Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 01-Jun-2022 | Report No: PIDC263411

BASIC INFORMATION

A. Basic Program Data

Country	Project ID	Parent Project ID (if any)	Program Name
Morocco	P176115		Morocco Strategic Investment Fund Program-for-Results
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Does this operation have an IPF component?**
MIDDLE EAST AND NORTH AFRICA	03-Aug-2022	22-Mar-2023	No
Financing Instrument	**Borrower(s)**	**Implementing Agency**	**Practice Area (Lead)**
Program-for-Results Financing	Ministry of Finance	Fonds Mohammed VI pour l'investissement	Finance, Competitiveness and Innovation

Proposed Program Development Objective(s)

The Program development objective is to mobilize and channel private investment towards high-performing SMEs and financially sustainable infrastructure projects in Morocco, in support to a greener and more inclusive recovery.

COST & FINANCING

SUMMARY (USD Millions)

Government program Cost	1,500.00
Total Operation Cost	300.00
Total Program Cost	300.00
Total Financing	300.00
Financing Gap	0.00

FINANCING (USD Millions)

Total World Bank Group Financing	300.00
World Bank Lending	300.00

Concept Review Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

1. **Prior to the outbreak of the COVID-19 pandemic, Morocco had achieved substantial social and economic progress.** GDP growth picked up in the early 2000s, sustained by large public investment and a set of political, institutional, and sector reforms that gradually opened and liberalized the economy in a context of macroeconomic stability. As a result, poverty levels decreased significantly[1], average life expectancy increased, access to basic public services was expanded (including universal access to primary education), and public infrastructure was greatly improved. Yet, large public investment has had disappointing productivity and growth dividends. Although Morocco has invested close to 32 percent of GDP on average between 2000 and 2019 (more than half from the public sector), its growth performance has been weaker than that of other countries with lower investment rates, such as Malaysia, Philippines or Turkey[2]. This reflects insufficient productivity gains and a slow structural transformation. In this context, there is a growing awareness about the limits of the over-reliance on public capital accumulation that has characterized Morocco´s recent growth model, the sustainability of which is likely to be further challenged by a constrained fiscal space in the aftermath of the COVID-19 pandemic.

2. **The COVID-19 pandemic has exacerbated the challenges facing the Moroccan economy, particularly for MSMEs and infrastructures financing.** The impact on the overall economy was severe and MSMEs, particularly hit by the crisis, are still in a precarious situation[3]. According to the latest survey published in 2022 by the Haut Commissariat au Plan (HCP), 27 percent of SMEs had to stop their activities about 116 days, 31 percent of SMEs suffered from a decrease in turnover by more than 50 percent (vs. 2019), 34 percent of SMEs reduced their staff, 51 percent of SMEs stressed a deterioration in their liquidity and only 17 percent of SMEs were planning investments. This complex scenario has hindered the recovery of private investment, which could constrain future economic growth[4].

3. **In parallel, the COVID-19 crisis has reduced the fiscal space available to meet the investment needs in infrastructures.** For the next two decades, Morocco's annual investment needs in infrastructures[5] are estimated at 7.5 percent of GDP in the baseline scenario presented by the World Bank in 2019 in the infrastructure's diagnosis. However, fiscal margins of the Government of Morocco (GoM) to finance these critical investments are limited by the increase in public debt (expected to reach 78.8% of GDP in 2022 and gradually increase to 79.5% in 2024), and the high indebtedness of some SOEs. As a consequence, Morocco needs to adopt a more efficient approach to infrastructure financing, by

[1] Extreme poverty was close to be eradicated.
[2] HCP. 2016. Étude sur le Rendement du Capital Physique au Maroc.
[3] The three follow up enterprise surveys produced by the World Bank to track the effects of the pandemic clearly evidence the severity of the impacts, with a vast majority of companies having declared to have suffered a decline in the demand for their products and a deterioration in their liquidity situation. Although the last survey (conducted in May/June 2021) shows an improvement in some dimensions, 94 percent of firms still declared experiencing decreased liquidity, 88 percent late payments, and 40 percent to have overdue obligations to financial institutions
[4] Among the indicators that illustrate this sluggish recovery of private investment are: (i) the evolution of capital goods´ imports, which contracted by 13.6 percent in 2020, and in January-February 2021 were still 6.9 percent below their level of these same two months of 2020 (source: Office des Changes); (ii) the evolution of banks´ investment loans to private firms, which continue to decline in the last quarter of 2020 and in January 2021 in spite of the overall expansion of credit to the private sector, which is being driven primarily by liquidity loans (Source: Bank Al-Maghrib).
[5] Electricity, transport, water and sanitation, waste management, telecoms.

fostering private actors' participation into the financing of infrastructure, leveraging commercial finance and PPPs, while improving the strategic planning, cost-efficiency and impacts of projects.

4. **In addition, Morocco is considered a climate hotspot, and the country´s mitigation and adaptation agenda will require the mobilization of vast investments.** Temperature increases in Morocco have exceeded the world´s average, and the country is already in a situation of structural water stress. These trends are projected to intensify over the next decades, a major development challenge to which the authorities are responding with ambitious strategies to decarbonize the economy, increase Morocco´s capacity to mobilize water resources, and reduce the country's vulnerability to climate-related hazards through a combination of risk-reduction adaptation investments and insurance-type instruments. Given the lack of fiscal space that has been inherited from the COVID-19 crisis, the public sector will only be able to shoulder a portion of these investments. A key challenge for Morocco will thus be to create the enabling conditions that would maximize the amounts of private capital flows channeled toward green projects in the years and decades to come.

5. **The Moroccan recovery plan and broader New Development Model (NDM) have paved the way to a transition from a public-investment driven economy to a private-sector-driven one.** On July 2020, the recovery plan announced by the King focused on private sector growth, establishing a new strategic investment fund, the 'Fonds Mohammed VI pour l'Investissement' (FMVI) to mobilize private investments to strategic sectors and segments of the Moroccan economy. On May 26, 2021[6], a new national long-term strategic vision based on human capital and private-sector-led growth was unveiled with the publication of the NDM report which outlined a long-term vision for the Moroccan economy translated into key objectives, as doubling GDP per capital by 2035, primarily through the promotion of private investment in productive sectors with potential for jobs creation and value-addition, a strengthened competition framework and better entry conditions for firms and entrepreneurs, as well as an ambitious human capital agenda focused on upgrading skills and improved access to health services.

Sectoral (or multi-sectoral) and Institutional Context of the Program

Creation of the FMVI

6. **The FMVI stands as one of the pillars of the Moroccan recovery plan and was created with the objective to catalyze private investments towards key sectors and business segments of the Moroccan economy**. While in the immediate wake of the crisis, public support to enterprises focused on emergency measures to support liquidity and access to short-term bank financing, the FMVI aims to complement the recovery package by providing equity and quasi equity instruments to strengthen the solvency of companies and contribute to the rebound of investments[7]. The FMVI is aimed at addressing the structural constraints on access to non-bank financing for Moroccan firms[8]. It is also aimed at sustaining and improving infrastructure investment. As Morocco faces growing demographics-driven investment needs and increased pressure on its public finances resulting from the COVID crisis, the FMVI should help increase the participation of private players in the financing, development, and management of national infrastructures. Thus, the FMVI could contribute to achieving the objectives set by the NDM for 2035, including the transition to a stronger and more

[6] On July 28, 2019, King Mohammed VI called for the elaboration of a new development model. To that purpose, a high-level commission has worked for over a year, based on a participatory approach that has included various stakeholders from the public and the private sectors and from the civil society.

[7] Emergency measures to support corporate liquidity remain insufficient to avoid an increase in bankruptcies, as companies, which were already suffering from undercapitalization problems, are emerging from the crisis heavily indebted. At the same time, the measures implemented are struggling to support a rebound in investment, as banks are unable to finance risky investments due to the deterioration of their balance sheets (Bank Al-Maghrib forecasts an increase in non-performing loans in May 2021 to 10% of the total outstanding).

[8] In 2019, 75% of SMEs only resorted to internal financing and 94% of SMEs using external financing relied solely on banks, while non-bank solutions remained marginal (HCP 2020). In 2019, cumulative business-to-business credit reached $42 billion, or about 37% of the country GDP, with MSMEs accounting for half of it (Inforisk 2021).

sustainable growth path based on the modernization of productive activities and the creation of quality jobs to boost domestic demand. In addition, the FMVI could operate as a powerful driver of investment in green activities given the acute vulnerability of Morocco to climate change, which would represent an important step to ensure that the recovery will put Morocco on a more resilient and low-carbon path

Relationship to CAS/CPF

7. This operation is consistent with the WB Private Capital Mobilization (PCM) / Private Capital Enabling (PCE) approach as it supports the implementation of a permanent specialized investment vehicle to crowd-in private investments in strategic sectors and themes for the Moroccan economy.

8. This operation is also aligned with the 2019-2024 CPF, and MENA regional strategy, particularly in regard to private sector development and job creation.

9. The operation also directly supports Morocco's recovery plan consistently with the World Bank Group strategy to build back better through the promotion of a Green, Resilient and Inclusive growth.

Rationale for Bank Engagement and Choice of Financing Instrument

10. Since September 2020, the World Bank has been providing under the Joint Capital Market Program (JCAP) technical assistance to the Moroccan authorities on the design and implementation of the FMVI.

11. The PforR allows the World Bank to support a mix of legal, regulatory and operational results adopted as targets by the GoM as part of the recovery plan and related strategies aimed at boosting private-sector-led growth.

C. Program Development Objective(s) (PDO) and PDO Level Results Indicators

Program Development Objective(s)

The tentative Program development objective is to mobilize and channel private investment towards high-performing SMEs and commercial infrastructure projects in Morocco, in support to a greener and more inclusive recovery.

PDO Level Results Indicators

The following set up of PDO level indicators is proposed and will be refined during Program preparation:

- Leverage effect on private investors, both domestic and foreign.
- Volume of non-bank financing mobilized by SMEs.
- Increase in the number of SMEs invested and benefiting from capacity building services.
- Number of financially sustainable infrastructures projects prepared.

D. Program Description

PforR Program Boundary

12. **As part of the recovery plan, the FMVI aims to catalyze private financings to provide equity/quasi equity to strategic segments and sectors of the Moroccan economy.** Initial areas targeted by the authorities in the law establishing the FMVI are manufacturing, innovation and growth, SMEs, infrastructures, agriculture, and tourism.

13. **The Fund was established as a '*Société Anonyme*' (Public limited company) by the law 76-20 adopted by the Parliament on December 31, 2020.** Its organization and governance were detailed in a decree published on February 22, 2021 / in the Company's bylaws. Although some of its specific governance arrangements are still being defined, the choice to establish the FMVI as a limited company is aimed at securing that the new institution will meet high transparency and accountability standards, increasing its attractiveness for potential investors. The establishment under law 76-20 of a board of directors with 4 independent directors, as well as a strategic & investment and audit committees is also a good signal sent to the FMVI's future stakeholders

14. **In the context of the implementation of the FMVI, this Program-for-Result seeks to leverage the FMVI as a tool to foster the creation of investment opportunities for the private sector in high-potential SMEs and financially sustainable infrastructure projects, contributing to a green and resilient recovery.**

15. **The operation would seek to remove some of the existing constraints to private sector investment in SMEs and infrastructures, address market failures and weaknesses, and strengthen the capacities of stakeholders involved in the implementation of the program.**

E. Initial Environmental and Social Screening

3. **At concept stage, the proposed rating for environmental and social risks is Moderate** based on the proposed development objectives. An environmental and social systems assessment (ESSA) of the client's environmental and social systems, the program-related risks and client's capacity will be conducted. Therefore, the risk rating might be reviewed based on findings and recommendations of the assessment.

4. **An Environmental and Social Systems Assessment (ESSA)** will be conducted during program preparation to ensure E&S risk management capacities are adequate, that screening capacities are adequate, and that eventual gaps are mitigated during program implementation. Overall Program impacts are expected to be positive, through improved SMEs environmental management practices, and increased capacity and economic returns for beneficiaries.

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