

**PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

April 3, 2012
Report No.: AB6997

Operation Name	Morocco First Skills and Employment DPL
Region	Middle East and North Africa
Country	Kingdom of Morocco
Sector	Tertiary education (40%); Other social services (40%); Compulsory pension and unemployment insurance (10%); Vocational training (10%)
Operation ID	P120566
Lending Instrument	Development Policy Lending
Borrower(s)	Government of Morocco
Implementing Agencies	Ministry of Labor, Ministry of Higher Education, Ministry of General Affairs and Governance, Ministry of Economy And Finance.
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Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the appraisal of the operation.

I. Country and Sector Background

1. While Morocco has made commendable progress in bringing about a steady reduction in the high unemployment rate, unemployment continues to remain one of the most critical development challenges for the country. The lack of jobs, including quality jobs, has limited the extent to which the sustained economic growth of the past decade can be widely shared and eventually translated into poverty reduction. Unemployment rates are stubbornly high, especially among the highly-schooled youth and new labor market entrants. Labor force participation among women is low. Informality is rampant, involving the majority of the labor force, and is associated with low-quality/low-value-added jobs. Low quality and insufficient employment poses a risk to social cohesion and security, particularly in a region where a large cohort of unemployed and out-of-the-labor-force young people may feel disillusioned about their ability to participate productively in economic life. The creation of quality jobs is therefore a primary concern to policy makers. While addressing these issues was important for poverty reduction and social inclusion before the Arab Spring, it has become even more important because it also determines future political stability.

2. The creation of “more and better jobs” requires a structural transformation of the Moroccan economy, which in turn calls for a comprehensive and coordinated set of policies in several key areas: (i) stability of the macroeconomic environment; (ii) an improved business environment and a trade policy that supports the competitiveness of Moroccan products; (iii) a financial sector that better serves smaller firms; (iv) a labor force that is better trained; (v) effective social protection; and (vi) strengthened labor market institutions.

II. Operation Objectives

3. The proposed Skills Employment Development Program (SEDP) covers areas (iv), (v) and (vi) listed paragraph 2 above. It is complementary to other operations within the Bank’s program in Morocco, which address areas (iv): the Education Development Policy Loans; and areas (i), (ii) and (iii): the Competitiveness Development Policy Loan, and the Financial Sector Development Policy Loan.

4. The Moroccan Government has requested the Bank’s support to a coherent program in the areas of higher education and vocational training, labor market policies and social protection. Hence, the objective of the SEDP is to support the Government of Morocco to implement its program of improving skills, productivity and quality of employment through: (a) matching skills developed within the vocational training and higher education systems to the needs of the labor market; (b) improving the effectiveness of intermediation services, including active labor market programs; (c) improving job quality; and (d) strengthening the labor market information system.

Box 1: Prior Actions for SEDP1

The Government has agreed on implementing the following prior actions before the presentation of the Loan to the World Bank Executive Board:

1.1 In the academic year 2010/11, four (4) public universities, covering 75% of their member institutions, (a) have set up an information system capable of monitoring students’ progress, by features such as discipline, level and geography, with a view to improving the internal efficiency of higher education, and (b) and have produced regular reports for each university and for the group of universities as a whole

1.2 In the academic year 2009/10, the fifteen (15) public universities have provided in at least 80% of their bachelor-level academic programs in their open-enrollment member institutions, a course

module of 80 hours in foreign languages, computer literacy, communication and study skills

1.3 The Ministry of Labor and Vocational Training, Vocational Training Department, has established three (3) new vocational training institutes, in high-demand sectors (namely, fashion and air/space industries in 2010 and automobile in 2011), under the management of (private or public-private) sector professionals

1.4 The Ministry of Labor and Vocational Training, Employment Department, has developed and implemented in 2011: (i) an active labor market program aimed at labor market insertion of hard-to-place unemployed (*Contrat intégration professionnelle*) and (ii) an improved wage subsidy program for the unemployed (*Prise en charge par l'Etat de la couverture sociale*)

1.5 ANAPEC has implemented a 2009-2011 plan to increase its number of local offices and employment counselors.

1.6 The Ministry of Economy and Finance has implemented since January 2011 a set of measures to encourage the formalization of micro-enterprises, namely: (a) income tax is reduced from 30% to 15% for businesses whose after-tax turnover is equal to or less than 3 million DH; and (b) income tax amnesty upon registration for professional tax (“patente”)

1.7 Royal Decree No. 1.11.181 dated November 22, 2011, amending and completing Royal Decree No. 11.72.184, dated July, 27, 1972, to extend social security coverage by the National Social Security Fund to licensed drivers, has been published in the National Gazette No. 5998 dated November 24, 2011

1.8 The National Education Evaluation Agency has developed in 2011 a survey instrument on short- and medium-term labor market status of graduates of universities and professional schools

1.9 The Ministry of Labor and Vocational Training, Employment Department has institutionalized in 2011, via memoranda, with the National Social Security Fund, and the Ministry of Industry, Commerce and New Technologies the exchange of labor force data

Box 2: Triggers for SEDP2

Under the programmatic development policy operations series, the Government has agreed on the following triggers for moving to the next operation in the series:

2.1 Labor Ministry’s Vocational Training Department signs with ten (10) providers¹ (including private providers) programmatic contracts (with development plans) in line with the new vocational training strategy.

2.2 Government adopts in Cabinet a draft Vocational Training Law, which inter alia provides for the governance and financing of on-job vocational training

2.3 Labor Ministry’s Vocational Training Department, operationalizes the National Qualifications Framework, with a view to enabling users to interpret vocational training qualifications

2.4 Labor Ministry’s Vocational Training Department develops, on the basis of the results of a technical audit of 50 NGOs, a support mechanism aimed at NGOs intending to offer vocational training programs to out-of-school youth from disadvantaged backgrounds

2.5 An independent entity is established to carry out institutional evaluations of universities.

2.6 Labor Ministry’s Employment Department adopts and implements the 2012-2016 employment promotion plan, which defines priorities, programs, budgets, monitoring indicators, and clarifies responsibilities in monitoring its implementation.

2.7 Government adopts in Cabinet a draft law amending Law No. 51/99 establishing ANAPEC, in order to extend ANAPEC coverage to non-graduates.

2.8 Government implements, in pilot regions, the institutional plan of the national strategy for the promotion of micro-enterprises.

2.9 Labor Ministry’s Employment Department establishes an impact evaluation mechanism for the new employment measures 2012-2016.

2.10 An institutional mechanism is established, with sufficient funding for its work program, for monitoring and analyzing the labor market and social protection.

¹ Amongst the following providers: National Vocational Training Office; Agriculture; Tourism; Fisheries; Works; Crafts; Youth & Sport; Solidarity; Interior; Justice; Education; Veterans’ Affairs; Chambers of Commerce [TBC].

5. The outcomes of these measures will be measured, inter alia through the following key results indicators:

Skills matching (“flow”):

- Rate of internal efficiency of vocational training programs covered by a programmatic contract, by gender
- University graduation rate in open-enrollment faculties, by gender

Effectiveness of intermediation services (“stock”):

- Insertion rate (term/open contract) for “State-funded social insurance coverage » (*Prise en charge par l’Etat de la couverture sociale* or PCS) beneficiaries, by gender, after 6 months
- Total number of first employment contracts (*Contrats intégration professionnelle* or CIP) beneficiaries, by gender
- Number of ANAPEC local offices
- Number of new enrolments with ANAPEC, including proportion of non-graduates, par year, by gender

Job quality:

- Number of firms, formerly operating in the informal sector, registered annually for professional tax
- Number of pilot regions signing a programmatic contract with the State for implementing the national strategy for the promotion of micro-enterprises.
- Number of non-salaried workers registered with National Social Security Fund

Labor market information system:

- Number of ALMPs that have been the subject of an impact evaluation or a panel evaluation
- A program of surveys and studies, aimed at responding to the needs of the labor market and social protection, is carried out.

III. Rationale for Bank Involvement

6. The wave of democratization that has swept the Middle East and North Africa (MENA) region since the start of the Arab Spring has also enveloped Morocco although its experience has been a reasonably peaceful one with social demonstrations taking place regularly across the country during 2011 and only sporadic outbursts of violence noted. King Mohammed VI’s response was to propose, in March 2011, a broad and comprehensive package of political reforms that gathered the support of the population through a referendum on the new Constitution held on July 1, 2011. The new Constitution sets the basis for a more open and democratic society, provides mechanisms for the construction of a modern state, and lays the foundation for extended regionalization. It introduces a new institutional model based on separated, balanced and complementary powers. In addition, it reinforces the principles of good governance, human rights, and protection of individual freedoms, as well as increased institutional responsibility and accountability.

7. Many important tasks are awaiting the Parliament that was elected on November 25, 2011: start reforming mechanisms that govern the relationship between the legislature and the executive, in addition to adopting various organic laws—such as the new Budget Organic Law— and establishing the institutions dedicated to human rights and economic and social development. The Government’s program voted by Parliament on January 26, 2012 is in line with such challenges as it centers on the rapid implementation of the new Constitution and promotes good governance, transparency, and accountability within the public sector.

8. Despite the global economic slowdown, the Moroccan economy has proved resilient in 2011. In a context of economic slowdown in European countries, the main driver of Moroccan growth has been domestic private consumption supported by public policies implemented in early 2011. The Government devised employment strategies to help young unemployed graduates have better access to jobs suited to their skills both in the public and private sector. First, the Government hired some 4,300 of the graduates within the Administration. Second, it urged large state-owned enterprises (SOEs) to make efforts to create additional job positions to absorb part of the unemployed, with the option of government financing to help improve their skills. In addition, the Government adopted measures for the very small businesses (VSB) to enhance their job-creation potential.

IV. Tentative financing

Source:		(\$m.)
Borrower		0
International Bank for Reconstruction and Development		100
	Total	100

V. Tranches

		(\$m.)
Single Tranche		100
	Total	100

VI. Institutional and Implementation Arrangements

9. SEDP implementation will be under the overall coordination of the General Affairs and Governance Ministry (MAGG), through regular contact with the three implementing ministries: Finance (for the microenterprise program under SEDPL1), MAGG itself (for the microenterprise program under SEDPL2), Labor Ministry (for the employment and vocational training programs) and Higher Education Ministry (for the higher education program). These four agencies will form the Inter-ministerial Coordination Committee. They will be responsible to monitor and evaluate reforms they implement directly or indirectly. Indeed, parts of the various programs are under the direct responsibility either of entities that have a hierarchical relationship with one of the abovementioned agencies (CNSS and ANAPEC with the Labor Ministry and public universities and professional schools with the Higher Education Ministry) or of the Higher Council for Education (overseeing INE), which is an independent entity operating in the education/training field. For example, university faculties will be responsible for implementing and using the information system on students' progress, ANAPEC offices will be responsible for implementing the Active Labor Market Programs (ALMPs), and CNSS offices will implement the social security coverage extension program. SEDP implementation progress will be monitored based on a results framework which comprises the results/outcomes indicators highlighted in the policy matrix to measure progress regarding the four policy areas. These indicators will be disaggregated for gender, wherever possible. They will be closely monitored during supervision and review missions.

VII. Risks and Risk Mitigation

10. The following main risks are identified:

11. **Political Risk.** The events in Morocco since the Arab Spring represent real pressure for meaningful and quick change and there are high expectations amongst the population that these reforms will have to be implemented in a credible manner. The new Government's articulated reform agenda – and the discussions that the Bank has held with key Ministries to date – confirm that there is a credible and strong commitment to the proposed reforms. The envisaged agenda has broad support and the Government has reiterated its willingness to continue to work for the quick implementation of key measures that should not be delayed in light of political constraints. The Bank team will continue to

monitor the political evolution closely and will continuously assess the potential for political developments to influence the implementation of the Bank's program and this operation. The Bank will stand ready to adapt the program, and particularly specific reform measures supported by this DPL, to those additional measures and reform areas that the Government would like to implement.

12. In addition, the Government's 2012-2016 Employment Plan could raise large expectations among the population that, if unmet, could have political and social repercussions. This means that there needs to be sufficient allocation of funding to deliver this program.

13. **Macro-Economic Risk.** Morocco faces three macroeconomic risks: the possible deterioration of the on-going global economic difficulties - especially in Europe, the impact of poor weather on the agricultural sector, and the continued high prices of food and energy. Should the current global economic uncertainty further deteriorate, Morocco would face reduced growth prospects. In the event that the current European stagnation evolves in a recession in the order of a -1 to -1.5 percent GDP growth in 2012, World Bank estimates for Morocco indicate a growth rate of around 3.3 percent for the same year. Current forecasts for agriculture indicate that growth rates for 2012 could be adversely affected, even severely, by low rainfall to date. Should oil prices remain at current levels for the year, Morocco would likely see its GDP growth prospects reduced by about 0.5 percent relative to the baseline scenario. This would also have important fiscal implications that pose perhaps the most significant medium term macroeconomic risk - that of deterioration of the fiscal balance which would be exacerbated by the increasing costs of the subsidy system. Morocco's management and mitigation of these risks are predicated on the new Government's strong commitment to proceed with the on-going and envisaged reforms outlined earlier. The Government is also contemplating specific measures in the event of a negative agricultural outcome that relate to the suspension of import duties on cereals and support to affected farmers and livestock producers. It is devising strategies to cope with potentially sustained high oil prices, including requesting World Bank support to develop mechanisms to hedge commodity price risks. More importantly, it is devising measures to mitigate the impact of subsidies on public finances to be eventually introduced from the last quarter of 2012. In this regard, there is broad understanding that the needed consolidation of public finances will require three critical measures the Government is already working on: deepening of fiscal reform, regaining control over the wage bill evolution and indeed subsidy reform.

14. **Governance Risk.** Improving governance remains central to Morocco development efforts as there are risks posed by implementation deficiencies, political interference and a lack of accountability. Public administration reforms have taken place for more than a decade but have not yet led to tangible and visible results that can be appreciated by citizens. The new Constitution and the revision and strengthening of the country's overall governance structure now provide the Government with a new opportunity to address past shortcomings by allowing for an enhanced framework to improve the checks and balances between the legislative, the executive and the judiciary powers, empower the key governance institutions and consolidate the principles of modern governance in Morocco. Reform of the budget process, justice reform and the new access to information right are key levers to foster greater transparency and accountability, all of which are priorities of the new Government. The Bank program remains aligned to these priorities including with a new DPL series is also under preparation to support the government on key Governance reforms.

15. **Implementation Capacity Risk.** While the government departments (Labor, Higher Education, General Affairs and Governance, Economy and Finance) at the central level have significant capacity in administration and oversight, much of the success of implementing some of the policy measures will rest with various decentralized entities (e.g., university faculties, ANAPEC offices, and CNSS offices). These local entities vary in their implementation capacity, but all will require access to information about the policy measures (e.g., objectives, timelines, implementation steps, appropriate guidelines and system tools) to enable them to respond appropriately to instructions (e.g., legal texts) issued by the central government. The Bank will take advantage of regional Technical Assistance activities to continue building technical capacity in these decentralized entities. The Employment TA under preparation will strengthen the capacity of the Ministry of Labor in the following areas: (i) designing the 2012-2106

employment promotion plan, including ALPMs; (ii) strengthening the labor market information system; and (iii) preparing the Vocational Training Law. CNSS already has a solid capacity as evidenced by its success in implementation of the 2009-21011 extension strategy.

16. ***Program Coordination Risk.*** Both SEDP loans will be implemented by a large number of Government entities. MAGG will be in charge of coordinating the program, a role that the ministry has played satisfactorily in the past. As mentioned above, Bank missions and day-to-day follow-up by field-based staff will help MAGG perform this role, as has been the case during preparation. The Bank will also promote government ownership of program coordination through thematic workshops that involve all parties laying the groundwork for a common agenda. This has been done, for example, on the labor market information system.

VIII. Poverty and Social Impacts and Environment Aspects

17. ***Poverty and Social Impacts.*** The social impact of the policies supported by the First SEDP is expected to be positive. No negative poverty impacts are envisaged. Many groups of stakeholders are likely to benefit from the policy measures supported by this program, in particular young graduates, the unemployed, and those with poor quality jobs. The measures on matching skills to labor market needs are expected to promote both the social and economic inclusion of the unemployed. For example, the prior action seeking to improve students' non-cognitive and/or non-technical skills will enable them to develop their communication, personal, and social skills, thus increasing their employability and long-term earnings. The social impact of the measures aiming at improving the effectiveness of intermediation services are also expected to be positive. The prior actions to strengthen ANAPEC's capacity and design/implement two new ALMPs will increase coverage and improve efficiency of employment services, thus reducing the risk of unemployment for both vocational education and higher education graduates, as well as making access to training and job opportunities more equitable. The measures seeking to improve job quality will also have a positive social impact. For example, the prior actions to implement a set of measures to increase access to social insurance and encourage the formalization of micro-firms will help to improve working conditions among workers, thereby addressing labor market segmentations, improving labor market outcomes and, in general terms, alleviating social exclusion. Finally, the measures to strengthen the labor market information system will likely have positive social impacts in the medium/long-term, as the institutionalization of the exchange and use of labor force data as well as the carrying out of a survey on labor market entry of graduates will improve the targeting, design, governance, and accountability of employment programs, thereby enabling the Government to identify and reach out, in a more efficient/effective manner, to the most marginalized in society.

18. ***Environment Aspects.*** The SEDP is not expected to have any significant environmental implications. The project is a development policy loan in support of a broad program of policy and institutional reforms. Although the environmental requirements of OP/BP 8.60 apply, the policies supported by the proposed operation are unlikely to cause significant effects on the country's environment, forests, and other natural resources, as they are oriented toward improving skills and employment and do not include an investment lending subcomponent or physical investments. In respect of the measure involving the establishment of new vocational training institutes, World Bank support emphasizes the measure's institutional innovation (i.e., management delegated to private or public-private sector professionals) rather than any physical infrastructure associated with the new institutes. The operation is likely to have some positive environmental impact, inasmuch as one of these new sector-managed training institutes will be set up to support renewable energy/energy efficiency industries.

IX. Contact point

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