

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

July 1, 2014

Report No.: 89644

<b>Operation Name</b>	Morocco Second Skills and Employment DPL
<b>Region</b>	Middle East and North Africa
<b>Country</b>	Morocco
<b>Sector</b>	Tertiary education (40%); Other social services (40%); Compulsory pension and unemployment insurance (10%); Vocational training (10%)
<b>Operation ID</b>	P144185
<b>Lending Instrument</b>	Development Policy Lending
<b>Borrower(s)</b>	Government of Morocco
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<b>Date PID Prepared</b>	July 1, 2014
<b>Estimated Date of Appraisal</b>	July 3, 2014
<b>Estimated Date of Board Approval</b>	August 26, 2014
<b>Corporate Review Decision</b>	Authorization to appraise and negotiate

## 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 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 Second Skills and Employment Development Program is to (i) Improve the efficiency and relevance to labor market needs of skills development programs; (ii) Improve the effectiveness of intermediation services; (iii) Promote the formalization of micro-enterprises; and (iv) Strengthen 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, 2102, 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].

## **III. Rationale for Bank Involvement**

6. The SEDP2 fits into the first and third pillars of the Country Partnership Strategy for fiscal years 2014-20117, 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.

7. 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 theses 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 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), the British Council, and the Wallonie Cooperation.

#### IV. Tentative financing

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

#### V. Tranches

Single Tranche		(\$m.)
		100
	Total	100

#### VI. Institutional and Implementation Arrangements

8. The SEDPL2 implementation will be under the overall coordination of the Ministry of General Affairs and Governance (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 the National Employment Promotion Agency (*Agence nationale de promotion de l'emploi et des competences* or *ANAPEC* with the MOLSA). The Higher Council for Education (CSE) (an independent body charged with the oversight of the National Agency for the Evaluation of Higher Education and Scientific Research ) 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/outcomes indicators highlighted in the policy matrix. These indicators will be disaggregated for gender, wherever possible. They will be closely monitored during supervision missions.

#### VII. Risks and Risk Mitigation

9. **The overall risk of this DPL is rated as substantial** with the main risks being related to the uncertainty about labor market outcomes and the need to ensure coordination among a large number of entities with varying implementation capacity.

10. **Political Risk (Moderate)**. The government reshuffle that took place in October 2013<sup>1</sup> delayed the implementation of some of the reforms supported under the SEDPL2. There is also a potential risk that stakeholders oppose some reforms, such as the on-the-job training law, or that consultations to build

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<sup>1</sup> 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.<sup>2</sup> HCP, 2013

consensus take time. This risk has been mitigated through the various consultations that took place for the preparation of SEDPL2.

11. **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.

12. **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 Technical Assistance (TA) has been strengthening the capacity of the MOLSA in the following areas: (i) designing and implementing the 2012-2106 Strategic Action Plan; (ii) strengthening the labor market information system, including monitoring and evaluation of Active Labor Market Programs (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.

13. **Labor Market Risk (High).** The unemployment rate among youth (15-24) has risen every year from 2005 to 2013 (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, respectively<sup>2</sup>. 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 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 (through the expansion of ANAPEC services to this population) will certainly have a large fiscal impact that the pilot phase will allow to estimate.

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<sup>2</sup> HCP, 2013

14. **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. World 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. 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.

### **VIII. Poverty and Social Impacts and Environment Aspects**

15. **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 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.

16. 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.

17. 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 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. Given that women currently represent 45 percent of the registered unemployed, expanding the scope of ANAPEC to serve the low-skilled 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).

18. 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.

19. 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 are proven to work.

20. **Environment Aspects.** 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 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. Law No. 12-03, approved in 2003 and related decrees define the requirements for Environmental Impact Assessments, 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.

## **IX. Contact point**

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