Program Information Documents (PID)

Appraisal Stage | Date Prepared/Updated: 27-Apr-2021 | Report No: PIDA244043

BASIC INFORMATION

A. Basic Program Data

Country	Project ID	Program Name	Parent Project ID (if any)
Morocco	P176349	Morocco Integrated Disaster Risk Management and Resilience Program - Additional Financing	P144539
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
MIDDLE EAST AND NORTH AFRICA	28-Apr-2021	27-May-2021	Urban, Resilience and Land
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Program-for-Results Financing	Ministry of Economy, Finance and Administrative Reform	Ministry of Economy, Finance and Administrative Reform, Ministry of Interior	

Program Development Objective(s)

The program development objective (PDO) is to improve the institutional framework to finance disaster risk reduction activities and strengthen financial resilience to natural disasters for targeted populations in the Program Area.

COST & FINANCING

SUMMARY (USD Millions)

Government program Cost	130.00
Total Operation Cost	100.00
Total Program Cost	100.00
Total Financing	100.00
Financing Gap	0.00

FINANCING (USD Millions)

Total World Bank Group Financing	100.00
World Bank Lending	100.00

B. Introduction and Context

Country Context

1. **Over the past two decades, Morocco has achieved significant economic and social progress due to large public investments and structural reforms, along with measures to ensure macroeconomic stability.** High investment efforts and a capital-intensive development model achieved sustained growth, significant improvements toward eradicating extreme poverty, increased life expectancy, greater access to basic public services, and significant public infrastructure development, while falling short of creating sufficient jobs, especially for the young, and reducing geographic and socio-economic inequities. Further, the COVID-19 pandemic is now abruptly pushing the economy into a severe recession, the first one since 1995, and threatening the social and economic gains.

2. **A stringent confinement, collapsing tourism revenues, the disruption of global value chains and an agricultural shock contributed to explain the magnitude of Morocco´s recession in 2020**. During the second quarter of 2020, which broadly coincided with the 14-week confinement period, real GDP contracted by 15.1 y-o-y. Although activity began to pick up in the third quarter, real GDP contracted by 7.1 percent in 2020. On the production side, although few sectors have been spared, the impact of the crisis has been particularly severe for the hospitality industry and transports, and for the manufacturing segments most exposed to international trade. In addition, agricultural value added contracted by 8 percent because of a severe drought. On the demand side, private consumption contracted by 8.7 percent, partly compensated by a 4.4 percent increase in public consumption. In this context of depressed activity, headline inflation averaged 0.7 percent in 2020 and the share of non-performing loans increased to 8.4 percent of banks' credit portfolio (7.6 percent in December 2019).

3. **The COVID-19 pandemic has had a significant budgetary impact, but the current account deficit fell in 2020**. An increase in certain fiscal expenditures and a sharp contraction in tax revenues led to a deterioration of the budget deficit, which reached 7.7 percent of GDP in 2020. The fiscal expansion and the recession caused the debt to GDP ratio to increase by more than 12 percentage points to 77.8 percent of GDP. The current account performed better than anticipated, closing the year with a deficit of just 1.5 percent of GDP (4.1 percent of GDP in 2019), owing to the sharp contraction of imports and the resilience of workers' remittances. The Moroccan economy has preserved its good access to external finance, with large multilateral disbursements, two successful sovereign bond issuances in international markets (€1 billion in September and US$ 3 billion in December), and relatively resilient net FDI flows. In this context, the stock of foreign exchange reserves has increased by 26.6 percent in 2020, reaching almost 30 percent of GDP, or the equivalent of more than seven months of imports.

4. **After several years of sustained declines, the poverty rate (measured with the US$3.2 PPP line) is estimated to have increased from 5.8 percent in 2019 to 7.1 percent in 2020**. The crisis is having a significant impact on the labor market, and the unemployment rate has spiked to 11.9 percent (9.2 percent in 2019).

Sectoral and Institutional Context

5. **Morocco is one of the countries most exposed to geological and climate-related hazards in the Middle East and North Africa (MENA) region**. Between 2000 and 2021, the country experienced 18 major flood events, the latest taking place in the Tangier Province in February 2021, when 28 people died after a rainstorm with significant

flooding.[12] According to the probabilistic evaluation of disaster risks in Morocco led by the World Bank, the country has annual average losses (AAL) from natural catastrophes of over US$ 800 million. Due to its geographical position, high rainfall variability, and topography, Morocco is regularly prone to flooding with losses estimated at over US$ 450 million each year.[3] Urbanization exacerbates flood risk, especially in coastal areas, which concentrate more than 60 percent of the population and over 90 percent of industry.[4] Droughts affect the agricultural sector, with an impact on cereal production estimated to cost the economy of Morocco approximately US$ 290 million per year.[5] Earthquakes affect two specific areas of the country: the North[6] which is experiencing strong economic growth, and the Agadir Region, one of Morocco's main touristic centers. Earthquakes have an annual average loss of over US$ 90 million per year. Tsunamis are a significant threat to Morocco's Atlantic and Mediterranean coasts with an average annual loss of over US$ 13 million per year.[7]

6. **Morocco is already bearing the brunt of climate change, which will further exacerbate the impact of climate-related disaster events.** Global climate models indicate rising temperatures of 1 to 3.7°C by 2060 with a faster rate of warming in the interior of the country,[8] as well as a significant reduction in annual rainfall of 15 percent on average to as much as 30 percent for the Saharan region, threatening already limited and dwindling water resources.[9] Drought frequency and intensity have increased in recent decades and are projected to worsen with climate change: for example, extended meteorological droughts in the Middle Atlas Mountains of Morocco, namely the Oum er Rbia watershed, have severely impacted water availability. Fire incidents have been on the rise, causing estimated losses in forest products (timber and non-timber) of MAD 18 million per year.[10] Climate change is also expected to contribute to sea-level rise, which in turn will heighten the risk of coastal flooding, coastal erosion and storm surges. It is projected that a 40-centimeter sea-level rise will increase the mean annual loss in city level GDP for Casablanca – economic capital of the country, from US$ 12 million to US$ 1,256 million without adaptation measures. However, this prediction concludes that loss increase can be kept at US$ 1-2 million annually, if appropriate adaptation measures are taken.[11]

7. **Over the last two decades, the GoM has developed a strong, cross-sectoral DRM and climate change adaptation policy framework.** Since the early 2000s, the GoM has made great strides in understanding critical risks through state-of-the-art risk assessment studies, developing necessary regulatory DRM policies, and refining the definition of roles and responsibilities between ministries in natural-hazard related disaster risk reduction, response

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[1] "Drame de Tanger: l'enquête est toujours en cours, Le360.ma (04/03/2021)
[2] EM-DAT, www.emdat.be.
[3] Results from the "Morocco natural hazards Probabilistic Risk Analysis" can be found in: World Bank (2013). Building Morocco's Resilience: Inputs for an Integrated Risk Management Strategy. Washington, DC. MAD/USD: 0.11 (22/10/2018).
[4] World Bank. (2014). Turn Down the Heat: Confronting the New Climate Normal. Washington, DC: World Bank. Retrieved from https://openknowledge.worldbank.org/handle/10986/20595
[5] The calculations are based on three crops only. World Bank (2013). Building Morocco's Resilience: Inputs for an Integrated Risk Management Strategy. Washington, DC. *Ibid Op cit.*, MAD/USD: 0.11 (22/10/2018).
[6] The 2004 Al Hoceima earthquake occurred near the coast of northern Morocco. The strike-slip earthquake measured 6.3 Mw. About 630 people were killed, 926 were injured, and up to 15,000 people were made homeless in the wider Al Hoceima area
[7] World Bank (2013). Building Morocco's Resilience: Inputs for an Integrated Risk Management Strategy. Washington, DC. *Ibid Op cit.*, MAD/USD: 0.11 (22/10/2018).
[8] Based on CMIP 5 ensemble projections, under the high-emission scenario (RPC 8.5). Source: Climate Risk Profile: Morocco (2021): The World Bank Group.
[9] USAID (2016). Climate Change Risk Profile – Morocco. URL: https://www.climatelinks.org/sites/default/files/asset/document/2016_USAID_Climate%20Risk%20Profile%20 %20Morocco.pdf.
[10] https://climateknowledgeportal.worldbank.org/country/morocco.
[11] Hallegatte, S., Green, C., Nicholls, R. J., & Corfee-Morlot, J. (2013). Future flood losses in major coastal cities. Nature climate change, 3(9), 802-806.

and recovery. With support from the parent operation, the Government has improved its approach to managing disaster and climate-related risks with a focus on promoting ex-ante risk reduction and preparedness, to complement ex-post recovery activities. To this end, the Government has reformed the Fund for the Fight against the Impacts of Natural Disasters (*Fonds de Lutte contre les Effets des Catastrophes Naturelles*, *FLCN*) into a "National Resilience Fund" that acts as an important co-financier of local-level structural and non-structural disaster risk reduction investments. In terms of emergency response, relevant mechanisms and institutions are well established and centrally coordinated through the national Monitoring and Coordination Center (*Centre de Veille et de Coordination, CVC*) and the Civil Protection, both under the Ministry of Interior. In 2020, the Ministry of Interior created a dedicated DRM Directorate (*Direction de la Gestion des Risques Naturels, DGRN*), which is charged with coordinating the Government's overall approach to disaster risk management and climate change adaptation. Its organigram, approved in August 2020, organizes the Directorate along five Divisions and 16 units. Finally, in February 2021, the Government adopted its first National DRM Strategy (2020-2030), whose preparation has been supported by the parent operation. The strategy is centered around five strategic axes and 15 programs.

8. **The GoM has also initiated the development of an efficient disaster risk financing mechanism with the adoption in 2016 of Law No. 110-14 introducing a catastrophic risk insurance regime.** The law, supported by the parent operation, aims to improve the financial resilience of Moroccan households and businesses against natural and manmade disasters. It sets up a dual system which guarantees coverage for insured households and businesses through additional premium received and managed by private insurers, as well as provides basic compensation for uninsured people and households through the Solidarity Fund against Catastrophic Events (*Fonds de Solidarité contre les Evénements Catastrophiques,* FSEC). The FSEC has been operational since January 2020 and provides partial financial compensation, including to the poorest and most vulnerable, in case of bodily injury or loss of principal residence. Given the potential severity of disaster-related losses faced by the FSEC, its financing will be backed by a combination of financial instruments in accordance with its financial strategy, which has been supported through WB technical assistance. In 2019, the World Bank approved the Disaster Risk Management Development Policy Loan with a Catastrophe Deferred Drawdown Option (Cat DDO), which provided the Government with a contingent credit line and supported a policy program strengthening the governance, financial, and operational framework of the FSEC as well as the Government's institutional framework for DRM. In April 2020, the Cat DDO was fully disbursed to support the Government's response to the Covid-19 crisis.

PforR Program Scope

9. **Parent operation.** The proposed AF in the amount of US$ 100 million will support the ongoing DRM PforR (P14539) under implementation. This existing Program was approved on April 20, 2016 for an original loan amount of US$ 200 million with the closing date of December 31, 2021. The program development objective (PDO) of the parent operation is to improve the institutional framework to finance disaster risk reduction activities and strengthen financial resilience to natural disasters for targeted populations in the Program Area. The implementation progress of the parent operation is satisfactory and the PforR has achieved tangible results. As of March 2021, US$ 195 million have been disbursed (97.5 percent of the loan amount), including a 25 percent advance. So far, all disbursement linked results (DLRs), except for DLI#5, have been met. Key results by subprogram include:

a. **Subprogram 1 ("Promoting Institutional Reform and Capacity Building")**: the redesign of the FLCN from an emergency response vehicle into a national resilience fund that co-finances disaster and climate-related risk reduction and preparedness investments at the local level through yearly call for proposals (CP) as well as direct allocations; the creation of an interactive FLCN website;[12] and the adoption of a National DRM Strategy and preparation of its associated action plan.

b. **Subprogram 2 ("Scaling Up Disaster Risk Reduction Activities")**: Through this subprogram, the FLCN has leveraged 179 disaster and climate-related risk reduction projects (structural and non-structural) for a total investment volume of MAD 2.65 billion (US$ 290 million) and an FLCN co-financing contribution of MAD 954 million (US$ 105 million).

c. **Subprogram 3 ("Improving Disaster Risk Finance and Insurance")**: Key results include the adoption of a catastrophic risk insurance regime (Law 110-14) that sets up a dual system that (i) guarantees coverage for insured households and businesses through additional premium received and managed through private insurers (at least 8.9 million people were insured in 2020), and (ii) provides basic compensation for uninsured people and households through the creation of the FSEC. With a newly created dedicated parafiscal tax, the FSEC receives at least MAD 200 million (US$ 22 million) annual provision since 2020 through revenues from this tax.

10. **The proposed 24-months AF with a financing volume of US$ 100 million will extend and scale up the first and second subprograms of the parent operation and have a closing date of December 31, 2023**. The government program and the PforR Program boundaries will remain unchanged. The PDO will remain unchanged as it remains relevant. The original Program Area mentioned in the PDO will be retained in the AF as the current geographic scope remains unchanged. The institutional arrangements for the AF will remain unchanged from the parent operation. For the scaled-up Subprograms 1 and 2, the Ministry of Interior (MoI) through its newly created DRM Directorate (DGRN) will continue to be the responsible implementation agency, For Subprogram 3, the Ministry of Economy, Finance and Administrative Reform through the Department of Treasury and External Affairs (Direction du Trésor et des Finances Extérieures, DTFE) will remain the responsible implementation agency.

Proposed changes

11. **The 24-months AF will sustain and increase the impact of disaster and climate-related risk reduction investments** co-financed by the FLCN by extending the scale and duration of the second subprogram of the PforR (DLIs 2-6). As a result, the expected results of the operation could be significantly enhanced in terms of: (i) the financing volume of completed subprojects achieving disaster climate-related risk reduction targets; (ii) additional

[12] www.gestionrisques.ma

capacity building provided to subproject implementers; (iii) strengthened FLCN leverage of partner co-financing; and (iv) reaching a significantly larger number of direct and indirect beneficiaries. The AF will also extend the first subprogram (DLI 1) by adding results related to the institutional strengthening of the DGRN, the eligibility parameters for FLCN-supported implementing partners, and the preparation of a an action plan for disaster risk awareness raising of women. In addition, a new DLI (DLI 9) will be added to Subprogram 1 to strengthen the monitoring and evaluation system of the FLCN, which will in turn enhance the implementation pace of risk reduction activities under subprogram 2.

12. **The proposed AF will be complemented by a restructuring of the parent operation**. As part of the restructuring, the second PDO indicator will be revised to better enable the counting of beneficiaries of structural and non-structural subprojects, and the closing date of the parent operation will be extended to December 31, 2023 to align with the closing date of the AF.

C. Program Development Objective(s)

13. The PDO ('to improve the institutional framework to finance disaster risk reduction activities and strengthen financial resilience to natural disasters for targeted populations in the Program Area') will remain unchanged as it remains relevant. The current PDO indicators of the parent program remain relevant and will be retained; however, the second PDO indicator will be changed as part of a parallel restructuring to facilitate the counting of beneficiaries of structural subprojects compared to beneficiaries of non-structural subprojects.

Table 1 : PDO indicators

PDO Indicator	
PDO-1	The FCLN strategic orientation and governance structure are redesigned with a focus on disaster risk reduction
PDO-2	**REVISED** PDO-2.1: Number of direct beneficiaries of completed and eligible structural risk reduction subprojects (% women)
	REVISED PDO-2.2: Number of direct and indirect beneficiaries of completed and eligible non-structural risk reduction subprojects (% women)
PDO-3	Minimum number of people in the Program Area insured for bodily injury against catastrophic events
PDO-4	Establishment and operationalization of the FSEC to protect the uninsured

D. Environmental and Social Effects

14. **An Addendum to the Environmental and Social Systems Assessment (ESSA) of the parent Program has been prepared.** The addendum is an update of the ESSA developed in 2016. Its objective is to review the environmental and social management systems applicable to the program in light of the new Law 47-19 on the Environmental Assessment. The AF provides an opportunity to strengthen the E&S management and monitoring system by taking advantage of lessons learned from the experience of the parent program.

15. **The environmental and social (E&S) risks and negative impacts associated with the AF are considered moderate, as for the parent PforR.** E&S systems to manage risks have been set up under the parent program and will continue to be used. In line with the parent program, activities that are likely to have large, adverse E&S impacts

will remain excluded from FLCN funding.[13] The AF will continue to verify the eligibility of projects submitted for FLCN funding and to identify the safeguard instruments[14] that apply to each project category based on their potential E&S impacts and risks. The DGRN E&S focal point, with the support of the E&S focal points of the project implementers, will continue to monitor the implementation of these instruments through periodic monitoring reports and site visits. The implementation of the recommendations made during these visits are being monitored by the E&S focal point of the DGRN. In addition, the selection and contracting process for sub-projects will continue to include training and support workshops for project implementers. These workshops will use the E&S Technical Manual as a basis for training. The analysis of the regulatory and institutional frameworks that constitute the national environmental management system has shown their adequacy with the PforR Policy. The update of Law 12-03 on impact assessments, which was repealed by Law 49-17 on Environmental Assessment, does not lead to any modification to the safeguard instruments established for the parent operation in the Program E&S Technical Manual.

16. **Program Action Plan**. The activities identified in the parent operation's PAP have all been implemented, except for the dissemination of the Program's E&S Technical Manual. The E&S Focal Point will continue to ensure the implementation of this plan and the functioning and effectiveness of the environmental management system. Based on the ESSA Addendum, additional actions have been identified and will be integrated into the PAP, including on awareness raising and information, as well as capacity building.

17. **Consultations.** The draft ESSA will be disseminated to the various stakeholders and published on the FLCN website, with a possibility to provide comments online. Based on the published draft ESSA Addendum, a consultation workshop will be conducted prior or during appraisal, in collaboration with MoI. It will be conducted remotely due to the Covid-19 context. A final version of the ESSA will then be developed, incorporating the comments received during the consultation phase. This version will be published on the FLCN and World Bank respective websites.

18. Communities and individuals who believe that they are adversely affected as a result of a Bank supported PforR operation, as defined by the applicable policy and procedures, may submit complaints to the existing program grievance redress mechanism or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org .

[13] Similar to the parent operation, the activities and investments will not (i) take place in any of Morocco's Sites of Biological and Ecological Interest (SBEI), (ii) significantly transform natural habitats or significantly alter areas of biodiversity and/or potentially important cultural resources, or (iii) negatively impact forest cover. The activities and investments will continue to be subject to prior screening and the instruments developed under the parent project's ESSA will be maintained.

[14] These include Environmental and Social Management Plans (ESMPs), Abbreviated Resettlement Plans (ARPs) and Environmental and Social Information Sheets (ESIS).

E. Financing

19. **The proposed Additional Financing will be financed by an IBRD loan in the amount of US$ 100 million**. No other development partner is expected to provide funding as part of the Program. Nevertheless, Morocco's DRM agenda is supported by several development partners including the Organization for Economic Cooperation and Development (OECD) ; the Swiss Government, a major partner on risk management in Morocco through the Swiss Agency for Development and Cooperation (SDC) and the Secretariat of Economic Development and Cooperation (SECO) ; and the European Union (EU) which are providing technical assistance and capacity building.

Table 2 : Program Financing (in million USD)

Sources	Amount (USD Million)	% of Total
International Bank for Reconstruction and Development (IBRD)	**100.00**	**100.00**
Total Program Financing	**100.00**	

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CONTACT POINT

World Bank

Name :	Philipp Stefan Petermann		
Designation :	Disaster Risk Management Specialist	Role :	Team Leader(ADM Responsible)
Telephone No :	5220+81106 /	Email :	ppetermann@worldbank.org

Name :	Antoine Bavandi		
Designation :	Senior Financial Sector Specialist	Role :	Team Leader
Telephone No :	1-202-569515	Email :	abavandi@worldbank.org

Name :	Augustin Maria		
Designation :	Senior Urban Development Specialist	Role :	Team Leader
Telephone No :	5360+4290 /	Email :	amaria@worldbank.org

Borrower/Client/Recipient

Borrower :	Ministry of Economy, Finance and Administrative Reform		
Contact :	Mr. Fouzi Lekjaa	Title :	Director of Budget

Telephone No :	21253677267	Email :	internet@finances.gov.ma

Implementing Agencies

Implementing Agency :	Ministry of Economy, Finance and Administrative Reform		
Contact :	Mr. Nouaman Al Aissami	Title :	Adjoint au Directeur du Trésor et des Finances Extérieures
Telephone No :	212537677267	Email :	n.alaissami@tresor.finances.gov.ma

Implementing Agency :	Ministry of Interior		
Contact :	M. Nassif	Title :	Gouverneur
Telephone No :	00212661349768	Email :	anassif@interieur.gov.ma

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects