PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE

May 15, 2014
Report No.: 92609

Operation Name	Morocco Second Economic Competitiveness DPL (ECSP DPL II)
Region	MIDDLE EAST AND NORTH AFRICA
Country	Morocco
Sector	General industry and trade sector (100%)
Operation ID	P128869
Lending Instrument	Development Policy Lending
Borrower(s)	GOVERNMENT OF MOROCCO
Implementing Agency	Ministry of Economy and Finance; Ministry of General Affairs and Governance; Ministry of Industry, Commerce, Investment and Numeric Trade
Date PID Prepared	May 15, 2014
Estimated Date of Appraisal	October 30, 2014
Estimated Date of Board Approval	December 12, 2014
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Key development issues and rationale for Bank involvement

The need for a structural transformation of the Moroccan economy that will lead to stronger growth and job creation requires a comprehensive and coordinated set of policies aimed inter alia at strengthening Morocco's economic competitiveness. Over the past decade, Morocco has made good progress in carrying out business environment reforms, but the actual impact of these reforms, albeit positive, has been insufficient. The private sector has responded positively to these reforms, but productivity, export development and diversification and technological intensity still lag other emerging countries. The key indicators on private sector performance show a relatively weak entry and exit of firms in the Moroccan economy, and therefore relatively weak economic and productivity growth prospects. To achieve better economic and social outcomes, Morocco needs, inter alia, to strengthen its economic competitiveness.

The ECSP DPL II is designed to complete the reforms initiated in the first operation to address several key cross-cutting constraints that would favor greater competition between business stakeholders and more effective policies to spur competitiveness. These include reducing discretion in the implementation of regulations; reducing anti-competitive behavior; improving the Government's coordination and private sector participation in policy-making; increasing the efficacy, transparency and accountability of the Government's policy making; and increasing access to information, which are all important objectives that will be addressed by the specific Government policy reforms supported by ECSP series.

Poverty, inequality and vulnerability remain important challenges in Morocco. Extreme poverty has been almost eradicated and relative poverty declined from 15.3 percent in 2001 to 6.2 percent in 2011. Yet, nearly 20 percent of the country, or 6.3 million Moroccans, remain vulnerable and under constant threat of falling back into poverty. The wellbeing of the bottom 40 percent of the population also improved both in absolute terms and relative terms (i.e. the wellbeing of the poor also improved relatively to the non-poor's). However, Morocco's Gini coefficient (at 0.41) signals a relatively high level of income inequality, which is also reflected in differences in access to services. Morocco still lags behind its peers in health and education achievements. Spatial disparities in poverty are also a serious concern. With less than half of the Moroccan population economically active, Morocco has one of the lowest labor participation rates among emerging economies. Morocco is thus on the threshold of potentially profound social, political and economic transformation.

II. Proposed Objective(s)

The development objective of the ECSP DPL II is to support the Government of Morocco in the implementation of its reform program to improve competitiveness for higher growth and job creation through the following three pillars:

a. Improving the investment climate;

b. Furthering trade policy and trade facilitation reforms;

c. Strengthening economic governance.

Pillar I on improving the investment climate focuses on four key dimensions to improve Morocco's business climate: Enhancing e-governance for regulatory and administrative simplification; Simplifying administrative procedures and improving transparency; Reducing the financial burden on SMEs resulting from excessive payment delays; and Modernizing the legal framework for entry and governance of firms under SARL and SA status. Reforms under Pillar I are expected to lead to the following results:

- Strengthened administrative information-sharing among four key agencies interacting with firms through the use of a common business entity identifier.
- Reduced room for discretion and arbitrariness by standardizing and simplifying key priority administrative procedures.
- Reduced delays in payments in commercial transactions.
- Reduced barriers to entry to Small and Medium Enterprises (SMEs) by abolishing the mandatory minimum capital requirement for limited liability companies (SARL) and improved governance and simplification of the joint-stock corporation (SA) regime.

Pillar II on furthering trade policy and trade facilitation reforms focuses on three main aspects: Harmonizing trade policy by reducing distortions in tariff structure; Modernizing the legal and institutional framework of foreign trade and consumer protection; and Streamlining trade logistics at the ports of entry. Reforms under Pillar II are expected to lead to the following results:

- Reduced tariff rates for manufacturing goods.
- An updated and modernized legal and regulatory framework for international trade.
- Reduced delays for trade operations by reducing the total time for discharging containers.

Pillar III on strengthening economic governance focuses on three essential aspects of economic governance: Transparency and effectiveness in Government interventions in the investment area, Coordination of investment climate reforms; and Competition policy. It should be noted that the new Government's priorities explicitly include a focus on governance issues; hence the critical importance of this pillar for the success of ECSP DPL II. Reforms under Pillar III are expected to lead to the following results:

- Increased transparency and accountability in the process by which investment incentives are granted and monitored.
- Improved Government coordination and private-sector involvement in the design, implementation and monitoring of investment climate reforms.
- Improve the contestability of markets by strengthening the competition legal framework and the Competition Council in charge of enforcing anti-trust and competition regulation.

Improving competitiveness is central to the Government program for a shared economic development and job creation. Key areas of the Government's priority that the ECSP DPL II supports include strengthening the competitiveness of the economy through cross cutting reforms to (1) improve the investment climate; (2) further trade policy and trade facilitation reforms; and (3) strengthen economic governance. Among others, the Government's program specifically identifies a new Investment Law and the simplification of administrative procedures for investment to incentivize entrepreneurs, a new international trade law to update trade rules and discipline, including in light of the FTAs signed by Morocco in recent years, and a new Competition Law to reinforce the independence and the powers of the Competition Council (CC). Particular emphasis is placed by the Government on improving economic and financial governance to achieve its ambitious economic and social objectives.

III. Preliminary Description

Within a structured macroeconomic framework, the ECSP DPL II is designed to support the government in the pursuit of its policy objectives through 10 prior actions that should help strengthen the overall performance of the economy and contribute to reducing poverty and boosting shared prosperity.

Prior action 1. The database centralizing the common business identification codes is operational and used by at least four key concerned authorities.

Prior action 2. The Ministry of administrative modernization has posted on the Government website at least 10 new forms simplifying and standardizing administrative procedures for businesses, including for registering property.

Prior action 3. The implementing regulations to regulate penalties for late payments have been issued.

Prior action 4. The Government Council has approved the draft Law to simplify the creation of *Société anonyme* (SA) companies and improve its governance.

Prior action 5. The Head of Government has issued the implementing Decree of the Law on the safety of products and services.

Prior action 6. The Government Council has approved the draft law modifying the Law, on International Trade.

Prior action 7. The IT system managed by PORTNET for data exchange is operational and used by the key public authorities and private trade operators involved in import and export operations (Customs, freight forwarders, banks, Foreign Trade Department, and the National Office of Food Sanitary Security).

Prior action 8. The Government Council has approved the new draft Investment Law and its implementing regulations, which notably provides for the modalities of the evaluation of cost benefits of investment projects.

Prior action 9. The National Commission on the business environment (CNEA) has met to approve and review its annual reform program for 2014.

Prior action 10. The new legal framework modifying the Competition and Freedom of Pricing Law and reinforcing the powers and independence of the Competition Council has been published in the National Gazette and is in force.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

The ECSP DPL II does not support reforms that are expected to have significant negative distributional impacts. Reforms in the areas of investment climate (Pillar I) and economic governance (Pillar 3) are expected to generate direct positive effects on productivity and/or employment and unambiguously lead to positive poverty and social outcomes. Reforms in the area of trade and trade facilitation (Pillar 3) are usually more of a source of concern. This is one reason why the Bank together with the Moroccan counterparts prepared and disseminated a series of trade papers to investigate the macroeconomic and structural effects of the tariff liberalization conducted during 2009-2012 (the other being to inform Morocco's future trade policy). The studies found that Morocco benefited from its past efforts to open the economy, including attracting larger FDI, but that the benefits have remained limited because of difficulty to expand the export supply, especially at the extensive margin (i.e., new products and/or new markets). Contrary to countries undergoing rapid structural transformation, Morocco does not seem to have been exposed to the kind of large labor and social mobility that risks leaving segments of the population on the side. To better understand factors that affect labor mobility over time, including in relation to structural transformation, the Bank and the Higher Planning Commission (HCP) have developed an ambitious analytical work program on growth, labor markets and poverty.

ECSP DPL II reform actions aimed at improving the investment climate will address many of the problems experienced by informal firms, the majority of which are owned and managed by women. Informality, defined as "lack of social security coverage" (usually understood as pensions, or if pension system does not exist, as health insurance) is widespread in Morocco, with informality rates of 80 percent compared to the MENA region average of 67 percent. Rural areas are more affected than urban areas: in 2009, 41.1 percent of urban women were registered with social security, compared to only 1.6 percent of women in rural areas. As women often work in unpaid/subsistence agriculture, being a woman is positively associated with informality. Removing the constraints and barriers to business establishment and growth so that the private sector can contribute more to economic growth and job creation contributes to reducing poverty. More than 75 percent of informal workers can be found in small firms (less than five workers) that engage in low productivity activities. The most important external factor influencing the decision to become formal is the tax and regulatory burden.

Environment Aspects

The ECSP DPL II is not expected to have any significant environmental implications. The project is a development policy loan in support of a broad program of policy and institutional reforms. Although the environmental requirements of OP/BP 8.60 apply, the policies supported by the proposed operation are unlikely to cause significant effects on the country's environment, forests, and other natural resources, as they are oriented toward improving economic competitiveness and the business environment and do not include an investment lending subcomponent or physical investments. In particular, it must be noted that the proposed simplification, standardization and certification of administrative procedures for businesses supported by this operation does not target environmental procedures (i.e. licensing) and should not adversely impact existing standards for public health and safety and the environment. Morocco has developed a well-articulated legal and institutional framework for environmental protection. Law No. 12-03 approved in 2003 and related decrees define the requirements for Environmental Impact Assessments (EIAs), including review and oversight structures for implementation, such as national and regional EIA committees, as well as procedures for public consultation and disclosure. The monitoring and control framework has also been recently strengthened through the creation of national and regional observatories for environmental protection, and the introduction of an environmental policy. Various donors and development agencies provide support to Morocco's environmental sustainability agenda.

V. Tentative financing

Source:	($m.)
Borrower	0
International Bank for Reconstruction and Development	120
Borrower/Recipient	
IBRD	
Others (specifiy)	
Total	

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