

PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE

September 11, 2013
Report No. 81848 REV

Operation Name	Morocco Second Skills and Employment DPL
Region	Middle East and North Africa
Country	Morocco
Sector	Tertiary education (40%); Other social services (40%); Compulsory pension and unemployment insurance (10%); Vocational training (10%)
Operation ID	P144185
Lending Instrument	Development Policy Lending
Borrower(s)	Government of Morocco
Implementing Agencies	Ministry of Labor and Vocational Training Rabat, Morocco 10000 Tel: (212-537) 683-187/85 Fax: (212-537) 683-186
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Corporate Review Decision	NA

I. Country and Sector Background

1. While Morocco has made commendable progress in bringing about a steady reduction in the high unemployment rate, unemployment continues to remain one of the most critical development challenges for the country. The creation of quality jobs, i.e., jobs that make a greater contribution to poverty reduction, reduce risk, have above-average productivity, and do not conflict with human rights is a primary concern to policy makers. The lack of jobs, including “quality jobs”, has limited the extent to which the sustained economic growth of the past decade can be widely shared and eventually translated into poverty reduction. Unemployment rates are stubbornly high, especially among the highly-schooled youth and new labor market entrants. Labor force participation among women is low. Informality is rampant, involving the majority of the labor force, and is associated with low-quality/low-value-added jobs. Low quality and insufficient employment poses a risk to social cohesion and security, particularly in a region where a large cohort of unemployed and out-of-the-labor-force young people may feel disillusioned about their ability to participate productively in economic life. While addressing these issues was important for poverty reduction and social inclusion before the Arab Spring, it has become even more important because it also determines future political stability.

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

II. Operation Objectives

3. The Moroccan Government has requested the Bank’s support to a coherent program in the areas of higher education and vocational training, and labor market policies [areas (iv) and (v) listed in Section I above]. Hence, the objective of the Skills and Employment Development Program is to support the Government of Morocco to implement its program of improving skills, productivity and quality of employment through: (a) matching skills developed within the vocational training and higher education systems to the needs of the labor market; (b) improving the effectiveness of intermediation services, including active labor market programs; (c) improving job quality; and (d) strengthening the labor market information system.

4. The proposed Second Skills and Employment Development Policy Loan (SEDPL2) is the second and last operation in the 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 deepening legal and institutional reforms and the implementation of transformative measures anchored in solid strategic approaches.

5. The SEDP2 is complementary to other operations within the Bank’s program in Morocco, such as: The Education Development Policy Loans, and the Competiveness Development Policy Loans [areas (ii) and (iv) listed in Section I above].

Prior Actions for SEDP1

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

1. Thirteen (13) programmatic contracts have been signed among the government and representatives of industries and unions for the implementation of specific elements of the new vocational training strategy adopted.
2. Cabinet has adopted a draft Vocational Training Law, which inter alia provides for the governance and financing of on-job vocational training.
3. Labor Ministry’s Vocational Training Department operationalizes [to be defined] the National Qualifications Framework (NQF), with a view to enabling users to interpret vocational training qualifications
4. Labor Ministry’s Vocational Training Department develops, on the basis of the results of a technical audit of a sample of NGOs, a mechanism to select and support NGOs intending to offer vocational training programs to out-of-school youth from disadvantaged backgrounds.
5. Cabinet has adopted a draft Law establishing the National Evaluation Agency to carry out institutional evaluations of universities.

6. The Ministry of Labor and Vocational Training, Employment Department has adopted and implemented in 2012 and 2013 the 2012-2016 Strategic Action Plan, which defines priorities, programs, budgets, monitoring indicators, and clarifies responsibilities in monitoring its implementation.
7. The Cabinet has adopted the draft Law amending Law No. 51/99 establishing the National Employment Promotion Agency (*Agence nationale de promotion de l'emploi et des competences or ANAPEC*), in order to extend ANAPEC coverage to non-graduates.
8. The Ministry of General Affairs and Governance 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.
9. The Ministry of Labor and Vocational Training, Employment Department has established a monitoring and evaluation mechanism for the employment measures included in the 2012-2016 Strategic Action Plan.
10. The Ministry of Labor and Vocational Training has issued a Decree establishing an Observatory Direction for monitoring and analyzing the labor market and social protection, and such Direction has a work plan and a budget to carry out its mission.

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

Skills matching ("flow"):

- Number of programmatic contracts signed with the industries for the implementation of the vocational training strategy.
- Number of beneficiaries of on-the-job training programs
- Number of training programs aligned with the NQF
- Number of relevant vocational training programs for disadvantaged youth receiving support
- Number of academic programs assessed by the National Evaluation Agency

Effectiveness of intermediation services ("stock"):

- Total number of new active labor market programs (ALMPs) beneficiaries (*Moubadara, Taâ tir, and Istiâ ab*), by gender
- Number of new enrolments with ANAPEC, including proportion of non-graduates, per year, by gender

Job quality:

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

Labor market information system:

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

III. Rationale for Bank Involvement

8. The Country Partnership Strategy (CPS, 2010-2013) places the employment challenge squarely at the center of Morocco's development. The importance of this development issue has been confirmed through the Arab Spring civil protests in Morocco since February 2011 and

through the CPS Progress Report approved in June 2012 (CPS-PR). Support to skills development and employment is therefore a key component of the Bank's program and the SEDP series is a central instrument of the Bank's lending support. It contributes to achieving the first and second pillars of the CPS, namely: (i) encouraging growth, competitiveness and employment; and (ii) improving the quality of service delivery to citizens. By doing so, the proposed operation will contribute to achieving the CPS outcomes related to Skills and Employment. The proposed SEDPL2 also fits into the overall strategic direction anticipated under the new CPS FY14-17 under preparation, which is set to continue to promote a competitive yet inclusive growth, improvement in the quality and the governance of service delivery, while setting a greater emphasis on youth and gender

9. The World Bank and the International Monetary Fund maintain close collaboration in Morocco. Regular contacts between the Fund and the Bank country teams are customary, with discussions focused on the respective work programs, country priorities, recent developments and prospects. Collaboration between the Fund and the Bank in Morocco has been positive, with a common understanding on the division of labor and a shared assessment of the critical macroeconomic challenges facing the country. The Fund continues to focus on critical macroeconomic areas, and in particular exchange rate, monetary, and overall fiscal policy. The Bank continues to focus on strengthening economic management, improving the business environment, and sectoral reforms. The Fund participates in Bank project review meetings where relevant; Bank staff members contribute to the Fund's Article IV consultation missions to Morocco. The ongoing analytical work being carried out by the Fund team, which was welcomed by Bank counterparts, focuses on (i) the medium-term outlook for public finances in Morocco; (ii) an analysis of the real exchange rate; and (iii) the macroeconomic implementation of the global financial crisis and economic downturn.

10. The World Bank works closely with other donors. The SEDP2 operation was prepared in close coordination with the French Development Agency (AFD) and the African Development Bank (AfDB), and joint missions were carried out with these donors. The AFD will support the prior actions of the first and second axes of the SEDPL2 through a €50 Million Program. The Bank coordinated with several other donors who provide technical support or are preparing projects. Among them are the European Training Foundation (ETF), the German Society for International Cooperation (GIZ), USAID, the Japanese International Cooperation Agency (JICA), and the British Council.

IV. Tentative financing

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

V. Tranches

(\$m.)

Single Tranche		100
	Total	100

Institutional and Implementation Arrangements

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

VI. Risks and Risk Mitigation

The following main risks are identified:

12. **Political Risk.** The King's proactive launch of a comprehensive reform program, resulting in a new constitution, elections, an opposition-led government did appease sociopolitical tensions. However, these could quickly resume in light of the increasing frustration with the slow implementation of the constitution and the lack of visible improvements in the people's socio-economic conditions. Political tensions between the head of Government (PJD) and its main coalition partner (Istiqlal) led to the latter's withdrawal from Government on July 10, 2013. The Government has started negotiations with the third largest political party (RNI) on a new coalition government and majority in parliament. As the only alternative is to hold early elections, the stakes and risks of these negotiations are high. This situation may impact the current government program and delay the implementation of the current reforms. These political uncertainties and the limited results on the ground may revive social tensions and protests. The Government and the Bank try to mitigate the impact of this situation on the reform program, by locking in key policy changes, building consensus within the administration and with non-state actors about these reforms.

13. **Macro-economic and Fiscal Risk.** Morocco faces three major macroeconomic risks: (i) the persistence of unfavorable external conditions that impact negatively its fiscal and external

accounts; (ii) the continued accommodation of strong social demands for public sector employment and subsidies; and (iii) repeated delays in the implementation of key fiscal and structural reforms. The combination of high oil prices, a sluggish European economy and strong social demands has put government finance under stress. Morocco's fiscal space is eroding quickly due to increasing public expenditures. Structural reforms of the general subsidy system and other fiscal consolidation efforts have become a paramount priority to maintain Morocco's macroeconomic sustainability, and are supported by the Bank.

14. **Implementation Capacity Risk.** While the government departments (Labor, Higher Education, General Affairs and Governance, Economy and Finance) at the central level have significant capacity in administration and oversight, much of the success of implementing some of the policy measures will rest with various agencies and decentralized entities (e.g., National Evaluation Agency for universities, regions, ANAPEC offices). 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 Bank will take advantage of regional TA activities (e.g., MENA university governance score cards) to continue building technical capacity on university evaluation. The Programmatic Employment TA being delivered is strengthening the capacity of the Ministry of Labor in the following areas: (i) designing and implementing the 2012-2106 Strategic Action Plan, including ALPMs; (ii) strengthening the labor market information system; and (iii) preparing the Vocational Training Law.

15. **Program Coordination Risk.** The SEDP2 loan will be implemented by a number of Government entities. The General Affairs and Governance Ministry (MAGG) will be in charge of coordinating the program, a role that the ministry has played satisfactorily in the past. Bank missions and day-to-day follow-up by field-based staff will help MAGG perform this role, as has been the case for the SEDPL1.

VII. Poverty and Social Impacts and Environment Aspects

16. **Poverty and Social Impacts.** 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 technical vocational training and higher education** are expected to be welfare improving while impacts on poverty reduction are likely to be limited. The measures aimed at improving the matching of skills to labor market needs are expected to improve worker's productivity and thus promote both the social and economic inclusion of graduates. The social impact of the measures aiming at **improving the effectiveness of intermediation services** are expected to be positive, but limited. The prior actions to strengthen the Ministry of Labor's capacity to design/implement new ALMPs 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 will depend 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 macro-economic 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. Broadening the clientele of ANAPEC will, nonetheless, introduce implementation challenges and will require important financial investments (with fiscal implications). The measures seeking to **improve job quality** will likely have a positive social and poverty impact. The prior action to encourage the formalization of micro-enterprises will help to improve working conditions among workers, many of which are low-skilled, thereby addressing labor market segmentations, improving personal and household income among the poorest segments of the population. 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, governance, and accountability of employment programs, thereby enabling the Government to identify and reach out, in a more efficient/effective manner, to the most marginalized in society. This measure will also improve the efficiency of public spending by prioritizing investments on programs that are proven to work.

17. *Environment Aspects.* The SEDP is not expected to have any significant environmental implications. The project is a development policy loan in support of a broad program of policy and institutional reforms. Although the environmental requirements of OP/BP 8.60 apply, the policies supported by the proposed operation are unlikely to cause significant effects on the country's environment, forests, and other natural resources, as they are oriented toward improving skills and employment and do not include an investment lending subcomponent or physical investments.

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