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Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 28-Jan-2024 | Report No: PIDC293281

BASIC INFORMATION

A. Basic Program Data

Country	Project ID	Parent Project ID (if any)	Program Name
Morocco	P181522		Governance, performance and competitive neutrality of SOEs in Morocco
Region	Estimated Appraisal Date	Estimated Board Date	Does this operation have an IPF component?
MIDDLE EAST AND NORTH AFRICA	17-Apr-2024	13-Jun-2024	No
Financing Instrument	Borrower(s)	Implementing Agency	Practice Area (Lead)
Program-for-Results Financing	Ministry of Economy and Finance	Direction des Etablissements Publics et de la Privatisation (DEPP), National Agency For the Strategic Management of State Participations	Finance, Competitiveness and Innovation

Proposed Program Development Objective(s)

The Program Development Objective is to improve the governance and performance of SOEs, the efficiency of public resources allocation to SOEs, and to strengthen competition in sectors with strong SOE presence.

COST & FINANCING

SUMMARY (USD Millions)

Government program Cost	700.00
Total Operation Cost	400.00
Total Program Cost	400.00
Total Financing	200.00
Financing Gap	200.00

FINANCING (USD Millions)

Total World Bank Group Financing	200.00

World Bank Lending	200.00

Concept Review Decision

The review did authorize the preparation to continue

B. Introduction and Context

A. 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 a historical height in 2023 at 13.5 percent at the national level and 17 percent in urban centers.

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 (FDIs), limited attention was devoted until recently to promoting private-led domestic

[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.

investment into higher value-creating activities. As a result, a two-speed business environment has emerged, attractive for FDIs 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 (GoM) 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.

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

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.

[3] "NOTE SUR LA REPARTITION REGIONALE DE L'INVESTISSEMENT" accompagnant le projet de loi de finances 2022, Ministère des finances
[4] As of Septembre 2023 – *Projet de loi de finances 2024, Rapport sur les Etablissements et Entreprises Publiques*.
[5] These are legal entities under public law, with legal personality and financial autonomy, qualified as public establishments by their founding documents. They are private companies whose capital is held directly by the State, in whole or in part.
[6] *Synthèse du rapport sur le secteur des Etablissements et Entreprises Publics (EEP) accompagnant le Projet de Loi de Finances 2021*
[7] These numbers do not include 21 *Sociétés anonymes* which fall under sub-national government layers.

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.

C. Relationship to CPF

9. **SOE reform is a cross-cutting theme in both the Country Partnership Framework (CPF) and the country's New Development Model (NDM).** The CPF focuses on SOE reforms through a two-faceted angle: (i) under CPF's objective 1 aiming at a "more efficient environment for business and competitiveness", SOE reform is aligned with competitive neutrality concerns as per guidance from NDM. This approach is equally in alignment with the principles of Maximizing Financing for Development (MFD) in infrastructure financing. (ii) Under CPF objective 11 focusing on improved efficiency of public spending, the Bank is to engage through "governance and control framework for SOEs, both at the macro level and in specific sectors where SOEs deliver critical social services".

10. **The Program is consistent with the country's Nationally Determined Contribution (NDC) and directions given by the Morocco Country Climate and Development Report (CCDR).** The latest NDC was submitted in 2021 to the United Nations Framework Convention on Climate Change (UNFCCC), and a new one is under preparation with support through the ongoing Morocco Climate Operation / Support to the NDC Program for Results (PforR) (P178763) where dialogue is ensuring that SOEs are captured as key stakeholders. This operation contributes to the current NDC by (i) enhancing the application of the *Loi-cadre* 99-12 which backs the NDC and underscores SOE responsibility in climate change adaptation and mitigation[8], and (ii) improving the efficiency, performance and climate reporting of SOEs present in several sectors for which both mitigation and adaptation measures are present (e.g., energy, transport, habitat, forest management etc.).

D. Rationale for Bank Engagement and Choice of Financing Instrument

11. **The core rationale for Bank engagement is anchored in the critical development challenges posed by SOE reform and the high expected development returns of such a reform.** SOE reform has potentially long-term structural impacts on the Moroccan economy and development path, particularly in terms of economic model, private sector participation, and services delivery to citizens. It is expected to have positive long-term economic and social returns, on investment, productivity, job creation, and fiscal space, leveraging better complementarity and clear boundaries between state and private sector interventions. Considering these structural dimensions, SOE reform has been a constant topic of dialogue between the World Bank and GoM in the last years, in line with the MENA Strategy and the Morocco CPF.

12. **The PforR is the most relevant instrument to support GoM in transforming its ambitious SOE reform into operational results leading to the achievement of its high-level goals.** The choice of instrument hinges upon several key factors: first, it fits with the client's implementation capacities. Second, it will build on a clear Government program, as outlined by the framework law, of which key legislative and process-based actions - which would better fit a DPF - have been achieved already. Third, a PforR allows client flexibility over how the Program results are achieved and shifts Bank support from monitoring compliance to technical problem-solving of complex reform implementation challenges.

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[8] Loi portant Charte Nationale de l'Environnement et du Développement Durable. The law sets the fundamental objectives of government action in relation to environmental protection, climate change adaptation and mitigation as well as sustainable development. Principles set out in the law ought to be applied when developing and implementing strategies and programs by the State – including SOEs (article 2).

13. C. Program Development Objective(s) (PDO)

The Program Development Objective is to improve the governance and performance of SOEs, the efficiency of public resources allocation to SOEs, and to strengthen competition in sectors with strong SOE presence.

D. Program Description

14. **The proposed operation supports the government program defined as the SOE reform framework law and its subsequent regulations and roadmaps.** The framework law n°50-21 on public sector reform was adopted in July 2021, and its subsequent regulations and actions plans for implementation prepared or currently being finalized by the government. The main principles underpinning the law (art.6) – and thus the government program by extension 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; and (vii) results-based management; (viii) progressiveness in the implementation of SOE restructuring operation.

15. **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 are expected to 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, among others. Based on these guidelines, the detailed roadmap for the implementation of the SOP will be finalized and included in the government program. The Moroccan authorities are also developing a detailed action-oriented reform roadmap supported by the MENA SOE Compact which will further specify and sequence the government Program.

16. **The proposed Program is fully aligned with the core principles of the framework law.** In alignment with GoM gradual approach, the operation will support implementation on a selected number of SOEs or group of SOEs. Drawing from GoM priorities, sectors/SOEs of focus within the Program will be selected jointly with the Ministry of Economy and Finances (MEF) and implementing agencies, on a set of criteria to be defined.

17. **Reflecting Morocco's ambitious SOE reform commitments, the Program is structured around three complementary results areas** focusing on i) Strengthening frameworks for good governance, management autonomy 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.

E. Initial Environmental and Social Screening

18. **Potential negative, specific, or cumulative environmental and social impacts associated with the Program activities are considered Moderate. To inform the preparation of this PforR, an Environmental and Social System Assessment (ESSA) will be conducted by the Bank to identify potential environmental and social impacts of the Program** and to assess the E&S management systems of all involved parties to ensure compliance with the PforR bank policy. The results of the ESSA will inform program design and key measures to improve E&S risk management and will be considered in the Program Action Plan and/or in the results framework. The final version of the ESSA document will be made public before appraisal.

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