



The World Bank

Morocco Disaster Risk Management Development Policy Loan with a Catastrophe Deferred Drawdown Option (P168580)

Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 18-Apr-2019 | Report No: PIDA25885

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Morocco	P168580	Morocco Disaster Risk Management Development Policy Loan with a Catastrophe Deferred Drawdown Option (P168580)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
MIDDLE EAST AND NORTH AFRICA	23-May-2019	Social, Urban, Rural and Resilience Global Practice	Development Policy Financing
Borrower(s)	Implementing Agency		
Kingdom of Morocco	Ministry of Economy and Finance		

Proposed Development Objective(s)

The development objective of the proposed operation is to support the Government of Morocco in (a) strengthening the country's institutional capacity to address the adverse financial impact of disasters and climate-related shocks, and (b) strengthening Morocco's institutional framework for disaster and climate-related risk management.

Financing (in US\$, Millions)

SUMMARY

Total Financing	275.00
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DETAILS

Total World Bank Group Financing	275.00
World Bank Lending	275.00

Decision

The review did authorize the team to appraise and negotiate



B. Introduction and Context

Country Context

- Morocco is one of the most exposed countries to geological and climate-related hazards in the MENA region.** According to the probabilistic risk assessment carried out in 2012, over 30 percent of the Moroccan population and 33 percent of its GDP are at risk from two or more natural hazards, and the country suffers an annual average loss from natural catastrophes of over US\$ 800 million, or 0.8 percent of Morocco's GDP. Due to its geographical position, high rainfall variability, and topography, Morocco is regularly prone to flooding. It is by far the costliest of all hazards in the country, with estimations of over US\$ 400 million in losses each year. Droughts also account for a large part of the overall risk, with an estimate annual loss on crop yields of approximately US\$ 300 million.
- The Government of Morocco (GoM) has developed a strong disaster risk management (DRM) policy framework over the last decade.** Since the early 2000s, the GoM has launched a large set of initiatives to improve the understanding of critical risks in the country, including an earthquake risk assessment, a flood risk assessment and a national probabilistic disaster risk assessment. The Government has also repositioned its National Resilience Fund (Fonds de Lutte contre les Effets des Catastrophes Naturelles, FLCN) from an ex-post emergency financing instrument into an important co-financier of local-level structural and non-structural risk reduction programs, supported by the 2016 World Bank Integrated DRM and Resilience Program-for-Results. In terms of emergency response, relevant mechanisms and institutions are well established and centrally coordinated through the national Center for Control and Coordination (Centre de Veille et de Coordination, CVC) and the Civil Defense, both under the Ministry of Interior. With support from the World Bank through the PforR and technical assistance, the Government has also introduced a national catastrophe risk insurance program (Loi 110-14 instituant un régime de couverture des conséquences d'événements catastrophiques), which is expected to become effective on January 1, 2019. One of the outcomes of this Law is the creation of the Solidarity Fund against Catastrophic Events (Fonds de Solidarité contre les Événements Catastrophiques, FSEC). The FSEC is mandated to provide partial compensations for the uninsured households against personal injuries and loss of principal residence caused by catastrophic events. It will cover 95 percent of the population in Morocco, and specifically close to 5 million people under the poverty line (US\$ 3.1 per day).
- Morocco's macroeconomic policy framework is adequate and stable.** Economic growth over the past 5 years has fluctuated around a solid average. A process of fiscal consolidation and revenue development over the past 5 years has narrowed the fiscal deficit and stabilized public debt. The external balance has improved markedly, but energy dependency continues to weigh heavily on the trade balance. In January 2018, Bank Al Maghrib adopted the reform towards a more flexible exchange regime, allowing the currency to fluctuate within a wider band of ± 2.5 percent, which has improved the economy's shock absorption capacity. With an investment rate hovering above 30 percent of GDP since 2008, Morocco's economic model, which is based on domestic demand, risks petering out without a significant increase in investment spillovers and productivity. The country also struggles with slow job creation and high unemployment among youth, women, and educated workers, as well as a large urban-rural gap in poverty rates. Over the medium term, economic performance is expected to improve subject to pursuing fiscal adjustment and deepening reforms. The GDP growth rate will begin to rise in 2020 while the fiscal and current account deficits will narrow, and debt – currently sustainable – will proceed along a downward path.



Relationship to CPF

4. **The proposed operation will contribute towards the WBG’s twin goals of ending extreme poverty and boosting shared prosperity.** It is also consistent with the World Bank Group’s Country Partnership Framework (CPF) 2019–2023, which highlights the importance of strengthening the adaptation to Climate Change and the resilience to natural disasters. The strategic focus area C of the CPF is targeting territorial development. CPF Objective 11 is focused on strengthening adaptation to climate change and resilience to natural disasters. Through the proposed operation, the Bank will continue supporting the GoM in building its legal and institutional capacity to prepare for and manage climate and disaster risks. The proposed operation will also help build a strong linkage between the comprehensive DRM strategy at the national level and local level efforts to reduce disaster risks. The proposed operation will improve the GoM’s financial resilience through the strengthening of the FSEC’s governance structure and the support of prudential constraints for private catastrophe insurance. It will also provide support to the GoM in operationalizing flood monitoring and forecasting center and supporting the modernization of the civil protection human resources. The objectives of the proposed operation are also closely aligned with the ongoing World Bank Group operations in the country. It builds on, and complements, the ongoing Integrated DRM and Resilience Program (REPORT NO. 104208-MA) as well as the technical assistance on disaster risk finance and insurance provided by the Disaster Risk Finance and Insurance (DRFI) program. It is also aligned with an ongoing technical assistance on urban resilience, which is supporting two pilot municipalities in designing resilience strategies and action plans to improve their disaster resilience and climate change adaptation.

C. Proposed Development Objective(s)

5. **The development objective** of the proposed operation is to support the Government of Morocco in (a) strengthening the country’s financial capacity to manage the negative impact of disasters and climate-related shocks, and (b) strengthening the institutional framework for disaster risk management in Morocco.

Key Results

6. **Key results expected from this operation center around ensuring timely financial compensations to victims of natural disasters**, under several contingent scenarios and geographical scales, ranging from low severity flooding affecting villages, to extreme earthquakes striking Northern provinces. This operation will also strengthen DRM governance in the country, operationalization of the flood monitoring system in the country, and the strengthening of the human resource systems for the civil protection.

D. Project Description

7. **The proposed operation provides a line of contingent financing and will support the Government’s ongoing efforts to absorb potential fiscal impacts of a natural catastrophe.** Given the magnitude of risks faced by Morocco, the GoM has been engaging in a long-term integrated risk management approach to improve the resilience of the country’s population and economic actors by transferring part of the risk from citizens and firms to the government. This is currently achieved through a series of mechanisms, including financial risk transfers through insurance markets, and strengthening DRM and climate change adaptation coordination throughout the government agencies and ministerial departments.

8. The design of this operation considers lessons learned from many years of World Bank operations in DRM and Cat DDO programs, as reflected in the Independent Evaluation Group Report ‘Hazards of Nature, Risks to Development’. This operation also incorporates key lessons learned from prior Development Policy Financing (DPF), such as the Cat DDOs in

Romania in 2018, the Dominican Republic in 2017, and Peru in 2015. Key lessons learned include the following: (a) a successful Cat DDO operation needs to align actions and activities with government priorities; (b) DRM policy is most effective when registered within a broader, holistic national DRM strategy; and (c) the implementation of a DPF with a Cat DDO should be set within a broader financial protection strategy against disasters and climate-related shocks.

9. The Cat DDO allows countries to secure rapid access to financing in the event of a natural catastrophe. It can serve as bridge financing while funds from other sources (for example, concessional funding, bilateral aid, risk transfer instruments, or reconstruction loans) are being mobilized. The Cat DDO has a ‘soft’ trigger, as opposed to a ‘parametric’ trigger, which means that funds become available for disbursement after the declaration of a state of emergency because of a natural catastrophe as defined in the following paragraph. Drawdown conditions, financial features, and renewals are as follows:

- **Drawdown triggers.** Loan Proceeds may be withdrawn upon a Declaration of the Occurrence of a Catastrophic Event by the Catastrophic Event Monitoring Commission through an Administrative Declaration in accordance with article 6 of the Law 110-14, under terms and conditions specified in the Loan Agreement.
- **Financial features.** The financial features of the DPL with a Cat DDO are similar to those available for the DDO for DPLs, with one exception: the DPL with a Cat DDO would have a revolving feature by which the amounts repaid before the closing date would be available for drawdown in accordance with the terms of the Loan Agreement.
- **Drawdown period and renewals.** The proposed operation includes a deferral period of up to three years. During this time, the World Bank will monitor that the Government is continuing to implement the program being supported in accordance with its LDP. A Cat DDO may be renewed if the implementation of the program set out in the LDP remains satisfactory to the World Bank and macroeconomic policies are adequate. A Cat DDO may be renewed four times for up to three years each time, for a total deferral of 15 years.

E. Implementation

Institutional and Implementation Arrangements

10. **The responsibility to implement the program rests with the MEF, which is the main counterpart agency of the World Bank for this operation.** The results indicators selected to monitor and evaluate implementation progress and the achievement of program outcomes will be monitored by the institution that takes the coordination lead for the respective prior actions. In this context, the operation builds on the existing monitoring and evaluation systems of the Government, which should ensure that program performance is monitored at no additional burden to the institutions.

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

complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

12. **Morocco has a number of institutions responsible for grievance handling and resolution.** The available national GRS mechanisms and institutions have been recently elevated to constitutional bodies to provide them with more independence and financial autonomy, necessary to validate their power of self-referral. The World Bank's GRS mechanism does not affect the efficiency of the Moroccan complaints and resolution system.

F. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

13. **The overall poverty and social impact of the proposed operation is expected to be positive.** Poor and most vulnerable groups, including women, youth and the elderly, are disproportionately affected by natural catastrophe, and that the supported policies are strengthening the overall DRM framework in Morocco and increasing access to finance for vulnerable and uninsured populations. Given the proposed operation's universal scope covering the entire population of Morocco, poor, vulnerable and marginalized populations will all have access to financial coverage in the event of a natural catastrophe.

14. **The proposed prior actions are expected to have a positive impact on female-headed and low-income households, with an inclusive coverage of vulnerable and marginalized populations across Morocco.** The FSEC provides a strong tool to absorb some of the shocks of post-disaster recovery needs for vulnerable and uninsured segments of the population. This is particularly important for marginalized segments, including women and the elderly, which often lack access to finance. It will significantly expand the number of individuals with access to a form of insurance against catastrophic risks, which will reduce vulnerability and better respond to natural and climate-related catastrophic events. On the other hand, the flood monitoring center is expected to have a positive impact on populations living in and around basins, as the monitoring system will allow an early warning in the event of a flood.

Environmental Aspects

15. **It is anticipated that policy reforms supported by the proposed operation will have neutral to positive indirect effects on Morocco's environment and natural resources.** Each pillar of the operation contains prior actions that can have potential effects on the natural resource and environmental assets of Morocco. Under Pillar 1, the prior action on enabling a robust functioning mechanism for the FSEC will allow for a rapid recovery and reconstruction after disasters, which will ultimately put a lower stress on the natural resource and ecosystems in disaster prone areas. Under Pillar B, policies supporting the development of a sound knowledge base for flood protection programs at the national and sub national level would reduce vulnerability of the population, while also supporting the development natural assets protection program.

G. Risks and Mitigation

16. **The overall risk of the proposed operation is assessed as Moderate.** All ratings are either moderate or low, except the Institutional Capacity for Implementation and Sustainability Risk that is marked as substantial due to potential difficulties in coordination between MEF/MOI and other Line ministries, and to the government's lengthy institutional approval processes causing potential delays in securing legislative approvals for various reforms that have not yet been

fully adopted. while institutional capacity is relatively strong in Morocco, these are risks that can still persist.

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APPROVAL

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