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Downsizing Morocco's Public Sector: Lessons from the Voluntary Retirement Program

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Abstract

Many countries struggle with the size, composition and affordability of their public sector work force. This is particularly true in the Middle East and North Africa region, which on a per capita basis is home to some of the largest public sectors in the world. Public sector "downsizing" or "rightsizing" efforts, with the goal of enhancing efficiency, improving the skills mix and contributing to significant wage bill savings, have often been difficult and problematic to implement. Many managed to achieve their fiscal targets, but also caused some undesirable consequences. Mandatory or targeted redundancies often encounter fierce resistance from public sector unions and employees, and are politically difficult to implement. Voluntary programs avoid some of these problems, but can also lead to the departure of the most talented and productive employees from the public sector. A fortunate few have been able to carefully design and implement their programs, allowing them to both achieve significant fiscal savings and to retain their best performing employees while relocating less productive ones to other sectors.

This study examines the experience of the Moroccan government in trying to solve the challenges and inefficiencies long associated with its public sector. It relies on data and sources obtained from the Moroccan Ministry of Public Sector Modernization, as well as on formal and informal interviews with various senior government officials and stakeholders. It assesses the financial and economic results from two voluntary departure schemes, one of which is generally regarded as a success (although not without its complications), and was another which clearly is not. It discusses how these programs were designed and implemented, as well as their overall outcomes.

Background

Reflecting Morocco's colonial experience, its public sector is characterized by centralized procedures for budget preparation and execution, exacerbated by heavy ex-ante compliance controls; this leads to inefficiency in the use of public resources. Moreover, human resource management is dominated by a tenure system that provides little incentive for good performance. The skills profile within the civil service is biased toward those with front-line technical skills, rather than those with managerial or analytical backgrounds. This bias does not fully serve the needs of a modern administration. An opaque and fragmented compensation system, coupled with regulations that often constrain managerial flexibility, has inhibited staff redeployment, impeded administrative decentralization, and prevented the introduction of a merit-based compensation system. Pay raises and promotions tend to be linked to seniority and collective bargaining, rather than performance.

Overall, the Moroccan public sector faces significant fiscal constraints due to rapidly rising and unsustainable wage bills. Compared to other MENA countries and most of the governments of the world, Morocco spends a relatively large portion of its GDP to pay the salaries of its bureaucrats. In 2005, its wage bill consumed 11.8 percent of GDP, while the average in other MENA countries was 9.8 percent. Interestingly, Morocco's civil service was not particularly large by global and regional standards, either in terms of absolute numbers or in per capita terms. But a series of competitive pay increases between different cadres had made it expensive. Given the financial pressures Morocco had been going through, it was necessary to look for a solution to this unsustainable phenomenon.

Against this backdrop, the Government of Morocco, with assistance from the World Bank, launched a comprehensive Public Administration Reform (PAR) initiative in 2003. The PAR initiative aimed to improve the efficiency of budgetary and human resources management, and to reduce the burden of the wage bill on the budget. A Voluntary Retirement Program (VRP) was an essential element within the PAR initiative, as it aimed to place the wage bill on a sustainable fiscal trajectory.

The uniqueness of the Moroccan early retirement program's experience stems from the fact that it went through two completely different stages or experiences. The first VRP was designed in 2003 and implemented in 2004. However, in light of numerous shortfalls in its design and administration, it failed completely to achieve its targeted reduction of 20,000 by 2005. Ultimately, only 696 employees retired under this scheme. No significant cuts in the wage bill were realized, due to the insignificant output of the program.

However, the Moroccan government quickly learned from its past mistakes and launched a second program, called "*Intilaka*" (literally meaning "the start"), marking a "new start" in the careers of retired employees. Many elements contributed to the eventual success of the second effort in reaching significant fiscal and economic goals. There was excellent preparation during all phases of the operation, which took into consideration the pitfalls of the previous experience. The communication phase succeeded in disseminating the necessary information widely to all stakeholders, especially potential candidates. Also, the direct involvement of the prime minister in monitoring the implementation process sent a strong signal to stakeholders. Emphasis on the voluntary nature of the operation via transparent communication helped to dissipate the fears of the civil servants and trade unions, convincing them that it was not the intention of the government to target unproductive or redundant civil servants. In addition, strong political leadership and substantial communication efforts made potential applicants feel confident that the government acknowledged their experience and believed in their capability to start new ventures in the private sector.

The second VRP had the short-term goal of streamlining the civil service and containing the wage bill at fiscally sustainable levels. The numbers of participants and beneficiaries in the civil service exceeded expectations, with more than 50,500 (10 percent) of the former and almost 38,600 (7.6 percent) of the latter. It was considered very successful in achieving its fiscal goals, as the savings on the wage bill has been estimated at 1 percent of GDP annually. Taking into account all the positive and negative financial impacts, especially the one-off severance payment (which amounted to the equivalent of 2.3 percent of GDP) and the effect on the pension fund, the VRP yielded a positive result estimated at 5.9 percent of GDP (or 3.7 percent of GDP if discounted using a 5 percent rate).

On the budget, starting from 2006, the net total impact amounted to an annual savings of 0.6 percent of GDP, which allowed the Government to recover its initial net outlay of 1.9 percent of GDP within four years given that no significant rehiring to fill vacant positions took place. Since 2005, the wage bill declined steadily, from consuming 11.8 percent of GDP to 10.2 percent at the end of 2010. By that standard, the VRP achieved most of its quantitative and financial objectives.

It is worth mentioning, however, that given the ongoing social protests demanding political and economic change, the government devised a social package to ease the pressures from the protesters that included wage increases for civil and military personnel. The impact on the wage bill is significant, as the wage bill is estimated to reach around 11 percent of GDP by the end of 2011. However, the expansion in the wage bill has not resulted from slack budgetary discipline, nor from the mismanagement of human resources and salaries. Rather, it is the result of a specific situation prevailing in the region in general and in Morocco in particular, which called for these increases to avoid social unrest.

While the second program succeeded in achieving remarkable fiscal gains, it did not achieve similar levels of success in its other targeted objectives due to a number of shortfalls in the design of the program and the relatively short period of time in which it was carried out. The long-term goal was to reorient the state towards its main missions of regulation, monitoring and evaluation, as well as to improve the productivity and overall skills profile of civil servants. The success of this goal would generally be reflected in the economic returns of the program. With assistance from various international organizations, the government subsequently embarked on a promising endeavor to restructure its human resource management practices, including traditional methods of recruiting employees in various ministries and public agencies, as well as to adopt a more strategic and results-based approach, especially in assessing their performance and effectiveness. Unfortunately, the sequencing would have been better if this effort was implemented before, and not after, the end of the VRP program.

The most critical shortcoming of the second VRP program was adverse selection—a common and foreseeable problem in exercises of this type. The government lost some of its most talented and experienced employees because the retirement program did not target specific jobs or grades, and was technically open to all public servants. Another shortfall in program design was the way incentive packages were prepared, which gave generous privileges and financial benefits to the senior employees and less attractive ones to lower ranked public servants. This encouraged high ranking employees to quit and lower ranking and less effective ones to remain. To mitigate the risk of adverse selection, an approval mechanism was put in place whereby the applicants had to receive authorization from their managers to benefit from the VRP. Unfortunately, the only criterion for the selection was "service necessity." This standard proved to be too vague and amorphous to provide clear guidance. Many managers found it morally unfair not to allow loyal and productive employees to retire, while letting the allegedly unproductive and redundant ones benefit from the VRP.

Moreover, the departure of civil servants who were very much in demand was not accompanied by personnel redeployment and training to ensure the uninterrupted delivery of services. This resulted in occasional public service disruptions. Most were temporary and minor, but they surfaced in some important sectors such as education, health, housing and agriculture. This experience underscores the importance of implementing knowledge management programs before initiating the retirement program to ensure that there is a smooth transfer of knowledge and know-how to other employees whenever someone leaves their post.

Global Experience with Public Sector Rightsizing

The 1980s and 1990s witnessed a variety of economic challenges—such as budget deficits, fiscal imbalances and macro-economic instability—which encouraged many emerging economies to rethink their basic assumptions regarding the role of the state in development. Previously, the prevailing wisdom in many developing countries was that governments should occupy the "commanding heights" of the economy. A potent combination of demographic pressures and hostility towards the private sector, as well as calculations of patronage, corruption and *wasta* (or "connections"), had played out over several decades, fostering an environment in many countries where hiring within the civil service had become the de facto solution to unemployment. The high wages and relatively comfortable working conditions enjoyed by public employees in some (but not all) Arab countries served as a disincentive to private sector employment. Other countries—e.g., Egypt—paid civil servants poorly, which allowed them to afford large establishments but also led to massive redundancies, low motivation, moonlighting and corruption. Whether civil service wages were low or high, the result was public sectors throughout the MENA region that were typically expensive and inefficient. Large wage bills soaked up valuable resources that could otherwise be devoted to improving service quality in critical sectors such as education and health, or in expanding public investment.

Public sector downsizing, or "rightsizing," has been a widely utilized policy since the early 1980s to correct the mismanagement of public sector resources and achieve efficiency in the machinery of the government. This was meant to be achieved by both reducing the size of overstaffed public agencies and laying off redundant employees, and also by limiting the involvement of the state in the provision of jobs. A secondary motive has been to use such programs to rebalance staff composition, typically to bring in staff with valuable technical skills in areas such as finance or information technology, at the expense of unskilled or semi-skilled staff, or to create opportunities for promotion for younger staff moving up the ranks.

Downsizing and rightsizing may take many forms.[1] In *Voluntary Departure Schemes*, employees are offered compensation packages that typically vary in their value according to the seniority of the employee within the organization. As the name implies, Voluntary Departure Schemes allow employees to decide whether to take the packages and leave, or to remain in the organization. Such programs can be *targeted* at certain categories of staff, or *non-targeted* and open to all applicants. There are also *Involuntary Retrenchment Schemes*, which have the benefit of allowing the organization to decide who stays and who goes. However, these are much more contentious politically to implement.

Short of such schemes, which are typically used to address problems in reducing permanent or tenured staff, a variety of other mechanisms can be utilized to reduce the burden of the wage bill, with varying degrees of political and administrative difficulty. Governments can identify the "ghost workers" (fictitious or non-existent employees) and ensure that they are removed from the payroll. If the demographics are favorable, recruitment can be frozen and staff reductions can take place through attrition. Work hours can be reduced. Employees can be furloughed or placed on unpaid leave. Positions can be contracted out and gradually eliminated.

Successful downsizing operations must focus first upon their financial and economic returns, which are often the principal motivation for undertaking such exercises. Most of the available studies about the experiences of developing countries in assessing the achievement of voluntary retirement schemes focus primarily on the financial side of these programs, which is much easier to calculate (particularly from the vantage point of the organization undertaking the reductions). Analytically, however, the economic return from such exercises is actually more important, as it reflects the actual performance of the programs and whether or not they have achieved their broader social outcomes.

Positive financial returns are reflected in significant reductions in government spending, especially in public sector wage bills. When the cost of the downsizing operation is less than the value of savings gained in the long run after the departure of the employees, then the program results in positive financial gains—provided that the government or individual organizations undergoing the retrenchment can avoid the temptation to engage in new rounds of recruitment downstream.

Economic gains from downsizing schemes are captured if governments can place the departed employees in sectors where they bring more value added than in their public sector jobs. When these employees are placed in positions outside the public sector where they are incentivized to perform well, then the program achieves positive economic outcomes—particularly if they establish businesses that create new jobs or engage in other entrepreneurial activity. Overall economic gains are more challenging and difficult to assess since there is no reliable instrument that can gauge the effectiveness of government employees in most developing countries.

The Political and Economic Contexts in Morocco

Political Context. During the time in which these reforms were being implemented, the Moroccan political system was relatively unique in the region. It is a constitutional monarchy in which the King plays a key role in driving the decision making mechanisms and setting the policy agendas of the country. Since Morocco's independence in 1956, various efforts have been made to establish a pluralistic political environment where political parties can compete in free and transparent elections. One of the most unprecedented political experiences in Morocco and the region was the election of an opposition party in 1998. This gave more hope to the Moroccans in their aspirations for a fair and representative electoral process. Over time, various governments have showed strong commitment to implementing needed reforms. Consensus-building measures undertaken over the last decade through open and widespread consultations with stakeholders, including trade unions, have helped tremendously in spearheading much needed reforms.

[1] Chong, A., and Rama, M. Downsizing in the public sector: Background paper. World Bank Institute. Washington, DC.

Box 1

Unfolding events in the Arab world and the advent of the "Arab Spring" of 2011 have accelerated the process of democratization in Morocco in an unprecedented manner. The spreading protests and discontent in the Arab world convinced King Mohammed VI that it was time for substantial political change. Hence, on June 17, 2011, the King announced a number of significant constitutional amendments and limits to his power. Among the proposed changes were that the Prime Minister would no longer be solely chosen by the King, but must come from the party receiving the most votes in parliamentary elections. Also, the Prime Minister, not the King, would now preside over Cabinet meetings. Moreover, the Berber language of Tamazight was declared as a second official language, alongside Arabic. To approve the new constitution, a referendum was held on July 1, 2011, with a historical turnout of 72.65 percent and a 98.49 percent approval rate for the new constitution. These are bold steps for the country toward a full constitutional monarchy in which the Parliament passes important policies that reflect the needs and aspirations of the public. The King's decision to further liberate the Moroccan political landscape has been viewed as "prudent" and "wise," in contrast to the mounting violence against the citizens of Libya, Yemen and Syria.

King Mohammed VI set up the Moroccan Economic and Social Council, which will help integrate Moroccan youth into the labor force and propose the necessary training skills that would enhance their opportunities to secure jobs. The creation of this council is a clear gesture from the King to address issues like unemployment and illegal immigration. However, this is also a clear indication that the involvement of the state in providing jobs and social services will eventually increase again.

Economic Context. Over the last decade, Morocco has experienced significant macroeconomic stability, with low inflation and a strong external position. The economy has strengthened, through high and steady inflows of remittances, tourism receipts, and foreign direct investment. Morocco also launched an ambitious program of structural reforms, including trade facilitation, customs reform, financial sector restructuring and liberalization, telecom privatization, and public sector modernization. Despite an impressive economic transition, growth has been volatile and remains below potential. A number of structural factors have contributed to this unsatisfactory long-term growth performance, including variability in Moroccan agriculture, traditionally low growth in the nonagricultural sector, the slow transformation of national savings into high productivity investments, and the weak competitive position of Moroccan firms within the global economy.

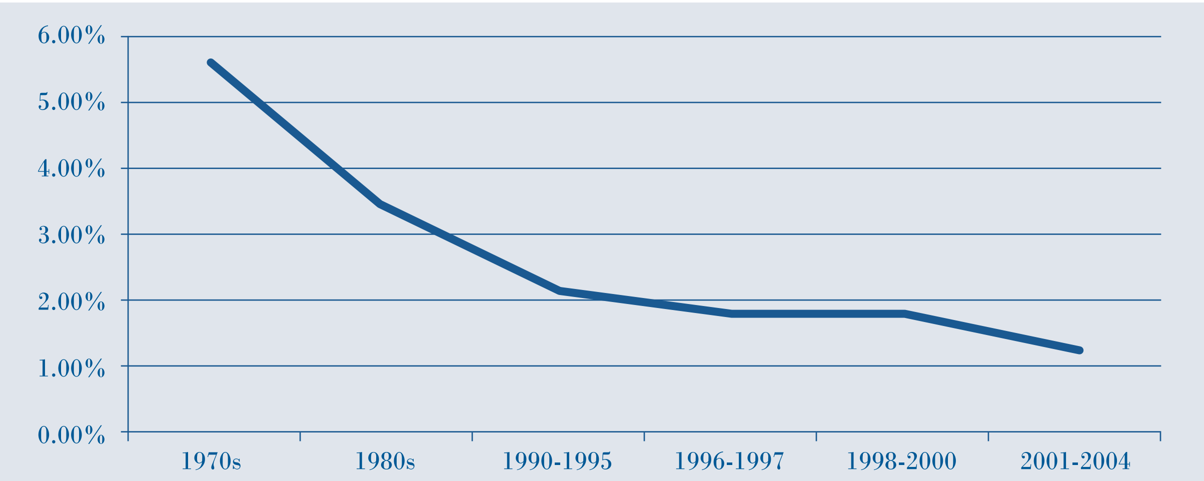
Combining low growth rates with a large number of new entrants to the labor force has not permitted a significant reduction in the level of urban unemployment, which fell to 18.7 percent in 2004 after peaking at 22 percent in 1999. Moreover, the unemployment rate is still high, particularly among the young (34 percent), the educated (26 percent), and women (25 percent). Reductions in poverty rates were also modest, declining from 19 percent in 1999 to an estimated 15 percent in 2004.

Regarding public finances, Morocco's fiscal position has deteriorated due to higher expenditures and declining revenues. Large budget deficits came about mainly in response to a rising wage bill, which reached 11.2 percent of GDP in 2004, compared to less than 11 percent in the mid-1990s. This increase was related to a series of exceptional salary increase negotiations that began in 1996 and ended in early 2005. Successive wage increases led to an additional cost of 23.5 billion Moroccan Dirhams (MAD), or 5.3 percent of 2004 GDP. Nevertheless, thanks to high privatization proceeds, and to a lesser extent to an active debt management, public debt declined. As privatization receipts were projected to phase out rapidly starting in 2006, fiscal adjustment was a top priority. In this respect, the PAR program was designed to help curb rising expenditures—mainly the wage bill—through budgetary and civil service reforms.

Employment and Wage Trends in the Moroccan Public Sector

Employment Trends. Since the 1980s, the Moroccan government has implemented numerous policies that aimed to regulate public sector hiring. A restrictive employment strategy and incentives for early retirement have been the two most important public sector staffing policies. Recruitment had slowed down since the mid-1990s, in a move to consolidate the restructuring efforts in the State-Owned Enterprises (SOEs) and to contain the rising wage bill in the Central Government (CG). Furthermore, in the context of liberalization and privatization policies launched in the early 1990s, the SOEs implemented early retirement schemes to complement restrictive recruitment policies, resulting in the early retirement of some 25,000 employees over the 1994-2005 period, representing 17 percent of total SOE employment. This was reflected in the declining growth in the number of public service working employees, as demonstrated in Figure 1.

Figure 1: Public Employment Growth in Morocco (1970s-2004)



Recruitment was curbed by the interdiction of low-ranked personnel (Grades 1 to 4), whose activities were progressively contracted out. Decisions were also made to cancel all vacant positions resulting from normal personnel attrition, and a net recruitment policy was adopted to ensure that the number of new hires did not exceed normal attrition with the view to stabilize the number of civil employees. As positions freed through attrition were cancelled, new recruitments took place in sectors that demonstrated urgent needs. In most cases, these concerned social sectors such as education and health, and to a lesser extent, security.

The new changes resulted in the government playing a reduced role in the labor market. With 800,000 civil employees in 2004, the size of the public sector relative to the labor force was smaller than that of any other country in the MENA region. In fact, this share had shrunk steadily over the previous 15 years. By 2004, it accounted for 14.2 percent of the urban labor force, as compared to 17.6 percent in 1990 (see Table 1).

Table 1: Public Sector Civilian Employees*

1.1	1990	1994	1998	2002	2003	*2004*
Central Government civil servants	346811	395648	429244	455023	467910	472677
Local administration	97394	113938	129483	145734	150835	156114
State-owned enterprises	199947	212671	193888	179363	171292	166456
Public sector civil employees	**644152**	**722257**	**752615**	**780120**	**790037**	**795247**
Percentage of public sector civil employees in urban labor force	**17.6**	**16.0**	**14.7**	**14.0**	**13.6**	**14.2**

(*) Excluding security personnel

Central government staffing followed the same declining pattern relative to the urban labor force. There were less than 473,000 civil servants in 2004, representing 8.5 percent of the urban labor force and down from 9.5 percent in 1990. However, despite the measures taken over 2002-04 to contain its civil personnel, the Central Government (CG) remains an important employer inside the public sector, with a share of more than 59 percent of total employees.

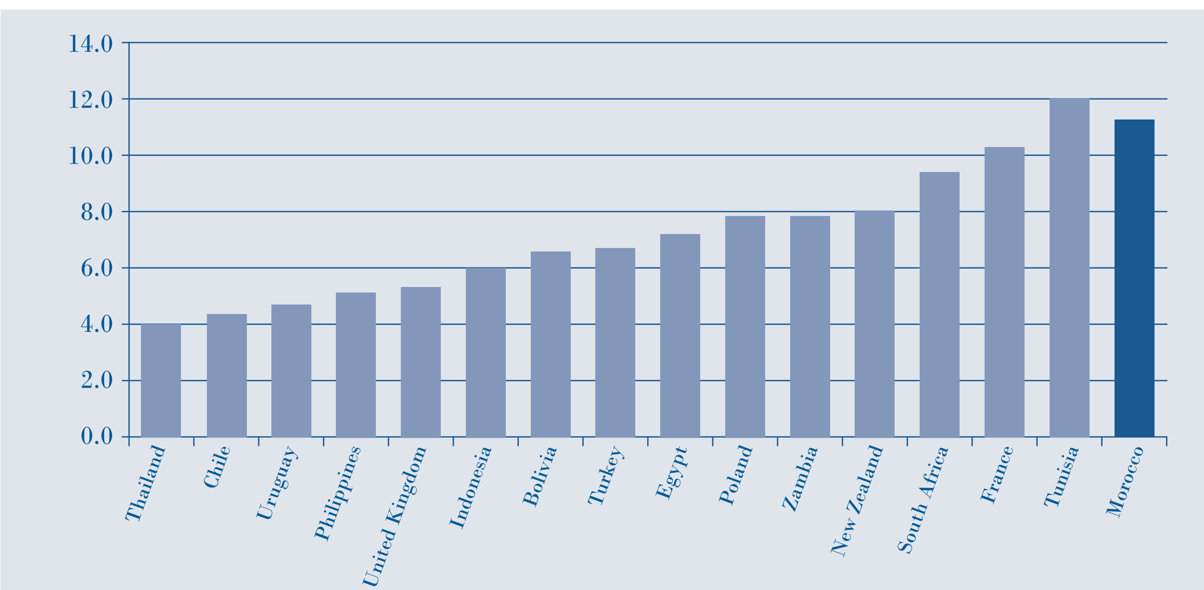
Wage Trends. The Moroccan public sector pays wages that are more than twice those of the private sector. They are three times the minimum wage and six times the GDP per capita (see Table 2). The purchasing power of public wages has averaged a 3.4 percent annual increase over the period from 1990-2004, while real GDP per capita increased by only 0.3 percent a year. These differences reflect the many rounds of wage revaluation that have taken place in the public sector during the last decade as a result of the implementation of social dialogue agreements negotiated between the government and its social partners (trade unions and employer associations).

Table 2: Ratios of Public Sector Wages to Minimum Wage, Private Sector Wages and GDP Per Capita

1.1	1990	1994	1998	2001	2002	2003	2004
Ratios to Minimum Wage							
Central Government	2.5	2.2	2.4	2.5	2.6	2.9	2.9
State-Owned Enterprises	3.2	3.3	3.8	3.9	4.1	4.5	4.8
Public Sector	2.8	2.6	2.8	2.9	3.0	3.3	3.4
Ratios to Private Sector wages							
Central Government	1.4	1.4	1.6	1.7	1.7	1.8	1.9
State-Owned Enterprises	1.8	2.1	2.5	2.6	2.6	2.8	3.1
Public Sector	1.5	1.6	1.9	1.9	1.9	2.0	2.2
Ratios to GDP per capita							
Central Government	4.3	4.1	4.5	5.0	5.0	5.3	5.6
State-Owned Enterprises	5.5	6.3	7.2	7.7	7.8	8.3	9.2
Public Sector	4.7	4.9	5.4	5.8	5.8	6.1	6.5

Source: Ministry of Finance, Ministry of Employment, la Caisse nationale de sécurité sociale (CNSS), and staff calculation

Figure 2: Morocco's Wage Bill Share of GDP Compared to Other Countries in 2004



Source: World Bank

Compared to international standards, the wage bill of the CG in Morocco is high relative to GDP. It consumed 11.2 percent of GDP in 2004, and climbed to 11.8 percent in 2005, making it one of the highest in the world as Figure 2 shows. When measured as a multiple of per capita GDP, the average Moroccan public sector wage stands above those of other countries. In Morocco, the average wage of the CG is 5.6 times GDP per capita, higher than that of any region in the world except for sub-Saharan Africa. The high CG-to-GDP wage ratio is explained by the high wage rates of senior staff profiting from the outdated statutes ruling recruitment, promotion and pay.

Civil servants still rely mostly on seniority for promotions and wage rises, rather than on their skill sets or productivity gains. As a result, trade unions are using loopholes in the system to their advantage to obtain increases that go beyond maintaining the purchasing power of wages. The nominal average wage has increased by 5.5 percent annually over 1990-2004 period, while inflation stood at 3.2 percent, denoting an improvement of real wages by 2.3 percent annually.

Box 2

Wage System Reforms. On February 13, 2008, the Moroccan Democratic Federation of Labor (FDT) called for a national strike across all the public sector organizations to force the government to reform shortfalls in its wage system. Since 1957, the salary scale and wage system of the public sector organizations had not witnessed substantial improvements or adjustments. In fact, while living costs increased by 100 to 157.3 percent in the period from 1989 to 2000, salaries of employees in lower grades of the public sector increased only by a range of 20.49 - 60 percent. This made it difficult for them to afford a comfortable life style.

Large discrepancies also existed between the salaries of government employees who had similar educational qualifications and experience, but who worked within different ministries. For instance, employees within the Ministry of Economy and Finance were given special financial privileges and compensations that employees in other government entities did not enjoy. Also, the special compensation system was uneven across the public sector scales.[2] Employees in Grades 1 to 9 could receive up to 45 percent of their basic salary, employees in Grade 10 up to 73 percent, while professors at the Faculty of Medicine could be granted a compensation of up to 93 percent. Therefore, under the mounting pressure from labor unions, the Moroccan government outsourced an international consultancy firm the mission of studying and proposing plans for restructuring the current wage system. The outcome was a readjustment of the wage system to achieve equality among the different sectors and scales of public employment.

The Evolution of Morocco's Public Sector Reform Program

Given the financial pressures the wage bill posed on the government's budget, its high consumption with respect to GDP, and other governance issues that inhibited the performance of the public sector, the Moroccan Government elected to implement several reform initiatives. In 1998, Prime Minister Abderrahman Youssouffi presented a "Good Management Compact" to promote a culture of change in public administration, help rehabilitate the image of the public service, and lay the groundwork for needed reforms. However, he faced severe resistance both from within and outside the administration, particularly from trade unions. Despite efforts at the highest level, these initiatives failed to set in motion any major reforms leading to real change in the civil service, or how it was managed.

In 2000, another attempt was made to contain the costs of the civil service, and to improve its performance by reforming administrative structures; consolidating, de-concentrating, and rationalizing human resource management; streamlining organizational procedures; improving integrity, and fighting bureaucratic lethargy. To establish new relationships between the administration and citizens, improve sector performance and contain the growth of civil service personnel expenditures, a "White Book Note for Administration Reform" was prepared by the Ministry of Public Service and Administrative Reform (now the Ministry of Public Sector Modernization, or MPSM). The subsequent *Economic and Social Development Plan 2000-2004* stressed the need to contain civil service personnel expenditures, and to reform recruitment, promotion and remuneration in the public administration.

[2] Each year, employees in Morocco's public sector get a special, one-time compensation which can reach a specific percentage of their monthly basic salary.

In 2002, the government sought the help of the World Bank and the European Union to design a Public Administration Reform Program (PARP). The program drew upon the prior Economic and Sector Work (ESW), including a participatory Public Expenditure Review in 2001-2002. The program highlighted major structural constraints to efficient public sector management, such as the large wage bill and the excessive centralization of expenditure management.

During the conceptual stage, there was broad agreement on the contents of the PARP, but the government and the Bank were concerned about two risks. Would the government be able to resist pressures to increase salaries for various categories of civil servants, which could significantly undermine the improvement in the fiscal balance that allowed the Bank to lend to the government? And, would the implementation of the reforms be stalled, as in the past, because of the silo mentality in government and opposition from interest groups? The first risk was ultimately mitigated by the reform program itself, combined with the reformist orientation of the new government. The second risk was mitigated by the sustained political coordination put in place by the new cabinet to implement reforms.

The First Voluntary Retirement Program

In 2003, the Government of Morocco approached the World Bank with a request for a quick-disbursing policy lending operation to support the effective implementation of its program. For both the Government and the Bank, the benefits were significant, as the loan would address the key constraints impacting the effectiveness of public service delivery, ensure the key goals of private sector development and poverty reduction, and ensure macroeconomic stability by controlling the wage bill. In response, a programmatic development loan— the Public Administration Reform Loan, or PARL—was approved by the Bank in 2004. Another loan, PARL II, was approved in 2006, and built upon the public administration reform framework initiated by the Government in 2003.[3,4]

The objective of these loans was to improve the effectiveness of public resource management, a key step towards increasing growth and improving the quality of public services. The reform program focused on three components: (1) budgetary reforms designed to improve the efficiency of public expenditure, (2) a reform of civil service management, and (3) measures to keep the wage bill at a sustainable level over time. All three components have both short-term impacts on current management systems, and longer-term effects resulting in a structural change in these systems.

A key component of the PARL operations was the consolidation and control of payroll. The objective of this component was to control the unsustainable rise in the civil service wage bill. Diagnostics indicated that while the number of civil servants was not excessive, the average salary of civil servants appeared well above international comparators, both in absolute terms and in comparison with countries with similar income levels.

Measures were identified under this component to keep the wage bill under control, or even reduce it in the interim. They included an early retirement mechanism, along with yearly quantitative restraints on recruitment and promotion aimed at avoiding the bottlenecks experienced under the current extremely restrictive system. The establishment of a voluntary early retirement mechanism was studied by the Ministry of Finance, on the assumption that 20,000 to 60,000 staff would likely participate in the program.

The Voluntary Retirement Program (VRP) was one of the most important components of the PARL process and the central element in helping to retrench and streamline the civil service and control the wage bill. The VRP originally aimed at downsizing the central government by some 35,000 civil servants over a three- to four-year period. While the government hoped for a figure of 35,000, it expected that only 20,000 would take up the offer—with 5,000 retiring in 2004 and 15,000 by the following year. However, only 696 civil servants retired under the original scheme—well below the anticipated level of 20,000 employees expected to exit the civil service by 2005.

[3] The Bank provided the Government of Morocco with advice, training, and knowledge transfer as required in the areas of budgetary management, civil service reform, and wage bill containment.

[4] The proposed PARL was a structural adjustment loan supporting the Government's overall public administration reform program. The Government viewed this loan as a tangible sign of the Bank's endorsement of its reform program, giving credibility to its efforts and helping to overcome the traditional political and institutional obstacles, which have affected previous attempts at reform. For the Bank, the proposed loan is fully consistent with the Country Assistance Strategy, or CAS. It supports actions to improve the effectiveness of government services and the sustainability of the fiscal framework that are crucial to the overall country assistance program. The proposed PARL is part of the CAS reform base case scenario, which, in turn, was made possible by the progress in fiscal management during 2001-2002.

The failure of the first VRP operation can be attributed to several factors related to shortfalls in the design and implementation of the program. They include an unattractive incentive package, limited targeted population, the taxation of severance payments, and an ineffective information campaign. The pension benefit parameters were those of the existing pension regulations, which provided for the equivalent of 2 percent of annual gross salary for each year of service to the early retiree. Generally, few civil servants opted to retire early under those provisions, which were viewed as insufficient. The severance payment, calculated at one month of gross salary for each year of service, was not enough to compensate for the low pension.

The package was made even less attractive by the decision to limit the eligible population to those in the lower salary ranks (Grades 1 to 9) who met the seniority requirement for pension benefits. This translated into relatively low net severance benefits, put a ceiling of 30 months on severance payments benefiting Grades 6 to 9, and imposed income taxes upon such payments. Finally, the information campaign was timid, limited to a brochure explaining the eligibility criteria and the financial package, along with posting the related decree and the ministerial orders. This limited exposure and advertisement for the program meant that most public sector employees were unaware of its existence.

Another factor that led to the failure of the first VRP related to a lack of cooperation among the main actors in the Government. The Ministry of Finance (MoF) and the Ministry of Public Sector Modernization (MPSM) were known to disagree on the sequencing of the various components of the reform. The latter was of the view that it was important to first implement a strategy to staff and redeploy civil servants on the basis of the renewed role of the state, refocusing on its main missions in the context of performance management, and de-centralizing the distribution of the civil service away from the Rabat and Casablanca regions. The former was most concerned about addressing the urgent fiscal challenges—notably, putting the budget deficit on a sustainable path through containing budget expenditures, of which the wage bill was the principal component.

As the VRP component of the civil service reform had a major short-term effect on the budget, the MoF was convinced that budgetary impacts needed to be addressed urgently. This led subsequently to obtaining the PM's approval to implement the first VRP without due regard to the resistance of the MPSM. Furthermore, during the design phase, the MoF carried out tasks internally, without adequate consultation with major stakeholders, including the background work leading to the design and implementation of the VRP program. Unfortunately, the MPSM, which should have been the leading department in any major civil service reform initiative, contributed only marginally in the preparation of the VRP.

Learning from VRP I and Re-Investing in VRP II

After the failure of the first VRP, the Government acknowledged the importance of strong organization and supervision in any endeavor of this size and importance. Many actors played a catalytic role in redesigning a new VRP program, which was named *Intilaka*.

Taking stock of this failure, the PM proposed a "technical" reshuffle in June 2004 in order to streamline the Government with a focus on ongoing major reforms, including the PARP and VRP. One of the main objectives was to provide strong political support for the new initiative. Thus, a new Minister for MPSM was appointed with a clear mandate to take forward the civil service reform in general and the VRP in particular. The new Minister, Mohamed Boussaid, was already known for being proactive and effective in overseeing earlier reforms, such as the restructuring of the Public Agencies and SOEs. Minister Boussaid demonstrated leadership in supervising and conducting the second VRP operation. According to the Minister, "the philosophy of *Intilaka* is to streamline the Adminis¬tration, not only to re-profile the civil service, but also to create new linkages with the private sector by giving the civil servants the opportunity to launch their own businesses, profitable to them and useful to the community."

The success of the second VRP was a result of various political, institutional, legal and leadership mechanisms that were put in place before the initiation of the program. In fact, what makes the Moroccan experience in downsizing its public sector unique is the Moroccan Government quickly realized the shortfalls of the first VRP and learned from them. The mistakes from the first VRP were studied carefully and translated into lessons for the second launch of the program.

Roles of the Main Actors. The Prime Minister (PM) stood as the head of the operation in his capacity as the President of the Strategic Committee of Administrative Reforms.[5] He provided guidance and instructions to ensure a streamlined and efficient VRP process. The MPSM (Ministry of Modernization of the Public Sector) was in charge of the Secretariat of the Strategic Committee of Administrative Reforms, of the Central Commission, and of the Central Committee. These were the main actors charged with the responsibility of monitoring the overall implementation of the VRP operation. The Ministry also regularly organized meetings of the various parties and partners of the process, and served as the central repository of information, permitting them to regularly prepare statistics on the progress of the implementation process. This was possible, as the Ministry was in receipt of the applicants' copies, requests, and the list of successful applicants on a daily basis. Meanwhile, the MPSM continued to carry out communication activities throughout the process, with televised and radio programs, and press conferences.

The Budget Department of the Ministry of Finance ensured the followup on all issues having a financial impact. Through its mission of public expenditures control, the Control of State Expenditures (in French, *Controle des Engagements et des Depenses* or CED) ensured the conformity and legality of requests submitted and approved by the ministries.

The Principal Paymaster Office (the *Paierie Principale du Royaume*, or PPR, in French) managed to issue severance payment orders for the beneficiaries in due time, enhancing the credibility of the VRP and preventing any remaining hesitation of potential candidates. The Pension Fund struggled to process the authorized applicants' documents to prepare their retirement and pay the pensions.

Coordinating and Supervisory Mechanisms for the Second VRP. There were three coordinating and/or supervisory bodies in charge of monitoring the voluntary retirement process. The first was the Central Commission, which was made up of representatives from the Ministries of Public Sector Modernization, Finance and Privatization (in particular, the Departments of the Budget and Control of State Expenditure). The Principal Paymaster's Office and representatives from the Moroccan Pension Fund (PF) ensured monitoring and assessment of the various stages of the process, and facilitated coordination with the concerned administrations. The Commission met once a week to solve the problems arising from the implementation process, and prepared reports for the Prime Minister.

Within each ministerial department, cells were created to coordinate information, communication, and monitoring. The cell members benefited from training programs specific to this operation. Hence, their effectiveness was high in coping with the pressure and influx of applications to their units.

A central voluntary retirement cell was set up by MPSM for the overall coordination of the process. This unit significantly facilitated coordination among the responsible ministries, and accelerated the processing time of the applications.

Salient Features of the Second VRP. The revised voluntary retirement operation embraced a number of important features to ensure maximum participation while avoiding public service disruptions. These were:

- *Voluntary*: Early retirement was on a voluntary basis, and potential candidates were free to choose whether or not they participated in the program.
- *Universal*: All civil servants in the central government were eligible to participate–including those on non-paid leave, those reassigned to public or non-public entities, and those seconded to international organizations.
- *Selectivity*: The applicants needed formal authorization from their managers to retire. The authorization process was set up to prevent, at least in theory, key civil servants from leaving, and to ensure continuity in public service delivery.
- *Financial incentives*: Civil servants reaching the authorized retirement age (60 in most cases) would benefit from the pension they were entitled to collect, while those retiring prior to the authorized age would collect the pension contributions they had made into the system already. In addition, retirees would benefit from severance payments in line with the provisions of the labor code.
- *One shot operation*: The VRP itself was to be managed as an exceptional operation to be carried within a limited timeframe, from January 1 to June 30, 2005.

[5] The Strategic Committee of Administrative Reforms was set up in the context of the broader Public Administration Reform.

A Prime Ministerial Order was issued to clarify the VRP Decree's provisions and to give guidance to ensure the efficiency of the implementation. The PMO defined the main steps of the VRP's process, and underlined their milestones. To be eligible, the applications were to be formulated over the six month period set by the decree. In addition to submitting the original application form to the ministerial department (to which the candidate belonged), a copy of it was to be sent to the MPSM for information and monitoring purposes, either through normal mail, fax or email.

A precise timeframe for each phase was defined, so that only a maximum of 30 days would be needed for successful applications to the entire process, from the initial submission to the Control of State Expenditures (CED) visa. After receiving an application, the ministerial departments had to then decide whether or not to authorize the candidate for early retirement within 15 days. In most ministerial departments, it was the responsibility of the director to decide on applications. If the response was positive, then forms validating work tenure and the voluntary retirement decision had to be prepared within the same period. The proposed removal date of the applicant from the personnel list had to coincide with the end of the month in which the application was formulated, without exceeding the June 30, 2005 deadline.

To guarantee maximum participation, the PMO provided flexibility in processing the applications of the civil servants expecting a promotion or important salary rise in 2005. As the incentive package was based on the last salary received, many civil servants expecting a promotion or important salary raise during the second half of 2005 would not have been eligible to apply to the VRP operation, because they would not be able to meet the June 30 deadline. The PMO included a provision so that ministerial departments had the flexibility to postpone the release date for this category of civil servants until the end of the month. The latter would get their promotion, or salary raise, provided they had submitted their applications by the June 30 deadline.

The Pension Fund (PF) and the CED had 15 days to process the applications and obtain clearances from the respective departments. The main task of the Pension Fund at this stage was to assess within ten days whether the applicants had the right to a pension, and then to validate their work tenure, before sending the documents to the CED. In turn, the CED had only five days to process the applications and decide whether or not to grant a visa, and then to forward the applications to the ministerial departments of the employees seeking retirement. Then the latter had to resend the approved applicant forms immediately to the PF which determined the pension amounts and issued payment orders.

To ensure the credibility of the VRP operation and prevent any hesitation from potential candidates, the payment process of both compensation and pension was streamlined. Hence, the PPR had to proceed with the payment of severance compensation by the end of the following month when the applicants' documents were received. For its part, the PF had to start paying pensions by the end of the month if the applicants' documents were received before the tenth day; otherwise, payments must be made no later than the end of the subsequent month. Beneficiaries without the right to pension would collect their employee contribution from the PF by the end of the following month after the documents were received. Beneficiaries in the process of repaying loans through direct transfers were given the option of formally requesting the PF to continue processing the loan repayments from their pensions.

Accompanying Support and Retraining Measures. In line with the spirit of the Intilaka program, which implies a potential new career in the private sector as an entrepreneur, the government provided assistance to guide possible VRP beneficiaries in the process of financing and starting their own small businesses. In this context, two conventions were signed—with the Banking Federation, and with the Ministry of Industry and Commerce. The first convention committed some large banks to consider financing, under streamlined processes and favorable conditions, projects that the beneficiaries may wish to consider setting up. The second convention, with the Ministry of Industry and Commerce, aimed at setting up a partnership framework to support and assist the beneficiaries of the Intilaka program when they decided to create their own projects. In this respect, the Ministry of Industry, with the participation of Regional Centers for Investment, organized training workshops for the VRP beneficiaries focusing on the practical details of business start-up, the nature and relevance of the feasibility studies, preparing financial plans, and processing documents and loan requests. A Web site was also dedicated to the operation, containing the information necessary for the implementation of investment projects.[6]

The Communication Campaign. The communication campaign played a pivotal role in the success of the second VRP. At the outset, a broad communication campaign was carried out through a specialized agency that was launched specifically for this purpose. It consisted mostly of published inserts in the press, and the diffusion of commercials in audio-visual media. Officials organized press conferences to explain the VRP's objectives and the nature of compensation packages provided, with particular emphasis upon how the program provided a "start" into the private sector. Messages

[6] www.mcinet.gov.ma/intilaka

stressed the values of entrepreneurship and the rewards successful retirees would get in launching investment projects. The communications effort characterized the Intilaka operation as an opportunity to be seized by those privileged with the opportunity to retire, and the campaign continued throughout the entire application period.

In addition, a toll-free telephone line was available for candidates seeking additional information and explanation, and two dedicated Web sites were set up to support this operation. These sites included a simulation model allowing potential candidates to calculate the financial compensation they would be entitled to, along with answers to frequently asked questions (FAQ) and the possibility to download forms, informational materials and legal texts concerning the VRP.[7]

Within the framework of the communication campaign, a two-day training program was developed for 100 civil servants selected to be part of the ministerial cells in charge of information and communication. Since they were to be on the front line of the process, and had the role of advising the VRP applicants, participants were briefed on all phases of the VRP and the kind of information they should provide the candidates arising from issues related to the VRP. Training was based on two parts—the first part was on legal background, laws, and VRP regulations, along with practical details concerning forms and procedures, while the second part focused on techniques of reception and communication.

Legal Provisions Underpinning the Second VRP. The existing civil service pension regulations provided the legal basis for early retirement, but their provisions did not meet the requirement for an appropriate incentive package in a large downsizing operation. Regulations were not set up for downsizing purposes in the first place, but rather allowed an exit possibility to candidates under exceptional circumstances, such as instances of critical illnesses, family constraints, or firing with pension rights. A candidate for early retirement could benefit from immediate pension allowances if the minimum work tenure was met—namely, 21 years of service for men and 15 for women. In the event that the work tenure was not met, the retiree was entitled to recover the total amount of his or her contributions into the pension fund.

The regulations which applied to the first VRP included disincentives and constraints for early retirees. On the one hand, evaluation of the early retirement pension benefits was based on 2 percent of permanent gross salary for each year of service, instead of the 2.5 percent each year of service for those who retired at the legal age of 60. This provision translated into a relatively large loss, amounting to 20 percent of yearly pension for early retirees. On the other hand, regulations put a ceiling on the total number of civil servants retiring early over a given year under the form of a quota. This quota system authorized up to a maximum of 15 percent of the civil servants within each corps to qualify for early retirement. This binding constraint was put in place to prevent the abrupt and unwanted drain of any category of corps, and also to shield the pension system from severe financial shocks stemming from an eventual (although unlikely) early retirement rush. However, although it was necessary to relax the disincentives surrounding the pension regulations, such measures were not sufficient to encourage a large number of civil servants to opt for early retirement on a voluntary basis. Towards this end, a decree was adopted which provided a mechanism for severance payment on an exceptional basis for the beneficiaries of the voluntary retirement program.

How was the second VRP managed in different ministries? Effective management of the program during its different processing phases was another instrumental factor behind its success. Considering the importance of the VRP and the expected large number of applications, each ministerial department (MD) had to react rapidly and organize itself for the efficient implementation and monitoring of the process. In particular, some ministerial departments (MDs) tried to introduce additional criteria as a basis to accept or turn down an application, taking into account the specificity of their sectors. Most of the MDs processed applications as they received them, except in the MDs where potential severe adverse selection problems raised the fear of service disruptions. This was especially the case in the Education and Health MDs. Generally, applications were examined within the set deadlines, and some departments approved all requests received. In departments within the ministries of Interior, Agriculture, Higher Education, and Transport, acceptance rates were 100 percent, leading to the departure of 14-22 percent of the workforces of those departments. Departures of such magnitude did result in some service disruptions. In particular, the massive departure of veterinarians in the Agriculture Department resulted in shortages in many public veterinary laboratories.

In other ministries—especially in the social sectors—managers tried to be parsimonious in authorizing retirement in order to avoid disruptions in service delivery. This was the case of Primary and Secondary Education, and Health MDs. In the case of the Ministry of Education, it was impossible to let teachers leave during the middle of the school year, knowing that there

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[7] www.mmsp.gov.ma and www.mfp.gov.ma, the Web site of the Ministère de la Modernisation des Secteurs Publics (MMSP, or Ministry of Public Sector Modernization) was visited by 463,000 civil servants in six months; these carried out nearly 617,000 simulations.

was no feasible prospect for redeployment within such a short time frame. Thus, the Education Department did not process the applications until the end of the school year (July) to take account of the constraints in human resource management and the needs of the subsequent school year. At the Health Department, it was relatively easy to accept applications for early retirement from medical staff in large cities, while more selectivity was required in rural areas and small towns.

Evaluation of the Second VRP

Why was the Second VPR More Successful than the First? The design of the incentive package and the choice of the targeted population for the second Intilaka program in 2005 benefited from lessons learned in the failure of the first VRP. To enhance the attractiveness of the second VRP and ensure maximum participation, measures were taken to allow for new exceptional provisions, to improve severance amounts, and to extend the eligible population to all civil servants (see Table 3). Thus, the pension benefits were aligned with those applied to normal age retirement—the equivalent of 2.5 percent of gross salary for each year of service, to be paid after reaching the legal retirement age (60 years for most corps). For those retiring before the legal age, the existing pension regulations for early retirement—a pension equivalent to 2 percent of gross salary for each year of service—would apply.

Table 3: Comparison of the First and Second VRP operations

	First VRP (2004)	Second VRP (2005)
Targeted population	• Civil servants of central government pertaining to Grades 1 to 9 • Work tenure required to receive pension benefits: 21 years for men and 15 years for women • Exception of the civil servants that would retire for age limit reason by the end of 2004	• All civil servants of central government • Work tenure entitling to pension benefits is not a constraint • Exception of the civil servants that would retire for age limit reason by the end of 2005
Pension Benefits	• Two percent of gross salary (GS) for each year of service • Immediate benefit upon early retirement	• Two percent of GS for each year of service until the normal retirement age • After the age for normal retirement, two and a half percent of GS for each year of service • If not entitled to pension, collection of employee's contribution to pension schemes
Severance amount	• 1 month for each year of service • A ceiling of 30 months for retirees belonging to Grades 6 to 9 applies • The total amount must not exceed 50 percent of total salary the retiree would have earned if the retiree had remained until the official age limit for retirement (usually 60).	• 1.5 months for each year of service • A ceiling of 36 months for retirees belonging to Grades 6 and above applies. • The total amount must not exceed 50 percent of total salaries the retiree would have earned until the age limit retirement if stayed
Income taxes on severance payments	Apply	Exempt
Application period	January 1 to May 31, 2004	January 1 to June 30, 2005

Civil servants retiring without minimum work tenure to benefit from a pension could recover their employee contribution from the pension fund. Severance benefits were raised by a half point to 1.5 month's salary for each year of service, with an increased ceiling of 36 months for civil servants in grades 6 and above. For all scales, however, severance payment was not to exceed 50 percent of the total salaries the beneficiary would have earned until the normal retirement age if he or she had not decided to retire early. The financial package was made more attractive for higher scale civil servants by exempting the severance payments from income taxes—at 44 percent, the marginal tax rate was high and hit relatively hard at the low wage bracket. Unlike in the first VRP experience, the quota of participants allowed in the program was removed fully, relaxing the 15 percent constraint found in the initial VRP regulations.

The Effectiveness of the Second VRP: A Qualitative Assessment. The technical implementation of the second VRP was undoubtedly a major success.[8] The operation was well announced, explained, organized, conducted, and closed in a timely fashion. At the beginning, the government encouraged all departments to speed up the treatment of the first requests and to settle the first payments as soon as possible, enhancing the credibility of the process through a demonstration effect. In this regard, the government carried out communication campaigns around the severance payments made to the first eligible applicants. In addition, the first batch of retirees received their pensions in the few weeks following their retirement, and the government paid the majority of the pensions within an average time of four months. In doing so, the limited personnel of the Pension Fund demonstrated impressive organization and high levels of productivity. The performance of the Pension Fund was particularly impressive given the large and sudden influx of pension documents from 38,600 retirees, roughly six times the number of pensions that Fund employees were accustomed to processing in any given year.

Many stakeholders, however, perceived the discretion granted to managers to approve or reject an application under the "necessity of service" criterion as a weakness in implementation. The implicit vision behind the VRP was to retain the most productive and skilled civil servants, while offering the less skilled a way out. However, many applicants—especially those in the higher salary scales—saw the generous compensation offered in the context of the VRP as an opportunity, and opted out. Remaining mid-level civil servants anticipated the increased workload resulting from the retirement of their superiors, and interpreted the VRP decision process as unfair. They perceived the process as penalizing good personnel who had given a lot to the administration, while rewarding those who were less productive by offering them generous compensation. In the absence of any transparent and objective criteria, managers were more or less left on their own to make a judgment call about who should stay and who should go. In most cases, the applicants' preference and determination to retire prevailed over the opinion of his or her manager.

The Transparent and Participatory Nature of the Program. Generally speaking, the implementation of the VRP operation was transparent. The upstream communication and monitoring systems were crucial in disseminating relevant information during the main phases of the operation. In particular, the launching of two dedicated Web sites, where potential candidates could get the answers to their questions, especially those relating to their individual financial compensation, resulted in widespread interest in the operation.

Messages broadcast through television and radio were equally crucial in triggering the general rush to benefit from the VRP.

The voluntary and open nature of the VRP saved the government from engaging in lengthy discussions with public sector trade unions, where consultation was marginal. At the same time, trade unions considered the operation to be financially beneficial to their constituents. They did not react to some of the VRP's perceived weaknesses, such as the discriminatory financial package which was tilted towards the upper level echelons.

It is possible that more serious consultation at the outset with stakeholders, especially trade unions, would have allowed the VRP to avoid some of its shortcomings. For example, consultations could have provided clear objective and transparent selection criteria used to accept or turn down applications. Another weakness was related to the lack of communication downstream. The government carried out an upstream communication strategy in a professional manner. However, communication efforts faded away as soon as the operation closed. The lack of accurate and transparent information on the VRP outcomes fueled rumors and speculation about the real objectives of the operation and its actual impact, leading some to believe that the VRP operation was overly expensive and resulted in an administration emptied of its best staff. Others believed that the government was going to take harsh measures against incompetent staff which the VRP could not get "rid of," or that another VRP operation was under preparation to cull any remaining redundancies.

[8] The bulk of this assessment is formed on the basis of information drawn from various government documents and informal interviews with governement actors and other protagonists conducted in the context of this case study. It relies on reports published by the Ministry of Public Sector Modernization in Morocco, which extensively assessed the effectiveness and shortfalls of the two VRPs.

Financial and Fiscal Gains from the Second VRP

The second VRP was successful in securing substantial financial and fiscal gains for the government's budget. These fiscal savings were earned in the following three expenditure categories: (1) the wage bill, (2) the contribution to the Pension Fund, and (3) the contribution to the Health Insurance Funds (CNOPS and other small sectoral Funds). It should be underlined that the full impact of the VRP benefited the budget starting in 2006, with less than half of the annual savings benefiting the 2005 budget.

Savings on the Wage Bill and Related Expenditures. The published results show that the average gross salary of the retirees was about MAD 123.4 thousand per year ($14,700), and that total salary distributed to the 38,600 retirees was about MAD 4.8 billion ($571.4 million) or 1 percent of GDP in 2005. The budget would continue to save this amount on the wage bill starting in 2006 going forward, assuming no substantial rehiring would take place. However, the Budget Law of 2006 created approximately 5,000 additional public positions over and beyond the number to fill the positions freed by normal retirement. The impact of these hiring decisions on the budget was modest, however, estimated at less than 0.1 percent of GDP. The government demonstrated its commitment to carry over in the Budget Law of 2007 the measures it had been implementing to streamline and contain the size of the public sector workforce. However, subsequent budget laws provided job positions between 8,000 and 10,000 more than the number of those retiring. These new hirings were made to fill the gaps in social sectors, such as education and health, especially in the rural areas as the then-new government that took power in 2007 had set ambitious objectives in education and health sectors. The security sectors also benefited from these hirings. As a result, the central government recovered its pre-VRP size. Nevertheless, the wage bill continued to decline slowly but steadily until 2010.

The employer contribution rate for the Pension Fund benefiting civil servants was 9 percent of gross salary. This rate was increased to 10 percent starting from 2006, following the decision to raise employer and employee contributions to the Pension Fund by 1 percentage point each year over the period 2004-06. The savings for 2005 was then calculated to amount to MAD 192.4 million ($22.9 million), or 0.04 of GDP, and MAD 475.1 million thereafter ($56.6 million), or 0.1 percent of GDP.

The budget contributed the equivalent of two percentage points of gross salary to the health insurance covering civil servants. This rate was increased to 2.5 percent starting in 2006 as the Compulsory Health Insurance Scheme (AMO) was implemented. The savings amounted to 0.01 percent of GDP in 2005, and 0.03 percent thereafter.

The Cost of the VRP. The three fiscal losses related to the VRP were as follows: (1) the one-off severance payments, (2) foregone personal taxes on salaries of the retirees, and (3) the revenues forgone through the loss of their additional payments to the Pension Fund.

The total severance payments amounted to MAD 10.5 billion ($1.25 billion), or some 2.3 percent of GDP. The average ranged from MAD 40.8 thousand for the lowest salary scale personnel, to more than MAD 576.7 thousand for the highest salary scale, a ratio of 1 to 14 (approximately $4,900 to $68,700). More than a third of the total severance payments benefited the three highest salary grades out of 12 existing grades. Grades in the lower half of the scale (1 to 6) benefited from only 6.5 percent of the total severance amount. This shows that the incentive package was far less attractive to employees at the lower end of the salary scale, and explains in part the small number of retirees from these income groups.

The budget lost the personal taxes it was collecting on the retirees' wages. However, it would collect new personal taxes on the pensions the retirees would be receiving from the Pension Fund. The difference between the two collected amounts represented a net loss for the budget, amounting to a yearly net loss of about 0.15 percent of GDP.

The Pension Fund incurred additional outlays resulting from the VRP. The additional outlays would progressively fade away after 30 years, as the retirees reach their respective normal retirement age—60 years for most and 65 for a few corps, such as university professors and judges. The published results show that total nominal additional pension funds would amount to 3.9 percent of 2005 GDP (MAD 18 billion, or $2.1 billion). Their present value, calculated based on a discount rate of 5 percent, would correspond to 1.6 percent of 2005 GDP (MAD 7.5 billion, or $892 million). The authorities have indicated that the budget would support the Pension Fund by paying a lump sum amount in four installments of MAD 2 billion each ($238 million) starting in 2006.

Net Savings through the Second VRP. In 2005, the fiscal deficit was 5.2 percent of GDP, mainly reflecting the one-off severance payment of the VRP (VRP), which involved 38,600 civil servants. The one-off net impact of severance payments related to the VRP is equivalent to 2.3 percent of GDP (or to 1.9 percent of GDP in net terms, when including wage savings from staff retired by mid-year and equivalent to 0.4 percent of GDP).

The net savings for the budget from the direct impact of the Early Retirement Program amounted to 0.6 percent of 2005 GDP per year starting in 2006 (see Table 4). Because of the additional contribution to the Pension Fund, it took 5 years for the budget to recover the initial net outlays made in 2005, which amounted to 1.9 percent of GDP. It is underlined that these savings do not take into account the efficiency and effectiveness gains from the program.

Table 4: Summary of the Savings and Losses (in 2005 GDP)

Gross savings		
Wage bill	0.5	1.0
Employer's contribution to pension fund	0.04	0.1
Contribution to health insurance	0.01	0.03
Gross Losses	**2.4**	**0.6**
Severance payment	2.3	
Personal tax, net	0.1	0.1
Pension Fund support		0.4
Wage for Rehiring		0.1
Net savings (+)	**-1.9**	**0.6**
Memo		
Employees rehired (beyond normal retirement)		**5,000**

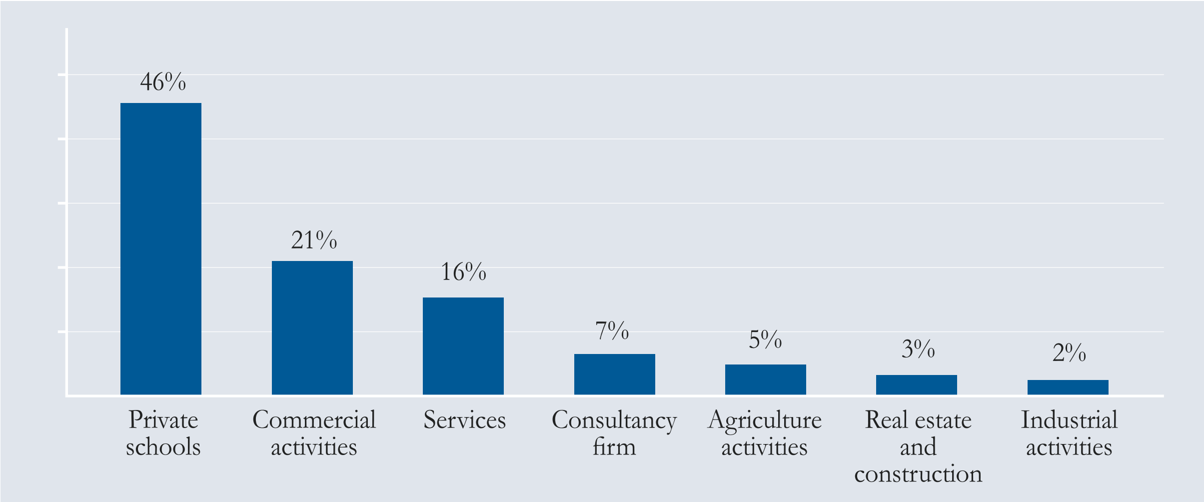
Economic Gains from the Second VRP

Assessment of the economic impact of the VRP is one of the most significant ways to determine the overall success of the program, given the large financial transfers the operation made in severance payments. These payments amounted to more than 2.3 percent of GDP, an amount equivalent to half of the annual central government investment budget.

A general assessment of the economic impact of the VRP on the Moroccan economy reveals mixed results. While most of the retirees in the program decided to use their severance payments either in investments in creating their own businesses or in real estate projects, they were among the most talented senior public servants within the Moroccan public service. Their departure risked leaving the machinery of the government in the hands of less talented and less qualified employees, negatively affecting the smoothness and effectiveness of its operations.

What Did the Retirees Do After They Left the Public Sector? Two studies, one undertaken by the Ministry of Public Sector Modernization and another conducted jointly with KPMG, provide important insights concerning the use of the severance payments and the subsequent investment, production, and employment decisions undertaken by VRP beneficiaries. The first study relied upon an online survey taken by 7,750 beneficiaries of the program, who collectively constituted 20 percent of the total beneficiaries. The survey asked specific questions regarding the intentions and plans of these beneficiaries and the nature of their intended investments. Results indicated that 59 percent of respondents indicated their intention to invest their money in a private sector project. Figure 3 shows that 46 percent of the respondents who said that they had a plan in mind wanted to invest in establishing their businesses in the private education. The attraction of participants to investing in private schools is likely due to the government's exemption of taxes on this sector in order to attract investment and decrease reliance on public schools.

Figure 3: Sectors in Which the Program Beneficiaries Intended to Invest (%)

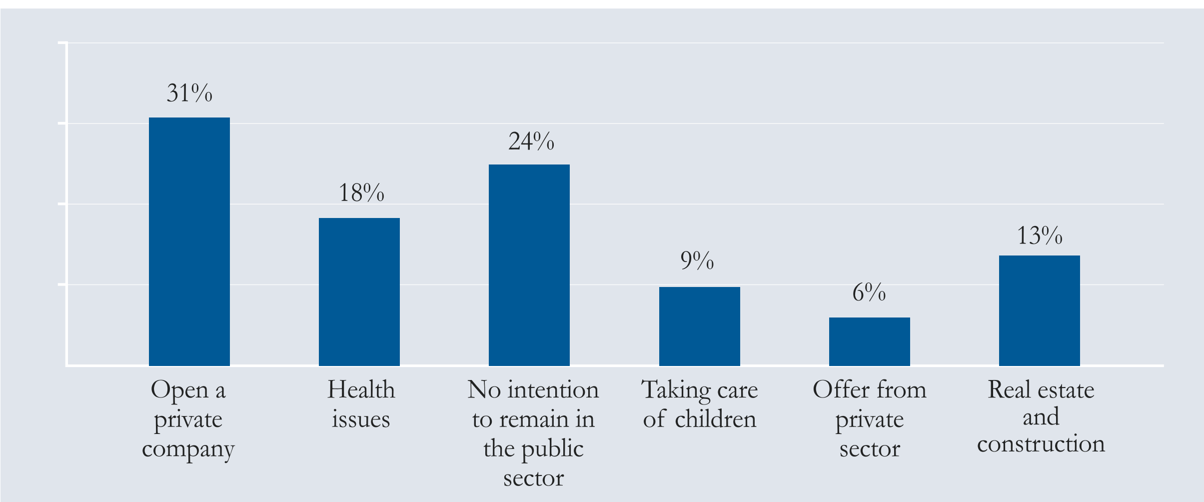


Source: Moroccan Ministry of Public Sector Modernization

Around 21 percent of the participants indicated that they wanted to invest in various commercial activities. Concerning the value of these investments, 46 percent (of the 21 percent investing in commercial activities) stated that their investment would exceed MAD 500,000 (more than US$60,000).

The Ministry of Public Sector Modernization also conducted another online survey, in which it asked public service employees taking part in the program to indicate both the main reasons for their early retirement, and the sectors in which they planned to invest their severance payment. Around 1,985 employees took the survey, and one-third of respondents (31 percent) indicated their intention to open a private business as the main driver behind applying for this early retirement scheme (Figure 4).

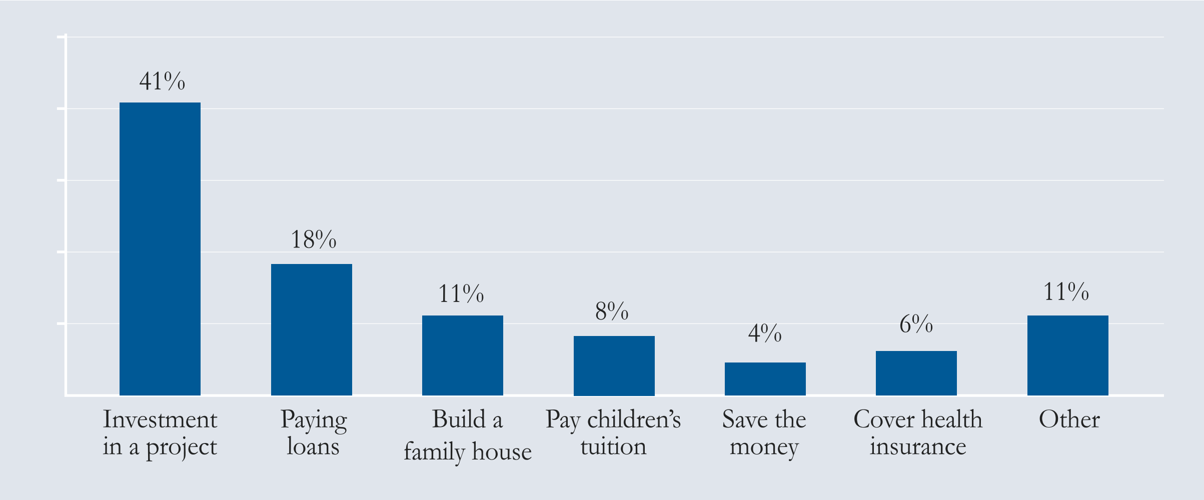
Figure 4: Motivations for Considering Early Retirement (%)



Source: Moroccan Ministry of Public Sector Modernization

The private sector and personal businesses usually offer better opportunities for financial growth and independence. Roughly 24 percent of respondents stated that they no longer wished to work in the public sector, and 18 percent considered health issues as a barrier for continuing to work for the government sector. When asked how they were going to use the severance payment they would get from the retirement scheme (Figure 5), 41 percent considered investment in a personal project, while 18 percent prioritized paying their outstanding loans.

Figure 5: Areas in Which Beneficiaries Intended to Invest their Severance Payments (%)



Source: Moroccan Ministry of Public Sector Modernization

Also, 11 percent intended to utilize the money to build their family houses. In fact, these findings indicate positive economic returns through injecting money into the economy and creating SMEs and entrepreneurial activities. All the above mentioned forms of investment can trigger better economic performance and high positive returns to the overall economy.

A third study published by the Ministry of Public Sector Modernization, conducted jointly with KPMG, provides another positive perspective regarding the overall economic performance of the program. It highlights the relocation of the retirees and the way in which they invested the revenues from the retirement program. In fact, the findings of this field study indicated that 14 percent of the beneficiaries from the program funded a total of 6,588 new projects, creating at least 5,442 new job opportunities in the private sector. In addition, they estimated that if each project employed at least three people, these projects could create 16,326 jobs in only a few months. The establishment of new enterprises and companies not only supports the creation of new jobs, but also more income to the government through taxes and business registration fees. More importantly, the study found that the retirees—who were aged between 50 and 55 years old—intended to utilize their expertise and knowledge either in running their own businesses or in taking up new jobs in the private sector. Moreover, 20 percent of retirees bought houses and invested in real estate.

Although not conclusive, such studies provide hope that overall returns to the Moroccan economy were positive. Although the program resulted in the departure of some of the most talented and experienced employees, in a plurality of cases their relocation to entrepreneurial and private sector activities is likely to have offset their loss in the public service. They have contributed to job creation, as well as to the consumption of goods and materials necessary for constructing their houses or businesses. And they would also be paying taxes and service fees for their newly established businesses.

Was the Government Successful in Selecting the Right Candidates?

Overall, results show that most of the retirees were high ranking civil servants, aged 50-55, belonging to Grades 10 and above. They accounted for more than 53.5 percent of the retirees, while medium (5 to 9) and lower (1 to 4) grades represented only 38.5 and 8 percent, respectively. The expected re-profiling of civil servants away from low-scale jobs involving direct execution, towards managerial and technical jobs in the higher scales, was only partially fulfilled.

In the end, 38,600 civil servants were authorized to retire out of some 50,500 applicants, reflecting an average acceptance rate of 76.3 percent. Acceptance rates ranged from 50 percent to 100 percent across different departments. Most social ministerial departments were careful in allowing applicants to participate in the program. This was the case of the Departments of Justice (50 percent), Primary and Secondary Education (58 percent) and Health (68 percent). In contrast, other important departments accepted all applications, such as the Departments of Agriculture (99 percent), Interior (100 percent), and Higher Education (100 percent).

Most VRP beneficiaries were playing a central role in conducting and supervising managerial, technical, and teaching activities. Initially, the departure of such personnel had a negative effect on the functioning of the civil administration and service delivery in some key departments such as Education, Agriculture, Housing and, to a lesser extent, Health. The loss of such skilled personnel was the result of adverse selection, as there was no framework in place that could identify redundant and productive employees. This observation begs the question of whether the departure of high-level staff weakened the supervisory capacity of Morocco's public administration.

In fact, the departure of some of the most skilled staff left a significant void in the public sector which was difficult to fill. Moreover, an assessment of the second retirement program found that there were no knowledge management tools in place that could document, store and preserve the knowledge and expertise of the senior staff. Once senior staff left, their organizations struggled to deliver services to the same levels of quality, since the newly hired employees did not benefit from any substantial guidance from their previous counterparts and thus needed time to acquire the skills necessary to carry out their new duties. However, it is hoped that in the medium term, in light of the ongoing implementation of other components of human resource management, this void will be offset and a younger, more efficient staff supported by focused training sessions, will overhaul operational capacities.

In terms of sectoral distribution, almost half of the high-ranked personnel (13,000) were school teachers (primary and secondary). In view of the difficulties in carrying out efficient reallocation processes to fill the existing gaps and new needs of human resources, mainly in favor of the rural areas, the impact of this relatively high number of teacher retirements on the education sector translated into some discrepancies in service delivery, mainly in the rural areas and small towns.

The VRP also identified a large number of missing or otherwise unaccounted for civil servants, whose respective administrations had lost track of them due to the lack of adequate management and monitoring systems. The Education Department in particular has now eliminated 40 percent of its redundant positions. Some of these "ghost workers" were civil servants seconded to other departments whose records became blurred with time. Others included civil servants with long-term illnesses who left office but continued to receive their salaries. Loose monitoring systems had allowed them to "disappear" without notice, usually to undertake private activities. Many such civil servants rushed to benefit from the VRP, fearing they would be forced to join their respective administration to replace those who had already taken advantage of the VRP. It can be argued that the departure of such "ghost staff" made room for improvements in the quality and productivity of the remaining staff.

What did the second VRP fail to achieve? Generally speaking, the VRP resulted in significant financial and economic gains to the Moroccan economy, through savings in the government's wage bill, as well as through the retirees' investments in the private sector and the creation of new SMEs. However, while general overstaffing is not a problem for the Moroccan administration, the unbalanced distribution of staff in regional administration, and between various ministries and departments, resulted in localized overstaffing. This localized overstaffing, in turn, generates chronic redundancies and underemployment. Moreover, civil service employment is costly to the budget, as the wage bill reached record levels and remains high compared to international standards. The VRP did not significantly improve the geographic distribution of the workforce, which is still biased in favor of the two most privileged regions (Casablanca and Rabat) at the expense of the other 14 regions. The personnel share in the country's largest city, Casablanca, has declined only marginally, from 28 percent to 26.5 percent of the total workforce.

The important implicit objective of addressing the problem of redundant and unproductive staff has not been completely fulfilled. In some small ministerial departments, the VRP facilitated the departure of such personnel. But their share with respect to total redundancies remains insignificant. Only the Education Department can boast to have reduced redundancies by some 40 percent, still a far cry from the expected results in light of the severity of this phenomenon in this sector.

The VRP failed to shrink the share of personnel in the lowest pay scales (1-4), who represent about 20 percent of civil servants. The government had stopped recruitment for this category of personnel many years ago and started outsourcing the services they performed, aiming to gradually reduce their relative proportion. No more than three percent of this category retired. Had the government designed compensation packages targeted toward lower paid personnel, this problem could have been avoided.

Unfortunately, to the extent that underemployment and overstaffing does exist, most observers believe it to be concentrated at the bottom and middle ranks of the civil service salary structure. Since the majority of the applicants did not belong to these categories, but were found in the higher ranks of the civil service, this objective was either not met or not fulfilled in its entirety. The VRP did not succeed in giving the underemployed or low ranking personnel (Grades 1 to 8) enough financial incentives to leave, and most of the retirees belonged to relatively higher scales (Grades 9 and above). The linear design of the incentive package mostly favored senior civil servants, whose salaries were high enough to benefit from generous compensation. Government officials, civil servants, and trade unions believe that the government should have tailored the incentive package towards the lower salary scales, giving more financial incentive to the civil service categories that were the implicit targets of the VRP.

The employees' whose applications were rejected did not receive any formal training or orientation to make them perform better within their organizations. All they received was a "dry letter" that indicated their unsuccessful application. Since the VRP resulted in the departure of the most skilled employees, the remaining ones should have been offered substantive training sessions to strengthen their skills and better integrate them within their organizations to fill in the wide gap that was left after the departure of most senior employees.

Another concern about how the effort was structured involves sequencing issues between central efforts to contain the wage bill, of which the VRP was the foremost component, and ongoing work at the ministerial level to develop optimal ministerial structures and staffing profiles. Ideally, these strategic staffing exercises at the departmental level would have preceded the VRP; in that way, they could have been utilized in helping to ensure that the program was targeted at categories and skills that were least needed.

Conclusion

The experience of Morocco in downsizing its public sector through a VRP can serve as a catalyst for other countries in the region, especially governments who suffer from acutely overstaffed public sectors that result in fiscally unsustainable wage bills. The case of Morocco is unique in the way that it quickly identified the mistakes of the first program in 2004 and learned from them before launching the second one in 2005. However, it is important to note that while the second VRP achieved a number of its declared objectives, it failed to achieve others due to shortfalls in its design and implementation phases.

The greatest success of the second VRP was that it produced substantial fiscal gains through wage bill savings. The government managed to steadily cut the wage bill, from 11.8 percent of GDP in 2005 to around 10.2 percent in 2010, reflecting a reduction of expenditure on public sector salaries of 8.5 percent. These savings could then be invested in developmental programs like education, health and other sectors. Moreover, the economic returns of the second VRP were also positive, due to the injection of severance payments into the economy through investment in private sector and entrepreneurial activities. Many of the beneficiaries appear to have established their own businesses, invested in real estate projects, or built family houses. This is likely to have made a significant contribution to economic efficiency, helping to drive the wheels of the economy towards more sustainable levels. The program was also an opportunity to restructure employment policies within the public sector, and to recruit younger workforce.

Although the second VRP was successful in attracting a significant number of applicants, it resulted in the departure of the most qualified and talented employees. The number of received applications reached 50,865, and 38,763 were approved. This reduced the number of public sector employees by 7.59 percent. However, one of the biggest shortfalls in this operation was that of adverse selection. The loss of the brightest and most skilled employees left a chasm in the machinery of government which is hard to fill. Around 53.5 percent of the retirees belonged to Grade 10 of the public service; these were the most senior employees, who had accumulated decades of expertise in their fields. The skewing of the VRP was mainly due to the severance package, which gave more incentives to senior employees than to those in Grades 1-9. Moreover, there was no knowledge management mechanism that could have assisted in documenting and transferring the knowledge of the retiring senior employees to the new hires. Although the results varied across departments, it is interesting to note that many supervisors did not use the mechanisms at their disposal to prevent the departure of talented staff, desiring not to "penalize" high performers by denying them access to the program.

Beyond the immediate program, any assessment of the VRP cannot be disentangled from the broader structural challenges of the public administration reform program—issues such as poorly targeted recruitment, overstaffing, deficiencies in competence, unbalanced geographic concentration, job security, ineffective training, wage increases related to work tenure instead of merit, and subjective evaluation. In the context of the PARP, the VRP program helped to advance a major reevaluation and improvement in management methods, urging ministerial departments to reexamine modes of organization and resource management. By making the VRP one of the cornerstones of administrative reform, the Moroccan Government has committed itself to reform in a number of important aspects of human resources management (HRM), ranging from recruitment and training, to performance evaluation and monitoring, to redeployment.

Looking forward, such operations are more effective if not used as one-off exercises, but rather as a routine and ongoing process of continuous renewal of the government workforce. It would be sound to consider the rationalization policy of the workforce in the yearly Budget Laws and to implement and revise these policies throughout the public sector on a continuing basis. In this manner, the reduction or the rationalization of the workforce would become a permanent concern for managers, requiring human resources to be managed in a holistic, systemic manner incorporating considerations for skills, mobility, training and remuneration.

Annex 1:

Main Quantitative and Financial Results of the *Intilaka* Program

The assessment of the VRP's results presented here draws from official documents, mainly those published by the MPSM during 2005. The qualitative assessment mainly draws from informal interviews conducted in the context of this case study, and from results of various studies conducted by the MPSM to assess the economic and social impacts of the VRP, and its effects on the functioning and the organization of the administration.

More than 50,500 civil servants applied to benefit from the VRP operation, representing almost 10 percent of central government's total civil workforce. The share of women (40 percent) in total applications was higher than their share (32 percent) in the civil workforce. This might be explained by the fact that women have to justify fewer years of service than do men to be entitled to pension benefits, and also by the cultural importance placed on family responsibilities.

The sectoral composition of the applicants closely reflects that of the total civil service (Figures 1 and 2). Civil servants in the central government are mostly concentrated in three ministerial departments—namely Education (primary, secondary and higher), Interior and Health—which together employ almost 79 percent of civil servants. Applicants for the VRP from these departments represented 69 percent of the total applications, of which the Department of Primary and Secondary Education alone consist of more than 44 percent of the total applications, reflecting the importance of this sector as the main public employer with almost 54 percent of civil servants.

Figure 1: Sectoral Composition of Total Civil Service, 2004

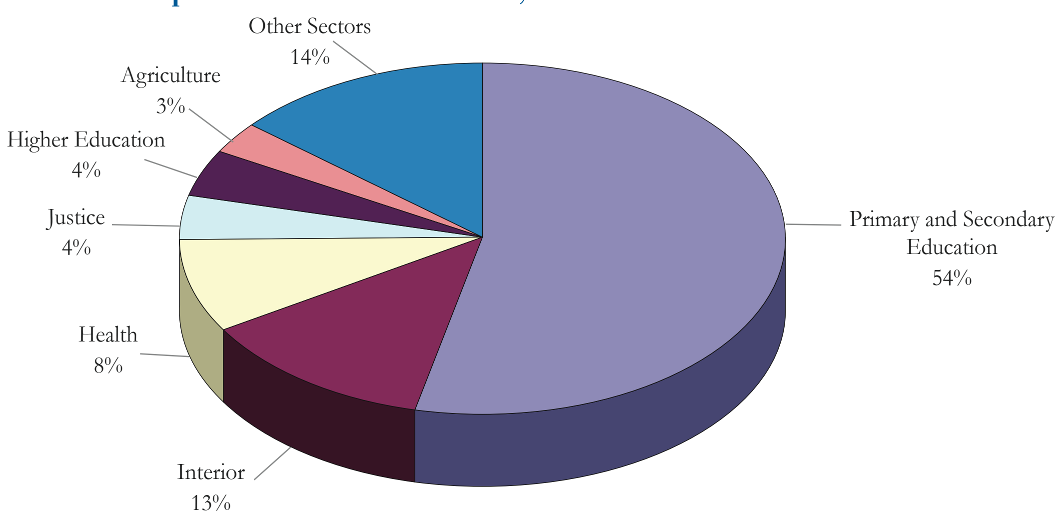
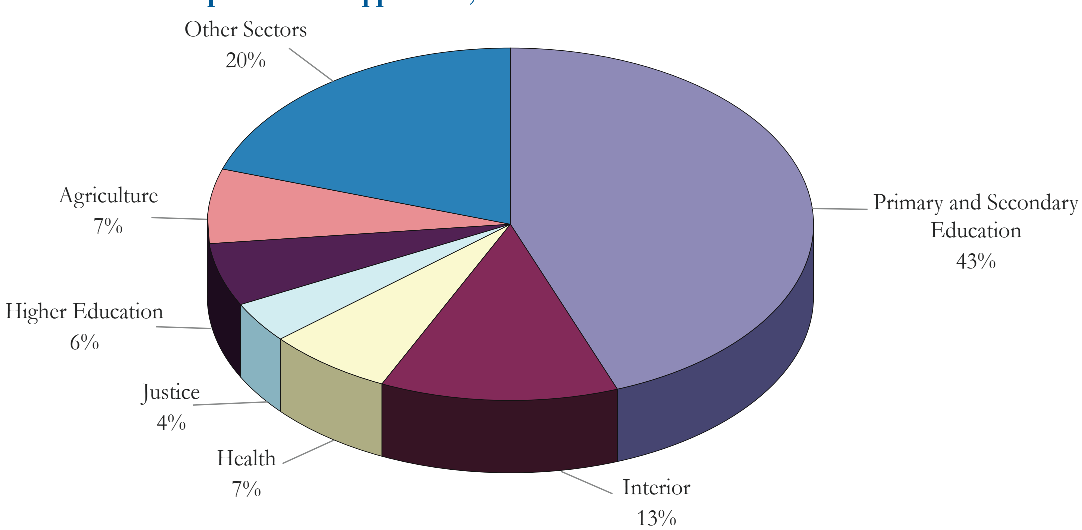


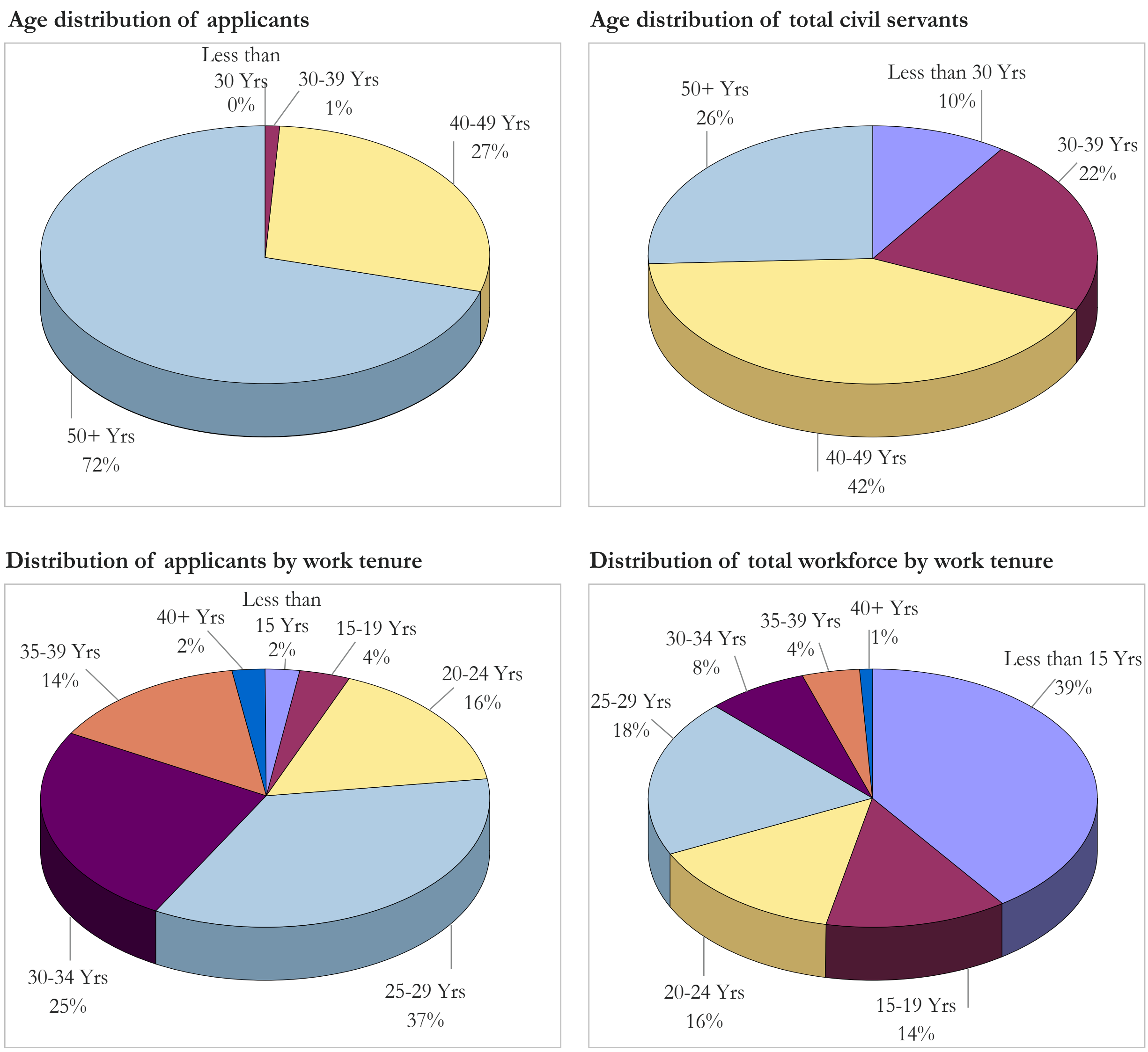
Figure 2: Sectoral Composition of Applicants, 2004



The age distribution of the applicants shows that most of them were in their fifties. Although this age group makes only 26 percent of the total civil servants, 72 percent of the applicants belong to it (Figures 3). Also, most of the applicants—specifically 77.5 percent—had more than 25 years of work tenure, even though only 30.6 percent of the civil workforce did. The preponderant representation of the applications with long work tenure is explained by the generous incentive package they would profit from, as compensation amounts were proportionally based on the number of years of service and salary.

The regional distribution of the applications favored the two central regions—the administrative capital, Rabat, and the economic capital, Casablanca—out of the 16 regions composing Morocco. Applicants from these two central regions accounted for 46 percent of total applications. This is explained more by the concentrations of senior staff in these two regions than by the share of corresponding staff in the total workforce. Indeed, staff from these two regions represented only 28 percent of the total workforce in 2004.

Figure 3: Age and Work Tenure Distributions of Applicants and Total workforce, 2004



Source: Ministry of Finance, Ministry of Public Sector Modernization, and staff calculations

Annex 2: Main Indicators of the VRP and Central Government's Workforce

	Total Applications (1)	Beneficiaries of VRP (2)	Total civil servants		Percent of the respective total				Ratios in percent		
			Before (3)	After (4)	Total Applications	Beneficiaries of VRP	Total civil servants Before VRP	Total civil servants After VRP	(2)/(1)	(2)/(3)	(1)/(3)
National Education	22,317	13,047	273,886	260,839	44.14	33.81	53.65	55.27	58.46	4.76	8.15
Interior and National Security	6,447	6,447	64,410	57,963	12.75	16.71	12.62	12,28	100.00	10.01	10.01
Agriculture	3,464	3,428	15,920	12,492	6.85	8.88	3.12	2.65	98.96	21.53	21.76
Health	3,336	2,267	42,483	40,216	6.60	5.87	8.32	8.52	67.96	5.34	7.85
Higher Education	2,838	2,838	20,886	18,048	5.61	7.35	4.09	3.82	100.00	13.59	13.59
Finance and privatization	2,192	1,896	18,943	17,047	4.34	4.91	3.71	3.61	86.50	10.01	11.57
Justice	1,987	988	21,650	20,662	3.93	2.56	4.24	4.38	49.72	4.56	9.18
Equipment and Transport	1,860	1,752	9,123	7,371	3.68	4.54	1.79	1.56	94.19	19.20	20.39
Wetland and Forests	754	716	5,437	4,721	1.49	1.86	1.06	1.00	94.96	13.17	13.87
Youth	752	752	4,647	3,895	1.49	1.95	0.91	0.83	100.00	16.18	16.18
Water	624	624	3,756	3,132	1.23	1.62	0.74	0.66	100.00	16.61	16.61
Communication	560	560	2,656	2,096	1.11	1.45	0.52	0.44	100.00	21.08	21.08
Housing and Urbanism	447	447	1,830	1,383	0.88	1.16	0.36	0.29	100.00	24.43	24.43
Planning	405	373	2,416	2,043	0.80	0.97	0.47	0.43	92.10	15.44	16.76
Handicraft and Social Economy	282	276	1,376	1,100	0.56	0.72	0.27	0.23	97.87	20.06	20.49
Energy and Mining	282	282	1,063	781	0.56	0.73	0.21	0.17	100.00	26.53	26.53
Industry and Commerce	220	220	1,008	788	0.44	0.57	0.20	0.17	100.00	21.83	21.83
Culture	201	201	1,875	1,674	0.40	0.52	0.37	0.35	100.00	10.72	10.72
Tourism	177	171	1,298	1,127	0.35	0.44	0.25	0.24	96.61	13.17	13.64
Employment	169	168	1,265	1,097	0.33	0.44	0.25	0.23	99.41	13.28	13.36
Veterans	119	63	477	414	0.24	0.16	0.09	0.09	52.94	13.21	24.95
Sports	97	97	541	444	0.19	0.25	0.11	0.09	100.00	17.93	17.93
Vocational Training	94	92	415	323	0.19	0.24	0.08	0.07	97.87	22.17	22.65
Public Sector Modernization	88	86	477	391	0.17	0.22	0.09	0.08	97.73	18.03	18.45
National Defense Administration	87	87	946	859	0.17	0.23	0.19	0.18	100.00	9.20	9.20
Territory Development	73	73	846	773	0.14	0.19	0.17	0.16	100.00	8.63	8.63
Sea Fisheries	63	58	1,127	1,069	0.12	0.15	0.22	0.23	92.06	5.15	5.59
Foreign Affaires	62	60	2,620	2,560	0.12	0.16	0.51	0.54	96.77	2.29	2.37
General Secretary of the Government	43	43	414	371	0.09	0.11	0.08	0.08	100.00	10.39	10.39
Accounting Court	38	38	348	310	0.08	0.10	0.07	0.07	100.00	10.92	10.92
Foreign Trade	38	38	199	161	0.08	0.10	0.04	0.03	100.00	19.10	19.10
Habous and Islamic Affairs	24	24	470	446	0.05	0.06	0.09	0.09	100.00	5.11	5.11
General and Economic Affaires	21	21	314	293	0.04	0.05	0.06	0.06	100.00	6.69	6.69
Literacy and Informal Education	19	19	120	101	0.04	0.05	0.02	0.02	100.00	15.83	15.83
Social Development	19	19	107	88	0.04	0.05	0.02	0.02	100.00	17.76	17.76
Prime Minister Cabinet	8	8	179	171	0.02	0.02	0.04	0.04	100.00	4.47	4.47
Relation with Parliament	4	4	126	122	0.01	0.01	0.02	0.03	100.00	3.17	3.17
Other sectors	350	308	4,865	4,557	0.69	0.80	0.95	0.97	88.00	6.33	7.19
Total	**50,561**	**38,591**	**510,519**	**471,928**	**100.00**	**100.00**	**100.00**	**100.00**	**76.33**	**7.56**	**9.90**

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