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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF EUR 611.3 MILLION

(US$700 MILLION EQUVALENT)

TO THE

KINGDOM OF MOROCCO

FOR THE

FINANCIAL INCLUSION AND DIGITAL ECONOMY

DEVELOPMENT POLICY FINANCING

January 23, 2019

Finance, Competitiveness and Innovation Global Practice
Digital Development Global Practice
Macroeconomics, Trade, and Investment Global Practice
Middle East and North Africa Region

Kingdom of Morocco
GOVERNMENT FISCAL YEAR
January 1 – December 31

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of January 9, 2019)
Currency Unit = Moroccan Dirham (MAD)
US$1.00 = MAD 9.49
MAD 1.00 = US$0.11

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
AFI	Alliance for Financial Inclusion
AMMC	*Autorité Marocaine des Marchés de Capitaux* (Moroccan Capital Market Authority)
ANRT	*Agence Nationale de Réglementation des Télécommunications* (National Telecommunications Authority)
ASA	Analytical and Advisory Services
BAM	Bank Al-Maghrib (Central Bank of Morocco)
BoW	Banking on Women
CAM	*Crédit Agricole Maroc*
CCG	*Caisse Centrale de Garantie* (Central Guarantee Agency)
CCKP	Climate Change Knowledge Portal
CDG	*Caisse de Dépôt et de Gestion* (Government Deposit Guarantee Agency)
CEC	*Comité des Établissements de Crédit* (Committee of Credit Institutions)
CG	Council of Government
CPF	Country Partnership Framework
DSA	Debt Sustainability Analysis
DPF	Development Policy Financing
EBRD	European Bank for Reconstruction and Development
EIA	Environmental Impact Assessment
EU	European Union
FDI	Foreign Domestic Investment
FIDE DPF	Financial Inclusion and Digital Economy Development Policy Financing
FIDIC	*Fédération Marocaine du Conseil et de l'Ingénierie* (Moroccan Federation of Consulting and Engineering)
FRP	Fiber Regulatory Package
FSAP	Financial Sector Assessment Program
FTTH	Fiber-to-the-Home
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GIZ	*Deutsche Gesellschaft für Internationale Zusammenarbeit* (German Agency for International Cooperation)
GFN	Gross Financing Needs

GOM	Government of Morocco
GRS	Grievance Redress Service
ICT	Information and Communication Technology
IFC	International Finance Corporation
IMF	International Monetary Fund
IPF	Investment Project Financing
LDP	Letter of Development Policy
MEF	Ministry of Economy and Finance
MFI	Microfinance Institution
MIICEN	*Ministère de l'Industrie, de l'Investissement, du Commerce et de l'Economie Numérique* (Ministry of Industry, Investment, Trade, and Digital Economy)
MSMEs	Micro, Small, and Medium Enterprises
NDC	Nationally Determined Contribution
NFIS	National Financial Inclusion Strategy
NGO	Nongovernmental Organization
NPL	Nonperforming Loan
OMPIC	*Office Marocain de la Propriété Industrielle et Commerciale (*Moroccan Office for Industrial and Commercial Property)
ONEE	*Office National de l'Electricité et de l'Eau Potable* (National Electricity and Drinking Water Office)
ONCF	*Office National des Chemins de Fer* (National Railways Office)
PA	Prior Action
PCR	Public credit registry
PFM	Public Financial Management
PLL	Precautionary and Liquidity Line
POS	Point of Sale
PPD	Public Procurement Decree
PSF	Prudential Stabilization Fund
SCD	Systematic Country Diagnostic
SGG	*Secrétariat Général du Gouvernement* (General Secretariat of the Government)
SMEs	Small and Medium Enterprises
TA	Technical Assistance
TEF	*Tamwil El Fellah* (Agricultural Development Finance Corporation)
TFP	Total Factor Productivity
UNFCCC	United Nations Framework Convention on Climate Change
VC	Venture Capital
WHO	World Health Organization

Regional Vice President:	Ferid Belhaj
Country Director:	Marie Francoise Marie-Nelly
Practice Directors:	Najy Benhassine, Boutheina Guermazi, Paloma Anos Casero
Practice Managers:	Jean Pesme, Michel Rogy, Kevin Carey
Task Team Leaders:	Djibrilla Issa, Carlo Rossotto, Dalia Al Kadi

KINGDOM OF MOROCCO

FINANCIAL INCLUSION AND DIGITAL ECONOMY DPF

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The operation was prepared by the World Bank Group task team led by Djibrilla Issa, Carlo Rossotto, and Dalia Al Kadi, and consisting of:

- Finance, Competitiveness, and Innovation Global Practice (FCI GP): Peter McConaghy, Stefanie Ridenour, Ihssane Loudiyi, Jean-Louis Racine, Dorothee Delort, Mariem Malouche, Zineb Benkirane, Steve Wan, Hind Kadiri, Arnaud Dornel, Maria Acosta and Abayomi Alawode; Maiko Miyake, Meriem Chattou, Chloe Gueguen, Oscar Madeddu;
- Transport and Digital Development (TDD) GP: Arthur Foch;
- Macroeconomics, Trade, and Investment (MTI) GP: Khalid El Massnaoui, Amina Iraqi, Jaime Garron Bozo, Luca Bandiera, Rei Odawara;
- Poverty GP: Vasco Molini;
- Governance GP: Kimberly Johns, Ousmane Kolie, Abdoulaye Keita, Anne-Lucie Lefebvre, Diane Zovighian;
- Health, Nutrition, and Population GP: Aissatou Diack, Fatima EL Yamani;
- Maghreb Country Management Unit: Khadija Sebatta, Abdurrahman Bachir Karwa, Ibtissam Alaoui;
- Agriculture GP: David Treguer, Mohamed Medouar, Olivier Durand;
- Environmental and Natural Resources GP: Houcine Gabi, Dahlia Lotayef; and
- Social, Urban, Rural and Resilience GP: Sarah Keener.

The operation was undertaken with the strategic guidance of Marie Francoise Marie-Nelly (Country Director, MNC01); Najy Benhassine (Director, FCI); Boutheina Guermazi (Director, TDD); Paloma Anos Casero (Director, MTI); Jean Pesme (Practice Manager, FCI); Kevin Carey (Practice Manager, MTI); Michel Rogy (Practice Manager, TDD); Alejandro Alvarez de la Campa (Practice Manager, FCI); Pablo Fajnzylber (Adviser, Infrastructure VPU); Xavier Reille (Country Manager, IFC); Gabriel Sensenbrenner (Program Leader, MNC01); Afef Haddad (CPC); Jaafar Friaa (Program Leader, MNC01); Fadila Caillaud (Program Leader, MNC01); and Emmanuel Pinto Moreira (Lead Economist). Peer reviewers were Margaret Miller (Lead Financial Sector Economist); Tim Kelly (Lead ICT Policy Specialist); Yann Burtin (Senior Underwriter, MIGA); Harish Natarajan (Lead Financial Sector Specialist); Teymour Abdoul Aziz (Senior Financial Sector Specialist, FCI); and Baker Kiggundu (Investment Officer, IFC).

SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic
P168587	No

Proposed Development Objective(s)

The Program Development Objective (PDO) is to foster financial inclusion and contribute to digital transformation for individuals, enterprises, and entrepreneurs.

Organizations

Borrower:	KINGDOM OF MOROCCO
Implementing Agency:	MINISTRY OF ECONOMY AND FINANCE

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Financing	**700.00**

DETAILS

International Bank for Reconstruction and Development (IBRD)	700.00

INSTITUTIONAL DATA

Climate Change and Disaster Screening

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

Overall Risk Rating

Moderate

Results

Indicator Name	Baseline (2017)	Target (2020)
(1) Gross loan portfolio for the microfinance sector (MAD billion; % women borrowers)	(1) 6.7	(1) 7.5 (50 percent)
(2a) Volume of cumulative Tamwil El Fellah (TEF) loans disbursed (MAD billion) (2b) Number of female beneficiaries of TEF	(2a) 1.7 (2b) 927	(2a) 2.3 (2b) 2,000
(3) Percentage of payment companies reporting gender-disaggregated data	(3) 0	(3) 75 percent of payment companies reporting to BAM
(4) Number of independent professionals, self-employed individuals and non-salary individuals with health insurance coverage	(4) 0	(4) 50,000
(5a) Volume of Sukuk certificate issuances (MAD billion) (5b) Number of insurance companies issuing Takaful products	(5a) 0 (5b) 0	(5a) 2 (5b) 3
(6) Number of m-wallets issued	(6) 0	(6) 20,000
(7) Fixed broadband penetration as a percentage of households (source: Annual ANRT Survey)	(7) 19.4 percent	(7) 22 percent
(8) Percentage of rural households with Internet access (source: Annual ANRT Survey)	(8) 53.1 percent	(8) 56 percent
(9) The new electronic portal is operational [1]	(9) No	(9) Yes
(10a) Number of business angel networks that have been certified by the CCG (10b) Number of start-up projects submitted to business angels for financing	(10a) 0 (10b) 0	(10a) 2 (10b) 30

[1] In 2017, 80,000 enterprises were registered through Moroccan Office for Industrial and Commercial Property (*Office Marocain de la Propriété Industrielle et Commerciale*, OMPIC) channels using traditional paper-based methods. It is expected that 100,000 enterprises will be registered by 2020 using the new electronic platform.

IBRD PROGRAM DOCUMENT FOR A PROPOSED LOAN TO THE KINGDOM OF MOROCCO

1. INTRODUCTION AND COUNTRY CONTEXT

1. **Morocco has made significant social and economic progress over the past 15 years** due to large public investments and political, institutional and sector reforms, along with measures to ensure macroeconomic stability. The resulting accelerated growth has led to dramatic improvements towards eradicating extreme poverty; a sharp decline in the national poverty rate; increased life expectancy; greater access to basic public services, including universal access to primary education; and significant public infrastructure development. These achievements have enabled Morocco to launch a process of convergence with Southern European countries. Morocco enjoyed the fastest per capita growth in the Middle East and North Africa (MENA) region over 2000-2017 and had the fourth-largest foreign direct investment (FDI) inflows in Africa in 2017. Apart from the Gulf Cooperation Council (GCC) countries, Morocco is the only remaining investment-grade country in MENA.

2. **Yet, despite these achievements, as stressed in the June 2018 Systematic Country Diagnostic (SCD), Morocco continues to face development challenges, and the aspirations of its citizens for a better life remain unmet.** This is particularly true for the youth. Job creation is slowing down; unemployment is high, particularly among youth and women; service delivery is inadequate; social and territorial disparities remain. Efforts to improve the situation have been constrained by structural inefficiencies. Private sector development, a key driver of employment, is hampered by lack of inclusion in market institutions leading to weak contestability of markets and poor access to finance for entrepreneurs and small and medium enterprises (SMEs). Moreover, the education system is failing to deliver the skills required for the changing business and labor markets. Employers are unable to find the required hard and soft skills, while nearly 20 percent of youth are unable to find jobs. Female labor force participation is low (25 percent in 2017), at the same level as in 1990. Where women are active in Morocco's labor market, they work predominantly in low productivity sectors and low-skill occupations. Nevertheless, labor costs are high, as are the costs of business-related services. The number of exporting firms is stagnant, as Morocco is no longer competitive in the low-skill products that drove its growth in the past but is not yet competitive in more sophisticated products.

3. **The contribution of the private sector to growth has been impeded by the lack of a level playing field, constrained access to finance, and limited technology.** State-owned enterprises (SOEs) and established firms with close connections, rather than new and young firms, drive private economic activity and employment in a few non-tradable sectors that are less exposed to competition (construction, real estate, and commerce). These sectors generally have little potential to create quality jobs or generate value. Access to finance for entrepreneurs and micro, small, and medium enterprises (MSMEs) is still a challenge. There are issues with access, quality, and affordability of information and communication technology (ICT) infrastructure. Spatial inequalities and disparities in internet access are high particularly between large cities on the one hand and secondary cities and rural areas on the other hand, with direct effects on access to financial services, territorial innovation, entrepreneurship, growth, and job creation.

4. **This reflects the limitations of Morocco's current growth model which relies on high levels of publicly-financed investment that does not translate into productivity growth and is not fiscally sustainable.** The Morocco SCD found that the current growth model shows signs of weaknesses and risks

lack of sustainability. Growth during the past two decades has been mainly based on public capital accumulation, often through foreign direct investment joint ventures with SOEs. The resulting modest growth acceleration can be explained by a lack of investment spillovers, which led to a failure in generating significant productivity gains, and a low contribution of labor to economic growth. Moreover, this growth path will be difficult to maintain without higher total factor productivity (TFP) gains in the future.

5. **Morocco needs a new growth model and reform pathway to move closer to its efficiency frontier[2].** As noted in the SCD, a more efficient use of public resources is necessary to achieve and sustain Morocco's development goals. The SCD proposes several pathways for Morocco to move closer to its efficiency frontier, leverage the efficiency frontier for all, and push the efficiency frontier. Increased competition, innovation, a more business-friendly environment, improved public policy formulation, and better access to quality public services can help Morocco get closer to the efficiency frontier. Labor market reforms, better targeted social protection, and increased gender equity will help leverage the frontier for all. Successful human capital formation and better management of urbanization are identified as key to pushing the efficiency frontier.

6. **The Government of Morocco (GOM) has outlined a new vision for economic growth and social inclusion in its five-year Government Program (2017–2021), which is reinforced by national strategies on the digital development and financial inclusion.** The Government Program builds on previous political, economic, and social achievements while renewing the development model to create the conditions to become an emerging economy. The program emphasizes upgrading large export industries and supporting start-up companies and MSMEs through a package of financial and non-financial resources. The ultimate objective is to develop a more competitive private sector capable of creating quality jobs, while establishing Morocco as an attractive destination for foreign investment and business expansion. The five main pillars are governance, youth employment, climate change, human capital, and social cohesion.

7. **The GOM has finalized a National Financial Inclusion Strategy (NFIS) based on the growing body of evidence that better access to finance for firms and households leads to more inclusive development outcomes.** Financial exclusion remains an acute challenge for Moroccan households and firms.[3] Financial access facilitates day-to-day living and helps families and businesses plan for everything from long-term goals to unexpected emergencies. As account holders, people are more likely to use other financial services, such as credit and insurance, to start and expand businesses, invest in education or health, manage risk, and weather financial shocks, which could improve the overall quality of their lives. Only 29 percent of Moroccan adults have access to a formal transaction account, lower than the average for MENA (44 percent) and the developing country average (63 percent) according to FinDex (2017) data. Women face even greater hurdles to financial inclusion. Only 17 percent of Moroccan women had access to an account in 2017, compared with 35 percent in the MENA region. Only 12 percent of the borrowers in Morocco used a formal financial institution as a source of funds in the past year, while 26 percent of Moroccans report borrowing for various reasons in the past 12 months. The NFIS sets a vision for

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[2] The efficient frontier as the set of optimal combination of production factors that offers the highest expected return.

[3] Currently, member states at the United Nations are using Global Findex data to track progress toward the Sustainable Development Goals. For an overview of empirical evidence on financial inclusion and inclusive growth see: Demirguc-Kunt, Asli, Leora Klapper, and Dorothe Singer. 2017. "Financial Inclusion and Inclusive Growth: A Review of Recent Empirical Evidence (English)." Policy Research Working Paper WPS 8040, World Bank Group, Washington, DC.

accelerating financial inclusion in the Kingdom while closing key gaps for women, youth, rural population and micro enterprises.

8. **Morocco has developed a national strategy to drive digital transformation (*Plan Maroc Numérique*).** The strategy aims to accelerate innovative digital solutions through e-government services, private sector digitalization, and the use of digital financial services to promote inclusion of individuals and MSMEs. However, this will require upgrading digital infrastructure and addressing spatial inequalities in ICT access. There is a deep digital divide between urban and rural areas, which the authorities are trying to address through a proactive use of the Universal Service Fund. According to the 2017 National Telecommunications Agency (*Agence Nationale de Régulation des Télécommunications,* ANRT) ICT survey, 17.3 percent of citizens in urban areas made online purchases, against only 3.6 percent in rural areas. About 40 percent of the population did not use the Internet, according to the 2017 ANRT ICT survey, but the percentage increases to 55.2 percent in rural areas. The gender gap is also present, with only 58.8 percent of Moroccan women using the Internet, against 64.8 percent of men and 11 percent of women having made online purchases, against 14.6 percent of men. Infrastructure coverage is significantly lower in secondary cities in the country relative to the main cities, even where population sizes are similar.

9. **The proposed US$700 million Financial Inclusion and Digital Economy Development Policy Financing (FIDE DPF) is part of a longstanding programmatic and multisectoral engagement in Morocco.** This longstanding engagement supports the authorities on financial and private sector development, infrastructure, governance, access to public services, and human capital improvements**.** The proposed DPF is underpinned by the national and sector-level strategies referenced above (Government Program, NFIS, *Plan Maroc Numérique*) and supported through longstanding World Bank Group engagements that have helped generate critical analytical knowledge, technical assistance (TA), and lending operations. The forthcoming World Bank Group's Country Partnership Framework (CPF) lending and non-lending program will help pursue the reforms and provide support in critical areas identified in the DPF to ensure sustainability.

10. **As part of this comprehensive and de facto programmatic agenda, the overarching development objective of the proposed DPF is to foster financial inclusion and contribute to digital transformation for individuals, enterprises, and entrepreneurs.** Leveraging ongoing dialogue and operational engagements, the DPF supports improved financial inclusion for individuals and MSMEs through improved connectivity, digital platforms, and diversified and tailored financial services and mechanisms. Financial inclusion is seen as a critical entry point, essential for creation and growth of the private sector, as well as for closing of the inclusion gaps in the country. It aims at initiating reforms that will help develop an inclusive, competitive digital economy capable of pushing Morocco to its efficiency frontier**.** Each of the pillars of the DPF is supported through the ongoing and planned engagements by the World Bank Group, as outlined here:

- **Pillar 1, Enhancing financial inclusion for individuals and MSMEs,** will be achieved by diversification of financial instruments and sources through extending the regulatory and institutional framework for microfinance, agricultural finance, insurance coverage and other classic and alternative finance products. This pillar will also advance financial inclusion of women and female-owned enterprises through enhanced supply-side data on gender from financial service providers. The data on financial information on female and female-led enterprises is needed by financial institutions, credit information systems, and government programs[4] to screen potential female borrowers and target female entrepreneurs for better impact. As detailed in Table 1, the pillar is anchored in a comprehensive World Bank and IFC financial sector support program covering inclusion, stability, long-term finance reforms and women access to finance.

- **Pillar 2, Supporting the development of digital platforms and digital infrastructure,** supports reforms needed to develop digital platforms with a focus on financial market infrastructure (financial management information system) and mobile payments. Furthermore, it promotes the expansion of inclusive access to digital infrastructure by encouraging competition among, and investment by, telecom operators, and by facilitating the deployment of fiber optics through a smart regulatory package.[5] The DPF is further underpinned by a large number of current and planned analytical works and TA, including: (a) analytical work and TA on enabling payment innovations for financial inclusion; the ongoing dialogue on e-procurement; and (b) the proposed MSME TA, which will support policy enablers for digital finance and expansion of digital platforms; and the ongoing TA to the Government on the *Plan Maroc Numérique,* which aims at updating the strategic framework for digital development in Morocco, enhancing digital infrastructure policy, strengthening the framework for digital government and fostering digital transformation in finance, industry, and agriculture.

- **Pillar 3, Enhancing support to digital entrepreneurs,** addresses inclusive private sector growth through enterprise creation and access to finance for start-ups. This policy area is supported by analytical and advisory engagements across the IFC and the World Bank that seek to facilitate second generation business regulatory reforms to further reduce the cost of doing business and support the digitization of business services. In addition, existing and planned lending operations will help ensure sustainability of the reforms supported by the proposed DPF. These include: (a) the ongoing Financing Innovative Start-ups and SME project, which focuses on angel, seed, and early stage financing leveraging co-investments from the private sector; (b) a planned Climate Entrepreneurship Project supporting clean technology entrepreneurs; and (c) a planned Support for Youth Inclusion project that will support youth entrepreneurs and women. This policy area is also complemented by the African Development Bank (AfDB) support of the crowdfunding law in its proposed budget support operation. These engagements will be further informed by the Country Private Sector Diagnostic that is being finalized.

11. **All measures supported by the proposed DPF aim to transform Morocco's economy into a private sector-driven growth model that can create opportunities for all Moroccans.** It also supports foundational enablers related to digital infrastructure and digital platforms necessary to provide efficient public services to Moroccan citizens. This facilitates economic and social inclusion, particularly in rural areas. Expanding digital service delivery platforms, underpinned by well-developed infrastructure and transaction pathways, is the next frontier to reduce service access between citizens and state. Altogether,

[4] For example, the Government guarantee programs, the stabilization fund for agriculture finance managed by *Crédit Agricole du Maroc (CAM)*.
[5] The previous DPF series on Capital Markets and SMEs Finance paved the way for this program by extending the scope of electronic payments through nonbank providers to expand financial access points for unbanked individuals and MSMEs.

this can help close the ‘aspiration gap’ experienced by many Moroccans, especially youth, lending more opportunity and hope for the future.

12. **The GOM is committed to this programmatic approach, as evidenced by its significant efforts at the national level to translate proactive public policies into meaningful outcomes for its citizens.** This is also outlined in the GOM’s Letter of Development Policy (LDP, see Annex 3) which affirms the consistency of reform actions in the proposed DPF with Morocco’s national priorities. The GOM is firmly committed to implementing the reforms supported by the proposed DPF to enhance financial inclusion and accelerate Morocco’s digital transformation. The LDP lays a roadmap and shows the GOM’s commitment to pursue the implementation of major legislative reforms supported by the proposed DPF in the areas of financial inclusion and digital economy (including furthering of telecommunications sector reform, digitization of government services, procurement, payments, and credit infrastructure) with support from the World Bank Group and other donors. The LDP details reforms which complement and deepen those supported by the proposed DPF, for example, with regards to credit infrastructure and the facilitation of new entrants into the fixed broadband market.

13. **The expansion of digital infrastructure also raises several social and political economy challenges.** The proposed DPF supports Morocco’s strides to expand access to digital infrastructure and longstanding efforts to develop an e-government. These efforts contribute to enhanced opportunities for citizen engagement in public sector reform and access to economic opportunities. There are, however, social and political risks associated with the digitalization efforts, including the need to bridge—rather than reinforce—the digital divide. Leveraging a positive and constructive use of digital technologies is necessary to ensure that they serve as a vehicle for social and political cohesion and stability, rather than disruption. In addition, particular attention should be paid to the fact that these reforms, as evidenced by international experience, could disrupt the market structure and challenge business interests, thereby posing risks to the reform adoption efforts.

14. **The evolution of the current political and social context will depend on the effectiveness of new development measures.** The World Bank’s broader engagement in Morocco can help the GOM identify and mitigate governance and political economy risks, notably through analytical work and TA on specific reform measures. Governance and citizen engagement are foundational to the forthcoming CPF (FY2019–2024). The World Bank can also incentivize and support the GOM’s efforts to effectively implement digital economy reforms through a political economy analysis. Several Analytical and Advisory Services (ASA) and lending operations will support the productive use of new technologies by citizens and government agencies and mitigate the social and political risks associated with digitalization. A more detailed analysis of governance and political economy risks and mitigation measures can be found in Annex 8.

15. **In addition, the increased social demand with the demographic dynamics may trigger a fundamental change.** This is evidenced by the government initiatives to accelerate reforms to enhance youth social and economic inclusion, spur growth to create jobs and address vulnerability with adapted social protection programs. This has been reflected in the 2019 draft Budget Law, which prioritizes spending on health, education, employment, and regional disparity reduction and includes fiscal incentives to small firms to support the uptake of digital payments and create a large network of cash-in and cash-out agents.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

Growth, Inflation, and Inclusion

16. **Morocco's economic growth over the past five years has remained sluggish and volatile, whereas inflation has been low.** On the supply side, the volatility of growth has been driven by large swings in the growth of mainly rain-fed agriculture. On the demand side, domestic demand has been the main driver of growth in the recent past, fueled by high investment and private consumption. Consequently, as the Government started to rein in fiscal deficits in 2013, public investment growth slowed down, thereby suppressing GDP growth. More recently, GDP growth decelerated to an estimated 3.2 percent in 2018 compared to 4.1 percent in 2017. On the supply side, this slowdown was primarily driven by the sharp decline of agricultural value-added growth due to base effect following exceptionally strong agricultural growth performance in 2017, which was only partially compensated by otherwise good performance of nonagricultural activities. Growth has been particularly high in extractives due to the continued upturn of phosphate production and exports. Inflation has remained low and stable (under 2 percent) throughout the past decade. The Government plans to gradually introduce an inflation-targeting regime and is evaluating the timing of the transition in the context of the adoption of a more flexible exchange rate band (paragraphs 31–35).

Figure 1. Morocco's Growth Rate Volatility

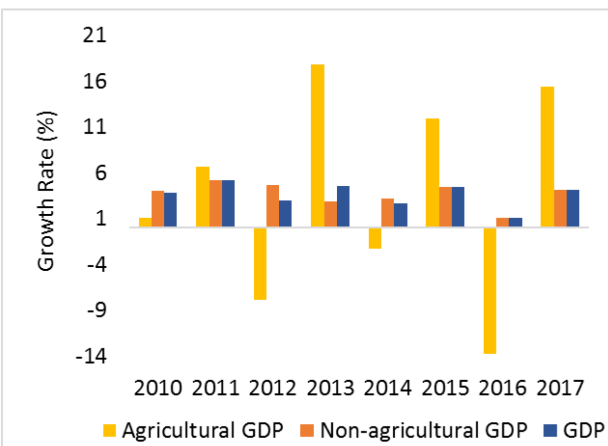
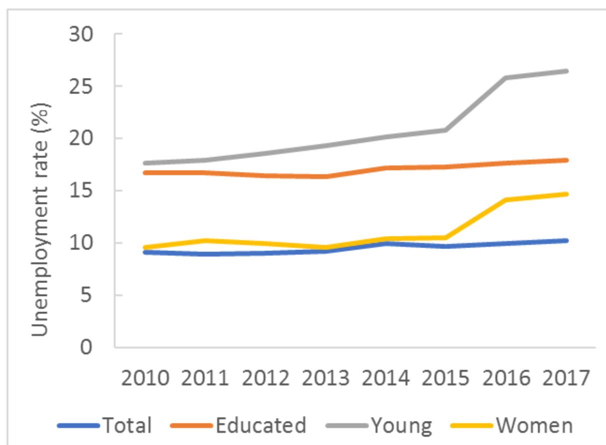


Figure 2. Unemployment in Morocco



Source: High Commission for Planning.

17. **Performance in the area of job creation has been particularly weak, with inclusiveness and job quality posing significant challenges, especially for youth, women, and educated workers.** With the working-age population increasing by over 300,000 a year, job creation estimated at 129,000 per year, has been insufficient. The unemployment rate remains elevated at 10 percent in Q3 of 2018 and is even higher among youth and the educated whereas female labor force participation is very low, and declining. Only 17 percent of the economically active population has a formal job, and less than 10 percent has a formal private sector job. Furthermore, unemployment spells tend to be long: more than 70 percent are unemployed for more than a year, and this share is higher among those with tertiary education.

18. **Growth has been pro-poor but the urban-rural gap in poverty rates remains large.** Between 2007 and 2014, consumption of the bottom 40 percent of the population grew faster (5.4 percent on average) than that of the remaining population (4.7 percent), suggesting an increase in shared prosperity. Therefore, the Gini coefficient declined from 40.7 percent in 2007 to 39.5 percent in 2014. Yet, poverty incidence remains high in rural areas, and poverty reduction in these regions has been twice as slow as in urban areas. With an annual convergence rate of 4 percent, it would take 24 years for the convergence process to reduce initial regional disparities by half. Moreover, the perception of poverty increased from 42 percent in 2001 to 45 percent in 2014.

19. **This inadequate growth and inclusion performance reflect structural challenges with the existing growth model.** Growth over the past two decades has been driven by levels of investment that were among the highest globally (over 30 percent of GDP since 2008). Around half of the investment was done by the central government and SOEs. This high level of investment did not translate into a growth acceleration of the magnitude that one would expect. In fact, other countries have achieved the same degree of growth acceleration with a lower investment effort. Furthermore, such high levels of public investment will not be sustainable in the future without endangering macroeconomic stability. This lackluster return can be explained by: (a) a lack of investment spillovers, which resulted in a failure to generate significant productivity gains; and (b) the low contribution of labor to economic growth. The lack of investment spillovers results from the inefficiency of public investment and its channeling into infrastructure development, which produces limited TFP growth, as well as the channeling of private sector investments into low productivity sectors such as construction and commerce. The low labor contribution to recent economic growth results from: (a) Morocco's difficulty in harnessing its growing pool of labor (particularly youth and women), with job creation remaining limited; (b) the economy's difficulty in managing available human resources (including labor market policies that constrain recruitment and retrenchment across both public and private sectors); and (c) an inability to swiftly reallocate labor across sectors for efficiency purposes.

20. **Morocco's private sector is heavily stratified, with a dominance of large corporate firms and SOEs.** SOEs and established firms with close connections to political and economic elites, rather than new and young firms, drive private economic activity and employment in a few non-tradable sectors that are less exposed to competition (construction, real estate, and commerce).[6] These sectors generally have little potential to create quality jobs or generate value. Agriculture and low value-added manufacturing such as textiles have lost jobs, but more dynamic, higher value-added sectors (for example, automotive, aeronautics, and renewable energy) are not yet able to compensate for these losses and represent only a small share of employment.

21. **Constrained access to finance and limited technology, innovative capacity, and entrepreneurship further impede private sector development.** Mechanisms to support innovation and small firms are nascent. Access to finance for entrepreneurs and MSMEs remains a challenge. Also, while private equity exists, venture capital (VC) and angel investment are practically nonexistent. There are issues with access, quality, and affordability of ICT infrastructure.

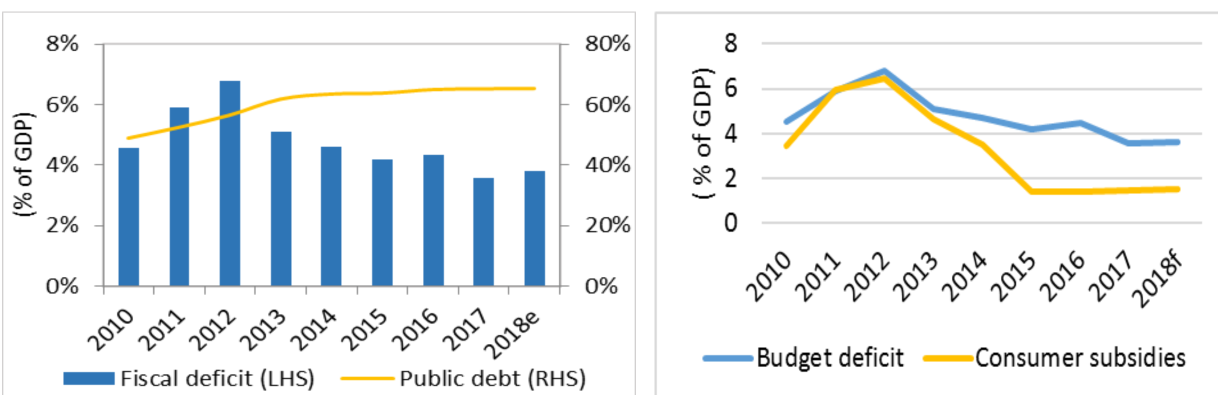
[6] Although a Competition Council exists, it but has been inactive since 2013 following the expiration of its members' term. In mid-November 2018, His Majesty the King named a new President and Secretary General for the council, and the Head of the Government appointed new members for the remaining seats of the Council.

22. **This highlights the imperative for a new growth model capable of generating inclusive growth and job creation; financial inclusion and the development of a digital economy are critical levers to achieve this objective.** The SCD concluded that to reach the efficiency frontier, Morocco could improve its market allocation of resources across firms and sectors and improve the efficiency of public policies, including with a view to crowding in the private sector.[7] This will entail unlocking Morocco's competitive and innovative drive and further improving the business environment and access to finance. This can be supported by enhancing access to finance for entrepreneurs and MSMEs; supporting greater access, quality, and affordability of digital infrastructure; and promoting digital platforms and digital entrepreneurship. In turn, this will support the Government's ambitious plans to develop an enabling environment for the development of the digital economy, which can have a transformational impact on economic growth, productivity, and job creation in Morocco.

Fiscal Policy and Balance

23. **In 2013, in response to the external shocks facing the country, Morocco initiated a process of fiscal consolidation and revenue development that allowed it to shrink its fiscal deficit.** The Government initiated a reform of the subsidy system in 2013 and began to rein in other recurrent expenditures. The activation of a price indexation mechanism for gasoline and diesel in 2013 and the full liberalization of these prices in 2015 (combined with the fall in international oil prices) contributed to a cut in subsidies by about 5 percentage points of GDP during 2012–2015 (Figure 3). Since 2012, the growth of the wage bill has been contained through controls on higher wages and limits on new hiring. On the revenue side, measures to improve tax collection through broadening the tax base, harmonizing tax rates, and fighting tax evasion compensated the impact of weaker economic activity on tax revenue. Overall, Morocco reduced its budget deficit from 6.8 percent of GDP in 2012 to 3.6 percent in 2017.

Figure 3. Morocco's Public Expenditures, Fiscal Balance, and Public Debt



Source: Ministry of Economy and Finance (MEF) and World Bank staff estimates.

24. **While the central government debt-to-GDP ratio has stabilized, there has been an erosion of fiscal and external buffers**. With progress in fiscal consolidation, the debt-to-GDP ratio stabilized at

[7] Chauffour, J-P et al. 2018. *Kingdom of Morocco. Governing Towards Efficiency, Equity, Education, and Endurance. A Systematic Country Diagnostic.* World Bank Group. Available publicly for download at http://documents.worldbank.org/curated/en/375771529960237724/Morocco-Systematic-Country-Diagnostic

around 65 percent of GDP since 2016. This compares to 45 percent in 2008, illustrating the persistent effects of lagged adjustment to shocks since that time. Fiscal space is also eroded by the recurrent cost obligations associated with the infrastructure buildup. Finally, the budget remains vulnerable to a lack of pass-through of international energy prices to domestic prices given the high dependence on energy imports.

25. **Risks to the positive fiscal trajectory have materialized in 2018 as the budget balance is estimated at -3.6 percent of GDP compared to an indicative target of -3 percent in the 2018 Budget Law.** The draft 2019 Budget Law identifies four key factors driving the upward revision of the fiscal deficit estimate for 2018. The first one is the downward revision of tax revenues driven by lower than forecasted corporate tax revenue, which contributed around 30 percent of the total MAD 9.5 billion upward revision in the projected fiscal deficit.[8] The second factor is the downward revision of expected grants from the GCC, which contributed another 20 percent or so. The third factor is a current spending overrun that contributed a quarter of the upward revision of the fiscal deficit projection and was propelled by rising global energy prices, despite the MAD 800 million underspending on personnel costs compared to the 2018 Budget Law projections. Finally, the remaining 25 percent or so of the upward revision was the result of higher than projected capital spending. Central government debt-to-GDP ratio in 2018 recorded 64.9 percent.

26. **The 2019 Budget Law reflects the Government**'s **commitment to increase social spending financed by expanded efforts to mobilize revenue.** The GOM plans to ramp up spending on social sectors including health, education, social protection, and employment to respond to public discontent surrounding the high level of economic, social, and territorial inequality. It also plans to increase allocations of corporate and income tax revenues to the regions and increase transfers made to the interregional solidarity fund. Revenue measures to finance this additional spending include: (a) introducing a 2.5 percent solidarity tax on companies earning an annual net profit of over MAD 50 million; (b) privatizing certain government assets/SOEs; (3) increasing consumption taxes, particularly on tobacco; and (d) establishing improved governance systems for SOEs, including a multiannual policy for dividends and other contributions by SOEs to the general budget.

27. **A handful of SOEs hold a significant amount of debt which constitutes a source of contingent liabilities that is not included in government debt statistics.** The Government owns 209 public establishments, the vast majority of which are non-market institutions that support the Government's development agenda through public investments, social projects, and public service provision. It owns 44 SOEs that are more commercial in nature and sell goods and services. At end-2017, the debt of SOEs and public establishments and publicly guaranteed external debt reached 19.4 percent of GDP, of which over 85 percent was external and in foreign currency, exposing borrowers to currency risk. Most of this debt was held by a handful of SOEs, namely Groupe OCP SA (OCP), *Office National de l'Électricité et de l'Eau* (ONEE), *Autoroutes du Maroc (ADM), Office National des Chemins de Fer (ONCF),* Moroccan Sustainable Energy Agency (MASEN), and *Agence Spéciale Tanger Méditerranée (TMSA).* This debt is not included in

[8] The 2018 Budget Law projected 2018 corporate tax revenues to maintain the robust performance exhibited in 2017, when they recorded a ratio of 4.7 percent of GDP due to exceptionally strong performance of certain sectors (for example, the financial and telecommunication sectors). The revised estimates for 2018 (4.3 percent of GDP) and the projection for 2019 (4.4 percent of GDP) are more in line with recent trends (4.2 percent of GDP in 2015 and 2016).

the government debt statistics; in other words, the debt-to-GDP ratio of 65.1 percent in 2017 includes only central government debt.

28. **The Government is working on improving oversight of SOEs and coverage of debt statistics**. The authorities are expanding their existing debt management framework to include SOEs and are working to strengthen the governance framework for debt guarantees to address challenges with the legal framework, the absence of a formal overall ceiling, and the lack of risk-based analysis and clear procedures for guarantee issuance and monitoring. The World Bank is supporting these efforts through technical assistance. Moreover, the authorities are working to improve the transparency of debt data with technical assistance from the IMF, by expanding the coverage of public debt statistics from central government debt to general government debt. Preliminary results of this data consolidation effort are expected in early 2019.

Current Account and External Position

29. **The external balance has improved markedly over the past five years, but energy dependency continues to weigh heavily on the trade balance and subjects it to the vagaries of international energy prices.** Consistent with fiscal tightening measures undertaken by the Government and supported by the decline in oil prices from mid-2014 through 2016, the current account deficit has been declining over the past five years. In 2017, the current account deficit decreased to 3.6 percent of GDP; however, this decrease was reversed in 2018, with the deficit estimated to have grown to 4.3 percent of GDP. In particular, despite the healthy turnaround of exports stemming from strong double-digit growth rates of automotive and phosphates exports in the first three quarters of 2018, the trade deficit widened, reflecting higher prices of imported energy. The cost of energy imports in 2018 is estimated at US$1.5 billion higher than in the previous year, or around a third of the estimated current account deficit. Tourism receipts increased by 1.3 percent while remittances declined by 1.6 percent between January and November 2018, while net FDI flows increased by 36.7 percent during the same period.

Monetary, Exchange Rate, and Financial Sector Policy

30. **In the run-up to the anticipated move to a flexible exchange rate regime, Morocco's monetary policy has been accommodative but prudent.** With low inflation and sluggish credit growth, Bank Al-Maghrib (BAM) cut its key policy rate three times between 2014 and 2016, reaching 2.25 percent, the lowest rate on record. The policy rate has not changed since then. BAM's monetary policy has remained broadly neutral.

31. **In May and June 2017, ahead of the expected exchange rate reform announcement, the currency came under pressure from banks and importers before recovering most of its losses by the end of the year.** International reserves took a hit, as did portfolio and other private capital inflows. Fortunately, this decline in reserves was compensated by the increase in net foreign reserves of commercial banks. The situation stabilized in early July 2017 when foreign exchange controls began to be more tightly enforced and the Head of the Government announced that the exchange rate fluctuation band would initially be ±2.5 percent (from ±0.3 percent). By end-2017, gross official reserves had rebounded to a comfortable level at US$26.2 billion, or 5.7 months of imports.

32. **The recent widening of the exchange rate band has improved the economy's shock absorption capacity; further exchange rate liberalization is warranted.** In mid-January 2018, Moroccan authorities adopted the reform toward a more flexible exchange regime, allowing the currency to fluctuate within a wider band of ±2.5 percent, compared with the previous band of 0.3 percent. The exchange rate has remained close to the middle of the band, reflecting its alignment with macro fundamentals. While this reform could increase vulnerability to hikes in prices of imported goods, it will enhance competitiveness and improve the economy's previously inadequate shock absorption capacity, particularly given current constraints on fiscal space and the rising risks of an external shock in an increasingly uncertain global economy. BAM may consider a further widening of the exchange rate band in the future to further enhance the extent to which the exchange rate can absorb external shocks before the Central Bank needs to tap into foreign reserves. A wider band is also consistent with BAM's planned move to an inflation-targeting regime.

33. **As with the fiscal situation, external buffers have been depleted and need to be rebuilt ahead of further exchange rate liberalization.** Foreign reserves have been decreasing over the past three years**.** Reserves declined from 6.2 months of imports at end-2016 to an estimated 5.4 months by end-2018. The decline over the past year was driven by rising global oil prices and in turn the growing current account deficit. Concerted efforts will be needed to ensure the buildup of foreign reserves ahead of further exchange rate liberalization**.** A smooth process of exchange rate liberalization requires the reversal of the declining trend of foreign reserves experienced over the past three years to build up a bigger buffer. BAM will need to reinforce the reserves to deter currency speculation and to defend the currency effectively, if it comes under pressure as it did in mid-2017 ahead of the planned widening of the currency band.

34. **Morocco's financial sector remains sound overall but with rising nonperforming loans (NPLs) and credit concentration.** Capital adequacy ratios of banks declined slightly to 13.3 percent at end-June 2018 and may need to be strengthened. Notwithstanding low lending activity, bank profitability has been stable. However, average NPLs rose by 2.3 percent in 2017 (year-on-year) to reach 7.5 percent of total loans and increased slightly to 7.7 percent by September 2018. The NPLs are closely monitored and well provisioned (70 percent). Authorities are enhancing regulatory limits to reduce credit concentration and collaborating with cross-border supervisory bodies to rein in risks of banks' expansion into Africa. Furthermore, Morocco is still confronted with the risk of large and concentrated bank exposures to large corporate firms.

Table 1. Morocco: Selected Macroeconomic Indicators 2016–2022
(share of GDP, unless otherwise noted)

			Est.	Proj.	Proj.	Proj.	Proj.
	2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Real Economy							
Real GDP	1.1	4.1	3.2	2.9	3.5	3.6	3.9
Agricultural GDP	-13.7	15.4	3.2	-0.5	3.6	3.7	4.3
Non-Agricultural GDP	3.1	2.8	3.1	3.4	3.4	3.4	3.4
Industry	1.0	3.1	3.1	3.2	3.2	3.2	3.3
Services	2.9	2.7	3.1	3.7	3.6	3.6	3.8
Private Consumption	3.7	3.5	3.4	3.5	3.5	3.7	4.2
Government Consumption	1.5	1.5	1.8	1.6	1.4	1.3	1.2
Gross Fixed Capital Investment	8.7	-0.8	4.9	3.4	3.6	3.4	3.8
Exports, Goods and Services	5.5	10.9	6.2	7.3	7.5	8.1	9.2
Imports, Goods and Services	14.7	7.4	6.8	6.1	6.6	7.6	8.1
Unemployment rate (ILO definition)	9.9	10.2	…	…	…	…	…
CPI (pa)	1.6	0.7	1.7	1.7	1.7	2.0	2.0
Fiscal accounts							
Expenditures	30.5	29.7	29.8	29.7	29.3	29.3	29.3
Revenues, including all grants	26.0	26.1	26.2	26.0	26.1	26.3	26.3
Budget Balance	**-4.5**	**-3.6**	**-3.6**	**-3.7**	**-3.2**	**-3.0**	**-3.0**
Central Government Debt	64.9	65.1	64.9	65.3	64.5	63.3	62.2
Selected Monetary accounts							
Broad Money	4.7	5.5	…	…	…	…	…
Credit to non-government	4.4	2.8	…	…	…	…	…
Interest (key policy interest rate)	2.3	2.3	…	…	…	…	…
Balance of payments							
Current Account balance	**-4.2**	**-3.6**	**-4.3**	**-4.0**	**-4.0**	**-3.8**	**-3.6**
Imports	43.7	45.2	47.3	48.6	49.2	49.1	49.7
Exports	33.1	35.0	36.4	37.5	37.9	38.8	39.2
Foreign Direct Investment	1.5	1.5	2.5	1.7	1.8	2.1	2.1
Gross official reserves (bln US$, eop)	25.1	26.2	25.9	26.5	27.3	27.5	27.7
In months of imports	6.2	5.7	5.4	5.6	5.9	6.1	6.4
Exchange rate (average)	**9.8**	**9.7**	**…**	**…**	**…**	**…**	**…**
Memo items							
Nominal GDP (in billion dirhams)	1013.6	1063.3	1113.8	1169.0	1237.8	1311.8	1394.3
GDP per capita (in current USD)	3030.0	3161.0	3281.0	3451.0	3649.0	3872.0	4124.0

Source: Moroccan authorities and World Bank staff estimates.

Note: CPI = Consumer Price Index; ILO = International Labor Organization

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

35. **Over the medium term, growth is expected to improve, enabled by sound fiscal and monetary policies, more consistent sectoral strategies, and improved investment environment, all of which would support gradual competitiveness gains.** While growth is expected to drop to 2.9 percent in 2019 due to a projected contraction of agricultural output by 0.5 percent, growth will stabilize around an average of 4 percent over 2020–2024 mainly driven by more dynamic secondary and tertiary activities and bolstered by substantial foreign investments into automotive and aeronautic industries as well as expanding services to businesses and households. Inflation is projected to remain around 2 percent over the medium term, with limited risk of inflation pass-through associated with exchange rate liberalization plans, particularly given the strong credibility of the Central Bank and the expectation that the reform will take place gradually following the rebuilding of strong buffers. This medium-term outlook assumes sustained reforms including those to improve the business environment, boost productivity, and bolster tax revenues.

36. **The fiscal deficit will decline to 3 percent of GDP, resulting in a downward path for public debt toward the end of the forecast period.** The overall fiscal deficit is expected to decline from an estimated 3.6 percent of GDP in 2018 to an average of 3 percent of GDP over 2020–2024. This baseline assumes that the authorities will maintain their current path of fiscal consolidation and will improve the efficiency of public investment, despite potentially mounting spending pressures due to social movements and rising global oil prices. Reaching a peak in 2019 at 65.3 percent of GDP, public debt levels are projected to decline to 60.9 percent by 2023, reaching the government's medium-term target, following a continued fiscal consolidation and improved growth performance.

37. **The current account balance is expected to improve, dropping and staying below 4 percent of GDP as of 2019 due to the growth of exports, tourism receipts, and remittances, which will offset increasing energy import costs.** As global oil prices are projected to rise by a mere US$2 per barrel in 2019 (to US$74 per barrel), adverse effects on the current account will be limited. Conversely, external factors, particularly the stronger recovery in Europe, and domestic factors including robust export growth of high value-added industries, will have a positive impact the current account. As interest rates are rising globally, BAM will likely have to increase its policy rate over the medium term to ensure consistency with the currency band.

38. **External financing requirements are a moderate concern and will benefit from policy-based financing.** External debt is relatively low, and Morocco's ratings on international markets are investment grade, which serves to insulate the country from spillovers of emerging market turmoil. However, external public financing requirements are slightly above the lower early warning benchmark of 5 percent of GDP.

Table 2. Morocco: Key Fiscal indicators 2016–2020 (percentage of GDP)

	2016	2017	2018 Est.	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.
Overall balance	**-4.5**	**-3.6**	**-3.6**	**-3.7**	**-3.2**	**-3.0**	**-3.0**
Primary balance	-1.8	-1.1	-1.2	-1.4	-0.9	-0.7	-0.6
Total revenue	**26.0**	**26.1**	**26.2**	**26.0**	**26.1**	**26.3**	**26.3**
Tax Revenues	21.4	21.8	21.8	22.3	22.6	22.8	22.8
Social Contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.9	1.1	0.6	0.3	0.1	0.1	0.1
Others revenues	3.7	3.3	3.8	3.4	3.4	3.4	3.4
Total expenditures	**30.5**	**29.7**	**29.8**	**29.7**	**29.3**	**29.3**	**29.3**
Compemsation of employees	12.0	11.5	11.3	11.3	10.8	10.6	10.6
Use of Goods and services and grants	7.2	7.1	7.5	7.6	7.8	7.8	7.9
Subsidies	1.4	1.4	1.5	1.6	1.7	1.7	1.5
Interest payments	2.7	2.5	2.4	2.3	2.3	2.4	2.4
Other expenses (incl. capital expenditures)	7.2	7.2	7.1	6.9	6.6	6.9	6.9
Central Government Debt Stock	**64.9**	**65.1**	**64.9**	**65.3**	**64.5**	**63.3**	**62.2**
External (net)	14.1	14.4	13.4	16.3	18.2	19.7	21.1
Domestic (net)	50.8	50.7	51.4	49.0	46.3	43.7	41.1

Source: Moroccan authorities and World Bank staff estimates.

Table 3. External Financing Needs 2018–2022 (US$ million)

	Est. 2018	Proj. 2019	Proj. 2020	Proj. 2021	Proj. 2022
Total Requirements	**8611**	**9226**	**11530**	**9094**	**11386**
Current account deficit	4824	4701	5054	5138	5342
External long-term debt amortization	3786	4525	6476	3956	6044
Total Sources	**8611**	**9226**	**11530**	**9094**	**11386**
FDI	1707	2361	2511	2868	3126
Portfolio investments	355	647	680	714	747
Long term disbursements	2475	4433	6034	3037	5058
Other short-term capital inflows	3188	867	1338	1470	1406
IMF credit Line	0	0	0	0	0
Change in reserves	885	918	967	1005	1049

Source: Moroccan authorities and World Bank staff estimates.

Debt Sustainability Analysis

39. **The central government debt-to-GDP ratio has been on an upward path since 2008, but debt accumulation has decelerated in recent years.** Central government debt (as covered in debt statistics) grew from 45.4 percent of GDP in 2008 to over 65 percent in 2017 but remains below the debt burden benchmark for emerging markets (70 percent of GDP). It is important to note that these figures exclude debt held by public entities and SOEs, which is currently not included in government debt statistics. Earlier this decade, public debt accumulation was driven by high oil prices and the smoothing of adverse impact of the economic crisis in Europe, Morocco's key trading partner. Since 2014, growth in the central government debt-to-GDP ratio decelerated significantly, with the ratio growing by 1.7 percentage points between 2014 and 2017, compared to 16.3 percentage points between 2008 and 2013. This slowdown in the central government debt accumulation was mainly driven by fiscal consolidation efforts (primary deficit reduction from 4.4 percent of GDP in 2012 to 1 percent in 2017), amid a difficult context of Moroccan dirham depreciation—except in 2017—and slower real growth (averaging 3.1 percent over 2014–2017 compared to 4.5 percent over 2008–2013). Gross financing needs (GFNs) decreased from 16.3 percent of GDP in 2014 to 13 percent in 2017 and are expected to follow a stable path around 12 percent throughout most of the projection period. In 2018, the debt-to-GDP ratio is expected to reach 64.9 percent, compared to a ratio of 65.1 percent in 2017. Vulnerabilities associated with the composition of debt are moderate, with short-term debt and foreign currency denominated debt representing less than 4 percent and 22 percent of total debt, respectively. Interest rates on debt are mainly fixed, thereby mitigating interest rate risk.

40. **The World Bank's latest Debt Sustainability Analysis, which was completed in December 2018, shows that Morocco's central government debt is sustainable over the medium term; however, a moderate risk is emerging from GFNs (Annex 5).** Under the baseline scenario of modest economic growth in 2019 followed by an acceleration starting in 2020 and a deliberate fiscal consolidation over the medium term, central government debt is projected to peak in 2019 at 65.3 percent of GDP before declining in the medium term to record 60.9 percent of GDP by 2023, a ratio that approaches the Government's medium-term target of 60 percent. Foreign currency denominated debt will increase over the forecast period, remaining at a reasonable level of 18.7 percent of GDP in 2023. Short-term debt would remain below 2.5 percent of GDP in the medium term. In most shock scenarios, the central government debt would remain below the debt burden benchmark for emerging markets (70 percent of GDP). In the case of a combined macro-fiscal shock central government debt could breach the benchmark. GFNs pose a moderate risk as they are projected to breach the emerging market benchmark of 15 percent of GDP, although only as a marginal breach in 2020 under shock scenarios. Going forward, the domestic debt issuance strategy needs to lengthen its maturity structure, in order to prevent sudden increases in GFNs arising from debt charges.

Risks to the Macroeconomic Outlook

41. **The outlook is subject to significant risks which can be mitigated by larger buffers.** External risks include: (a) geopolitical risks in the region which could further raise international oil prices[9] and have a negative effect on tourism and investor confidence; (b) weaker than expected growth in the euro area which could affect economic growth and in turn fiscal and external balances as exports, tourism receipts,

[9] A US$1 increase in the price of oil is estimated to increase the projected current account deficit for 2019 by 0.12 percentage points.

or remittances decline; (c) rising global interest rates which would require BAM to increase policy rates, potentially dampening private sector growth; and (d) the uncertain global trade and capital flow policy environment which may create more volatility in financial markets, increase borrowing costs, and weaken investor confidence. On the domestic side, the main risks are around: (a) the reversal of previous fiscal reforms, particularly around energy subsidies (in light of higher oil prices); (b) delays in implementing key structural and financial sector reforms, which could adversely affect fiscal space and in turn heighten social tensions; and (c) pressure on the currency should foreign reserve buffers prove lower than what is required to deter speculation during the process of exchange rate liberalization. Conversely, a decline in international oil and butane gas prices, as observed in recent weeks, could support an attenuation of macroeconomic imbalances. Realization of these risks could adversely affect the government's willingness to undertake reforms with difficult social impacts or costs to vested interests, and the private sector supply response to these reforms. Mitigation of these risks ultimately derives from the government's commitment to increased social cohesion and recognition that reversal of reforms would compound the challenge of job creation and private sector development. Faced with macroeconomic and socio-economic shocks in the wake of the Arab Spring, the Government clearly showed its capacity to make policy adjustments, and buffers are available to absorb new shocks in the form of exchange rate flexibility, bond market access, official support from development partners on concessional terms, and ongoing efforts to further build up foreign reserves.

42. **Fiscal consolidation could be supported by complementary reforms.** To further improve fiscal balances, the authorities could pursue tax reforms, implement a holistic plan to broaden the tax base, reduce exemptions, augment value added tax revenues, and enhance corporate taxation. Long-term wage bill savings could be generated while simultaneously strengthening government efficiency if the authorities were to embark on civil service reform. Fiscal decentralization could support more effective public financial management (PFM) at the regional level and preserve fiscal sustainability. Strengthened oversight and a more robust debt management approach for SOEs would limit the risks of contingent liabilities.

Overall Assessment of Macroeconomic Policy Stance

43. **Overall, the country's macroeconomic policy framework is adequate for the proposed operation.** The macroeconomic fundamentals are sound. The authorities have made significant progress over the past few years to reduce fiscal and external imbalances and vulnerabilities. They have taken a big step forward in enhancing the economy's ability to absorb shocks and maintain competitiveness by increasing exchange rate flexibility; they are also committed to further exchange rate liberalization. Institutional frameworks have advanced as well, particularly with the implementation of the Organic Budget Law and the ongoing efforts to strengthen debt management of SOEs and oversight of the financial sector. With further business environment reforms and sectoral reforms (education, labor, governance), economic growth is expected to steadily accelerate—despite annual volatility—and inflation will remain under 2 percent. These reforms would increase the contribution of productivity growth to economic growth, which is necessary to ensure the sustainability of Morocco's development path and to support greater inclusion. This will be imperative to address the population's desires for improved job creation, economic inclusion, and enhanced standards of living, and thereby to strengthen social cohesion. Government plans for fiscal consolidation will result in shrinking fiscal deficits over the medium term and will support continued sustainability of public debt.

2.3. IMF RELATIONS

44. **In December 2018, the IMF Executive Board approved a new two-year Precautionary and Liquidity Line (PLL) arrangement for Morocco for about US$2.97 billion, following expiry of the last two-year PLL in July 2018.** Since 2012, Morocco has had three successive two-year PLL arrangements with the IMF (with amounts at time of approval of US$6.2 billion (2012), US$5 billion (2014), and US$3.5 billion (2016)). These PLL arrangements provided insurance against external shocks as the authorities pursued their reform agenda aimed at further strengthening the economy's resilience and fostering higher and more inclusive economic growth. The authorities did not draw on any of the three PLL arrangements. A new two-year PLL agreement for Morocco is based on IMF staff's assessment that the country's macroeconomic fundamentals are adequate and its public and external debt is sustainable. This new arrangement aims to enhance macroeconomic resilience in an adverse international environment and to help Morocco develop a new growth model that is more private sector-led, broad-based and inclusive, including through strengthened public governance and reduced corruption and inequalities.

3. GOVERNMENT PROGRAM

45. **Morocco's five-year Government Program (2017–2021) outlines a new vision for economic growth and social inclusion in the Kingdom and is reinforced by sector-level strategies on digital development and financial inclusion.** Building on successful elements of its previous reform agenda, the Government Program aims to renew Morocco's development model and create the enabling conditions to become an emerging economy. It sets out the vision to move toward a private sector-led growth model, moving away from low economy-wide productivity, low formal labor force participation, and high informality (currently 33.63 percent of GDP) despite high public investment rates. The program emphasizes upgrading large export industries and supporting start-up companies and SMEs. It also intends to reduce rural-urban disparities through emphasizing rural development and enhancing service delivery. The program places emphasis on Morocco becoming a regional hub for financial services, including through continued expansion of Morocco banks/financial institutions to Sub-Saharan Africa. The forthcoming World Bank Group's CPF builds on the Government Program to promote job creation and private sector growth, transform human capital, and promote inclusive and resilient territorial development.

46. **The GOM has launched the preparation of its national strategy to drive digital transformation, *Plan Maroc Numérique.*** The strategy aims to: (a) digitalize government services (for example, government payments to citizens and public procurement); (b) promote the use of digital services to increase efficiency and the creation of new business models in priority sectors (health, trade, and financial services); and (c) position Morocco as a digital hub for West Africa and outsourcing market for Europe. The World Bank has supported this agenda through ongoing analytical engagements on infrastructure, including a broadband assessment. In tandem with the proposed DPF, an upcoming TA engagement will support the authorities in implementing the reform agenda outlined in the *Plan Maroc Numérique.*

47. **As evidenced by Morocco's national strategy, financial inclusion[10] has emerged as a significant policy priority to promote social and economic inclusion and job creation opportunities for households**

[10] According to the World Bank and Alliance for Financial Inclusion (AFI) Definitions: Access and usage of quality financial services, including credit, savings, insurance, and transfer services.

and MSMEs. BAM and the Ministry of Economy and Finance (MEF) have finalized an NFIS with the objective of leading and coordinating financial inclusion activities across the Kingdom. The strategy centers on eight strategic levers: rolling out of mobile payments, microfinance, inclusive insurance, faciliation of innovative financing tools, digitization of government to person payments, bank downscaling[11] to accelerate financial inclusion of the MSME market, financial education, and overall governance of financial inclusion initatives across the Kingdom. The strategy has been validated by the Minister of Economy and Finance and the Governor of the Central Bank and is the result of significant diagnostic work, including a 5,000 sample size Findex update (five times larger than standard data collection efforts globally), and a participatory approach. Within this framework, BAM is developing better tailored banking and payment services, including user-friendly e-banking solutions at affordable rates, to respond to the country's diverse financial needs. BAM has also prioritized gender through launching diagnostics on payment behaviors and specific work streams examining the financial inclusion of women and women-led businesses.

48. **The World Bank Group has actively supported the authorities' comprehensive financial inclusion agenda through ongoing dialogue and operational engagements.** This has included: (a) a previous series of DPFs supporting financials sector reforms; (b) analytical work (2016 FSAP, 2018 Findex update); (c) TA on the NFIS (Deauville Partnership Transition Fund); (d) support in improving the Kingdom's credit information systems and credit insolvency regime; and (e) a joint World Bank-IFC MSME TA Facility focused primarily on microfinance, bank SME finance, and housing finance. An IFC-led Banking on Women (BoW) program is under development and will support both the authorities and financial institutions at improving gender access to finance outcomes.

49. **The World Bank Group has also supported efforts to diversify away from bank financing toward long-term financing.** A sustained advisory engagement since 2014 financed by the Financial Sector Reform and Strengthening Initiative (FIRST) has focused on: (a) developing new capital market instruments (e.g. Sukuk [Islamic bonds], real estate investment trusts); (b) attracting foreign investment to local government debt markets; and (c) strengthening the independence and efficiency of key capital market regulators.[12] Morocco is one of seven countries selected for the IFC-World Bank Group Joint Capital Markets Program (J-CAP), a three-year advisory engagement focused on transformational reforms in capital markets. The program will be launched in February 2019 and supports Morocco's ambition to become a capital market hub for the African region.

50. **The Morocco authorities are increasingly focused on digital pathways to promote financial inclusion.** They have recently finalized a multi-year project to develop a national mobile payment solution and adapt regulatory framework for payment fintech firms (e.g. draft law on Crowdfunding). Scaling up financing and non-financing solutions for early stage equity finance is a key policy priority, currently supported by the US$50 million World Bank-funded Financing Innovative Start-ups and Small and Medium Enterprises Investment Project Financing (IPF) capitalizing InnovInvest, a fund focused on angel/seed and early stage. Authorities have also focused on digital financial education for youth and vulnerable

[11] Bank downscaling is the process through which banks target clients at the bottom of the pyramid through modifying products and outreach strategies.

[12] Financial Sector Reform and Strengthening Initiative, FIRST, is a multi-donor grant facility that provides short- to medium-term TA to promote sounder, more efficient, and inclusive financial systems. Since its inception in 2002, FIRST has funded over 600 projects in about 120 countries, with commitments of over US$135 million.

unemployment segments, working through a variety of microfinance institutions (MFIs) and state institutions, including the Centre Mohammed VI for microfinance sector development.

4. PROPOSED OPERATION

51. **The proposed operation supports Morocco's vision for private sector-led economic growth model driven by productive and digitally enabled firms.** It meets the economic and social priorities outlined in the Government's 2017–2021 strategy which will allow the Kingdom to improve inclusion and growth through a vibrant private sector. The proposed DPF responds directly to reforms needed to meet targets outlined in the NFIS, specifically surrounding alternative finance mechanisms for MSMEs, digital platforms, and digital entrepreneurship. Understanding that a comprehensive reform program is required for digital transformation in the Kingdom, the operation supports critical infrastructure enablers with regard to broadband access and development of an appropriate regulatory framework for the telecommunications sector as outlined in the *Plan Maroc Numérique*. While it is a standalone operation, the financing mechanism is supported by a multiyear TA and convening engagements anchored in the financial, telecommunications, and entrepreneurship sectors.

52. **The DPF-supported reform program promotes full financial inclusion in Morocco,** meaning individuals and businesses have access to useful and affordable financial products and services that meet their needs—transactions, payments, savings, credit, and insurance—delivered in a responsible and sustainable manner. This is achieved through reforms supporting Morocco's national digital payment platforms in addition to its focus on improving the resilience of vulnerable households through expanded health insurance coverage to professionals, self-employed individuals, and non-salary individuals. The program supports instruments for further diversification of the financial sector through furthering Morocco's demand for Islamic finance (participative finance) by introducing Sukuk (Islamic bonds), as well as Takaful (Islamic insurance). The program supports the growth and sustainability of microfinance through legislative modernization which increases maximum loan size in the sector. Recognizing the need to provide growth finance to skilled entrepreneurs capable of creating internationally competitive jobs, the program emphasizes early stage equity financing solutions and an avenue for electronic creation and registration of enterprises.

53. **Financial and telecommunications sector reforms outlined in the program will support authorities in achieving headline financial inclusion targets as outlined in the NFIS.** Morocco's NFIS calls for an increase in the number of adults with access to a bank account from 29 percent in 2018 to 50 percent in 2023 and 75 percent in 2030, with a key focus on improving access points (13,600 in 2018 to 43,300 in 2023), digital platforms (notably through successful rollout of digital payment platforms), financial resilience (through savings and insurance mechanisms), and SME finance through alternative financing and delivery channels. This includes reforms to promote competition, expansion of operations, and sustainability of the microfinance sector in addition to regulatory reform needed to improve the Kingdom's credit reporting system (CRS). The NFIS calls for scaled up financial literacy policy and programs, overseen by the National Foundation for Financial Literacy housed at BAM and presided by the Governor.[13] Each prior action is supported by multiyear TA, ensuring reforms are promptly followed up by

[13] The World Bank Group has supported the National Foundation for Financial Literacy through the microfinance grant financed by MENA Transition Fund (Deauville), notably on program development (electronic financial education modules) and convening event (for example, the 2016 Regional Financial Education Conference).

operationalization, thus significantly increasing the opportunity for results as measured by core digital economy indicators.

54. **Digital infrastructure is an essential enabler of economic growth and a key driver of the digital economy in Morocco.** The Government has developed regulatory tools to ensure as many Moroccans as possible have access to broadband Internet by 2022. These guidelines are presented in the National Broadband Plan prepared by the ANRT in 2012, in the Prime Minister's General Guidelines Note for the 2015–2018 period, as well as in the *Plan Maroc Numérique* (Digital Morocco Plan, currently under revision) by the Ministry of Industry, Commerce, Investment, and the Digital Economy (MIICEN). The ministry's vision is that the digital economy cannot be developed without efficient digital infrastructure. To achieve this, emphasis is placed on promoting "new investments in fixed and mobile broadband and high-speed broadband infrastructure, the completion of the liberalization process in the telecommunication sector, in compliance with the agreements concluded in Morocco in this matter and establishing an updated spectrum management framework." The program supports a new and improved regulatory framework for the telecommunications sector, through the submission to Parliament of amendments to Law 24/96, which will encourage entry in the sector, create an active market for fiber optics owned by network utilities such as the ONEE and the ONCF, and strengthen the ability of the regulator to monitor and sanction anti-competitive behavior.

55. **The program supports a specific Fiber Regulatory Package (FRP) that will facilitate the deployment of fiber optics networks at access level.** This FRP will have the following three components: (a) a new directive from the Ministry of Interior establishes uniform fees to access public domain at municipal level, alleviating one of the most relevant constraints to the deployment of fiber at local level; (b) the rules and regulations for telecom operators to access new residential and commercial real estate developments will be streamlined to facilitate the deployment of fiber networks at local level, in as many as 250,000 new dwellings every year; and (c) the regulatory approval of the fiber and civil infrastructure offer of Maroc Telecom ('*Offre génie civil*'), allowing competitors to access ducts, cabinets, and dark fiber infrastructure of the incumbent operator. In addition, this strategy defines an ambitious plan for developing data centers/cloud infrastructure to support its digitization strategy. It includes also actions to develop an e-government cloud to support the digitization of government processes and its interactions with citizens and businesses.

56. **Digital entrepreneurship is expected to play a key role in the emergence of competitive digital industries in Morocco.** The *Plan Maroc Numérique* highlights three priorities around upgrading digital enterprises, promoting the growth of new digital jobs and stimulating local digital industries. All three priorities will require a vibrant ecosystem of digital entrepreneurship with high rates of firm entry, growth and exit. The Government's 2017-2021 strategy includes measures to improve the business environment, to improve the country's competitiveness, and to provide incentives and support to start-ups and SMEs. The 2017-2021 strategy also seeks to diversify and modernize enterprise financing mechanisms. The proposed operation supports measures that will stimulate digital entrepreneurship by facilitating firm entry through a streamlined business registration process, and by stimulating the growth of digital firms through the catalysis of a new asset class for early-stage financing.

4.1. PRIOR ACTIONS, RESULTS, AND ANALYTICAL UNDERPINNINGS

57. The overarching development objective of the proposed DPF is to foster financial inclusion and contribute to digital transformation for individuals, enterprises, and entrepreneurs.

58. **The proposed DPF supports a competitive, open, and inclusive digital ecosystem in Morocco that is capable of promoting inclusive growth and a forward-looking economic structure, in line with Morocco's 2017–2021 strategy.** The policy and results matrix (Annex 1) includes 10 prior actions. The DPF-supported program, through three pillars cutting across financial inclusion for individuals and MSMEs, digital platforms and infrastructure, and digital entrepreneurship, addresses key bottlenecks preventing the digital economy from proliferating in Morocco. Each prior action supports relevant national-level and sector strategies (2017–2021 strategy, NFIS, *Plan Maroc Numérique)* and is linked to a broader World Bank Group engagement.

59. **Reforms reinforce each other and support several transformational infrastructure enablers.** The proposed DPF supports reforms aimed at better regulating incumbent players and promoting entry of new actors in the fiber access market (PA#7) and expanding this infrastructure to rural areas (PA#8). These enablers support the successful deployment of digital financial inclusion solutions across Morocco. The program places an emphasis on digital payment services, most notably through supporting Morocco's national mobile payment solution (PA#6) and promoting its uptake through related fiscal incentives as outlined in the 2019 Budget Law. Digital payments promote entrepreneurship by making cheaper and more accountable financial transactions with customers, suppliers, and the Government.[14] The program improves the enabling environment for access to finance for female entrepreneurs (PA#3) by introducing a new reporting requirement on outreach to women for financial institutions across the Kingdom.

60. **The program applied foundational enablers to increase financial inclusion and connectivity outcomes in the Kingdom.** The reform program supports the uptake of digital platforms by young and innovative start-up companies. It supports the electronic registration of new firms (PA#9) and the development of alternative financing mechanisms for MSMEs, digital entrepreneurs, and start-up companies (PA#10). Digital platforms are applied and scaled up by these young start-ups with the objective of creating quality jobs in cross-sectoral teams that use digital technology to connect consumers to markets and provide services using innovative business models. Realizing that firms require a continuum of financing support, both short and long-term in nature, the program supports financial sector diversification and deepening through new products spanning microfinance (PA#1) and Islamic finance (PA#5), agricultural finance (PA#2), and promoting financial resilience through health insurance coverage for independent professionals, self-employed individuals and non-salaried individuals (PA#4).

Pillar 1: Enhancing Financial Inclusion for Individuals and MSMEs

61. **This pillar promotes the diversification of financing sources for MSMEs in congruence with the Government's 2017–2021 strategy, which places a distinct focus on job creation through the growth of small firms.** The share of SMEs with a loan or line of credit has doubled since 2007 from 24.1 percent to

[14] For an in-depth analysis, see: Klapper, L., and D. Singer. 2017. *How Digital Payments Can Benefit Entrepreneurs.* IZA World of Labour.

49.5 percent in 2013 (World Bank Enterprise Survey, 2013), placing Morocco above regional and income group peers. However, only a third of small and medium firms' investments are financed by banks and 91 percent of these loans require onerous collateral. The MSMEs also suffer from long client payment delays, which increases their needs in working capital financing and threatens bankruptcy in extreme cases.[15]

62. **Financial sector deepening through capital market development is promoted through extending the regulatory and institutional framework for participative, or Islamic, finance.** The 2015 Central Bank Law (103-12) has allowed creation of Islamic banks as well as five types of transactions: Murabaha, Musharaka (joint venture), Ijara (leasing), Mudaraba (profit sharing), and Al Salam (short-term bonds). Similarly, Law No 59.13 (2016) amending the insurance code has allowed the creation of Takaful companies (Islamic insurance). The World Bank has supported the development of a legal and regulatory framework for Sukuk, which resulted in the first sovereign issuance in October 2018. Besides supporting government financing, sovereign Sukuk issuance is now an investment option for Islamic financial institutions and provides a benchmark to local companies to issue corporate Sukuk. Authorities, led by Morocco's capital markets authority (*Autorité Marocaine du Marché des Capitaux*, AMMC) and the MEF, are working together to finalize regulations and implementation protocols of Islamic finance issuance in Morocco. This includes technical certification for Sukuk securities for the following transactions: Murabaha, Musharaka, Ijara, Mudaraba, and Al Salam. These actions support Morocco's medium-term ambition of becoming a regional hub for Islamic finance and provide financing options for citizens who are financially excluded due to preferences related to Sharia compliance.

PA#1: To allow microfinance institutions to expand their portfolio and respond to credit demand of MSME, the Council of Government has approved and submitted to Parliament on November 13, 2018, Draft Law No. 85-18 amending Law No. 18-97 on Microcredit authorizing an increase in the maximum lending size from MAD 50,000 to MAD 150,000.

63. **Rationale.** Microfinance has become a more viable source of financing for microenterprises, small firms, and low-income populations in Morocco and experienced steady growth since 2013. The sector currently serves 925,000 clients, with an outstanding loan portfolio of MAD 6.6 billion. The sector is supervised effectively by BAM and is stable, with a portfolio-at-risk share of 3 percent sector-wide. The microfinance sector is concentrated primarily among three large MFIs, with microcredit offered as the primary product for productive purposes.

64. Recent analytical exercises completed by the MEF, BAM, and the 2015 FSAP suggest that microfinance is performing well below potential, currently meeting only 8 percent of vulnerable populations (including microenterprises, unemployed, and out-of-work women). Similarly, MFIs are limited in expanding operational and business models due to the current cap in loan size. The updated legal framework will allow MFIs to acquire new clients through small enterprise lending and in doing so instill dynamism in the market thereby promoting growth objectives. The reform creates a new business line for MFIs and helps address gaps in small enterprise finance. The updated regulatory framework will allow MFIs to strengthen and diversify their funding sources (access to investment funds on better terms). The new law promotes continued financial stability in the sector because corporate governance standards will be improved through the updated institutional structure called for by the legislation.

[15] According to BAM 2016 survey on payment delays.

65. This prior action is supported by a parallel market development mechanism and long-term regulatory reform. Morocco's National Credit Guarantee Agency, *the Caisse Centrale de Garantie*, and the MEF will sign a Memorandum (Convention) to extend the guarantee products under the CCG to MFIs. By allowing MFIs to participate in CCG guarantee programs, policymakers have strengthened financing options and mitigated credit risk for MFIs to serve this new segment. In parallel, BAM and MEF are continuing to advance on long-term reform of the microfinance sector. They have established a working group on legislation paving the way for the creation of a microfinance bank status, in line with international best practice standards. This legislation is expected to begin executive review in 2019.

66. **Substance of the prior action.** Morocco is implementing reforms to expand its microfinance sector. The first measure of this reform agenda is the adoption by the *Conseil de Gouvernement* (CG) and the transmission to Parliament of an amendment to the existing microcredit law to increase the maximum lending amount by MFIs from MAD 50,000 to MAD 150,000. The updated regulatory framework will allow MFIs to strengthen and diversify their customer base, provide additional funding to the private sector and promote innovation through product and market diversification.

67. **Expected results.** The expected result is an increase in the gross loan portfolio in the sector. Female beneficiaries will be tracked through the results indicator for this prior action. The policy reform will also result in an improvement of the institutional capacity of MFIs for longer-term transformation and in an overall improvement in access to finance for households and micro firms. The Moroccan microfinance sector is in a better position to attain growth targets called for in its strategy in addition to diversifying its product offer, thereby safeguarding the sector's future position of financial service provider for the underbanked.

68. **World Bank Group engagement and sustainability.** The World Bank Group actively supports this prior action through the ongoing Morocco Microfinance Project funded under the MENA Transition Fund and implemented by the MEF. The above project supports further regulatory modernization by the MEF and BAM, including a draft microfinance law that will allow transforming the status of microfinance banks, to be submitted for Government approval in 2019. This will strengthen the institutional structure and corporate governance standards in the sector and allow for transformation of the status of microfinance companies, in line with international best practice. Overall these measures coupled with market development mechanisms will place the sector in a better position to fulfill its mandate of accelerating the development of alternative financing models.

PA#2: To increase access to finance for small farmers, the Ministry of Economy and Finance and the Credit Agricole du Maroc have raised the ceiling of loans guaranteed to small farmers by the *Fonds de Stabilisation Prudentielle* from MAD 100,000 to MAD 200,000, pursuant to an amendment to the *Convention establishing de Fonds de Stabilisation Prudentielle "FSP"* dated November 2, 2018.

69. **Rationale.** Agricultural production is critical to maintaining growth and inclusion objectives in Morocco. Between 2000 and 2015, agriculture was the main source of employment in Morocco, representing 41 percent of total employment (an estimated 4 million people) and 85 percent of employment in rural areas. Agricultural activity is particularly important for female economic inclusion, given that 57 percent of the female population participates in agricultural work. Access to finance for smallholder farmers, however, remains an ongoing challenge, given the high inherence risk perception of the segment by commercial financial institutions. Morocco is ranked 57/100 in the finance section of the

World Bank's Enabling the Business of Agriculture[16], noting gaps in the enabling environment for microfinance (lack of deposit-taking institutions), secured lending (lack of moveable collateral registry), and underdeveloped nonbank mobile money market as factors inhibiting access to finance for smallholder farmers. This is compounded by risks related to climate variability and market price volatility in addition to lack of land tenure needed to comply with collateral obligations from formal financial service providers.

70. Cognizant of these challenges and in line with the Green Morocco Plan which calls for the modernization of the agricultural sector and development of high-rent agricultural value chains, the MEF, through Credit Agricole du Maroc (CAM), operationalized in 2010 a subsidiary institution, *Tamwil El Fellah* (TEF), which specializes in agricultural lending for smallholder families with no collateral. TEF was granted specialized approval from BAM to modify the risk categorization of lenders in conjunction with the specific agricultural and business cycles of smallholder farmers. This modified risk categorization has allowed TEF to increase its portfolio without damaging the liquidity requirements compared to other commercial financial institutions. Loans are provided for a maximum of US$10,000 per client (US$2,000 for inputs and US$8,000 for investments) for a loan period of between 12 months and 5 years. The TEF model relies on a partial credit guarantee through the Prudential Stabilization Fund (PSF), with government funds securing 60 percent of TEF's portfolio at all times. The banking infrastructure of CAM (850 agencies across Morocco in addition to core IT and payments systems) is leveraged to reach clients. The model uses partnerships with various government programs for the provision of non-financial services, including local non-governmental organizations (NGOs) and public entities, including the agency for agricultural development. As of December 2017, the volume of credit disbursed by TEF stood at US$198.8 million, covering 76,142 smallholder clients, most of which had no formal collateral. Funded activities include agricultural value chain finance, irrigation projects, and projects for financing renewable energy equipment, including solar panels.

71. Recent market assessments[17] suggest that to improve the performance of TEF and respond to the financing needs of more MSMEs in the rural sector the maximum loan amount should be increased from MAD 100,000. This increase in maximum loan volume will better meet the working capital and investment financing needs of smallholder farmers. It also provides an additional tool to improve risk profiling of different client profiles, thereby promoting improved program outreach. It will also support increasing the overall size of TEF's credit portfolio, thereby improving access to finance outcomes for smallholder farmers.

72. **Substance of the prior action.** The MEF and the CAM have signed a convention raising the ceiling of loans guaranteed by the PSF from MAD 100,000 to MAD 200,000. Increasing the ceiling of the PSF guarantees will allow TEF to increase its credit portfolio and serve a larger number of smallholder farmer enterprises that lack adequate access to finance for business expansion and investment. It also provides an additional tool to TEF to conduct more granular risk profiling, promoting a more efficient program with improved outreach potential.

73. **Expected results.** Th expected result is an increase in volume of cumulative TEF loans disbursed, including the number of female beneficiaries. A core recommendation from recent market assessments

[16] . *Enabling the Business of Agriculture.* World Bank Group. Available for public download at: http://eba.worldbank.org/en/reports

[17] Ramirez, J., and E. Hernandez. 2016. *Innovations for Inclusive Agricultural Finance and Risk Mitigation Mechanisms: The Case of Tamwil El Fellah in Morocco.*

is adopted, thereby improving the overall framework for TEF and CAM to fulfill its mandate of promoting employment and growth in the agricultural sector in Morocco.

74. **World Bank Group engagement and sustainability.** Through the MSME TA facility, the World Bank Group has provided TA support to the CCG and MEF on the partial credit guarantee programs, including improving product, risk management, and CCG governance. Advisory support will continue under implementation support of the NFIS, with agricultural finance featuring as a key lever for meeting overall NFIS targets. The Smart Agriculture IPF planned for FY2020 under the forthcoming CPF will help sustain dialogue and provide TA for agriculture finance and leveraging digital and climate-smart technologies to increase the efficiency, and environmental sustainability of agri-food value chains.

75. **This prior action complements the digital finance initiatives developed by the Government and CAM.** CAM has launched an internal strategy through its '*Pôle Banque Digitale*' that will look at the strategy in relation to the adaptation to the digital revolution. Areas for development include electronic payment systems, financial products to be provided through digital platforms such as credit history scoring of clients, financial management support for financial advisers, client sensitization/information on financial products, health and life insurance, and risk of excessive borrowing. Use of crop loan associated with weather-based crop insurance is being considered. In 2017, CAM established the '*relais digitaux*' in remote rural areas, allowing to deliver financial services and advisory services on saving, health, and life insurance using a screen visual connection between the financial adviser and the client.[18] CAM is working on digital solutions, including: (a) an interoperable e-payment system; and (b) the use of big data for crop loan with weather-based insurance schemes.

PA#3: To enhance oversight of gender gaps in financial inclusion of women and female-owned enterprises, have gender data in the credit information system, and support modernization of Morocco's credit information system, BAM has issued Notice No. L/BKAM/2018/9632 dated December 20, 2018, making it mandatory for payment companies to report gender-disaggregated data.

76. **Rationale.** While important progress to expand financial access has been made, significant challenges remain, particularly when it comes to providing access to women, the poor, and Moroccans living in rural areas. According to the latest Findex survey, only 17 percent of women had access to an account in 2017, compared to 41 percent of men in Morocco and 35 percent of women in the MENA region. The NFIS has a target of reducing gender gap in the number of adults with access to financial accounts from 59 percent in 2016 to 41 percent in 2023 and 16 percent in 2030. A monitoring system to help track progress is needed. A key step to address this gap is for policy makers to better collect and monitor gender-disaggregated data among financial service providers in the market. While BAM initiated a process for the banking sector to report on gender-disaggregated data in 2013 and 2017, it does not extend to nonbank financial institutions supervised by the Central Bank (finance companies, payment service providers). The prior action complements the 2013 and 2017 measures as it extends the reporting requirement of gender-disaggregated data to payment companies, including new mobile payment services providers.

[18] Digital Agriculture: Diagnostic and potential in Morocco.

77. This measure improves the quality of data being furnished to the CRS in Morocco and in doing so, supports a key recommendation of the 2016 World Bank FSAP.[19] In addition, access to information is critical as it enables creditors to evaluate risk and price financial products accordingly. Therefore, improving women's access to finance requires the availability of critical financial information on female and female-led enterprises that the financial institutions and government (for example, the government guarantee programs, the stabilization fund for agriculture finance managed by the CAM) need to screen potential female borrowers and target female entrepreneurs for better impact.

78. **Substance of the prior action.** BAM has adopted a Technical Notice, making it mandatory for payment companies to report gender-disaggregated data. The adoption of the policy by BAM will help develop and implement a data collection center on the financing of women and women-owned enterprises to better monitor gender gaps in access and use of the formal financial system. This in turn feeds into the CRS improving data quality and depth of data sources. In line with regulatory norms, gender-disaggregated data is also transmitted back to financial institutions, thereby enhancing their capacity to make credit and product allocation decisions to female individuals and small businesses. The prior action contributes to meeting gender access to finance targets under the NFIS and anchors work on gender in the relevant technical committees of the NFIS.

79. **Expected results.** This prior action will help: (a) enhance data collection to better monitor gender gaps and inform financial sector policy makers to address those gaps; and (b) improve women and women-led companies access to finance in particular through better-targeted Government programs supported under PA#1 and PA#2. The results indicator for this prior action is an increase in the percentage of payment companies reporting gender-disaggregated data to BAM.

80. **World Bank Group engagement and sustainability.** Morocco has made progress in credit reporting in terms of: (a) adults covered, (b) volume of financial activity incorporated in its system, and (c) overall regulatory commitment. Morocco's second private credit bureau was launched on November 14, 2018, in Casablanca. Despite the efforts, there is substantial work to do on the public credit registry (PCR), which is currently underperforming. The Government, with support from the World Bank Group, has prepared a new draft credit bureau law that will help reform the PCR with the goal of bringing it up to European standards. Improved gender reporting could complement this broader PCR reform. This reform is anchored by an IFC-led BoW initiative in Morocco, which supports BAM and relevant financial sector stakeholder on improving access to finance outcomes for women through policy as well as at the market level by working with financial institutions on improving products and outreach strategies targeting women. BoW will support BAM and authorities in enhancing the quality of gender-disaggregated data management. BoW will also work with select financial institutions to comply with the new directive and revamp products and outreach strategies to target female clients and female-led entrepreneurs.

81. This reform is supported operationally through a credit guarantee product offered by the CCG ('Illayki'), which focuses on guarantees for short and medium-term bank loans and leases (up to MAD 100,000) for companies whose capital is majority owned by one or more women. The World Bank Group supports the CCG with ongoing TA to improve internal operations (governance, product offerings, risk management, and sustainability). Ongoing reforms in the program spanning the diversification of

[19] See: Abdel Aziz, T., et al. *Morocco: Financial Sector Assessment Program. Technical Note on Financial Inclusion.* World Bank Group. January 2016. Available publicly for download at https://openknowledge.worldbank.org/handle/10986/25847.

traditional financing sources, most notably in microfinance, agricultural finance, and inclusive insurance, is set to also have significant improvements in access to finance outcomes for women. Prior action #6 on launching digital payments in the Kingdom is also set to have a disproportionately positive effect of female access to finance. It will help address geographic barriers that exclude women from the formal financial system.

PA#4: To improve health insurance coverage, the Borrower has adopted on September 13, 2018 and published in the Official Gazette dated January 21, 2019, Decrees No. 2.18.622, 2.18.623 and 2.18.624 implementing Law No. 98-15 to expand basic compulsory health insurance coverage to professionals, self-employed individuals, and non-salary individuals.

82. **Rationale.** Full financial inclusion is predicated on having access and usage of a full range of financial services, including credit and savings (that a majority of financial service providers in Morocco currently focus on), insurance, pension transactions and payments services. Access to quality insurance and long-term saving products is a critical element of financial inclusion. It has important impacts on private sector development, job creation and reducing life cycle risks and vulnerabilities for low-income households. It allows firms and individuals to be able to manage and mitigate risks, invest, and innovate. Inclusive insurance is underdeveloped in Morocco. According to Findex data, 29 percent of Moroccans rely on family and friends for emergency funds and only 5 percent of adults rely on savings to respond to emergencies. Microinsurance currently touches only 1.6 percent of the population versus 23 percent in India and 30 percent in Philippines. Quality insurance products have positive impacts on the ability of self-entrepreneurs to manage risk and in doing so have positive impacts on enterprise activity. *Auto-entrepreneurs* in Morocco have limited access to a full suite of financial services**.** Today, Morocco's private sector is dominated by informal firms that remain overwhelmingly inwardly focused and face operational risks that prevent expansion.

83. **Morocco has adopted a law allowing the creation of self-entrepreneurs (auto-entrepreneur).** The Law 98.15 is related to: (a) liberal professionals, (b) self-employed workers, and (c) non-salaried with liberal activity working as self-entrepreneurs or not. The Government estimated the population of self-employed at 6 million people, representing 57 percent of the country's labor force of which an estimated 61,500 have been formalized. The above law paves the way for the development of new business models and companies in the digital economy and in traditional economic sectors. While this creates employment opportunities, particularly for young people, it enhances the risk of vulnerability as it modifies the existing payroll-based insurance model. As evidenced by the 2019 World Development Report "The Changing Nature of Work: Future of Jobs "and the 2016 World Development Report "Digital Dividends", while promoting digital economy, entrepreneurship and new business models, countries should also provide insurance coverage to self-employed business owners and self-entrepreneurs. This will help improve overall efficiency of their business activity by providing financial cushion during times of stress and allowing greater resources for investments into working capital and productive business expansion.

84. **Substance of the prior action.** The CG has adopted three Decrees (No. 2.18.622, 2.18.623 and 2.18.624) to expand basic health insurance coverage to formal self-entrepreneurs**.** This will provide self-entrepreneurs with a critical social safety net and incentives for them to formalize, thereby promoting transparency in the business environment and links with formal sector business opportunities. It will also promote business continuity by ensuring a social safety net for entrepreneurs, thereby improving the business enabling environment.

85. **Expected results.** The prior action aims to improve the overall health insurance coverage of underbanked Moroccans and in doing so promote financial resiliency of low-income Moroccans. The number of independent professionals, self-employed individuals and non-salary individuals with health insurance coverage is expected to increase to 50,000 in 2020.

86. **World Bank Group engagement and sustainability.** The World Bank Group is supporting access to insurance through the Morocco Microfinance Project which is setting policy objectives on inclusive insurance in the NFIS as well as support MFIs to develop microinsurance in partnerships with insurance companies. This prior action builds on these past efforts through introduction of a national policy mandating basic health insurance coverage. The mandatory insurance scheme will be managed by the *Caisse Nationale de Securité Sociale (CNSS)* that also currently manages the private sector health insurance and pension schemes. The self-entrepreneur's insurance scheme will be fully funded by the participating self-entrepreneurs with a required contribution rate of 6.37 percent of revenue.

PA#5: To develop Islamic Finance *(Finance Participative)*: (a) the Borrower has enacted Law No. 69-17 amending and supplementing Law No. 33-06 related to the issuance of Sukuk certificates published in the Official Gazette No. 6667 dated April 23, 2018; and (b) the Council of Government has approved and submitted to Parliament on October 24, 2018, Draft Law No. 87-18 amending and supplementing Law No. 17-99 on the Insurance Code relating to *Takaful* insurance.

87. **Rationale and substance of the prior action.** Both in Morocco and globally, the development of Islamic finance can be an important accelerator of financial inclusion. Recent research efforts suggest that households opt out of the formal financial sector due to religious preferences.[20] Islamic finance is bourgeoning in Morocco with the recent license of five Islamic banks in line with the new 2015 banking law (103-12) which provided the framework for Islamic financing,[21] (with the Ulammah Council that serves as certifying body), including Takaful (Islamic insurance) and Sukuk. In October 2018, Morocco reached an important milestone with Islamic financial sector development in launching their first sovereign Sukuk valued at MAD 1.1 billion. Authorities are advancing a package of policy measures to promote the development of various Islamic finance instruments. Law No. 69-17 provides the legal framework for financial sector actors (banks and finance companies) to issue Sukuk, thereby promoting diversified and long-term refinancing sources compliant with Sharia principles. Draft law 87-18 amends the 2016 legal framework on Takaful to bring it in compliance with the advice of the Ulammah Council, thereby offering a new Sharia-compliant financial product that will support economic resilience for Moroccan households. The measure allows participative banks, insurance and finance companies to offer new instruments to develop Morocco's Islamic financial sector. It also allows institutional investors to have additional instruments contributing to deepening and diversifying Morocco's capital markets.

88. **The PA is supported by complementary market development mechanisms.** Specifically, the *Comité des Établissements de Crédit* (CEC), an entity established by the 2015 banking law which validates

[20] A 2015 IMF working paper found that in Muslim countries—members of the Organization for Islamic Cooperation—various indicators of financial inclusion tend to be lower, and the share of excluded individuals citing religious reasons for not using bank accounts is noticeably greater than in other countries. This suggest its usefulness as an avenue to promote financial inclusion. See: Naceur, Sam Ben, et al. "Can Islamic Banking Increase Financial Inclusion?" Washington, DC. IMF Working Paper. February 2015.

[21] Five types of transactions: murabaha, musharaka (joint venture), ijara (leasing), mudaraba (profit sharing), and al salam (short-term bonds).

and approves BAM regulatory activity, has adopted in October 2018 a circular detailing capital requirements and prudential ratios for Islamic banks (finance participative). The complementary action supports strengthened oversight of participative financial institutions and ensures continued financial stability of these new entities. The Islamic finance market will be strengthened and become an important alternative for those underserved by conventional financing.

89. **Expected results.** The expected result is an increase in volume of Sukuk certificate issuances to MAD 2 billion in 2020, which will contribute to increased diversification of the financial sector with regards to investment and insurance product options.

90. **World Bank Group engagement and sustainability.** Through a FIRST initiative-funded TA (P151565) on capital markets development, the World Bank Group provides support to Moroccan authorities on the regulatory framework for Islamic finance, most notably by putting in place the technical specifications for Sukuk securities in line with modification of Law 33-06, presenting international best practices in participative finance practices, and supervisory and oversight strengthening in conjunction with the Ulammah Council. The World Bank Group also supports BAM in improving prudential oversight and bank resolution planning through a FIRST initiative funded TA (P160187).

Pillar II: Supporting the Development of Digital Platforms and Digital Infrastructure

91. **This pillar supports policy and institutional reforms that will advance the development of digital platforms in Morocco with a focus on financial infrastructure allowing for mobile payments.** Payment systems provide large networks for the daily transit and processing of financial transactions and for counterparties' interconnections. Payment systems contribute to the stability of the financial sector and are a critical foundation for the payment aspects of financial inclusion. Digital platforms are key for government, households, and entrepreneurs to conduct efficient transactions, reducing the cost of serving the world's most hard-to-reach populations and providing a connection to a global economy that transcends borders and eliminates intermediaries. They are also critical for reducing the cost and increasing transparency around service delivery, providing important improvement to government-to-person transfers, e-governance, and retail payment solutions such as pay-as-you-go applications for solar and water technology.

92. **Morocco's digital payment market is nascent.** Access and usage of digital payment platforms is critical for households to transfer money across large geographic distances, allowing low-income Moroccans to respond to economic shocks (for example, health shock). It is also critical for small business expansion by efficiently facilitating financial transactions with suppliers, government, and customers, in addition to leaving a data trail that can inform future credit decisions. Only 17 percent of Moroccans have either received or made a digital payment during the course of a year.[22] This corresponds to 58 percent of the account holders, compared to 80 percent of the account holders in Tunisia, 70 percent in Egypt, and 93 percent in Turkey. Only 2 percent of the population uses Internet to pay bills or buying something online compared to 12 percent in MENA region and 16 percent in Lebanon. The number of payments and

[22] Defines as "the percentage of respondents who report using mobile money, a debit or credit card, or a mobile phone to make a payment from an account, or report using the Internet to pay bills or to buy something online, in the past 12 months." It also includes respondents who report paying bills, sending or receiving remittances, receiving payments for agricultural products, receiving government transfers, receiving wages, or receiving a public-sector pension directly from or into a financial institution account or through a mobile money account in the past 12 months.

transfers from the Government to people in Morocco is significantly lesser than in neighbouring countries**.** Only 8.4 percent of Moroccans received any sort of payment from the Government in the past year, compared to one in four people across the MENA region. Transfers from the Government are also relatively small in number: only 2.4 percent of Moroccans received financial support from the Government in the previous 12 months, compared to a quarter of South Africans and to 15.4 percent of adults living in the MENA region.

93. **The banking law of 2015 paves the way for a more open and competitive payment systems framework.** The law introduces a category of payment companies. This is a key innovation to the current model which only permitted banks (and to a limited extent, money transfer operators) to offer payment services. As a result, most payment services currently offered are based on bank accounts or e-money accounts (in this last case provided by banks or banks operating in partnership with telecom companies). While the licensing regime remains tightly controlled, to date five operators have been provided licenses with another six under review by BAM. This is a significant step forward for the unbanked to pay bills, transfer funds, receive pensions and social safety net transfers, and build up assets through savings and conducting cash payments on markets.

94. **The development of digital platforms and digital infrastructure in Morocco unfolds in a challenging political economy context.** First, the political economy of competition and regulation in the ICT sector hampers the entry of new players and the expansion of digital infrastructure. Resistance to entry for new players in the broadband market remains high, in part because the political connectedness of existing telecommunication operators hinders the principle of competitive neutrality and fosters an uneven playing field between existing operators and potential new entrants. The market is indeed consolidated around three operators, which have the Public Treasury or the National Investment Company among their shareholders. Furthermore, the regulation of broadband infrastructure is inefficient and incomplete, which undermines the entry of new telecom operators[23] and the regulating authority acts under the direct supervision of a board of directors comprising the Prime Minister and several other ministers, creating potential opportunities for political interference in the regulation of the ICT market.

95. **The expansion of digital infrastructure requires balancing financial and sociopolitical priorities.** Financial returns to private investments in ICT infrastructure development are low in remote areas, and in that framework, digitalization can increase inequalities. Without deliberate investments to reach such areas, the digital divide in Morocco threatens to reinforce the social divide, in particular between urban and rural areas and for populations with low levels of literacy. The program explicitly includes measures aiming to expand rural access to ICT infrastructure.

[23] Regulation decisions do exist regarding access to the incumbent operator's local loop, but they are not sufficiently enforced, which brought the ANRT to request authority to impose stronger sanctions with regard to the encountered problems: insufficient on-site controls, slow responses to requests related to the catalogues of ANRT-approved services, absence of civil engineering catalogues. Regulation is also incomplete as no decision exists on regulating the incumbent operator's dark fiber, which implies that negotiations between operators are not regulated and fail. Lastly, access to the networks of alternative infrastructure operators is legally authorized, but not regulated to ensure open and non-discriminatory access to all operators. World Bank. 2016. *Broadband: The Platform of the Digital Economy and a Critical Development Challenge for Morocco*.

PA#6: To promote the development of mobile payments, the BAM has adopted Decision No. 392/W/2018 on mobile payments, dated November 12, 2018 setting the conditions and modalities of mobile payments in Morocco, including interoperability of mobile wallets (m-wallets).

96. **Rationale and substance of the prior action.** Authorities are addressing the lack of interoperability between banks and payment service providers[24] through the development of a national mobile payment solution. The scheme will mandate interoperability between these actors, thus promoting a level playing field between incumbents and payment service providers, many of whom are financial technology start-ups. Technical routing between actors and management of relevant authorization and settlement procedures are accounted for in a unified framework. In particular, the switch establishes a level playing field among three types of operators: (a) banks that leverage existing payment networks to offer mobile payment services; (b) telecommunications operators that leverage the existing mobile customer base to enable mobile payments between mobile customers and to Points of Sale (POS); and (c) 'over-the-top' operators, leveraging the mobile broadband infrastructure to offer mobile payment services through mobile e-wallet applications. A comprehensive technical interoperability test was successfully carried out in early November 2018, successfully linking two entities (Wafa Cash and Barid Bank) and testing all the functionalities and integrity of the system.

97. **Expected results.** The operationalization of the mobile switch and the strengthening of the mobile payment market in Morocco will result in an increase in the number of mobile wallets issued in Morocco.

98. **World Bank Group engagement and sustainability.** The World Bank Group through FIRST-financed TA has provided support to BAM on oversight of payment service providers and emerging supervisory approach to financial technology companies. Ongoing dialogue on mobile payments is also supporting this operation.

99. **This prior action is supported by parallel market development initiatives.** To develop the mobile payment network, the CG has adopted as part of the 2019 Budget Law, fiscal incentives to encourage commercial structures (businesses, grocery stores, and so on) to join the mobile payment system. Success of the mobile payment system is contingent to the existence of a network of grocery stores, agents, and cash-in and cash-out facilities in the country. Based on the NFIS diagnostic study, developing a merchant network requires fiscal incentives, including: (a) waiver of the MAD 1 million on cash-in transaction, and (b) tax exemption on 50 percent of sales realized through electronic transaction for merchants with annual sales of less than MAD 2 million. Promoting adoption and usage of mobile payments is complementary to formalization, including fiscal efforts to curtail undocumented transactions, in addition to awareness raising of the benefits of mobile payments. This helps reduce strong inertia for cash payments inherent in current consumer behavior as well as assuaging small business owners who operate in semiformal structures.

PA#7: In order to create an environment conducive to the deployment of telecommunications infrastructure and strengthen competition in the fiber access market, the ANRT has adopted Decision

[24] All of these need to be approved as payment institutions by BAM.

No. ANRT/DG/No.12/18 dated July 27, 2018 approving a wholesale offer to access passive infrastructure of Maroc Telecom (*Offre Génie Civil*).

100. **Rationale and substance of the prior action.** The incumbent operator Maroc Telecom has almost 100 percent market share on the fixed broadband market. All previous attempts to regulate fair and non-discriminatory access to the infrastructure of Maroc Telecom have not been effective and have provided limited results, like in the case of the unbundling regulations, where only a handful of digital subscriber lines (DSL) were unbundled. However, the competitive landscape has changed, with both Orange and Inwi having published ambitious fiber optic plans. The new competitors have acquired the right to deploy fiber in their licenses, under existing Telecom Law No. 24/96. However, in any environment, including advanced markets like the US and the EU, the ability of a competitor to effectively deploy a fiber plan depends on the regulatory framework, including the ability of telecom regulators and competition authorities to enforce fair competition rules, and the creation of FRP, an appropriate regulatory package to facilitate the deployment of fiber. The first measure of this FRP is the approval by telecom regulator ANRT of a comprehensive offer of incumbent operator Maroc Telecom to allow access to its conduits and passive infrastructure elements to new competitors. In this way, in many instances, new competitors will not need to deploy new civil works to reach the final customer (household or business). This has a huge impact on costs. Therefore, a policy that minimizes the amount of civil works by allowing access to existing passive infrastructure has an impact on the business plan of operators, that update and expand the frontier of commercial viability of their investment plans. Of course, this measure is only as good as the regulatory framework around it.

101. **Expected results.** The introduction of a regulatory environment around the Civil Engineering Offer of Maroc Telecom will improve access to, the quality and lower the cost of broadband infrastructure. As a result, the fixed broadband penetration (as a percentage of households) is expected to reach 22 percent in 2020.

102. **World Bank Group engagement and sustainability.** An ongoing policy dialogue with the Ministry of Industry, Investment, Trade, and Digital Economy and ANRT have produced a comprehensive assessment of the high-speed broadband market in Morocco. The strategic, high-level workshop on the digital economy in Morocco, held on November 5, 2018, has engaged many Moroccan policy makers on best practice approaches to broadband sector reform, showing the impact of the deployment of broadband infrastructure by multiple players, and introducing smart regulatory incentives for fiber deployment. The World Bank is supporting the implementation of an appropriate FRP to facilitate the deployment of fiber as part of and beyond this operation. The first measure of the FRP under the current operation is the approval by telecom regulator ANRT of a comprehensive offer of incumbent operator Maroc Telecom (PA#7). The second measure supported through a long-standing dialog is the amendments to the existing Telecom Law No. 24/96. The sustainability of the competition environment will be dependent on adoption of these amendments, and in particular, the ability of ANRT to impose proportional and specific remedies. On July 24, 2018, the House of Representatives has adopted the Amendment No. 121.12 to Law No. 24/96. The process of consideration of the Amendment by the second chamber has started. ANRT has already drafted the implementing decrees and will share them with the concerned authorities. In particular, ANRT has prepared a technical draft covering the following topics: (a) interconnection, (b) regulatory complaint procedure, (c) infrastructure sharing (including unbundling), and (d) operation of the International Exchange Point. First, the amendment to the law provides ANRT with the ability to settle competition disputes (including by imposing sanctions), and strengthen

regulatory enforcement, including the regulations on Local Loop Unbundling. Second, it will create a fiber access market for alternative operators, such as ONEE and ONCF. This market was locked in 'silo' agreements with existing licensed operators. Third, it promotes infrastructure sharing, enabling a favorable regulatory environment to deploy own infrastructure, in addition to the possibility to use the infrastructure of existing operators.

PA#8: To promote private investment in digital infrastructure in local communities (*Collectivités Térritoriales)* including in remote areas, the Minister of Interior has adopted Circular No. F/2166 dated June 14, 2018 establishing a uniform ceiling for fees to be paid by investors to deploy their infrastructure in the municipal public domain.

103. **Rationale and substance of the prior action.** In its 2017 survey, ANRT estimated that 55.2 percent of the rural population did not use the Internet, against a national average of 40 percent, mostly due to high cost and connectivity. These spatial inequalities are high and have direct effects on access to digital financial services, territorial innovation, growth, and job creation. Existing licensed telecom operators acquired the right, specified in their licenses, to deploy fiber infrastructure across the territory of Morocco and to install radio equipment (towers and antennas). The ability to lay down fiber cables in the local, backhaul, and backbone network is essential to provide both fixed and mobile broadband services to the final users. However, telecom operators have to pay fees to local municipalities to deploy their infrastructure in the municipal public domain. Some municipalities often request prices that are not suitable to enable an efficient infrastructure deployment by operators in the municipal public domain. Morocco's Ministry of Interior recognizes that this is a challenge to the deployment of fiber optics networks and requires regulatory intervention. As mentioned in the Circular No. F/2166, some local government councils have tended to increase the fees levied on the temporary occupation by the abovementioned network operators of local municipalities' public property, charging them prices several times higher than the royalties applicable to them when they occupy state-owned property[25]. This situation increases the costs of laying down fiber, discouraging investment in lower-income, lower-density areas. Second, the multiplicity of practices at the local level creates regulatory uncertainty, creating a burden on operators that need to negotiate case-by-case the financial conditions of fiber deployments and radio sites. Both factors may contribute to limited access to digital infrastructure in rural areas.

104. **The Circular adopted by the Ministry of Interior sets uniform prices, reducing the regulatory uncertainty and facilitating investment and access to broadband services to the citizens and the firms in Morocco.** This measure is part of a 'fiber regulatory package' aimed at stimulating investment and should be read in conjunction with two other measures: (a) a joint decree of MIICEN and the Ministry of Housing setting the rules to access new buildings; and (b) approval by ANRT of the access to the civil works (ducts, cabinets, and dark fiber) of Maroc Telecom. In addition, operators are called to abide to the Circular of the Ministry of Health dated back to 2003 which regulates the distance of building from radio equipment. The effective approval of FRP packages accelerated the deployment of fiber networks, for example, in Spain and Lithuania, which moved to be among the countries with the highest fiber density in Europe (see Box 1 and Figure 4). Spain moved into the global top 10 countries for average Internet speed.

[25] July 14, 2018, Exposé des Motifs of Circulaire No. F/2166

105. **Expected results.** The prior action is expected to facilitate the deployment of fiber to second tier-cities, remote areas, and local communities; increase the access to high-speed broadband in Morocco; and promote a more balanced deployment of high-speed Internet infrastructure. As a result, percentage of rural households with Internet access is expected to increase to 56 percent in 2020.

106. **World Bank Group engagement and sustainability.** An ongoing policy dialogue, based on the High-Speed Broadband study[26] and discussion, and as a continuous engagement with ANRT, has supported this measure. In addition, the workshop mentioned above (paragraph 102) organized by MIICEN facilitated a high-level debate with Moroccan stakeholders on the importance of smart regulatory fiber packages based on international best practice. This activity is supported by two ongoing technical advisory products: (a) Morocco: Emerging Digital Technologies, and (b) The Digital Economy in the Maghreb.

Box 1. How FRPs Can Help Countries Leap-Frog on High-Speed Internet Access

Spain: From Laggard to Leader in Fiber to the Home (FTTH) Connectivity

In 2008, Spain was a laggard in Europe for broadband connectivity. By 2014, Spain had jumped to number 1 in Western Europe in terms of FTTH connections. By 2016, fiber connectivity reached more than 31 million locations—more than France, Germany, the United Kingdom, and Italy combined. By the end of 2017, more than 95 percent of homes were reachable by fiber, with a market uptake of around 40 percent. In 2018, Telefonica—the country's incumbent operator—reiterated its plans to switch off its legacy copper network by 2020 and provide its services only through fiber connections.

Given that Spain had the same competition and harmonized framework as the rest of the European Union, how did it achieve outcome? Spain implemented a smart FRP with incentives for the operators to deploy fiber.

This FRP enables competitors to get open access to Telefonica's network infrastructure at regulated prices. The regulatory obligations include access to civil infrastructure, including underground ducts (tubes in which cables are placed), poles, or building access. The obligations also require Telefonica to provide a wholesale offer for Internet access over its fiber network; this obligation, however, is limited to speeds of up to 30 Mbps. The regulation also includes in-building cabling, which is important to reach every home in multistory buildings: in this case, operators must share the in-building cables to allow access to a competitor if a client wants to switch to another operator. The easy access to infrastructure and the limitation of Internet speeds to 30 Mbps when reselling Telefonica's wholesale offer led to many operators rolling out their own fiber optic networks.

As a result, Spain has been the first European country in fiber-based competition with completely new fiber networks that allowed Internet speeds above 100 Mbps. Spain is now one of the most competitive markets, with offers by most operators and service providers based on a 'quad play' with fixed calls, Internet access, mobile services, and television. Spain's average Internet speed is among the top 10 in the world.

Lithuania: Leap-Frogging Broadband Fiber Infrastructure

In 2012, Lithuania set out ambitious goals in its Information Society Development program for 2020: 85 percent of the population to use the Internet, 95 percent of households having a connectivity of at least 30 Mbps, 50 percent of households having Internet speeds of 100 Mbps, and 95 percent of companies using high-speed Internet.

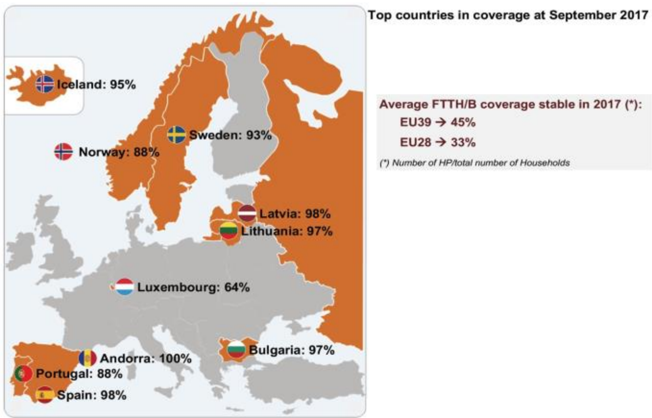
Lithuania is well on its way to reach these goals, being among the European leaders in terms of FTTH connectivity. There are two main reasons behind this success: first, the rollout of a countrywide fiber backbone and access network. This network was built as a public-private partnership and is owned by the Government. It is supervised

[26] Broadband: The Platform of the Digital Economy and a Critical Development Challenge for Morocco, (Report No. 114660)

by a public nonprofit organization and it provides open and non-discriminatory access at regulated prices for other operators and service providers.

The second key ingredient is a licensing framework based on general authorization (which is the standard in the European Union), leading to many local and regional operators rolling out and operating their own fiber network infrastructure. As a result, fiber broadband coverage in Lithuania is above 95 percent and most connections are from service providers other than the incumbent.

Figure 4. European Countries with Highest Fiber-to-the-Home Coverage



Source: FTTH Council Europe

Pillar III: Enhancing Support to Digital Entrepreneurs

107. **Digital entrepreneurs are a category of entrepreneurs who create and use digital technologies to create new ventures and transform existing businesses.** Digital entrepreneurs are characterized by a high intensity of utilization of new digital technologies (particularly social, mobile, analytics and cloud solutions) to improve business operations, invent new (digital) business models, sharpen business intelligence, and engage with customers and stakeholders through new (digital) channels.

108. **Digital entrepreneurship is nascent in Morocco but is stifled by low innovation capacity in the private sector and low overall entrepreneurship activity**. The digital sector in Morocco has demonstrated its potential to become competitive relative to other sectors. For example, Morocco ranks 25 out of 126 global economies in the share of ICT service exports in its total trade.[27] Morocco also performs better than most other middle-income countries on availability of latest technologies, ranking 51 out of 139, ahead of Mexico, Brazil and Thailand.[28] Where Morocco struggles more is on bringing its digital potential to fruition. While the latest technologies may be available in the country, firm-level technology adoption is low (Morocco ranks 73 out of 139 countries) and capacity for innovation even lower (108 out of 139). And new firms that could become the engines of entrepreneurship are slow to appear.[29] Morocco ranks 37 out of 54 countries on total early-stage entrepreneurial activity.[30]

[27] Dutta, S, Lanvin, B. and Wunsch-Vincent, C. (2018) *Global Innovation Index 2018: Energizing the World with Innovation, 11th Edition*
[28] Baller. S, Dutta, S, and Lanvin, B. (2016) *The Global Information Technology Report 2016: Innovating in the Digital Economy*
[29] Baller. S, Dutta, S, and Lanvin, B. (2016) *The Global Information Technology Report 2016: Innovating in the Digital Economy*
[30] Global Entrepreneurship Monitor (2018) *Global Report 2017/18*

109. **A number of factors affect the growth of digital entrepreneurship in Morocco**. Morocco lags behind other countries on the strength of several factors that support digital entrepreneurship. Morocco's deepest gaps when compared to other countries in Africa, are around its business environment and the availability of finance. Morocco ranks among the bottom three countries out of 54 in internal market burdens or entry regulation, and on internal market dynamics. On entrepreneurial finance, Morocco ranks 48 out of 54 countries.[31] Some other gaps that affect technology absorption and innovation in Morocco include skills. The quality of Morocco's education system is ranked at 121 out of 139.[32] Other factors where Morocco struggles are related to its digital infrastructure.

110. **In Morocco, young enterprises needing seed financing and VC received 6 percent of the total investments made in 2015—one of the lowest in the Middle East and North Africa region.**[33] Morocco has a vibrant private equity sector, with solid market share in North Africa region: between 2012 and 2017, 42 percent of private equity deals by number (or 26 percent by value) took place in Morocco, coming second after Egypt.[34] During the same period, 56 private equity deals worth US$912 million were made in Morocco, with US$5 million median deal size.[35] Private equity funds also attracted foreign investments, mostly from Europe, due to liberalized investment environment, which has no restrictions on type or structure of investments for foreigners. Funds are free to raise local or foreign capital as well as decide on where and how to invest. In terms of individual financiers supporting start-ups and entrepreneurs in Morocco, there are very few business angels.

111. **Alternative investment structures to mobilize private capital to start-ups remain limited in Morocco.** Business angels are individuals who invest in (usually multiple) start-ups, either directly or through intermediaries, while typically also providing advice to the start-ups. A business angel network was created in 2008 in the framework of the Medibitikar program, a joint program of the World Bank Group and the European Investment Bank focused on technology and development. The network has no investment track record. Maroc Numeric Fund and the OCP Entrepreneurship Network partnered in 2016 to launch Maroc Numeric Fund Angels, which invests between MAD 100,000 and MAD 1 million in start-ups. However, with regard to financing supply, Moroccan start-ups and innovative young SMEs still face the classic 'valley of death' situation. There is a shortage of financing in the market starting from the pre-seed stage (US$20,000) to early VC stage (US$2 million). The absence of public support to the development of the business angel network and the lack of a co-investment facility geared to capture this segment of the market are two factors inhibiting growth of this investment class.

112. **The proposed pillar seeks to supports digital entrepreneurship through: (a) a package of legal reforms supporting electronic business registration and rendering electronic the commercial registers; and (b) promoting the development of financing models for start-ups and digital entrepreneur financing.** This will support the formalization of companies, particularly those in rural areas that cannot easily access services to formally register their business. Improving electronic business registration, cessation, and monitoring will support transparency and efficiency in firm creation, thus improving

[31] Global Entrepreneurship Monitor (2018) *Global Report 2017/18*
[32] Baller. S, Dutta, S, and Lanvin, B. (2016) *The Global Information Technology Report 2016: Innovating in the Digital Economy*
[33] Data from the Moroccan Association of Equity Investors (*Association Marocaine des Investisseurs en Capital,* AMIC)
[34] African PE/VC Association. https://www.avca-africa.org/research-publications/data-reports/country-snapshot-morocco/.
[35] *African PE/VC Association.* https://www.avca-africa.org/research-publications/data-reports/country-snapshot-morocco/.

Morocco's overall business enabling environment.[36] The pillar also addresses this gap by providing angel/seed financing for innovative SMEs, thus supporting Morocco's ambition to develop entrepreneurship to address job creation and economic productivity priorities.

113. The pillar improves digital enablers for entrepreneurs through supporting rendering electronic business creation processes and the commercial registry. This will also support e-commerce links through promoting the usage of digital platforms for newly registered firms. The pillar also promotes the development of business angels. The pillar complements the World Bank-financed US$50 million Financing Innovative Start-ups and SME project, which supports Moroccan authorities in capitalizing an early stage equity fund focused on early stage/VC equity and angel/seed financing.

PA#9: To streamline and facilitate enterprise creation by electronic means, the Borrower has enacted Law No. 87-17 amending and supplementing Law No. 13-99 establishing the OMPIC, published in the Official Gazette No. 6722 dated November 1, 2018; and the Council of Government has approved and submitted to Parliament on March 19, 2018: (i) Draft Law No. 89-17 amending and supplementing Law No. 15-95 on the Commercial Code for the establishment of a centralized electronic commerce register and decentralized electronic commerce registries; and (ii) Draft Law No. 88-17 on the electronic creation and support to enterprises.

114. **Rationale and substance of the prior action.** The prior action supports a legislative package modernizing business registration and cessation activities and management of Morocco's commercial registrar using an electronic system. Legal amendments pave the way for the Moroccan Office for Industrial and Commercial Property (OMPIC) to administer on behalf of the state an electronic system designed to create businesses and maintenance of an online commercial registry database. The package envisages reform of the Commercial Code, which mandates electronic channels as the unique method to complete business registration procedures (contracts, judicial decisions, and licensing/registration evidence). The new electronic commerce registrars will centralize records from local and provincial levels and will be made available to the public. The reform will improve processing times for new business creation and significantly enhance efficiency in reducing time spent by entrepreneurs registering with various entities as a precondition to setting up a business (tax directorate, social security administration, and local commercial tribunals). The prior action eliminates reliance on paper copies of documents shipped from rural areas to OMPIC for validation. It increases transparency and supports electronic governance actions called for under *Plan Maroc Numérique* and represents a key action item of the 2017–2018 work plan for the National Commission for Business Climate. The prior action will help improve overall competitiveness for new businesses in Doing Business rankings related to starting a business (Morocco is currently ranked 35th in this subcategory of rankings), in addition to promoting greater efficiency and transparency in the economy and firm-level productivity.

115. The measure is expected to stimulate digital entrepreneurship by: (i) making it easier for digital entrepreneurs to create a business; (ii) stimulating the growth of a category of self-entrepreneurs (sole proprietorships or "auto entrepreneur") whose services digital entrepreneurs increasingly depend on to

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[36] Morocco is currently ranked 69th in the World Bank Group's 2018 Doing Business; *Doing Business 2019: Training for Reform. Economy Profile: Morocco*. Washington, DC: World Bank Group. http://www.doingbusiness.org/content/dam/doingBusiness/country/m/morocco/MAR.pdf.

build lean businesses to create digital marketplaces (e.g. Upwork, Uber); and (iii) improving the experience of foreign investors, who represent a major source of diffusion of digital technology from abroad.

116. **Expected results.** The expected result is that the electronic system will be operational and used by businesses and public authorities. Thus, OMPIC would be in a better position to track data and support business creation through electronic filing of key documents. The reform also paves the way for OMPIC to develop value-added services on the portal and at a later stage.

117. **World Bank Group engagement and sustainability.** This prior action builds on steady policy dialogue anchored by IFC advisory services on doing business reforms, in addition to a previous DPF series on economic competitiveness (2013, 2015) focused on business environment reforms.

PA#10: To promote the development of a new asset class to bridge the early stage finance gap of digital entrepreneurs, the *Fonds Innov Invest*'s Technical Committee has adopted the technical specifications (*Cahier de Charge*) dated December 26, 2018 outlining eligibility criteria for business angels to receive financing from the *Caisse Centrale de Garantie*.

118. **Rationale and substance of the prior action.** The prior action supports the growth of digital entrepreneurship through a policy to develop angel investing, a new class of early stage equity investors in Morocco. Digital entrepreneurs are likely to benefit disproportionately from an angel investment market because risk capital has a strong bias toward digital sectors. For example, in Europe, 46 percent of angel investments were made in the ICT or fintech sectors in 2017.[37] In Africa, 45 percent of venture investments were made in fintech, e-commerce and e-health in 2015.[38] There are currently fiscal incentives and funding that have been introduced as part of the 2019 Budget Law to serve as a catalyst for business angels. However, these incentives alone have not been sufficient to create a network and ecosystem conducive to the development of angel investments. The proposed introduction by the CCG (under the Innov Invest program) of official recognition requirements for business angels establishes the required policies for business angels to organize themselves in networks. Once published, the technical specifications will include terms and conditions for business angel groups to apply for official recognition by the state and to qualify for public funding managed by CCG. Angel groups are critical to the emergence of early stage angel investments in Morocco because they create strong economies of scale, network economies and economies of learning, and diffuse the culture of angel investing. For example, they allow investors to aggregate resources, make deal screening more efficient, can provide larger investments, and allow risk sharing. In the United States, 89 percent of angel investors identify prospective investments through angel groups. Angels organized as groups can also have an influential voice collectively when raising regulatory and policy issues with government. Currently, the government does not have organized private sector partners with whom to engage in policy dialogue. CCG's incentives for angel groups can therefore trigger a chain of systemic changes that will unlock a new investment class and conducive policies for early stage investment in Morocco. The prior action supports not only the introduction of business angels in Morocco but the definition of eligibility criteria for CCG financing to expand operations.

[37] EBAN, Statistics Compendium. "European Early Stage Market Statistics." *Published in May* (2016).
[38] *http://wbaforum.org/wp-content/uploads/2016/08/04-Africa-2015.pdf*

119. **Expected results.** Two key results are expected: (a) an increase in the number of business angel networks that have been certified by the CCG; and (b) an increase in the number of start-up projects submitted to business angels for funding.

120. **World Bank Group engagement and sustainability.** This prior action is complemented a US$50 million World Bank-funded Financing Innovative Start-ups and SME IPF capitalizing InnovInvest, a fund focused on angel/seed and early stage/VC financing. It is also complemented by the development of a crowdfunding law currently under public consultations at the *Secrétariat Général du Gouvernement* (SGG).[39] Ongoing TA under the FIRST Capital Markets and SME Finance Development Project provides review of the early stage financing regulatory framework in coordination with the Moroccan Association of Equity Investors.

Table 4. DPF Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
Pillar I: Enhancing Financial Inclusion for Individuals and MSMEs	
PA#1: To allow microfinance institutions to expand their portfolio and respond to credit demand of MSME, the Council of Government has approved and submitted to Parliament on November 13, 2018, Draft Law No. 85-18 amending Law No. 18-97 on Microcredit authorizing an increase in the maximum lending size from MAD 50,000 to MAD 150,000.	• Deauville Partnership Transition Fund Microfinance Project (Report No. 75522): microfinance regulatory assessment, market potential study, Global 2017 Findex Update (Report No. 126033) and NFIS. • 2016 FSAP (Report No. 112122); Technical Note on Financial Inclusion • FIRST: Enabling Payments Innovations for Financial Inclusion (P165010); Capital Markets and SME Development Project (P151565)
PA#2: To increase access to finance for small farmers, the Ministry of Economy and Finance and the Credit Agricole du Maroc have raised the ceiling of loans guaranteed to small farmers by the *Fonds de Stabilisation Prudentielle* from MAD 100,000 to MAD 200,000, pursuant to an amendment to the *Convention establishing the Fonds de Stabilisation Prudentielle "FSP"* dated November 2, 2018	• MSME TA facility support to the MEF in its partial credit guarantees programs (P132884)
PA#3: To enhance oversight of gender gaps in financial inclusion of women and female-owned enterprises, have gender data in the credit information system, and support modernization of Morocco's credit information system, BAM has issued Notice No. L/BKAM/2018/9632 dated December 20, 2018, making it mandatory for payment companies to report gender-disaggregated data.	• Deauville Partnership Transition Fund Microfinance project (Report No. 75522): BAM studies on payment flows and financial inclusion cartography/mapping • IFC TA and Banking on Women initiative • IFC financial infrastructure support on credit reporting (Project No. 600436) • IFC secured lending support (Project No. 601388)
PA#4: To improve health insurance coverage, the Borrower has adopted on September 13, 2018 and published in the Official Gazette dated January 21,	• ASA on pension reform (covered also under FIRST operation, P132884)

[39] German Agency for International Cooperation (*Deutsche Gesellschaft für Internationale Zusammenarbeit*, GIZ) is supporting Moroccan authorities with the development of this crowdfunding law. It currently features in AfDB's budget support operation under preparation.

Prior Actions	Analytical Underpinnings
2019, Decrees No. 2.18.622, 2.18.623 and 2.18.624 implementing Law No. 98-15 to expand basic compulsory health insurance coverage to professionals, self-employed individuals, and non-salary individuals.	
PA#5: To develop Islamic Finance *(Finance Participative)*: (a) the Borrower has enacted Law No. 69-17 amending and supplementing Law No. 33-06 related to the issuance of Sukuk certificates published in the Official Gazette No. 6667 dated April 23, 2018; and (b) the Council of Government has approved and submitted to Parliament on October 24, 2018, Draft Law No. 87-18 amending and supplementing Law No. 17-99 on the Insurance Code relating to *Takaful* insurance.	• Supporting Sovereign Sukuk Issuance and Regulatory Framework for Islamic finance certificates under FIRST Capital Market and SME Finance ASA (P132884). ASA provided regulatory review and two-day workshop on Islamic financial sector development principles in March 2018.
Pillar II: Supporting the Development of Digital Platforms and Digital Infrastructure	
PA#6: To promote the development of mobile payments, the BAM has adopted Decision No. 392/W/2018 on mobile payments, dated November 12, 2018 setting the conditions and modalities of mobile payments in Morocco, including interoperability of m-wallets.	• FIRST ASA on Enabling Payments Innovations for Financial Inclusion (P165010) • Previous DPF series on Capital Markets and SME finance (Report No. 86203 and Report No. 114404-MA)
PA#7: In order to create an environment conducive to the deployment of telecommunications infrastructure and strengthen competition in the fiber access market, the ANRT has adopted Decision No. ANRT/DG/No.12/18 dated July 27, 2018 approving a wholesale offer to access passive infrastructure of Maroc Telecom (*Offre Génie Civil*).	• ASA 'Broadband: The Platform of the Digital Economy and a Critical Development Challenge for Morocco' (Report No. 114660) • Morocco: Emerging Digital Technologies (P165244) • The Digital Economy in the Maghreb (P169007).
PA#8: To promote private investment in digital infrastructure in local communities (*Collectivités Térritoriales)* including in remote areas, the Minister of Interior has adopted Circular No. F/2166 dated June 14, 2018 establishing a uniform ceiling for fees to be paid by investors to deploy their infrastructure in the municipal public domain.	• ASA 'Broadband: The Platform of the Digital Economy and a Critical Development Challenge for Morocco' (Report No. 114660) • Morocco Infrastructure Diagnostic (P162398) • Morocco : Emerging Digital Technologies (P165244) • The Digital Economy in the Maghreb (P169007).
Pillar III: Enhancing Support to Digital Entrepreneurs	
PA#9: To streamline and facilitate enterprise creation by electronic means, the Borrower has enacted Law No. 87-17 amending and supplementing Law No. 13-99 establishing the OMPIC, published in the Official Gazette No. 6722 dated November 1, 2018; and the Council of Government has approved and submitted to Parliament on March 19, 2018: (i) Draft Law No. 89-17 amending and supplementing Law No. 15-95 on the Commercial Code for the establishment of a centralized electronic commerce register and	• World Bank Group competitiveness advisory • Morocco Doing Business 2018 rankings • Previous Programmatic Economic Competitiveness Support Program DPF (Report No. 68007-MA and Report No. 93904-MA). • Forthcoming Youth Inclusion operation (P151169)

Prior Actions	Analytical Underpinnings
decentralized electronic commerce registries; and (ii) Draft Law No. 88-17 on the electronic creation and support to enterprises.	
PA#10: To promote the development of a new asset class to bridge the early stage finance gap of digital entrepreneurs, the *Fonds Innov Invest*'s Technical Committee has adopted the technical specifications (*Cahier de Charges*) dated December 26, 2018 outlining eligibility criteria for business angels to receive financing from the *Caisse Centrale de Garantie*.	• FIRST Capital Market and SME Finance Development (P132884) • Financing Innovative Startups and Small and Medium Enterprises Project (Report No. PAD1362) • Climate Entrepreneurship Project (No. 601499) • Forthcoming Youth Inclusion operation (P151169)

4.2. LINK TO CPF, OTHER BANK OPERATIONS AND THE WORLD BANK GROUP STRATEGY

121. **The proposed operation will contribute substantively to the World Bank Group's twin goals of ending extreme poverty and boosting shared prosperity in a sustainable manner**, **as well as the forthcoming CPF 2019–2023 for Morocco, the MENA Strategy, and the regional Moonshot approach.** With regard to the CPF, its first pillar highlights the importance of job creation through private sector development and development of digital platforms. Pillars 2 and 3 focus on human capital development, social, and economic inclusion, especially through resilient territorial development. The CPF has Governance and Citizen Engagement as its foundational pillar. It intends to use technology, as well as gender equity, as cross-cutting themes to achieve its objectives, as it promotes efficiency, innovation, and inclusion. The proposed DPF will contribute to the CPF's ambition to help the Government promote a technology-informed economy that harnesses the transformation potential of digital technologies. As the CPF specifies for all operations in Morocco, the DPF will support women's inclusion through the systematic collection and use of gender-disaggregated indicators. The forthcoming CPF lending and non-lending program will help pursue the reforms and provide support in critical areas identified in the DPF to ensure that the reforms are sustainable.

122. **The proposed DPF also contributes to the MENA Strategy, specifically the pillar on renewal of the social contract, which calls for the creation of a new development model built on greater citizen trust, more effective protection of the poor and vulnerable, and inclusive and accountable service delivery.** It is also based on a strong private sector that can create jobs and opportunities, particularly for Morocco's youth. The DPF supports reforms that contribute to these objectives by increasing financial inclusion, enhancing access to digital technology and services, and supporting private sector growth. Financial inclusion promotes economic well-being by assisting vulnerable households to build up productive assets, manage risks, and respond to financial shocks. At the enterprise level, access to finance is critical to grow enterprises, many of which suffer from lack of access to credit and savings services that would enable them to invest in fixed capital, expand, and employ more people.

123. **Consistent with the Moonshot approach for the MENA region, aimed at accelerating digital payments and digital infrastructure, the DPF will enable access to digital technologies by promoting competition and improving regulation in the telecom sector.** This DPF, along with the complementary TA on *Plan Maroc Numerique*, aims to accelerate Morocco into the digital economy to enhance growth and create jobs for youth. The development of digital platforms, enabled by internet connectivity and a digital payment infrastructure, can develop opportunities for jobs, increase the contestability of local

markets, and generate economy-wide positive spillovers. This DPF will help move Morocco closer towards the two concrete objectives set out by the Moonshot approach to be achieved by 2020: (a) to create modern broadband internet; and (b) develop an infrastructure and regulatory apparatus that supports digital money transfer through mobile devices and internet.

124. **The DPF-supported program is fully aligned with the World Bank Group Maximizing Finance for Development approach in that it addresses constraints to sustainable private sector financing to productive MSMEs in the Moroccan economy.** All activities support addressing market barriers preventing efficient allocation of private sector capital to productive parts of the economy. The program places emphasis on addressing the market failures—information asymmetry and lack of credit information, capacity and risk aversion among financial sector actors, regulatory bottlenecks—to encourage private financing to address access to finance and improved broadband infrastructure. The program will help create an environment conducive to private sector investment in Internet infrastructure by: (a) defining and clarifying the fees and rules for extending connectivity infrastructure to municipalities; and (b) amending the telecommunication law to facilitate the entry of new players into the fixed broadband market and to strengthen competition and the regulatory framework.

125. **The program leverages several World Bank lending operations.** As outlined in section 4.2 and Table 4.1, this includes a US$50 million IPF capitalizing an early stage equity fund for start-up finance, a US$50 million MSME development program providing finance toward partial credit guarantees under the CCG, and a US$350 million DPF supporting credit information systems and the financial restructuring of MSMEs. Reforms supported under the proposed DPF deepen financing solutions proposed by the aforementioned investment projects.

126. **The DPF-supported program is aligned fully with the technical priorities and designed in direct consultation with the International Finance Corporation (IFC).** IBRD and IFC work hand in hand in Morocco on key financial and digital economy reform agendas. IFC has worked with banks on SME banking and supported BAM in licensing credit bureaus. IFC is also providing assistance on finalizing a Secured Transactions Law and establishing a moveable collateral registry. IFC also has several investments in leading Moroccan banks, in particular banks pursuing cross-border strategies, and is deploying the BoW program to help improve female and female-led enterprises access to finance. IFC and IBRD are also working together on a joint capital markets advisory programming that provides implementation support for the proposed operation, particularly with regard to SME access to long-term finance through capital markets advisory and notably the Morocco J-CAP program.[40]

4.3. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

127. **The proposed operation builds on the substantive dialogue and reform work undertaken in the context of the World Bank Group's ongoing engagements in Morocco.** The Government has undertaken extensive consultations within the framework of preparing the NFIS and Morocco Digital Strategy *(Plan Maroc Numérique)* to determine key financial inclusion and digital economy policy priorities. The preparation of this operation included extensive consultations with relevant public and private sector stakeholders as key inputs to determine the reform agenda that this operation supports. In addition to

[40] J-CAP is a US$1.8 million advisory services project run jointly by the World Bank Group and IFC addressing fundamental enabler to capital markets development and potential transaction.

the MEF as the formal project counterpart, the following public authorities were consulted during DPF preparation: BAM, MIICEN, *l'Agence Nationale de Réglementation des Télécommunications* (ANRT), *l'Agence du Développement Digital* (ADD), l'Autorité Marocaine des Marchés de Capitaux (AMMC), la Caisse Centrale de Garantie (CCG), Barid al-Maghrib (the Morocco Postal Bank), and *l'Autorité de Contrôle des Assurances et de la Prévoyance Sociale* (ACAPS). Private sector consultations included banks, MFIs, payment companies, investors, and telecommunications companies among others.

128. **The proposed operation has also benefitted from the parallel discussions and consultations on the proposed CPF, which has been discussed broadly with various stakeholders.** The feedback received contributed to the formulation of strategic focus areas for World Bank Group engagement and the specific CPF objectives—to which this operation is closely linked.

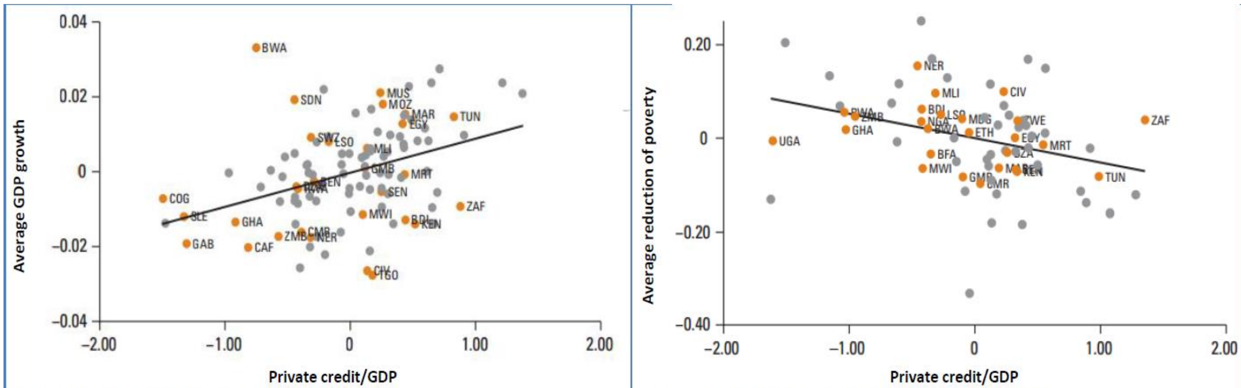
129. **The World Bank and IFC are also engaged in the ongoing dialogue and collaboration with development partners in Morocco.** At a high level, the World Bank, the AfDB, and the UN Coordination Office have taken the lead in reinstating formal donor coordination mechanisms in Morocco and have convened regular meetings with the heads of all main bilateral and multilateral agencies working in the country. With respect to the proposed operation, the collaboration has focused on those development partners most engaged in the areas of financial inclusion and the digital economy. This includes European Bank for Reconstruction and Development, European Union (EU), GIZ, and *Agence Française de Développement*. Close coordination among donors will continue to apply wherever possible, including with the IMF, with regards to implementing this operation.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

130. **The proposed DPF supports inclusive financial sector and digital development which has a positive impact on poverty and social cohesion.** At the macroeconomic level, financial sector development measured by the level of total financial intermediation in an economy is positively correlated with growth, employment, and a reduction in poverty and inequality. GDP is also positively correlated with access to credit and the opening of bank branches. As a result, countries with more advanced financial sector development have seen the proportion of those living in poverty decrease more rapidly and their Gini coefficients improve (see Figure 5). Reforms supported by the DPF will help improve economic and social inclusion due to improved access to services and markets, and more efficient and secure government-to-person services. The digital economy expands business opportunities and allows producers and service providers to seamlessly reach and interact with customers in remote markets. As a result, it can be a powerful tool to promote economic opportunities and private sector-led development.

Figure 5. Correlation between financial intermediation and GDP growth and the population living on less than $1/day



Source: Beck, Maimbo, Faye, and Triki, 2011. Source: Beck, Demirgüç-Kunt, and Levine, 2007.
Extracts from the study *Financing Africa*, 2011. African Development Bank (AfDB), World Bank, BMZ.

131. **The proposed prior actions are expected to have a positive impact on low-income households in Morocco.** Financial inclusion provides financial tools (through credit, savings, insurance, and payment products) to smooth consumption, build up assets, and invest productively in health, education, and family outcomes. This is particularly important for marginalized segments, including women and youth. A randomized control trial found that in Morocco access to credit led to a 52 percent increase in the number of days worked outside the household and a 10 percent increase in in-kind savings and consumption levels.[41]

132. **The DPF-supported reform program is set to have a positive impact on the ability of the Moroccan private sector to create jobs.** Creating quality jobs through a productive private sector is a prerequisite for Morocco to become a middle-income country. The program will facilitate job creation through (potentially) lower telecommunication service prices for companies, improved broadband access, and newly available financial services for small companies facilitated through digital means for populations who cannot access traditional banking services. This is particularly important given that an estimated 14 million people, nearly 60 percent of working age individuals are out of the labor force, unemployed, or in unpaid jobs. Small enterprises account for over 90 percent of the total number of operating enterprises in Morocco, contributing over 20 percent of GDP.[42] Financial inclusion and digital connectivity also support the emergence of digitally enabled entrepreneurs. This is critical given that the rate of firm creation in Morocco is much lower than the regional averages. Moroccan policymakers have placed significant priority on the role of digital entrepreneurship in creating economic opportunity for youth.

133. **Potential adverse impacts of adopting digital technologies are mitigated through robust social protection elements.** Specifically, PA#4 expands basic compulsory health insurance coverage for self-employed individuals. This will significantly expand the number of individuals with access to tools to

[41] Source : Crépon, Bruno et al. 2011. "Evaluation of the Impact of Microcredit in Morocco." American Economics Journal: Applies Economics. Volume 7. No. 1.
[42] Data from BAM.

reduce vulnerability and better respond to cataclysmic shocks, whether they be related to health, social/familial, or climate-linked. In addition, PA#7 introduces interoperability between banks and payment service providers to develop the mobile payments market. Digital payments globally bring large volumes of traditionally underbanked people into the formal financial system, including those in remote areas. In Kenya, research found that access to MPESA's mobile-money services increased per capita consumption levels and lifted 194,000 (2 percent) Kenyan households out of extreme poverty, with more pronounced impacts for female-headed households.[43] The adoption of digital technologies can also be an important entry point for ongoing reforms of cash transfer systems. Digitizing these systems will bring additional transparency, efficiency, and beneficiary choice to low-income Moroccans. PA#7 provides the prerequisite financial infrastructure to advance on such reforms, in coordination with the World Bank Group's broader technical assistance engagement in Morocco.

5.2. ENVIRONMENTAL ASPECTS

134. **PA#1, leading to increasing access to finance for microenterprises and SMEs and pursuing investment reforms in digital infrastructure and digital platforms, is not expected to have significant environmental impacts.** Reforms will support business expansion of small enterprises, many of which engage in small-scale manufacturing, handicrafts and other revenue-generating activities, agricultural production, or service provision. The proposed DPF does not support reforms related to real estate production or construction. It is recognized that there may be some business activities that may have environmental and social risks; for example, increased pollution from certain industrial subsectors. However, the scale is likely to be limited because of the size of MSMEs.

135. **Increasing access to finance for small farmers, and the ceiling of such finances, may also have negative environmental impacts.** These are mainly associated with poor land and water management and the possible use of pesticides.

136. **Facilitating the entry for national and international firms working in the telecommunication field would increase the number of communication towers and associated infrastructures.** Notwithstanding that these entrants in the field may be SMEs, such activities will likely have environmental, social, occupational health, and safety impacts.

137. **Financial sector oversight of these institutions helps mitigate any environmental risks because of support measures.** Moroccan financial institutions benefitting from the DPF-supported reforms have internal risk management frameworks in place, including policies on environmental and social impact, as well as governance systems overseen by BAM. The 2016 FSAP found BAM's oversight framework to be effective and improving. Closely connected, the supervisory capacity of AMMC was also found to be increasing and making good progress in implementing the International Organization of Securities and Exchange Commissions (IOSCO) Principles and Objectives of Securities Regulation.

138. **Morocco has environmental systems that can mitigate the potential negative effects of programs implemented as a result of the supported policy reforms.** The Moroccan legal framework addresses the majority of aspects related to environmental protection, pollution abatement and

[43] Suri, T. and Jack, W. (2016). The long-run poverty and gender impacts of mobile money. Available: *http://science.sciencemag.org/content/354/6317/1288*

improving the living environment. This framework also includes a preventive instrument (Environmental Impact Assessment [EIA]) and financial assistance and tax incentives, as well as punitive measures against natural and legal persons committing acts that are deemed to be detrimental to the environment. Concerning EIAs, the most important legislative text is Law No. 12-03 of May 12, 2003, the objective of which is to minimize the negative impact of projects and improve ecological sustainability. In Morocco, the EIA constitutes a valuable legal tool, which subordinates the administrative authorization of any project subject to EIA requirements to an environmental acceptability decision. This legal framework is complemented by the National Charter on Environment and Sustainable Development (adopted in March 2014), which promotes a balance between environmental, economic, and social dimensions and aims at improving the living environment of citizens, enhancing sustainable management of natural resources, and promoting economic activities that are respectful of the environment. The actual experience of Moroccan authorities in implementing the environmental legal framework is still relatively limited, especially at the level of local authorities, due to the recent publication of numerous application decrees. Furthermore, construction work in Morocco follows *Fédération Marocaine du Conseil et de l'Ingénierie* (Moroccan Federation of Consulting and Engineering) or similar arrangements, which come with their own set of proper environmental, occupational health, and safety measures.

139. **Climate and disaster risk screening.** Climate and disaster risk screening for the DPF has been completed and the overall risk of the operation is Moderate. The DPF will support policy reforms focused on financial inclusion and digital connectivity and infrastructure for individuals, households, and MSMEs/entrepreneurs. Morocco is highly exposed to climate and disaster risks, including rising temperatures, propensity for droughts, rising sea levels along the coast, and severe flooding during rainy season and geophysical hazards (landslides in the northeast). Morocco is not well positioned to respond to these risks because policy makers lack the information needed to evaluate risk and support risk reduction for longer-term climate change threats. However, the proposed DPF will help build resilience among beneficiary populations through policy reforms that will enhance access to finance (including digital financial services and mobile payments) and improve digital connectivity (that is, Broadband fiber to remote communities). Though the operation does not directly address climate change risks through the prior actions, it is expected that its results would positively affect beneficiaries' capabilities to anticipate and manage climate and disaster-related risks. Therefore, the overall risk to the outcome of the operation due to climate-related and natural disasters is assessed to be Moderate.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

140. **PFM.** The GOM's annual budget is made publicly available once approved by the Parliament. In addition, a citizen budget is prepared and made public on the MEF website (http://lof.finances.gov.ma). The last overall Public Expenditure and Financial Accountability assessment, carried out by the World Bank, AfDB, and the EU in 2017 confirmed that Morocco has an overall credible, comprehensive, and transparent budget. It highlighted the substantial PFM reforms underway, most of which were supported by the World Bank through a programmatic series of Morocco Accountability and Transparency Development Policy Loans and accompanying TA, including in public procurement. The Moroccan PFM system performance meets the fiscal discipline objective but requires more attention to achieve a more strategic allocation of resources and provision of quality public services.

141. **Foreign exchange issues.** According to the various recent assessments, BAM's safeguard framework was found robust with strong internal and external controls, supported by several good

governance practices. These assessments highlighted that existing safeguards and governance practices should be complemented by stronger legal and financial reporting frameworks, which are needed to enhance the legal autonomy of BAM and strengthen the timely publication of audited financial statements. The World Bank has reviewed BAM's latest annual report dated March 2018, which includes an unqualified audit by Mazars of its 2017 accounts. Since then, BAM has implemented the recommendations from the assessment, including publication of audited financial statements. Existing governance practices and safeguards will be enshrined in the new Central Bank Law currently awaiting adoption by the CG.

142. **Disbursement and auditing.** With reference to the flow of funds, the proposed loan will follow the World Bank's disbursement procedures for development policy financing. Once the loan becomes effective, the proceeds of the loan will be disbursed in a single installment. Specifically, disbursements will be made, provided that the World Bank is satisfied with the program being carried out by the borrower and with the adequacy of the borrower's macroeconomic policy framework. The account into which the loan proceeds will be deposited forms part of the country's official foreign exchange reserves. Flow of funds (including foreign currency exchange) is subject to standard PFM processes. The government budget is comprehensive, unified, and centralized to a single treasury account.

143. **The loan proceeds will be deposited by the IBRD** in a dedicated account opened for this DPF by the borrower and acceptable to the World Bank at BAM, upon submission of a signed withdrawal application. The borrower should ensure that upon the deposit of loan proceeds into the said account, an equivalent amount, in the local currency, is credited to the treasury current account at the central Treasury Department. The borrower will report to the World Bank within 30 days of disbursement on the amounts deposited in the dedicated account and credited to the budget management system, along with the exchange rate applied and the date of the transfer. If the proceeds of the loan are used for ineligible purposes as defined in the Loan Agreement, IBRD will require the borrower to promptly refund, upon notice, an amount equal to the amount of the said payment to IBRD. Amounts refunded to the World Bank upon such request shall be cancelled. The loan proceeds will be administered by the MEF.

144. **IBRD reserves the right to ask for a transaction audit of the dedicated account.** This audit, when requested, will cover the accuracy of the transactions (credits and debits) of the dedicated account, including accuracy of exchange rate conversions, confirming that the dedicated account was used only for the purposes of the operation and that no other amounts have been deposited into the account. Also, the auditor would have to obtain confirmation from corresponding bank(s) involved in the funds flow regarding the transaction. The period for submission of the audit report to the World Bank would be not later than four months from the date a request for such audit is issued.

145. **Procurement regulations.** Morocco has conducted major reforms of its procurement system which have resulted in: (a) the adoption of a new Public Procurement Decree (PPD) effective January 1, 2014, and (b) the creation of a '*Commission Nationale de la Commande Public'* (CNCP) whose responsibilities include, among others, the drafting of policies and regulation, issuance of standards documents for public procurement, coordination, and oversight of training in procurement and management of complaints. The key features of the decree are the following: (a) it constitutes a unified regulatory framework for procurement applicable to public sector (state, local governments and administrative SOEs); and (b) it brings the selection criteria in line with the principles of competition and equal treatment of bidders. Following this reform, all non-administrative SOEs and autonomous

government agencies have been requested to revise their procurement rules to comply with the PPD. In addition to the PPD, there are standard bidding documents that provide to the procuring entities with the tools to conduct their procurement activities.

146. **E-procurement.** The use of an electronic procurement portal (article 147 of the PPD) has increased public access to the availability of procurement-related information such as bid opportunities, calls for proposals, cost estimates, contract-related documentation, and results of tendering. More broadly, the electronic procurement system includes additional features such as the electronic submission of bids, a supplier database, electronic reverse auctions, and grouped purchases. However, the e-procurement system is not able to process electronic submission of procurement requests.

5.4. MONITORING, EVALUATION, AND ACCOUNTABILITY

147. The policy and results matrix for the proposed operation can be found in Annex 1.

148. **Implementation and coordination responsibilities.** The responsibility for implementing the proposed operation rests with the MEF. The Government takes the lead in monitoring progress in implementation of this operation, with ongoing support from the World Bank. The results indicators selected to monitor and evaluate implementation progress and the achievement of program outcomes will be monitored by the institution that takes the coordination lead for the respective prior actions. Where applicable, the indicators selected in this operation already collected and monitored by the associated institution. The operation thus builds on the existing monitoring and evaluation systems of the Government.

149. **World Bank support.** The World Bank will provide regular implementation support to provide policy advice and TA to the institutions involved in the implementation of the reform program. The World Bank will continue to maintain continuous dialogue with the relevant government ministries and will conduct regular reviews in close collaboration with other partners. This will take the form of supervision missions, at times jointly with other donors in the case of specific reforms. IFC will also remain closely involved in the monitoring and support to the operation.

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

151. Morocco has a number of institutions responsible for grievance handling and resolution. The available national GRS mechanisms and institutions have been recently elevated to constitutional bodies to provide them with more independence and financial autonomy, which is necessary to validate their

power of self-referral. The World Bank's GRS mechanism does not affect the efficiency of the Moroccan complaints and resolution system.

6. SUMMARY OF RISKS AND MITIGATION

152. **The overall risk of the proposed operation is moderate.** The key risk ratings are shown in Table 5 below. All ratings are assessed as either moderate or low, except for stakeholders risk and institutional capacity for implementation and sustainability risk, which are rated substantial.

153. **With regard to political economy and governance, although the GOM's commitment to reform is strong, particular attention must be paid to the fact that these reforms could disrupt the market structure, as evidenced by international experience, and challenge business interests, thereby posing risks to the reform adoption efforts.** Reforms to the competition and regulatory landscapes in the financial and digital sectors, which are expected to open and level the playing field between incumbent actors and new entrants in sectors may generate opposition to reform adoption. Furthermore, the proposed reforms require sustained institutional coordination and political support to facilitate interoperability and data sharing among public and private actors.

154. **With regard to stakeholders risk,** the reforms supported by this operation involve various public stakeholders, including MEF, BAM, and other supervisory authorities. The reforms require institutional and political support, as well as inter-ministerial and interagency coordination and transparency, to facilitate interoperability and data sharing among the involved public and private actors. Furthermore, regulatory reforms in the financial and digital sectors, which are expected to open and level the playing field between incumbent actors and new entrants in the sectors, will challenge vested business interests and may generate opposition to implementing reforms even after they have been adopted. The World Bank's broader engagement in Morocco will help identify and mitigate these risks, notably through analytical work and TA on specific reform measures and by paying particular attention to the distributional aspects of reforms. The inclusion of the DPF prior action to develop digital infrastructure in local communities and remote areas will support greater social and political inclusion, along with citizen engagement initiatives supported through this DPF and the broader CPF program.

155. **On institutional capacity for implementation and sustainability,** while institutional capacity is relatively strong in Morocco, the main risks stem primarily from three elements: (a) the ongoing coordination required among the various governmental authorities involved in the operation, (b) their capacity to implement reforms once they have been adopted, and (c) potential delays in securing legislative approvals for various reforms that have not yet been fully adopted. In the context of this DPF, the challenge will be to ensure that the reforms that have been adopted are fully implemented and have measurable impacts on financial and digital inclusion. These risks will be mitigated by leveraging ongoing World Bank engagements with key project counterparts, underpinned by strong technical analysis at the preparation stage to justify the proposed reforms—including a keen understanding of the country's readiness for each prior action. Certain aspects of these risks fall outside the control of the authorities and the World Bank (that is, securing approvals as part of the legislative process) and will be mitigated to the extent possible through a continued dialogue with the authorities and strong analytical underpinnings to ensure that the reform program has a strong technical justification.

Table 5. Summary of Risk Ratings

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

ANNEX 1: POLICY AND RESULTS MATRIX

PRIOR ACTIONS AND INDICATORS		RESULTS	
Prior Actions	**Indicator Name**	**Baseline (2017)**	**Target (2020)**
Pillar I. Enhancing Financial Inclusion for Individuals and MSMEs			
PA#1: To allow microfinance institutions to expand their portfolio and respond to credit demand of MSME, the Council of Government has approved and submitted to Parliament on November 13, 2018**,** Draft Law No. 85-18 amending Law No. 18-97 on Microcredit authorizing an increase in the maximum lending size from MAD50,000 to MAD150,000.	**1.** Gross loan portfolio for the microfinance sector (MAD billion; percentage of women borrowers)	1. 6.7	1. 7.5 (50 percent)
PA#2 To increase access to finance for small farmers, the Ministry of Economy and Finance and the Credit Agricole du Maroc have raised the ceiling of loans guaranteed to small farmers by the *Fonds de Stabilisation Prudentielle* from MAD100,000 to MAD200,000, pursuant to an amendment to the *Convention establishing the Fonds de Stabilisation Prudentielle "FSP"* dated November 2, 2018.	**2a.** Volume of cumulative *Tamwil El Fellah* (TEF) loans disbursed (MAD billion) **2b**. Number of female beneficiaries of TEF	2a. 1.7 2b. 927	2a. 2.3 2b. 2,000
PA#3: To enhance oversight of gender gaps in financial inclusion of women and female-owned enterprises, have gender data in the credit information system, and support modernization of Morocco's credit information system, BAM has issued Notice No. L/BKAM/2018/9632 dated December 20, 2018, making it mandatory for payment companies to report gender disaggregated data.	**3.**Percentage of payment companies reporting gender-disaggregated performance data	3. 0	3. 75 percent of payment companies reporting to BAM

PA#4: To improve health insurance coverage, the Borrower has adopted on September 13, 2018 and published in the Official Gazette dated January 21, 2019, Decrees No. 2.18.622, 2.18.623 and 2.18.624 implementing Law No. 98-15 to expand basic compulsory health insurance coverage to professionals, self-employed individuals, and non-salary individuals.	**4.** Number of independent professionals, self-employed individuals, and non-salary individuals with health insurance coverage	4. 0	50,000
PA#5: To develop Islamic Finance *(Finance Participative)*: (a) the Borrower has enacted Law No. 69-17 amending and supplementing Law No. 33-06 related to the issuance of Sukuk certificates published in the Official Gazette No. 6667 dated April 23, 2018; and (b) the Council of Government has approved and submitted to Parliament on October 24, 2018, Draft Law No. 87-18 amending and supplementing Law No. 17-99 on the Insurance Code relating to *Takaful* insurance.	**5a.** Volume of Sukuk certificate issuances (MAD billion) **5b.** Number of insurance companies issuing Takaful products	5a. 0 5b. 0	5a. 2 5b. 3
Pillar II. Supporting Institutional and Policy Reforms for the Development of Digital Platforms and Digital Infrastructure			
PA#6: To promote the development of mobile payments, the BAM has adopted Decision No. 392/W/2018 on mobile payments, dated November 12, 2018 setting the conditions and modalities of mobile payments in Morocco, including interoperability of m-wallets.	**6.** Number of m-wallets issued	6. 0	6. 20,000
PA#7: In order to create an environment conducive to the deployment of telecommunications infrastructure and strengthen competition in the fiber access market, the ANRT has adopted Decision No. ANRT/DG/No.12/18 dated July 27, 2018 approving a wholesale offer to access passive infrastructure of Maroc Telecom (*Offre Génie Civil*).	**7**. Fixed broadband penetration as a percentage of households (source: Annual ANRT Survey)	7. 19.4 percent	7. 22 percent
PA#8: To promote private investment in digital infrastructure in local communities (*Collectivités Térritoriales)* including in remote areas, the Minister of Interior has adopted Circular No. F/2166 dated June 14, 2018 establishing a uniform ceiling for fees to be paid by investors to deploy their infrastructure in the municipal public domain.	**8**. Percentage of rural households with Internet access (source: Annual ANRT Survey)	8. 53.1 percent	8. 56 percent

Pillar III. Enhancing Support to Digital Entrepreneurs			
PA#: To streamline and facilitate enterprise creation by electronic means, the Borrower has enacted Law No. 87-17 amending and supplementing Law No. 13-99 establishing the OMPIC, published in the Official Gazette No. 6722 dated November 1, 2018; and the Council of Government has approved and submitted to Parliament on March 19, 2018: (i) Draft Law No. 89-17 amending and supplementing Law No. 15-95 on the Commercial Code for the establishment of a centralized electronic commerce register and decentralized electronic commerce registries; and (ii) Draft Law No. 88-17 on the electronic creation and support to enterprises.	**9**. The new electronic portal is operational	9. No	9. Yes
PA#10: To promote the development of a new asset class to bridge the early stage finance gap of digital entrepreneurs, the *Fonds Innov Invest*'s Technical Committee has adopted the technical specifications (*Cahier de Charges*) dated December 26, 2018 outlining eligibility criteria for business angels to receive financing from the *Caisse Centrale de Garantie*	**10a**. Number of business angel networks that have been certified by the CCG **10b**. Number of start-up projects submitted to business angels for financing	10a. 0 10b. 0	10a. 2 10b. 30

Note: a. In 2017, 80,000 enterprises were registered through OMPIC channels using traditional paper-based methods. It is expected that 100,000 enterprises will be registered by January 2020 using the new electronic platform.

ANNEX 2: FUND RELATIONS ANNEX

IMF Executive Board Approves US$2.97 billion for Morocco Under the Precautionary and Liquidity Line

December 17, 2018

- The IMF Executive Board approved a Precautionary and Liquidity Line (PLL) arrangement for Morocco that will provide insurance against external risks and support the authorities' policies to reduce fiscal and external vulnerabilities and promote higher and more inclusive growth.
- Further fiscal consolidation will help lower the public debt to GDP ratio over the medium term while securing priority investment and social spending.
- Reforms of education, governance, the labor market, and continued improvement in the business environment will be essential to raise potential growth and reduce high unemployment levels, especially among the youth and women.

The Executive Board of the International Monetary Fund (IMF) today approved a two-year arrangement for Morocco under the Precautionary and Liquidity Line (PLL) for SDR 2.1508 billion (about US$ 2.97 billion, or 240 percent of Morocco's quota). The access under the arrangement in the first year will be equivalent to SDR 1.25066 billion (about US$ 1.73 billion or 140 percent of quota).

Despite a sharp pick up in global oil prices, the authorities have reduced fiscal and external vulnerabilities and implemented important reforms with the support of three consecutive 24-month PLL arrangements. The new PLL arrangement will provide insurance against external shocks and support the authorities' efforts to further strengthen the economy's resilience and promote higher and more inclusive growth.

The authorities intend to treat the new arrangement as precautionary, as they have done under the previous three arrangements. Morocco's first PLL arrangement for SDR 4.1 billion (about US$ 6.2 billion at the time of approval) was approved on August 3, 2012 (See Press Release No. 12/287). The second PLL arrangement for SDR 3.2 billion (about US$5 billion at the time of approval) was approved on July 28, 2014 (See Press Release No. 14/368), and Morocco's third arrangement for SDR 2.5 billion (about US$3.5 billion at the time of approval) was approved on July 22, 2016 (See Press Release No. 16/355).

The PLL was introduced in 2011 to meet more flexibly the liquidity needs of member countries with sound economic fundamentals and strong records of policy implementation but with some remaining vulnerabilities.

Following the Executive Board on Morocco, Mr. Mitsuhiro Furusawa, IMF Deputy Managing Director and Acting Chair of the Board, made the following statement:

"Morocco has made significant strides in reducing domestic vulnerabilities in recent years. Growth remained robust in 2018 and is expected to accelerate gradually over the medium term, subject to improved external conditions and steadfast reform implementation. External imbalances have declined substantially, fiscal consolidation has progressed, and the policy and institutional frameworks have been strengthened, including through the implementation of the recent Organic Budget Law, stronger financial sector oversight, a more flexible exchange rate regime, and an improved business environment.

Nevertheless, the outlook remains subject external downside risks, including heightened geopolitical risks, slow growth in Morocco's main trading partners, and global financial market volatility. In this context, a successor Precautionary and Liquidity Line (PLL) arrangement with the Fund will provide valuable insurance against external risks and support the authorities' policies aimed at further reducing fiscal and external vulnerabilities and promoting higher and more inclusive growth.

"Building on progress made under past PLL arrangements, further fiscal consolidation will help lower the public debt to GDP ratio over the medium term while securing priority investment and social spending. These efforts should be based on tax and civil service reforms, sound fiscal decentralization, strengthened oversight of state owned enterprises, and better targeting of social spending. Greater exchange rate flexibility will further enhance the economy's capacity to absorb shocks and preserve competitiveness. Adopting the central bank law and continuing to implement the 2015 Financial Sector Assessment Program recommendations will help further strengthen the financial sector policy framework. Finally, reforms of education, governance, the labor market, and continued improvement in the business environment will be essential to raise potential growth and reduce high unemployment levels, especially among the youth, and to increase female labor participation."

IMF Communications Department

MEDIA RELATIONS

PRESS OFFICER: WAFA AMR

PHONE: +1 202 623-7100**EMAIL:** MEDIA@IMF.ORG

ANNEX 3: LETTER OF DEVELOPMENT POLICY

Annexe 4 : LDP

Royaume du Maroc
Ministère de l'Economie et des Finances
Le Ministre

وزارة الاقتصاد والمالية
الوزير

06 JAN 20

A

Monsieur le président de la Banque Mondiale
1818 H Street N.W – Washington DC

Objet: Lettre de politique de développement relative à l'appui à l'inclusion financière et à l'économie numérique.

Monsieur le Président,

Comme vous le savez, l'économie marocaine a connu au cours de ces dernières décennies des transformations majeures qui se sont traduites par une amélioration de sa performance, une diversification de son tissu économique et un renforcement de sa résilience face aux chocs exogènes. Ces évolutions ont été réalisées grâce à un effort permanent en matière de réformes structurelles et sectorielles de grande envergure ainsi qu'aux grands projets d'infrastructure.

L'approche retenue par le Maroc en matière de développement économique a toujours intégré le souci d'associer la croissance économique aux enjeux d'un développement inclusif et durable. Sur le plan de développement humain et social, je voudrais rappeler particulièrement l'adoption et la mise en œuvre de politiques sociales visant l'amélioration des conditions de vie des populations à revenus modestes dont l'Initiative Nationale de Développement Humain, l'élargissement de la protection sociale notamment au profit des populations à revenus modestes ou encore le lancement de programmes sociaux ciblés portés notamment par le Fonds de cohésion sociale.

Cette approche a été consacrée au niveau du programme gouvernemental 2017-2021 au titre duquel la promotion de l'entreprise et la réalisation d'une transformation structurelle de l'économie vers une production à valeur ajoutée a été érigée comme un axe prioritaire à côté du renforcement du développement humain et de la cohésion sociale et spatiale.

Le Royaume du Maroc est déterminé à poursuivre ce processus d'édification d'une économie nationale forte, durable et surtout inclusive. A cet égard, le secteur financier joue un rôle central dans la mobilisation de l'épargne pour le financement des activités économiques dans leur ensemble. La stratégie poursuivie en matière de développement de ce secteur vise le développement du marché pour répondre aux besoins de financement des entreprises et des ménages et le renforcement de l'inclusion financière pour apporter des solutions aux populations qui ont des difficultés d'accès au financement de marché tout en assurant la stabilité financière.

Je voudrais à ce titre souligner que le groupe banque mondiale a toujours été un partenaire de référence dans l'accompagnement des réformes du secteur financier, partenariat concrétisé par plusieurs prêts d'appui aux réformes mais aussi, je dirais même surtout par un programme d'assistance technique soutenu qu'on voudrait voir se développer et se renforcer bien davantage.

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A cet égard, et à l'instar des précédents programmes portant sur le secteur financier tous couronnés de succès, l'appui et l'accompagnement de votre institution sont sollicités pour la mise en œuvre d'un nouveau programme portant particulièrement sur l'axe stratégique « inclusion financière ».

Je me permets de rappeler que les chantiers inscrits dans le cadre du présent programme s'inscrivent parfaitement dans la continuité de l'action menée par la Banque au cours des dernières années dans notre pays. De plus, ce programme converge avec les objectifs du nouveau cadre stratégique de partenariat avec la banque mondiale 2019-2024, en cours de finalisation, et qui inclut l'inclusion financière en tant qu'axe stratégique eu égard notamment à son rôle dans le développement économique et social.

Avant de revenir sur les principaux chantiers de ce programme, je voudrais souligner qu'il est particulièrement destiné à anticiper, préparer et soutenir la stratégie nationale d'inclusion financière portée par le Ministère de l'Economie et des Finances et Bank Al Maghrib qui se sont mobilisés au cours des deux dernières années pour :

- Elaborer les axes de cette stratégie dans le cadre d'une étude structurée et concertée avec les acteurs de l'inclusion financière, basée sur un diagnostic intégrant notamment les résultats de l'enquête Findex. Ce diagnostic a révélé la nécessité de doubler d'efforts pour améliorer la pénétration des services financiers auprès de certaines catégories de la population, notamment les femmes, les jeunes et les populations du monde rural, ainsi que les Micro et Très Petites Entreprises.
- Préparer une gouvernance dédiée à son pilotage qui permettra notamment d'arrêter les orientations stratégiques, de suivre l'exécution de la feuille de route et de coordonner l'avancement des différents chantiers. Pour y parvenir, il est prévu la mise en place du conseil national de l'inclusion financière, d'un comité stratégique et de groupes de travail thématiques fixés selon les priorités de la stratégie. Le conseil national, qui devrait tenir sa première réunion prochainement, prévoit une composition large, publique et privée, incluant non seulement les acteurs de l'inclusion financière mais aussi ceux en charge de prérogatives d'inclusion économique.

Les principaux chantiers inscrits dans le cadre de ce programme, faisant partie intégrante de notre stratégie nationale d'inclusion financière, visent à apporter des solutions aux priorités identifiées lors du diagnostic. A cet égard, le programme d'appui visé sera structuré autour des principaux axes ci-après :

Pilier 1 : Renforcement de l'inclusion financière

Le Gouvernement du Royaume du Maroc ambitionne de renforcer le rôle de l'inclusion financière en tant que levier d'inclusion économique et sociale des individus et des entreprises à travers des actions qui privilégient le plus possible la complémentarité et l'additionnalité par rapport à d'autres politiques publiques qui poursuivent les mêmes objectifs.

A cet égard, une série de mesures sont prévues dans le cadre du ce programme visant à améliorer l'accès aux services financiers par les catégories identifiées comme prioritaires.

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Ainsi, pour utiliser tout le potentiel de la microfinance dans l'amélioration de l'accès des TPE aux services financiers, les seuils d'octroi seront revus à la hausse à travers la révision du cadre légal régissant les associations de micro-crédit pour porter le plafond à 150.000 contre 50.000 dhs actuellement.

De même, et dans l'objectif d'atténuer le risque supporté par ces opérateurs et réduire les difficultés rencontrées par les TPE à emprunter les capitaux nécessaires au développement de leurs activités, l'Etat déploiera, dans le cadre du système national de garantie, un mécanisme de garantie destiné au secteur du microcrédit visant à soutenir le financement des TPE mal desservies à ce jour par le secteur financier.

S'agissant du monde rural et de la petite agriculture en particulier, il sera procédé au le doublement du plafond de crédits accordés à cette catégorie bénéficiant de la garantie du Fonds de stabilisation prudentielle, pour le porter à 200.000 Dhs.

En outre, et en ce qui concerne l'accès au financement par les petites et moyennes entreprises, le Gouvernement procédera à la simplification de l'offre de garantie en vue d'améliorer et faciliter sa compréhension et ainsi promouvoir sa plus large diffusion et utilisation.

Sur un autre volet, le Gouvernement poursuivra ses efforts pour la mise en place de l'infrastructure de la finance participative notamment, à travers l'adaptation du cadre légal régissant les certificats de sukuk ainsi que la mise en place du dispositif régissant le marché de l'assurance Takaful.

Enfin, étant conscient que le développement d'un secteur financier fort et résilient ne pourrait être conçu sans une évolution équilibrée de ses différentes composantes, le Gouvernement s'engage à :

- poursuivre les efforts en matière d'approfondissement du marché des capitaux afin que le secteur bancaire puisse jouer pleinement son rôle dans le financement de l'économie et plus particulièrement des catégories vulnérables. Dans ce sens, il est prévu la création d'un compartiment PME à la bourse de Casablanca avec des conditions d'entrée allégées ;
- améliorer la couverture sociale des indépendants et des professions libérales pour une meilleure résilience contre les risques pouvant affecter leurs activités professionnelles.

Pilier 2 : Promouvoir le développement de plateformes numériques inclusives

Dans un souci de rattraper le retard constaté par rapport à d'autres pays, le Gouvernement poursuivra ses efforts pour soutenir le déploiement de la solution du Mobile paiement, créer les conditions pour développer un modèle de partage de la valeur attractif et pérenne pour l'ensemble des parties prenantes et stimuler son essor via des incitations lors de son lancement.

Ce chantier qui constitue, en effet, une révolution dans le mode de distribution des services financiers dans notre pays permet de dépasser les contraintes du modèle classique grâce notamment au développement de réseaux d'agents, plus souples que les agences bancaires, permettant ainsi aux usagers de réaliser leurs opérations dans un nombre important de points de contact. A cela s'ajoute, la simplicité des services permettant un usage facile même pour les populations ayant des connaissances limitées des produits financiers.

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Grâce à l'introduction de ce nouveau modèle, nous estimons pouvoir réaliser des avancées notables notamment dans la pénétration des services financiers auprès des populations vulnérables.

Pilier 3 : Soutenir la dynamique engagée au titre du financement des start-ups et de l'entreprenariat digital

S'agissant des start-ups, le Gouvernement poursuivra ses efforts pour le développement d'un modèle de financement adapté à cette catégorie d'entreprises dans la continuité des efforts menés depuis la mise en place du fonds Innov Invest, dont le lancement a connu un franc succès. Les actions envisagées couvrent en particulier i) la mise en œuvre du nouveau cadre légal et réglementaire du financement collaboratif ou « Crowdfunding » et ii) la mise en place d'une offre de financement à l'attention des réseaux des business angels, maillon essentiel de la chaine de valeur de financement des start-ups.

Aussi, le Gouvernement compte puiser tout le potentiel du digital dans la délivrance des services administratifs et de l'amélioration du climat des affaires et œuvrera dans ce sens à la mise en place des conditions favorables à l'ancrage de la digitalisation comme vecteur essentiel de la transformation de l'économie et son intégration dans l'économie mondialisée. Le Gouvernement s'engage à cet égard à mettre en place un cadre dédié à la création électronique des entreprises.

L'ensemble des mesures citées plus haut a pour finalité de créer un cercle vertueux de l'inclusion financière avec des bénéfices tangibles pour les catégories ciblées et particulièrement les femmes et les jeunes. Il y a lieu de mentionner à ce titre que les études de diagnostic ont permis de mettre en exergue des écarts importants, en terme d'accès aux services financiers par les femmes et les jeunes, par rapport à la moyenne nationale. Ainsi, la dimension genre sera systémiquement intégrée dans le déploiement de ce programme.

Monsieur Le Président,

L'économie numérique est un vecteur de rupture pour l'atteinte de nouveaux paliers de développement économique. La disponibilité d'une infrastructure numérique moderne et des plateformes numériques constituent une condition indispensable. Par conséquent, la stratégie Maroc Digital visant notamment à renforcer le e-gouvernement, l'infrastructure numérique et de façon plus générale à créer un environnement plus favorable au digital susceptible d'améliorer le service rendu aux usagers et de créer les conditions d'une meilleure insertion économique des jeunes par une utilisation productive du numérique, consacre l'intérêt et l'engagement du Maroc en la matière.

Même si cette thématique est plus large et devrait faire l'objet d'un programme dédié dans le cadre de notre coopération future, nous avons saisis l'occasion de ce programme pour intégrer une composante infrastructure numérique vu son rôle en tant que fondation pour le développement de plateformes numériques inclusives et de l'entreprenariat digital.

Cette composante intègre notamment comme premiers jalons :

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- un accès uniforme des opérateurs télécoms au domaine public selon des tarifs harmonisés et règlementés afin de lever les obstacles existants majeurs au développement d'infrastructures haut débit dans des villes secondaires ;
- Une régulation optimale et une meilleure mutualisation des infrastructures des opérateurs de Télécommunication.

Ces mesures témoignent de l'engagement du Maroc sur le chemin du développement du numérique et d'accélération de la transformation digitale. D'ailleurs, elles s'insèrent dans un cadre plus global, comportant plusieurs initiatives lancées en parallèle notamment, le paquet réglementaire visant à améliorer les conditions générales permettant aux opérateurs de déployer la technologie de la fibre optique et d'autres technologies à large bande ultra-rapide, ainsi que l'amendement de la loi n°24-96 relative à la poste et aux télécommunications qui vise, entre autres, à assurer une meilleure régulation du secteur et à créer un modèle d'accès ouvert aux infrastructures des opérateurs de service public.

D'une manière plus générale, l'ambition du Maroc reste de promouvoir l'économie numérique afin de soutenir la transition vers un nouveau modèle de développement, tout en accélérant la création d'emplois et libérer tout le gisement non encore exploité du numérique en tant que levier essentiel de croissance. D'ailleurs, la stratégie Maroc Digital, en cours de mise à jour par le Ministère de l'Industrie, de l'Investissement, du Commerce et de l'Economie Numérique (MIICEN), en coordination avec les principaux acteurs publics concernés par le numérique, consacre ces ambitions.

Monsieur Le Président,

Je voudrais conclure en soulignant que si le programme qui est soumis à l'appui de votre institution concerne des réformes menées et à mener au cours de l'année 2019, il s'inscrit dans le cadre de stratégies gouvernementales intégrées.

D'une part, il s'agit de la stratégie nationale d'inclusion financière qui devrait être lancée durant le premier trimestre 2019 et qui vise à l'accélération de l'inclusion financière au Maroc et à améliorer la capacité d'épargne et d'investissement de la population d'une manière générale et à une meilleure protection des personnes à travers un accès à un éventail plus large de services financiers. Ladite stratégie reposera sur 8 leviers stratégiques à engager, issus de consultations de l'écosystème financier marocain et des échanges avec les opérateurs publics et privés, et de l'analyse des actions engagées par d'autres pays qui ont réussi à développer l'inclusion financière. Dans ce sens, l'accompagnement de la Banque mondiale dans la mise en œuvre de cette stratégie s'avère essentiel pour appuyer les parties prenantes marocaines dans les différents chantiers identifiés.

D'autre part, il s'agit, de la poursuite de la collaboration engagée entre la Banque et le MIICEN dans le domaine numérique, de la stratégie Maroc Digital visant notamment à renforcer le e-gouvernement, l'infrastructure numérique et de façon plus générale à créer un environnement plus favorable au digital susceptible d'améliorer le service rendu aux usagers et de créer les conditions d'une meilleure insertion économique des jeunes par une utilisation productive du numérique.

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D'ailleurs, je me félicite de l'organisation par la Banque mondiale et le MIICEN d'un atelier de haut niveau le 5 novembre 2018 pour débattre de cette stratégie, atelier qui a permis de faire le point sur la vision portée par ce Département dans ce secteur, tant stratégique, et des chantiers en cours de lancement.

Je voudrais exprimer par cette lettre notre souhait de travailler avec votre institution pour la mise en place dans le cadre de notre partenariat futur de programmes ciblés et séparés visant l'accompagnement de ces deux stratégies sur les volets technique et d'appui aux réformes.

Tels sont, Monsieur le Président, les grands axes du nouveau programme d'appui à l'inclusion financière et à l'économie numérique.

En vous remerciant de votre précieux appui pour la mise en œuvre de cet ambitieux programme, je vous prie d'agréer, **Monsieur le Président**, l'expression de ma haute considération.

Le Ministre de l'Economie
et des Finances

Signé : Mohamed BENCHAABOUN

16 JAN 2019

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Unofficial English translation

Kingdom of Morocco
Ministry of Economy and Finance
Office of the Minister

January 16, 2019

The President of the World Bank
1818 H Street, N.W.
Washington, DC

Subject: Letter of development policy regarding support for financial inclusion and the digital economy

Mr. President,

As you are aware, major changes have taken place in the Moroccan economy in recent decades, which have been reflected in its improved performance, diversification of its economic fabric, and greater resilience to exogenous shocks. These changes are the result of ongoing work related to comprehensive structural and sectoral reforms as well as major infrastructure projects.

Morocco's economic development approach has always included efforts to link economic growth to the challenges of inclusive and sustainable development. In the area of human and social development, I would like to point out in particular the adoption and implementation of social policies aimed at improving the living conditions of low-income population groups, which include the National Human Development Initiative, the expansion of social protection especially for low-income population groups, and even the launch of targeted social programs supported, in particular, by the Social Cohesion Fund.

This approach was incorporated into the 2017-2021 Government Program in which enterprise promotion and a structural shift in the economy toward value-added production were established as priority areas, along with the strengthening of human development and social and spatial cohesion.

The Kingdom of Morocco is determined to continue this process of building a strong, sustainable, and above all, inclusive national economy. In this regard, the financial sector plays a key role in the mobilization of savings to finance economic activities as a whole. The strategy pursued to develop this sector is aimed at developing the market so that it can meet the financing needs of enterprises and households and strengthening financial inclusion in order to offer solutions to residents who have difficulty gaining access to market financing, while at the same time ensuring financial stability.

In this regard, I would like to stress that the World Bank Group has always been a leading partner in the provision of assistance for financial sector reforms, as evidenced not only by several loans granted to support reforms but also, and I would even say particularly, by an ongoing technical assistance program that we would like to be the focus of much greater development and strengthening.

In this regard, and similar to previous financial sector programs which have all been successful, the support and assistance of your institution are requested for the implementation of a new program related in particular to the “financial inclusion” strategic pillar.

I would like to note that the areas included in this program are perfectly aligned with the work done by the World Bank in recent years in our country. Furthermore, this program is consistent with the objectives of the new 2019-2024 Country Partnership Framework with the World Bank, which is being finalized and incorporates financial inclusion as a strategic pillar, particularly in light of its role in economic and social development.

Before returning to the main areas of this program, I would like to stress it is aimed in particular at planning, preparing, and supporting the National Financial Inclusion Strategy, spearheaded by the Ministry of Economy and Finance and Bank Al-Maghrib, which have taken action over the past two years to:

- Develop the pillars of this strategy in the context of a structured study coordinated with financial inclusion stakeholders, based on a diagnostic study that includes, in particular, the results of the Findex survey. This diagnostic study revealed the need to redouble efforts to improve financial services penetration among certain population groups, especially women, young people, and persons living in rural areas, as well as micro and very small enterprises.
- Prepare a governance plan for its management that will facilitate, among other things, decision making related to strategic approaches, monitoring execution of the road map, and coordinating progress made in the different areas. To this end, plans have been made to establish the national financial inclusion council, a strategic committee, and thematic working groups based on the priorities of the strategy. The composition of the national council, which should hold its first meeting soon, is expected to be broad based and to include public and private stakeholders involved in financial inclusion as well as those vested with economic inclusion authority.

The main areas of this program, which are an integral part of our National Financial Inclusion Strategy, are aimed at addressing the priorities identified when the diagnostic study was conducted. In this context, the support program targeted will be built around the main pillars outlined below:

Pillar 1: Enhancing financial inclusion

The Government of the Kingdom of Morocco seeks to strengthen the role of financial inclusion as a tool for achieving the economic and social inclusion of individuals and enterprises through actions that accord as much priority as possible to complementarity and additionality relative to other public policies geared toward the same objectives.

In this regard, a series of measures are planned in the context of this program to improve access to financial services by the priority groups identified.

Consequently, to take advantage of the full potential offered by microfinance in improving access by MSMEs to financial services, lending thresholds will be revised upwards from the current MAD 50,000 ceiling to MAD 150,000, through modification of the legal framework governing microcredit associations.

Similarly, and with a view to mitigating the risk borne by these operators and easing the problems encountered by MSMEs in borrowing the capital necessary to develop their activities, the State will deploy, in the context of the national guarantee system, a guarantee mechanism for the microcredit sector aimed at supporting the financing of MSMEs which, thus far, have been ill-served by the financial sector.

The ceiling for loans to the rural population and small farmers, in particular guaranteed by the Prudential Stabilization Fund will be doubled to MAD 200,000.

Furthermore, with regard to access to financing by small and medium enterprises, the Government will simplify the guarantee provision in order to make it easier to understand, thereby promoting its wider dissemination and use.

On another front, the Government will continue its efforts to establish Islamic finance infrastructure, in particular by adapting the legal framework governing Sukuk certificates and establishing a mechanism governing the Takaful insurance market.

Lastly, cognizant of the fact that the development of a robust and resilient financial sector must be accompanied by the balanced development of its different components, the Government is committed to:

- Continuing efforts aimed at deepening the capital market so that the banking sector can fully play its role in financing the economy and, more specifically, vulnerable groups. To this end, the establishment of a small and medium-sized enterprise compartment on the Casablanca Stock Exchange with streamlined entry conditions is envisioned;
- Improving social coverage of self-employed workers and freelance professionals with a view to enhancing their ability to withstand the risks that may affect their professional activities.

Pillar 2: Supporting the development of inclusive digital platforms

To bridge the gap noted relative to other countries, the Government will continue its efforts to support the deployment of the mobile payment solution, create the conditions to develop a model for sharing its sound and sustainable value for all stakeholders, and encourage its rapid development through the provision of incentives at the time of its launch.

Indeed, this area, which represents a dramatic shift in the financial services distribution method in our country, paves the way to overcome the constraints of the conventional model through, in particular the development of agent networks that are more flexible than bank networks and thus allow users to conduct their transactions at a large number of points of contact. In addition, the simplicity of the services makes them user-friendly even for population groups with limited knowledge of financial products.

With the introduction of this new model, we think that we will be able to make noteworthy progress, particularly in financial services penetration targeting vulnerable population groups.

Pillar 3: Enhancing support to digital entrepreneurs

Continuing with the work undertaken since the establishment of InnovInvest, the launch of which was a great success, the Government will forge ahead with its efforts to develop a financing model suited to startups. Planned actions cover in particular: (i) establishing a new legal and regulatory framework for collaborative finance or crowdfunding; and (ii) making financing available to the business angel network, a critical link in the value chain for financing startups.

The Government also plans to fully tap into digital potential when providing administrative services and improving the business climate and will work toward the creation of conditions conducive to the establishment of digitalization as a key element in transforming the economy and integrating it into the global economy. In this regard, the Government is committed to the establishment of a dedicated framework for enterprise creation by electronic means.

All the measures outlined above are aimed at creating a virtuous circle of financial inclusion that provides tangible benefits to the target groups, in particular women and young people. In this regard, it bears noting that the diagnostic studies have revealed significant gaps in access to financial services by women and young people relative to the national average. Consequently, the gender dimension will be systematically integrated into the deployment of this program.

Mr. President,

The digital economy drives change that takes economic development to new levels. The availability of modern digital infrastructure and digital platforms is critical. Consequently, Morocco's interest in and commitment to this economy are reflected in its digital strategy (S*tratégie Maroc Digital*), aimed in particular at strengthening e-government, the digital infrastructure and, more broadly, at creating an environment more conducive to digital technology that can improve the service provided to users and create the conditions needed for greater economic integration of young people through the productive use of digital technology.

Although this topic is broader and should be the subject of a dedicated program in the context of our future cooperation, we availed ourselves of the opportunity provided by this program to incorporate a digital infrastructure component, as it provides the foundation for the development of inclusive digital platforms and digital entrepreneurship.

The initial steps taken in the context of this component are, in particular:

- Uniform access by telecom operators to the public domain based on harmonized and regulated fees, with the aim of removing major obstacles that currently exist to broadband infrastructure development in secondary cities;
- Optimal regulation and better pooling of telecom operator infrastructure.

These measures attest to Morocco's commitment to move toward the development of digital technology and accelerate digital change. Moreover, they are part of a broader framework that includes several initiatives launched in parallel, in particular, the regulatory package aimed at improving the general conditions that allow operators to deploy fiber optic technology and other ultra-fast broadband technologies, as well as the amendment to Law No. 24-96 on postal and telecommunications services aimed, inter alia, at ensuring better regulation of the sector and creating an open access model to the infrastructure of public service operators.

In more general terms, Morocco's goal remains the promotion of the digital economy in order to support the transition toward a new development model while accelerating job creation and drawing fully on untapped digital potential as a key driver of growth. Furthermore, Morocco's digital strategy, which is being updated by the Ministry of Industry, Investment, Commerce, and the Digital Economy (*Ministère de l'Industrie, de l'Investissement, du Commerce et de l'Economie Numérique;* MIICEN) in collaboration with the main public stakeholders involved with digital technology, reflects these goals.

Mr. President,

I would like to conclude by stressing that while the program submitted for the support of your institution pertains to reforms implemented or slated for implementation in 2019, it fits into the framework of integrated government strategies.

On one hand, it pertains to the National Financial Inclusion Strategy expected to be launched during the first quarter of 2019, which is aimed at accelerating Morocco's financial inclusion and improving the savings and investment capacity of the population in general, as well as better protecting individuals through access to a broader range of financial services. This strategy will be based on the engagement of eight strategic levers resulting from consultations on the Moroccan financial ecosystem, discussions with public and private operators, and the analysis of actions taken by other countries that have been successful in developing financial inclusion. In this regard, World Bank assistance with the implementation of this strategy is critical in order to support the Moroccan stakeholders in the different areas identified.

On the other hand, it relates to the continued collaboration between the Bank and MIICEN on digital technology, Morocco's digital strategy aimed in particular at strengthening e-government, the digital infrastructure and, more broadly, at creating an environment more conducive to digital technology that can improve the service provided to users and create the conditions needed for greater economic integration of young people through the productive use of digital technology.

Moreover, I view the organization by the World Bank and MIICEN of a high-level workshop on November 5, 2018, to discuss this strategy as a welcome development. This workshop facilitated the assessment of the vision of MIICEN, which is involved with this sector, both with respect to strategy and the work being undertaken.

By means of this letter, I would like to express our desire to work with your institution to establish, in the context of our future partnership, targeted and separate programs aimed at supporting these two strategies in the technical and reform assistance areas.

Mr. President, these are the major pillars of the new program to support financial inclusion and the digital economy.

I would like to thank you for your invaluable assistance with the implementation of this ambitious program.

Very truly yours,

/s/
Mohamed Benchaaboun

Minister of Economy and Finance

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant Positive or Negative Environment Effects (Yes/No/To Be Determined)	Significant Poverty, Social or Distributional Effects Positive or Negative (Yes/No/To Be Determined)
Pillar I. Enhancing Financial Inclusion for Individuals and MSMEs		
PA#1: To allow microfinance institutions to expand their portfolio and respond to credit demand of MSME, the Council of Government has approved and submitted to Parliament on November 13, 2018, Draft Law No. 85-18 amending Law No. 18-97 on Microcredit authorizing an increase in the maximum lending size from MAD 50,000 to MAD 150,000.	Some business activities may have environmental and social risks. However, their scale is likely to be limited because of the size of SMEs. Moroccan financial institutions have internal risk management frameworks in place, for mitigation of environmental and social impacts.	**Potentially positive.** Expanding access to credit can have an important impact on poverty. Poor and vulnerable people are typically financially constrained and cannot collateralize their borrowings. Microcredit institutions do not ask for collateral; therefore, in principle, they can be a suitable source of financing for those who do not have access to traditional financial institutions. The global evidence on the transformative effect of microfinance on the average borrower, however, shows that the effects tend to be quite limited (see, for example, Banerjee, Karlan, and Zinman 2015 on a sample of 6 countries that includes Morocco).
PA#2: To increase access to finance for small farmers, the Ministry of Economy and Finance and the Credit Agricole du Maroc have raised the ceiling of loans guaranteed to small farmers by the *Fonds de Stabilisation Prudentielle* from MAD 100,000 to MAD 200,000, pursuant to an amendment to the *Convention establishing the Fonds de Stabilisation Prudentielle "FSP"* dated November 2, 2018.	Some of the small farmer activities may have negative environmental impacts, mainly associated with poor land and water management and possible use of pesticides.	**Potentially positive** effect on poverty because it targets small farmers who are typically disadvantaged in getting credit access. On a general note and this is valid for other prior actions discussed below, the prior action supports adoption of the law. The directives and regulations that will follow the law approval will explain in more detail the real impact of this reform.
PA#3: To enhance oversight of gender gaps in financial inclusion of women and female-owned enterprises, have gender data in the credit information system, and support modernization of Morocco's credit information system, BAM has issued Notice No. L/BKAM/2018/9632 dated December 20, 2018, making it mandatory for payment companies to report gender disaggregated data.		**No direct adverse effect** on poverty: the prior action has the potential to encourage more women-tailored services.
PA#4: To improve health insurance coverage, the Borrower has adopted on September 13, 2018 and published in the		**Potentially positive** in the sense that it might protect population groups currently not enrolled in a pension

Prior Actions	Significant Positive or Negative Environment Effects (Yes/No/To Be Determined)	Significant Poverty, Social or Distributional Effects Positive or Negative (Yes/No/To Be Determined)
Official Gazette dated January 21, 2019, Decrees No. 2.18.622, 2.18.623 and 2.18.624 implementing Law No. 98-15 to expand basic compulsory health insurance coverage to professionals, self-employed individuals, and non-salary individuals.		system or having access to health insurance. As of now, nonetheless, it is not clear how many people will be covered, how much public spending will be required, and the cost to individual consumers. The risk identified is another measure such as RAMED (health insurance coverage for the poor) whose implementation proved to be more difficult than expected and currently affected by big errors of exclusion and inclusion.
PA#5: To develop Islamic Finance *(Finance Participative)*: (a) the Borrower has enacted Law No. 69-17 amending and supplementing Law No. 33-06 related to the issuance of Sukuk certificates published in the Official Gazette No. 6667 dated April 23, 2018; and (b) the Council of Government has approved and submitted to Parliament on October 24, 2018, Draft Law No. 87-18 amending and supplementing Law No. 17-99 on the Insurance Code relating to *Takaful* insurance.		**Potentially positive** indirect impact through job creation if more regulation can improve the performance of an important part of local financial system currently not regulated.
Pillar II. Supporting Institutional and Policy Reforms for the Development of Digital Platforms and Digital Infrastructure		
PA#6: To promote the development of mobile payments, the BAM has adopted Decision No. 392/W/2018 on mobile payments, dated November 12, 2018 setting the conditions and modalities of mobile payments in Morocco, including interoperability of m-wallets.		**Potentially positive.** It can be beneficial to poverty reduction, and if well-coordinated with ongoing reforms of cash transfers systems can have a great impact. The reform of social protection encompasses the progressive digitalization of the system and the automatic transfer of the benefits on a bank account. Thus, beneficiaries will have a bank account and a debit card to withdraw money. If the same card can be used to buy products in the shops using POS systems, this would be of great benefit for the poor who then will not need to carry cash in often unsecure environments. Also, the use of cards helps verify whether the transfer is spent for basic items such as food, clothes, medicines, or not.

Prior Actions	Significant Positive or Negative Environment Effects (Yes/No/To Be Determined)	Significant Poverty, Social or Distributional Effects Positive or Negative (Yes/No/To Be Determined)
PA#7:_In order to create an environment conducive to the deployment of telecommunications infrastructure and strengthen competition in the fiber access market, the ANRT has adopted Decision No. ANRT/DG/No.12/18 dated July 27, 2018 approving a wholesale offer to access passive infrastructure of Maroc Telecom (*Offre Génie Civil*).	Notwithstanding that these entrants in the field may be SMEs, such activities will likely have negative environmental (social), occupational health and safety impacts in view of the anticipated large percentage increase.	**Potentially positive** indirect impact if more contestability leads to lower prices and becomes affordable to small market players such as SMEs.
PA#8: To promote private investment in digital infrastructure in local communities (*Collectivités Térritoriales)* including in remote areas, the Minister of Interior has adopted Circular No. F/2166 dated June 14, 2018 establishing a uniform ceiling for fees to be paid by investors to deploy their infrastructure in the municipal public domain.		**Positive.** It will profit excluded remote areas in terms of Internet access and good mobile services.
Pillar III. Enhancing Support to Digital Entrepreneurs		
PA#9: To streamline and facilitate enterprise creation by electronic means, the Borrower has enacted Law No. 87-17 amending and supplementing Law No. 13-99 establishing the OMPIC, published in the Official Gazette No. 6722 dated November 1, 2018; and the Council of Government has approved and submitted to Parliament on March 19, 2018: (i) Draft Law No. 89-17 amending and supplementing Law No. 15-95 on the Commercial Code for the establishment of a centralized electronic commerce register and decentralized electronic commerce registries; and (ii) Draft Law No. 88-17 on the electronic creation and support to enterprises.		**Potentially positive** indirect effects if this measure significantly reduces obstacles to doing business and helps firms formalize and get access to credit from financial institutions and achieve growth both in terms of revenues and employment.

Prior Actions	Significant Positive or Negative Environment Effects (Yes/No/To Be Determined)	Significant Poverty, Social or Distributional Effects Positive or Negative (Yes/No/To Be Determined)
PA#10: To promote the development of a new asset class to bridge the early stage finance gap of digital entrepreneurs, the *Fonds Innov Invest*'s Technical Committee has adopted the technical specifications (*Cahier de Charges*) dated December 26, 2018 outlining eligibility criteria for business angels to receive financing from the *Caisse Centrale de Garantie*.		**No direct adverse effect** on poverty**.** It is certainly good for a niche of highly skilled workers with adequate skills. Not clear if poor can really benefit from it.

ANNEX 5: DEBT SUSTAINABILTY ANALYSIS

1. **After an accelerated debt accumulation period during the first half of the past 10 years amid a challenging external environment, low growth, and high fiscal deficits, Morocco's central government debt has stabilized owing to a sustained fiscal consolidation effort.** [44] At an estimated 65.1 percent as of end-2017, the central government debt-to-GDP ratio has increased by 1.7 percentage points compared to end-2013, as opposed to the significant increase of 16.3 percentage points of GDP during 2008–-2013. This recent slowdown in debt accumulation was mainly driven by fiscal consolidation efforts (primary deficit reduction from 4.4 percent of GDP in 2012 to 1 percent in 2017), amid a difficult context of a depreciating dirham–except in 2017–and slower real growth (averaging 3.1 percent over 2014–2017 compared to a 4.5 percent average over 2008–2013) (figure 6.1). GFNs decreased from 16.3 percent of GDP in 2014 to 13 percent in 2017 and are expected to follow a stable path around 12 percent throughout most of the forecast period. It is important to note that these figures, and the analysis in this annex, covers only central government debt, but not the debt of public entities and SOEs which are currently not included in government debt statistics.

2. **Morocco's central government debt profile at end-2017 predominantly comprised domestic debt (78 percent of total debt), with long-term maturities (more than 5 years), and mainly fixed rates, a structure which mitigates against currency and interest rate risks.** The central government's external debt is also mainly long term in nature with more than half based on fixed rates and has been contracted with official creditors (52.9 percent of total), private investors (29.8 percent), and bilateral creditors (17.2 percent). With respect to currency composition, central government debt is predominantly denominated in local currency (78 percent), followed by the euro (15 percent), US dollar (6 percent) and other currencies (1 percent). Morocco's effective nominal interest rate remains low and followed a downward trend (4.2 percent in 2017 versus 4.6 percent 2014–2016 average), owing to decreasing borrowing costs in the domestic market, which accounts for most of the central government debt.

3. **Baseline macroeconomic projections assume accelerating growth starting in 2020, continued fiscal consolidation, and improving current account balances.** Following a decline to 2.9 percent in 2019, economic growth over the medium term is expected to average 4 percent, enabled by sound fiscal and monetary policies, more consistent sectoral strategies, and improved investment environment, all of which would support gradual competitiveness gains. Inflation is projected to remain around 2 percent. The overall fiscal deficit is expected to decline from an estimated 3.6 percent of GDP in 2018 to an average of 3 percent of GDP over 2020–2024, assuming the authorities maintain their current fiscal consolidation path and improve the efficiency of public investment, despite potentially mounting spending pressures due to social movements and rising global oil prices. The current account balance is expected to improve, dropping and staying below 4 percent of GDP as of 2019 due to the growth of exports, tourism receipts and remittances, which will offset increasing energy import costs.

4. **Central government debt remains sustainable, with a moderate risk emerging from GFNs.** Under the baseline scenario, Morocco's central government debt is projected to remain contained below 70 percent of GDP, the debt burden benchmark for emerging markets, and risk analysis showcases resilience to a variety of shocks. Reaching a peak in 2019 at 65.3 percent of GDP, debt levels are projected to decline to 60.9 percent by 2023, following a continued fiscal consolidation and improved growth performance. In

[44] Public debt is defined as central government debt.

the case of a shock to real GDP growth or to the primary balance, the debt-to-GDP ratio approaches but remains below the benchmark (Figures 6.2 and 6.3). GFNs pose a moderate risk as they surpass the benchmark of 15 percent of GDP for emerging markets, although only as a marginal breach in 2020, in the case of shocks to real GDP growth, primary balance, and real interest rates.

5. **Going forward, the domestic debt issuance strategy would benefit from lengthening its maturity structure,** in order to prevent sudden increases in GFNs arising from debt charges. The debt profile as of end-2017 shows moderate vulnerabilities as lower early-warning benchmarks were breached: (a) external financing requirements were 6 percent of GDP; (b) short-term debt increased by 0.9 percentage points in 2016–2017, but it comprises less than 4 percent of the total debt; and (c) debt held by non-residents and foreign currency-denominated debt is 22 percent of total debt (figure 6.4).

Figure 6.1. Morocco Public Sector Debt Sustainability Analysis (DSA)

Baseline Scenario (in percent of GDP unless otherwise indicated)

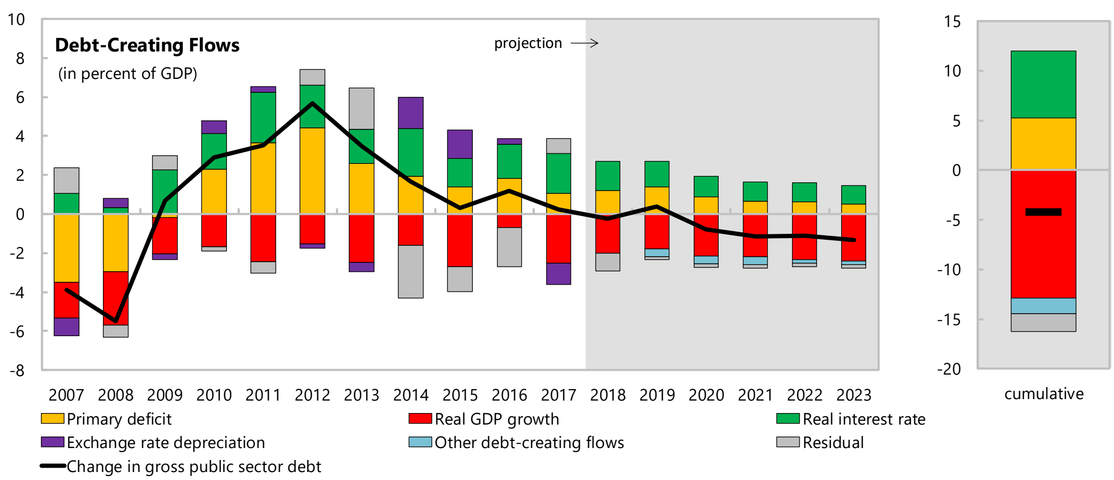
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2007-2015 [2/]	2016	2017	2018	2019	2020	2021	2022	2023
Nominal gross public debt	54.6	64.9	65.1	64.9	65.3	64.5	63.3	62.2	60.9
Public gross financing needs	14.3	14.5	13.0	11.3	11.6	14.8	11.3	12.0	11.7
Real GDP growth (in percent)	4.2	1.1	4.1	3.2	2.9	3.5	3.6	3.9	4.1
Inflation (GDP deflator, in percent)	1.4	1.4	0.8	1.5	2.0	2.3	2.3	2.3	2.3
Nominal GDP growth (in percent)	5.6	2.6	4.9	4.7	5.0	5.9	6.0	6.3	6.5
Effective interest rate (in percent) [4/]	5.0	4.3	4.1	3.9	4.2	4.1	4.0	4.0	4.0

As of October 09, 2018		
Sovereign Spreads		
Bond Spread (bp) 3/		374
5Y CDS (bp)		109
Ratings	Foreign	Local
Moody's	Ba1	Ba1
S&Ps	BBB-	BBB-
Fitch	BBB-	BBB-

Contribution to Changes in Public Debt

	Actual			Projections							
	2007-2015	2016	2017	2018	2019	2020	2021	2022	2023	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	1.0	1.2	0.2	-0.2	0.4	-0.8	-1.1	-1.1	-1.3	-4.2	
Identified debt-creating flows	1.0	3.2	-0.5	0.7	0.5	-0.6	-1.0	-0.9	-1.1	-2.4	
Primary deficit	1.1	1.8	1.1	1.2	1.4	0.9	0.7	0.6	0.5	5.3	-1.7
Primary (noninterest) revenue and grant	26.7	26.0	26.1	26.2	26.0	26.1	26.3	26.3	26.4	157.2	
Primary (noninterest) expenditure	27.7	27.8	27.2	27.4	27.4	26.9	27.0	26.9	26.9	162.5	
Automatic debt dynamics [5/]	0.0	1.3	-1.6	-0.5	-0.5	-1.1	-1.2	-1.4	-1.5	-6.1	
Interest rate/growth differential [6/]	-0.3	1.1	-0.5	-0.5	-0.5	-1.1	-1.2	-1.4	-1.5	-6.1	
Of which: real interest rate	1.8	1.8	2.0	1.5	1.3	1.1	1.0	1.0	0.9	6.7	
Of which: real GDP growth	-2.1	-0.7	-2.5	-2.0	-1.8	-2.2	-2.2	-2.3	-2.4	-12.9	
Exchange rate depreciation [7/]	0.3	0.3	-1.1	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	-0.4	-0.4	-0.4	-0.2	-0.2	-1.6	
Please specify (1) (e.g., privatization re(	0.0	0.0	0.0	0.0	-0.4	-0.4	-0.4	-0.2	-0.2	-1.6	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., other debt flow	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	0.0	-2.0	0.8	-0.9	-0.1	-0.2	-0.2	-0.2	-0.2	-1.8	

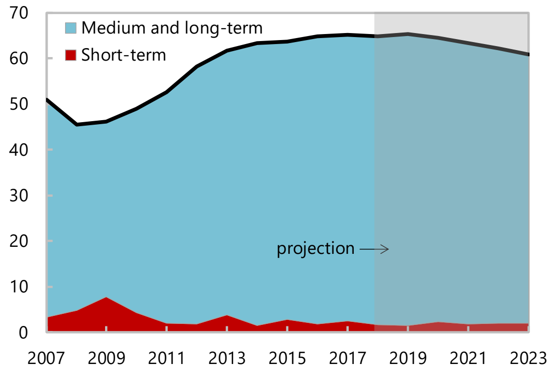


Source: WB staff.
1/ Public sector is defined as Central Government.
2/ Based on available data.
3/ EMBIG (bp).
4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.
5/ Derived as [r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ) times previous period debt ratio, with r = effective nominal interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.
7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

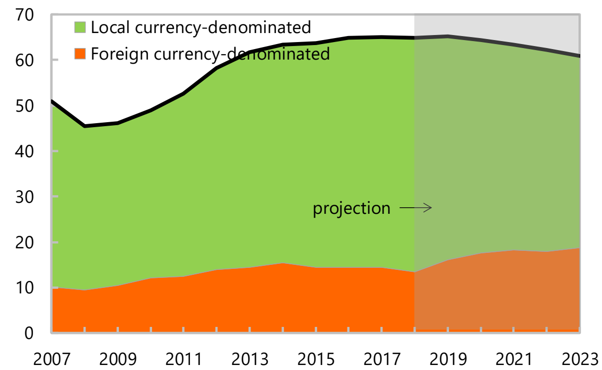
Figure 6.2. Morocco Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



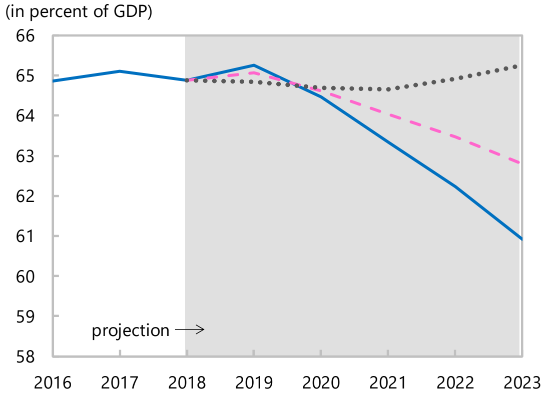
By Currency
(in percent of GDP)



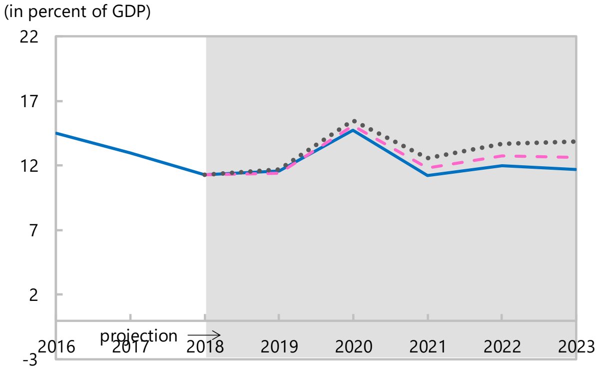
Alternative Scenarios

Baseline — Historical — Constant Primary Balance

Gross Nominal Public Debt [1/]
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

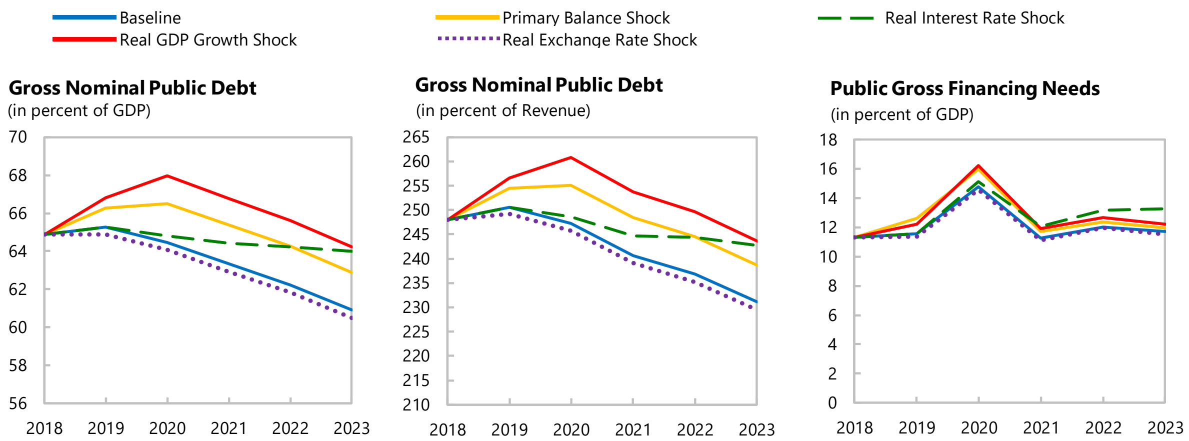
Baseline Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	3.2	2.9	3.5	3.6	3.9	4.1
Inflation	1.5	2.0	2.3	2.3	2.3	2.3
Primary Balance	-1.2	-1.4	-0.9	-0.7	-0.6	-0.5
Effective interest rate	3.9	4.2	4.1	4.0	4.0	4.0
Constant Primary Balance Scenario						
Real GDP growth	3.2	2.9	3.5	3.6	3.9	4.1
Inflation	1.5	2.0	2.3	2.3	2.3	2.3
Primary Balance	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2
Effective interest rate	3.9	4.2	4.1	4.0	4.0	4.0

Historical Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	3.2	3.9	3.9	3.9	3.9	3.9
Inflation	1.5	2.0	2.3	2.3	2.3	2.3
Primary Balance	-1.2	-1.6	-1.6	-1.6	-1.6	-1.6
Effective interest rate	3.9	4.2	4.4	4.6	4.7	4.9

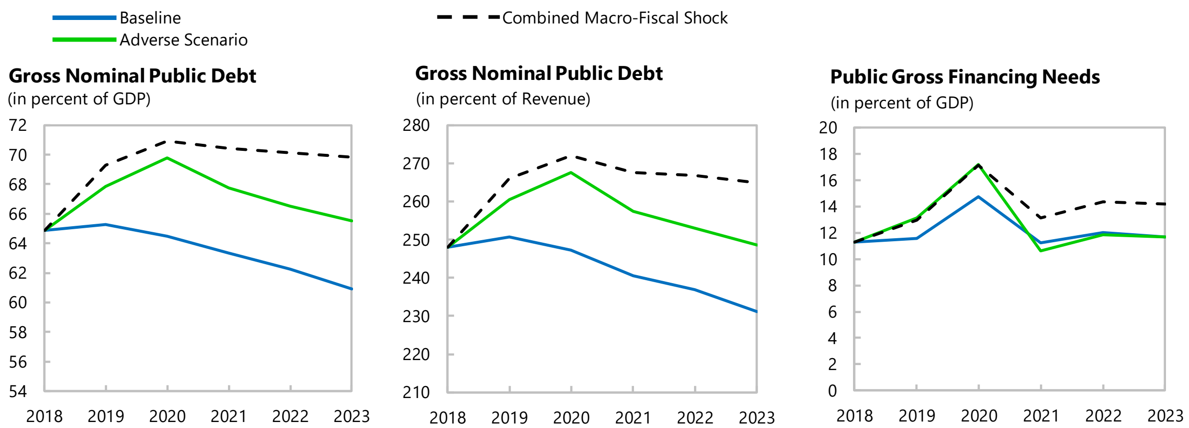
Source: WB staff.

Figure 6.3. Morocco Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2018	2019	2020	2021	2022	2023
Real GDP growth	3.2	2.9	3.5	3.6	3.9	4.1
Inflation	1.5	2.0	2.3	2.3	2.3	2.3
Primary balance	-1.2	-2.4	-1.9	-0.7	-0.6	-0.5
Effective interest rate	3.9	4.2	4.1	4.1	4.1	4.0
Real Interest Rate Shock						
Real GDP growth	3.2	2.9	3.5	3.6	3.9	4.1
Inflation	1.5	2.0	2.3	2.3	2.3	2.3
Primary balance	-1.2	-1.4	-0.9	-0.7	-0.6	-0.5
Effective interest rate	3.9	4.2	4.7	5.2	5.5	5.9
Combined Shock						
Real GDP growth	3.2	1.5	2.1	3.6	3.9	4.1
Inflation	1.5	1.7	2.0	2.3	2.3	2.3
Primary balance	-1.2	-2.4	-1.9	-0.7	-0.6	-0.5
Effective interest rate	3.9	4.3	4.6	5.2	5.5	5.9
Adverse Scenario						
Real GDP growth	3.2	1.6	2.3	2.6	2.7	2.9
Inflation	1.5	1.3	1.8	1.8	1.8	1.7
Primary balance	-1.2	-2.8	-2.1	1.1	0.8	0.3
Effective interest rate	3.9	4.2	4.2	4.3	4.3	4.2

Real GDP Growth Shock	2018	2019	2020	2021	2022	2023
Real GDP growth	3.2	1.5	2.1	3.6	3.9	4.1
Inflation	1.5	1.7	2.0	2.3	2.3	2.3
Primary balance	-1.2	-1.9	-1.8	-0.7	-0.6	-0.5
Effective interest rate	3.9	4.2	4.1	4.0	4.0	4.0
Real Exchange Rate Shock						
Real GDP growth	3.2	2.9	3.5	3.6	3.9	4.1
Inflation	1.5	5.6	2.3	2.3	2.3	2.3
Primary balance	-1.2	-1.4	-0.9	-0.7	-0.6	-0.5
Effective interest rate	3.9	4.3	4.1	4.0	4.0	3.9

Source: WB staff.

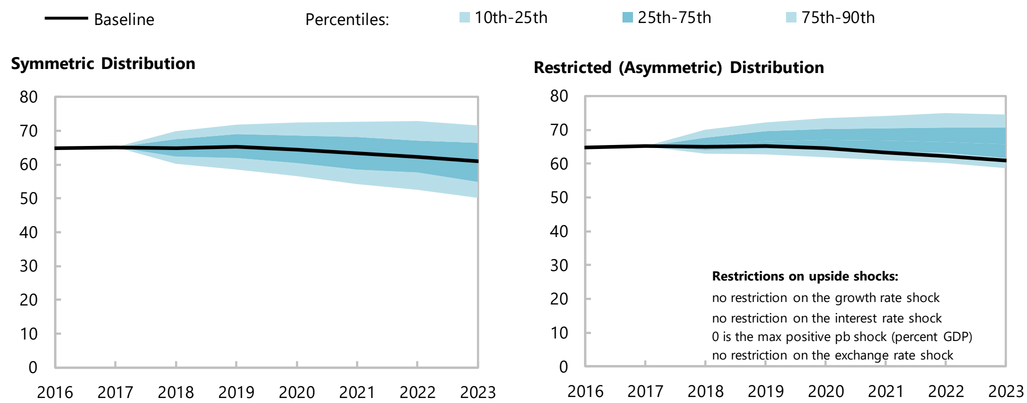
Figure 6.4. Morocco Public DSA Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

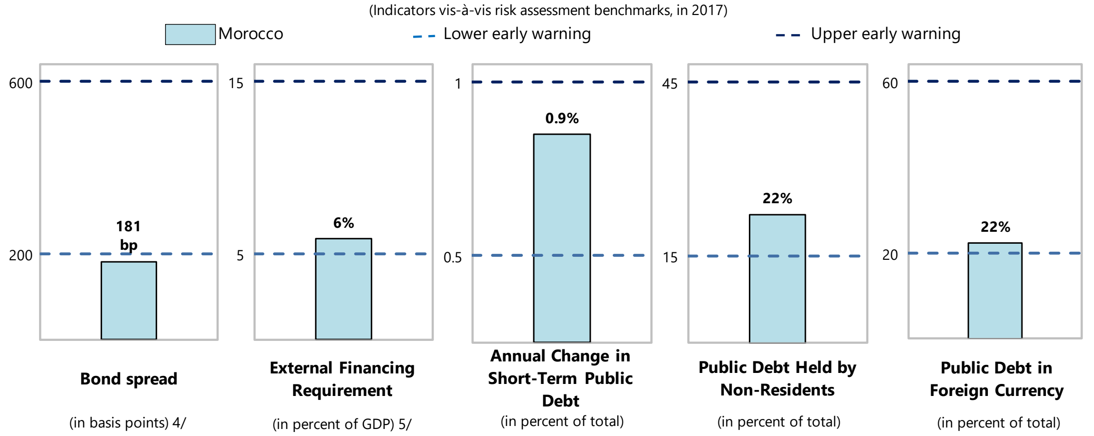
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2017)



Source: WB staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG (bp), an average over the last 3 months, 11-Jul-18 through 09-Oct-18.

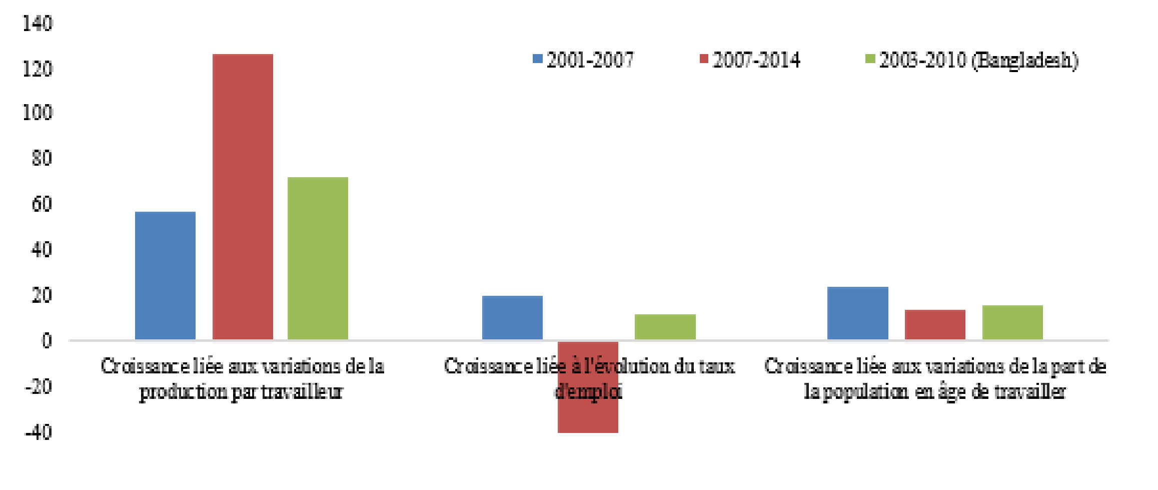
5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

ANNEX 6: DETAILED POVERTY/SOCIAL ANALYSIS

1. The prior actions across the three pillars are not expected to have a direct adverse effect on the poor or vulnerable as these actions do not directly influence prices faced by households. This annex presents an assessment of the potential impact each of the prior actions. In general, this assessment finds that actions can have positive indirect effects through (potentially) lower telecom services prices companies and more access to credit for small companies; both can help companies create jobs. An estimated 14 million people, nearly 60 percent of working age, are out of the labor force, unemployed, or in unpaid jobs and their poor labor market outcomes represent lost productivity potential despite progress in educational attainment. Many of them are poor with limited education and bleak employment prospects. Morocco's aspiration to become a middle-income economy crucially depends on enabling this group to participate in quality employment opportunities. Moreover, recent estimates (Human Capital Project, World Bank) suggest that Morocco can expect about 300,000 new entrants into the labor market every year until 2030. The education system and the labor market will have to be ready to meet the employment aspirations of these cohorts of young people.

2. A growth decomposition exercise conducted for the latest Morocco's SCD (figure 7.1) shows that between 2007 and 2014, labor productivity (output per worker) was the main contributor to GDP per capita growth. The number of people employed was negative and the change in the size of the working-age population did not play a significant role. While the positive contribution of labor productivity is good news, the inability of the economy to employ a large share of the working-age population limits the ability of the labor market to sustainably increase people's incomes and reduce poverty.

Figure 7.1. Growth Per Capita Decomposition 2001–2014



3. Solving the problems of declining employment for men and persistently low employment among women and absorbing those moving out of agriculture require robust job creation by businesses especially in tradable sectors. In this view, it would be important to monitor the job creation impact especially of prior actions under pillars 1 and 3. Morocco periodically conducts trimestral labor force surveys also covering the informal sector; these data that are unfortunately not available to the World Bank could be a key resource to monitor job creation.

4. Formal employment concentrates on firms that are larger (at least 100 employees), older (more than 20 years), and in low-skilled manufacturing. Firms in Morocco also tend to be older (20 years on average) compared with the world and regional average (16.5 and 17.5 years, respectively). They also tend to be larger (55.5 full-time employees on average compared with 29.9 regional average). While Moroccan firms tend to expand faster, its rate of firm creation is much lower than other countries in the region.

5. In this context, where SMEs and, in general, small businesses struggle to grow and create employment, PA#1 and PA#5 of pillar 1 aimed at increasing access to credit and regulating existing financial institutions could have an important impact on job creation. Potentially, expanding access to credit, fostering microcredit, and allowing NGOs to develop into financial institutions can have an important impact on poverty. Poor and vulnerable people are typically financially constrained and cannot collateralize their borrowings. Microcredit institutions do not ask for collateral; therefore, they are the only suitable source of financing for those who do not have access to traditional financial institutions. As pointed out in Annex 4, however, at the international level, the impact of microcredit on poverty tends to be less remarkable than what is normally claimed. It depends a lot on the institutional context and the accompanying measures implemented to help borrowers develop their business.

6. Pillar 2 can indirectly affect poverty reduction if well-coordinated with ongoing reforms of cash transfers systems. The reform of social protection encompasses the progressive digitalization of the system and the automatic transfer of the benefits on a bank account. Beneficiaries, thus, will have a bank account and a debit card to withdraw money. If the same card can be used to buy products in the shops using POS systems this would be of great benefit to the poor as this way they will not need to carry cash in often unsecure environments. Also, the use of cards helps verify whether the transfer is spent for basic items such as food, clothes, or medicines or not. PA#8 has a direct impact on poverty. If well implemented, this reform will ensure that local communities and remote areas are not left out from the digitalization process taking place in the country.

7. Pillar 3 can also have an indirect effect on poverty reduction trough jobs creation. If well implemented, the reforms can reduce obstacles to doing business and supports firms' creation. It could also potentially incentivize formalization of firms. PA#10 is certainly good for a niche of highly skilled workers with adequate skills. It is not clear if the poor can really benefit from it.

ANNEX 7: CLIMATE CO-BENEFITS

A. CLIMATE VULNERABILITY CONTEXT

1. **Climate change threatens shared prosperity in Morocco.** Low-income, marginalized populations lack the resources to adapt to climate-induced shocks such as floods, landslides, droughts, and heat waves.[45] Historically, Morocco is highly exposed to these natural disasters.[46] Moreover, when extreme weather strikes, poor households suffer the highest economic losses.[47] Over the next century as temperatures increase and sea levels rise, the frequency and intensity of natural disasters in Morocco is expected to grow.[48] Public health impacts include a 10-fold increase in heat-related mortality, a higher precedence of skin cancer, respiratory illness, and cardiovascular disease, an increase in diarrheal deaths linked to climate change, an expansion of dengue fever transmission vectors, and declines in outdoor labor productivity.[49]

2. Primary sectors of the economy have been negatively affected and will continue to experience losses.[50] Agriculture, forestry, and fisheries, which account for 13.1 percent of Morocco's GDP, face severe disruption.[51] Rainfall has already declined by 30 percent since 1960.[52] Rangelands, which cover 82 percent of arid land in the country, are rapidly losing vegetation as plant breeding habitats degrade and desertification expands.[53] As Morocco struggles to recovers from two decades of drought over the past 70 years, precipitation is forecasted to drop another 20 percent by 2050.[54] By the end of the century, mean annual temperatures are projected to rise at least 4°C. Warming of this magnitude will have profound consequences. Agricultural productivity will plummet 26–39 percent among all crops. Wildfires will jeopardize Morocco's limited tree cover.[55] Depleted fish stocks will migrate to cooler waters.[56] Heat waves will increase to 150 per year. Tourism will decline as three-quarters of the country's sandy beaches are submerged.[57] By 2100, sea levels could rise 1.04 m and inflict US$4 billion in annual flooding damages

[45] Hallegatte, et al. 2016. "Shockwaves: Managing the Impacts of Climate Change on Poverty." World Bank Group, pp31–110. In Morocco, 4.8 percent of the country lives below the national poverty line (World Bank 2013).
[46] World Bank. 2018. *Morocco Country Profile*; ThinkHazard! (a natural disaster risk screening tool); World Bank. 2016. *Morocco Climate Adaptation Briefing*.
[47] Wooden, et al. 2014. "Impact of Weather Shocks on MENA Households." World Bank Group.
[48] World Bank Group. 2018. *Morocco Country Profile.* Climate Change Knowledge Portal. The Kingdom suffers from acute water stress. Per capita water availability has dropped from 2,600 m^3 per year in 1960 to 700 m^3 per year in 2017 (NDC, pp1, 16). By 2030, the average Moroccan citizen will have 500 m^3 of water to use annually or about 1.37 m^3 per day (Third National Communication [TNC], 26). By 2050, climate-induced water scarcity is expected to cost the MENA Region 6–14 percent in GDP growth (World Bank. 2018. *Beyond Scarcity*: *Water Scarcity in the Middle East and North Africa*, xxviii).
[49] WHO (World Health Organization), and UNFCC (United Nations Framework Convention on Climate Change). 2015. *Morocco's Climate and Health Country Profile*.
[50] Morocco's Third National Communication (TNC) to the UNFCCC (2016).
[51] World Bank. 2017. *Morocco's Agriculture, Forestry, and Fishing Value-Add* (percentage of GDP).
[52] World Bank. 2018. Morocco's Systematic Country Diagnostic (SCD), p45.
[53] Morocco's NDC under the UNFCCC (2016), pp16–17.
[54] World Bank Climate Change Knowledge Portal (CCKP), Morocco Energy Sector Overview; NDC, p16.
[55] In Morocco, forests cover 12.6 percent of land (World Bank 2015).
[56] According to Food and Agriculture Organization (FAO) data, 77.3 percent of the fish stocks in the Saharan Upwelling that serve Morocco are fully exploited, overexploited, or collapsed. Climate change makes oceans warmer, more acidic, and further deoxygenated. Thermal stress and degraded spawning grounds prompt marine life to migrate to cooler waters.
[57] CCKP. *Projected Change in Monthly Temperatures for Morocco for 2080–2099*.

on 2.1 million coastal residents.[58] Climate change increases economic fragility and food insecurity among vulnerable groups.

B. STATEMENT OF INTENT

3. **Greater financial inclusion strengthens resilience and reduces disaster impact**.[59] Saving, borrowing, and insurance help people cope with shocks.[60] These financial instruments smooth consumption, limit income interruption, and diversify risk. Savings products allow households and businesses to store wealth outside of physical assets, such as livestock or housing, that are exposed to extreme weather. Credit products can channel capital toward post-disaster reconstruction and can also help people prepare for challenges before they occur.[61] Healthy lending markets are a prerequisite for 'building back better' infrastructure.[62] Insurance products, such as expanded healthcare coverage or index-based weather schemes, are another critical form of social protection. However, these three products are not always available at the bottom of the pyramid.[63] The proposed operation explicitly seeks to provide unbanked, vulnerable populations with financial services that strengthen socioeconomic resilience: subsistence entrepreneurs (PA#1), low-income farmers (PA#2), self-entrepreneur workers (PA#4), and underserved communities (PA#6, PA#7, and PA#8).

C. PROGRAM'S CLIMATE CO-BENEFIT CONTRIBUTIONS

4. **PA#1**. Providing MSMEs with access to microfinance reduces disaster risk and strengthens social protection among vulnerable groups. Microenterprises in rural communities, such as grain mills, barber shops, grocery stores, furniture makers, and fruit orchards, create additional streams of income that enable farmers to avoid dropping into poverty during drought. Microfinance also enables the private sector to fund some of the US$85 billion in adaptation and mitigation investments called for in Morocco's nationally determined contribution (NDC). In rural areas, this could include modernizing irrigation infrastructure (US$3.7 billion), planting 800,000 ha of trees (many of which generate revenue and enhance livelihoods), and restoring critical watershed habitats (US$5.7 billion). Case studies in Mongolia and Colombia demonstrate how microfinance access can strengthen adaptive capacity.[64]

5. **PA#2.** *Tamwil El Fellah* (TEF) is a pro-poor, climate-smart agricultural loan program that forms an important pillar of the Green Morocco Plan. It provides government-subsidized guarantees to low-income farmers who lack collateral. TEF clients are unbanked smallholders and SMEs who usually work unirrigated land. TEF helps them acquire the capital they need to build resource-efficient irrigation networks and make other productivity-enhancing investments. TEF also connects clients with extreme weather early-

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[58] World Bank. 2014. *Turn Down the Heat: Confronting the New Climate Normal*. pp159, 162–163, 149.
[59] Hallegatte, et al. 2017. "Unbreakable: Building the Resilience of the Poor in the Face of Natural Disasters." World Bank, 137–146.
[60] Shockwaves, 143–146.
[61] Sadler, et al. 2016. "Making Climate Finance Work in Agriculture."
[62] Hallegatte, et al. 2018. "Building Back Better: Achieving Resilience through Stronger, Faster, and more Inclusive Post-Disaster Reconstruction." World Bank Group.
[63] Shockwaves, 143–146.
[64] Steer. 2011. "Social Protection and Climate Resilience." World Bank Group, 26; Goldberg and Palladini. 2010. "Managing Risk and Creating Value with Microfinance." World Bank, Washington, DC, 60.

warning information systems and bases its credit screening on climate-adjusted rainfall models.[65] Hence, by increasing the program's disbursements by US$41 million in 2019, this prior action directly enhances the adaptive capacity of Morocco's subsistence entrepreneurs.

6. **PA#4.** Decrees 2.18.622, 2.18.623 and 2.18.624 expand health insurance coverage for self-entrepreneurs. This prior action significantly strengthens the ability of one-third of Morocco's labor force to handle forecasted climate health impacts. Climate change magnifies threats to health, especially for poor people.[66] By 2100, the country is expected to experience a 10-fold increase in heat-related mortality, a higher precedence of skin cancer and cardiovascular disease due to scorching temperatures, a growing burden of respiratory illness connected to higher emissions, an increase in diarrheal deaths linked to climate change, an expansion of dengue fever transmission vectors, and a decline in outdoor labor productivity.[67] Health insurance shields vulnerable populations from these impacts by providing them access to affordable medical services. Insurance also pools the financial cost of treatment throughout society. Expanding coverage, therefore, plays a vital role in improving socioeconomic resilience.[68]

7. **PA#6.** Mobile money platforms enable greater social protection among climate-sensitive populations. They reduce transaction costs and bring wireless financial services directly to the cellular phones of the unbanked. This makes it easier, faster, and cheaper for low-income groups to make adaptive and mitigative investments in their households and businesses. This could be as simple as saving for an air-conditioning unit or taking a loan to plant livelihood-enhancing, emission-reducing date, olive, or citrus trees. Greater financial inclusion greatly benefits marginalized rural residents. Mobile money also unlocks the delivery of innovative clean energy solutions. In Kenya, the widespread adoption of one platform, M-PESA, facilitated the rapid growth of M-KOPA, which means mobile borrowing in Swahili, and allowed the company to sell nearly 1 million home solar systems, clean cookstoves, radios, and bicycles to poor people on a pay-as-you-go, lease-to-own basis (PAY-G).[69]

8. **PA#7 and PA#8.** Internet connectivity is a critical component of early-warning systems in disaster risk reduction. News and alerts help people prepare for and respond to extreme weather. Online access also facilitates financial inclusion, lowers transaction costs, and opens new markets for climate-smart goods and services. By increasing Internet access (higher broadband penetration rates clocked at higher speeds) and decreasing its cost (greater competition among service providers), these prior actions strengthen the adaptive capacity of climate-vulnerable Moroccans, particularly those who live in rural areas.

9. **PA#9.** Online enterprise registration reduces transportation emissions associated with the nine days and four procedures it traditionally takes to start a business in Morocco.[70] By cutting bureaucracy

[65] Ramirez, and Hernandez. 2016. "Innovations for Inclusive Agricultural Finance and Risk Mitigation Mechanisms: The Case of Tamwil El Fellah in Morocco." UN FAO, pp19–20.
[66] Shockwaves, 116–128.
[67] Morocco's Climate and Health Country Profile, WHO and UNFCCC. 2015.
[68] Shockwaves, 218–131.
[69] Waldron, et al. 2016. "Digitally Financed Energy: How Off-Grid Solar Providers Leverage Digital Payments and Drive Financial Inclusion." World Bank, Washington, DC.
[70] World Bank. 2018. *Doing Business 2019 Report.* p190.

and increasing efficiency, this prior action is expected to yield days in savings and/or CO_2e per registration.

10. **PA#10.** CCG-certified angel networks will be eligible for government co-financing and thus will be able to catalyze greater flows of capital into Morocco's start-up ecosystem. Nearly a third of Moroccan climate entrepreneurs indicate that access to finance is a major constraint to scaling their firms.[71] Using a similar Egyptian program as a benchmark, it is reasonable to assume that at least 11 percent of Moroccan start-ups will pursue cleantech business models.[72] Reducing greenhouse emissions represents a significant market opportunity for start-up firms in Morocco.[73] The country meets 90 percent of its energy needs with fossil fuel imports. To reduce dependency and promote a low-carbon energy transition, the Government wants 52 percent of power generation to come from renewables by 2030; this will necessitate deploying at least 5,875 MW of photovoltaic solar, concentrated solar, rooftop solar, onshore wind, small and large hydro, including pumped storage, and biomass and biogas incineration capacity.[74]

[71] Ford, et al. 2017. "Igniting Climate Entrepreneurship in Morocco." World Bank Group, 29.

[72] In 2016, following three rounds of growing interest, the American University in Cairo's Venture Lab Acceleration Program (VLAB) received 20 applications in renewable energy and other green business models out of a total of 180. The UNEP-funded program incubated startups in off-grid solar (*Karm Solar*, *Sunutions*) and biodiesel recycling (*Tagaddod*) that have since scaled nationally and achieved commercial success; Todros, Abdel-Razek, et al. 2018. "Egypt Climate Innovation Collaborative: Supporting Cleantech Entrepreneurs in Egypt through Partnerships and a Market Development Focus." World Bank Group, Washington, DC.

[73] Many seaside resorts, for example, are not connected to the national grid and are entirely dependent on diesel for all operations including electricity generation and water desalination.

[74] Morocco's NDC, 27–31.

ANNEX 8. GOVERNANCE, POLITICAL ECONOMY ANALYSIS AND CITIZEN ENGAGEMENT

Governance and Political Economy Analysis

1. **Although the GOM's commitment to reform is strong, particular attention must be paid to the fact that these reforms could disrupt the market structure, as evidenced by international experience, and challenge business interests, thereby posing risks to the reform adoption efforts.** Reforms to the competition and regulatory landscapes in the financial and digital sectors, which are expected to open and level the playing field between incumbent actors and new entrants in sectors may generate opposition to reform adoption. Furthermore, the proposed reforms require sustained institutional coordination and political support to facilitate interoperability and data sharing among public and private actors.

2. **The reform momentum supported by this DPF also requires thorough attention to implementation issues.** As evidenced by existing rankings, reform implementation in Morocco tends to lag behind reform adoption. Some longstanding economic reforms that seek to open the economy and increase competition have faced strong opposition from established businesses and bureaucratic bottlenecks, leading to reform dilution and delays. In the context of this DPF, the challenge will be to ensure that the statutory reforms that are adopted are fully implemented and have measurable impact on financial and digital inclusion.

3. **Finally, while the DPF opens up space and opportunities for citizen engagement, the expansion of digital infrastructure raises several social and political challenges.** First, in a context marked by high levels of illiteracy, low trust in digital technologies, and inequitable access to digital infrastructure, a key challenge for this DPF is to bridge—rather than reinforce—the digital divide, and its correlated social divide, in particular between urban and rural areas. On the one hand, digitalization can foster transparency and accountability, for businesses and citizens. Developing digital platforms, including e-government platforms for business registration, can help reduce corruption and the complexity of administrative procedures, two of the main obstacles to business development. Such platforms can also create space for citizen engagement by facilitating citizen participation in the public sphere (for example, through petitions or more transparent and effective administrative procedures). On the other hand, if not well managed, access to digital platforms and infrastructure as it has been shown in international experience, can breed social and political frustration or instability. Recent events in Morocco have shown that the channeling of grievances through digital platforms, including social media, places additional strain on a political system that is already under pressure to deliver. The inclusion of a prior action promoting investment in digital infrastructure in local communities and remote areas in the DPF aims to address this concern.

Citizen Engagement

4. **Despite recent progress on constitutional and legislative reform to promote citizen engagement, more progress is needed to ensure implementation of these reforms is on track.** Citizen engagement gives citizens a voice in government decision making, a means to monitor the actions of public officials, and a stake in the outcomes of government actions. As is true in other parts of the MENA region, it is important to take confidence-building measures to begin to create a basis for citizens to engage. The constitutional guarantee of citizens' right to engage with the state, with access to sufficient

information to hold officials accountable, represented a cultural shift in Morocco, with important implications for social equity and dynamic economic development. Moreover, the absence of engagement mechanisms—of a conducive environment for citizen engagement—will continue to deprive decision makers of the lessons from experience that are essential for effective, equitable, and sustainable policy making.

5. **The proposed operation offers synergies with the Government's plans to further enhance citizen engagement, particularly through digital means.** The Government Program (2017–2021) highlights several actions to strengthen citizen engagement, as well as areas that citizen engagement can support such as more equitable territorial development, improved access to quality services, and increased adoption of digital services by businesses. During consultations for the forthcoming CPF, the Government emphasized the importance of improving the state-citizen interface at the local government level, improving citizen voice in Parliamentary deliberations, and embedding feedback and accountability loops as key to achieving improved service delivery of education, health, electricity, and water. Enhancing citizen engagement will, by definition, depend on improving both information access and opportunities for citizen voice and interaction using digital technology and social media. In Casablanca, for example, the World Bank is already working with the municipal administration to improve their digital citizen interface ('311' systems) on complaints and service requests. The proposed operation seeks to improve access to digital infrastructure for citizens across the country, particularly those in underserved and rural areas, as well as to encourage the development of digital platforms. Both these outcomes thus provide a key building block for enhancing the potential of digital citizen engagement.

6. **The proposed operation will establish a mechanism for citizen engagement and feedback on financial inclusion reforms.** The design of the GOM's financial inclusion reforms outlined in the NSFI are based on a diagnostic phase to assess demand for financial services. This included a large national survey of 5,000 people which was regionally representative and evaluated access to financial services and gathered citizen feedback on their aspirations in this area. As part of the implementation of the NSFI reforms, some of which are supported by this DPF, the GOM will set up a monitoring and evaluation system, to identify, early on, any implementation challenges, to regularly evaluate implementation progress, and to measure the level of satisfaction of the target populations with ongoing reforms. The survey will gather data on citizen satisfaction with various aspects of payment instruments (for example, availability of the service at desired sales points, transaction success rate, speed, and ease of use, etc.) and will contribute to the promotion of public voice and participation in the development and implementation of public policies.