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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT

FOR A PROPOSED LOAN

IN THE AMOUNT OF EURO 73.3 MILLION (US\$100 MILLION EQUIVALENT)

TO

THE KINGDOM OF MOROCCO

FOR A

SECOND SKILLS AND EMPLOYMENT DEVELOPMENT POLICY LOAN

July 29, 2014

Human Development Department
Maghreb Country Management Unit
Middle East and North Africa Region

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GOVERNMENT FISCAL YEAR

January 1–December 31

CURRENCY EQUIVALENTS

US\$1 = 8.2137 Moroccan Dirham (MAD)

US\$1= Euro 0.7325

(Exchange rate effective as of June 30, 2014)

Weights and Measures: Metric System

ABBREVIATION AND ACRONYMS

AfDB	African Development Bank
AFD	French Development Agency (<i>Agence française de développement</i>)
ALMP	Active Labor Market Policy
ANAPPEC	National Employment Promotion Agency (<i>Agence nationale de promotion de l'emploi et des compétences</i>)
BAM	Moroccan Central Bank (<i>Bank Al-Maghrib</i>)
CGEM	Moroccan Employers' Federation (<i>Confédération générale des entreprises du Maroc</i>)
CIP	First Employment Contract (<i>Contrat intégration professionnelle</i>)
CNCP	National procurement regulatory body (<i>Commission des marchés publics</i>)
CNEF	National Education and Training Charter (<i>Charte nationale de l'éducation et de la formation</i>)
CNSS	National Social Security Fund (<i>Caisse nationale de sécurité sociale</i>)
CPS	Country Partnership Strategy
CSE	Higher Council for Education (<i>Conseil supérieur de l'enseignement</i>)
CSPE	High Council for Employment Promotion (<i>Conseil Supérieur de Promotion de l'Emploi</i>)
DPL	Development policy loan
ETF	European Foundation for Training
EU	European Union
FDI	Foreign direct investment
DCFTA	Deep and Comprehensive Free-Trade Agreement
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GSG	General Secretariat of the Government (<i>Secrétariat Général du Gouvernement</i>)
GiZ	German Society for International Cooperation
HCP	National Statistics Office (<i>Haut-Commissariat au plan</i>)
ILO	International Labor Organization
IMF	International Monetary Fund
IPE	Unemployment Insurance Scheme (<i>Indemnité pour perte d'emploi</i>)
MAD	Moroccan dirham (currency)
MAGG	Ministry of General Affairs and Governance (<i>Ministère des affaires générales et de la gouvernance</i>)
MEF	Ministry of Economy and Finance (<i>Ministère de l'économie et des finances</i>)
MENFP	Ministry of National Education and Vocational Training (<i>Ministère</i>

MHESRTPS	<i>de l'éducation et de la formation professionnelle)</i> Ministry of Higher Education, Scientific Research and Training of Professional Staff (<i>Ministère de l'enseignement supérieur, de la recherche scientifique et de la formation des cadres</i>)
MILES	Macroeconomic performance, Investment climate, Labor market policies and institutions, Education and skills, and Social protection for workers
MOLSA	Ministry of Labor and Social Affairs (<i>Ministère de l'Emploi et des Affaires Sociales</i>)
NQF	National Qualifications Framework (<i>Cadre national des certifications</i>)
OFPPT	National Vocational Training Agency (<i>Office de la formation professionnelle et de la promotion du travail</i>)
PCS	State-funded social insurance coverage (<i>Prise en charge par l'Etat de la couverture sociale</i>), under the Idmaj Program
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PLL	Precautionary and Liquidity Line
PNEI	National Emerging Industries Agreement (<i>Pacte national d'émergence industrielle</i>)
PUEN	Education Emergency Program (<i>Programme d'urgence éducation-formation</i>)
RAMED	Health insurance for low income households (<i>Régime d'assistance médicale pour les économiquement démunis</i>)
SEDPL1	First Skills and Employment Development Policy Loan
SEDPL2	Second Skills and Employment Development Policy Loan
SME	Small and medium enterprises
VTD	Vocational Training Department

Vice President:	Inger Andersen
Country Director:	Simon Gray
Senior Practice Director:	Arup Banerji
Practice Manager:	Yasser El Gammal
Task Team Leader:	Nadine Poupart

KINGDOM OF MOROCCO

SECOND SKILLS AND EMPLOYMENT DPL

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This Loan was prepared by an IBRD team consisting of Nadine Poupart (Task Team Leader), Kamel Braham (co-Task Team Leader), Jean-Pierre Chauffour (Lead Economist), Khalid El Massnaoui (Senior Economist), Rene Antonio Leon Solano (Social Protection Specialist), Diego Angel-Urdinola (Senior Economist), Alaa Ahmed Sarhan (Senior Environmental Specialist), Jean-Charles de Daruvar (Senior Counsel), Abdoulaye Keita (Senior Procurement Specialist), Kamel Bezzine (Financial Management Specialist), Aissatou Diallo (Sr. Finance Officer), Aissatou Dicko (Sr. Program Assistant), Bachir Abdaym (Operations Officer), and Fatiha Bouamoud (Program Assistant). The team works under the guidance of Simon Gray (Country Director), Enis Baris (Practice Manager, Health Nutrition and Population), Yasser El-Gammal (Practice Manager, Social Protection and Labor) and Hana Polackova Bixi (Program Leader).

SUMMARY OF PROPOSED LOAN AND PROGRAM

KINGDOM OF MOROCCO

SECOND SKILLS AND EMPLOYMENT DPL

Borrower	Kingdom of Morocco
Implementing Agencies	Ministry of Labor and Social Affairs; Ministry of National Education and Vocational Training; Vocational Training Department; Ministry of Higher Education, Scientific Research and Training of Professional Staff; and Ministry in charge of Small Enterprises and Informal Sector Integration.
Financing Data	IBRD Variable Spread Loan with 29 years of maturity including a 6.5-year grace period in an amount of Euro 73.3 million (US\$100 million equivalent).
Operation Type	Programmatic operation: Second in a series of two single-tranche operations
Pillars of the Operation And Program Development Objective	The development objective of the Second Skills and Employment Development Policy Loan (SEDPL2) program is to: A. Improve the efficiency and relevance to labor market needs of skills development programs; B. Improve the effectiveness of intermediation services; C. Promote the formalization of micro-enterprises; and D. Strengthen the labor market information system.
Results Indicators	<p><i>Pillar A:</i></p> <ul style="list-style-type: none"> • Rate of internal efficiency of vocational training programs • University graduation rate in open-enrollment faculties, by gender • Number of beneficiaries of on-the-job vocational training • Number of disadvantaged youth benefiting from NGOs-offered training programs <p><i>Pillar B:</i></p> <ul style="list-style-type: none"> • Number of <i>Taehil</i> beneficiaries, by gender • Number of First employment contract (<i>Contrat intégration professionnelle</i> or CIP) beneficiaries, by gender • Number of beneficiaries of the State-funded social insurance coverage (<i>Prise en charge par l'Etat de la couverture sociale</i> or PCS) Program, by gender • Number of National Employment Promotion Agency (ANAPEC) local offices • Number of new enrolments with ANAPEC, including proportion of non-graduates , per year, by gender <p><i>Pillar C:</i></p> <ul style="list-style-type: none"> • Number of firms formerly operating in the informal sector, registered annually for professional tax (cumulative) • Number of non-salaried workers registered with National Social Security Fund <p><i>Pillar D:</i></p> <ul style="list-style-type: none"> • Number of Active Labor Market Programs (ALMPs) that have been the subject of an evaluation • A program of surveys and studies, aimed at responding to the needs of the labor market and social protection, is carried out • Publication of a labor market monitoring report (bulletin) by the National Employment Observatory
Overall Risk Rating	Substantial
Operation ID	P144185

**IBRD PROGRAM DOCUMENT FOR A PROPOSED
SECOND SKILLS AND EMPLOYMENT DEVELOPMENT POLICY LOAN
TO THE KINGDOM OF MOROCCO**

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed operation closes out a cycle of two development policy loans that have supported the Government's efforts to improve skills, productivity and quality of employment.** The Skills and Employment Development Policy Loan (DPL) series is central to the World Bank's engagement in the country, as described in the Country Partnership Strategies 2009-2013 and 2014-2017. The proposed amount for the Second Skills and Employment DPL (SEDPL2) is Euro 73.3 million (US\$100 million equivalent).

2. **The Arab Spring has spurred political change in Morocco.** Morocco's experience—the “February 20” Movement—started with calls for sharing prosperity. King Mohamed VI proposed political reforms that were adopted via referendum in July 2011. These reforms envisage an independent judiciary, an executive power subject to parliamentary control, and greater regional devolution of decision-making. In parliamentary elections in November 2011, the *Parti de la justice et du développement* (PJD), which had never before been in power, won with 27 percent of the vote. The leader of the PJD became head of a coalition government in January 2012. In September 2013, a new coalition was installed, which will remain in power until the legislative term ends in 2016.

3. **Morocco remains confronted with important social challenges.** A quarter of the population is either poor or under threat of falling back into poverty. Rural-urban disparities persist: 70 percent of poverty is rural and in 2007 the urban poverty rate was 4.8 percent compared to 14.5 percent in rural areas.¹ Jobs are at the forefront of the population's attention and unemployment is a major political and economic issue facing the Government. Morocco's unemployment rate has fallen in recent years, thanks mainly to lower labor force growth and good economic growth.² The unemployment rate decreased from 13 percent in 2000 to 9 percent in 2012. However, data from the third trimester of 2013 shows that the unemployment rate is slightly on the rise, standing at 9.1 percent during this period. This same data show that male unemployment stood at 9 percent (vs. 8.7 percent in 2012) and female unemployment stood at 9.6 percent (versus 9.9 percent in 2012). Unemployment rates are higher in urban areas (14 percent) than in rural areas (3.7 percent), for young people (19.1 percent for those aged 15-24), and for university graduates (17 percent). Low employment quality is a troublesome feature of the labor market. Informality rates are high (80 percent) compared to the MENA region average (67 percent). Informality, defined as “lack of social security

¹ The latest available data from HCP, *Enquête nationale sur les niveaux de vie des ménages, 2007*. A new household expenditure survey is ongoing.

² In terms of the sources of new jobs, the service sector (including public administration) is the first contributor (106,000 new jobs annually during 2005-2010), followed by the construction sector (69,000) and the agricultural sector (33,000) (although the latter creates less jobs than in the past (51,000 annually during 1999-2005)). The industry sector only creates 12,000 new jobs per year. In fact, in 2012, the only economic sector that created employment was the services sector.

coverage” is widespread, with rural areas being more affected than urban areas. Low quality of education is one of the reasons explaining poor labor market outcomes. According to the 2008 World Bank Investment Climate Assessment, approximately 31 percent of firms that participated in the study identified the low skilled labor force as one of the major constraints to doing business in Morocco.

4. **In 2008, the World Bank prepared a comprehensive analysis³ of factors impacting employment in Morocco using the MILES⁴ framework, and provided a set of policy recommendations to address them.** The study led the Government to request the DPL series. Subsequent analytical studies, as presented in Table 5, have further informed this DPL series. The proposed Second Skills and Employment Development Policy Loan (SEDPL2) will support the implementation of some of the report’s recommendations linked to: (i) the efficiency and relevance to labor market needs of skills development programs; (ii) the effectiveness of intermediation services; (iii) the formalization of micro-enterprises; and (iv) the labor market information system.

5. **While other key constraints, such as the high tax wedge⁵ and the rigid labor market regulations, are not specifically addressed under the SEDPL series, the proposed reforms constitute important steps to prepare the ground for more structural reforms of the labor market.** The SEDPL series does not address the tax wedge issue which is among the highest in the MENA region. Yet, a high tax wedge can reduce employment levels and provide incentives for the informalization of the economy. The SEDPL series does not address the reservation wage for the skilled urban population in order to: (i) reduce skilled unemployment and (ii) increase the supply of skilled labor to the dynamic private sector. The SEDPL series also does not address labor regulations or income protection mechanisms. However, the measures supported through this operation are expected to facilitate building a consensus around and preparation for such systemic reforms in the future. For instance, the promotion of a formal “self-employment” status constitutes an experiment to decrease payroll taxes. If well evaluated, this step could open a debate around whether lower payroll taxes could be given to small and medium enterprises (SMEs). Also, the creation of a national employment observatory will be key to developing a systematic analysis of the labor market and will likely facilitate consensus building and exploring options for structural reform of the labor market. Indeed, it is envisioned that the employment observatory will include the development of, among others, an in-depth assessment/evaluation of labor regulation and labor taxes in Morocco. This planned analytical agenda is likely to fuel the dynamics of the debate to reform the labor code and social security. Finally, the adoption of the new law of on-the job vocational training will also be a step to give some of training budget (paid through payroll contributions) back to employers, who complain about paying high taxes for training which does not really meet their needs.

³ World Bank. 2008. *Développement des compétences et protection sociale dans le cadre d’une stratégie intégrée pour la création d’emploi*, Mimeo, Washington D.C.: World Bank. (or “MILES report”)

⁴ MILES, the name of the framework, is the acronym summarizing five elements determining job performance: Macroeconomic performance, Investment climate, Labor market policies and institutions, Education and skills, and Social protection for workers.

⁵ The tax wedge measures the difference between total labor costs and take-home pay as a percentage of total labor costs.

2. MACROECONOMIC POLICY FRAMEWORK

2.1 RECENT ECONOMIC DEVELOPMENTS

6. **Notwithstanding a decade of reforms and favorable growth performance, the Moroccan economy remains structurally oriented toward non-tradable activities (such as construction, public works, and low value-added services) and a volatile, poorly performing agriculture sector.** Given this orientation, Morocco has made little productivity gains over the past two decades despite high levels of investment.⁶ Investment efforts—dominated by publicly funded large infrastructure projects—have boosted the productivity of labor, but have not triggered a growth take-off through higher total factor productivity (TFP). Some positive effects may still occur in coming years as the TFP gains from government expenditures on infrastructure (energy, highways, ports, airports, industrial zones) materialize. However, Morocco has yet to guarantee the productivity gains needed to support the emergence of a larger middle class. The challenge of increasing and further sharing prosperity remains paramount.

7. **One important explanatory factor behind Morocco's modest economic performance can be traced to its difficulty in benefitting from the current wave of globalization.** Morocco's share of global exports has hovered around 0.15 percent since the mid-1970s, while most emerging countries have seen substantial increases in their shares. The price of the national export basket has generally been higher than that of key competitors and this gap has widened since the 2008 global financial crisis. High and rising export prices are symptomatic of persistent weaknesses in the competitiveness of Moroccan enterprises on the global market. Moroccan firms strive to improve the sophistication and quality of their export products. While firms have increased their market share for current products in existing destinations, the renewal of the exporter base with entry and exit of firms is limited, and existing firms exhibit little product and market innovation.

8. **The enormous competitiveness challenge faced by Moroccan firms has been compounded by a series of adverse external shocks.** While the 2008 financial crisis has had a limited direct impact on Morocco's economy, the subsequent food and fuel price crises and Eurozone crisis have had more serious repercussions. Morocco has suffered a major deterioration of its terms of trade since 2008, combined with a significant increase in its food import bill (18 percent per year on average). With a strong trade exposure to the European Union (EU), Morocco has been adversely affected by the sovereign debt crises in neighboring Southern European countries and the subsequent slowdown of economic growth in Europe. As a result, economic growth beyond the agricultural sector has decelerated to an average of 3.5 percent since 2009, compared to 4.7 percent during 2000-2008. Growth has been driven mostly by debt-creating domestic demand, most notably by growing public expenditures. On the upside, the emergence of new growth drivers in higher value-added industries (such as car manufacturing and aeronautics) and the expansion of Moroccan companies in Western Africa

⁶ Morocco has consistently invested 5 to 10 percentage points of GDP more than peer countries and its total investment as a share of GDP has increased from 25 percent of GDP in the 1990s to an average 35 percent currently.

are potentially creating the conditions for Morocco to become a regional hub for investments between Europe and Sub-Saharan Africa.

9. **In response to deteriorating fiscal trends, the Government initiated the reform of the subsidy system and began to rein in other recurrent and capital expenditures.** Morocco's fiscal balance swung from a surplus of 0.4 percent of GDP in 2008 to the highest deficit in two decades, at 7.4 percent of GDP, in 2012. However, the activation of a price indexation mechanism helped cut subsidies by an impressive 24 percent (or almost 2 percentage points of GDP) in 2013. Over the first five months of 2014, subsidy outlays declined further by 7.5 percent (y/y). The consolidation measures also included limiting the rise of the wage bill to 2 percent (and 3.1 percent over January-May 2014) and cutting capital outlays by 6.2 percent. As a result, the fiscal deficit narrowed to 5.5 percent of GDP in 2013,⁷ and the recourse to international markets was limited to US\$750 million in 2013, as compared to US\$1.5 billion in 2012. Morocco also received US\$794 million in capital grants in 2013, including US\$615 million following an agreement signed with the Gulf Cooperation Council (GCC) countries in 2012. In June 2014, Morocco succeeded in issuing Euro 1 billion Eurobonds in the international financial markets under relatively favorable terms (3.5 percent interest rate and 10-year maturity). Outstanding government debt continued to increase in 2013 (albeit at a slower pace than in recent years) to reach 63.5 percent of GDP.

10. **The balance of payments indicators improved in 2013 and over the first five months of 2014 as a result of the fiscal tightening.** After widening steadily since 2007 to reach its highest level at 9.7 percent of GDP in 2012, the current account deficit shrunk to 7.6 percent of GDP in 2013. Foreign trade indicators continued to improve during January-May 2014, with exports growing faster than imports at 7.5 percent and 4 percent (y/y), respectively. On the financing side, in a context of a fixed exchange rate, net foreign direct investment (FDI) inflows grew by 8 percent in 2013 but recorded a sharp fall during January-May 2014 (down 18 percent). After two years of falling foreign exchange reserves, overall financial flows more than covered the current account deficit in 2013, leading to a consolidation of net foreign exchange reserves by US\$1.3 billion to US\$18.4 billion (4.4 months of imports). The foreign exchange position improved further to US\$20.3 billion as of June 13, 2014.

11. **With inflation under control, Morocco's monetary policy stance is mainly aimed at accommodating the economy's liquidity needs subject to a foreign exchange reserve target.** In 2012, in a context of low inflation, Bank Al-Maghrib (BAM) cut its policy rate from 3.25 to 3 percent, lowered the commercial banks' reserve requirement from 6 to 4 percent, and increased liquidity injections. In 2013, to contain the adverse effect of Morocco's overall macroeconomic policy stance on foreign exchange reserves, monetary policy was less accommodating and the growth of money supply was limited to 2.8 percent (compared to 4.5 percent in 2012). To again ease the pressure on the money market, BAM further reduced the banks' reserve requirement to 2 percent in March 2014 and the stock of money supply increased by 4.2 percent by end April 2014. Since 2012, the annual inflation rate never exceeded 2 percent. Non-performing loans continued to increase, reaching 5.9 percent of bank

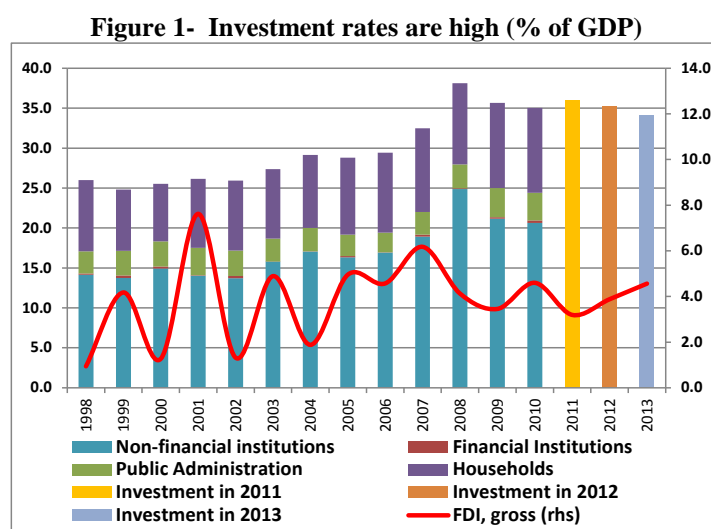
⁷ The budget deficit takes account of capital grants, received mostly from the GCC. Without capital grants, the deficit was 6.2 percent of GDP in 2013.

credit to the private sector in December 2013 and 6.4 percent as of end April 2014. With the loan-to-deposit ratio exceeding 100 percent in most domestic banks, the scope for extending credit to the private sector is increasingly constrained. The implementation of the Basel III accords, which comes into force in 2014, is expected to put further pressure on credit extension, especially longer term and to larger borrowers.

2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

12. **In the short term, domestic demand, both consumption and investment, will continue to be the main drivers of growth but with a growing contribution from net external demand (Table 1).** Domestic private consumption is expected to contribute the most to growth in the near future, but with declining shares to the benefit of investment and net exports. Helped by a relatively high output gap, underlined by low capacity utilization and an unemployment rate exceeding 10 percent in early 2014, the supply side of the economy would be able to scale up its output to meet the extra demand without much pressure on production factors.

13. **Over the medium to longer term, Morocco's macroeconomic prospects are essentially linked to the country's capacity to generate productivity gains.** With an investment rate already exceeding 35 percent of GDP on average over the last years, Morocco has little room for further accumulation-led growth (Figure 1). Future economic growth would therefore need to come from increased total factor productivity, which in turn could be stimulated by increased efforts to improve the business environment and enhance competitiveness on global markets. Along with the sector strategies already under implementation, these efforts would involve improving the quality of domestic investments and continuing to attract large flows of FDI. This would call for more opportunities and economic freedom for all Moroccans to compete, produce and participate in the economy, including with a greater role for the private sector.



Source: Government of Morocco

14. **Both short- and medium-term prospects will continue to depend on the pursuit of sound macroeconomic policies, including a robust fiscal consolidation, a prudent monetary policy and greater flexibility in exchange rate management.** In line with the new constitutional requirement, the Government is committed to fiscal stability and to progressively reduce the budget deficit to the medium-term target of 3 percent of GDP by 2017 through the implementation of a set of reforms. The key measures include: (i) continuing the reform of the universal subsidy system; (ii) implementing civil service reform, notably by introducing a ceiling on wage expenditures and a new remuneration system; (iii) accelerating the fiscal and pension reform agenda; and (iv) enhancing the efficiency of public investments. Progress was made on several fronts in 2013: the authorities reduced the quota and the per-unit subsidy on wheat harvesting in May 2013. In July, they adopted a circular to make wage bill appropriations binding and limit the rollover of unspent investment appropriations; and in September, they started implementing the indexation of domestic prices of industrial fuel oil, gasoline, and diesel on world prices. These actions helped keep the 2013 subsidy bill closer to its budget target, while reducing the vulnerability of the budget to international commodity price movements.

15. **The 2014 Budget Law confirmed the Government's strategy to continue reforming the subsidy system and launch the reforms of the pension and fiscal systems this year.** In January 2014, the Government stopped supporting prices of gasoline and industrial fuel oil and announced a plan to phase out most of the subsidies on diesel by the end of the year. These steps constituted major milestones toward a comprehensive subsidy reform. The Government also adopted the draft Organic Budget Law to enhance central and local government budget design and implementation for better public service delivery and efficiency. To improve further the investment climate, the Government announced its intention to proceed with justice reform, improve access to financing, especially for SMEs, address access to land constraints, develop logistics services, and reinforce technical training. Assuming these reforms take place, growth in the non-agriculture economy could pick up to around 5.5 percent over the medium term, with inflation kept below 2.5 percent and the budget deficit at 3 percent of GDP (Table 1 and Table 2).

16. **The Central Bank (BAM) also announced last year its objective to move towards a more flexible exchange rate mechanism over the next three years.** In doing so, Morocco wants to keep its monetary autonomy while strengthening its competitiveness. The Central Bank has been preparing for a number of years to manage the transition to a more active management of the exchange rate. To this end, encouraging progress has been achieved, including the development of a new framework for monetary policy to target inflation directly, the strengthening of the Central Bank's capacity to safely operate in a more flexible exchange rate environment, and the gradual rebuild-up of foreign exchange reserves. Morocco has also maintained a favorable access to capital markets and Moroccan banks have continued to strengthen their capital base and management of exchange risks. The International Monetary Fund (IMF) has been providing technical assistance in support of the Central Bank's plan to move towards a more flexible exchange regime.

17. **The external position is expected to remain sustainable over the medium term provided that key critical reforms under implementation continue to take hold.** The current account deficit is projected to gradually decline to less than 5 percent of GDP in 2017,

benefiting from improved export potentials and a recovery of tourism activities and workers' remittances. The latter would benefit from the anticipated progressive recovery in Europe, the main source of remittance flow to Morocco. This scenario critically assumes that Morocco would benefit from its continued reform efforts supported by a number of World Bank-financed DPLs. These reforms, along with sector strategies already under implementation, would translate into higher productive private investments, including FDIs, and progressive gains in competitiveness of exports, including tourism. Exports should also benefit from some diversification toward the BRICS (Brazil, Russia, India, China, and South Africa) and other major developing countries, including in sub-Saharan Africa.

Table 1: Key Macroeconomic Indicators

	Act.			Est.	Proj.			
	2010	2011	2012	2013	2014	2015	2016	2017
Real economy	<i>Annual percentage change, unless otherwise indicated</i>							
GDP (nominal--local currency)	4.3	5.0	3.2	5.5	5.3	6.9	7.2	7.3
Real GDP	3.6	5.0	2.7	4.4	3.0	4.6	4.8	4.9
Per Capita GDP	2.5	3.8	1.6	3.3	1.9	3.5	3.7	3.9
Contributions:								
Consumption	1.1	5.0	3.6	2.9	2.3	3.3	3.4	3.2
Investment	-0.8	1.4	-1.1	-0.1	0.7	1.2	1.4	1.6
Net exports	3.4	-1.5	0.1	1.6	0.0	0.0	0.1	0.2
Imports	3.6	5.0	2.0	-1.1	5.0	5.1	5.1	5.1
Exports	16.6	2.1	2.7	2.2	6.8	7.0	7.0	7.1
Unemployment rate (ILO definition)	9.1	8.9	9.0	9.2	...	...	...	...
GDP deflator	0.6	0.1	0.5	1.0	2.3	2.2	2.2	2.2
CPI (pa)	0.9	0.9	1.3	1.9	1.4	1.7	2.1	2.2
Fiscal Accounts	<i>Percent of GDP, unless otherwise indicated</i>							
Expenditures	29.9	33.1	35.0	32.1	31.6	30.8	29.9	29.2
Revenues*	25.3	26.4	27.6	26.6	26.7	26.5	26.3	26.2
Central Government Budget Balance*	-4.7	-6.7	-7.4	-5.5	-4.9	-4.3	-3.6	-3.0
Central Government Debt	50.3	53.7	59.7	63.5	65.0	64.9	64.0	62.5
Selected Monetary Accounts								
Base Money	4.2	6.4	4.5	2.8	...	...	...	...
Credit to non-government	11.0	10.4	5.1	3.1	...	...	...	...
Interest (key policy interest rate), %	3.25	3.25	3.00	3.00	...	...	...	...
Balance of payments								
Current Account Balance	-4.5	-8.0	-9.7	-7.6	-6.7	-5.8	-5.2	-4.6
Imports	44.3	49.9	51.5	48.9	46.9	46.8	46.7	46.7
Exports	33.4	35.8	36.1	34.4	35.1	36.0	36.6	37.3
Foreign Direct Investment, net	1.1	2.4	2.8	2.9	2.5	2.6	2.6	2.6
Net reserves in US\$, bln (eop)	23.3	20.3	17.2	18.4	...	...	...	...
In months of next year's imports	5.6	4.9	4.1	4.4	...	...	...	...
As % of short-term external debt	0.9	0.5	0.4	0.5	...	...	...	...
External Debt	29.0	29.3	32.3	33.4	35.3	36.2	36.6	36.6
Terms of Trade, change in %	-3.4	4.1	-13.1	0.8	0.7	1.7	0.1	0.1

Exchange rate (average)	8.42	8.09	8.63	8.40	...	...	...	...
Other memo items								
GDP, nominal MAD, bln	764.0	802.6	827.5	872.8	918.9	982.1	1,052.4	1,128.9
GDP, nominal US\$, bln	90.8	99.2	95.9	103.9	...	...	...	...

(*) Include all grants

Source: Government and World Bank staff estimates

18. **External debt is expected to peak at around 37 percent of GDP in 2018 before declining thereafter.** Foreign reserves would remain above four months of imports, assuming foreign investors retain confidence and GCC financial support materializes.⁸ External financing requirements constitute a moderate concern in the medium term, given the still low external debt, financial support from the GCC, access to international markets, and still adequate foreign reserves. Current account deficits are projected to narrow steadily in the medium term, and financing them should not be a constraint. Any remaining financing gap could be filled by tapping into international markets.

Table 2: Fiscal Indicators of the Central Government (in % of GDP)

	Actual			Est.	Projections			
	2010	2011	2012		2014	2015	2016	2017
Overall Balance, including all grants	-4.7	-6.7	-7.4	-5.5	-4.9	-4.3	-3.6	-3.0
Primary balance	-2.4	-4.5	-4.9	-2.9	-2.3	-1.6	-1.0	-0.4
Total revenues	25.3	26.4	27.6	26.6	26.7	26.5	26.3	26.2
Tax revenues	23.1	23.7	25.3	23.3	23.0	23.0	22.9	22.9
Taxes on goods and services	11.3	11.6	11.8	11.2	11.4	11.3	11.2	11.1
Direct taxes	8.5	8.8	9.5	8.8	8.6	8.7	8.7	8.8
Taxes on international trade	1.8	1.3	1.1	0.9	1.0	1.0	1.0	1.0
Other taxes	1.6	1.7	1.9	1.9	1.9	1.9	1.9	1.9
Special accounts, balance	-0.1	0.3	1.0	0.5	0.2	0.2	0.2	0.2
Non-tax revenues	2.0	2.4	2.1	2.5	2.3	2.3	2.3	2.3
Grants, all	0.1	0.3	0.2	0.8	1.4	1.2	1.1	1.0
Expenditures	29.9	33.1	35.0	32.1	31.6	30.8	29.9	29.2
Current expenditures	23.8	26.9	28.8	26.5	25.9	25.0	24.1	23.5
Wages and compensation	10.3	11.1	11.7	11.3	11.0	10.7	10.5	10.4
Goods and services	5.0	4.8	5.3	5.3	5.3	5.5	5.6	5.6
Interest payments	2.3	2.3	2.4	2.6	2.6	2.7	2.7	2.6
Subsidies	3.6	6.1	6.6	4.8	4.3	3.6	2.8	2.3
Current transfers to Local Gov.	2.6	2.7	2.7	2.6	2.6	2.6	2.6	2.5
Capital expenditures	6.2	6.2	6.2	5.5	5.8	5.8	5.8	5.8
Central Government financing	4.7	6.7	7.4	5.5	4.9	4.3	3.6	3.0
External (net)	2.1	0.7	1.8	1.7	2.4	1.7	1.4	1.3
Domestic (net)	2.6	6.0	5.6	3.8	2.4	2.6	2.2	1.8
of which privatization	0.0	0.7	0.4	0.0	0.2	0.2	0.2	0.2

Source: Government and World Bank staff estimates

Table 3: BOP Financing Requirements and Sources (in US\$ million)

	Act.			Est.	Proj.			
	2010	2011	2012		2014	2015	2016	2017
Financing Requirements	6,894	11,300	13,140	11,520	10,647	10,031	9,808	10,228
Current accounts deficit	4,078	7,986	9,347	7,789	7,153	6,567	6,244	5,856
Long-term debt amortization (exl. IMF)	2,428	2,438	2,429	2,373	2,421	2,478	2,628	3,493
Other short term capital outflows	388	876	1,365	1,358	1,073	985	937	878
Financing Sources	6,894	11,300	13,140	11,520	10,647	10,031	9,808	10,228

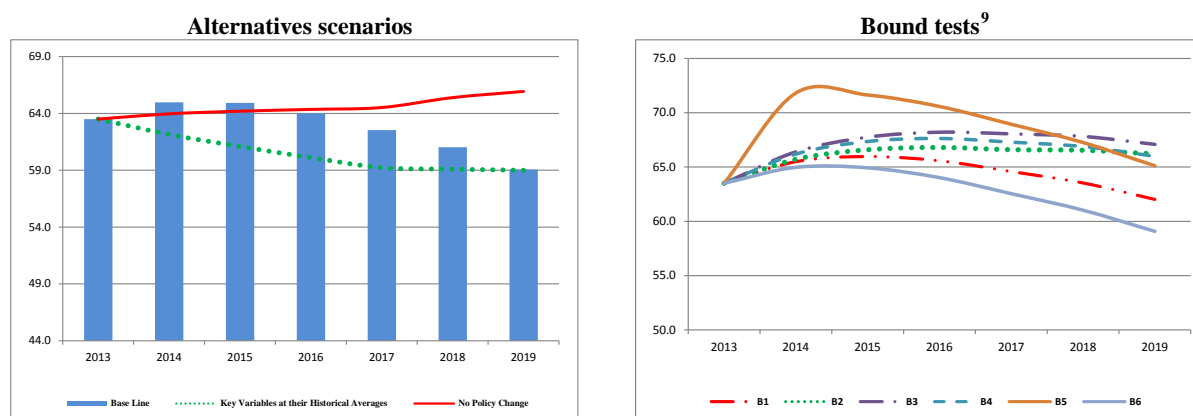
⁸ The Government signed a grant agreement with the GCC in 2012 for a total of US\$5 billion over 5 years.

FDI and portfolio investments (net)	1,074	2,156	2,720	3,050	2,680	3,200	3,350	3,508
Capital grants	10	185	58	726	2,297	1,942	1,920	1,900
Long-term debt disbursements (exl. IMF)	4,992	4,464	4,397	6,023	5,594	5,692	5,628	6,227
Other short term capital inflows	852	1,476	2,858	2,994	973	885	837	779
Change in reserves (-=increase in reserves)	-34	3,019	3,106	-1,274	-897	-1,688	-1,926	-2,185
IMF credit (net)	0	0	0	0	0	0	0	0

Source: Government and World Bank staff estimates

19. **The public debt sustainability analysis indicates that the framework remains sustainable although it would weaken under a scenario of medium-term downside risks (Figure 2).** Indeed, when the debt sustainability analysis is based on the assumption of "no-policy-change", the debt stock increased steadily over the period 2013-19. All six bound tests proved sustainable over the medium term, although three of them show debt-to-GDP ratios in the range of 65-67 percent.

Figure 2: Central Government External Debt Sustainability (in % of GDP)



Source: Government and World Bank staff estimates

20. **In August 2012, the IMF and the Government agreed on an SDR 4.12 billion (approximately US\$6.2 billion) Precautionary and Liquidity Line (PLL).** When completing the third and last review of the PLL in January 2014, the IMF found that, notwithstanding the continued unfavorable external environment and challenging domestic conditions, Morocco's macroeconomic performance improved in 2013, supported by strong policy commitments and implementation, as well as the insurance provided by the PLL. In a subsequent visit in May 2014, the IMF Managing Director encouraged the Moroccan authorities to take further measures to move forward with difficult fiscal reforms and implementation of a structural reform agenda in support of competitiveness, a strengthened business environment and higher

⁹ B1: Real interest rate is at baseline plus one standard deviations; B2: Real GDP growth is at baseline minus one-half standard deviation; B3: Primary balance is at baseline minus one-half standard deviation; B4: Combination of B1-B3 using one-quarter standard deviation shocks; B5: One time 30 percent real depreciation in 2014; and B6: 10 percent of GDP increase in other debt-creating flows in 2014.

job creation. The PLL will continue to provide a potential line of credit until August 2, 2014.¹⁰ Morocco and the IMF are currently discussing the modalities of a new PLL arrangement in place of the current one that expires in August 2014.

21. **In sum, progress toward fiscal consolidation and improvement in external indicators underscore that the Government’s macroeconomic policy framework remains adequate for development policy lending.** Nevertheless, difficult conditions in the global and regional environment and the slow pace of some key reforms entail significant downside risks. Slower recovery of the global economy, especially in Europe, would limit Morocco’s export potential and would require additional macroeconomic adjustments. Greater volatility of the world financial markets is also a source of risk. In addition, the three debt sustainability analysis tests that put the medium-term public debt-to-GDP ratio in the 65-67 percent range highlight the risks posed by a limited reform scenario. Yet, Morocco has also demonstrated its capability to adjust policies and introduce corrective measures to overcome the adverse effects of shocks. Morocco managed to keep its investment grade rating and its access to international financial markets with relatively favorable conditions. The successful implementation of the Government’s revamped development strategy would ensure that the negative effects of most of the anticipated risks discussed above are weathered successfully.

2.3 RELATIONS WITH THE IMF

22. **The World Bank and the IMF maintain a close collaboration in Morocco.** IMF and World Bank teams have regular exchanges on macro-financial issues with a common understanding on the division of labor and a shared assessment of the critical macroeconomic challenges facing the country. Discussions focus on the respective work programs and recent macro-financial developments and prospects. World Bank-IMF collaboration reflects the importance of transversal DPLs in the World Bank’s portfolio. IMF staff participate in the review of the World Bank-financed projects, while World Bank staff are consulted in the preparation of IMF missions and contribute to the IMF’s Article IV consultation missions to Morocco. The ongoing analytical work being carried out by the IMF team focuses on: (i) the medium-term outlook for public finances; (ii) an analysis of the real exchange rate; and (iii) the macroeconomic implications for Morocco of the global financial crisis and its aftermath in Europe.

3. THE GOVERNMENT’S PROGRAM

23. **The 2012-2016 Government’s program is structured around the following five pillars:** (i) deepening national identity and social cohesion; (ii) the rule of law and advancement of regionalization and governance; (iii) job creation and economic development; (iv) national sovereignty and social development; and (v) strengthening social services, including those aimed at Moroccans living abroad. The scope of the proposed SEDPL2

¹⁰ See Annex 3 and “Morocco: Third Review Under the Two-Year Precautionary and Liquidity Line,” Country Report No. 14/66 March 6, 2014 at www.imf.org.

focuses primarily on objectives outlined in the third and fifth components of the Government's program, which are described in more detail below.

24. **More jobs will have to come mainly from more private sector investments and faster growth. Good quality jobs require these investments to take place in high-value-added sectors and be accompanied by innovations that boost productivity.** This requires parallel improvements in macroeconomic and investment climate policies (cf. Section 2), the education and training sector, labor market policies, and the social protection system. The Government has embarked on a series of reforms/actions in each of these sectors.

25. Education and training. **While increasing access to and equity of education has been a priority of Morocco over the past 15 years, improving quality and relevance has become the focus of government policies.** Morocco has embarked on a comprehensive reform of the education and training system since 1999, including important investments, and has adopted the National Education and Training Charter (CNEF).¹¹ While these efforts have resulted in a substantial increase in enrolment at all levels, quality and relevance of education outcomes remain a matter of concern. The increase in the number of students enrolled in post-secondary education (62 percent for higher education and 100 percent for vocational training), in particular, has been mostly driven by the social demand for education, and the low level of education and skills of the workforce continue to figure among the main factors constraining the country's economic growth and long-term competitiveness. The Education Emergency Program 2009-2012 (PUEN)¹² was designed to fill the gaps in achieving the CNEF targets and put a stronger focus on quality. In higher education, the PUEN concentrated on improving quality and relevance to labor market needs in order to reduce unemployment among university graduates, notably through contracting with public universities. The PUEN also focused on developing and diversifying the supply of vocational training programs while introducing a number of policies that aim to better match training outcomes to economic needs. While the evaluation of the PUEN by the Higher Council for Education (*Conseil supérieur de l'enseignement*, CSE) is still underway, there are indications that most of the PUEN interventions have been completed but with some delays. The Ministry of National Education and Vocational Training (*Ministère de l'Education Nationale et de la Formation professionnelle*, MENFP) is undertaking, in collaboration with the CSE, a wide stakeholder consultation with a view to developing a new sector strategy by early 2015.

26. Labor Market Policies. **The Government aims at reducing the unemployment rate from 9 to 8 percent between 2012 and 2016, particularly for post-secondary graduates.** To achieve this goal, the Ministry of Labor and Social Affairs (MOLSA) has engaged in the development of a National Strategy for Employment. In addition, MOLSA has unveiled its Strategic Action Plan 2012-2016 (*Plan d'Action Stratégique 2012-2016*), whose objectives are to: (i) increase the reach and impact of Active Labor Market Programs (ALMPs) by evaluating existing ALMPs and creating three additional programs; (ii) create a National Employment

¹¹ <http://www.men.gov.ma/sites/fr/Lists/Pages/charte.aspx>

¹² <http://www.men.gov.ma/sites/fr/PU-space/default.aspx>; http://www.men.gov.ma/sites/fr/PU-space/bib_doc/portefeuille_fr.pdf; http://www.men.gov.ma/sites/fr/PU-space/bib_doc/SYNTHESE_Fr.pdf; http://www.men.gov.ma/sites/fr/PU-space/bib_doc/RESUME_Fr.pdf

Observatory as well as a labor market information system; (iii) re-enforce the capacity of public and private labor market intermediation agencies; and (iv) establish an unemployment insurance scheme. The ALMPs include: (a) *Idmaj*, a training-integration program (through exemption from social security contribution and income tax); (b) *Taehil*, a program that seeks to improve the employability of unemployed graduates through training; and (c) *Moukawalati*, an entrepreneurship program.¹³ These ALMPs are implemented by the National Employment Promotion Agency (ANAPEC). In addition, three new ALMPs are being introduced: (i) *Moubadara*, which encourages employment in associations; (ii) *Taetir* which seeks to improve the employability of long-term unemployed; and (iii) *Istiâab*, which seeks to encourage the formalization of the informal sector.

27. **Social protection.** **The Government has undertaken a series of initiatives in the social protection sector that affect the labor market.** First, it has engaged in actions to close the coverage gap of social insurance. The Government is seeking to expand social security coverage for salaried workers through the Social Security Fund (CNSS), for independent workers (new scheme under design), and the poor and vulnerable (through health insurance for low-income households, *Régime d'assistance médicale pour les économiquement démunis* [RAMED]). Second, because there is considerable mobility in the Moroccan labor market, and loss of income due to loss of employment has become a major social risk, coverage of this risk has been a Government priority for the past decade. In 2000, the Government signed an agreement with employers' and workers' representatives to establish an unemployment insurance scheme (*indemnité pour perte d'emploi*, IPE) for private sector workers affiliated with CNSS. The IPE is now expected to be launched shortly. Third, the pension system has structural problems that undermine its viability. The Government has initiated a social dialogue on reform options. A national commission and a technical commission for pension reform were established in 2007. However, the technical commission has yet to submit its recommendations to the national commission so that a decision can be taken.

28. **In addition to the SEDPL series, the World Bank is supporting the Government's skills and employment program through:** (i) technical assistance (TA) to the MOLSA Department of Employment; (ii) inclusion of Morocco in a number of regional programs (e.g., University Governance and Quality Assurance, SABER Workforce Development); and (iii) the International Finance Corporation (IFC) Employment for Education Program supporting the logistics and tourism sectors. Other support comes from: (a) the African Development Bank (AfDB) which recently approved a Euro 116 million loan to improve the employability of higher education and vocational training graduates; (b) French Development Agency (AFD) TA and parallel financing to SEDPL2; (c) the European Training Foundation (ETF) TA to the National Qualification Framework; and (d) the International Labor Organization (ILO) TA to the employment strategy under preparation and the evaluation of the Labor Code ten years after its effectiveness.

4. THE PROPOSED MOROCCO SECOND SKILLS AND EMPLOYMENT DPL

4.1 LINK TO GOVERNMENT PROGRAM AND OPERATION'S DESCRIPTION

¹³ See Annex 5 for a detailed description of these ALMPs.

29. **The proposed SEDPL2 is the second and last operation in a programmatic DPL series.** The SEDPL1, which was approved by the World Bank Executive Board on June 12 2012, and closed on December 31, 2012, supported mainly new approaches to improve service delivery effectiveness and efficiency. The proposed SEDPL2 is designed to support the deepening of legal and institutional reforms and the implementation of transformative measures anchored in solid strategic approaches.

30. **The development objective and the four pillars of the programmatic DPL series have been slightly revised** to better reflect the actual reforms supported by this operation. The SEDPL2 development objective is to:

- A. Improve the efficiency and relevance to labor market needs of skills development programs;
- B. Improve the effectiveness of intermediation services;
- C. Promote the formalization of micro-enterprises; and
- D. Strengthen the labor market information system.

31. **This objective is directly linked to the World Bank Group strategic goals of ending extreme poverty and boosting shared prosperity.** Indeed, the reforms supported by the SEDPL2 are expected to increase the likelihood of young graduates finding a job through improved skills more relevant to labor market needs. They will also facilitate the insertion of low-skilled youth into the labor market through adapted training and intermediation services. They will also help improve the status of informal sector workers, who tend to be poorer, through incentives for the formalization of micro-enterprises.

32. **The SEDPL series design was informed by lessons learned from sectoral DPLs in Morocco.**¹⁴ First, the quality of technical analysis underlying the reforms is essential to a successful outcome. The SEDPL series has been designed drawing from this broad experience in DPL engagement and will continue to benefit from the technical analysis undertaken under the ongoing Employment TA, and the research program on employment carried out with the National Statistics Office (*Haut Commissariat au plan*, HCP). Second, for a reform approach involving several actors, it is essential to have the right level of coordination. The SEDPL2 will be implemented by a large number of Government entities and the General Affairs and Governance Ministry (*Ministère des affaires générales et de la gouvernance*, MAGG) will be in charge of coordinating the program, a role that MAGG has played satisfactorily under the SEDPL1. Third, donor coordination is playing an important role in the success of lending operations, since it helps, in particular, on mitigating the reputational risk of some types of reforms. As stated above, the SEDPL2 operation was prepared in close coordination with AFD and AfDB. AFD is supporting the same program while the AfDB-financed project has been designed to mainly complement it. This parallel financing is strengthening the dialogue with the Government. Lastly, the success of a reform program also depends on capacity of the institutions involved in the reform. With this in mind, the SEDPL series place emphasis on

¹⁴ Country Partnership Strategy for the Kingdom of Morocco for the Periods FY10-13 and FY14-17

reform implementation measures and the accompanying Employment TA has helped strengthen the capacity of MOLSA.

33. **The SEDPL1 also showed that a pragmatic approach may be preferable to legal and institutional measures that might not reflect a real change on the ground.** The most successful measures supported by SEDPL1 were: (i) the establishment of new vocational training institutes in high-demand sectors under the management of (private or public-private) sector professionals (prior action #3); and (ii) the fiscal measure to encourage the formalization of the micro-enterprises (prior action #6). This lesson has triggered notably a change in the SEDPL2 prior action #1 which replaced the adoption of the vocational training strategy and programmatic contracts with mostly public providers by multiannual contracts with private providers. Prior action #7 has also been changed to focus on the actual implementation of a well-designed and supported pilot for the extension of ANAPEC services rather than (and prior to) the adoption of a draft law, which might deem difficult to enforce due to: (a) the limited capacity and resources of ANAPEC; (b) the absence of a cost estimate to implement this reform; and (c) the need to better understand the characteristics of the target population and to design well-suited ALMPs.

4.2 PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

34. **The SEDPL2 prior actions and results indicators are set out in the Policy and Results Matrix provided in Annex 1.** The formulation of some SEDPL2 triggers has been changed to better reflect the progress of the reforms supported by the DPL series and the actual measures taken by the Government. In particular, prior actions 1, 7, and 8 have been substituted by alternative measures contributing to the DPL objectives as described in Table 4 below.

Table 4: Changes in SEDPL2 Prior Actions

Initial Prior Action (SEDPL2 Triggers as stated in SEDPL1 Program Document)	Revised Prior Action	Rationale for Change	Contribution to SEDPL2 Objectives
1. Labor Ministry's Vocational Training Department signs with ten (10) providers ¹⁵ (including private providers) programmatic contracts (with development plans) in line with the new vocational training strategy	1. The Ministry of National Education and Vocational Training has signed thirteen (13) multiannual training contracts with private sector entities, by January 9, 2014.	The adoption of the vocational training strategy and subsequent programmatic contracts has been delayed due to the government reorganization. The signing of multiannual training contracts responding to the urgent needs of specific sectors (textile, automobile) is in line with the draft vocational training strategy.	The new prior action contributes to the SEDPL2 objective of improving the relevance of skills development programs as the multiannual contracts respond to specific industries' needs and support dual training programs mostly delivered in private enterprises.

¹⁵ Amongst the following providers: National Vocational Training Office; Agriculture; Tourism; Fisheries; Works; Crafts; Youth and Sport; Solidarity; Interior; Justice; Education; Veterans' Affairs; Chambers of Commerce.

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. The Council of Government (<i>Conseil de Gouvernement</i>) has adopted on June 5, 2014, a draft Law No.13.74, which inter alia provides for the governance and financing of on-the-job training.	Adjustment to reflect actual measure. No substantive change.	The separation of the financing from the provision of training will improve the efficiency of the on-the-job training program and increase training and professional development opportunities.
3. Labor Ministry's Vocational Training Department operationalizes the National Qualifications Framework, with a view to enabling users to interpret vocational training qualifications	3. A national commission to follow up on the implementation of the National Qualifications Framework (<i>Cadre national des certifications</i>), has been established by Circular No. 5-2014 dated June 4, 2014, issued by the Head of Government (<i>Chef du Gouvernement</i>).	The change takes into account the actual progress in the operationalization of the National Qualifications Framework (NQF), linking the trigger with a key milestone in the operationalization process. No substantive change.	<p>A better visibility of the education and training programs and their alignment with a common framework will help future job seekers make better informed choices and employers better express their skills needs.</p> <p>In addition, the NQF promotes the international mobility of trainees and workers through the referencing of the NQF to the European Framework of Certification (EFC).</p>
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 designed to offer vocational training programs to out-of-school youth from disadvantaged backgrounds	4. The Ministry of National Education and Vocational Training has developed a support mechanism aimed at non-governmental organizations, designed to offer vocational training programs to out-of-school youth from disadvantaged backgrounds.	Adjustment to reflect actual measure. No substantive change.	The support mechanism is expected to improve the efficiency and relevance of the training programs offered by NGOs.

5. An independent entity is established to carry out institutional evaluations of universities	5. The Council of Government has adopted on July 11, 2013 a draft Law No. 80.12 to establish the National Agency for Higher Education and Scientific Research Evaluation (<i>Agence nationale de l'évaluation de l'enseignement supérieur et de la recherche scientifique</i>) to carry out institutional evaluations of public and private higher education and scientific research institutions.	Adjustment to reflect actual measure. No substantive change.	The Quality Assurance mechanism to be established is expected to improve the effectiveness and relevance of higher education and scientific research programs.
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	6. The Ministry of Labor and Social Affairs has revised its 2012-2016 strategic action plan to include a detailed 2014-2016 work program which defines priorities, programs, budgets, monitoring indicators, and clarifies responsibilities in monitoring its implementation.	Adjustment to reflect actual measure. No substantive change.	The Strategic Action Plan includes all ALMPs as a priority and set realistic targets based on available budget and implementation/monitoring capacity. This is expected to improve the effectiveness and efficiency of ALMPs.
7. The Cabinet has adopted the draft law amending Law No. 51/99 establishing ANAPEC, in order to extend ANAPEC coverage to non-graduates.	7. The Ministry of Labor and Social Affairs has launched the preparation of an eighteen-month pilot program to extend the coverage of the National Employment Promotion Agency (<i>Agence nationale de promotion de l'emploi et des compétences</i>) to non-graduates (i.e, those who have not completed high school (<i>baccalauréat</i>), or do not have a vocational training diploma), in the areas covered by five local offices of such agency.	The MOLSA prepared a draft Law that was submitted to the General Secretariat of the Government and the Ministry of Economy and Finance. Given the financial impact of the measure, the stakeholders have agreed to test ANAPEC's capacity to take on this new mandate. The SEDPL2 supports the launch of a pilot program to test the extension of ANAPEC's services to non-graduates, and estimate the associated costs.	The revised prior action will contribute to the objective of improving the effectiveness of intermediation services through extending services to about 1,500 non-graduates currently excluded from such services.

8. MAGG has signed, at least with two regions, the programmatic contracts for the implementation of the National Strategy for the Promotion of Micro-enterprises that was adopted on May 17, 2013.	8. The Council of Government has adopted on November 7, 2013, a draft Law No. 114.13 to establish a legal, fiscal and social status for self-entrepreneurship that: (i) minimizes the costs of becoming a formal self-entrepreneur; (ii) simplifies the administrative procedures; and (iii) provides for the establishment of a social insurance coverage mechanism for self-entrepreneurs.	The signing of the programmatic contracts has been delayed by a more ambitious preparatory work than anticipated, and by the government reorganization that included the creation of a new Ministry for Small Enterprises and Informal Sector Integration. The prior action supports adoption of an important draft Law promoting self-entrepreneurship.	By minimizing the costs of becoming a formal self-entrepreneur, simplifying the administrative procedures, and providing for the establishment of a social insurance coverage mechanism for self-entrepreneurs. The draft law, once implemented, will provide incentives to relevant micro-enterprises to become formal.
9. Labor Ministry's Employment Department establishes an impact evaluation mechanism for the new employment measures 2012-2016	9. The Ministry of Labor and Social Affairs has established a monitoring and evaluation mechanism for the employment measures included in its 2012-2016 strategic action plan.	Adjustment to reflect actual measure. No substantive change.	Better information on employment programs will improve governance and effectiveness of such programs.
10. An institutional mechanism is established, with sufficient funding for its work program, for monitoring and analyzing the labor market and social protection	10. The Council of Government has adopted on May 15, 2014, a draft Decree No. 2.14.280 regarding, inter alia, the establishment of a National Labor Market Observatory Department (<i>Direction de l'observatoire national du marché du travail</i>) at the Ministry of Labor and Social Affairs, for monitoring and analyzing the labor market, and the 2014 budget of the Ministry of Labor and Social Affairs includes a specific allocation for the National Labor Market Observatory to carry out its mission.	Adjustment to reflect actual measure. No substantive change.	The work to be undertaken by the Observatory will improve quality and availability of information needed to make employment policy decisions.

Pillar A. Improve the efficiency and relevance to labor market needs of skills development programs

35. **The Government is preparing a vocational training strategy to improve sector governance and linkages with labor market needs.** With about 300,000 students enrolled in initial training programs (including about 200,000 students in post-secondary programs), the vocational training system has doubled in size in 10 years but is not fully responding to the needs of the industries as shown by the high levels of unemployment among its graduates. On-the-job training opportunities are limited¹⁶ with the number of beneficiaries stagnating at around 130,000 employees over the past 10 years. Moreover, the system is not well aligned with the government strategy to promote economic restructuring and competitiveness. Key elements of the new strategy are expected to focus on: (i) rethinking the governance and financing of public provision to better respond to the needs of the economy, including extending the model that involves delegating management of training centers to the relevant industry federations; (ii) orienting investments into sectors identified by sectoral strategies such as the National Emerging Industries Agreement (PNEI) (e.g., off-shoring, automobile manufacturing, aerospace industries, electronics, textiles, agribusiness), the National Energy Strategy (energy), the National Tourism Strategy, the Plan Maroc Vert (agriculture), the Plan Halieutis (fisheries), and the Vision 2015 (crafts); (iii) diversifying and extending the supply of vocational training programs; and (iv) facilitating mobility within the training system and labor market. While the vocational training strategy document has not been formally adopted yet, the Government has already initiated the implementation of some of its elements. As the Vocational Training Department (VTD) merged with the Ministry of Education to become the Ministry of National Education and Vocational Training (MENFP), it was decided to have an overarching Education and Training strategy which is currently being prepared in consultation with relevant stakeholders and is expected to be finalized by early 2015.

36. **As a way to better plan skills supply (both in quantity and quality), the VTD is developing subcontracting to private providers and programmatic contracts with public providers.** Three vocational training institutes, in fashion, air/space industries, and automobiles, have been established in 2000-2011 (Prior Action for SEDPL1), under the management of (private or public-private) sector professionals. The VTD is also increasingly establishing multi-annual contracts with private providers for apprenticeship programs. Programmatic contracts with public providers (setting objectives in terms of training needs by sector and planning allocation of related resources) in sectors such as agriculture, craft and tourism, as well as with chambers of commerce, have been prepared and are expected to be signed with the adoption of the new Vocational Training Strategy.

37. **The reform of the financing and governance of the on-the-job training system will be an important element of the future Vocational Training Strategy.** The objective is to separate the financing from the provision of training, and thereby avoid “provider capture,” by placing the management of the vocational training tax under an entity independent from the National Vocational Training Agency (OFPPT, currently managing the program) with a

¹⁶ Limited on-the-job training opportunities was recognized as a key constraint to SMEs competitiveness in Morocco (*Etude sur les leviers de la compétitivité des entreprises marocaines*, CGEM – March 2014).

tripartite oversight including unions, employers and government. This change would also ensure that the 30 percent of the training tax allocated to on-the-job training is actually used for that purpose, and will therefore increase on-the-job training opportunities for employers and workers. The Government has adopted a draft law on vocational training (prior action #2) which, once approved by the Parliament, will also open a new window of training opportunities for workers willing to develop their skills for professional development or career re-orientation purposes.

38. A National Qualification Framework (NQF) has been prepared by the VTD, and validated during an international seminar in February 2013. An NQF was adopted by the MENFP and the Ministry of Higher Education, Scientific Research and Training of Professional Staff (MHESRTPS), the High Council for Education, and the Moroccan Employers' Federation (*Confédération générale des entreprises du Maroc, CGEM*) during an international seminar held in February 2013. The grid of qualification levels produced is expected to: (i) enable employers to better understand the skills content (by type and level) of different qualifications; (ii) help existing and prospective students in making better decisions about the content of study programs and the applicability of skills acquired through those programs; and (iii) facilitate mobility between the various education and training streams as well as lifelong learning/training opportunities. Technical assistance is provided by ETF for the implementation of the NQF which is currently being tested in a few sectors. A National Commission chaired by the Head of Government and including representatives of MENFP, MHESRTPS, the High Council for Education, and the CGEM has been established to follow-up on the implementation of the NQF (prior action #3). The main mandate of the Commission is to ensure that all relevant departments are aligning the training programs delivered by the institutions under their supervision with the NQF.

39. The VTD is working on developing training modalities for disadvantaged youth not eligible for initial vocational training programs in order to develop their skills and improve their integration in the labor market. The VTD has established a program to support NGOs offering training programs to disadvantaged youth excluded from the formal education system. The VTD has undertaken, with support from the Belgian Cooperation, a technical audit of a sample of five NGOs (out of about 80 NGOs) delivering such training programs. The audit identified a number of weaknesses notably related to the implementation and monitoring and evaluation (M&E) capacity of those NGOs as well as in the training content. Based on the audit results, the VTD issued a set of criteria and procedures for the evaluation and selection of NGOs, to benefit from government support. The support mechanism (prior action #4) includes subsidies from the VTD, and partnerships with public vocational training providers to assist NGOs in designing and delivering their training programs.

40. The current Government higher education policy is framed within the PUEN which aims, among others, to: (i) improve system governance, primarily through a process of multi-year contracting with public universities and establishing a quality assurance mechanism; (ii) increase the number of places offered in public and private universities, particularly in the scientific and technological fields, and raise the graduation rate; (iii) diversify the range of qualifications, in particular by promoting the introduction of more professional diplomas and degrees at the bachelor's and master's levels; and (iv) respond to the needs of the economy in

specific areas, notably engineering and medicine. Measures supported through SEDPL1 aimed at diversifying university programs and improving their internal efficiency (objectives (ii), (iii) and (iv)). While there is no information available yet on the evolution of internal efficiency, the diversification of higher education supply is evidenced by the dramatic increase in professional streams which represented about 64 percent of the total number of university programs in 2013/14. SEDPL2 supports the establishment of an autonomous agency to evaluate higher education institutions and programs (objective (i)).

41. **The establishment of a quality assurance mechanism is a key element of the Government strategy to improve the quality and relevance of higher education outcomes.** Despite some success in promoting accountability by “contracting for results” with the fifteen public universities, the MHESRTPS has relied on administrative data as the basis for this quality assurance mechanism. Providing objective and independent information on universities’ institutional performance based not only on administrative data but also on peer reviews and stakeholders consultation, enables prospective students and their families to make better choices and allows prospective employers to better understand the quality of the qualifications presented by graduates. The information also serves as feedback to the universities themselves as part of an ongoing self-improvement cycle and to the Government as an input into decisions about sectoral policies and funding. The Government has approved a draft law to establish a National Agency for Higher Education and Scientific Research Evaluation or NAHESRE (prior action #5). This Agency will be in charge of undertaking institutional assessments of public and private higher education and scientific research institutions as well as evaluations of training programs for their accreditation. The Agency will produce an annual report featuring the year's activities and recommendations to improve the quality of evaluated institutions, to be submitted to the MHESRTPS. The Agency will publish its annual report and will send to evaluated universities the evaluation reports for submission to their boards. The Agency will also produce a report on the results and prospects arising from the evaluations to be sent to the Head of Government for presentation to the Parliament during the Budget Law discussions.

42. **The draft law on NAHESRE has been submitted to the Parliament and has been endorsed by the Education, Training, Culture and Communication Commission.** It is expected to be voted shortly. Several universities have initiated internal evaluations often with support from partners such as the *Agence Universitaire de la Francophonie* and the British Council. The Bank, through its regional program for university governance and quality assurance, has supported about ten Moroccan universities in developing actions plans to improve their governance and has established a university network to disseminate good practices and facilitate experience sharing among universities in the region. Technical assistance to support establishment and launch of NAHESRE activities is also planned as part of the Morocco CPS 2014-17.

43. **Expected Results.** The direct results expected under this pillar are: (i) improved internal efficiency of vocational training and higher education programs; (ii) increased opportunities for on-the-job training; and (iii) extended training opportunities to disadvantaged youth. In the longer term, the reforms supported under this pillar are expected to contribute to improve the relevance of higher education and vocational training through the establishment of a Quality Assurance mechanism and the operationalization of the NQF. The prior action related to higher education will benefit girls equally as they represent 48 percent of higher

education students, while the prior actions related to vocational training will benefit mostly boys as girls represent only 17 percent of vocational training programs students.

44. **Indicators.** The original DPL indicators have been updated to better reflect the expected results.

45. As the initially planned programmatic contracts (included in the sector strategy) were not concluded, the original internal efficiency indicator (*Rate of internal efficiency (proportion of vocational training programs entrants completing successfully their training) of vocational training programs covered by a programmatic contract, by gender*) has been changed as follows to cover all vocational training programs (public and private):

- *Rate of internal efficiency of vocational training programs*

46. The following indicators were added to reflect the related prior actions:

- *Number of beneficiaries of on-the-job vocational training*
- *Number of disadvantaged youth benefiting from NGOs-offered training programs.*

Pillar B. Improve the Effectiveness of Intermediation Services

47. **The Government seeks to address unemployment by improving the effectiveness of the current Active Labor Market Programs (ALMPs) and the intermediation services.** The three main ALMPs that are currently being implemented by ANAPEC (*Idmaj*, *Taehil*, and *Moukawalati*) have had some positive results in terms of providing quality services to their beneficiaries and, to a lesser extent, job placement. However, the programs display poor targeting as well as limited coverage and, as such, are not addressing the needs of the unemployed. For example, these programs only target unemployed¹⁷ graduates and cover only about 60,000 people per year i.e., a tiny fraction of the unemployed population. This is partly due to the limited capacity of ANAPEC to deliver employment services, as proxied by the number of ANAPEC staff relative to the number of registered job seekers (staff caseload). For example, in 2010, Morocco had a staff caseload of 1,507, or fifteen times the staff caseload recommended by ILO.¹⁸ In addition, there is poor inter-institutional coordination as well as lack of governance and accountability mechanisms, including the absence of proper monitoring and evaluation.

48. **The Government has engaged in an in-depth review of its ALMPs and labor market intermediation policies.** It has recognized the necessity to extend coverage of ALMPs to low-skilled unemployed youth, and long term unemployed, and to improve program design to reduce drop out, substitution and deadweight loss effects. Tailoring these programs to

¹⁷ With an exception of *Moukawalati* that was opened in 2009 to non-graduate unemployed (primary school certificate level).

¹⁸ Angel-Urdinola et al. “Building Effective Employment Programs for Unemployed Youth in the Middle East and North Africa.” The World Bank, 2013

regional specificities and giving regions a stronger role in their implementation is also envisaged.

49. **With regards to its goal of improving the effectiveness of its ALMPs**, the MOLSA recently finalized an impact and process evaluation of *Moukawalati* and launched a process and impact evaluations of *Taehil*, with the support from the World Bank-financed Employment TA program. The Government also revamped *Idmaj* by providing additional incentives to firms to hire labor in the form of exemptions from social security (employers') contributions for the duration of the contract (*prise en charge par l'Etat de la couverture sociale* - PCS). Finally, the Government has finished designing two of the three new ALMPs (*Moubadara* and *Taetir*). However, the number of beneficiaries of the PCS and CIP remains low (in 2013, 808 and 58 respectively), due to attractiveness and procedural issues. The MOLSA is introducing changes to the design of these programs. In an effort to improve the effectiveness and efficiency of existing and new ALMPs, the MOLSA included in its 2012-2016 Strategic Action Plan all ALMPs as a priority, and set realistic targets based on available budget and implementation/monitoring capacity (prior action #6).

50. **With regards to its goal of increasing coverage and improving its intermediation services**, the Government has decided to extend ANAPEC services, which currently target solely graduates, to the non-graduates (the bulk of the unemployed) as well as those benefiting from the soon-to-be established unemployment insurance scheme (IPE). Extending ANAPEC coverage to non-graduates will require amending the Law No. 51/99 establishing ANAPEC. It will also require a reorganization of ANAPEC's services. The Ministry of Labor and Social Affairs prepared a draft law, extending the coverage of ANAPEC services, which has been submitted to the GSG and the Ministry of Economy and Finance. Given the financial impact of the measure, the stakeholders agreed to test the capacity of ANAPEC to take on this new mandate. The MOLSA has launched an eighteen-month pilot program, supported by AFD, to test the extension of ANAPEC's services to this new target population group, and estimate the associated costs (prior action #7). The pilot phase will target 1,500 non-graduate job seekers registered in five local offices. The Government is recruiting a consulting firm, with AFD financial support, to design the pilot phase, including identifying pilot zones. The Bank reviewed the Terms of Reference and plans, jointly with AFD, to technically support this activity.

51. **Expected Results.** Under this pillar, it is expected that: (i) ALMPs are successfully inserting stock of unemployed in the job market; and (ii) intermediation services have become more accessible, especially for the non-graduate unemployed youth, and are able to match a larger number of job seekers to vacancies. Increased efficiency of ALMPs as well as improved intermediation services will benefit women who represent 45 percent of the population who register with ANAPEC each year. The link between the prior action #6 and the expected results is as follows: the main activities in the 2012-2016 Strategic Action Plan seeking to increase insertion into formal employment are to: (a) subsidize wages and social security contributions through PCS, and (b) provide paid internships for the long-term unemployed through CIP. As such, the 2014-2016 Work Program sets realistic targets for PCS and CIP based on both available budget and institutional capacity to implement and monitor both programs. International experience shows that decreasing wages and payroll taxes increases demand for

formal employment. Similarly, enabling long-term unemployed to gain work experience increases their chances of employment.

52. **Indicators.** As all CIP beneficiaries obtain an open contract, the original indicator on insertion rate (*Insertion rate (term/open contract) for PCS beneficiaries, by gender, after 6 months*) was modified as follows:

- *Number of beneficiaries of the State-funded social insurance coverage (Prise en charge par l'Etat de la couverture sociale or PCS) Program, by gender*

Pillar C. Promote the formalization of micro-enterprises

53. **Informality rates are high compared to a typical country in the MENA region, which is partly due to a relatively larger share of employment in the agricultural sector.**¹⁹ As women often work in unpaid/subsistence agriculture, being a woman is positively associated with informality. Informality is also very high among youth (15-24) and in small firms (i.e., less than five workers) which engage in low productivity activities.²⁰ Finally, informality is strongly and negatively correlated with education.

54. **The Government seeks to improve the quality of employment** and, specifically, to promote policies and programs that create high value-added and high-paying jobs, as well as jobs that provide access to risk management instruments that households can use when exposed to shocks (illness, death of family breadwinner, disability, occupational accidents, dismissal, loss of income due to maternity leave, etc.).

55. **The Borrower is tackling poor quality of employment from different angles.** First, the Government would like to encourage the progressive formalization of micro-enterprises (defined as enterprises having a revenue below MAD 3 million per annum), and to enhance their productivity and employment creation capacity. The National Strategy for Micro-Enterprise Development launched in May 2013, includes four priority axes: (i) access to financing; (ii) fiscal incentives; (iii) support for social insurance registration; and (iv) support and facilitation of pre- and post-enterprise creation through coaching, advisory services, administrative support, etc.²¹ Some of the strategy recommendations were implemented prior to its official approval, including those related to the fiscal axis that were supported by the SEDPL1. To implement the strategy at the local level, the MAGG signed in December 2012 Memoranda of Understanding with four pilot regions²² and initiated the preparation of programmatic contracts defining objectives, indicators and budgets for each pilot region. The signing of these programmatic contracts was originally a SEDPL2 trigger under this Pillar. It

¹⁹ Angel-Urdinola, D. and Tanabe, K. "Micro-Determinants of Informal Employment in the Middle East and North Africa Region." Mimeo. Washington, DC: World Bank, 2011.

²⁰ More than 75 percent of informal workers can be found in small firms. Cf. Gatti, R., Angel-Urdinola, D., Silva, J. and Bodor, A. "Striving for Better Jobs: The Challenge of Informality in the Middle East and North Africa Region." Washington, DC: World Bank, 2011.

²¹ During the strategy launch event, three conventions for its implementation were signed among (i) MAGG-MEFP-OFPP; (ii) MAGG-MEFP-ANAPEC; and (iii) MAGG-*Groupeement professionnel des banques du Maroc*

²² Tanger Tetouan, Souss Massa Draa, Oriental and Grand Casablanca

has been delayed by a more ambitious preparatory work than anticipated, and by the October 2013 Government reorganization that included the creation of a new Ministry for Small Enterprises and Informal Sector Integration. In November 2013, the Council of Government adopted an important draft law establishing a legal, fiscal and social status for self-entrepreneurship that minimizes the costs of becoming a formal self-entrepreneur, simplifies the administrative procedures, and provides social insurance coverage for self-entrepreneurs (prior action #8). The implementation of this law will be supported by GiZ, and may be supported in the future by the Bank as well. The draft law has been submitted to the Parliament and is currently discussed within the relevant Parliamentary commission.

56. **Expected Results.** As a result of this pillar, it is expected that more micro-enterprises will become formal. They will therefore be able to access public services that will ultimately boost their productivity. Given that being a woman is positively associated with informality, this measure should largely benefit this segment of the population.

57. **Indicators.** Given the change of the prior action, the following indicator was dropped:

- *Number of pilot regions signing a programmatic contract with the State for implementing the national strategy for the promotion of micro-enterprises*

58. The following original indicator will be used to measure the impact of this activity:

- *Number of firms formerly operating in the informal sector, registered annually for professional tax*

Pillar D. Strengthen the Labor Market Information System

59. **The definition of labor policies is constrained by a weak information base.** The current labor force survey provides limited information about the dynamics of labor supply and demand. While the survey collects information on wages, the data are not published. In addition, access to data for policy makers is limited. For example, the MOLSA does not have access to individual data of labor force surveys, or firm surveys, and cannot perform its own analysis. The dialogue between data producers and data users is not formalized and does not allow a full use of the survey instruments. Moreover, there is a generalized lack of data on skills (supply and demand), which limits the capacity of suppliers of training to adapt their programs to market needs and of individuals to make informed career choices. The MOLSA also underutilizes its available administrative data.²³ Finally, beyond availability, accessibility, and utilization of data, there is a lack of an integrated labor market information system. Currently, datasets do not communicate and there is a lack of a unique identifier of individuals which would allow better data interoperability across datasets.

²³ The MOLSA manages three important datasets: (i) the CNSS dataset (which includes information on wages, social contributions, seniority, and industry of employment for formal workers), (ii) a dataset on labor inspections and work disputes, and (iii) administrative data about ALMPs beneficiaries of ANAPEC. This data is rarely utilized to inform policy making.

60. **There is also the need to improve monitoring and evaluation of ALMPs delivered by ANAPEC.** ANAPEC's monitoring system does not include results-based indicators related to the quality of the service or whether services contributed to improved labor market outcomes of beneficiaries, such as their insertion to the labor market, their wage, or their employment status (e.g. moving from informal to formal employment). While some program evaluations have been developed in recent years, the evaluation methods remain ad hoc and results are often disputed by main stakeholders.

61. **The Government would like to address the lack of information and systematic analysis of labor market data that hinders evidence-based policy making.** The Government has (i) promoted users' access to individualized data²⁴; (ii) established a National Employment Observatory; and (iii) developed an M&E framework to improve governance and effectiveness of employment programs, and notably of ALMPs. With regards to the Observatory, the Government has restructured the MOLSA and upgraded the status of its Division of Studies, which is currently carrying out many of the activities that fall under the mandate of the Observatory, to a Department (prior action #10). Initially, the National Employment Observatory Department will have to operate on the basis of existing information systems that are available in various ministries according to their respective areas. To improve access and sharing of data, the Ministry of Labor is determined to broker agreements with several entities to access their individual data for improved labor market analysis, namely: the CNSS and the Ministry of Industry of Commerce in a first phase, then ANAPEC, CGEM, and HCP in a second phase. With regards to the M&E system, the Government has finalized a manual establishing a clear framework (and assuring proper budgeting) to monitor and evaluate ALMPs delivered by ANAPEC. Finally, the Observatory is also considering developing a periodic survey to collect nationally representative data on supply and demand of skills.

62. **The World Bank has supported the MOLSA in developing a methodological framework for the National Employment Observatory Department.** This framework will be used to: (i) identify the topics of studies and analyses to be carried out in order to improve the knowledge of the labor market within a macro and multidimensional approach; (ii) prioritize the identified studies and analyses according to the urgency of needs, the availability of data and the links between the different aspects of the labor market; (iii) determine the needs in terms of instruments and tools, financial resources and national and/or international expertise for carrying out the identified studies and analyses; (iv) help define the rules of normalization and harmonization of concepts, terminology, nomenclatures, etc.; and (v) help define the technical protocols of exchange and access to available employment micro-data files. In addition, IFC has partnered with the Ministry of Tourism and the National Agency for Logistics Development to develop labor market observatories for each sector which will collect

²⁴ The most relevant databases available in Morocco for Labor Market Information System are the labor force surveys carried out by HCP, the surveys on firms carried by the Trade Ministry, the tracer surveys of vocational training graduates carried out by the Labor Ministry's Department of Vocational Training, the regional studies on emerging needs carried out by ANAPEC, and ongoing studies carried out by the Labor Ministry's Employment Department. The administrative data on employers' social contributions collected by CNSS as well as the data collected on job seekers and ALMP beneficiaries collected by ANAPEC are an important source of information on insertion and job quality.

sector specific data, improve visibility on sector demand in terms of skills and also provide input to National Employment Observatory Department.

63. **The World Bank has also supported the MOLSA in developing the manual to monitor and evaluate ALMPs.** The manual includes a clear framework to: (i) conduct program evaluations (methodology, objectives, and expected results); (ii) establish clear monitoring and evaluation indicators; (iii) identify the sources and the necessary procedures to collect and analyze the required data; and (iv) allocate clear responsibilities to each relevant stakeholder (data collection, analysis, validation, and dissemination).

64. **Expected Results.** It is expected that this pillar will contribute to improving the quality and availability of information needed to make employment policy decisions. In addition, information will be disaggregated by gender and all subsequent analyses will have a gender perspective, thus allowing for a better understanding of the impact of labor policies on men and women. This pillar will also result in the production of a strong methodological framework, validated by both MOLSA and the Ministry of Economy and Finance, to systematically evaluate ALMPs.

65. **Indicators.** Based on the methodological framework developed, the following indicator is added to measure the impact of the monitoring function of the National Employment Observatory:

- *Publication of a labor market monitoring report (bulletin) by the National Employment Observatory.*

Table 5: Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
Pillar A: Improve the efficiency and relevance to labor market needs of skills development programs	
Prior action 1. The Ministry of National Education and Vocational Training has signed thirteen (13) multiannual training contracts with private sector entities, by January 9, 2014.	The following analytical products informed the debate about the reforms supported under Pillar A: (i) the World Bank's Flagship Report (2008) (The Road Not Traveled) ²⁵ contributed to a public debate on the education sector outcomes and the need to improve design and accountability measures; (2) The Morocco Higher Council for Education 2008 Annual Report ²⁶ which provided a comprehensive diagnosis of the state and performance of the education sector; (3) the World Bank System Approach for Better Education Results Study on Workforce Development (SABER-WfD); (4) The
Prior action 2. The Council of Government (<i>Conseil de Gouvernement</i>) has adopted on June 5, 2014, a draft Law No.13.74, which inter alia provides for the governance and financing of on-the-job training.	
Prior action 3. A national commission to follow up on the implementation of the National Qualifications Framework (<i>Cadre national des certifications</i>), has been established by Circular No. 5-2014 dated June 4, 2014, issued by the Head of Government (<i>Chef du Gouvernement</i>).	

²⁵ Report No. 46789: http://siteresources.worldbank.org/INTMENA/Resources/EDU_Flagship_Full_ENG.pdf

²⁶ Conseil supérieur de l'enseignement. 2008. *Rapport annuel 2008: Etat et perspectives du système d'éducation et de formation*. Rabat: Conseil supérieur de l'enseignement.

Prior Actions	Analytical Underpinnings
<p>Prior action 4. The Ministry of National Education and Vocational Training has developed a support mechanism aimed at non-governmental organizations, designed to offer vocational training programs to out-of-school youth from disadvantaged backgrounds.</p>	<p>regional work on university governance benchmarking, which covered a 100 universities (including nine Moroccan universities) showed the gaps, particularly in terms of autonomy and accountability, of Moroccan universities.</p>
<p>Prior action 5. The Council of Government has adopted on July 11, 2013, a draft Law No. 80.12 to establish the National Agency for Higher Education and Scientific Research Evaluation (<i>Agence nationale de l'évaluation de l'enseignement supérieur et de la recherche scientifique</i>) to carry out institutional evaluations of public and private higher education and scientific research institutions.</p>	
Pillar B: Improve the effectiveness of intermediation services	
<p>Prior action 6. The Ministry of Labor and Social Affairs has revised its 2012-2016 strategic action plan to include a detailed 2014-2016 work program which defines priorities, programs, budgets, monitoring indicators, and clarifies responsibilities in monitoring its implementation.</p>	<p>The 2013 World Development Report (WDR) highlights that ALMPs can improve the efficiency of job matching and mitigate the impact of economic downturn. The World Bank's 2013 MENA Jobs Flagship Report advocates for implementing short-term programs (ALMPs) to deliver viable results.</p> <p>The World Bank's "Building Effective Employment Programs for Unemployed Youth in the Middle East and North Africa" and the 2013 WDR identify "limited administrative capacity of public employment agencies" and "lack of governance and accountability of ALMPs" as main challenges of ALMPs. The World Bank's "A Reform Agenda for Improving the Delivery of ALMPs in the MENA Region" proposes to "develop results-based PPPs to deliver employment services" and "develop M&E frameworks," both of which are included in the Strategic Action Plan.</p> <p>Ministry of Labor and Social Affairs carried out evaluations of exiting ALMPs, which serve to reform existing and propose new ALMPs as included in the Strategic Action Plan.</p>
<p>Prior action 7. The Ministry of Labor and Social Affairs has launched the preparation of an eighteen-month pilot program to extend the coverage of the National Employment Promotion Agency (<i>Agence nationale de promotion de l'emploi et des compétences</i>) to non-graduates (i.e, those who have not completed high school (<i>baccalauréat</i>), or do not have a vocational training diploma), in the areas covered by five local offices of such agency.</p>	<p>The World Bank's study in Morocco "Promoting Youth Opportunities and Participation" points out that the bulk of the unemployed youth have little or no education, but yet policy interventions have focused on tertiary graduates.</p>
Pillar C: Promote the formalization of micro-enterprises	
<p>Prior action 8. The Council of Government has adopted on November 7, 2013, a draft Law No. 114.13 to establish a legal, fiscal and social status for self-entrepreneurship that: (i) minimizes the costs of becoming a formal self-entrepreneur;</p>	<p>The World Bank's 2013 MENA Jobs Flagship Report points out that entrepreneurs in MENA face several challenges, in particular high costs of entry.</p>

Prior Actions	Analytical Underpinnings
(ii) simplifies the administrative procedures; and (iii) provides for the establishment of a social insurance coverage mechanism for self-entrepreneurs.	The World Bank's "A Reform Agenda for Improving the Delivery of ALMPs in the MENA Region" points out that entrepreneurship programs in the MENA region do not address some of the key constraints facing potential entrepreneurs, such as access to credit and post-establishment support.
Pillar D: Strengthen the labor market information system	
Prior action 9. The Ministry of Labor and Social Affairs has established a monitoring and evaluation mechanism for the employment measures included in its 2012-2016 strategic action plan.	The World Bank's 2013 MENA Jobs Flagship Report advocates for improved access to data and information to promote evidence-based policy making.
Prior action 10. The Council of Government has adopted on May 15, 2014, a draft Decree No. 2.14.280 regarding, inter alia, the establishment of a National Labor Market Observatory Department (<i>Direction de l'observatoire national du marché du travail</i>) at the Ministry of Labor and Social Affairs, for monitoring and analyzing the labor market, and the 2014 budget of the Ministry of Labor and Social Affairs includes a specific allocation for the National Labor Market Observatory to carry out its mission.	The World Bank's "A Reform Agenda for Improving the Delivery of ALMPs in the MENA Region" identifies poor quality of data and lack of sharing of harmonized data as a main challenge afflicting ALMPs.

4.3. LINK TO CPS AND OTHER BANK OPERATIONS

66. **The Country Partnership Strategies (CPS) for fiscal years 2010-2013 and 2014-2017 place the employment challenge squarely at the center of Morocco's development.** Support to skills development and employment is a key component of the World Bank's program and the SEDPL series is a central instrument of the World Bank's lending support. It has contributed to achieving the first and second pillars of the 2010-2013 CPS, namely: (i) encouraging growth, competitiveness and employment; and (ii) improving the quality of service delivery to citizens. The SEDPL series is also aligned with the first and third pillars of the FY14-17 CPS, namely: (i): Promoting Competitive and Inclusive Growth; and (ii) Strengthening Governance and Institutions for Improved Service Delivery to All Citizens. The SEDPL2 will contribute to the first area in particular, by supporting increased employment and income opportunities, especially for women and youth.

67. **The proposed operation is complemented by other World Bank-funded operations that seek to address key constraints to promoting the type of growth that will create good quality jobs in Morocco and that target service delivery improvements in education, skills and employment.** The dialogue across these different operations has been closely coordinated.

- *The Competitiveness DPL series (the first DPL was approved in FY13, and the second DPL is under preparation) contributes to the creation of "more and better jobs" by: (i) improving the investment climate; (ii) furthering trade policy reform and trade facilitation; and (iii) improving economic governance.*

- *The Education Development Policy Loans I and II* (approved in FY10 and FY13, respectively) aimed to improve the effectiveness and efficiency of service delivery and learning outcomes at the primary and lower secondary education levels.
- *The National Initiative for Human Development (INDH) – Phase 2 Support Project* (approved in FY12) aims to ameliorate the conditions of poor and vulnerable groups by establishing a more inclusive mode of governance. The project supports, *inter alia*, economic inclusion of the poor and vulnerable groups by strengthening associations and cooperatives, and strengthening the job creation potential of INDH infrastructure and income generating sub-projects.
- *The Strengthening Micro-Entrepreneurship for Disadvantaged Youth in the Informal Sector* project, supported by MENA Transition Fund Grant (approved in FY13) aims to provide targeted disadvantaged young men and women of 18-29 years of age with access to micro-entrepreneurship business development services. This project complements the ALMPs supported by the SEDPL series by providing services to population groups that do not currently benefit from ANAPEC: non-graduates and disadvantaged youth selected by youth organizations and community-based organizations, who either are not employed or work in the informal sector.

4.4 CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS

68. **Since 2006, the Higher Council for Education (*Conseil Supérieur de l'Enseignement*, CSE) has served as the main forum for wide-ranging consultation on education policy.** The CSE, which answers directly to the King, has around 100 members drawn from the Government, the Parliament, specialized state entities, education ministry staff, Regional Academies for Education and Training (AREFs), universities, teacher unions, parent associations, student organizations, industry, and NGOs. The CSE is consulted on all education reforms, advises on all national education matters and carries out comprehensive evaluations of the national education system. In June 2011, the VTD launched a process to develop a new strategy for vocational education in Morocco. The first phase of this process involved a series of consultations with Government departments, public and private vocational training providers, and employers. The OFPPT Board, which includes representatives of the state and of unions and employers' organizations, has been consulted on the draft law on on-the-job training.

69. **The MOLSA regularly consults with workers and private sector employers' representatives on its policies through the institutionalized social dialogue and meetings of the High Council for Employment Promotion (*Conseil Supérieur de Promotion de l'Emploi*) which take place biannually.** In December 2013, the MOLSA submitted for advice to the High Council for Employment Promotion the draft law to extend ANAPEC coverage to non-graduates, as well as the 2014-2016 Work Program. The National Strategy for the promotion of Micro-enterprises was prepared using a highly participatory process involving the private sector, the civil society, local authorities, and institutional partners. The Strategy, launched in May 2013, provides the framework for the draft law on self-entrepreneurship. The World Bank and the ILO, on their side, with support from the MOLSA, consulted on the Moroccan labor market information system. A workshop was organized in March 2011,

gathering data producers and users. Finally, in Morocco, draft laws are published on the General Government Secretariat website for public comments before their finalization.

70. **The SEDPL2 operation was prepared in close coordination with AFD and AfDB, and joint missions were carried out with these donors while the EU participated as an observer.** The AFD supports the first and second axes of the SEDPL2 through a Euro 50 million program that was approved in February 2014. AFD also allocated Euro 0.5 million to accompany the loan implementation. The AfDB recently approved a Euro 116 million loan (*Programme d'appui à l'adéquation formation emploi*) that seeks to improve the employability of higher education and vocational training graduates by: (i) strengthening private sector involvement in the higher education and vocational training systems; (ii) diversifying and professionalizing school and vocational training curricula; (iii) improving equity; and (iv) strengthening coordination and sector governance. The EU is identifying a new skills and employment program and is providing a Euro 0.8 million TA grant to strengthen the institutional capacity of ANAPEC.

71. **The World Bank coordinated with several other donors who provide technical support or are preparing projects.** Among them are the ETF who supported the VTD especially for the establishment of the NQF, the Wallonie Cooperation who assisted the VTD in contracting out NGOs designated to offer vocational training programs to out-of-school youth, and the German Society for International Cooperation (GiZ) who helped the MAGG develop the National Strategy for the Promotion of Micro-enterprises and the draft law on self-entrepreneurship.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACTS

72. **The poverty and social impact analysis looks at the distributional impacts of public policies, with particular emphasis on the poor and vulnerable.** The social impact of the policies related to improving the efficiency and relevance of skills development programs are expected to improve welfare. While impacts of most of such policies on poverty reduction are likely to be limited, the support mechanism to NGOs (prior action #4) will increase training opportunities for disadvantaged youth and would therefore increase their chances to find a job and improve. The measures aimed at improving the matching of skills to labor market needs are expected to improve worker productivity and to reduce unemployment spells and thus promote both the social and economic inclusion of graduates.

73. **The social impact of the measures aiming at improving the effectiveness of intermediation services are expected to be positive, but limited.** The positive welfare effects are expected to be channeled through higher wages and higher insertion rates of beneficiaries participating in these programs (as better education quality is generally associated with an increase worker's productivity and wages). The supported measures will benefit both male and female students attending higher education (48 percent girls) and vocational training (17 percent girls). Some prior actions are also likely to benefit mostly women, such as the

multiannual training contracts which cover mostly textile and the support mechanism to NGOs providing vocational training to disadvantaged youth.

74. **The prior actions to strengthen the MOLSA's capacity to provide employment intermediation services aim to increase coverage and improve efficiency of employment services, which in theory would reduce the risk of unemployment for both vocational training and higher education graduates, and make access to training and job opportunities more equitable.** Nevertheless, the extent to which ALMPs will increase job insertion rates of beneficiaries depends on the design and implementation of such policies (preferably if in close coordination with the private sector) and also on the overall availability of jobs, which is a macroeconomic factor beyond ANAPEC's control. Expanding the scope of ANAPEC to serve low-skilled workers (probably through entrepreneurship programs, and/or counseling) is likely to have positive effects on poor families, by increasing their level of earnings and human capital. Given that women currently represent 45 percent of the registered unemployed, expanding the scope of ANAPEC to serve the low-skilled unemployed could have a positive impact on women's labor force participation and overall employment outcomes. Broadening the clientele of ANAPEC will, nonetheless, introduce implementation challenges and will require important financial investments (with fiscal implications).

75. **The prior action to promote a legal status and tax incentive to self-employed workers is likely to promote formalization** (thus increasing social security coverage), improve access to credit among self-employed, and will generate additional fiscal revenues (through income taxation). This measure is expected to promote higher levels of formality and reduce labor market segmentations among the most vulnerable segments of the population, including women.

76. **Finally, the measures to strengthen the labor market information system will likely have positive social impacts in the medium/long-term** as it will improve the targeting, design, performance, governance, and accountability of employment programs. A better information system, which will include gender-specific information, will also enable the Government to: (i) identify and reach out, in a more efficient/effective manner, to the most marginalized in society; and (ii) introduce gender-specific adjustments to labor policies if applicable/needed. Better performance of employment programs would contribute to lower frictional unemployment and the duration of unemployment spells, which translates into higher household revenues. This measure will also improve the efficiency of public spending by prioritizing investments on programs that have proven to work.

5.2. ENVIRONMENTAL ASPECTS

77. **The SEDPL2 is not expected to have any significant environmental implications.** Although the environmental requirements of OP/BP 8.60 apply, the policies supported by the proposed operation are unlikely to have significant effects on the country's environment, forests, and other natural resources, as they are oriented toward improving skills and employment. Yet, the proposed action aiming to formalize micro-enterprises would potentially cause the increase of activities conducted by micro-enterprises. Depending on the nature, number and location of the micro-enterprises, potential negative impacts to the environment

may be generated. Morocco has developed a well-articulated legal and institutional framework for environmental protection. The Law No. 12-03 approved in 2003 and related decrees define the requirements for Environmental Impact Assessments (EIAs), including review and oversight structures for implementation, such as national and regional EIA committees, as well as procedures for public consultation and disclosure. The monitoring and control framework has also been recently strengthened through the creation of national and regional observatories for environmental protection, and the introduction of an environmental policy. Various donors and development agencies provide support to Morocco's environmental sustainability agenda.

5.3 PFM, DISBURSEMENTS AND AUDITING ASPECTS

78. Foreign Exchange. **The IMF's safeguards assessment of BAM of February 2013 found a robust framework with strong internal and external controls, supported by several good governance practices.** The assessment highlighted that existing safeguards and governance practices should be complemented by stronger legal and financial reporting frameworks which are needed to enhance the legal autonomy of the BAM and strengthen the timely publication of audited financial statements. Since then, BAM has implemented recommendations from the assessment, including publication of audited financial statements. Existing governance practices and safeguards will be enshrined in the new central bank law currently awaiting adoption by the Council of Government. As with recently approved DPLs, a dedicated account will be used for this operation.

79. **The country procurement system has largely improved with the adoption of a new public procurement decree and the reform of the "Commission des marches" underway.** These two major reforms may have a positive impact on budget execution and implementation of government programs. The new public procurement decree, which became effective on January 1, 2014, extends to local governments and state owned enterprises (*entreprises et établissements publics*), in addition to public administration. It addresses many of the weaknesses identified in many assessments of Moroccan procurement system, conducted by the Bank, such as the inclusion of architect contracts, further modernization through the use of e-procurement in order to improve transparency and efficiency. The Government has also launched a major reform that aims at strengthening the national procurement regulatory body (*Commission des marchés publics* or CNCP) which mandate includes (i) the regulation of policies, documents and standards for public procurement, (ii) the coordination and oversight of training in procurement and (iii) the handling and management of complaints. A draft decree on the CNCP was published in 2013 by the Secretary General of the Government. Although the creation of this new body is a step forward in the modernization of the public procurement system, it seems from the draft decree that the CNCP would have ample advisory capabilities but limited executive authority. There are still remaining challenges that need to be addressed and actions to be taken, to enable a full application of the new procurement decree and for a more efficient and result focused procurement system. These include: (a) elaboration of standard or model bidding and contractual documents applicable to the most frequently used methods of procurement, and instructions for their use; (b) development of a Procurement monitoring system for contract management in terms of timeliness of decision making, tracking of delays, changes in project design or costs, etc.; (c) streamlining of controls and enforcement of compliance with audits recommendations; and (d) preparation and training of central and

subnational procurement managers and officers, as well as vendors, and the associated learning materials.

80. **PFM. In 2009, the World Bank and the EU carried out a joint Public Expenditure and Financial Accountability (PEFA) assessment.** The PEFA report confirmed substantial progress in Public Finance Management (PFM) reforms in Morocco. The results based on the PEFA ratings indicate, in particular, that Morocco has an overall credible, comprehensive, and transparent budget. The PFM system also supports the achievement of aggregate fiscal discipline, strategic allocation of resources and efficient service delivery. The main strengths of the Moroccan PFM are the following: (i) credible and transparent budget (since the Ministry of Finance publishes the annual budget on its website in a timely fashion); (ii) transparency of taxpayer obligations and liabilities; (iii) timeliness and regularity of Government bank account reconciliation; (iv) accurate and timely in-year budget reports covering expenditures at both commitment and payment stages; and (v) strong cash and debt management. The main challenges of the Morocco PFM relate to: (a) the budget classification, since despite the level of detail accuracy and reliability, it does not yet allow for reliable direct tracking of program-related spending being financed under priority programs; (b) timeliness of annual statements which are submitted for external audit 15 months after the end of the fiscal year; (c) the limited extent of legislative scrutiny of external audit reports; and (d) the insufficient frequency, scope, and follow-up of audits. Regarding public procurement systems, the PEFA report highlighted the need of strengthening the procurement complaints mechanisms through a systematic and timely recording and follow-up of complaints. The Government is committed to address these challenges and, in order to do so, has introduced measures to: (a) move to a performance-based budgeting framework; (b) develop a medium-term expenditure framework to assist in fiscal sustainability; (c) modernize its accounting and internal audit framework; and (d) improve revenue management. In conclusion, the strength of Morocco's PFM system and the Government's commitment to reform, taken together, are, in the World Bank's view, adequate to support the proposed operation.

81. **Disbursement and Auditing. With reference to the flow of funds, the proposed loan will follow the World Bank's disbursement procedures for development policy lending.** Once the loan becomes effective, the proceeds of the loan will be disbursed in a single installment. Specifically, disbursements will be made, provided that the World Bank is satisfied with the program being carried out by the Borrower, and with the appropriateness of the Borrower's macroeconomic policy framework. The account into which the loan proceeds will be deposited forms part of the country's official foreign exchange reserves. Flow of funds (including foreign currency exchange) is subject to standard public financial management processes. The government budget is comprehensive, unified and subject to centralized treasury account.

82. **The loan proceeds will be deposited by the International Bank of Reconstruction and Development (IBRD) in a dedicated account opened for this DPL by the Borrower and acceptable to the World Bank at the BAM, upon submission of a signed withdrawal application.** The Borrower should ensure that upon the deposit of loan proceeds into said account, an equivalent amount, in the local currency, is credited to the Treasury current account at the BAM. The Borrower will report to the World Bank within 30 days of disbursement on the amounts deposited in the dedicated account and credited to the budget management system

providing the exchange rate applied and the date of the transfer. If the proceeds of the loan are used for ineligible purposes as defined in the Loan Agreement, IBRD will require the Borrower to promptly upon notice refund an amount equal to the amount of said payment to IBRD. Amounts refunded to the World Bank upon such request shall be cancelled. The loan proceeds will be administered by the MEF.

83. **Although an audit of the use of the funds may not be required, the World Bank reserves the right to ask for a transaction audit of the dedicated account.** This audit, when asked for, will cover the accuracy of the transactions, i.e. receipts and payments of the dedicated account, including accuracy of exchange rate conversions; confirming that the dedicated account was used only for the purposes of the operation. In addition, the auditor will have to obtain confirmation from corresponding bank(s) involved in the funds flow regarding the transaction. The time period for submission of the audit report to the World Bank is four months from the date a request for such audit is issued.

5.4. MONITORING AND EVALUATION

84. **The SEDPL2 implementation will be under the overall coordination of the MAGG,** through regular contact with the four implementing ministries: the MOLSA (for the labor market programs and the labor market information system), the MHESRTPS (for the higher education program), the Ministry of National Education and Vocational Training (for the vocational training program) and the Ministry in charge of Small Enterprises and Informal Sector Integration (for the prior action related to the self-entrepreneurship program). These four ministries will be responsible for monitoring and evaluating 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 ministries (such as ANAPEC, with the MOLSA). The CSE annual report and other publications will also be a source for monitoring sector performance indicators. The SEDPL2 implementation progress will be monitored based on a results framework which comprises the results indicators highlighted in the policy matrix. These indicators will be disaggregated for gender, wherever possible. They will be closely monitored during supervision missions.

6. SUMMARY OF RISKS AND MITIGATION

85. **The overall risk rating of this operation is Substantial** with the main risks associated with uncertain labor market outcomes, as well as implementation capacity and the need to ensure coordination among a large number of entities involved in the implementation of the Government reform program supported by this operation.

86. **Political Risk (Moderate).** The government reorganization that took place in October 2013²⁷ delayed the implementation of some of the reforms supported under the SEDPL2.

²⁷ The Vocational Training Department left the Labor Ministry and joined the Ministry of Education. The Labor Ministry now includes a Social Affairs Department. The newly created Ministry in charge of Small Enterprises and Informal Sector Integration is now responsible for the implementation of the National Strategy for Micro-Enterprise Development.²⁸ HCP, 2013

There is also a potential risk that stakeholders oppose some reforms, such as the on-the-job training law, or that consultations to build consensus take time. This risk has been mitigated through the various consultations that took place for the preparation of SEDPL2.

87. **Macroeconomic and Fiscal Risk (Moderate).** Morocco faces three major macroeconomic risks: (i) the slow implementation of key fiscal and structural reforms; (ii) social demands for public sector employment, subsidies and transfers; and (iii) unfavorable external conditions in its main trading partners. The combination of strong social demands, high oil prices, and a sluggish European economy has put government finance under stress. After years of large budget deficits, Morocco's fiscal space has been exhausted. To mitigate these risks, Morocco needs deeper structural reforms to improve the competitiveness of the economy, including a more flexible exchange regime, in addition to the subsidy, pension and other fiscal reforms aimed at maintaining Morocco's macroeconomic sustainability.

88. **Implementation Capacity Risk (High).** While the ministries (Labor and Social Affairs, Higher Education, Scientific Research and Training, and National Education and Vocational Training) 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 decentralized entities and various agencies (e.g., ANAPEC local offices, INDH, the newly created National Agency for the Evaluation of Higher Education and Scientific Research, and the institution in charge of on-the-job training to be established). These 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 ongoing Employment TA has been strengthening the capacity of the MOLSA in the following areas: (i) designing and implementing the 2012-2016 Strategic Action Plan; (ii) strengthening the labor market information system, including monitoring and evaluation of ALMPs and National Employment Observatory methodological framework; and (iii) preparing the on-the-job Training Law. The AFD TA is supporting the capacity of ANAPEC to cover non-graduates. The newly created Ministry in charge of Small Enterprises and Informal Sector Integration benefits from GiZ TA to ensure the smooth implementation of the Law on Self-entrepreneurship.

89. **Labor Market Risk (High).** The unemployment rate among youth (15-24) has risen every year from 2005 to 2013. The unemployment rates of other age cohorts have either remained stagnant or decreased during this period. In addition, for women and youth aged 15 to 24, low activity rates are recorded, 25 percent and 32.2 percent, respectively²⁸. Poor labor market outcomes among youth can pose a serious economic and social risk for the country, especially given the country's demographics. In addition, a significant preference for public sector jobs, especially among the highly educated youth, is likely to continue. This could further deteriorate labor market outcomes and could pose a serious risk if the Government cannot meet expectations/increased demand. The Government's decision to expand employment services to both the high skilled (through additional ALMPs) and the low skilled unemployed (through the expansion of ANAPEC services to this population) will certainly

²⁸ HCP, 2013

have a large fiscal impact that the pilot phase will allow to estimate. Improving the quality and availability of information needed to make employment policy decision will also help address this risk.

90. **Program Coordination Risk (Moderate).** As noted above, the SEDPL2 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. The World Bank will continue to provide assistance to MAGG, as has been the case for the SEDPL1. The World 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. However, given the need to coordinate a large number of government entities and agencies which has already resulted in delays in the completion of some prior actions, this risk is not negligible.

ANNEX 1: SEDPL2 POLICY AND RESULTS MATRIX

Prior Actions		Results
SEDPL 1	SEDPL 2	
<i>Pillar A: Improve the efficiency and relevance to labor market needs of skills development programs</i>		
Prior Action #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) have produced regular reports for each university and for the group of universities as a whole.	Prior Action #1 The Ministry of National Education and Vocational Training has signed thirteen (13) multiannual training contracts with private sector entities, by January 9, 2014.	Result Indicator A1 (modified) ²⁹ : Rate of internal efficiency of vocational training programs ³⁰ 2012 Baseline: 66% 2015 Target: >68%
Prior Action #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.		Result Indicator A2: University graduation rate (bachelor) in open-enrollment faculties, by gender 2009/10 Baseline: 51% (Girls: 52%) 2014/15 Target: 56% (Girls: 57 %)

²⁹ Indicator and its end-target have been modified as a result of change in Prior Action#1. As the initially planned programmatic contracts were not concluded, the internal efficiency indicator has been changed to cover all vocational training programs (public and private). It is expected that the SEDPL1 and SEDPL2 prior actions would improve overall internal efficiency of the system through increased contribution of private sector (SEDPL1 Prior Action#3 and SEDPL2 Prior Action#1) and better support to NGOs.

³⁰ The VTD did not measure this indicator by gender, and no baseline and target values have been identified. However, gender-disaggregated data will be collected during implementation and reported in the Implementation and Completion Results report.

Prior Actions		Results
SEDPL 1	SEDPL 2	Result Indicator A3 (new): Number of beneficiaries of on-the-job vocational training ³¹ 2013 Baseline: 122,000 2015 Target: 134,000 Result Indicator A4 (new): Number of disadvantaged youth benefiting from NGOs-offered training programs ³² 2012 Baseline: 3,300 2015 Target: 3,700
Prior Action #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.	Prior Action #2: The Council of Government (<i>Conseil de Gouvernement</i>) has adopted on June 5, 2014, a draft Law No.13.74, which inter alia provides for the governance and financing of on-the-job training. Prior Action # 3: A national commission to follow up on the implementation of the National Qualifications Framework (<i>Cadre national des certifications</i>), has been established by Circular No. 5-2014 dated June 4, 2014, issued by the Head of Government (<i>Chef du Gouvernement</i>).	
	Prior Action #4: The Ministry of National Education and Vocational Training has developed a support mechanism aimed at non-governmental organizations, designed to offer vocational training programs to out-of-school youth from disadvantaged backgrounds.	
	Prior Action #5 The Council of Government has adopted on July 11, 2013, a draft Law No. 80.12 to establish the National Agency for Higher Education and Scientific Research Evaluation (<i>Agence nationale de l'évaluation de l'enseignement supérieur et de la recherche scientifique</i>) to carry out institutional evaluations of public and private higher education and scientific research institutions.	
Pillar B: Improve the effectiveness of intermediation services		
Prior Action #4: The Ministry of Labor and Vocational Training, Employment Department, has developed and	Prior Action #6: The Ministry of Labor and Social Affairs has revised its 2012-2016 strategic	Result Indicator B1(new): Number of Taelil beneficiaries, by gender

³¹ These are the beneficiaries of the Government program *Contrats Spéciaux de Formation*. Breakdown by gender is not available.

³² The VTD did not measure this indicator by gender, and no baseline and target values have been identified. However, gender-disaggregated data will be collected during implementation and reported in the Implementation and Completion Results report.

Prior Actions		Results
SEDPL 1	SEDPL 2	
implemented in 2011: (i) an active labor market program aimed at labor market insertion of hard-to-place unemployed (<i>Contrat intégration professionnelle</i>) and (ii) an improved wage subsidy program for the unemployed (<i>Prise en charge par l'Etat de la couverture sociale</i>).	action plan to include a detailed 2014-2016 work program which defines priorities, programs, budgets, monitoring indicators, and clarifies responsibilities in monitoring its implementation.	2013 Baseline: 18,000 (of which 50% are women) 2015 Target: 25,000 (of which 50% are women)
Prior Action #5: ANAPEC has implemented a 2009-2011 action plan to increase its number of local offices and employment counselors.	Prior Action #7: The Ministry of Labor and Social Affairs has launched the preparation of an eighteen-month pilot program to extend the coverage of the National Employment Promotion Agency (<i>Agence nationale de promotion de l'emploi et des compétences</i>) to non-graduates (i.e, those who have not completed high school (baccalauréat), or do not have a vocational training diploma), in the areas covered by five local offices of such agency.	<p>Result Indicator B2 (modified): Number of CIP beneficiaries, by gender</p> <p>2013 Baseline: 0 2015 Target: 100 (of which 50% are women)</p> <p>Result Indicator B3 (modified): Number of beneficiaries of the State-funded social insurance coverage (<i>Prise en charge par l'Etat de la couverture sociale</i> or PCS) Program, by gender</p> <p>2013 Baseline: 0 2015 Target: 1,000 (of which 50% are women)</p> <p>Result Indicator B4: Number of ANAPEC local offices</p> <p>2009 Baseline: 50 2015 Target: 77</p> <p>Result Indicator B5: Number of new enrolments with ANAPEC, including proportion of non-graduates, per year, by gender</p> <p>2011 Baseline: 130,000 (Female: 45%) including 10% of non-graduates 2015 Target: 160,000 (Female: 40%), including 15% of non-graduates</p>
Pillar C: Promote the formalization of micro-enterprises		
Prior Action #6: The Ministry of Economy and Finance has	Prior Action #8: The Council of Government has	Result Indicator C1: Number of firms, formally

Prior Actions		Results
SEDPL 1	SEDPL 2	
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") ³³	adopted on November 7, 2013, a draft Law No. 114.13 to establish a legal, fiscal and social status for self-entrepreneurship that: (i) minimizes the costs of becoming a formal self-entrepreneur; (ii) simplifies the administrative procedures; and (iii) provides for the establishment of a social insurance coverage mechanism for self-entrepreneurs.	operating in the informal sector, registered annually for professional tax (cumulative) 2010 Baseline: 0 2015 Target: 28,000 Result Indicator C2: Number of non-salaried workers registered with National Social Security Fund 2011: Baseline: 0 2015: 50,000 ³⁴
Prior Action #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 ³⁵ to licensed drivers, has been published in the National Gazette No. 5998 dated November 24, 2011.		
Pillar D: Strengthen the labor market information system		
Prior Action #8: The National Education Evaluation Agency (<i>Instance nationale d'évaluation</i>) has developed in 2011 a survey instrument on short- and medium-term labor market status of graduates of universities and professional schools.	Prior Action #9: The Ministry of Labor and Social Affairs has established a monitoring and evaluation mechanism for the employment measures included in its 2012-2016 strategic action plan.	Result Indicator D1: Number of ALMPs that have been the subject of an evaluation 2013 Baseline : 2 (<i>Idmaj</i> and <i>Moukawalati</i>) out of three ALPMs have been evaluated a posteriori 2015 Target: 2 (<i>Taehil</i> and <i>CIP</i>) Result Indicator D2: A program of surveys and studies, aimed at responding to the needs of the labor market and social protection, is carried out. 2011 Baseline: 3 studies are launched ³⁶
Prior Action #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	Prior Action #10: The Council of Government has adopted on May 15, 2014, a draft Decree No. 2.14.280 regarding, inter alia, the establishment of a National Labor Market Observatory	

³³ I.e. transition from informal to the first level of formality. This is a temporary measure for 2011 and 2012, which may be renewed after evaluation.

³⁴ About 25% of taxi drivers after the decree extending eligibility to CNSS will become effective

³⁵ Caisse nationale de sécurité sociale.

³⁶ (i) Study on minimum wage (completed in 2013); (ii) Study on sectoral mobility of the labor force in the private sector (completed in 2013); and (iii) Survey on labor force mobility in private sector firms (survey underway; to be completed by December 2014).

Prior Actions		Results
SEDPL 1	SEDPL 2	
Technologies the exchange of labor force data.	Department (<i>Direction de l'observatoire national du marché du travail</i>) at the Ministry of Labor and Social Affairs, for monitoring and analyzing the labor market, and the 2014 budget of the Ministry of Labor and Social Affairs includes a specific allocation for the National Labor Market Observatory to carry out its mission.	<p>2015 Target: 3 studies are completed and 2 new ones are launched</p> <p>Result Indicator D3 (new): Publication of a labor market monitoring report (<i>bulletin</i>) by the National Employment Observatory.</p> <p>2013 Baseline: 0 2015 Target: 2</p>

ANNEX 2: LETTER OF DEVELOPMENT POLICY

Royaume du Maroc

Chef du Gouvernement

Ministère Délégué auprès du Chef du Gouvernement
Chargé des Affaires Générales et de la Gouvernance

المملكة المغربية
رئيس الحكومة

الوزارة المنتدبة لدى رئيس الحكومة
المكلفة بالشؤون العامة والحكامة

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ⴰⴳⴷⴰⵢ ⵏ ⵍⴰⵎⴰⵔ

ⴰⴳⴷⴰⵢ ⵏ ⵍⴰⵎⴰⵔ ⴰⴳⴷⴰⵢ ⵏ ⵍⴰⵎⴰⵔ ⴰⴳⴷⴰⵢ ⵏ ⵍⴰⵎⴰⵔ
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Monsieur Jim YONG KIM
Président de la Banque Mondiale
1818H Street N.W - Washington. DC

11-5 JUL 2014

OBJET / Lettre de Politique de Développement relative au programme
« compétences - emploi »

Monsieur le Président,

Inscrit parmi les priorités nationales, l'emploi bénéficie d'une attention particulière de la part du Gouvernement. En plus de la création de richesses, l'emploi constitue la principale forme d'insertion sociale.

Ainsi, des politiques économiques et sociales ayant un impact sur la création et la promotion de l'emploi ont été privilégiées pour permettre de lutter contre le chômage particulièrement des jeunes.

Ces politiques requièrent aujourd'hui la consolidation des efforts déjà entrepris et la mise en place de nouvelles réformes pour faire face aux nouveaux défis qui doivent être relevés dans le domaine de l'emploi et le développement des compétences.

Dans ce cadre, le programme du Gouvernement, s'étalant sur la période 2012-2016, est axé notamment, sur le renforcement des équilibres macroéconomiques, le développement des secteurs productifs, le renforcement des acquis sociaux et la consolidation de la bonne gouvernance économique et financière.

En vue de réduire le chômage, le Gouvernement s'est fixé comme objectif de ramener son taux à 8 % à l'horizon 2016, grâce à l'amélioration du climat des affaires, à la promotion de l'investissement, au renforcement de la dimension territoriale et régionale du développement, à l'appui aux petites et moyennes entreprises et à l'accélération de la mise en œuvre des stratégies sectorielles (Export Plus, Plan Maroc Vert, plan Emergence, plan Rawaj, Artisanat, Logistique et Infrastructures de base, Vision 2020 du tourisme, etc.).

Outre le suivi de la mise en œuvre des programmes en vigueur Idmaj, Taahil et Moukawalati, la déclaration du Gouvernement prévoit la mise en place de trois nouveaux programmes : le programme Moubadara (Initiative) destiné à promouvoir l'emploi au sein des associations de proximité oeuvrant dans les champs social et éducatif ; le programme Taatir (Encadrement) qui vise les diplômés-chômeurs de longue durée et dont l'objectif est d'intégrer au marché du travail 50.000 bénéficiaires par an, et le programme Istiaab (Assimilation) devant servir de système incitatif pour l'intégration de l'économie informelle dans l'économie formelle.

A cet égard, le Maroc a lancé un vaste programme de réforme centré sur le développement des compétences et de l'emploi, dont l'objectif est d'augmenter l'employabilité, la productivité et la qualité du travail, à travers l'appui à la mise en œuvre des réformes prioritaires de l'enseignement supérieur, de la formation professionnelle, des politiques de l'emploi et de la protection sociale.

En effet, ce programme de réforme a été mis en œuvre depuis 2012 avec l'appui de la Banque Mondiale dans le cadre d'un premier Prêt de Politique de Développement. Le Gouvernement poursuit les réformes engagées avec l'appui de votre Institution dans le domaine des compétences et de l'emploi.

La présente lettre de politique a pour objet d'exposer les actions réalisées par le Gouvernement dans le cadre d'un premier PPD, ainsi que les actions entreprises pour consolider ces actions et poursuivre son programme de réformes.

I- PROGRES REALISES DANS LE CADRE DU PROGRAMME DE REFORME COMPETENCES- EMPLOI

Depuis la mise en œuvre du premier Prêt de Politique de Développement en 2012, de grands progrès ont été réalisés dans le domaine du développement des compétences et de l'emploi. Il s'agit notamment de :

- la mise en place d'un système d'information basé sur le logiciel « Apogée¹ » dans quatre universités publiques, couvrant 75 % de leurs établissements, qui permet de suivre, en mode dynamique, le parcours des étudiants universitaires par caractéristiques, filière, niveau et région, de manière à améliorer leur efficacité interne, et produire régulièrement des rapports individuels pour chaque université et des rapports consolidés pour le groupe des universités.

¹ - Logiciel « Apogée » : Application Pour l'Organisation et la Gestion des Enseignements et des Etudiants

- la mise en place dans 15 universités publiques pendant l'année universitaire 2009/2010, d'au moins 80 % en moyenne des études fondamentales de leurs établissements à accès ouvert, un module de 80 heures en langues étrangères, informatique, communication, méthodologie universitaire.
- la création de trois instituts spécialisés de formation professionnelle dans des secteurs de pointe identifiés par le Pacte National de l'Emergence Industrielle, à travers la signature des trois conventions en 2010 et 2011 (Ecole Supérieure de Création et de Mode à Casablanca en 2010, Institut de Formation aux Métiers de l'Industrie Automobile de Tanger Med (Renault) en 2011 et Institut des Métiers de l'Aéronautique à Casablanca en 2011) dont la gestion a été confiée aux professionnels des secteurs concernés dans le cadre d'un partenariat public- privé.
- l'élaboration et la mise en œuvre de nouveaux programmes de promotion de l'emploi, notamment le Contrat d'Intégration Professionnelle (CIP) visant l'insertion des chômeurs en difficultés et la prise en charge par l'Etat de la Couverture Sociale (PCS) pour le programme subvention à l'emploi (Idmaj). La consolidation, dans le cadre du PPD 1, des capacités de l'ANAPEC par la mise en œuvre du plan 2009-2011 visant à augmenter le nombre de ses agences et ses conseillers d'emploi.
- L'élaboration en 2011 d'une stratégie nationale pour le développement des TPE. Cette stratégie comprend des axes prioritaires, notamment l'accès au financement, la couverture sociale, la fiscalité et l'accompagnement de proximité des TPE.
- L'élargissement de la couverture sociale à d'autres catégories de travailleurs dont notamment les travailleurs non salariés du secteur de transport routier titulaire de la carte de conducteur professionnel.
- L'élaboration en 2011 d'un dispositif d'enquête sur l'insertion à court et à moyen termes des diplômés de l'enseignement supérieur et de la formation des cadres.
- L'institutionnalisation de l'échange et l'exploitation des données portant sur le marché du travail par la signature de conventions avec les partenaires producteurs de l'information sur le marché du travail.

II- CONSOLIDATION DES ACQUIS EN MATIERE DE DEVELOPPEMENT DES COMPETENCES ET EMPLOI

En dépit des progrès réalisés à ce jour, le Gouvernement est conscient des enjeux des compétences dans le domaine de l'emploi. C'est ainsi que le Gouvernement a affirmé sa volonté de poursuivre les efforts engagés dans ce domaine prioritaire.

Le lancement de cette seconde opération, avec l'appui de la Banque Mondiale permettra de consolider les acquis pour faire face aux nouveaux défis.

La seconde phase du programme de réforme s'articule autour de quatre domaines d'actions. Il s'agit de :

- l'amélioration de l'efficience et de la pertinence des programmes de développement des compétences par rapport aux besoins du marché du travail ;
- l'amélioration de l'efficacité des services d'intermédiation ;
- la promotion de la formalisation des micro-entreprises ;
- le renforcement du système d'information du marché du travail.

L'amélioration de l'efficience et de la pertinence des programmes de développement des compétences par rapport aux besoins du marché du travail

Pour consolider les efforts d'amélioration de la pertinence des nouveaux entrants sur le marché du travail, l'Etat a procédé à la signature de conventions de formation pluriannuelle avec le secteur privé (Entreprises et associations professionnelles) pour le développement de l'offre de formation dans le cadre de partenariat public-privé (PPP) et ce conformément aux orientations du projet de la stratégie de la formation professionnelle, afin d'orienter les mesures de politiques sectorielles de manière cohérente et efficace.

Suite au regroupement du Département de la Formation Professionnelle au Ministère de l'Education Nationale, le projet de stratégie de la formation professionnelle et les contrats-programmes qui en découlent sont actuellement en cours de finalisation par les différentes parties prenantes pour mieux refléter la vision du Gouvernement.

Conscient de l'importance de l'enjeu d'une meilleure adaptation des formations aux besoins du marché du travail, le Gouvernement a adopté le 5 juin 2014 le projet de loi n°13-74 relatif à l'organisation de la formation continue, notamment la gouvernance et le financement de la formation continue. Ce projet de loi a pour objet de développer la qualification et les compétences des travailleurs pour favoriser la compétitivité des entreprises, de permettre aux individus de faire face aux évolutions du marché du travail et de faciliter leur promotion sociale et professionnelle.

Par ailleurs, et concernant les aspects relatifs au portage politique du Cadre National de Certification, une Commission nationale présidée par le chef du Gouvernement ayant pour mission de suivre la mise en œuvre du Cadre National des Certifications a été créé par Circulaire du Chef du Gouvernement n°5-2014 datée du 4 juin 2014. L'opérationnalisation du Cadre National des Certifications permettra une meilleure visibilité des programmes d'éducation et de formation et leur alignement au sein d'un cadre commun, dans le but de

rendre plus efficaces les choix des jeunes et des entreprises et de faciliter la mobilité internationale des apprenants et des travailleurs par le biais du référencement du Cadre National des certifications au cadre Européen des certifications.

D'autres mesures ont été également engagées portant sur :

- l'extension de la couverture de la formation professionnelle (genre, milieu urbain/rural, personnes en situation précaire) dans le but d'assurer une égalité des chances. Cette mesure consiste à la mise en place d'un mécanisme de soutien destiné aux organisations non gouvernementales souhaitant offrir des programmes de formation professionnelle visant des jeunes déscolarisés issus de milieux défavorisés. A cet égard, une circulaire relative à la recevabilité et au traitement des demandes des associations désirant conclure des conventions pour la mise en œuvre des programmes de formation par apprentissage a été signée le 13 février 2014 ;
- l'adoption par le Conseil du Gouvernement le 11 juillet 2013 du projet de loi n°80-12 relative à la création de l'Agence Nationale d'Evaluation de l'Enseignement Supérieur et de la Recherche Scientifique, afin de réaliser des évaluations institutionnelles des établissements d'enseignement supérieur publics et privés et des établissements de la recherche scientifique.

L'amélioration de l'efficacité des services d'intermédiation

Dans un souci de promouvoir les chances d'insertion des jeunes dans le marché du travail, le Gouvernement a entrepris des actions afin de consolider les acquis réalisés par les programmes actifs d'emploi existants et des politiques d'intermédiation tenant compte des résultats des évaluations et l'évolution des profils des chercheurs d'emploi. Il s'agit notamment de :

- l'élaboration, par le Ministère de l'Emploi et les Affaires Sociales sur la base du plan d'action stratégique 2012-2016, d'un programme de travail détaillé pour 2014-2016 qui définit les priorités, les programmes, les budgets et les indicateurs de suivi, et clarifiant les responsabilités en matière de suivi de sa mise en œuvre.
- Le lancement par le Ministère de l'Emploi et des Affaires Sociales de la préparation d'un programme pilote de 18 mois, sur l'extension de la couverture de l'ANAPEC aux non-diplômés (c'est-à-dire à ceux qui n'ont pas le baccalauréat ou un diplôme de formation professionnelle) dans des régions couvertes par cinq bureaux locaux de cette agence. La procédure de sélection du prestataire a été entamée au mois d'avril 2014 et s'achèvera fin 2014. Cette mesure vient remplacer celle relative à l'adoption d'un projet de loi modifiant la loi n°51/99 portant création de l'ANAPEC en vue d'élargir ses prestations aux non diplômés.

La promotion de la formalisation des micro-entreprises

Suite à la création d'un nouveau département chargé des petites entreprises et de l'intégration du secteur informel, la mesure relative à la signature des contrats-programmes pour la mise en œuvre de la stratégie nationale pour la promotion des très petites entreprises (TPE), a été substituée par la mesure portant sur le statut de l'auto-entrepreneur.

En vue d'améliorer la qualité du travail et d'inciter à la formalisation des très petites entreprises, le Gouvernement a adopté le 7 novembre 2013 en Conseil de Gouvernement le projet de Loi n°114.13 instituant un statut légal, fiscal et social de l'auto-entrepreneur qui minimise les coûts pour devenir un auto-entrepreneur dans le secteur formel, simplifie les procédures administratives, et prévoit la mise en place d'un régime de couverture sociale au profit de l'auto-entrepreneur.

Le renforcement du système d'information du marché du travail

Pour répondre à la nécessité de mettre en place un système d'information sur le marché du travail et de suivi-évaluation des différentes initiatives prises en faveur de l'emploi, le Gouvernement a entrepris plusieurs actions portant sur :

- la mise en place, en 2014, d'un dispositif de suivi-évaluation systématique des programmes actifs de l'emploi prévus par le Plan stratégique 2012-2016. Cette mesure s'est concrétisée par la mise en place d'un manuel opérationnel de suivi-évaluation des programmes de promotion de l'emploi et l'élaboration d'un programme pluriannuel d'études d'évaluation.

Ce manuel se fixe comme objectif principal de présenter un guide pratique pour standardiser la préparation et la mise en œuvre de la mission du suivi continu et de l'évaluation des programmes de promotion de l'emploi en vigueur et des nouveaux programmes à mettre en œuvre.

- L'adoption par le Conseil du Gouvernement le 15 mai 2014 d'un projet de décret portant notamment sur la création de la Direction de l'observatoire national du marché du travail au Ministère de l'Emploi et des Affaires Sociales pour le suivi et l'analyse du marché du travail.

Tout en vous remerciant pour votre appui à la réalisation de cet important programme, je vous prie de croire, Monsieur le Président, en l'expression de ma Haute considération.


 Le Ministre Délégué auprès du Chef du Gouvernement
 Chargé des Affaires Générales et de la Gouvernance

Mohammed LOUFA

(UNOFFICIAL TRANSLATION)

LETTER OF DEVELOPMENT POLICY

Kingdom of Morocco
Head of Government
Minister Delegate to the Head of Government
Responsible for General Affairs and Governance

Mr. Jim Yong Kim
President of the World Bank
1818 H Street, N.W.
Washington, D.C.

Subject: Letter of Development Policy on the Skills Development and Employment Program

Mr. President:

Among Morocco's national priorities, special emphasis is being placed by the Government on employment. In addition to wealth creation, employment is the primary means of social integration.

Consequently, economic and social policies that impact employment creation and promotion have been accorded priority as a means of reducing unemployment, particularly youth unemployment.

More work is currently required on these policies, along with the implementation of new reforms to address the new challenges that must be tackled in the area of employment and skills development.

Against this backdrop, the Government's program, which is spread over the 2012–2016 period, focuses in particular on strengthening macroeconomic equilibrium, developing the productive sectors, building on progress made in social areas, and strengthening good economic and financial governance.

With the aim of reducing unemployment, the Government has set itself the goal of lowering the unemployment rate to 8 percent by 2016 by improving the business climate, promoting investment, strengthening the local and regional aspects of development, supporting small and medium enterprises, and accelerating the implementation of sectoral strategies (Export Plus, Morocco Green Plan, *Plan Emergence*, *Rawaj* Plan, Crafts, Logistics and Basic Infrastructure, Vision 2020 for Tourism, etc.).

In addition to monitoring the ongoing programs (*Idmaj*, *Taahil*, and *Moukawalati*), the Government has declared its intent to implement three new programs : (i) the *Moubadara*

(Initiative) Program which intends to promote employment within local associations working in the social and education areas; (ii) the *Taatir* (Coaching) Program which targets long-term unemployed university graduates and aims at integrating 50,000 beneficiaries per year into the labor force; and (iii) the *Istiaab* (Assimilation) Program designed to provide incentives for the formalization of the economy.

In that context, Morocco launched a broad-based reform program focused on the development of skills and employment with a view to boosting employability, productivity, and workforce quality by implementing priority reforms in the areas of higher education, vocational training, employment policies, and social protection.

This reform program was in fact implemented since 2012 with World Bank assistance in the context of the first Development Policy Loan. The Government is continuing the reforms undertaken with World Bank assistance in the area of skills development and employment.

This Letter of Development Policy aims at presenting the measures taken by the Government in the context of a first DPL, as well as those taken to strengthen these initiatives and continue its reform program.

I. PROGRESS MADE WITH THE SKILLS DEVELOPMENT AND EMPLOYMENT REFORM PROGRAM

Since the implementation of the first Development Policy Loan in 2012, major progress has been made in the area of skills development and employment. Areas of progress include:

- The establishment of an information system using Apogee³⁷ software in four public universities covering 75 percent of their member institutions, which facilitates active tracking of the university students' progress by such features as discipline, level, and geography, with a view to enhancing the internal efficiency of higher education and producing, at regular intervals, individual reports on each university as well as consolidated reports for the group of universities.
- The provision in 15 public universities during the 2009/2010 academic year, in at least 80 percent of bachelor-level programs in their open-enrollment institutions, of a course module of 80 hours in foreign languages, computer literacy, communication, and methodology.
- The establishment of three specialized vocational training institutes in high-demand sectors identified in the National Pact for Industrial Emergence, through the signing of three agreements in 2010 and 2011—the Casablanca Graduate School for Fashion Design [*Ecole Supérieure de Création et de Mode à Casablanca*] in 2010, the Tanger Med Training School for Automotive Industry Careers [*Institut de Formation aux Métiers de l'Industrie Automobile de Tanger Med*] (Renault) in 2011, and the

³⁷ Apogee software: software for the organization and management of instruction and students

Casablanca Institute for Aeronautical Careers [*Institut des Métiers de l'Aéronautique à Casablanca*], under the management of professionals in the relevant sectors, through a public-private partnership.

- The drafting and implementation of new employment promotion programs, in particular the First Employment Contract [*Contract d'Intégration Professionnelle CIP*] that targets the integration of the hard-to-place unemployed into the labor force and the exemption by the State of social insurance contribution (PCS) under the employment subsidy program (*Idmaj*). The capacity building, in the context of the SEDPL1, of the National Employment Promotion Agency [*Agence Nationale de Promotion de l'Emploi et des Competences ANAPEC*] by implementing the 2009-2011 plan intended to increase the number of local offices and job counselors.
- The preparation of a national strategy for the development of microenterprises in 2011. This strategy includes priority areas, in particular access to financing, social insurance coverage, taxation, and local support for microenterprises.
- The expansion of State-funded social insurance coverage to other categories of workers, among them non-salaried workers in the road transport sector who hold drivers' licenses.
- The development of a survey instrument in 2011 on the integration of university graduates into the labor force.
- The institutionalization of the sharing and use of labor market data by concluding agreements with the partners who produce information on the labor market.

II STRENGTHENING PROGRESS MADE WITH SKILLS AND EMPLOYMENT DEVELOPMENT

Despite the progress made to date, the Government is cognizant of the challenges posed by skills in the labor market context. Hence, the Government affirmed its willingness to continue the work started in this priority area.

The launch of the second operation, with World Bank assistance, will facilitate strengthening of the progress made, with a view to tackling the new challenges.

The second phase of the reform program focuses on the following four action areas:

- Improving the efficiency and relevance to labor market needs of skills development programs;
- Enhancing the effectiveness of intermediation services;
- Promoting the formalization of microenterprises;
- Strengthening the labor market information system.

Improving the efficiency and relevance to labor market needs of skills development programs

To strengthen efforts to improve the relevance of the skills of new entrants in the labor market, the State concluded multiyear training contracts with the private sector (enterprises and professional associations) to develop training under a public-private partnership (PPP), based on the draft vocational training strategy, so as to orient sectoral policies in a coherent and efficient manner.

Following the merging of the Vocational Training Department into the Ministry of National Education, the draft vocational training strategy and the related “program-contracts” are currently being finalized by the various stakeholders so as to better reflect the Government’s vision.

Cognizant of the importance of better adapting training to labor market needs, on June 5, 2014, the Government adopted draft Law No. 13-74 related to the organization of on-the-job training, in particular governance and financing. This draft law is aimed at developing worker skills and competencies so as to foster enterprise competitiveness, enabling individuals to adapt to changes in the labor market, and facilitating their social and professional development.

Furthermore, and with regard to areas related to the political scope of the National Qualifications Framework, a national commission chaired by the Head of Government and tasked with monitoring the implementation of the National Qualifications Framework was established by Circular No. 5-2014 issued by the Head of Government on June 4, 2014. The operationalization of the National Qualifications Framework will facilitate greater visibility of education and training programs and their alignment with a common framework, with the aim of helping young job seekers and enterprises make better choices and facilitate the international mobility of trainees and workers by using the European Certification Framework as the benchmark for the National Qualifications Framework.

Other measures have also been taken regarding:

- The extension of coverage of vocational training (gender, urban/rural, vulnerable people) with a view to ensuring equal opportunities. This measure involves establishing a support mechanism aimed at non-governmental organizations, designated to offer vocational training programs to out-of-school youth from disadvantaged backgrounds. In this regard, a circular regarding eligibility and the processing of requests from associations interested in concluding agreements to implement apprenticeship programs was signed on February 13, 2014;
- Adoption by the Government Council on July 11, 2013 of draft Law No. 80-12 on the creation of the National Agency for the Evaluation of Higher Education and Scientific Research [*Agence nationale d’évaluation de l’enseignement supérieur et de la recherche scientifique*] to conduct institutional evaluations of public and private higher education establishments and scientific research institutions.

Enhancing the Effectiveness of Intermediation Services

In the interest of promoting opportunities for the integration of young people into the labor market, the Government undertook activities aimed at strengthening the progress achieved by existing active labor market programs and intermediation policies, taking evaluation outcomes into account as well as trends in job seekers' profiles. These activities include the following:

- Preparation by the Ministry of Labor and Social Affairs, based on the 2012–2016 Strategic Action Plan, of a detailed work program for 2014–2016 that defines the priorities, programs, budgets, monitoring indicators and clarifies responsibilities in monitoring its implementation.
- The launch by the Ministry of Labor and Social Affairs of preparation of an eighteen-month pilot program to extend ANAPEC coverage to non-graduates (i.e, those who have not completed high school (*baccalauréat*) or do not have a vocational training diploma), in the areas covered by five local offices of this agency. The provider selection procedure began in April 2014 and will conclude by end-2014. This measure supersedes the measure regarding adoption of a draft law amending Law No. 51/99 on the creation of ANAPEC with a view to extending coverage to non-graduates.

Promoting the Formalization of Microenterprises

Following the creation of a new Department in charge of small enterprises and integration of the informal sector, the measure relating to the signing of “program-contracts” for implementation of the national strategy to promote microenterprises was replaced by the measure regarding the status of the self-entrepreneurs.

With a view to improving the quality of work and promoting formalization of microenterprises, on November 7, 2013, at a meeting of the Council of Government, the Government adopted draft Law No. 114.13 establishing a legal, fiscal and social status for self- entrepreneurship that minimizes the costs of becoming a formal self- entrepreneur, simplifies administrative procedures, and provides for the establishment of a social insurance coverage mechanism for self- entrepreneurs.

Strengthening the Labor Market Information System

To address the need to establish a labor market information system and to conduct monitoring and evaluation of the various employment promotion initiatives, the Government undertook several actions relating to the following:

- The establishment, in 2014, of a systematic monitoring and evaluation mechanism for active labor market programs included in the 2012–2016 Strategic Action Plan. This measure was completed with the production of a Monitoring and Evaluation Operational Manual for employment promotion programs and the preparation of a multiyear program of evaluation studies.

The main goal of this Manual is to offer a practical guide to standardize the preparation and implementation of the ongoing monitoring activity and the evaluation of ongoing active labor market programs and new programs to be implemented.

- Adoption by the Council of Government on May 15, 2014 of a draft law relating, in particular, to the creation of the National Labor Market Observatory Department [*Direction de l'observatoire national du marché du travail*] in the Ministry of Labor and Social Affairs to monitor and analyze the labor market.

Thank you, Mr. President, for your support for the execution of this important program.

Very truly yours,

[stamp and signature]

Minister Delegate to the Head of Government
Responsible for General Affairs and Governance

Mohammed Louafa

ANNEX 3: FUND RELATIONS NOTE



INTERNATIONAL MONETARY FUND



Press Release No. 14/37
FOR IMMEDIATE RELEASE
January 31, 2014

IMF Executive Board Completes Third Review under the PLL Arrangement with Morocco and Concludes 2013 Article IV Consultation

On January 31, 2014, the Executive Board of the International Monetary Fund (IMF) completed the third review of Morocco's economic performance under a program supported by a 24-month Precautionary and Liquidity Line (PLL) arrangement and concluded the 2013 Article IV consultation with Morocco.³⁸

The PLL arrangement was approved on August 3, 2012 in an amount equivalent to SDR 4.12 billion (about US\$6.2 billion or 700 percent of Morocco's quota), (See Press Release No. 12/287). The Executive Board concluded the second review on July 31, 2013. The authorities are treating the arrangement as precautionary.

The PLL arrangement continues to support the authorities' home-grown reform agenda aimed at achieving higher and more inclusive economic growth by providing an insurance against external shocks. The PLL was introduced to meet more flexibly the liquidity needs of member countries with sound economic fundamentals and strong record of policy implementation but with some remaining vulnerabilities.

Following the Board discussion of the review, Ms. Nemat Shafik, Deputy Managing Director, and Acting Chair made the following statement:

"Notwithstanding the continued unfavorable external environment and challenging domestic conditions, Morocco's macroeconomic performance improved in 2013, supported by strong policy commitment and implementation, as well as the insurance provided by the PLL. Important measures taken by the authorities helped reduce fiscal and external vulnerabilities and strengthen the economy's resilience. Given significant downside risks and persistently

³⁸ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

high unemployment, the economic outlook will depend on the sustained delivery of policy and structural reforms designed to continue rebuilding policy buffers and promote higher and more inclusive growth.

“The substantial reduction in energy subsidies achieved in 2013, along with increased social assistance to the most vulnerable, helped strengthen the fiscal accounts and reduce underlying fiscal vulnerabilities. Looking ahead, continued strengthening of public finances will require a reorientation of revenue and spending to better support growth and inclusiveness, along with the passage of a new organic budget law that incorporates best practices with respect to fiscal discipline, coverage and expenditure control.

“Sustaining the recent gains in improving Morocco’s external position hinges on measures to support its external competitiveness. Structural reforms in this area are a priority. More flexibility in the exchange rate regime, in close coordination with other macroeconomic policies, would also help and would increase the economy’s resilience to external shocks.

“Further reforms are needed to strengthen the business climate, transparency, and the judiciary system and to improve the functioning of the labor market in order to attract foreign direct investment and promote strong job growth. Broader financial inclusion including greater access to credit for small and medium-sized enterprises is also needed to foster higher growth and boost employment.”

The Executive Board also concluded the 2013 Article IV consultation with Morocco.

The Moroccan economy has weathered the recent unfavorable regional and global economic context relatively well. GDP growth is expected to have reached about 4.5 percent in 2013 on the back of an exceptional agricultural season. Growth in other sectors has been dragged down by the effects of the European crisis, but is expected to rebound in 2014 for an overall growth rate of around 4 percent. Inflation is well under control, while the financial sector remains sound. The 2013 current account deficit was reduced and international reserves have been stable above four months of imports for more than a year, thanks in part to sustained foreign investment and access to international bond markets at favorable terms. Lower international oil prices and policy actions helped reduce the fiscal deficit from 7.3 percent of GDP in 2012 to 5.4 percent in 2013.

Executive Board Assessment³⁹

Executive Directors commended the economy’s resilience in the face of significant external shocks and challenging domestic conditions, and welcomed recent measures that successfully helped reduce fiscal and external vulnerabilities. Noting Morocco’s high unemployment rate and the downside risks to the outlook, Directors advised sustaining reforms to continue rebuilding policy buffers and promote higher and more inclusive growth.

³⁹ At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country’s authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

Directors supported efforts to strengthen the public finances and support both fiscal and external sustainability. They welcomed the reduction of energy subsidies in 2013 while increasing social protection to the most vulnerable, and encouraged the authorities to sustain such efforts. They advised that revenue and spending should be reoriented to better support growth and inclusiveness in 2014 and beyond, through reforms aimed at broadening the tax base, reviewing tax incentives and exemptions, reforming the VAT system, moderating the public wage bill, and reforming the pension system.

Directors welcomed the adoption by the Council of Ministers of the new Organic Budget Law as a step toward the establishment of a modern and improved fiscal framework. They called for strengthening the provisions of the draft law pertaining to fiscal discipline, coverage and expenditure control, in line with international best practice, and looked forward to the law's timely approval ahead of the preparation of the 2015 finance law.

Directors underscored that consolidation of Morocco's external position hinges on improving its external competitiveness. They stressed the critical importance of structural reforms in this area. They noted that a move toward a more flexible exchange rate regime, in coordination with other macroeconomic policies, would also help and would increase the economy's resilience to external shocks. In this regard, Directors welcomed the Fund's provision of technical assistance to the Bank Al-Maghrib (BAM) to help prepare for a smooth transition to more exchange rate flexibility. They recommended further reforms to strengthen the business climate, transparency, and the judiciary system and to improve the functioning of the labor market in order to attract private investment and promote strong job growth.

Directors supported BAM's efforts to strengthen banking supervision and regulatory arrangements, including gradual adherence to the Basel III norms, as well as closer monitoring of the banking sector's international expansion. They underscored the importance of financial deepening and increased access to credit for small and medium-sized enterprises for fostering sustained growth.

Table 6: Morocco: Selected Economic Indicators, 2012-17

	2012	PLL1/ 2013	Rev.2/ 2014	Proj. 2015	2016	2017
	(Annual percentage change)					
Output and Prices						
Real GDP	2.7	5.1	4.5	3.9	4.9	5.4
Real primary GDP	-7.2	13.6	17.0	-1.0	4.5	5.0
Real non-primary GDP	4.6	3.7	2.4	4.8	5.0	5.5
Consumer prices (end of period)	2.6	2.3	0.4	2.5	2.5	2.5
Consumer prices (period average)	1.3	2.3	1.9	2.5	2.5	2.5
	(In percent of GDP)					
Investment and Saving						
Gross capital formation	35.3	34.3	34.7	35.3	35.3	35.5
Of which: Nongovernment	29.7	30.0	29.5	30.7	29.9	30.1
Gross national savings	25.6	27.1	27.2	28.8	29.7	30.6
Of which: Nongovernment	25.9	26.8	25.9	27.6	26.8	27.0
	(In percent of GDP)					
Public Finances						
Revenue	28.7	27.5	27.9	27.4	28.1	28.2
Expenditure	36.1	33.0	33.4	32.4	32.4	31.2
Budget balance	-7.3	-5.5	-5.4	-4.9	-4.3	-3.0
Primary balance (excluding grants)	-5.0	-4.0	-3.6	-2.8	-2.7	-1.4
Cyclically-adjusted primary balance (excl. grants)	-4.7	...	-3.4	-3.3	-2.6	-1.4
Total government debt	60.2	61.8	61.7	62.5	62.4	60.1
	(Annual percentage change; unless otherwise indicated)					
Monetary Sector						
Credit to the private sector 3/	4.8	6.1	3.6	5.6	6.2	6.9
Base money	-0.5	11.5	9.8	4.6	5.5	6.0
Broad money	4.5	5.5	3.9	4.6	5.5	6.5
Velocity of broad money	0.8	0.8	0.9	0.9	0.9	0.9
Three-month treasury bill rate (period average, in percent)	3.2	...	...	...	...	...
	(In percent of GDP; unless otherwise indicated)					
External Sector						
Exports of goods (in U.S. dollars, percentage change)	-0.8	3.3	1.8	9.1	7.3	7.0
Imports of goods (in U.S. dollars, percentage change)	1.6	0.7	0.7	6.8	5.2	5.1
Merchandise trade balance	-20.9	-18.7	-19.0	-18.1	-17.1	-16.2
Current account excluding official transfers	-10.0	-8.2	-8.0	-7.5	-6.7	-5.7
Current account including official transfers	-9.7	-7.2	-7.4	-6.5	-5.7	-4.8
Foreign direct investment	2.4	3.2	2.9	2.9	3.0	3.1
Total external debt	29.8	31.3	30.9	31.5	31.6	30.6
Gross reserves (in billions of U.S. dollars)	17.5	18.7	19.3	20.0	21.1	22.4
In months of next year imports of goods and services	4.2	4.3	4.3	4.3	4.3	4.3
In percent of short-term external debt (on remaining maturity basis)	1251.8	1332.0	1374.5	1427.1	1508.7	1601.2
Memorandum Items:						
Nominal GDP (in billions of U.S. dollars)	96.1	104.8	105.5	115.1	125.1	136.0
Unemployment rate (in percent)	9.0	8.9	8.9	...	...	...
Population (millions)	32.5	32.9	32.9	33.2	33.5	33.8
Net imports of energy products (in billions of U.S. dollars)	-12.4	-11.6	-12.2	-13.0	-12.9	-12.9
Local currency per U.S. dollar (period average)	8.6	...	8.4	...	...	...
Real effective exchange rate (annual average, percentage change)	-1.0	...	0.1	...	...	...

Sources: Moroccan authorities; and IMF staff estimates.

1/ Refers to the macro framework for the 2nd review in CR/13/302.

2/ Revised macro framework.

3/ Includes credit to public enterprises.

ANNEX 4: MACROECONOMIC DEVELOPMENTS AND DEBT SUSTAINABILITY

Figure A. Growth shifted to higher path and is less volatile and less dependent on agriculture (in percent)

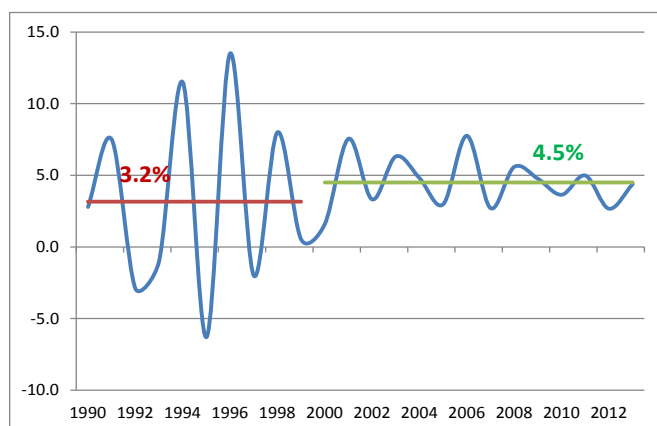


Figure B. Unemployment declined, but remains high for urban youth and educated (in percent)

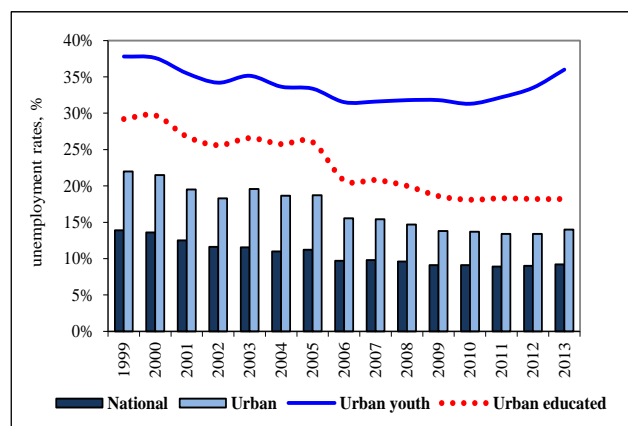


Figure C. External position has deteriorating before but improved in 2013 and expected to improve further in 2014 (in percent of GDP)

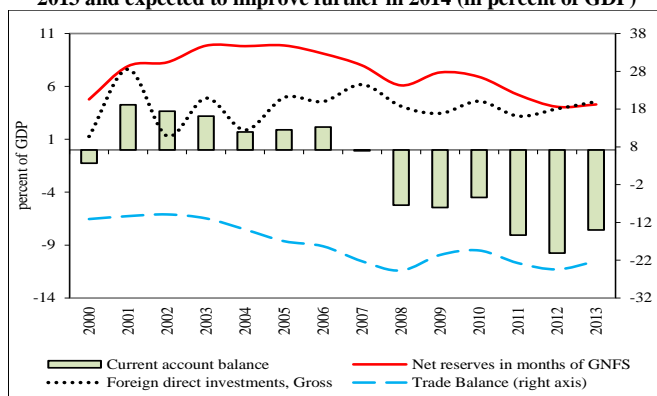


Figure D. Public Finances have deteriorated with the global crisis but are improving since 2013 (in percent of GDP)

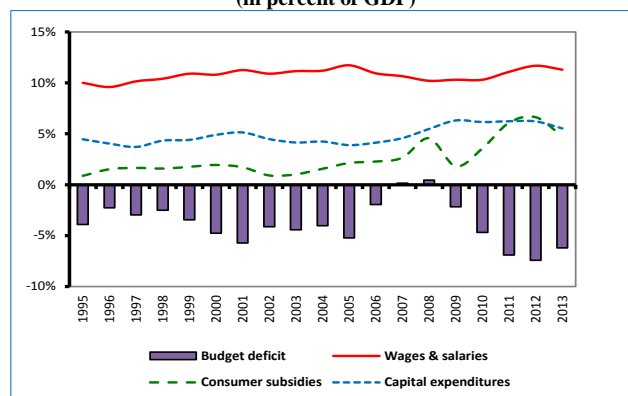


Figure E. Inflation remains subdued. Cumulated year over year (in percent)

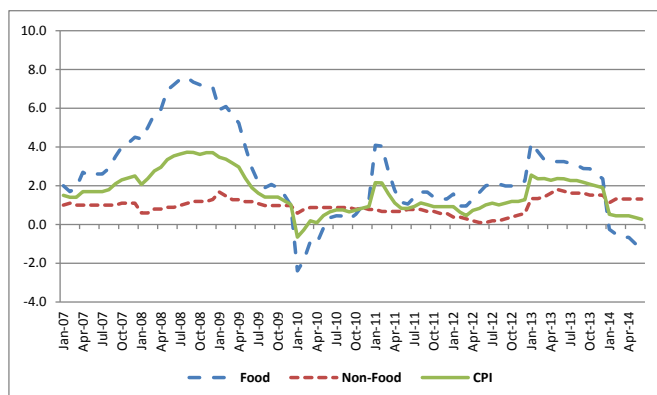
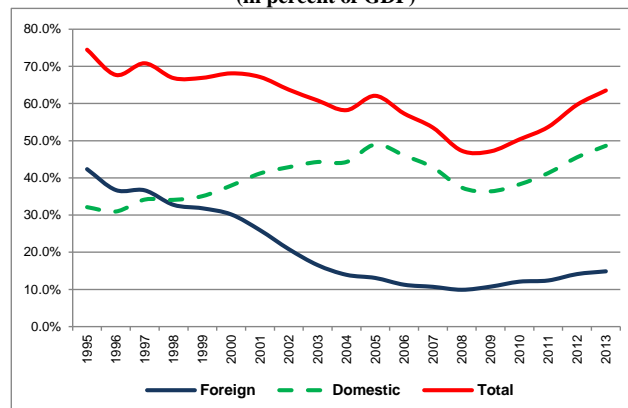


Figure F. After a steady decline, Central Government debt increased since 2010, but is sustainable in the MT (in percent of GDP)



Source: Government and World Bank staff estimates

Table 7: Public Sector Debt Sustainability Framework, 2008-2018 (in percent of GDP, unless otherwise indicated)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
I. Baseline Projections										
Public sector debt 1/	50.3	53.7	59.7	63.5	65.0	64.9	64.0	62.5	61.0	59.1
o/w foreign-currency denominated	12.1	12.4	14.1	14.9	16.6	17.2	17.5	17.6	17.9	18.1
Change in public sector debt	3.2	3.4	6.0	3.8	1.5	0.0	-0.9	-1.5	-1.5	-1.9
Identified debt-creating flows (4+7+12)	3.4	4.1	5.2	3.3	2.9	1.2	0.3	-0.4	-1.2	-1.7
Primary deficit	2.4	4.6	5.0	3.6	3.6	2.7	1.9	1.3	0.6	0.4
Revenue and grants	25.4	25.9	26.6	25.3	25.2	25.2	25.1	25.1	25.7	25.8
Primary (noninterest) expenditure	27.7	30.6	31.6	29.0	28.8	27.9	27.0	26.4	26.2	26.2
Automatic debt dynamics 2/	1.0	0.2	0.6	-0.3	-0.5	-1.3	-1.5	-1.6	-1.6	-1.9
Contribution from interest rate/growth differential 3/	0.4	-0.1	0.8	-0.5	-0.6	-1.5	-1.7	-1.7	-1.7	-2.0
Of which contribution from real interest rate	2.0	2.2	2.2	2.0	1.2	1.3	1.2	1.2	1.2	1.0
Of which contribution from real GDP growth	-1.6	-2.4	-1.4	-2.5	-1.8	-2.8	-2.9	-2.9	-2.9	-3.0
Contribution from exchange rate depreciation 4/	0.7	0.3	-0.2	0.2	0.1	0.2	0.2	0.2	0.1	0.1
Other identified debt-creating flows	0.0	-0.7	-0.4	0.0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Privatization receipts (negative)	0.0	-0.7	-0.4	0.0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual, including asset changes (2-3)	-0.2	-0.8	0.8	0.5	-1.4	-1.2	-1.2	-1.1	-0.3	-0.3
Public sector debt-to-revenue ratio 1/	198.6	207.0	224.1	250.6	257.9	257.7	255.1	249.2	237.5	229.0
Gross financing need 5/	25.7	22.2	20.4	19.6	20.7	19.1	18.4	17.5	15.7	14.6
in billions of U.S. dollars	23.3	22.0	19.5	20.0	22.2	21.7	22.1	22.3	21.3	21.2
Key Macroeconomic and Fiscal Assumptions										
Real GDP growth (in percent)	3.6	5.0	2.7	4.4	3.0	4.6	4.8	4.9	5.0	5.4
Average nominal interest rate on public debt (in percent) 6/	5.1	4.7	4.7	4.6	4.3	4.4	4.4	4.4	4.4	4.2
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	4.4	4.7	4.2	3.5	2.1	2.2	2.2	2.2	2.1	2.0
Nominal appreciation (increase in US dollar value of local currency, in percent)	-5.9	-2.6	1.7	-1.4	-0.6	-1.1	-1.1	-1.0	-0.8	-0.7
Inflation rate (GDP deflator, in percent)	0.6	0.1	0.4	1.0	2.3	2.2	2.2	2.2	2.2	2.3
Growth of real primary spending (deflated by GDP deflator, in percent)	12.2	15.7	6.1	-4.4	2.4	1.4	1.6	2.6	4.2	5.1
Primary deficit	2.4	4.6	5.0	3.6	3.6	2.7	1.9	1.3	0.6	0.4
II. Stress Tests for Public Debt Ratio										
A. Alternative Scenarios										
A1. Key variables are at their historical averages in 2013-2019 7/				63.5	62.2	61.1	60.1	59.2	59.1	59.0
A2. No policy change (constant primary balance) in 2013-2019				63.5	64.0	64.2	64.4	64.5	65.4	65.9
B. Bound Tests										
B1. Real interest rate is at baseline plus one standard deviations				63.5	65.5	66.0	65.6	64.6	63.5	62.0
B2. Real GDP growth is at baseline minus one-half standard deviation				63.5	65.7	66.6	66.8	66.6	66.5	66.2
B3. Primary balance is at baseline minus one-half standard deviation				63.5	66.4	67.7	68.2	68.1	67.8	67.1
B4. Combination of B1-B3 using one-quarter standard deviation shocks				63.5	66.2	67.4	67.6	67.3	66.9	66.0
B5. One time 30 percent real depreciation in 2014 9/				63.5	71.8	71.6	70.6	68.9	67.3	65.1
B6. 10 percent of GDP increase in other debt-creating flows in 2014				63.5	65.0	64.9	64.0	62.5	61.0	59.1

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.

2/ Derived as $[(r - p(1+g) - g + ae(1+r))/(1+g+p+gp)]$ times previous period debt ratio, with r = interest rate; p = 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).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as $-g$.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $ae(1+r)$.

5/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

6/ Derived as nominal interest expenditure divided by previous period debt stock.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ The implied change in other key variables under this scenario is discussed in the text.

9/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

10/ 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.

ANNEX 5: DESCRIPTION OF EXISTING ACTIVE LABOR MARKET PROGRAMS IN MOROCCO

I. The *Idmaj* program (Integration)

1. This program seeks to increase the employability of high skilled job seekers by providing incentives to those enterprises who offer them paid internships (Law no. 1-93-16 dated March 23, 1993, modified and completed by the Law no. 13/98 and by the Law no. 39/06). *Idmaj* includes the following three measures :

a) *Contrat d'Insertion (CI)*, whose objectives are to : (i) develop the human resources of the enterprise as well as to improve its ability to supervise/mentor employees through the recruitment of high skilled job seekers without incurring high salary costs; and (ii) increase the employability of high skilled job seekers by enabling them to acquire new professional skills, notably through an internship that, for many of them, is their first work experience. The duration of the internship is 24 months, but it can be renewed for up to 12 additional months if the enterprise recruits the intern via an open-ended contract. The following are the benefits for the enterprise:

- Exemption from employers' salary contributions paid to the CNSS (National Social Security Fund) as well as from the vocational training tax for the internship allowance which can go from MAD 1,600 to 6,000 for those job seekers holding a university degree, a high school diploma or the equivalent or a vocational training diploma.
- Exemption from revenue tax for the internship allowance, amounting to MAD 6,000, and given to those interns with university/vocational training diplomas.
- Ability to continue benefiting from exemptions for an additional year in case of recruitment.

b) *Contrat d'Intégration Professionnelle (CIP)*, whose objectives are: (i) promote decent work, (ii) allow those job seekers facing significant difficulties in finding employment to have access to a first job; (iii) allow enterprises to respond to their needs in terms of skills through a training to adjust the profiles to the existing job vacancies. The target population is those job seekers enrolled in ANAPEC for at least one year and holding a general university degree. The benefit for the enterprise is a contribution from the Government ("integration allowance") of MAD 25,000 in case of permanent (open-ended contract) recruitment after 6 – 9 months following the end of the internship.

c) *Prise en charge de la couverture sociale (PCS)* seeks to improve the CI (Law no. 16/93) by exempting the enterprise from paying social security contributions for one year. The enterprise must either offer the intern an open-ended contract during or immediately after the end of the internship (24 months).

II. The *Taehil* Program (Certification)

2. This program seeks to improve the employability of job seekers by enabling them to acquire professional skills for duly identified or potential vacancies. *Taehil* includes the following three measures:

a) *Formation Contractualisée pour l'Emploi (FCE)*, whose objective is to allow job seekers to acquire the skills needed to fill identified job vacancies. The target population is those high-skilled job seekers enrolled in ANAPEC who have been selected by an enterprise or a professional association for recruitment. The training is capped at 600 hours and the Government's average contribution is MAD 10,000 per beneficiary. The Government's maximum contribution could reach up to MAD 24,000 for those newly created enterprises as well as for enterprises that launch an investment project or that operate within a new trade/sector.

b) *Formation Qualifiante ou de Reconversion (FQR)*, whose objective is to facilitate the insertion of high skilled job seekers facing difficulties in finding a job, by enabling them to acquire professional skills and by adapting their profiles to the labor market needs. The target population is those high skilled job seekers enrolled in ANAPEC, with at least a high school diploma, that need to undergo re-training to acquire those skills that are demanded by the enterprises. The maximum duration of the training is one year, and the maximum contribution from the Government is MAD 10,000 per year per beneficiary, with a cap of MAD 18,000 in the following cases: i) training for one of the new/emerging trade/sectors; and ii) training for regional/sectoral investment projects.

c) *Formation d'adaptation au profit des secteurs émergent (FSE)* (offshoring, aeronautics, automobile, electronics), whose objective is to succeed in the recruitment of human resources by developing their skills, as well as to respond to the work-based training needs of salaried workers: training upon recruitment (first year) work-based training (second and third year after recruitment). The Government's contribution is from MAD 22,000 to 60,000 for the automobile sector, from MAD 20,000 to 60,000 for the aeronautic and electronic sectors and from MAD 12,000 to 65,000 for the offshoring sector.

III. *Moukawalati* (my enterprise)

3. Moukawalati is a national program to support the creation of micro-enterprises. It aims to support job seekers wishing to create enterprises, and to ensure the progressive sustainability of the regional economic tissue. The target population is job seekers seeking to create enterprises who are either high skilled or meeting one of the following criteria: (i) having at least a basic school certificate, or (ii) having a training certificate provided by a specialized training provider. In addition, beneficiaries must: a) have Moroccan citizenship, b) be from 20 to 45 years old, and c) submit a project seeking to create an enterprise requiring an investment between MAD 50,000 and 250,000. The proposed enterprise can be comprised of up to five members. The program benefits are as follows:

- Support to the job seeker before and after the creation of enterprises;
- Government's financial support in the amount of MAD 10,000 per project;
- State guarantee of 85 percent of the commercial bank credit amount; and

- Money advance without interest of 10 percent of the investment for a maximum of MAD 15,000 reimbursable within six years (with a three-year grace period).