No. 30-21 amending and completing Law No. 98-15 which governs, the mandatory health insurance (“AMO”) coverage of professionals, independent workers and non-salaried persons exercising a liberal activity (“TNS”), and published it in the Official Gazette No. 7056, dated January 13, 2022.</p> <p><b>Prior Action 1.1 B</b> To operationalize the expansion of the AMO for TNS, the Borrower has adopted Decree no. 2.21.930 modifying and completing Decree n° 2.18.622 defining the list of professional categories subject to the AMO regime, including those employed in the agriculture and tourism sectors who are the most vulnerable to climate change, as said Decree has been published in the Official Gazette No. 7043 BIS dated November 29, 2021.</p>	<p><b>Prior Action 1.2</b> to further extend the mandatory health insurance coverage (“AMO”) to TNS, the Borrower has published Decrees implementing Law No. 98-15 to enroll the remaining four (4) professional categories of TNS into the AMO in the Official Gazette No. 7147 Bis dated November 30, 2022.</p>	<p><b>Indicative Trigger 1.3A.</b> to ensure an effective governance and management of mandatory health insurance, the borrower has published legal/regulatory texts related to the universalization of AMO.</p> <p><b>Indicative trigger 1.3B.</b> to increase effective coverage of AMO-TNS, the Borrower has amended Law No. 98-15 and published its application decrees to introduce an amnesty for missed mandatory health insurance contributions, for a defined period, and to make social benefits conditional on AMO contributions.</p>	Percentage of the population covered by health insurance	70.2%	90%
			Percentage of women and girls of all ages covered by health insurance	70.9%	90%



<p><b>Prior Action 1.1.C</b> To enroll approximately three million three hundred thousand TNS into AMO, including approximately one million six hundred thousand farmers due to high climate-vulnerability of the agriculture sector, the Borrower has adopted and published several Decrees implementing Law 98-15 as amended and complemented by Law No. 30-21.</p>			<p>Percentage of men and boys of all ages covered by health insurance</p> <p>Percentage of TNS in climate-vulnerable sectors covered by health insurance</p>	<p>69.4%</p> <p>0%</p>	<p>90%</p> <p>90%</p>
<p><b>2. Transforming RAMED from an Assistance Scheme to an Insurance Scheme</b></p>					
<p><b>Prior Action 2.1</b> To oversee and coordinate the health and social protection reform, the Borrower has created an inter-ministerial steering committee, which includes a technical committee, pursuant to Decree No. 2.21.532 published in the Official Gazette No.7043 Bis dated November 29, 2021.</p>	<p><b>Prior action 2.2 A</b> to improve the coverage of health insurance for the poor and vulnerable, the Borrower has promulgated Law No. 27-22 amending and supplementing Law No. 65-00 on basic medical coverage, and adopted Decree No. 2.22.797, both published in the Official Gazette No. 7147 Bis dated November 30, 2022.</p>		<p>Share of the poorest quintile of the population covered by the non-contributory pillar of AMO</p>	<p>30%</p>	<p>65%</p>



	<p><b>Prior action 2.2B</b> to complete the legal framework of AMO, the Borrower has promulgated Law No. 60-22 dated May 25, 2023, determining, particularly, the rules and conditions of AMO eligibility of persons able to pay their contributions (not eligible for AMO-TADAMON) and not engaged in any paid or unpaid activity; as Law No. 60-22 is published in the Official Gazette No.7204, dated June 15, 2023.</p>				
<b>3. Revamping the Supply of Health Services</b>					
<p><b>Prior Action 3.1</b> to gradually reduce greenhouse gas emissions from healthcare facilities to zero by 2050 and to improve the resilience of the health system to climate change, the Borrower has made a formal commitment to the COP26 and has established a steering committee to implement it. The Government sent a written commitment to the Presidency of COP26 on November 12, 2021, and established the steering committee pursuant to MHSP's Decision No. 6521 dated May 6, 2022.</p>	<p><b>Prior Action 3.2 A</b> to improve the access to and quality of health services for women, rural and climate-vulnerable populations, the Borrower has promulgated Framework Law 06-22 relative to the national health system, dated December 9, 2022, published in the Official Gazette No.7151, on December 12, 2022.</p> <p><b>Prior action 3.2B</b> to operationalize the strengthened governance of the health sector: (i) the Borrower has promulgated Law No. 08-22 establishing Territorial Health Groups dated June 28, 2023, Law No. 10-22 establishing the National Medicines and Health Products Agency, and Law No. 11-22 relating to the creation of the Moroccan</p>	<p><b>Indicative trigger 3.3</b> to complete the legal, institutional and regulatory framework of the re-designed health system, the Borrower has published the implementing decrees of laws 07.22, 08.22, 10.22 and 11.22.</p>	<p>Percentage of births attended by skilled attendants in rural areas</p>	<p>74.2%</p>	<p>80%</p>



	<p>Blood and its derivatives Agency; said Laws published in the Official Gazette No.7213, dated July 17, 2023; and (ii) the Borrower’s Parliament has approved Law No. 07-22 establishing the High Authority for Health on November 13, 2023.</p> <p><b>Prior Action 3.2C</b> to improve the resilience of the health system to climate change, and gradually reduce greenhouse gas emissions from health facilities, the borrower conducted a climate vulnerability assessment of the health sector and adopted a roadmap towards a sustainable health system resilient to climate change, on November 10, 2023.</p>		Percentage of births attended by skilled attendants in urban areas	96.6%	97%
			Percentage of pregnant women in rural areas who completed 4 skilled ANC visits	38.5%	47%
			Percentage of pregnant women in urban areas that completed 4 skilled ANC visits	65.6%	70%
<b>4. Increasing the availability of health professionals</b>					
<p><b>Prior Action 4.1 A</b> to enhance human resources and enable the establishment of a health service, the Borrower has exempted health workers from the Statute of the Civil Service. Law 39-21 amending Dahir 1.58.008 was published in the Official Gazette No. 7007, dated July 26, 2021.</p>	<p><b>Prior Action 4.2</b> to increase the availability and improve the distribution of health professionals across the Borrower's regions, the Borrower has promulgated Law No. 09-22 relating to the Health Service, published in the Official Gazette No. 7213, dated July 17, 2023.</p>	<p><b>Indicative Trigger 4.3</b> to implement the Health Service, the Borrower has published the implementation decrees of law 09-22.</p>	Density of health care personnel per 1000 inhabitants in rural areas	0.51	0.6





<p><b>Prior Action 4.1 B</b> To increase the availability of doctors, the Borrower has promulgated Law No. 33-21 modifying and supplementing Law No. 131-13 governing the practice of medicine, so as to allow foreign doctors to practice medicine in Morocco, as Law No. 33-21 has been published in the Official Gazette No. 7010, dated August 8, 2021.</p>			<p>Density of health care personnel per 1000 inhabitants in urban areas</p>	<p>2.28</p>	<p>2.4</p>
<p><b>Pillar II: Improving protection of human capital in childhood and against poverty in old age</b></p>					
<p><b>5. Implementing the Direct Social Benefit Program</b></p>					
<p><b>Prior action 5.1</b> to provide the legal framework for the health and social protection reform and mandate the expansion of an adaptable and climate-smart health and social protection system, the Borrower has promulgated a Social Protection Framework Law. Law 09-21 was Published in the Official Gazette No. 6975 dated April 27, 2021.</p>	<p><b>Prior action 5.2</b> to expand and improve the social protection system, the Borrower's Council of Government has approved the draft Law No. 58.23, creating the Direct Social Benefit Program, on November 2, 2023.</p>	<p><b>Indicative trigger 5.3A</b> to ensure the effective governance and management of the Direct Social Benefit Program, the borrower has published Law 59.23 relative to the creation of the Direct Social Benefit Agency.</p> <p><b>Indicative trigger 5.3B</b> to implement the expansion of the Direct Social Benefit program, the Borrower has published the implementation decrees of the law 58.23.</p>	<p>Coverage of social support / cash transfers among children aged 0-17 years</p>	<p>43%</p>	<p>80%</p>
<p><b>6. Expanding and reforming the pension system</b></p>					
<p><b>Prior Action 6.1A</b> to extend pension coverage to workers under the professional unique contribution and auto-entrepreneur regimes, the Borrower has promulgated Law No. 31-21 amending and completing Law no. 99-15 which governs the pension regime for TNS, and published it in the Official Gazette No. 7056, dated January 13, 2022.</p>	<p><b>Prior action 6.2</b> to further expand the pension coverage for TNS, the Borrower has published the Decrees implementing Law No. 99-15 to enroll the remaining four (4) professional categories of TNS into the pension regime in the Official Gazette No. 7147 Bis dated November 30, 2022.</p>	<p><b>Indicative trigger 6.3A</b> to improve the governance framework of the pension system, the Borrower has published legal text(s) amending and completing the law(s) governing pension regime(s), notably Law 99-15 relative to the TNS pension regime.</p> <p><b>Indicative trigger 6.3B</b> to increase effective coverage of the pension regime</p>	<p>Number of workers enrolled in a pension regime</p>	<p>4.5 million</p>	<p>6 million</p>



<p><b>Prior Action 6.1B</b> To operationalize the expansion of the pension system for TNS, the Borrower has adopted Decree no. 2.21.930 modifying and completing Decree n° 2.18.622 defining the list of professional categories subject to the pension system, including those employed in the agriculture and tourism sectors who are the most vulnerable to climate change, as Decree No. 2.21.30 has been published in the Official Gazette No. 7043 BIS dated November 29, 2021.</p> <p><b>Prior Action 6.1C</b> To enable the enrolment into the pension regime of approximately three million three hundred thousand TNS, including approximately one million six hundred thousand farmers, all subject to high climate-vulnerability in of the agriculture sector, the Borrower has adopted and published several Decrees implementing amended Law 99-15.</p> <p><b>Prior Action 6.1D</b> To improve the sustainability of the pension schemes and the viability of the contributory social protection system, the Borrower has launched the parametric reform of the collective retirement pension scheme (“RCAR”), modifying, particularly, the rate of revaluation of the pensions, pursuant to Decrees No. 2.20.935 and 2.20. 936 of July 27, 2021, amending and supplementing respectively decrees n° 2.77.551 and n° 2.92.927 setting forth the terms of application of the RCAR, published in the Official Gazette n° 7014 of August 19, 2021.</p>		for TNS, the Borrower has published legislative actions to incentivize TNS to contribute.	Of which / Women	1.48 million	2.23 million
			Of which/ Men	3.02 million	3.77 million



<b>Pillar III: Improving climate risk management and resilience against catastrophic events</b>				
<b>7. Improving climate risk management and resilience against catastrophic events</b>				
<p><b>Prior Action 7.1A</b> to improve disaster and climate resilience at the local level, the Borrower has mandated the establishment of disaster risk management units at the level of prefectures, provinces, districts and pashaliks pursuant to the Ministry of Interior’s Circular dated April 1, 2021.</p>	<p><b>Prior Action 7.2</b> to improve the protection of farmers against the increased frequency of droughts due to climate change, the Borrower has established an inter-ministerial commission bringing together line ministries, insurance regulators and insurance providers to discuss adaptive and innovative approaches for drought insurance, pursuant to MEF Ministerial dated November 15, 2023.</p>	<p><b>Indicative Trigger 7.3A</b> to further strengthen the institutional framework for disaster risk reduction and natural risk management, the Borrower has established an inter-ministerial DRM commission to guide the Government’s approach on disaster and climate resilience, pursuant to Decree No. _____ published in the Official Gazette No.____, dated.</p>	<p>Number of livestock farmers who received subsidized animal feed</p>	<p>0 600,000</p>
<p><b>Prior Action 7.1B</b> to implement the emergency program launched by the Government on February 17, 2022, to mitigate the effects of the 2021-2022 drought rainfall deficits in the agriculture sector, and more particularly its first axis which objective is to protect the farmers: (a) a convention was signed between the Ministry of Finance, the Ministry of Agriculture, Maritime Fisheries, Rural Development and Water and Forests (MAMFRD) and the Fund Hassan II approving the terms and conditions of the funding [approved] for the implementation of this “axis” on February 28, 2022; and (b) a joint circular was issued by the Ministry of Interior and MAMFRD detailing the procedures for the distribution of subsidized animal feed on February 26, 2022.</p>		<p><b>Indicative Trigger 7.3B</b> to improve and broaden the scope of disaster risk financing in Morocco, the Borrower has approved a Disaster Risk Financing Strategy that considers the impact of drought risk.</p>	<p>Number of natural risk management units established at the local level.</p>	<p>0 95</p>



ANNEX 2: FUND RELATIONS ANNEX<sup>35</sup>



INTERNATIONAL MONETARY FUND

# MOROCCO

September 15, 2023

## REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY

### EXECUTIVE SUMMARY

**Context.** Climate change is both a major threat and a source of opportunities for Morocco's development. On one hand, Morocco is one of the world's most water-stressed countries, and water scarcity is a serious constraint to the country's ambition to transition to a new model of development. The authorities are planning to boost investment in water infrastructure, but this should be complemented by demand management reforms that bring the price of water closer to its actual cost and induce a shift in consumption behavior. On the other hand, Morocco can take advantage of its abundant competitive renewable energy resources to reduce its still high dependence on fossil fuels. Decarbonizing the energy matrix would require significant investments in renewable energy, which should be largely shouldered by the private sector. It would also require deep regulatory reforms, including further efforts to liberalize the electricity sector. Fully exploiting this renewable energy potential could reduce Morocco's reliance on imported fuels, help Moroccan firms' competitiveness in neighboring markets that are embracing a green energy transition (most notably the European Union), and help create jobs. The strong earthquake that hit Morocco on September 8, exerting a heavy toll in terms of human lives and physical damages, highlights the importance of strengthening the country's preparedness and resilience to natural disasters, including from climate change.

RSF. With the proposed access level set at 112 percent of quota (equivalent to SDR 1 billion), the RSF arrangement will help finance Morocco's climate-resilient infrastructure investments and support its ambitious goal of transitioning to a net-zero emissions economy by 2050. The proposed access level is justified by the strength and breadth of the proposed reforms and Morocco's sound capacity to repay the Fund. The RMs included in the RSF framework are comprehensive, including tackling water scarcity, liberalizing the electricity market, improving energy efficiency, integrating climate change considerations into the tax and transfer system, incorporating climate risk in financial supervision, and greening the financial sector. The RMs are developed in close collaboration with other IFIs and bilateral donors, such as the World Bank, the European Union, the EBRD, and the

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<sup>35</sup> <https://www.elibrary.imf.org/view/journals/002/2023/354/002.2023.issue-354-en.xml>



ANNEX 3: LETTER OF DEVELOPMENT POLICY



14 Nov. 2023

**MONSIEUR JESKO HENTSCHEL**

DIRECTEUR DU DÉPARTEMENT MAGHREB ET MALTE, MOYEN-ORIENT  
ET AFRIQUE DU NORD

5, RUE TARIK-IBN-AHMED, AL-SOUISSI

**RABAT**

**OBJET :** Lettre de politique relative au Financement de politique de développement pour le renforcement du capital humain pour un Maroc résilient (deuxième opération)

**Monsieur le Directeur,**

Au nom du gouvernement du Royaume du Maroc, j'ai l'honneur de vous faire parvenir la lettre de politique relative au deuxième financement de politique de développement pour le Renforcement du capital humain pour un Maroc résilient.

Cette lettre décrit le contexte institutionnel, les objectifs poursuivis et les réformes engagées dans le cadre de ce programme.

**I. Contexte institutionnel du programme**

Comme vous le savez, la protection sociale constitue un chantier national majeur, transcendant les divergences des mouvances politiques, et requiert un engagement animé du seul souci de l'intérêt général, de l'amélioration des conditions de vie des citoyennes et citoyens, et de la préservation de leur dignité.

Cela est attesté par la position distinguée que ce sujet occupe dans les discours de Sa Majesté le Roi Mohammed VI, que Dieu l'assiste, en l'occurrence, le discours du 19<sup>ème</sup> anniversaire de l'investiture du Souverain, du 29 juillet 2018 par lequel le souverain a invité le gouvernement et tous les acteurs concernés à entreprendre une restructuration globale et profonde des programmes et des politiques nationales d'appui et de protection sociale et à soumettre des propositions portant sur leurs modalités d'évaluation, notamment à travers l'opérationnalisation du Registre Social Unifié (RSU), le discours royal prononcé à l'occasion de la mise en place de la Commission Spéciale sur le Modèle de Développement (CSMD) en novembre 2019, le discours royal à l'occasion de la fête du trône en juillet 2020 et de l'ouverture de l'année législative du Parlement en octobre 2020, au cours desquels Sa Majesté a appelé au lancement progressif du processus de la généralisation de la protection sociale au profit de tous les marocains au cours des cinq prochaines années, à la



présentation d'un plan d'action global comprenant, l'échéancier, le cadre juridique et les options de financement, ainsi que les mécanismes de gouvernance adoptés, en coordination avec tous les partenaires sociaux. Sa Majesté a également appelé à une réforme rigoureuse des systèmes et programmes sociaux déjà mis en place.

Ainsi, et conformément aux orientations royales, le chantier de généralisation de la protection sociale comprend les quatre axes suivants :

1. La généralisation de l'assurance maladie obligatoire de base (AMO) au profit de 22 millions de bénéficiaires supplémentaires, et qui couvre les frais de soins médicaux, d'achat de médicaments, d'hospitalisation et de traitement ;
2. La généralisation des allocations familiales au profit des familles qui n'en bénéficient pas selon la réglementation en vigueur ;
3. L'élargissement de l'adhésion aux régimes de retraite pour inclure les personnes, exerçant un emploi et ne bénéficiant d'aucune pension ;
4. La généralisation de l'indemnité pour perte d'emploi, pour couvrir toute personne exerçant un emploi stable.

C'est dans cette dynamique que Sa Majesté le Roi, a présidé, le 14 avril 2021, la cérémonie de lancement de la mise en œuvre du projet de généralisation de la protection sociale et la signature de trois conventions-cadres portant sur la généralisation de l'Assurance maladie obligatoire de base au profit de la catégorie des professionnels et travailleurs indépendants et personnes non-salariées exerçant une activité privée.

### **III. Engagements du Gouvernement dans le domaine de la protection sociale**

L'actuel gouvernement, élu en octobre 2021, a incorporé les orientations royales de juillet 2020 et les recommandations du NMD dans son programme gouvernemental 2021-2026. A ce titre le chef du gouvernement a annoncé que la priorité la plus immédiate serait de renforcer les fondements de l'État social.

Afin de remplir ces obligations et d'assurer leur mise en œuvre optimale, le gouvernement a enclenché la mise en œuvre d'une vision unifiée du système de protection sociale dans notre pays, de manière à pouvoir remporter les grands enjeux dans ce domaine, qui sont principalement représentés par les éléments suivants :

- **Généralisation** : en élargissant la couverture sociale à tous les segments sociaux qui souffrent de la pauvreté et de la fragilité conformément aux principes de justice, d'équité et de mérite ;
- **Unification** : en assurant la convergence et la cohérence des programmes existants, dans une approche de complémentarité, tout en réduisant le nombre des parties prenantes et fédérer au maximum les programmes ;



- **Gouvernance** : en établissant un système de ciblage plus efficient, efficace et transparent grâce au projet de RSU, qui permettra de fournir les données nécessaires concernant les groupes en situation difficile et leurs besoins en services d'aide sociale, ainsi que la digitalisation de la gestion des services sociaux ;
- **Efficacité** : par l'amélioration continue de la qualité des programmes de protection sociale, et le développement d'ingénierie sociale, dispositifs et moyens de veille et de vigilance sociale, pour surveiller les phénomènes sociaux, ainsi que les risques auxquels les groupes cibles sont exposés.

### **III. Les mesures prises par le gouvernement pour réussir le chantier de la généralisation de la protection sociale**

#### **3.1. L'échéancier de mise en œuvre du chantier**

En application des directives Royales, le gouvernement a fixé un calendrier pour le déploiement du chantier de généralisation de la protection sociale, de manière progressive, sur une période de 5 ans, comme suit :

- **2021-2022** : Généralisation de l'assurance maladie obligatoire en élargissant le champ d'application de cette assurance aux personnes n'ayant pas la capacité de s'acquitter des droits de cotisation y compris les personnes soumises au Régime d'Assistance Médicale (RAMM), aux groupes de professionnels, de travailleurs indépendants et des personnes non-salariées exerçant une activité privée, et aux personnes ayant la capacité de s'acquitter des droits de cotisation et n'exerçant aucune activité rémunérée ou non rémunérée, ciblant ainsi 22 millions bénéficiaires;
- **2023-2024**: Operationalisation du régime d'Aide sociale directe au profit des familles ciblées ;
- **À l'horizon 2025**: Élargissement du régime de retraite pour inclure les personnes qui travaillent et ne bénéficient d'aucune pension, à travers la mise en place d'un système de retraite propre aux catégories des professionnels, des travailleurs indépendants et des personnes non-salariées exerçant une activité privée, en vue de toucher tous les groupes concernés ; ainsi que la généralisation de l'indemnité pour perte d'emploi à toute personne exerçant un emploi stable à travers la simplification des conditions pour bénéficier de cette indemnité et en élargissant l'assiette des bénéficiaires.



### 3.2. Le cadre juridique

L'Etat marocain veille à ce que toutes les mesures de nature juridique soient prises pour assurer la mise en œuvre fluide et efficace du chantier de la généralisation de la protection sociale. A ce titre, l'ordonnement juridique en la matière a été enrichi par tout un arsenal de textes, notamment :

- a. **La promulgation de la loi-cadre n° 09-21 relative à la protection sociale.** Cette loi cadre fixe les objectifs fondamentaux de l'action de l'Etat en matière de protection sociale ainsi que les principes et les instruments nécessaires à la mise en œuvre de la réforme notamment, les aspects liés à sa gouvernance et à son financement.
- b. **La signature, devant Sa Majesté le Roi, de trois conventions cadres** portant sur la généralisation de l'assurance maladie obligatoire de base au profit des professionnels et travailleurs indépendants et personnes non-salariées exerçant une activité libérale qui représentent environ 5 millions d'adhérents (commerçants, prestataires de services indépendants, artisans, professionnels d'artisanat et agriculteurs, en sus de leurs familles), soit un nombre total de bénéficiaires de près de 9 millions de citoyens, ce qui représente environ 83% des personnes ciblées des catégories de professionnels, de travailleurs indépendants et de non-salariés exerçant une activité libérale.
- c. **La promulgation des lois 30-21 et 31-21 amendant respectivement les lois 98-15 et 99-15 relatives à la couverture médicale de base et à la retraite des professionnels et travailleurs indépendants et personnes non-salariées exerçant une activité libérale.**
- d. **La révision de quelques décrets d'applications des lois 98-15 et 99-15 susmentionnées.**
- e. **La promulgation de la loi 33-21 modifiant et complétant la loi 131-13 relative à l'exercice de la médecine et ce, afin d'ouvrir l'exercice de la médecine aux compétences étrangères dans les mêmes conditions que leurs homologues marocains.**
- f. **La promulgation de la loi 39-21 complétant le dahir 1-58-008 portant statut général de la fonction publique et ce, dans le but de permettre la mise en place d'un statut particulier des professionnels de santé.**
- g. **L'adoption de 26 décrets en application respectivement de la loi 98-15 relative à l'assurance maladie obligatoire et de la loi 99-15 relative à la retraite des professionnels et travailleurs indépendants et personnes non-salariées exerçant une activité libérale : 2 millions de bénéficiaires avec leurs ayant droit vont pouvoir bénéficier de l'AMO à partir du 1er janvier 2021.**
- h. **L'adoption du décret instituant un comité ministériel et un comité technique pour le pilotage de la généralisation de la protection sociale et ce, en application des dispositions de la loi cadre relative à la protection sociale :**
- i. **La constitution d'un comité technique dont le mandat porte sur l'assainissement de la base de données des bénéficiaires du RAMED**





et la définition des modalités de basculement de cette population de l'ANAM (organisme gestionnaire du RAMED) vers la CNSS.

**j. La création au niveau de la nouvelle architecture gouvernementale d'une entité chargée de la protection sociale**, en l'occurrence le Ministère de la Santé et de la Protection Sociale.

**k. La promulgation de la loi-cadre 06-22 relative au système nationale de santé, abrogeant la loi cadre 34-09** dans le but d'accompagner la refonte du système nationale de santé à travers la mise à niveau de l'offre de soins, l'obligation du respect de la filière de soins, la mise en place d'une politique innovante et incitative en matière de ressources humaines, la refonte du cadre institutionnel au niveau régional et la mise en place du Système d'Information intégré.

**l. La promulgation de la loi 27-22 modifiant et complétant de la loi 65-00 et ses textes d'application (trois décrets et trois arrêtés)** dans le but de rendre effectif le régime de l'AMO des personnes n'ayant pas la capacité de s'acquitter des droits de cotisation ;

**m. La promulgation de la loi 60-22 relative à l'AMO des personnes ayant la capacité de s'acquitter des droits de cotisations et n'exerçant aucune activité qu'elle soit rémunérée ou non ;**

**n. La promulgation de La loi 08-22 relative aux Groupements Sanitaires Territoriaux (GST) ;**

**o. La promulgation de La loi 11-22 relative à l'Agence Marocaine du Sang et ses dérivées ;**

**p. La promulgation de La loi 10-22 relative à l'Agence du Médicament et des Produits de Santé ;**

**q. La promulgation de La loi 09-22 relative à la fonction publique sanitaire ;**

**r. L'adoption par le parlement du projet de loi 07.22 relative à la Haute Autorité de la Santé le 13 novembre 2023.**

Par ailleurs, il convient de signaler que l'adaptation du cadre de gouvernance et de gestion de la Caisse Nationale de la Sécurité Sociale aux exigences de la généralisation de l'AMO et de l'élargissement de la base des adhérents au régime de la retraite, a été acté dans le cadre des textes législatifs et réglementaires relatifs à ces régimes.

Parallèlement, plusieurs projets de lois et de textes d'application ont été préparés pour leur mise dans le circuit d'approbation. Il s'agit notamment de :

- **Textes relatifs au parachèvement de l'arsenal juridique relatif à la généralisation de l'AMO.** Il s'agit entre autres de :
  - **L'amendement de la loi 65.00** pour l'abrogation du régime AMO des étudiants, et la fixation d'un délai pour le basculement de la population 114 dans le cadre d'un texte réglementaire ;



- L'élaboration des textes d'application des articles 34, 118, 102 et 103 de la loi 65-00 ;
- \* L'adoption du décret d'application des lois 98-15 et 99-15 en ce qui concerne la catégorie des préposés religieux ;
- \* L'adoption de la loi 46-23 modifiant et complétant la loi 98-15 afin, notamment, de conditionner l'octroi de l'aide ou de la subvention publique par la régularité en ce qui concerne le paiement des cotisations ;
- \* L'amendement du décret numéro 2-18-622 afin de préciser les modalités d'application de la conditionnalité de l'aide et de la subvention publique ;
- \* L'adoption de la loi 41-23 portant sur l'annulation des créances dues à la CNSS au titre du régime AMO-INS et relatives aux cotisations, majorations de retard, frais de recouvrement et amendes ;
- \* L'adoption du **Projet de Loi 47-23** modifiant et complétant la loi 95-15 dans l'objectif :
  - D'améliorer le cadre de gouvernance du régime de la retraite-INS à travers notamment la clarification des critères de classification des Travailleurs non-salariés (TNS) suite à l'introduction des régimes de l'autoentrepreneur et de la contribution professionnelle unique ;
  - D'inciter les TNS à s'acquitter de leurs droits de cotisation au titre du régime de la retraite-TNS, notamment via, la fixation de la cotisation sur la base de revenu forfaitaire le plus élevé ou sur la base du montant le plus élevé si la personne concernée est classée au titre de plus d'une catégorie, sous-catégorie ou d'un ensemble de sous-catégories ;
- \* Le **Projet de loi 58.23** relatif au régime de l'Aide Sociale Directe et ses textes d'application.
- \* Le **Projet de loi 59.23** relative à la création de l'Agence nationale d'aide sociale.
- \* L'adoption des textes d'application des lois précitées s'inscrivant dans le cadre du système national de santé ;
- \* L'introduction de mesures suivantes dans le cadre de la loi de finances de l'année 2024. Il s'agit des mesures suivantes :
  - \* **Amendement du texte de création du Compte d'affectation spéciale « Fonds d'Appui à la protection sociale et à la Cohésion Sociale »** pour prendre en charge le financement, particulièrement, de la partie contributive relative à l'AMO et à l'Aide sociale directe ;



- \* **Mobilisation des financements additionnels nécessaires à la mise en œuvre de la réforme.**

### 3.3. Le cadre institutionnel

Afin de créer des conditions d'efficacité et d'efficace, l'effort du gouvernement est principalement axé sur le développement des aspects managériaux liés à la gouvernance des organes de gestion des systèmes de protection sociale. Dans ce contexte, le gouvernement travaille sur les points suivants :

- **Poursuivre la mise en œuvre des mesures nécessaires à l'implémentation du cadre de gouvernance** garantissant la convergence des différents régimes de protection sociale dans la perspective de l'unification de la gestion desdits régimes ;
- **Renforcer les capacités de la Caisse Nationale de Sécurité Sociale** pour lui donner la flexibilité nécessaire afin d'assurer une bonne gouvernance des systèmes de protection sociale qui lui sont confiés.

### 3.4. Amélioration du système de ciblage

Le projet du Registre Social Unifié constitue une réponse de l'Etat à la fois à la problématique de ciblage des ménages à faible revenu qui doivent bénéficier des programmes sociaux publics et à celle de la fragmentation du système de protection sociale, caractérisé par des chevauchements et des dysfonctionnements qui en affectent l'efficacité et l'efficace.

En effet, plus de 120 programmes de soutien et de protection sociale, allant des transferts universels (subvention de la farine, du sucre et du gaz butane) aux mécanismes de protection ciblant certaines catégories de population (Ramad, Layssir, aides scolaires, etc.) sont aujourd'hui déployés au Maroc. A travers ce chantier, l'Etat ambitionne cerner efficacement les catégories effectivement éligibles, en vue d'orienter le soutien vers les ménages les plus nécessiteux, de profiter des synergies qui pourraient être créées entre les programmes et d'éliminer les doublons et les fraudes.

L'enjeu principal est donc de mettre en place un dispositif de ciblage universel des ménages, plus équitable, plus efficace, plus efficient et plus intégré. Dans ce cadre, et afin d'assurer l'efficacité et l'efficace des systèmes de dépenses sociales, l'année 2020 a connu la publication du Dahir n°1-20-77 du 18 hija 1441 (08 août 2020) portant promulgation de la loi n°72-18 relative au dispositif de ciblage des bénéficiaires des programmes d'appui social et portant création de l'Agence Nationale des Registres.

Cette loi a pour objectif de mettre en place des mécanismes permettant de renforcer l'harmonie entre les programmes d'appui social, à travers une vision unifiée, pour les mettre en œuvre d'une manière juste et transparente et de garantir la coordination et la convergence de ces programmes.

Le dispositif de ciblage universel des ménages repose sur trois piliers :



- Un **Registre Social Unifié (RSU)** recueillant des informations socio-économiques des ménages, afin de cibler ceux qui remplissent les conditions pour bénéficier des prestations sociales ;
- Un **Registre National de la Population (RNP)** pour l'identification des individus et des ménages. Ce registre assure la collecte, l'enregistrement et la conservation de données identitaires démographiques et biométriques ;
- Une **Agence Nationale des Registres (ANR)** qui gèrera pour le compte de l'Etat l'utilisation optimale des informations contenues dans les deux registres, et assurera un niveau élevé de protection et de confidentialité des données enregistrées.

Les principales réalisations pour opérationnaliser la mise en œuvre de ce dispositif de ciblage, portent notamment sur :

- La publication du décret n°2-20-792 du 17 ramadan 1442 (30 avril 2021) portant application des dispositions de la loi n°72-18 et du décret n°2-21-473 du 28 juillet 2021 pris pour l'application de ladite loi en ce qui concerne le RNP ;
- La conclusion des marchés de mise en œuvre des systèmes du RNP et du RSU ;
- La finalisation de la nouvelle formule de *scoring* du RSU par le HCP ;
- La généralisation du RNP et RSU sur l'ensemble du territoire national.

### 3.5. Mobilisation des sources de financement et assurer leur pérennité

Le financement de cette réforme sera basé sur deux mécanismes :

- Un **mécanisme basé sur la cotisation** pour les personnes ayant une capacité à s'acquitter des droits de cotisation ;
- Un **mécanisme basé sur la solidarité** pour les personnes n'ayant pas ladite capacité.

#### 3.5.1. Financement dans le cadre du mécanisme basé sur la cotisation

Selon les estimations récentes basées sur l'effectif des personnes effectivement concernées, le financement de la généralisation de la protection sociale sera pris en charge à hauteur de 15 milliards de dirhams dans le cadre du mécanisme basé sur la cotisation et ce, principalement, à travers les cotisations des TNS.

Le financement de la couverture sociale dans le cadre contributif se fera à travers :

- Le **droit complémentaire adossé à la Contribution professionnelle unique (CPU)**, et à l'**impôt sur le revenu au titre du régime de l'autoentrepreneur** introduit au titre de Loi de Finance 2021, pour les catégories des travailleurs non-salariés éligibles à la CPU et au régime de l'autoentrepreneur ;



- **Le versement direct des cotisations** à l'organisme gestionnaire pour les catégories des travailleurs non-salariés exclus du champ de la CPU et du régime de l'autoentrepreneur.

### 3.5.2. Financement dans le cadre du mécanisme basé sur la solidarité

Sur la base des estimations récentes basées sur l'effectif des personnes effectivement concernées, le coût qui sera pris en charge dans le cadre de ce mécanisme s'élève à près de 38,5 milliards de dirhams.

## IV. Financement de politique de développement pour le Renforcement du capital humain pour un Maroc résilient – deuxième opération

Afin d'accompagner le Gouvernement dans la mise en place de la réforme de la protection sociale, la Banque mondiale, en tant que partenaire privilégié, a été rapproché pour son appui à ce chantier de réforme à travers une série programmatique de Financements de politiquement de développement (FPD). La première opération de cette série a été réalisée à 100% en 2022 pour ouvrir la possibilité à la deuxième présente opération en s'inscrivant dans le même objectif d'améliorer la protection contre les risques sanitaires, les pertes de capital humain dans l'enfance et la pauvreté pendant la vieillesse, et d'améliorer la gestion des risques climatiques et la résilience face aux événements catastrophiques. Dans ce cadre, le Programme d'appui de la Banque mondiale au titre du financement proposé s'articule autour des piliers suivants :

**Pilier I : Améliorer la protection contre les risques sanitaires :** Ce pilier comprend des mesures visant à inscrire jusqu'à 11 millions de TNS et leurs personnes à charge et à intégrer jusqu'à 11 millions de personnes actuellement inscrites au RAMED dans l'AMO, ainsi qu'à renforcer les ressources physiques et humaines pour améliorer les services de santé offerts à tous les bénéficiaires.

**Pilier II : Améliorer la protection contre les pertes de capital humain dans l'enfance et la pauvreté pendant la vieillesse :** Ce pilier comprend des mesures visant à mettre en œuvre le programme des Allocations familiales (AF) et à élargir la couverture des régimes de retraite. Cette réforme comprend l'adoption de décrets et d'autres textes législatifs pour assurer une gouvernance, une identification et un ciblage appropriés de la réforme de la santé et de la protection sociale.

**Pilier III : Améliorer la gestion des risques climatiques et la résilience face aux événements catastrophiques :** Ce pilier vise à améliorer la résilience aux catastrophes naturelles et aux risques climatiques, notamment par le renforcement du cadre institutionnel et de coordination pour la gestion des risques liés aux catastrophes et au climat, la création de comités de coordination réunissant les principales parties prenantes et l'amélioration des mécanismes de transfert des risques tels que l'assurance agricole.



Le Gouvernement du Maroc tient à exprimer sa gratitude à la Banque mondiale pour son implication dans la réalisation de cette opération et réitère son engagement à poursuivre la mise en œuvre de ce cadre politique contenu dans le présent document.

Veuillez agréer, **Monsieur le Directeur**, l'expression de ma parfaite considération.

Pour la Ministre de l'Économie et des Finances  
  
Hanae Youssef FARHAT



*Letter of Development Policy (non-official English translation)*

**SUBJECT:** Policy letter on Development Policy Financing to strengthen human capital for a resilient Morocco (second operation)

Mr. Director,

*On* behalf of the Government of the Kingdom of Morocco, I have the honor of sending you the policy letter relating to the second development policy financing for the reinforcement of human capital for a resilient Morocco.

This letter describes the institutional context, the objectives pursued, and the reforms undertaken in the context of this program.

**I. Institutional context of the program**

As you know, social protection is a major national undertaking, transcending the differences of political persuasion, and requiring a commitment driven by the sole concern of the general interest, the improvement of living conditions for citizens, and the preservation of their dignity.

This is evidenced by the distinguished position this subject occupies in the speeches of His Majesty the King Mohammed VI, may God assist Him, in his the speech on the occasion of the 19th anniversary of the Sovereign's enthronement, on July 29, 2018, in which the Sovereign invited the government and all stakeholders to undertake a comprehensive and profound restructuring of social protection programs and policies, and to submit proposals for their evaluation modalities, specifically in relation to the operationalization of the Unified Social Register (RSU), the royal speech delivered on the occasion of the establishment of the Special Commission on the Development Model (CSMD) on November 2019, the royal speech on the occasion of the Fete du Trône in July 2020 and the opening of the legislative year of the Parliament in October 2020 during which His Majesty has called for the gradual launch of the process of generalization of social protection for the benefit of all Moroccans over the next five years, to the presentation of a comprehensive action plan, including timetable, legal framework and funding options, as well as the governance mechanisms adopted, in coordination with all social partners. His Majesty also called for rigorous reform of existing social systems and programs.

Thus, and in accordance with the royal orientations, the project to generalize social protection includes the following four axes:

1. The extension of compulsory basic health insurance (AMO) to 22 million additional beneficiaries, covering the cost of medical care, drugs, hospitalization and treatment;
  2. The generalization of family allowances for families who do not benefit from them under current regulations.
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3. Broadening pension scheme membership to include people who are employed but not receiving a pension;
4. The generalization of unemployment benefits to cover anyone with a stable job.

With this in mind, on April 14, 2021, His Majesty the King presided over the ceremony to launch the implementation of the project to generalize social protection, and the signing of three framework agreements on the generalization of compulsory basic health insurance for professionals, self-employed workers and non-salaried individuals working in the private sector.

## **II. Commitments of the Government in the domain of social protection**

The current government, elected in October 2021, has incorporated the royal guidelines of July 2020 and the recommendations of the NMD into its 2021-2026 government program. The head of government has announced that the most immediate priority is to strengthen the foundations of the social state.

In order to meet these obligations and ensure their optimal implementation, the government has embarked on the implementation of a unified vision of the social protection system in our country, so as to be able to meet the major challenges in this field, which are mainly represented by the following elements:

- *Generalization.* by extending social coverage to all social segments suffering from poverty and fragility in accordance with the principles of justice, equity and merit;
- *Unification:* by ensuring the convergence and coherence of existing programs. in a complementary approach, while reducing the number of stakeholders and consolidating programs as much as possible;
- *Governance:* by establishing a more efficient, effective and transparent targeting system thanks to the RSU project, which will provide the necessary data on groups in difficulty and their need for social assistance services, as well as digitizing the management of social services;
- *Efficiency:* through continuous improvement of the quality of social protection programs, and the development of tools and mechanisms to monitor social phenomena. as well as the risks to which target groups are exposed.

## **III. Measures taken by the government to ensure the success of the project to generalize social protection**

### **3.1 Implementation of the reform**

In application of Royal directives, the government has set a timetable for the deployment of the project to generalize social protection, in a progressive manner, over a period of 5 years, as follows:

- 2021-2022: Generalization of compulsory health insurance, extending the scope of coverage to people unable to pay contributions, including those enrolled in the Regime d'Assistance Médicale (RAMED), to groups of professionals, the self-employed and non-salaried private individuals, and to people able
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to pay contributions but not engaged in any paid or unpaid activity, targeting 22 million beneficiaries;

- 2023-2024: Operationalization of the Direct Social Assistance scheme for targeted families;
- By 2025: Expand the pension system to include people who work but do not receive a pension, by setting up a pension system for professionals, the self-employed and non-salaried private-sector workers, with a view to reaching all groups and the generalization of unemployment benefits to all persons in stable employment by simplifying the conditions for entitlement to this benefit and broadening the base of beneficiaries.

### **3.2 Legal framework**

The Moroccan government ensures that all legal measures are taken to ensure the smooth and efficient implementation of the project to generalize social protection. To this end, the legal framework in this area has been enriched by a whole arsenal of texts, in particular :

- a. Promulgation of framework law no. 09-21 on social protection. This framework law lays down the fundamental objectives of the State's action in the field of social protection, as well as the principles and instruments required to implement the reform, in particular the aspects linked to its governance and financing.
  - b. The signing, in the presence of His Majesty the King, of three framework agreements concerning the generalization of compulsory basic health insurance for the benefit of self-employed professionals and non-salaried persons exercising a liberal activity, who represent around 3 million members (shopkeepers, independent service providers, craftsmen, craft professionals and farmers, in addition to their families). The total number of beneficiaries is close to 9 million, representing around 83% of those targeted in the professional, and self-employed categories.
  - c. The promulgation of laws 30-21 and 31-21 amending respectively laws 98-15 and 99-15 relating to basic medical coverage and retirement benefits for self-employed and non-salaried professionals.
  - d. Revision of a number of decrees implementing the aforementioned laws 98-15 and 99-15.
  - e. The promulgation of law 33-21 amending and supplementing law 131-13 on the practice of medicine, in order to open up the practice of medicine to foreign workers under the same conditions as their Moroccan counterparts.
  - f. The promulgation of law 39-21 supplementing dahir 1-58-008 on the general status of the civil service, to enable the introduction of a special status for health professionals.
  - g. The adoption of 26 decrees implementing respectively Law 98-15 on compulsory health insurance and Law 99-15 on pensions for self-employed professionals and non-salaried workers: 2 million beneficiaries and their dependents will be eligible for AMO from January 1, 2021.
  - h. Adoption of the decree establishing a ministerial committee and a technical committee to oversee the generalization of social protection, in application of the provisions of the framework law on social protection.
  - i. The creation of a technical committee with a mandate to revise the RAMED beneficiary database and the definition of the procedures for transferring this population from ANAM (RAMED's
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managing body) to CNSS.

- j. The creation within the new governmental architecture of an entity responsible for social protection, in this case the Ministry of Health and Social Protection.
- k. Promulgation of framework law 06-22 on the national health system, repealing framework law 34-09, with the aim of supporting the overhaul of the national health system by upgrading the health care system, making it compulsory to respect the health care pathway, introducing an innovative and incentive-based human resources policy, overhauling the institutional framework at regional level and setting up an integrated information system.
- l. The promulgation of law 27-22 amending and supplementing law 65-00 and its implementing regulations (three decrees and three orders) with the aim of making the AMO scheme effective for people unable to pay contribution fees:
- m. The promulgation of law 60-22 relating to AMO for people who are able to pay contributions and are not engaged in any activity, whether remunerated or not;
- n. The promulgation of Law 08-22 on Groupements Sanitaires Territoriaux (GST) ;
- o. Promulgation of Law 11-22 on the Moroccan Agency for Blood and its derivatives;
- p. Promulgation of Law 10-22 on the Medicines and Health Products Agency;
- q. The promulgation of Law 09-22 on the public health service;
- r. Adoption by parliament of bill 07.22 on the Haute Autorité de la Santé on November 13, 2023.

It should also be noted that the adaptation of the governance and management framework of the Caisse Nationale de la Sécurité Sociale to the requirements of the generalization of the AMO and the widening of the membership base of the pension scheme has been enacted within the framework of the legislative and regulatory texts relating to these schemes. At the same time, several draft laws and implementing regulations have been prepared for approval. These include texts relate to the completion of the legal arsenal relating to the generalization of AMO and include :

- Amendment of law 65.00 to repeal the AMO scheme for students, and the setting of a deadline for the switchover of the 114 population within the framework of a regulatory text;
- Drafting of implementing regulations for articles 34, 115, 102 and 103 of law 65-00;
- Adoption of the implementing decree for laws 98-15 and 99-15 concerning the category of religious attendants;
- The adoption of law 46-23 amending and supplementing Law 98-15, in particular to make the granting of public aid or subsidies conditional on regular payment of membership dues;
- The amendment of decree number 2-18-622 in order to specify the terms of application of the conditionality of aid and public subsidy ;
- The adoption of law 41-23 concerning the cancellation of debts owed to CNSS under the AMO-TNS scheme and relating to contributions, late payment surcharges, collection costs and fines;
- The adoption of law 47-23 amending and supplementing Law 95-15 with a view to:
  - Improve the governance of the TNS pension scheme, notably by clarifying the criteria for classifying non-salaried workers following the introduction of the self-employed



and single professional contribution schemes;

- To encourage self-employed workers to pay their contributions to the TNS pension scheme, in particular by fixing the contribution on the basis of the highest lump-sum income or the highest amount if the person concerned is classified in more than one category, subcategory or group of subcategories;
- Law 58.23 on Direct Social Benefits and its implementing regulations.
- Law 59.23 concerning the creation of the Agency for Direct Social Benefits.
- The adoption of implementing regulations for the aforementioned laws as part of the national health system;
- The introduction of the following measures as part of the Finance Act of the year 2024. These are the following measures:
  - Amendment of the text creating the special account "Fonds d'Appui à la Protection Sociale et à la Cohésion Sociale", to finance, in particular, the contributory part of AMO and Direct Social Benefits;
  - Mobilization of the additional funding needed to implement the reform.

### **3.3 Institutional framework**

In order to create conditions of efficiency and effectiveness, the government's effort is mainly focused on developing managerial aspects related to the governance of social protection system management bodies.

In this context, the government is working on the following points:

- Continue to implement the measures needed to establish a governance framework guaranteeing the convergence of the various social protection schemes, with a view to unifying the management of these schemes;
- Strengthen the capacities of the Caisse Nationale de Sécurité Sociale to give it the flexibility it needs to ensure good governance of the social protection systems entrusted to it.

### **3.4 Improving the targeting of the system**

The Unified Social Register project is the government's response both to the problem of targeting low-income households who should benefit from public social programs, and to that of the fragmentation of the social protection system, characterized by overlaps and dysfunctions that affect its efficiency and effectiveness.

Indeed, more than 120 social support and protection programs, ranging from universal transfers (flour, sugar and butane gas subsidies) to protection mechanisms targeting certain population categories (Ramed, Tayssir, school aid, etc.) are currently deployed in Morocco. Through this project, the Government aims to effectively identify the categories actually eligible, with a view to directing support towards the neediest households, taking advantage of the synergies that could be created between programs and eliminating duplication and fraud.

The main challenge is therefore to set up a universal household targeting system that is fairer, more effective, more efficient and more integrated. Within this framework, and in order to ensure the efficiency and effectiveness of social expenditure systems, the year 2020 saw the publication of Dahir n°1-20-77 of 18 hijra 1441 (08 aout 2020) relative to the law 72-18 concerning the mechanism of targeting

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beneficiaries of social benefits and the creation of the National Registers Agency.

The purpose of this law is to put in place mechanisms to strengthen harmony between social support programs, through a unified vision, to implement them in a fair and transparent manner, and to guarantee coordination and convergence of these programs.

The universal household targeting system is based on three pillars:

- A Unified Social Register (RSU) collecting socio-economic information from households, in order to target those who qualify for social benefits;
- A National Population Register (RNP) to identify individuals and households. This register collects, records and stores demographic and biometric identity data;
- A National Registers Agency (ANR), which will manage the optimal use of the information contained in the two registers on behalf of the State, and ensure a high level of protection and confidentiality of the registers' data.

The main achievements in operationalizing the implementation of this targeting system include :

- The publication of decree no. 2-20-792 of Ramadan 17, 1442 (April 30, 2021) implementing the provisions of law no. 72-18 and decree no. 2-21-473 of July 28, 2021 implementing said law with regard to the RNP;
- The conclusion of contracts for the upgrading of the RNP systems and RSU ,
- The finalization of the new RSU *scoring formula* by the HCP ;
- The generalization of the RNP and RSU throughout the country.

### **3.5 Revenue mobilization to ensure sustainability**

The financing of this reform will be based on two mechanisms:

- A contribution-based mechanism for people with the ability to pay contribution fees
- A mechanism based on solidarity for people without the aforementioned capacity.

#### **3.5.1 Financing based on contribution**

According to recent estimates based on the number of people concerned, the cost of generalized social protection under the contribution-based mechanism will be 15 billion dirhams, mainly financed through contributions from self-employed workers. Social security coverage will be financed on a contributory basis through :

- Complementary duty backed by the Contribution professionnelle unique (CPU), and income tax under the autoentrepreneur scheme introduced under the Finance Act 2021, for the categories of non-salaried workers eligible for the CPU and the autoentrepreneur scheme ;
  - Direct payment of contributions to the managing body for categories of self-employed workers excluded from the scope of the CPU and the autoentrepreneur scheme.
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### **3.5.2 Financing based on solidarity**

On the basis of recent estimates based on the number of personness implied the cost to be covered by this mechanism amounts to nearly 38.5 billion dirhams.

## **IV. Development Policy Financing to strengthen Human Capital – second operation**

In order to support the government in the implementation of the social protection reform, the World Bank, as a privileged partner, has been approached to support this reform project through a programmatic series of Development Policy Financing (DPF). The first operation of this series was completed at 100% in 2022, opening the way for the second, with the same objective of improving protection against health risks, loss of human capital in childhood and poverty in old age, and improve climate risk management and resilience to catastrophic events. Within this framework, the World Bank's Support Program under the proposed financing is structured around the following pillars:

**Pillar I: Improving protection against health risks:** This pillar includes measures to enrol up to 11 million TNS and their dependents and to integrate up to 11 million persons currently enrolled in RAMED into AMO, as well as to strengthen physical and human resources to improve health services offered to all beneficiaries.

**Pillar I: Improve protection against losses of human capital in childhood and poverty in old age:** This pillar includes measures to implement the Family Allowance (AF) program and broaden coverage of pension schemes. This reform includes the adoption of decrees and other legislative texts to ensure proper governance, identification and targeting of health and social protection reforms.

**Pillar II: Improve protection to climate, risk, management and resilience to catastrophic events:** This pillar aims to improve resilience to natural disasters and climate risks, notably by strengthening the institutional and coordination framework for disaster and climate risk management, setting up coordination committees bringing together key stakeholders, and improving risk transfer mechanisms such as farmers' insurance.

The Government of Morocco would like to express its gratitude to the World Bank for its involvement in the implementation of this operation and reiterates its commitment to pursuing the implementation of the policy framework contained in this document.

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**ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE**

Prior Actions (PA)	Poverty and Distributional Effects	Environmental Effects
<b>Pillar I. Improving Protection Against Health Risks</b>		
<b>1. Extending Mandatory Health Insurance to TNS</b>		
<p><b>Prior Actions 1.2</b></p>	<p><b>Poverty reducing:</b> Welfare increase in terms of health care accessibility and poverty alleviation due to the extension of access to health care to a larger share of the population and reduction in OoP health expenditures. The extent of additional population covered, and therefore of the poverty reducing effect, will ultimately depend on the net expected benefit, which is a byproduct of the parameters of the health scheme. This could also affect fiscal sustainability in the medium term and the amount of risk pooling</p>	<p><b>No environmental effects, the increase in terms of accessibility to health care could be accompanied by the increase in the volumes of medical and pharmaceutical waste.</b> Within the framework of the recently closed Morocco Health Sector Support PforR, a budgetary line was created in March 2018 in the operational budget of the regional directors for health and MOH delegations, for the outsourcing of the medical and pharmaceutical waste management for primary healthcare facilities (ESSPs) with the support of the new Morocco Health Reform Program PforR : the GSTs, through improved coordination between primary, secondary, and tertiary healthcare levels, will allow for an upgraded waste management system, including through improved waste collection and safe disposal from ESSPs, particularly in the rural and most secluded areas.</p>
<b>2. Transforming RAMED from an Assistance Scheme to an Insurance Scheme</b>		
<p><b>Prior Actions 2.2 A and 2.2 B</b></p>	<p><b>Poverty reducing:</b> welfare gains due to improved access to health care and reduced OoP health expenditures among poor and vulnerable households</p>	<p><b>No environmental effects</b></p>
<b>3. Revamping the Supply of Health Services</b>		



<p><b>Prior Actions 3.2 A, 3.2 B and 3.2 C</b></p>	<p><b>No impact on monetary poverty</b>, but improvements in non-monetary welfare due to better health services</p>	<p><b>No environmental effects, PA3.1 will participate in the national effort to reduce greenhouse gases</b> and to fulfill the commitments relating to a call from WHO and the Presidency of the 2021 United Nations Climate Change Conference (COP26) for which the MHSP committed to develop climate-resilient and low-carbon health systems. In this context, the GOM formally committed to gradually reduce health facilities' greenhouse gas emissions to zero by 2050 and improve the healthcare system's resilience to climate change.</p>
<p><b>4. Increasing the Availability of Health professionals</b></p>		
<p><b>Prior Action 4.2 A</b></p>	<p><b>No impact on monetary poverty</b>, but improvements in non-monetary welfare due to better health services</p>	<p><b>No environmental effects</b></p>
<p><i><b>Pillar II: Improving Protection Against Human Capital Losses During Childhood and Poverty in Old Age</b></i></p>		
<p><b>5. Expanding Direct Social Benefits</b></p>		
<p><b>Prior Action 5.2</b></p>	<p><b>Poverty reducing:</b> effect due to extension of DSBs to a larger number of children, particularly from poor and vulnerable households</p>	<p><b>No environmental effects</b></p>
<p><b>6. Expanding and Reforming the Pension System</b></p>		
<p><b>Prior Actions 6.2</b></p>	<p><b>Poverty reducing:</b> effect due to inclusion of TNS in the pension system. The size of additional population covered, and therefore of the poverty reducing effect, will ultimately depend on the net expected benefit, which is a byproduct of the parameters of the reform. This could impact the sustainability of the system</p>	<p><b>No environmental effects</b></p>
<p><i><b>Pillar III: Improving Climate Risk Management and Resilience Against Catastrophic Events</b></i></p>		



<p><b>Prior Action 7.2</b></p>	<p><b>Poverty reducing:</b> as most of the poor in the country live in rural areas and work in agriculture, the support provided to farmers to counter the ongoing drought will contribute, when set up, to prevent sharp decreases in their income, reducing the otherwise probably poverty increases as well as the likelihood of counterproductive coping strategies.</p>	<p><b>No environmental effects</b></p>
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## ANNEX 5: MACROECONOMIC POLICY FRAMEWORK AND PUBLIC DEBT SUSTAINABILITY ANALYSIS

### 5.1 Growth, Inflation, and Inclusion

**1. After having stalled in 2022, real GDP growth is accelerating in 2023.** Morocco suffered various mutually reinforcing shocks in 2022, marked by a severe drought leading to a collapse of agricultural production which explains almost half of the 2022 deceleration. This coincided with a global economic slowdown and rising international commodity prices. In this context, real GDP growth fell from 8 percent in 2021 to 1.3 percent in 2022, although nonagricultural GDP was more resilient, with an expansion of 3.1 percent. As the effects of shocks fade away, growth picked up to 2.9 percent in first semester of 2023, driven by a partial recovery of agricultural production and booming tourism sector. On the demand side, net exports have become the main contributor to growth. Instead, domestic demand (private consumption and investment) is contributing negatively to growth, which can be partly attributed to the inflationary shock.

**2. Inflation began slowing in the second quarter of 2023, following a historical surge in 2022.** After six consecutive quarters of increases, inflation declined in the second quarter of 2023 to an average of 6.8 percent (after peaking at 9.1 percent in the first quarter). Headline CPI slowed down further in the third quarter, averaging 4.9 percent. Price pressures have moderated for most categories of goods and services included in the CPI, but the decline has been primarily driven by food and transportation prices, which dropped by 2 percent in August 2023, against the double-digit increases registered throughout much of 2022. This was mostly due to the evolution of international energy prices, which in August had dropped by 37 percent y/y according to the World Bank's commodity price index. Core inflation is also on a downward trend (from 8.5 percent in February to 4.6 percent in September), suggesting that easing price pressures are becoming more broad-based. The recent evolution of Morocco's headline inflation is broadly aligned with global trends.

### 5.2 Fiscal Policy and Public Finances

**3. The solid performance of revenues allowed for a reduction of the budget deficit in 2022.** In 2022, spending rose markedly (+14.5 percent y/y) as the government relied on energy and food subsidies (butane gas, electricity, flour, and sugar) to cushion price increases, and thus limit the impact of the cost-of-living crisis on households' purchasing power. In addition, targeted financial support was allocated to support the transport, tourism, and agricultural sector, as well as the water and electricity public utilities company ONEE. Nonetheless, the deficit (excluding privatization proceeds) declined by to 5.2 percent of GDP from 6 percent of GDP in 2021 owing to a rebound in tax revenues. Corporate income tax collection increased by 40 percent supported by the strong performance of the economy in 2021 and windfall profits resulting from the surge in phosphate prices, while rising import prices led to a 28.1 percent increase in value-added taxes on imports and a 16.9 percent increase in customs duties. Higher SOE proceeds (+22.7 percent) and the MEF's "innovative" asset recycling financing operations also contributed to narrowing the fiscal deficit.<sup>36</sup> Central government debt closed the year at 71.6 percent of GDP (69.5 percent of GDP in 2021).

**4. Although lower price subsidies have attenuated pressures on public finances, public spending continues to edge upward.** Total subsidies have declined by 30.1 percent y/y during the first nine months of 2023, the mechanical effect of lower butane gas prices in international markets. This windfall of approximately MAD 9.6 billion has not resulted in a reduction of overall spending, which increased by 9.6 percent between January and

<sup>36</sup> Innovative financing operations refers to the transfer of assets (largely real estate) to institutional investors. The government receives an upfront payment for these assets and commits to pay a fee for the usage.



September (4.5 percent in real terms). This was primarily due to a 25.4 percent increase in investment, while the wage bill has slightly declined in real terms. Public revenues are also still on the rise (+5.3 percent nominal, +0.4 percent real), despite a decline in indirect tax collection. The net impact of these trends has been an increase of the budget deficit during the first nine months of the year. As a result, public debt increased by 7.6 percent in nominal terms at end of August 2023 compared to its level at the end of December 2022. This increase is skewed in favor of external debt (+14 percent vs. +5.5 percent for domestic debt).

**5. The Sovereign maintain good access to international financial markets, as evidenced by the success of the last bond issuance.** MEF issued a US\$2.5 billion bond in early March, the first international issuance since December 2020. It included a first tranche of 1.25 billion with a five-year maturity and a coupon of 5.95 percent, and a second tranche of 1.25 billion with a 10-year maturity and a coupon of 6.5 percent. Reflecting the market's appetite for Morocco's paper, the issuance was largely oversubscribed (order book reached close to US\$ 11 billion). However, in an international environment of tighter financial conditions, the terms of the last issuance are significantly worse than those of the previous one, which had both longer maturities (12 and 30 years) and lower coupons (3 and 4 percent). After peaking at 441 basis points in mid-July 2022, Morocco's EMBI began to decline and currently (September 26th, 2023) stands at 195 basis points, confirming that investors' perceptions on Morocco's sovereign risk have improved substantially.

### 5.3 Current account and external position

**6. The current account deficit increased in 2022 but is narrowing in 2023 as the terms-of-trade shock begins to fade away and the recovery of tourism gains ground.** Although Morocco is the world's largest producer of phosphates, it remains a net commodity importer, more so when adverse climatic conditions undermine domestic agricultural output, as was the case in 2022. International commodity prices peaked in mid-2022, and last year saw the trade (goods and services) and current account deficits expand to 11.5 and 3.5 percent of GDP respectively. This terms-of-trade shock dissipated in the first semester of 2023, as prices fell back below their pre-war level<sup>37</sup>, helping contain Morocco's imports of goods, which contracted by almost 2 percent. Despite a 38 percent decline in the value of phosphates' sales, total merchandise exports increased by 1 percent during the same period, while exports of services increased by 38 percent owing to the rebound of international tourism. As a result, the trade deficit has declined by 32 percent, to about 8.9 percent of GDP in the first semester of 2023. Together with the continued expansion of worker's remittances (almost 8 percent of GDP), this has led to a rapid reduction in the current account deficit, which posted a small surplus in the first quarter of the year.

**7. Despite a deteriorating international environment, Morocco is attracting large volumes of FDI, contributing to financing the current account deficit.** Morocco's FDI inflows increased by 21.6 percent in 2022 (reaching 2.9 percent of GDP) despite the slowdown in global FDI flows that took place in 2022 due to tighter financial conditions and the geopolitical tensions. Importantly, about 44 percent of these investments were targeted at the industrial sector<sup>38</sup>, suggesting that Morocco may be reaping the benefits of the European nearshoring process triggered by the pandemic and other shocks. In the first half of 2023, FDI inflows reached 2.6 percent of GDP, returning to its pre-pandemic composition dominated by the real estate sector (34 percent

<sup>37</sup> In June 2022, the annual growth rate registered by the World Bank's commodity price index reached 58 percent (+85 percent for energy, +18 percent for food, +23 percent for energy). One year later, it was declining by 37 percent (-45 percent for energy, -13 percent for food, -15 percent for grains). This decrease has been partly reverted for oil prices in recent weeks, although wheat prices remain low.

<sup>38</sup> According to *Office des Changes* data at the end of 2022, more than a third of FDI came from the United States (34.1%), France (15%), and the Britain (13.3%). The three main sectors are industry (43.5%), real estate (25.1%), and transport (11.2%).



in Q1-2023) followed by the industrial sector (20 percent). The total scale of announced greenfield FDI projects has soared from US\$3.8 billion in 2021, to US\$15.3 billion in 2022 and to US\$38 billion in 2023.

**8. Foreign exchange reserves provide a solid external liquidity buffer.** Despite recent shocks, BAM has not intervened in foreign exchange markets to sustain its pegged exchange rate regime.<sup>39</sup> The dollar value of Morocco's reserves fell by almost 9.3 percent throughout 2022, from US\$35.6 billion to US\$32.3 billion. However, the dirham value of foreign exchange reserves increased by 2 percent during that same period, suggesting that the decline in the dollar value of reserves was primarily due to the depreciation of the euro vis-à-vis the dollar (about two thirds of reserves are in euros). Foreign exchange reserves have increased to US\$34.7 billion on September 22, 2023 (+7.7 percent, dollar-value; +5.9 percent, dirham-value), partly due to the March sovereign bond issuance and the appreciation of the euro vis-à-vis the dollar. This represents about 5.4 months of imports. In addition, the newly approved IMF Flexible Credit Line constitutes an additional buffer of US\$5 billion that could be utilized in case an external shock materializes.

#### 5.4 Monetary, Exchange Rate, and Financial Sector Public Policy

**9. With inflation on a downward trajectory, the central bank has decided to pause the monetary policy tightening cycle.** After three consecutive policy rate hikes for a cumulative 150 basis points between September 2022 and March 2023, at its June and September quarterly meetings, BAM's monetary policy council decided to keep interest rates unchanged at 3 percent. The policy rate remains negative in real terms and is well below its estimated neutral level, implying that monetary policy can still be considered expansionary. BAM's cautious approach could be justified by the fact that inflation has been driven almost exclusively by a series of supply shocks, as opposed to most advanced economies, where a resilient demand and tight labor markets have also exerted significant pressures on prices. However, two-year inflation expectations have declined but remain relatively high (3.9 percent in September 2023, against 4.7 percent in June 2023).

**10. The dirham remains well anchored and has appreciated towards the middle of the fluctuation band in 2023.** Between September 2021 and October 2022, the dirham depreciated by 22 percent vis-à-vis the dollar, and by 1.5 percent vis-à-vis the euro. Since then, the dirham appreciated by 6 percent vis-à-vis the dollar (end September), while continuing to depreciate moderately vis-à-vis the euro. This evolution primarily reflects trends in global currency markets, with a strong appreciation of the dollar throughout most of 2022, which reverted in 2023. However, it also reflects the evolution of Morocco's trade balance throughout the recent terms-of-trade shock, illustrating the fact that the widening of the fluctuation band is allowing the exchange rate to begin playing a shock absorption role.

**11. Banking regulation and supervision has improved, and financial sector indicators remain sound.** As part of an effort to strengthen financial regulation and supervision, BAM is adopting Basel III standards, and the bank resolution framework has improved. Despite recent shocks, Moroccan banks feature stable funding, strong liquidity, and good profitability. At 8.4 percent of total credit (up from 7.6 percent at end-2019), the NPL ratio remains relatively high although it has stabilized in recent months. The immediate impact of the interest-rate hike on firms and household's balance sheets is limited, since over 85 percent of loans to the private sector are contracted at fixed rates. However, such impacts could eventually be felt by economic agents that are forced to roll-over current obligations or to contract new loans, and some may be pushed into debt distress in an environment of higher interest rates. BAM is working on the creation of secondary market for NPLs that could help banks divest distressed assets from their balance sheet. The authorities have also taken action to address

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<sup>39</sup> Postponing plans to transition towards an inflation-targeting monetary regime, the central bank has for the time being maintained the dirham's peg to a basket of currencies (euro, 60 percent; US\$, 40 percent, with +/-5 percent fluctuation bands).



the deficiencies of the AML/CFT<sup>40</sup> framework, and Morocco has exited the Financial Action Task Force grey list in February 2023.

**Table A5.1: Selected economic indicators, FY19–FY26**

				Estimated		Projected		
	2019	2020	2021	2022	2023	2024	2025	2026
<b>Real Economy</b>	(annual percent change, unless otherwise indicated)							
Real GDP	2.9	-7.2	8.0	1.3	2.8	3.1	3.3	3.5
Agricultural GDP	-5.0	-8.1	19.5	-12.9	1.5	5.7	3.1	3.3
Non-Agricultural GDP	4.0	-6.9	6.6	3.2	2.6	2.8	3.2	3.4
Industry	4.1	-5.2	7.1	-1.7	0.3	2.0	2.5	3.0
Services	3.9	-7.9	5.8	5.4	4.0	3.1	3.5	3.7
Private Consumption	2.2	-5.6	6.9	-0.7	1.0	2.1	2.7	3.4
Government Consumption	4.8	-0.6	7.2	3.3	3.4	3.6	3.3	3.0
Gross Fixed Capital formation	1.7	-10.0	7.6	-2.2	1.6	2.0	2.4	3.2
Exports, Goods and Services	5.1	-15.0	7.9	20.4	10.8	6.9	10.9	12.9
Imports, Goods and Services	2.1	-11.9	10.4	9.0	6.4	4.8	8.4	9.5
Unemployment rate (ILO definition, in percent)	9.2	11.9	12.3	11.8	...	...	...	...
Inflation (average CPI, in percent)	0.2	0.7	1.4	6.6	6.2	3.8	2.8	2.0
<b>Fiscal accounts</b>	(in percent of GDP)							
Expenditures	27.4	34.1	31.3	32.2	32.2	31.5	30.6	30.5
Revenues, including all grants	23.8	27.0	25.3	27.0	27.6	27.4	27.0	27.1
Budget Balance	-3.6	-7.1	-6.0	-5.2	-4.6	-4.1	-3.6	-3.4
Central Government Debt	60.3	72.2	69.5	71.6	70.3	69.7	69.3	69.1
<b>Selected Monetary accounts</b>	(annual percent change, unless otherwise indicated)							
Broad Money	3.8	8.36	5.1	8.0	...	...	...	...
Interest (key policy interest rate)	2.3	1.5	1.5	2.5	...	...	...	...
<b>Balance of payments</b>	(in percent of GDP, unless otherwise indicated)							
Current Account balance	-3.4	-1.2	-2.3	-3.5	-1.8	-2.5	-2.2	-2.0
Imports, Goods and Services	42.0	38.1	42.5	56.3	51.9	51.5	50.5	49.1
Exports, Goods and Services	34.2	30.8	33.2	44.8	42.3	41.4	40.7	42.3
Net Direct Investment	0.6	0.8	1.1	1.2	1.3	1.3	1.4	1.5
Gross official reserves (bln US\$, eop)	26.4	36.0	35.6	32.3	35.6	36.5	37.7	39.3
In months of imports	6.9	7.1	5.3	5.3	5.5	5.6	5.7	6.0
Local currency per U.S. dollar (period average)	9.6	9.5	9.0	10.2	...	...	...	...
<b>Memo items</b>								
<b>Nominal GDP (in billion dirhams)</b>	1240	1152	1275	1330	1452	1554	1650	1747

Source: Moroccan authorities and World Bank staff estimates.

<sup>40</sup> Anti-Money Laundering/ Combatting the Financing of Terrorism.



Note: CPI = Consumer Price Index; ILO = International Labor Organization; ... = Not available.

**Table A5.2: Key Fiscal indicators (in percent of GDP), FY19–FY26**

	Estimated				Projected			
	2019	2020	2021	2022	2023	2024	2025	2026
<b>Total revenues</b>	<b>23.8</b>	<b>27.0</b>	<b>25.3</b>	<b>27.0</b>	<b>27.6</b>	<b>27.4</b>	<b>27.0</b>	<b>27.1</b>
Tax Revenues	19.9	20.0	19.7	22.1	21.1	20.9	20.8	20.9
Other revenues (incl. grants)	3.9	7.0	5.6	4.9	6.5	6.4	6.2	6.2
<b>Total expenditures</b>	<b>27.4</b>	<b>34.1</b>	<b>31.3</b>	<b>32.2</b>	<b>32.2</b>	<b>31.5</b>	<b>30.6</b>	<b>30.5</b>
Compensation of employees	10.6	11.6	11.0	11.1	10.7	10.4	10.1	10.0
Use of goods and services	2.5	2.9	3.5	2.8	2.7	2.8	2.9	2.9
Interests	2.1	2.5	2.3	2.2	2.3	3.0	3.0	3.1
Subsidies	1.3	1.2	1.7	3.2	1.9	0.6	0.2	0.2
Net acquisition of nonfinancial assets	4.2	5.6	5.6	4.0	4.9	4.7	4.6	4.6
Other expenditures (incl. grants)	6.6	10.4	7.1	8.9	9.8	10.0	9.8	9.7
<b>Overall balance</b>	<b>-3.6</b>	<b>-7.1</b>	<b>-6.0</b>	<b>-5.2</b>	<b>-4.6</b>	<b>-4.1</b>	<b>-3.6</b>	<b>-3.4</b>
Primary balance	-1.4	-4.7	-3.7	-3.0	-2.3	-1.2	-1.2	-0.6
<b>Central Government Debt Stock</b>	<b>60.3</b>	<b>72.2</b>	<b>69.5</b>	<b>71.6</b>	<b>70.3</b>	<b>69.7</b>	<b>69.3</b>	<b>69.0</b>
External	13.0	17.3	16.0	17.2	17.9	16.6	15.8	15.6
Domestic	47.2	54.9	53.5	54.3	52.4	53.1	53.5	53.4
<b>Memorandum items:</b>								
SOE's & Public Establishments' Debt Stock	23.6	25.8	23.1	...	...	...	...	...
debt of which: external debt	14.5	15.4	13.7	...	...	...	...	...

Source: Moroccan authorities and World Bank staff estimates

**Table A5.3: External financing needs and sources (in US \$), FY19-FY26**

Us \$	Estimated				Projected			
	2019	2020	2021	2022	2023	2024	2025	2026
<b>Total Requirements</b>	<b>6562</b>	<b>4885</b>	<b>6746</b>	<b>8428</b>	<b>4949</b>	<b>8120</b>	<b>6421</b>	<b>7622</b>
Current account deficit	4411	1415	3330	4622	2604	3837	3637	3433
External long-term debt amortization	2151	3470	3416	3806	2345	4283	2784	4189
<b>Total Sources</b>	<b>6562</b>	<b>4885</b>	<b>6652</b>	<b>8428</b>	<b>4949</b>	<b>8120</b>	<b>6421</b>	<b>7622</b>
Direct Investment	827	961	1622	1526	1713	1991	2108	2403
Portfolio investments	1189	2234	-294	-1092	1285	1428	1621	1717



Long term disbursements	2653	6632	2052	3343	3630	4153	3805	4021
Short-term capital inflows	2794	-23	2965	-805	1581	118	-625	1085
IMF credit Line (net)	0	2933	-939	0	24	1330	712	-3
Change in reserves (-increase,+ decrease)	-1978	-9586	349	3333	-3283	-900	-1200	-1600
Others flows	1077	1734	898	2123	0	0	0	0

Source: Moroccan authorities and World Bank staff estimates.

### 5.5 Debt Sustainability Analysis<sup>41</sup>

**12. After a slow accumulation of central government debt over much of the past decade, the debt-to-GDP ratio increased sharply in 2020.** Reflecting the authorities’ fiscal consolidation efforts, the central government debt-to-GDP ratio increased by just 1.7 percentage points between 2014 and 2019 (against a 9.6 percent increase between 2010 and 2014), while public gross financing needs (GFNs) decreased from 15.4 percent to 12.3 percent of GDP. Fiscal consolidation efforts were discontinued with the onset of the pandemic, which caused a decline in tax revenues. Consequently, the budget deficit almost doubled in nominal terms in 2020, reaching 7.1 percent of GDP, and the Treasury’s debt increased by 11.9 percent of GDP, from 60.3 to 72.2 percent of GDP. GFNs reached 19.3 percent of GDP in 2020, up from an average of 13.1 percent of GDP in 2014–19. The debt ratio declined to 69.5 percent of GDP in 2021, in part because the successful international bond issuance of December 2020 had pre-financed part of the 2021 deficit, and public gross financing needs fell to 14.7 percent of GDP.

**13. Morocco’s central government debt profile comprises mainly domestic long-term debt, a structure that mitigates currency and interest rate risk.** Debt denominated in domestic currency amounted to 75.9 percent of total debt in 2022, down from 77 percent a year earlier. In addition, most of Morocco’s public debt has a maturity of more than five years and is contracted at fixed rates. The central government’s external debt is also mainly long-term in nature, and a significant share of it is contracted at fixed rates from multilateral creditors and bonds issued in international financial markets. External central government debt is denominated predominantly in euros (63 percent) followed by the US dollar (32 percent), which is broadly aligned with the weight of the two currencies in Morocco’s exchange rate peg basket. Average nominal interest rates remain low, having declined from 4.8 percent in 2015 to 3.2 percent in 2022.

**14. Government debt remains sustainable under a variety of shocks but exhibits rising vulnerabilities.** In the baseline scenario, Morocco’s central government debt is estimated to stabilize around an average of 69.6 percent of GDP in 2023-2026 and decline to 68 percent of GDP in 2027-2028, below the debt burden threshold for emerging markets (70 percent of GDP). The debt-to-GDP ratio would follow a similar trajectory (albeit peaking at a higher ratio) under most simulated shocks, including under a contingent liabilities shock under which the central government is forced to absorb half of the private debt it guaranteed in the context of the pandemic recovery plan. Under the real GDP growth shock, the central government debt ratio would approach 81 percent of GDP in 2025, but debt would still decline in 2026. GFNs will surpass the DSA threshold of 15 percent of GDP for emerging markets over the entire projection period and remain above the threshold in the shock scenarios.

<sup>41</sup> This round of Debt Sustainability Analysis (DSA) was completed in October 2023.



**15. The government is expected to be able to cover its GFNs thanks to its diversified sources of finance and the appetite of domestic and international investors for Moroccan debt.** In 2024, public GFNs are projected to reach 19.1 percent of GDP, and to gradually decrease to 16.7 percent of GDP in 2027 and 15.7 percent by 2028. During the COVID-19 pandemic, international debt accumulation has increased Morocco's exposure to international financial shocks. Nonetheless, the domestic financial market remains the main source of financing and can absorb the demand for additional financing. Moreover, borrowing conditions in the domestic market remain favorable: yields on local bonds are still lower than on Morocco's Eurobonds at any maturity, and issuances tend to be oversubscribed. In the follow-up from recent monetary policy tightening, the central bank's decision to purchase treasury bonds in secondary markets should moderate the increase in financing costs.

**16. Morocco's debt portfolio is well balanced, with vulnerability indicators hovering around early-warning DSA thresholds.** External financing requirements for both the private and public sectors reached 14 percent of GDP in 2022. Debt held by nonresidents **accounted** for 24 percent of total public debt in 2022; foreign currency-denominated debt accounted for 27 percent of total central government debt in 2022. The lower early-warning DSA thresholds for these indicators are 5 percent, 15 percent, and 20 percent, respectively. The annual change in short-term public debt in 2020 is above the lower early-warning threshold of 0.5 percent. After peaking at 441 basis points in mid-July in 2022, the EMBI spread declined through the second half of 2023 to close at 207 basis points, above the early-warning DSA threshold of 200 basis points.



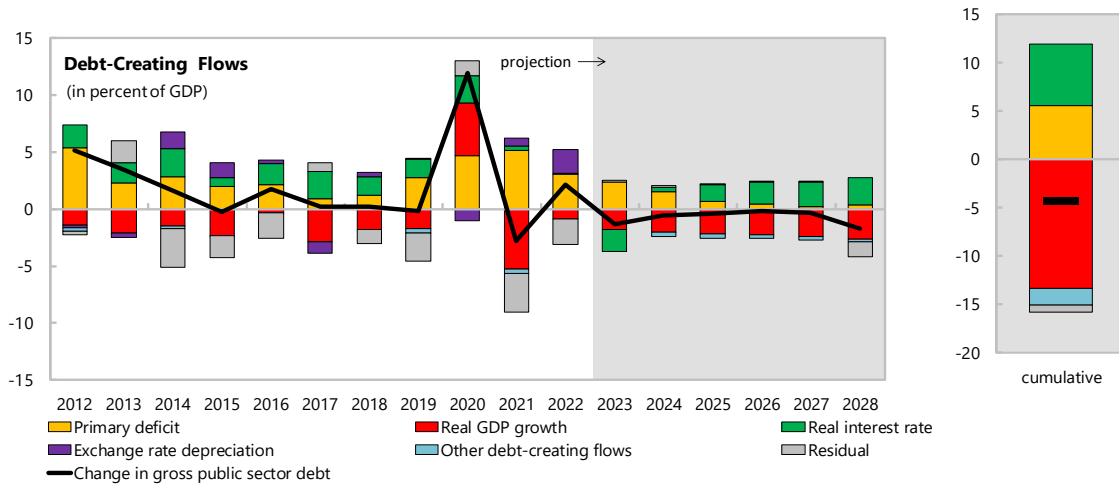
Figure A5.4 Public sector debt sustainability analysis. Baseline Scenario  
(Percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators <sup>1/</sup>

	Actual			Projections						As of September 26, 2023		
	2012-2020 <sup>2/</sup>	2021	2022	2023	2024	2025	2026	2027	2028	Sovereign Spreads	Bond Spread (bp) <sup>3/</sup>	
Nominal gross public debt	60.1	69.5	71.6	70.3	69.7	69.3	69.1	68.8	67.1		195	
Public gross financing needs	15.1	16.1	15.6	18.8	19.1	19.0	17.5	16.7	15.8	5Y CDS (bp)	239	
Real GDP growth (in percent)	2.1	8.0	1.3	2.8	3.1	3.3	3.5	3.7	4.1	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	0.9	2.4	3.1	6.2	3.8	2.8	2.0	2.0	2.0	Moody's	Ba1	Ba1
Nominal GDP growth (in percent)	3.0	10.6	4.3	9.1	7.0	6.2	5.6	5.8	6.2	S&Ps	BB+	BB+
Effective interest rate (in percent) <sup>4/</sup>	4.3	3.3	3.2	3.4	4.5	5.1	5.0	5.3	5.8	Fitch	BB+	BB+

Contribution to Changes in Public Debt

	Actual			Projections						cumulative	debt-stabilizing primary balance <sup>9/</sup>
	2012-2020 <sup>2/</sup>	2021	2022	2023	2024	2025	2026	2027	2028		
Change in gross public sector debt	2.7	-2.8	2.1	-1.3	-0.6	-0.4	-0.2	-0.3	-1.7	-4.4	
Identified debt-creating flows	3.5	0.6	4.4	-1.5	-0.7	-0.5	-0.3	-0.4	-0.4	-3.6	
Primary deficit	2.7	5.1	3.1	2.3	1.5	0.7	0.4	0.2	0.4	5.5	-0.7
Primary (noninterest) revenue and grants	24.7	24.0	27.0	27.6	27.0	26.6	26.8	27.8	27.8	163.6	
Primary (noninterest) expenditure	27.3	29.2	30.1	30.0	28.5	27.3	27.2	28.0	28.2	169.2	
Automatic debt dynamics <sup>5/</sup>	0.9	-4.1	1.3	-3.8	-1.8	-0.7	-0.4	-0.3	-0.5	-7.5	
Interest rate/growth differential <sup>6/</sup>	0.8	-4.8	-0.7	-3.7	-1.6	-0.7	-0.4	-0.3	-0.2	-7.0	
Of which: real interest rate	1.9	0.4	0.1	-1.9	0.4	1.5	1.9	2.1	2.4	6.4	
Of which: real GDP growth	-1.0	-5.2	-0.8	-1.8	-2.0	-2.2	-2.3	-2.4	-2.7	-13.4	
Exchange rate depreciation <sup>7/</sup>	0.1	0.7	2.0	...	...	...	...	...	...	...	
Other identified debt-creating flows	-0.1	-0.4	0.0	0.0	-0.4	-0.4	-0.3	-0.3	-0.3	-1.6	
Privatization receipts (negative)	-0.1	-0.4	0.0	0.0	-0.4	-0.4	-0.3	-0.3	-0.3	-1.6	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Non-debt financing (+ increases financing net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes <sup>8/</sup>	-0.8	-3.4	-2.3	0.2	0.1	0.1	0.1	0.1	-1.3	-0.8	



Source: WB staff.

1/ Public sector is defined as Central Government.

2/ Based on available data.

3/ EMBIG (bp).

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as  $[r - \pi(1+g) - g + ae(1+r)] / (1+g+\pi+g\pi)$  times previous period debt ratio, with  $r$  = effective nominal interest rate;  $\pi$  = growth rate of GDP deflator;  $g$  = real GDP growth rate;  $a$  = share of foreign-currency denominated debt; and  $e$  = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as  $r - \pi(1+g)$  and the real growth contribution as  $-g$ .

7/ The exchange rate contribution is derived from the numerator in footnote 5 as  $ae(1+r)$ .

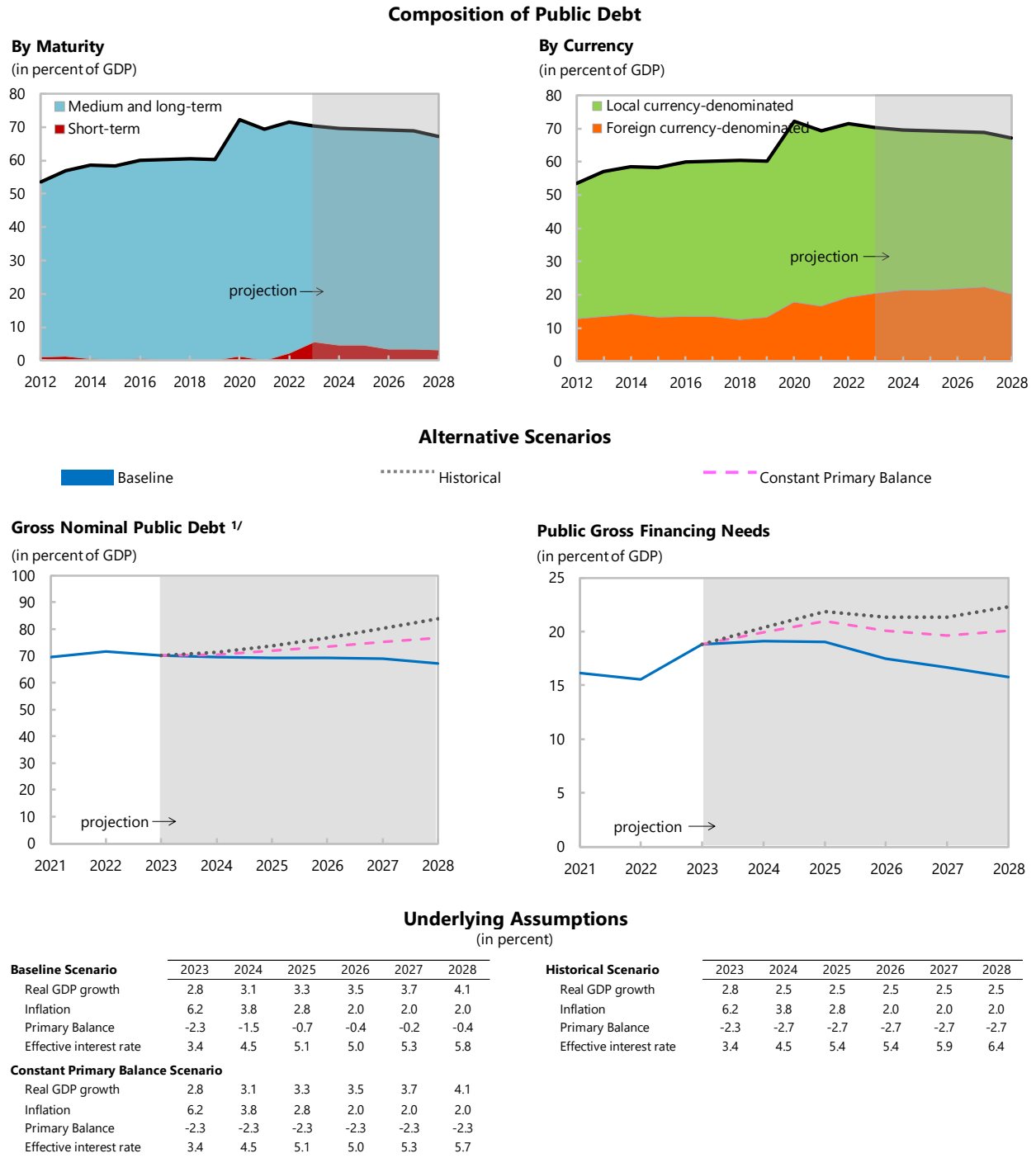
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.





Figure A5.5 Composition of public debt and alternative scenarios, 2011–27



Source: WB staff.



Figure A5.6 Public debt sustainability analysis (stress tests), 2022–27



Source: WB staff.



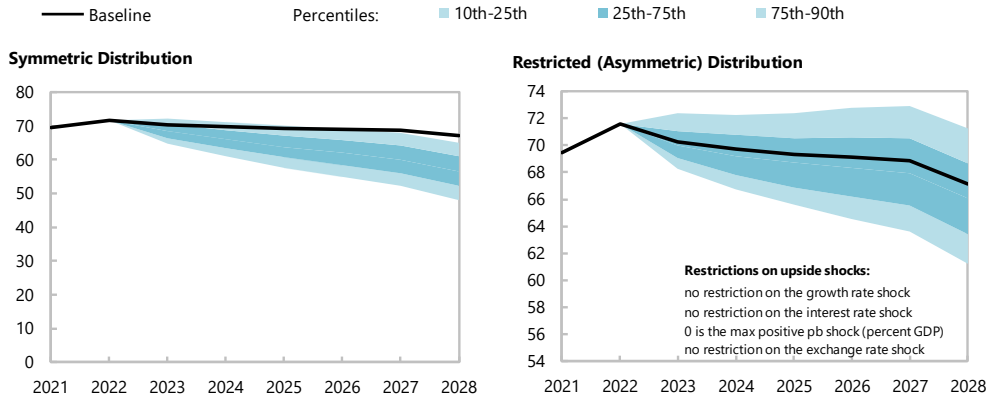
Figure A5.7 Public debt sustainability analysis risk assessment, 2010–27

Heat Map

Debt level <sup>1/</sup>	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Gross financing needs <sup>2/</sup>	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile <sup>3/</sup>	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

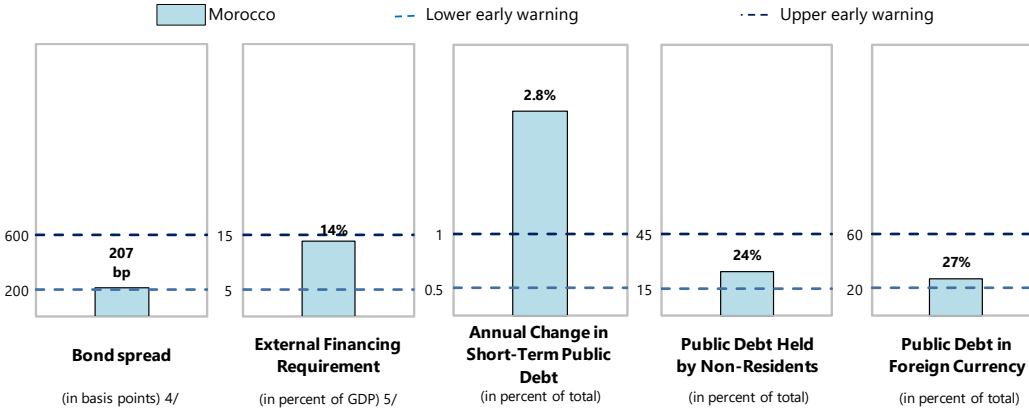
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2022)



Source: WB staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white. Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG (bp), an average over the last 3 months, .

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.



ANNEX 6: PRIOR ACTIONS AND CONTRIBUTIONS TO CLIMATE CO BENEFITS

Prior Action	Climate Co-Benefits
<p><b>1. Extending Mandatory Health Insurance to TNS</b></p>	<p>The <u>extension of mandatory health insurance coverage</u> will provide financial protection to the targeted TNS and their dependents against impoverishing health expenditures, notably resulting from the health effects of climate change, thereby making them more resilient against the impacts of climate change. The first operation in the series was focused on ensuring that the TNS were enrolled in the newly universalized health insurance scheme (<i>de facto</i> coverage), this second operation focuses on ensuring that the enrolled TNS now have health coverage and are able to utilize health services under through the insurance (<i>de jure</i> coverage). As such, the second operation builds meaningfully on the first and is instrumental in ensuring expanded access to health services.</p> <p><b>PA1.2</b> will ensure any remaining categories of TNS are brought under the insurance scheme.</p>
<p><b>2. Transforming RAMED from an Assistance Scheme to an Insurance Scheme</b></p>	<p><u>Improving the targeting</u> of the non-contributory pillar of AMO (<b>PA 2.2B</b>) by explicitly considering climate vulnerability, will lead to increased health insurance coverage and improved adaptation against climate shocks for populations most at risk. The eligibility criteria of AMO-TADAMON are based on the RNP and RSU (social registry) features, which enable more accurate identification of vulnerable populations (those in remote rural areas and disproportionately impacted by climate change). The Proxy-Means-Test (PMT) model of the RSU uses two formulas: one for urban areas and one for rural areas. In addition, the data of households enrolled in the RSU will be updated periodically via the interoperability platform, which allows for better tracking of economic and climate change-related shocks that affect the welfare of rural households. This approach will facilitate access to non-contributory health insurance and reduce households’ fragility, particularly during crises.</p> <p>Homogenizing the benefit package for the non-contributive pillar with the <u>more generous benefit package</u> and more extensive provider network of the AMO for salaried workers and TNS (<b>PA 2.2A</b>), will improve the effectiveness the health insurance coverage of the poor and vulnerable. The poor (former <i>Ramedistes</i>) were covered for a narrow benefit package only provided by the public sector. Under AMO, they are covered for a wider set of services including those offered by the private sector.</p>
<p><b>3. Revamping the Supply of Health Services</b></p>	<p><u>Enforcing the primary health level</u> (<b>PA 3.2A</b>) as the entry-point to coordinated care pathways will reduce the need for hospital-based care, which is more carbon intensive, as well as reducing the need for transport and driving long distances – reducing GHG emissions. Rehabilitation of</p>



	<p>health facilities will enable bringing services closer to (climate) vulnerable populations, workarounds climatic patterns, maximization of natural ventilation and minimization of heat exposure, especially during hot periods.</p> <p>The assessment of the environmental sustainability and resilience of health care facilities to climate change risks (<b>PA 3.2C</b>) (including assessing flood risk when deciding the location of new health facilities, better insulating health facilities against heat and conducting energy efficiency audits) and the implementation of the consequent roadmap <u>will increase resiliency of the health system and reduce its carbon footprint.</u></p> <p>The <u>deconcentration of decision-making</u> (<b>PA 3.2B</b>) will enable a focus on planning and implementing interventions within GST to adapt to the health impacts of climate change, including the eight climate-exacerbated conditions. GSTs will be able to respond to changing population disease burden needs faster with increased autonomy, enabling rapid allocation of financial, physical, and human resources to adapt to the increased disease burden due to climate hazards. These interventions address system-wide binding constraints for improved responsiveness to the health impact of climate change at deconcentrated levels, which is especially important given the differential impact of climate change. It will also allow certain GSTs to develop prevention and promotion services targeted to the expected growing number of climate migrants who are more likely to resettle in riskier urban areas.</p>
<b>4. Increasing the Availability of Health Care Workers</b>	<p>Establishing the Health Service (<b>PA 4.2</b>) allows <u>incentivizing well-defined measures on quality and performance into the payment of health workers</u>, with the intention of motivating health professionals to close the know/do gap and to work in hard-to-reach areas, including areas most vulnerable to climate change, leveraging information from the climate health vulnerability assessment (<b>PA 3.2C</b>) to identify climate vulnerable facilities. This will also ensure bringing services closer to the population, with increased availability of health services at the regional level, therefore resulting in a lower carbon footprint for the health sector through reduced mobility to seek health services. Ensuring health professionals at all levels play a proactive role in (i) sensitizing the populations they serve about out how climate-related exposures affect vulnerable groups, and (ii) how to deliver healthcare services with a lower carbon footprint.</p>
<b>5. Expansion of the DSB Program</b>	<p>An adaptive, climate-smart SP system is key to mitigating these risks that climate threats post to the human capital of children. Climate-induced shocks such as floods and droughts often result in increased food insecurity and in households adopting negative coping mechanisms, which disproportionately affect children by hindering their long-term human capital accumulation through stunting, amongst other impacts. The expansion of the DSB program (<b>PA 5.2</b>) will make eligible vulnerable</p>



	<p>households, in particular farmer’s children, more resilient to climate related shocks. The cash support will provide a general consumption smoothing tool, during times of income volatility caused by extreme weather events and protect food security of vulnerable families. The expected behavior change induced from the cash transfers will also support investing in children’s human capital which will help build household and community resilience to food insecurity. In addition, the Government could also decide to expand the use of the DSB to provide additional assistance to existing beneficiaries or to reach additional families with children to respond to a climate related shock.</p> <p>The expansion of the DSB and the harmonization of existing cash transfer programs will adopt the NPR and SR identification and targeting tools. The NPR digital ID and the direct social support digital management system will facilitate access to benefits to the poor and vulnerable to climate shocks. Furthermore, the NPR will provide reliable information on the citizen residential location and may allow to identify vulnerable populations in need due to adverse climatic conditions. The SR will allow to frequently update the information on household welfare and living conditions and reassess their eligibility to direct social support.</p>
<p><b>6. Expanding and Reforming the Pension System</b></p>	<p>The extension of pension coverage (6.2) will make the targeted TNS and their dependents more resilient by providing them protection against the climate change-exacerbated risks of poverty in old age. Access to a reliable pension system can help the elderly increase their resilience to climate shocks. Extreme heat events due to climate change can increase the risk of illness and death among older adults. Lack of access to pensions and other formal saving mechanisms results in additional old-age vulnerabilities, as the elderly will have to depend on family for financial protection and caretaking, adding to the overall vulnerability of the household.</p> <p>Together, the expansion of the DSB and the pension system will create an enabling environment to complete the energy subsidy reform once the government decides to implement it. The price subsidy reform would result in substantial mitigation against climate change, as the remaining subsidies are linked to the consumption of flour, sugar and LPG, and changes in consumption patterns of these goods, particularly LPG will result in substantial climate co-benefits.</p>
<p><b>7. Improving climate risk management and resilience against catastrophic events</b></p>	<p>The reforms supported by Pillar 3 are aligned to the CCDR’s Principles for pursuing a resilient and low-carbon pathway, and specifically targeted at protecting the most vulnerable (Principle 2). Reforming the approach to coverage of farmers against drought is one of the largest and most complicated reforms from a political economy standpoint. Successful experiences from the (currently restricted to earthquakes and floods) disaster risk management and financing agenda and lessons learned from the recent earthquake have shown how stronger coordination between institutional stakeholders and rationalization of the strategic approach are</p>



bottlenecks. The interministerial committee (**PA 7.3A**) and the drought coverage strategy (IT 7.3B, following from **PA 7.2**) are addressing them specifically, to open the way for a structural reform of the legal framework for drought coverage.

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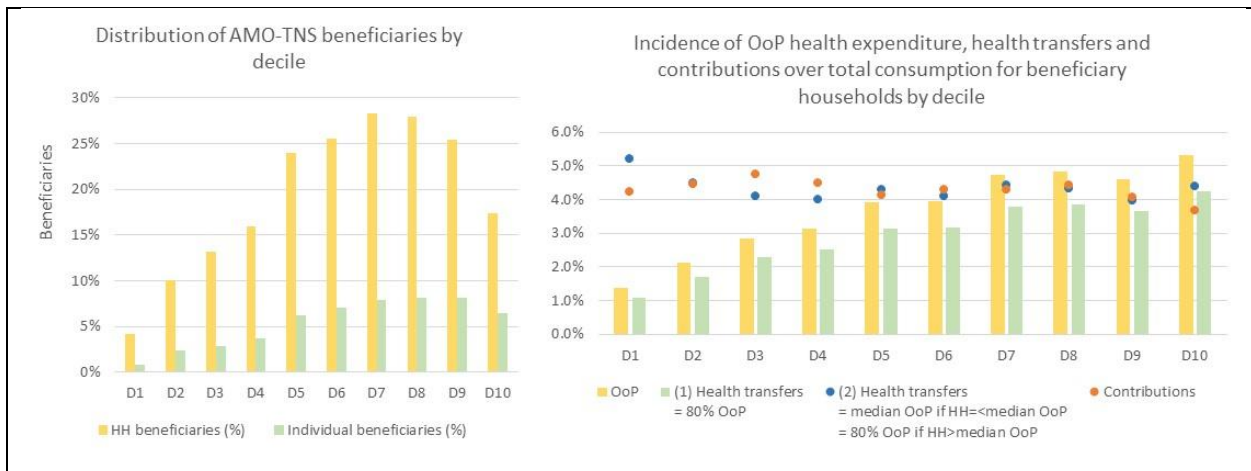


### ANNEX 7: POVERTY AND SUSTAINABILITY IMPACT ANALYSIS

#### 7.1 Net benefits for TNS covered by AMO

1. Beneficiaries of AMO-TNS are concentrated in the middle of the income/consumption distribution, as the poorest are already targeted by AMO-TADAMON or by the new mandatory scheme for workers under the professional unique contribution and for self-employed, while the richest are covered by the old contributory system (Fig.1 left). Two scenarios were considered to evaluate the net benefits of enrollment: Scenario 1 assumes a positive transfer (contribution-reimbursement) equal to 80 percent of total health expenditure; Scenario 2 assumes a transfer corresponding to a fixed amount equal to the median OoP per capita multiplied by household size, for households whose total health expenditure is below the average, and 80 percent of total health expenditure for households whose total health expenditure is above the average. The second scenario is meant to account for the budget constraints limiting health expenditure for the non-insured by approximating the average need for the average household, assuming that health conditions do not systematically change along the income distribution. Results suggest that the net monetary benefits from joining AMO-TNS – the difference between contributions and health transfers – is close to zero for most of the population, for Scenario 2 (blue and red dots in Figure 1), equalizing the average incidence of transfers and contributions. Importantly, the estimated net impact of the reform on poverty is marginal, due to the initial level of welfare of TNS eligible for enrollment.

**Figure 1. Distribution of AMO-TNS beneficiaries by decile (left); incidence of OoP health expenditures, health transfers (two scenarios) and contributions for AMO-TNS beneficiaries by decile (right) (simulation for PY 2022 based on HBS, 2013-14).**



Source: World bank calculations, based on data from the Household Consumption and Expenditures Survey 2013, HCP. Note: Scenario 1 (1) assumes a positive health transfer equal to 80% of total health expenditure; Scenario 2 (2) assumes a health transfer corresponding to a fixed amount equals to the median OoP per capita multiplied by household size.

#### 7.2 Improved targeting of AMO-TADAMON

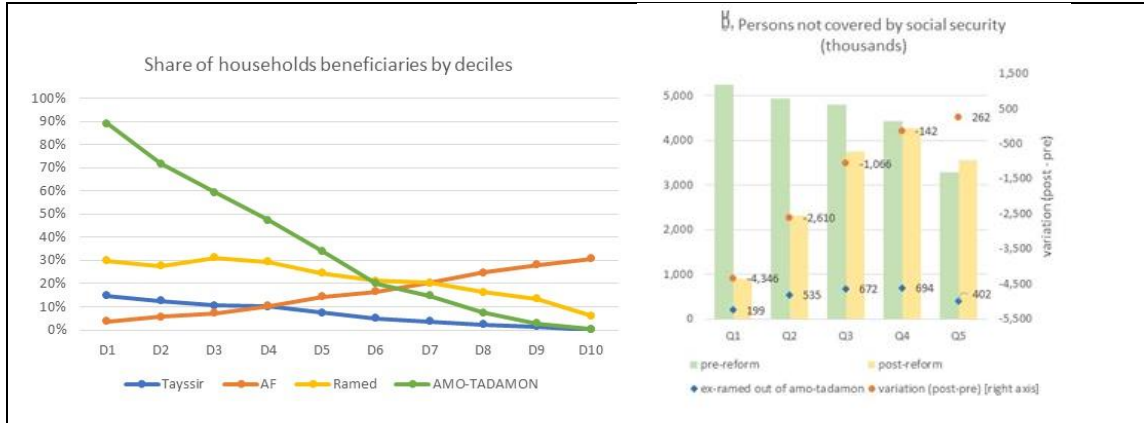
2. The simulation of the PMT ranking using the 2014 HBS data suggests that the targeting based on this instrument is much more effective in identifying poor and vulnerable households compared to RAMEL (Fig.2, left). AMO-TADAMON may dramatically reduce the number of poor and vulnerable persons currently excluded from social security (almost 8 million, more than half in the first quintile) (Figure 2, right). However, there is a small but non-negligible share of *ex-ramedistes* who would lose eligibility when the PMT is applied:





there are almost 200 and 500 thousand respectively in the first and second quintile (Figure 2, right).

Figure 2. Targeting efficacy of different programs/instruments (left panel), and Evolution of social security coverage and persons not covered, 2022 (right panel).

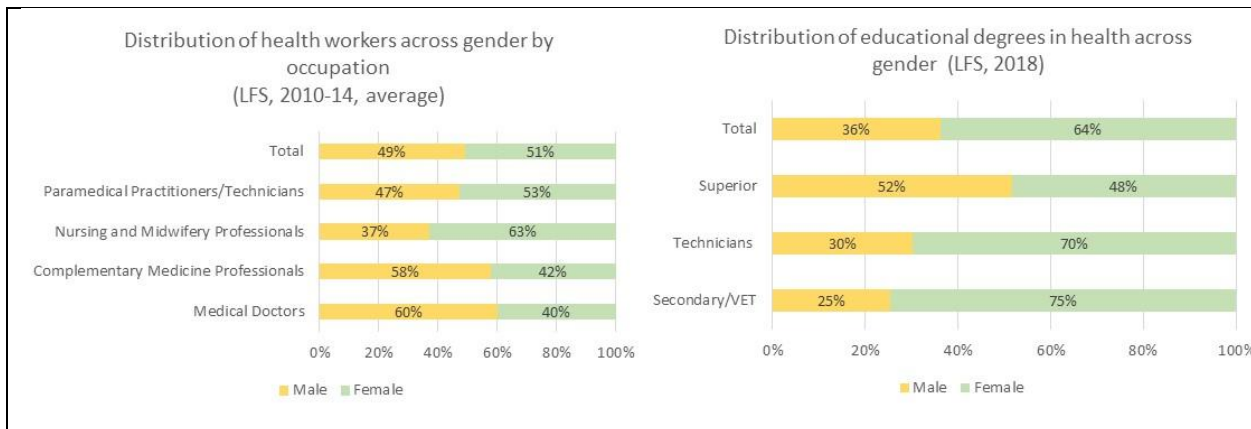


Source: HCP/WB 2021, PMT Note (left panel); World bank calculations, based on data from the Household Consumption and Expenditures Survey 2013, HCP (right panel).

### 7.3 Upgrading the supply of healthcare and improving human resource management

3. Tackling the shortage of health professionals may also favor female participation in the labor market. Women are equally represented in the health profession, and female incidence among health degrees holders is systematically higher than men (Fig.3).

Figure 3. Distribution of health professionals and educational degrees across gender.



Source: World Bank calculations based on Labor Force Survey series (HCP).

### 7.4 Expansion of the current DSB program

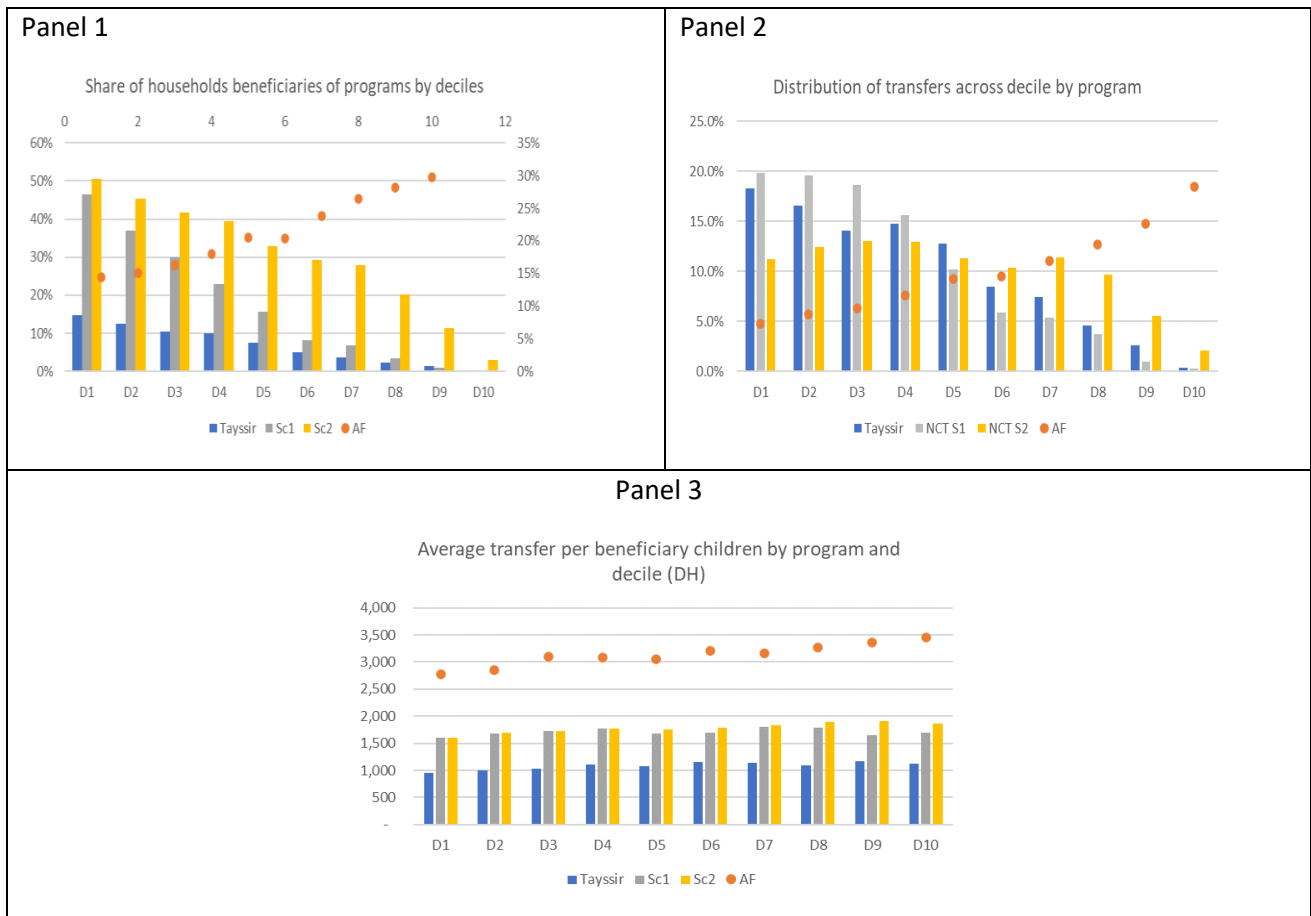
4. The incidence of children living in households below the poverty line is 4.4 percent, while those at risk of poverty is 14.4 percent (ONDH et al., 2017). The existing DSB is contribution-based and therefore tied to formal salaried employment, *de facto* excluding poor and vulnerable children. It is estimated to cover 2.8 million children, or 25 percent of all children aged 0-17 (based on estimates derived from 2019 ONDH panel household survey data). In addition, the non-contributory PMT based Tayssir program covers an additional 21 percent of children but fails to reach over 70 percent of children in the bottom 40 percent.



5. The impact of the DSB program is simulated for (i) a benefit level of MAD 150 (about US\$13) per child per month to non-covered children enrolled in primary education and lower, and (ii) MAD 200 (about US\$17) per child to non-covered children enrolled in secondary education and higher. To target the new non-contributory FA, these simulations use the PMT ranking, capped to the bottom at 27.5 percent of the population for Scenario 1 (Sc1) and to the bottom 70 percent for Scenario2 (Sc2), which should allow covering almost all excluded children (results in Fig. 7 below). While the proposed amounts are lower than the DSB benefit for formal sector children of a maximum of MAD 300 (about US\$31) per child, with a cap on the number of children covered, it doubles the cash transferred to poor, vulnerable and middle-income families, previously benefitting, in the best case, from Tayssir only (Figure 7, panel 3).

6. Coverage of households in the bottom decile reaches almost 50 percent in both scenarios and less than 3 percent for the top decile (Figure 4, Panel 1). Children in the poorest quintile will receive 40 of the total transfers in scenario 1 and 24 percent in scenario 2, while those in the second poorest quintile will receive from 34 to 26 percent of the total, against only between 1.2 and 7.6 percent for the top decile, depending on the scenario (Figure 4, Panel 2).

Figure 4: Coverage, distribution, and average transfers for old and new programs, by decile, 2022

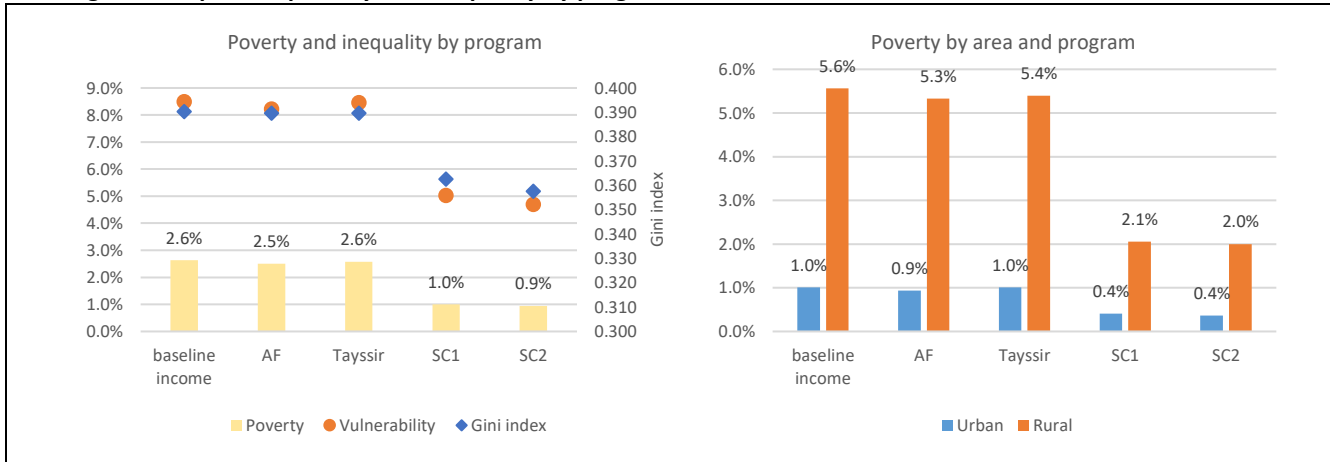


\* Definitions: AF refers to "allocation familiale" for households in the formal sector, or FA. "NCT" refers to non-contributive cash transfer. "Sc1" refers to scenario 1 (targeting bottom 27.5 percent) and "Sc2" refers to Scenario 2 (targeting the bottom 70 percent). World Bank staff simulations based on HBS2014 and administrative date.



Better targeted programs will result in higher poverty and vulnerability reduction, especially in rural areas, and less inequality (Figure 5 and 6).

Figure 5: Impact on poverty and inequality by program and scenarios



Source: WB staff calculations based on HBS2014 and administrative data. Note: The baseline scenario refers to households’ net market income excluding all transfers; AF refers to households’ income plus the contributive Family Allowance program (AF in French); Tayssir refers to households’ income plus the Tayssir program; SC1 refers to households’ income plus new Direct Social Benefit (DSB) program targeting the bottom 27.5% of the population; SC2 refers to households’ income plus a new DSB program targeting the bottom 70% of the population. Poverty is measured against the National Poverty Line from 2014, updated to 2022.

### 7.5 Extension of the pension scheme to TNS

7. TNS will be covered by a pension system with contributions flowing into individual accounts. TNS earn pension points based on presumptive income for each year of contributions. At retirement, the sum of pension points is multiplied by a pension-point value to convert them into a regular pension payment. Contributors can get a lump sum if at retirement the amount of the pension benefit was below a certain minimum level, thus not incurring the risk of losing the contributions paid. A downside is the use of presumptive income brackets to calculate contributions. To analyze the impact of extending the pension scheme, we assume a pension transfer to each potential beneficiary<sup>42</sup> equivalent to the lowest amount admissible by the Law (12,000 DH/year). As a result, the share of households with potential beneficiaries is higher for the lowest decile (16 vs 8 percent for the richest). In addition, the incidence of transfers over households' expenditure for the poorest is five times larger than the richest deciles (6 percent), consequently, poverty and inequality slightly reduce (Figure 8).

<sup>42</sup> Potential beneficiaries are those inactive self-identified in the HBS, 2013-14 as “vieux” or “retired” and not affiliated to any type of social security. We do not consider pension contributions over time. For details on the simulation see footnote 3.



Figure 6. Extension of pensions. Impact on poverty and inequality



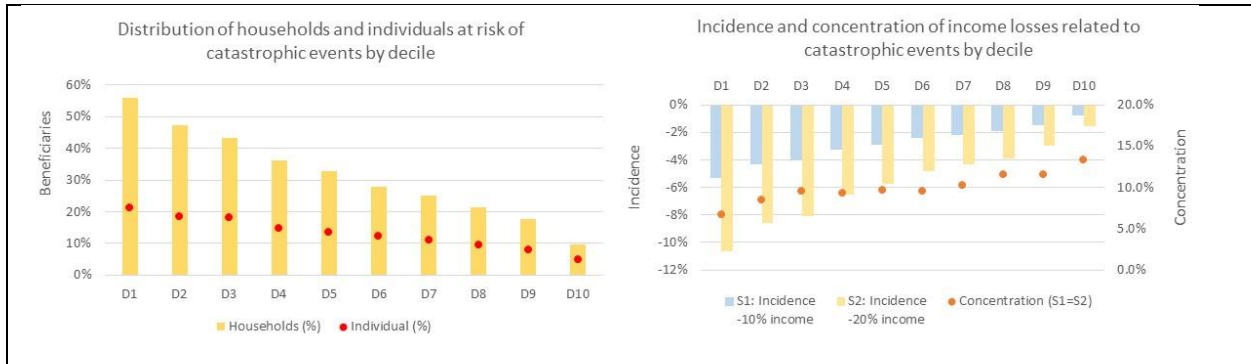
Source: World bank calculations based on HBS 2013, (HCP). Note: The baseline scenario refers to households' income excluding pensions; The Scenario Pensions refers to households' income plus pension transfer; Poverty is measured against the National Poverty Line from 2014, updated to 2022. The vulnerability line corresponds to 1.5 times the poverty line.

**7.6 Improving natural risk management may attenuate income losses due to catastrophic events (CE) that dramatically increase the risk of poverty for the more exposed and vulnerable households**

8. To assess the distributional impact of these events, we simulate two scenarios with labor income losses equal to 10 and 20 percent (respectively, scenario 1 and 2) for those working in agriculture and tourism, the sectors more exposed to adverse weather conditions<sup>43</sup>. About half the households in the first two deciles are at risk of experiencing these events based on their labor income source (Fig.10): for them, the incidence of losses over total expenditures would be more significant than for the more affluent (-5 and -10 percent in scenario 1 and 2). For this reason, the impact of CE on poverty may be dramatic and almost double the current poverty rate in the worst scenario (rising from 2.4 percent to 4.3 percent) mainly due to the deteriorating welfare conditions observed in the rural areas, while inequality would marginally increase (Fig.8).

Figure 7. Catastrophic events. Distribution of individuals and households at-risk and income losses

<sup>43</sup> Respectively, NAP-2001 codes 100-399; and 5500-5699 (HBS, 2013-14).



Source: World bank calculations based on HBS 2013, (HCP). Note: Incidence refers to the average income loss over total household consumption, per decile of consumption (left axes Panel 2); Concentration refers to the distribution of the total losses across deciles of consumption (right axes, Panel 2). Sc1 refers to households' income minus 10% losses; Sc2 Sc1 refers to households' income minus 20% losses.

Figure 8. Catastrophic events: Impact on poverty and inequality



Source: World bank calculations based on HBS 2013, (HCP). Note: The baseline scenario refers to households' income; Sc1 refers to households' income minus 10% losses; Sc2 Sc1 refers to households' income minus 20% losses; Poverty is measured against the National Poverty Line from 2014, updated to 2022. The vulnerability line corresponds to 1.5 times the poverty line.

### 7.7 Gender Impacts

9. The diagram below summarizes the gender theory of change for the DPF series.



Figure 9. Gender Impact Theory of Change

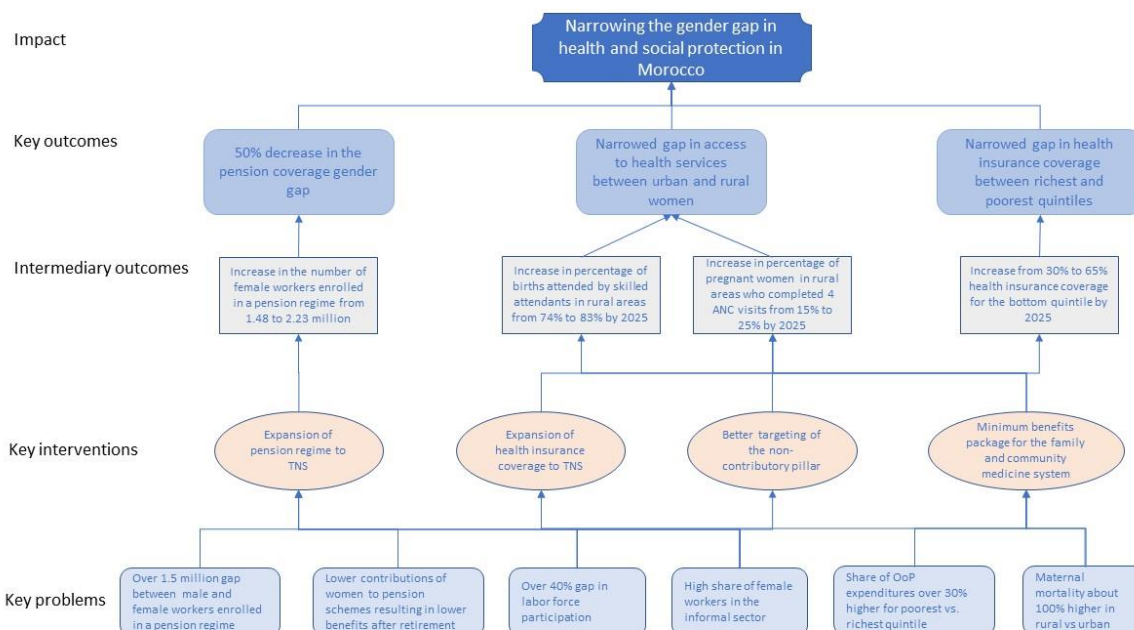


Table 1. Gender Theories of Change for the DPF series

Gender Gap	Intervention	Results Indicators	Baseline (%)	Target (%)
Urban/Rural gap in access to and quality of maternal health services	Four sets of reforms supported by Pillar I	Percentage of births attended by skilled attendants in rural areas	74.2	80
		Percentage of births attended by skilled attendants in urban areas	96.6	97
		Percentage of pregnant women in rural areas who completed 4 skilled ANC visits	38.5	47
		Percentage of pregnant women in urban areas that completed 4 skilled ANC visits	65.6	70
Male/Female gap in pension coverage	Expansion of Pensions to TNS	Number of female workers affiliated to a pension regime	1.48 million	2.23 million
		Number of male workers affiliated to a pension regime	3.02 million	3.77 million



ANNEX 8: PARIS ALIGNMENT ASSESSMENT

<b>Program Development Objective:</b> To improve protection against health risks, human capital losses during childhood and poverty in old age and to improve climate risk management and resilience against catastrophic events	
<b>Step 1:</b> Taking into account our climate analysis (e.g., Country Climate and Development Reports or CCDRs), is the operation consistent with the country climate commitments, including for instance, the NDC, NAP, LTS, and other relevant strategies?	<b>Answer:</b> Yes. <b>Explanation:</b> The project is aligned with climate commitments at the national level, specifically to the CCDR’s principles for pursuing a resilient and low-carbon pathway. The project does not lead to any increase in GHG emissions and in fact, contributes substantially towards adaptation goals.
<b>Mitigation goals: assessing and reducing the risks</b>	
<b>Pillar I Objective:</b> Improving protection against health risks	
<b>Prior Action 1.2</b>	
<b>Step M2.1:</b> Is the prior action likely to cause a significant increase in GHG emissions?	<b>Answer:</b> No <b>Explanation:</b> This measure will not cause any increase in GHG emissions.
<b>Conclusion for PA 1.2:</b> ALIGNED	
<b>Prior Action 2.2A</b>	
<b>Step M2.1:</b> Is the prior action likely to cause a significant increase in GHG emissions?	<b>Answer:</b> No <b>Explanation:</b> This measure will not cause any increase in GHG emissions.
<b>Conclusion for PA 2.2A:</b> ALIGNED	
<b>Prior Action 2.2B</b>	
<b>Step M2.1:</b> Is the prior action likely to cause a significant increase in GHG emissions?	<b>Answer:</b> No <b>Explanation:</b> This measure will not cause any increase in GHG emissions.
<b>Conclusion for PA 2.2B:</b> ALIGNED	
<b>Prior Action 3.2A</b>	
<b>Step M2.1:</b> Is the prior action likely to cause a significant increase in GHG emissions?	<b>Answer:</b> No <b>Explanation:</b> This measure will not cause any increase in GHG emissions.
<b>Conclusion for PA 3.2A:</b> ALIGNED	
<b>Prior Action 3.2B</b>	
<b>Step M2.1:</b> Is the prior action likely to cause a significant increase in GHG emissions?	<b>Answer:</b> No <b>Explanation:</b> This measure will not cause any increase in GHG emissions. The measure will enable better management of medicines, health equipment, and blood banks and as a consequence also lower related waste.
<b>Conclusion for PA 3.2B:</b> ALIGNED	
<b>Prior Action 3.2C</b>	



<b>Step M2.1:</b> Is the prior action likely to cause a significant increase in GHG emissions?	<b>Answer:</b> No <b>Explanation:</b> This measure will not cause any increase in GHG emissions.
<b>Conclusion for PA 3.2C:</b> ALIGNED	
<b>Prior Action 4.2</b>	
<b>Step M2.1:</b> Is the prior action likely to cause a significant increase in GHG emissions?	<b>Answer:</b> No <b>Explanation:</b> This measure will not cause any increase in GHG emissions.
<b>Conclusion for PA 4.2:</b> ALIGNED	
<b>Pillar II Objective:</b> Improving protection of human capital in childhood and against poverty in the old age	
<b>Prior Action 5.2</b>	
<b>Step M2.1:</b> Is the prior action likely to cause a significant increase in GHG emissions?	<b>Answer:</b> No <b>Explanation:</b> This measure will not cause any increase in GHG emissions.
<b>Conclusion for PA 5.2:</b> ALIGNED	
<b>Prior Action 6.2</b>	
<b>Step M2.1:</b> Is the prior action likely to cause a significant increase in GHG emissions?	<b>Answer:</b> No <b>Explanation:</b> This measure will not cause any increase in GHG emissions.
<b>Conclusion for PA 6.2:</b> ALIGNED	
<b>Pillar III Objective:</b> Improving climate risk management and resilience against catastrophic events	
<b>Prior Action 7.2</b>	
<b>Step M2.1:</b> Is the prior action likely to cause a significant increase in GHG emissions?	<b>Answer:</b> No <b>Explanation:</b> This measure will not cause any increase in GHG emissions.
<b>Conclusion for PA 7.2B:</b> ALIGNED	
<b>Adaptation and resilience goals: assessing and managing the risks</b>	
<b>Pillar I Objective:</b> Improving protection against health risks	
<b>Prior Action 1.2</b>	
<b>Step A2:</b> Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?	<b>Answer:</b> No <b>Explanation:</b> Climate change is set to exacerbate 60 percent of the overall disease burden in Morocco. The extension of mandatory health insurance coverage will make the targeted TNS and their dependents more resilient by providing them with affordable access to respond to the health effects of climate change.
<b>Conclusion for PA 1.2:</b> ALIGNED	
<b>Prior Action 2.2A</b>	
<b>Step A2:</b> Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?	<b>Answer:</b> No <b>Explanation:</b> Improving the targeting of the non-contributory pillar of AMO by explicitly considering vulnerability to climate impacts, will





	lead to increased health insurance coverage for populations most at risk of exposure to climate shocks.
<b>Conclusion for PA 2.2A: ALIGNED</b>	
<b>Prior Action 2.2B</b>	
<b>Step A2:</b> Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?	<b>Answer:</b> No <b>Explanation:</b> Homogenizing the non-contributive pillar with the more generous benefit package and more extensive provider network of the AMO for salaried workers, will improve the effectiveness of such better targeted coverage.
<b>Conclusion for PA 2.2B: ALIGNED</b>	
<b>Prior Action 3.2A</b>	
<b>Step A2:</b> Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?	<b>Answer:</b> No <b>Explanation:</b> Enforcing the primary health level as the entry-point to coordinated care pathways will reduce the need for more carbon intensive hospital-based care, as well as reducing the need for transport and driving long distances – reducing GHG emissions.
<b>Conclusion for PA 3.2A: ALIGNED</b>	
<b>Prior Action 3.2B</b>	
<b>Step A2:</b> Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?	<b>Answer:</b> No <b>Explanation:</b> Contribution of this PA to the PDO is not expected to be impacted by any current or future physical risks for climate hazards.
<b>Conclusion for PA 3.2B: ALIGNED</b>	
<b>Prior Action 3.2C</b>	
<b>Step A2:</b> Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?	<b>Answer:</b> No <b>Explanation:</b> Committing to reducing health facilities’ greenhouse gas emissions to zero by 2050 and improving the healthcare system’s resilience to climate change. The government has started an assessment of the environmental sustainability and resilience of health care facilities to climate change risks, and their carbon footprint.
<b>Conclusion for PA 3.2C: ALIGNED</b>	
<b>Prior Action 4.2</b>	
<b>Step A2:</b> Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?	<b>Answer:</b> No <b>Explanation:</b> having an adequate and properly incentivized workforce is essential to ensure that the supply side can respond to the increased demand for health services from those climate shock vulnerable populations that will result from



	their increased health insurance coverage
<b>Conclusion for PA 4.2:</b> ALIGNED	
<b>Pillar II Objective:</b> Improving protection of human capital in childhood and against poverty in the old age	
<b>Prior Action 5.2</b>	
<b>Step A2:</b> Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?	<b>Answer:</b> No <b>Explanation:</b> The expansion of the FDSB program will make eligible vulnerable households more resilient to climate related shocks. The cash support will provide a general consumption smoothing tool, during times of income volatility caused by extreme weather events and protect food security and human capital of vulnerable families
<b>Conclusion for PA 5.2:</b> ALIGNED	
<b>Prior Action 6.2</b>	
<b>Step A2:</b> Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?	<b>Answer:</b> No <b>Explanation:</b> The extension of pension coverage will make the targeted TNS and their dependents more resilient by providing them protection against the climate change-exacerbated risks of poverty in old age. Access to a reliable pension system can help the elderly increase their resilience to climate shocks.
<b>Conclusion for PA 6.2:</b> ALIGNED	
<b>Pillar III Objective:</b> Improving climate risk management and resilience against catastrophic events	
<b>Prior Action 7.2</b>	
<b>Step A2:</b> Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?	<b>Answer:</b> No <b>Explanation:</b> This PA is motivated by Morocco’s climate change vulnerability and is explicitly aimed at increasing the resilience against climate risks for the agricultural populations, who are at risk of further income volatility resulting from extreme climate events, particularly drought.
<b>Conclusion for PA 7.2:</b> ALIGNED	
<b>OVERALL CONCLUSION OF PARIS ALIGNMENT ASSESSMENT:</b> ALIGNED	