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Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 10-Dec-2019 | Report No: PIDC28393



BASIC INFORMATION

A. Basic Project Data

Country Morocco	Project ID P171587	Project Name Financial and Digital Inclusion Development Policy Financing (P171587)	Parent Project ID (if any)
Region MIDDLE EAST AND NORTH AFRICA	Estimated Board Date Mar 30, 2020	Practice Area (Lead) Finance, Competitiveness and Innovation	Financing Instrument Development Policy Financing
Borrower(s) Kingdom of Morocco	Implementing Agency Ministry of Economy and Finance		

Proposed Development Objective(s)

The overarching Development Objective of the proposed DPF series is to foster financial and economic inclusion of individuals, entrepreneurs and MSMEs and expand their access to opportunities within the digital economy

Financing (in US\$, Millions)

SUMMARY

Total Financing	400.00
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DETAILS

Total World Bank Group Financing	400.00
World Bank Lending	400.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

1. **Morocco has made significant social and economic progress over the past 15 years due to large public investments and political, institutional and sectoral reforms, along with measures to ensure macroeconomic stability.** The resulting accelerated growth has led to a dramatic reduction in extreme poverty; a sharp decline in the national poverty rate; increased life expectancy; greater access to basic public services, including universal access to primary education; and significant public infrastructure development.



2. **Despite these achievements, as stressed in the June 2018 Systematic Country Diagnostic (SCD), Morocco continues to face development challenges and the aspirations of its citizens for a better life remain unmet.** This is particularly true for youth. Job creation is slow; unemployment is high, particularly among youth and women; service delivery is inadequate; social and territorial disparities remain. Efforts to improve the situation have been constrained by structural inefficiencies. Private sector development, a key driver of employment, is hampered by lack of inclusion in market institutions leading to weak contestability of markets and poor access to finance for entrepreneurs and small and medium enterprises (SMEs).

3. **The contribution of the private sector to growth has been impeded by the lack of a level playing field, constrained access to finance, and limited technology adoption¹.** State-owned enterprises (SOEs) and established firms with close connections, rather than new and young firms, drive private economic activity and employment in a few non-tradable sectors that are less exposed to competition (construction, real estate, and commerce). These sectors generally have little potential to create quality jobs. Access to finance for entrepreneurs and micro, small, and medium enterprises (MSMEs) is still a challenge. There are issues with access, quality, and affordability of information and communication technology (ICT). Spatial inequalities and disparities in internet access are high particularly between large cities on the one hand and secondary cities and rural areas on the other hand, with direct effects on access to financial services, territorial innovation, entrepreneurship, growth, and job creation.

4. **Morocco needs a new growth model and reform pathway to move closer to its efficiency frontier².** As noted in the SCD, a more efficient use of public resources is necessary to achieve and sustain Morocco's development goals. The SCD proposes several pathways for Morocco to move closer to its efficiency frontier, leverage the efficiency frontier for all, and push the efficiency frontier. The SCD concluded that to reach the efficiency frontier Morocco should (i) increase competition and innovation; (ii) promote a more business-friendly environment; (iii) improve the efficiency of public policies and better access to quality public services including with a view to crowding in the private sector; and (iv) improve market allocation of resources across firms and sectors. Labor market reforms, better targeted social protection, and increased gender equity will help leverage the frontier for all. Successful human capital formation and better management of urbanization are identified as key to pushing the efficiency frontier.

5. **The Government of Morocco (GOM) has outlined a vision for economic growth and social inclusion in its five-year Government Program (2017–2021), which is reinforced by national strategies on the digital development and financial inclusion.** The Government Program builds on previous political, economic, and social achievements while renewing the development model to create the conditions to become an emerging economy. The program emphasizes upgrading large export industries and supporting start-up companies and MSMEs through a package of financial and non-financial resources. The ultimate objective is to develop a more competitive private sector capable of creating quality jobs, while establishing Morocco as an attractive destination for foreign investment and business expansion. His Majesty King Mohamed IV, in his speech for the 20th anniversary of the Throne on July 28, 2019, called for the development of a new development model that is inclusive. He highlighted that while Morocco has made significant progress in terms of infrastructure, connectivity, and access to basic services, strong challenges lay ahead in terms of human development, social and economic inclusion and territorial disparities, that require a revision of the country's development model. In addition, in his speech for the opening of the Parliament on October 15, 2019, His Majesty also highlighted the slow progress of access to banking services, and called the financial and banking sectors to strengthen their contribution to the development path of the country, by accelerating financial inclusion of MSMEs, microenterprises and individuals including in the informal sector, facilitating access to credit of the largest number of firms and entrepreneurs, and supporting small and medium-sized enterprises specializing in export, particularly to sub-Saharan Africa. The GOM has in this context

¹CPSD 2018

² The efficient frontier as the set of optimal combination of production factors that offers the highest expected return.



finalized a National Financial Inclusion Strategy (NFIS). The NFIS sets a vision for accelerating financial inclusion in the Kingdom while closing key gaps for women, youth, rural population and micro enterprises. Morocco is also developing a national strategy to drive digital transformation (*Plan Maroc Numérique*). The strategy aims to accelerate innovative digital solutions through e-government services, private sector digitalization and the use of digital financial services to promote inclusion of individuals and MSMEs.

Relationship to CPF

6. **The proposed operation will contribute substantively to the World Bank Group’s twin goals of ending extreme poverty and boosting shared prosperity in a sustainable manner, as well as the Country Partnership Framework (CPF) 2019–2023 for Morocco, the Middle East and North Africa (MENA) Strategy, and the regional Moonshot approach.** With regard to the CPF, its first pillar highlights the importance of job creation through private sector development and development of digital platforms. Pillars 2 and 3 focus on human capital development, social, and economic inclusion, especially through resilient territorial development. The CPF has Governance and Citizen Engagement as its foundational pillar. It intends to use technology, as well as gender equity, as cross-cutting themes to achieve its objectives, as it promotes efficiency, innovation, and inclusion. The proposed Development Policy Financing (DPF) will contribute to the CPF’s ambition to help the Government promote a technology-informed economy that harnesses the transformation potential of digital technologies. As the CPF specifies for all operations in Morocco, the DPF will support women’s inclusion through the systematic collection and use of gender-disaggregated indicators. The 2019-2023 CPF lending and non-lending program will help pursue the reforms and provide support in critical areas identified in the DPF to ensure that the reforms are sustainable.

7. **The DPF series will help achieve the MENA regional strategy and regional Marrakech targets of accelerating cashless payments and broadband connectivity.** It will enable access to digital technologies through promoting competition and bringing new wholesale and retail providers of broadband services. In addition, the use of the FDSU to expand broadband infrastructure to underserved rural and urban areas will enhance connectivity will improve access to connectivity. The DPF, through regulatory reform conducive to the development of digital platforms, enabled by internet connectivity and a digital payment infrastructure will help develop opportunities for jobs, increase the contestability of local markets, and generate economy-wide positive spillovers. The promotion of payments solutions, such as the development of a merchant ecosystem of payment service providers, the digitization of government payments and specific actions such as making the Government Conditional Cash Transfer social assistance programs cashless, will directly bring Morocco closer to the MENA regional Marrakech goals. The DPF-supported program is directly aligned with the DE4A (Digital Economy for Africa) initiative, which is supporting the operationalization of the African Union’s Digital Transformation Strategy for Africa. The DE4A initiative recognizes that the digital economy can help achieve the United Nations SDGs and the World Bank Group’s twin goal.

C. Proposed Development Objective(s)

8. The overarching Development Objective of the proposed DPF series is to foster financial and economic inclusion of individuals, entrepreneurs and MSMEs and expand their access to opportunities within the digital economy

Key Results

9. **This proposed DPF has an overarching aim of supporting an inclusive, competitive digital economy capable of pushing Morocco to its efficiency frontier.** Leveraging ongoing dialogue and operational engagements, the DPF supports improved financial inclusion and contributes to digital transformation for individuals, enterprises and entrepreneurs.



Financial and digital inclusion are seen as a critical entry points, essential for creation and growth of the private sector, especially digitally enabled businesses, as well as closing inclusion gaps in the country.

10. Results will be measured across the two pillars mentioned in the concept description, with concrete, targeted indicators identified for each prior action and triggers.

D. Concept Description

11. **The proposed US\$ 400 million Financial Inclusion & Digital Economy Development Policy Financing (FIDE DPF)** is a multi-sectoral programmatic DPF intended to support a reform program to foster financial inclusion and contribute to the digital transformation of the Moroccan economy. It is a part of a longstanding multisectoral engagement in Morocco supporting the authorities on financial and private sector development, infrastructure, governance, access to public services, and human capital improvements. The DPF is underpinned by the national and sector-level strategies (Government Program, the National Financial Inclusion Strategy, Plan Maroc Numeric 2020) and supported through longstanding WBG engagements that have helped generate critical analytical knowledge, technical assistance and lending operations.

12. **The overarching Development Objective of the proposed DPF series is to *foster financial and economic inclusion of individuals, entrepreneurs and MSMEs and expand their access to opportunities within the digital economy***, through interventions under the pillars below:

Pillar I: Financial Inclusion and Digital Financial Services

13. **This pillar promotes the diversification of financing and payment sources for individuals and MSMEs and encourages financial inclusion through the use of technology.** Prior actions and triggers proposed under this pillar support the development of alternative financing models as well as the financial infrastructure for greater financial inclusion. These objectives are in line with the Government's 2017–2021 strategy and the NFIS, which place a distinct focus on job creation through the growth of young enterprises and MSMEs.

14. **To support the development of alternative financing models, the operation will help** : (i) modernize the regulatory framework for the microfinance sector allowing MFIs to expand their service delivery to MSMEs, improve their outreach and strengthening their resilience through better supervision by BAM; (ii) modernize the regulatory framework of inclusive insurance, allowing the development of more suitable and accessible products for targeted vulnerable segments of the population, leveraging on innovative business models and digital technologies; (iii) establish a dedicated regulatory framework allowing the development of crowdfunding to enhance access to finance for digitally enabled and innovative enterprises with strong growth potential; (iv) deploy mobile payments by enhancing acceptance of electronic payments by merchants, digitizing Government payments and strengthening the legal basis for digital payments; and (v) develop regulatory framework for a digital identification and digitization of social programs which will allow service providers to verify individual's identity and government to digitize social payments. To enhance access to finance and overall financial inclusion, the proposed operation will also support cross-cutting financial infrastructure interventions namely on secured transactions and credit information systems

Pillar II. Digital Infrastructure, Innovative MSMEs and Digital Entrepreneurship

15. **The proposed pillar aims to provide entrepreneurs and MSMEs in the private sector with the enabling conditions, namely increased connectivity, to create and take advantage of business opportunities, thereby accelerating the rate of economic and financial inclusion.** This pillar thus supports a package of reforms aimed at accelerating the development of broadband connectivity over the national territory, in line with reforms initiated under the previous DPF (P168587). To do so, the proposed package of reforms aims at (i) activating the Universal Telecommunications Service



Fund to co-finance projects with private operators under an MFD approach, to deploy broadband infrastructure in underserved urban and rural areas; and (ii) boosting competition and strengthening regulation obligations on dominant players.

16. **The pillar also creates conditions for MSMEs to access the resources they need to innovate, grow and leverage opportunities offered by Government-financed programs and the digital economy.** MSMEs in Morocco are at a disadvantage compared to their peers in other countries when trying to access support measures from the state, to access financing from private investors or to access digital technologies and talent that can help them grow their business. Young firms also face constraints when trying to access private early stage financing. To address those shortcomings the program support measures to : (i) harmonize incentives for small investors, particularly individual investors and venture capital firms, including the protection of minority shareholders and align them with global good practices; (ii) reform the fiscal regime to provide incentives for international investors to establish VC funds in Morocco based on international benchmark that have yielded results while minimizing potential adverse fiscal and tax equity impacts; (iii) reform the current company law to include a legal status suitable for young firms and allowing them to have access to adequate fundraising instruments (convertibles bonds, share subscription warrants, etc.) and (iv) allowing innovative startups to access international payment cards to purchase business-related goods and services internationally.

E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

17. **The overall poverty and social impact of the proposed project is expected to be positive.** Reforms supported by the DPF can help improve economic and social inclusion due to improved access to services and markets, and more efficient and secure government-to-citizen services. The digital economy has the potential to increase business opportunities and to allow producers and service providers to seamlessly reach and interact with customers in remote markets. As a result, it can be a powerful tool to promote economic opportunities and private sector-led development. Overall, the proposed prior actions are expected to have a positive impact on low-income households in Morocco. Potential adverse impacts of adopting digital technologies are mitigated by measures that promote inclusion.

Environmental, Forests, and Other Natural Resource Aspects

18. **Leading to increasing access to finance for microenterprises and SMEs and pursuing investment reforms in digital infrastructure and digital platforms, is not expected to have significant environmental impacts.** Reforms will support business expansion of small enterprises, many of which engage in small-scale manufacturing, handicrafts and other revenue-generating activities, agricultural production, or service provision. The proposed DPF does not support reforms related to real estate production or construction. It is recognized that there may be some business activities that may have environmental and social risks. However, the scale is likely to be limited because of the size of MSMEs.

19. **Facilitating the entry of national and international firms into the telecommunications sector may increase the number of communication towers, associated infrastructures and ICT equipment.** Notwithstanding that these entrants in the field may be SMEs, such activities will likely have environmental, social, occupational health, and safety impacts and will increase the volume of e-waste produced at the national level. The Government should therefore enhance its regulatory framework to ensure that e-waste will be adequately disposed of and potential risks against human health will be contained.

20. **Morocco has environmental systems that can mitigate the potential negative effects of programs implemented as a result of the supported policy reforms.** The Moroccan legal framework addresses the majority of aspects related to environmental protection, pollution abatement and improving the living environment. Oversight of financial sector



institutions will also help to mitigate environmental risks associated with reform measures as Moroccan financial institutions benefitting from the DPF-supported reforms have internal risk management frameworks in place, including policies on environmental and social impact, as well as governance systems overseen by BAM.

21. **Morocco is highly exposed to climate and disaster risks and the authorities are working towards enhancing the country’s resilience. Though the operation does not directly address climate change risks through the prior actions, it is expected that its results would positively affect beneficiaries’ capabilities to anticipate and manage climate and disaster-related risks.** Therefore, the overall risk to the outcome of the operation due to climate-related and natural disasters is assessed to be Moderate.

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APPROVAL

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