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Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 13-May-2024 | Report No: PIDPA00087

Public Disclosure Authorized

BASIC INFORMATION

A. Basic Program Data

Project Beneficiary(ies)	Region	Operation ID	Operation Name
Morocco	MIDDLE EAST AND NORTH AFRICA	P181522	Supporting the implementation of SOE Reform in Morocco
Financing Instrument	**Estimated Appraisal Date**	**Estimated Approval Date**	**Practice Area (Lead)**
Program-for-Results Financing (PforR)	13-May-2024	21-Jun-2024	Finance, Competitiveness and Innovation
Borrower(s)	**Implementing Agency**		
Ministry of Economy and Finance	National Agency For the Strategic Management of State Participations, Direction des Etablissements Publics et de la Privatisation (DEPP)		

Proposed Program Development Objective(s)

The Program Development Objective is to improve the governance, restructuring, competitive neutrality and performance monitoring of States Owned Enterprises.

COST & FINANCING (US$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)? No

Is this project Private Capital Enabling (PCE)? No

SUMMARY

Government program Cost	**3,000.00**
Total Operation Cost	**1,444.58**
Total Program Cost	1,443.70
Other Costs (Front-end fee,IBRD)	0.88

Total Financing	**1,444.58**
Financing Gap	**0.00**

FINANCING

Total World Bank Group Financing	**350.00**
World Bank Lending	350.00
Total Government Contribution	**1,094.58**

Decision

Other

B. Introduction and Context

Country Context

1. **Reforms implemented in Morocco since the turn of the century paved the way for twenty years of economic expansion and social progress.** Per capita income doubled between 2000 and 2019, sustained by large public investment and a set of political, institutional, and sector reforms that gradually opened the economy and maintained overall robust macroeconomic fundamentals. As a result, poverty rate decreased substantially, average life expectancy increased, access to basic public services was expanded, including universal access to primary education. Infrastructure quality and related services also improved, with Morocco's global ranking moving from 64th in 2007 to 42nd in 2017[1].

2. **Yet, the impact of these reforms has stagnated since 2020.** Real Gross Domestic Product (GDP) growth was already on a declining trend before the pandemic, increasing the divergence between the per capita income levels of Morocco and Upper Middle-Income Economies by 8.5 percentage points during the 2010s. This was partly the result of external shocks, including the global financial crisis and the eurozone debt crisis, and increasingly apparent structural limitations of the country's development model. According to World Bank estimates, potential growth declined from an average of 4.8 percent between the 2000s and to 3.7 percent in the 2010s.[2] Since then, the COVID-19 pandemic, a severe multi-year drought, and the 2022 inflationary terms-of-trade shock have led to wide fluctuations in GDP growth and depressed an already challenged labor market. Per capita GDP has not yet returned to pre-pandemic levels; final consumption expenditure per capita is roughly where it was in 2019; the household confidence index has hit an all-time low; inactivity rates in labor markets continue to increase, particularly for women and youth; unemployment reached 13.5 percent at the national level and 17 percent in urban centers in 2023.

[1] Data from the World Bank Report 2020 "Morocco Infrastructure Review" using WEF index.
https://tcdata360.worldbank.org/indicators/h2cf9f9f8?country=BRA&indicator=536&countries=MAR&viz=line_chart&years=2007,2017
[2] Kose, M. A. (ed.); Ohnsorge, F. (ed.). 2023. Falling Long-Term Growth Prospects: Trends, Expectations, and Policies. World Bank.

3. **The limited economy-wide impact of public and private investment highlight that the efficiency of the public sector and the competitiveness of the business environment are key growth bottlenecks in Morocco.** Investment averaged close to 30 percent of GDP between 2000 and 2019, explaining two-thirds of GDP growth during this period. Yet Morocco's economic expansion has been substantially slower than in other countries with comparable investment levels, such as Vietnam, India and Indonesia. This weaker growth performance is mostly due to the lower contribution of Total Factor Productivity (TFP), which on average (2010-2019) added 0.7 percentage points of growth per year in Morocco, against 3.5 percentage points in India, 1.5 percentage points in Vietnam, and 1.1 percentage points in Indonesia. This reflects a lack of efficiency in public investment and a slow structural transformation of the private sector, which only contributes to one third of total investment. Although Morocco has succeeded in attracting large-scale export oriented Foreign Direct Investments (FDI), limited attention was devoted until recently to promoting private-led domestic investment into higher value-creating activities. As a result, a two-speed business environment has emerged, attractive for FDI but less conducive for domestic investment and firms, constrained by a lack of access to finance, a lack of skilled workers, and a lack for fair competition. Fiscal space has also narrowed due to the State-led high public investment and the response to the overlapping shocks.

4. **The Moroccan government has embarked on ambitious reforms to transform the role of the State, enhance public sector efficiency, and mobilize more private investment.** The New Development Model (NDM) - prepared through a national multistakeholder consultative process and endorsed by the King in April 2021 - presents a new vision for economic growth and social inclusion to achieve a set of results by 2035. It highlights the need for a paradigm shift to promote inclusive growth driven by the private sector, improve public services and reduce social and spatial disparities. The Government of Morocco appointed in October 2021 has started operationalizing the NDM in its 2021-26 agenda, with emphasis on public sector reforms and creating space for private investment and private capital mobilization, business environment reforms, as well as the strengthening of human capital and social protection systems.

Sectoral and Institutional Context

5. **State-Owned Enterprises (SOEs) operate in major economic sectors in Morocco and play a critical role in achieving the country's service-delivery and social objectives and in channeling public investment.** State ownership in Morocco takes its root in the nationalization of strategic sectors after the country independence in 1956 and has gone through several stages of reform since, including a major privatization program in the 1980s and 1990s as part of efforts to liberalize the economy and stabilize it under a structural adjustment program. SOEs continue to play a prominent role in implementing public policies and providing social and economic services in infrastructure, utilities, finance, agriculture, and natural resources, as well as in social sectors such as education, health and housing. In 2022 SOEs accounted for 4 percent of total employment and generated aggregate annual revenues of MAD 332 billion (approx. $34 billion) equivalent to 20 percent of GDP. They invested MAD 77 billion in 2022, which represents 31.4 percent of public investment[3].

6. **The public portfolio includes 272 entities, characterized by a great diversity in terms of legal form, size, financial performance and fiscal impact**. The public portfolio comprises a total of 272 SOEs, with 227 "*établissements publics"* (EPs) and 45 limited liability companies (*Sociétés anonymes* (SAs))[4] directly held by the Treasury[5]. About a quarter (26.5%) of the total are deemed commercial entities[6], while the remainder are mostly tasked with administrative or policy role (also called non-commercial", however without a clear taxonomy). SOEs also hold stakes in 517 subsidiaries, of which 53 percent are majority owned by the SOEs[7].

7. SOEs have suboptimal performance and allocation of public resources, as well as impacts on competition and crowding out of private sector. These can be explained essentially by persistent inefficiencies in the management and governance of SOEs and by SOEs expansion with unclear rationale for creation and state presence. The key deficiencies of the SOE portfolio can be summarized as follows: (i) Weak corporate governance at both enterprise and portfolio level and lack of transparency: (ii) State-SOEs financial relations and internal cross subsidization of activities and public service missions, (iii) Weak rationale for SOE creation, leading to unnecessary expansion of the portfolio and (iv) Weak rational for state participation in competitive and partially contestable sectors.

8. Acknowledging these weaknesses, Morocco has embarked on an ambitious reform of the strategic ownership and management **of its SOE portfolio, in a context of tightened fiscal space.** Building on the 2016 report of the Court of Accounts, and on the NDM initial orientations, a major SOE reform was announced by His Majesty King Mohammed VI in 2020, targeting the enhancement of the State's strategic ownership, governance, and management of SOEs. Soon after, a new framework law (Law 50.21 of 2021) established principles and overall objectives for SOE reforms, and law 82.20 of 2021 established the *Agence Nationale de Gestion Stratégique des Participations de l'Etat* (ANGSPE) in charge of exercising ownership functions on a subset of 57 designated SOEs, in large part commercial.

PforR Program Scope

9. The proposed operation supports the government program defined as the (i) SOE reform framework law; (ii) its subsequent regulations and (iii) implementation plans. The framework law n°50-21 on public sector reform was adopted in July 2021. The subsequent regulations and actions plans for implementation are being prepared by the government[3]. The main principles underpinning the government program (as articulated in the framework law's art.6) are: (i) continuity and adaptability of public service; (ii) free competition and transparency; (iii) protection of acquired rights; (iv) good governance and the correlation between responsibility and accountability; (v) pooling of resources; (vi) autonomous management of public establishments and companies; (vii) results-based management; and (viii) progressiveness in the implementation of SOE restructuring.

10. In addition, the strategic guidelines of the State Ownership Policy (SOP) as defined in Framework Law 50-21 are currently being prepared by the ANGSPE as mandated by law, under the coordination of the consultation body chaired by the Head of Government. These guidelines cover the essential parameters of the reform, such as the justification of the role of the State as shareholder, the definition/categorization of SOEs, the modalities for selecting priority sectors for intervention, the imperative of competitive neutrality, and transparency. A draft SOP was shared with the World Bank (WB) in January 2023. Guidance based on international benchmarks was also provided by the WB as part of ongoing technical assistance engagement. The approval of the SOP is included within the Program as a DLI, and a detailed roadmap for the implementation of the SOP will be finalized and included in the government program.

11. Mapping of partners involvement in SOE reforms shows that many are engaged in targeted and complementary activities to the proposed operation. Partners at large have been consulted to ensure both complementarity and leveraging of actions. In addition, an ad-hoc working group of donors has been coordinated by the WB. The PforR builds on the World Bank group technical assistance to Morocco on competition policy. Further collaboration with the International Finance Corporation (IFC) on corporate governance and enhancing SOE capacity to raise institutional and private investment is possible. The European Bank for Reconstruction and Development (EBRD) is engaged through a series of targeted technical assistance activities, notably for the newly established ANGSPE and specific SOEs. The French

[3] Some of the subsequent regulations to the framework law are already passed, such as the law creating the ownership agency ANGSPE, while other texts are currently in advanced preparation (Decree on definition of portfolio operations and review mandate of ANGSPE; law on financial control; decree on performance contracts, review of privatization legal framework)

Development Agency (AFD) is involved through specific technical assistance and measures linked to Climate reporting of SOEs. Lastly, the African Development Bank (AfDB) has been consulted as they are at the early stage of the preparation of a budget support operation which may include elements related to SOE reform.

12. Reflecting Morocco's ambitious SOE reform commitments, the Program is structured around three complementary results areas focusing on i) Strengthening state ownership policy and functions, frameworks for corporate governance, and financial discipline of SOEs ; ii) Resizing the state's footprint in the economy active management of the portfolio, and by ensuring a level playing field with the private sector; and iii) Improving SOEs' monitoring and transparency at portfolio level and climate change reporting practices.

C. Proposed Program Development Objective(s)

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The Program Development Objective is to improve the governance, restructuring, competitive neutrality and performance monitoring of States Owned Enterprises.

D. Environmental and Social Effects

13. The environmental and social risk of the proposed program is deemed Substantial. The environmental risk analysis of the program indicates that the overall environmental risk is low, with activities likely to be financed presenting low environmental risks. In terms of social risks, the program is associated with substantial risks linked to the restructuring of SOEs and resizing of portfolios, which may lead to changes in employment conditions. The associated risks can be effectively managed by establishing a set of exclusion criteria aimed at guaranteeing that any restructuring will not significantly affect employees or the communities in which the SOEs operate. Additionally, implementing agencies will be supplied with a comprehensive set of actions and guidelines to ensure that any restructuring, including liquidation and retrenchment, adheres to the best international standards, as detailed in the annex of the ESSA.

E. Financing

Program Financing (Template)

Source	Amount (US$, Millions)	% of Total
International Bank for Reconstruction and Development (IBRD)	**200.00**	**36.61%**
Counterpart Funding	**346.30**	**63.39%**
Borrower/Recipient	346.30	63.39%
Total Program Financing	**546.30**	

CONTACT POINT

World Bank

Hind Kadiri
Senior Private Sector Specialist

Peter Farup Ladegaard
Senior Public Sector Specialist

Borrower/Client/Recipient

Ministry of Economy and Finance
Abdelmajid Mellouki
Coordinateur des relations avec la Banque Mondiale au MEF/DTFE
m.mellouki@tresor.finances.gov.ma

Implementing Agencies

National Agency For the Strategic Management of State Participations
Abdellatif Zaghnoun
Director General
a.zaghnoun@angspe.ma

Direction des Etablissements Publics et de la Privatisation (DEPP)
Khalid Sbia
Director
ksbia@depp.finances.gov.ma

FOR MORE INFORMATION CONTACT

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

APPROVAL

Task Team Leader(s):	Hind Kadiri, Peter Farup Ladegaard

Approved By

Practice Manager/Manager:	Djibrilla Adamou Issa	11-Apr-2024
Country Director:	Mouna Hamden	13-May-2024