



SOCIAL PROTECTION AND LABOR BRIEF¹

MOROCCO SOCIAL PROTECTION AND LABOR: DIAGNOSTIC

DRAFT

LATEST REVISION

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¹ Prepared by: Diego F. Angel-Urdinola, Fatima El-Kadiri, and Montserrat Pallares-Miralles

I. COUNTRY CONTEXT

1. **Morocco's medium-term macroeconomic framework remains broadly appropriate.** Main macroeconomic indicators in Morocco (notably economic growth, inflation) are expected to remain appropriate in the short-medium term (see Table 1 for key macroeconomic projections).² Despite negative impacts in the economy due to developments in the Eurozone, in particular sovereign debt crises in Spain and Italy, among other countries, economic growth in Morocco has been positive averaging 4.3% per year between years 2010 and 2013. 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, potentially creating the conditions for Morocco to become a regional hub for investments between Europe and Sub-Saharan Africa. Nevertheless, difficult conditions in the global and regional environment entail significant downside risks for Morocco. In particular, debt sustainability tests put the medium-term public debt-to-GDP ratio in the 62-64 percent range, which highlights a need for implementing reforms that could promote fiscal savings, such as a deeper reform in the subsidy system and a reform of the pension system.

Table 1: Selected Macroeconomic Indicators (2010-17)

| | Actual | | Est | | Projections | | | |
|--|--------|------|------|------|-------------|------|------|------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| GDP Growth (%) | 3.6 | 5.0 | 2.7 | 4.4 | 3.0 | 4.6 | 4.8 | 4.9 |
| Investment (as % of GDP) | 35.0 | 36.0 | 35.3 | 33.2 | 33.2 | 32.9 | 32.7 | 32.7 |
| Domestic Savings (as % of GDP) | 25.2 | 22.8 | 21.1 | 19.3 | 20.5 | 21.4 | 22.1 | 23.0 |
| Unemployment Rate (%) | 9.1 | 8.9 | 9.0 | 9.2 | ... | ... | ... | ... |
| CPI Inflation (%) (period average) | 0.9 | 0.9 | 1.3 | 1.9 | 1.7 | 1.8 | 2.3 | 2.3 |
| Budget Balance of the CG /GDP, % | -4.7 | -6.9 | -7.3 | -6.1 | -4.8 | -4.1 | -3.4 | -3.1 |
| Subsidy outlays / GDP, % | 3.6 | 6.1 | 6.6 | 4.7 | 4.3 | 3.9 | 3.4 | 3.2 |
| Debt Stock of the CG / GDP, % | 50.3 | 53.7 | 60.1 | 62.3 | 62.9 | 61.8 | 60.1 | 58.2 |
| External Debt Stock /GDP, % | 29.0 | 29.3 | 34.4 | 38.4 | 40.5 | 40.8 | 40.6 | 39.4 |
| Current Account Balance / GDP, % | -4.5 | -8.0 | -9.7 | -8.7 | -7.7 | -6.6 | -5.8 | -5.0 |
| Net Official Reserves (billion US\$) (including gold) | 23.3 | 20.3 | 17.2 | 18.4 | 19.7 | 20.0 | 20.8 | 21.6 |

Source: Government of Morocco and World Bank estimates and projections

2. **Morocco has displayed important progress in the Bank's twin objectives of reducing poverty and promoting shared prosperity.** As a result of favorable economic growth (5% average in the period 2001-2013), Morocco reduced poverty and boosted shared prosperity. Extreme poverty has practically been eradicated, dropping from 2 percent to 0.28 percent between years 2001 and 2013.³ Relative poverty also declined during the same period, from 15.3 percent to 6.2 percent, and population vulnerability (those living just above the poverty line) decreased from 22.8 percent to 13.3 percent.⁴ Still, nearly 20 percent of the country, or 6.3 million Moroccans, live in poverty or under constant threat of falling back into poverty. During the same period, the wellbeing of the bottom 40 percent of the population grew both in absolute terms (the wellbeing of the poor improved) and relative terms (the wellbeing of the poor improved relative to that of the non-poor), suggesting an increase in shared prosperity.⁵

3. **Inequality and vulnerability remain important challenges.** Morocco's Gini coefficient of 0.41, one of highest in the MENA region, reflects high levels of inequality. Disparities in poverty rates across regions are important determinants of such inequality: in 2011, the poverty rate in seven of

² The authorities put a great deal of emphasis on controlling inflation. Subsidies on food and fuel have helped cap inflation, notwithstanding higher import prices. Consumer price inflation has been subdued increasing slightly from 1.3 percent in 2012 to 1.9 percent in 2013, with food prices contributing the most. However, the fixed exchange rate combined with subsidies on imported food and fuel products have increased pressures on international reserves.

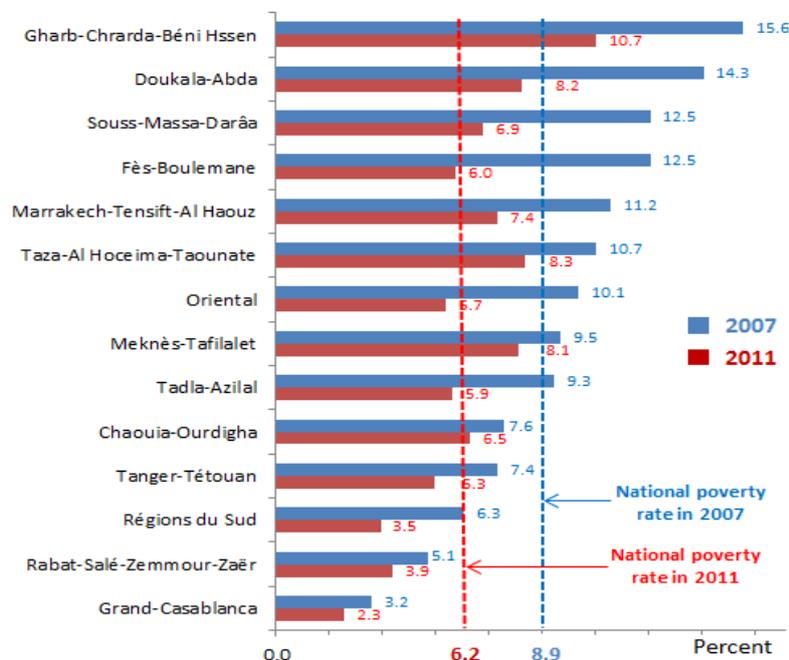
³ Extreme poverty refers to the population living on less than US\$1 PPP/day. The drop is based on the national poverty threshold, corresponding to the equivalent of US\$2.15 PPP in 2007.

⁴ Alternative poverty measurements confirm this decline. The Alkire-Foster multidimensional poverty rates declined from 28.5% in 2004 to 8.9% in 2011.

⁵ The wellbeing of the bottom 40% of the population grew by 3.3 percent over 2001-2007, against the growth rate of per-capita household consumption (3.2%) over that period.

Morocco's sixteen regions was higher than the national average, as much as 40 percent higher in three of those regions (Figure 1). Moroccan cities, generating 75 percent of GDP, have pockets of entrenched poverty (slums) and high rates of unemployment.

Figure 2. Morocco's Poverty Rates - Regional Evolutions



Source: HCP, 2007 HHCIS and 2013 MDGs Reports

4. **Despite some notable progress on key human development indicators, Morocco still lags behind in health and education achievements.** Immunization of one-year-olds is nearly universal and indicators of life expectancy and average infant and maternal mortality rates have all improved over the past ten years.⁶ Nonetheless, they compare poorly to similar economies and progress has been uneven, with rural areas being left behind. Morocco is in the midst of a rapid demographic and epidemiological transition, seeing fewer communicable illnesses but growing incidence of chronic disease which has important cost implications for the health sector. Non-communicable diseases (NCD) account for 75 percent of all deaths, followed by diabetes. The leading cause of death for young Moroccans (between the ages of 20 and 29) is road traffic accidents, which have increased by an alarming 35 percent during 2000-2010. Morocco spends less on health care than do countries of similar socioeconomic development.⁷

5. **One of the key challenges for Morocco is that economic growth has not achieved enough employment growth to the needs of a saturated labor market.** As mentioned before, despite positive economic performance, economic growth has been insufficient to reduce unemployment since year 2006, which has held at 9-10 percent since then. At the same time, the country is facing a steady decline in participation rates (especially among youth and women), which has contributed to overall lower employment rates and points to a disturbing trend of misuse of the labor force, which is not involved in economic activities. It is estimated that Morocco needs to reach annual growth rates of 6-7 percent to absorb new entrants into the labor market.

6. **To achieve faster economic growth, Morocco will need a structural transformation of its economy, with a focus on broadening economic opportunities.** These include a more stable macroeconomic environment, trade and exchange rate policies that support the competitiveness of

⁶ Life expectancy improved from 71.7 years in 2004 to 74.9 years in 2011 (Source: HCP); Mortality rates increased by over 15 percent from 2000 to 2012 (Source: UNDP).

⁷ Budget allocation to the health sector represented 5.1% (2009), 5.0% (2010), and 4.8% (2011) of total government budget.

Moroccan products, an improved business environment with a financial sector that better serves smaller and newer firms, more opportunities for private investment across all sectors, a labor force that is better trained and more productive, and a reduction in Morocco's reliance upon and inefficient use of natural resources (e.g. groundwater, imported fossil fuels). Moreover, the government as asserted its commitment to deepen regionalization and decentralization and adopt the organic budget law necessary to enhance the central and local governments' ability to deliver better and more efficient services to the citizens. To improve the investment climate further, the Government plans to proceed with justice reform; improve access to financing, especially for small and medium enterprises (SMEs); address constraints in access to land; develop logistics services; and reinforce technical training. Positive implementation of such reforms would contribute to improve the country's macro-economic prospects.

7. **Finally, The current social protection system is not effective in fighting poverty, as it favors primarily the wealthiest households and supply chain networks.** Data from 2012 shows that the richest 25 percent of Morocco's households benefit from 46.7 percent of all food and fuel subsidies. At the same time, social assistance programs remain limited in scope, fragmented, and poorly targeted, while the social insurance system has limited coverage and displays ad hoc financing mechanisms and redistributive arrangements that increase the cost of formal employment and make the system financially unsustainable and inequitable. Social security (contributive social insurance) is also accessible to less than 20% of the employed population. The challenge for the Government is to raise awareness about the advantages of reforming these programs in order to expand their coverage, improve their targeting, and promote program integration while assisting the sector stakeholders who are most affected. In particular, the Government needs to reach consensus on how best to sequence and apply subsidy and safety net reforms.

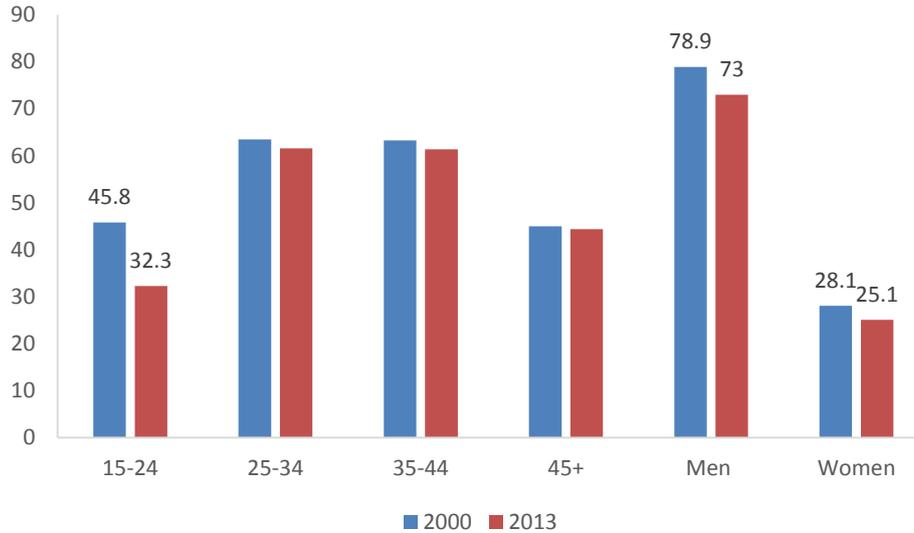
II. LABOR MARKETS

2.1. Labor market Diagnosis

8. **Morocco displays one of the lowest employment rates in the MENA region.** While the unemployment rate has fallen during the last few years, labor force participation and employment rates continue to fall. With less than half of the Moroccan population economically active, Morocco has one of the lowest labor participation rates among emerging economies. Between 1999 and 2013, labor force participation fell by 11% (from 54.5 to 48/3%), affecting mainly women and youth between 15 and 24 years old (partly because youth is staying longer in the education system but also due to rapid entrance of women into inactivity). Labor force participation decreased across all age cohorts, except those aged 60 and older, and across all educational levels. Despite positive rates of economic growth (averaging 4.3% between years 2004 and 2013),

9. **Low employment rates in Morocco are largely explained by very low rates of participation of women in the labor force.** Morocco ranks in the bottom 20 percent of countries in the world in terms of female participation in the labor force, and there has been very little actual progress on women's economic participation over the past twenty years. Despite being perceived (together with Tunisia) as a reformist country and one of the most liberal in the MENA region, the rate of women's participation in the labor force is just at the average for the region. Women represent less than a quarter of the active population (only about 24 percent). The activity rate for women in Morocco in 2013 was around 25 percent against 73 percent for men, at the same level as in 1990. The urban –rural divide also remains wide: in urban areas only about 19 percent of women join the labor force against 71 percent of men, while in rural areas the rate is respectively 37 percent and 82 percent. Morocco not only lags behind other countries at a similar income level, but it shows a reversed trend in FLFP, with the past decade showing a reduction in activity rates. This trend has been driven mostly by women living in urban areas and it is further accentuated for women around 25 years old (average marriage age) and above.

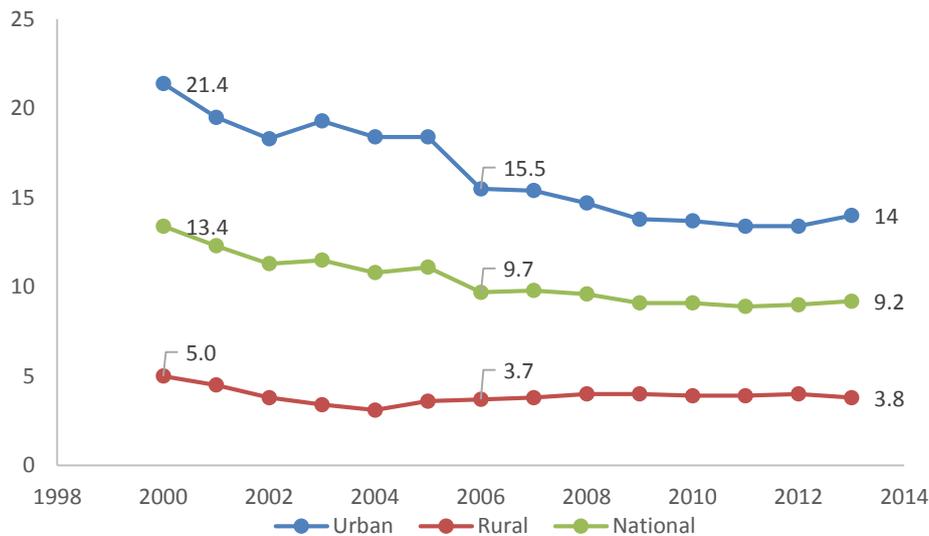
Figure 1: Participation rate (2000-2013)



Source HCP

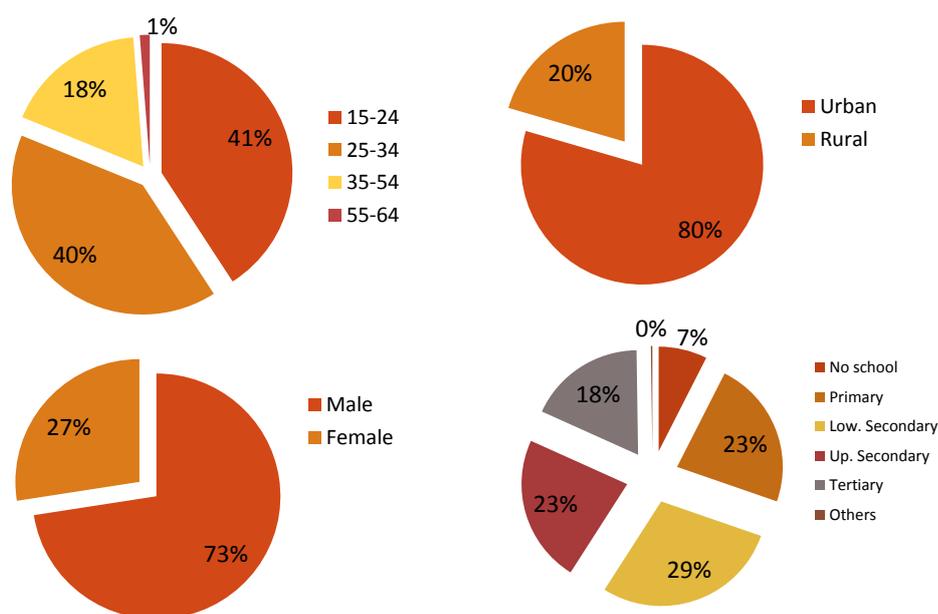
10. **There are about 1 million individuals on unemployment, most of which are youth between 15 and 34 years old.** High youth unemployment is considered as one of the main engines that led to the region's political transition since year 2011 and continues to constitute a risk to social stability in Morocco. Despite a decreasing unemployment rate in the last decade, unemployment level remains globally high in Morocco. Despite declining by 4 percent between 2000 and 2013, unemployment has remained at around 9% of the labor force, or one million people (See Figure 2). According to HCP's official estimates unemployment rates were higher in urban areas (14% compared to 3.8% in rural areas in 2013), among women (at 9.6% compared to 9.1% among men in 2013), among youth 18-24 (at 18 percent in 2012), and among university graduates (at 19.3 percent in 2013). In terms of stock, data from the 2009 Labor Force Survey (LFS) indicate that the majority of the unemployed are men (72%), are aged between 15 and 34 years old (81%) reside in urban areas (79%), and have attained at most upper secondary education (82%) (See Figure 3). Finally, long-term unemployment is pervasive, especially in urban areas, with about 70 percent of all unemployed being so for period longer than 12 months.

Figure 2: Evolution of the Unemployment Rate 2000-2013



Source: HCP

Figure 3: Composition of the unemployed (2009)



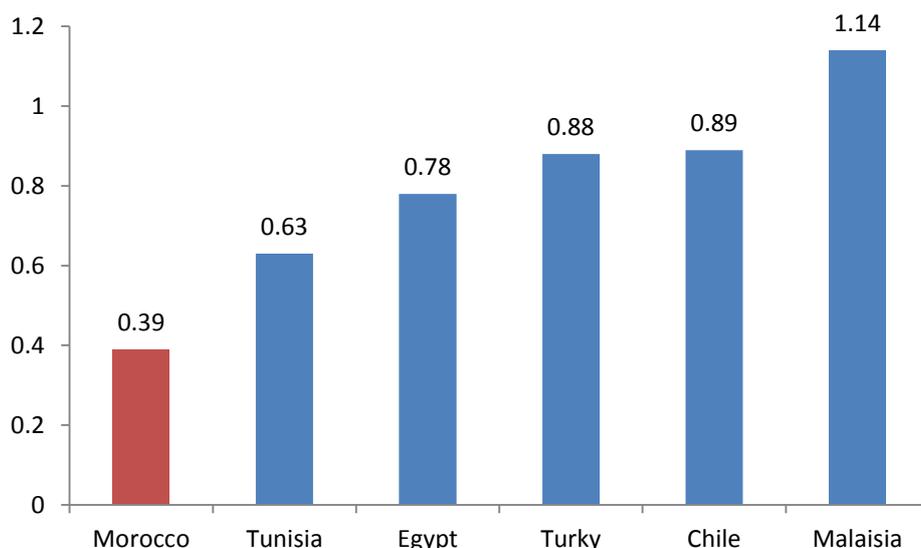
Source: World Bank using 2009 National Labor Force surveys

11. **The Morocco's economy is not been able to create enough jobs to meet the needs of the labor force.** Morocco has only been able to create, on average of 90 thousand jobs per year between years 2004 and 2013 (ILO, 2014).⁸ This net employment creation is less than needed to meet the needs of the labor market. Indeed, based on IMF estimates, there will be more than 224 thousand new entrants to labor market in Morocco every year until 2020 of which 148 thousand will be youth. At the same time, there are already a stock of more than one million unemployed job seekers in Morocco (70% of which are young people 15-29) and a stock of inactive/disconnected youth 15-29 (not in education and not in training) than amount to more than 2.7 million. Morocco's jobs creation in total population ratio (at 39%) is rather low compare to other developing countries (Figure 4).

12. **Employment quality and informality remain a challenge.** Informal employment is widespread in Morocco. A majority of available employment opportunities in Morocco do not provide adequate social security against employment, aging, and health risks. Indeed, according to data from 2010, about 82 percent of all workers in Morocco did not contribute to social security/health insurance (96 percent in rural areas and 68 percent in urban areas), and 67 percent were working without any employment contract. The share of employed individuals in the private sector who want to change their job and/or are in jobs that do not correspond to their human capital (i.e. under-employed and/or sub-employed) is rampant (at almost 70 percent). Most employment creation in Morocco happens in the services and construction sectors, while the agriculture and manufacturing sectors (as these sectors become more productive and substitute labor by capital) actually suffer from net job destruction of approximately 35 thousand jobs per year (Figure 5).

⁸ The majority of these jobs have been created in the services sector (42 thousand per year), in the construction sector (37 thousand per year), in commerce (30 thousand per year), and in transport/communications (15 thousand per year) (ILO, 2014). During the same time period, there has been a net employment destruction in the manufacturing sector (about 7 thousand jobs per year) and in the agriculture sector (29 thousand jobs per year). Despite such trend, agriculture remains still the largest employer in the economy, absorbing almost 40 percent of the labor force.

Figure 4: Jobs creation/ total population (in percentage)



Source: MEAS (2014)

13. **Creating employment opportunities for young people, and especially for disadvantaged youth, constitutes an important challenge for the country.** Youth (aged 15 to 29) accounting for some 30 percent of Morocco’s total population and 44 percent of the working age population (aged 15 to 64), have been largely excluded from the sustained economic growth the country experienced in recent years. Estimates for 2015 indicate that there are about 2.7 million inactive youth 15-29 (notably women) that are neither in school nor employed or in training (NEETS) (Table 1). A staggering 82 percent of girls drop out of school and are not in the labor force due to family reasons or discouragement. The group of NEETS is particularly subject to social exclusion. Moreover, there about 700 thousand unemployed youth (notably male) and about 1.7 million youth working under precarious employment conditions as informal wage earners or as self-employed workers (about 88% of employed youth worked without a contract). Adding to that, statistics from the Ministry of Youth indicate that there are in Morocco about 1.6 million analphabet youth (70% residing in rural areas), about 600 thousand youth who live in poverty (75% residing in rural areas), about 500 thousand disabled youth, and about 400 thousand youth that have engaged in early marriage.⁹

Table 1: Descriptive Statistics - Youth between 15 and 29 years old [Population Estimates for year 2015]

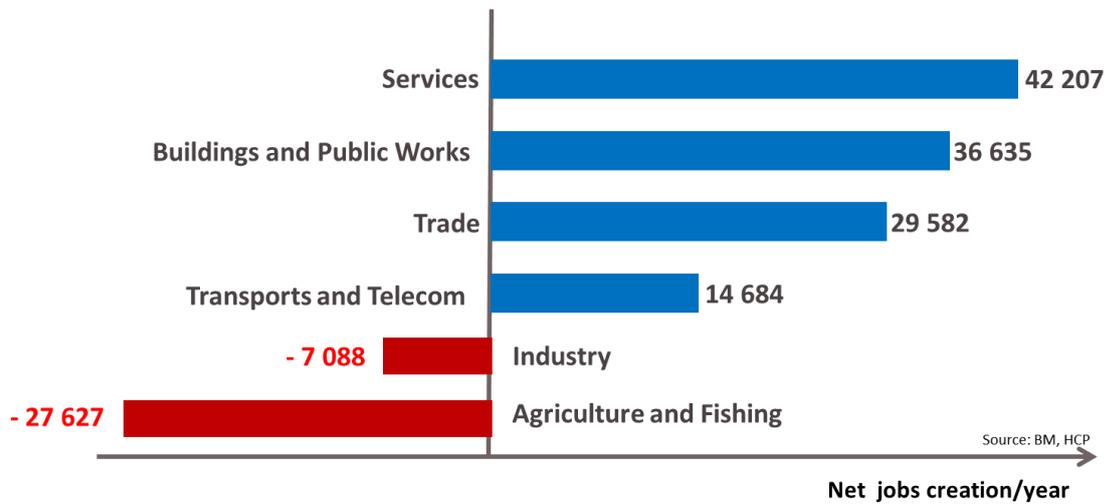
| | Total | % Female | % Male | % Rural | % Urban |
|--------------------------|------------------|-------------|-------------|-------------|-------------|
| Not in labor force | 5,137,236 | 69.5 | 30.5 | 38.2 | 61.8 |
| NEETS | 2,664,090 | 94.0 | 6.0 | 51.6 | 48.4 |
| Unemployed | 685,834 | 27.3 | 72.7 | 22.3 | 77.7 |
| Self-employed | 447,268 | 11.2 | 88.8 | 47.0 | 53.0 |
| Informal wage earners | 1,215,009 | 17.6 | 82.4 | 39.9 | 60.1 |
| Total youth 15-29 | 9,236,342 | 50.3 | 49.7 | 44.5 | 55.5 |

Note: NEETS: Youth not in employment, education, or training.

Source: World Bank using HCP’s LFS data for 2009. Estimates for 2015 are calculated based on the average population growth of the age-group 15-29 as defined by HCP.

⁹ Stratégie Nationale de la Jeunesse

Figure 5: Jobs creation per year in key sectors in Morocco [average 20XX-20YY]



Source: MEAS (2014)

14. **School-to-job transition is also a major problem in Morocco, with first-time job-seekers and the long-term unemployed (i.e., longer than 12 months).** This situation points to the structural nature of unemployment in Morocco and the need for targeted interventions to retrain the long-term unemployed and facilitate the job search process. Indeed, long-term unemployment can reduce the chances of finding a job as workers lose skills and because of negative signaling.

2.2. Constraints to Employment creation

15. **Morocco ranks 89th out of 189 economies in the 2014 Doing Business Report.** Despite some business environment reforms, the legal and regulatory environment in many respects still does not facilitate the creation or formalization of small enterprises. The unpredictable application of rules by the bureaucracy and the courts, together with numerous administrative instructions and circulars, create an opaque and overly complex environment that discourages informal businesses from formalizing. As a result, informality rates are high in Morocco, with most informal workers being in small firms that engage in low-productivity activities.¹⁰ SMEs also commonly face barriers in access to land, finance, information, and support.

16. **Morocco faces shortages of skilled labor in sectors that are strategic for supporting the structural transformation of the economy** and for ensuring the delivery of public services (e.g., engineers or doctors) and also in mid-management positions across industries. According to the 2008 World Bank's Investment Climate Assessment (ICA), approximately 35 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. This issue has worsened in recent years, compared to 20 percent of firms making a similar claim in 2004.¹¹ This lack of skills is mainly due to inadequate education (for the new labor force) and a lack of continued education (for the existing labor stock).

17. **Labor regulations and comparatively high payroll taxes discourage the emergence of a dynamic labor force and formal employment, disproportionately affecting youth and women.** Morocco's highly restrictive fixed-term contract laws and heavy employment regulations and costs constitute important obstacles to firms that seek to adjust their staffing to cope with new demand, technologies, and economic shocks. With one of the highest minimum wages¹² in the world and relatively high payroll taxes, the cost of formal labor is inflated in Morocco. As a result, businesses

¹⁰ Gatti, R.; Angel-Urdinola, D.; Silva J. and Bodor, A. 2011. Striving for Better Jobs: The Challenge of Informality in the Middle East and North Africa. Washington D.C.: World Bank

¹¹ Doing Business for Morocco, World Bank, 2008

¹² Equivalent to 70% of average wages in 2011.

prefer to remain informal to minimize labor costs and rigidities, negatively affecting the quality of jobs available to young people and women. In particular, Fixed-term contracts are allowed only in some exceptional cases, namely, for replacement of absent employees, in cases of a temporary increase in the company's business, and for seasonal employment. Fixed-term contracts are prohibited for permanent tasks; the duration is limited to twelve months, and renewal is prohibited. The minimum wages are also among the highest in the region. The level of minimum wages is quite high - 54.5 percent of the average wage in the formal private sector in 2012 and 77 percent of GNP per worker in 2013. It might be damaging to some low-paid sectors and regions with below the average wages, as well as to workers deemed to be the most vulnerable on the labor market, such as low skilled workers, youth, and females. Moreover, minimum wages are increasing more rapidly than inflation.

18. **Dismissals procedures provide disincentives for the formalization of the economy.** The redundancy procedure is characterized by its complexity and takes a significant amount of time. There are also priority rules for dismissals, and the priority to conclude the employment contract in case of rehiring. Firing cost in Morocco is also one of the highest in the MENA region. The country has a sliding-scale severance formula which is quite generous overall and is more important for its more senior workers than its less senior workers. Severance obligations may be a major problem in the sense that many firms that need to restructure may be cash strapped and have no funds for severance payments. Moreover, in the event that an employment tribunal finds a dismissal to be unfair, the employer may face a significant amount of the damages equaling one and one-half months' salary per year or fraction of years of work, capped at 36 months of damages. So the risk of initiating layoffs due to economic reasons is very high.

19. **Morocco has a quite fragmented social security system which plays an important role in explaining poor labor market outcomes.** Four main institutions offer different social security arrangements to private sector and public sector workers. The system is financed predominantly from labor taxes, creating a "tax wedge" between labor cost to the employer and the worker's take-home. With a 36% labor tax rate, Morocco remains one of the highest in the MENA region. The impact is relatively moderated as the scheme is progressive and less penalizing to low-wage, part-time, and second earners.

20. **Limited access to credit for SMEs.**

21. **Low productivity in labor intensive sectors.** Morocco has made little productivity gains over the past two decades despite high levels of investment.¹³ 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. With an annual average of 3.4% of gain of productivity (between 1999 and 2013), Morocco's gain of productivity is driven mainly by the primary sector. Labor intensive sectors such as BTP or services display low levels of productivity.

2.3. Employment policies

22. **Investment Policies. The Government has implemented an ambitious investment program and sustained policies for an improved business environment.** In 2008, the Government launched the National Emerging Industries Agreement (PNEI) for the period 2009-2015 to provide a new comprehensive approach to private sector development and competitiveness. The PNEI has taken the

¹³ 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.

form of a public-private agreement aimed at undertaking 111 specific commitments by 2015, taken both by ministries and representatives of private sector organizations, such as employers' federation and banks' professional organization. These commitments are organized within ten different pillars: off-shoring, automobile, air and space, electronics, textile and leather, agro-industry, small and medium enterprise (SME) competitiveness, investment climate, training, and industrial zones. According to the Ministry of industry, the agreement has created, for the period (2009-2012), 111000 new jobs out of 220000 expected end of 2015 (see Table 2 for details on jobs created by sector).

Table 2: the National Emerging Industries Agreement (PNEI): Number of jobs created

| | 2009 | 2010 | 2011 | 2012 |
|---------------|-------|-------|-------|-------|
| Automobile | 4739 | 8293 | 9149 | 9024 |
| Aeronautic | 1531 | 400 | 694 | 1106 |
| off-shoring | 14663 | 4000 | 9555 | 1445 |
| Electronics | 1748 | 1700 | 550 | 559 |
| Textile | 6310 | 20014 | 4622 | 710 |
| Agro-industry | 3863 | 12271 | 3343 | 3612 |
| Total | 32854 | 46678 | 27913 | 16456 |

Source: Ministry of Industry, Trade, Investment and Numeric

23. **In addition to the PNEI, the Government has launched other investment programs, through a partnership public-private and in different sectors.** It has embarked in the modernization of traditional sectors such as in agriculture through the *Plan Maroc Vert*, in fishing sector through the *Halieutis Strategy*. Morocco has also enhanced the development of innovative sectors such as the renewing energy through the *Plan energetique*, logistics through the national strategy of competitiveness and logistics, automobile and aeronautic industries through the national pact of industry emergence and high value added services through several strategies (Tourism strategy, RAWAJ, Maroc export strategy, Numeric strategy. Table 3 details the different strategies and the number of jobs created up to date.

Table 3: Government strategies in key sectors

| Strategies Name | Sector | Timeline | Jobs creation | Year |
|---------------------------|-------------------------|-----------|---------------|------|
| Plan Maroc Vert | Agriculture | 2008-2020 | - | - |
| Plan Halieutis | Fishing | 2009-2020 | - | - |
| Tourism vision 2020 | Tourism | 2010-2020 | 5000 | 2012 |
| Maroc Numeric | IT and off-shoring | 2009-2013 | 26000 | 2013 |
| Vision 2015 for craft | craft | 2007-2015 | 350000 | - |
| Maroc export plus | Export sectors | 2009-2018 | - | - |
| RAWAJ | Trade | 2008-2020 | 114000 | 2012 |
| Logistics sector strategy | Transport and Logistics | 2008-2015 | - | - |

Source: World Bank Own Elaboration

24. **Education and training. The Government has embarked on an ambitious reform of the education and training system but its implementation has encountered delays.** In 1999, seventeen contracts were signed between the Government and fifteen public universities and two public agencies (National Science and Technology Research Center and National Office for Social and Cultural Affairs In Higher Education) – that provide targets in terms of student numbers, student orientation (particularly in favor of science/technology and professional programs), graduation rates (including at doctoral level), research financing and output, industry-linked research and development (as measured, for instance, through patents), and staff training. The Government provides public financing and the contracting universities and centers produce six-monthly reports. Since 2009, public universities have enjoyed greater autonomy, with their rectors (still appointed by royal decree) accountable to a university

council that comprises faculty and student representatives as well as local government and private sector representatives; the rector manages most notably the university budget, once it is approved by the council. However, the university management autonomy remains limited. Human resource management (including setting staff remuneration levels) remains with the Higher Education Ministry, while open-enrollment faculties are required to accept all students with a secondary school leaving certificate. Moreover, weak systems and human resources mean that universities often do not spend their full investment budget.

25. **The Vocational Training Department has introduced through OFPPT Agency a number of vocational training policies that aim to better match training outcomes to economic needs.** The National Emerging Industries Agreement (PNEI) foresees the need for skilled workers in a range of industries, including off-shoring, automobile, textile, agro-business, aeronautics and electronics, while other sector-specific plans call for more skilled workers in industries such as distribution, tourism, fisheries, logistics, crafts and agriculture. These policies include: improving links between training providers and industry groupings (for example, by delegating training center management to such groups), favoring workplace-based training options (including recognition of prior learning), structuring training programs and modules around skills delivery (including the publication of professional skill descriptions by levels), promoting private training provision options, and developing training programs targeted at vulnerable groups (disabled youth, prison-based trainees), and setting up qualifications in the areas of workplace-based training advice.

Table 4: OFPPT programs and Beneficiaries

| Program Name | Beneficiaries | | | |
|--|---------------|--------|------|--------|
| | 2011 | 2012 | 2013 | 2014 |
| Vocational Trainings (Formations des stagiaires) | 232000 | 400000 | - | 370000 |
| Post-creation Support to small enterprises | 200 | - | - | - |
| Enterpreneurship support (Appui à la création des entreprises) | 163 | - | - | - |
| Enterpreneurship trainings (Formations dans la création des entreprises) | 1413 | - | - | - |
| OCP skills | 9110 | - | - | - |

Source: Ministry of Education and Vocational Training.

26. Active Labor Market Policies. **The Government launched a series of Active Labor Market Programs (ALMPs).** These programs include: (i) *Idmaj*, a wage subsidy program (tax breaks on the salaries of the program's beneficiaries) that enables unemployed graduates to acquire relevant experience through a paid internship for a maximum of 24 months. The program was been enforced since 2011 by two initiatives that aim to incentivize employment creation further and that consist on giving additional subsidies to firms if and when they hire their interns offering indefinite contracts. The subsidies are either in the form of waiving the contribution to social security charges for the employer regarding the newly hired employee (that the State covers for a period of 12 months) or a cash subsidy linked to the job skills training provided the newly hired employee. Despite the efforts firms are still reluctant to participate in these initiatives, that are still constraining for them, as firms are still required to offer indefinite contracts and the government's help is not always secured and procedures to get the subsidies are long); (ii) *Taehil*, a program that seeks to improve the employability of unemployed graduates through training to meet specific recruitment needs (FCE), retraining of graduates who have difficulty entering the labor market (FQR), and training tailored to specific sectors in the economy (SE); and (iii) *Moukawalati*, an entrepreneurship program that provides job seekers with technical and financial support (in the form of a loan up to MAD 250,000) so that they can set up their own businesses. After a recent evaluation, the program has changed its name and has modified in 2015 its services offer, focusing more on the coaching and training and withdrawing its previous commitments regarding the financing of entrepreneurship projects, as one of the lessons learned is that even with the governments' guarantee on the loans, the private sector still finds the micro-enterprises a very risky clientele. These programs replaced and built upon the experience of previous programs that have been implemented

since the late 1980s. They are implemented by ANAPEC (*Agence nationale de promotion de l'emploi et des compétences*) that was established in 2001. 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 (See Figure 7, number of beneficiaries from ALMPs). The programs in general lack a clear commitment towards insertion, and could benefit from more advanced intelligence services within the ANAPEC that would prospect better where job demands are and adapt the agency's services to better fit the employers' needs.

27. **However, the programs display poor targeting as well as limited coverage and, as such, are not fully addressing the needs of the unemployed (World Bank, 2014).** As mentioned above, these programs target mainly unemployed¹⁴ graduates and cover only about 60,000 people per year i.e., a small 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 the International Labor Organization (ILO).¹⁵ Also, ANAPEC has only 75 local offices across Morocco, less than necessary to reach its target population. 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. As a response, in the context of the strategy, MEAS is aiming to increase the reach and impact of Active Labor Market Programs (ALMPs) and to re-enforce the capacity of public and private labor market intermediation agencies (i.e. to improve job matching based on existing vacancies). Supported by the Banks DPL series (SEDPL II) a pilot program is currently taking shape that would start addressing ANAPEC's services to the non-graduate population in 5 selected ANAPEC agencies. This program will be carefully evaluated with the aim to scale up good practices nationally (in phases) and conditional availability of financial and human resources to undertake these activities at a larger scale.

28. **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 skills unemployed youth, and long term unemployed, and to improve program design to reduce drop out, substitution and deadweight loss effects. Tailoring these programs to regional specificities and giving regions a stronger role in their implementation is also envisaged. With the support of the World Bank's Skills and Employment DPL (SEDPL II), the Employment Department of the Labor Ministry has unveiled its Strategic Action Plan 2012-2016 (*Plan d'Action Stratégique 2012-2016*). As part of the objectives of the Strategic Action Plan are to: (i) increase the reach and impact of Active Labor Market Programs (ALMPs) by evaluating existing ALMPs and creating three additional programs; and (ii) re-enforce the capacity of public and private labor market intermediation agencies. The three new ALMPs envisioned are: (1) *Moubadara*, which encourages employment in non-governmental organizations; (2) *Taâtir (or "CIP")*, which provides paid internships for the long-term unemployed; and (2) *Istiâab*, which seeks to encourage the formalization of the informal sector. A recent supervision mission for the SEDPL II took place in April 2015. The findings confirm the good progress that the Ministry of Employment is taking in following the Action Plan. ALMPs are being evaluated as planned and are being adjusted according to the findings. Outreach to distant areas (through internet services) and adjustment of the services to reach people who are already active are confirmed priorities, as well as focusing on a set of core services of the ANAPEC that add value.

29. **ANAPEC is currently exploring possibilities to service non-graduate job-seekers.** With regards to its goal of increasing coverage and improving its intermediation services, the Government envisions to extend ANAPEC services, which currently target mainly 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). Figures from 2014 show that of the 158284 individuals enrolled in ANAPEC

¹⁴ *Moukawalati* was opened in 2009 to non-graduate unemployed (primary school certificate level).

¹⁵ Angel-Urdinola et al. Building Effective Employment Programs for Unemployed Youth in the Middle East and North Africa. The World Bank, 2013

programs, 42% are women and 18% are non-graduates¹⁶. Extending ANAPEC coverage to non-graduates will require amending the Law No. 51/99 establishing ANAPEC. It will also require a reorganization of ANAPEC services. The Ministry of Labor prepared a draft Law that has not been approved by the Ministry of Finance which expressed the need to test ANAPEC's capacity to take on this new mandate. The Labor Ministry is launching an eighteen-month pilot program, supported by the French Agency for Development (AFD), to test the extension of its services to this new target population, and estimate the associated cost. The pilot phase will target 200.000 non-graduate job seekers registered in five local offices across Morocco. The work for this pilot has started in April. Initial discussions are being held between the Ministry of Labor and the AFD (who is the service provider) in order to set the criteria for selecting the areas to work on and the main lines of outreach and services to provide¹⁷.

30. **Morocco has also developed a labor intensive public works program through the Promotion Nationale.** Managed by the military, the public works program aims to provide temporary employment for underemployed and unemployed, mostly in rural areas. Despite this rural objective, the program operates substantially in less poor urban areas. Like many labor-intensive works programs worldwide, the Promotion Nationale has undoubtedly the potential to be an effective instrument of response to shocks and crises. It does not, however, use the best practices in terms of targeting, selection of high labor intensity and flexibility planning activities, which could make a real impact response instrument (natural disasters, drought, etc.). The lack of transparency of its operations further hampers the assessment of its potential. In 2009, the promotion national has as budget 1 billion DH for an estimate of 50000 beneficiaries (Targeting and Social Protection Strategic Note, World Bank 2012).

31. **The Government has also launched several initiatives to promote entrepreneurship/micro-entrepreneurship.** It concerns mainly public programs, including (i) Imtiaz and Moussanada programs of ANPME which are designed to SMEs and have the ability to provide financing up to 1 million DH; (ii) OFPPT entrepreneurship initiatives (see Figure X on OFPPT programs); (iii) cooperatives in the context of the social economy agenda; (iv) Generating revenues activities (AGR) in the context of the policy of alleviating vulnerability (INDH¹⁸ program and ADS); and (v) self-employment through the *Moukawalati* program. (See Table 5 on number of beneficiaries of programs).

Table 5: Number of Beneficiaries of The Government programs to support employment

| | Direct Beneficiaries* | Year |
|---------------------------------------|-----------------------|-----------|
| Ministry of Employment- ANAPEC | | |
| <i>Imadj</i> | 523 347 | 2014 |
| <i>Taehil</i> | 123796 | 2014 |
| <i>Moukawalati</i> | 5781 | 2014 |
| Ministry of Employment | | |
| <i>IPE</i> | 27000** | 2013 |
| ANPME | | |
| <i>Moussanada</i> | 805 | 2010-2012 |
| <i>Imtiaz</i> | 174 | 2010-2013 |
| Ministry of Interior | | |
| Promotion Nationale | 50000 | 2009 |
| Number of AGR (INDH) | 3738 | 2012 |
| Ministry of Social Development | | |
| Number of AGR (ADS) | 6100 | 2008 |

* Since its creation

¹⁶ Data collected in meetings with ANAPEC officials during supervision mission of SEDPL II in April 2015

¹⁷ For more detail on the advancement please see Aide Memoire of the Supervision Mission for the SEDPL II that took place in April 2015

¹⁸ Please see the section on SSNs programs for definitions and details of INDH and ADS.

** Target estimate of the Government. The law is still under implementation

*** Estimates of the activity report of OFPPT

32. Increasing social security coverage. **The Government has undertaken a series of initiatives in the social protection sector that supports 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 (through health insurance for low-income households -- or 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.

33. **After several years of studies and debate, the CNSS Board (including Government, workers and private sector employers representatives) approved an unemployment assurance scheme** in July 2013 (the IPE scheme) including contribution rates and amount of the State start-up fund for the first one or two years. The IPE was launched in 2014 and consists of a benefit payable: (i) upon loss of employment beyond the worker's control when an enterprise is closed or restructured and/or (ii) when the worker is laid off following a unilateral decision of the employer (involuntary loss of employment). The benefit will be capped to the minimum wage level and last for up to 6 months during which the unemployed will receive ANAPEC support to strengthen her/his employability. The income protection that IPE would offer would need to be accompanied by more flexibility in labor regulations because failure to do so may lead to a further increase in the labor cost, thereby reducing competitiveness. No revision of the Labor Code, however, is currently envisaged. Third, the pension system has structural problems that undermine its viability. The Government is aware of these problems and has initiated a social dialogue on reform options. To this end, a national commission and a technical commission for pension reform were established in 2007. The technical commission ordered an independent study from a consultancy firm, which submitted its report in mid-2010, and on which the Bank and the International Labor Organization (ILO) provided comments. The technical commission has yet to submit its recommendations to the national commission so that a decision can be taken on the reform option to be implemented.

34. Sectorial planning: The government has engaged in a process of strategic planning in response to the national priority of improving labor markets and access of employment opportunities to the labor force, and notably to youth:

- **The government is currently completing its National Employment Strategy.** The overall objective of the strategy is to raise overall levels of employment, productivity, and participation; notably among youth and women. The strategy emphasizes in the development of programs and actions to (i) secure financing for existing programs for SME to increase job creation and maintain a stable employment growth; (ii) cover social insurance for internships in firms, cooperatives and associations with the condition of hiring 60% of their interns; (iii) promote the PPP approach to deliver the intermediation services; (iv) develop local projects to promote jobs creation, (v) support less skilled youth through reinforcing the school of second chance, extending vocational training and employment services to non-graduates youth, and scaling-up apprenticeships, languages, and soft/life-skills programs. The strategy has been completed and submitted to the High National Employment Council (a tri-partite institution) for approval.
- **The Integrated National Youth Strategy (SNIJ) was approved by the Council of Ministers on April 3, 2014.** It is the first strategy in the MENA Region to identify the

following multi-dimensional measures for youth economic, social, and political inclusion and active participation: (i) economic opportunities, (ii) Local youth friendly services, (iii) active youth participation in decision making and (iv) respect for human rights. The related draft Action Plan aims to reduce the number of inactive youth by 1 million between 2015 and 2020 and by 5 million youth by 2030, which is in line with the Post 2015 Global Development Agenda. On May 20, 2014, the World Bank received an official request for technical and financial support for the implementation of the SNIJ by the GoM. This strategy is led by the Ministry of Youth and Sports (MYS).

- **Led by the Ministry of Trade and Industry, the government has developed a National Strategy for the promotion of Micro-enterprises.** The objective of the strategy is to promote self-employment and micro-entrepreneurship through the introduction of fiscal incentives and more favorable tax-regimes for new enterprises as well as improving access to finance and training/mentoring possibilities for new and potential entrepreneurs. In November 2013, the government adopted an important 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 this group of workers. The Registry for the self-employed is active since January 2015. The objective of this initiative is to provide incentives for formalization to sectors that have a yearly turnover of up to 200.000 MAD for the services sector (plumbers, mechanics, carpenters...), and up to 500.000 MAD for commercial or industrial activities (namely crafts artisans and peddlers). The new law provides them with health insurance benefits and a pension.

III. SOCIAL PROTECTION

3.1. Social Insurance

35. **There are currently more than 2.6 Million people in Morocco that are above the age of 60. Only around 10 percent of them are receiving a pension.** Basically, most of the old age population in Morocco has still to rely on family, and /or other type of informal care, or state transfers¹⁹. With falling birth rates, raising life expectancy, changes in urbanization, migration, and family structures²⁰ the reach and scope of these informal arrangements have been weakening during the last few years and are going to weaken even further unless some new policies to protect the old are implemented. With most elderly in Morocco relying on the informal care by their families, an increasing number of elderly living in the streets has already been observed (*source: Magharebia.com*). Many old widows are particularly living in vulnerable circumstances. A high percentage of them are illiterate and have more chronic diseases when comparing with men.

36. **The number of elderly people is rapidly growing in Morocco** (see Figure 6). By 2020, senior citizens will make up 11 percent of the Moroccan population, around 4 million people, by 2030 they will represent already 17 percent of the population which means rising to a total of 8 million people, and by 2060 the percent of old age population will increase to almost 30 percent of the total population in Morocco. Government officials and social activists in Morocco are increasingly raising awareness that work to protect the old, who are an increasing marginalized sector of the society, must intensify²¹.

37. **The social insurance system in Morocco covers, by law, salaried workers and apprentices** in industry, commerce, forestry, agricultural cooperatives, and associations; persons employed by landlords, craftsmen; and certain categories of fishermen. An additional voluntary coverage for insured persons is also available. Self-employed persons are not covered, and there are special schemes for civil servants and other public sector employees. The risks covered by the social insurance system are i) old-age, disability and survivorship; ii) sickness and maternity; iii) work injury; and iv) family allowances.²²

38. **The pension system in Morocco consists of four main schemes (three mandatory ones, and one voluntary)** - two of them cover public sector workers (CMR and RCAR), one mandatory scheme for the private sector (CNSS) and an additional voluntary one for private sector (CIMR). As indicated in tables 1a, b and c below, each scheme has its own qualifying conditions and rules, including different contribution rates, benefit formula, etc. Such fragmentation discourages labor mobility and adds administrative costs.

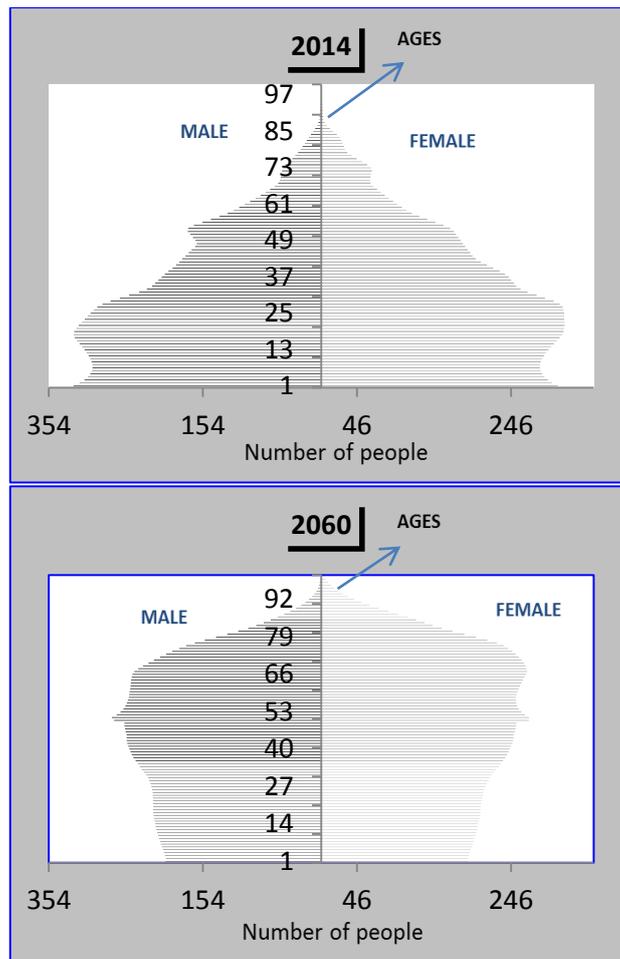
¹⁹ Some social safety nets non-contributory programs, targeted to poor and vulnerable population, might also be including some old people .

²⁰ Although specific figures of co-resident rates or other living arrangement indicators for Morocco are not yet available at this moment, other countries, such Tunisia, are clearly showing a decrease of elderly population living with non-elderly. In the early 2000s, more than 80 percent of the elderly in Tunisia lived with other non-elderly relatives, while today less than 75 percent of the elderly live with other non-elderly relatives.

²¹ One successful center for the elderly was set up by the Mohammed V Foundation for Solidarity. Opened in 2008, the facility provides food and health care to ageing Moroccans who have no resources or family support. Alongside caring for pensioners, the center helps homeless elderly citizens through its own paramedic service.

²² The insured must have at least 108 days of contributions in the previous six months of coverage, with earnings of at least 60% of the legal mini-mum wage. The Employer pays 6.4 percent of gross payroll every month to cover for the family allowances program.

Figure 6: Population Pyramids, Morocco, 2014-2060



Source: PROST results based on UN country specific mortality tables

39. **The pension system in Morocco covers less than one-third of the population, given the fact that most workers are still in the informal and agricultural sectors.** Although Morocco is still a young country the demographic deterioration will be rapid. In addition to this, the deterioration of the system demographics²³ (particularly in the public sector pension schemes) is actually even worse than the population demographics. Basically, the ageing process of the pension schemes is faster than the ageing process of the total population. Today in Morocco there are 8 people between the ages of 15 and 60 for 1 person that is aged 60 or older. When we observe only the covered population by the pension schemes, in CMR we find only 3 active contributors for each beneficiary, and in RCAR we find only 2 active contributors for each beneficiary. CNSS today has 6 active contributors for each beneficiary. In fact, the already mature two public-sector schemes – CMR, and RCAR – have higher system dependency ratios (beneficiaries/contributors) than many European countries (Morocco’s scheme for private-sector workers, CNSS, contrasts at the moment with a much more favorable system dependency ratio). The main characteristics of the demographics, design, and performance of the pension system in Morocco (e.g. the three mandatory pension schemes) are presented in Tables 6 to 8.

²³ System dependency ratio is the number of beneficiaries over the number of contributors. Support dependency ratio is the number of contributors over the number of beneficiaries.

Table 6: Demographic characteristics of the pension system in Morocco, 2011

| | CNSS | CMR | RCAR |
|---|------------|-----------|-----------|
| Demographics characteristics of the System | | | |
| Labor Force (11,386,097) | | | |
| Population over 60 (2,670,200) | | | |
| Number of contributors | 5,488,735 | 651,021 | 336,425 |
| Active | 2,537,677 | 629,892 | 146,501 |
| Dormants | 2,951,058 | 21,129 | 189,924 |
| Coverage rate (active contributors / labor force) = 29% | 22% | 6% | 1% |
| Number of beneficiaries | 400,212 | 219,776 | 94,525 |
| Retired | 264,427 | 154,923 | 60,502 |
| Survivors (widows, orphans, etc..) | 135,785 | 64,853 | 34,023 |
| Coverage rate (beneficiaries / population over 60) = 27% | 15% | 8% | 4% |
| System dependency ratio | 15.8% | 34.9% | 64.5% |
| System support ratio | 6.3 | 2.9 | 1.5 |
| Average length of service | | | |
| among active contributors | 11 | 18 | 12 |
| among dormants | 3 | 5 | 3 |
| at the moment of retirement | 12 | 33 | 19 |
| Average annual salary | 27,410 | 99,763 | 49,642 |
| Average annual pension | | | |
| of the retired | 21,226 | 63,120 | 46,340 |
| of the survivors (widows, orphans, etc.) | 7,491 | 15,254 | 14,073 |
| Average replacement rate of the retired | 77% | 63% | 93% |

Source: DAPS, MoF, Morocco, and WDI.

40. **Only around 30 percent of the labor force in Morocco is currently actively contributing to a pension scheme.** As indicated in Table 1a there are more than 3 million people that have contributed to a pension scheme at some point or another, however they are not currently active (contributing). Many of these people will not be able to qualify for any pension. In fact the minimum length of service to qualify for a pension is 15 years in CNSS, and 21 years in RCAR, but the average length of service at the age of retirement is even lower than that. As also indicated in table 1a, widows, orphans and other beneficiaries non old-age represent a high percentage (more than 30 percent) of all beneficiaries. This is highly common in pension schemes in the MENA region.

41. **The current pension system offers benefits that are generous by international standards.** Figure 7 below shows the value of current pensions in payment relative to the economy-wide average earnings in the same year (2010 for the European countries, 2011 for Morocco). Morocco's schemes pay larger pensions relative to wages²⁴. The figures are 63 percent for the CMR, 77 percent for the CNSS and 93 percent for the RCAR.

²⁴ In the case of Morocco the average earnings of members in each scheme is used as the comparator

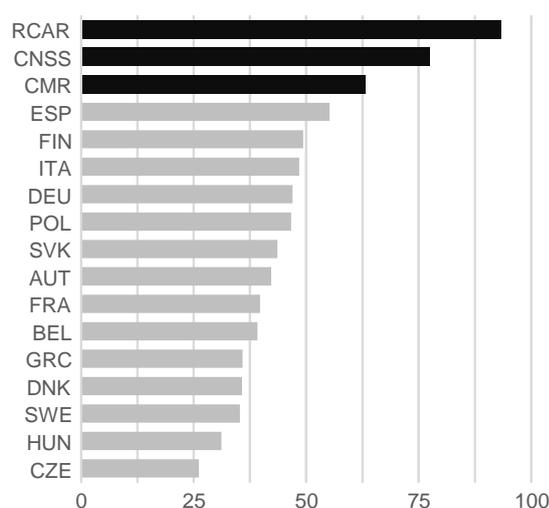
Table 7: Design characteristics of the pension system in Morocco, 2011

| | CNSS | CMR | RCAR |
|--|-----------------------|--------------|----------------------|
| Design Characteristics of the system | | | |
| Contribution Rate (as % of covered wage) | 20.39% (11.89% p) | 20% | 18% (12% p) |
| | From employees | 10% | 6% |
| | From employers | 10% | 12% |
| Contribution ceiling | 6000 DH | - | 4 times average wage |
| Conditions requises pour la retraite: | | | |
| Retirement age | 60 | 60 | 60 |
| Minimum required length of service | 15 | - | 21 |
| Early retirement rules | No | 15-21 (0.5%) | 55-21 (4.8%) |
| Delayed retirement rules | | | 4.8% for 60+ |
| Post-Pension indexation | Ad-hoc | Ad-hoc | Prices |
| Benefit formula for old-age pension calculation: | | | |
| Basic replacement rate | 50% | 2.5% | 42% |
| Incremental replacement rate | 3.3%-1% | 2.5% | 2.0% |
| Maximum replacement rate | 70% | 100% | 90% |
| Number of years of base wage salary for pension calculation | 8 (not valorized) | 1 | All (valorized) |

Source: DAPS, MoF, Morocco

Note: p refers to contribution rates for pensions program only

Figure 7: Average public pension relative to average earnings (%), 2010/11



Note: (2010 for the European countries, 2011 for Morocco)

Source: Pensions in Morocco. Pallares-Miralles, Sensenbrenner, and Whitehouse, November 2013

42. **The two public-sector schemes in Morocco have accrual rates of 2 percent (RCAR) and 2.5 percent (CMR).** The build-up of pension rights in the CNSS is a little more complicated: accrual is ‘non-linear’. The pension is 50 percent of earnings for the first 15 years (that is 3.33 percent per year) and 1 percent thereafter. The average for the high-income OECD countries is just a little over 1 percent. In Italy and Turkey, the effective accrual rate exceeds 1.4 percent, which is still substantially less than all three Moroccan schemes.

43. **In Morocco, the RCAR already bases pensions on lifetime-average earnings (as most high-income OECD countries).** However, CNSS uses the final eight years' pay, and CMR benefits are calculated based on the final salary. Pensions are not formally indexed under the CMR. However, there has been regular uprating averaging about half of the rate of price inflation. RCAR indexes pensions to prices (but used to be indexed to wage growth). The impact of these indexation policies is readily apparent in the pattern of average pensions with age in these two schemes. The left-hand chart shows the average pension in the CMR for current retirees aged between 60 and 80. Average pensions of 70-year-olds, for example, are about 40 percent lower than for relatively new retirees. Under RCAR, in contrast, pensions for men aged 70 are actually higher than 60-year-olds, and they are only marginally less for women. Average pensions by age for RCAR are shown in the right-hand chart.

Figure 8: Average pension by age (in MAD 000s), 2011

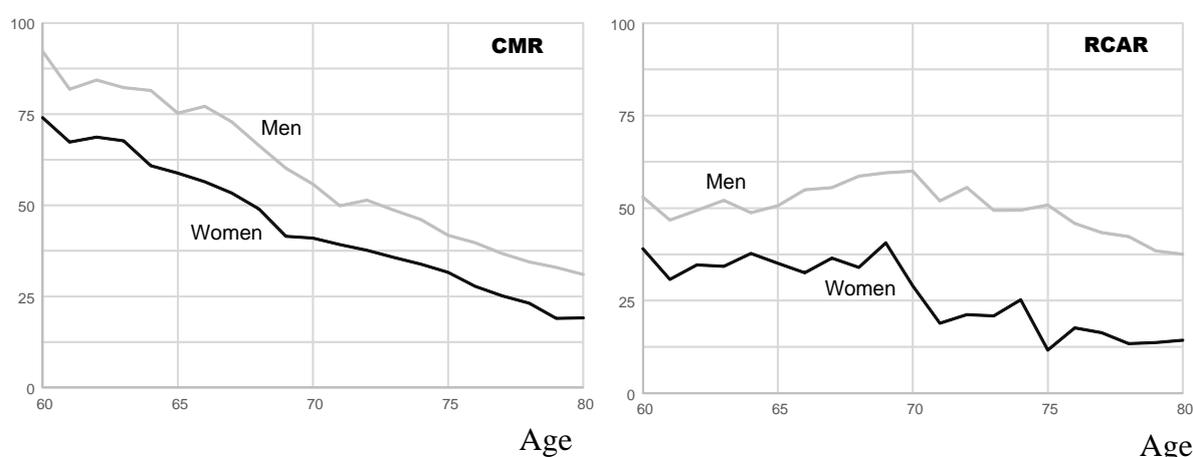


Table 8: Financial performance characteristics of the pension system in Morocco, 2011

| | | CNSS | CMR | RCAR |
|--|------------------------------------|-------------|-------------|--------------|
| Financial Performance Characteristics of the system | | | | |
| Revenues | Revenues from contributions | 7,297 | 14,132 | 1,994 |
| | Expenditures | | | |
| | Pension expenditures | 6,506 | 11,839 | 3,396 |
| | Administrative costs | 874 | 141 | - |
| As % of GDP | | | | |
| | Revenues from contributions | 1.0% | 1.8% | 0.3% |
| | Pension payments | 1.0% | 1.6% | 0.4% |
| | Revenues - Expenditures | 0.0% | 0.3% | -0.2% |

44. **All pension schemes in Morocco are financially unsustainable²⁵ over the long-term - some in the near term - due to rapidly rising beneficiaries and low numbers of active contributors and the generosity in the scheme design.** Total pension spending is already more than 3 percent of GDP,

²⁵ A pension system is sustainable only when it has the capacity to pay current – and future – benefits over a long horizon under reasonable assumptions without shifting substantial burdens to future generations and without having to cut benefits, increase contributions, or change qualifying conditions. This can only be accomplished if pension systems are designed and periodically tweaked using careful actuarial modeling.

and total net implicit debt for all schemes was estimated at USD 144 billion in 2010, or around 145 percent of GDP. Total scheme expenditure as a percentage of GDP is anticipated to rise from the current level of 3 percent to over 10 percent by the year 2050. When Moroccan's system is evaluated based on such principles, these presented below are the main issues:

- **Coverage: Low coverage is a source of major concern for the Government of Morocco.** Less than 30 percent of the labor force is currently contributing to any pension scheme, and less than 15 percent of people aged 60 or over is receiving any type of pension.
- **Sustainability: all mandatory schemes in Morocco are financially unsustainable, and are accumulating unfunded pension liabilities.** Even in the absence of an aging population, the funds will eventually run into trouble. Morocco's pension schemes are clearly generous by international standards. In itself, this is a good thing, giving a high standard of living to retirees relative to the prevailing level in the country. However, pensions have to be paid for. This generosity (relative to the reformed systems of OECD countries), indicates that benefits will soon prove to be financially and fiscally unsustainable.
- **Adequacy: Although pensions for new retirees are generous, such pensions are not adjusted (pension indexation) properly over time,** hence the real value of pensions for older retirees is eroded by inflation.
- **Fairness, and predictability: The current pension system is not necessarily distributing income from high- to low-income workers; the opposite effect is likely taking place.** In the case of the CMR and the CNSS, one reason for this phenomenon is that only part of the salaries is considered for the pension calculation. Basing pensions on a limited number of best or final years tends to be regressive, because the people who have experienced higher wage growth during a career are usually those who earn the most. On the other hand, people whose wages have hardly increased for many years, are usually those who earn the least. Basing pensions on a subset of years of earnings (instead of an entire career salary) also tends to encourage people to retire once earnings have peaked rather than move to lower-paid employment. Extra contributions would then reduce rather than increase their retirement income. The fact that pensions are not automatically indexed to inflation is not respecting the principle of predictability either. Pensioners can't predict if they will have the same purchase power over time.
- **Economic and administrative efficiency: The way the Moroccan pension system is currently designed creates various adverse behavioral incentives, hence inefficiencies:** a) as mentioned in the earlier paragraph, basing pensions on a subset of years of earnings (instead of an entire career salary) tends to encourage people to retire once earnings have peaked rather than move to lower-paid employment. Extra contributions would then reduce rather than increase their retirement income; b) the fact that there are different rules in the three schemes CNSS, CMR, and RCAR, creating considerable variations in the rates of return paid by each scheme, contributes to the fragmentation of the labor market. Basically, employees are not encouraged to move from one sector to another, particularly not from the public to the private sector; c) current benefit formulas and eligibility conditions also clearly provide incentives to strategically manipulate wages, and/or game the system (i.e., increasing salaries during the last year/s, contributing only for a few years, evading the system over the long term, and-or re-joining it close to retirement, etc).

45. **In terms of the regulation and governance structure of the pension funds, problems still exist.** The mandatory schemes have reserves equivalent to close to 25 percent of GDP. However, governance, accountability, and investment policies are not aligned with best international practices, and therefore funds might not be managed in the best interest of plan members.

46. **While there is no single best way of structuring a public pension system, the choice is by no means arbitrary**, and any proposed reforms can – and *should* – be (i) considered with respect for Morocco’s enabling conditions and capacities and (ii) evaluated using generally accepted principles of pension reform developed from international best practices. These principles include coverage, sustainability, adequacy, fairness and predictability, and economic and administrative efficiency. These principles are intended to help policy makers rule out bad policy choices, thereby freeing them to design pension systems that are consistent with international best practices while still having considerable latitude to craft solutions that are appropriate for Morocco’s social preferences and specific conditions.

47. **A first recommendation is that the short-term measures do not have to jeopardize the long-term vision of the entire Moroccan pension system.** Morocco is actually already about to embark on a major pension reform. The Moroccan government is publicly committed to building a new pensions ‘public pole’ to replace separate systems for public servants and state-owned enterprises. Basically the plan is to implement parametric reforms, and integrate the schemes of CMR, and RCAR.

48. **The Moroccan authorities have also indicated their interest in systemic pension reform.** There are quite a few possibilities for such an arrangement in the long term. However, there are significant ‘transition costs’ involved in such a reform as well; one generation effectively has to pay both for part of its own pension and the pensions of earlier cohorts. Policy recommendations for the short and medium term would include several dimensions:

- Coverage. A good pension system is designed to gradually target wider and wider coverage of a country’s labor force through (i) increased formalization of the labor market (i.e., by reducing the size of the informal economy vis-à-vis the formal economy), (ii) better enforcement of contribution compliance on the part of employers; (iii) in the case of Morocco implement new mechanisms to cover the self-employed, and (iv) improved behavioral incentives. Developing a social pension to address the coverage gap could also be an important goal.
- Sustainability. The current pension promise in Morocco is large by international standards, reflected in both accrual rates and replacement rates. Basing pensions on final salaries or a subset of final or best years is also both costly and unfair. Policy recommendations for pension scheme sustainability would be a reform package for an integrated CMR and RCAR. Specific measures of a reform package would include (among others): i) gradually moving to lifetime average wage for calculating pensions (revaluated); ii) gradually decrease accrual rate; and iii) increase retirement ages (a move from 60 to 65 for Morocco would be reasonable, considering current life expectancies at retirement). This should be phased in gradually, although the change should start as rapidly as politically possible.
- Adequacy. Pensions should be automatically indexed to inflation to maintain the purchase power of the retirees.
- Fairness, and predictability. Lifetime average wage should be considered for pensions calculation. The Moroccan Government proposal for parametric reform of the CMR suggests moving from the final year to eight years. However, for all the reasons already outlined here, a better recommendation would be to use lifetime average salary (valorized²⁶). At the very least, this should apply to the new public pole (integrated CMR and RCAR).

²⁶ The issue of valorisation is closely linked to the earnings measure. Even in the relatively complex world of pensions policy, this is an especially arcane topic. Yet valorisation is an important determinant of the value of pension entitlements, unless benefits are based on the last year’s salary. This is the procedure by which earlier years’ earnings are revalued to the time of retirement in line with measures of costs or standards of living. It is therefore sometimes called ‘pre-retirement indexation’ of pensions.

- Efficiency. Governance, accountability, and investment policies should be aligned with best international practices, and funds should be managed in the best interest of plan members.

3.2. Social Safety Nets

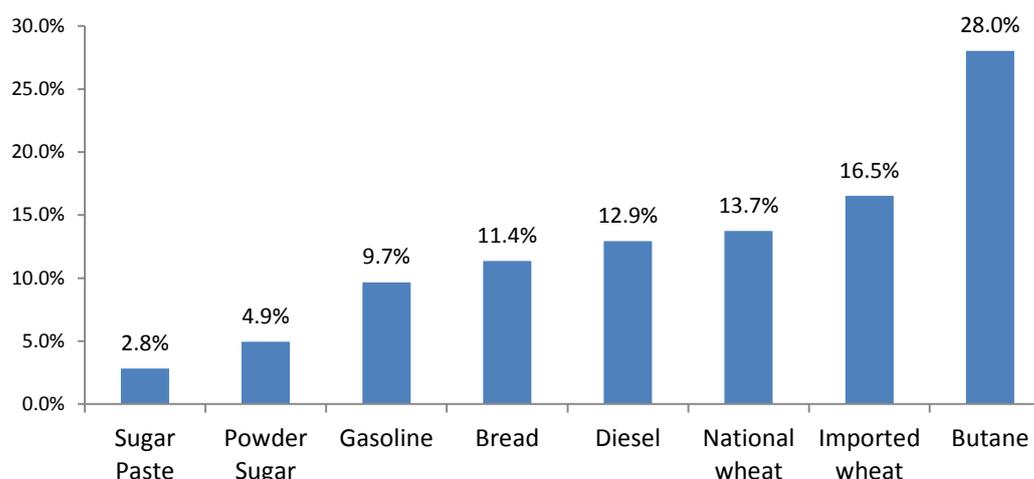
49. **Morocco is undertaking a process of subsidy reform.** Morocco's system of energy and food subsidies, designed to safeguard the poor and vulnerable populations from price fluctuations of essential commodities, is not an efficient and equitable system of social protection. Indeed, recent studies consistently show that the system favors primarily the wealthiest households and the supply chain networks (World Bank, 2012). In addition, the system of subsidies, whose budget amounted to 6.6% of the country's GDP in 2013, is vulnerable to exogenous shocks in international prices of subsidized commodities; and particularly of liquid fuels and gas. In terms of composition, butane and wheat constitute the main subsidized expenditure items (at 28 and 30 percent of total expenditures on subsidies respectively), followed by liquid fuels (about 22 percent), and bread and sugar (20 percent) (Figure 9).

50. **The government started implementing an indexation system for liquid fuels in September 16th, 2013.** The government raised prices of Gasoil by 8.5 percent, gasoline by 4.8 percent, and industrial fuel by 14.2 percent. These price increases have allowed stabilizing the budget outlays at 4 percent of GDP. The reform was achieved without major social opposition. This was due to three key factors. (i) In terms of direct effects, the price increases of liquid fuels have actually very modest repercussions on the poorest categories of the population (World Bank, 2012).²⁷ (ii) The government developed compensatory measures for the professional categories that are expected to be directly hit, such as passenger/merchandise transporters and the industrial sector. For intra-urban taxis, for instance, the government is setting up a cash-for-clunker scheme whereby taxi drivers are incentivized to buy a new (and more fuel efficient) vehicle based on a discount at sale and especial lines of credit created for this purpose. A similar mechanism is being discussed for other transport categories such as inter-urban busses and trucks. Also, the Government has set up a direct compensation scheme to reimburse taxis for extra expenses in fuel incurred as a result of the price hikes, to be disbursed on a quarterly basis. (iii) The government has actually mastered the communication and the participatory aspect of the reform by engaging in successful consultations with all economic categories that could potentially derail the reform at its outset.

51. **The next frontier of the reform will be liberalizing butane prices.** Such reform, however, will have more serious poverty and social implications as butane constitutes a substantial part of the budget of poor and middle class households. Estimates from World Bank (2012) indicate that eliminating butane subsidies would contribute to a 5 to 8 percent drop of total consumption for households in the first 3 consumption deciles. The estimated impact on poverty of such reform is significant: poverty rates would increase by about 9 percent if subsidized prices decrease by 30%. The economic impact of raising butane prices on small industrial production, agriculture, as in supply chain networks (bottle filling, transport, distribution, and commercialization) may also be significant. The World Bank's recommendation to the government has been to consider the introduction of a non-conditional cash transfer program that could serve initially as a system to compensate further reductions in subsidies, notably butane. While there is not yet a political consensus to implement this policy, the government seems interested in identifying (at the technical level) what type of implementation arrangements (such as the development of a unique social registry and a strong mechanism for ID verification – for eventual payments) could be put in place for the eventual delivery of cash transfers. This debate – albeit technical – has important political implications, especially before upcoming elections in 2016, as some parties fear that cash transfers may be used in a clientelistic matter by the constituent government.

²⁷ Estimates suggest that less than 2 percent of all expenditures in liquid fuels (gasoline and Diesel) accrue to households in the poorest 2 consumption deciles.

Figure 9: Composition of Expenditures in Subsidized Items [2012]



Source: World Bank, 2012

52. Morocco has developed different social safety nets programs covering several sectors: (i) energy/food subsidies, (ii) education support, (iii) non-contributory health, (iv) social assistance targeted to particular groups (such as widows, orphans, and disabled); and (iv) social funds, mainly to revamp local infrastructure and create revenue generating activities through the National initiative for Human Development (INDH). Yet, public expenditures are still dominated by butane and food subsidies expenditures. Latest available data for 2009, for example, indicates that the total public expenditures on subsidies represented 68.2% of the budget while the non-subsidy safety nets programs budget was only 31.8% (see Table 9).

Table 9: Public expenditures in social safety nets programs*

| | Public Budget (in MAD) | Year |
|---|------------------------|-------------|
| Ministry of Interior | | |
| Promotion nationale | 1,000 | 2009 |
| INDH | 1,667 | 2008 |
| Ministry of social development | | |
| Entraide nationale | 299 | 2009 |
| ADS | 48 | 2008 |
| Ministry of Education (schooling support programs, Literacy program and Second Chance program) | | |
| | 2,105 | 2009 |
| Ministry of Health | | |
| RAMED | 138 | 2009 |
| Ministry of Housing | | |
| Villes sans bidonvilles | 220 | 2009 |
| MAGG | | |
| Energy and food Subsidies | 12,800 - 34,754 | 2009 - 2008 |
| Total | 18,244 - 40,198 | |

*The above list of social safety nets programs is not comprehensive

53. A more detailed description of the main social assistance programs is presented below:

Education and Health Support:

- **RAMED:** In 2002, the Government enacted a Law on “Basic Health Coverage” based on a two-pillar approach, namely (i) a contributory scheme for the formally employed called AMO (*Assurance Maladie Obligatoire*), which has operated since 2005; and (ii) a non-contributory scheme for poor and vulnerable families called RAMED (*Régime d’Assistance Médicale aux Economiquement Démunis*). RAMED was launched in November 2008 as a pilot program. Following the evaluation of the pilot, the King of Morocco announced the generalization of RAMED in April 2012. This scheme is expected to cover about one third of the population in the middle/long-term. To date, about 8.5 million individuals are part of the regime.
- **TAYSSIR:** Managed by the Social Affairs Directorate at the Ministry of Education, the program “Tayssir”, which means “facilitation” in Arabic, was launched in 2008 as a pilot in 180 school sectors and aims at increasing student participation in primary school through the provision of conditional cash transfers to parents in rural areas with a poverty rate higher than 30% and school desertion rate higher than 5%. Cash transfers are provided to families for children between the ages of 6 to 15 enrolled in school as long as the child’s attendance rate is at least 80%. To date, 812,000 individuals have benefited from the program.
- **Other education-support programs:** these programs aims to achieve universal education and reduction of school drop-out, especially in the rural areas through the provision of school bags, subsidizes transport, food, school supplies and materials for students enrolled in the first two years of primary school and in the first year of secondary school. The program benefits about 4 million students yearly. From 4 to 5 years old, children can enroll to the preschool program developed by the Ministry of education in partnership with the Mohammed VI foundation or to the traditional preschool program (M’sid and Kouttab) developed by the Habbous. Only 706,000 students (in 2007) were registered in these two programs which correspond to 60% of the total children between 4 and 5 years old. Table 10 provides a comprehensive list of all available education support programs.

Social assistance targeted to disadvantaged groups: These programs are managed mainly by the so called “Social Pole” (Ministry of Social Development) through its two agencies: the Social Development Agency (SDA) and the *Entraide Nationale* (see Figure 2 for a detailed institutional framework):

- **Programs for Disabled Individuals:** these programs (led by the SDA) seek to supports local initiatives and strategies that support individuals with disabilities to improve their quality of life. Also, the *Entraide Nationale* manages polyvalent centers for persons with disabilities. These centers are managed either by the agency directly or by local NGOs. Centers provide school enrollment modules (following official schooling but delocalized in the center, physical therapy services, paramedical), and training activities to disable individuals. To date, about 10,989 persons with disabilities benefit from these programs on a yearly basis.
- **Social Protection Centers.** The centers provide support to individuals (youth, adults, and elderly) who are in difficult and vulnerable situations such as abandoned children, women that are socially excluded, victims of family abandonment, and elderly people without any support. There are currently more than 1,347 social protection centers which provide support to about 160,000 people yearly.
- **Centers for Training & Education.** The centers provide support to girls and women in difficult socio-economic conditions, by covering the cost of their education and some medical support. It

also provides beneficiaries with training to acquire marketable skills, aiming at increasing chances of economic insertion (this population is generally not eligible for the formal vocation training services, either because they fall out of the eligible age group or because of lack of previous academic background) and also literacy courses. To date, more than 200,000 people have benefited from this program.

Table 10: Overview of Education Support Programs in Morocco

| | Direct Beneficiaries | Budget (million in MAD) | Year | Institution |
|---|-----------------------------|--------------------------------|-------------|--|
| From 4 to 5 years old | | | | |
| <i>Preschool (traditional and Modern)</i> | 706000 | 55 | 2007 | Ministry of Education, Fondation Md VI and Habbous |
| <i>Jardins d'enfants</i> | 20187 | NA | 2009 | Entraide Nationale |
| From 6 to 18 years old | | | | |
| <i>Cantines primaires</i> | 1212628 | 896 | 2013/2014 | Ministry of Education |
| <i>Cantines collèges</i> | 54481 | | 2013/2014 | Ministry of Education |
| <i>Internat/Boursiers</i> | 132344 | NA | 2013/2014 | Ministry of Education |
| <i>Dar Taliba</i> | 700 | NA | 2008/2009 | Ministry of Education |
| <i>Tayssir</i> | 825000 | 713 | 2013/2014 | Ministry of Education |
| <i>Transport</i> | 100 | NA | 2008/2009 | Ministry of Education |
| <i>1 million de cartables</i> | 3906948 | 367 | 2013/2014 | Ministry of Education |
| <i>Soutien pédagogique</i> | 166900 | 11 | 2008/2009 | Ministry of Education |
| <i>Hébergement</i> | 59000 | 229 | 2008/2009 | Entraide Nationale |
| <i>Ecole de la deuxième chance</i> | 33100 | 23 | 2008/2009 | Entraide Nationale |
| 18 years old and up | | | | |
| <i>Bourses</i> | | | | |
| <i>Cites universitaires, internats</i> | 33600 | 429 | 2008/2009 | Ministry of Education |
| <i>Bourse de licence</i> | 10100 | | 2008/2009 | Ministry of Education |
| <i>Bourse de master</i> | 9200 | | 2008/2009 | Ministry of Education |
| <i>Bourse de doctorat</i> | 1600 | | 2008/2009 | Ministry of Education |
| <i>Bourse de mérite</i> | 600 | 16 | 2008/2009 | Ministry of Education |
| <i>Bourse post-Bac</i> | 40 | NA | 2008/2009 | Entraide Nationale |

- **Centers for Vocational Training for disadvantage populations:** This program was initially set up to give another chance to school drop-outs. Services are provided through a network of centers attached to the centers that lodge and feed children and youth, with the purpose of giving them a last chance towards school enrolment. However, the most recent strategy gears towards making these centers join the network of the formal vocation training centers. About 14,207 people benefit from the services offered under this program on a yearly basis.
- **KINDERGARTENS “Jardins d’Enfants”:** This programs has been designed to ensure equality of access in pre-school and primary education to children of poor families between 4 to 6 years and have benefited to date more than 69,000 children of disadvantaged background.

- **Associations of Blinds & Paralytics.** Initially, this program was designed as distribution of in-kind aid (vegetable oil and flour) to people who had been contaminated with industrial oils that were consumed in cooking oils. Later on, eligibility was extended to blind people and people with disabilities on legs, as well as individuals with polio disease. The aids are distributed through two big national associations: Alawite Organization for the advancement of the blind in Morocco “*Organisation Alaouite pour la Promotion des Aveugles au Maroc*” and Youssoufia Federation. To date, more than 10,000 individuals benefited from the program on a yearly basis.
- **Housing Programs.** Improving the living conditions of the poor and vulnerable population is a major concern of the public authorities. Morocco launched a large social housing program in urban areas – Villes sans Bidonvilles (VSB) - in 2004. This program initially targeted 324,000 households in 85 cities. In mid-2009, 136,000 households benefited from this program, for a total of 25 billion MAD. According to the World Bank impact evaluation, this program lacks to target the poor. Recent increases in property prices have indeed increased the interest of the middle class for this type of housing. In the slums, one third of households cannot afford to pay the minimum payment required by the VSB program. Other households could raise the money needed for the down payment, but the supply of credit to property is limited, despite the creation of a specific fund: FOGARIM. In addition, the development of the program has been hampered by rising construction costs and therefore the decline of private companies in social housing.

National Initiative for Human Development (INDH): The INHD was launched in 2005 with the support of HM the King of Morocco, aiming to develop a massive and high profile program designed to reduce poverty and close the social gaps in the national fabric. The program was designed to introduce a new bottom-up concept of integrated socio-economic development based on participation, local governance, partnership, sustainability and results orientation. As such, in addition to the above programs, others under the umbrella of INDH seek to provide safety nets to the vulnerable in Morocco and foster social development and cohesion while furthering more open governance. These programs are:

- **Program to Fight Poverty in Rural Areas:** the programs supports the development of subprojects that aim at improving living conditions of rural populations through increased access to equipment and social services such as health and education (90% of program focuses on this); promotion of income-generating activities; support of social, cultural, and sports-related activities; and strengthening of the governance and capacities of local associations and groups. More than 457,571 people have benefit from the program on a yearly basis.
- **Program to Fight Social Exclusion in Urban Areas:** This program seeks to tackle social exclusion and improve living conditions and quality of life of the population in 532 INDH target urban neighborhoods. The range of activities financed under this program is the same as for the Fight Poverty in Rural Areas program. More than 4292,049 people have benefit from the program on a yearly basis.
- **Program to Fight Social and Economic Vulnerability:** The objective aims at improving the quality of life of vulnerable persons in 10 targeted categories (widows, disabled, orphans, drug users, HIV affected people, etc.). Specifically, it funds activities which (i) helps reintegrate vulnerable people within their families and in society; (ii) develop skills to support the vulnerable into employment; and (iii) build capacity for NGOs managing social care centers.
- **Cross-cutting program.** This program supports high-impact activities nationwide in poor areas not targeted under other programs and seeks to promote economic inclusion of poor and vulnerable persons. The financing of the subprojects under the program is done through a competitive fund and covers activities that have high impact on facilitation of social services, promote income-generating activities, support social, cultural, and sports-related activities, and help strengthen governance and local capacities. To date, more than 441,913 people benefit from the program yearly.

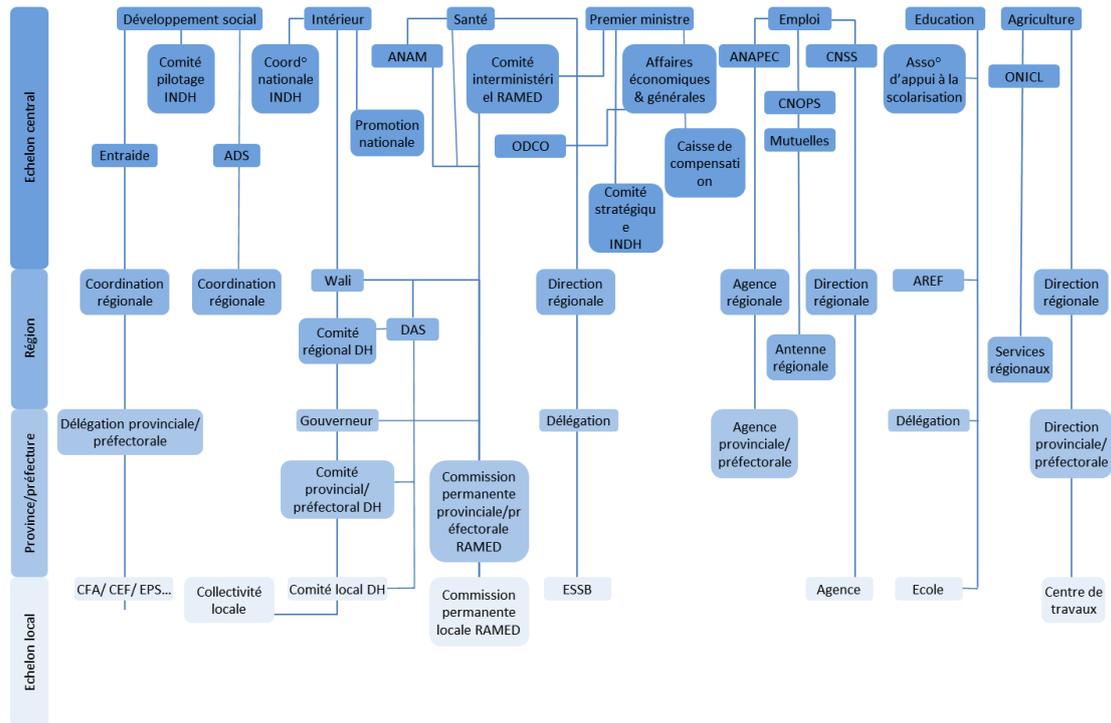
- **Territorial upgrading subprogram.** This program seeks to improve the living conditions of the population of mountainous and isolated areas, to reduce regional gaps in standards of living, and to strengthen alignment with sectoral programs. Specifically, the program finances investments in basic infrastructure in 503 isolated rural communes and identified in the INDH program in five areas: health infrastructure and services; electricity transmission; water and sanitation; rural roads; and education.

54. **Despite all these programs, Morocco’s SSN system falls short in terms of coverage of the poorest population** and does not address important life-cycle risks, especially for children (World Bank, 2012). Also, Morocco largely lacks of adapted programs to respond to risks of children between 0 and 4 years old. While the government has launched a program of day-cares, coverage remains very small and, while the quality of education provision in these centers remains unassessed, most of these centers display clear shortfalls in pedagogical tools to enhance learning.

55. **Moreover, the institutional setting for existing SSN system is complex, fragmented, and lacks coordination.** While many public institutions are involved in the social safety nets sector in Morocco (Figure 10), coordination across institutions remains very scarce and the mandates of institutions usually overlap and similar programs are provided by different public institutions and agencies. For instance, subsidies to develop revenue generating activities (generally targeted to individuals in disadvantaged communities) are allocated by the INDH, the Agency of Social Development, the Ministry of agriculture, the *Entraide nationale*, and the Ministry of Industry and other public institutions. Also, support programs aiming to help disadvantaged children (such as orphans and abandoned children), generally led by the *Entraide Nationale*, rarely coordinate with other education support programs provided by the Ministry of Education. Despite significant partnership efforts, coordination between these programs at central and local level remains limited. One of the missions of the INDH is the "convergence of sectorial programs", which is supposed to be conducted by inter-ministerial committees at the local level. Yet, important decisions in most cases remains vertical and most of the “real” initiatives of coordination happen at the central level. The coordination at the local level needs to be further developed and differs greatly from a region to another one.

56. **Despite important efforts, targeting methods used in Morocco to allocate social assistance are not effective and lack coherence.** Targeting is a relevant factor to improving the allocation of resources in order to mainstream social resources to the most vulnerable segments of the population. Some of the most important social assistance programs in Morocco (see Table 11) are targeted geographically to the so-called INDH communities (403 communities nationwide). These communities have been identified mainly using available poverty maps (i.e. communities displaying poverty rates above 30%) although other communities have been included through a process of negotiation with the local governments (in communities where prevalence of high rates of poverty are evident – albeit excluded by the poverty map). While this approach is better than no targeting at all and seems o.k. to mainstream more progressive investments in local infrastructure, it involves high errors of exclusion and inclusion for programs that mainly target individuals and households. Indeed, recent analysis conducted under this TA program indicates that over 75% of all households in extreme poverty (i.e. those in the first and second decile of per-capita expenditures) live in localities that are not included as INDH communities.

Figure 10: The SSN environment at the central and local level



Source: World Bank (2012)

57. **Only the RAMED uses a more sophisticated methodology that aims to target poor households nationwide, combining proxy mean testing and community targeting methods.** Yet, a recent evaluation conducted under this TA program shows that RAMED’s scoring methodology shows very high errors of exclusion (up to 72% of the target population in 2012 were excluded from the program), which is mainly explained by the fact that the formula was calibrated with data for 2001 that does not reflect any longer the socio economic conditions of households, notably in rural areas. The analysis conducted under this TA is the first attempt to “statistically” evaluate the performance of this formula. Finally, it is worth mentioning that the RAMED formula is established by decree, which makes its eventual revision a more complex endeavor (see Box 1).

Box 1: Targeting of RAMED

Applications of potential beneficiaries of RAMED are submitted at the local “administrative annexes”, which constitute the closest territorial administrative network. This approach or service provision at the local level is consistent with international best practices for “on demand” welfare programs. Based on the data collected through the application’s form on household living conditions, administrative services grant the applicant a “score”. The current proxy means testing formula varies between urban and rural areas. In urban areas, households are eligible to the program if: (1) their score of socioeconomic conditions and (2) their annual declared weighted income are both below a per-determined threshold. In rural areas, households are eligible to the program if (1) their assets score and (2) their score of socioeconomic conditions are both below a predetermined threshold.

However, based on international best practices, RAMED’s current proxy means testing system has still room for improvement:

- The formula was calibrated based on household socio-economic data that are older than ten years and which may no longer reflect the socio-economic reality of households in Morocco.
- It is based on a statistical definition of household, while the RAMED’s beneficiary unit is the nuclear family. This divergence may contribute to application errors and distortion of the estimated living conditions and scores.
- Self-reported income could be under-declared by applicants. Developing an objective verification of self-reported income is complex, especially in countries that display a large informal economy.

RAMED’s targeting method relies on a combination of proxy-means testing and community targeting. In addition to the aforementioned proxy means testing formula, inter-ministerial local committees ultimately decide on the eligibility of applicants, especially for those considered by the proxy means testing system as excluded or vulnerable²⁸. The human component is introduced as a mechanism to reduce potential exclusion errors. Indeed, local committees make the ultimate choice about applicant’s eligibility, while the scores are only indicative. For example, the local committees takes into consideration other information provided by applicants such as their health status and health care-related expenses²⁹.

58. **A first assessment of RAMED’s implementation identified several shortcomings in the implementation of the program’s targeting method.** First, the formula poses several issues: (i) the coefficients used to calibrate the proxy-means formula are based on 2001 data and may not be indicative or adequate to proxy poverty today; (ii) the formula is calibrated at the household level, while applicants are generally are nuclear families, which may live with other individuals within a household; and (iii) the formula includes a non-verifiable self-declaration of income and assets. Second, there is not systematic outreach of potential beneficiaries and the system still relies on self-registration, potentially leaving behind underprivileged households who do not have information about the program. Third, there are several implementation shortcomings: (i) applicants need to register to be in person in existing facilities (which excludes households in remote areas); (ii) there is not a quality control of the data included in the application (e.g. 60 percent of all applications were returned from the provincial to the local level for revision/completion); (iii) administrative records are not computerized at the local level (paper applications need to be send to the provincial level to be processed, which takes time and is detrimental to the data quality); (iv) public officials receiving application were not trained enough to properly accompany applicants (at the local level) and to properly manage data entry (at the provincial level). Staff is insufficient to properly process applications, creating delays and bottlenecks, and there is not an adequate system for claims and user feedback.

²⁸ This category has to pay a fee of 120 MAD per year per beneficiary, to a maximum of 600 dirhams per year per household, to be granted its RAMED beneficiary card.

²⁹ This hybrid approach is consistent with international best practices. In Indonesia, the World Bank demonstrated that proxy means testing systems were generally more accurate than local community targeting. Errors of inclusion (beneficiaries not falling within the categories of the target population) and errors of exclusion (population falling within the categories of the target population and not included) were generally lower. However, local committees included the poorest population more effectively than the proxy means testing systems (i.e. there were fewer exclusion errors in the poorest decile).

59. **The targeting population of RAMED includes only the extreme-poor and poor populations (i.e. families at the lowest consumption quintile based on international benchmarks).** While this target population is adequate for some social assistance programs based on international best practices, it may be too narrow for a system of compensation under an eventual subsidy reform (as it excludes the middle class) and/or for development of a single registry to be used by other social programs (e.g. programs targeted to the middle-class, such as training, ALMPs, family allowances, and semi-subsidized health insurance).

60. **Adding to the existing fragmentation, almost each SSN program has its own identity system, its own registry, while most registries remain not interoperable.** A report conducted in the context of this TA program concludes that identity ecosystem in Morocco is highly complex, consisting of multiple identities developed by existing programs. However, this myriad of identifiers does not allow for a robust identification system for the population and for users of SSNs (which leads to program double-dipping and fraud, especially for programs that involve children).³⁰ Despite important efforts to develop a national identity card which attributed a unique ID, the card generally excludes the population under 18 years and adults in remote areas who have no means to issue this document. Moreover, the information that has accumulated over the years in the various identification databases has not been assessed for reliability and quality so registries contain data filled with digitation errors, duplicates, and which allow to attest someone's real identity. These complex ID ecosystem results in increased administrative burden for users (who need to struggle with complex and heavy processes and compilation of documents to prove their identity). The ID assessment report conducted under the SPR-TA program concluded that Morocco would benefit from development of a unique social registry built upon the attribution of a unique ID for all individuals who will take part of the registry.³¹ The study also proposed the creation of an independent agency that would be charged to manage this registry, attest identity, attribute individuals a unique ID, and assure interoperability between existing registries. This policy proposition was welcomed by the government and its implementation will be the main objective of the expected SP system project under preparation.

61. **Finally, only a few SSN programs in Morocco have monitoring system and only a few have been carefully evaluated.** A central M&E system would define strategic outcomes as well as specific indicators and track their progress and results. To implement such a system, data requirements (type and frequency of information) and transmission methods from each agency to the central government need to be defined. Successful information technology (IT) systems establish a harmonized set of core indicators, standardized tables, and updating schedules. In countries where a unified registry of the poor and vulnerable exists and payment of benefits is linked to this registry, automatic reports on the number of beneficiaries (disaggregated by gender as well as other characteristics of particular concern) and main outcomes can be produced. A centralized M&E system could help the governments better allocate budget resources among programs and track results of their investment in fighting poverty. Beyond simply tracking outcomes, an M&E system creates a commitment to accountability that enhances the overall efficiency of the system. In Morocco, the quality of information system differs from an SSN program to another. Some are well equipped and the information is centralized and flows easily from central to local level (for example, RAMED), while others is not and lacks basic information on the actual number of beneficiaries. Few evaluations of the impact of SSN program were also conducted. INDH, RAMED, ADS were evaluated between 2008 and 2013 but their impact was not necessarily rigorously assessed.

³⁰ For example, the Ministry of Education has several registries including MASSAR (main registry of all students), Tayssir, school supplies, stipends, food programs, and they are not interoperable. The Ministry is working on integrating as integrating all programs supporting schooling registries to the registry of MASSAR.

³¹ Unique social registries can reduce costs and facilitate coherence and convergence between different social programs. A unique social registry typically contributed to increase benefits to beneficiaries of social programs by promoting complementary and synergies across programs. In times of crisis, unified registries can be used to quickly disburse additional benefits to the target population or to promptly expand coverage by adjusting eligibility criteria.

Table 11: Targeting methodologies of most important SSN programs

| | RAMED | Energy Subsidies | Entraide nationale | INDH | Promotion Nationale | Villes sans bidonvilles | Tayssir | 1 million de cartables | Bourses |
|-------------------------|-------|------------------|--------------------|------|---------------------|-------------------------|---------|------------------------|---------|
| PMT/Household Scoring | X | | | | | | | | |
| Household declaration | X | | | | | | | | X |
| Geographical targeting | | | | X | X | X | X | | X |
| Demographical targeting | | | | | | | | | |
| Specific groups | X | | X | X | | | | | |
| Auto-selection | | | X | | X | | | | |
| Discretionary selection | X | | X | | | | | | |
| No Targeting | | X | | | | | | X | |

62. **A cash transfer program conditional on school enrollment (Tayssir) was launched in 2008 to decrease primary and secondary education dropout rates.** Tayssir is a conditional cash transfer program. This program was put in place to incentivize disadvantaged families to send their children (between ages of 6-15) to school by giving them a monthly cash transfer (via the post) for every child that attends school up to a maximum of three children per family. It is based on geographic targeting and relies on building the register of eligible families and hence a register of identities. Today the register contains 475,000 families and benefits about 825,000 students, 37% of which have been classified as reinsertions (reintroducing a child who had dropped out back into the school). The Tayssir identity register constitutes only about 6% of households in Morocco and the information that it contains in its database does not necessarily have the quality and accuracy needed for a reliable identity system. In fact, the MENFP has plans to evolve the program under what they call Tayssir II, which will make the identification module of MASSAR available to support the register required for Tayssir and will better target the population in needs.

WORLD BANK PROGRAM

Employment

63. **In recent years, the World Bank has supported the Government's skills and employment program through:** (i) a Development Policy Lending (Skills and Employment DPL series 200 million) (ii) technical assistance (TA) to the MOLSA Department of Employment; (iii) inclusion of Morocco in a number of regional programs (e.g., University Governance and Quality Assurance, SABER Workforce Development); and (iv) 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.

Social Insurance

64. **Pension reform remains a priority for the World Bank / IMF programs.** On 6 February 2015 the IMF finished its first review of Morocco's economic position in connection with a precautionary Liquidity Line (PLL) arrangement that was approved by the IMF in August 2014. The IMF is encouraging Morocco to reform the public pension system as a priority. For an effective support to the Government on social insurance and pensions, SP&L team will need to reach out to (and cooperate with) those practices or teams at the World Bank that are currently working on civil service reforms, tax reforms, financial sector reforms, as well as poverty and health issues in Morocco, among other relevant topics. The urgency of pension reform is – fortunately – recognized by the Moroccan authorities; proposals for change are under active discussion. A strong technical capability for analysis has been established and the World Bank could work together with the Moroccan authorities to help in this important but very complex reform process.

Subsidy Reform/Social Safety Nets

65. **The World Bank has been a key partner of the government in the process of subsidy reform.** Over the past few years, the World Bank carried out, in close collaboration with the Government, several analytical and operational activities that informed the energy and food subsidy reform agenda in Morocco. These included:³²

- Assessment of the impact of wheat subsidy reform (2004-2005).
- A workshop on the international experience of energy and food subsidy reform (2008).
- Study tours to Indonesia and Mexico/Chile to expose Government officials to social assistance systems based on transfer programs targeting disadvantaged households (2008).
- A policy strategy to gradually phase out subsidies for oil products (2009).
- A feasibility study to implement conditional cash transfer program in the health sector (2010).
- A strategy note on "targeting and social protection," which identifies priority reforms for the establishment of an effective and efficient social protection system (targeting and program design) (2009-2012).
- A study on the political economy of reform, which included an assessment of peoples' perceptions of subsidies and various reform scenarios (2011).
- A feasibility study for the introduction of non-conditional cash transfers targeted to poor households (2012).
- Development of analytical models to evaluate the direct and indirect impact of on household welfare of fluctuations in subsidized prices (2012-current).³³

66. **The impact on policy change of the aforementioned activities has been substantial and has shaped the direction of the government's vision of social protection reform in the medium-term.** For instance, between February and June 2013, there was a high level political debate exploring the introduction of cash transfers in Morocco as a means for compensating foreseeing the indexation of the price of liquid fuels. This high level debate was largely influenced by the Bank's recommendations and policy dialogue over the past years. Also, the World Bank's technical assistance in 2012 provided a detailed diagnostic of household consumption of subsidized items across income quintiles (i.e. incidence analysis) and provided the government with simulate of the direct and indirect impacts of potential price changes on household consumption. The analysis showed that liquid fuels were easier products to reform in the short term as they accrued mainly to households in the richest quintiles and because the impact of their removal in the poor/middle class was moderate. The findings also indicated

³² For more details on these activities, see Appendix.

³³ The World Bank team will continue to build the capacity of MAGG to evaluate the direct and indirect impact of on household welfare of fluctuations in subsidized prices. For this purpose, the MAGG has designated a team to evaluate the effects of various energy and food subsidies reform options on key macroeconomic indicators, as well as to carry out economic and social analyses of the implications related to the reform. The Bank is ready to continue this support.

that indirect impacts on households (though potential price increases in transport services) and transport companies/providers could be significant. As described above, such findings were largely taken into account in the design of the price indexation of liquid fuels last September.

Envisioned SP&L programs (FY16-18)

67. The proposed FY16-18 SPL work program for Morocco includes the following three pillars and priority tasks:

- Provide technical and financial support to develop the foundations of a more efficient and integrated Social Protection System.
- Contribute to the process of modernization of the country's identification systems (modernization of civil registry, development of a national population registry with a unique ID).
- Establish of a Unique Social Registry to be used by selected targeted social services, including SSNs programs, to determine potential beneficiaries and to make existing program information systems interoperable.
- Promote efficiency, effectiveness, and integration of selected existing SSN programs (notably RAMED, Tayssir, and other selected programs managed by the Ministry of Social Development). This task would entail (i) revising and improving current targeting practices, (ii) development of better M&E systems, and (iii) coverage extension for selected programs (if applicable).

Provide technical and financial support to implement of National Employment Strategy and the National Integrated Youth Strategy

- Support the Government to implement its medium-term program (regulatory and operational) for improving skills, productivity and employability of the labor force. This would entail supporting envisioned reforms to: (i) vocational training, (ii) support the development of SMEs; (iii) improve the effectiveness of intermediation services and ALMPs; (iv) Improve employment mobility; and (v) strengthen existing labor market information systems.
- Improve the access of Moroccan youth (15-29), especially the most disadvantaged, to employability services delivered by one-stop-shops at the local level. These one-stop-shops would aim to bring-in different actors (public and private) in order to serve a segment of the population that has not traditionally been targeted by existing training, employment, or apprenticeship programs. This task will be conducted in close coordination with the Urban, Rural & Social Development Global Practice.

Provide technical support to the preparation of social security and labor regulation reforms.

- Identify reform options and assess their potential impact on employment and social outcomes in the areas of social security (notably pensions), labor regulation, labor taxation, and wage-setting mechanisms (including minimum wage policy and collective bargaining).
- Assess the political economy of potential social security and labor regulation reforms.

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