



**The World Bank**

Morocco Disaster Risk Management Development Policy Loan with a Catastrophe Deferred Drawdown Option (P168580)

# Program Information Document (PID)

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Concept Stage | Date Prepared/Updated: 24-Sep-2018 | Report No: PIDC25405

## BASIC INFORMATION

### A. Basic Project Data

Country Morocco	Project ID P168580	Project Name Morocco Disaster Risk Management Development Policy Loan with a Catastrophe Deferred Drawdown Option (P168580)	Parent Project ID (if any)
Region MIDDLE EAST AND NORTH AFRICA	Estimated Board Date Mar 26, 2019	Practice Area (Lead) Social, Urban, Rural and Resilience Global Practice	Financing Instrument Development Policy Financing
Borrower(s) Ministry of Economy and Finance	Implementing Agency Ministry of Economy and Finance		

### Proposed Development Objective(s)

The development objective of the proposed operation is to support the Government of Morocco in (a) strengthening the country's fiscal capacity to manage the negative impact of disasters and climate-related risks, and (b) strengthening the institutional framework for disaster risk management in Morocco.

### Financing (in US\$, Millions)

#### SUMMARY

<b>Total Financing</b>	100.00
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#### DETAILS

<b>Total World Bank Group Financing</b>	100.00
World Bank Lending	100.00

#### Decision

The review did authorize the preparation to continue



## B. Introduction and Context

### Country Context

1. **Morocco is one of the most exposed countries to geological and climate-related hazards in the MENA region.** According to the probabilistic risk assessment carried out in 2012, over 30 percent of the Moroccan population and 33 percent of its GDP are at risk from two or more natural hazards, and the country suffers an annual average loss from natural catastrophes of over US\$ 800 million, or 0.8 percent of Morocco's GDP. Due to its geographical position, high rainfall variability, and topography, Morocco is regularly prone to flooding. It is by far the costliest of all hazards in the country, with estimations of over US\$ 400 million in losses each year. Droughts also account for a large part of the overall risk, with an estimate annual loss on crop yields of approximately US\$ 300 million.

2. **The Government of Morocco (GoM) has developed a strong disaster risk management (DRM) policy framework over the last decade.** Since the early 2000s, the GoM has launched a large set of initiatives to improve the understanding of critical risks in the country, including an earthquake risk assessment, a flood risk assessment and a national probabilistic disaster risk assessment. The Government has also repositioned its National Resilience Fund (*Fonds de Lutte contre les Effets des Catastrophes Naturelles*, FLCN) from an ex-post emergency financing instrument into an important co-financier of local-level structural and non-structural risk reduction programs, supported by the 2016 World Bank Integrated DRM and Resilience Program-for-Results. In terms of emergency response, relevant mechanisms and institutions are well established and centrally coordinated through the national Center for Control and Coordination (Centre de Veille et de Coordination, CVC) and the Civil Defense, both under the Ministry of Interior. With support from the World Bank through the PforR and technical assistance, the Government has also introduced a national catastrophe risk insurance program (*Loi 110-14 instituant un régime de couverture des conséquences d'événements catastrophiques*), which is expected to become effective on January 1, 2019. One of the outcomes of this Law is the creation of the Solidarity Fund against Catastrophic Events (*Fonds de Solidarité contre les Événements Catastrophiques*, FSEC). The FSEC is mandated to provide partial compensations for the uninsured households against personal injuries and loss of principal residence caused by catastrophic events. It will cover 95 percent of the population in Morocco, and specifically close to 5 million people under the poverty line (US\$ 3.1 per day).

3. **Morocco's macroeconomic policy framework is adequate and stable.** Economic growth over the past 5 years has fluctuated around a solid average. A process of fiscal consolidation and revenue development over the past 5 years has narrowed the fiscal deficit and stabilized public debt. The external balance has improved markedly, but energy dependency continues to weigh heavily on the trade balance. In January 2018, Bank Al Maghrib adopted the reform towards a more flexible exchange regime, allowing the currency to fluctuate within a wider band of  $\pm 2.5$  percent, which has improved the economy's shock absorption capacity. With an investment rate hovering above 30 percent of GDP since 2008, Morocco's economic model, which is based on domestic demand, risks petering out without a significant increase in investment spillovers and productivity. The country also struggles with slow job creation and high unemployment among youth, women, and educated workers, as well as a large urban-rural gap in poverty rates. Over the medium term, economic performance is expected to improve subject to pursuing fiscal adjustment and deepening reforms. The GDP growth rate will begin to rise in 2020 while the fiscal and current account deficits will narrow, and debt – currently sustainable – will proceed along a downward path.

### Relationship to CPF

4. **The proposed operation will contribute towards the WBG's twin goals of ending extreme poverty and boosting**



**shared prosperity.** It is also consistent with the World Bank Group’s Country Partnership Framework (CPF) 2019–2023, which highlights the importance of strengthening the adaptation to Climate Change and the resilience to natural disasters. The strategic focus area C of the CPF is targeting territorial development. CPF Objective 11 is focused on **strengthening** adaptation to climate change and resilience to natural disasters. Through the proposed operation, the Bank will continue supporting the GoM in building its legal and institutional capacity to prepare for and manage climate and disaster risks. The proposed operation will also help build a strong linkage between the comprehensive DRM strategy at the national level and local level efforts to reduce disaster risks. The proposed operation will improve the GoM’s financial resilience through the strengthening of the FSEC’s governance structure. It will also provide support to the GoM in setting up its DRM directorate and operationalizing flood monitoring/forecasting center, and mainstreaming DRM in sectors such as education, through the safe schools’ initiative. The objectives of the proposed operation are also closely aligned with the ongoing World Bank Group operations in the country. It builds on, and complements, the ongoing Integrated DRM and Resilience Program (REPORT NO. 104208-MA) as well as the technical assistance on disaster risk finance and insurance provided by the Disaster Risk Finance and Insurance (DRFI) program. It is also aligned with an ongoing technical assistance on urban resilience, which is supporting two pilot municipalities in designing resilience strategies and action plans to improve their disaster resilience and climate change adaptation

### **C. Proposed Development Objective(s)**

5. **The development objective of the proposed operation is to support the Government of Morocco** in (a) strengthening the country’s fiscal capacity to manage the negative impact of disasters and climate-related risks and (b) strengthening the disaster risk management institutional framework in Morocco.

#### Key Results

6. **Key results expected from this operation center around ensuring timely financial compensations to victims of natural disasters**, under several contingent scenarios and geographical scales, ranging from low severity flooding affecting villages, to extreme earthquakes striking Northern provinces. This operation will also strengthen DRM institutions, through hazards information collection and incorporation in decision making throughout critical sectors (Water, Education, Interior, and finance). Critical school infrastructure will become resilient through the adoption of a retrofitting and rehabilitation strategy in the education sector.

### **D. Concept Description**

7. **The proposed operation will support the government in further embedding Disaster Risk Management and Climate Change Adaptation in its various institutions.** It is articulated around two pillars: Pillar A is geared towards enhancing the Government’s fiscal capacity to respond to natural disasters and climate change, through a series of reforms aimed at strengthening the FSEC’ financial, governance, and operational sustainability. As Law 110-14 is about to be implemented, it is now critical to equip the FSEC with tools, processes and liquidity mechanisms to meet its legal obligations as well as cover the GoM contingent fiscal liability in case of disasters. Pillar B promotes the overall strengthening of the DRM institutional framework in Morocco, by supporting the GoM in creating a dedicated DRM Directorate, strengthening disaster risk information systems, and establishing a strategy for the rehabilitation and retrofitting of school infrastructure in the education sector. Specifically, this pillar represents efforts by the government to capitalize on Morocco’s long-term efforts of articulating its national DRM strategy, and engaging in short- and long-term DRM planning that would help the country achieve some of the international Sendai Framework for Disaster Risk



Reduction recommendations.

8. **The proposed operation provides a line of contingent financing and will support the Government’s ongoing efforts to absorb potential fiscal impacts of a natural catastrophe.** Morocco is one of the most vulnerable countries to natural hazards in the MNA region. The national probabilistic risk assessment shows that over 30 percent of the Moroccan population and 33 percent of its GDP are at risk from two or more natural hazards, and the country suffers an average annual loss from natural hazards of over US\$ 800 million, or 0.8 percent of GDP. Given the magnitude of risks faced by Morocco, the GoM is has been engaging in a long-term integrated risk management approach to improve the resilience of the country’s population and economic actors by transferring part of the risk from citizens and firms to the government, through a series of mechanisms, including financial risk transfers through insurance markets, and strengthening DRM and CCA coordination throughout the government agencies and ministerial departments. For this effort to move forward, there is need to develop a sound fiscal strategy to address increasing contingent liabilities associated with natural catastrophe, which can allow the GoM to ensure a broad coverage and support national insurance companies to cover populations and assets, and sectoral insurance schemes.

9. **The Cat DDO allows countries to secure rapid access to financing in the event of a natural catastrophe.** It can serve as bridge financing while funds from other sources (for example, concessional funding, bilateral aid, risk transfer instruments, or reconstruction loans) are being mobilized. The Cat DDO has a ‘soft’ trigger, as opposed to a ‘parametric’ trigger, which means that funds become available for disbursement after the declaration of a state of emergency because of a natural catastrophe as defined in the following paragraph. Drawdown conditions, financial features, and renewals are as follows:

- **Drawdown triggers.** Loan Proceeds may be withdrawn upon a Declaration of the Occurrence of a Catastrophic Event (Déclaration de l’occurrence d’un évènement catastrophique) related to a natural disaster by the Catastrophic Event Monitoring Commission (Commission de suivi des évènements catastrophiques), through an Administrative Declaration (Acte Adminsitratif) in accordance with article 6 of the Law 110-14, under terms and conditions specified in the Loan Agreement.
- **Financial features.** The financial features of the DPL with a Cat DDO are similar to those available for the DDO for DPLs, with one exception: the DPL with a Cat DDO would have a revolving feature by which the amounts repaid before the closing date would be available for drawdown in accordance with the terms of the Loan Agreement.
- **Drawdown period and renewals.** The proposed operation includes a deferral period of up to three years. During this time, the World Bank will monitor that the Government is continuing to implement the program being supported in accordance with its LDP. A Cat-DDO may be renewed if the implementation of the program set out in the LDP remains satisfactory to the World Bank and macroeconomic policies are adequate. A Cat DDO may be renewed four times for up to three years each time, for a total deferral of 15 years.

## **E. Poverty and Social Impacts and Environmental Aspects**

### Poverty and Social Impacts

10. **The overall poverty and social impact of the proposed operation is expected to be positive, given that the poor**



are disproportionately affected by natural disasters and the supported policies are strengthening the overall DRM framework in Morocco. To evaluate the actual poverty and social impact during project preparation, the task team will develop an assessment methodology tailored to the two pillars of the operation. For Pillar A, the team will focus on gaining a good understanding of the characteristics of FSEC beneficiaries to determine how the Solidarity Fund is benefitting the Moroccan citizens, with women and the poorer portions of the population benefitting extensively from the program. The team will also develop guidance and recommendations on the governance and financing structure of the FSEC that can ensure the highest social and poverty impact. For Pillar B, the task team will work with the relevant institutions to gather evidence on the social and poverty impacts of the proposed policies. The flood monitoring centers and the safer school program are expected to have a positive impact.

#### Environmental Impacts

11. **It is anticipated that policy reforms supported by the proposed operation will have positive indirect effects on Morocco’s environment and natural resources.** Each pillar of the operation contains prior actions that can have potential effects on the natural resource and environmental assets of Morocco. Under Pillar 1, the prior action on enabling a **robust** functioning mechanism for the FSEC will allow for a rapid recovery and reconstruction after disasters, which will ultimately put a lower stress on the natural resource and ecosystems in disaster prone areas. Under Pillar B, improvement of existing school infrastructure offers the possibility of providing children with access to adequate water supply and sanitation in their environments. Policies supporting the development of a sound knowledge base for flood protection programs at the national and sub national level would reduce vulnerability of the population, while also supporting the development natural assets protection programme.

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#### APPROVAL

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#### Approved By

Country Director:	Afef Haddad	09-Oct-2018
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