



# Program Information Document (PID)

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Appraisal Stage | Date Prepared/Updated: 21-Apr-2020 | Report No: PIDA28767



**BASIC INFORMATION**

**A. Basic Project Data**

Country	Project ID	Project Name	Parent Project ID (if any)
Morocco	P171587	Financial and Digital Inclusion Development Policy Financing (P171587)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
MIDDLE EAST AND NORTH AFRICA	28-May-2020	Finance, Competitiveness and Innovation	Development Policy Financing
Borrower(s)	Implementing Agency		
Kingdom of Morocco	Ministry of Economy and Finance		

**Proposed Development Objective(s)**

The overarching Development Objective of the proposed DPF series is to improve financial inclusion, digital entrepreneurship and access to digital infrastructure and services for individuals and businesses and strengthen resilience of households and firms.

**Financing (in US\$, Millions)**

**SUMMARY**

<b>Total Financing</b>	500.00
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**DETAILS**

<b>Total World Bank Group Financing</b>	500.00
World Bank Lending	500.00

**Decision**

The review did authorize the team to appraise and negotiate



## B. Introduction and Context

### Country Context

- Morocco is vulnerable to the significant human, social, and economic impacts of the COVID-19 pandemic.** COVID-19 poses a substantial challenge for Morocco's public health system, with wide-ranging social and economic implications. As of April 12, 2020, the outbreak has resulted in 1,617 confirmed cases and 113 deaths. The COVID-19 outbreak has the potential for greater loss of life and is likely to have negative impacts on jobs, and the economic livelihood particularly of the vulnerable and poor populations including children, women and the elderly.
- The Moroccan economy is expected to be significantly impacted by the crisis.** Real GDP is projected (as of April 12, 2020) to contract by 4 percent in 2020, compared to a positive growth rate of 3.6 percent projected before the outbreak. This is driven by a drop in the production of goods and services, a reduction in exports, disruption of global value chains, as well as a decline in tourism due to travel restrictions and border lockdowns. The crisis will also adversely affect the fiscal deficit and central government debt as tax revenues decline and as the authorities ramp up spending on healthcare and social safety nets in response to the global pandemic. Public and external gross financing needs are projected to record 16.2 percent and 11.5 percent of GDP in 2020 compared to the pre-COVID19 outbreak projections of 11.7 percent and 5.8 percent, respectively.
- The Government of Morocco (GoM) has taken significant steps to contain COVID-19 and will need to continue to simultaneously mitigate the crisis and plan for recovery.** The Government has created a COVID-19 commission composed of government representatives from the government, Central Bank, the Moroccan bankers' association and the private companies' association to monitor the situation and recommend policy responses. The GoM has also set up a special COVID-19 Pandemic Fund with an estimated financing amount to date of around 3 percent of GDP. The fund is made of contribution from the Government, public and private institutions, as well as individuals. It will cover medical expenditures linked to COVID-19, support economic recovery, preserve employment, and support the informal sector.
- Morocco's development trajectory over the past 15 years prior to the pandemic was characterized by significant social and economic progress.** This was due to large public investments, political, institutional and sector reforms, and measures to ensure macroeconomic stability. The resulting growth 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 enabled Morocco to launch a process of convergence with Southern European countries with the gap between the average purchasing power of a Moroccan citizen and a southern European citizen (measured by the gap in per capita purchasing power parity GDP) declining over the past 15 years<sup>1</sup>.
- Despite these achievements, Morocco continues to struggle with economic and social inclusion. The aspirations of a large share of its citizens for a better life remain unmet<sup>2</sup> and this will further be heightened by the impact of the COVID-19 pandemic.** Creating enough jobs had already posed a significant challenge, especially for youth, women, and educated workers. Net job creation had been insufficient to keep up with the annual increase of the working-age population (over 300,000 per year) and the unemployment rate remained high (9.2 percent in 2019) and even higher among youth and the educated. Female labor force participation was low (25 percent in 2017) and

<sup>1</sup> 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>

<sup>2</sup> Ibid.



remained at the same level as in 1990. Women work predominantly in low productivity sectors and low-skill occupations. Informality is significant. Only 17 percent of the economically active population had a formal job, and less than 10 percent had a formal private sector job. Unemployment spells tend to be long. More than 70 percent of the unemployed remained so for more than a year, and this share was higher among those with tertiary education. As a result of the COVID-19, the job losses are estimated to be massive and increasing in 2020 and 2021 as most workers are employed in affected sectors, such as tourism, services (e.g. transportation and retail sales) and tradeable, and those unable to work remotely are affected by the crisis. During the crisis, Morocco will need to support viable firms and maintain jobs<sup>3</sup>. Policy responses for the recovery phase should focus on helping firms return to their pre-crisis production and employment.

6. **The GOM outlined a vision for economic growth and social inclusion in its five-year Government Program (2017–2021), reinforced by a national strategy on financial inclusion and a draft strategy on digital development<sup>4</sup>.** His Majesty King Mohamed VI underlined this vision calling for a new inclusive development model in his speech for the 20<sup>th</sup> anniversary of the Throne on July 28, 2019. The Government Program is built 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 aim 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 through entrepreneurship, climate change, human capital, and social cohesion. The Government’s vision of financial and digital inclusion and a more inclusive economic model has become even more relevant with the COVID-19 pandemic.

7. **The GOM had finalized a National Financial Inclusion Strategy (NFIS) based on strong evidence that better access to finance for firms, households and vulnerable people leads to more inclusive development outcomes.** Financial exclusion remained an acute challenge for Moroccan households and firms<sup>5</sup>, with significant differences across gender, age and geographic location (urban vs. rural)<sup>6</sup>. Lack of financial inclusion limits the ability of young people, women and small businesses to invest, create and grow their own businesses and participate in economic activities. The NFIS set a vision for accelerating financial inclusion in the Kingdom while closing key gaps for women, youth, rural population and micro enterprises. A governmental committee consisting of representatives of key entities, and led by the MEF, is responsible for implementing and monitoring progress of the NFIS.

#### Relationship to CPF

8. **The proposed operation will contribute to the World Bank Group’s twin goals of ending extreme poverty and boosting shared prosperity, the World Bank Group’s Gender Strategy and the CPF 2019–2023 for Morocco.** The CPF’s first pillar highlights the importance of job creation through private sector development and development of digital platforms. Its second and third Pillars focus on human capital development, social, and economic inclusion. The CPF

<sup>3</sup> The EU estimated that COVID-19 could result in loss of jobs in major sectors that account for most employment in Morocco including (i) tourism: 500,000 jobs; transport: 225,000 jobs; automotive: 180,000 jobs; textile: 160,000 jobs; agribusiness and fisheries: 660,000; offshoring: 110,000 jobs.

<sup>4</sup> The first pieces of this draft strategy on digital development are two Notes d’Orientations Générales (NOG) (i) one prepared by the Agence de Développement du Numérique (ADD) and signed by the Prime Minister and (ii) a second one prepared by the Telecommunications Regulation Authority (ANRT). It’s has been approved by ANRT board but not yet signed by the Prime Minister. While the ADD’s NOG covers digital application across sectors, the ANRT’s NOG only concerns digital infrastructure.

<sup>5</sup> 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: Demircuc-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.

<sup>6</sup> Bank Al-Maghrib, Ministère de l’Economie et des Finances, 2018. Stratégie Nationale d’Inclusion financière. Maroc.



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. In addition, the World Bank Group's Gender strategy aims to improve human endowments, remove constraints for more and better jobs (including through support to women entrepreneurship), remove barriers to women's ownership of and control over assets, and enhance women's voice and agency and engage men and boys. The proposed operation supports increased access to financial and insurance services which are key enablers of asset ownership and can support entrepreneurship. The operation will also improve access to identification that will help improve access to social protection.

9. **The DPF series is well-aligned with the existing Government Program and will support the authorities to respond to the COVID-19 pandemic and plan for recovery.** The series addresses binding constraints to economic inclusion and resilience, which are critically important during an economic slowdown. It will support financial inclusion for MSMEs and vulnerable populations including women, rural, and youth, as well as social protection and resilience of households and firms. Harnessing opportunities offered by the digital economy will underpin the reform agenda. The DPF's support to policy measures to promote competition in the telecommunication and broadband sector will provide opportunities for innovative and youth-led enterprises and enable business continuity during the crisis.

10. **Furthermore, the program has been built to be flexible to accommodate any change in priorities that may be dictated by the COVID-19 pandemic as it unfolds.** The program, its objective and pillars are made flexible to allow the inclusion of resilience and social protection reforms that may emerge as Government priorities and provide additional flexibility for the second and third operations in the series. The DPF is also a key source of finance considering the unexpected higher financing needs and worsening financial market access due to the COVID-19 pandemic. The Bank will join other DFIs in the international community's support to Morocco.

### C. Proposed Development Objective(s)

11. The overarching Development Objective of the proposed DPF series is to improve financial inclusion, digital entrepreneurship and access to digital infrastructure and services for individuals and businesses and strengthen resilience of households and firms.

#### Key Results

12. Leveraging ongoing dialogue and operational engagements, the DPF supports improved financial inclusion and contributes to digital transformation for individuals, enterprises and entrepreneurs. Financial and digital inclusion are seen as a critical entry points, essential for creation and growth of the private sector, especially digitally enabled businesses, as well as closing inclusion gaps in the country.

13. Results will be measured across the two pillars, with concrete, targeted indicators identified for each prior action and triggers.

### D. Project Description

14. **The proposed US\$ 500 million Financial and Digital Inclusion Development Policy Financing (FID DPF)** is a multi-sectoral programmatic DPF intended to support a reform program to foster financial inclusion and contribute to the digital transformation of the Moroccan economy. It is a part of a longstanding multisectoral engagement in Morocco supporting



the authorities on financial and private sector development, infrastructure, governance, access to public services, and human capital improvements. The DPF is underpinned by the national and sector-level strategies (Government Program, the National Financial Inclusion Strategy, Plan Maroc Numeric 2020) and supported through longstanding WBG engagements that have helped generate critical analytical knowledge, technical assistance and lending operations.

15. **The proposed DPF series consists of two main pillars cutting across financial inclusion for individuals and MSMEs, as well as access to digital connectivity, digital platforms and digital entrepreneurship and resilience of households and firms.** The reforms supported by the operation remain highly relevant, and gained further importance with the COVID-19 pandemic. In both pillars, reforms take into account the impact of COVID-19, and are aligned with the government's measures to mitigate the crisis.

#### **Pillar I: Financial Inclusion and Digital Financial Services and resilience of households and firms**

16. **This pillar promotes the diversification of financing and payment sources for individuals and MSMEs and encourages financial inclusion, namely through the use of technology.** Prior actions and triggers proposed under this pillar support the development of alternative financing models as well as the financial infrastructure for greater financial inclusion as a key enabler for economic and social inclusion.

17. **To support the development of alternative financing models, the operation will help:** (i) modernize the regulatory framework for the microfinance sector allowing Microfinance Institutions (MFIs) to expand their service delivery to MSMEs, improve their outreach and strengthening their resilience through better supervision by BAM; (ii) develop a specific regulatory framework for inclusive insurance, allowing the development of more inclusive and affordable products (including Islamic insurance products -Takaful-) for targeted vulnerable segments of the population, by leveraging on innovative business models and digital technologies; (iii) establish a dedicated regulatory framework allowing the development of crowdfunding platforms to enhance access to finance for digitally enabled and innovative enterprises with strong growth potential and allowing them to have access to foreign currency to finance their imports needs; (iv) deploy mobile payments by enhancing acceptance of electronic payments by merchants, digitizing Government payments, including of social programs and strengthening the legal basis for digital payments; and (v) develop regulatory framework for a digital identification which is an enabler of digital financial services and the usage of cashless payment and will help better target Government social programs. To enhance access to finance and overall financial inclusion, the proposed operation will also support cross-cutting financial infrastructure interventions on secured transactions and credit information systems.

#### **Pillar II. Digital Infrastructure, Innovative MSMEs and Digital Entrepreneurship**

18. **Overall description of the Pillar:** In line with reforms initiated under the FY19 financial inclusion DPF (P168587), the proposed pillar aims to provide digital entrepreneurs and MSMEs with the enabling conditions to leverage economic opportunities within the digital economy and foster economic inclusion of the youth, women and university graduates. Development of the digital economy in Morocco is hampered by lack of affordable and good quality broadband connectivity, which affects firms' competitiveness and access to large client base connected at affordable cost (especially for SMEs which represents 95 percent of the total number of firms in Morocco). Innovative MSMEs in Morocco are also at a disadvantage compared to their peers in other countries when trying to access equity financing from private investors, talent and market opportunities that can help them grow their business, due to the current foreign exchange regulation and administrative processes which affects the extent and celerity of international purchases. To address those shortcomings, the proposed pillar seeks to: (i) ensure better broadband connectivity and access to digital services across the country; (ii) facilitate access to equity financing for innovative and youth led enterprises; (iii) improve access to technical support and technological solutions for young firms; and (iv) support access to business opportunities for entrepreneurs and MSMEs.



19. The program will support measures to (i) increase the competition level in the telecommunication/broadband sector and strengthen the regulatory framework to promote the mutualization of existing (underused and owned by dominant players) and future digital fiber-optic infrastructure; (ii) activate the Universal Telecommunications Development Service Fund (FDSUT) to co-finance projects with private operators under a Maximizing Finance for Development (MFD) approach, to deploy broadband infrastructure in underserved urban and rural areas; (iii) harmonize incentives for individual investors and venture capital firms, including the protection of minority shareholders, gradual gender balance on board of directors of listed firms to align them with global good practices; and (iv) reform the regulatory framework for E-Procurement and the Participation of SMEs, Self-Entrepreneurs and cooperatives into Public Procurement.

## E. Implementation

### Institutional and Implementation Arrangements

#### Poverty and Social Impacts

20. **The proposed DPF supports financial sector inclusion and digital development that overall can have 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. Reforms supported by the DPF can help improve economic and social inclusion due to improved access to services and markets, and more efficient and secure government-to-citizens services. The digital economy has the potential to increase business opportunities and to allow 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.

21. **Overall, 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 human capital. This is particularly important for marginalized segments, including women and youth.

22. **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 high middle-income economy. The program can 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 the 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.<sup>[2]</sup> Financial inclusion and digital connectivity also support the emergence of digitally enabled entrepreneurs.

## F. Environmental, Forests, and Other Natural Resource Aspects

23. **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 negative environmental impacts.** Reforms will support business expansion of small enterprises, many of which engage in small-scale manufacturing, handicrafts and

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<sup>[2]</sup> Data from BAM.



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. However, the scale is likely to be limited because of the size of MSMEs.

24. **Facilitating the entry of national and international firms into the telecommunications sector may increase the number of communication towers, associated infrastructures and ICT equipment.** Notwithstanding that these entrants in the field may be SMEs, such activities will likely have environmental, social, occupational health, and safety impacts and will increase the volume of e-waste produced at the national level. The Government should therefore enhance its regulatory framework to ensure that e-waste will be adequately disposed of and potential risks against human health will be contained.

25. **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 improving the living environment. Oversight of financial sector institutions will also help to mitigate environmental risks associated with reform measures as 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.

26. **Morocco is highly exposed to climate and disaster risks and the authorities are working towards enhancing the country's resilience. 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.

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## CONTACT POINT

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### Borrower/Client/Recipient

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**APPROVAL**

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**Approved By**

Country Director:	Jesko S. Hentschel	27-Mar-2020
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