



Skills Development, Social Protection, and Employment in Morocco

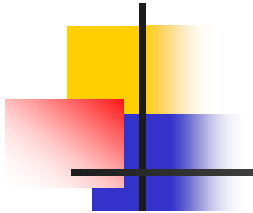
David A. Robalino
Senior Economist
The World Bank

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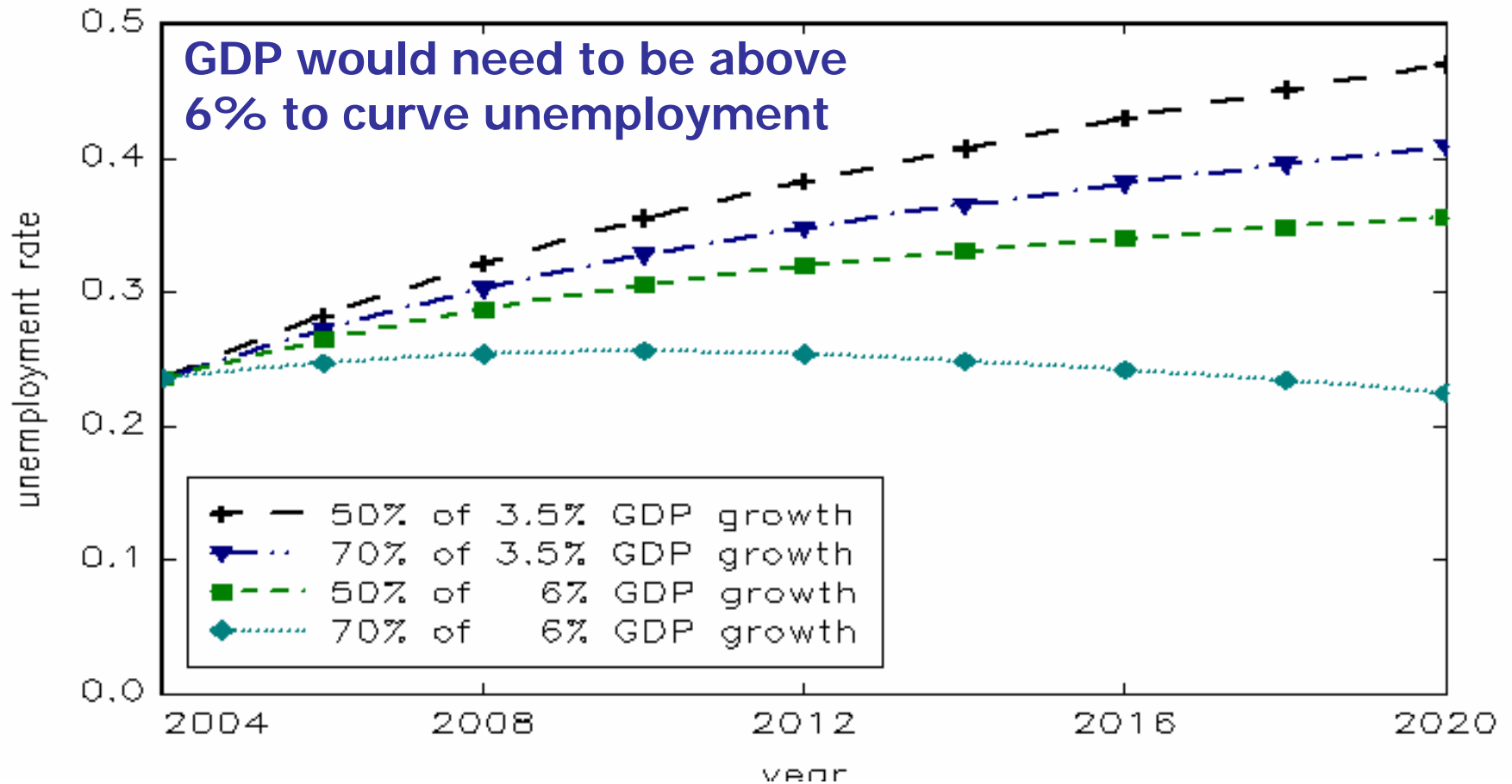


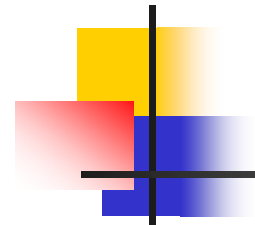
Background / motivation

- Morocco: a middle income country, poorly diversified, inward oriented:
 - Population = 30.5 million.
 - GDPpc = USD 1,300 (PPP 3,850)
 - Agricultural sector = 17% of value added.
 - Exports sector has not developed (trade deficit of 13% of GDP); situation will worsen as Multi-fiber agreement ends.
- GDP growth stagnant → not enough jobs:
 - GDP growth 2.5% Vs LF growth of 2% (or more)
 - Unemployment rate 12% (22% in urban areas).

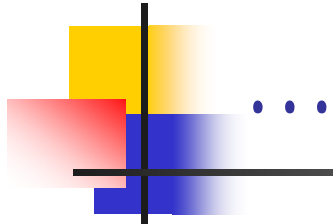


Urban Areas with Converging Labor Participation





- Unemployment higher for educated & young workers:
 - No education = 2.5%; primary education = 10.5%; secondary education = 24%; higher education = 30%.
- Large share of jobs are in the agricultural sector and the informal sector:
 - Agriculture = 44% of jobs (50% are non-paid family aids).
 - Manufacture, trade, education & health = 47%
 - Informal sector (excl. agr.) = 26% of jobs.
- The informal sector offers low quality jobs:
 - 70% have no education; 38% of informal units operate at the subsistence level.



- Employment creation remains the first priority of the government:
 - There is a clear understanding that new jobs cannot come from the public sector.
 - Consensus that the economy needs to grow faster:
 - Diversify and induce private investments and innovation.
 - Understanding of some of the key constraints.
 - But no articulation of policies in the various sectors to make this happen.
 - Latest initiatives for employment creation focus on active labor market programs: intermediation, access to credit, and wage subsidies.



Outline

- Process.
- General framework.
- Some policy issues (short summary):
 - Economic policy.
 - Business environment.
 - Education and training.
 - Labor regulations.
 - Social protection.
- Next steps.



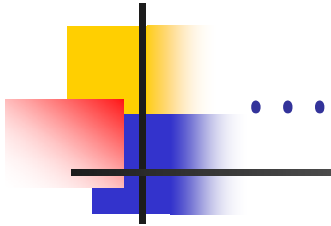
Process

- Creation of Multisector Steering Committee:
 - Labor (chair), PM office, Finance, Industry & Commerce, Planning, Education...
- Role:
 - Discussed/approved concept note, analytical framework, and work plan.
 - Review progress in the preparation of the report; feedback on policy recommendations.
 - Local technical teams contribute to the analytical work.
- Final report, including multi-year action plan, to be presented to the PM in April-May.
- *At the Bank level ESW pieces integrated under one code.*



The general framework for employment creation in Morocco...

- Macroeconomic and microeconomic environment that stimulates investments and growth:
 - Low risks and institutions that allow entrepreneurs to appropriate the returns from these investments.
- Policies that promote competitiveness:
 - Reallocate economic resources towards high value-added sectors (productive transformation)...
 - ... in particular in the exports sector, in the production of goods that are new in the productive structure of the country (self-discovery).

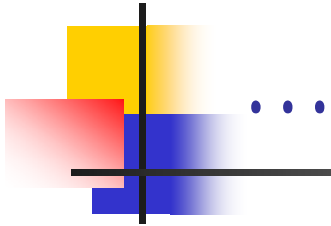


- Education and training:
 - Primary-secondary: learning skills.
 - Tertiary: specialized skills for the “new economy.”
 - Training: to facilitate economic transitions.
- Social protection (including labor regulations):
 - Income protection/consumption smoothing to facilitate labor mobility.
 - Active programs to support economic restructuring.
 - Assistance programs to build human capital among vulnerable groups; bridge to the formal economy.

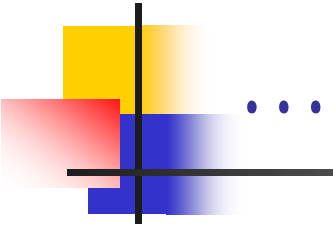


Macroeconomic issues

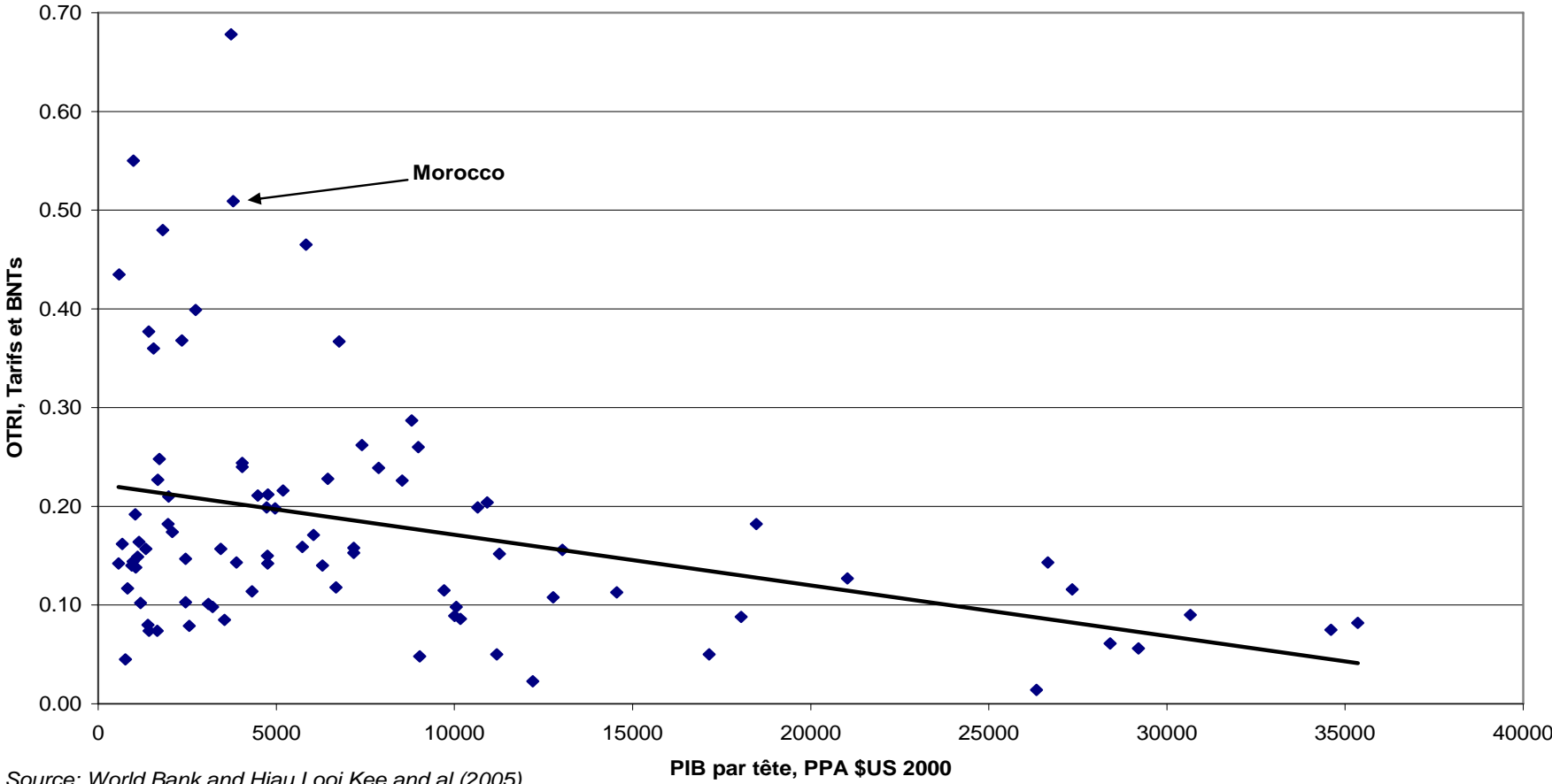
- Macroeconomic risks in Morocco are low.
 - Spreads on government debt among the lowest in middle-income economies.
- But there are challenges for fiscal policy...
 - Growing SP, health, and education expenditures.
 - Complex tax system reduces incentives to invest – including in education.
 - Large implicit pension debt (100% of GDP).
- ... and exchange rate policy:
 - Real appreciation since 2001 (20% relative to main competitors) → affect self-discovery.



- Trade regime biased against exports:
 - Highly protected economy.
 - Weak incentives for exports; particularly in non-traditional sectors.
 - Morocco has been competing in low-productivity sectors on the basis of cheap labor.
- Services sector is also tightly regulated.

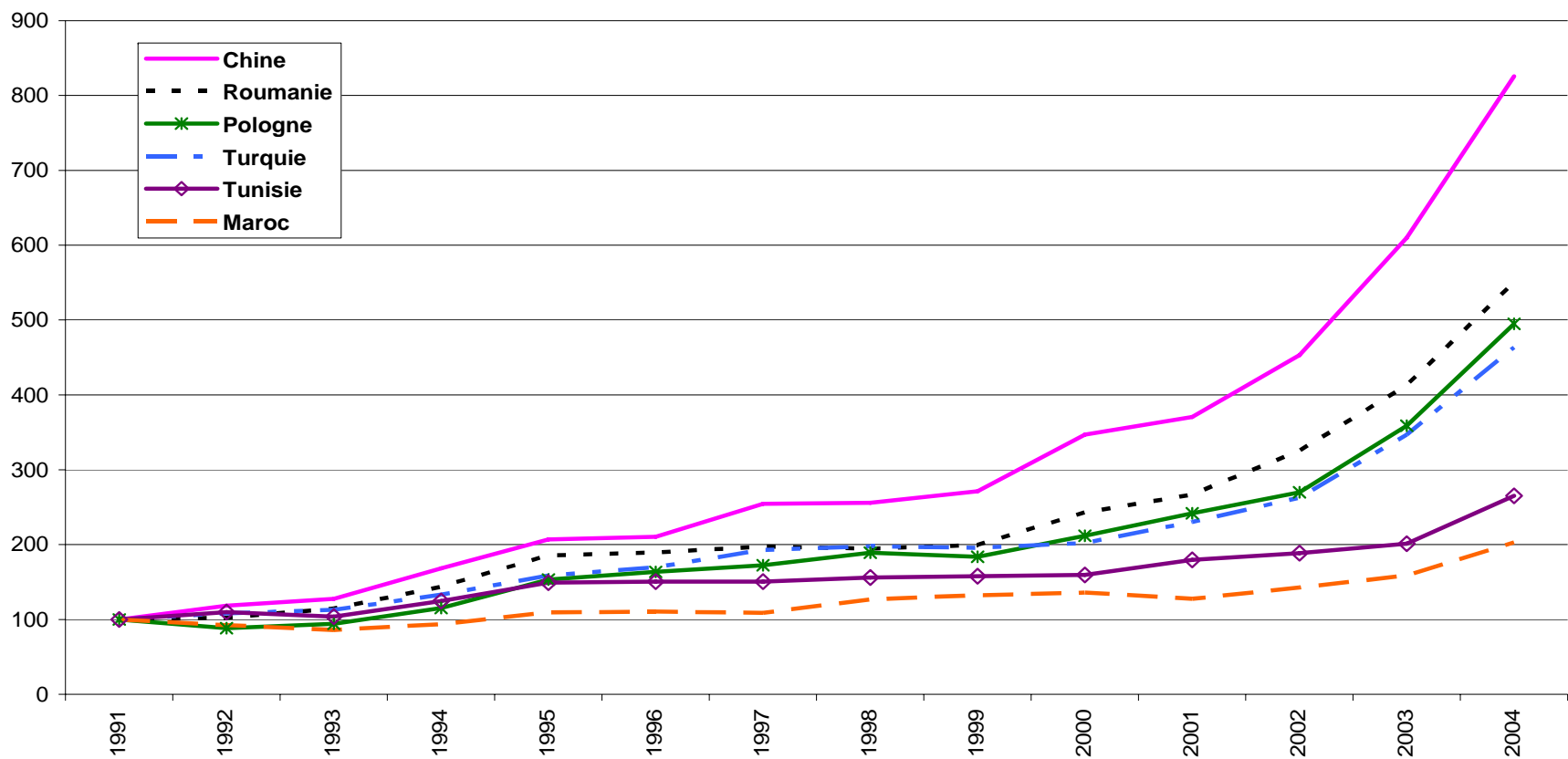


**Grphe 19 : OTRI et PIB par tête, en \$US PPA 2000
Tarifs et BNTs**

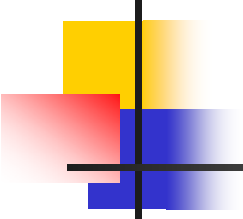


Source: World Bank and Hiau Looi Kee and al.(2005)

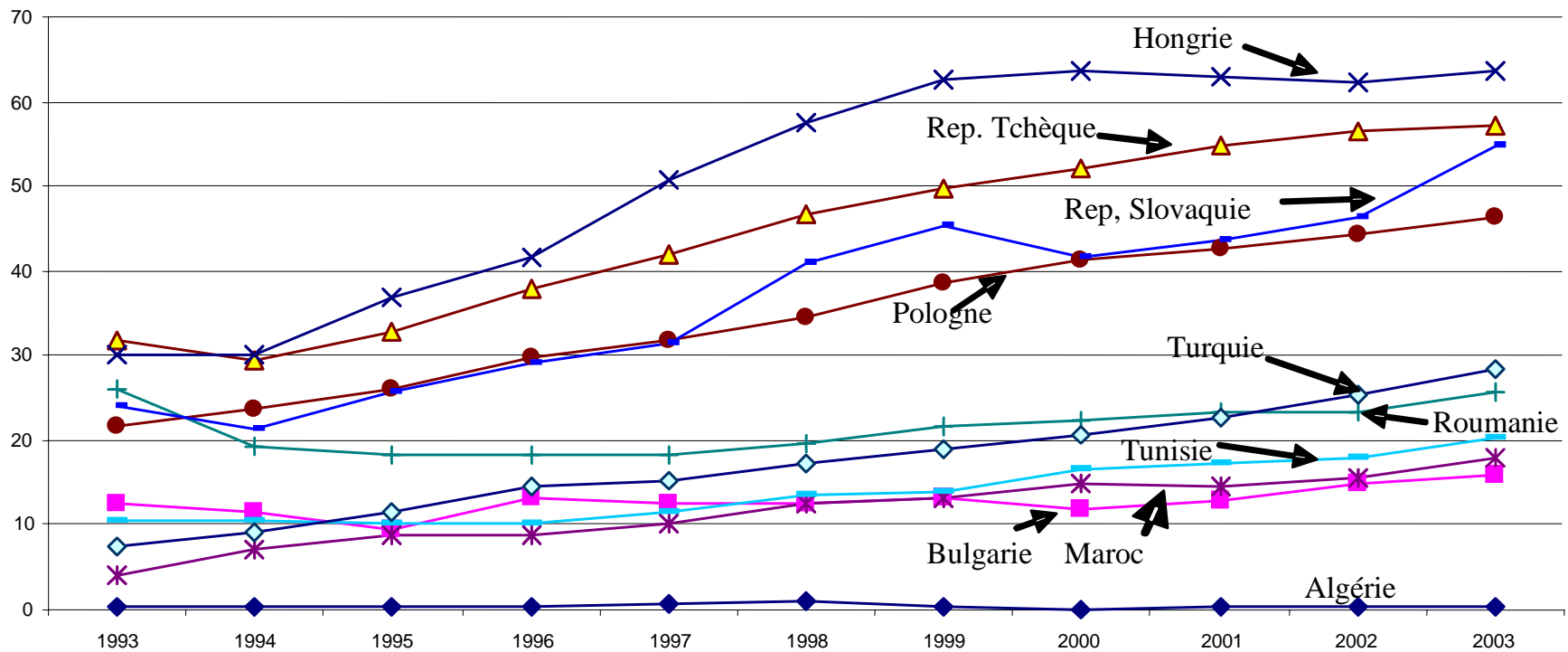
Graphe 25: Les Exportations Marocaines Demeurent Faibles Comparativement à Celles des Pays Concurrents (Indice 1991=100)



Source : Office des changes et UNCTAD



**Graphe 14: Parts intégrées en ingénierie et produits à haute valeur ajoutée
Produits manufacturés dans le total des exportations**



Source: Office des Changes, Gouvernement du Maroc



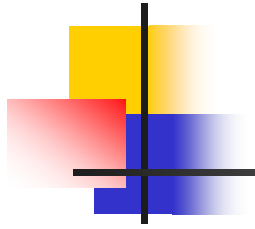
Investment climate...

- Investors will invest and create jobs if operation costs (regulations, corruption, infrastructure,...) are reasonable and predictable – not the case.
- Mechanisms are also necessary to deal with learning externalities and coordination failures:
 - Weak framework for intellectual property.
 - Difficult to enter in new sectors (e.g., Aeronautics) that require coordinated investments in infrastructure, new technologies, and skills...
 - ... Ministry of Industry and Commerce is leading interventions at this level.

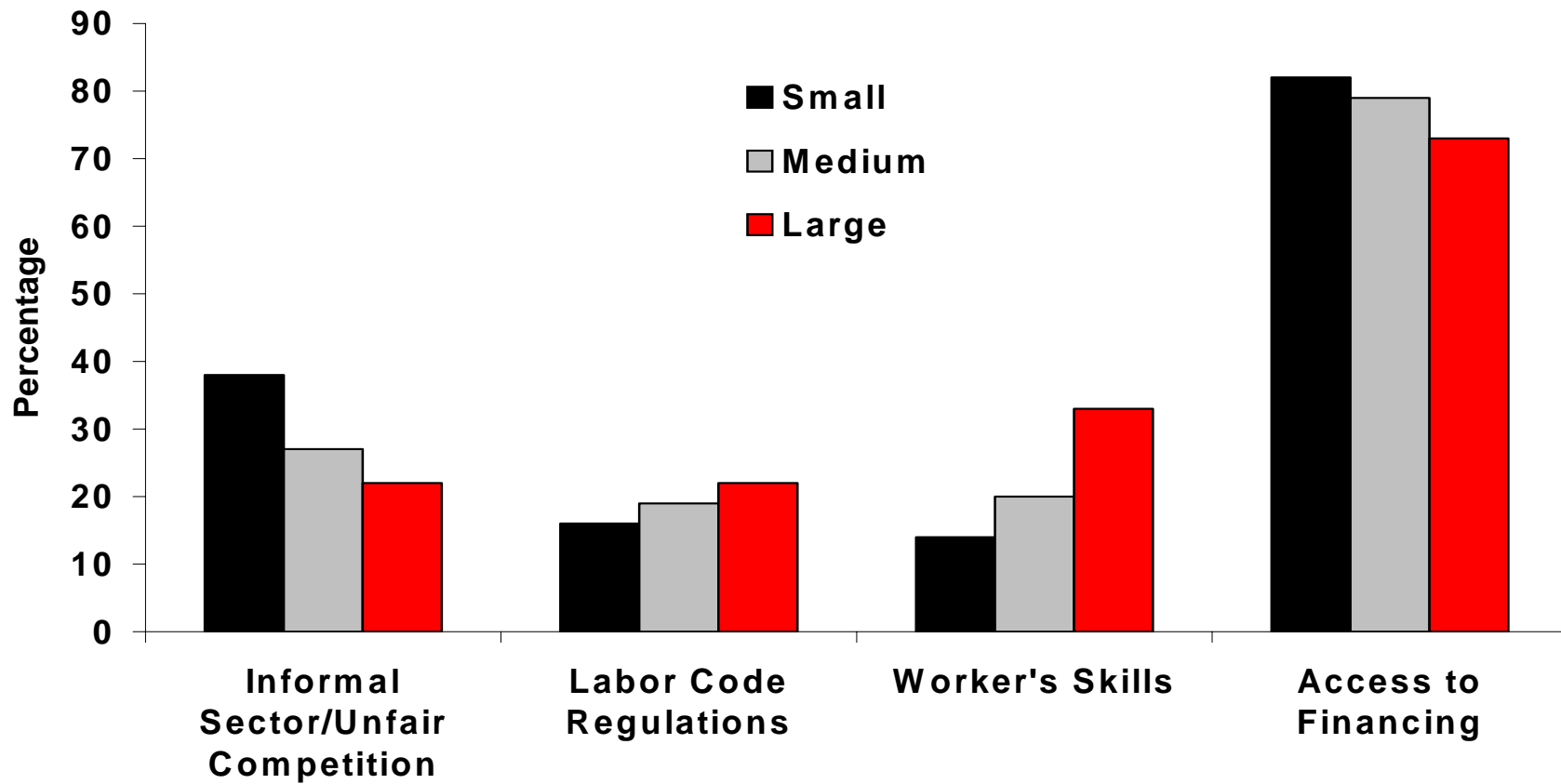


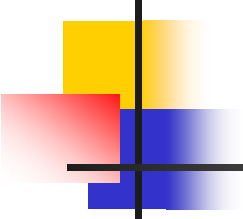
Morocco ranks low in terms of its business environment

Singapore	1
United States	3
Malaysia	25
Chile	28
France	35
Jordan	78
Colombia	79
Tunisia	80
Yemen	98
Morocco	115
Algeria	116
Iran	120
Venezuela	164
Congo, Dem. Rep.	175



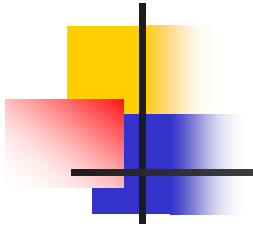
Constraints to enterprise growth by size of enterprise



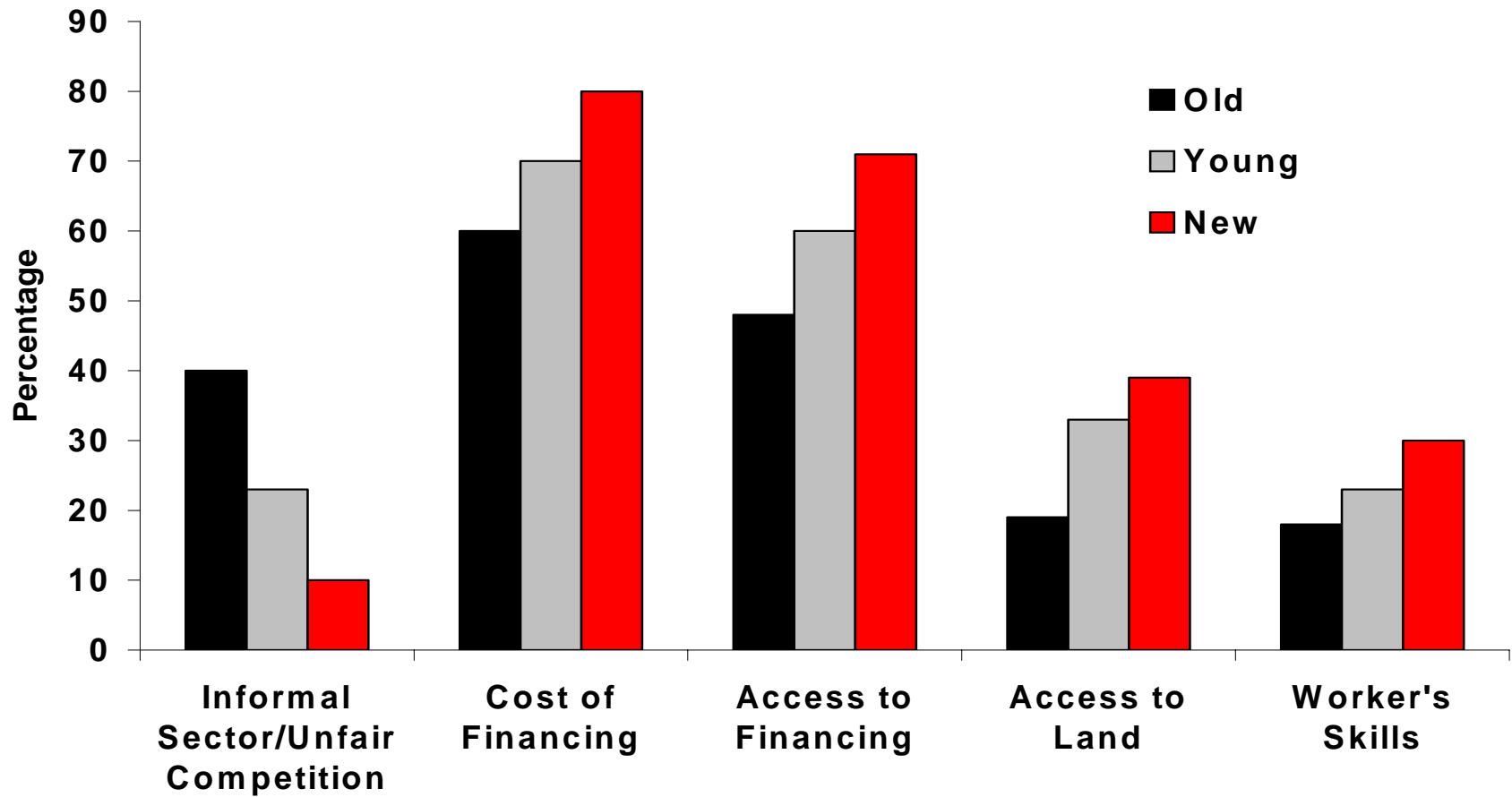


Constraints to enterprise growth by activity of enterprise





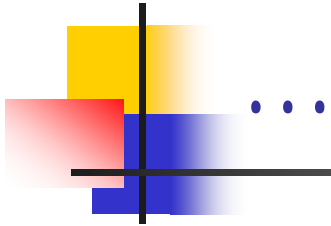
Constraints to enterprise growth by age of enterprise





Education and training

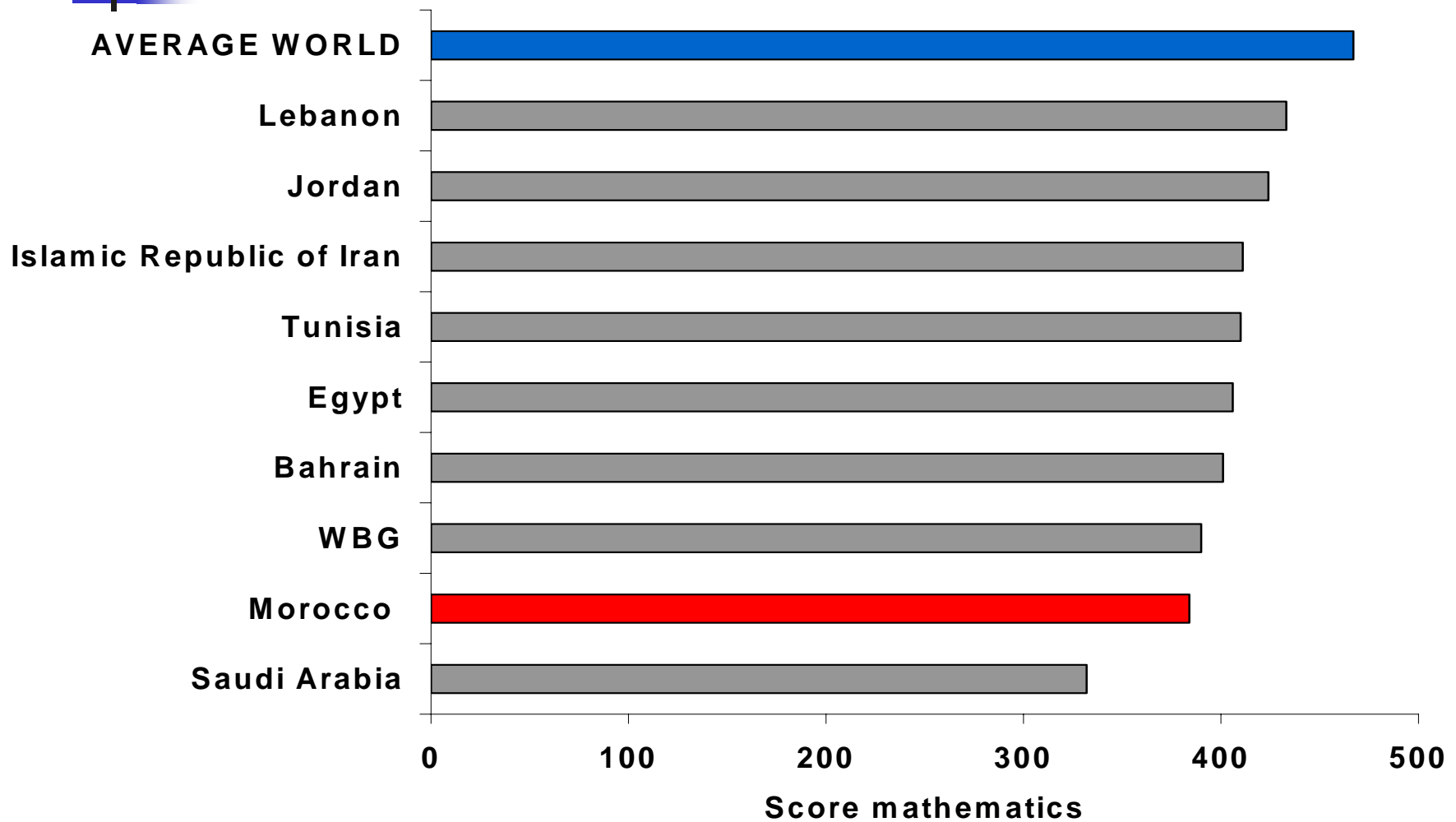
- Level of education of the labor force is very low (average 2.5 years of schooling):
 - No education or less than primary = 40%.
 - Primary = 26%
 - Secondary = 10%
 - Tertiary = 9%
- Still high dropout and repetition rates:
 - Only 12% of student enrolling in 1st year of primary obtain the Baccalaureate.
 - 40% drop before 9th grade.
 - Analysis for the study suggests both demand (income poverty) and supply factors play a role.

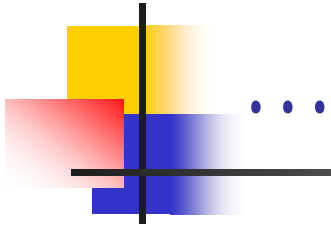


- Serious concerns about quality:
 - Results TIMSS among the lowest in the region.
 - 60% of students do not reach the lowest benchmark.
 - The study will include an analysis of individual results to identify causes.
- Serious concerns about the relevance of skills supplied by higher education and VT systems:
 - High unemployment rates could be explained in part by high reservation wages...
 - ... but skills-mismatches are likely to be important as well.



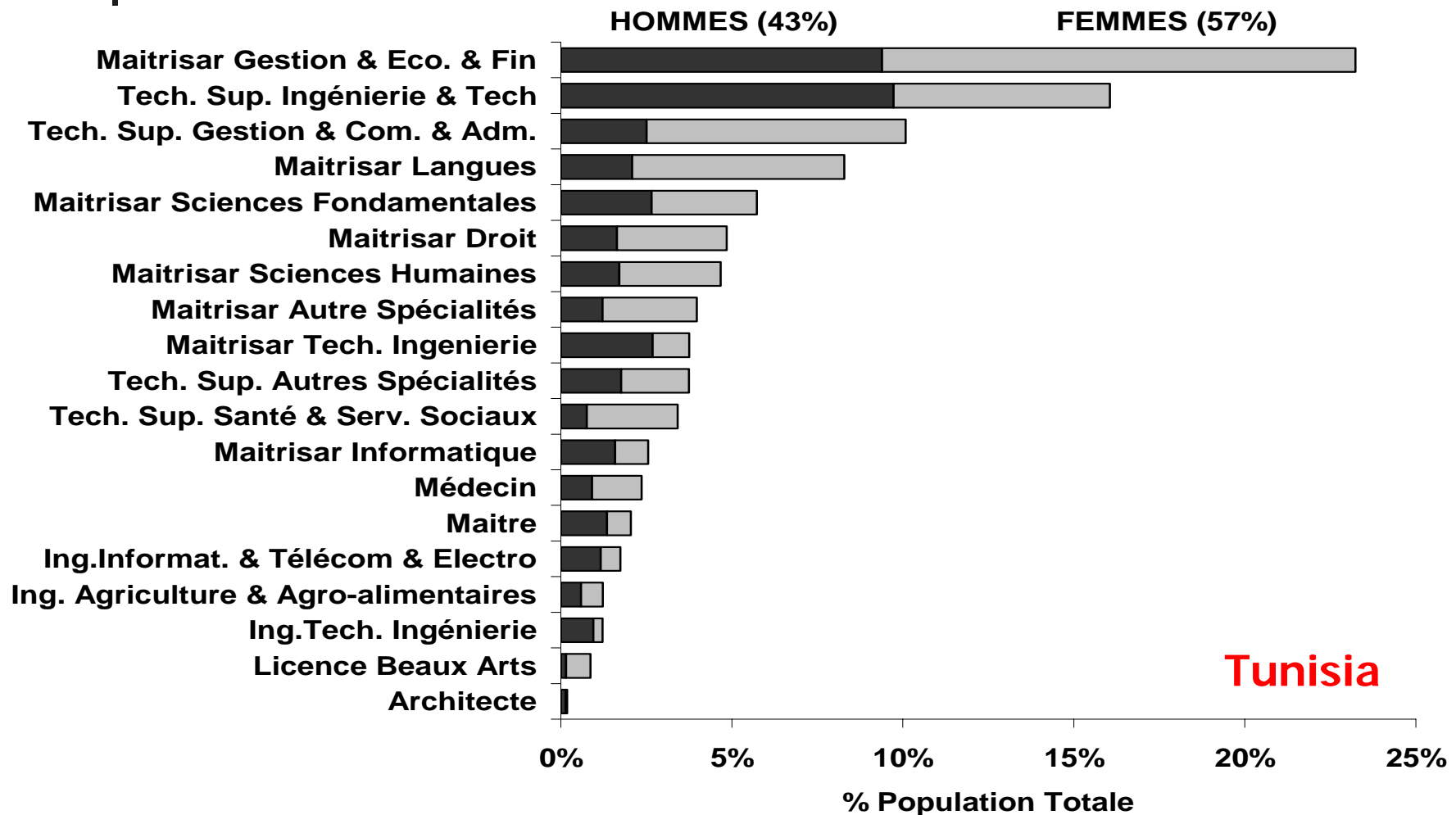
Poor performance in TIMSS

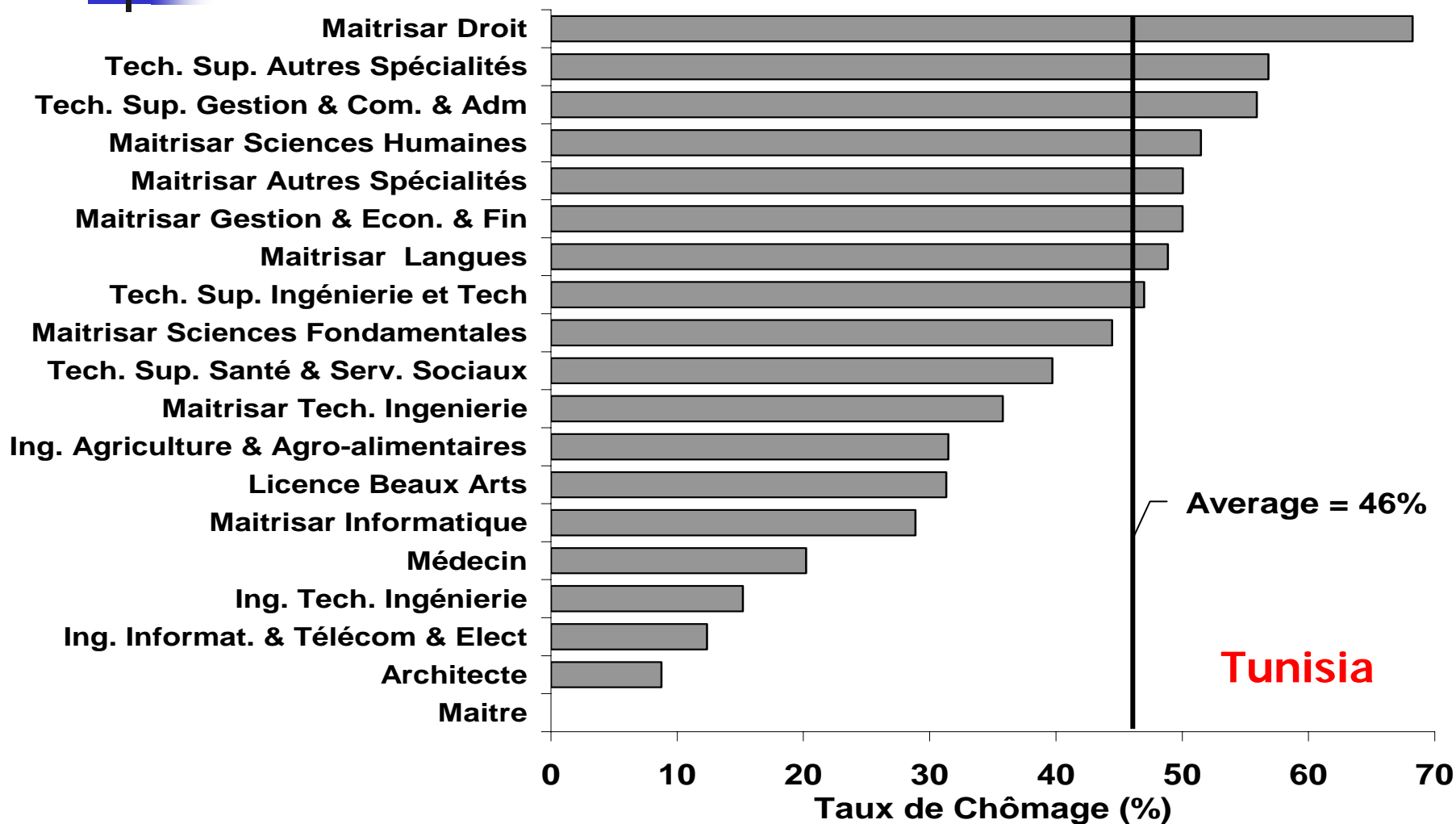
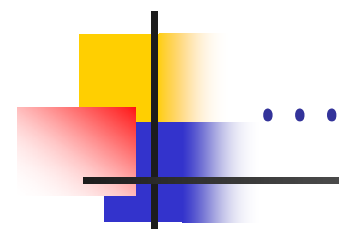




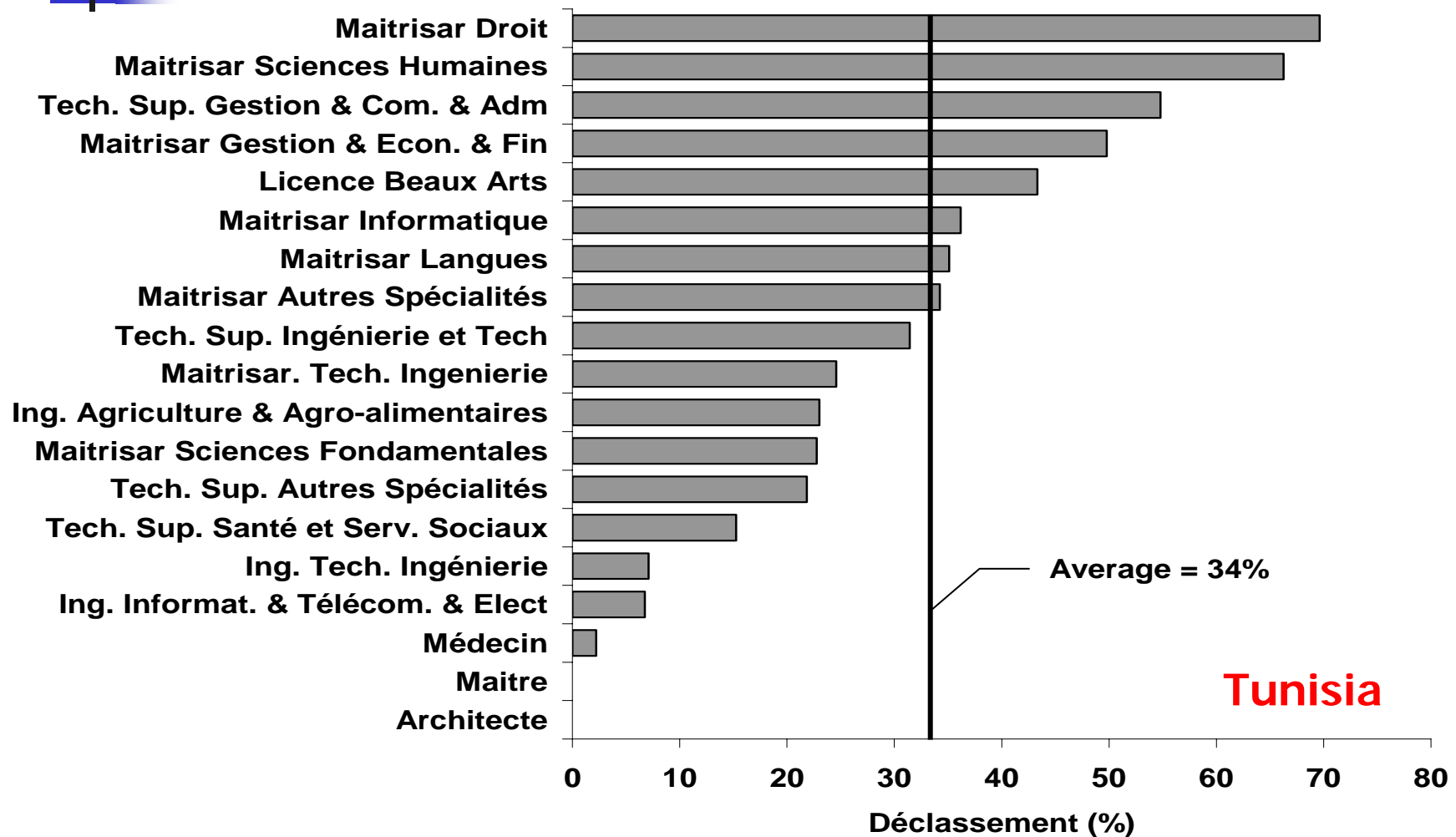
- Important reforms of the VT system but still not designed to support innovation & competitiveness particularly among SMEs.
 - > 70% of resources still go to initial training (drop-outs).
 - Large share of resources finance operational costs of the central administration.
 - Weak incentives to align the supply of skills with the demand.
 - No linkages with government innovation policies implemented through the Ministry of Industry.

Higher education system supplies more skills that have a low probability of employment?





... and which are more likely to be underutilized?

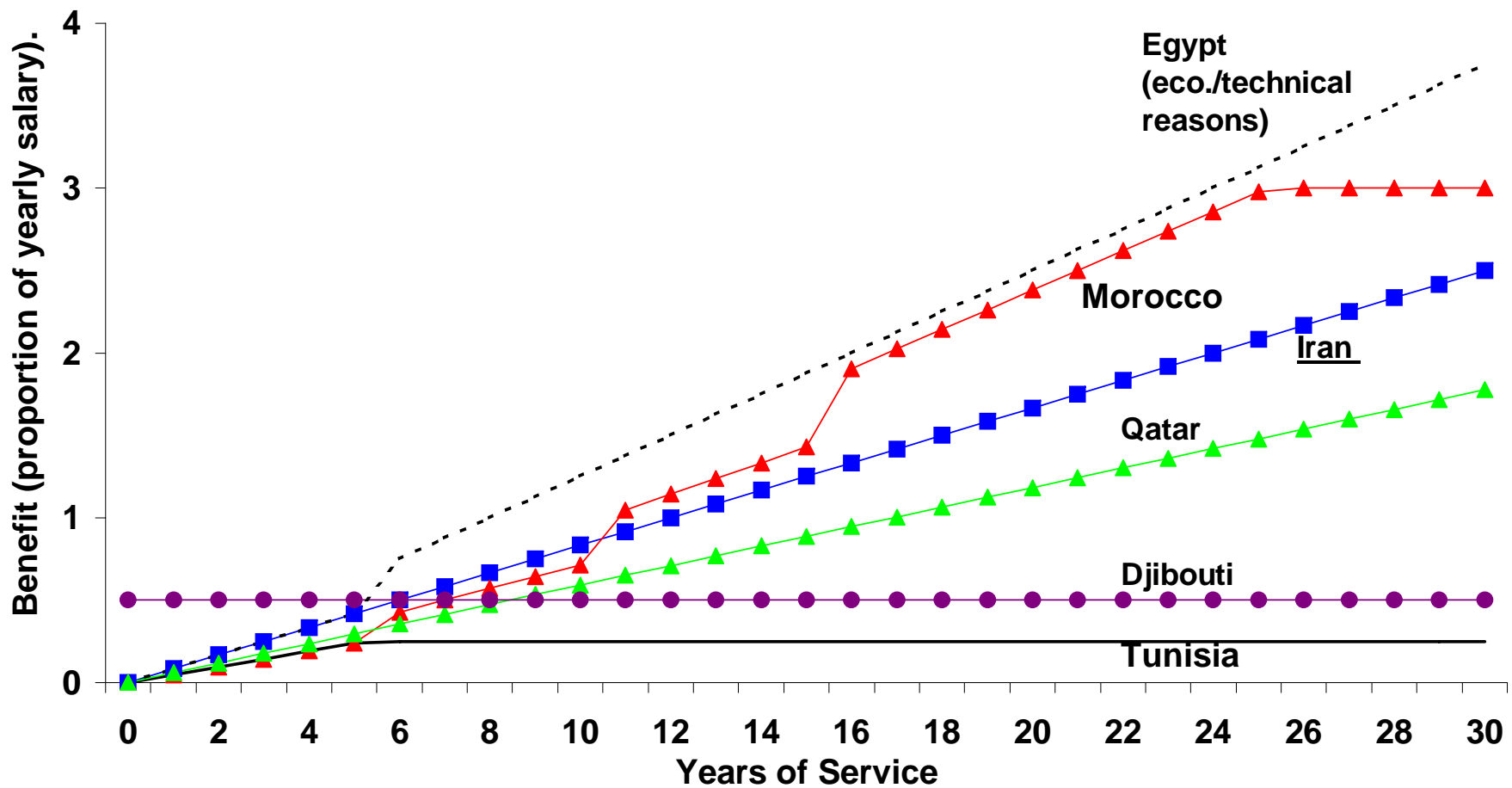


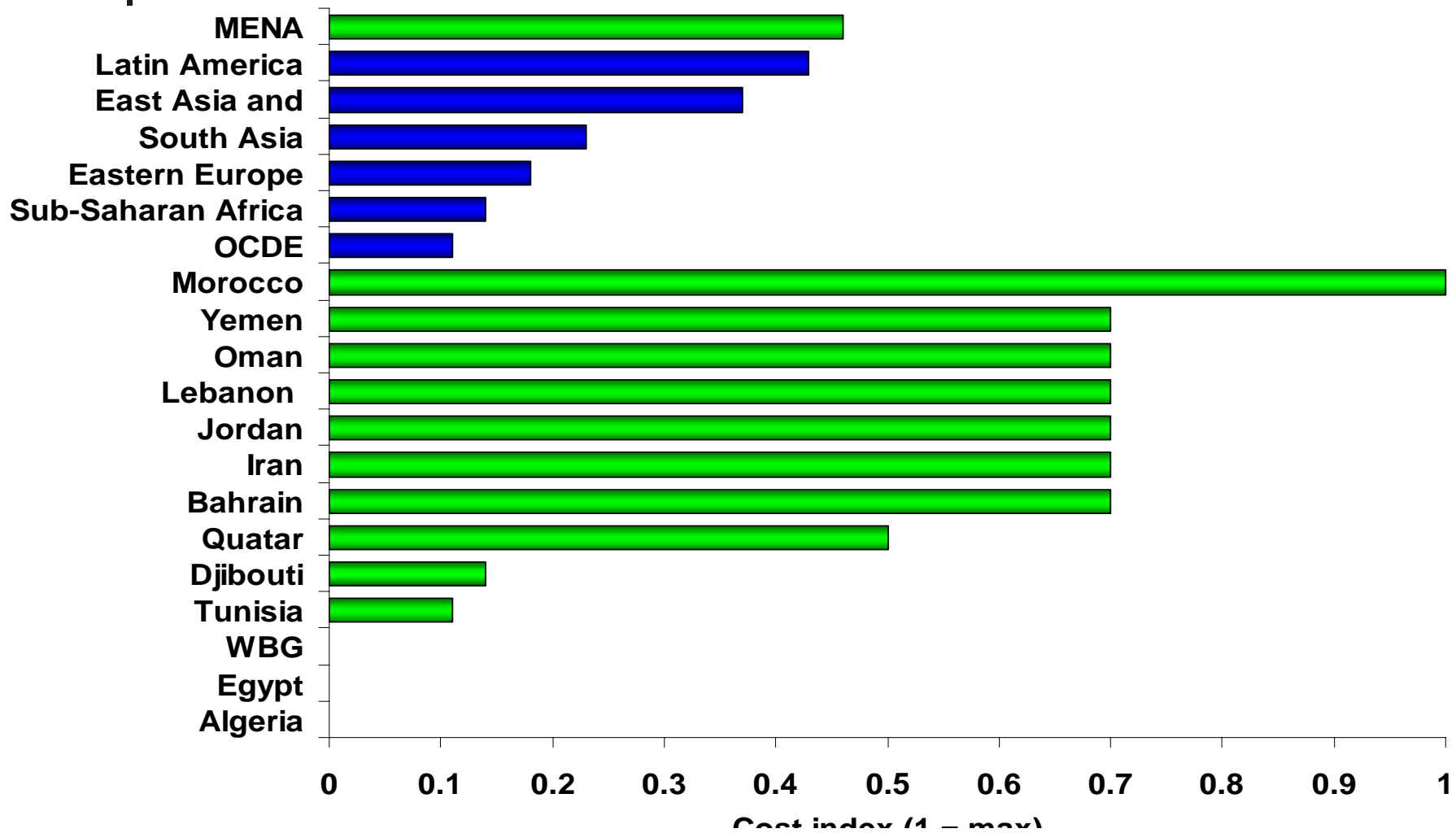
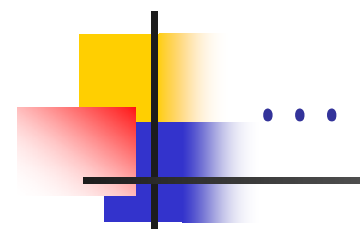


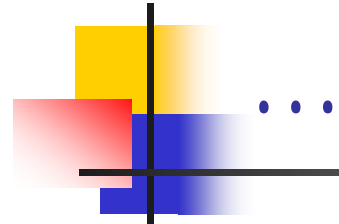
Labor market policies

- Standard problems with regulations:
 - Focus on job protection, not income protection.
 - Rigid dismissal procedures and expensive severance pay preclude economic restructuring.
 - Temporary contracts are proliferating but these do not provide any type of protection to workers.

High cost of severance pay







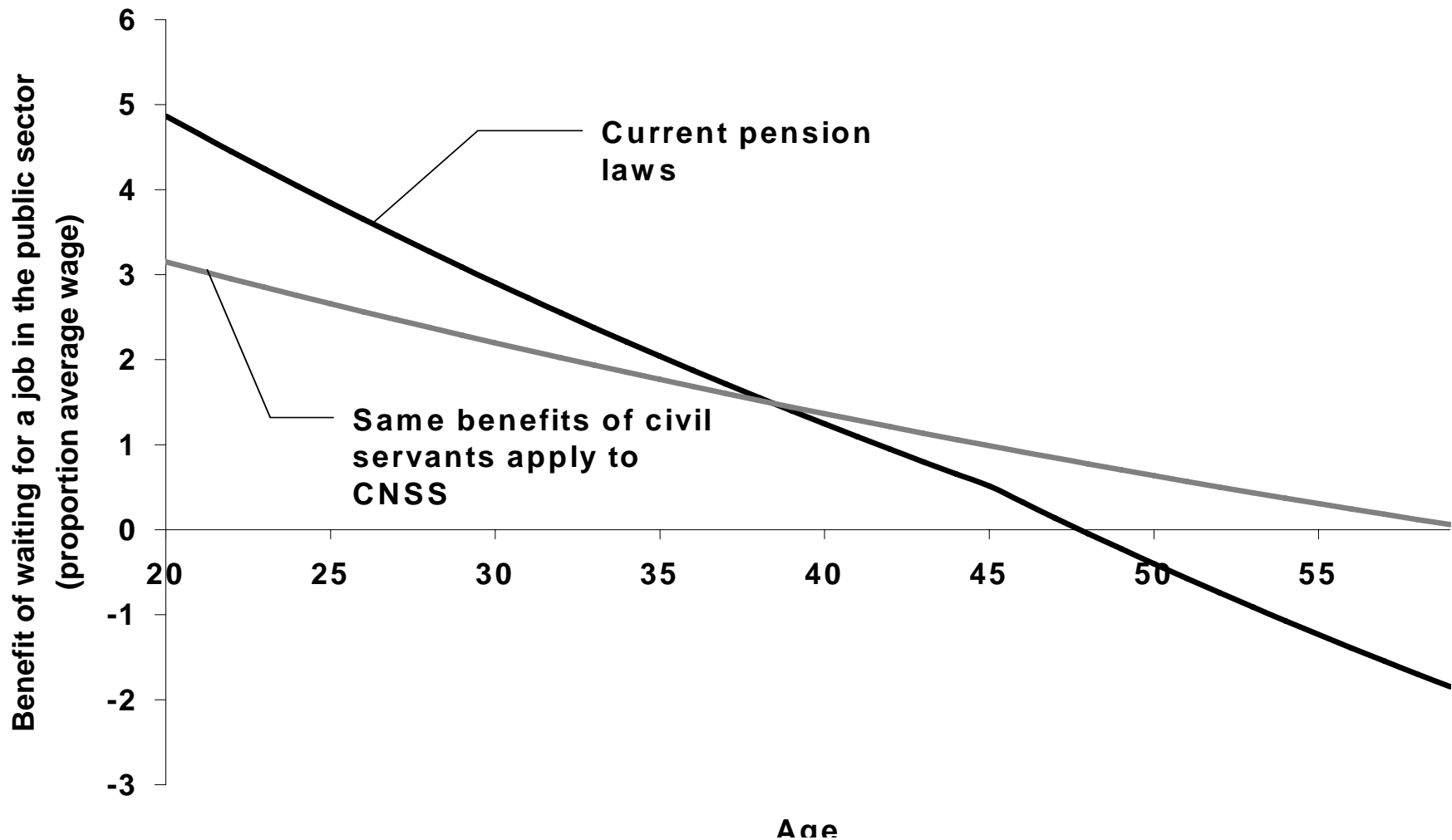
- Concerns about effectiveness of recent active labor market programs:
 - Development of jobs for new entrants to the labor market:
 - Tax breaks for firms which hire first-time job seekers.
 - Wage subsidies for internships with the guarantee of regularization.
 - Development of SMEs:
 - Credit facilities at the regional level.
 - Re-enforcing ANAPEC (employment services agency).
- Focus of the study is on how to improve the design and how to prepare impact evaluations.
- Analysis will also show limits of these programs relative to the demands.



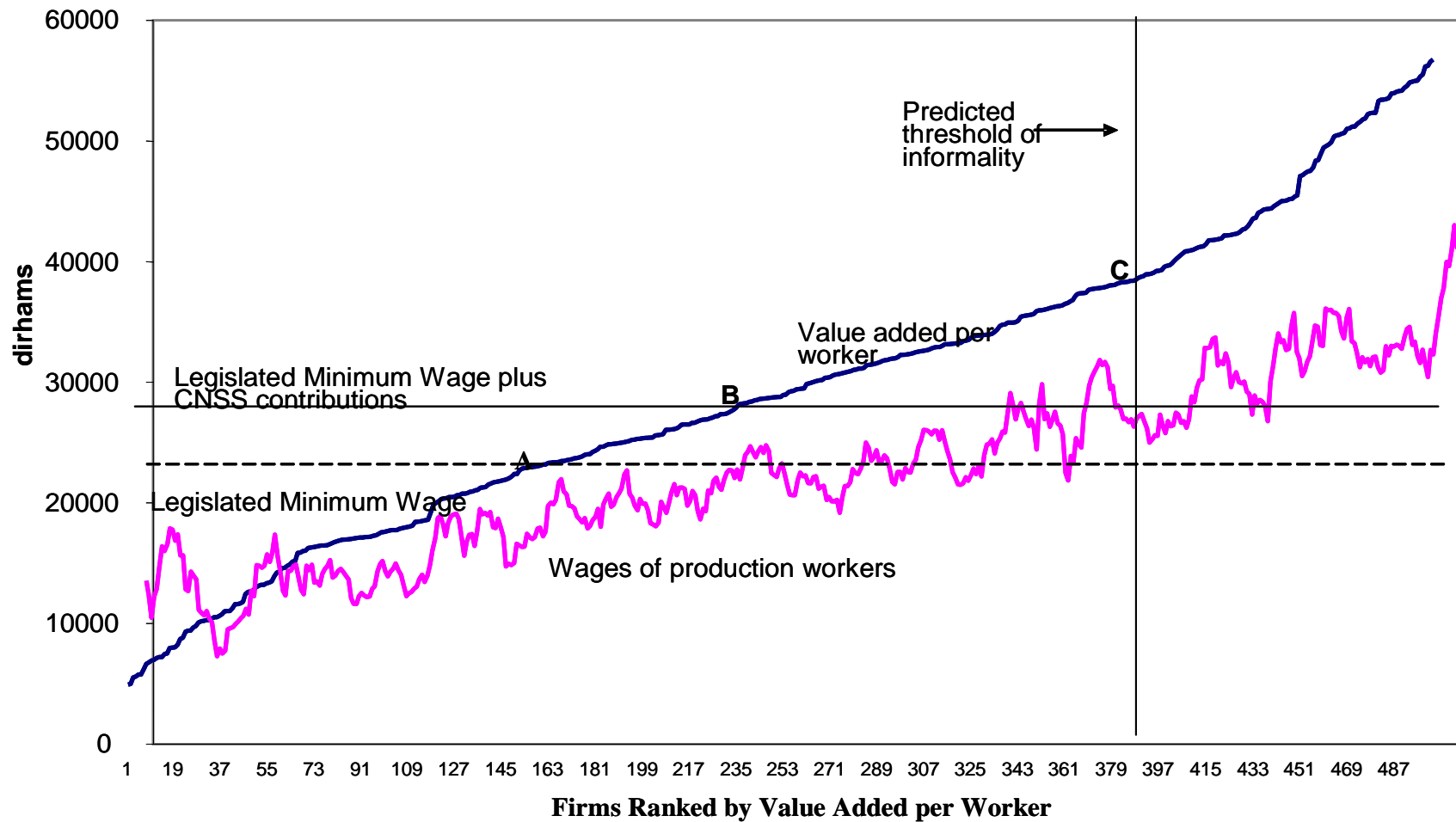
Social insurance

- Focus on pensions, [with some links to health insurance and discussion of viability of UI]:
 - Effects of financing mechanisms and systems to distribute risks (DB-DC) on the LM:
 - Level of the equilibrium contribution rate.
 - Links between contributions and benefits and the resulting labor tax implicit in the contribution rate.
 - Effects on SMEs and the informal sector.
 - Economic cost of early retirement.
 - Portability of benefits and labor force mobility.
 - Incentives to cue for jobs in the public sector.
 - Distortions on rates of return on investments in education.

Pension system provides incentives to cue for jobs in the public sector



... and to enter the informal sector





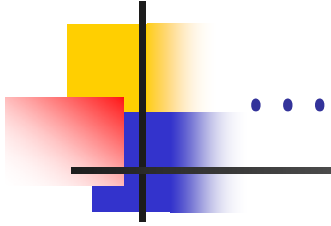
Social assistance

- Fragmented portfolio of programs with no clear mandates:
 - Weak targeting and monitoring systems.
 - No evaluation.
- Study will take stock of these programs and provide general recommendations for future reforms...
- ... but focus will be on identifying interventions that can be piloted and eventually expanded to deal with the issue of drop-out rates.



What comes next?

- Continue/finalize the assessment of constraints and necessary policy interventions by sector and their linkages.
- Assess macro impact of policy packages:
 - Analysis is based on a CGE model with a well disaggregated labor market.
 - Capable of assessing the impact of alternative policy packages (including pension reform) on labor markets and macroeconomic outcomes:
 - Employment / unemployment by type of skills level; wages; fiscal space...
- Define policy matrix for discussion with Government (prioritize).



- Operationalize the strategy:
 - Classical instruments:
 - Currently demand for projects in VT, Basic and Secondary Education (SWAP), and higher education.
 - Also demands for TA to support social insurance reform (pensions and health) and the implementation of active labor market programs (including evaluation mechanisms).
 - Or opportunity for a DPL...