

**PROGRAM INFORMATION DOCUMENT (PID)  
APPRAISAL STAGE**

October 22, 2014  
Report No.: 104017

<b>Operation Name</b>	Morocco Second Economic Competitiveness DPL (ECSP DPL II)
<b>Region</b>	MIDDLE EAST AND NORTH AFRICA
<b>Country</b>	Morocco
<b>Sector</b>	General industry and trade sector (100%)
<b>Operation ID</b>	P128869
<b>Lending Instrument</b>	Development Policy Lending
<b>Borrower(s)</b>	GOVERNMENT OF MOROCCO
<b>Implementing Agency</b>	Ministry of Economy and Finance; Ministry of General Affairs and Governance; Ministry of Industry, Commerce, Investment and Numeric Trade
<b>Date PID Prepared</b>	October 22, 2014
<b>Estimated Date of Appraisal</b>	November 4, 2014
<b>Estimated Date of Board Approval</b>	December 12, 2014
<b>Corporate Review Decision</b>	Following the corporate review, the decision was taken to proceed with the appraisal of the operation.

## I. Country Background

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. Productivity, export development and diversification and technological intensity remain to be improved to join 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 limited economic and productivity growth prospects. To achieve better economic and social outcomes, Morocco needs to strengthen policies in several key areas: maintaining the stability of the macroeconomic environment; reinforcing the governance and accountability framework; improving the business environment; developing a trade policy that better supports the competitiveness of Moroccan products; deepening a financial sector to better serve smaller firms; ensuring a labor force that is better trained, and effective social protection and labor market frameworks.

Morocco remains confronted with important social challenges and a real pressure for meaningful change. Poverty, inequality and vulnerability remain important challenges. Extreme poverty has been almost eradicated in Morocco and relative poverty declined from 15.3 percent in 2001 to 6.2 percent in 2011. Yet, nearly 20 percent of the population, 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). However, Morocco's Gini coefficient (at 0.41) signals a relatively high level of income inequality, which is also reflected in remaining gaps 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 in dire need of social, political and economic transformation.

To address these challenges, Morocco has developed several sectoral strategies, aimed at structuring the reform process and developing the main sectors generating growth and jobs. The success of the various ongoing Government sectoral plans (such as the Pacte National pour l'Emergence Industrielle, Maroc Export Plus, Plan Maroc Vert, Plan Halieutis, Vision 2015 for handicraft) will largely depend on the ability to coordinate, implement and evaluate policies at various levels and through various agencies. This has proven to be especially difficult in the past when strong inter-agency coordination was required, in particular to address persistent cross-cutting constraints in the business environment that impact negatively the efficiency of these governmental interventions and support plans.

In this context, the objective of the proposed ECSP II is to consolidate and deepen the economic reforms supported in the ECSP I in three cross-cutting areas that support the Government's strategy to increase competitiveness, growth and job creation. First, the investment climate will be supported by improving corporate governance of larger firms, simplifying the regulatory environment for businesses, and increasing access to public information on businesses. Second, trade policy and trade facilitation will be supported by upgrading the regulatory framework for compliance with safety standards and easing procedures at ports of entry. Finally, economic governance will be improved by significantly strengthening the Competition Council's (*Conseil de la Concurrence – CC*) mission and prerogatives, improving transparency and accountability in the way that the Commission for Investment (*Commission des Investissements – CI*) grants investment incentives, and strengthening the public-private National Commission for the Business Environment (*Commission Nationale de l'Environnement des Affaires – CNEA*) in charge of coordinating investment climate reforms.

## **II. Operation 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.

These reforms will in turn contribute to enhanced prospects for competitiveness, growth and job creation. In agreement with the authorities, the ECSP II addresses only a sub-set of key areas relevant to increased competitiveness of the Moroccan economy. It focuses on key cross cutting themes ready for implementation.

The program's objective is directly linked to the World Bank Group's twin goals of ending extreme poverty and boosting shared prosperity in a sustainable manner. Indeed, the reforms supported by the ECSP II are expected to energize investment and trade, two key engines of Morocco's future growth performance and capacity to create high-value private sector jobs and grow the middle class. Improved competition, a more transparent investment framework and regulatory simplification, all supported by ECSP II, will notably improve equality of opportunities and inclusion through creating a level-playing field for all players, reducing corruption and encouraging the inclusion of the informal sector into the economy. The trade pillar will also favor greater integration into the global economy, which is one of the most effective means to reduce poverty. The Growth Commission report analyzed thirteen successful economies that have achieved high, sustained growth and concluded that the most important and shared characteristic of successful growth was countries making the most of the global economy and that properly exploited it for the benefit of all citizens.

### **III. Description of prior actions**

- 1. The database delivering the common identification codes for businesses in accordance with Decree No. 2-11-63 is operational and can be used by at least four key public authorities (the tax authorities, the Intellectual Property Office (*Office Marocain de la Propriété Intellectuelle*), Commercial Register and the National Social Security Fund (*Caisse Nationale de Sécurité Sociale*)).
- 2. The National Business Environment Committee (*Comité National de l'Environnement des Affaires*) has validated the simplification and standardization of at least twenty (20) administrative procedures, *inter alia* facilitating registering property, and has approved an additional batch of at least twenty (20) additional administrative procedures to be simplified and standardized.
- 3. Budget Law No. 110-13 has been published in the National Gazette dated December 31, 2013, which *inter alia* modified the Tax Code (*Code Général des Impôts*) to allow the tax deductibility of late payment penalties paid in application of Law No. 32-10.
- 4. The Government Council has approved on May 28, 2014, the draft Law No. 78-12 modifying and completing Law No 17-95 on corporations (*Sociétés anonymes*), *inter alia* simplifying the creation of corporations and improving their governance.
- 5. Decree No. 2-12-502 for the implementation of Law No. 24-09 of August 17, 2011, relating to the safety of products and services, has been issued by the Head of Government on May 13, 2014, and has been published in the National Gazette No. 6158 dated June 6, 2013.
- 6. The information and technology system managed by the company PORTNET for data exchange between public authorities and private trade operators, is operational and used by key public authorities and private trade operators involved in import and export operations.

- 7. A manual providing for the assessment of costs and benefits to investment incentives approved by the National Investment Commission (*Commission des Investissements*), has been prepared by the secretariat of the National Investment Commission and issued by a Circular of the Head of Government.
- 8. The National Business Environment Committee (*Comité National de l'Environnement des Affaires*) has approved on December 17, 2013, its annual reform program for 2014 in accordance with Decree No. 2-10-259 dated October 29, 2010.
- 9. Decree No 2-14-652 for the implementation of the Law No 104-12 relating to the freedom of prices and competition, which inter alia reinforces the powers of the Competition Council (*Conseil de la Concurrence*), has been issued.

#### **IV. Poverty and Social Impacts and Environment Aspects**

##### Poverty and Social Impacts

The proposed ECSP 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 2) 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 risk leaving segments of the population temporarily on the side in the absence of social safety nets. 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.

Policies supported by the ECSP DPL series will contribute to reduce gender-based occupation segregation and help remove barriers that still prevent women from working in high productivity sectors. Women's economic participation in Morocco - at 26 percent - is among the lowest in the world, and has not changed since 1990. Gender segregation in employment is pervasive, with women working predominantly in low-skill and low-productivity occupations in the informal sector. A common explanation for this relative stagnation in Morocco's female labor force participation (FLFP) is found in the slow pace of structural transformation of the economy and the lack of expansion in sectors that are critical for expanding female employment like manufacturing and services. Measures to improve the investment climate will directly help address many of the problems experienced by informal firms, the majority of which are owned and managed by women. In 2009, only 1.6 percent of women in rural areas were registered with social security

compared to 41.1 percent of urban women.<sup>1</sup> Removing the constraints and barriers to formal business establishment will predominantly help women involved in unpaid/subsistence agriculture. In the same vein, the measures aimed at facilitating trade and improving economic governance should boost the creation of export-oriented firms and disproportionately benefit women. Indeed, young and exporting firms – in the manufacturing sector alone - hire five times more women than non-exporting firms. In manufacturing, sectors such as garments and apparels are particularly ‘female-friendly’.

## Environment Aspects

The ECSP DPL series is not expected to have any significant environmental implications. 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 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	200
Borrower/Recipient	
IBRD	
Others (specify)	
	Total

## VI. Contact point

### World Bank

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<sup>1</sup> Gatti, R.; Angel-Urdinola, D.; Silva J. and Bodor, A. 2011. *Striving for better jobs: The challenge of Informality in the Middle East and North Africa*. Washington D.C.: World Bank

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