AFRICAN DEVELOPMENT BANK

KINGDOM OF MOROCCO

INDUSTRIALIZATION ACCELERATION SUPPORT PROGRAMME IN MOROCCO – PHASE II (PAAIM II)

APPRAISAL REPORT

ECGF/RDGN DEPARTMENTS

February 2019

Translated Document

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CURRENCY EQUIVALENTS
February 2019

Currency Unit = UA

UA 1	=	USD 1.4
UA 1	=	EUR 1.22
UA 1	=	MAD 13.33

FISCAL YEAR
1 January – 31 December

WEIGHTS AND MEASURES

1 tonne	=	2 204 pounds (lbs)
1 kilogramme (kg)	=	2.200 lbs
1 metre (m)	=	3.28 feet (ft.)
1 millimetre (mm)	=	0.03937 inch (“)
1 kilometre (km)	=	0.62 mile
1 hectare (ha)	=	2.471 acres

ACRONYMS AND ABBREVIATIONS

AfDB	African Development Bank
AMMC	Moroccan Capital Market Authority
BADR	Automated Customs Network Base
BTP	Public Works and Civil Engineering
CCG	Central Guarantee Fund
CCI	French Chamber of Commerce and Industry
CFRA	Country Fiduciary Risk Assessment
CGEM	General Confederation of Moroccan Enterprises
CMC	Centre Marocain de Conjoncture (Moroccan Centre for Economic Prospects)
CNEA	National Business Environment Committee
CPI	Corruption Perceptions Index
CST	Special Treasury Account
DTFE	Directorate of Treasury and External Finance
EU-D	European Union Delegation
FDI	Foreign Direct Investment
FTZ	Free Trade Zone
GDP	Gross Domestic Product
GPBM	Groupement Professionnel des Banques du Maroc (Moroccan Bankers Association)
GPP	Principal Partners Group
HCP	High Commission for Planning
HDI	Human Development Index
IC	Industrial Company
ICE	Common Business Identifier
IGF	Generate Inspectorate of Finance
IIAG	Mo Ibrahim Index of African Governance
IMF	International Monetary Fund
INDH	National Human Development Initiative
IPR	Implementation Progress and Results Report
IRES	Royal Institute of Strategic Studies
LF	Appropriations Act
LOF	Organic Law on the Appropriations Act
MCC	Millennium Challenge Corporation
MEF	Ministry of Economy and Finance
MIICEN	Ministry of Industry, Investment, Trade and Digital Economy
MSME	Micro-, Small- and Medium-sized Enterprises
OCP	Office Chérifien des Phosphates
OPCC	Mutual Fund
PAAIM	Industrialization Acceleration Support Programme in Morocco
PACEM	Support Program to the competitiveness of the Moroccan Economy
PAI	Industrial Acceleration Plan 2014-2020
PAPMV	Green Morocco Plan Support Project
PEFA	Public Expenditure and Financial Accountability
PJD	Justice and Development Party
PPP	Public-Private Partnership
SA	Budget Review Act
SEGMA	Autonomously-managed State Service
SME	Small- and Medium-sized Enterprise
SNDD	National Sustainable Development Strategy
SNIF	National Financial Inclusion Strategy
TFP	Technical and Financial Partner
UNDP	United Nations Development Programme
WB	World Bank
WEF	World Economic Forum
WTO	World Trade Organisation

PROGRAMME INFORMATION SHEET

LOAN INFORMATION

INSTRUMENT:	Programme-Based Operation (PBO)
PBO DESIGN MODEL:	Two-phase Programme-Based Operation: 2017/2018 – 2019/2020

Client Information

BORROWER	:	Kingdom of Morocco
EXECUTING AGENCY	:	Ministry of Economy and Finance (MEF) Directorate of Treasury and External Finance (DTFE)

Financing Plan

Source of Financing	**Amount (EUR)**	**Amount (UA)**	**Instrument**
AfDB	268 million	UA 220 million	Loan
TOTAL COST	**268 million**	**UA 220 million**	

ADB Key Financing Information

Loan Currency	Euro
Loan Type	Fully flexibility loan
Maturity	Indicated in the loan agreement (up to a maximum of 25 years)
Deferred depreciation	Indicated in the loan agreement (up to 8 years maximum)
Weighted average maturity **	To be determined (depending on amortization profile, maturity and deferral)
Reimbursements	Semi-annual payments after the grace period
Interest rates	Base rate + Cost of financing margin + Loan margin + Maturity premium (this interest rate must be greater than or equal to zero)
Base rate	EURIBOR float 6 Months revised on February 1st and August 1st. A free option is available to set the base rate
Financing cost margin	The Bank's margin on financing costs revised on 1 January and 1 July and applied on 1 February and 1 August with the base rate

Timeframe – Key Milestones (expected)

Appraisal Report Approval by Country-Team	December 2018
Programme Approval	March 2019
Effectiveness	March 2019
Completion	December 2020
Last Disbursement	December 2019

PROGRAMME EXECUTIVE SUMMARY

Programme Overview	**Programme Name:** Industrialization Acceleration Support Programme in Morocco – Phase II (PAAIM II) ▪ Operational Instrument: Sector budget support (SBS) ▪ Sector: Industrialisation and financial sector The main objective of PAAIM II worth Euro 268 million is to lay the foundations for a strong and sustainable, diversified and inclusive economy that is resilient to external shocks, particularly climate shock, by accelerating and strengthening the industrialisation process. Its specific objectives are to: (i) improve the competitiveness of the industrial fabric; and (ii) support the financing of industrial economic activities. Furthermore, PAAIM II is part of the Governance Strategic Framework and Action Plan 2014-2018 (GAP II) under Pillar I: "Public Sector Management and Economic Management" and Pillar II "Sector Governance". It aligns with the thrusts of the Bank Group's Strategy for the Industrialisation of Africa, particularly the flagship programmes to provide support for industrial policy implementation and facilitate access to capital. All measures envisaged under Phase I of the programme have been implemented. Nine out of eleven outputs have been achieved. The implementation of the two remaining measures is well advanced. In addition, the implementation of measures envisaged under Phase II (2018 and 2019) is underway. Overall, eight measures precedent out of the nineteen reform measures contained in the PAAIM measures matrix have already been implemented.
Programme outcomes	The main expected outcomes are: (i) establishment of a basic investment-friendly framework that is consistent with the territorial and sector policies of the State, and can provide investors with leased land at competitive prices (400 hectares); (ii) building of an official portal for the key administrative procedures of export enterprises; (iii) development of five integrated ecosystems ; (iv) increasing the number of guarantees provided to VSME (bringing it to 11 000 by 2020) and increasing the number of projects promoted by women's SMEs/SMIs to 1 100 by 2020; (v) increasing the volume of investment capital to MAD 2.91 billion during the period 2017-2020; (vi) mobilizing at least MAD 200 million to support and finance innovative start-ups by 2020, providing support to at least 150 project promoters during the pre-seed phase and issuing green bonds; and (vii) increasing the number of entrepreneurs benefiting from financing by establishing at least two crowdfunding platforms.
Alignment with Bank priorities	This programme contributes to implementing and achieving the objectives of the first pillar of Morocco's Country Strategy Paper (CSP) 2017-2021: "Support for Green Industrialization by SMEs and the Export Sector". It directly contributes to two of the Bank's High 5s, namely "Industrialize Africa" and "Improve the quality of life for the people of Africa", and also pursues the green and inclusive growth objectives of the AfDB's Ten-year Strategy 2013-2022
Needs Assessment and Justification	The main objective of the PAAIM is to contribute to the acceleration of industrialisation, with particular emphasis on strengthening the competitiveness of the industrial sector and improving the financing tools for innovative industrial activities. The programme supports flagship measures in terms of export competitiveness of Moroccan industries and promotes the emergence of renewable energy financing tools through the issuance of green bonds
Harmonisation	The Ministry of Economy and Finance is responsible for coordinating the operations of technical and financial partners (TFPs). Most TFPs operating in the country meet regularly to coordinate their activities. The Bank holds constant consultations with all partners, including the EU, the WB, the IMF, the EBRD, the Millennium Challenge Account, the EIB, the AFD and KfW. In addition, a coordination mechanism placed under the aegis of the Bank was set up within the framework of the G20 Compact with Africa (CwA) initiative to coordinate the implementation of structural reforms. The reforms supported under PAAIM are key measures in Pillars 2 and 3 of CwA relating respectively to the investment climate and financing of the economy.
Bank's Added Value	The PAAIM adopts a programmatic approach, articulated in two successive phases: PAAIM I and PAAIM II, and supported by a set of structuring activities implemented or being implemented as part of the Bank's operations in Morocco. It will contribute to accelerate new reforms while consolidating reforms supported during the first phase of ht programme.
Contributions to Gender Equality and women's empowerment	PAAIM II was designed from a gender perspective, with the objective of increasing women's empowerment and reducing gender gaps. The programme will also reduce inequalities in access to finance for women, particularly in the industrial sector, an area in which Moroccan women are increasingly investing. Indeed, the programme provides for a series of measures that are directly or indirectly linked to the strengthening of women's economic activities, such as the relaxation of the guarantee product for women-owned businesses: "Daman Ilayki".
Policy dialogue and linked	Under this programme, an agreement was reached with the authorities to intensify dialogue concerning the structural transformation of the manufacturing sector in Morocco as well as the tools for financing such transformation. Emphasis will be placed on supporting the competitiveness of the

technical assistance	industrial fabric and financing industrial activities. This will especially involve improving the investment climate, increasing tax incentives for manufacturing enterprises and facilitating international trade transactions by export enterprises by enhancing the digitalization of transactions. Similarly, there are plans to improve access to non-bank financing for start-ups and SMEs/SMIs, and to develop guarantees for financing provided to women entrepreneurs. Lastly, the issuing of green bonds for the development of renewable energies will be promoted. Dialogue will continue on these issues because of their relevance and on the conduct of forward-oriented thinking to review the economic and social development model to make it more inclusive. The Bank will continue to support the Government of the Kingdom of Morocco to implement actions identified, particularly the implementation of a modernized legal framework relative to private investment , the facilitation of external trade, the support of export subcontractors, the simplification of administrative procedures for investors, the financing of women entrepreneurs, the creation of industrial ecosystems and adaptation to climate change by issuing green bonds and supporting start-ups involved in technological innovation.

RESULTS-BASED LOGICAL FRAMEWORK

***Country and Programme Name*: Morocco – Industrialization Acceleration Support Programme in Morocco – Phase II (PAAIM II)**
***Programme Goal:* Contribute to creating conditions conducive to the acceleration of industrialisation for green economic growth**

RESULTS CHAIN		PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/MITIGATION MEASURES
		Indicator	**Baseline**	**Target**		
IMPACT	Sustained growth driven by a job-creating industrial sector	GDP growth rate	2.8% (Average 2014-2015-2016)	3.6% (Average 2018-2019-2020)	HCP	
		Share of industrial sector in GDP	17.9% (2016)	23% (2020)	HCP	
		Number of jobs created (commitment) in the industrial sector	425 000 (2015-2016)	500 000 (2019-2020)	MIICEN	
OUTCOMES	**Outcome 1:** Strengthen the industrial investment environment and facilitate exports	Ease of Doing Business Index	75th (2016), 60th in 2019	50th (2020)	WB	***Risk 1:** Delays in implementing reforms **Mitigation measures:** Steady commitment by successive governments to continue the implementation of economic reforms. ***Risk 2:** The economy's high vulnerability to climatic hazards and climate change (agricultural sector) **Mitigation measures:** To mitigate this risk, the Government is committed to pursuing the implementation of reforms as part of economic diversification through accelerated industrialisation. PAAIM is supporting this drive. ***Risk 3:** Lack of coordination between the various ministries involved in implementing the reforms under the programme. **Mitigation measures:** The Directorate of Treasury and External Finance (DTFE), which coordinates implementation of the reforms and is responsible for monitoring programme implementation has demonstrated its capacity to mobilise various stakeholders during previous programmes. To facilitate coordination, the Bank will also maintain dialogue with all the entities charged with facilitating coordination, setting out the risks and the mitigation measures to achieve outcomes.
		Enabling Trade Index *(Pillar 3 - Efficiency of administrative procedures)*	4.9 points (54th) (2016)	4.6 points (2019)	HCP WEF	
	Outcome 2: Strengthen the industrial activity financing	Number of MSME benefiting from financing guarantee	7 290 (2016)	11 000 (2020)	MEF	
		Number of women-led projects benefiting from financing	374 (2016)	1 100 (2020)	MEF	
		Increase in investment capital during the period under consideration	MAD 2.7 billion for the 2013 - 2016 period	MAD 2.92 billion for the 2017 - 2020 period	MEF	
OUTPUTS	**COMPONENT I: SUPPORT FOR COMPETITIVENESS OF THE INDUSTRIAL FABRIC**					
	Sub-component 1.1: Support the Promotion of Industrial Investments					
	Output 1.1.1: Establish a modernised legal framework for private investment	Adoption of a new framework law on the investment charter	Framework Law No. 18-95 of 1995 on the Investment Charter (2016)	The new framework law on the investment charter is adopted by the Council of Government (2019/2020)	MIICEN	
	Output 1.1.2: Establish a legal framework for industrial land	Passing of a framework law on industrial land	There is no framework law on industrial land (2016)	Submission of the industrial estates bill (2019/2020) to the SGG	MIICEN	

	Output 1.1.3: Improve tax incentives for industrial companies	Exemption of newly created industrial companies (ICs) from corporate tax (CT)	Only: (i) export enterprises are totally exempt from CT on their export turnover for 5 years and benefit from a 50% reduction beyond that period; and (ii) enterprises located in prefectures or provinces whose economic conditions require preferential tax treatment, benefits from a 50% reduction of the CT for 5 years.	The decree listing the activities concerned by the measure to exempt newly created industrial companies carrying out activities fixed by regulation from the CT for five years is issued (2019/2020).	MIICEN	
	Output 1.1.4: Facilitate administrative procedures for investors	Launching of e-Regulations Casablanca,Marrakech-Safi, Rabat-Salé-Kenitra, L'orientale & Fès-Meknès.	*e-Regulations* Casablanca	*e-Regulations* Casablanca *is* operational (2017/2018) and in Marrakech-Safi,Rabat-Salé-Kenitra, L'orientale & Fès-MeknèsTanger.	CNEA	
	Sub-component 1.2: Support the Promotion of Industrial Exports					
	Output 1.2.1: Dematerialise the One-stop Shop/Agadir Port	Deployment of Portnet for Agadir, Nador and Tangier ports	The Agadir Port does not have Portnet (2016).	Portnet is deployed at Agadir (2017/2018), Nador and Tangier ports (2019/2020).	PortNet	
	Output 1.2.2: Improve incentives for industrial subcontractors	Granting of indirect exporter status to subcontractors	Subcontractors do not enjoy the benefits of direct exporters	Subcontractors are considered as indirect exporters (2017/2018)	MEF	
	COMPONENT 2: SUPPORT FOR FINANCING INDUSTRIAL ECONOMIC ACTIVITIES					
	Sub-component 2.1: Support SME Development Financing					
	Output 2.1.1: Support the internalisation of SMEs	Review of guarantees to tailor them to SME/SMI internationalisation support needs	The maximum guarantee ceiling per financing dossier is MAD 10 million	The commitment ceiling of the SME Guarantee Fund is doubled to permit support SMEs for purposes of internationalization	MEF	
	Output 2.1.2: Improve access to non-bank financing for SMEs/SMIs	Issuing by MEF of the order governing the use of loans, disinvestment time limits and related activities pursuant to Law No. 18-14 on mutual funds (OPCCs)	The development of investment capital is constrained by regulations	A more flexible framework for investment capital is established to facilitate SME/SMI financing (2017/2018)	Casablanca Stock Exchange	
	Sub-component 2.2: Facilitate Seed Financing for Enterprises, Entrepreneurship and Green Financing					
	Output 2.2.1: Ease access to financing for innovative start-ups	Setting up of two public-private investment funds within the framework of the Innov Invest Fund, each worth approximately MAD 100 million	No Fund in place in 2016	Two funds each worth at least MAD 100 million selected (2019/2020)	MEF	
	Output 2.2.2: Create certified incubators for pre-seed business support	Launching of the certification of support entities to assist business plan holders during the pre-seed phase	No coherent corporate pre-seeding programme	At least 150 project promoters financed during the pre-seed phase by the end 2020	CCG	

	Output 2.2.3: Establish new private corporate bond issues	Publication of a new guide for green bond issues and design of a product devoted to green financing as part of support for SME financing.	No green bond	At least 5 private corporate bond issues (2017/2018) and a new product dedicate to green finance designed by the MEF and managed by the CGC for the benefit of SMEs (2018/2019).	MEF	
Activities by Thrust Area/Component	**Focus area/Component 1:** Support the Competitiveness of the Industrial Fabric **Focus area/Component 2:** Support the Financing of Industrial Economic Activities				Resources: Euro 268 million	

MANAGEMENT'S REPORT AND RECOMMENDATION TO THE BOARD OF DIRECTORS CONCERNING A PROPOSAL TO GRANT A LOAN TO THE KINGDOM OF MOROCCO TO FINANCE THE INDUSTRIALISATION ACCELERATION SUPPORT PROGRAMME IN MOROCCO – PHASE II (PAAIM II)

I. THE PROPOSAL

1.1 **Management hereby submits the following proposal and recommendation to grant a EURO 268 million loan to finance the second phase of the Industrialisation Acceleration Support Programme in Morocco (PAAIM II).** PAAIM is a two-phase programme-based sector budget support (SBS) covering the periods 2017/2018 and 2019/2020. The main objective of PAAIM is to contribute to accelerating industrialisation, with special emphasis on enhancing the competitiveness of the industrial fabric and improving innovative industrial activity financing tools. The implementation of the first phase of the programme (PAAIM I), financed to the tune of USD 200 million, is considered satisfactory. The programme supported flagship measures to enhance the competitiveness of Moroccan export industries and fostered the emergence of renewable energy financing tools through the issuing of green bonds. It also helped to improve the legal framework for industrial land and support industrial subcontracting enterprises through better targeted tax incentives. Lastly, the programme initiated the development of guarantees for women entrepreneurs. This report is submitted to the Board of Directors for approval after the very successful implementation of PAAIM I and the completion of all measures precedent to the launching of the second phase.

1.2 PAAIM II, which is the second phase of the programme, will contribute to achieving the following outcomes: i) greater support for the promotion of industrial investments; ii) greater support for the promotion of industrial exports; iii) the support for the financing of SME development; and iv) the facilitation of business start-ups and green financing. In so doing, it will support the efforts of Moroccan authorities to diversify the economy through industrialisation and quality upgrading, thus creating wealth and new jobs.

1.3 It is worth noting that PAAIM II's objectives are consistent with the Bank's Country Strategy Paper for Morocco, which mainly aims to support the Government in implementing its Industrial Acceleration Plan that has mobilised all the country's public actors and most of the private sector since its inception. This strategy addresses the challenges identified during the implementation of the two previous industrial development strategies. It adopts a new approach based on the establishment of industrial ecosystems[1] to reduce sector fragmentation by promoting the forging of targeted and mutually beneficial strategic partnerships between industrial leaders and micro-, small- and medium-sized enterprises (MSME). The strategy covers all industrial sectors, thus ensuring integrated development. The objectives set for 2020 are to create 500 000 jobs and increase the share of the industrial sector in GDP by 9 percentage points (from 14% in 2014 to 23% in 2020), and the inversion of the trade balance's trend towards equilibrium. In addition, industrial sector development requires improved SME financing by reducing guarantee-related constraints and diversifying nonbank financial services. It is also expected to facilitate the financing of start-ups and industrial units by creating at least two private equity funds worth at least MAD 100 million and supporting at least 150 project promoters during the pre-seed phase by 2020.

[1] The industrial ecosystems approach involves pooling groups of enterprises around ecosystem project "drivers", which can be local industrial leaders, professional groups or foreign investors. Thus, industrial ecosystems enable better sector integration, increased investments and better industrial sector enhancement by encouraging the establishment of targeted and mutually beneficial strategic partnerships between industrial leaders and MSMEs.

II. UPDATE ON THE COUNTRY'S ELIGIBILITY

2.1 The detailed analysis of the country's readiness presented below shows that the Kingdom of Morocco has demonstrated a great capacity to implement the planned reforms. Regarding eligibility, Morocco fulfils the conditions precedent to the use of the budget support instrument.

Criterion 1 – Government's Commitment to Reduce Poverty

2.2 **Poverty has reduced significantly in Morocco, from 9% in 2007 to 4.8% in 2014[2], mainly as a result of the implementation of a proactive poverty reduction policy** – for instance the National Human Development Initiative (INDH), which reflects a political commitment at the highest level to combat rural poverty as well as urban exclusion and social insecurity. Morocco's Human Development Index (HDI) has improved steadily, from 0.457 percentage point in 1990 to 0.67 percentage point in 2017, with an average annual growth of 1.43%. School enrolment rate for 6-17 year olds reached 82.2% (2015-2016), with a school attendance rate of 98.7% among the 6-11-year olds in rural areas and a gap of merely one percentage point in terms of the enrolment rate of boys compared to girls. Although the country has one of the lowest levels of poverty in Africa, Morocco is still grappling with rising social and spatial inequalities, and youth unemployment. To address social demands, His Majesty the King instructed the Government to propose a new, more inclusive development model. The first relevant social measures are reflected in the 2019 budget.

2.3 **According to the High Commission for Planning (HCP), social inequalities in Morocco, as measured through the Gini Index, fell between 2001 and 2014 from 40.6% in 2001 to 39.5% in 2014[3].** This downward trend is more pronounced according to place of residence. The Gini Inequality Index decreased from 41.1% in 2007 to 38.8% in 2014 in urban areas, and from 33.1% to 31.7% in rural areas. However, spatial inequalities in access to quality employment constitute a weakness in Morocco despite outstanding efforts. Between 2017 and 2018, the unemployment rate increased from 10.2% to 9.8% at national level, from 14.7% to 14.2% in urban areas and from 4% to 3.5% in rural areas.

Criterion 2 – Political Stability

2.4 **Morocco continues to enjoy political stability, which is one of its major assets.** In 2011 and within the context of the Arab Spring, the Kingdom successfully initiated a process of transition combining openness with political plurality and institutional, economic, sector and social reforms. This process has often been cited as an example. The new Constitution adopted in 2011 has strengthened political diversity and individual freedoms. The Justice and Development Party (PJD) that emerged victorious in the 2011 and 2016 elections has since governed with a coalition of parties. The regional and municipal elections of September 2015 marked a milestone in the implementation of the decentralisation process, as enshrined in the new Constitution. The Kingdom re-joined the African Union (AU) on 30 January 2017 and has since engaged in active diplomacy to assume political leadership on the continent. The next legislative elections are scheduled for 2021. Social and spatial inequalities and youth unemployment remain challenges to be relieved. To address this situation, His Majesty the King instructed the Government to initiate discussions on a more inclusive economic and social development model.

[2] Latest official figures (Source: High Commission for Planning, Morocco's Social Indicators, 2018 Edition).
[3] Latest official figures (Source: High Commission for Planning, Morocco's Social Indicators, 2018 Edition).

Criterion 3 – Macroeconomic Stability

2.5 **Morocco has succeeded in maintaining its macroeconomic balance.** the real GDP growth rate keeps being consolidated. It dropped from 4.1% in 2017 to 3.3% in 2018 due to a bad crop harvest compared with the previous year. However, economic diversification in the productive branches of global trades (automobile, aeronautics and electronics etc) helps to mitigate the impact of the shock. Despite a 1.4% nominal increase in revenue, the large energy bill due to rising oil prices led to an overall budget deficit of 3.7% of GDP in 2018, against 4.1% in 2017. This deficit is expected to decline steadily to 3.3% of GDP in 2019 and 3.0% in 2020, thanks to the consolidation of tax reforms, the streamlining of public expenditure and greater revenue mobilisation. The fiscal space to be created will help to finance more social inclusion policies. However, the Government is making sure that increased social expenditure does not compromise Morocco's debt ratios, which indicate that the debt is still sustainable. Thus, the ratio of public debt to GDP that stood at about 65% on average over the 2016-2018 period. It is expected to be at 65,9% by the end of 2019 according to the authorities' estimations. The debt is expected to stood at 64,5% of GDP in the end of 2020, for a target of 60% at medium term. Inflation has increased from 0.7% in 2017 to 1.9% in 2018, reflecting the increase in VAT on petroleum products, but the impact is expected to be contained via control of the prices of some staple products. The economy is expected to recover in the medium term, provided the Government continues to readjust public finance and deepen reforms. Specifically, Morocco must ensure that its substantial volume of public investments generates productivity benefits in order to promote private sector-led inclusive growth that creates jobs for youths.

2.6 The current account deficit was 4.3% of GDP in 2018, increasing compared to 3.6% reached in 2017, due to the increase in imports of capital goods and the energy bill. This evolution, which comes despite the good performance of exports, is mainly explained by the higher energy costs due to oil prices rising on the international market, the acceleration of goods' imports and the Gulf countries' donations falling (2.8 MAD DH against 9.5 MAD DH in 2017). The foreign exchange reserves of the Treasury amounted to about 5.2 months of imports in 2018, compared with 6.0 months in 2017. Commercial banks have substantial reserves for their business transactions with the rest of the world estimated at MAD 26 billion at end-September 2018, as against MAD 27 billion in 2017.

2.7 In January 2018, the Republic of Morocco adopted a new more flexible exchange rate regime in which the dirham parity is determined within a fluctuation band of ±2.5%, compared to ±0.3% previously, while maintaining the currency basket composed of the Euro and the US dollar at 60% and 40% respectively. The adoption of this new regime didn't lead to currency depreciation as expected. This flexibility-building measure, which shows the maturity of the Central Bank ("Bank Al-Maghrib") in managing the local currency, aims to strengthen Morocco's competitiveness and attractiveness. The significant improvement in the country's position in the Doing Business 2019 ranking and better visibility on available industrial land are expected to increase foreign direct investments (FDIs).

Table 1: Key Macroeconomic Indicators (as a percentage of GDP, unless otherwise indicated)

(Real) GDP	2016	2017	2018	2019 (p)
Real GDP growth rate (in %)	1.1%	4.1%	4.5%	3.2%
Inflation rate (annual average)	1.6%	0.7%	1.9	1.2%
External current account balance – including grants	-4.2%	-3.6%	-4.3%	-4.1%
Broad money (annual % change)	4.7%	5.5%	3.7%	4.8%
Public debt	64.9%	65.1%	64.6%	65.6%
including domestic debt	50.7%	50.7%	51.5%	51.6%
Gross official reserves (months of imports)	6.4	6.0	5.2	6.3
Tax revenue	18.6%	18.9%	18.7%	18.8%
Basic primary budget balance (excluding grants)	-2.4%	-1.9%	-1.6%	-1.0%
Budget balance, including grants	-4.3%	-3.5%	-3.7%	-3.3%

Source: Ministry of Economy and Finance (MEF).

Criterion 4 - Fiduciary Risk Review

2.8 **The overall fiduciary risk was considered low in view of the achievements made by Morocco** in terms of budget credibility, public finance transparency, budget execution predictability and control based on an effective system of standards and internal controls, and the external audits conducted by the Court of Audit, which are in line with International Standards of Supreme Audit Institutions (ISSAI). Since 2011, the Government has continued to modernise its public finance management system. Several reforms have been implemented to establish this modernisation and austerity policy as enshrined in the Constitution of 2011. Prepared on the basis of Article 75 of the Constitution, the Organic Law on Appropriations Act was passed by Parliament in 2015. It constitutes a response to the new constitutional provisions concerning the: (i) improvement of public management performance; (ii) establishment of a set of rules to ensure the financial balance of the Appropriations Act and improvement of public finance transparency; and (iii) enhancement of Parliament's role in the budget debate and in public finance auditing. The Constitution focuses more specifically to regionalisation and administrative devolution, strengthening regional level control. In addition, the Court of Audit continues to operate at the regional level to ensure tighter management control of public bodies and local and regional authorities.

2.9 **The public procurement framework has been reformed significantly in recent years to align it with international standards, as shown in the satisfactory fiduciary assessments carried out by the Bank and other partners.** In November 2017, the Bank assessed Morocco's national public procurement system using the OECD/DAC methodology. The country's procurement fiduciary risk was considered moderate. The national procurement system evaluation report was validated with the participation of major public procurement actors and key technical and financial partners.

Criterion 5 – Harmonisation

2.10 The Ministry of Economy and Finance is responsible for coordinating the operations of technical and financial partners (TFPs). Most TFPs operating in the country meet regularly to coordinate their activities. The Bank holds constant consultations with all partners, including the EU, the WB, the IMF, the EBRD, the Millennium Challenge Account, the EIB, the AFD and KfW.

2.11 In addition, a coordination mechanism placed under the aegis of the Bank was set up within the framework of the G20 *Compact with Africa* (CwA) initiative to coordinate the implementation of structural reforms. The reforms supported under PAAIM are key measures in Pillars 2 and 3 of CwA relating respectively to the investment climate and financing of the economy.

III. PRESENTATION OF PAAIM II (2019-2020)

3.1 Programme Goal and Objective

3.1.1 The main objective of the Industrialisation Acceleration Support Programme in Morocco is to contribute to creating conditions conducive to industrial competitiveness by establishing an institutional, technological and financial framework to foster rapid industrialisation in the country through greater support for export industrial enterprises and innovative start-ups.

3.1.2 By adopting a programme-based approach, PAAIM II will continue to implement the reforms already initiated during the 2017/2018 period (PAAIM I) to cover the 2019/2020 period, to facilitate alignment with the country's development policies and create the conditions for inclusive, resilient and sustainable growth. This multi-annual framework also provides a medium-term platform for dialogue on major reforms to accelerate Morocco's industrialisation. Furthermore, the programme has adopted an integrated inter-sector approach to help create synergy between various economic sectors and ensure better complementarity between the Bank's financial and technical instruments (reform support, investment support and technical support).

3.1.3 Therefore, the programme contributes to addressing the major challenges and constraints that Morocco faces in achieving sustainable and balanced socio-economic development. Given that the challenges identified during the first phase of the programme are still relevant, the goal and objectives of the second phase of the programme remain unchanged.

3.2 Programme Components

3.2.1 PAAIM II will maintain the components of the initial programme, namely: (i) Support for Competitiveness of the Industrial Fabric *by promoting industrial investments and exports;* and (ii) Support for Financing Industrial Economic Activities *through the financing of SME development, business start-ups, entrepreneurship and green financing*. The implementation of Component I measures will help to enhance the competitiveness of Morocco's industrial fabric by improving the investment climate and promoting exports, particularly by facilitating access to land and providing tax incentives. Meanwhile, the development of strong industrial SMEs/SMIs requires that they have access to diversified and improved financing in order to provide the SME/SMI sector with a new industrial base through the creation of industrial ecosystems. Hence, this programme is an integrated operation, given the structural aspects related to competitiveness and to SME/SMI financing. These aspects are complementary and essential for industrial ecosystems.

Component I: Support for Competitiveness of the Industrial Fabric

3.2.2 Over the past decade, Morocco has pursued a proactive strategy to improve the investment climate, particularly to attract more foreign direct investments (FDIs). Thus, according to the Doing Business 2019 Report, Morocco gained 9 places compared with 2018 and ranks 60th with a score of 71.02. The country is now ranked second in the MENA region and third in Africa. In 2018, Moroccan FDI flows to increase by 26% compared to 2017, reaching nearly $3.5 billion, thanks notably to the development of the industrial sector that has been steadily attracting foreign capital flows. To continue to support this trend, PAAIM II will focus on structural reforms whose implementation will help to achieve the overall objective of accelerating industrialisation – currently at the centre of the national development policy involving various ministries, private sector operators and TFPs. To that end, this first component comprises two sub-components: (i) Support for the Promotion of Investments; and (ii) Support for the Promotion of Industrial Exports.

Sub-component I.1: Support for the Promotion of Industrial Investments

<u>Problems and Constraints</u>

3.2.3 **Context and recent Government actions:** The promotion of industrial investments is one of the priorities of the Industrialisation Acceleration Plan (PAI) 2014-2020. Since the launching of this ambitious strategy, major global groups have decided to operate in Morocco because of its growth and development opportunities. After Renault, Bombardier and Safran, the Eaton, Aerolia, Alcoa, Shandong and PSA Peugeot Citröen groups, to name but a few, have also decided to invest in Morocco. In addition, during the last meeting of the Investment Committee of the Ministry of Industry, Investment, Trade and Digital Economy (MIICEN) held in October 2018, 68 draft investment agreements and amendments to investment agreements were approved for a total MAD 57.65 billion. These projects are expected to create 9 266 direct jobs. To take advantage of this investment drive and boost SME performance to locally increase the density of industrial ecosystems, the authorities have taken several measures to support the development of MSME. One of these measures, Bill No. 47-18 relating to the reform of regional investment centres (RICs) and the establishment of unified regional investment commissions, will extend the duties of the 12 RICs established throughout the 12 regions of the country to follow up and support MSME during their life cycle especially by providing them with advice and assistance to enable them to deal with any difficulties they may face. In addition, to oversee the acceleration of the digital transformation of MSMEs, *Maroc PME* launched two pilot programmes, namely "Moussanada Technologies de l'Information" and "Tahfiz", to meet the demand of MSME for digital transformation. Thus, between 2014 and 2018, *Maroc PME* implemented 639 support actions for the profit of 566 beneficiaries under the two programmes mentioned above. Moreover, Law No. 87-17 amending and supplementing Law No. 13-99 establishing the Moroccan Industrial and Commercial Property Office (OMPIC), Bill No. 88-17 relating to e-business development and support, and Bill 89-17 on the revision of Book IV of the Commercial Code. These two laws were adopted and published in the Official Gazette will enable the establishment of an electronic mechanism enabling online business creation.

<u>Actions Supported under PAAIM I and Outcomes Achieved</u>

3.2.4 All measures envisaged under the first phase of the programme have been implemented, except the one relating to the Investment Charter:

(i) ***Submission of the draft framework law on the investment charter to the General Secretariat of Government (SGG).*** This charter seeks to establish a new framework of incentives for industrial investment support, set up the General Directorate of Industry to ensure the sustainability of PAI, merge three corporate promotion agencies (AMDI[4], Maroc Export and OFEC[5]), create a digital agency, and restructure the Ministry of Industry, Investment, Trade and Digital Economy (MIICEN). The bill relating to the investment charter has been finalised and submitted to the SGG. Although the charter as a whole has not yet been adopted, some of its measures such as the granting of

[4] The Moroccan Investment Development Agency.
[5] The Casablanca Trade Fair and Exhibition Authority.

indirect exporter status to subcontractors and exemption of newly created industries from corporate income tax have already been implemented (with PAAIM's support);

(ii) ***Operationalization/updating of the digital platform devoted to industrial land*****:** the digital platform devoted to industrial land is available and functional[6]. It provides a map of available land and enables any investor to freely view online the possible locations for their project, depending on type of activity or geographical preferences. It is updated regularly, depending on new data to be input on the platform. The platform is managed by the Directorate in charge of hosting facilities within MIICEN. From December 2017 to November 2018, about 8 001 people visited the digital platform devoted to industrial land;

(iii) ***Validation of the documentation on the pilot phase of e-Regulations Casablanca*****:** this is an online information system that helps to guide investors in all their regulatory procedures. It describes the various stages of procedures while identifying the relevant statutory instruments, the amounts to be paid, contact persons and redress. This system also provides forms, the list of required documents and useful government services and institutions, and will ultimately provide links redirecting investors to the various dematerialised approach platforms (business development, building permits, etc.). The documents on the five procedures of the *e-Regulations* Casablanca project have been validated, namely: (a) business development; (b) town planning authorisation; (c) connection to the electricity network; (d) transfer of ownership; and (e) tax payment;

(iv) ***Signing of a partnership agreement between the Moroccan MSME Observatory (OMTPME) and the DGI and OMPIC*****:** the OMTPME signed two agreements with the DGI and OMPIC, respectively. The agreements enable data sharing between the OMTPME and the two entities with substantial databases, particularly on Moroccan MSME. This activity was motivated by the lack of statistics on Moroccan enterprises, particularly MSME, at the regional and sector level, making it difficult to assess the private sector and monitor the impact of sector policies (including the PAI). The first agreements concluded between the Observatory and OMPIC, DGI, CNSS and BAM have already enabled it to set up a database of 688 825 active enterprises, which could eventually help to assess demographic and financial indicators and understand their economic behaviour. The signing of similar agreements with the HCP and MIICEN is important because it will contribute to improving the reliability of information and ensuring maximum credibility for the Observatory's future first publications.

(v) **Inclusion in the 2017 Appropriations Act of the exemption from corporate income tax for five years of newly established industrial companies engaged in activities fixed by regulation:** this measure was implemented and provided for in the 2017 Appropriations Act. It entered into force upon publication. The decree specifying the industrial activities eligible for exemption was issued on 9 June 2018. These activities are found in 24 industrial sectors (automobile, leather, pharmaceuticals, wood, textiles, food, etc.);

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6 http://www.zonesindustrielles.ma/.

(vi) ***Launching of two industrial ecosystems (naval activities and plastics)*****:** both ecosystems were launched in June 2017. Between 5 000 and 7 500 direct jobs and 5 000 and 15 000 indirect jobs are expected to be created in the naval ecosystem by 2030. In addition, within the framework of the plastics ecosystem performance contract, the Moroccan Plastics Federation has undertaken to create 13 600 jobs by 2020, of which 9 400 direct jobs.

PAAIM II Actions and Expected Outcomes

3.2.5 The measures identified in this sub-component are a continuation of PAAIM I measures. They will help to promote investment in the industrial sector. **PAAIM II measures are:** (i) the adoption of the bill on the investment charter by the Council of Government; (ii) the presentation of the bill on industrial estates[7] to the SGG; (iii) the validation of the documents on the e-Regulations platform of four new regions (Marrakech-Safi, Rabat-Salé-Kenitra, L'orientale & Fès-Meknès); (iv) the establishment of a partnership between the Moroccan MSME Observatory and MIICEN; (v) the fixing (by decree) of the list of activities covered by the measure relating to the five-year exemption of newly established industrial companies engaged in activities defined by regulation from corporate income tax; and (vi) the launching of three other industrial ecosystems (renewable energy, electrical and electronic equipment, and electrical and electronic cable equipment).

3.2.6 **The expected outcomes of the implementation of these measures are:** (i) the establishment of a coherent and clear investment attraction mechanism that is consistent with the State's national and sector policies; (ii) the provision of rental land at competitive prices (400 hectares) to investors. So far, three new industrial zones have been developed by private developers and three sites are being developed by the MCC; (iii) the availability of an official portal devoted to key corporate administrative procedures in various regions of Morocco (the validation of documents and official launching of the platform for each site will help to give an official seal to the information presented on the platform; (iv) the improvement of information on industrial companies (of all sizes) available for economic research purposes or for the monitoring of industrial policy implementation; (v) a 60% increase in the industrial integration of automobile industrial ecosystems; and (vi) the development of five integrated ecosystems in the above-mentioned sectors.

Sub-component I.2 – Support for the Promotion of Industrial Exports

Problems and Constraints

3.2.7 **Context and recent Government actions:** in March 2018, Morocco signed the Agreement Establishing the African Continental Free Trade Area and took strong measures in the 2017 and 2018 Appropriations Act to encourage business development, investment and exports, particularly in the industrial sector. In addition, the country has further eased trade by establishing a paperless customs clearance system at Tangier Port, earning it 3 places in the Doing Business "Trading Across Borders" indicator ranking (from 65th position in the Doing Business 2018 Report to 62nd position in the Doing Business 2019 Report). The Portnet one-stop shop[8] is also intensifying efforts to dematerialise and streamline foreign trade procedures. Besides deploying the platform in various Moroccan ports (partially or fully), Portnet has introduced the following

7 The Industrial Land Law will seek to protect industrial land and limit land speculation arising from the use of plots of land intended for industrial activities for housing programmes.

8 Currently, the platform includes 7 interconnected government services, 17 banks, 11 ports, and 33 000 importers and exporters.

innovations: (1) the electronic payment of external trade transaction costs ("PayDirect"); (2) a partnership agreement with Crédit du Maroc for the establishment of a shared payment platform with several banks ("Trade Direct") to facilitate the management of international trade transactions (management of documentary credit, letters of credit, etc.); and (3) a web portal for information on foreign trade ("Trade Sense") as recommended by the Bali Agreement on Trade Facilitation. This portal enables exporters and importers to access the information they need to prepare their transactions in advance by keeping abreast of the tariffs, rules and standards requiring compliance. It also allows users to consult a database of trusted service providers and to explore new markets by accessing the trade agreements signed by Morocco, as well as trade flows and country profiles.

Actions Supported under PAAIM I and Outcomes Achieved

3.2.8 All PAAIM I measures retained under this sub-component have been implemented. They include: ***(i) Evaluation of the National Plan for the Simplification of External Trade Procedures:*** the evaluation of the plan was conducted and validated in February 2018 by the National Commission for the Simplification of Procedures. The evaluation led to the adoption of an action plan that is being implemented; ***(ii) Deployment of Portnet at Agadir Port:*** after its successful implementation at Casablanca Port, Portnet was deployed at the Agadir Port. The aim of this action is to dematerialise goods inspection and collection formalities as well as export container weighing declarations at Agadir Port. Agadir Port, which is undergoing profound changes brought about by the recent implementation of the provisions of Law No. 15/02, plays a key role in regional economic development and contributes to national economic development. Like the other ports of the National Ports Authority (ANP), Agadir Port has since 2012 been benefiting from the electronic management of ship calls and other e-services through the national platform managed by PORTNET S.A. such as import permits, export licences, document filing and the sharing of control results between the Ministry of Industry, Trade, Investment and the Digital Economy and the Directorate of Customs; ***(iii) Granting of indirect exporter status to subcontractors*:** following the publication of this measure in the 2017 Appropriations Act, subcontractors now enjoy the status of indirect exporters and, hence, the tax benefits granted to exporters. The related decree is being submitted to the SGG. To better target this incentive, the benefit is limited to two types of enterprises, namely: (i) subcontracting or indirect export enterprises producing physical goods that are re-exported by a direct exporter with or without value added; and (ii) service providers supplying export goods under certain conditions[9].

PAAIM II Actions and Expected Outcomes

3.2.9 Measures identified under this sub-component are a continuation of PAAIM I measures. They will contribute to facilitating external trade, thus creating an environment conducive to exports. **PAAIM II measures are:** (i) the adoption of the new national action plan for the simplification of external trade procedures; (ii) the deployment of Portnet at Nador and Tangier Ports[10]; and (iii) the submission of the decree on the status of indirect exporter to the SGG. **The expected outcomes are** an improvement from the 46th position out of 136 countries (2016) to the 40th position in 2019 in the Operating Environment Sub-index of the Enabling Trade Index ranking.

9 The exemption applies only if a service provider expresses turnover in foreign currency, is located in a free trade zone, or contributes to the production of the export product by a firm located in a free trade zone.

10 Many entities have already been connected to Portnet, particularly for the customs clearance of industrial products. All ports managed by the National Ports Authority (ANP) are using Portnet. T

Component II – Support for Financing Industrial Economic Activities

3.2.10 **Regarding the financing of economic activities, Morocco has made significant progress in modernising its financial sector**. Currently, the Moroccan banking sector is one of the most efficient in Africa and aims to emerge as the leading sector on the continent with three of its largest banks operating in more than 20 African countries. The Bank has contributed significantly to this national effort through various reform support measures by providing financing for the implementation of the three phases of the Financial Sector Modernisation Support Programme between 2009 and 2014. Morocco is pursuing its modernisation efforts with the same momentum and determination, particularly by mitigating collateral constraints and diversifying nonbank financial services, as well as facilitating financing for start-ups and industrial units. In this respect, PAAIM II's Component II comprises two sub-components, namely: ***(i) Support for Financing SME Development***; and ***(ii) Facilitation of Seed Financing for Enterprises, Entrepreneurship and Green Financing***.

Sub-component II.1 – Support for Financing SME Development

Problems and Constraints

3.2.11 **Context and recent Government actions:** aware of the need to develop a liquid, resilient and efficient financial market, the Moroccan authorities have been implementing reforms to strengthen financial sector governance and diversification since 2009. In particular, a new guarantee offer has been proposed to facilitate bank financing, comprising products dedicated to exporting and women-owned businesses. Therefore, there was a 40% increase in the volume of guaranteed loans (amounting to more than MAD 16 billion) by end-2017 compared with 2016, with over two thirds to SMEs operating in the industrial and public works/civil engineering sectors. In 2018, 594 businesses, most of which are owned by women, benefited from the women's guarantee product (Ilayki) for a commitment of MAD 113 million, mobilising about MAD 142 million worth of loans corresponding respectively to a 93% increase in the number of businesses and a 75% increase in the amount of loans mobilised between 2017 and 2018. The legal and regulatory framework for capital market financing has evolved considerably, in line with international best practice. Thanks to this momentum, the Casablanca Stock Exchange was able to rise to second place on the African continent. However, there is still strong potential for financing large and medium-sized companies in the capital market, particularly in the context of the alternative stock market. Investment capital financing is on the rise in Morocco, thanks to an incentive framework, particularly with the enactment of the new law on mutual funds (OPCCs) in 2015. Compared with 2016 when the volume of investments reached MAD 2.7 billion, the funds invested in 2017 increased significantly to stand at MAD 5.57 billion, of which MAD 2.5 billion in investments and MAD 3.07 billion in reinvestments. With the finalisation of the regulatory framework governing OPCCs, this activity will develop further and will continue to support companies with great development potential, especially those operating in the industrial sector.

Actions Supported under PAAIM I and Outcomes achieved

3.2.12 **Measures supported by the programme and outcomes achieved:** to establish a strategic framework for enhancing the financing of all economic actors, PAAIM I supported the following six specific measures: **(i) the first measure consists in supporting Government's efforts to launch the pre-formulation of the National Financial Inclusion Strategy (SNIF)**, which is intended to be a vehicle for coordinating efforts to improve the financing of the economy. The measure was implemented and the workshop to launch the pre-formulation of the National

Financial Inclusion Strategy was held in May 2017. An international consulting firm has been recruited by the authorities (MEF and BAM) to support the definition of the strategy's axes. As a result, the strategy project was presented to the Government Council by the end of January 2019, with a perspective to holding the first meeting of the National Council for Financial Inclusion in order to effectively start the the strategy's implementation; **(ii) the second measure is aimed at improving access to bank financing by existing SMEs and accelerating their development through the adoption of the CCG 2017-2021 Strategic Plan by the CCG Executive Committee.** The goal of this measure is to provide a guarantee to support the financing of larger-scale industrial projects (this will also be backed by a very advanced risk assessment system established with the Bank's technical assistance). The CCG Board of Directors adopted the CCG Strategic Plan on 28 July 2017. The plan outlines economic activity financing support needs with a view to establishing the framework for launching new products. They include: (a) microcredit guarantee for formal sector activities (business owners and business licence holders; (b) raising the commitment ceiling for middle size enterprises for purposes relating to industry, exports and the green economy, in order to support the internationalisation of Moroccan firms; (**iii) the third measure concerns the easing of conditions for access to the guarantee product designed for enterprises headed by women or in which women are majority shareholders**. The guarantee should cover not only operating credit, but also development credit ("Daman Ilayki"). This measure was implemented and MEF reconfigured the Ilayki guarantee product on 15 March 2017 as part of strengthening public support for access to financing by women entrepreneurs. The new product enables access to guarantee by enterprises governed by Moroccan law the majority of whose shares are held by one or more women, whereas in the past the product concerned only enterprises owned by a single woman. It also helps to guarantee short-term credit (less than 12 months) amounting to MAD 1 000 000, which is a novelty in relation to the former product that covered only medium - and long-term credit; (**iv) the fourth measure seeks to ensure greater access to non-bank financing by SMEs. PAAIM I requested the issuing of an order laying down general regulations governing the stock exchange management company and conditions for access to the alternative stock market.** This measure was implemented following MEF's order laying down general regulations governing the stock exchange management company and conditions for access to the alternative stock market. The order was discussed by the various stakeholders; (v) **the fifth measure consists in ensuring better financing through investment capital by issuing an order governing the use of loans,** pre-divestiture deadlines and related activities, in pursuance of Sections 10 and 25 of Law No. 18-14 on mutual funds (OPCCs). This measure was implemented as the MEF order was published in the Official Bulletin (Order No. 29-24-17; BO 6628); and **(vi) the sixth measure supported by PAAIM I concerns financing for the development of professional land, including industrial land, by establishing a taxation framework for real estate investment trusts (OPCIs)** under the 2017 Appropriations Act. The 2017 Appropriations Act No. 73-16 introduced the taxation framework for real estate investment trusts. Section 6 of the Appropriations Act dealing with tax exemptions includes OPCIs governed by Law No. 70-14 on OPCIs. Profits from the lease of buildings constructed for professional use and, consequently, related dividends are granted exemption from tax. In 2019, the first OPCI approvals will be issued by the AMMC. Moreover, the 2019 Appropriations Act provides for a tax measure for OPCIs consisting in increasing tax abatement from 40% to 60%, to review the initial instrument governing OPCIs in which the abatement did not take the amounts of depreciation into account.

PAAIM II Actions and Expected Outcomes

3.2.13 PAAIM II will support the following six measures to increase support for financing the development of SMEs/SMIs: (**i) establishment of a governance entity and design of the National Financial Inclusion Strategy; (ii) finalisation of the study on the National Guarantee**

System and start of implementation of the recommendations of the study on the National Guarantee System; **(iii) review of guarantee products to adapt them to SME/SMI internationalisation support needs**; (**iv) implementation of a support instrument for SMEs funded through participatory financing; (v) preparation and transmission to stakeholders of a bill on the revision of the law governing OPCVMs; and (vi) issuing by MEF of orders implementing the law governing OPCIs, and issuing by the AMMC of the circular specifying the memorandum and the conditions for approving OPCIs**. The expected outcomes are: (i) increase in the number of very micro-, small- and medium-sized enterprises (MSME) guaranteed from 7 290 (2016) to 11 000 in 2020; (ii) increase in outstanding credit guaranteed by the CCG, especially in the industrial sector; (iii) enhanced regional presence of the CCG, alongside the development of free trade zones, to be close to ecosystems; (iv) increase in the number of projects promoted by women-owned SMEs/SMIs from 374 at end-2016 to 1 100 at end-2020; (v) realisation of an investment capital volume of MAD 2.92 billion over the period 2017-2020; and (vi) approval of at least two OPCI management companies by 2020.

Sub-Component II.2 – Facilitation of Seed Financing for Enterprises, Entrepreneurship and Green Financing

<u>Problems and Constraints</u>

3.2.14 **Context and recent Government actions:** despite the modernisation of the financial sector in Morocco, there are lingering challenges, especially with regard to the financing of businesses being developed and seed financing for start-ups. The Government has launched many initiatives to help them to increase their equity capital. Guarantee products have been introduced to support business development (Damane Créa), which has achieved encouraging results, with a 36% increase in the number of businesses between 2015 and 2017. Furthermore, the Government has launched a public-private fund to finance investment capital for innovative start-ups. This will help the development of a fabric of competitive and innovative SMEs capable of integrating with industrial ecosystems. Moreover, the Government has launched a project for the certification of business incubators to support project promoters at the pre-seed stage, especially with financing to increase their equity capital. Concerning support for entrepreneurship to strengthen a microenterprise fabric capable of integrating with industrial ecosystems through subcontracting, the Government has embarked on strategy work to extend the coverage of microcredit guarantee by reviewing the law on microfinance. The development of entrepreneurship will build a fabric of subcontractors that will form part of value chains and contribute to job creation. Lastly, green financing is mobilised to assist industrial enterprises to integrate with new technologies for the development of an environment-friendly green industry. In this connection and following COP 22, the Moroccan Government launched a "greening" roadmap for the financial sector that takes green financing into account. This will be concretised through the launching of co-financing products for enterprises that invest in power-saving and pollution reduction processes. Furthermore, to help major industrial companies and financial institutions to issue green bonds for their financing, the Government intends to establish a regulatory framework governing green bonds.

<u>Actions Supported under PAAIM I and Outcomes Achieved</u>

3.2.15 To facilitate pre-seed financing for enterprises, entrepreneurship and green financing, PAAIM I supported the following four measures**: (i) taking a decision on the preselection of private managers of Innov Invest funds for innovative start-ups**. This measure was fully implemented. The selection of private managers of innovation funds (Innov Invest) was closed on 15 June 2017. The Government, represented by the Central Guarantee Fund, and fund managers signed investment frameworks on 31 October 2017. The following four managers were selected:

Azur Innovation, Seaf Morocco Growth Fund, Maroc Numeric Fund II and Green Innov Invest. Each of these funds started its activity with MAD 200 million, which exceeds the minimum of MAD 100 million required. These funds have entered the investment phase in 2018. Decree No. 2-18-86, BO 6649, was published to authorise the Government to invest in these funds**; (ii) launching of the certification of entities to support pre-seed business project promoters**. This measure is intended to support the entrepreneurial ecosystem in Morocco through the Innov Invest Fund. It was implemented as the Central Guarantee Fund finalised the certification of six incubators and clusters. The support entities selected are: APP Editor, Cluster Solaire, Impact Lab, R&D Maroc, Réseau Entreprendre Maroc and Start-up Maroc. The Innov Idea, Innov Strat and Innov Risk project promoter support products are already operational; (**iii) launching of a study on the establishment of a framework governing *business angels***. This measure was implemented and its recommendations on the legal framework governing *business angels* have been validated; (**iv) preparation of a guide on the issuing of green bonds for business financing**. This measure was implemented and, in 2017, the AMMC published a guide specifying the roles and requirements associated with this type of financial instrument. Thus, this guide provides issuers wishing to issue green bonds with a summary of the principles they must observe and the various stages to be followed. It also provides investors with important information to help them better understand this segment of the debt market. The guide on green bonds seeks to foster the emergence of this market in Morocco's financial industry. In terms of outcomes, it enabled Morocco to launch four green bond issues. The request for a fifth issue is under review by the AMMC.

<u>PAAIM II Actions and Expected Outcomes</u>

3.2.16 PAAIM II will support the following four measures to strengthen the facilitation of seed financing for enterprises, entrepreneurship and green financing: **(i) the first measure of this component involves establishing two public-private investment funds under the Innov Invest Fund worth about MAD 100 million each**; (**ii) launching of financing and support products for pre-seed business project promoters under the Innov Invest Fund; (iii) adoption of the bill on crowdfunding by the Council of Government; and (iv) design of a financial product for green financing to support industrial units in the financing of their green investments.** The expected outcomes of these measures are: (**a)** facilitation of seed financing for start-ups by mobilising MAD 200 million to support and finance the equity capital of innovative start-ups. The goal of this fund is to increase the equity capital of businesses being set up. The programme is designed from a gender perspective to curb inequalities by facilitating access to financing and support by women project promoters; (**b)** increase in financing for innovative start-ups through the Innov Invest Fund, which is expected to extend support to the financing of 150 project promoters by the end of 2020; (**c)** deepening of collaborative finance by establishing a number of functional crowdfunding platforms (at least two) in Morocco by the end of 2020. Taking into account the gender aspect in the framework of this support program through a greater popularisation of this instrument among women will be an important dimension; (**d)** introduction of financial products for green financing on the market as part of support for the financing of MSMEs.

3.3 Progress Towards Achieving PAAIM I Impact, Outcome and Output Targets

3.3.1 Progress Towards Achieving PAAIM I Impact and Outcome Targets

3.3.1.1 Initial assessments showed a sharp increase in employment in the industrial sector where 288 126 jobs were created over the period 2014-2017. The share of the industrial sector in GDP also increased to 18.1% in 2018, as against 17.9% in 2016. The financing of MSMEs greatly improved as the number of MSMEs that obtained guarantees rose to 3 000 between 2016 and 2017. Similarly, the number of projects promoted by women-headed SMEs/SMIs increased by 800 between 2016 and 2018. It is worth noting that stock exchange capitalisation went up from 52% of GDP in 2015 to 57% of GDP in 2016, and to 59% of GDP in 2017. Lastly, in 2018, access to financing improved thanks to greater assistance from investment capital companies amounting to MAD 5.57 billion, of which MAD 2.5 billion in the form of investment in new projects and MAD 3.07 billion in the form of reinvestment. PAAIM I also enabled the mobilisation of more than MAD 400 million to support and finance the equity capital of innovative start-ups.

Table 2 : Progress Towards Achieving Impact and Outcome Targets

Results Chain		PAAIM I Impact and Outcome Indicators			
		Indicator	**Baseline**	**Target**	**Situation in 2018**
Impact	Sustained growth driven by a job-creating industrial sector	GDP growth rate	2.8 % (Average 2014-2015-2016)	3.6% (Average 2018-2019-2020)	3.3%
		Share of the industrial sector in GDP	17.9% (2016)	23% (2020)	18.1% (HCP)
		Number of jobs created (commitment) in the industrial sector	425 000 (2015-2016)	500 000 (2019-2020)	288 126 (2014/2017
Outcomes	**Outcome 1:** Industrial investment environment strengthened and exports facilitated	Ease of Doing Business Index	75th (2016)	60th (2019)	Score 71.02 (60th position, DB_2019
		Enabling Trade Index *(Pillar 3 – Efficiency of administrative procedures)*	4.9 points (54th) (2016)	4.6 points (2019)	NA
	Outcome 2: Financing of industrial activities strengthened	Number of MSMEs benefiting from guarantee products	7 290 (2016)	11 000 (2020)	NA
		Number of projects implemented by women-owned SMEs/SMIs	374 (2016)	1 100 (2020)	NA
		Increased capital investment over the period	MAD 2.7 billion for the period 2013-2016	MAD 2.92 billion for the period 2017-2020	MAD 5.57 billion (2.5 invest. +3.07 reinv.)

3.3.2 Progress Towards Achieving PAAIM I Output Targets

3.3.2.1 The implementation of the first phase of the programme is globally satisfactory. All measures agreed with the Government were executed. However, a particularly structuring measure, linked to the investment charter, experienced a shift in its implementation timetable. The table below provides details on the implementation status of the measures.

Table 3 : Progress Towards Achieving Output Targets

PAAIM I Measures	Implementation Status in November 2018
COMPONENT I – SUPPORT FOR COMPETITIVENESS OF THE INDUSTRIAL FABRIC	
Sub-component 1.1 – Support for the Promotion of Industrial Investments	
Output 1.1.1. Establish a modernised legal framework for private investment	**Ongoing:** the bill on the investment charter has been finalised and is being transmitted to the SGG. Prior to this, it was discussed and validated by all stakeholders, notably the Ministry of Finance, the Directorate of Taxation, the Directorate of Customs and the private sector.
Output 1.1.2. Operationalization/updating of the digital platform dedicated to industrial land	**Implemented:** the digital platform dedicated to industrial landed is available and functional. It offers a mapping of the available landed and allows any investor to freely view the possible locations for his project according to his type of activity or geographical preferences online. It is regularly updated according to the new data to be entered on the platform. Its management is entrusted to the Direction in charge of reception sites at the level of the MIICEN.

Output 1.1.3. Improve tax incentives for industrial companies	**Implemented:** the measure exempting newly created industrial companies from corporate income tax for a five-year period was included in the 2017 Appropriations Act. It entered into force upon publication. The decree defining the industrial activities eligible for this exemption was issued on 9 June 2018. The activities fall under 24 industrial branches (automobile, leather, pharmaceuticals, timber, textile, food processing, etc.)
Outcome 1.1.4. Facilitate administrative procedures for investors	**Implemented:** to simplify procedures for investors, *e-Regulations* platforms for the following towns are operational or at the prelaunch stage: Rabat, Casablanca, Fès, Meknès, Béni Mellal, Errachidia, Marrakech and Oujda.
Sub-component 1.2 – Support for Industrial Product Exports	
Output 1.2.1. Dematerialisation of the one-stop shop/Agadir Port	**Implemented:** following a successful implementation at Casablanca Port, Portnet was deployed at Agadir Port. This action seeks to dematerialise goods inspection and removal formalities as well as export container weighing declarations at Agadir Port.
Output 1.2.2. Improve incentives for industrial subcontractors	**Implemented:** the draft decree granting indirect exporter status to subcontractors was introduced at the SGG in March 2018.
COMPONENT 2 – SUPPORT FOR FINANCING INDUSTRIAL ECONOMIC ACTIVITIES	
Output 2.1.1. Guarantee product for women-headed enterprises: "Daman Ilayki"	**Implemented:** the Ministry of Economy and Finance reconfigured the Ilayki guarantee product on 15 March 2017. This is in line with the need to strengthen public support for access to financing by women entrepreneurs. The new product enables access to guarantee by enterprises governed by Moroccan law the majority of whose shares are owned by one or more women, whereas in the past the product concerned only enterprises owned by a single woman. It also helps to guarantee short-term credit (less than 12 months) amounting to MAD 1 000 000, which is a novelty compared with the former product that covered only medium - and long-term credit.
Output 2.1.2. Improve access to non-bank financing by SMEs/SMIs	**Implemented:** the order of MEF governing the use of loans, pre-divestiture deadlines and related activities, pursuant to Sections 10 and 25 of Law No.18-14 on OPCCs, was published in the Official Gazette (Order No. 29-24-17; BO 6628)
Sub-component 2.2 – Facilitation of Seed Financing for Enterprises and Green Financing	
Output 2.2.1. Facilitate financing for innovative start-ups.	**Implemented:** the selection of private managers of innovation funds (Innov Invest) was closed on 15 June 2017. The Government, represented by the Central Guarantee Fund, and fund managers signed investment frameworks on 31 October 2017. The following four managers were selected: Azur Innovation, Seaf Morocco Growth Fund, Maroc Numeric Fund II and Green Innov Invest. Each of these funds will have a minimum equity capital of MAD 200 million. These funds were expected to enter the investment phase in early 2018. Decree No. 2-18-86, BO 6649 was published to authorise the Government to invest in these funds.
Output 2.2.2. Establish certified incubators for pre-seed business support	**Implemented:** as part of the support to the entrepreneurship ecosystem in Morocco component of the Inno Invest Fund, the Central Guarantee Fund finalised the certification of six incubators and clusters. The support entities selected are: APP Editor, Cluster Solaire, Impact Lab, R&D Maroc, Réseau Entreprendre Maroc and Start-up Maroc. The Innov Idea, Innov Strat and Innov Risk project promoter support products are already operational.
Output 2.2.3. Establish new private corporate bond issues	**Implemented: o**n the eve of COP 22, the AMMC launched a guide on green bonds to foster the emergence of this market in Morocco's financial industry. The guide specifies the roles and requirements associated with this type of financial instrument. Thus, this guide provides issuers wishing to issue green bonds with a summary of the principles they must observe and the various stages to be followed. It also provides investors with important information to help them better understand this segment of the debt market. Based on this guide, four green bond issues were launched in Morocco. The request for a fifth issue is under review by the AMMC.

3.4 Update of Indicative Triggers Proposed in the Previous Operation

3.4.1 **Eight measures precedent were identified under PAAIM I.** They are presented in the table below. The measures were the subject of a continuous dialogue with the Moroccan Government throughout programme implementation. Moreover, monitoring measures are also presented in the matrix of actions attached as Annex II. They will help to continue dialogue on various reforms after disbursement of funds for the second phase.

Table 4 : Update of the Indicative Triggers of Phase II (2019/2020)

Initial Indicative Trigger	Status of Modifications	Implementation Status
COMPONENT I – SUPPORT FOR COMPETITIVENESS OF THE INDUSTRIAL FABRIC		
Sub-component 1.1 – Support for the Promotion of Industrial Investments		
Indicative Measure 1: Draw up the list of activities covered by the measure exempting, for a five-year period, newly created industrial companies carrying out activities defined by regulation from payment of the corporate income tax	No change	**Executed:** Decree No. 2.17.743 of 19 June 2018 fixing the activities carried out by industrial companies benefiting from the temporary exemption from corporation tax provided in Article 6 (II-B-4°) of the General Tax Code, was published in the Official Bulletin for the 5th of July 2018
Indicative Measure 2: Validate the documentation on *e-Regulations* for 4 new regions.	No change	**Executed**: The documentation relating to eRegulation in 4 new regions (Marrakech-Safi, Rabat-Salé-Kenitra, Orientale and Fés-Meknès) has been validated.)
Sub-component 1.2 – Support for the Promotion of Industrial Exports		
Indicative Measure 3: Submit the decree on indirect exporter status to the SGG	No change	**Executed:** The project of a decree on the application of the dispositions of article 7-IV (2 and 3) on the status of the indirect exporter has been transmitted from the DGI to the SGG
Indicative Measure 4 : Deploy Portnet at Nador and Tangier Ports	No change	**Executed:** PortNet for administrative and customs procedures has been deployed at the ports of Nador and Tangier
COMPONENT 2 – SUPPORT FOR FINANCING INDUSTRIAL ECONOMIC ACTIVITIES		
Sub-component 2.1 – Support for Financing the Development of SMEs/SMIs		
Indicative Measure 5: Revise guarantee products to adapt them to SME/SMI internationalisation support needs	No change	**Executed:** A decision is taken to double the level of the guarantee commitment to middle size enterprises for the purposes of industry, export and the green economy
Indicative Measure 6: Issue by MEF of orders, pursuant to the law governing OPCIs and the AMMC circular specifying the memorandum and conditions for approval of OPCIs	No change	**Executed**. the MEF issued and transmitted to the SGG: (a) the project of the decree implementing law n°70-14 governing OPCIs (12/07/2018); (b) the projects of the decree approving the two AMMC circulars relating to OPCI management companies. (5/02/2019).
Sub-component 2.2 – Facilitation of Seed Financing for Enterprises and Green Financing		
Indicative Measure 7: Establish two public-private investment funds under the Innov Invest Fund worth MAD 100 million each	No change	**ImplementedExecuted:** Two public-private investment funds within the framework of the Innov Invest fund have been created, namely Azur Innovation and Seaf Morocco Growth. The size of each fund exceeds MAD100 million. Two other funds have been created, namely Maroc Numeric Fund II and Green Innov Invest. Each of these funds will have a minimum size of 200 million DH. They have already been in the investment phase since the beginning of 2018. Decree 2-18-86, BO 6649, was issued to authorize the Gouvernment to invest in these funds. Under this initiative, forty projects have already been financed..
Indicative Measure 8 : Design a product for green financing as part of support for MSME financing	No change	**Executed:** The MEF has set up a product dedicated to the green economy as part of the Tamwil Fund, which will be managed by the CCG.

3.5 Policy Dialogue

3.5.1 This operation is crucial to the consolidation of the outcomes of Phase I of the programme and the continuation of dialogue with the Government on the diagnosis of constraints to growth and the reforms that were supported under previous operations (PACEM, PARGEF and PADESFI I, II and III), especially in terms of accelerating industrialisation and improving access to financing. The dialogue will also focus on the reduction of factor and logistics costs, through support projects to improve renewable energy production and the development of logistics platforms (Nador West Med). Furthermore, the dialogue will be backed by technical assistance operations, in particular, to improve the business climate. Dialogue with the Moroccan Government is conducted in a transparent and consultative manner, as was the case with previous Bank reform support programmes. Such dialogue has brought about significant progress in terms of transparency in budget execution, notably with regard to public procurement reform, which has enabled the Bank to gradually resort to using the national system. Policy dialogue is also conducted through enhanced coordination mechanisms with other development partners, particularly within the framework of the G20 "Compact with Africa" programme in which the Bank played a major role.

3.6 Loan Conditions

3.6.1 Measures Precedent to Presentation of the Programme to the Board

3.6.1.1 Based on dialogue between the Bank and the Government, the following measures precedent were fully implemented and related documents transmitted to the Bank.

Table 5: Measures Precedent to Phase I (2017-2018)

Sub-Components	Measures Precedent	Factual Elements
COMPONENT I: SUPPORT FOR COMPETITIVENESS OF THE INDUSTRIAL FABRIC		
1.1. Support for the Promotion of Industrial Investments	**Measure Precedent 1:** Five-year corporate income tax exemption for newly established industrial companies carrying out activities defined by regulation – ***Implemented***	**Evidence 1:** 2017 Appropriations Act
	Measure Precedent 2: Pre-launch of *e-Regulations* Casablanca – ***Implemented***	**Evidence 2:** Letter from the Ministry of Administrative Reform and Public Service validating the documentation on the pilot phase of *e-Regulations* Casablanca[11]
1.2. Support for the Promotion of Industrial Exports	**Measure Precedent 3:** Granting of indirect exporter status to subcontractors – ***Implemented***	**Evidence 3:** 2017 Appropriations Act
	Measure Precedent 4: Deployment of Portnet at Agadir Port – ***Implemented***	**Evidence 4:** Press release by the National Ports Agency (ANP) deploying Portnet at Agadir Port as posted on ANP's website
COMPONENT 2: SUPPORT FOR FINANCING INDUSTRIAL ECONOMIC ACTIVITIES		
2.1 Support for Financing of SME Development	**Measure Precedent 5:** Easing of conditions for access to guarantee products intended for women-headed enterprises: "Daman Ilayki" – ***Implemented***	**Evidence 5:** Letter from MEF to the CCG on the reconfiguration of the Ilayki guarantee product
	Measure Precedent 6: Establishment of the taxation framework governing OPCIs under the law – ***Implemented***	**Evidence 6:** 2017 Appropriations Act
2.2. Facilitation of Seed Financing for Enterprises and Green Financing	**Measure Precedent 7:** Decision to pre-select private managers of Innov Invest funds for innovative start-ups – ***Implemented***	**Evidence 7:** Letters from the CCG notifying the two management companies pre-selected
	Measure Precedent 8: Launching by the AMMC of a guide on the issue of green bonds – ***Implemented***	**Evidence 8:** Letter from the AMMC transmitting a copy of the guide on the issue of green bonds as posted on AMCC's website

3.6.2 Indicative Triggers for 2019

3.6.2.1 As an extension of the 2017 and 2019 measures, the indicative triggers for 2019 were adopted together with the Moroccan Government.

Table 6: 2019 Indicative Triggers

Sub-Components	2019 Indicative Triggers	Evidence of Implementation
COMPONENT I: SUPPORT FOR COMPETITIVENESS OF THE INDUSTRIAL FABRIC		
1.1. Support for the Promotion of Industrial Investments	**Indicative Measure 1:** Drawing up of the list of activities covered by the five-year corporate income tax exemption for newly created industrial companies carrying activities defined by regulation	Copy of Decree No. 2.17.743 of 19 June 2018 fixing the activities carried out by industrial companies benefiting from the temporary exemption from corporation tax predicted in Article 6 (II-B-4°) of the General Tax Code, published in the Official Bulletin dated 5 July 2018
	Indicative Measure 2: Validation of the documentation on *e-Regulations* for 4 new regions	Copy of the letter from the Ministry of Administration and Public Service Reform validating the documentation relating to eRegulation in 4 new regions.)

11 (i) Business development; (ii) Town planning authorisation; (iii) Payment of taxes and duties; (iv) Transfer of property; and (v) Connection to electricity.

1.2. Support for the Promotion of Industrial Exports	**Indicative Measure 3:** Submission of the decree on indirect exporter status to the SGG	Copy of the letter from the DGI to the SGG transmitting the project of decree implementing the dispositions of the article 7-IV (2 and 3) of the General Tax Code
	Indicative Measure 4: Deployment of Portnet at Nador and Tangier Ports	Copy of the letter from PORTNET confirming the deployment of PortNet to the ports of Nador and Tangier

COMPONENT 2: SUPPORT FOR FINANCING INDUSTRIAL ECONOMIC ACTIVITIES		
2.1 Support for Financing SME Development	Review of guarantee products to adapt them to SME/SMI internationalisation support needs	Copy of the letter from the MEF authorising the CCG to set up a doubling of the SME Guarantee Fund's exposure ceiling from MAD 10 to 20 million, in particular for enterprises oriented to international markets
	Issuing by MEF of orders, pursuant to the law governing OPCIs and the AMMC circular specifying the memorandum and conditions for approving OPCIs	*) Copy of the letter from MEF 12 July 2018 transmitting to the SGG the project of the decree implementing law n°70-14 governing OPCIs. **) Copies of the two letters from the MEF, dated 1 June 2018 and 5 February 2019, transmitting to the SGG the project decrees approving the two AMMC circulars relating to OPCI management companies.
2.2 Facilitation of Seed Financing for Enterprises and Green Financing	Setting up of two public-private investment funds under the Innov Invest Fund worth MAD 100 million each	Copies of the letters of agreement for the signature of the setting up of the two funds "AZUR INNOVATION" and "SEAF MOROCCO GROWTH FUND"
	Design of a product for green financing as part of support for the financing of MSMEs	Copy of the MEF letter inviting the CGC to set up a co-financing product for green projects under the Tamwil Fund

3.7 Application of Good Practice Principles on Conditionality

3.7.1 Operation design took into account four good practice principles on conditionality. It is based on: (i) strengthening national ownership, with focus on dialogue with Government throughout the implementation of the Bank's CSP 2017-2021 for Morocco in general, and the PAAIM programme-based budget support; (ii) the programme is fully in line with the priorities of the Government as well as the priorities of the 2014-2020 Industrialisation Acceleration Plan (PAI); (iii) disbursement conditions will be targeted and realistic, and will be based on the matrix developed in coordination with the Moroccan Government; and (iv) Bank support is aligned with the country's budget cycle.

3.8 Financing Needs and Arrangements for the 2019 Period

3.7.8 Projections have been made on Morocco’s financing needs for the 2017-2019 three-year period. Total revenue for 2019 is estimated at MAD 246.99 billion for overall expenditure estimated at MAD 285.37 billion. This shows an overall budget deficit (on a commitments basis) of about MAD 38.38 billion, to be financed by the Kingdom of Morocco with the support of its technical and financial partners (TFPs). As such, the 2019 budget provides for the launch of a bond loan of about EUR 1 billion. The Bank could contribute EUR 268 million (UA 220 million, about MAD 2.89 billion) towards financing the deficit. The consolidation and strengthening of tax reforms, the streamlining of public expenditure and the improvement of revenue mobilisation will help to increase the fiscal space that will be created for financing more social inclusion policies. The basic primary balance will increase from 1.6% of GDP in 2018 to 1% in 2019, as against 1.9% and 2.4% in 2017 and 2016, respectively. Table 7 below presents the structure of the financing gap for the programme period.

Table 7: Financing Needs for 2017, 2018 and 2019

	Items	2017 (MAD billion)	2018 (MAD billion)	2019 (MAD billion)
A	Total Revenue and Grants *of which*: *non-tax revenue (excluding budget support)*	**230,740**	**233,922**	**246,99**
B	Total Expenditure and Net Loans *of which*: *payment of interest on public debt including capital expenditure*	**267,883**	**275,275**	**285,37**
C	**Overall Balance (settlement basis) (A - B)**	**-37,143**	**-41,353**	**-38,38**
D	Reduction of Outstanding Expenses	**-0,831**	**3,209**	**0,00**
E	**Overall Balance (commitment basis) (C + D)**	**-37,974**	**-38,144**	**-38,38**
F	**Net External Financing**	**3,356**	**-1,874**	**18,85**
G	*of which depreciation*	**13,24**	**8,085**	**5,118**
H	*of which AfDB depreciation*	**1,70**	**1,79**	**1,76**
I	*of which drawings*	**16,799**	**6,211**	**27,00**
J	*of which AfDB drawings*	**3,01**	**1,52**	**3,80**
K	**Domestic Financing (net)**	**34,418**	**40,018**	**19,53**

Source: Ministry of Economy and Finance (MEF).

IV. PROGRAMME IMPLEMENTATION

4.1 Programme Beneficiaries

4.1.1 The programme's direct beneficiaries are the private sector, particularly the industrial private sector, through a number of reforms which, when implemented, will help to improve investment and industrial product export conditions. SMEs, especially women-headed SMEs, are also indirect beneficiaries of PAAIM II in that the measures identified should facilitate business and allow easier and more diversified access to financing in the industrial sector. The indirect beneficiaries are Moroccan citizens who will enjoy the country's stabilised macroeconomic situation and increased economic growth through the creation of sustainable jobs particularly in the industrial sector.

4.2 Programme Implementation and Institutional Framework

4.2.1 Institution responsible: the Ministry of Economy and Finance is responsible for programme implementation. It will coordinate reforms with the other ministries/agencies involved in the programme, especially the MIICEN which is concerned by many programme measures.

4.2.2 Monitoring and evaluation system: the Bank team will contribute to monitoring and coordinating the implementation of PAAIM II. It will field an initial supervision mission in June 2019 to review the operation monitoring framework based on the pre-established performance indicators and the matrix of measures adopted with the Government. A second supervision mission will be fielded in September 2019 to monitor the implementation of measures and their impact on the ground. In this regard, it is important to point out the major role that the Bank's Country Office in Morocco will play in terms of monitoring reforms and policy dialogue with the Moroccan Government.

4.3 Financial Management and Disbursement

4.3.1 Financial Management and Auditing

4.3.1.1 **Country Fiduciary Risk Assessment (CFRA): the country fiduciary risk (CFR) is deemed "moderate"**. With the support of the EU, the World Bank and the Bank, a diagnosis based on the PEFA 2016 methodology was carried out to assess the performance of Morocco's public finance management system between 2012 and 2016. The assessment showed that the performance of the PFM systems is quite appropriate for achieving the budget discipline objective, but less conducive to the achievement of the strategic resource allocation and quality public service delivery objectives. The ongoing public finance management reform programme, whose goal is to correct the weaknesses noted in the diagnosis, is dominated since 1 January 2016 by the implementation of the new organic law on the Appropriations Act (LOLF) passed in June 2015. The objectives of the law are to: (i) enhance the effectiveness, efficiency and consistency of public policies, and improve the quality of public service provided to citizens; (ii) establish financial principles and rules concerning the financial balance of the Appropriations Act; and (iii) enhance the role of Parliament in budget debate and the control and assessment of public policies. The LOLF is operationalised gradually based on a five-year schedule. The progress made in 2016 and 2017 includes: (i) the reduction of the categories of Special Treasury Accounts (CSTs), the adoption of new rules on the creation and use of special accounts and autonomously-managed State services (SEGMA); (ii) the inclusion of new reports in the Appropriations Act, namely the note on the regional breakdown of investments and the note on common expenditure; (iii) the new presentation of the table of equivalences and the application of the new debt supervision rule; and (iv) the application of the limited nature of personnel credit opened in the Appropriations Act. The flagship measures to be taken in 2019 and 2020 include: Three-Year Budget Programming (PBT) and the tabling before Parliament of the draft audited budget as well as the annual performance report and the performance audit report. The internal and external audit functions will continue to be performed respectively by the IGF and the Court of Auditors. Information of Parliament and control of budget execution will be further strengthened with the establishment and operationalisation of the PFM Control Commission. In short, there is an overall positive trend in the performance of the public finance management system in Morocco. Pending the effectiveness of the measures envisaged for 2019 and 2020 and the expected outcomes, **the country fiduciary risk (CFR) will remain "moderate"**.

4.3.1.2 **Financial management:** owing to the moderate rating of the country fiduciary risk (CFR), the financial resources of the second phase of this operation will be used in accordance with the national public finance management system. The Ministry of Economy and Finance will be responsible for the financial management of the operation.

4.3.1.3 **Disbursement:** The loan will be disbursed in a single slice subject of the fulfilment by Morocco of the general and specific related conditions. The slice will contribute to covering the deficit in the 2019 budget. At the Borrower's request, the Bank will disburse the foreign currency funds in the amount agreed in the Single Treasury Account (STC) opened at the El Maghrib Bank. The Bank is committed to align its support with the 2019 budget cycle subject to the fulfilment of disbursement preconditions.

4.3.1.4 **Auditing:** PAAIM I and II will be audited by the IGF, which will conduct a specific audit of the financial flows of the Bank's support, and a performance audit whose TORs prepared by the IGF have been discussed with the Bank. The deadline for submitting this audit report to the Bank will be six months from the end of the programme.

4.3.2 Public procurement trends and reforms: significant progress has been made regarding the national procurement system with the installation in January 2018 of the members of the National Public Procurement Commission (CNCP) responsible especially for reviewing claims from bidders concerning public procurement, and issuing legal opinion on disputes between public contract holders and the Administration as concerns the application of the regulations governing public procurement. To further enhance transparency in public procurement, the following key actions will be taken by the National Public Procurement Commission (CNCP): (i) setting up and trial runs to ensure effective operationalization of CNCP's website; (ii) preparation of the ethics charter, the internal rules and regulations of the commission (including for ad hoc experts), the procedures manual for each mission (processing of claims, requests and opinion analysis, standing committees, etc.); and (iii) the strategy paper on a three-year rolling programme. Regarding reforms, the decree establishing the CNCP will be reviewed to incorporate the essential function of collecting information and producing statistics, among other things.

4.3.3 Procurement of goods and services: because this operation is a sector budget support, the resources made available by the Bank will be fungible with those of the Treasury and used for the country's current needs and procurements, in accordance with the national procurement system, whose regulatory framework is governed by Decree No. 2-12-349 of 20 March 2013. The most recent assessment of this system was conducted by the Bank in November 2017 as part of the assessment of the country public procurement system, using the OECD/MAPS (BPAR) methodology, and concluded that the risk level was moderate. The assessment of the industrial sector's procurement practices shows no significant procurement-related element suggesting that the procurement component of the industrial sector fiduciary risk assessment is different from the national situation. Accordingly, the use of the national procurement system will ensure transparent and efficient utilisation of the resources to be provided under this operation through clear, transparent and acceptable procurement procedures, and an effective and reassuring mechanism.

V. LEGAL FRAMEWORK

5.1 Legal Instrument

The legal instrument to be used under the programme is a Loan agreement between the Kingdom of Morocco (the Borrower) and the African Development Bank (the Bank)

.5.2 Conditions for Bank Intervention

5.2.1 Conditions precedent to submit the Programme to the Board

The presentation of the Programme to the Board is subject to the completion by the Borrower of all the prior measures agreed with the Bank, as specified in Table 6. All these measures have been carried out and the evidence provided to the Bank

5.2.2 Conditions precedent to effectiveness of the loan agreement

The effectiveness of the loan agreement is subject to the completion by the Borrower, to the Bank's satisfaction, of the conditions set out in Section 12.01 of the General Conditions applicable to loan agreements and Bank guarantee agreements (sovereign entities).

5.2.3 Condition precedent to disbursement of loan resources

In addition to the effectiveness of the Loan Agreement in accordance with the provisions of Section 12.01 of the General Conditions, the disbursement of the loan resources shall be subject to completion by the Borrower, to the Bank's satisfactory, of the following condition: Transmit to the Bank, the references of the Single Treasury Account (STA) opened at Bank Al-Maghrib (Central Bank of Morocco), intended to receive the ADB loan resources.

5.2.4 Other loan conditions

None

5.3 Compliance with Bank Group Policies

5.3.1 PAAIM II complies with Bank Group policies and guidelines for programme-based support. It is aligned with the Bank's "High 5s" and meets the operational priorities of the Bank's 2013-2022 Ten-Year Strategy, and those of Morocco's CSP 2017-2021. No waiver from Bank guidelines is requested for this operation.

VI. RISK MANAGEMENT

Risk	Mitigation
Delays in implementing reforms	Steady commitment by successive governments to continue the implementation of economic reforms.
The economy's high exposure to climatic hazards and climate change (agricultural sector)	The Government has undertaken to continue to implement reforms as part of economic diversification by accelerating industrialisation. PAAIM II will contribute to these efforts.
Poor coordination between the various government ministries involved in implementing programme reforms	Regarding the coordination of reform implementation, the DTFE, which is responsible for monitoring programme implementation, has in previous programmes demonstrated its ability to mobilise the various stakeholders. Additionally, the Bank will maintain dialogue with all entities implementing measures in order to facilitate coordination.

VII. RECOMMENDATION

Management recommends that the Board of Directors approve a EURO 268 million ADB loan to the Kingdom of Morocco to finance the second phase of the Industrialisation Acceleration Support Programme in Morocco (PAAIM II) under the conditions set forth in this report.

Annex 1: Letter of Development Policy

Kingdom of Morocco

Ministry of Economy and Finance

The Minister

To:

8 JAN 201

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Mr. Akinwumi A. ADESINA,
President of the African Development Bank
Immeuble CCIA- Plateau
Avenue Jean-Paul II
01 B.P. 1387 – Abidjan 01

COTE D'IVOIRE

Subject: Letter of Development Policy relating to the Industrialisation Acceleration Support Programme in Morocco - Phase II (PAAIM II).

Ref.: Letter of Development Policy of 28 June 2017, relating to of PAAIM - Phase I.

Mr. President,

As you are aware, the Kingdom of Morocco with the support of your institution is implementing the two-phase Industrialisation Acceleration Support Programme in Morocco (PAAIM), spanning the period 2017-2020, designed using a programmatic approach and structured around the following two components:

1. **Support to the competitiveness of the industrial fabric; and**
2. **Support to the financing of industrial economic activities.**

Phase 1 of the said Programme, which was implemented over the 2017-2018 period and was the subject of the above-mentioned letter of development policy, was financed from a USD 200 million loan granted by your institution and disbursed in August 2017. The implementation of that first phase was deemed satisfactory inasmuch as virtually all the measures provided for under the phase were undertaken, with the exception of the following two measures that suffered a minor delay in their original schedule:

- Submission to the General Secretariat of the Government of the draft framework law constituting an investment charter. The process of preparing the draft of this charter was revitalised following the Royal Address to the Nation on 30 July 2018 on the occasion of the Throne Day; and

- Issuance of the Order of the Ministry of Economy and Finance on general regulations governing the company managing the stock exchange, in particular laying down the conditions for access to the alternative market: this is a statutory instrument issued in pursuance of the Stock Exchange Law, aimed at restructuring the market by setting up a market dedicated to Small and Medium-sized Enterprises (SMEs) and a Section reserved for funds.

Regarding Phase II of this Programme, which was proposed for funding by your institution, I hereby reiterate the Kingdom of Morocco's commitment to implement the related measures as mutually agreed in May 2017. The said measures, which are in line with the aforementioned components and whose implementation is scheduled for the 2019-2020 period, are as follows:

Pillar 1: Support to the competitiveness of the industrial fabric:

This pillar focuses on the following two objectives: (i) support for the promotion of industrial investments and (ii) support for the export of industrial products.

► **With regard to support for the promotion of industrial investments,** the Government undertakes to adopt, during the period of implementation of this PAAIM II, a modernized legal framework for private investments, with a view to enhancing Morocco's attractiveness and competitiveness, improving its investor intake capacity and supporting exporting companies.

To facilitate administrative procedures and improve the quality of the services offered to investors, the National Business Environment Committee will thus continue, in partnership with the Regional Investment Centres (CRI) of the Regions concerned, such as Oujda, Rabat and Marrakech, with the deployment of the eRegulations online information service, a tool designed by the United Nations Conference on Trade and Development (UNCTAD) to provide investors with transparent access to key business-related administrative procedures. It should be recalled that under Phase I of PAAIM, "eRegulations" was deployed in the pilot Region of Casablanca.

Similarly, and in a bid to facilitate investor access to industrial land, the Moroccan Department of Industry and Investment will focus on preparing a bill on industrial estates that will serve as a legal framework to resolve industrial land-related issues in particular, in terms of planning, development, servicing and management of such areas.

Additionally, and with a view to making available to the public and private sectors data, information and statistics on the Very Small, Small and Medium Enterprises (VSMEs) in Morocco, both at the national and regional levels, the Morocco's Observatory of VSMEs (Observatoire marocain de la TPME), established for this purpose, will ensure the establishment of a partnership agreement aimed at setting up a cooperation framework between the said Observatory and the Ministry of Industry and Investment with a view to promoting the development of VSMEs in Morocco, just as under Phase I of PAAIM, with the General Directorate of Taxation and the Moroccan Industrial and Commercial Property Authority. These agreements mainly concern the exchange of data and expertise, joint organisation of national and international events relating to SMEs, particularly industrial ones, and undertaking of actions to foster their expansion.

In the framework of the structuring of industrial sectors in ecosystems under the Industrial Acceleration Plan 2014-2020, three (3) industrial ecosystems (renewable energy, electrical and electronic equipment, electrical and electronic cables), will be launched in addition to 2 ecosystems (shipbuilding and plastics processing) that were launched under PAAIM (I) rallying industrial leaders and SMEs, in a dedicated area, around targeted cooperation programmes leading to supply contracts and technology transfer in the long-term. In this regard, and with a view to strengthening industrial integration and increased ecosystems, the list of activities exempted for five years from corporate tax will be drawn up to benefit newly created industrial enterprises engaging in regulated activities. The 2017 budget law contains this exemption, as agreed under Phase I of PAAIM.

► **Concerning support to the export of industrial products,** the Government's action includes, in particular, adopting a new national plan for simplifying foreign trade procedures, taking into account the results of the evaluation of the ongoing "no paper by 2021" plan, through the digitisation of foreign trade procedures, thus enabling enhanced competitiveness through time saving and cost reduction. As part of the digitisation of port procedures, the PORTNET one-stop shop will be deployed at the ports of Nador and Tangiers, following its deployment under PAAIM (1) at the port of Agadir.

Also as export support, indirect exporter status has been granted to industrial enterprises and service providers contributing indirectly to final export. Such companies and service providers can now enjoy the same benefits, including tax benefits, as direct exporters. The conditions under which such indirect exporters will enjoy the said benefits are specified in Phase II of PAIIM, in the decree adopted in March 2008 by the Government Council.

Pillar 2: Support to the financing of industrial economic activities:

This pillar focuses on (i) support for development financing of SMEs/SMIs and (ii) facilitation of business start-up financing and green financing.

►**Concerning support for development financing of SMEs/SMIs,** the Government is committed to continuing efforts to establish a strategic framework for access to financing for all economic actors, by setting up a governance structure to prepare and implement the National Financial Inclusion Strategy (NFIS). It should be recalled that, under Phase I of PAAIM, this strategy's pre-formulation workshop was held in May 2017, in order to draw lessons from international best practices, draw up the status of financial inclusion in Morocco and invite NFIS stakeholders to participate in formulating possible visions for financial inclusion in Morocco.

Furthermore, with a view to improving the access of SMEs/SMIs to bank financing and promoting their development, the Government will (i) continue with the reform of the national guarantee system and (ii) revise the guarantee products offer to tailor it to SME/SMI internationalisation support needs, notably by doubling the ceiling for SMEs and intermediate-sized enterprises. Enjoying this measure will be subject to improving governance and transparency in the aforementioned enterprises. It should be noted that, under Phase I PAAIM, the State relaxed the guarantee product for women-led enterprises "DamanelIayki" to benefit women-owned enterprises and open them to operating loans, in addition to investment credits.

Improving access to non-bank financing for SMEs is also a priority for the Government. In this regard, emphasis will be placed on (i) the establishment of a support mechanism for SMEs financed through participatory finance and (ii) preparation, in consultation with the parties concerned, of a bill revising the law governing UCITS. These measures will complement those undertaken to that end under Phase I of PAAIM, relating to (i) the issuance of the order on general regulations governing the Stock Exchange management company and laying down conditions for access to the alternative market and (ii) improvement of private equity financing through the publication of orders issued pursuant to Law No. 18-14 on Open-Ended Collective Investment Undertakings.

Furthermore, to improve the financing of professional real estate, including industrial property, a taxation framework governing real estate investment trusts (REITs) was set up under the 2017 Budget law and complements as part of the 2019 Budget Law. To enable the application of the provisions of the law governing REITs, the orders pursuant to the said law and the circulars of the Moroccan Capital Market Authority (AMMC) will be issued specifying the conditions for approval of REITs and REIT management companies.

► **With regard to the facilitation of business start-up financing and green financing,** and with a view to facilitating the financing of innovative start-ups, management companies of the InnovaInvest fund for innovative start-ups were selected under Phase I of PAAIM, to enable the mobilisation of venture capital financing for this category of start-ups and four public-private investment funds were set up in this framework.

In the same vein, and for better support for companies in the pre-seed phase, the labelling of incubators to support project sponsors has been launched and financing and support products for start-ups have been placed at their disposal.

In the same context, and with a view to improving the financing of entrepreneurship, a legal framework will be adopted governing Crowdfunding (i.e. project funding by the public) activities. It should be recalled that, under Phase I of PAAIM, a study for the establishment of a framework governing Business Angels was launched.

Lastly, and with a view to fostering green financing and promoting sustainable development, a green finance product will be developed as part of support for the financing of VSMEs. It should be recalled that for the same purpose, a guide on green bonds for corporate financing was published under Phase I of the PAAIM.

In parallel with the implementation of the measures provided under the two phases of the PAAIM, the Moroccan authorities have embarked on a reform process that aims to further improve the business climate for both public and private investment. In this context, emphasis should be placed on the following key reform actions:

- Amendment of Law No. 86-12 on public-private partnership contracts (PPP), which will include, in particular (i) establishment of a national PPP Commission with the Head of Government empowered to adopt, among others, a national annual and/or multi-year PPP programme and lay down the terms and conditions for any waivers to the law, in particular as regards the prior assessment procedure and the negotiated procedure; (ii) harmonisation of the provisions of Law No. 86-12 with those of the sector laws that provide for the use of PPP contracts; (iii) extension of the scope to the local authorities, their groupings and their bodies to cover all the public entities concerned; and (iv) simplification of the spontaneous offer process and clarification of the conditions for using the negotiated procedure.

- Reform of the Regional Investment Centres (CRI), which is in the process of adoption, with a view to providing them with greater financial autonomy and decision-making: In this regard, the bill relating to this reform is structured around the following three thrusts:

    i. Restructuring of CRI through their transformation into public institutions managed in a participatory approach and open to all actors: regions, private sectors, decentralised State services and the extension of their prerogatives for an integrated processing of cases at all stages, with a view to ensuring full support for SMEs and amicable settlement of disputes between government services and investors;

    ii. Establishment of unified regional investment commissions to carry out a prior appraisal of investment projects in the region and decide on requests for the transfer or lease of land belonging to the private property of the State; and

    iii. Digitisation and simplification of investment procedures at central and regional levels.

- Continuation of the programme of privatisation of some enterprises operating in competitive sectors, and which fulfil the maturity requirements and standards for development and investment opportunities, by amending Law No.39-89 authorising the transfer of public enterprises to the private sector. This legislation will contribute towards consolidating the industrial and financial performance of privatised entities, extending their shareholding to new categories of investors, boosting the capital market, improving their governance and developing complementarity with the private sector and its involvement in the economic growth dynamic.

- The gradual transition from the fixed exchange rate regime to a more flexible regime capable of strengthening the Moroccan economy's resilience to exogenous shocks, supporting its competitiveness and improving its potential growth level. Thus, and as a first step, the Kingdom of Morocco in January 2018 adopted a new exchange rate regime whereby the parity of the dirham is determined within a fluctuation band of ± 2.5%, against ± 0.3% previously, while maintaining the basket of currencies composed of the Euro and the US dollar at 60% and 40% respectively.

In view of the scale of the above-mentioned reforms, which complement those provided for under the two Phases of PAAIM and considering the substantial volume of financing needed to finalise these reforms, I have the honour to request you to kindly consider the possibility of revising upwards the amount allocated to the current Phase II of PAAIM to the equivalent of UA 220 million.

Thank you, **Mr. President,** for your valuable support for the implementation of Phase II of this ambitious programme, which is fully aligned with the Bank's High 5 priorities, notably "Industrialise Africa".

Yours respectfully,

The Minister of Economy and Finance

Mohamed BENCHAABOUN

ANNEX II: MATRIX OF PAAIM I & II MEASURES

Objectives	Reform Measure – Phase I 2017/2018	Reform Measure – Phase II 2019/2020	Expected Outcomes	Responsible Institutions
COMPONENT 1 – SUPPORT FOR COMPETITIVENESS OF THE INDUSTRIAL FABRIC				
Sub-component 1.1 – Support for the Promotion of Industrial Investments				
Enhance the capacity to receive investors	Submission of the framework bill on the investment charter to the SGG.	Adoption of the bill on the Investment Charter by the Council of Government	Establishment of a coherent and clear investment attraction mechanism that is consistent with the Government's national and sector public policies	MIICEN
Facilitate access to industrial land	Operationalization/updating of the industrial land digital platform	Submission of the bill on industrial zones to the SGG	Provision of rental land (400 ha) to investors at competitive prices	MIICEN
Facilitate administrative procedures for investors	Validation of the documentation on the pilot phase of *e-Regulations* Casablanca	Validation of the documentation on *e-Regulations* for 4 new regions. **(*)**	Creation of an official portal for the main business development administrative procedures	CNEA
Improve the monitoring of MSME	Signing of a partnership agreement between the Moroccan Observatory of MSME and the DGI and OMPIC	Establishment of a partnership between the Moroccan Observatory of MSMEs and MIICEN.	Improve the diagnosis of industrial MSMEs	OMTPME
Industrial integration and extension of industrial ecosystems	Inclusion in the 2017 Appropriations Act of the 5-year CT exemption for newly established industrial companies carrying out activities defined by regulation	**Establishment (by decree) of the list of activities covered by the 5-year CT exemption measure for newly established industrial companies carrying out activities defined by regulation (*)**	Increase the industrial integration of "automobile" industrial ecosystems to 60%	MIICEN/MEF
Promote the creation of industrial ecosystems	Launch of 2 industrial ecosystems (naval activities, plastics).	Launch of 3 industrial ecosystems (renewable energy, electrical and electronic equipment, electrical and electronic cables)	Development of 5 integrated industrial ecosystems in the sub-sectors mentioned	MIICEN
Sub-component 1.2 – Support for Industrial Product Exports				
Facilitate external trade	Evaluation of the national plan for the simplification of external trade procedures	Adoption of the new National Action Plan for the simplification of external trade procedures	Move from the 46th (2016) to the 40th position out of 136 countries - "operating environment" subindex of the "Enabling Trade Index", World Economic Forum	MIICEN (external trade)
	Deployment of Portnet at Agadir Port	**Deployment of Portnet at the ports of Nador and Tangier(*)**		PORTNET
Extension of benefits to Sub-contractors	Indirect exporter status granted to subcontractors	Submission of the decree on indirect exporter status to the SGG **(*)**		MEF

COMPONENT 2 – SUPPORT FOR FINANCING INDUSTRIAL ACTIVITIES				
Sub-component 2.1 – Support for Financing the Development of SMEs/SMIs				
Establish a strategic framework for access to financing	Workshop to launch the pre-formulation of the national financial inclusion strategy (SNIF) (*)	Establishment of the governance entity and preparation of the National Financial Inclusion Strategy	Increase in the number of guarantee-benefiting SMEs/SMIs from 7 290 (2016) to 11 000 (2020)	MEF
Improve access to bank financing for SMEs/SMIs	Adoption of the CCG 2017-2021 Strategic Plan by the CCG Executive Committee	Finalization of study on the National Guarantee System and commencement of the implementation of its recommendations		MEF
	Easing of conditions for access to the guarantee product intended for women-headed enterprises: "Daman Ilayki"	Revision of guarantee products to adapt them to SME/SMI internationalisation support needs **(*)**	Increase in the number of women-headed guarantee-benefiting SMEs/SMIs from 374 at end-2016 to 1 100 in 2020	MEF
Improve access to non-bank financing for SMEs/SMIs	Issuing of order by MEF on general regulations governing stock exchange management companies, in particular laying down the conditions for access to the alternative stock market	Establishment of a support instrument for SMEs/SMIs funded as part of participatory financing	Increase in stock exchange capitalisation in relation to GDP from 52% in 2015 to 57% in 2020	MEF/Casablanca Stock Exchange
	Issuing by MEF of the order governing borrowing, pre-divestiture time frames and related activities pursuant to Law No. 18-14 on OPCCs	Preparation and transmission to stakeholders of the bill on the revision of the law governing OPCVMs	Increase in investment capital to MAD 2.92 billion over the period 2017-2020, from MAD 2.7 billion for the period 2013-2016	MEF
Mobilise financing for the development of professional land, including industrial land	Establishment of the taxation framework governing OPCIs under the 2017 Appropriations Act	**Issuing of orders by the MEF pursuant to the law governing OPCIs and the AMMC circular specifying the memorandum and conditions for approving OPCIs(*)**	Approval of at least two OPCI management companies by 2020	MEF
Sub-component 2.2 - Facilitation of Seed Financing for Enterprises and Green Financing				
Facilitate the financing of innovative start-ups and pre-seed financing for new enterprises	Decision to pre-select private managers of Innov Invest funds for innovative start-ups	**Establishment of two public-private investment funds under the Innov Invest Fund worth MAD 100 million each(*)**	Mobilisation of MAD 200 million to support and finance innovative start-ups	MEF/CCG
	Launch of the certification of entities to support project promoters in the pre-seed phase	Launch of financing and support products for project promoters under the Innov Invest Fund	At least 150 project promoters supported during the pre-seeding phase by 2020	MEF/CCG
Improve financing for entrepreneurship	Launch of a study to establish a framework for business angels	Adoption of the bill on crowdfunding by the Council of Government	Number of crowdfunding platforms operating in Morocco (2) by 2020	MEF
Promote green financing	Launch by the AMMC of a guide on the issue of green bonds for business financing	**Design of a product for green financing as part of support for financing MSMEs (*)**		MEF/AMMC

Annex III: Note on Relations with the IMF

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."

CORRIGENDUM

MOROCCO

INDUSTRIALIZATION ACCELERATION SUPPORT PROGRAMME IN MOROCCO - PHASE II (PAAIM II)

After the negotiations between the Bank and the Moroccan authorities, it was agreed between the two parties to amend paragraphs 4.3.1.3 and 5.2.3 as per below:

Original Version	Revised Version
4.3.1.3 **Disbursement**: The loan will be disbursed in a single slice subject of the fulfilment by Morocco of the general and specific related conditions. The slice will contribute to covering the deficit in the 2019 budget. At the Borrower's request, the Bank will disburse the foreign currency funds in the amount agreed in the Single Treasury Account (STC) opened at the El Maghrib Bank. The Bank is committed to align its support with the 2019 budget cycle subject to the fulfilment of disbursement preconditions.	4.3.1.3 **Disbursement**: The loan will be disbursed in a single slice subject of the fulfilment by Morocco of the general and specific related conditions. The slice will contribute to covering the deficit in the 2019 budget. ***The disbursement will be done in two equal installments: 1st installment of 50% of the loan amount after the entry into force of the loan agreement, and the 2nd installments after the 1st of December 2019***. At the Borrower's request, the Bank will disburse the foreign currency funds in the amount agreed in the Single Treasury Account (STC) opened at the El Maghrib Bank. The Bank is committed to align its support with the 2019 budget cycle subject to the fulfilment of disbursement preconditions.
5.2.3 Condition precedent to disbursement of loan resources In addition to the effectiveness of the Loan Agreement in accordance with the provisions of Section 12.01 of the General Conditions, the disbursement of the loan resources shall be subject to completion by the Borrower, to the Bank's satisfactory, of the following condition: Transmit to the Bank, the references of the Single Treasury Account (STA) opened at Bank Al-Maghrib (Central Bank of Morocco), intended to receive the ADB loan resources.	**5.2.3 Condition precedent to disbursement of loan resources** In addition to the effectiveness of the Loan Agreement in accordance with the provisions of Section 12.01 of the General Conditions, the disbursement of the loan resources **in two drawdown instalments** shall be subject to completion by the Borrower, to the Bank's satisfactory, of the following condition: Transmit to the Bank, the references of the Single Treasury Account (STA) opened at Bank Al-Maghrib (Central Bank of Morocco), intended to receive the ADB loan resources.