Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 17-Jan-2019 | Report No: PIDA25905
BASIC INFORMATION

A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Project ID</th>
<th>Project Name</th>
<th>Parent Project ID (if any)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morocco</td>
<td>P168587</td>
<td>Financial Inclusion and Digital Economy DPF (P168587)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Region</th>
<th>Estimated Board Date</th>
<th>Practice Area (Lead)</th>
<th>Financing Instrument</th>
</tr>
</thead>
<tbody>
<tr>
<td>MIDDLE EAST AND NORTH AFRICA</td>
<td>19-Feb-2019</td>
<td>Finance, Competitiveness and Innovation</td>
<td>Development Policy Financing</td>
</tr>
</tbody>
</table>

Borrower(s)

Kingdom of Morocco

Implementing Agency

Ministry of Economy and Finance

Proposed Development Objective(s)

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

Financing (in US$, Millions)

<table>
<thead>
<tr>
<th>SUMMARY</th>
<th>DETAILS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Financing</td>
<td>Total World Bank Group Financing</td>
</tr>
<tr>
<td></td>
<td>World Bank Lending</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>700.00</td>
<td>700.00</td>
</tr>
</tbody>
</table>

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

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

1 According to the results of the Household survey of 2014, extreme poverty, which is measured at US$1 PPP, was statistically insignificant.
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.

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.

The GOM has launched the preparation of its national strategy to drive digital transformation, Plan Maroc Numérique, with a view to promote broadband access for the entire population by increasing investments in fixed and mobile infrastructure and liberalization of the telecom sector, and by catalyzing the growth of digital industries. The strategy aims to (a) digitalize government services (for example, government payments to citizens and public procurement); (b) promote the use of digital 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 this proposed Development Policy Financing (DPF), an upcoming TA engagement will support the authorities with the reform agenda outlined in the Plan Maroc Numérique.

As evidenced by Morocco’s national strategy, financial inclusion\(^2\) has emerged as a significant policy priority to promote economic inclusion and job creation opportunities for households and micro, small and medium size enterprises (MSMEs). The Central Bank of Morocco (Bank Al-Maghrib [BAM]) and the Ministry of Economy and Finance (MEF) have finalized an national financial inclusion strategy (NFIS) with the objective of coordinating financial inclusion activities across the Kingdom. The strategy centers on eight strategic levers: rolling out of mobile payments, microfinance, inclusive insurance, facilitation of innovative financing tools, digitization of government to person payments, bank downscaling\(^3\) to the MSME market, financial education, and overall governance of financial inclusion initiatives across the Kingdom. The strategy has been validated by the Minister of Finance and 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). Within this framework, BAM is developing better-tailored banking services, including user-friendly e-banking solutions at affordable rates, to respond to the country’s diverse financial needs. BAM has also prioritized gender

---

\(^2\) According to the World Bank and Alliance for Financial Inclusion (AFI) financial inclusion is defined as access and usage of quality financial services, including credit, savings, insurance, and transfer services.

\(^3\) Bank downscaling is the process through which banks target clients at the bottom of the pyramid through modifying products and outreach strategies.
through launching diagnostics on payment behaviors and specific work streams examining the financial inclusion of women and women-led businesses.

Relationship to CPF

The Government of Morocco (GOM) has outlined a new vision for economic growth and social inclusion in its five-year Government Program covering 2017-2021, which is reinforced by national strategies on digital development and financial inclusion. The Government Program continues to build on previous political, economic, and social achievements, while renewing the development model to create the conditions to become an emerging economy. The five main pillars are governance, youth employment, climate change, human capital, and social cohesion.

The World Bank Group’s proposed Country Partnership Framework (CPF) for FY2019—2024 is aligned with the GOM program. The proposed CPF highlights that Morocco’s significant economic and social achievements have led to higher aspirations that remain unmet. Building on the Government Program and SCD-identified constraints, the CPF will focus on (a) promoting job creation and private sector growth, (b) transforming human capital, and (c) promoting inclusive and resilient territorial development. Governance and citizen engagement form the foundation of the CPF and digital technology and gender are cross-cutting.

The forthcoming CPF lending and non-lending program will help pursue the reforms and provide support in critical areas identified in the proposed DPF to ensure sustainability. The CPF identifies how digital technology can help transform Morocco’s economy. To create more and better jobs, enhancing digital information at the country and city level can help the Government identify skills demanded by industries and training program needed to support them. The CPF also emphasizes digital infrastructure and the ecosystem of information and service delivery that would help catalyze job creation by MSMEs, bolsters access to finance, and help improve digital citizen interface. This operation also aims to move Morocco closer towards the concrete objectives set out in the World Bank’s Moonshot approach for the Middle East and North Africa region—namely to create modern broadband internet coverage for all and to develop an infrastructure and regulatory apparatus that supports money transfer digitally through mobile devices and the internet. The CPF also emphasizes digital infrastructure and the ecosystem of information and service delivery that would help catalyze job creation by MSMEs, bolsters access to finance and help improve digital citizen interface.

C. Proposed Development Objective(s)

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

Key Results

This DPF has an overarching aim of supporting an inclusive, competitive digital economy capable of pushing Morocco to its efficiency frontier. Leveraging ongoing dialogue and operational engagements, the DPF supports improved financial inclusion and contributes to digital transformation for individuals, enterprises and entrepreneurs through improved connectivity, digital platforms, and diversified financing mechanisms. Financial inclusion is seen as a critical entry point essential for creation and growth of the private sector, as well as closing inclusion and inequality gaps in the country. Enhanced connectivity and digital infrastructure can help accelerate Morocco’s transformation to a digital economy through e-government services, private sector digitalization, and the use of digital financial services. The

---

4 Report No. 131039-MA
operation includes measures to support digital entrepreneurship in the Kingdom to scale up the use of digital technologies to create new ventures and transform existing businesses.

Results will be measured across the three pillars of the DPF with concrete, targeted indicators, as outlined below:

<table>
<thead>
<tr>
<th>Table 1: Prior Action Pillars and Select Results Categories</th>
</tr>
</thead>
</table>
| **Enhancing financial inclusion for individuals and MSMEs;** | - Microfinance sector growth  
- Expansion of agricultural finance programs  
- Improvements to data reporting system on gender access to finance outcomes  
- Improvements in number of entrepreneurs with health insurance coverage  
- Development of corporate Sukuk regulations and framework for Takaful insurance markets |
| **Supporting institutional and policy reforms for the development of digital platforms and digital infrastructure;** | - Development of digital payments market  
- Improvements to fixed broadband penetration  
- Improvements in internet access for rural areas |
| **Enhancing support to digital entrepreneurs;** | - Improvements to digital business registration for entrepreneurs  
- Development of early stage equity finance and angel investor networks |

**D. Project Description**

The proposed US$ 700 million Financial Inclusion & Digital Economy Development Policy Financing (FIDE DPF) is part of a longstanding programmatic and multisectoral engagement in Morocco supporting 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 (Government Program, the National Financial Inclusion Strategy, *Plan Maroc Numérique*) and supported through longstanding World Bank Group (WBG) engagements that have helped generate critical analytical knowledge, technical assistance and lending operations. 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 sustainability. The specific reforms will be further informed by the Country Private Sector Diagnostic (CPSD), which is being finalized following consultations with Government and private sector in November 2018.

As a 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. Each of the pillars of the DPF is supported through the ongoing and planned engagements by the WBG, as outlined below:

**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\(^5\) to screen potential female borrowers and target female entrepreneurs for better impact. 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.\(^6\) 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) the 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 budget support operation. These engagements will be further informed by the Country Private Sector Diagnostic.

E. Implementation

Institutional and Implementation Arrangements

The responsibility for implementing the proposed operation is the MEF. The Government takes the lead in monitoring progress in implementation of this operation, in coordination with the relevant ministries and agencies, 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. The MEF will work in close coordination with the Central Bank (*Banque Al-Maghrib*), the national telecommunications regulator (*Agence Nationale de Réglementation des Télécommunications*), and the Ministry of

---

5 For example, the Government guarantee programs, the stabilization fund for agriculture finance managed by *Crédit Agricole Maroc*.

6 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.
Industry, Investment, Commerce, and Digital Economy in implementation of reforms.

The World Bank will provide regular implementation support to provide policy advice and technical assistance to the institutions involved in the implementation of the program of reform. The 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 joint with other donors in the case of specific reforms. The IFC will also remain closely involved in the monitoring and support to the operation.

F. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

Activities under the program are expected to have a positive impact on overall poverty levels within 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. The overall poverty and social impact of the proposed project is expected to be positive, given that women, rural population, the most vulnerable, and the poor benefit disproportionately from financial systems and internet access.

The 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 additional financial services to small companies facilitated through digital means for populations who cannot access traditional banking services. This is particularly important given that in Morocco an estimated 14 million people, nearly 60 percent of working age individuals are out of the labor force, unemployed, or in unpaid jobs. In Morocco small enterprises account for over 90 percent of the total number of operating enterprises in Morocco, contributing over 20 percent of GDP. Financial inclusion and digital connectivity also supports the emergence of digitally-enabled entrepreneurs. This is critical given the rate of firm creation in Morocco is much lower than regional averages. Moroccan policymakers have placed significant priority on the role of digital entrepreneurship in creating economic opportunity for youth.

Potential adverse impacts of adopting digital technologies are mitigated through a program that includes robust social protection elements. Specifically, prior action four expands basic compulsory health insurance coverage for self-employed individuals. This will significantly expand the number of individuals with access to tools to reduce vulnerability and better respond to cataclysmic shocks, whether they be related to health, social/familial, or climate-linked. In addition, prior action seven introduces interoperability between banks and payment service providers to develop the mobile payments market. Digital payments globally bring large volumes of traditionally underbanked into the formal financial system, including those in remote areas.

Environmental Aspects

---


8 Data from BAM.
Increasing access to finance for microenterprises and SMEs and pursuing investment reforms in digital infrastructure and digital platforms are not expected to have material environmental impacts. Reforms will support business expansion of small enterprises many of whom engage in small-scale manufacturing, handicrafts and revenue generating activities, agricultural production, or service provision. The program does not support reforms related to real estate production or construction. It is recognized there may be some business activities which environmental and social risks may have, for example increased pollution from certain industrial sub-sectors. However, the scale is likely to be limited because of the size of SMEs.

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 possible use of pesticides.

Facilitating the entry for national and international firms working in the telecommunication field would result in a proliferation of communication towers and associated infrastructures. Notwithstanding that these entrants in the field may be small and medium enterprises, such activities will likely have environmental (social), occupational health and safety impacts.

Financial sector oversight of these institutions helps mitigate any environmental risks because of support measures. Moroccan financial institutions benefitting from proposed reforms have internal risk management frameworks in place, including policies towards environmental and social impact, as well as governance systems overseen by Morocco’s Central Bank and Ministry of Finance.

Morocco also 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 both the majority of aspects related to environmental protection, pollution abatement and improving the living environment, including preventive instruments (Environmental Impact Assessment, EIA) and incentives (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. The most important legislative text concerning EIAs is Law no. 12-03 of 12 May 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 has been complemented by the recent adoption (in March 2014) of the National Charter on Environment and Sustainable Development, 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 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 arrangements put forth by the International Federation of Consulting Engineers, which come with their own set of proper environmental, occupational health, and safety measures.

G. Risks and Mitigation

The overall risk to the proposed operation is Moderate. All ratings are assessed as either Moderate or Low, except for Stakeholders and Institutional Capacity for Implementation and Sustainability, which are rated as Substantial.

With regards to Stakeholder risk, the reforms that underpin this operation involve various public stakeholders
including MEF, BAM, and other supervisory authorities. The proposed reforms require institutional and political support to inter-ministerial and inter-agency coordination and transparency to facilitate interoperability and data sharing among the public and private actors expected to be involved. Furthermore, 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, could generate opposition to reform adoption. The WBG’s broader engagement in Morocco can help the GOM identify and mitigate these risks to reform adoption, notably through analytical work and technical assistance on specific reform measures. The inclusion of a prior action to develop digital infrastructure in local communities and remote areas in the DPF aims to address the risk of social or political instability amongst citizens, along with citizen engagement initiatives supported through this DPF and the broader CPF.

On Institutional Capacity for Implementation and Sustainability, while institutional capacity is relatively strong in Morocco, the main risks stem from three elements primarily: (1) the ongoing coordination required amongst the various governmental authorities involved in the operation; (2) capacity to implement reforms; and (3) potential delays in securing the needed approvals throughout the legislative process for various reforms. 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.

These risks will be mitigated by leveraging ongoing WBG engagements with key project counterparts, and strong technical analysis at the preparation stage to justify the proposed reforms – including a keen understanding of the readiness of each prior action. Certain aspects of these risks fall outside the control of the authorities and the WBG (i.e. securing approvals within the legislative process) but will be mitigated to the extent possible through continued dialogue and technical support to ensure each proposed reform has a strong technical justification.

**CONTACT POINT**

**World Bank**

Djibrilla Adamou Issa
Lead Financial Sector Specialist

**Borrower/Client/Recipient**

Kingdom of Morocco

**Implementing Agencies**
Ministry of Economy and Finance
Nouaman El Aissami
Deputy Director, Department of Treasury and External Finance
n.alaiissami@tresor финances.gov.ma

FOR MORE INFORMATION CONTACT
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

APPROVAL

Task Team Leader(s): Djibrilla Adamou Issa

Approved By

Country Director: Afef Haddad 22-Jan-2019