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Strengthening Human Capital for a Resilient Morocco DPF (P176937)

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Report No: PGD310

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF EUR 473.3 MILLION (US\$500 MILLION EQUIVALENT)

TO THE

KINGDOM OF MOROCCO
FOR THE

STRENGTHENING HUMAN CAPITAL FOR A RESILIENT MOROCCO
DEVELOPMENT POLICY FINANCING

May 19, 2022

Health, Nutrition and Population Global Practice
Middle East and North Africa Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective as of April 30, 2022)

Currency Unit=Moroccan Dirham (MAD)

MAD 9.9934 = US\$ 1

US\$0.100 = MAD 1

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AFD	French Development Agency (Agence Française de Développement)
AfDB	African Development Bank
AMO	Mandatory Health Insurance (Assurance Maladie Obligatoire)
ANC	Antenatal Care
ANR	National Registries Agency (Agence Nationale des Régistres)
BAM	Moroccan Central Bank (Bank Al-Maghrib)
CCA	Climate Change Adaptation
CCG	Central Guarantee Fund (Caisse Centrale de Garantie)
CIT	Corporate Income Tax
CMAM	Moroccan Health Insurance Fund (Caisse Marocaine de l'Assurance Maladie)
CMB	Basic Medical Coverage (Couverture Médicale de Base)
CMR	Moroccan Pension Fund (Caisse Marocaine des Retraites)
CNOPS	National Fund for Social Welfare Organizations (Caisse Nationale des Organismes de Prévoyance Sociale)
CNRA	National Insurance and Pension Fund (Caisse Nationale de Retraite et d'Assurance)
CNSS	National Social Security Fund (Caisse Nationale de Sécurité Sociale)
COP26	2021 United Nations Climate Change Conference
COVID-19	Coronavirus disease 2019
CPF	Country Partnership Framework
CPI	Consumer Price Index
CPU	Unique Professional Contribution (Contribution Professionnelle Unique)
CT	Cash transfer
DGI	Directorate General of Taxes (Direction Générale des Impôts)
DPF	Development Policy Financing
DRM	Disaster-Risk Management
DRF	Disaster Risk Financing
DSA	Debt Sustainability Analysis
ECD	Early Childhood Development
EMBI	Emerging Markets Bond Index
ESSP	Primary Health Care Facility (Etablissement de Soins de Santé Primaires)

EU	European Union
EUR	Euro Currency
FA	Family Allowance
FDI	Foreign Direct Investment
FLCN	Fund to Fight the Effects of Natural Disasters (Fonds de Lutte Contre les Effets des Catastrophes Naturelles)
GDP	Gross Domestic Product
GFNs	Gross Financing Needs
GGs	Green Generation Strategy 2020-2030
GOM	Government of Morocco
GRS	Grievance Redress Service
GST	Regional Health Networks (Groupements Sanitaires Territoriaux)
HBS	Household Budget Survey
HCI	Human Capital Index
HCP	High Commission for Planning (Haut-Commissariat au Plan)
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
LOLF	Finance Law (Loi organique relative à la loi de finances)
LPG	Liquefied Petroleum Gas
MAD	Moroccan Dirham
MAPMDREF	Ministry of Agriculture, Maritime Fisheries, Rural Development and of Water and Forests (Ministère de l'Agriculture, de la Pêche Maritime, du Développement Rural et des Eaux et Forêts)
MENA	Middle East and North Africa
MHSP	Ministry of Health and Social Protection
MEF	Ministry of Economy and Finance
MI	Ministry of Interior
MnhPRA	Morocco Natural Hazards Probabilistic Risk Analysis
MSME	Micro, Small and Medium Enterprise
NCD	Non-communicable Disease
NDC	Nationally Determined Contribution
NDM	New Development Model (Nouveau Modèle de Développement)
NPL	Non-performing Loans
ONDH	National Observatory for Human Development (Observatoire National du Développement Humain)
OoP	Out-of-Pocket
PDO	Project Development Objective
PER	Public Expenditure Review
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PforR	Program-for-Results
PLL	Precautionary Liquidity Line
PMT	Proxy-Means Test
RAMED	Medical Assistance Scheme (Régime d'Assistance Médicale)
RCAR	Collective Pension Allocation Regime (Régime Collectif d'Allocation de Retraite)

RNP	National Population Registry (Registre National de la Population)
RSU	Unified Social Registry (Régistre Social Unifié)
SA	Social Assistance
SME	Small and Medium Enterprise
SMIG	Legal Interprofessional Minimum Wage (Salaire Minimum Interprofessionnel Garanti)
SOE	State-owned Enterprise
SP	Social Protection
SSN	Social Safety Net
TNS	Professionals, independent workers and non-salaried persons exercising a liberal activity (Professionnels et travailleurs indépendants et personnes non-salariées exerçant une activité libérale, in short Travailleurs non-salariés)
UCB	Universal Child Benefit
VAT	Value-added Tax
WB	World Bank
WBG	World Bank Group

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KINGDOM OF MOROCCO

STRENGTHENING HUMAN CAPITAL FOR A RESILIENT MOROCCO DPF

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**SUMMARY OF PROPOSED FINANCING AND PROGRAM****BASIC INFORMATION**

Project ID	Programmatic	If programmatic, position in series
P176937	Yes	1st in a series of 3

Proposed Development Objective(s)

To improve protection against health risks, human capital losses during childhood and poverty in old age and to improve climate risk management and resilience against catastrophic events.

Organizations

Borrower:	KINGDOM OF MOROCCO
Implementing Agency:	Ministry of Economy and Finance

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Financing	500.00
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DETAILS

International Bank for Reconstruction and Development (IBRD)	500.00
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INSTITUTIONAL DATA**Climate Change and Disaster Screening**

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

Substantial



Results

Indicator Name	Baseline (2021)	Target (2025)
Percentage of the population covered by health insurance	70.2%	90%
Percentage of women and girls of all ages covered by health insurance	70.9%	90%
Percentage of men and boys of all ages covered by health insurance	69.4%	90%
Percentage of TNS in climate-vulnerable sectors covered by health insurance	0%	90%
Share of the poorest quintile of the population covered by the non-contributory pillar of the Mandatory Health Insurance (AMO)	30%	65%
Percentage of births attended by skilled attendants in rural areas	74.2%	80%
Percentage of births attended by skilled attendants in urban areas	96.6%	97%
Percentage of pregnant women in rural areas who completed 4 skilled Antenatal Care (ANC) visits	38.5%	47%
Percentage of pregnant women in urban areas that completed 4 skilled ANC visits	65.9%	70%
Density of health care personnel per 1000 inhabitants in rural areas	0.51	0.6
Density of health care personnel per 1000 inhabitants in urban areas	2.28	2.4
Coverage of the family allowance program / cash transfers among households with children aged 0-17 years	43%	80%
Number of workers enrolled in a pension regime	4.5 million	6 million
Number of female workers enrolled in a pension regime	1.48 million	2.23 million
Number of male workers enrolled in a pension regime	3.02 million	3.77 million
Number of natural risk management units established at the local level	0	90
Number of livestock breeders having received subsidized animal feed	0	600,000



1. INTRODUCTION AND COUNTRY CONTEXT

1. **This Program Document proposes the first Strengthening Human Capital for a Resilient Morocco Development Policy Financing (DPF).** The proposed operation in the amount of EUR 473.3 million (US\$500 million equivalent) is the first in a programmatic series of three operations aimed at improving protection against health risks, human capital losses during childhood and poverty in old age as well as improving climate risk management and resilience against catastrophic events. The reform program supported by this operation seeks to (a) expand mandatory health insurance, including climate-vulnerable populations; (b) improve the targeting and depth of non-contributive health insurance for the poor and vulnerable; (c) overhaul the supply of healthcare, including by increasing the availability of health workers and enabling the adaptation of health services to increased health risks due to climate change; (d) gradually universalize a system of adaptive family allowances (FA) directed at children and designed to enable enhanced resilience to climate shocks; (e) expand pension coverage, including for climate-vulnerable populations; (f) improve the financial sustainability of the pension system and; and (g) improve protection against extreme climate events exacerbated by climate change. The French Development Agency (AFD), the African Development Bank (AfDB) and the European Union (EU) are providing parallel financing to the reform program.

Country Context

2. **The combination of the COVID-19 pandemic and a climate-related agricultural shock pushed the Moroccan economy into a deep recession in 2020 and led to an increase in poverty.** During the second quarter of 2020 (broadly coinciding with the lockdown), real Gross Domestic Product (GDP) contracted by an unprecedented 14.2 percent year-on-year. Although activity began to pick up in the third quarter, real GDP contracted by 6.3 percent in 2020. After several years of declines, the poverty rate (US\$3.2 purchasing power parity line) is estimated to have increased from 5.4 percent in 2019 to 6.6 percent in 2020, an increase that could have been larger, if not for the government's cash transfer programs. According to the High Commission of Planning (Haut-Commissariat au Plan, HCP), during confinement, 74 percent of workers belonging to the bottom quintile experienced a reduction in income against 44 percent in the top quintile. Also, the loss in monthly income was more pronounced in the bottom rather than top quintile: 66 against 32 percent, respectively. The most affected households operate in the urban, informal sector and are engaged in precarious jobs in services and art crafts sectors.¹

3. **The government's response to the crisis has been swift and the ambitious reforms being implemented could set the stage for a stronger and more equitable growth path.** The COVID-19 response included a very successful vaccination campaign as well as the roll-out of the TADAMON emergency cash transfer program which demonstrated the government capacity to identify and reach about two-thirds of households while respecting physical distancing measures and providing support in a presence-less manner. GDP growth accelerated to 7.4 percent in 2021 and poverty is expected to have declined but not to have returned to the 2019 level. The poverty rate (US\$3.2 purchasing power parity line) is expected to have fallen below the 6 percent threshold; a level achieved in 2017. The percentage of "vulnerable" population (US\$5.5 purchasing power parity line) is estimated to have decreased in 2021 to about 25.8 percent from 29.0 in 2020. This decline is likely to continue, but poverty indicators are not expected to return to pre-

¹ World Bank. Morocco Macro and Poverty Outlook, April 2021.



COVID-19 levels until 2023. The successful implementation of the envisaged health and social protection (SP) reform or an increase in net job creation, particularly among the excluded population (women and youth), could accelerate this process.

4. **Before the dual crisis of 2020, Morocco had achieved substantial economic and development gains in the past two decades.** The Kingdom has made significant social and economic progress since 2000, thanks to political stability, large public investments as well as institutional and sector reforms. Accelerated economic growth led to a sharp decline in the national poverty rate (extreme poverty was close to eradicated in 2019, with a national poverty rate of 1.7 percent²), increased life expectancy, greater access to basic public services, and significant public infrastructure development. The 2011 Constitution provided further reform impetus, including measures to make public spending more equal and expand protection of citizens against several risks. Most oil subsidies were phased out between 2012 and 2015, one of the most successful reforms in the Middle East and North Africa (MENA) region that rid the country from a subsidy that benefited the rich more than the poor, saving the government a cost equivalent to 4.5 percent of GDP.³ The fiscal space created by the subsidy reform facilitated the introduction of a health assistance scheme as well as human capital development programs to support the poor and vulnerable.

5. **Despite progress, the Moroccan economy was on a decelerating trend even before the COVID-19 pandemic.** The reforms implemented since the late 1990s contributed to increase the growth rate of the Moroccan economy from an average of 3.6 percent between 1980 and 1999 to 4.8 percent between 2000 and 2009. However, during the past decade average real GDP growth rates fell to 3.5 percent. This weaker growth performance was partly the result of a series of exogenous shocks, including the global financial crisis and the eurozone debt crisis. However, it also points to the apparent structural limitation of the development model adopted since the early 2000, calling for a new reform impetus to deepen the progress achieved since the turn of the century.⁴

6. **Climate change threatens shared prosperity in Morocco and may exacerbate pre-existing vulnerabilities.** Morocco is classified as one of the world's climate hotspots. Average temperatures have increased by almost 1.36°C between the 1970s and the 2010s (0.34°C per decade), and nine of the ten warmest years recorded in the country's history have taken place in the 21st Century. Moreover, precipitation patterns have followed an overall downward trend with more erratic patterns (more frequent and intense droughts as well as severe rain events). Rising temperatures and more erratic rainfall, have reduced river flows and increased evaporation and siltation of storage dams, leading to a 20 percent reduction in overall water resources in the last 30 years, exacerbating the problem of water scarcity generated by non-climate stressors such as population growth in the north, irrigation expansion, as well as urban, industrial and tourism development. This places Morocco in a situation of structural water stress. Low-income, marginalized populations – particularly women, youth, rural populations – lack the resources to adapt to climate-induced shocks such as floods, landslides, droughts, and heat waves, to which Morocco has been and will continue to be highly exposed. Every year, according to the World Bank supported Morocco

² Official rate from HCP, based Enquête Nationale sur les Sources de Revenu (ENSR) 2019. World Bank calculations based on data from the Household Consumption and Expenditures Survey 2013/14, HCP and updated using quintile growth from ENSR 2019 indicates a rate of 3%.

³ (Bousselmane, 2017).

⁴ (Commission Nouveau Modèle de Développement, 2021).



Natural Hazards Probabilistic Risk Analysis (MnhPRA),⁵ losses related to flooding are estimated at over US\$ 450 million (MAD 4 billion). According to MnhPRA, a 100-year return period loss associated with floods (that is, with an annual probability of occurrence of 1 percent) is estimated to be at least MAD 27.5 billion. Poor households suffer the highest economic losses from extreme weather events, whether direct or indirect through adverse health impacts. In addition, those working in sectors requiring them to spend large amounts of time outdoors such as agriculture and the large tourism sector are particularly vulnerable to impacts of heat and sun exposure as well as respiratory health risks due to dust caused by climate-related events. Public health impacts include a 10-fold increase in heat-related mortality, a higher incidence of skin cancer, respiratory illness, and cardiovascular disease, an increase in diarrheal deaths linked to climate change, an expansion of dengue fever transmission vectors, and declines in outdoor labor productivity.

7. Food prices and availability in 2021-22 have been severely affected by the combination of an important delay of precipitations during the beginning of the agricultural campaign and the effects of the war in Ukraine. Morocco is the third largest African consumer of wheat, after Egypt and Algeria, with more than 10 million tons of cereals per year. The country will be faced with a reduction in national cereal production that could reach 70 to 80 percent due to the severity of this drought and will need to increase the level of imports in a context of high international prices. However, the weight of grain imports from Russia and Ukraine is much lower than for several other countries in the region, which reduces the likelihood of supply disruptions. The most significant impact in the short term is then on inflation and on public finances, as rising energy and cereal prices in world markets could further increase the budget deficit given the cost of the government's support to consumer prices for butane gas, and to a lesser extent for wheat, sugar, gas and barley subsidies for breeders.

8. The social reform agenda that began after the approval of the New Constitution in 2011 remains unfinished. In addition to economic deceleration, job creation remains insufficient resulting in a large inactive population, and the labor force participation rate is low (in 2019, 54 percent of the working-age population was classified as inactive). Pockets of poverty persist across the country and territorial disparities reflect deep social and economic inequalities. Despite improvements in health outcomes, inequalities in access and outcomes remain and Moroccan citizens are dissatisfied with and distrustful of the health system. For example, the maternal mortality ratio has declined significantly and is at a comparable rate to other middle-income countries. However, urban and rural discrepancies have increased: in 1992, rural maternal mortality was 1.27 times that of the urban maternal mortality rate; in 2017, rural maternal mortality was 2.47 times that of the urban maternal mortality rate. In addition, Morocco is undergoing an epidemiological transition from a disease burden dominated by communicable diseases to one dominated by noncommunicable diseases (NCDs). In some rural and isolated areas, communicable diseases are still dominant, so Morocco now has a mixed profile. And while the introduction of safety-net programs has yielded positive results, the SP system faces important challenges: coverage of the poor is generally low; the adequacy of existing flagship programs is limited; and the system itself is fragmented with many overlaps and redundancies.

9. The female labor force participation rate is low, and Morocco is one of the few countries in the MENA region where it is declining. While the male labor force participation rate is 71 percent, the female

⁵ "Morocco natural hazards Probabilistic Risk Analysis" in: World Bank, 2013. Building Morocco's Resilience: Inputs for an Integrated Risk Management Strategy. Washington, DC.



labor force participation rate is 21 percent. There are important differences between urban and rural areas. Women in Morocco's cities have especially high levels of inactivity – over 80 percent are not in the labor force. While the female labor force participation rate is somewhat higher in rural areas (25.2 percent vs 18.7 percent in urban areas), it has been declining at a higher rate. In urban areas, labor force participation of women is closely tied to education and family status. Although women working in cities tend to be relatively well educated, the majority (55 percent) are employed in informal jobs. Even though the number of working-age women has increased in the last two decades, there were over 200,000 more women working in 2009 than in 2019. The low level of female participation has important implications for the agency and economic autonomy of women and for the country's economic potential. The labor market gender gaps also translate into unequal outcomes of the pension system. Given low participation rates and career discontinuity due to demands of family and social norms, women's contributions to pension schemes are lower resulting in lower benefits after retirement.⁶

Sectoral Context

10. **Despite Morocco's significant improvements in human capital outcomes, more needs to be done, particularly for children from the poorest regions and households.** Morocco was one of the first countries in the MENA region to join the World Bank Human Capital Project, and now has planned a series of ambitious reforms to advance education and health outcomes. The establishment of the National Human Development Initiative (INDH) in 2005 and its focus on reducing poverty and vulnerability, especially in rural areas, has had a significant impact on increasing access to government service delivery, building hundreds of healthcare centers, maternal health centers and education centers for youth. More needs to be done to improve the quality of services and to address demand and behavioral barriers that hinder human capital development. The Human Capital Index (HCI) shows that a child born in Morocco in 2020 is expected to achieve only 50 percent of his/her productive potential by adulthood, with climate change amplifying existing fragility (HCI for girls and boys are 0.52 and 0.49, respectively). This is lower than the MENA average of 57 percent. Weak learning outcomes are the key factor that drags Morocco's HCI down: factoring in what children actually learn, expected years of school is only 6.3 years and the learning poverty indicator shows that 66 percent of 10-year-olds cannot read or understand a simple text by the end of primary school. This learning poverty starts early in a child's life – before they enter primary school. Few children engage with parents in learning activities, and this is especially the case among poorer households. Moreover, a quarter of children aged 4-5 years old do not attend preschool at all, with lower rates among girls and in rural areas. Children, especially in rural areas and in poorer households still face challenges of malnutrition and stunting which limits their cognitive ability and their productivity during adulthood. In addition, children, especially poorer children living in high climate change impact areas, are more vulnerable to the consequences of health-related conditions, which can further compromise human capital accumulation.

11. **The percentage of the population, particularly children, with access to SP is low.** Morocco's main SP support, besides universal price subsidies, is provided primarily to formal employees – be it in the public or the private sector. As such, these contributory schemes automatically exclude a large share of households, typically labor that derive their incomes in the informal sector, and many of them in agriculture. The existing contributory FA benefit that is tied to formal employment is estimated to cover 2.5 million children, or 22 percent of all children, in the country. It is highly regressive, since the benefits are linked to the employment

⁶ World Bank. Morocco Jobs Landscape



status of heads of households, therefore only children of formal salaried workers who tend to earn more than non-salaried workers, are currently covered. The non-contributory Tayssir program, which aims to support poor and vulnerable families conditioned to school attendance, covers only 21 percent of school-attending children. While it is less regressive than the contributory FA and uses a sophisticated targeting methodology that combines community targeting and a proxy means test formula to select beneficiaries, it still covers only 29 percent of children from the poorest 40 percent of the population. Thus, even if we ignore a potential overlap, the existing contributory FA and Tayssir programs cover only 34 percent of children from the poorest 40 percent of households and roughly 43 percent of all children in the country (Table 1). This raises crucial questions of equity.

Table 1: Coverage of SP Programs by Consumption Quintiles, 2017

Consumption Quintile	Population	Children 0-17	FA - Contributive Social insurance Beneficiaries	Tayssir Beneficiaries ⁷	Coverage of Children 0-17	Coverage of Total Population
	A	B	C	D	(C+D)/B	(C+D)/A
	(Number)	(Number)	(Number)	(Number)	(%)	(%)
Q 1	6,970,063	2,617,876	94,088	838,228	36	13.4
Q 2	6,970,499	2,443,030	236,991	631,151	35	12.5
Q 3	6,970,422	2,234,562	442,622	497,469	42	13.5
Q 4	6,970,989	2,131,360	662,247	317,148	46	14.0
Q 5	6,969,950	1,822,969	1,073,331	114,327	65	17.0
Total	34,851,924	11,249,797	2,509,339	2,398,327	44	14.1

Source: World Bank Group (2021).

Note: Estimations based on 2014 household/labor force survey and the 2017 Observatoire national du développement humain panel household survey.

12. Over the past decades, Morocco has put in place essential programs to deliver critical services to families with young children. This has resulted in dramatic progress in some key enablers of human development outcomes, including a rapid expansion of basic education and health services. It also led to significant advances in deploying basic infrastructure that contributes to improving human capital outcomes, such as access to water, electricity, and road infrastructure. While coverage has improved, there remain significant weaknesses in terms of quality of delivery and access by certain groups to many of these services. The maternal mortality ratio in rural areas is more than two times higher than in urban areas (111 versus 45 deaths per 100,000 live births) and the under-5 child mortality is 37 percent higher in rural areas compared to urban areas (26 versus 19 deaths per 1,000 live births). These inequities in maternal and child health outcomes reflect inequities in access to and in quality of healthcare services. Especially rural women continue

⁷ The estimated number of beneficiaries of the Tayssir program in the poorest quintiles is likely overestimated. This estimate is based on the targeting performance of the RAMED program while the Tayssir program covers RAMED beneficiaries and also uses geographic targeting which has a lower performance.



to face obstacles in accessing health and education services. For instance, among childbirths occurring outside of a health facility, 28.4 percent are due to lack of accessibility.

13. The progress Morocco has made in improving key health outcomes has not fully translated into improved citizen satisfaction with and trust in the health system. In the past decade, maternal and infant mortality, as well as coverage of key maternal and child health interventions have all improved (for example, maternal mortality went down from near 120 per 100,000 in 2007 to 70 per 100,000 in 2017); and the government has also prioritized the diagnosis and control of NCDs. However, these improvements have not translated into increased citizen satisfaction as seen from recent surveys. Data from the 2018 Arab Barometer shows that Moroccans have the lowest rates of satisfaction with the health system in MENA, at 18 percent, lower than Lebanon (26 percent) and Algeria (32 percent).

14. Morocco's SP system remains costly and fragmented, but good progress has been made towards its modernization. Considerable efforts have been made to expand and improve the SP system to reduce poverty and vulnerability and support the human capital development of children. Several programs targeting poor and vulnerable households have been implemented since 2008/2009 and expanded in 2018. However, half of Morocco's significant spending on social safety nets (SSN) - equivalent to 3 percent of GDP compared to an average of 1.8 percent among other middle-income countries- finances consumer subsidies for liquified petroleum gas (LPG), sugar, and flour. In addition, the system is fragmented, with over 40 programs of modest adequacy and significant coverage gaps. To address these issues, Morocco, with World Bank technical and financing support, has started to put in place the building blocks of a modern (SP) system, including the creation of the National Population Registry (Registre National de la Population, RNP) and the Unified Social Registry (Registre Social Unifié, RSU) that will be managed by a new National Registries Agency (Agence Nationale des Registres, ANR) and represent the foundations of a better targeted and more efficient SSN. The strength of the emerging system became evident with the large emergency cash transfer programs (TADAMON operation) the Government implemented in a very short period using existing infrastructure (such as the existing Medical Assistance Scheme - Régime d'Assistance Médicale, RAMED program databases), digital grievance redress mechanism process and call centers to support nearly 5.5 million households with cash transfers to mitigate the COVID-19 crisis. This has also demonstrated that the dynamic and adaptable targeting mechanism powered by the RNP/RSU ensures the inclusion of the most vulnerable, including climate-vulnerable populations, as climate change amplifies existing fragility and trends.

15. Morocco has made significant progress in expanding health insurance coverage over the past two decades. Since the adoption of the basic health coverage law (law 65-00), Morocco has made significant progress in scaling up financial protection against health risks. The Mandatory Health Insurance regime (Assurance Maladie Obligatoire, AMO) was launched in 2005, gradually expanding coverage to salaried workers in both the public and private sectors. Although Law 98-15 stipulating enrollment for professionals, independent workers and non-salaried persons exercising a liberal activity (TNS)⁸ was enacted in 2017, the implementation decrees were only adopted in 2020-2021 as part of the current reform. Furthermore, Law 98-15 mandated AMO coverage only for those TNS who belong to a professional category and are registered with their respective professional association, leaving out around one million workers and entrepreneurs who do not belong to a specific professional category. AMO is currently managed by two different public

⁸ The acronym is for « Travailleurs non-salariés » although the full form in the legal texts is « Professionnels et travailleurs indépendants et personnes non-salariées exerçant une activité libérale »



institutions. The National Social Security Fund (Caisse Nationale de Sécurité Sociale, CNSS) manages coverage for private sector workers and the Moroccan Health Insurance Fund (Caisse Marocaine d'Assurance Maladie, CMAM)⁹ covers public sector workers. In October of 2021, tutelage of both CMAM and CNSS was moved from the Ministry of Labor to the Ministry of Economy and Finance (MEF). The new constitution adopted in 2011 included provisions for right to equal access to health services which were reflected in the generalization of the RAMED. Managed by the Ministry of Health and Social Protection (MHSP), the National Agency of Health Insurance (ANAM), the Ministry of Interior (MI), and the MEF, RAMED extends health insurance coverage free of charge to poor and vulnerable households. Through these multiple schemes, managed by different public institutions, almost 70 percent of Moroccans are covered by health insurance. However, households still finance 60 percent of all health expenditures in Morocco, mostly through Out-of-Pocket (OoP) spending at the point of care.

16. **There are also significant gender gaps in access to health services.** According to a joint Morocco HCP and UN Women report, for common illnesses, 62.1 percent of male-headed households had access to medical care, compared to 52.2 percent of their female-headed counterparts. For reproductive health services, the access rate was 66.8 percent for male-headed households and 59.2 percent for female-headed households.¹⁰ Furthermore, only 38.5 percent of rural females have had access to four or more ANC visits during their pregnancy compared to 65.9 percent of females based in urban areas.¹¹

17. **Morocco has an inequitable, inefficient, and financially unsustainable pension system.** With a potential to cover 11.5 million people (labor force in 2020), of whom only 4.5 million people are actively contributing to a pension scheme, while around 7 million people in the labor market are not covered by any of the schemes. On the other hand, current beneficiaries (old-age, survivors, and disabled) represent only around 3 percent of the total population in the country but their total pension payments represent already more than 4 percent of GDP. There are currently more than 3 million people above the age of 60; only around 10 percent of whom receive a pension. Therefore, a large proportion of the elderly population in Morocco still relies on their family, informal care or state transfers. With falling birth rates, rising life expectancy, urbanization, growing climate vulnerability, migration, and changes in family structures, the reach and scope of these informal arrangements have been weakened during recent years and are expected to weaken even further in the future. Law 99-15, adopted in 2017, created a pension regime for TNS but the implementation decrees were only adopted in 2020-2021 as part of the current reform.

18. **A large fraction of Morocco's agriculture labor force is engaged in non-salaried informal work with no or limited access to healthcare and other social security benefits.** The agriculture sector accounts for approximately 15 percent of Morocco's GDP, and as of 2019, the agriculture sector represented 69 percent of rural employment and, at the national level, 39 percent of jobs.¹² The rural population, which accounts for 36 percent of the total population¹³, often struggles to pay for health insurance coverage, a situation which is expected to be further exacerbated by impacts of climate change and reduced agricultural productivity.

⁹ CMAM was previously known as National Fund for Social Welfare Organizations (Caisse nationale des organismes de prévoyance sociale, CNOPS), a name that is still widely used.

¹⁰ Gender analysis of the impact of the coronavirus on households' economic, social and psychological situation, 2021.

¹¹ UNESCWA. Arab Gender Gap Report, 2020.

¹² World Bank Group (2020). Morocco – Green Generation Program-for-Results Project (English). URL:

<http://documents.worldbank.org/curated/en/245801608346893390/Morocco-Green-Generation-Program-for-Results-Project>

¹³ World Bank, 2020. URL: <https://data.worldbank.org/indicator/SP.RUR.TOTL.ZS?locations=MA>



Rising temperatures, increased aridity and drought conditions will result in shortened growing seasons, reduced yields, and lower productivity, which in turn will impact rural livelihoods and the population's ability to pay for health coverage and will increase the need for pensions and targeted FAs. Morocco's socio-economic development challenge is intensified by agriculture's extreme vulnerability to climate change.

19. **Over the last ten years, the Government of Morocco (GOM) has developed a strong, cross-sectoral disaster risk management (DRM) and climate change adaptation (CCA) policy and programmatic framework**, supported by the WB Integrated DRM and Resilience Program (P144539) and the Morocco Cat DDO (P168580). Key achievements include: (a) a shift from a post-disaster emergency financing approach to an ex-ante financing mechanism prioritizing structural and non-structural disaster risk reduction investments through the Fund to Fight the Effects of Natural Disasters (*Fonds de Lutte Contre les Effets des Catastrophes Naturelles*, FLCN); (b) the adoption of a catastrophic risk coverage scheme (Law 110-14) in 2016 that set up a dual system of private insurance as well as basic compensation for uninsured people and households through the Solidarity Fund against Catastrophic Events (*Fonds de Solidarité contre les Événements Catastrophiques*, FSEC); (c) the creation of a dedicated DRM Directorate within the MI in 2020; and (d) the adoption of Morocco's first national DRM strategy (2021-2031) in February 2021, which demonstrates the government's sustained commitment to strengthening disaster and climate resilience.

20. **Agriculture insurance does not adequately mitigate the effects of climatic shocks due to its limited and unequal penetration.** While Morocco has made progress in expanding agriculture insurance coverage, the insurance penetration ratio is still low with only 17 percent of agricultural areas insured against climate risks (drought, hail, frost, rising temperatures, etc.) and a limited access for small farmers (below 3 percent). This agricultural insurance system is largely subsidized by the state to allow farmers to purchase crop insurance and cover themselves against climate risks.

Strategic Context

21. **The economic and social challenges Morocco faces have been acknowledged at the highest level, leading to an ambitious vision to address them.** King Mohammed VI established the Special Commission on the Development Model (Commission Spéciale sur le Modèle de Développement, CSMD) in November 2019, to “review the state of play of the of the Kingdom's development and to sketch the guidelines of a new model for development, to allow our country to embrace the future with serenity and self-trust”¹⁴. In the meantime, the COVID-19 crisis prompted the monarch to announce a comprehensive reform of the SP system on July 29, 2020, during his annual speech on the anniversary of his accession to the throne: “Even though this crisis has shown that social bonds in our country are solid, and that solidarity between Moroccans is a fact of life, it has also revealed a number of shortcomings, especially in the social field. Among them are the size of the informal sector, the inadequacy of social safety nets – especially for the most vulnerable groups – and the exposure of a number of sectors to external fluctuations. I therefore believe the time has come to launch a decisive process for the expansion of social welfare coverage to all Moroccans within the next five years. This project needs to be implemented gradually, as of January 2021, using a well-thought-out plan, starting with compulsory health coverage FAs, then moving on to pension and unemployment benefits. Such a plan requires tangible reform of current social protection systems and programs in order to increase their direct impact on beneficiaries, especially through the rolling-out of the national social register. Universal access to social

¹⁴ CSMD, New Development Model report, April 2021.



protection coverage should serve as a lever for the integration of the informal sector into the nation's economic fabric. Therefore, I call on the Government to complete the development, together with the social actors concerned, of a comprehensive, practical approach that includes the timetable, legal framework and financing options needed to achieve effective universal social protection". In April 2021, these royal orientations were translated by the GOM into the SP Framework Law (Loi Cadre 09-21) which is one of the prior actions supported by the proposed DPF and is described in detail later in the document.

22. **On May 25, 2021, the CSMD presented its vision for an ambitious and comprehensive New Development Model (Nouveau Modèle de Développement, NDM) which has a time horizon of 2035.** The NDM report identified intangible and practical obstacles that hinder the country's development. To address them, the NDM proposes a new development path for the country, which would help it realize its full development potential with four main axes of transformation: (i) a prosperous Morocco with a dynamic and diversified economy, creating added value and jobs; (ii) a qualified Morocco: with strengthened human capital, preparing the country better for the future; (iii) an inclusive Morocco, offering opportunities for inclusion for all; and (iv) a sustainable Morocco based on strengthened social ties and resilient territories that are the anchors of its development. The report also includes detailed sectoral notes, as well as several concrete projects, including the project of achieving universal health coverage that is very closely aligned with Law 09-21.

23. **The Government elected in October 2021 incorporated the royal orientations of July 2020 and the recommendations of the NDM in its Government Program 2021-2026.** During the presentation of the Government Program 2021-2026 to Parliament, the Head of Government announced that the most immediate priority would be to strengthen the foundation of the "social state". The reform program includes substantive changes to the demand and supply side of the health system. On the demand side, it aims to extend health insurance coverage to 11 million people who are uninsured today, increasing the health coverage from 70 percent to universal coverage. On the supply side, it proposes to build and upgrade health infrastructure, create a family and community medicine system, establish a new health service (separate from the general civil service), deconcentrate service delivery to the regions and territories, and implement an integrated health information system. It also includes the transformation of current SP programs into an integrated system of FA aimed at the dual purpose of alleviating poverty and vulnerability, while building the human capital of the children it intends to reach. Finally, the reform program proposes to improve the financial sustainability of the pension system and extend pension coverage to TNS.

24. **Climate change mitigation and adaptation represent a high strategic priority for Morocco.** The revised Nationally Determined Contribution (NDC) that was disclosed in June 2021 strengthened the country's adaptation commitments, with a focus on health, agriculture and water among other prioritized sectors. In addition, the National Adaptation Plan (2020-2030) sets a roadmap with priority areas that include the reduction of vulnerabilities and physical risks, as well as the reinforcement of the economic sectors that are more likely to be impacted by climate change. In 2021, the government adopted a National Disaster Risk Management Strategy (2021-2031), which emphasizes the need to continue promoting ex-ante risk reduction and preparedness to complement the ex-post response to shocks. In addition, Morocco initiated the preparation of a long-term low emission development strategy for 2050. Finally, the recently adopted Green Generation Strategy 2020-2030 (GGS) sets the objective of increasing the coverage of agricultural insurance, particularly for small farmers, which currently benefit from low levels of protection despite being disproportionately vulnerable to the effects of droughts.



2. MACROECONOMIC POLICY FRAMEWORK

25. **The Moroccan economy is gradually rebounding after the COVID-induced recession in 2020.** Real GDP fell by 6.3 percent in 2020, the largest contraction on record. After the gradual lifting of restrictions, economic activity began to pick up in late 2020 and has accelerated further in 2021, supported by a successful vaccination campaign, an extraordinary agricultural season, solid manufacturing and agro-industrial export, supportive countercyclical fiscal and monetary measures and unprecedented levels of workers' remittances. Despite these positive trends, some important sectors of the Moroccan economy, such as tourism, remain heavily affected by the shock and GDP has yet to return to pre-pandemic trends. The outlook is favorable but remains uncertain given the risks still posed by the pandemic, the impact of the war in Ukraine on global food and energy prices, heightened macro-financial vulnerabilities and the expected slowdown of the global economy.

26. **Morocco confronted the pandemic in a stronger position than many other emerging market economies.** It entered this crisis with sound macroeconomic fundamentals, a sustainable fiscal and external path, strong economic policy institutions, and a firm commitment to maintaining macroeconomic and debt sustainability. Morocco also has strong external buffers and close relationships with multilateral institutions, including the World Bank Group (WBG) and the International Monetary Fund (IMF). After the downgrades by Fitch and Standard and Poor's, none of the three major rating agencies classify Morocco as investment grade. However, the Emerging Markets Bond Index (EMBI) spread, and the price of credit default swaps have remained low, and the government has maintained good access to international financial markets, as evidenced by two successful bond issuances in 2020 (a EUR1 billion issue in September 2021 and a US\$3 billion issue in December 2021).

2.1. RECENT ECONOMIC DEVELOPMENTS

Growth, Inflation, and Inclusion

27. **The COVID-19 pandemic and a climatic shock triggered an abrupt recession in 2020, the first in more than two decades.** During the second quarter of 2020, which broadly coincides with stringent COVID-19 restrictions, real GDP fell by an unprecedented 14.2 percent year-on-year. Despite the partial recovery that emerged as restrictions began to be relaxed in Morocco and elsewhere, real GDP contracted by 6.3 percent over the entire course of the year. The recovery that began toward the end of 2020 was led by external demand, with a solid rebound of manufacturing exports, and to a lesser extent by private consumption. Instead, gross capital formation was less dynamic, only partially compensated by public investment. Over the course of the entire year, the services sector was more severely affected (-7.1 percent), followed by the primary and secondary sectors (-6.9 and -3.8 percent, respectively). Private consumption and gross capital formation posted the largest contractions (-4.1 and -9 percent, respectively); net exports of goods and services contracted by 3.8 percent and public consumption increased by 1.7 percent.



28. **The recovery gathered pace in 2021, partly due to an extraordinary agricultural campaign.** Overall, real GDP posted 7.4 percent growth in 2021, sustained by the rebound of the agricultural sector (+19 percent) after abundant rainfall put an end to the 2020 drought and solid industrial output (+7.7 percent) while the performance of the services sector remained weaker (+4.8 percent).¹⁵

29. **The GOM's swift response to the crisis has contributed to this ongoing recovery.** The key elements of Morocco's recovery plan were outlined in the National Pact for Economic Recovery and Employment (*Pacte National pour la Relance Économique et l'Emploi*), signed by the government, the General Confederation of Moroccan Enterprises, and the Banking Association in early August 2020. The strategy set four major medium-term objectives, to be jointly pursued by the public and private sectors: accelerating the recovery, safeguarding jobs, fostering the formalization of the economy, and improving governance. To meet these objectives, the authorities also announced a recovery program worth MAD 120 billion (11 percent of GDP) through the issuance of state guarantees to corporate credits (6.9 percent of GDP) and the establishment of the Mohammed VI Investment Fund (4.1 percent of GDP). The new fund is expected to channel equity and quasi-equity, following a fund of funds approach, to struggling micro, small and medium enterprises (MSMEs) in need of restructuring, high-potential Small and Medium Enterprises (SMEs) looking for growth capital, and public-private partnership (PPP) infrastructure projects with high commercial and socioeconomic returns.

30. **Inflation remained contained throughout most of 2021, but price pressures began to emerge toward the end of the year and are intensifying in 2022.** Amid weak economic activity, headline inflation averaged just 0.7 percent in 2020, and remained stable until mid-2021. In the third quarter, however, inflation began to increase, and has averaged 1.4 percent over the entire course of the year. In 2022, price pressures continued to edge upward, and the consumer price index reached 5.3 percent (year-on-year) in March 2022, its highest rate since 2010. Food prices inflation contributed the most, with the food Consumer Price Index (CPI) increasing by 9.1 percent (year-on-year), and the non-food CPI increasing by 2.8 percent (year-on-year). These emerging price pressures are largely imported, resulting from an increase in global energy and food prices, in part due to the war in Ukraine. They are also a result of the third drought in four years, evidencing the impact of increasingly erratic rainfall in the context of climate change.

31. **In 2021, Morocco's labor market also staged a strong recovery.** In 2021, the Moroccan economy added 230 thousand jobs (1.9 percent of total jobs at the end of 2020), recovering 53 percent of the jobs lost in 2020. These oscillations have been particularly pronounced in rural areas, where 295 thousand jobs were destroyed in 2020 (against 137 thousand jobs in urban areas), while 130 thousand were created in 2021 (100 thousand in urban areas). The main factor behind these large swings in rural employment is the succession of a severe drought in 2019-2020 with a good agricultural campaign in 2020-2021. Although no data are available for 2022, the new drought is likely to cause new job losses, illustrating the vulnerability of rural workers to climatic shocks.

¹⁵ These growth rates are computed based on the real GDP quarterly levels estimated by HCP for 2021. If expressed as the quarterly average, real GDP growth would have reached 7.6 percent (+18.9 percent for agriculture; +8.5 percent for manufacturing)



Table 2. Morocco Selected Economic Indicators, FY19–FY25

	Estimated		Projected				
	2019	2020	2021	2022	2023	2024	2025
Real Economy	(Annual percent change, unless otherwise indicated)						
Real GDP	2.6	-6.3	7.4	1.1	4.3	3.6	3.8
Agricultural GDP	-5.8	-8.6	18.9	-17.3	16.5	4.9	4.7
Non-Agricultural GDP	3.7	-6.0	6.0	3.2	3.3	3.5	3.7
Industry	3.6	-3.8	7.7	3.3	3.4	3.5	3.6
Services	4.0	-7.1	4.8	3.6	3.6	3.7	3.9
Private Consumption	1.9	-4.1	6.7	2.4	4.4	3.9	3.7
Government Consumption	4.7	1.7	5.4	2.7	2.6	2.5	2.4
Gross Fixed Capital Investment	1.0	-9.0	9.8	5.7	5.7	4.7	4.7
Exports, Goods and Services	6.2	-14.3	4.9	11.2	11.7	10.4	13.9
Imports, Goods and Services	3.4	-12.2	9.8	13.2	9.7	9.0	13.3
Unemployment Rate (ILO definition, in percent)	9.2	11.9	12.3	...	...	...	...
Inflation (average CPI, in percent)	0.2	0.7	1.4	4.0	1.8	1.7	1.9
Fiscal accounts	(in percent of GDP)						
Expenditures	29.2	36.1	31.3	32.0	31.6	31.7	32.0
Revenues, including all grants	25.6	28.6	25.3	25.7	25.8	26.0	26.5
Budget Balance	-3.6	-7.6	-6.0	-6.2	-5.8	-5.7	-5.5
Central Government Debt	64.8	76.4	74.2	78.2	79.5	79.7	79.8
Selected Monetary Accounts	(Annual percent change, unless otherwise indicated)						
Broad Money	3.8	8.5	5.2	...	...	...	...
Interest (key policy interest rate)	2.3	1.5	1.5	...	...	...	...
Balance of Payments	(in percent of GDP, unless otherwise indicated)						
Current Account Balance	-3.7	-1.2	-2.4	-5.5	-4.0	-3.7	-3.4
Imports, Goods and Services	-45.1	-40.3	-45.1	-49.1	-46.8	-46.8	-46.9
Exports, Goods and Services	36.7	32.6	35.4	37.2	36.4	36.9	37.3
Foreign Direct Investment	0.5	1.1	1.3	1.5	1.5	1.5	1.5
Official Reserves (US\$ billions, eop)	26.4	36	35.6	35	35.7	35.3	36.1
In months of imports	6.9	7.1	6.1	6.3	6.5	6.7	6.9
Exchange Rate (average)	9.6	9.5	...	...	...	...	...
Memo Items							
Nominal GDP (in MAD billion)	1,153	1,090	1,193	1,254	1,331	1,403	1,484

Source: Moroccan authorities and World Bank staff estimates.

Note: CPI = Consumer Price Index; ILO = International Labor Organization; ... = Not available.



Fiscal Policy and Public Finances

32. **The budget deficit increased substantially following the pandemic outbreak.** In the aftermath of the global financial crisis and European debt crisis, Morocco initiated a process of fiscal consolidation that led to a reduction of the fiscal deficit from 7.2 percent of GDP in 2012 to 3.6 percent in 2019. This consolidation effort was understandably suspended with the onset of the pandemic, to allow for additional expenditures, driven mainly by budgetary support for the COVID-19 fund (to which the GOM contributed 1 percent of GDP) and to accommodate the impact of the collapse in economic activity on tax revenue collection (-6.8 percent year-on-year in 2020). As a result, the overall budget deficit rose to 7.6 percent of GDP in 2020, and central government debt increased from 64.8 percent in 2019 to 76.4 percent of GDP in 2020.

33. **Although the government maintained its spending stimulus in 2021, the deficit declined based on a solid recovery of tax revenues.** The overall fiscal deficit has declined by 13.9 percent year-on-year in 2021 to 6 percent of GDP. This decline was due to a strong rebound in revenue collection, which increased by 11.6 percent year-on-year (2.3 percent higher than their level for 2019). Tax revenues recovered markedly (by 7.8 percent year-on-year, still 0.8 percent below 2019) despite the delayed effect of the 2020 recession on corporate income tax (CIT) (-8.8 percent year-on-year). Personal income tax recovered from the effect of tax relief measures in 2020 (+10 percent year-on-year), while the gradual recovery in domestic demand led to a rebound in domestic value-added tax (VAT) (+3.8 percent) and excise taxes (+13 percent), as well as a solid growth in imports duties (+25.3 percent) and VAT on imports (+24.6 percent). On the other hand, public spending continued to increase, underpinned by an increase in the wage bill (+5.2 percent year-on-year) following the rollout of the social dialogue agreement that was reached in April 2019. Meanwhile, rising subsidies (+61.4 percent year-on-year) reflect the impact of higher oil prices on the LPG subsidy.

34. **Recent shocks are exerting additional pressures on public finances.** The government has announced an emergency plan to address the 2022 drought, part of which will require additional public spending. In addition, rising commodity prices will lead to higher flour and butane subsidies, which have already increased by 81.5 percent year-on-year in January and February 2022. Despite these additional expenditures, the deficit declined by 16.3 percent during the first two months of the year owing to a continued rise of tax revenues (+9.6 percent year-on-year).

35. **Fiscal risks associated with loan guarantees have intensified and will require a robust management framework.** In addition to the guarantees that were introduced during the lockdown to keep credit flowing and support firms' cash position (Damane Oxygene), the recovery plan envisaged an additional mobilization of MAD 75 billion (6.9 percent of GDP) in guaranteed credit. The recovery program for micro-enterprises (Relance TPE) supports firms with annual turnover below MAD 10 million, and the "Damane Relance" program supports larger companies (with different ceilings depending on the size of the firm).¹⁶ Although these guarantees may have been crucial to prevent the wave of corporate bankruptcies that the COVID-19 crisis could otherwise have triggered, they are generating additional contingent liabilities that may materialize in the medium term, especially if the recovery is protracted. The total debt of state-owned

¹⁶ Firms are considered eligible if they are: (a) a Moroccan entity that produces goods or services, (b) have non-performing loans, (c) are not in receivership or judicial liquidation, (d) have a debt/ gross operating surplus ratio of less than 7 (except for industrial companies), and (e) have not distributed dividends since the beginning of the pandemic.



enterprises (SOEs) stood at 23.2 percent of GDP in 2021. Almost 60 percent of that amount is external borrowings or 14.0 percent of GDP at end 2021). However, the exposure of this portfolio to currency risk remains moderate given that its structure by currency (56 percent in Eur / 32 percent in US\$) is close to that of the dirham basket.

Table 3. Key Fiscal Indicators (in percent of GDP), FY19–FY25

	Estimated		Projected				
	2019	2020	2021	2022	2023	2024	2025
Total Revenues	25.6	28.6	25.3	25.7	25.8	26.0	26.5
Tax Revenues	21.4	21.2	20.5	20.9	21.0	21.2	21.5
Grants	0.2	0.5	0.1	0.2	0.2	0.2	0.2
Other Revenues (incl. privatization proceeds)	3.9	6.9	4.6	4.6	4.6	4.6	4.8
Total Expenditures	29.2	36.1	31.3	32.0	31.6	31.7	32.0
Compensation of Employees	11.1	12.3	11.8	11.8	11.2	10.9	10.8
Use of Goods and Services and Grants	7.0	7.5	7.4	7.1	6.8	6.8	6.8
Subsidies	1.4	1.2	1.8	2.4	1.8	1.6	1.3
Interest Payments	2.3	2.5	2.3	2.2	2.2	2.1	2.1
Budget Outlays for the Health and SP Reform	0.0	0.0	0.0	0.7	1.4	1.8	1.9
Other Expenses (incl. capital expenditures)	7.5	12.6	8.0	7.7	8.2	8.3	9.1
Overall Balance	-3.6	-7.6	-6.0	-6.2	-5.8	-5.7	-5.5
Primary Balance	-1.3	-5.1	-3.7	-4.0	-3.7	-3.6	-3.4
Arrears	-0.4	1.4	...	...	...	...	...
Government Financing	4.0	6.2	6.0	6.2	5.8	5.7	5.5
External (net)	1.5	3.9	0.5	1.4	0.9	0.9	0.9
Domestic (net)	2.5	2.3	5.4	4.8	4.9	4.9	4.6
Central Government Debt Stock	64.8	76.4	74.2	78.2	79.5	79.7	79.8
External (net)	14.0	18.3	17.1	19.0	18.9	17.5	16.5
Domestic (net)	50.8	58.1	57.1	59.1	60.6	62.2	63.2
Memorandum Items:							
SOEs' & Public Establishments' Debt Stock	25.4	27.2	...	...	...	...	...
of which: external debt	15.0	15.6	14.0	...	...	...	...

Source: Moroccan authorities and World Bank staff estimates.

Note: External and domestic debt is defined on the basis of a classification by residence criterion for the period 2019–2021.

36. **The authorities are instituting key governance reforms that are expected to strengthen the management of fiscal risks.** The creation of the *Agence Nationale de Gestion Stratégique des Participations de l'État* is expected to improve the financial management of SOEs and thus reduce the risk of defaults on



guaranteed loans. With regards to credit guarantees to private sector firms, the ongoing reform of TAMWILCOM (ex Caisse Centrale de Garantie - CCG) will ensure better decision-making on the issuance and management of guarantees. First, the government has transformed CCG into a public limited company (TAMWILCOM) to ensure greater independence and improved governance. Second, all guarantees to the private sector will be placed on TAMWILCOM's balance sheet rather than the government's balance sheet, which will incentivize risk-based decision-making regarding the issuance and management of guarantees. Third, the TAMWILCOM reform assigns four layers of risk coverage for any losses generated from the guarantees: i) annual transfers from the Treasury, which will define/limit the number of guarantees that can be provided by CCG; ii) a security fund to be created by TAMWILCOM; iii) equity capital of TAMWILCOM; and iv) as a last resort, the state guarantee. Bank Al-Maghrib is also designing a prudential framework that will apply to TAMWILCOM. Although some level of risk is unavoidable, the authorities are taking strong measures to mitigate it.

37. The GOM is improving the coverage and transparency of debt statistics. With technical assistance from the IMF, the government is now computing general government debt on a consolidated basis, which was published in the debt report associated with the 2021 budget law. The process involves netting out intragovernmental claims (especially public debt held by public pension funds) for 2017–19. According to the debt report, Morocco's consolidated debt at the end of 2020 stood at 69.8 percent of GDP (56.8 percent of GDP in 2019). These general government figures are almost 8 percentage points lower than the central government debt-to-GDP ratio.

Current Account and External Position

38. Morocco's current account deficit improved in 2020 as imports contracted more than exports following the COVID-19 shock. Plummeting external demand during the first wave of the pandemic led to a collapse in exports (-25 percent year-on-year in Q2-2020). However, manufacturing exports recovered quickly during the second half of the year, limiting the annual contraction of merchandise exports to 7.6 percent. In contrast, services exports remained depressed all through the year, contracting by as much as 29.5 percent in 2020, primarily due to the collapse in tourism revenues (-53.7 percent year-on-year). The contraction in the value of imports was even larger than that of exports in absolute terms (-14 percent for goods and -27.5 percent for services). Together with the resilience of remittances (+ 4.9 percent), this eased the impact of the shock on the current account deficit, which reached 1.5 percent of GDP in 2020, down from 3.7 percent of GDP in 2019.

39. This temporary upturn was reversed in 2021, as the recovery of imports significantly outpaced that of exports. In 2021 merchandise exports recovered by 24.3 percent and already surpass their level of 2019 by 15.9 percent.¹⁷ Although service exports recovered by 6 percent, they have remained depressed (-25.1 percent relative to 2019) due to the weak performance of the tourism sector. The turnaround of exports, however, could not offset the increase in imports that is taking place as energy prices increase and as household consumption recovers. Indeed, the value of energy imports increased by 51.6 percent in 2021. Thus, the trade deficit in goods widened by 25 percent (16.7 percent of GDP in 2021 compared to 14.7

¹⁷ In 2021, all product categories recovered, with exports notably exceeding their level of 2019 for phosphate (+63.2 percent relative to -2019), food products (+12.4 percent) and automotive (+8.6 percent), while export growth in the textile (-1.8 percent relative to 2019) or aeronautics (-2.4 percent) sectors, or in the tourism industry (-56.4 percent), remained subdued.



percent of GDP in 2020). The dynamism of remittances, which reached 7.8 percent of GDP (surpassing 2020 and 2019 by 36.8 and 43.8 percent respectively), softened the impact of the trade deficit on the current account, which closed with a deficit of 2.4 percent of GDP. In turn, net foreign direct investment (FDI) surpassed 2020 levels by 20.5 percent but is still below pre-pandemic trends.

Table 4: External Financing Needs and Sources (in US \$), FY19-FY25

	Estimated			Projected			
	2019	2020	2021	2022	2023	2024	2025
Total Requirements	6,562	3,719	6,751	11,254	8,133	9,949	8,315
Current Account Deficit	4,411	1,414	3,242	7,448	5,788	5,666	5,531
External Long-term Debt Amortization	2,151	3,469	3,629	3,790	2,311	4,248	2,783
Total Sources	6,562	3,719	6,751	11,254	8,133	9,949	8,315
Foreign Direct Investment	827	1,271	1,705	2,031	2,170	2,297	2,440
Portfolio Investments	1,189	2,234	1,145	1,312	1,428	1,522	1,789
Long-term Disbursements	4,179	8,064	3,447	5,281	3,825	5,250	4,267
Short-term Capital Inflows	4,179	8,063	4,592	5,783	3,670	5,602	4,244
IMF Credit Line (net)	0	2,970	800	0	0	-1,400	-800
Change in Reserves (-increase, + decrease)	-1,945	-7,075	-1,143	-1,256	-1,089	-632	-515
Total Requirements	6,562	4,883	6,871	11,238	8,099	9,914	8,314
Current Account Deficit	4,411	1,414	3,242	7,448	5,788	5,666	5,531
External Long-term Debt Amortization	2,151	3,469	3,629	3,790	2,311	4,248	2,783
Total Sources	6,562	4,883	6,871	11,238	8,099	9,914	8,314
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Long-term Disbursements	4,179	8,063	4,592	5,783	3,670	5,602	4,244
Short-term Capital Inflows	2,313	-2,581	-228	1,500	1,500	1,500	1,500
IMF Credit Line (net)	0	2,970	800	0	0	-1,400	-800
Change in Reserves (-increase, + decrease)	-1,945	-7,075	-1,143	611	-670	393	-860

Source: Moroccan authorities and World Bank staff estimates.

40. **In the absence of balance of payments pressures, the stock of foreign exchange reserves has remained comfortable, exceeding pre-pandemic levels by a substantial margin.** During the first weeks of the pandemic, international reserves fell by 4 percent (from US\$26.4 billion on March 6, 2020, to US\$25.3 billion on March 20, 2020). This trend was reversed on April 7, 2020, when Morocco purchased all available resources under its Precautionary Liquidity Line (PLL) arrangement with the IMF for an amount of approximately US\$3 billion. Following that disbursement, reserves continued to edge upward, reaching 29.4 percent of GDP at end-2020, enough to cover 7.4 months of imports, against 5.4 months of imports at end-2019. The increase in reserves was made possible by large multilateral disbursements, two successful sovereign bond issuances in international financial markets (EUR1 billion in September and US\$3 billion in December 2020), and relatively resilient net FDI flows. Partly as a result, the government anticipated the repayment of close to US\$1 billion of the PLL in January 2021, bringing the facility's outstanding amount to



US\$2 billion. By the end of 2021, the stock of official reserve stood at US\$36 billion, equivalent to 6.1 months of imports of goods and services.

Monetary, Exchange Rate, and Financial Sector Public Policy

41. **With price pressures under control until recently, monetary policy has remained accommodative but prudent.** Bank Al-Maghrib (BAM) lowered its policy interest rate by 25 basis points in March 2020 and by another 50 basis points in June 2020, bringing it down to a historical low of 1.5 percent, which has since remained unchanged. In addition, to respond to an increase in the demand for cash, BAM injected liquidity into the banking system, increasing the overall volume of its refinancing operations from MAD 67 billion in mid-March 2020 to MAD 86.7 billion in April 2020 and more than MAD 100 billion from June through mid-December 2020, after which the scale of these liquidity injections began to decline. To stimulate credit, BAM also allowed banks to reduce their liquidity cover ratios below 100 percent and to suspend their provisioning requirements, and it lowered reserve requirements from 2 percent to 0 percent and the capital conservation buffer by 0.5 percent. In 2021, broad money growth (M3) moderated, increasing by 5.2 percent year-on-year, compared to 8.5 percent in 2020.

42. **The exchange rate has been relatively stable.** Morocco's exchange rate peg to the Euro and the US dollar was partially relaxed early in recent years, with the widening of the band from ± 0.3 percent to ± 2.5 percent in January 2018 and to ± 5 percent in March 2020. The move—aimed at increasing the external shock absorption capacity of the Moroccan economy—was put to the test during the COVID-19 crisis, which initially witnessed a depreciation of the dirham. Between mid-2020 and the end of 2021, instead, the dirham tended to converge toward the bottom of the band (appreciation), a trend that suggests maintained confidence in the resilience of the Moroccan economy. In more recent weeks, the exchange rate has experienced some volatility owing to the impact that the war in Ukraine has had on global currency markets.

43. **Despite BAM's supportive measures, credit growth has remained timid in 2021.** After stagnating between June 2020 and May 2021, bank credit edged up slightly since the summer, with its various components progressing at an asymmetric rate. The most dynamic component has been housing credit, which has been growing steadily since July 2020. In turn, consumer credit increased by 2.7 percent in 2021, but nonetheless remains 1.6 percent below its level of March 2020. On the other hand, the recovery of equipment credit has lagged and was still 9.1 percent below its pre-pandemic level in December 2021. Meanwhile, the nonperforming loan NPL rate increased from 7.6 percent in December 2019 to 8.4 percent at the end of 2020 and remains at that level as of November 2021.

44. **Nevertheless, the banking sector has shown resilience in the face of the COVID-19 economic downturn, featuring relatively stable funding, strong liquidity, and profitability.** Despite the economic shocks undergone by the economy, the banking system's capital adequacy ratio stabilized at 15.7 percent in 2020, up from 14.7 percent in 2018. Moreover, the stress tests included in the latest Financial Stability Report produced by BAM indicate that the capital adequacy ratio would remain above the 12 percent regulatory minimum even in the event of a large shock on the Moroccan economy. However, the worst scenario considered by BAM could push the NPL ratio up to 10.7 percent in 2022.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY



Macroeconomic Outlook

45. **After the 2021 rebound, real GDP growth is projected to slow to 1.1 percent in 2022, pulled down by a contraction of the primary sector caused by a new drought.** After an extraordinary crop in 2021, agriculture production, which still represents almost 13 percent of Morocco's GDP, is expected to contract by around 17.3 percent and drag overall GDP growth down to 1.1 percent in 2022.¹⁸ Non-agricultural GDP is expected to expand by 3.2 percent, as the expansion of the industrial sector moderates due to the slowdown of the global economy and the tourism sector continues to recover from the COVID-19 shock. A normalization of agricultural production should allow growth to increase to 4.3 percent in 2023.

46. **The war in Ukraine could have significant impacts on the Moroccan economy.** In normal years, Morocco imports about 20 percent of its grains and 10 percent of its energy from Russia and Ukraine. Although these comparatively weak trade linkages imply that Morocco is less exposed to supply disruptions than other regional peers, its economy is highly exposed to international commodity price shocks, which in 2022 will be compounded by an increased reliance on imported food given the drought. As a result, inflation is projected to increase to 4 percent in 2022 (from 1.4 percent in 2021), while the current account deficit is expected to widen to 5.5 percent of GDP. The crisis will also have fiscal impacts, mostly through butane gas and flour subsidies, which could surpass 2 percent of GDP in 2022. The magnitude and persistence of these effects, however, remains subject to high uncertainty, and will be highly influenced by the duration of the war and the resulting sanctions.

47. **Morocco stands out for having seized the COVID-19 crisis as an opportunity to launch ambitious and transformative reforms to correct the weaknesses of its growth model.** The recovery strategy included important measures to reform the SOE sector, modernize its SP system and support the recovery of private investment. More recently, the NDM has been unveiled, prioritizing: (a) structural reforms to boost competitiveness and private sector development; (b) improvement in the quality of education and health services to boost human capital; (c) deepening of the decentralization/deconcentration process to address territorial inequities; and (d) preservation of natural resources. Contingent on their successful implementation, these reforms are expected to increase the medium-term growth potential of the Moroccan economy.

48. **The budget deficit is expected to remain above 5 percent of GDP during the projection period.** This baseline incorporates the budgetary impact of the health and SP reform that has been estimated by the World Bank team. According to that assessment the net impact of the reform on the overall deficit would be negligible in 2022, increasing to 0.5 percent of GDP in 2023 and to 1.1 percent of GDP in 2024 and 2025. This is the net effect of: (a) the projected budgetary outlays that will be needed to expand the coverage of AMO and to cover the deficit associated with the FA program; (b) the reduction in certain expenditures due to the discontinuation of RAMED and of other social programs, such as the targeted education stipend program Tayssir; and (c) the additional revenues associated with the tax measures that have already been announced, such as the Solidarity Contribution and the consumption tax on tires. The removal of flour, gas and LPG subsidies are not incorporated in the projection given recent announcements pointing at a postponement of this reform. This base scenario anticipates a slow increase in the debt ratio, which would reach 79.8 percent

¹⁸ MEF estimates that the precipitations that have taken place in the months of March and April 2022 will limit the contraction of agricultural value added to about 10 percent, which would result in an overall GDP growth rate of close to 1.7 percent.



of GDP in 2025. If the subsidy reform were to take place in 2023, the debt ratio would stabilize earlier and below 78.3 percent of GDP.¹⁹

49. The adoption of various measures currently under discussion would improve the fiscal outlook.²⁰

A framework law passed in July 2021, paving the way for a comprehensive tax reform, which could increase the revenue collection capacity of the State by up to 2 percent of GDP. Although the subsidy reform has been postponed (and hence is not part of the fiscal baseline for this macroeconomic framework), it is still being analyzed and could be adopted to support the deployment of the health and SP reform. In addition, the authorities are contemplating the introduction of a carbon tax, which would generate fiscal revenues while supporting the Kingdom's ambitious climate agenda. These are all measures that could anticipate the resumption of a downward trend in the debt-to-GDP ratio.

50. The government is expected to retain good access to internal and external credit. Domestic bond issuances reached MAD 144.5 billion in 2021, the equivalent of 12.1 percent of GDP. After the two international issuances that took place in 2020, the authorities decided not to tap international financial markets in 2021, which contributed to rebalance the structure of sovereign debt in favor of domestic dirham-denominated obligations. Morocco's large pool of domestic savings is expected to remain the government's main source of finance. Average interest rates associated with domestic bond issuances have remained stable in 2021, after the declines that took place in 2020 as BAM moved to a more expansionary stance. In addition, the large oversubscription that characterized the two international bond issuances that took place in 2020, together with the relatively contained evolution of the EMBI spread despite global shocks (261 basis points on March 29, 2022, and 233 basis points on December 31, 2021 against 220 a year earlier), suggest that there still is a strong appetite for Moroccan bonds on the part of international investors. However, despite these moderate spreads, increasing yields in advanced economies imply that future issuances in international financial markets are bound to carry higher coupons.

51. The CNSS embarks on the reform in a relatively solid financial situation. Over the past years, the CNSS has systematically generated financial surpluses, which have enabled it to build a substantial reserves buffer. Between 2014 and 2019, the reserves corresponding to the health insurance branch of CNSS have increased from MAD 1.1 billion to MAD 2.3 billion, the equivalent of 0.2 percent of GDP. During this period, the reserves accumulated by the General Regime of the pension system administered by the CNSS have increased from MAD 38.9 to 61.7 billion, the equivalent of 5.4 percent of GDP. According to BAM's 2020 Financial Stability Report, in 2019 the CNSS's pension scheme generated a technical surplus (contribution minus pension payments) of MAD 1.8 billion and a global surplus of MAD 3 billion (0.26 percent of GDP). Existing actuarial studies, however, suggest that the reserves of the CNSS pension branch could enter a downward path by 2027, and become exhausted by 2040.²¹

52. The current account deficit is expected to widen to 5.5 percent of GDP in 2022 before narrowing over the medium term. In 2021, the recovery of imports (in particular energy) more than offset the good performance of manufacturing exports and remittances, resulting in a current account deficit of 2.4 percent

¹⁹ Debt ratio do not refer to the consolidated government debt.

²⁰ For this reason, MEF projects a faster fiscal consolidation. According to its projections, the budget deficit will be brought under 4 percent of GDP.

²¹ ACAPS. 2020. Rapport Annuel. Secteur de la Prévoyance Sociale.



of GDP, up from 1.2 percent of GDP in 2020. The current account deficit is expected to increase further in 2022 as imports continue to gather speed. Over the remainder of the forecast period, the current account is projected to narrow moderately as the impact of current shocks fades away, as tourism receipts recover from the crisis, as manufacturing exports (especially automobiles, electronics, and chemicals) continue their expansion, and as remittances gradually return to pre-pandemic trends.

53. **Net FDI flows are expected to remain stable over the medium term, covering a substantial portion of Morocco's external financing needs.** FDI is expected to continue to increase, as the economy recovers, averaging 1.5 percent of GDP over the medium term. The Moroccan government's good access to bilateral and multilateral lending and to international financial markets will also support the financing of the Moroccan economy. Gross international reserves are expected to remain at a comfortable level, representing seven months of imports in 2022.

54. **This baseline scenario is still subject to high uncertainty.** The last wave of COVID-19 contagions shows that the pandemic could still postpone the complete normalization of economic activities, and the outcome and duration of the economic disruptions caused by the war in Ukraine are still unclear. The crisis has increased Morocco's macro-financial vulnerabilities and a surge in corporate bankruptcies and loan defaults cannot be discarded yet given the severe deterioration of business balance sheets. In such a scenario, the banking sector's capital base and lending capacity would be impaired, potentially affecting public finances through the materialization of contingent liabilities associated with loan guarantee programs.

Debt Sustainability Analysis

55. **Debt vulnerabilities have increased with the pandemic shock.** After a period of slow central government debt accumulation over much of the past decade, the debt-to-GDP ratio and public gross financing needs (GFNs) increased markedly in 2020, and now surpass the threshold for emerging markets (70 percent and 15 percent of GDP, respectively) by a substantial margin. The debt ratio declined to 74.2 percent of GDP in 2021²², in part because the successful international bond issuance of December 2020 pre-financed part of the year. Public GFNs fell to 15.9 percent of GDP.

56. **In the absence of the subsidy reform, in the baseline scenario the debt-to-GDP ratio continues to increase moderately until year 2025.** As discussed above, debt would peak at 79.8 percent of GDP and enter a downward trend only in 2026. Both the debt-to-GDP and the GFNs ratio would stay above the 70 and 15 percent of GDP ratio during the entire projection period. However, debt and GFNs stabilize under the various shocks considered in the debt-sustainability analysis (DSA) (shocks on growth, the primary balance, on the exchange rate and on the real interest rates). A severe correction in projected growth rates for 2023 and 2024 would have the largest impact on the debt and GFNs ratios, although even in that scenario both indicators return to a downward trend over the medium term. The other shocks have smaller impacts, and in all of them debt and GFNs ratios stabilize. This exercise includes a shock of contingent liabilities in which the government is forced to absorb half of the private debt that has been guaranteed by the State since the beginning of the pandemic as part of the recovery plan. Under that scenario, debt to GDP peaks at 82.1 percent of GDP in 2025.

²² Debt ratio do not refer to the consolidated government debt.



57. **Morocco's public debt profile and the government's good access to finance constitute important risk-mitigating factors.** Morocco's central government debt profile comprises mainly domestic long-term debt, a structure that mitigates currency and interest rate risk. In fact, vulnerabilities associated with the composition of central government debt are moderate, with bond spreads, external financing requirements, change in short-term debt, public debt held by nonresidents, and public debt in foreign currency close or below the lower-risk assessment benchmark. In addition, as discussed above, recent trends in domestic debt markets and the success of the last two sovereign bond issuances together with the recent evolution of EMBI spreads suggest that the Moroccan authorities retain significant leeway to continue covering their GFNs.

58. **The central government's debt is sustainable under reasonably adverse shocks.** Despite the impact of the COVID-19 crisis and the budgetary outlays that will be associated with the health and SP reform, the expected stabilization of public debt, the moderate vulnerabilities associated with its composition, and the government's access to finance suggest that public debt will remain sustainable over the medium term. In its last Article IV report for 2021, the IMF's staff assessment also argues that Morocco's debt is sustainable.

Risk to the Macroeconomic Outlook

59. **Morocco's macroeconomic outlook is subject to significant risks associated with domestic and international potential shocks.** A deterioration of the epidemiological situation in Morocco or elsewhere, increasingly frequent droughts due to climate change, or an aggravation of the economic disruptions caused by global geopolitical crises could adversely affect the post-COVID-19 recovery, reducing the government's ability to reverse the upward trajectory of the central government debt-to-GDP ratio over the medium term. Further deterioration of the global economic outlook could reduce exports, tourism receipts, and FDI, adversely affecting Morocco's external position. In addition, the resulting accumulation of debt globally could trigger an episode of international financial instability, hindering Morocco's ability to access external finance and/or increasing the cost of covering its fiscal and external GFNs. Such an episode could force the authorities to increase their reliance on the domestic debt market, potentially crowding out private investment and slowing economic growth.

60. **Delays in implementing the government's structural reform agenda would slow economic growth, with knock-on fiscal effects.** Partly because of external shocks and adverse weather conditions, but also because of increasingly apparent limitations in its development model,²³ Morocco's economic growth disappointed in the years before the pandemic. The ambitious structural reforms announced in recent months and the new development model would set the stage for embarking on a resilient private sector-led growth path, which could facilitate the resumption of the fiscal consolidation process once the recovery is well entrenched. Should these reforms be delayed or fail to be implemented, the Moroccan economy could continue to underperform, adversely affecting the debt-to-GDP trajectory and weakening investor confidence. Progress on the structural reform agenda and the policies to be pursued under the new development model is therefore a crucial precondition for a sustained and resilient post-COVID-19 recovery.

Status	Content of the Reform
	Reform of the CDG. The Central Guarantee Agency has been turned into a public limited company

²³ Chaffour, Jean-Pierre. 2018. *Morocco 2040: Emerging by Investing in Intangible Capital*. Directions in Development, Countries and Regions. Washington, DC: World Bank.



Status	Content of the Reform
Implemented	to ensure greater independence and improved governance under the direct supervision of the central banks. The reform assigns four layers of risk coverage for any losses generated by the guarantees: (a) annual transfers from the Treasury, which will define/limit the amount of the guarantees that can be provided; (b) a security fund; (c) equity capital of CCG; and (d) as a last resort, the sovereign guarantee.
	PPPs. Various amendments to the PPP law have been passed in 2020 to extend its scope of application; reinforce governance through the creation of a National Public-Private Partnership Commission in charge of adopting a multi-year PPP program; harmonize the PPP law with various sector laws; revise procedures, in particular regarding unsolicited bids.
	Transition to more flexible exchange rate. The Central Bank has relaxed its exchange rate peg to the euro and the US dollar, with the widening of the band from ± 0.3 percent to ± 2.5 percent in January 2018 and to ± 5 percent in March 2020
	Corporate governance framework. Law on public limited liability companies amended to increase transparency, strengthen management accountability, and enhance minority shareholder's protection.
Ongoing or Partially Implemented	Tax reform. Framework law passed in July 2021 establishing key objectives of the reform: (a) increasing fiscal revenues; (b) expanding the tax base through formalization and reduced tax pressure; ensuring neutrality of the VAT; (c) unifying CIT rates; (d) rationalizing tax expenditure; (e) encouraging private investment; and (f) introducing a carbon tax. Some measures already incorporated in the 2022 budget law (unification and reduction of CIT rate).
	SOE reform. A new state holding agency has been created to maximize the economic, financial, and social profitability of public firms. SOEs' assets are being regrouped by sector to leverage synergies, and some establishments will be eliminated to create fiscal space.
	MVI Investment Fund. The new fund is expected to channel equity and quasi-equity, following a fund of funds approach, to struggling MSMEs in need of restructuring, high-potential SMEs looking for growth capital, and public-private partnership (PPP) infrastructure projects with high commercial and socioeconomic returns. The fund has been created as a limited company and will operate mostly via privately managed asset management companies. The full operationalization of the fund has suffered some delays but remains a priority.
	Competition. The competition council was re-operationalized in March 2021, and the government has expressed its commitment to continue reinforcing the competition framework, and a reform is underway to streamline merger control.
	Financial inclusion. The national strategy plans to: (a) foster mobile payments; (b) strengthen microfinance institutions; (c) promote inclusive insurance; (d) enhance the financial inclusion of MSMEs and start-ups through innovative financing tools, including fintech and digital financial services (DFS); (e) digitalize government-to-person payments; and (f) increase financial education
	Education. A central priority for the current administration will be the reform of the education system, with a focus on quality. Some measures have already been achieved regarding a modification of the norms and procedures for hiring teachers and a detailed road map for reforms has been prepared.
Planned	Non-performing loans. Resolution of key impediments that are preventing banks from selling part of their NPL and refocus on intermediation. Two options under consideration: the creation of a secondary market, and a securitization framework.
	Monetary and exchange rate policy. The central bank has reiterated its commitment to migrating toward an inflation targeting framework in the medium-term, only after uncertainty and risks abate, and local economic agents gain a better understanding on the new monetary regime.



Overall Assessment of Macroeconomic Policy Stance

61. **Morocco's macroeconomic policy framework is adequate for the proposed operation.** In the years preceding the COVID-19 pandemic significant progress was made to reduce fiscal and external imbalances and vulnerabilities, and to reinforce the shock-absorbing capacity of the economy through greater exchange rate flexibility. Institutional frameworks were developed as well. They include ongoing efforts to strengthen the debt management of SOEs, the oversight of the financial sector, and the independence of BAM. Despite the vulnerabilities inherited from the COVID-19 shock, Morocco's good access to domestic and international financial markets, strong external buffers (historically high stock of foreign exchange reserves), and close relationships with multilateral institutions further underpin macroeconomic sustainability. The solid structure of Morocco's sovereign debt is another important risk mitigator. Finally, the implementation of the structural reforms announced by the authorities are expected to increase the contribution of productivity growth to economic growth.

2.3. IMF RELATIONS

62. **On April 2020, the Moroccan authorities purchased all available resources under the IMF Precautionary Liquidity Line (PLL) approved in December 2018; part of the disbursed amount has since been repaid.** The PLL, the fourth since 2012, amounted to US\$2.97 billion at the time of approval; like previous arrangements, it was meant to provide insurance against external shocks as the authorities pursued their reform agenda. The authorities did not draw on any of the first three PLL arrangements. Because of the strong domestic and external shocks facing the country during the COVID-19 crisis, the Moroccan authorities drew the full amount of the fourth PLL arrangement on April 7, 2020. Consequently, the PLL arrangement automatically expired. On December 21, 2020, Morocco repurchased nearly US\$1 billion, thus reducing the outstanding amount to US\$2 billion. The repurchase became effective on January 8, 2021.

63. **The 2021 Article IV report was approved by the IMF's Board in January 2022.** It emphasizes the strong rebound of the economy, as well as the broad range of structural reforms launched by the authorities, which, according to the Fund, have the potential of yielding a stronger, more inclusive and sustainable growth path. It recommends that the authorities rebuild fiscal buffers and begin a consolidation to bring debt back to pre-pandemic trends and concludes that debt is sustainable.

3. GOVERNMENT PROGRAM

64. **As mentioned in the Strategic Context section, the Government Program 2021-2026 prioritizes social sector reforms.** The stated top priority of the Government Program is "reinforcing the foundations of the social state" through four reform imperatives: 1) expansion of protection against health and poverty in old age risks by expanding health insurance and pensions; 2) the creation of a "true" social assistance system targeted to the most vulnerable families; 3) the overhauling of the health sector; and iv) the reform of the public education system.

65. **The first imperative focuses on the universalization of AMO and the expansion of pension schemes targeting climate-vulnerable populations and other TNS currently without such coverage.** The laws passed in 2017 to expand AMO and pension coverage are being amended to include all TNS and the implementation



decrees needed to operationalize these schemes are being adopted as part of the reform supported by this operation. The reform also includes the transformation of RAMED into the non-contributory component of AMO. Both the expanded AMO covering TNS and RAMED beneficiaries as well as the pension regime for TNS will be centralized under the CNSS.

66. **The second Imperative focuses on the introduction in 2023-24 of the FA program and its gradual scaling up to eventually cover all children under 21 years of age and vulnerable households without children.** The FA program will be introduced gradually with the vision of eventually absorbing the current fragmented social assistance programs into an adaptive, cohesive, efficient, effective and climate-smart SP system. This will be enabled by the rolling out of the RNP and the RSU managed by ANR. The scale up of the RSU will ensure better targeting for all SP programs.

67. **The third imperative covers extensive supply-side reforms aimed at adapting the health system to the health risks of climate change, improving the quality of care, upgrading health infrastructure, increasing the focus on community and family medicine, and strengthening human resources for health.** These supply-side reforms aim to deconcentrate health service delivery to and increase accountability of local authorities. Regional Health Networks (Groupements Sanitaires Territoriaux, GSTs) will be created to reorganize the service delivery chain and introduce gatekeeping through increased focus on community and family medicine. The reforms will also include capital investments in climate friendly health infrastructure to adaptively respond to climate-induced health needs in regional areas, increase access and reduce regional inequities. The health workforce will be strengthened through the establishment of a new public service for health professionals separate from the general civil service and by allowing foreign doctors to practice in Morocco. The reforms will also include performance-based incentives for health workers to improve quality of care.

68. **The government program supported by this operation is driven by the increased vulnerability of Moroccans to climate change,** and in particular mitigating impacts of the increased diseases arising from climate change, and providing a buffer especially to children, the elderly and the large proportion of the workforce that work outdoors. As a signatory to the Paris Agreement, Morocco is fully committed to international commitments to fight climate change and the government program supported by this operation is integral to the National Adaptation Strategy.

69. **Morocco's NDC 21 identifies the health sector as one of four priority sectors for CCA.** The NDC identifies three sets of objectives to be achieved by 2030:

- a. *Addressing the three major types of diseases that threaten to undermine health outcomes:* i) vector-borne diseases with the risk of introducing new vectors; ii) cardiovascular disease, which will particularly affect elderly people and a large segment of the workforce, and; iii) diarrheal and respiratory diseases that will disproportionately affect children due to cold waves and floods.
- b. *Strengthening the health system's capacity by putting in place emergency warning mechanisms and tools to:* i) improve information and warnings to populations during periods of high air pollution; ii) improve the information and capacity of health professionals so that they can effectively contribute to information and awareness campaigns and communicate appropriate protective measures; iii) respond to extreme weather events and implementing health emergency response plans; iv)



strengthen actions to monitor air quality and its consequences on health; and v) reduce the risk of disease in wild and farm marine livestock due to emerging pathogens.

- c. *Build system capacity to increase the resilience of health infrastructure and health and services through* i) developing health infrastructure design codes and standards; ii) strengthening research and studies related to health and climate change; and iii) developing of community-based training programs for health workers on climate change risks.

70. **The National DRM Strategy (2021-2031) provides a comprehensive vision of how to reduce vulnerability and strengthen resilience of Morocco's population and territory to natural disasters.** It is articulated around five strategic axes a) Risk governance, b) Risk knowledge c) Disaster risk prevention and resilience building d) Preparing for early recovery and effective reconstruction, and e) Promoting scientific research, international cooperation and capacity building; and comprises 18 programs. The second axis on Risk governance includes a dedicated program on strengthening DRM at the regional and local level.

71. **The new agricultural sector strategy GGS is based on the development of the human element, through the emergence of a new generation of agricultural middle class, enabling 400,000 households to reach the middle class and stabilizing the incomes of 690,000 households, through four pillars.** These pillars concern the improvement of farmers' incomes, the generalization of agricultural insurance, the establishment of a special framework for the farmer to benefit from SP services, the reduction of the difference between the legal minimum wage in agriculture (SMAG) and the legal minimum wage in other sectors (guaranteed interprofessional minimum wage, SMIG) by 2030 and the emergence of a new generation of young entrepreneurs, through the mobilization and development of one million hectares of collective land and the creation of 350,000 jobs for youth.

72. **The transition to a more climate-resilient and eco-efficient agriculture is one of the main axes of the GGS** that concerns the entire agricultural value chains and conditions the achievement of the results of all the other axes of the GGS. This axis aims, among other objectives, to expand coverage and access to crop insurance for small farmers. The GGS plans to increase the insured area from 1 million to 2.5 million hectares per year by 2030, which will increase the coverage rate of crop insurance from 17 percent to 38 percent (and from 3 percent to 40 percent for small farmers). The GGS also aims to implement progressive social coverage for farmers and self-employed agricultural workers through: (a) a specific mandatory scheme; (b) the coverage of major priority risks: health (health and old age); (c) the setting of contribution levels by socio-professional category; and (d) the implementation of progressive coverage starting with the organized professions.

73. **The DRF Strategy provides a whole encompassing approach to the GOM's strategic approach to fund the contingent liabilities of disaster risk in Morocco.** It is articulated around five strategic pillars. Two of the pillars are transversal: (a) advanced risk modeling and analytics and (b) legal and regulatory framework; and three are specific: (a) public protection of the uninsured populations through a public regime; (b) private protection against disaster risk through a private regime; and (c) institutional capacity building.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION



74. **The proposed DPF series will have three pillars and will support three reform imperatives/strategies of the government program.** Pillar 1 supports the health insurance expansion contemplated by the first imperative as well as the supply-side reforms of the health sector included in the third imperative. Pillar 2 supports the expansion of pension coverage in the first imperative as well as the reforms to create a “true” social assistance system included in the second imperative. The fourth imperative on the reform of the public education system, is outside of the scope of the DPF. Pillar 3 supports the strengthening of resilience to natural disasters and climate risks, including through the establishment of adequate institutional, coordination and response mechanisms.

Reform Imperative/Strategy	Axis	DPF Series
Reinforcing the foundations of the social state 2021-2026.	First Imperative – protection against health and poverty in old-age risks	Pillar 1 – protection against health risks Pillar 2 – protection against old-age risks
	Second Imperative – creation of a “true” social assistance system	Pillar 2 – transformation of current social assistance programs into the expanded FA program
	Third Imperative – overhauling of the health sector	Pillar 1 – supply-side health reforms
	Fourth Imperative- reform of the public schooling system	Out of scope
The Green Generation Strategy 2020-2030	First imperative that prioritizes the human element - emergence of a new generation of agricultural middle class, young entrepreneurs and agricultural organizations with better risk protection.	Pillar 3- strengthen resilience to natural disasters and climate risks, through the establishment of adequate institutional, coordination and response mechanisms.
National DRM Strategy (2021-2031)	Second Strategic Axis – Strengthening DRM Governance	

75. **The government program includes a strong cross-cutting governance and institutional architecture:** Governance of the reform starts with a Social Protection Framework Law (Law 09-21) that lays-out the reform strategy, provides clarity on the objectives and the roles of different stakeholders and sets out concrete timelines. To steer the complex and multi-sectoral reform, an interministerial committee is referred to by the law and has been created through a decree. Finally, the CNSS is being revamped to enable it to become the key implementation agency for an integrated and expanded health insurance and pension system.

76. **Pillar 1 aims at better protecting Moroccans, particularly climate-vulnerable populations, against health risks with a focus on those caused by climate change.** This pillar supports expanding coverage of AMO to approximately 11 million TNS and their dependents. It supports improving the targeting of RAMED and integrating it as a non-contributory component of AMO, including harmonizing its benefits with those of the contributory components. Pillar 1 also supports revamping the supply of health services to adapt the



health system to climate change, meet increased demand and build human capital. This includes establishing the primary health care level as gatekeeper of an integrated health service delivery system, establishing a new health service and deconcentrating health service delivery to GSTs.

77. **Pillar 2 supports the transformation of fragmented programs into a climate-smart, adaptive SP system that protects human capital development during childhood and better protects against the risk of poverty in old age.** This includes harmonizing all SP schemes focused on children into an integrated program of FAs and expanding its coverage, improving the targeting of FAs and other schemes through a RSU and implementing the new pension regime for TNS.

78. **Pillar 3 aims to enhance resilience to natural disasters and climate risks.** This includes strengthening the government's institutional and coordination framework for disaster and climate-related risk management; the establishment of think-tanks and coordination committees bringing together key stakeholders involved in climate risk management; provision of relief for the effects of the drought on the 2021-2022 agricultural season; and adoption of a DRF strategy for Morocco including impacts of the most vulnerable farmers.

79. **The reform priorities follow a hierarchy of the different risks included in the Project Development Objective (PDO) (human capital losses in childhood, health, poverty in old age, climate shocks) according to their potential impact on poverty and human capital as well as the ability of households to self-insure against them.** This prioritization is reflected in the sequencing of implementation as pension contributions by TNS will not become mandatory until 2025, while both mandatory TNS contributions to AMO and the revamping of health insurance for the poor are starting in 2022 and the roll out of the FA program in 2023. The hierarchy is also reflected in how the reform is being financed as the FA program and the health insurance for the poor will be financed by general revenues, while the expansion of pensions will rely on contributions by TNS.

80. **This operation directly addresses climate vulnerability risks in Morocco.** Both the expansion of AMO and pensions to TNS specifically target households engaged in agriculture, fishery and tourism sectors whose vulnerability has increased with climate change. The transformation of RAMED into the non-contributory pillar of AMO specifically targets climate-vulnerable populations and makes them more resilient to the health impacts of climate change. The revamping of the supply of health services and the increased availability of health workers are measures driven by the goal of adapting the health sector to climate change and the NDC 21 health targets. The combination of health sector demand and supply reforms will create a climate-smart health system where climate-vulnerable populations can adapt to and be treated for the potential increase in vector-borne diseases (for example, malaria and dengue fever) due to flooding, and receive health advice on how to manage health impacts resulting from increasing air pollution and rising annual temperatures. The expansion of the FA program will enhance the resilience of children and climate-vulnerable populations, creating an adaptable system that protects human capital against climate shocks. Finally, the strengthening of the DRM system and the improvement of protection against extreme climate events supports the adaptation of the most climate-vulnerable populations.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS



81. **The overarching development objective of the proposed DPF series is to improve protection against health risks, human capital losses during childhood and poverty in old age and to improve climate risk management and resilience against catastrophic events.** This will be a series of three DPFs. The prior actions of the first operation, as well as the indicative triggers for the second and third operations, are described below.

Pillar I: Improving Protection Against Health Risks

82. **This pillar includes measures to enroll up to 11 million TNS and their dependents and to integrate up to 11 million people currently enrolled in RAMED into the AMO, as well as to strengthen physical and human resources to improve the healthcare services offered to all beneficiaries.** The government has a comprehensive blueprint for health reforms, with four priority areas: (a) mobilization of sufficient resources to upgrade the health infrastructure; (b) improving human resources for health; (c) strengthening governance; and (d) implementing an integrated information system. This pillar focuses on the amendments and decrees to progressively cover the entirety of the Moroccan population under AMO, first through the extension of AMO to TNS, followed by the transformation of RAMED from an assistance scheme to an insurance scheme. Health insurance coverage is specifically targeted toward climate-vulnerable populations, including in tourism, agriculture and fisheries. The pillar also includes the strengthening of the health supply to effectively deliver care to meet the anticipated demand for health services, through the upgrading of health infrastructure, reorganizing of health service delivery and making it more adaptable to the growing climate-related health risks of each region, and strengthening of human resources for health. Households finance 45.6 percent of all health expenditures in Morocco, mostly through OoP spending at the point of care. The expansion of AMO, coupled with strengthening of the health supply, will create a safety net that will improve access to quality health care, thus improving protection against health risks.

83. **Government health spending has been growing steadily since 2020, which reflects the government commitment to implementing the reforms supported by this pillar.** Data from the latest National Health Accounts indicate that per capita general government spending on health has remained relatively constant over the last decade until 2018. Government expenditures on health have increased significantly since then, not only driven by immediate response to COVID-19 but also to support the implementation of the reforms under this pillar. While the government health budget increases were aligned with general government budget increases until 2018, the government health budget increased by 14, 6 and 19 percent respectively in 2020, 2021, and 2022 compared to the previous year, exceeding the rates of increase of the general government budget. In particular, the integration of RAMED into AMO is fully funded from 2022. Furthermore, the health investment budget has more than doubled from MAD 3 billion in 2021 to MAD 7.9 billion in 2022, which will be utilized for the rehabilitation of over 1,500 health centers and hospitals to support the upcoming implementation of the reorganization of health service delivery. The significant increase in the investment budget will also finance supply-side improvements pertaining to information systems and medical equipment.²⁴

²⁴ Ministère de l'économie et des finances, loi de finances 2022 <https://www.finances.gov.ma/fr/vous-orientez/Pages/plf2022.aspx>.



Extending Mandatory Health Insurance to TNS

<p>Prior Action 1.1 A to extend mandatory health insurance coverage to workers under the professional unique contribution and auto-entrepreneur regimes, the Borrower has promulgated Law No. 30-21 amending and completing Law No. 98-15 which governs, the mandatory health insurance (“AMO”) coverage of professionals, independent workers and non-salaried persons exercising a liberal activity (“TNS”), and published it in the Official Gazette No. 7056, dated January 13, 2022.</p> <p>Prior Action 1.1 B to operationalize the expansion of the AMO for TNS, the Borrower has adopted Decree no. 2.21.930 modifying and completing Decree n° 2.18.622 defining the list of professional categories subject to the AMO regime, including those employed in the agriculture and tourism sectors who are the most vulnerable to climate change, as said Decree has been published in the Official Gazette No. 7043 BIS dated November 29, 2021.</p> <p>Prior Action 1.1.C to enroll approximately three million three hundred thousand TNS into AMO, including approximately one million six hundred thousand farmers due to high climate-vulnerability of the agriculture sector, the Borrower has adopted and published several Decrees implementing Law 98-15 as amended and complemented by Law No. 30-21. See details in annex 6.</p>	<p>Indicative Trigger 1.2 A to enroll TNS belonging to the remaining professional categories into AMO, the Borrower has published additional Law 98-15 implementation decrees.</p> <p>Indicative Trigger 1.2 B to revise the governance and management framework of the CNSS and adapt it to the requirements of the reform regarding AMO, the Borrower has amended the CNSS law (Dahir bearing law 1-17-184).</p>	<p>Indicative Trigger 1.3 to ensure the efficient and robust functioning of the mandatory health insurance, the Borrower has published application decrees for the law 1-17-184 modifying and completing the governance and management framework of the AMO for private sector workers.</p>
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Rationale

84. **Morocco has a relatively high level of OoP spending by households across all wealth quintiles, a third of whom lack financial risk protection: this is potentially associated with lower service utilization and poorer health outcomes.** About half of the population in Morocco are TNS, this proportion being disproportionately higher in rural areas that face severe climate change risks. TNS are concentrated in the poorest quintiles, who also incur a higher share of OoP expenditures (90 percent) than the richest households (59.2 percent), and contribute more as a share of their income.²⁵ Inequalities in coverage are also apparent, with 45 percent of salaried workers enrolled in health insurance schemes, while only 8 percent of the working population in rural areas are enrolled.²⁶ About 40 percent of those in the middle quintiles (quintiles 2 through 4) were not covered by health insurance in 2017, according to a survey conducted in three regions; it is likely

²⁵ Oudmane, M., Mourji, F., Ezrari, A., 2019. The impact of out-of-pocket health expenditure on household impoverishment: Evidence from Morocco. *Int J Health Plann Mgmt* 34. <https://doi.org/10.1002/hpm.2848>

²⁶ HCP, *Principales caractéristiques de la population active occupée en 2019*.



that many of these individuals were TNS who had to pay directly for care at the point of delivery.²⁷ Populations living in rural areas, mostly employed in agriculture, as well as poorer quintiles, were more likely to spend a higher share of their income on health and incur higher shares of health expenditure as a share of total household expenditure (Household Budget Survey - HBS 2013). About 20 percent of households in the poorest quintiles spent more than 10 percent of their household expenditure on health service utilization.²⁸

85. Provision of health insurance for TNS can reduce OoP expenditure and increase health service utilization. While there are no specific studies which quantify the impact of the expansion of health insurance only to TNS, evidence from Indonesia points to an 8 percent increase in health service utilization for those who were previously not covered, many of whom were in the informal sector.²⁹ A systematic review of health insurance schemes targeting the informal sector finds that these schemes can succeed in improving financial risk protection and health service utilization if they are integrated with national schemes, which would also help reduce moral hazard and adverse selection into risk pools through mandating enrollment.³⁰ The impact of expanding health insurance to TNS will depend critically on take-up. As mentioned in detail in the Poverty and Social Impact section, there are shortcomings in the take-up of health insurance among salaried workers. The CNSS is aware of these and is addressing it through better enforcement of the mandatory nature of AMO. These measures will be applied to the TNS regime from the outset and CNSS will work closely with line ministries and professional associations to enforce mandatory participation. Beyond better enforcement, the supply-side reforms will contribute to increasing the perceived benefit of enrolling into AMO as will the strengthening of CNSS as a strategic purchaser of health services.

86. Expansion of health insurance can have a positive impact on female labor force participation. An evaluation of the Seguro Popular scheme in Mexico found that the program reduced the odds of women leaving the work force by 15 percent, demonstrating the ability of health insurance to enable caregivers to continue working through health shocks to themselves or their dependents.³¹

87. Expansion of health insurance coverage can contribute towards addressing rural-urban gaps in maternal mortality and access to antenatal and post-natal visits. A lack of health insurance can indeed affect women's health and pregnancy outcomes. A systematic review of the evidence on health insurance and its effects on the use and provision of maternal health services and on maternal and neonatal health outcomes in middle- and low-income countries showed relatively consistent evidence that health insurance is positively

²⁷ Ministry of Health and European Union, 2017. Health expenditure survey in Fes-Meknes, Beni Melal-Khenifra, and Casablanca-Settat Regions.

²⁸ Oudmane, M., Mourji, F., Ezzrari, A., 2019. The impact of out-of-pocket health expenditure on household impoverishment: Evidence from Morocco. *Int J Health Plann Mgmt* 34. <https://doi.org/10.1002/hpm.2848>

²⁹ Erlangga, D., S. Ali, and K. Bloor. 2019. "The Impact of Public Health Insurance on Healthcare Utilisation in Indonesia: Evidence from Panel Data." *Int J Public Health* 64: 603–613. <https://doi.org/10.1007/s00038-019-01215-2>.

³⁰ Acharya, A., S. Vellakkal, F. Taylor, E. Masset, A. Satija, M. Burke, and S. Ebrahim. 2013. "The Impact of Health Insurance Schemes for the Informal Sector in Low- and Middle-Income Countries: A Systematic Review." *The World Bank Research Observer* 28: 236–266. <https://doi.org/10.1093/wbro/lks009>; Einav, L., Finkelstein, A., 2018. Moral Hazard in Health Insurance: What We Know and How We Know It. *Journal of the European Economic Association* 16, 957–982. <https://doi.org/10.1093/jeea/jvy017>.

³¹ del Valle, A., 2021. The effects of public health insurance in labor markets with informal jobs: Evidence from Mexico. *Journal of Health Economics* 77, 102454. <https://doi.org/10.1016/j.jhealeco.2021.102454>



correlated with the use of maternal health services.³² Furthermore, a study in Jordan investigated the relationship between health insurance coverage and maternal healthcare services utilization and concluded that women with health insurance coverage were more likely to have early first antenatal care (ANC) visits and complete four or more ANC visits.³³

Substance and Scope: Prior Actions 1.1 A, B and C and Indicative Triggers 1.2 A, 1.2 B and 1.3

88. **Prior action 1.1A amends the AMO legal framework (law 98-15) to institute the rules and procedures for enrollment of TNS.** The amendment will also add around 1 million workers and micro-enterprise business owners who are not members of a professional association but are subject to the Unique Professional Contribution (CPU) and auto-entrepreneur regimes and were not considered by the original law. The CNSS will collect and pool all TNS contributions and will serve as the single purchaser of health services. In the case of workers belonging to a professional category, the respective professional association will work with the CNSS and the respective line ministry (for example, Ministry of Agriculture for farmers) to identify and enroll workers. For workers under the CPU regime, the Direction General des Impôts (DGI) will collect contributions and transfer them to the CNSS and for workers under the auto-entrepreneur regime, collection will be done by the postal service. This coordination does not imply additional transaction costs, but instead reduces fragmentation and improves targeting for population groups that might otherwise not have the means to enroll in AMO.

89. **Prior action 1.1B is the publication of an implementation decree of Law 98-15 that allows operationalization of AMO for TNS.** While law 98-15 mandated that the enrollment of TNS into AMO would be done by professional category, it did not specify the list of professional categories covered. The decree thus allow for the application of the law to a list of 39 professional categories, including workers employed in agriculture and tourism who have been included due to their being particularly vulnerable to climate change.

90. **Prior action 1.1C is the publication of 17 implementation decrees of Law 98-15 for each of the first 15 professional categories and for workers under the CPU and auto-entrepreneur regimes.** The decrees set out the parameters of enrollment (including contribution rates) of each category. Farmers and other climate-vulnerable workers have been targeted and prioritized in this first batch of 15 professional categories. Contribution rates were negotiated and agreed with the respective professional association representing workers in each of these as multiples of the daily SMIG: for example, a decree signed with the relevant professional association indicates that artisans who are in the national registry for artisans will pay 0.75 times the SMIG. In some cases, the levels of contribution will vary according to years of experience: for example, dentists with 20 years of experience will pay more than those who have recently graduated. As indicated above, TNS incur the highest volume of OoP spending, both in absolute and relative terms: the expansion will therefore have a significant positive impact in terms of improved financial protection as well as reduction of financing-related healthcare access barriers.

³² Comfort AB, Peterson LA, Hatt LE. Effect of Health Insurance on the Use and Provision of Maternal Health Services and Maternal and Neonatal Health Outcomes: A Systematic Review. *J Health Popul Nutr.* 2013;31(4 Suppl 2):S81-S105.

³³ Fernandes, P., Odusina, E.K., Ahinkorah, B.O. et al. Health insurance coverage and maternal healthcare services utilization in Jordan: evidence from the 2017–18 Jordan demographic and health survey. *Arch Public Health* 79, 81 (2021). <https://doi.org/10.1186/s13690-021-00605-4>



91. **Indicative trigger 1.2A supports the enrollment of additional categories of the TNS into the AMO and indicative trigger 1.2B supports legal changes to the administrative structure of the CNSS to conform to the requirements of the AMO reform.** Indicative trigger 1.2A concerns the publication of decrees mandating the enrollment of additional categories of TNS into AMO. Indicative trigger 1.2. B is an amendment to the legal framework that governs CNSS to adjust its governance framework and management structure to the requirements of an expanded AMO. This includes strengthening the capacity of CNSS to act as a strategic health purchasing agent. This will require negotiating more sophisticated and robust contracts with healthcare providers to account for not only the quantity, but the quality of health services delivered. This will allow for a dynamic system of price-setting that ensures the depth of coverage is appropriate and beneficiaries are not subject to balance billing (additional OoP expenditure to providers).

92. **Indicative Trigger 1.3 will enable the implementation of the amended CNSS Law (IT 1.2 B).** Indicative trigger 1.3 concerns the publication of implementation decrees of the amended CNSS Law to improve the governance of AMO for all workers in the private sector.

Climate co-Benefits of the Extension of Mandatory Health Insurance to TNS

93. **The extension of AMO will make the targeted TNS and their dependents more resilient by providing them financial protection against the expenditures associated with the health effects of climate change.** Furthermore, the expansion is specifically targeted to climate-vulnerable populations, including those employed in agriculture, tourism and workers in other outside environments. The enrollment of 1.6 million farmers into AMO is an integral component of the Ministry of Agriculture's GGS strategy and is driven by Morocco's climate adaptation efforts. To identify eligible farmers, the Ministry of Agriculture has developed a registry that includes geolocation and other land and production characteristics in addition to individual information. This allows the tailoring of parameters of coverage to ensure they encompass climate vulnerability and will enable adaptation to emerging climate risks for these specifically targeted vulnerable groups.

Transforming RAMED from an Assistance Scheme to an Insurance Scheme

<p>Prior Action 2.1 to oversee and coordinate the health and social protection reform, the Borrower has created an inter-ministerial steering committee, which includes a technical committee, pursuant to Decree No. 2.21.532 published in the Official Gazette No.7043 Bis dated November 29, 2021.</p>	<p>Indicative Trigger 2.2 to deepen the coverage of health insurance for the poor and vulnerable, the Borrower has amended the Basic Medical Coverage Law. Law 65-00 has been amended transforming the Medical Assistance Scheme (RAMED) into the non-contributory component of AMO for the benefit of the poor and vulnerable population with a benefit package and provider network identical to that of the contributory component of AMO.</p>	<p>Indicative Trigger 2.3 to improve the identification and enrolment into health insurance of poor and vulnerable households, the Borrower has adopted an executive decision mandating the use of the Unique Social Registry (RSU) for targeting the non-contributory pillar of AMO.</p>
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Rationale

94. **Financial risk protection remains lower for the poorest quintiles, due to the nature of the enrollment mechanisms and differences in benefits.** While data from the latest HBS Survey from 2020 is not yet available, a survey conducted in 2018 in three regions points to the unequal distribution of financial risk protection, as well as its impact on OoP expenditure.³⁴ Only 55 percent of the poorest quintile was covered by an insurance scheme compared with 71 percent of the richest quintile. This inequality was mirrored in health service utilization, especially across rural and urban areas: 59 percent of those in the poorest quintile in rural areas used health services in 2018, as opposed to 69 percent of those in the richest quintile in rural areas. The rates were much higher in urban areas, with 73 percent of the poorest quintile and 85 percent of the richest quintile utilizing health services. 59 percent of those who did not seek care indicated that direct service cost was the primary reason, while 13 percent indicated transport and ancillary costs, and 17 percent indicated lack of availability of services. 65 percent of RAMED beneficiaries continued to seek care at private facilities, which is a driver of elevated OoP expenditures, as RAMED does not cover private sector care. Notably, the analysis revealed that RAMED was not effective in protecting populations against catastrophic health spending, as being under a RAMED scheme increased the probability of incurring catastrophic health spending, while being an AMO beneficiary reduced these odds.

95. **Effective targeting of health insurance for the poor is a prerequisite to improving health service utilization and outcomes, as well as protecting the most vulnerable from health shocks.** As indicated above, RAMED has not succeeded in protecting households from catastrophic health spending. An important driver behind this is that RAMED's targeting mechanism of scoring, where local authorities select beneficiaries based on a predetermined formula, fails in capturing a majority of the poorest and most climate-vulnerable households. The formula is based on data that is more than 10 years old, subject to modifications and non-adherence by local authorities and therefore does not effectively target households: only 30 percent of poorest households are covered by RAMED, highlighting the significant potential for improving targeting performance.³⁵ Evidence from other middle-income countries demonstrates the importance of effective targeting in improving the success of health insurance for the poor. Turkey's Green Card scheme for the poorest updated its targeting mechanisms in 2003 to a more dynamic and rigorous system, which increased enrollment among the poorest decile from 12 percent in 2003 to 64 percent in 2007.³⁶ This was also associated with the protection of health outcomes in the subsequent financial crisis in 2009.³⁷

96. **The GOM launched a strategy to improve the targeting efficiency of all SSN programs including RAMED, in 2018.** The World Bank has been supporting this process through the "Identity and Targeting for SP Project" (SP-1) (P155198). Law 72.18 on the targeting of beneficiaries of SP programs and the creation of the ANR was published in August 2020 in the Official Gazette. The Proxy means test (PMT) scoring formula of the RSU was updated by the HCP using a 2020 household data survey and it was validated by the project Steering Committee in June 2021. Most of the variables used for the PMT formula will be cross-checked with

³⁴ Ministry of Health and European Union. 2017. Health Expenditure Survey in Fes-Meknes, Beni Melal-Khenifra, and Casablanca-Settat Regions.

³⁵ Systeme de selection du RAMED: etat des lieux et perspectives, 2015

³⁶ Menon, R., Mollahaliloglu, S., Postolovska, I. 2013. Toward Universal Coverage: Turkey's Green Card Program for the Poor. UNICO Studies Series No. 18.

³⁷ Aran, M.A., Hentschel, J.S., 2012. Protection in Good and Bad Times? The Turkish Green Card Health Program, Policy Research Working Papers. The World Bank. <https://doi.org/10.1596/1813-9450-6178>



information from government or private databases to increase the accuracy of the scoring. In simulations, the performance of the new formula has been shown to improve the accuracy of targeting and compares favorably with international best practice: an SSN program targeting the poorest quintile using this formula will correctly identify 70 percent of the potential beneficiaries, with another 23 percent of them being in the 2nd quintile.

Substance and Scope: Prior Action 2.1 and Indicative Triggers 2.2 and 2.3

97. **Prior Action 2.1 is the establishment of an inter-ministerial commission, including the three ministries that are concerned by the reforms (MEF, MHSP, and MI), with the task of implementing and monitoring the implementation of the reform.** The steering committee includes a technical committee consisting of the three ministries as well as the CNSS. The three separate entities report to this technical committee: i) sectoral committees, which follow the technical implementation of the health and SP reforms and are responsible for preparing quarterly reports, consisting of technical departments of the three ministries as well as relevant ministries, such as the Ministries of Agriculture; Tourism, Handicrafts, Air Transport and Social Economy; Commerce and Industry, which will be involved in the enrollment of the TNS; ii) project management unit, under the responsibility of the MEF Finance which supports the implementation of the reform; and iii) communication unit, which is responsible for communicating the benefits of the reform to target population to increase buy-in and accelerate their enrollment into the programs, such as the AMO and later the FA. The design of the inter-ministerial commission, coupled with the technical and sectoral committees, a project management office, and a communication unit, provide the needed accountability processes, incentives for coordination, as well as the coordination of technical expertise for the success of the reform.

98. **Indicative trigger 2.2 and 2.3 support the amendment of the legal framework of RAMED, integrating it into the AMO regime, harmonizing benefits and using the RSU for targeting beneficiaries in the non-contributory pillar of AMO.** Indicative trigger 2.2 consists of amending the Basic Medical Coverage Law. Amendment of Law 65-00, which created RAMED allows its integration into the AMO regime and mandating of harmonization of benefits. This implies enrolling an additional 11 million beneficiaries who were previously in an assistance scheme into the AMO regime. Building on this, Indicative trigger 2.3 covers the adoption of an administrative act for the use of the RSU to improve the targeting of the non-contributory pillar of AMO, including explicitly targeting climate-vulnerable populations.

Climate co-Benefits of Transforming RAMED from an Assistance Scheme to an Insurance Scheme

99. **Improved targeting of the non-contributory pillar of AMO will ensure that the scheme will be climate adaptive,** as it would explicitly include populations most at risk of increased vulnerability due to climate impacts. Furthermore, by homogenizing the non-contributive pillar with the more generous benefit package and more extensive provider network of the AMO for salaried workers, these climate-vulnerable populations will be more resilient to the increased health risks caused by climate change.

Revamping the supply of Health Services

Prior Action 3.1 to gradually reduce greenhouse gas emissions from health facilities to zero by 2050 and	Indicative Trigger 3.2 A to improve the access to and quality of health services for	Indicative Trigger 3.3 A to establish a minimum benefits package for the
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<p>to improve the resilience of the health system to climate change, the Borrower has made a formal commitment to the COP26 and has established a steering committee to implement it. The Government sent a written commitment to the Presidency of COP 26 on November 12, 2021 and established the steering committee pursuant to MHSP's Decision No. 6521 dated May 6, 2022.</p>	<p>women, rural and climate-vulnerable populations, the Borrower has amended the health sector framework law. The amendment has allowed upgrading the supply of health services, creating the family and community medicine system, establishing the obligation to respect the primary level as entry point to coordinated care pathways, and deconcentrating health service delivery to regional health networks (GSTs).</p> <p>Indicative Trigger 3.2 B to deliver on the commitment to COP 26, the Borrower has conducted a climate vulnerability assessment of the health sector and has adopted a roadmap for the reduction of greenhouse gas emissions from and improved resilience of healthcare facilities.</p>	<p>family and community medicine system, the Borrower has published an implementation decree of the amended Health Sector Framework Law.</p> <p>Indicative Trigger 3.3 B to implement the deconcentrated service delivery model established by the amended health sector framework law, the Borrower has promulgated a law to create and regulate the Regional Healthcare Networks (GSTs).</p> <p>Indicative Trigger 3.3 C to provide the GSTs with an instrument for planning, budgeting, adapting to local climate risks and monitoring, the Borrower has published an implementation decree of the GST law establishing the Regional Medical Programs.</p>
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Rationale

100. **Improved financial risk protection must be complemented by an upgrade on the supply side to ensure the reform's success, particularly through constituting primary care as an entry point to the health system.** Access to health insurance does not, by itself, generate improvements in health outcomes. Countries which have coupled extensive supply-side reforms to complement the roll out of increased financial risk protection have seen improvements in not just financial risk protection but also health outcomes. A relevant example is Turkey, where the expansion of health insurance coverage was complemented by significant improvements in the health infrastructure and supply, including the reorganization of care around family medicine units which form the individual's entry point to the health system. Family medicine units deliver primary care services as well as health promotion interventions to their target population, which is empaneled (registered) to facilitate follow-up as well as provide an entry point to the health system. Performance-based contracts and accountability around regional-level health programs, coupled with improvements in the decision space of GSTs, enable family medicine units to respond to patient needs. These



reforms in Turkey were associated with reductions in maternal, infant, and under-5 mortality between 2003-2013, especially in the most disadvantaged areas/regions of the country.³⁸

101. **In addition to the demand side constraints that will be addressed through health insurance, the unequal distribution of health outcomes in Morocco and the emergence of health risks due to climate change, also calls for a reorganization of service delivery to bring services closer to the population.** Despite significant progress in health outcomes over the past two decades, inequalities persist between urban and rural areas. In some rural and isolated areas, communicable diseases are still dominant, so Morocco now has a mixed profile. Moreover, climate change impact is likely to worsen both sides of the epidemiological transition presenting communicable disease risks such as vector and waterborne disease such as dengue fever, malaria and schistosomiasis a due to increased risks of flooding and droughts while also increasing NCD risks such as cardiovascular and respiratory disease from extreme heat and exposure to respiratory disease triggers. The Bank has supported the re-orientation of the system toward this new profile through a previous operation, Improving Primary Health in Rural Areas Program – P148017 as well as several pieces of analytical work and the reforms supported by this DPF operation are expected to help accelerate this transition.

102. **The vulnerability of healthcare facilities to climate change weakens the ability of health professionals to protect the population.** Climate change is a threat to the health of the Moroccan population and may compromise decades of progress made by Morocco in terms of health protection. Health facilities including hospitals, urban and rural health centers, community care centers and dispensaries, are vulnerable to environmental factors. In this context and following a call from WHO and the Presidency of the 2021 United Nations Climate Change Conference (COP26), the MHSP, together with 50 other countries, committed to develop climate-resilient and low-carbon health systems. In this context, the GOM formally committed to gradually reduce health facilities' greenhouse gas emissions to zero by 2050 and improve the healthcare system's resilience to climate change.

Substance and Scope: Prior Action 3.1 and Indicative Triggers 3.2 A and B and 3.3 A, B and C

103. **Prior Action 3.1 is the formal commitment made by the GOM to the COP26 of gradually reducing health facility greenhouse gas emissions to zero by 2050 and improving the healthcare system's resilience to climate change, as well as the establishment of a steering committee to lead and coordinate its implementation.** The steering committee has been tasked with bringing together the different divisions of the MHSP that will be involved in delivering on the commitment, as well as to coordinate with the National Climate Change Focal Point. Both the World Bank and the WHO are providing technical assistance on the implementation of the commitment and the steering committee is ensuring the technical inputs are communicated to the respective teams and used effectively.

104. **Indicative trigger 3.2 A will be the reform of the legal framework that governs the health system (Law 34-09) to allow a complete reorganization of health service delivery.** The core of this reform will be the deconcentration of health service provision, which will provide regions, provinces and territories with

³⁸ Atun, R., Aydın, S., Chakraborty, S., Sümer, S., Aran, M., Gürol, I., Nazlıoğlu, S., Özgülcü, Ş., Aydoğan, Ü., Ayar, B., Dilmen, U., Akdağ, R., 2013. Universal health coverage in Turkey: enhancement of equity. The Lancet 382, 65–99. [https://doi.org/10.1016/S0140-6736\(13\)61051-X](https://doi.org/10.1016/S0140-6736(13)61051-X)



the capacity and accountability to directly improve health outcomes in their jurisdiction. Currently, the law stipulates a centralized system of service provision and accountability, and the amendment will clarify the roles of territorial entities. This will form the basis for the deconcentration of services, where regional and territorial entities will be directly involved in the decisions pertaining to healthcare delivery. Deconcentration will also open the door for the central MSPS to hold regions accountable for performance by linking budget flows to aggregate health service delivery targets.

105. Indicative trigger 3.2 B will support adherence to commitments to COP26 by undertaking a diagnostic of climate vulnerability of the health sector and adopting its recommendations in a Roadmap. Indicative trigger 3.2 B will support the health sector climate vulnerability assessment and the adoption of a roadmap for reducing greenhouse gas emissions and improving the resilience of healthcare facilities included in the commitment. The gap analysis and overall engagement on health system resilience will consider several factors such as: (a) emergency preparedness of facilities: beyond equipment and building standards, review the readiness of staff, skills, and processes (for example, establish emergency response protocols, service continuity plans); (b) health systems: climate/disaster shocks are often regionally concentrated and overwhelm local capacities. The assessment will evaluate whether health systems are ready to flexibly manage capacities across regions, including through shock-responsive service modalities (mobile facilities, e-health, crisis response staff, and so on); (c) Integration with emergency management: the assessment will look at whether health facilities are well integrated into risk management and crisis response protocols, capacity to coordinate with local DRM units and other actors (first responders, safety nets, community groups, and so on); and (d) infrastructure systems: the assessment will appraise the extent to which health facilities have access to reliable water, electricity services, whether they possess back-up power (for example, generators) that allow service continuity during emergencies and whether transport systems are resilient to ensure access to facilities during emergencies. Based on the results of the assessment and the actions included in the roadmap, result indicators and targets will be identified, and additional indicative triggers may be included for the third DPF operation.

106. Indicative triggers 3.3 A, B and C will support the implementation of the amended Law 34-09. This includes the promulgation of a new law to create the GSTs. Each GST will include a dispensary or a primary health care facility (ESSP) that will be the only entry point for citizens, linked to a regional hospital. Each GST will further be organized around a teaching hospital (Centre Hospitalier Universitaire - CHU), will be led by a physician, and will provide services in accordance with a regional medical program that will be adopted on a regular basis by the regions. Finally, the implementation of a nationally set minimum package of care to tackle the burden of disease and ensure cost effectiveness for the community and family medicine system will be rolled out by 2024. Each household will be registered with a general practitioner (within the GST) and will first have to consult this general practitioner to have access to the care pathway. Under this system, the empanelment of the population within a GST will ensure a more direct follow-up, as well as care coordination. General practitioners (family medicine doctors) will be based in dispensaries or PHCs and will constitute the first line of care according to the principles of family medicine and community health across both public and private facilities. Family medicine doctors will be responsible for delivering the same benefits package across public and private primary care facilities. The benefits package will be updated during the upcoming years as per the indicative trigger medical records for patients, which will allow the coordination of care between the different levels of care.

Climate co-Benefits of Revamping the Supply of Health Services



107. **The health of the Moroccan population is vulnerable to climate variability and projected climate change trends.** The country is likely to face an increased incidence of dengue fever, malaria and schistosomiasis. Climate change is expected to increase mean annual temperature and the intensity and frequency of heat waves resulting in a greater number of people at risk of heat-related medical conditions such as cardiovascular and respiratory disease. Since 2010, Morocco has been implementing a CCA strategy for its health sector. The strategy focuses on the protection of population health with specific emphasis on the reduction of health risk inequalities; an improved epidemiological surveillance system; strengthening health facilities resilience towards extreme events; improved emergency and response plans preparation; and the promotion of research focused on the impacts of climate change on health. The healthcare supply overhaul will directly contribute to achieving the targets of the NDC 21. Additional capacity will be built to support the adaptation to extreme weather events and support the necessary response capacities. This may include assessing flood risk when deciding the location of new health facilities, better insulating health facilities against heat and conducting energy efficiency audits. The obligation to respect the primary health level as entry-point to coordinated care pathways will reduce the need for more carbon intensive hospital-based care, as well as reducing the need for transport and driving long distances – reducing GHG emissions.

108. **In this context, the GOM has formally committed to COP26 to gradually reduce health facilities' greenhouse gas emissions to zero by 2050 and improve the healthcare system's resilience to climate change.** Following a call from WHO and the Presidency of COP26, the MHSP, together with 50 other countries, formally committed to develop climate-resilient and low-carbon health systems, by reducing health facilities' greenhouse gas emissions to zero by 2050 and improving the healthcare system's resilience to climate change. The revamping of the supply of health services to gradually reduce GHG emissions will directly contribute to the NDC 21 targets of (a) ensuring health workers at all levels play a proactive role in sensitizing the populations they serve about out how climate-related exposures affect vulnerable groups, and (b) reducing greenhouse gas emissions.

109. **Morocco's climate varies considerably across the country's northern and southern areas.** Both rainfall and temperature are strongly influenced by the Atlantic Ocean to the west, the Mediterranean Sea to the north, and the Sahara Desert to the south and southeast. Furthermore, the health impacts of climate change vary significantly between urban and peri-urban areas exposed to floods, coastal areas exposed to sea-level rise and arid and semi-arid areas exposed to heat-related conditions. Therefore, the deconcentration of decision-making will allow regional and local authorities to adapt the supply of health services to the specific climate-related health risks. It will also allow certain GSTs to develop prevention and promotion services targeted to the expected growing number of climate migrants who are more likely to resettle in riskier urban areas.

Increasing the Availability of Health Care Workers

Prior Action 4.1 A to enhance human resources and enable the establishment of a health service, the Borrower has exempted health workers from the Statute of the Civil Service. Law 39-21 amending Dahir 1.58.008 was published in the	Indicative Trigger 4.2 to increase the availability of and improve the distribution of health workers, the Borrower has promulgated a law establishing the health service to enhance the stock and	Indicative Trigger 4.3 to implement the health service, the Borrower has published the implementation decrees of the law on the health service.
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Official Gazette No. 7007, dated July 26, 2021. Prior Action 4.1 B to increase the availability of doctors, the Borrower has promulgated Law No. 33-21 modifying and supplementing Law No. 131-13 governing the practice of medicine, to allow foreign doctors to practice medicine in Morocco, as Law No. 33-21 has been published in the Official Gazette No. 7010, dated August 8, 2021.	quality of human capital working in the public sector.	
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Rationale

110. **Morocco has been facing challenges with the recruitment and retention of health workers, which is one of its most significant bottlenecks in reaching universal health coverage.** Morocco has about 7 doctors per 10,000 inhabitants, which is significantly lower than regional peers such as Algeria and Tunisia (both at 12 doctors per 10,000 inhabitants). There are also significant regional inequalities, with doctors per population being particularly low in Draa-Tafilalit and Beni Mellal-Khenifra, and higher in Casablanca-Settat and Rabat-Sela-Kenitra; these two regions have about half of the total number of doctors in the country. Ninety four percent of physicians are in mostly urban regions, and 84 percent of nurses and midwives are concentrated in urban areas. There is a significant training capacity shortage, which is one of the main constraints in improving these figures: the MHSP estimates needing about 15,000 additional doctors and 40,000 nurses, translating to about 3,300 doctors and 8,250 nurses needed per year, whereas the annual number of graduates from medical schools is currently at 1,800 doctors and 3,150 nurses. This is exacerbated by the fact that many graduates choose to join the private sector, as it offers higher compensation and better working conditions: over 50 percent of the workforce, and a majority of generalist and specialist doctors, are concentrated in the private sector, even as most of the outpatient and inpatient capacity remains in the public sector. This indicates the difficulty of closing the gap in ensuring equitable access to quality health care across the health system. Strengthening of the legislative architecture can thus enable performance-based management of health workers, as well as closing the human resources gap in the short run through enabling the recruitment of foreign doctors.

111. **Global evidence points to the essential role of health workforce in ensuring universal health coverage and improving health outcomes.** Constraints in the level and performance of the health workforce impact almost all aspects of health outcomes, including but not limited to safe surgery, avoiding hospital acquired infections, correct diagnoses, appropriate treatment, patient satisfaction as well as patient reported outcomes.³⁹ There is a wide range of recommended interventions to strengthen human resources for health, and management is a key component. This includes management of health workers across the health system based on performance, and the provision both financial and non-financial incentives to staff as well as the ability for them to perform: a fair employment package, with potential top-ups for improved performance

³⁹ Das, J., Woskie, L., Rajbhandari, R., Abbasi, K., Jha, A., 2018. Rethinking assumptions about delivery of healthcare: implications for universal health coverage. BMJ k1716. <https://doi.org/10.1136/bmj.k1716>



(as measured by regular competency assessments, or clinical outcomes), if designed taking the context into account and not crowd out intrinsic motivation, can improve performance.⁴⁰ A mix of financial (for example, performance-based bonuses for adherence to guidelines or competence, upward career mobility) and non-financial (for example, recognition, workload, enabling environment) incentives is key in optimizing performance. A systematic review of interventions from middle-income countries demonstrates the positive impact of strengthening governance for human resources for health: measures such as devolution of accountability to the regional level, performance-based management, and standardization of posting and transfer policies were associated with improved uptake of primary health services, reduced absenteeism, improved adherence to clinical guidelines, and improved motivation.⁴¹

Substance and Scope: Prior Action 4.1 A and B & Indicative Triggers 4.2 and 4.3

112. Improving the availability of human resources in the health sector is a priority under the NDM, with a target of reaching 4.5 health workers per 1,000 inhabitants by the end of 2035⁴² and will be supported by prior actions 4.1A and B. Prior action 4.1 A is an amendment to the legal framework governing the public function (Dahir 1-58-008) to exempt health workers from the public service law, enabling the enhancement of the health sector human resources and the subsequent creation of the health service. Prior Action 4.1 B includes the amendment of law 131-13 on the practice of medicine allows doctors from other countries to practice medicine under the same conditions as their Moroccan counterparts.

113. Indicative trigger 4.2 is the promulgation of the Health Service Law, providing an enhanced employment value proposition to health workers in the public sector and indicative trigger 4.3 supports its operationalization. The Health Service will allow for a more attractive career path, performance-based compensation, professional mobility and recruitment based on necessary and qualified skills. This will reduce the differences in earnings between health workers employed in the public and private sectors, making public service more attractive and helping improve the distribution of health workers across advantaged and disadvantaged regions. Indicative trigger 4.3 of the publication of the implementation decree (s) allowing the operationalization of the Health Service.

Climate co-Benefits of Improving the Availability of Health Workers

114. Increases in capacity and training of health workers can improve their awareness of the relationship between climate change, seasonal variability, and health impacts. The introduction of performance measurement and compensation will allow incentivizing health workers to improve the knowledge and skills required to prevent and treat climate-related health conditions more effectively. Furthermore, health workers will be trained in climate related health risks and how to diagnose and manage them, and how to deliver healthcare services with a lower carbon footprint. This will contribute to the NDC

⁴⁰ World Health Organization, 2016. Global strategy on human resources for health: workforce 2030 https://www.who.int/hrh/resources/global_strategy_workforce2030_14_print.pdf

⁴¹ Effa, E., Arikpo, D., Oringanje, C., Udo, E., Esu, E., Sam, O., Okoroafor, S., Oyo-Ita, A., Meremikwu, M., 2021. Human resources for health governance and leadership strategies for improving health outcomes in low- and middle-income countries: a narrative review. *Journal of Public Health* 43, i67–i85. <https://doi.org/10.1093/pubmed/fdaa264> & Witter, S., Hamza, M.M., Alazemi, N., Alluhidan, M., Alghaith, T., Herbst, C.H., 2020. Human resources for health interventions in high- and middle-income countries: findings of an evidence review. *Hum Resour Health* 18, 43. <https://doi.org/10.1186/s12960-020-00484-w>

⁴² The special commission on the development model, 2021. "The new development model: unleashing energies and restoring confidence to accelerate the march toward progress and prosperity for all"



21 target of ensuring health workers at all levels play a proactive role in sensitizing the populations they serve about how climate related exposures affect vulnerable groups.

Expected Results for Pillar I

115. **The specific indicators tracked for each of the prior actions and indicative triggers will reflect the progression in inclusion, equity, climate resilience, and health system performance as follows:** (a) improved inclusion, as captured by the increase in the share of the population covered by health insurance from 70 percent in 2020 to 90 percent by the end of 2025; (b) improved equity, as captured by the share of the population in the poorest wealth quintile covered by the non-contributory component of AMO from 30 percent in 2020 to 65 percent by the end of 2025; as well as the improvement in the percentage of women whose delivery is attended by a skilled attendant in rural areas and the improvement of the percentage of women who complete 4 ANC visits in rural and urban areas; the increased number of health workers per 10,000 inhabitants and a reduction in the gap in availability of health workers between rural and urban areas. Significant inclusion, and equity, gains will also be reflected in the percentage of non-salaried workers engaged in climate-vulnerable sectors that will gain health insurance coverage, currently unavailable to them. The health insurance coverage gain for this population is expected to be nearly universal (90 percent) and is expected to improve resilience against consequences of extreme climate events. This indicator which will be calculated as the percentage of workers in climate-vulnerable sectors who have been enrolled in the AMO, is relevant to improving protection against health risks as these workers will be better protected against the new and increased health risks, they will be exposed to due to climate change.

World Bank Group Engagement and Sustainability for Pillar I

116. **The prior actions proposed in this section are well-aligned with the technical work and policy dialogue executed by the World Bank in the health sector since 2015.** The Bank has been engaged actively in the Moroccan health sector since 2015, which is when Improving Primary Health in Rural Areas Program-for-Results (PforR) (P148017) operation became effective. The PforR strengthened primary health service delivery in rural areas by enabling a shift in the focus of the system toward NCDs. It also supported expansions in the coverage of maternal and child health services, as well as strengthening information systems and launching the measurement of different dimensions of quality of care for these services. Complementing the PforR, the World Bank has also engaged in a substantial policy dialogue to inform transformational health sector reforms. In close collaboration with the government, a comprehensive health financing diagnostic has been conducted, and costs of service delivery at primary health facilities have been analyzed to inform future contracting of these centers. With World Bank support, a national dialogue on health financing was conducted in 2019, which informed the announcement of a comprehensive health sector reform initiative in 2020. The specific action items from the conference were included in the national health financing strategy, which was also supported by the World Bank. These measures⁴³ are reflected in the prior actions and indicative triggers. Since then, the World Bank has supported the development of an integration roadmap for fragmented health insurance schemes, as well as an assessment of the basic medical coverage, the findings of which have been incorporated into the design of the prior actions and indicative triggers, as well

⁴³ Ministry of Health, 2019. National Health Financing Conference Recommendations.

<https://www.sante.gov.ma/Documents/2019/06/recommandations%20conference%20nationale%20sur%20le%20financement%20de%20la%20sante%CC%81%2018%2019%202019.pdf>



as the government's operationalization of the health reforms. During the implementation of the DPF, the World Bank will continue providing targeted technical support to the government in line with priority areas, which can include assessments on the sustainability and targeting of the expansion of AMO, strengthening of purchasing arrangements, strengthening of monitoring and evaluation arrangements, as well as strengthening the quality of health services.

Gender Impacts

117. **Pillar I reforms will contribute significantly to closing the gender gaps identified.** Improved targeting and an enhanced benefit package for the non-contributory component of AMO will disproportionately benefit women in the poorest quintile who are currently the most underserved group. Expansion of health insurance, overhaul of the health supply and increased availability of health workers will all contribute to closing the gender gap in access to health services. They will also contribute to closing the gaps in access to health services between urban and rural women. In addition, as mentioned above, expansion of health insurance can potentially have an impact on reversing the decrease in female labor force participation. Finally, according to labor-force survey data from 2018, women are overrepresented in medical/health degrees (obtained certificate) and according to administrative data, 60 percent of medical doctors in the public sector are women. Therefore, the introduction of the health service could also have an impact in improving working conditions for women.

Pillar II: Improving Protection of Human Capital in Childhood and Against Poverty in Old Age

118. **This pillar includes measures to expand FAs and expand the coverage of pensions.** In doing so, the SP system in Morocco is expected to become more adaptive to climate risks, comprehensive, equitable, and efficient, resulting in increased promotion of human capital development during childhood and protection against the risk of poverty in old age.

Expanding Family Allowances

<p>Prior Action 5.1 to provide the legal framework for the health and social protection reform and mandate the expansion of an adaptable and climate-smart health and social protection system, the Borrower has promulgated a Social Protection Framework Law. Law 09-21 was Published in the Official Gazette No. 6975 dated April 27, 2021.</p>	<p>Indicative Trigger 5.2 to establish the parameters of the expanded FA program, the Borrower has submitted to Parliament the Family Allowances Law.</p>	<p>Indicative Trigger 5.3 to implement the expansion of the FA program, the Borrower has published the implementation decrees of the FA law.</p>
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Rationale

119. **This reform includes the adoption of decrees and other legislative texts to ensure proper governance, identification, and targeting of the health and SP reform.** The adoption of legislative texts under this pillar will ensure a strong legal and institutional framework, which is a prerequisite for the reform. The prior actions covered by this reform define the scope of the reform, as well as its governance mechanisms, both of which are essential for its implementation.



120. **Climate change is a significant threat to human capital in Morocco.** Rising temperatures, droughts and floods lead to crop and agricultural productivity losses, affecting food prices and incomes of the poorest; key interacting drivers of childhood stunting. Research from the FAO (2015) indicates progress on reducing undernourishment will be directly impaired by climate change. Further, while climate change is expected to contribute to childhood stunting more in rural than urban areas, migration to urban areas may reverse this trend. Extreme weather enables the spread of water borne diseases such as cholera and diarrhea, to which children under five are particularly vulnerable. World Bank analysis in 2018 determined that extreme heat could reduce learning and education attainment by up to 15 percent. Difficulties in accessing schooling due to flooding and landslides would increase, and poorer health of teachers and students due to climate change would also impact on education. Climate-smart SP is key to mitigating climate impacts on children and protecting human capital development.

121. **Effective coordination across a diverse range of stakeholders is essential in ensuring the success of the reform.** The governance of health and SP programs is currently fragmented, with a different set of roles and responsibilities for a range of stakeholders. The MEF oversees the overall design and implementation of the reform, as well as the provision of needed fiscal space through the annual budget process as well as tax collection. The MHSP oversees stewardship for the entire health system; service provision at the public sector; as well as purchasing health services for RAMED beneficiaries at public hospitals. The MI oversees identification and targeting for SP programs beneficiaries including RAMED, DAAM⁴⁴ and Tayssir⁴⁵ and the implementation of the RNP and the RSU. The Ministry Education, Preschool and Sport oversees the implementation of the conditional cash transfer program Tayssir. Until October 2021, the Ministry of Labor and Social Affairs was the overseeing agency for CNSS, which oversees providing financial protection and purchasing services to salaried private sector workers under the contributory AMO and pension schemes. As of October 2021, CNSS has been moved under the supervision of the MEF. In addition to these stakeholders, various ministries oversee the enrollment arrangements of the TNS into the AMO. Thus, effective coordination mechanisms are a prerequisite for the success of the reform.

122. **The SP system is hampered by complexity and fragmentation.** There are many public institutions that are involved in the implementation of social assistance programs and sometimes similar programs are provided by different public institutions with overlapping objectives. For instance, DAAM, which supports disadvantaged orphans and abandoned children, is led by the National Insurance and Pension Fund (CNRA), while Tayssir is implemented by the Ministry of Education – and the two programs do not always communicate or coordinate with each other. On the other hand, the contributory FA is managed by the CNSS.

Substance and Scope: Prior Actions 5.1 and Indicative Triggers 5.2 and 5.3

123. **Prior Action 5.1 is the promulgation of the framework law 09-21 to mandate the expansion of an adaptable and climate-smart health and SP system.** In addition to describing the scope of the reform, the law lists the four principles of the SP reform, which are: (a) solidarity; (b) non-discrimination; (c) predictability; and (d) contribution. The law confirms that the health and SP reform is a national priority and

⁴⁴ DAAM is a program which provides direct cash transfers to widows in difficult socio-economic situation taking care of orphans.

⁴⁵ Tayssir is a conditional cash transfer program that supports poor and vulnerable families, conditional on their school-aged children attending school, with the aim of improving school enrollment and reducing dropout rates



a shared responsibility between the state, population, public and private enterprises, and civil society. It also defines financing arrangements based on (a) contributions, through the existing contributory schemes and new contributions from TNS; and (b) solidarity, through the state budget including tax revenues, donations and any other revenues identified in the future. The law describes the high-level legislative and administrative arrangements for the implementation of these measures, including the interministerial commission supported by Prior Action 2.1. Finally, it defines the timelines and sequencing of the reforms. The law states that the expansion of FA will be achieved through reforming all SP programs for children with a view to harmonization and generalization; progressive reform of the price subsidy system and the use of fiscal space to fund FA; and the use of the social register as a tool to improve the effectiveness of programs for targeted populations.

124. Indicative triggers 5.2 and 5.3 support the introduction of the FA program to expand and improve SP for all Moroccans. The FA can serve the dual purpose of alleviating poverty and vulnerability among households most in need, while also advancing the human capital of the children covered and buffering the impacts of climate change. The design of the FA may consider accompanying measures that improve the development of children deliberately and persistently, while responding to climate impacts. These accompanying measures should focus on encouraging parental take-up of healthcare and education for better early childhood development, consequently stimulating the demand for these services as the GOM continues to increase their supply through various reforms. The two indicative triggers include the submission of the FA law to parliament and the publication of its implementation decree(s) which will define a clear set of design parameters that recognize and tackle issues of coverage, adequacy, and limited human capital outcomes. This includes three key design elements: (a) establishing an appropriate benefit level; (b) creating a strong set of accompanying measures to promote human capital; and (c) establishing the phasing of beneficiary enrollment. The implementation of the FA program will benefit from progress in the implementation of the RNP and RSU, including its targeting tool. The implementation of the FA using the services provided by the RNP and the RSU will ensure an integrated system that identifies and authenticates beneficiaries, allowing for the universal coverage of children and providing the support that the poor and vulnerable need. The indicative trigger will also allow for the revision in the role and scope of other key cash transfer programs such as Tayssir and DAAM, eventually encompassing all households needs within an integrated FA program. This system therefore ensures both the universalization that is needed to advance human capital in Morocco, as well as specific targeting for families that are most at need, therefore contributing to reduced inequality.

125. The FA Law and its decree (s) will provide a clear and coordinated institutional set up that eliminates overlaps and redundancies, while encouraging complementarity with existing programs. This is an opportunity to tackle some of the complexity and fragmentation of the existing system, learning from their own experience to establish a more coordinated SP system. Whichever institution will be responsible for the implementation of the FA, the Law and its implementation decree(s) will provide a solid institutional set up with a clear mandate which would ensure a stronger coordination between contributory and non-contributory schemes.

Climate co-Benefits of the Expansion of the FA Program

126. As mentioned above, climate impacts are a significant threat to human capital in MENA, particularly to children. An adaptive, climate-smart SP system is key to mitigating these risks and is one of



the key drivers for the reforms. The expansion of the FA program will make eligible vulnerable households more resilient to climate related shocks. The cash support will provide a general consumption smoothing tool, during times of income volatility caused by extreme weather events and protect food security and human capital of vulnerable families. Climate-induced shocks such as floods and droughts often result in increased food insecurity and in households adopting negative coping mechanisms, which disproportionately affect children by hindering their long-term human capital accumulation. The expected behavior change induced from the cash transfers will also support investing in children's human capital which will help build household and community resilience to food insecurity, thus reducing the impact of climate induced shocks. In addition, the Government could also decide to expand the use of the FA to provide additional assistance to existing beneficiaries or to reach additional families with children to respond to a climate related shock.

Reforming and Expanding the Pension System

<p>Prior Action 6.1A to extend pension coverage to workers under the professional unique contribution and auto-entrepreneur regimes, the Borrower has promulgated Law No. 31-21 amending and completing Law no. 99-15 which governs the pension regime for TNS, and published it in the Official Gazette No. 7056, dated January 13, 2022.</p> <p>Prior Action 6.1B to operationalize the expansion of the pension system for TNS, the Borrower has adopted Decree no. 2.21.930 modifying and completing Decree n° 2.18.622 defining the list of professional categories subject to the pension system, including those employed in the agriculture and tourism sectors who are the most vulnerable to climate change, as Decree No. 2.21.30 has been published in the Official Gazette No. 7043 BIS dated November 29, 2021.</p> <p>Prior Action 6.1C to enable the enrolment into the pension regime of approximately three million three hundred thousand TNS, including approximately one million six hundred thousand farmers, all subject to high climate-vulnerability in the agriculture sector, the Borrower has adopted and published several Decrees implementing amended Law 99-15. See details in annex 6.</p> <p>Prior Action 6.1D to improve the sustainability of the pension schemes and the</p>	<p>Indicative Trigger 6.2 A to enroll TNS belonging to the remaining professional categories into the pension regime for TNS, the Borrower has published additional Law 99-15 implementation decrees.</p> <p>Indicative Trigger 6.2 B to revise the governance and management framework of the National Social Security Fund (CNSS) and adapt it to the requirements of the reform regarding the pension regime for TNS, the Borrower has amended the CNSS law (Dahir bearing law 1-17-184).</p>	<p>Indicative Trigger 6.3 to ensure the efficient and robust functioning of the pension system; the Borrower has published implementation decrees for the amended law 1-17-184 modifying and completing the governance and management framework of the pension schemes for private sector workers.</p>
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viability of the contributory social protection system, the Borrower has launched the parametric reform of the collective retirement pension scheme ("RCAR"), modifying, particularly, the rate of revaluation of the pensions, pursuant to Decrees No. 2.20.935 and 2.20. 936 of July 27, 2021 amending and supplementing respectively decrees n° 2.77.551 and n° 2.92.927 setting forth the terms of application of the RCAR, published in the Official Gazette n° 7014 of August 19, 2021.		
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Rationale

127. **The current rate of adequate pension coverage of around 10 percent of the old age population (60 years or older) is inequitable and insufficient to mitigate against the risk of poverty in old age.** Most older adults must rely on family, and /or other types of informal care, or state transfers. With falling birth rates, raising life expectancy, changes in urbanization, climate change, migration, and family structures the reach and scope of these informal arrangements have been weakening during the last few years and are likely to weaken further. The elderly people are also more vulnerable to climate change and heat-related conditions. Under a high emissions scenario, heat-related deaths in the elderly are projected to increase to almost 50 deaths per 100,000 by 2080 compared to the estimated baseline of just under 5 deaths per 100,000 annually between 1961 and 1990. These challenges faced by the elderly including weakening informal arrangements and higher exposure to climate change, will worsen old age vulnerability, unless some new policies to protect the elderly are implemented. The pension system in Morocco is fragmented and consists of four schemes (three mandatory, and one voluntary). Two mandatory schemes -- the Moroccan Pension Fund (Caisse Marocaine des Retraites, CMR) and the Collective Pension Allocation Regime (Régime Collectif d'Allocation de Retraite, RCAR) -- cover public sector workers while the third, CNSS, covers private sector workers as does an additional voluntary scheme, the Moroccan Interprofessional Pension Fund (Caisse Interprofessionnelle Marocaine de Retraite - CIMR). These schemes suffer from some equity and sustainability challenges. Fragmentation and lack of institutional coordination further discourage labor mobility and add to the administrative costs. Only around 40 percent of the labor force (or 18 percent of the working-age population 15-64 years old), including civil servants, contractual staff of the public administration and local authorities, salaried employees of the SOEs and some private sector employees, contribute to a pension scheme. Despite the growth of the labor market and the gradual transformation of the Moroccan economy, the coverage rate is still relatively low compared to other countries in the region such as Egypt, Tunisia or Jordan. The government produced several actuarial and other studies to reform the pension system. Based on recent technical and actuarial studies which assessed the situation of the pension schemes, a strategy for reforming the system was developed. This strategy aims to initiate a reorganization of the pension schemes to ensure both their financial sustainability and to extend their coverage. To address the challenge of low coverage, Law 09-21 stipulates the introduction of a new pension regime for TNS under the CNSS, to be implemented in a gradual manner with a potential coverage of up to 5 million by 2026.

128. **Despite some efforts to reform, there are still challenges facing the pension system.** In November 2014, the IMF pointed out the urgency of reforming Morocco's pension system to ensure its sustainability.



The Civil Pensions Scheme managed by CMR, one of the major pension funds for government employees, would have become bankrupt as early as 2021. However, thanks to the 2016 parametric reforms, supported by a World Bank programmatic DPF series, the depletion of reserves was projected to be delayed until 2027. In addition, the pension scheme for private sector employees managed by the CNSS, and the pension scheme for public sector employees covered by the RCAR are expected to run into similar problems by 2052, respectively (the pension program of CNSS is projected to be in deficit as early as 2025). Over the past few years, contributions collected have increased less significantly than pension payments (6.6 percent compared to 8.9 percent). Further, around 30,000 civil servants covered by CMR retire each year while only 25,000 new civil servants are hired annually. As a result, while previously there were between nine and ten working civil servants for every retiree, the figure has now dropped to around two. Life expectancy in Morocco has also increased more rapidly than expected, resulting in pensions being paid for longer periods than were initially planned. To avoid the threat of the CMR's collapse, in a first phase of reform, the government implemented a few parametric reform measures in 2016, including: retirement age increase from 60 to 63 years; a contribution rate increase from 20 to 28 percent; a decrease of the accrual rate from 2.5 to 2.0 percent; and increase of the base wage for pension calculation from the final salary only to the average salary of the previous eight years. These measures, however, may not be sufficient to keep the system sustainable. The Government is now planning for a second reform phase which would include further parametric reforms in all schemes and the merging of the two public pension schemes (CMR, and RCAR) into one scheme.

129. **The new TNS pension regime will be managed separately from other existing programs and schemes, so it does not represent an expansion of the current system.** The TNS regime design is a type of defined contribution scheme where each contributor will have his/her own individual account and the benefits are calculated through a point system. Like for AMO, contributions rates are established for each professional category in the respective decree. Individual workers are also allowed to make additional voluntary contributions. Each worker accumulates several points each year according to the annual contribution amount divided by an acquisition point value. The acquisition point value varies each year according to the increase in the average amount of the insured revenues. Upon retirement, the pension rights are expressed in points which are multiplied by the point value of that year. This design strengthens the linkages between contributions and benefits, and it is also more appropriate for covering workers with irregular incomes than the defined benefit schemes that currently cover salaried workers. Due to the demographics of Morocco, the point system is likely to collect surplus resources for many years, but it may eventually require adjustments in case financial sustainability challenges arise. Law 99-15 specifies for this purpose that CNSS will present regular actuarial studies of the TNS scheme to the Board.

Substance and Scope: Prior Actions 6.1 A, B, C and D, Indicative Triggers 6.2 A, B and 6.3

130. **Prior action 6.1 A amends Law 99-15 to institute the rules and procedures of enrollment for the TNS pension regime.** The law will also include workers who are under the CPU and auto-entrepreneur regimes who were not previously covered. All contributions will be collected and administered by the CNSS. In the case of workers belonging to a professional category, the respective professional association will work with the CNSS and the respective line ministry (for example, Ministry of Agriculture for farmers) to identify and enroll workers. For workers under the CPU regime, the DGI will collect contributions and transfer them to the CNSS and for workers under the auto-entrepreneur regime, collection will be done by the postal service. This coordination does not imply additional transaction costs, but instead simplifies the process, reduces fragmentation and improves access for population groups that might otherwise not have the means



to enroll in the pension regime. Affiliation into the TNS pension regime will remain optional for the first two years and it will become mandatory starting in 2025.

131. **Prior action 6.1B is the publication of an implementation decree of Law 99-15 that allows operationalization of the pension regime for TNS.** While Law 99-15 mandated that the enrollment of TNS into the pension regime would be done by professional category, it did not specify the list of professional categories covered. The decree will thus allow for the application of the law to a list of 39 professional categories, including workers employed in agriculture and tourism who have been included due to their being particularly vulnerable to climate change.

132. **Prior action 6.1C is the publication of implementation decrees of Law 99-15 for each professional category (and for workers under the CPU and auto entrepreneur regimes).** The decrees set out the parameters of enrollment of each category, the contribution rates, and reference salary. Farmers and other climate-vulnerable workers have been targeted and prioritized in this first batch of 15 professional categories. Contribution rates for the pension are negotiated and agreed with the respective professional association representing workers, the levels of contribution may vary within the same category according to years of experience or age.

133. **Prior action 6.1D is the publication of two decrees amending and supplementing existing decrees setting the terms of application of the collective retirement allowance basic and complementary schemes (RCAR).** The government has initiated the parametric reform of the pension schemes to ensure the sustainability of the contributory system. The first step was initiated through the adoption of two decrees setting the terms of application of the basic scheme and the complementary scheme of the RCAR. This first step of the parametric reform had as main contributions the following readjustments: (a) Revise the method for pension revaluation by capping the revaluation rate at the inflation rate, thus preserving both the living conditions of pensioners and ensuring a controlled evolution of the pensions; (b) broaden the investment universe and strengthen governance through the establishment of a steering and investment committee; and (c) simplify procedures and exchanges between the fund and its partners through the introduction of electronic exchange and strengthen to right to access to information.

134. **Indicative trigger 6.2A concerns the publication of decrees mandating the enrollment of the 14 additional categories of TNS into the pension regime.** Indicative trigger 6.2B is an amendment to the legal framework that governs CNSS to adjust its governance framework and management structure to the requirements of the pension regime for TNS.

135. **The pension reform, within the new SP strategy, will be about inclusion, equity and fairness of the system and not just geared toward the financial sustainability of social funds and public finances.** The reform will also tackle the challenges of perverse incentives and social evasion. Several studies suggest that a package of reforms of relevant parameters could deliver a more sustainable and equitable pension system. These changes can be introduced gradually, to give policyholders time to adapt. The first step of this reform will allow the Government to reduce pension promises while raising contributions and the retirement age. Indicative trigger 6.3 will allow the Government to increase contributions and the retirement age. The approved changes will raise the retirement age to 63 from 60 by 2022 and increase workers and state contributions. From 2022, the contingency reserve would only cover around two years of benefits. It will



stand at MAD 54.21 billion in 2022 against MAD 70.65 billion in 2020. The increase in contributions would have a significant impact on the budget. However, this change should consider the capacity of the different socio-professional categories to contribute to the system. Indicative trigger 6.3 concerns the publication of a decree that modifies and completes the governance of the pension schemes for salaried workers. This decree will allow the convergence of the pension regime, a harmonization of the system and increase equity and sustainability.

Climate co-Benefits of Expanding and Reforming the Pension System

136. **The extension of pension coverage will make the targeted TNS and their dependents more resilient by providing them protection against the climate change-exacerbated risks of poverty in old age.** The expansion is specifically targeted to climate-vulnerable populations, including those employed in agriculture, tourism and workers in other outside environments. The enrollment of 1.6 million farmers into the pension regime is an integral component of the Ministry of Agriculture's GGS strategy and is driven by Morocco's climate adaptation efforts. To identify eligible farmers, the Ministry of Agriculture has developed a registry that includes geolocation and other land and production characteristics in addition to individual information. This allows the tailoring of parameters of coverage to ensure they encompass climate vulnerability and will enable adaptation to emerging climate risks for these specifically targeted vulnerable groups. Moreover, access to a reliable pension system can help the elderly increase their resilience to climate shocks. Extreme heat events due to climate change can increase the risk of illness and death among older adults. Lack of access to pensions and other formal saving mechanisms results in additional old-age vulnerabilities, as the elderly will have to depend on family for financial protection and caretaking, adding to the overall vulnerability of the household.

137. Together, the expansion of the FA and the pension system will create an enabling environment to complete the energy subsidy reform once the government decides to implement it. The price subsidy reform would result in substantial mitigation against climate change, as the remaining subsidies are linked to the consumption of flour, sugar and LPG, and changes in consumption patterns of these goods, particularly LPG will result in substantial climate co-benefits.

Expected Results for Pillar II

138. **The reform actions are expected to accelerate the implementation of an adaptable, climate-smart, efficient and inclusive SP system.** The government objective is to ensure that all eligible children have access to the FA program. The proposed results indicator is an increase in children aged between 0 and 17 years old receiving a cash transfer through their family from a baseline of 43 percent in 2021 to 80 percent by 2025. Finally, the pension reform will address the challenge of unsustainability of the existing contributory system and the expansion of pension coverage of salaried workers, and TNS. To monitor this, the result indicator is an increase in the number of workers covered by the pension system by 1.5 million by 2025.

World Bank Group Engagement and Sustainability for Pillar II

139. **The prior actions and indicative triggers of this pillar are well-aligned with the World Bank engagement in the SP sector.** The World Bank has been supporting Morocco in building the foundation for the reform of the SP system. The Identity and Targeting for SP Project (SP-1) (P155198) supports the design



and implementation of the building blocks of a modern safety net. SP-1 supports the design and development of the RNP and the RSU. All technical and legal prerequisites for rolling out the RNP and the RSU have been met. The GOM is piloting the implementation of the RNP and RSU in the Rabat-Kenitra region, starting with the RNP from December 2021 to August 2022 and continuing with the RSU during March 2022 to December 2022. The national roll out, in 2023, will support the improvement of targeting accuracy for safety net programs. Thus, the overall health and SP reform will capitalize and build on the experience and lessons learned from SP-1. In addition, the COVID-19 SP Emergency Response Project (SP-2) (P172809) supports the harmonization of cash transfer programs and the design and implementation of the FA. SP-2 supports the preparation of key design parameters of the program including the eligibility criteria, outreach and communication campaigns and the overall delivery system, from identification to payments and grievance mechanisms, as well as its monitoring and evaluation. During the implementation of the DPF series, the World Bank will ensure the coordination of this operation with these investment projects and other technical assistance activities, including actuarial studies on the expansion and the sustainability of the pension regime.

Gender Impacts

140. **Pillar II prior actions and indicative triggers will have a positive gender impact.** The expected positive impacts are threefold: (a) improved access to cash transfers by women; (b) improvement in the human capital development of girls from poor households and rural areas, through cash transfers which will increase access to education and health services and thus contribute to an increase in the HCI; and (c) Closing the gender gap in social insurance by 2025 by adopting parametric reform measures and expanding pension coverage to TNS. According to the HCP, the agriculture, forestry and fishing sector remains the main employer of women (44.8 percent). Thus, these measures could help increase the female labor force participation rate to 27 percent by 2025.

Pillar III: Improving Climate Risk Management and Resilience Against Catastrophic Events

141. **Pillar 3 aims to enhance resilience to natural disasters and climate risks**, including through the strengthening of the institutional and coordination framework for disaster and climate-related risk management, the establishment of think tanks and coordination committees bringing together key stakeholders and the adoption of a DRF Strategy that considers the impact of drought risk on the most vulnerable farmers.

Improving Climate Risk Management and Resilience Against Catastrophic Events

<p>Prior Action 7.1 A to improve disaster and climate resilience at the local level, the Borrower has mandated the establishment of natural risk management units at the level of prefectures, provinces, districts and pashaliks pursuant to the Ministry of Interior's Circular dated April 1, 2021.</p> <p>Prior Action 7.1 B to implement the emergency program launched by the Government on February 17, 2022, to</p>	<p>Indicative Trigger 7.2 A to further strengthen the institutional framework for disaster and climate-related risk management, the Borrower has established an inter-ministerial DRM committee to guide the government's approach on disaster and climate resilience.</p> <p>Indicative Trigger 7.2 B to</p>	<p>Indicative Trigger 7.3 to improve and broaden the scope of disaster risk financing in Morocco, the Borrower has approved a Disaster Risk Financing Strategy that considers the impact of drought risk on the most vulnerable farmers.</p>
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mitigate the effects of the 2021-2022 drought rainfall deficits in the agriculture sector, and more particularly its first axis which objective is to protect the farmers: (a) a convention was signed between the Ministry of Economy and Finance, the Ministry of Agriculture, Maritime Fisheries, Rural Development and Water and Forests (MAPMDREF) and the Fund Hassan II approving the terms and conditions of the funding [approved] for the implementation of this “axis” on February 28, 2022; and (b) a joint circular was issued by the Ministry of Interior and MAPMDREF detailing the procedures for the distribution of subsidized animal feed on February 26, 2022.	improve protection of farmers against the increased frequency of droughts due to climate change, the Borrower has established an inter-ministerial commission bringing together line ministries, insurance regulators and insurance providers to discuss adaptive and innovative approaches for drought insurance.	
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Rationale

142. **Morocco is highly vulnerable to the impacts of human-induced climate change that are increasing in frequency and intensity, particularly life-threatening extreme weather events including floods, heatwaves, and droughts.** These physical climate hazards are causing widespread and pervasive impacts to ecosystems, people, settlements, and infrastructure. Vulnerable people and systems are disproportionately affected. Every year, according to MnhPRA, average losses related to flooding alone are estimated at over US\$ 450 million (MAD 4 billion) per year. In this context, it is important to further strengthen the government’s institutional and coordination framework for disaster and climate-related risk management, at both local and central levels.

143. **Morocco is currently facing the most severe drought of the last 40 years which will lead to as high as a 70 percent high reduction in national cereal production.** To respond to this drought and support affected farmers and breeders, the government launched a Drought Plan in February 2022 for an amount of 10 billion dirhams. This plan includes several ex-post actions to help farmers, but drought has become more recurrent and structural in Morocco, and the government recognizes that it cannot only rely on ex-post management plans. Ex-ante drought management have increasingly been an integral part of government policies in Morocco particularly through climate risk management tools, including risk transfer tools such as crop insurance against climate risks or macro-insurance coverage. To develop such tools, it is necessary to improve coordination by establishing a dedicated space for dialogue between all involved stakeholders (Government, regulatory authority, insurance companies, and so on). It is also important to distinguish, from an actuarial point of view, between insurance schemes for different types of agricultural holdings (large farms versus subsistence farmers). Where insurability is not guaranteed, a solidarity mechanism can provide relief for the most vulnerable farmers.

Substance and Scope: Prior Actions 7.1 A and B, Indicative Triggers 7.2 A, B and 7.3

144. **Prior action 7.1 A and indicative trigger 7.2 A aim to strengthen the government’s institutional and coordination framework for disaster and climate-related risk management.** Prior action 7.1 A concerns a



circular by the MI instructing the Walis of regions and the Governors of prefectures and provinces to establish natural risk managements units at the level of prefectures, provinces, districts and pashaliks. These units will act as key institutional mechanisms to coordinate DRM policy and actions between the national (strategic) and local (implementation) levels, and to strengthen the mainstreaming of DRM at the regional and local level. This prior action is strongly aligned with the second program of the National DRM Strategy, which focuses on strengthening DRM at the regional and local level. It thus complements the Morocco Integrated DRM and Resilience PforR (P144539), which supported the development and adoption of the national DRM strategy. Indicative trigger 7.2 A concerns the establishment of a high-level, interministerial commission for natural risk management with the objective of guiding the government's overall approach to disaster and climate resilience. This indicative trigger is strongly aligned with the first program of the National DRM Strategy, which focuses on strengthening DRM governance at the central level.

145. Prior action 7.1 B and indicative trigger 7.2 B of Pillar III aim at improving farmers' resilience to climate shocks. Prior action 7.1 B is focused on the very short term and consists of the co-financing of the Drought Plan launched by the government in February 2022, in response to the severe drought experienced by Morocco this year and more particularly its first axis. The objective of this action is essentially to respond to an emergency and to aid affected farmers and stockbreeders. This "Drought Plan" has three axes: Axis 1 aims to distribute subsidized livestock feed to farmers to mitigate the impact of higher feed prices and the decrease in forage availability; provide water for livestock; and provide complementary irrigation to protect newly planted trees. Axis 2 aims to accelerate the compensation of farmers covered by drought insurance (capital insured by farmers reaching 1.12 billion dirhams on an area of 1 million hectares). This system is largely subsidized by the State, between 57 percent and 90 percent of the insurance premium paid by farmers is paid by the State (an average of 350 million DH is supported by the State annually for 1 million insured hectares). Axis 3 is supported by the banking sector (Crédit Agricole du Maroc). The objective is to reschedule farmers' debt, finance spring crops and operations to supply the national market with wheat and livestock feed, and finance innovative investments in irrigation.

146. Indicative trigger 7.2 B targets the long-term protection of farmers against frequency of droughts by setting up an inter-ministerial coordination mechanism and by creating a space for dialogue and reflection between the private and public sectors to develop innovative tools for transferring climate risks, to cover drought through agricultural insurance. The indicative trigger will help define the different prerogatives of the involved stakeholders and identify feasible insurance schemes to develop an adaptive insurance offering for insurable farmers, while also setting-up a solidarity mechanism to cover the most vulnerable farmers, who are most often subsistence farmers.

147. Indicative trigger 7.3 will follow up on these findings to improve and broaden the scope of DRF in Morocco. To do so, the Borrower will approve a DRF Strategy that considers the impact of drought risk on the most vulnerable farmers.

Expected Results for Pillar III

148. The proposed actions will improve the government's institutional and coordination framework for disaster and climate-related risk management. Through prior action 7.1 A, the government is strengthening institutional coordination of DRM and CCA policies and investments between the central and local levels and



increasing the government's ability to effectively promote disaster and climate resilience at the local level. To monitor this, the result indicator is the number of natural risk management units established at the local level.

149. Through indicative triggers 7.2B and 7.3, the DRF strategy will lay the groundwork for a coordinated and rationalized approach of the stakeholders to improve farmers' resilience to climate shocks, particularly farmers most vulnerable to drought risk. Concerning the financing of the Drought Plan 2022, this action aims to support affected farmers, particularly livestock farmers. To monitor this, the proposed result indicator is the number of farmers who received assistance such as subsidized feed.

World Bank Group Engagement and Sustainability for Pillar III

150. The prior actions and indicative triggers of this pillar are well-aligned with the World Bank engagement in disaster risk management and financing, as well as the agriculture sector. The GOM and the World Bank have established a strong partnership on DRM since 2008. Initially, this partnership focused on technical assistance, such as the World Bank publication "Building Morocco's Resilience: Inputs for an Integrated Risk Management Strategy" in 2014 as well as the development of MnhPRA. This technical engagement led to the Integrated Disaster Risk Management and Resilience Program-for-Results (P144539) in 2016, extended through an Additional Financing (P176349) in 2021, which aims to improve the institutional framework to finance disaster risk reduction activities and strengthen financial resilience to natural disasters through the deployment of a dual insurance/solidarity coverage mechanism. The DRM PforR was complemented by the Morocco Disaster Risk Management Development Policy Loan with a Catastrophe Deferred Drawdown Option (P168580) in 2019 to provide contingent financing to the GOM in the case of a disaster event, and to strengthen the country's institutional framework for disaster and climate-related risk management as well as its institutional capacity to deal with the adverse financial impacts of disasters and climate-related shocks. Building on this DRM engagement, the World Bank is currently preparing an IPF Small Grant "Strengthening the Financial Resilience of Morocco" (P175523), which aims to enhance existing risk models for floods and develop new models for droughts, in complementarity with this DPF series. In the agriculture sector, the World Bank is collaborating with the government to implement several operations to strengthen CCA and disaster resilience. Notably, the Large-Scale Irrigation Modernization Project (P150930) and the Resilient and Sustainable Water in Agriculture (P175747).

Table 5: DPF Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
Pillar I: Improving Protection Against Health Risks	
Extending Mandatory Health Insurance to TNS (Prior Actions 1.1 A, B, C) Transforming RAMED from an Assistance Scheme to an Insurance Scheme (Prior Action 2.1)	<ul style="list-style-type: none"> World Bank, 2018. Morocco's Subsidized Health Insurance Regime for the Poor and Vulnerable Population: Achievements and Challenges. National Tax Conference, 2019 National Health Financing Conference, 2019 (organization of which was supported by the World Bank Morocco PHRD Health Sector Support Grant) Ministry of Health, 2019. National Health Strategy for 2025 (Plan Sante 2025). Ministry of Health, 2021. National Health Accounts, 2018 World Bank, 2021, Situational Analysis of Health Financing in Morocco Ministry of Health, 2021, Health Financing Strategy (development of which was supported by the World Bank Morocco PHRD Health Sector Support Grant) World Bank, 2021, An Integration Roadmap for Health Insurance Schemes



Prior Actions	Analytical Underpinnings
	<ul style="list-style-type: none"> World Bank, 2021, An Evaluation of Basic Medical Coverage (CMB) World Bank, 2021, An Evaluation of Costs of Primary Health Care Services World Bank, 2021, Labor Regulation and Social Protection for Workers in Morocco World Bank, 2021, Governance of the Health Sector in Morocco: a Rapid Diagnosis Government of Morocco, 2021. New Development Model.
3. Revamping the Supply of Health Services (Prior Action 3.1)	<ul style="list-style-type: none"> Ministry of Health, 2021. <i>Carte sanitaire</i> World Bank, 2021. Towards a High-quality Health System in Morocco World Bank, 2021. Analysis of the Distribution of Public Service Delivery Capacity World Bank, 2021. Maximizing the Impact of Health Reform by Putting Quality at its Center.
4. Increasing the Availability of Health Care Workers (Prior Actions 4.1 A and B)	<ul style="list-style-type: none"> WHO, 2015. Evaluation of Public Health Functions in Morocco WHO, 2017. Health Labor Market and Training of Health Professionals in Morocco. WHO, 2017. Proposal for the Implementation of a Human Resources for Health Observatory. Ministry of Health, 2018. Human Resources Development Strategy. Ministry of Health, 2019. National Health Strategy for 2025 (Plan Sante 2025). Ministry of Health, 2019. Training Strategy, 2019-2025 Ministry of Health, 2019. Results of Human Resources for Health. World Bank, 2020. Review of Human Resources for Health in Morocco Government of Morocco, 2021. New Development Model. World Bank, 2021. Towards a High-quality Health System in Morocco World Bank, 2021. Analysis of the Distribution of Public Service Delivery Capacity World Bank, 2021. Maximizing the Impact of Health Reform by Putting Quality at its Center.
Pillar II: Improving protection of Human Capital in Childhood and Against Poverty in Old Age	
5. Expanding Family Allowances (Prior Action 5.1)	<ul style="list-style-type: none"> World Bank & HCP, 2020. Social and Economic impact of the COVID-19 crisis in Morocco Government of Morocco, 2019. Projet de politique publique intégrée de la protection 2020-2030. Government of Morocco, 2021. New Development Model. Larabi Jaïdi, 2020. The Targeting of poor and vulnerable in Morocco: Lessons learn for after COVID-19 World Bank, 2020. Human Capital Project Bousselmane, 2017. A Phased Approach to Energy Subsidy Reform: Morocco Experience. (ESMAP)
6. Expanding and Reforming the Pension System (Prior actions 6.1 A, B and C)	<ul style="list-style-type: none"> World Bank, 2021, Labor regulation and social protection for workers in Morocco World Bank, 2013. Pensions in Morocco. World Bank, 2015, Morocco Social Protection and Labor Diagnostic World Bank Group, 2015. Morocco: Mind the Gap, Empowering Women for a More Open, Inclusive and Prosperous Society Government of Morocco, 2021. New Development Model.
Pillar 3: Improving Climate Risk Management and Resilience Against Catastrophic Events	
7. Improving climate risk management and resilience against catastrophic events (Prior actions 7.1 A and B)	<ul style="list-style-type: none"> World Bank, 2014. Natural Disasters in the Middle East and North Africa: A Regional Overview. World Bank, 2014. Building Morocco's Resilience: Inputs for an Integrated Risk Management Strategy. OECD, 2017. OECD Review of Risk Management Policies Morocco.

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY



151. **The proposed operation directly supports the second and third pillars of the Country Partnership Framework (CPF) 2019-2024.** The operation is aligned with objectives #6 – Improve the quality and efficiency of health service delivery systems, #7 – Strengthen SP for the poor and vulnerable, and #10 – Enhance adaptation to climate change and resilience to natural disasters. The CPF has been adjusted to respond to the COVID-19 pandemic by supporting the country in its focus on Relief, Restructuring, and Resilient Recovery. The overall objective of the CPF is to support Morocco in promoting social cohesion by improving the conditions for job creation and reducing social and territorial disparities. The CPF pursues three focus areas: i) Promoting Job Creation by the Private Sector; ii) Transforming and Protecting Human Capital; and iii) Promoting Inclusive and Resilient Territorial Development. Additionally, in line with the findings of the Systematic Country Diagnostic (World Bank, 2018), Governance and Citizen Engagement form a foundation of the CPF.

152. **The DPF contributes directly to the WBG twin goals of ending extreme poverty and promoting shared prosperity in a sustainable manner.** The operation is also aligned with the WBG's COVID-19 Crisis Response Approach Paper's Pillar 2 "Protecting Poor and Vulnerable People" and Pillar 4 "Strengthening Policies, Institutions and Investments for Rebuilding Better". The Program also directly contributes to the WBG Enlarged MENA Strategy (March 2019) pillar on Building Human Capital and is also aligned with the WBG Gender Strategy (FY16-23) by contributing to increasing women's access to health and SP.

153. **This operation is in line with the WBG's Climate Change Action Plan (CCAP 2021-2025), particularly with the objectives of adaptation and mobilizing private capital for climate change risk coverage.** Indeed, in terms of climate adaptation, the link with the WBG's CCAP is very strong, particularly through actions related to strengthening country climate policies, strengthening the management of climate change-related disasters that already have a significant economic impact in Morocco, reducing the climate vulnerability of the population, including in rural areas and those working in the agricultural sector, and increasing public and private financing for climate action.

154. **This operation complements the Human Development portfolio in Morocco towards achieving the CPF and MENA Human Capital Regional Strategy objectives.** The series complements the "Improving Primary Health in Rural Areas Program PforR" (P148017), which aimed to expand health care access in rural areas and strengthen the COVID-19 response that closed in September 2021 and will help sustain its development outcomes. The series also complements the "Improving Early Childhood Development Outcomes in Rural Morocco PforR" (P173073), approved in 2021. This Early Childhood Development (ECD) PforR aims to improve access to select quality ECD services in rural areas of Morocco and establish mechanisms to strengthen monitoring, evaluation and coordination of ECD services. It also complements two SP Investment Project Financing operations the "Identity and Targeting for Social Protection Project" (P155198) and the "Morocco COVID-19 Social Protection Emergency Response Project" (P172809) that support the GOM in the design and implementation of the RNP and RSU and supports the development of the operational foundations for the FA program. It also complements the "Education Support Program PforR" (P167619) by addressing key demand-side barriers to access and to learning.

155. **This operation is part of the robust overall World Bank engagement in Morocco that has helped build the momentum for reform.** This operation builds on a Morocco portfolio that currently includes 20 active projects valued at US\$5.2 billion. It complements a US\$450 million PforR to support the Morocco



Public Sector Performance (ENNAJAA) (P169330) that was approved by the Board in December 2021 as well as two operations supporting climate change mitigation and adaptation, green, resilient, and inclusive development (Resilient and Sustainable Water in Agriculture (P175747) (approved by the Board in March 2022) and National Program for the Sustainable Development of Coastal Areas (under preparation)). The World Bank is also closely collaborating with Morocco on substantial analytical studies covering a wide range of sectors, including the Morocco Country Climate and Development Report, the Public Expenditure Review (PER) and the Public Expenditure and Financial Accountability (PEFA).

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

156. The government program supported by the proposed operation builds on an extensive consultation process. Each new or amended legislation must go through a formal process of consultation embedded in Morocco's parliamentary process. In addition, the vision of the reform benefited from the consultation process carried out by the CSMD. The NDM was the outcome of a broad and inclusive process of consultation and interaction with citizens and communities across the country. CSMD carried out 70 listening sessions, 113 workshops, and 35 citizen-specific listening sessions. The consultative process included visits to 30 different cities and listening to direct input from 10,000 citizens. CSMD put a particular focus on the regional development context, holding several meetings with representatives of the 12 Moroccan regions. These consultations are relevant since the reforms proposed by the CMSD are an integral component of the government program supported by this operation.

157. The reform supported by the proposed operation has broad support from development partners active in Morocco. The AFD is preparing a parallel EUR 150 million loan to support the reform. The instrument used by AFD includes disbursement indicators (comparable to Disbursement Linked Indicators in WB PforR instrument) that are aligned with the policy actions in this DPF series as well as more operational indicators. The EU is preparing a parallel EUR 100-150 million grant that supports the reform and will support some focus areas common to this operation. Finally, the AfDB is in conversation with the GOM on a potential EUR 100 million loan that will provide parallel financing relying on the same policy matrix as this operation. The task team has been coordinating closely with the three agencies to ensure that the different operations are coherent and well-coordinated. Morocco is also benefiting from strong technical and financial collaboration from development partners to implement its climate change commitments, including a "Green Partnership" on energy with the EU and financing from the European Green Economy Financing Facility to foster climate mitigation and adaptation.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

158. The reform program supported by this operation is expected to have positive poverty and equity effects and has the potential to contribute to improve living standards in the medium term.⁴⁶ The first pillar of the operation comprises the extension of the AMO to TNS as well as provision of a comparable health

⁴⁶ The team would like to express gratitude to HCP and ONDH for providing access to household and labor force surveys microdata.



care package to RAMED beneficiaries, together with better and more comprehensive targeting. Such actions can alleviate poverty by reducing OoP health expenditures, which are higher among households in the bottom 40 percent, and the risk of catastrophic health expenditures. In addition, upgrading the supply of health care and enhancing human resource management under the first pillar can reduce geographical disparities, increase AMO take-up, and ultimately improve the population's health status. Similarly, the reforms envisioned under the second pillar, including the establishment of a universal FA program as well as the extension of the pension scheme to TNS, can contribute to alleviating poverty among children and elderly. In addition, a universal system of benefits for children can have beneficial impacts on use of health services, dietary diversity, school enrollment and attendance. Nonetheless, it is worth noting that the extent to which TNS contribute to the health insurance and pension scheme depends on their expected net benefit. Therefore, an accurate design of the parameters of the schemes will be key to reaching a high coverage rate of the target population, as well as to ensuring the long-term fiscal sustainability of the system.

159. **Prior actions supported under Pillar I may considerably alleviate poverty by reducing OoP health expenditures and the risk of catastrophic health payments.** In addition, extending accessibility of health care, decentralizing health service delivery, and creating GSTs may improve the population's health status, increase productivity and indirectly contribute to poverty reduction. However, the degree of take-up will depend on the expected cost/benefit of the AMO among TNS.

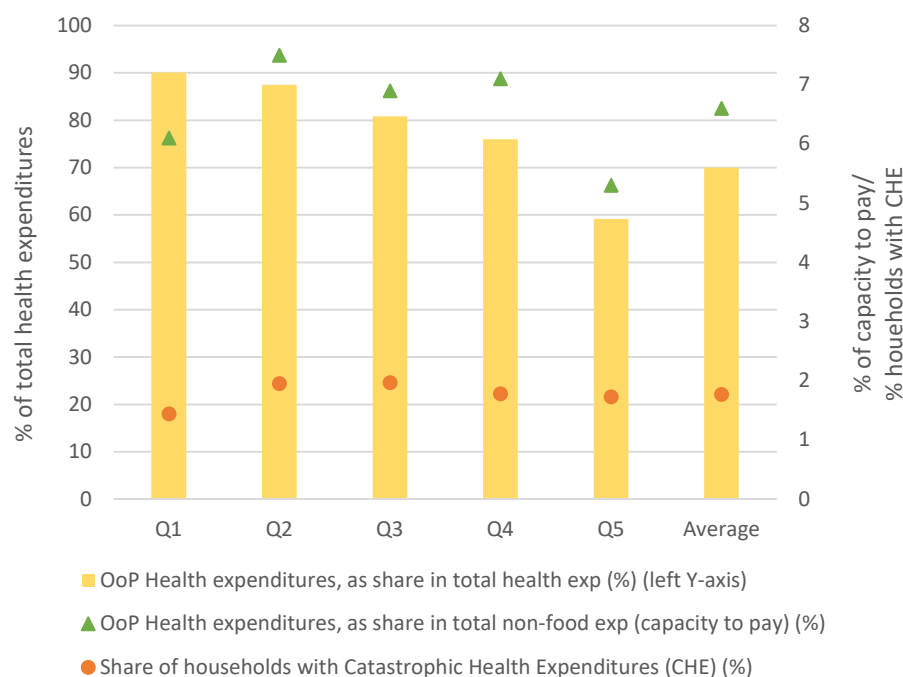
160. **The extension of AMO to TNS is expected to improve the population's health status and alleviate poverty due to an expected reduction in OoP expenditures.** Extending mandatory health insurance to TNS and their families can improve on average the health status of the population as more people would have access to affordable health care services, particularly those at the bottom of the welfare distribution. The share of TNS is indeed larger among poorer households (57 percent in the lowest quintile vs 39 percent in the highest quintile of the consumption distribution in 2013). This can also raise the productivity of the labor force, a key driver of economic growth. Ensuring the poor and vulnerable have access to affordable health care is also a direct instrument of poverty alleviation. It reduces the chances of incurring high unexpected OoP that can be catastrophic for the welfare of the most vulnerable.⁴⁷ The incidence of OoP in total health expenditure is higher for the poorest (90 percent) relative to the most affluent households (59 percent). Moreover, households do not contribute the same proportion of their capacity to pay, that is, total non-food

⁴⁷ In this context, the WHO definition of catastrophic health expenditure is adopted, that is, the share of household OoP health expenditures is above 40 percent of non-food expenditures.



expenditure: households in the low-middle quintiles contribute more and are more at risk of facing CHE (Oudmane et al., 2019 based on HBS, 2013).

Figure 1. Incidence of Out-of-Pocket and Catastrophic Health Expenditures by Quintile of Per Capita Household Expenditures, 2013



Source: Based on data from the Household Consumption and Expenditures Survey 2013, HCP in Oudmane et al., (2019) "The Impact of Out-of-pocket Health Expenditure on Household Impoverishment: Evidence from Morocco".

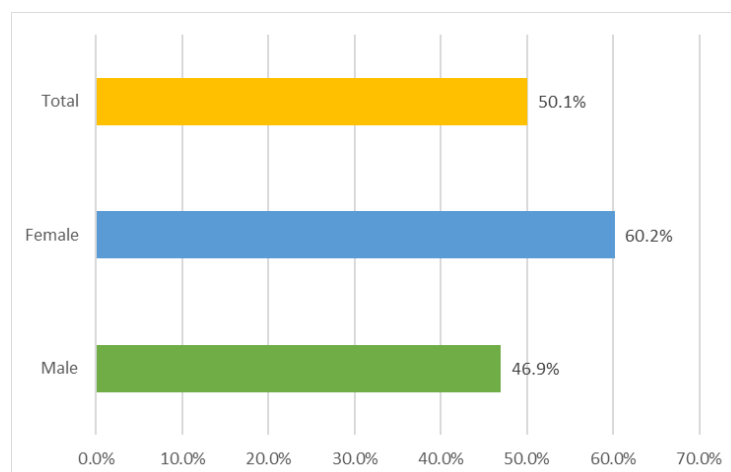
161. **Yet, contributions to AMO could outweigh the perceived benefits and lead to low take-up.** The number of TNS who will contribute to the AMO will ultimately depend on the expected net benefit that each worker and her family will receive from the scheme. Some workers might resist contributing to the system, and a low compliance might compromise the sustainability as well as the amount of risk pooling of the health insurance scheme. In addition, contributions to the health insurance system may be larger than current expenses on health, resulting in net losses for some of the new beneficiaries. This risk has been recognized by the government and concrete mitigation actions have been put in place as described in the rationale for reform line 1 above.

162. **Low potential compliance among salaried workers is a call for careful design and implementation of the AMO scheme, both for the overall population and particularly among TNS.** The available evidence among salaried workers, who are required to contribute to AMO under the existing system, indicates that only about 1 in 2 salaried workers contributed in 2019 (50 percent, see Figure.2), with a higher rate among women (60 percent). The main reasons reported by salaried workers who do not contribute to AMO are related to the costs and benefits of the insurance scheme. While 13 percent of salaried workers complain about contributions being too high, almost 1 in 2 among those who do not contribute report that the coverage is too limited, reimbursement is too low or takes a long time or procedures related to advancing



payments, providing documents to obtain the reimbursement and getting support is considered too complicated (Figure 3). This is corroborated by the evidence that the health insurance scheme only refunds the legal tariff negotiated with health providers, while beneficiaries typically pay market tariffs that are higher. As part of the reform, reimbursement rates will be revised, and balance billing rules will be monitored and enforced more closely. Finally, only about 14 percent report that the employer refused to pay to provide such coverage. It is worth bearing in mind that in the case of salaried workers compliance with social insurance is the byproduct of a bargaining process between employer and worker and concerns a full package of risks, including health, longevity, unemployment, work-accidents, disability as well as payment for FAs. Therefore, the low take-up rate might be partially ascribable to the cost and benefits provided by the other schemes, particularly the pension system. By contrast, in the case of TNS, AMO will be at least initially introduced as a stand-alone scheme. Nonetheless, it is of paramount importance that contributory rates and taxable base, the degree of coverage, the quality of the health care provided, reimbursement time are adequately considered in the implementation of the reform to ensure the system's success in terms of take-up, access to health care, welfare, and fiscal sustainability.

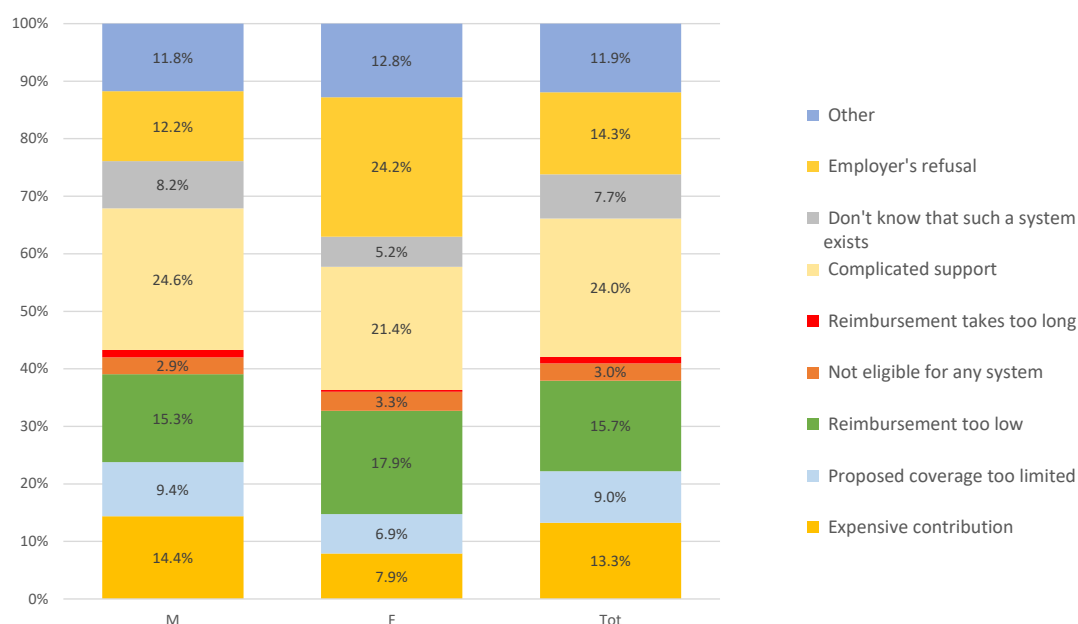
Figure 2. Share of Salaried Workers who Contribute to AMO, by Sex, 2019



Source: Based on data from the household panel survey, ONDH.



Figure 3. Distribution of Reasons for Not Contributing to AMO Among Salaried Workers, by Sex, 2019



Source: Based on data from the household panel survey, ONDH.

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164. **In addition, improving the targeting accuracy of the non-contributory pillar will lead to better targeting and lower inclusion and exclusion errors.** While RAMED was designed to reach those unable to contribute to health insurance, a non-negligible share of more affluent people are covered. More than half of the population in the lowest quintile are RAMED's recipients, but also over 20 percent of the population in the two wealthiest quintiles benefit from the scheme.

165. **Upgrading the supply of healthcare and improving human resource management may reduce territorial disparities regarding the accessibility of health services and improve the overall quality and quantity of the supply.** Deconcentration of health service delivery and the creation of GSTs may address territorial inequalities, particularly between urban and rural areas, in access to and in quality of health care, reflecting the unequal allocation of resources and lower health outcomes for the poor (Morocco – Ministry of Health (2018), ENPSF). In addition, the reform of human resources management may improve the quality and quantity of health care services through incentive-based mechanisms (for example, performance-indexed remuneration) to meet a potential increase in demand, including new beneficiaries who are partly vulnerable households.

166. **Implementing a universal program of FA may improve the living standards of most vulnerable households and their children who are not adequately covered by existing programs.** The SP system is fundamental to improving children's development and well-being, also for the future, as early experiences of deprivations may have long-lasting if not intergenerational effects and risks of climate change are likely to exacerbate existing fragility. An integrated program of FA and the expansion of its coverage would allow tackling more effectively children's poverty by reducing the system's fragmentation and by improving targeting. The incidence of children living in households below the poverty line is 4.4 percent, while those at risk of poverty is 14.4 percent (ONDH et al., 2017). The existing FA is contribution-based and therefore tied to formal salaried employment. It is estimated to cover 2.8 million children, or 25 percent of all children ages 0-17 in the country (based on estimates derived from 2019 ONDH panel household survey data). The system does not reach the poor and vulnerable as benefits are provided conditional on the formal employment status of heads of households (for a minimum required number of days of contribution over a period of 6 months). This means only children dependents of formal salaried workers can currently benefit, and they are more likely to belong to better off households. In addition, the non-contributory PMT based Tayssir program covers an additional 21 percent of children but fails to reach over 70 percent of children in the bottom 40 percent. The proposed reform may extend the proportion of households with children (0-17) receiving the benefits, improving the little coverage of vulnerable children as those of pre-school age or out-of-school (Machado et al., 2018). Providing such benefits to more children belonging to poor and vulnerable households can facilitate the use of health services and dietary diversity (Gaarder et al., 2010; Lagarde et al., 2009), and can improve the odds of being enrolled in and attending school compared to no CT program (Baird et al., 2014). Universal child benefits (UCB) are more likely to reduce poverty compared to systems based on means-testing since the actual covering of vulnerable households may be affected by potential inclusion and exclusion errors, low take-up and potential economic distortions related to targeting (ODI and UNICEF, 2020). These systems may also be promptly extended in the context of crisis. Moreover, UCBs tend to strengthen human rights and social cohesion, reduce social stigma associated with benefits for the poor and require lower administrative costs due to simplified eligibility criteria (ILO, 2021).

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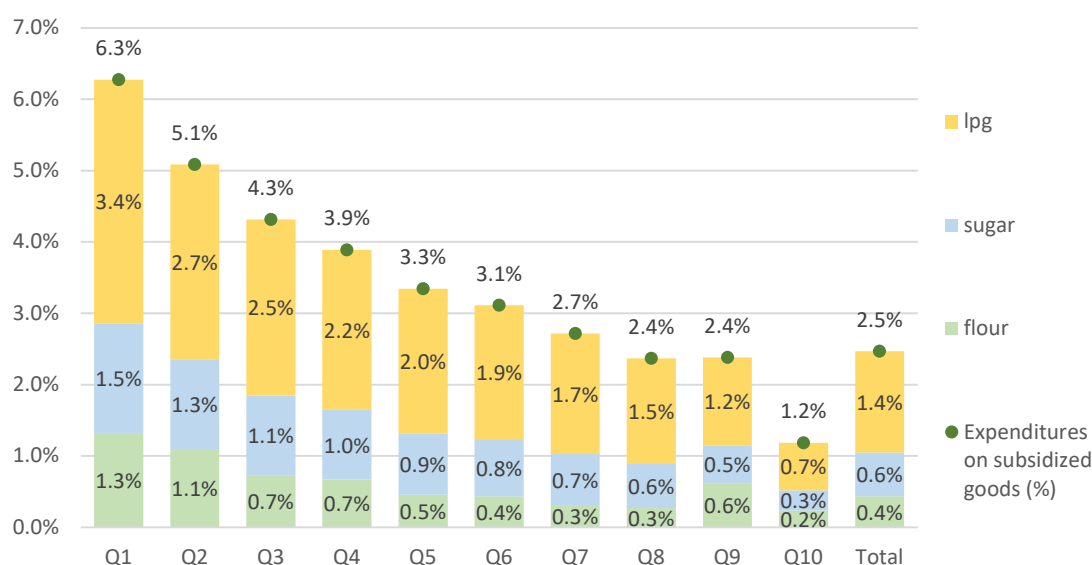
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168. Extension of the pension scheme to TNS can help reduce poverty among older people. It may also contribute to the fiscal sustainability of the system in the medium-long term by further pooling the risk of poverty in old age. Pensions for older women and men ensure income security and play a crucial role in preventing poverty and vulnerability after people withdraw from the labor force, particularly when life expectancy increases. The proportion of older individuals (above statutory retirement age) receiving an old-age pension (including contributory and non-contributory) is relatively low (23.4 percent) (ILO, 2021). TNS will be covered by a pension system with contributions flowing into individual accounts. TNS earn pension points based on presumptive income for each year of contributions. At retirement, the sum of pension points is multiplied by a pension-point value to convert them into a regular pension payment. Contributors can get a lump sum if at retirement the amount of the pension benefit was below a certain minimum level, thus not incurring the risk of losing the contributions paid. A downside is the use of presumptive income brackets to calculate contributions. Existing evidence of attempts of many governments worldwide to cover the self-employed have encountered severe difficulties (Güven 2019; Rudolph 2019). Simulation exercises will be conducted for the second and third operation, to assess the expected net benefit based on income data from household surveys as opposed to presumptive income brackets.



169. **Subsidized products are relatively more important for the poor, as their expenditure share of subsidized products is considerably higher.**⁴⁸ Households in the lowest decile spend more than 6 percent of their budget on subsidized products, which compares with 1.2 percent among households at the top of the distribution (Figure 4). In particular, the poorest 10 percent spend on average 3.4 percent of their budget on LPG, followed by sugar (1.5 percent) and flour (1.3 percent). This compares with about 1.9 percent on LPG, 0.8 percent on sugar and 0.4 percent on flour, and an overall expenditure share of 3.3 percent, among households in the middle of the distribution. The average expenditure share on subsidized products decreases, almost linearly, with households' expenditure capacity: for each item, such share among the richest 10 percent is about five times lower relative to the poorest 10 percent.

Figure 4. Share of Expenditures on Subsidized Products by Decile (SUBSIM Simulation)



Source: Based on data from the Household Consumption and Expenditures Survey 2013/14, HCP.

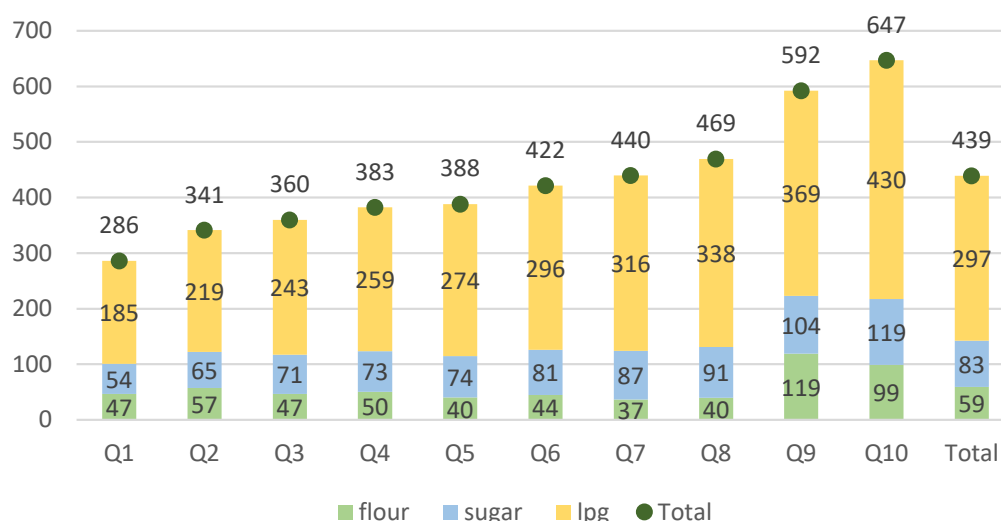
170. **However, subsidies are pro-rich in per capita terms.** The most affluent households received on average over 2.25 times the per capita amount received by the poorest households (DH 647 vs 286) (Figure 5). The wealthier the household, the higher the benefit obtained on all subsidized products. Therefore, the largest share of public expenditures on subsidies benefits the rich. The per capita LPG subsidy, which is the

⁴⁸ This simulation considers only the direct effects of subsidies' removal, excluding indirect effects on consumers generated by the induced price variation of non-subsidized products and the potential change in the functioning of relevant markets. The choice is based on the assumption that indirect effects may be negligible in this setting (Verme, P., & El-Massnaoui, K. (2017). An evaluation of the 2014 subsidy reforms in Morocco and a simulation of further reforms. In *The Quest for Subsidy Reforms in the Middle East and North Africa Region* (pp. 63-90). Springer, Cham.p.82). The simulation of direct effects makes use of the latest household consumption survey available in Morocco: the 2013/14 *Enquête Nationale sur la Consommation et les Dépenses des Ménages* conducted by HCP. Microdata are updated to 2019, that is, a pre-COVID-19 scenario, by applying estimated growth rates to consumption, population and price statistics.



largest public expenditure on subsidy is estimated at DH 430 in the case of households in the top decile relative to DH 185 in the case of the poorest households. The gap in per capita subsidy accrued to rich and poor households is smaller yet sizeable in the case of sugar (DH 99 vs 54) and flour (DH 99 vs 47).

Figure 5. Per Capita Amount of Subsidies by Decile (SUBSIM Simulation)



Source: Based on data from the Household Consumption and Expenditures Survey 2013/14, HCP.

171. **The elimination of consumption subsidies would generate a considerable welfare loss among households at the bottom of the consumption distribution and increase poverty.** On average, per capita household consumption would decline by 3 percent, with a considerably larger impact among the poorest households (-7 percent) as compared to the richest (-1 percent) (Figure 6). The headcount poverty rate would increase from 3.0 percent to 3.9 percent (+0.9 p.p.), with over half of the change being ascribable to the elimination of the LPG subsidy (+0.18 percent) (Table 6). Removing subsidies would also make poverty slightly more severe. The poverty gap would increase from 0.595 to 0.786, which means the average consumption among the poor would decline and be further away from the poverty line. However, the magnitude of the change would be small. The increase in prices would also increase vulnerability⁴⁹ (from 7.9 to 8.9 percent) and inequality: the Gini index would rise from 40.2 to 40.8, with LPG being the main driver of the change.

Table 6. Simulated Change in Per Capita Consumption, Poverty and Inequality Indicators Due to the Elimination of Subsidies (SUMBIM Simulation)

	Pre-Reform	Post-Reform	Change
Consumption (per capita)	19,099	18,660	- 439
Poverty Headcount (%)	3.0	3.9	0.9
Flour		3.2	0.2
Sugar		3.1	0.1
LPG		3.6	0.5

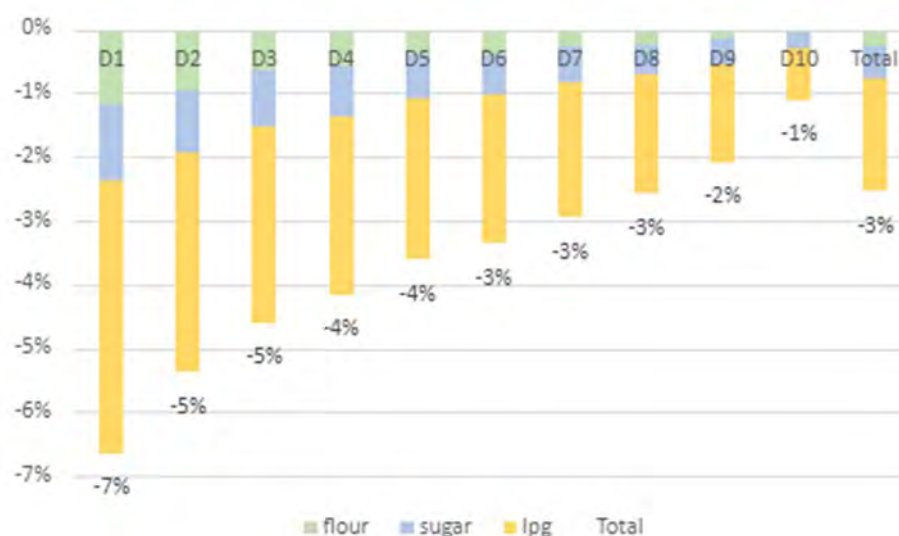
⁴⁹ The vulnerable are those households living on a budget situated between the poverty line and 1.5 times the poverty line.



Poverty Gap	0.595	0.786	0.190
<i>Flour</i>		0.622	0.027
<i>Sugar</i>		0.626	0.031
<i>LPG</i>		0.714	0.118
Inequality (Gini)	40.2	40.8	0.6
<i>Flour</i>		40.3	0.1
<i>Sugar</i>		40.3	0.1
<i>LPG</i>		40.6	0.4
Subsidies (in millions)	15,942	0	- 15,942
Transfers (in millions) ⁵⁰	0	10,733	10,733
Total budget (in millions)	15,942	10,733	- 5,209

Source: Based on data from the Household Consumption and Expenditures Survey 2013/14, HCP.

Figure 6. Simulated Percentage Change in Per Capita Household Expenditures Due to the Elimination of Subsidies, by Decile (SUBSIM simulation)



Source: Based on data from the Household Consumption and Expenditures Survey 2013/14, HCP.

172. Savings that would derive from such reform would allow to introduce compensatory measures, for instance by expanding the coverage/transfer amounts of the FA established via this operation or adding up a compensation mechanism for excluded poor and vulnerable households. This could keep the poverty level at the pre-reform level or even lift some households out of poverty. The estimated cost of a cash

⁵⁰ The transfer refers to the required amount to offset the change in headcount poverty.

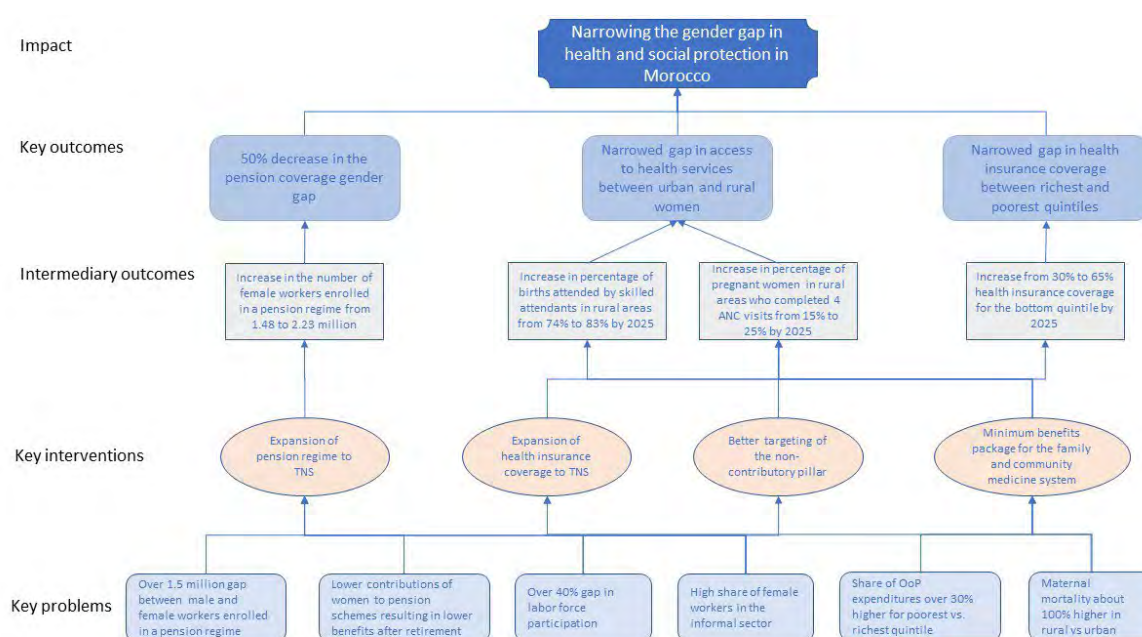


transfer that would leave the poverty headcount unchanged would cost DH 10.7 Bn, compared to DH 15.9 Bn of currently devoted to expenditures on subsidies

Gender Impact

173. **The DPF series proposed in this program document has the potential to have a substantial gender impact.** If successful, it will help address gender gaps on three levels: gaps between female and male Moroccans at the national level, gaps between urban and rural women, and gaps between women in different regions and different income levels, notably in regions most vulnerable to natural disasters and climate risks. The diagram below summarizes the gender theory of change for the DPF series.

Figure 7. Gender Impact Theory of Change



174. **There are twice as many men affiliated to a pension regime than women (3.02 million vs. 1.48 million respectively).** Lower contributions of women to pension schemes ultimately results in lower benefits



after retirement. The implementation of the pension regime for TNS is expected to significantly narrow this gap.

Table 7. Gender Theories of Change for the 1st DPO

Gender Gap	Intervention	Results Indicators	Baseline (%)	Target (%)
Urban/Rural gap in access to and quality of maternal health services	Expansion of AMO to TNS	Percentage of births attended by skilled attendants in rural areas	74.2	80
		Percentage of births attended by skilled attendants in urban areas	96.6	97
		Percentage of pregnant women in rural areas who completed 4 skilled ANC visits	38.5	47
		Percentage of pregnant women in urban areas that completed 4 skilled ANC visits	65.6	70
Male/Female gap in pension coverage	Introduction of the pension regime for TNS	Number of female workers affiliated to a pension regime	1.48 million	2.23 million
		Number of male workers affiliated to a pension regime	3.02 million	3.77 million

175. **The subsequent operations of the DPF will further contribute to closing the female rural/urban divide and regional disparities in access to and quality of maternal healthcare by revamping the supply of health services and increasing the availability of health workers.** The expansion of health insurance coverage is expected to contribute to improving access to key maternal and child health services, particularly in rural areas and in areas with increased vulnerability to natural disasters and climate risks. Also, a better targeting of the non-contributory pillar of AMO will significantly contribute to narrowing the gender gap on insurance coverage for the poorest quintile of the population while deepening the protection for poor and vulnerable women and girls, notably in in areas with increased vulnerability to natural disasters and climate risks, by homogenizing the benefits package with the contributory pillar of AMO. Finally, the expansion of health insurance to TNS, the enhancing of health insurance for the poor and vulnerable, the revamping of the supply of healthcare services, the increased availability of health workers, the implementation of the FA program and the pension regime for TNS all have the potential to have an impact on the labor force participation of women.

Citizen Engagement

176. **As mentioned above, one important citizen engagement channel for this reform has been the engagement with professional associations that have negotiated the terms of enrolment of their members into the AMO and pension regimes for TNS.** Professional associations will continue to serve as a critical citizen engagement channel for their members during implementation. Beyond this and given the crucial role that take-up will have in achieving the potential positive impacts of the reform, inclusive outreach and communication with targeted campaigns toward vulnerable groups such as female workers in the informal sector, elderly persons, residents of remote and rural areas will need to be carried out. Furthermore,



implementing and publishing findings of annual health user surveys/citizen scorecards for public and private services, and developing action plans to address systemic issues identified through the feedback acquired through such surveys/scorecards will be necessary to translate reform implementation into the intended results. Citizen engagement will be strengthened by the deconcentration of healthcare to the regions, by making providers more accountable to citizens and giving administrators the flexibility to adapt to local needs. The establishment of natural risk management units at the level of prefectures, provinces, districts and pashaliks, as well as a dedicated space for dialogue between all the stakeholders, will further strengthen citizen engagement.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

177. **The activities supported by the project do not include any action that could cause or generate negative environmental impacts either on forests or on natural assets.** The expansion of health insurance and the overhaul of the healthcare supply is expected to lead to increased utilization of services with the associated increase in medical waste. Morocco is well positioned to manage this increase in medical waste as this is an aspect where significant progress has been made in partnership with the World Bank. Within the framework of the recently closed Morocco Health Sector Support PforR, a budgetary line was created in March 2018 in the operational budget of the regional directorates for health and MOH delegations, for the outsourcing of the medical and pharmaceutical waste management for ESSPs that was implemented in the 7 target regions of the program by May 2019 and is now being scaled-up. The COVID-19 pandemic provided an additional momentum to strengthen health security within ESSPs, and the MHSP's Directorate of Ambulatory and Outpatient Care (DHSA) recently developed new health security guidelines, along with standard operating procedures for medical and pharmaceutical waste management. Furthermore, the GSTs, through improved coordination between primary, secondary, and tertiary healthcare levels, will allow for an upgraded waste management system, including through improved waste collection and safe disposal from ESSPs, particularly in the rural and most secluded areas.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

178. **In recent years, Morocco has undertaken a series of strategic reform initiatives aimed at improving public financial governance, promoting efficient use of public resources, and strengthening the performance of public administration through digital transformation.** Five major reform initiatives are of particular importance in this regard: (a) the adoption of the LOF of 2015; (b) the design and the implementation of a National Plan for Digitization of Public Procurement, (c) The modernization of the national tax administration as part of a strategic action plan covering the period from 2017 to 2021, (d) the continuation of the public administration reform process; and (e) the digital transformation of public administration.

179. **Specifically, Organic Law No. 130-13 relating to the Finance Laws (Loi organique relative aux lois de finances, LOLF) was promulgated on June 2, 2015.** It established a new budget framework based on programs (with objectives and indicators) and laid the foundations for results-based public management, fostering greater accountability for public managers. It enshrined the three-year budget program



(*Programme Budgétaire Triennal*) in its article 5. The provisions relating to multi-year budget programming came into force on January 1, 2019. Multi-year programming, instituted by the LOLF, is a three-year rolling programming approach that ensures budget sustainability, increases managerial accountability and offers better predictability and transparency in public management. The Moroccan annual budget is made publicly available once approved by the Parliament. In addition, a citizen budget is prepared and made public on the MEF website (<http://lof.finances.gov.ma>). The last PEFA assessment carried out by the World Bank, AfDB, and the EU in 2017 confirmed that Morocco has an overall credible, comprehensive, and transparent budget. It highlighted the substantial public finance management (PFM) reforms under way, most of which are supported by the World Bank through Accountability and Transparency programmatic series of development policy loans and accompanying TA, including in public procurement. The Moroccan PFM system performance meets the fiscal discipline objective but requires more attention for the achievement of the strategic allocation of resources and provision of quality public services objectives. Finally, the Bank has taken two initiatives to support the country PFM system: (a) the preparation of a new PforR operation “P169330 – ENNAJAA Program to improve performance and transparency of government operations and service delivery,” and (b) agreement with the MEF on a new PEFA assessment expected to be conducted during 2022. The Outcomes of the PEFA assessment will be used by the Bank and other Donors in their dialogue with the government on PFM reforms and guide the government PFM reforms agenda as well.

180. **Foreign exchange control environment.** According to the 2019 IMF safeguards assessments, BAM’s safeguard framework was found robust with strong internal and external controls, supported by several good governance practices. These assessments highlighted that existing safeguards and governance practices will need to be complemented by stronger legal and financial reporting frameworks, which are needed to enhance the legal autonomy of BAM and strengthen the timely publication of audited financial statements. The controls to which the BAM is subject are vested in three bodies: (a) the Government Commissioner, (b) the Statutory Auditor (external auditor) and (c) the Court of Auditors. Since then, BAM has implemented the recommendations from the assessment, including publication of audited financial statements. The World Bank team has reviewed the 2020 annual report published on July 30, 2021. This report includes an unqualified audit opinion issued by MAZARS Audit & Conseil, the external auditor on the 2020 financial statements. The statutory auditors are recruited for six years nonrenewable.

181. **The proposed operation would consist of a single-tranche loan of EUR473.3 million (US\$500 million equivalent), to be made available contingent upon effectiveness and disbursed based on a withdrawal application.** With reference to the flow of funds, the proposed loan will follow the World Bank disbursement procedures for development policy lending. Once the loan becomes effective, the proceeds of the loan will be disbursed in a single installment. Specifically, the disbursement of this single tranche will be made, provided that the World Bank is satisfied with the program being carried out by the Borrower and with the adequacy of the Borrower’s macroeconomic policy framework. The account into which the loan proceeds will be deposited forms part of the country’s official foreign exchange reserves. Flow of funds (including foreign currency exchange) is subject to standard PFM processes. The government budget is comprehensive, unified, and centralized to a single treasury account.

182. **The loan proceeds will be deposited by IBRD in an account opened for this DPF by the Borrower and acceptable to the World Bank at BAM, upon submission of a signed withdrawal application.** The borrower will ensure that upon the deposit of loan proceeds into the said account, an equivalent amount, in



the local currency, is credited to the treasury current account at BAM. The borrower will promptly report to the World Bank within 30 days of disbursement by fax or email on the amounts deposited in the dedicated account and credited to the budget management system providing the exchange rate applied, name/account number and the date of the transfer. If the proceeds of the loan are used for ineligible purposes as defined in the Loan Agreement, IBRD will require the Borrower to promptly refund, upon notice, an amount equal to the amount of the said payment to IBRD. Amounts refunded to the World Bank upon such request shall be cancelled. The loan proceeds will be administered by MEF.

183. **Residual fiduciary risk is low.** This rating is based on the status of Morocco's PFM system; the improvements observed in the BAM safeguards framework, accounting systems, and auditing arrangements; as well as the findings of the review of the audit report of the 2020 financial statements of BAM published on the website together with the annual activity report.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

184. **The responsibility for monitoring, evaluating, and implementing the proposed operation is with the interministerial committee (steering committee) that will be instituted by a decree as part of prior action 3.1.** The technical sectoral committees, as well as the project management unit, will be accountable for implementing the relevant parts of the reform, as well as monitoring the results indicators included in this DPF to monitor and evaluate implementation progress and the achievement of program outcomes. The availability of timely and detailed data on health outcomes and financial risk protection remains a challenge in Morocco, as most recent data on financial coverage, health service utilization, household health expenditures, and SP coverage are at least three years old. A significant part of the health and SP reform is the transition towards a patient-level electronic medical record system, which will improve the availability of health outcome data. A pillar of the New Development Model is to move towards learning systems based on routine data for all public services, including health and SP. The accountability structures created by the high-level steering committee and technical committees, as well as the recent focus on strengthened information systems at all levels of the government as part of the New Development Model, will facilitate timely collection of indicators and strengthen government systems which this DPF will rely on for results monitoring and evaluation.

185. **World Bank support.** The World Bank will continue to provide regular implementation support through policy advice and technical assistance to the institutions involved in the implementation of the reform program. Given the programmatic nature of the DPO series, the Bank will support the government to strengthen monitoring mechanisms, including by using survey and administrative data. This will allow not only to track progress towards achievement of the objectives but also build feedback loops that allow to make course correction during implementation. The World Bank will also support the government to distill lessons learned from the implementation of prior actions in one operation to improve the design of the next one. For example, the experience with enrolling the first 17 professional groups into the AMO and Pension



regimes for TNS supported by the first DPF operation, will inform the enrollment of the subsequent 14 groups supported by the second operation.

186. **Grievance Redress. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation** may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate GRS, please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND MITIGATION

187. **The overall risk rating for the proposed operation is substantial.** The key risk ratings are shown in Table 8. All ratings are assessed as either moderate or low, except for stakeholders' risk and institutional capacity for implementation and sustainability risk, which are rated high. The Hassan II Fund is a funding mechanism for the Drought Plan supported by PA 7.1 B and will not be involved in the implementation. All operations financed by the Fund are audited by the Inspector General of the MEF and thus the fiduciary as well as political and governance risks are not affected.

188. **Residual stakeholder risk is high.** Reforms supported by this operation involve different ministries and public institutions (MEF, MHSP, MI, CNSS, MAPMDREF) and there is a high inherent risk that their interinstitutional coordination is not sufficient to achieve the development objective of the operation. The creation of inter-ministerial commissions, steering and technical committees supported by different prior actions and indicative triggers represent an important mitigation measure for this risk. There is also a high inherent risk that groups affected may organize to push back against the reforms. This is especially the case for TNS for whom contributing to health insurance will become mandatory. In the first case, the main mitigation measures are the prior actions in pillar one that seek to improve the availability and quality of health services, so the contributions are compensated by the value of services received. In the second case, the mitigation measures consist of engagement and consultation with different professional associations that will play a key role in liaising between CNSS and the different categories of TNS. After considering the mitigation measures, the residual stakeholder risk is assessed as high.

189. **Residual risk for institutional capacity for implementation and sustainability is also high.** While institutional capacity is relatively strong in Morocco, the main risks stem primarily from the high level of ambition of the reform. Successful implementation of the reforms included in the matrix will require the development of capacity to perform new functions or to perform existing ones at a higher scale leading to a



high inherent risk that the capacity for implementation is not sufficient. To mitigate this risk, the GOM is investing substantially in institutional capacity, including the creation of a Registries Agency, the merging of health and SP under one ministry and the movement of the CNSS under the tutelage of the MEF. The World Bank is also supporting capacity development through lending and non-lending tasks in both SP and health. In addition, the high cost of the reform poses a sustainability risk. The main mitigation measure for this risk is the ongoing Bank support to identify reforms that could create fiscal space (including through a recently initiated Public Finance Review), as discussed in the macroeconomic section (see paragraph 40). After considering the mitigation measures, the residual risk for institutional capacity for implementation and sustainability is assessed as high.

Table 8: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	● Moderate
2. Macroeconomic	● Moderate
3. Sector Strategies and Policies	● Moderate
4. Technical Design of Project or Program	● Moderate
5. Institutional Capacity for Implementation and Sustainability	● High
6. Fiduciary	● Low
7. Environment and Social	● Moderate
8. Stakeholders	● High
9. Other	
Overall	● Substantial



ANNEX 1: POLICY AND RESULTS MATRIX

Prior Actions and Indicative Triggers			Results		
Prior Actions for the First Operation	Indicative Triggers for the Second Operation	Indicative Triggers for the Third Operation	Indicator	Baseline 2020	Target 2025
Pillar I. Improving Protection Against Health Risks					
1. Extending Mandatory Health Insurance to TNS					
<p>Prior Action 1.1 A to extend mandatory health insurance coverage to workers under the professional unique contribution and auto-entrepreneur regimes, the Borrower has promulgated Law No. 30-21 amending and completing Law No. 98-15 which governs, the mandatory health insurance (“AMO”) coverage of professionals, independent workers and non-salaried persons exercising a liberal activity (“TNS”), and published it in the Official Gazette No. 7056, dated January 13, 2022.</p> <p>Prior Action 1.1 B to operationalize the expansion of the AMO for TNS, the Borrower has adopted Decree no. 2.21.930 modifying and completing Decree n° 2.18.622 defining the list of professional categories subject to the AMO regime, including those employed in the agriculture and tourism sectors who are the most vulnerable to climate change, as said Decree has been published in the Official Gazette No. 7043 BIS dated November 29, 2021.</p>	<p>Indicative Trigger 1.2 A to enroll TNS belonging to the remaining professional categories into AMO, the Borrower has published additional Law 98-15 implementation decrees.</p> <p>Indicative Trigger 1.2 B to revise the governance and management framework of the National Social Security Fund (CNSS) and adapt it to the requirements of the reform regarding AMO, the Borrower has amended the CNSS law (Dahir bearing law 1-17-184).</p>	<p>Indicative Trigger 1.3 to ensure the efficient and robust functioning of the mandatory health insurance, the Borrower has published implementation decrees for the law 1-17-184 modifying and completing the governance and management framework of the AMO for private sector workers.</p>	Percentage of the population covered by health insurance	70.2%	90%
			Percentage of women and girls of all ages covered by health insurance	70.9%	90%
			Percentage of men and boys of all ages covered by health insurance	69.4%	90%
			Percentage of TNS in climate-vulnerable sectors covered by health insurance	0%	90%



Prior Actions and Indicative Triggers			Results		
Prior Actions for the First Operation	Indicative Triggers for the Second Operation	Indicative Triggers for the Third Operation	Indicator	Baseline 2020	Target 2025
Prior Action 1.1.C o enroll approximately three million three hundred thousand TNS into AMO, including approximately one million six hundred thousand farmers due to high climate-vulnerability of the agriculture sector, the Borrower has adopted and published several Decrees implementing Law 98-15 as amended and complemented by Law No. 30-21. See details in annex 6.					
2. Transforming RAMED from an Assistance Scheme to an Insurance Scheme					
Prior Action 2.1 to oversee and coordinate the health and social protection reform, the Borrower has created an inter-ministerial steering committee, which includes a technical committee, pursuant to Decree No. 2.21.532 published in the Official Gazette No.7043 Bis dated November 29, 2021.	Indicative Trigger 2.2 to deepen the coverage of health insurance for the poor and vulnerable, the Borrower has amended the Basic Medical Coverage Law. Law 65-00 was amended transforming the Medical Assistance Scheme (RAMED) into the non-contributory component of AMO for the benefit of the poor and vulnerable population, with a benefit package and provider network identical to that of the contributory component of AMO.	Indicative Trigger 2.3 to improve the identification and enrolment into health insurance of poor and vulnerable households, the Borrower has adopted an executive decision mandating the use of the Unique Social Registry (RSU) for targeting the non-contributory pillar of AMO.	Share of the poorest quintile of the population covered by the non-contributory pillar of AMO	30%	65%
3. Revamping the Supply of Health Services					
Prior Action 3.1 to gradually reduce greenhouse gas emissions from healthcare facilities to zero by 2050 and to improve the resilience of the health system to climate change, the Borrower has made a	Indicative Trigger 3.2 A to improve the access to and quality of health services for women, rural and climate-vulnerable populations, the Borrower has amended the health sector framework law. The	Indicative Trigger 3.3 A to establish a minimum benefits package for the family and community medicine system, the Borrower has published an implementation decree of the	Percentage of births attended by skilled attendants in rural areas Percentage of births attended by skilled attendants in urban areas	74.2% 96.6%	80% 97%



Prior Actions and Indicative Triggers			Results		
Prior Actions for the First Operation	Indicative Triggers for the Second Operation	Indicative Triggers for the Third Operation	Indicator	Baseline 2020	Target 2025
formal commitment to the COP26 and has established a steering committee to implement it. The Government sent a written commitment to the Presidency of COP26 on November 12, 2021 and established the steering committee pursuant to MHSP's Decision No. 6521 dated May 6, 2022.	amendment has allowed upgrading the supply of health services, creating the family and community medicine system, establishing the obligation to respect the primary level as entry point to coordinated care pathways, and deconcentrating health service delivery to regional health networks (GSTs).	amended Health Sector Framework Law.	Percentage of pregnant women in rural areas who completed 4 skilled ANC visits	38.5%	47%
	Indicative Trigger 3.2 B to deliver on the commitment to COP 26, the Borrower has conducted a climate vulnerability assessment of the health sector and has adopted a roadmap for the reduction of greenhouse gas emissions from and improved resilience of health facilities.	Indicative Trigger 3.3 B to implement the deconcentrated service delivery model established by the amended health sector framework law, the Borrower has promulgated a law to create and regulate the Regional Healthcare Networks (GSTs). Indicative Trigger 3.3 C to provide the GSTs with an instrument for planning, budgeting, adapting to local climate risks and monitoring, the Borrower has published an implementation decree of the GST law establishing the Regional Medical Programs.	Percentage of pregnant women in urban areas that completed 4 skilled ANC visits	65.6%	70%
4. Increasing the Availability of Health Care Workers					
Prior Action 4.1 A to enhance human resources and enable the establishment of a health service, the Borrower has exempted health workers from the Statute of the Civil Service. Law 39-21 amending Dahir 1.58.008 was published in the Official Gazette No. 7007, dated July 26, 2021.	Indicative Trigger 4.2 to increase the availability of and improve the distribution of health workers, the Borrower has promulgated a law establishing the health service to enhance the stock and quality of human capital working in the public sector.	Indicative Trigger 4.3 to implement the health service, the Borrower has published the implementation decrees of the law on the health service.	Density of health care personnel per 1000 inhabitants in rural areas	0.51	0.6
			Density of health care personnel per 1000 inhabitants in urban areas	2.28	2.4



Prior Actions and Indicative Triggers			Results		
Prior Actions for the First Operation	Indicative Triggers for the Second Operation	Indicative Triggers for the Third Operation	Indicator	Baseline 2020	Target 2025
Prior Action 4.1 B to increase the availability of doctors, the Borrower has promulgated Law No. 33-21 modifying and supplementing Law No. 131-13 governing the practice of medicine, so as to allow foreign doctors to practice medicine in Morocco, as Law No. 33-21 has been published in the Official Gazette No. 7010, dated August 8, 2021.					
Pillar II: Improving Protection of Human capital in Childhood and Against Poverty in Old Age					
5. Expanding Family Allowances					
Prior action 5.1 to provide the legal framework for the health and social protection reform and mandate the expansion of an adaptable and climate-smart health and social protection system, the Borrower has promulgated a Social Protection Framework Law. Law 09-21 was Published in the Official Gazette No. 6975 dated April 27, 2021.	Indicative Trigger 5.2 to establish the parameters of the expanded FA program, the Borrower has submitted to Parliament the Family Allowances Law.	Indicative Trigger 5.3 to implement the expansion of the FA program, the Borrower has published the implementation decrees of the FA law.	Coverage of Family Allowances / cash transfers among children aged 0-17 years	43%	80%
6. Expanding and Reforming the Pension System					
Prior Action 6.1A to extend pension coverage to workers under the professional unique contribution and auto-entrepreneur regimes, the Borrower has promulgated Law No. 31-21 amending and completing Law no. 99-15 which governs the pension regime for TNS, and published it in the Official Gazette No. 7056, dated	Indicative Trigger 6.2 A to enroll TNS belonging to the remaining professional categories into the pension regime for TNS, the Borrower has published additional Law 99-15 implementation decrees.	Indicative Trigger 6.3 to ensure the efficient and robust functioning of the pension system, the Borrower has published implementation decrees for the law 1-17-184 modifying and completing the governance and management framework of the pension schemes for private sector	Number of workers enrolled in a pension regime	4.5 million	6 million
	Indicative Trigger 6.2 B to revise the		Of which / Women	1.48 million	2.23 million
			Of which/ Men	3.02	3.77



Prior Actions and Indicative Triggers			Results		
Prior Actions for the First Operation	Indicative Triggers for the Second Operation	Indicative Triggers for the Third Operation	Indicator	Baseline 2020	Target 2025
<p>January 13, 2022.</p> <p>Prior Action 6.1B to operationalize the expansion of the pension system for TNS, the Borrower has adopted Decree no. 2.21.930 modifying and completing Decree n° 2.18.622 defining the list of professional categories subject to the pension system, including those employed in the agriculture and tourism sectors who are the most vulnerable to climate change, as Decree No. 2.21.30 has been published in the Official Gazette No. 7043 BIS dated November 29, 2021.</p> <p>Prior Action 6.1C to enable the enrolment into the pension regime of approximately three million three hundred thousand TNS, including approximately one million six hundred thousand farmers, all subject to high climate-vulnerability in of the agriculture sector, the Borrower has adopted and published several Decrees implementing amended Law 99-15. See details in annex 6.</p> <p>Prior Action 6.1D to improve the sustainability of the pension schemes and the viability of the contributory social</p>	<p>governance and management framework of the National Social Security Fund (CNSS) and adapt it to the requirements of the reform regarding the pension regime for TNS, the Borrower has amended the CNSS law (Dahir bearing law 1-17-184).</p>	<p>workers.</p>		million	million



Prior Actions and Indicative Triggers			Results		
Prior Actions for the First Operation	Indicative Triggers for the Second Operation	Indicative Triggers for the Third Operation	Indicator	Baseline 2020	Target 2025
protection system, the Borrower has launched the parametric reform of the collective retirement pension scheme ("RCAR"), modifying, particularly, the rate of revaluation of the pensions, pursuant to Decrees No. 2.20.935 and 2.20. 936 of July 27, 2021 amending and supplementing respectively decrees n° 2.77.551 and n° 2.92.927 setting forth the terms of application of the RCAR, published in the Official Gazette n° 7014 of August 19, 2021.					
Pillar III: Improving Climate Risk Management and Resilience Against Catastrophic Events					
7.Improving Climate Risk Management and Resilience Against Catastrophic Events					
Prior Action 7.1 A to improve disaster and climate resilience at the local level, the Borrower has mandated the establishment of disaster risk management units at the level of prefectures, provinces, districts and pashaliks pursuant to the Ministry of Interior's Circular dated April 1, 2021.	Indicative Trigger 7.2 A to further strengthen the institutional framework for disaster and climate-related risk management, the Borrower has established an inter-ministerial DRM committee to guide the government's approach on disaster and climate resilience.	Indicative Trigger 7.3 to improve and broaden the scope of disaster risk financing in Morocco, the Borrower has approved a Disaster Risk Financing Strategy that considers the impact of drought risk on the most vulnerable farmers.	Number of livestock farmers who received subsidized animal feed	0	600,000
Prior Action 7.1 B to implement the emergency program launched by the Government on February 17, 2022, to mitigate the effects of the 2021-2022 drought rainfall deficits in the agriculture sector, and more particularly its first axis	Indicative Trigger 7.2 B to improve protection of farmers against the increased frequency of droughts due to climate change, the Borrower has established an inter-ministerial		Number of natural risk management units established at the local level	0	90



Prior Actions and Indicative Triggers			Results		
Prior Actions for the First Operation	Indicative Triggers for the Second Operation	Indicative Triggers for the Third Operation	Indicator	Baseline 2020	Target 2025
which objective is to protect the farmers: (a) a convention was signed between the Ministry of Economy and Finance, the Ministry of Agriculture, Maritime Fisheries, Rural Development and Water and Forests (MAPMDREF) and the Fund Hassan II approving the terms and conditions of the funding [approved] for the implementation of this “axis” on February 28, 2022; and (b) a joint circular was issued by the Ministry of Interior and MAPMDREF detailing the procedures for the distribution of subsidized animal feed on February 26, 2022.	commission bringing together line ministries, insurance regulators and insurance providers to discuss adaptive and innovative approaches for drought insurance.				



ANNEX 2: FUND RELATIONS ANNEX



IMF Executive Board Concludes 2021 Article IV Consultation with Morocco

February 9, 2022

Washington DC: On February 2, 2022, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation [1] (file:///C:/Users/jaguilar/OTmp/PR2227%20-%20Morocco%20-%20IMF%20Executive%20Board%20Concludes%202021%20Article%20IV%20Consultation%20with%20Morocco.docx#_ftn1) with Morocco on a lapse of time basis. [2] (file:///C:/Users/jaguilar/OTmp/PR2227%20-%20Morocco%20-%20IMF%20Executive%20Board%20Concludes%202021%20Article%20IV%20Consultation%20with%20Morocco.docx#_ftn2)

Economic activity has recovered most of the ground lost during the severe global recession of 2020. This performance owes to continued fiscal and monetary stimulus, the rebound of exports, buoyant remittances, and the exceptional harvest following two years of drought. After shrinking by 6.3 percent in 2020, GDP is forecast to have grown by 6.3 percent in 2021, among the highest in the Middle East and North Africa region. Despite having recovered most of the jobs lost in 2020, the unemployment rate of 11.8 percent is still above pre-pandemic level, driven by a rebound of the participation rate. Moroccan banks have weathered the crisis well, thanks to the prompt and exceptional support from Bank al-Maghrib.

GDP growth is projected at around 3 percent in 2022, as agriculture output returns to average levels and non-agricultural activity continues to recover. Recent inflationary pressures have remained manageable and are expected to wane in the medium term, as cost pressures from global supply disruptions are reabsorbed. After the sharp contraction in 2020, the current account deficit is projected to return in 2021 to levels closer to before the pandemic and to stabilize around 3.5 percent of GDP over the medium term. While this outlook remains subject to uncertainty, with much of the risks depending on the evolution of the pandemic, a fast and effective implementation of structural reforms should increase growth over the medium term.

Executive Board Assessment

In concluding the Article IV consultation with Morocco, Executive Directors endorsed the staff's appraisal as follows:

Morocco's economy is rebounding from the 2020 recession, thanks to the exceptional harvest, the rebound of exports, accommodative monetary and fiscal policy stances, and the continued strength in remittances. After a strong compression in 2020, the current account deficit is returning to levels closer to pre-pandemic, but Morocco has emerged from the crisis with a much stronger international reserve position. Staff expects GDP to grow at around 3 percent over the next few years, as the effects from the pandemic on potential activity are gradually reabsorbed and to accelerate gradually



thereafter under the positive impact of structural reforms. These projections remain subject to a high level of uncertainty, related both to the evolution of the pandemic and the pace of implementation and effectiveness of the reforms.

The faster than expected closure of the output gap and higher government debt ratio would require a tighter fiscal policy stance than currently envisaged. Staff expects the fiscal deficit to fall very slowly over the medium term and the central government debt-to-GDP ratio to stabilize at close to 80 percent. While public debt remains sustainable, a faster fiscal consolidation process that brings the debt-to-GDP ratio closer to pre-pandemic levels over the medium term would make Morocco less vulnerable to further negative shocks and free more resources for private sector investment. The fiscal policy should be anchored by a credible medium-term macro-fiscal framework and underpinned by a comprehensive reform of the tax system and systematic review of government spending, supplemented by a civil service reform to contain wage bill increase.

Lower fiscal deficits would allow monetary policy to remain accommodative for longer, assuming inflationary pressures will remain manageable. The recent rise in inflation is limited and expected to subside as the imported cost pressures from supply-side bottlenecks and higher commodity prices become less relevant over time. As long as these pressures do not contaminate domestic inflation expectations, BAM has the space for a gradual normalization of monetary policy conditions but should stand ready to tighten its stance if inflationary pressures further accelerate. The recent appreciation of the dirham to the lower end of the exchange rate band offers an opportunity to accelerate the planned transition to an inflation-targeting framework.

Staff welcomes the authorities' commitment to a new wave of structural reforms. The generalization of the social protection system should remove existing gaps in coverage and quality of health care services and strengthen Morocco's social safety net. Together with the full implementation of the Unified Social Registry, these reforms should improve inclusiveness and efficiency. Reforming SOEs should reduce their financial burden on the budget and remove distortions that prevent market neutrality and hinder private sector development. Finally, the New Model of Development (NMD) contains several useful recommendations for strengthening the competitiveness of Moroccan firms, improving governance, boosting human capital, and building a more inclusive society.

Careful implementation of the reforms will be critical for their success. The reforms already ongoing and those suggested in the New Model of Development report have the potential to yield a stronger, more inclusive, and sustainable growth path for Morocco. Still, given the potentially large financing needs associated with these reforms, the uncertain impact on potential output, and the narrow fiscal space, carefully designing and sequencing are needed, on the basis of an adequate financing plan and within a coherent and stable macroeconomic framework.

[1] (file:///C:/Users/jagular/OTmp/PR2227%20-%20Morocco%20-%20IMF%20Executive%20Board%20Concludes%202021%20Article%20IV%20Consultation%20with%20Morocco.docx#_ftnref1) Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] (file:///C:/Users/jagular/OTmp/PR2227%20-%20Morocco%20-%20IMF%20Executive%20Board%20Concludes%202021%20Article%20IV%20Consultation%20with%20Morocco.docx#_ftnref2) The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

Morocco: Selected Macroeconomic Indicators, 2017–26

Population: 36.911 million; 2020

Per capita GDP: \$3,009; 2020



Quota: SDR 894.4 million

Poverty rate: 4.8 percent; 2014

Main exports: automobiles,
phosphate and derivatives; 2020

Key Export Markets: France and Spain (44 percent of total exports); 2020

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
					Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Output (annual percent change)										
Real GDP growth	4.2	3.1	2.6	-6.3	6.3	3.1	3.0	3.0	3.1	3.3
Real nonagricultural GDP growth	2.9	3.1	3.7	-6.0	4.7	3.9	3.0	3.0	3.1	3.3
Employment (percent)										
Unemployment	10.6	9.4	10.2	12.2	11.8	11.3	10.9	10.4	9.9	9.3
Prices										
Inflation (end of period)	1.7	0.1	1.0	-0.9	1.9	1.7	1.6	1.8	2.0	2.0
Inflation (period average)	0.7	1.6	0.2	0.7	1.3	1.8	1.6	1.8	2.0	2.0
Central government finances (percent of GDP) 1/										
Revenue	26.0	26.1	25.6	28.6	25.3	26.0	26.2	26.4	26.8	26.9
Expenditure	30.1	29.8	29.4	36.1	32.2	32.3	32.1	31.3	30.9	30.5
Fiscal balance	-3.5	-3.7	-3.8	-7.6	-6.8	-6.3	-5.9	-4.9	-4.1	-3.6



Public debt	65.1	65.2	65.1	76.4	76.9	77.5	79.2	79.5	79.0	78.3
Money and credit (annual percent change)										
Broad money	5.5	4.1	3.8	8.4	...	...			...
Claims to the economy 2/	3.3	3.4	5.6	4.6	...	...	...	...	...	...
Velocity of broad money	0.8	0.8	0.8	0.7	...	...	...	...	...	...
Balance of payments										
Current account including official transfers (percent of GDP)	-3.4	-5.3	-3.7	-1.5	-3.0	-3.2	-3.1	-3.3	-3.4	-3.4
Exports of goods (in U.S. dollars, annual percent change)	12.7	11.6	1.9	-15.2	22.5	12.7	5.8	5.8	5.9	5.7
Imports of goods (in U.S. dollars, annual percent change)	9.3	12.2	-2.3	-14.8	29.0	10.5	5.0	5.7	6.2	5.8
Merchandise trade balance	-16.5	-17.2	-16.5	-13.5	-15.4	-16.5	-16.5	-16.6	-16.8	-16.9
FDI (percent of GDP)	1.5	2.4	0.7	1.1	1.4	1.5	1.4	1.4	1.4	1.3
Gross reserves (months of imports)	5.7	5.4	6.9	7.1	6.5	6.6	6.6	6.1	5.7	5.4
External Debt (percent of GDP)	34.8	31.8	33.1	43.7	40.5	41.6	41.2	40.7	40.2	39.8
Exchange rate										
REER (annual average, percent change)	-0.4	0.8	0.7	1.1						



Memorandum Items:

Nominal GDP (in billions of U.S. dollars)	109.7	118.1	119.9	114.6	126.1	131.2	138.1	145.4	153.5	153.5
Net imports of energy products (in billions of U.S. dollars)	-7.2	-8.8	-7.9	-5.2	-7.7	-9.4	-9.2	-9.6	-9.8	-9.9
Local currency per U.S. dollar (period average)	9.7	9.4	9.6	9.5	...	...	...	...	...	...

Sources: Moroccan authorities; and Fund staff estimates.

1/ Include grants.

2/ Includes credit to public enterprises.

MEDIA RELATIONS

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ANNEX 3: LETTER OF DEVELOPMENT POLICY



MONSIEUR JESKO HENTSCHEL

DIRECTEUR DU DEPARTEMENT MAGHREB ET MALTE, MOYEN-ORIENT
ET AFRIQUE DU NORD
7, RUE LARBI BEN ABDELLAH, SOUSSI

- RABAT -

Objet : Lettre de politique relative au Financement du programme de développement pour le Renforcement du capital humain pour un Maroc résilient

Monsieur le Directeur,

Au nom du gouvernement du Royaume du Maroc, j'ai l'honneur de vous faire parvenir la lettre de politique relative au Financement de politique de développement pour le Renforcement du capital humain pour un Maroc résilient.

Cette lettre décrit le contexte institutionnel, les objectifs poursuivis et les réformes engagées dans le cadre de ce programme.

I. Contexte institutionnel du programme

Comme vous le savez, la protection sociale constitue un chantier national majeur, transcendant les divergences des mouvances politiques, et requiert un engagement animé du seul souci de l'intérêt général, de l'amélioration des conditions de vie des citoyens et de la préservation de leur dignité.

Cela est attesté par la position distinguée que ce sujet occupe dans les discours de Sa Majesté le Roi Mohammed VI, que Dieu L'assiste, en l'occurrence, le discours du 19ème anniversaire de l'intronisation du Souverain, du 29 juillet 2018 par lequel le souverain a invité le gouvernement et tous les acteurs concernés à entreprendre une restructuration globale et profonde des programmes et des politiques nationales d'appui et de protection sociale et à soumettre des propositions portant sur leurs modalités d'évaluation, notamment à travers l'opérationnalisation du Registre Social Unifié (RSU), le discours royal prononcé à l'occasion de la mise en place de la Commission Spéciale sur le Modèle de Développement (CSMD) en novembre 2019, du discours royal à l'occasion de la fête du trône en juillet 2020 et de l'ouverture de l'année législative du Parlement en octobre 2020, au cours desquels Sa



Majesté a appelé au lancement progressif du processus de la généralisation de la protection sociale au profit de tous les marocains au cours des cinq prochaines années, à la présentation d'un plan d'action global comprenant, l'échéancier, le cadre juridique et les options de financement, ainsi que les mécanismes de gouvernance adoptés, en coordination avec tous les partenaires sociaux. Sa Majesté a également appelé à une réforme rigoureuse des systèmes et programmes sociaux déjà mis en place.

Ainsi, et conformément aux orientations royales, le chantier de généralisation de la protection sociale comprend les quatre axes suivants :

1. la généralisation de l'assurance maladie obligatoire de base (AMO) au profit de 22 millions de bénéficiaires supplémentaires, et qui couvre les frais de soins médicaux, d'achat de médicaments, d'hospitalisation et de traitement ;
2. la généralisation des allocations familiales au profit d'environ 7 millions d'enfants en âge de scolarisation. Sur ce, 3 millions de familles en bénéficient;
3. L'élargissement de l'adhésion aux régimes de retraite pour inclure environ 5 millions de personnes, qui exercent un emploi et ne bénéficient d'aucune pension ;
4. La généralisation l'indemnité pour perte d'emploi, pour couvrir toute personne exerçant un emploi stable.

C'est dans cette dynamique que Sa Majesté le Roi, a présidé, le 14 avril 2021, la cérémonie de lancement de la mise en œuvre du projet de généralisation de la protection sociale et la signature de trois conventions-cadres portant sur la généralisation de l'Assurance maladie obligatoire de base au profit de la catégorie des professionnels et travailleurs indépendants et personnes non-salariées exerçant une activité privée.

II. Engagements du Gouvernement dans le domaine de la protection sociale

L'actuel Gouvernement élu en octobre 2021 a incorporé les orientations royales de juillet 2020 et les recommandations du NMD dans son programme gouvernemental 2021-2026. A ce titre le chef du gouvernement a annoncé que la priorité la plus immédiate serait de renforcer les fondements de l'"État social".

Afin de remplir ces obligations et d'assurer leur mise en œuvre optimale, le gouvernement a enclenché la mise en œuvre d'une vision unifiée du système de protection sociale dans notre pays, de manière à pouvoir remporter les grands enjeux dans ce domaine, qui sont principalement représentés par les éléments suivants:



- Généralisation, en élargissant la couverture sociale à tous les segments sociaux qui souffrent de la pauvreté et de la fragilité conformément aux principes de justice, d'équité et de mérite;
- Unification, en assurant la convergence et la cohérence des programmes existants, dans une approche de complémentarité, tout en réduisant le nombre des parties prenantes et fédérer au maximum les programmes ;
- Gouvernance, en établissant un système de ciblage plus efficient, efficace et transparent grâce au projet de registre social unifié, qui permettra de fournir les données nécessaires concernant les groupes en situation difficile et leurs besoins en services d'aide sociale, ainsi que la digitalisation de la gestion des services sociaux ;
- Efficience, par l'amélioration continue de la qualité des programmes de protection sociale, et le développement d'ingénierie sociale, dispositifs et moyens de veille et de vigilance sociale, pour surveiller les phénomènes sociaux, ainsi que les risques auxquels les groupes cibles sont exposés.

III. Les mesures prises par le gouvernement pour réussir le chantier de la généralisation de la protection sociale

1. L'échéancier de mise en œuvre du chantier

En application des directives Royales, le gouvernement a fixé un calendrier pour le déploiement de la protection sociale globale, de manière progressive, sur une période de 5 ans, comme suit :

- **2021-2022 : Généralisation de l'assurance maladie obligatoire** en élargissant le champ d'application de cette assurance aux groupes des plus démunis bénéficiant du Régime d'Assistance Médicale (RAMED), et aux groupes de professionnels, de travailleurs indépendants et des personnes non-salariées exerçant une activité privée, ciblant ainsi 22 millions bénéficiaires;
- **2023-2024: Généralisation des allocations familiales**, en permettant aux familles qui ne bénéficient pas de cette allocation, et selon le cas, de bénéficier desdites allocations ;
- **à l'horizon 2025: l'élargissement du régime de retraite** pour inclure les personnes qui travaillent et ne bénéficient d'aucune pension, à travers la mise en place d'un système de retraite propre aux catégories des professionnels, des travailleurs indépendants et des personnes non-salariées exerçant une activité privée, en vue de toucher tous les groupes concernés, ainsi que la généralisation de l'indemnité pour perte d'emploi à toute personne exerçant un emploi stable à travers la



simplification des conditions pour bénéficier de cette indemnité et en élargissant l'assiette des bénéficiaires.

2. Le cadre juridique

Le gouvernement veille à ce que toutes les mesures de nature juridique soient prises pour assurer la mise en œuvre fluide et efficace du chantier de la généralisation de la protection sociale. A ce titre, le gouvernement a tenu à actualiser et à adapter l'arsenal juridique qui cadre le domaine de la protection sociale, notamment à travers:

- a. **La promulgation de la loi-cadre n° 09-21 relative à la protection sociale**, approuvée par le Parlement, Cette loi cadre fixe les objectifs fondamentaux de l'action de l'Etat en matière de protection sociale ainsi que les principes et les instruments nécessaires à la mise en œuvre de la réforme du système de protection sociale notamment, les aspects liés à sa gouvernance et à son financement. Ce dernier est basé, soit, sur les cotisations pour les personnes ayant une capacité à participer au financement de la protection sociale, soit sur la solidarité en faveur des personnes n'ayant pas la capacité de supporter les droits de cotisation.

La loi-cadre prévoit la coordination de l'action des autorités publiques avec l'ensemble des intervenants concernés par la généralisation de la protection sociale et le développement des aspects managériaux et de gouvernance des organismes de la protection sociale, en vue de créer une structure unifiée de coordination et de supervision des systèmes de protection sociale.

- b. **La signature, devant Sa Majesté le Roi, de trois conventions cadres portant sur la généralisation de l'assurance maladie obligatoire de base** au profit des professionnels et travailleurs indépendants et personnes non-salariées exerçant une activité libérale qui représentent environ **3 millions d'adhérents** (commerçants, prestataires de services indépendants, artisans, professionnels d'artisanat et agriculteurs, en sus de leurs familles), soit un nombre total de bénéficiaires de près de **9 millions de citoyens, ce qui représente environ 83% des personnes ciblées des catégories de professionnels, de travailleurs indépendants et de non-salariés exerçant une activité libérale.**
- c. **La promulgation des lois 30.21 et 31.21 amendant respectivement la loi 98-15 et la loi 99-15 relatives à la couverture médicale de base et à la**



retraite des professionnels et travailleurs indépendants et personnes non-salariées exerçant une activité libérale.

- d. **La révision de quelques décrets d'applications des lois 98-15 et 99-15 susmentionnées.**
- e. **La promulgation de la loi 33-21 modifiant et complétant la loi 131-13 relative à l'exercice de la médecine et ce, afin d'ouvrir l'exercice de la médecine aux compétences étrangers dans les mêmes conditions que leurs homologues marocains.**
- f. **La promulgation de la loi 39-21 complétant le dahir 1-58-008 portant statut général de la fonction publique et ce, dans le but de permettre la mise en place d'un statut particulier des professionnels de santé.**
- g. **L'adoption de 20 décrets en 'application respectivement de la loi 98-15 relative à l'assurance maladie obligatoire et de la loi 99-15 relative à la retraite des professionnels et travailleurs indépendants et personnes non-salariées exerçant une activité libérale: 3,2 millions de bénéficiaires avec leurs ayants droit vont pouvoir bénéficier de l'AMO à partir du 1^{er} janvier 2021.**
- h. **L'adoption du décret instituant un comité ministériel et un comité technique pour le pilotage de la généralisation de la protection sociale et ce, en application des dispositions de la loi cadre relative à la protection sociale ;**
- i. **La constitution d'un comité technique dont le mandat porte sur l'assainissement de la base de données des bénéficiaires du RAMED et la définition des modalités de basculement de cette population de l'ANAM (organisme gestionnaire du RAMED) vers la CNSS.**
- j. **La création au niveau de la nouvelle architecture gouvernementale d'une entité chargée de la protection sociale, en l'occurrence le Ministère de la Santé et de la Protection Sociale.**

Parallèlement à cela, plusieurs projets de lois et de textes d'application ont été préparés pour leur mise dans le circuit d'approbation. Il s'agit notamment de :

- **L'amendement de la loi cadre 34-09 relative au système de santé et à l'offre de soins** pour accompagner la refonte du système nationale de santé à travers la mise à niveau de l'offre de soins, l'obligation du respect de la filière de soins, la mise en place d'une politique innovante et incitative en matière de ressources humaines, la refonte du cadre



institutionnel au niveau régional et la mise en place du Système d'Information intégré.

- **L'amendement de la loi 1-72-184 relative au régime de la sécurité sociale** pour réviser le cadre de gouvernance et de gestion de la Caisse Nationale de la sécurité sociale afin de l'adapter aux exigences de la réforme.
 - **L'amendement de la loi 65-00 portant code de la couverture médicale de base**, pour transformer le Régime d'Assistance Médicale (RAMED) en une Assurance Maladie Obligatoire au profit de la population pauvre et vulnérable avec un panier de soins identique à celui du régime d'assurance maladie des salariés du secteur privé ;
 - **Projet de statut des professionnels de santé**, dans le but de valoriser le capital humain exerçant dans le secteur public.
- k. L'introduction de mesures suivantes dans le cadre des Lois de Finances 2021 et 2022:**
- ✓ Instauration de la contribution professionnelle unique en vue de permettre aux personnes physiques dont le revenu professionnel est déterminé selon le régime du bénéfice forfaitaire de s'acquitter d'un impôt unique sur la base duquel est calculé le droit complémentaire en guise de cotisations sociales ;
 - ✓ Instauration du droit complémentaire en guise de cotisations sociales pour les personnes physiques bénéficiant du régime fiscal de l'auto-entrepreneur. Ce droit est calculé sur la base de l'impôt sur le revenu dû pour cette catégorie ;
 - ✓ **Amendement du texte de création du Compte d'affectation spéciale «Fonds d'Appui à la Cohésion Sociale»** pour prendre en charge le financement de la généralisation de la protection sociale;
 - ✓ **Mobilisation du financement nécessaire à la mise en œuvre de la réforme** à travers l'instauration de nouvelles ressources : contribution de solidarité, TIC sur les pneus, TIC sur les produits électriques énergivores.

3. Le cadre institutionnel

Afin de créer des conditions d'efficacité et d'efficacités, l'effort du gouvernement est principalement axé sur le développement des aspects managériaux liés à la gouvernance des organes de gestion des systèmes de protection sociale. Dans ce contexte, le gouvernement travaille sur les points suivants :



- Mettre en œuvre la réforme institutionnelle liée à la Caisse Marocaine de l'Assurance Maladie après sa transformation en établissement public doté de la personnalité morale et de l'autonomie financière, pour remplacer la Caisse Nationale des Organismes de Prévoyance Sociale, en matière de la gestion du régime d'assurance de maladie obligatoire de base du secteur public, afin d'améliorer la gouvernance des régimes de couverture médicale;
- Réformer la Caisse Nationale de Sécurité Sociale et la qualifier pour accompagner le chantier de généralisation de la protection sociale, en élargissant ses missions et en révisant les règles de sa gouvernance pour lui donner la flexibilité nécessaire à la bonne gouvernance des systèmes de protection sociale qui lui est confié, en lui permettant de disposer des mécanismes nécessaires pour bien mener les missions qui lui sont confiées ;
- mettre en place un comité de pilotage qui suivra, en particulier, la mise en œuvre de la réforme et coordonnera les interventions des différentes parties prenantes.

4. Amélioration du système de ciblage

Le projet du Registre Social Unifié constitue une réponse de l'Etat à la fois à la problématique de ciblage des ménages à faible revenu qui doivent bénéficier des programmes sociaux publics et à celle de la fragmentation du système de protection sociale, caractérisé par des chevauchements et des dysfonctionnements qui en affectent l'efficience et l'efficacité.

En effet, plus de 120 programmes de soutien et de protection sociale, allant des transferts universels (subvention de la farine, du sucre et du gaz butane) aux mécanismes de protection ciblant certaines catégories de population (Ramed, Tayssir, aides scolaires, etc.) sont aujourd'hui déployés au Maroc. A travers ce chantier, l'Etat ambitionne de cerner efficacement les catégories effectivement éligibles, en vue d'orienter le soutien vers les ménages les plus nécessiteux, de profiter des synergies qui pourraient être créées entre les programmes et d'éliminer les doublons et les fraudes.

L'enjeu principal est donc de mettre en place un dispositif de ciblage universel des ménages, plus équitable, plus efficace, plus efficient et plus intégré. Dans ce cadre, et afin d'assurer l'efficience et l'efficacité des systèmes de dépenses sociales, l'année 2020 a connu la publication du Dahir n°1-20-77 du 18 hija 1441 (08 août 2020) portant promulgation de la loi n°72-18 relative au dispositif de ciblage des bénéficiaires des programmes d'appui social et portant création de l'Agence Nationale des Registres.



Cette loi a pour objectif de mettre en place des mécanismes permettant de renforcer l'harmonie entre les programmes d'appui social, à travers une vision unifiée, pour les mettre en œuvre d'une manière juste et transparente et de garantir la coordination et la convergence de ces programmes.

Le dispositif de ciblage universel des ménages repose sur trois piliers :

- Un Registre Social Unifié (RSU) recueillant des informations socio-économiques des ménages, afin de cibler ceux qui remplissent les conditions pour bénéficier des prestations sociales ;
- Un Registre National de la Population (RNP) pour l'identification des individus et des ménages. Ce registre assure la collecte, l'enregistrement et la conservation de données identitaires démographiques et biométriques ;
- Une Agence Nationale des Registres (ANR) qui gèrera pour le compte de l'Etat l'utilisation optimale des informations contenues dans les deux registres, et assurera un niveau élevé de protection et de confidentialité des données enregistrées.

A noter que chaque composante dudit dispositif a une mission précise qui complète celle des autres composantes à travers une architecture sécurisée et optimisée.

Les principales réalisations pour opérationnaliser la mise en œuvre de ce dispositif de ciblage, portent notamment sur :

- La publication du décret n°2-20-792 du 17 ramadan 1442 (30 avril 2021) portant application des dispositions de la loi n°72-18 et du décret n°2-21-473 du 28 juillet 2021 pris pour l'application de ladite loi en ce qui concerne le RNP ;
- La conclusion des marchés de mise en œuvre des systèmes du RNP et du RSU ;
- La finalisation de la nouvelle formule de scoring du RSU par le HCP ;
- La refonte des processus opérationnels des programmes sociaux RAMED, DAAM et TAYSSIR.

5. Mobilisation des sources de financement et assurer leur pérennité

Le financement de cette réforme sera basé sur deux systèmes :



- **Un système contributif** pour les personnes ayant une capacité à participer au financement de cette couverture sociale ;
- **Un système de couverture solidaire non contributif** pour les personnes n'ayant pas une capacité contributive.

✚ **Financement dans le cadre du système contributif :**

Le financement de la généralisation de la couverture sociale sera pris en charge à hauteur de **28 milliards de dirhams dans le cadre du système contributif** et ce, principalement, à travers les cotisations des travailleurs non-salariés.

Le financement de la couverture sociale dans le cadre contributif se fera à travers :

- **La Contribution professionnelle unique (CPU)** introduite au titre du Projet de Loi de Finance (PLF) 2021, pour les catégories des travailleurs non-salariés éligibles à la CPU;
- **Le versement direct des cotisations** à l'organisme gestionnaire pour les catégories des travailleurs non-salariés exclus du champ de la CPU.

✚ **Financement dans le cadre du système solidaire non contributif :**

Sur la base d'une population n'ayant pas une capacité contributive de 4,1 millions de ménages, le coût qui sera pris en en charge dans le cadre du système non contributif s'élève à près de **23 milliards de dirhams**.

Le financement de la couverture sociale dans le cadre non contributif se fera à travers :

- **Le redéploiement progressif des ressources affectées actuellement au financement du régime RAMED et des transferts** (Tayssir, DAAM,...) ; ;
- **La contribution minimale éventuelle des bénéficiaires;**
- **La mobilisation de nouvelles ressources fiscales :**
 - ✓ La Contribution de solidarité introduite au titre du LF 2021 et reconduite par le PLF 2022;
 - ✓ La TIC sur les pneus, prévue par la LF 2021;
 - ✓ Les TIC sur les produits électriques énergivores et le recyclage des produits électroniques, prévue par le PLF 2022

IV. Prochaines étapes pour le déploiement de la généralisation de la protection sociale



Dans le but de poursuivre le déploiement rapide de la généralisation de la protection sociale, notamment la composante relative à la généralisation de l'AMO et des allocations familiales, les principales mesures envisagées portent, notamment, sur :

- **La poursuite du processus d'adoption et de mise en œuvre de l'arsenal juridique nécessaire** pour un déploiement efficace de la généralisation de l'AMO dont, notamment, les décrets relatifs à l'AMO de différentes catégories de professionnels et travailleurs indépendants et personnes non-salariées exerçant une activité libérale, la loi n°65-00 portant code de la couverture médicale de base, la loi cadre n°34-09 relative au système de santé et à l'offre de soins, le statut particulier des professionnels de santé et la loi relative au régime de la sécurité sociale;
- **La mise en place, à partir de cette année, des mesures nécessaires permettant la mise en œuvre optimale de la généralisation des allocations familiales ;**
- La mise à niveau de la gouvernance de la CNSS pour prendre en compte l'octroi de la gestion de la généralisation de l'AMO à cet organisme ;
- Le lancement d'une réflexion pour définir le cadre de gouvernance et de gestion des autres composantes du système de protection sociale (allocations familiales, retraite et indemnité pour perte d'emploi) pour assurer une meilleure efficacité dans la gestion de ces régimes ;
- La poursuite de la mise en place des réformes visant à adapter le système de santé aux risques de santé liés au changement climatique, à améliorer la qualité des soins, à moderniser les infrastructures sanitaires, à mettre davantage l'accent sur la médecine de famille et à renforcer les ressources humaines dans le domaine de la santé. Ces réformes de l'offre visent une meilleure répartition de la prestation des services de santé vers les collectivités territoriales et à accroître leur responsabilité. Le personnel de santé sera renforcé par la création d'un nouveau statut dédié aux professionnels de la santé, distinct du statut général de la fonction publique, et par l'autorisation pour les médecins étrangers d'exercer au Maroc. Les réformes comprendront également des incitations basées sur les performances pour les professionnels de la santé afin d'améliorer la qualité des soins.



V. Financement de politique de développement pour le Renforcement du capital humain pour un Maroc résilient

Afin d'accompagner le Gouvernement dans la mise en place de la réforme de la protection, la Banque mondiale en tant que partenaire privilégié a été rapproché pour son appui à ce chantier de réforme à travers une série programmatique de Financements de politique de développement (FPD).

L'objectif de développement primordial de la série de FPD proposée est d'améliorer la protection contre les risques sanitaires, les pertes de capital humain dans l'enfance et la pauvreté pendant la vieillesse, et d'améliorer la gestion des risques climatiques et la résilience face aux événements catastrophiques. Ainsi, le Programme d'appui de la Banque mondiale au titre du financement proposé s'articule autour des piliers suivants :

Pilier I : Améliorer la protection contre les risques sanitaires

Ce pilier comprend des mesures visant à inscrire jusqu'à 11 millions de TNS et leurs personnes à charge et à intégrer jusqu'à 11 millions de personnes actuellement inscrites au RAMED dans l'AMO, ainsi qu'à renforcer les ressources physiques et humaines pour améliorer les services de santé offerts à tous les bénéficiaires

Pilier II : Améliorer la protection contre les pertes de capital humain dans l'enfance et la pauvreté pendant la vieillesse

Ce pilier comprend des mesures visant à mettre en œuvre le programme des Allocations familiales (AF) et à élargir la couverture des régimes de retraite. Cette réforme comprend l'adoption de décrets et d'autres textes législatifs pour assurer une gouvernance, une identification et un ciblage appropriés de la réforme de la santé et de la protection sociale.

Pilier III : Améliorer la gestion des risques climatiques et la résilience face aux événements catastrophiques

Ce pilier vise à améliorer la résilience aux catastrophes naturelles et aux risques climatiques, notamment par le renforcement du cadre institutionnel et de coordination pour la gestion des risques liés aux catastrophes et au climat, la création de comités de coordination réunissant les principales parties prenantes et l'amélioration des mécanismes de transfert des risques tels que l'assurance agricole.



Le Gouvernement du Maroc tient à exprimer sa gratitude à la Banque mondiale pour son implication dans la réalisation de cette opération et réitère son engagement à poursuivre la mise en œuvre de ce cadre politique contenu dans le présent document.

Veillez agréer, **Monsieur le Directeur**, l'expression de ma parfaite considération.

Ministre Délégué Auprès du Ministre
de l'Economie et des Finances, Chargé du Budget

Fouzi LEKJAA



ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions (PA)	Poverty and Distributional Effects	Environmental Effects
Pillar I. Improving Protection Against Health Risks		
1. Extending Mandatory Health Insurance to TNS		
Prior Action 1.1 A	Poverty reducing: Welfare increase in terms of health care accessibility and poverty alleviation due to the extension of access to health care to a larger share of the population and reduction in OoP health expenditures. The extent of additional population covered, and therefore of the poverty reducing effect, will ultimately depend on the net expected benefit, which is a byproduct of the parameters of the health scheme. This could also affect fiscal sustainability in the medium term and the amount of risk pooling	No environmental effects, the increase in terms of accessibility to health care could be accompanied by the increase in the volumes of medical and pharmaceutical waste. Within the framework of the recently closed Morocco Health Sector Support PforR, a budgetary line was created in March 2018 in the operational budget of the regional directors for health and MOH delegations, for the outsourcing of the medical and pharmaceutical waste management for primary healthcare facilities (ESSPs). The COVID-19 pandemic provided an additional momentum to strengthen health security within ESSPs, and the MHSP’s Directorate of Ambulatory and Outpatient Care (DHSA) recently developed new health security guidelines, along with standard operating procedures for medical and pharmaceutical waste management.
Prior Action 1.1 B		
Prior Action 1.1.C		
2. Transforming RAMED from an Assistance Scheme to an Insurance Scheme		
Prior Action 2.1	Poverty reducing: welfare gains due to improved access to health care and reduced OoP health expenditures among poor and vulnerable households	No environmental effects
3. Revamping the Supply of Health Services		
Prior Action 3.1	No impact on monetary poverty, but improvements in non-monetary welfare due to better health services	No environmental effects, PA3.1 will participate in the national effort to reduce greenhouse gases and to fulfill the commitments relating to a call from WHO and the Presidency of the 2021 United Nations Climate Change Conference (COP26) for which the MHSP committed to develop climate-resilient and low-carbon



		health systems. In this context, the GOM formally committed to gradually reduce health facilities' greenhouse gas emissions to zero by 2050 and improve the healthcare system's resilience to climate change.
4. Increasing the Availability of Health Workers		
Prior Action 4.1 A	No impact on monetary poverty, but improvements in non-monetary welfare due to better health services	No environmental effects
Prior Action 4.1 B	No impact on monetary poverty, but improvements in non-monetary welfare due to better health services	No environmental effects
Pillar II: Improving Protection Against Human Capital Loses During Childhood and Poverty in Old Age		
5. Expanding Family Allowances		
Prior Action 5.1	Poverty reducing: effect due to extension of FAs to a larger number of children, particularly from poor and vulnerable households	No environmental effects
6. Expanding and Reforming the Pension System		
Prior Action 6.1 A	Poverty reducing: effect due to inclusion of TNS in the pension system. The size of additional population covered, and therefore of the poverty reducing effect, will ultimately depend on the net expected benefit, which is a byproduct of the parameters of the reform. This could impact the sustainability of the system	No environmental effects
Prior Action 6.1 B		
Prior Action 6.1.C		
Pillar III: Improving Climate Risk Management and Resilience Against Catastrophic Events		
Prior Action 7.1 A	No impact on monetary poverty, although improvements in disaster risks management will lead to effective ways to mitigate and adapt to possible adverse events related to climate change, reducing impacts on households' livelihoods and the likely impoverishment	No environmental effects
Prior Action 7.1 B	Poverty reducing: as most of the poor in the country live in rural areas and work in agriculture, the support provided to farmers to counter the ongoing drought will contribute to prevent sharp decreases in their income, reducing the otherwise probably poverty increases as well as the likelihood of counterproductive coping strategies.	No environmental effects



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ANNEX 5: PUBLIC DEBT SUSTAINABILITY ANALYSIS⁵¹

1. **After a slow accumulation of central government debt over much of the past decade, the debt-to-GDP ratio increased sharply in 2020.** The central government debt-to-GDP ratio increased by just 1.4 percentage points between 2014 and 2019 (against a 14.4 percent increase between 2010 and 2014), reflecting the authorities' fiscal consolidation efforts while public GFNs decreased from 16.4 percent to 13.2 percent of GDP.⁵² With the onset of the pandemic, fiscal consolidation efforts were discontinued, and the recession resulted in a shortfall of tax revenues. Consequently, the budget deficit almost doubled in nominal terms in 2020, reaching 7.6 percent of GDP, and the Treasury's debt increased by 11.6 percent of GDP, from 64.8 to 76.4 percent of GDP. GFNs reached 20.1 percent of GDP in 2020, up from an average of 14.2 percent of GDP in 2014–19. The debt ratio declined to 73.9 percent of GDP in 2021, in part because the successful international bond issuance of December 2020 pre-financed part of the year. Public GFNs fell to 15.9 percent of GDP.
2. **Morocco's central government debt profile comprises mainly domestic long-term debt, a structure that mitigates currency and interest rate risk.** Debt denominated in domestic currency amounted to 76.1 percent of total debt in 2021, up from 75.4 percent a year earlier. In addition, most of Morocco's public debt has a maturity of more than five years and is contracted at fixed rates. The central government's external debt is also mainly long-term in nature, including a significant share of it contracted at fixed rates from multilateral creditors and bonds issued in international financial markets. With respect to currency composition, external central government debt is denominated predominantly in Euro (63 percent) followed by the US dollar (32 percent), a structure that is broadly aligned with the weight of these two currencies in Morocco's basket exchange rate peg. Average nominal interest rates remain low and have declined from 4.8 percent in 2015 to 4.2 percent in 2019 due to decreasing borrowing costs in the domestic market, which accounts for most of central government debt.
3. **Baseline macroeconomic projections contemplate an acceleration of economic growth.** After the 2021 rebound, real GDP growth is projected to slow to 1.1 percent in 2022 and to grow by an average of 3.9 percent a year over the medium term. Inflation is expected to increase gradually, from 1.4 percent in 2021 to 4.0 percent in 2022 and about 2.0 percent over the medium term. After increasing to 4.2 percent of GDP in 2021, the primary deficit (excluding privatization) is expected to stabilize at around 3.5 percent of GDP as the health and SP reform is unrolled, and then to start declining from 2025 onwards.
4. **Government debt remains sustainable under a variety of shocks but exhibits rising vulnerabilities.** Under the baseline scenario, Morocco's central government debt is estimated to have surpassed the DSA debt burden threshold for emerging markets (70 percent of GDP), mostly because of the recession associated with the COVID-19 pandemic. The debt-to-GDP ratio is projected to increase moderately from 78.2 percent in 2022 to 79.8 percent of GDP in 2025, and then to start declining. The debt-to-GDP ratio would follow a similar path (albeit peaking at a higher ratio) under most simulated shocks, including under a contingent liabilities shock (in which the government is forced to absorb half of

⁵¹ This round of DSA was completed in January 2022 and reflects the data available at the time.

⁵² The DSA covers only central government debt; it does not include the publicly guaranteed debt of SOEs. Based on data availability, the impact on the DSA was assessed by introducing a contingent liability shock considering the totality of the external debt service guaranteed by the central government (86 percent of SOEs' publicly guaranteed debt is external). A privatization program started in 2019 and is expected to continue throughout much of the forecast period.



the guaranteed private debt). Debt stabilizes but does not decline during the forecast period in the case of the real interest rate shock and the combined macro-fiscal shock. GFNs surpass the DSA threshold of 15 percent of GDP for emerging markets over the entire projection period and remain above the threshold in the shock scenarios.

5. **The government is expected to be able to cover its GFNs thanks to its diversified sources of finance and to the appetite of domestic and international investors for Moroccan debt.** In 2022, public GFNs are projected to fall to 15.9 percent of GDP, below the 2020 level of 20.4 percent of GDP, but still exceeding the DSA threshold for emerging markets. GFNs are projected to remain above this threshold through the entire projection period, averaging 16.6 percent of GDP. The global accumulation of debt that has taken place in the context of the COVID-19 pandemic has increased the exposure to shocks in international financial markets. Nonetheless, the domestic financial market continues to be the main source of financing and has the potential to absorb the demand for additional financing. Moreover, borrowing conditions in the domestic market remain favorable: yields on local bonds are lower than on Morocco's Eurobonds at any maturity, and the latest issuances have been largely oversubscribed. The BAM's accommodative monetary policy and the reduced availability of alternative investments for local banks explain the current performance of the domestic debt market.

6. **Morocco's debt portfolio is well balanced, with vulnerability indicators hovering around early-warning DSA thresholds.** External financing requirements (for both the private and public sectors) reached 5.3 percent of GDP in 2021. Debt held by nonresidents accounted for 23 percent of total public debt in 2021; foreign currency-denominated debt accounted for 24 percent of total public debt in 2021. The lower early-warning DSA thresholds for these indicators are 5 percent, 15 percent, and 20 percent, respectively. The annual change in short-term public debt in 2020 was negative (-1.1) percent, below the lower early-warning threshold of 0.5 percent. In 2021 bond spreads also averaged slightly above the early-warning DSA threshold of 200 basis points.



Figure 5.1. Public Sector Debt Sustainability Analysis
Baseline Scenario (in percent of GDP unless otherwise indicated)

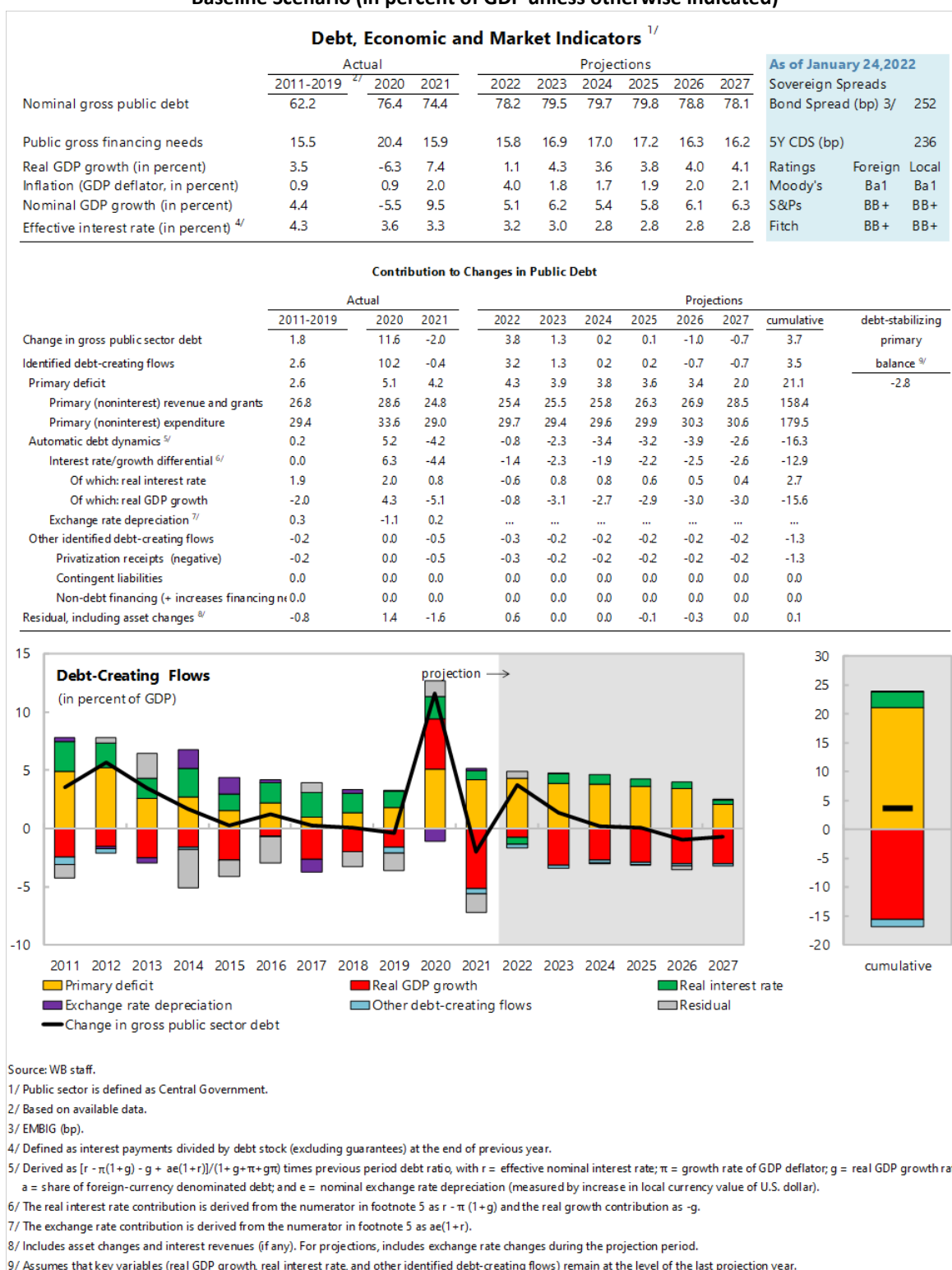




Figure 5.2. Composition of public debt and alternative scenarios, 2011–27

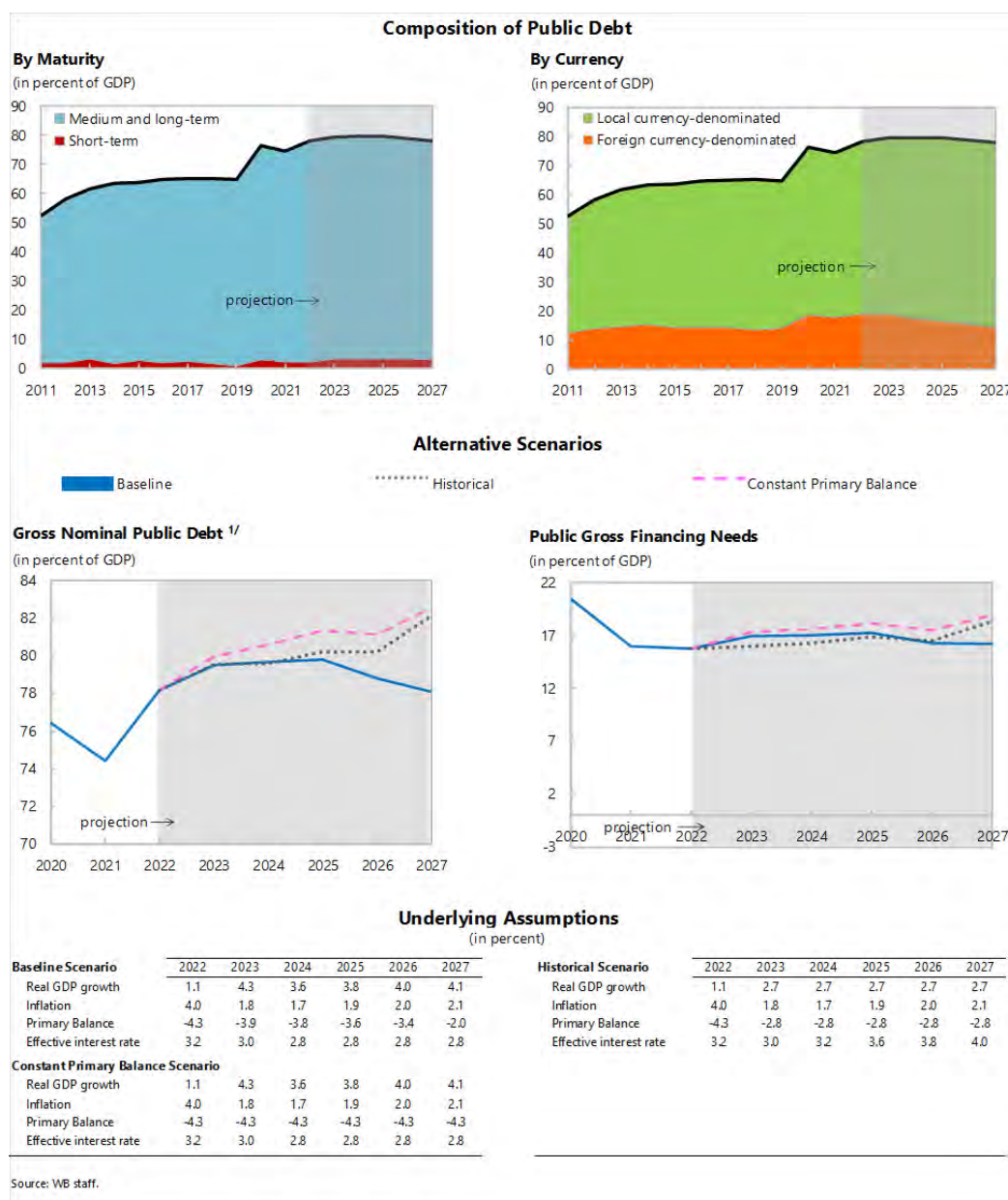
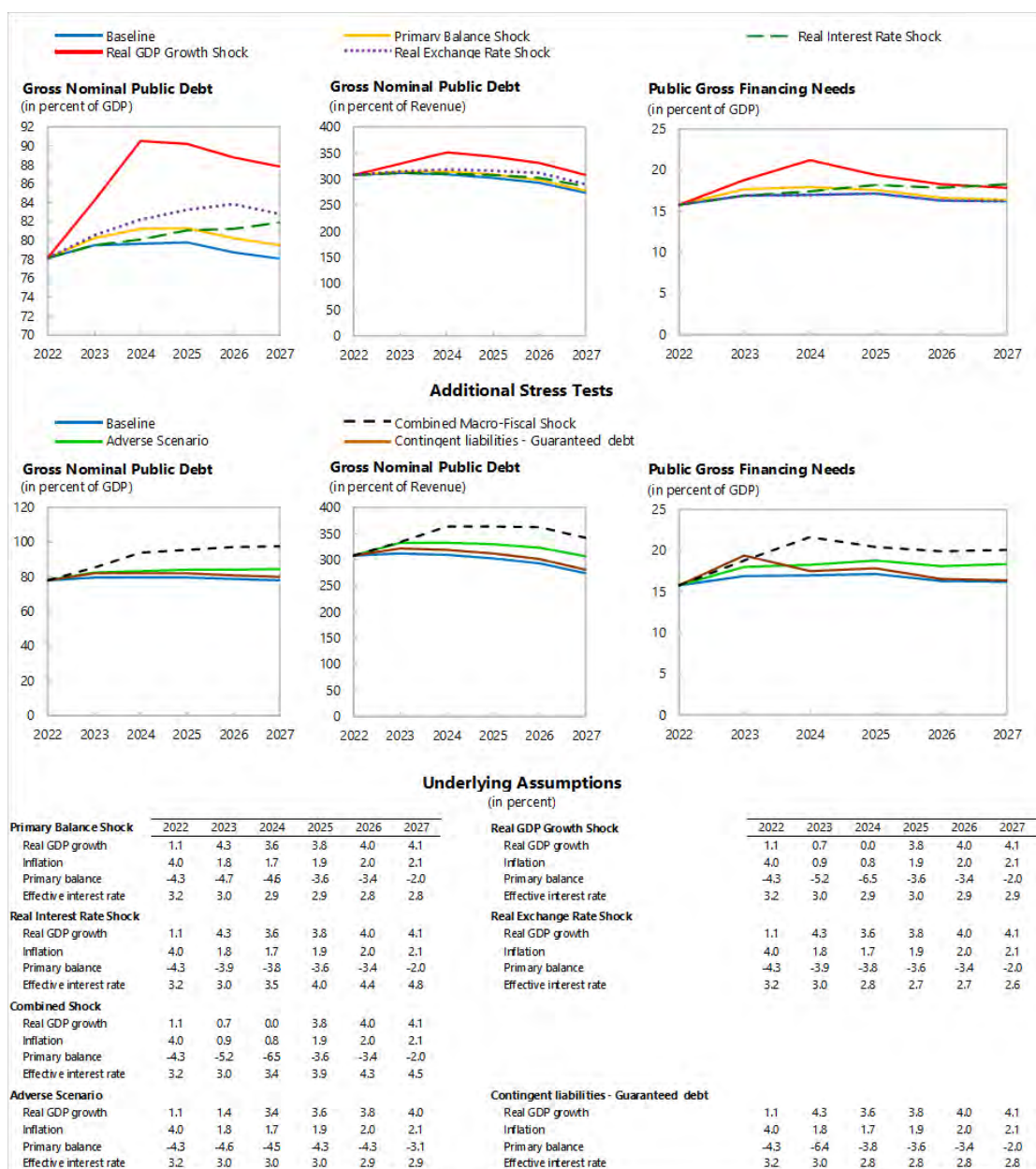




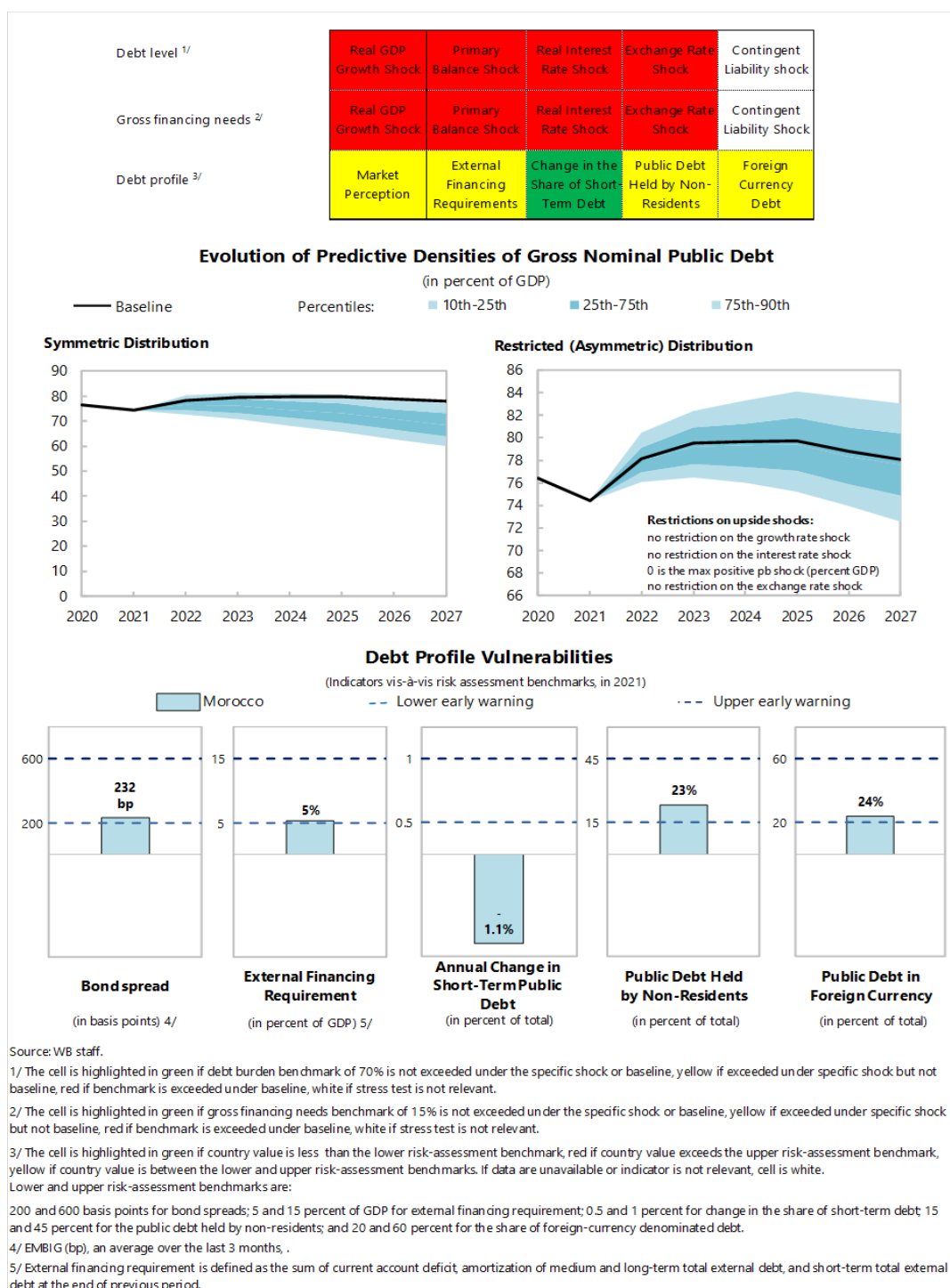
Figure 5.3. Public debt sustainability analysis (stress tests), 2022–27



Source: WB staff.



Figure 5.4. Public debt sustainability analysis risk assessment, 2020–27



**ANNEX 6. PUBLICATION DATES OF IMPLEMENTATION DECREES FOR PRIOR ACTIONS 1.1 C AND 6.1 C**

Number	Category	Decree Number	Date of Publication in the Official Gazette (BORM)
1.	Copyists	2.21.368	May 27, 2021
2.	Certified court translators	2.21.369	May 27, 2021
3.	Architects	2.20.803	May 4, 2021
4.	Medical Doctors	2.21.290	BO 7043BIS of November 30, 2021
5.	Dentists	2.21.529	BO 7043BIS of November 30, 2021
6.	Pharmacists	2.21.530	BO 7043BIS of November 30, 2021
7.	Paramedics	2.21.528	BO 7043BIS of November 30, 2021
8.	Notaries	2.21.752	BO 7043BIS of November 30, 2021
9.	Tourist guides	2.21.750 (change)	BO 7043BIS of November 30, 2021
10.	People subject to the unique professional contribution (CPU)	2.21.749	BO 7043BIS of November 30, 2021
11.	Craftsmen and merchants keeping accounts	2.21.751	BO 7043BIS of November 30, 2021
12.	The self-employed (auto-entrepreneurs)	2.21.928	BO 7043BIS of November 30, 2021
13.	Veterinarians	2.21.970	December 15, 2021
14.	Surveying engineers	2.21.971	December 15, 2021
15.	Craftsmen other than those subject to the single professional contribution regime and the Auto-entrepreneurs regime, and those who do not keep accounts	2.21.1020	BO 7056 of January 13, 2022
16.	Farmers.	2.21.1019	BO 7056 of January 13, 2022
17.	Taxi drivers	2.21.1018	BO 7056 of January 13, 2022