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R2017-0106/1

April 20, 2017

Closing Date: Tuesday, May 16, 2017 at 6 p.m.

FROM: Vice President and Corporate Secretary

Morocco

Second Capital Market Development and Small and Medium-Size Enterprise Finance

Development Policy Loan

Program Document

Attached is the Program Document regarding a proposed loan to Morocco for a Second Capital Market Development and Small and Medium-Size Enterprise Finance Development Policy Loan (R2017-0106), which is being processed on an absence-of-objection basis.

Distribution:
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Report No. 114404-MA

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A PROPOSED

LOAN

IN THE AMOUNT OF US$350 MILLION TO THE KINGDOM OF MOROCCO

FOR THE

SECOND CAPITAL MARKET DEVELOPMENT AND SMALL AND MEDIUM-SIZE ENTERPRISE FINANCE DEVELOPMENT POLICY LOAN

April 19, 2017

Finance and Markets Global Practice
Middle East and North Africa Region

KINGDOM OF MOROCCO - GOVERNMENT FISCAL YEAR
January 1 – December 31

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of April 18, 2017)

Currency Unit	=	Moroccan Dirhams (MAD)
US$1	=	MAD 10.06

ABBREVIATIONS AND ACRONYMS

ACAPS	Independent Insurance and Pension Fund Supervisory Authority *(Autorité de Contrôle des Assurances et de la Prévoyance Sociale*)
AMMC	Independent Capital Market Authority *(Autorité Marocaine du Marché des Capitaux)*
ASA	Advisory Services and Analytics
AUM	Assets Under Management
BAM	*Bank Al-Maghrib* (central bank)
CCG	Government Credit Guarantee Agency *(Caisse Centrale de Garantie)*
CESE	Economic, Social and Environmental Council *(Conseil Economique, Social et Environnemental)*
CFC	Casablanca Finance City
CG	*Conseil du Gouvernement* (Council of Government)
CIMR	*Caisse Interprofessionnelle Marocaine des Retraites* (voluntary pension plan for non-public employees and independents)
CMR	*Caisse Marocaine des Retraites* (Mandatory Pension Fund for Civil and Military Services)
CNSS	*Caisse Nationale de Sécurité Sociale* (Mandatory Pension Fund for Salaried Employees of the Private Sector)
CPS	Country Partnership Strategy
CSE	Crisis Simulation Exercise
DPL	Development Policy Loan
DSA	Debt Sustainability Analysis
EBRD	European Bank for Reconstruction and Development
EIA	Environmental Impact Assessment
ELA	Emergency Liquidity Assistance
EU	European Union
FDI	Foreign Direct Investment
FIRST	Financial Sector Reform and Strengthening Initiative
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
GOM	Government of the Kingdom of Morocco
GRS	Grievance Redress Services
IFC	International Finance Corporation
ILO	International Labor Organization
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions

MEF	Ministry of Economy and Finance
MSME	Micro, Small, and Medium Enterprise
NFIS	National Financial Inclusion Strategy
OECD	Organization for Economic Co-operation and Development
OPCI	Real Estate Investment Trusts *(Organismes de placement collectif immobilier)*
PEFA	Public Expenditure Framework Assessment
PFM	Public Financial Management
PLL	Precautionary and Liquidity Line
PLR	Performance and Learning Review
PSD	Poverty, Social, and Distributional
PSIA	Poverty and Social Impact Analysis
RCAR	*Régime Collectif d'Allocation des Retraites* (Mandatory Pension Fund for Public Sector, excluding central government employees)
REITs	Real Estate Investment Trusts
SME	Small and Medium Enterprise
SSA	Sub-Saharan Africa
UFA	Universal Financial Access
VAT	Value Added Tax

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KINGDOM OF MOROCCO
SECOND CAPITAL MARKET DEVELOPMENT AND SME FINANCE DPL

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SUMMARY OF PROPOSED LOAN AND PROGRAM

KINGDOM OF MOROCCO

SECOND CAPITAL MARKET DEVELOPMENT AND SME FINANCE DPL

Borrower	Kingdom of Morocco
Implementation Agencies	Ministry of Economy and Finance, Bank Al-Maghrib (central bank)
Financing Data	IBRD loan in the amount of US$350 million
Operation Type	Second operation in a programmatic series of two development policy loans (DPLs)
Program Development Objectives	The program development objectives of this DPL are to: • Pillar A. Improve access to finance for small and young enterprises • Pillar B. Strengthen capital markets by improving the institutional framework and broadening the range of instruments • Pillar C. Improve the financial sustainability of the *Caisse Marocaine des Retraites* • Pillar D. Strengthen oversight of the banking sector
Result Indicators	Pillar A • Total financing of eligible MSMEs: from 0 in 2013 to MAD 6 bn in 2018 • MSME loans with CCG guarantees: from MAD 4.6 bn in 2013 to MAD 18 bn in 2018 • Total MSME loans with CCG guarantees to majority female-owned MSMEs: from MAD 420 mn in 2013 to MAD 1.8 bn in 2018 • MSME loans with CCG guarantees in the Oriental and Marrakesh regions: from MAD 555 mn in 2013 to MAD 1.5 bn in 2018 • Total MSME VAT credits paid: from 0 in 2013 to MAD 250 mn by 2018 • Total number of MSMEs with credit scores: from no scores in 2013 to 40,000 in 2018. • Total number of non-bank providers licensed: from 0 in 2013 to 4 in 2018 Pillar B • Percentage of selected financial professionals certified by AMMC: from 0 certification in 2013 to at least 50% in 2018 • Number of REITs managers licensed: from 0 in 2013 to 2 in 2018 Pillar C • Actuarial calculation projects 2028 as year in which CMR depletes its reserves, compared to 2022 without reform. Reserves are defined as holdings of cash and financial assets. Actuarial calculations are provided by the authorities in 2018 and validated by the World Bank.

	Pillar D • The three banks that have been designated as systemic as of 2016 file recovery plans by 2018, compared to 0 in 2013.
Overall risk rating	Moderate
Operation ID	P153603

This program document for the Morocco Second Capital Market Development and SME Finance DPL was prepared by a team comprised of Gabriel Sensenbrenner (Task Team Leader, Lead Financial Sector Economist, GFMDR), Peter McConaghy (Financial Sector Specialist, GFMDR), Tanya Konidaris (Senior Financial Sector Specialist , GFMDR), Ana Fiorella Carvajal (Lead Financial Sector Specialist, GFMDR), Harish Natarajan (Lead Financial Sector Specialist, GFMDR), Montserrat Pallares-Miralles (Senior Social Protection Specialist, GSPDR), Murat Sultanov (Senior Financial Sector Specialist, GFMDR), Teymour Aziz (Senior Economist, GFMDR), Elsa Felipe (Financial Sector Specialist, GFMDR), Tim De Vaan (Financial Sector Specialist, GFMDR), Steve Wan Yan Lun (Operations Analyst, GFMDR), and Marjorie Espiritu (Program Assistant, GFMDR).

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The team is grateful for the support and guidance of the country management unit, including Marie Françoise Marie-Nelly (Country Director, MNC01), Afef Haddad (Country Program Coordinator, MNCA1), and Philippe de Meneval (Program Leader, MNC01). The team is grateful to Jean-Pierre Chauffour (Lead Economist, GMF05) for his technical guidance on the macroeconomic outlook and debt sustainability analysis section.

1. INTRODUCTION AND COUNTRY CONTEXT

1. The proposed Second Capital Market Development and Small and Medium-Size Enterprise (SME) Finance Development Policy Loan to the Kingdom of Morocco (DPL2) in the amount of US$350 million is the second in a programmatic series of two development policy loans (DPLs). The first DPL (Loan No. 8363 – MA) in the amount of Euro 217.6 million (US$300 million equivalent) was approved by the World Bank on April 29, 2014 and closed on December 31, 2014. The proposed operation supports the long-standing commitment of the Moroccan authorities to develop a more inclusive and diversified financial sector.

2. Morocco's political landscape continues to be stable. However, like some of its neighbors, it faces the challenge of providing jobs for a large number of youth, especially university graduates in urban areas. Parliamentary elections took place on October 7, 2016 and were the second elections since the adoption of constitutional reforms by referendum in July 2011.

3. This program supports a private-sector-driven economic model, as well as resilience by helping micro, small, and medium-size enterprises (MSMEs) recover from the European Union's (EU) economic slump and other recent economic challenges. The program is aligned with the World Bank Group's Strategy for Middle East and North Africa, which sets an agenda of using development to promote peace and social stability.

4. Morocco recently achieved further consolidation of its macroeconomic framework. The fiscal position has significantly improved owing to substantial cuts in subsidies. The external position has benefited from low oil prices, resilient tourism, remittances, and foreign direct investments (FDIs). Medium-term prospects depend on the continuation of sound macroeconomic management, diversifying exports of goods and services, especially toward Sub-Saharan Africa (SSA), and improving productivity. The authorities have announced plans to move to a less tightly managed exchange rate and thus allow greater financial risk-taking, while safeguarding the stability of the system. Unemployment - at 9.6 percent in Q3 2016 - is an important challenge, particularly in cities (14 percent compared to 4 percent in rural areas) and amongst the youth (18 percent).

5. Morocco has pursued well sequenced, methodical and increasingly complex reforms of its financial system for a decade and a half. A first wave of reforms phased the public sector out of banking; a second wave focused on securing system stability; the current wave centers on liberalizing financial risk taking, enabling large borrowers to diversify financing beyond banks, reforming the pension system as the cornerstone of capital markets, and developing new financing solutions to meet the needs of MSMEs. Morocco is fast becoming the regional leader in financial inclusion and access, capitalizing on initiatives that started a decade ago.

6. The World Bank Group (WBG) has maintained extensive technical engagement and contributed to deepening policy dialogue. Implementation of reforms under the proposed operation will be supported by comprehensive advisory services and analytics (ASA), especially where complexity is a critical factor. The reforms are in line with the WBG's twin goals: they are expected to generate benefits for the most vulnerable public servants through the 50 percent increase in minimum pensions, as well as job opportunities by developing financing solutions for, and credit information on, MSMEs. The development of local capital markets will over time enable a more efficient allocation of capital, thus generating economic surplus through productivity gains,

which will in turn finance policies targeting the most vulnerable. Safeguarding financial stability will ensure that Morocco's hard-won progress toward the twin goals is not reversed by a financial sector crisis.

7. Morocco's current generation of financial sector reforms is complex and ambitious. It aims to foster a more productive allocation of credit and capital, and cement Morocco's position as exporter of financial services to the region, particularly SSA. Pension reform has been prepared for over a decade through wide-ranging consultations with stakeholders and the International Labor Organization (ILO). The reform of secured transactions is a comprehensive revamp of a framework involving many stakeholders that rested hitherto on some laws dating back a century. New banking and central banking laws and their numerous implementing regulations will bring this framework up to norms agreed by the G20 after the global crisis. The reform agenda also includes institutional reforms of sector governance that foster transparency and accountability of public bodies regulating and supervising the financial system: establishment of independent capital market authority, bringing into the perimeter of regulation the provision of investment advice; demutualizing the stock exchange, bringing key market infrastructure under the roof of one holding company; independent insurance and pension authority; separating from the central bank the deposit insurance function by creating a dedicated corporation; and creating a bank resolution authority and a systemic risk council.

8. Better functioning credit and capital markets would help channel Morocco's large savings (including pension funds) to firms and private projects, in turn enabling private-sector led growth and job creation. However, better functioning credit markets will not, by themselves, reach underserved segments such as MSMEs because of inherent risk aversion among traditional financial intermediaries. The authorities have therefore developed comprehensive policies that enable qualifying MSMEs to access, renew or increase bank loans, including on more favorable terms through dedicated financing solutions. Capital market reforms are also key to access, as new instruments and practices enable large borrowers to replace bank financing with market financing. This process frees up bank capital to lend to MSMEs, provided incentives for financial institutions are designed, implemented and monitored properly.

9. Pension reform is an integral part of the package of capital market reforms, because of the large size of Morocco's pension funds. Without reform, pension funds would sell assets. At that point, only insurance companies would remain as significant buyers of securities and these securities would become costly to issue. As a result, large borrowers would continue to rely on bank financing and banks would not free up lending space for MSMEs.

10. The financial sector is well positioned to address Morocco's development challenges. The sector is large, resilient, and diversified:[1] 24 banks (two foreign-owned), one postal bank, 18 insurers, four large pension funds, 373 mutual funds, 35 finance companies,[2] 13 microcredit institutions, and two state-owned specialized financial groups. System assets comprise loans (80 percent of gross domestic product [GDP]), listed stocks (70 percent), and fixed income (65

[1] Banking: 130 percent of GDP; asset management: 30 percent; pension funds: 25 percent; insurance: 20 percent; other nonbank financial institutions: 10 percent.
[2] Finance companies extended 14 percent of total loans in 2014 (60 percent: households; 40 percent: corporates).

percent).[3] Banking and insurance have been consolidating and three banking groups account for 65 percent of banking assets and four insurance groups account for 70 percent of insurance assets. The larger banking and insurance groups have expanded into SSA in order to diversify their earning streams.

11. Morocco's regulatory architecture is changing because of new practices in Europe, expansion in SSA, and more stringent standards of the G20. The Constitution tasks the Ministry of Economy and Finance (MEF) with leading both legislative and regulatory work streams, while supervision is devolved to three dedicated agencies: *Bank Al-Maghrib* (BAM) for credit institutions (banking, leasing, and microfinance); a capital market authority—*Autorité Marocaine du Marché des Capitaux* (independent capital market authority, AMMC); and an authority for insurance and pension—*Autorité de Contrôle des Assurances et de la Prévoyance Sociale* (independent insurance and pension fund supervisory authority, ACAPS). The law creating AMMC was promulgated in 2013 and the law creating ACAPS in 2014. Several committees of the MEF, supervisors, and (depending on topic) market entities (custodians, the stock exchange, and industry groupings) conduct the work on the regulatory architecture.

2. MACROECONOMIC POLICY FRAMEWORK

2.1 RECENT ECONOMIC DEVELOPMENTS

12. Morocco's economy suffered a series of adverse external shocks during 2011–2013. While the 2008 financial crisis has had few direct effects, the slowdown of growth in Europe had serious repercussions and fiscal and external balances began to deteriorate. On the upside, the emergence of new growth drivers in higher value added industries (such as car manufacturing) and the expansion of Moroccan companies in Africa are creating the conditions for Morocco to become a hub between Europe and Africa.

13. The Government of the Kingdom of Morocco (GOM) took measures to consolidate public finances. Subsidy reform in 2013 was a key component of macroeconomic stabilization (Box 1), along with delayed public investment programs. Morocco reduced its budget deficit from 6.8 percent of GDP in 2012 to 4.3 percent in 2015. It was expected to have decrease to 3.5 percent of GDP in 2016. The debt-to-GDP ratio stabilized at around 64 percent of GDP in 2015 (45 percent in 2008). The ongoing fiscal consolidation is expected to help bring the debt ratio down to 60 percent of GDP by 2020.

14. Consistent with fiscal tightening, the external balance improved markedly (Table 1). The current account deficit declined from 9.5 percent of GDP in 2012 to 2.9 percent by 2016. This reflected a combination of lower imports from low international oil prices; and higher exports from 'new' industries (automobile, aeronautics, and agribusiness). Financial inflows reflected relatively sustained FDIs (4 percent of GDP per year during 2013–2015); support from the Gulf Cooperation

[3] Around 70 stocks are listed, which requires a minimum of 25 percent float for the main market. Trading is focused on the large stocks. Banks and large corporates issue corporate papers and bonds of various types, including residential mortgage-backed securities or future-flow receivables. Because of the scarcity of these instruments, insurance and pension managers hold them to maturity.

Council; and bilateral and multilateral loans. Net foreign exchange reserves increased from four months in 2012 to seven months as of June 2016.

Box 1. Morocco's Subsidy Reform (2013–2015)

Morocco decided to significantly curb subsidies on energy and food in recent years. The reform was gradual but pursued with determination.

In September 2013, the Government reactivated the price indexation mechanism for oil products (gasoline, diesel, and fuel oil). In February 2014, the Government stopped supporting the prices of gasoline and fuel oil. In June 2014, fuel used for the production of electricity was included in the indexation system. In January 2015, the Government removed diesel from its list of subsidized products; and by the end of 2015, all liquid petroleum products were fully liberalized. Meanwhile, actions are being taken to prevent the use of liquefied petroleum gas for commercial purposes.

The subsidy reform has also covered a number of food items. Given its importance to the poor, soft wheat-made flour is still being subsidized, but the quota of subsidized flour was reduced from 10 million tons to 8.5 million tons in mid-2013.

15. Partly because of fiscal consolidation, growth has slowed down. On average, real GDP grew by 3.9 percent during 2013–2015, compared to 4.6 percent during 2003–2012. The stagnation of public investment since 2012 (following its exceptional dynamic growth over 2003–2012) explains most of the slowdown. Private consumption also contributed to subdued internal demand. In 2016, GDP is projected to have slowed down even further to 1.5 percent mainly as a result of a drought and the subsequent poor cereal harvest. A projected recovery in agriculture is expected based on improved weather conditions and is expected to contribute to real GDP growth of 4.5-5 percent in 2017.

16. Morocco has scaled up its structural reform agenda, but implementation remains key to tangible results. The 2016 and 2017 Budget Laws enshrined the Government's commitment to solidify the tax base, rein in expenditures, and implement a pension reform that would improve the system sustainability and reduce its contingent liabilities. The adoption of the Organic Budget Law and its implementation decree in July 2015 should further strengthen Morocco's fiscal framework over the medium term and, in particular, enhance central and local governments' budget design and implementation for better public service delivery and efficiency.

17. Morocco’s respectable per capita income growth has contributed significantly to reducing poverty and vulnerability (Table 1). Measured at the national threshold of US$2.15 per/day, the poverty rate declined from 15.3 percent in 2001 to 4.2 percent in 2014. Vulnerability, or the share of population living just above the poverty line, also dropped, from 22.8 percent in 2001 to 12.5 percent in 2014.

Table 1. Key Macroeconomic Indicators (annual percent change unless indicated otherwise)

	2013	2014	2015 e	2016 f	2017 f	2018 f
Real GDP growth, at constant market prices	4.5	2.6	4.5	1.7	3.4	3.6
Private consumption	3.7	3.2	3.3	3.0	4.3	4.3
Government consumption	4.2	1.8	1.9	1.1	1.2	2.3
Gross fixed capital investment	-0.5	-2.1	1.5	2.1	2.9	2.9
Exports, goods, and services	0.0	8.4	6.0	2.8	3.5	3.5
Imports, goods, and services	-0.1	3.3	-3.1	4.3	3.2	3.2
Real GDP growth, at constant factor prices	4.1	1.3	3.6	0.5	3.8	3.5
Agriculture	17.8	-2.3	13.0	−9.5	8.9	3.6
Industry	0.6	3.1	2.8	2.5	2.9	3.3
Services	1.9	2.3	1.2	2.6	2.8	3.6
Inflation (consumer price index)	1.9	0.4	1.6	1.5	2.0	2.0
Current account balance (% of GDP)	-7.9	-5.7	-2.1	−1.4	−1.7	−2.4
Budget deficit (% of GDP)	-5.1	-4.7	−4.3	−3.6	−3.0	−2.7
Debt (% of GDP)	61.8	63.5	64.1	64.7	64.2	63.3
Primary balance (% of GDP)	−2.6	−2.2	−1.4	−0.7	0.0	−0.3

Sources: World Bank.
Note: f = forecast; e = estimate.

18. Inequality has dropped substantially over the last decade, though it persists in rural areas. Consumption of the bottom 40 percent of the population grew faster (5.4 percent, on average, between 2007 and 2014) than that of the remaining population (4.7 percent), suggesting an increase in shared prosperity. Accordingly, Morocco's Gini coefficient declined from 40.7 in 2007 to 39.5 in 2014. However, Morocco still has major regional disparities, particularly between urban and rural areas. Not only does poverty incidence remain high in rural areas, but also poverty reduction in these regions has been twice as slow as in urban areas. During 2007-2014, the poverty incidence declined by 38 percent in rural areas (from 14.4 percent to 8.9 percent), while it fell by 77 percent in urban areas (from 4.8 percent to 1.1 percent). During the same period, the share of the poor living in the rural areas increased from 70.5 percent to 84 percent.

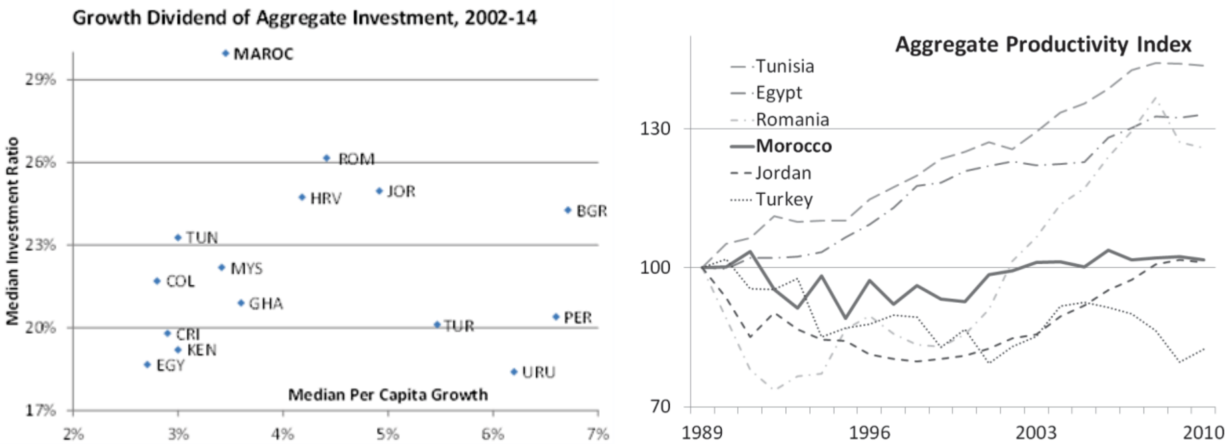
2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

19. Medium-term prospects depend on translating Morocco's high levels of investment into productivity gains (Figure 1): (a) Morocco has consistently invested 5 to 10 percentage points of GDP more than its peer countries; and (b) capital formation as a share of GDP has increased from 20 percent in the 1990s to more than 30 percent currently. Investment has merely boosted the productivity of labor but has not yet translated into higher growth through total factor productivity. Better growth outcomes might still materialize in that public investments have focused on large infrastructure, for which productivity gains take longer to materialize. Morocco also aims to build the soft infrastructure associated with less tangible assets (human, institutional, and social capital).

20. The 2017 Budget Law continued the Government's strategy of fiscal consolidation and the fiscal deficit should be further reduced to 3 percent of GDP this year. In addition, pension reform will help insulate the fiscal balance from future claims. On the structural front, the Government also aims to proceed with justice reform, improve access to financing, especially for MSMEs, invest in training, address access to land constraints, and develop logistics services to improve the business

climate. Along with the ongoing subsidy, fiscal, and financial reforms, all of these actions contribute to consolidating the macroeconomic framework, improving the business environment, and enhancing the potential for higher and more inclusive growth. Assuming these reforms, growth in nonagricultural sectors could pick up and exceed 3 percent over the medium term, with inflation kept below 2 percent and the budget deficit at 3.5 percent of GDP.

Figure 1. Growth Dividend of Investment and Total Factor Productivity Outcomes in Morocco



Source: World Bank staff calculations

21. The external position would remain sustainable over the medium term, provided reforms continue to take hold. The current account deficit is projected to decline to around 2.3 percent of GDP in 2017, benefiting from improved export potentials and a recovery of tourism activities and workers' remittances from the anticipated recovery in Europe.

22. While the gross debt-to-GDP ratio declined steadily between 2000 and 2008, shocks have caused it to rise again to about 64 percent of GDP in 2015. Going forward, public debt would be resilient to various shocks and resuming a declining path (Annex 4). In particular, gross financing needs are projected to drop from 16 percent of GDP in 2014 to 10 percent in 2016. Fiscal consolidation is expected to bring the debt-to-GDP ratio down to 60 percent of GDP by 2020. The 2015 Financial Sector Assessment Program (FSAP) by the Bank and the IMF found the financial system to be sound. Non-performing Loans (NPLs) are relatively high (7.4 percent in June 2016) and there is material concentration risk, but banks are well provisioned and FSAP stress tests show the banking system could withstand severe adverse shocks associated with prolonged weak growth in advanced economies and greater global financial market volatility. The FSAP also concluded that supervision is effective and steadily improving. Stricter capital, liquidity and large exposure rules have been introduced, while supervision of SSA subsidiaries benefits from strengthened exchange of information with supervisors in host countries.

23. The IMF concluded in its latest Article IV that the exchange rate is broadly in line with fundamentals. The authorities expect that the stronger fiscal and external buffers, alignment of the exchange rate with fundamentals, and resilience of the financial sector will soon allow them to afford a more market determined exchange rate, that widening the band within which BAM allows the exchange rate to fluctuate. BAM benefits from IMF technical assistance in this transition, including design of the band and market intervention at the edges of the band.

24. The macroeconomic policy framework is adequate, although there are risks to the macroeconomic outlook. Political transition associated with the October 2016 elections have delayed the implementation of reforms, particularly in fiscal policy and tax reform. External and geopolitical risks could hamper recent improvements in the external position, mainly through oil price volatility and reduced tourism activity. Uncertainty in Europe could slow growth through lower exports, tourism, FDIs, or remittances. Morocco's trade and investment pivot toward SSA increasingly helps to mitigate the risks posed by subdued growth in Europe.

2.3 IMF RELATIONS

25. The WBG and IMF collaborate closely in Morocco. Bank and IMF staff have frequent exchanges on macro-financial issues, a common understanding of the division of labor, and of Morocco's economic challenges. The ongoing analytical work being carried out by the Fund focuses on: (a) inclusive growth; (b) the functioning of the credit market; (c) the functioning of the labor market; and (d) competitiveness and diversification. The staff updated a joint Bank-IMF FSAP in 2015.

26. The IMF, in July 2016, approved a two-year arrangement for Morocco under the Precautionary and Liquidity Line (PLL) for US$3.5 billion. The PLL is the third successive one since 2012. The new PLL continues to provide insurance against external shocks as the authorities pursue their reform agenda aimed at further strengthening the economy's resilience and fostering higher and more inclusive economic growth. The authorities intend to treat the arrangement as precautionary, as they have done under the previous two PLLs. On January 23, 2017, the IMF concluded the Article IV Consultation with Morocco. The Board welcomed improved fiscal management and diversification of the economy, as well as the recent public pension reform and improvement in public finances provided for in the 2017 budget.

3. THE GOVERNMENT PROGRAM

27. The GOM's financial sector policies are spelled out in policy documents, notably Budget Laws and presentations by the Minister of Finance, Governor of BAM, and heads of financial regulators.[4] The policies seek to promote dynamism, expansion, and competitiveness of the private sector by modernizing the role of finance; introducing new solutions for the financing of MSMEs; and changing the mix of bank and market financing, while safeguarding stability. Following fiscal consolidation, the GOM wants to stimulate private sector-led infrastructure investment through capital market financing, public-private partnerships, and a more market-driven exchange rate.

28. Morocco has delivered steady gains in financial inclusion and access owing to programs targeting small and young firms (guarantees, public-private co-investing and co-lending, BAM refinancing of MSME loans), low-income housing (guarantees), and lagging regions (postal bank, decentralization of guarantee agency, low-income banking, microfinance, and crop insurance). The Government is also finalizing a wholesale revamp of the secured transaction framework and the BAM's mandate now includes financial education and consumer protection (Annex 5). Finally, the 2014 Banking Law establishes the legal and regulatory framework for participatory banking.

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[4] See special issue of MEF's quarterly review: https://www.finances.gov.ma/Docs/2016/DAAG/al%20maliya%20n60.pdf, 2016.

29. The GOM complements policies targeting the above segments with capital market reforms, which aim to make room for bank lending to MSMEs by enabling large borrowers to finance themselves outside of banks. The capital market agenda puts in place the instruments and new financing practices to enable private-sector-led infrastructure investments. Pension reform is part of this agenda, given the need to stabilize the finances of Morocco's large pension funds. Pension reform (securing pension system parameters, minimum retirement income, and spousal survivorship pension) contributes to renewing the social contract.

30. The Government program includes a focus on financial stability, the rationale being that financial instability can undo years of painstaking gains to foster inclusion and poverty reduction. The stability focus has taken on urgency, as the authorities liberalize financial risk taking, promote new financing channels, and promote Moroccan financial know-how in Africa through Casablanca Finance City (CFC) (Box 2).

Box 2. Casablanca Finance City

CFC was launched by a 2010 law aiming to turn Casablanca into a regional hub. The Moroccan Financial Board, a public-private initiative, oversees the development, promotion, and management of CFC. CFC aims to attract three types of companies:

- Financial institutions
- Regional headquarters of global firms
- Professional services providers (accounting, auditing, legal, compliance, custody, information technology, etc.)

CFC offers an incentives package:

- One-third of a green-field office district is earmarked for CFC. With delivery starting in 2014, it overcomes office space constraints in central Casablanca and helps generate cluster effects
- Moroccan laws apply. CFC is not an off-shore scheme with less intensive supervision
- Specialized judges ensure speed and predictability of court process
- Supportive tax and exchange control regimes

CFC status is granted by the Moroccan Financial Board based on pre-set criteria (for example, minimum share of international activities). Moroccan regulatory and supervisory requirements fully apply to financial institutions. In particular, (a) a license from the relevant authority is required; (b) financial regulators will have the same powers of access to CFC firms; and (c) anti-money-laundering/countering financing of terrorism requirements are applicable to any Moroccan entity.

In 2014, Parliament adopted amendments to the 2010 law to

- Extend CFC status to holding companies and providers of investment services (investment banks, brokers, rating services, and so on); asset management companies and financial advisors; branches and representative offices; and
- Allow CFC banks to collect term deposits from corporate clients.

4. THE PROPOSED OPERATION

31. The proposed operation is the second in the series of two DPLs. The programmatic approach is aligned with the medium-term nature of the reforms. The series builds on several years of engagement and strong government ownership, as shown by the implementation of reforms supported by DPL1 and wide-ranging technical assistance that the World Bank Group provides to Morocco's financial sector authorities.

4.1 PROGRESS SINCE DPL1

32. The reform momentum of the authorities has been broadly maintained since DPL1. Specifics on progress in implementing reforms supported by DPL1 are reported (section 4.3) below. The proposed DPL2 supports an extension and deepening of the reform program initially foreseen when the programmatic series was initiated, translating into strengthening of some DPL2 prior actions (as compared to triggers envisaged at the time of DPL1 approval), and reinforcing the objectives of the series. Results chains are substantially unchanged, with the exception of the addition of a new one on Universal Financial Access (UFA). Finally, outputs and results are more precise, reflecting the experience gained in the implementation of reforms supported by wide-ranging ASAs and the 2015 FSAP Update.

33. An integrated set of ASAs supports the implementation of reforms under this DPL series. The beneficiaries are the independent regulators (capital market authority, insurance and pension fund authority, BAM, and Deposit Insurance Corporation), and the MEF. ASAs involve public consultations with stakeholders in the financial industry to ensure that reform items are inclusive and transparent. ASAs also support initiatives pertaining to low-income household access to mortgage finance, consumer protection, participatory banking and the demutualization of the stock exchange. Both the range and depth of ASA engagements lay the groundwork for future lending. Of particular relevance are ongoing or programmed ASAs on financial inclusion and access, implementation of the recommendations of the FSAP, pension reform, and financial stability policies (see table 2).

Table 2. Morocco: ASAs Supporting the Implementation of Reforms

ASA	Status
MSME finance and inclusion	
E-registry for movable collateral (implementing the upcoming secured transaction law)	Programmed in 2018
Design a coherent set of incentives for the supply of risk capital to MSMEs	Programmed in 2018
Revamp framework of government guarantees in support of low income housing loans (risk-based premia, capital of guarantee fund, governance, and supervision)	Ongoing
Review of additionality of guarantees on MSME loans, new products	Ongoing
National financial inclusion strategy (NFIS)	Initiated
Survey of financial access and usage to establish baseline for NFIS	Initiated
Review regulatory framework for microfinance, including ceiling on loan rates	Initiated
Retail payment strategy	Programmed in 2018
Capital market development	
Regulations to implement the law on securities lending and short selling	Completed
Real Estate Investment Trusts (REITs) law	Completed
Stock exchange law	Completed

ASA	Status
Assess core capital market infrastructure to ascertain their readiness for managing new instruments and practices	Completed
Internal rules and procedures of AMMC	Completed
Internal rules and procedures of ACAPS	Completed
Reform private equity/venture capital regulatory framework	Completed
Develop regulatory framework for *sukuk*	Policy paper completed
Regulations to implement the law on securitization	Ongoing
Reporting requirements to monitor systemic risks from new instruments and practices in capital markets	Initiated
Regulations on Exchange Traded Funds	Policy paper in progress
Promoting the local government market to foreign investors	Initiated
Amend law on undertakings for collective investment in transferable securities	To be programmed
Investment rules for insurance companies in *codes des assurances*	To be programmed
Promote the issuance of nongovernment fixed-income instruments	To be programmed
Financial infrastructure and credit information systems	
Secured transactions law and establishment of collateral registry for moveable assets	To be programmed
National mobile payment solutions	To be programmed.
Financial stability	
Recovery planning for banks that belong to conglomerates	Ongoing
Legal, regulatory, and operational framework for resolution planning of banks that belong to conglomerates	To be programmed
Regulatory and operational framework for new deposit insurance corporation	To be programmed

4.2. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

34. The proposed operation supports the core of the Government program to develop a more inclusive and diversified financial sector. The program development objectives of this DPL are to:

- Pillar A. Improve access to finance for small and young enterprises
- Pillar B. Strengthen capital markets by improving the institutional framework and broadening the range of instruments
- Pillar C. Improve the financial sustainability of the *Caisse Marocaine des Retraites (CMR)*
- Pillar D. Strengthen oversight of the banking sector

35. The GOM is also advancing on initiatives not covered under this operation, including promoting diversified financial services for low-income households (for example, access to mortgage finance, responsible usage through consumer protection), secured transactions, participatory banking, and demutualization of the stock exchange. These reforms would have added more complexity to the proposed operation. The World Bank supports these initiatives through ASAs (see Table 2 above).

36. As a result, the proposed operation comprises nine prior actions, of which four are new compared to the triggers envisaged at the time of DPL1 approval: (i) two new mechanisms that enhance financial support to qualifying MSMEs, (ii) one measure fostering transaction accounts and payments services, (iii) and two measures introducing a new capital market instrument. The new prior actions contribute to achieving the objectives of the DPL series regarding access to finance by MSMEs and financial stability, and add a dimension on financial inclusion in support of Morocco's policies toward universal access. Table 3 summarizes the prior actions of DPL1, the indicative triggers envisaged at the start of the series, the proposed prior actions for DPL2, as well as the progress since DPL1 and the justification for revisions or additions of reform measures.

Table 3. Justifications for Revising the DPL2 Triggers into Prior Actions

DPL1 Prior Action (April 2014)	DPL2 Indicative Trigger (April 2014)	Proposed DPL2 Prior Action	Justification for Revision and Progress since DPL1
PDO Pillar A: Improve access to finance for small and young enterprises			
By resolution of its board No. 7 dated July 3, 2013, the borrower's credit guarantee institution (*Caisse Centrale de Garantie* [State Credit Guarantee Agency, CCG]) has adopted its 2013–2016 strategic plan, which, among others, expanded bank guarantees and created new solutions for financing small and young enterprises.	The CCG launches a public-private fund dedicated to start-ups		The indicative trigger is dropped, as a new IBRD-funded investment project (approved in March 2017) finances CCG co-investments in privately managed funds dedicated to start-ups.
	New measure	1. The central bank (*Bank Al-Maghrib*), the credit guarantee agency (*Caisse Centrale de Garantie)* and the Moroccan banks association (*Groupement Professionnel des Banques du Maroc*), have established a co-financing arrangement supporting the financial restructuring of MSMEs.	The new prior action contributes to improving access to finance for small and young enterprises, and its results will be monitored in terms of the number of eligible MSMEs benefiting from the co-financing arrangement and volume of financing. The most recent progress report on the facility indicates that MSMEs providing 25,000 jobs have benefited from it so far.
	Council of Government (*Conseil du Gouvernement*, CG) adopts the draft law on secured transactions		This indicative trigger is replaced by a new prior action in Pillar B (law on the stock exchange and investment advice). The law includes provisions that, for the first time, regulate investment advice, thereby closing a key gap identified by the 2015 FSAP. Regulating investment advisors ensures that capital markets are fair for unsophisticated investors, and thus underpins market development.
	New measure	2. The Head of the Government has established the conditions for paying value added tax (VAT) credits to MSMEs.	This new measure supports initiatives to assist MSMEs deal with financial pressure arising from external shocks, in particular, by setting the conditions for paying VAT credits to MSMEs. These credits reduce the working capital needs of MSMEs and improve their bankability. Under this measure, the Government had settled MAD 235 million as of June 2016.

DPL1 Prior Action (April 2014)	DPL2 Indicative Trigger (April 2014)	Proposed DPL2 Prior Action	Justification for Revision and Progress since DPL1
By communication (attestation) dated March 13, 2014, the central bank has confirmed selection of the commercial entity that will be licensed to operate a second credit bureau.	The central bank issues a license to the entity selected for establishing a second credit bureau with the requirement to provide a credit scoring service for MSMEs	3. The central bank (*Bank Al-Maghrib*) has issued the license for a second credit bureau that sets forth requirements to offer MSME credit scoring.	No change. The license for the second credit bureau was issued per letter No. 869/DA/2015 dated June 25, 2015.
Per minutes (*compte-rendu*) dated March 13, 2014, the CG has adopted the draft Law No. 18-14 on capital investment mutual funds (*organismes de placement collectif en capital*), which will modernize the framework for private equity and venture capital which will invest, interalia, in small and young enterprises.	AMMC registers at least three funds under the new framework for private equity and venture capital		The authorities have licensed three new fund managers operating under the 2015 Law on private equity and venture capital. This trigger is replaced with prior action 4.
	New measure	4. The two regulations (*circulaires*) implementing the provisions of law No. 103-12 (the banking law) concerning providers of payment services, have been published in the National Gazette *(Bulletin Officiel)* No. 6548, dated March 2, 2017.	This measure supports UFA: licensing requirements for opening and managing transaction accounts by non-banks. • *Circulaire relative aux établissements de paiement* implements Articles 15 and 22 of the above law as regards licensing of new financial intermediaries. • *Circulaire relative aux modalités d'exercice des services de paiement* implements Article 16 which defines the services that the new intermediaries may provide and the payment services that may remain under the banking license.

DPL1 Prior Action (April 2014)	DPL2 Indicative Trigger (April 2014)	Proposed DPL2 Prior Action	Justification for Revision and Progress since DPL1
PDO Pillar B: Strengthen capital markets by improving the institutional framework and broadening the range of instruments			
Per minutes (*compte rendu*) dated February 5, 2014, the Council of Government has adopted the draft Organic Law No. 12-14 on the higher civil service, which law is a prerequisite for the appointment of the chairman of the board of the new capital market authority (AMMC).	Board adopts rules and procedures of the capital market authority (AMMC) to implement Law 42-13 creating independent capital market supervisor and all members of College of Sanction have been appointed.	5. The Board of the capital market authority *(Autorité Marocaine du Marché des Capitaux)* has appointed the members of its College of Sanction, and the Minister of Finance has adopted the rulebook (*Règlement Général*) of the capital market authority. 6. Law No. 19-14 on the stock exchange and investment advice has been published in the National Gazette *(Bulletin Officiel)* No. 6552, dated March 16, 2017.	The College of Sanction and rulebook allow the now independent regulator to enhance its deterrence of individual behaviors (by issuers, banks, and finance professionals) that are inimical to investor confidence. The building blocks of the new deterrence are (a) certifying selected finance professionals, including bank employees engaged in activities that AMMC regulates; (b) bringing investment advice into the perimeter of activities that AMMC regulates (implemented in the Stock Exchange Law published in the National Gazette on March 16, 2017; and (c) administering fines and sanctions commensurate with breaches (role of the College of Sanction).
By letters dated March 7, 2014, the MEF has communicated to market institutions the rules and procedures for the central clearing counterparty (*chambre de compensation*) created by Law No. 42-12 creating an organized derivatives markets.	MEF approves regulations for the trading and clearing of derivatives to implement Law No. 42-12		The 2015 FSAP recommended not to implement Law No. 42-12, as it does not incorporate advances in international standards that occurred after the law was passed in 2013. The European Bank for Reconstruction and Development (EBRD) supports the drafting of a new law.
	New measure	7. Law No. 70-14 on real estate investment trusts *(organismes de placement collectif immobilier)*, has been published in the National Gazette *(Bulletin Officiel)* No. 6552, dated March 16, 2017, and Decree No. 2-16-1011 exempting real estate investment trusts from corporate income tax, has been published in the National Gazette *(Bulletin Officiel)* No. 6530 bis, dated December 31, 2016.	This measure supports broadening the range of capital market instruments: REITs allow companies owning and operating commercial real estate (plants, warehouses, stores, and so on) to replace bank financing of such assets with market financing. In anticipation of the new law, a first REIT was established in January 2016.

DPL1 Prior Action (April 2014)	DPL2 Indicative Trigger (April 2014)	Proposed DPL2 Prior Action	Justification for Revision and Progress since DPL1
By Order (*Arrêté*) No. 2840-13 dated December 26, 2013, published in the National Gazette No. 6236 dated March 6, 2014, the minister of economy and finance has issued the master agreement (*modèle type de convention cadre*) for securities lending, as required by Law No. 45-12 published in the National Gazette No. 6124 dated February 7, 2013.	MEF approves new regulations for securities lending to implement Law No. 45-12.		This trigger, met in 2015 by a set of decrees and *arrêtés*, is dropped to make room for UFA measures.
PDO Pillar C: Improve the financial sustainability of the Caisse Marocaine des Retraites			
The plan to reform the civil service pension fund (*Caisse Marocaine de Retraite*) has been made public through the government's position paper (*note de présentation de la loi de finances*) transmitting the draft 2014 Budget Law to the Parliament, as published on the website of the MEF.	The Council of Government adopts the draft law specifying the parameters of the CMR reform.	8. The laws setting forth the new parameters of the civil service pension fund (*Caisse Marocaine des Retraites*) - Law No.71-14 amending Law No. 11-71 establishing the civil service pension fund, and Law No. 72-14 amending Law No. 12-71, setting the mandatory retirement age-, have been published in the National Gazette (*Bulletin Officiel*) No. 6496, dated September 1, 2016.	No change. More precise wording to elaborate that Phase 1 of pension reform consists of more than one law. In addition to Law Nos. 71-14 and 72-14 referenced in the prior action for DPL2, the package also includes four more laws (increasing minimum guaranteed pension for salaried retirees; creating a framework for extending pension coverage to nonsalaried employees; and mandating health insurance for the self-employed and nonsalaried workers).

PDO Pillar D: Strengthen oversight of the banking sector			
Per minutes (*compte-rendu*) dated January 16, 2014, the Council of Government has adopted draft Law No. 103-12 on credit institutions, which will create the oversight regime for financial conglomerates and will give the central bank licensing authority over microcredit institutions.	MEF approves the regulations implementing the regime for financial conglomerates.	9. The central bank (*Bank Al-Magrib)* has transmitted on September 8, 2016, to banks for consultation, the draft regulations on recovery planning to systemic banks belonging to financial conglomerates in application of Article 79 of Law No. 103-12 (banking law).	Following the 2015 FSAP, BAM decided to aim first for the regulation on recovery planning of financial conglomerates, followed by supplementary regulations in 2017. First recovery plans are due from the systemic banks in 2018. Main regulations issued by 2016 to implement the Banking Law are: internal control, bank governance, resolution of customer complaints, capital adequacy, conservation buffer, countercyclical buffer, deductions from capital, large exposures, participatory banking, non-bank providers of payment services.
	AMMC completes assessment of International Organization of Securities Commissions (IOSCO) Objectives and Principles of Securities Regulation.		The trigger was met in 2015. AMMC submitted in March 2015 to the Bank its self-assessment of the IOSCO Principles and Objectives as part of the FSAP.

4.3 PRIOR ACTIONS, RESULTS, AND ANALYTICAL UNDERPINNINGS

37. This section lays out the rationale of the reform areas supported by DPL2. The narrative of prior actions and results starts by providing the context in which the prior actions for DPL1 were set, progress made since DPL1, and details on the proposed prior actions for DPL2. Two triggers have been dropped because the actions have been substantially enacted, thereby creating space for new measures of equivalent or additional strength.

Pillar A. Improve access to finance for small and young enterprises

38. In the context of DPL1, this pillar focused on fostering the financing of small and young firms, which are difficult segments for banks to serve. The focus was justified by (a) the job intensity of MSMEs;[5] (b) encouraging unemployed young people to go into private-sector business; and (c) encouraging recent graduates to start companies of high growth potential in the digital economy. In DPL2, this pillar adds measures on UFA that enable access to a transaction account or electronic instrument to store money, send payments, and receive deposits. The trigger on start-ups is dropped, as the new Bank-financed investment project focused on providing equity financing to start-ups through a public-private investment fund was approved on March 10, 2017.

39. Morocco leads the region in MSME access to finance, with 36 percent of bank loans to enterprises extended to MSMEs.[6] Such loans typically start at MAD 200,000, while microcredits are capped at MAD 50,000. The GOM incentivizes banks to lend to MSMEs and move down-market by means of guarantees and co-investments by the Credit Guarantee Fund (*Caisse Centrale de Garantie*—CCG), an agency receiving periodic allocations from the budget. A prior action for DPL1 was the CCG strategy for 2013–2016, in which the CCG diversified its offerings to better align with the diversity of MSME financing needs, eliminated eligibility criteria, and opened offices in the regions. By 2015, the CCG had exceeded its MSME lending target set in the 2013–2016 strategy by 60 percent. Specifically, the CCG boosted its guarantee portfolio from MAD 2 billion in 2011 to MAD 12 billion by mid-2016 (5 percent of bank lending to MSMEs) and the number of MSME beneficiaries from 750 to 5,500 (with some 3,000 investment projects).

40. Financial inclusion—access and usage of quality financial services, including credit, savings, insurance, and transfer services— is central to the GOM's broader goal of modernizing the role of finance to promote private sector led development, particularly for low-income households and MSMEs. An estimated 41 percent of Moroccan adults use a formal financial product or service, placing Morocco above regional and income group averages (see Figure 5.1 in Annex 5). Morocco has delivered steady gains in financial inclusion and access owing to programs targeting small and young firms (guarantees, public-private co-investing and co-lending, BAM refinancing of MSME loans), low-income housing (guarantees), and lagging regions (postal bank, decentralization of guarantee agency, low-income banking, microfinance, and crop insurance). Authorities are now focused on reviewing the current ceiling on lending rates, updating the legal and regulatory framework for microfinance, and reducing the use of cash across the economy.

41. The GOM's capital market reforms foster the financing of MSMEs. In July 2016, the authorities passed a stock exchange law which created a stock exchange company with the ability to

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[5] An impact assessment of the EU SME guarantee facility in Central, Eastern, and South-Eastern Europe found the highest economic additionality for micro and young SMEs (European Investment Fund Discussion Paper 002, 2015).
[6] The Moroccan definition of MSMEs is companies with less than MAD 175 million turnover.

adapt listing required to the needs of SMEs. The securitization law of 2013 allows banks to securitize SME portfolios. New capital market instruments and practices (see Pillar B) allow large companies and projects to replace bank borrowing with capital market financing. This process frees up lending space on bank balance sheets, which banks can redirect to MSMEs in proportion of incentives such as CCG guarantees. This is particularly important for financing fast growing young firms, who empirically contribute the most to net employment generation.[7] The first two DPL2 prior actions under this pillar are: (a) CCG co-lending with banks to enable the financial restructuring of viable MSMEs, and (b) payment of VAT credits.

Financial Restructuring of MSMEs

42. As the crisis in the Euro-area spilled over into Morocco, suppliers of MSMEs started demanding faster payment, larger clients of MSMEs lengthened their payment terms, and banks turned conservative toward MSMEs. Otherwise viable MSMEs began defaulting on bank loans for purely financial reasons. At the initiative of BAM, the CCG teamed up with the bankers' association to establish a public-private co-lending fund targeting existing industrial and export MSMEs (*Fonds de soutien financier aux TPME,* DPL2 prior action). The co-financing arrangement supporting the financial restructuring of MSMEs was created through an agreement dated June 11, 2014. While eligible MSMEs cannot have arrears to banks, they may have arrears to social security (employer contributions). Under the terms of the fund, banks would maintain their credit lines to qualifying MSMEs in exchange for the fund extending low interest (five-year Moroccan Treasury), long-term (up to 10 years, 3-year grace) subordinated loans. In effect, the fund reduced the financial leverage of MSMEs.[8]

43. Between October 2014 and June 2016, CCG's fund had helped safeguard 25,000 MSME jobs. Most of the lending financed MSME working capital and helped settle their pension arrears. The fund has a sunset clause to underscore that such exceptional financing targets MSMEs that are viable under normal macroeconomic conditions. The fund is allowed to disburse MAD 3.6 billion until the end of 2017, which should translate into a total financing of MAD 5–6 billion; it thereafter turns into runoff and closes in 2026.

Reducing the Working Capital Needs of MSMEs

44. The authorities deployed other initiatives to help MSMEs deal with financial pressures arising from external shocks.

- **Tax policy.** Breaks in chains of VAT rates generate credits for those enterprises that collect lower VAT from customers than the VAT they pay to suppliers. Under Morocco's tax code, credits are non-reimbursable and usable only to extinguish future VAT debits. The Government agreed to a one-time exception to the code. The Budget Law, voted in 2013, recognized the VAT credits accumulated between January 2004 and December 2013 (DPL2 prior action) as debt. The

[7] For empirical evidence relating job growth and young and small firms in Morocco and neighboring countries, see: *Jobs or Privilege: Unleashing the Employment Potential of the Middle East and North Africa,* World Bank, 2014.

[8] MSMEs are eligible if they are export or industry MSMEs, have no arrears to banks, though they may have arrears to social security. Loans under the facility are classified as watch-list, meaning banks are required to have a 10 percent forward looking provision and there is more intensive regulatory scrutiny of this portfolio.

debt is payable after audits validate the accounts of enterprises.[9] The payment of VAT credits reduced the working capital needs of MSMEs and improved their bankability. The tax code has been revised to prevent future VAT accumulation.

- **Monetary instruments.** BAM launched a funding-for-lending facility in 2012 that refinances banks' MSME loans at the policy rate. BAM extended its maturity to 12 months in January 2014. The banks' use of the facility stood at MAD 6 billion in June 2016. The banks typically combine BAM's facility with CCG guarantees to lend to more MSMEs.
- **Other.** BAM has tightened its large exposure regulation, which limits the extent to which banks lend to large companies and encourages banks to focus on MSMEs. BAM has also given MSMEs access to its live database of bounced checks and other payment default records. This enables MSMEs to screen new customers and monitor the financial health of existing customers.

Results chain: The CCG expands the scope of its support of small and young enterprises' access to bank loans and equity by adopting its 2013–2016 strategy (DPL1 prior action). The CCG implements a co-lending fund (*Fonds de soutien financier aux TPME)* with banks to support MSMEs in need of financial restructuring (DPL2 prior action). Payment of VAT credits (DPL2 prior action) provides additional breathing space to MSMEs. By the end of the program, more MSMEs gain access to finance, and the CCG portfolio becomes more regionally diversified (expected results).

Prior action DPL1	Prior action DPL2	Expected results
By resolution of its board No. 7 dated July 3, 2013, the borrower's credit guarantee agency (CCG) has adopted its 2013–2016 strategic plan, which, among others, expanded bank guarantees and created new solutions for financing small and young enterprises.	1. The central bank (*Bank Al-Maghrib*), the credit guarantee agency (*Caisse Centrale de Garantie)* and the Moroccan banks association (*Groupement Professionnel des Banques du Maroc*), have established a co-financing arrangement supporting the financial restructuring of MSMEs.	Total financing to eligible MSMEs: from 0 in 2013 to MAD 6 bn by 2018 MSME loans with CCG guarantees from MAD 4.8 billion in 2013 to MAD 18 bn in 2018 Total MSME loans with CCG guarantees to female-owned MSMEs: from MAD 420 mn in 2013 to MAD 1.8 bn in 2018 MSME loans with CCG guarantees in Marrakesh and Oriental regions: from MAD 555 mn in 2013 to MAD 1.5 bn in 2018
	2. The Head of the Government has established the conditions for paying value-added tax (VAT) credits to MSMEs.	Total MSME VAT credits paid: from 0 in 2013 to MAD 250 million by 2018

Enabling Credit Scoring for MSMEs

45. Credit reporting systems help MSMEs build records of loan repayment and leverage this reputational collateral to lower their financing costs. In Morocco, reporting to the private credit bureau has been mandatory since 2009 for all credit institutions. As of 2015, the private bureau had 11 million

[9] Larger private enterprises receive three equal yearly installments until 2017. Public enterprises receive ad hoc treatment under multiyear performance agreements (*contrats programmes*). Morocco's phosphate producer has the largest credit (MAD 11 billion as of end-2014), followed by the highway authority, railways, electricity and water, and airline.

contracts in its database (2013: 5.5 million), covering 5 million individuals (2013: 3.3 million), 210,000 firms (2013: 110,000), and 97 percent of credit to the economy (2013: 95 percent). However, the quality of data reported by banks to the credit reporting system has delayed MSME credit scoring.

46. BAM aims to create competition in the credit reporting market. As prior action for DPL1, BAM selected an operator to prepare an application for a second credit bureau license. BAM reopened the bidding after the operator dropped out. Moreover, the incumbent withdrew from Morocco and sold its license to a new operator. With some delay, BAM issued the second license in 2015 (DPL2 prior action). Both bureaus are committed to offer scoring for MSMEs by 2017. Better credit bureau data will also help implement the 2013 securitization law given the high granularity, traceability, and overall data intensity required for securitizing loan portfolios.

<table>
<tr><td colspan="3">Results chain: Following selection of the operator of the second credit bureau (DPL1 prior action), the central bank issued a license (DPL2 prior action). By the end of the program, the credit bureau will produce credit scores for a material share of MSME borrowers (expected results).</td></tr>
<tr><th>Prior action DPL1</th><th>Prior action DPL2</th><th>Expected results</th></tr>
<tr><td>By communication (attestation) dated March 13, 2014, the central bank has confirmed selection of the commercial entity that will be licensed to operate a second credit bureau.</td><td>3. The central bank (Bank Al-Maghrib) has issued the license for a second credit bureau that sets forth requirements to offer MSME credit scoring.</td><td>Total number of MSMEs with credit scores: from no scores in 2013 to 40,000 credit scores in 2018.</td></tr>
</table>

Universal Financial Access

47. The 2014 Banking Law provides the legal framework for a new category of financial intermediaries that specialize in the issuance of electronic money and in services enabling payments with e-money. Previously, banks held the monopoly of issuance; and nonbank entities were agents of the banks in the distribution of e-money products. This model limits the competition on banks to innovate around transaction accounts or electronic instrument to store money and send payments. Achieving UFA requires independent, non-agent providers of payment services. In June 2016, BAM issued two regulations that implement the non-agent model: one on minimum licensing requirements, and another defining which payment services are now open to competition. The publication of both regulations are prior actions for DPL2.

48. Nonbank providers of payment services will offer transaction accounts to Morocco's nonbanked (that is individuals with no bank accounts) in rural areas and lagging urban pockets: there are 70 bank accounts per 100 people (including postal accounts). By opening transaction accounts, the nonbanked can pay bills remotely, effect cashless payments on markets, transfer funds to relatives, and receive wages, pensions and other social safety net transfers. This measure will promote financial inclusion on a wide scale through expanding financial service access points, particularly for the rural unbanked and rural micro and small enterprises. In April 2016, the Government published a decree that allows broad use of electronic money to settle sums owed to the Treasury. More generally, the authorities pursue several financial inclusion initiatives and the World Bank is assisting the MEF to develop a national strategy that brings them together (Annex 5). BAM is also implementing a national financial education program, and coordinates a privately financed project aimed at reducing the use of cash by merchants and the financial system.

Results chain: By issuing the regulations on non-bank providers of payment services, the central bank enables more of the unbanked to gain access to basic financial services (expected result).		
Prior action DPL1	**Prior action DPL2**	**Expected results**
New measure	4. The two regulations (*circulaires*) implementing the provisions of Law No. 103-12 (the banking law) concerning providers of payment services, have been published in the National Gazette *(Bulletin Officiel)* No. 6548, dated March 2, 2017.	Total number of non-bank providers licensed: from 0 in 2013 to 4 in 2018

Pillar B. Strengthen capital markets by improving the institutional framework and broadening the range of instruments

49. In the context of DPL1 this pillar focused on deepening capital markets. New instruments enable large borrowers to replace bank loans with market financing, thereby raising long-term funding more efficiently. Some market finance is possible in Morocco given the size of life insurance and pension funds. About 70 stocks are listed. Trading is focused on large stocks. Banks and large corporates are issuers of commercial paper and bonds of various types, including Residential Mortgage-Backed Securities (RMBS) or future-flow receivables. However, due to the scarcity of these instruments, insurance and pension managers hold them to maturity. Capital market reform puts in place new instruments that enable the financing of infrastructure led by the private sector. [10] Pension reform is closely linked to this agenda, given adverse effects on capital markets should Morocco's large funds sell their assets to meet pension obligations.

50. Under DPL2, it is proposed to drop the following two indicative triggers envisaged in 2014 and replace them by relevant reforms to Morocco's financial sector strategy:

- **Regulations implementing the law on derivatives.** The 2015 FSAP recommended not to implement the 2012 law on derivatives, as it found that it did not incorporate recent international standards on central clearing counterparties. EBRD is helping the authorities to rewrite the law. Therefore, an indicative trigger on implementing regulations of the 2012 law is replaced by a prior action that supports the new law on REITs to meet the objective of broadening the range of instruments. REITs allow companies owning and operating commercial real estate (plants, warehouses, stores, and so on) to replace bank financing with market financing, thereby making room for bank lending to MSME loans. In anticipation of the new law, a first asset manager of REITs has entered the market in January 2016, and the Parliament adopted the REITs law in July 2016.

- **Regulation implementing the law on securities lending**. Implementing regulations were issued in 2015.

Supporting the Newly Independent Capital Market Authority—AMMC

51. The Organic Law governing the appointments of heads of 19 agencies deemed strategic, including the chairman of AMMC, was promulgated in 2014 (prior action for DPL1). The King nominated the head of AMMC in February 2016, and the AMMC board held its first meeting in March 2016. The prior action for DPL2 remains focused on the governance of AMMC: internal rules

[10] A modern Public Private Partnership Law came into effect in 2015.

and procedures (reviewed by the World Bank Group); and College of Sanction (an independent body in charge of enforcement on cases that the board refers to it).

52. The 2015 FSAP assessed Morocco's observance of IOSCO Principles and Objectives of Securities Regulation. It found that the 2013 law on AMMC when combined with the law on the stock exchange improves Morocco's observance of international standards. The FSAP recommended that:

- AMMC should have formal powers to regulate investment advice. Regulation of investment advice at the level of individual advisors helps AMMC ensure that capital markets are fair for unsophisticated investors, and thus underpins market development;
- legal changes are needed to sanction individuals (rather than institutions) and impose high fines on individuals engaging in unfair advising practices; and
- the quality of investor information needs to be improved, by strengthening the oversight of auditing companies and the requirements on the audit committees of listed companies, as well as better disclosure of risks in money market funds.

53. The MEF established an interagency committee to implement FSAP recommendations. The World Bank Group is providing an ASA in the context of several activities funded by the Financial Sector Reform and Strengthening Initiative (FIRST). In particular, it has informed the preparation of the law on the stock exchange and investment advice and the mutual funds law. The Parliament adopted the stock exchange law in July 2016, while stakeholder consultations on the mutual funds draft law will begin in May 2017. The stock exchange law also enacts a major reform of the governance of the exchange (demutualization; creation of holding company owned by private stakeholders). The stock exchange law was published in the National Gazette on March 16, 2017.

Results chain: By adopting the draft law on the higher civil service (prior action DPL1), the board of AMMC was installed. The board takes **two** key operational decisions (prior action DPL2): adopting its internal rules and procedures and installing the College of Sanction. The rules and procedures enable AMMC to license and regulate investment advisors under the stock exchange law (prior action DPL2) and, with the independent sanction process, ensure investor protection in line with international standards (expected results).

Prior action DPL1	Prior action DPL2	Expected results
Per minutes (*compte rendu*) dated February 5, 2014, the CG has adopted the draft Organic Law No. 12-14 on the higher civil service, which law is a prerequisite for the appointment of the chairman of the board of the new capital market authority (AMMC).	5. The Board of the capital market authority *(Autorité Marocaine du Marché des Capitaux)* has appointed the members of its College of Sanction, and the Minister of Finance has adopted the rulebook (*Règlement Général*) of the capital market authority. 6. Law No. 19-14 on the stock exchange and investment advice has been published in the National Gazette *(Bulletin Officiel)* No. 6552, dated March 16, 2017.	Percentage of selected financial professionals certified by AMMC: from 0 certification in 2013 to at least 50 percent in 2018.

New Capital Market Instrument

54. Real Estate Investment Trusts, or *Organismes de Placement en Capital Immobilier—(OPCI*) are a new instrument to finance SME business premises. OPCIs are investment funds that own industrial and commercial real estate with a view to leasing it to SMEs, and offer institutional

investors assets yielding steady rental income. In turn, SMEs do not need bank loans to finance their fixed assets. The MEF estimates that 3 percent of the stock of commercial real estate turns over per year, compared to 4 percent per week for mutual funds. REIT-like transactions exist in Morocco, but are highly customized and costly because they follow generic contract law. The OPCI law adopted in September 2016 creates a dedicated framework that lowers costs, protects investors, regulates leverage and enables liquidity. Decree No 2-16-1010 published on December 31, 2016 exempted OPCI from corporate income tax, a critical step in the implementation of the law.

Results chain: The OPCI law (DPL 2 prior action) allows asset managers to market the new asset class to institutional investors (expected results). OPCIs help MSMEs reduce their dependency on bank loans to finance their fixed assets.		
Prior action DPL1	**Prior action DPL2**	**Expected results**
New measure	7. Law No. 70-14 on real estate investment trusts *(organismes de placement collectif immobilier)*, has been published in the National Gazette *(Bulletin Officiel)* No. 6552, dated March 16, 2017, and Decree No. 2-16-1011 exempting real estate investment trusts from corporate income tax, has been published in the National Gazette *(Bulletin Officiel)* No. 6530 bis, dated December 31, 2016.	Number of REITs managers licensed: from 0 in 2013 to 2 in 2018

Pillar C. Improve the financial sustainability of the *Caisse Marocaine des Retraites*

55. Enacting pension reform will help ensure the continued development of local capital markets. Linking pension reform and capital markets is part of a longer chain of renewing the social contract (securing pension system parameters, minimum retirement income, and spousal survivorship pension). For more than a decade, the Government has made it clear to the public that pension system parameters set 45 years ago cannot be held in light of demographic transitions, including by making public several reports analyzing these parameters (see below).

56. Morocco’s pension system comprises four funds that hold financial assets worth 26 percent of GDP (table 4):

Public sector funds:

- CMR, the mandatory pay-as-you-go scheme for the civil service: assets under management (AUM): 8 percent of GDP;
- *Régime Collectif d’Allocation des Retraites* (RCAR), the mandatory pay-as-you-go scheme for public enterprises and non-commercial agencies of the Government: AUM 10 percent of GDP.

Private sector funds:

- *Caisse Nationale de Sécurité Sociale* (CNSS), the mandatory pay-as-you-go scheme for salaried employees of the private sector: AUM 4 percent of GDP.
- *Caisse Interprofessionnelle Marocaine des Retraites* (CIMR), a voluntary partially funded scheme for the private sector: AUM 4 percent of GDP.

57. Morocco’s current pension system parameters are generous by international standards, reflecting both high accrual and net income replacement rates (figure 2). Three schemes are unsustainable to varying degrees, burdened by rising dependency ratios of beneficiaries to contributors. Restoring sustainability will require higher contributions, benefit cuts, or some

combination of the two (so-called parametric reform). Without reform, the supply of long-term saving will lose its anchor, with implications for the development of local capital markets.

58. A national stakeholders commission has studied reform options since 2003.[11] In 2014, after several formal and highly public reviews, including by ILO, the authorities announced the following three-phase plan (DPL1 prior action):

- Phase 1: parametric reform of CMR
- Phase 2: merging CMR and RCAR into a 'pôle public' with second parametric reform
- Phase 3: merging CNSS and CIMR into a 'pôle privé'

Table 4. Morocco: Pension System Summary, 2016

as of June 2016	Public sector		Private sector	
	CMR	RCAR	CNSS	CIMR
No of contributors (millions)	**0.7**	0.1	3.2	0.3
No of beneficiaries (millions)	**0.2**	0.1	0.5	0.2
Cash-flow (MAD billions)	**-6.0**	-2.8	-0.2	1.3
(in percent of GDP)	**-0.6%**	-0.3%	-0.0%	0.1%
Reserves (MAD billions)	**83**	98	38	43
(in percent of GDP)	**8.2%**	9.6%	3.7%	4.2%
Year when reserves run out	**2022**	2038	2039	> 2060

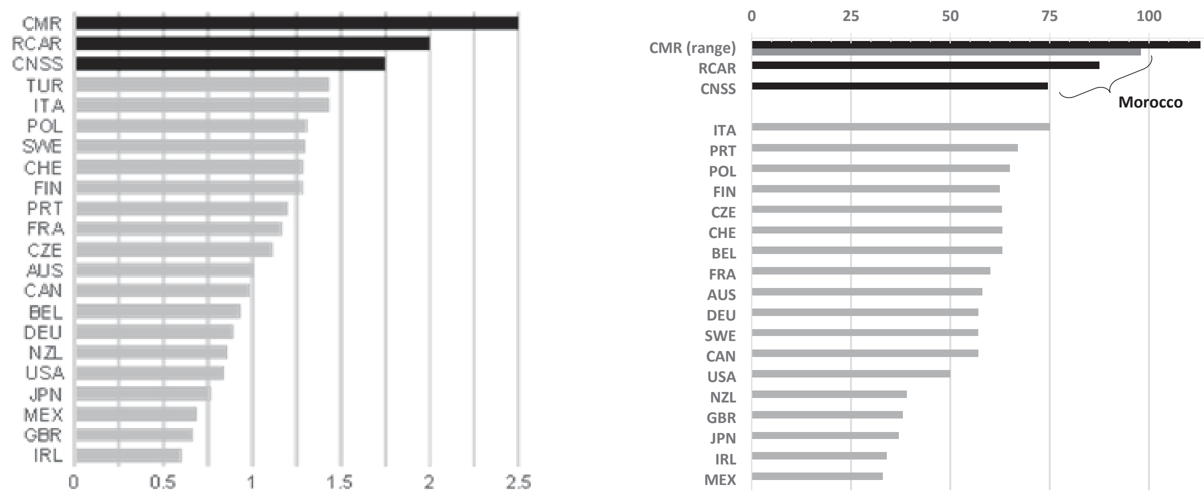
Source: ACAPS.

59. Morocco's plan calls for stabilizing the pay-as-you-go schemes by means of successive parametric reforms. CMR reform is most urgent, as the fund turned cash flow negative in 2014. Without reform, CMR trustees would sell assets on the market (20 percent of local currency government debt), thereby increasing long-term interest rates in the economy. Alternatively, the budget would have to cover CMR's deficit. Covering CMR's deficit would negate the budgetary savings that Morocco has made from fuel subsidy reform. It would degrade fiscal transparency by introducing a nontransparent redistribution from taxpayers to CMR retirees.

[11] See the following publications : ILO *Maroc : Révision d'une série de rapports concernant la réalisation d'une étude sur la réforme des retraites*, Genève: 2012; Cour des Comptes, *Rapport sur le système de retraite au Maroc*, Rabat, 2013; Conseil Economique, Social et Environnemental, *Avis sur les projets de lois relatives au régime des pensions civiles*, Rabat, 2014.

Figure 2: Unaffordable Pension System Parameters, Morocco v. Selected OECD, 2015

Accrual Rates *Replacement Rates*



Pension rights per year of contribution, % of salary *Pension as % of after-tax salary.*

Sources: ACAPS and OECD.

60. The GOM has proposed a comprehensive set of reforms for the following CMR parameters in the package of laws that it transmitted to the Parliament in January 2016 (DPL2 prior action):

- Increase gradually the age at which civil servants retire without penalties from 60 to 63.
- Increase gradually the contributions for employees and employer (equal contributions) from 20 percent to 28 percent of salary.[12]
- Change the base for computing pensions from the last year of salary to the last eight years.
- Decrease the accrual rate (*taux d'annuité*) from 2.5 percent of salary to 2 percent.
- Raise the minimum pension from MAD 1,000 per month to MAD 1,500 to protect the least well-off retirees and employees.
- No change to pension rights accrued prior to the reform coming into effect.

61. In July 2016, the Parliament adopted the package after lengthy debates. The reform envisages seven years to prepare and put into effect the second stage of reform that would include the following:

- Merging CMR with RCAR, the pay-as-you-go scheme of public enterprises;
- Reducing the replacement rate of the merged fund through a second parametric reform;
- Introducing a funded, defined contribution pillar (so that those opting to contribute can increase the replacement rate guaranteed by the merged fund).

62. The authorities are technically ready for the second stage of reform. The likely set of parameters that stabilize a merged CMR/RCAR would consist of: replacement rate of about 40 percent for the defined benefit pillar; accrual rate in the low 1 percent; retirement age of 65; contribution rate in the low teens; and lifetime averaging of salary. The merged pole would

[12] The additional employer contributions are projected to total US$700 million by 2019.

substantially close the gap between private and public pension rights, thereby improving the functioning of the labor market by homogenizing and lowering pension contributions.

Results chain: The GOM makes public the outline of the reform of CMR (DPL1 prior action). The GOM adopts the legislative package setting forth the parameters of the reform (DPL2 prior action). The point at which CMR exhausts its assets is postponed by at least seven years compared to the baseline (expected results).		
Prior action DPL1	**Prior action DPL2**	**Expected Results**
The plan to reform the civil service pension fund (CMR) has been made public through the Government's position paper (*note de présentation de la loi de finances*) transmitting the draft 2014 Budget Law to the Parliament, as published on the website of the MEF.	8. The laws setting forth the new parameters of the civil service pension fund (*Caisse Marocaine des Retraites*) - Law No.71-14 amending Law No. 11-71 establishing the civil service pension fund, and Law No. 72-14 amending Law No. 12-71, setting the mandatory retirement age-, have been published in the National Gazette (*Bulletin Officiel*) No. 6496, dated September 1, 2016.	Actuarial calculation projects 2028 as year in which CMR depletes its reserves, compared to 2022 without reform. Reserves are defined as holdings of cash and financial assets. Actuarial calculations are provided by the authorities in 2018 and validated by the World Bank.

Pillar D: Strengthen oversight of the banking sector

63. Safeguarding financial stability goes hand in hand with capital market reform. More instruments and investors has implications for macro-financial surveillance: (a) financial intermediaries disperse risks more widely, but regulators must ensure that investors in new instruments can bear the risks; and (b) the main intermediaries are part of conglomerates that comprise banks, asset managers, insurance, and nonfinancial activities.[13] As regulated financial intermediaries use capital markets more actively, regulators must continue to deliver effective consolidated supervision and develop recovery and resolution plans in an increasingly complex environment. [14]

64. The 2015 FSAP mostly focused on financial stability and crisis preparedness.[15] It assessed the IOSCO Principles and Objectives of Securities Regulation, the principles for financial market infrastructure; and it conducted an informal assessment of the Basel Core Principles and of the bank resolution regime in the then draft Banking Law approved in 2014. Concerning macro-financial surveillance, early warning tools are in place to monitor six systemic risks and financial stability reports have been published since 2015. BAM is phasing in Basel III according to the international timetable. BAM designated three banks as systemically important, representing 65 percent of banking assets and belonging to conglomerates also active in insurance and asset management.

65. Morocco conducts crisis preparedness exercises involving the regulators and MEF. In 2009, the World Bank Group conducted a crisis simulation exercise (CSE) whose lessons were incorporated in a memorandum of understanding of the MEF, BAM, and AMMC, and in the Banking Law. In 2014, the authorities conducted another CSE with the World Bank Group to test information and

[13] Moroccan financial conglomerates span finance, real estate, telecom, and tourism. BAM also supervises *Caisse de Dépôt et de Gestion* (Government Investment Bank and Fund Manager), a state-owned conglomerate created by a 1959 law.
[14] This configuration poses risks that the authorities fully appreciate: the three banks have been designated as systemic, hence subject to tighter prudential rules; extension of perimeter of supervision to holding level; CSEs; establishment of systemic risk council that: (a) assesses system wide risks; (b) coordinates recovery and resolution of systemic institutions; and (c) jointly regulates financial conglomerates.
[15] It also focused on financial inclusion and infrastructure.

communication arrangements under then draft Banking Law. A FIRST-funded project helped amend that draft Law to extend the perimeter of supervision: Morocco's systemic banks are part of mixed conglomerates, with the risk that losses in other parts of the conglomerates could compromise the financial strength of banks by depleting solvency and liquidity buffers at holding level.

66. The Parliament adopted the new Banking Law in December 2014 (prior action for DPL1). The law introduces a systemic risk council, a deposit insurance corporation, more direct intervention and resolution tools, and a supervisory regime for financial holdings. Three sets of implementing regulations have already been published.

67. A core recommendation of the FSAP pertains to the framework for resolving systemic banks: appointing BAM as resolution authority; recovery and resolution planning for banks; rules and procedures for the deposit insurance corporation; and clarifying its role in resolution. A FIRST-funded project assists the authorities develop resolution plans, the decision tree for when emergency liquidity assistance (ELA) becomes solvency support, the roles of MEF and BAM when this line is crossed, and coordination with the other regulators. A prior action for DPL2 concerns consultation on the draft regulations directing banks that belong to financial conglomerates to submit recovery plans. BAM has issued regulations for consultations to the banks in September 2016 and the consultations took place in October-December 2016.

68. The need to address the findings of the 2015 FSAP delayed the adoption of a new central bank law. The FSAP reviewed the then-existing draft in its assessment of the crisis management framework. The FSAP recommended that the law: (a) designate BAM as the resolution authority; and (b) set forth the principles for ELA to banks. The law should grant the resolution authority powers to strike a balance between expropriating shareholders and creditors of banks entering resolution, restoring a bank's solvency and financial stability without recourse to bailout. The law should set forth minimum requirements for ELA (collateral, haircuts, term, and pricing) and BAM should be empowered to condition ELA to an explicit MEF guarantee. These recommendations have been incorporated in the draft law on the central bank.

Results chain: The GOM adopts the new Banking Law (DPL1 prior action) thereby formally launching, among other things, the work program of the systemic risk council. BAM implements the provision of the Banking Law on recovery planning of systemic banks (DPL2 prior action). By the end of the program, the financial sector authorities are in a position to develop resolution plans for systemic banks based on their recovery plans (expected results).		
Prior action DPL1	**Prior action DPL2**	**Expected results**
Per minutes (*compte-rendu*) dated January 16, 2014, the CG has adopted draft Law No. 103-12 on credit institutions, which will create the oversight regime for financial conglomerates and will give the central bank licensing authority over microcredit institutions.	9. The central bank (*Bank Al-Maghrib)* has transmitted on September 8, 2016, to banks for consultation, the draft regulations on recovery planning to systemic banks belonging to financial conglomerates in application of Article 79 of Law No. 103-12 (banking law).	The three banks that have been designated as systemic as of 2016 file recovery plans by 2018, compared to 0 in 2013.

4.4 LINK TO CPS, OTHER BANK OPERATIONS, AND THE WORLD BANK GROUP STRATEGY

69. The 2014–2017 Country Partnership Strategy (CPS) retains, under its 'Inclusive and Competitive Growth' Pillar, financial sector reforms as a cornerstone of the WBG strategy in

Morocco. The June 2016 Performance and Learning Review (PLR) of the CPS stressed access to finance for MSMEs as a catalyst of private-sector-led growth and entrepreneurship. The PLR confirmed the relevance of the pillar and the proposed operation. The aim is to improve efficiency of the capital market in helping financial intermediaries promote competitiveness through stronger and better overseen allocation of savings, as well as extending access of small and young enterprises to finance. Governance has strong transversal emphasis throughout the CPS, including governance of financial sector regulators that were assessed in the 2015 FSAP.

70. This operation builds on the experience of the WBG past engagements in the financial sector. The Implementation Completion and Results Report of the 2010 Sustainable Access to Finance DPL (Report No. ICR 2310) notes that the operation helped strengthen the legal and institutional environment for financial intermediation and risk management and increase the private sector's participation in the provision of financial services. All targets of the 2010 Sustainable Access to Finance DPL were met and the operation's outcome and borrower performance were rated Satisfactory.

71. The proposed operation contributes to implementation of the World Bank Group's Strategy for Middle East and North Africa. It is aligned with the World Bank Group's twin goals of ending extreme poverty and boosting shared prosperity in a sustainable manner. Financial institutions and markets underpin the buildup of essential infrastructure such as roads, power plants, schools, hospitals, and houses that boost growth, jobs, productivity, and welfare. Finance also generates growth and jobs by allocating scarce resources efficiently and allowing dynamic firms to start, grow, and innovate. Financial inclusion promotes economic well-being by assisting vulnerable households to build up productive assets, manage risks, and respond to financial shocks. At the enterprise level, access to finance is critical to grow enterprises, many of which are stifled by lack of access to credit and savings services that would enable them to invest in fixed capital, expand, and employ more people. This DPL supports reforms that put in place the requisite financial infrastructure and institutional environment to expand access to finance opportunities. In doing so, the operation contributes to the MNA strategy pillar on renewal of the social contract in Morocco which includes a strong private sector that can create jobs and opportunities, particularly for Morocco's youth.

72. The operation also supports the MNA strategy pillar on regional cooperation, in this case, assisting Morocco integrate toward Sub-Saharan Africa and beyond. Morocco is increasingly diversifying toward Sub-Saharan Africa to mitigate exposure to Europe in a low-growth context. Cross-border linkages, particularly with Sub-Saharan Africa, is a key growth driver for large Moroccan banks. The DPL sets in place a crisis resolution framework for systemically important banks, many of which have holdings and operations across greater Africa.

73. Other World Bank-funded operations complement this proposed DPL. The World Bank loan of US$50 million to Morocco approved by the World Bank Board of Executive Directors on June 28, 2012 as part of an MSME facility for the Middle East and North African countries (MSME Development Project, Report No. 68550-MA) supports the provision of partial guarantees to banks, facilitating lending to collateral-poor MSMEs. The proposed DPL also complements the Bank-financed Financing Innovative Startups and SMEs Project (US$50 million; Report No. PAD 1362) approved on March 10, 2017.

74. A comprehensive stream of technical assistance projects has been designed and funded from the FIRST trust fund to deliver the expected results under the proposed operation (Box 3).

75. The World Bank collaborates closely with the International Finance Corporation (IFC). IFC has worked with banks on SME banking, and supported BAM in licensing credit bureaus. IFC is also providing assistance on finalizing a secured transactions law and establishing a moveable collateral registry. IFC support of microfinance has reached over 500,000 clients. IFC issued a MAD-denominated bond—the first domestic bond offering by a multilateral institution in Africa and the Middle East and North Africa. IFC also has several investments in leading Moroccan banks, in particular, banks pursuing cross-border strategies. In 2015, the Bank and IFC initiated work on a capital market deep dive, which aims to combine the transaction-driven approach of IFC with the policy work under FIRST projects.

Box 3. Supporting Implementation: Technical Assistance Financed by FIRST

Technical assistance financed by FIRST has helped support the proposed DPL. A US$2.3 million project was launched in July 2014 and focuses on the development of local capital markets and the financing of MSMEs. The program (a) helps complete the legal and regulatory requirements for *sukuk*, REITs and increased use of derivatives; delivers strategies and measures aimed at completing capital markets (for example, promoting foreign investment in government bonds, corporate debt market development, and market infrastructure such as Central Clearing Counterparty and Euroclearability); (b) provides capacity building of financial sector agencies in supervising the use of new products; and (c) integrates new financing solutions for small and young enterprises (for example, aiming at increased SME listings on the exchange, enabling environment for increased private equity/venture capital, implementation of public-private early stage financing solutions for young enterprises, and incentives to encourage long-term saving and the supply of risk capital).

In January 2014, FIRST also approved a project for BAM to develop dedicated regulations and supervisory protocols for conglomerates that control domestically important financial institutions and a CSE. The exercise completed in 2014 rehearsed Morocco's evolving informational, legal, and governance arrangements under the new Banking Law, and the laws creating the independent supervisors for insurance, pension, and capital markets.

In June 2016, FIRST approved a project on resolution planning of banks that belong to financial conglomerates and establishing a deposit insurance corporation.

Selected previous projects

FIRST has had a long-standing relationship in supporting Bank-executed technical assistance in Morocco.

A FIRST-financed project on 'Oversight and Regulation of Non-Bank Payment Service Providers' assisted BAM in implementing the provisions of the new Banking Law that allowed nonbank entities to provide payment services.

FIRST has financed the 'Financial Crisis Simulation Program,' a CSE focused on a cross-border bank, and 'Strengthening Crisis Preparedness Policies and Procedures.'

Launched in 2013, FIRST financed a 'Strengthening Insurance Supervision in the Middle East and North Africa Region' project which helped ACAPS conduct a guided self-assessment against new International Association of Insurance Supervisors standards to identify gaps in insurance regulation and supervisory expectations.

4.5 CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS

76. The GOM conducted extensive consultations with financial professionals, law firms, industry committees, associations of stakeholders, and foreign partners on the reforms supported by this DPL. Laws and regulations in the financial sector follow a well-laid out participatory process:

- Draft by task force of experts from relevant regulators/ministries (as needed, with industry partners on newer topics), followed by written consultations with stakeholders
- Approval by institutional committees (for example, *Comité des Etablissements de Crédit* for banking matters), followed by publication.

- In the case of laws, MEF transmits drafts to the *Secrétariat Général du Gouvernement* for formal public comments.
- Council of Government adopts and transmits to Parliament
- Parliament debates, amends, and votes; King promulgates.

77. Table 5 provides details on analytical underpinnings. In the case of pension reform, arguably a difficult reform regardless of the country, analytical work started in 2003, and subsequent consultations included pension contributors and beneficiaries represented by unions and associations.

Table 5. Selected Analytical Underpinnings of Prior Actions

Prior Action	Analytical Underpinnings
Pillar A: Improve access to finance for small and young enterprises	
1. The central bank (*Bank Al-Maghrib*), the credit guarantee agency (*Caisse Centrale de Garantie)* and the Moroccan banks association (*Groupement Professionnel des Banques du Maroc*), have established a co-financing arrangement supporting the financial restructuring of MSMEs.	• EBRD prepared the draft law for the Steering Committee headed by the office of the Head of Government, comprising the MEF, Ministry of Justice, Ministry of Commerce, and BAM. • The World Bank Group reviewed the draft during the 2015 FSAP in the light of United Nations Commission on International Trade's 'Legislative Guide on Secured Transactions'.
2. The Head of the Government has established the conditions for paying VAT credits to MSMEs.	
3. The central bank (*Bank Al-Maghrib*) has issued the license for a second credit bureau that sets forth requirements to offer MSME credit scoring.	• 2015 FSAP Update. • Two international private operators conducted market analyses. • Various IFC ASAs.
4. The two regulations (*circulaires*) implementing the provisions of law No. 103-12 (the banking law) concerning providers of payment services have been published in the National Gazette (*Bulletin Officiel*) No. 6548, dated March 2, 2017.	• The World Bank Group FIRST ASA 2012–2015. • World Bank Group UFA2020.
Pillar B: Strengthen capital markets by improving the institutional framework and broadening the range of instruments	
5. The Board of the capital market authority *(Autorité Marocaine du Marché des Capitaux)* has appointed the members of its College of Sanction, and the Minister of Finance has adopted the rulebook (*Règlement Général*) of the capital market authority.	• FSAP assessment of observance of IOSCO Principles and Objectives 2015
6. Law No. 19-14 on the stock exchange and investment advice has been published in the National Gazette (*Bulletin Officiel*) No. 6552, dated March 16, 2017.	• FSAP Update of 2015.

Prior Action	Analytical Underpinnings
7. Law No. 70-14 on real estate investment trusts *(organismes de placement collectif immobilier)*, has been published in the National Gazette (*Bulletin Officiel*) No. 6552, dated March 16, 2017, and Decree No. 2-16-1011 exempting real estate investment trusts from corporate income tax, has been published in the National Gazette (*Bulletin Officiel*) No. 6530 bis, dated December 31, 2016.	• World Bank Group review of draft law.
Pillar C: Improve the financial sustainability of the *Caisse Marocaine des Retraites*	
8. The laws setting forth the new parameters of the civil service pension fund (*Caisse Marocaine des Retraites*) – Law No.71-14 amending Law No. 11-71 establishing the civil service pension fund, and Law No. 72-14 amending Law No. 12-71, setting the mandatory retirement age-, have been published in the National Gazette (*Bulletin Officiel*) No. 6496, dated September 1, 2016.	• International Labour Organization review of report of National Technical Commission, published in 2011 • Report of *Cour des Comptes*, published in 2013. • Report of *Conseil Economique, Social et Environnemental*, published in 2014. • Various Bank ASAs.
Pillar D: Strengthen oversight of the banking sector	
9. The central bank (*Bank Al-Maghrib)* has transmitted to banks for consultation, the draft regulations on recovery planning to systemic banks belonging to financial conglomerates in application of Article 79 of Law No. 103-12 (banking law).	• World Bank Group FIRST ASAs 2014–2016 • Crisis simulation exercise, 2014 • IMF/World Bank Group FSAP Update 2015. • World Bank Group ASA, 2016

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1 POVERTY AND SOCIAL IMPACTS

78. Reforms are expected to generate benefits for lower income households mainly through the 50 percent increase in minimum pensions, as well as job opportunities through economic growth and the development of financing solutions for SMEs. Reforms related to UFA, specifically extending the scope of electronic payments through accounts in non-banks, is expected to facilitate access to basic financial services among low-income households, thus improving welfare. The Government conducted consultations with stakeholders (financial institutions, donors, government authorities, industry associations, and so on) on Morocco's reform program supported by the World Bank throughout the preparation of the DPL.

79. The design of the parametric pension reform has benefited from the poverty and social impact analysis (PSIA) undertaken by several government agencies and international organizations and has been informed by a wide range of consultations with concerned stakeholders which the World Bank concurs with. The reform would improve social outcomes at the bottom of the income distribution (annex 6*)*. Specifically, the increase in minimum pension will immediately improve the retirement income of 54,000 out of the current 302,000 retirees and survivors. The replacement ratio (retirement income/salary) of higher-earning employees who retire after 2016 will drop progressively from 87.5 percent of last salary to 81 percent, reflecting less generous accrual rates after 2016. Under the pre-reform pension plan, a 55-year-old retiring at 60 with 35 years of contributions is eligible for a pension

replacing 87.5 percent of his/her last salary, regardless of salary level. Post-reform, the same individual (now retiring at 63) would be eligible for a pension replacing 81 percent of salary, unless he/she earns less than MAD 2,000 per month, in which case, the replacement rate actually increases gradually to 114 percent. It is estimated that, post-reform, some 54,000 retirees and survivors at the bottom of the civil service wage distribution will have a replacement rate higher than the 87.5 percent of salary they enjoyed before reform. Some 33,000 will have a replacement rate between 81 percent (the new normal rate) and 87.5 percent. Any drop in the replacement rate will be progressive because the reform safeguards pension rights until 2016, with less generous parameters being phased in until 2022.

80. The civil service pension reform would also have positive spillovers for the wider population by supporting the income of urban families. Civil servants, both employees and retirees, overwhelmingly live in urban centers. Civil service employees represent 16 percent of contributors to pension funds in Morocco. The reform contributes to social stability in lagging pockets of urban centers by avoiding a large drop in the take-home pay of civil servants living in urban centers.[16] For their part, retirees of the civil service currently receive 43 percent of total pension benefits in Morocco. The reform also safeguards also their income and contributes to social stability in urban centers, especially as the number of civil service retirees and survivors will exceed 400,000 by early next decade compared to 302,000 in 2016.

81. Women are specific beneficiaries of reforms supported by the operation. Financial sector development is particularly relevant for female economic empowerment because it creates opportunities for business expansion and productive investment at the household level, bypassing many socio-economic barriers that prevent women from participating in the economy. The operation's gender-impact will consist of: (a) financing for women-led MSMEs, including through the opening of CCG branches in lagging regions; (b) expanding electronic payments; (c) improved credit information systems including a secured transactions framework that empirically has shown to benefit women entrepreneurs who may not own land to provide as collateral; and (d) pension reform. The pension reform will be gender positive by: (a) replacing final salary with an average which will benefit women as men tend to have steeper career paths; and (b) the reform safeguards survivorship pensions, as women represent 99 percent of survivorship beneficiaries and survivorship pensions represent 40 percent of pensions by number. An indicator in the results matrix specifically tracks the impact of stated reforms on female access to finance.

5.2. ENVIRONMENTAL ASPECTS

82. Increased access to finance for MSMEs is not expected to have material environmental impacts. Environmental risk is managed through three main transmission channels under the operation. First, the GOM's environmental legislation and associated country systems and administrative responsibility are found to be sound. Over the last decade, the Government has made progress in establishing a full-fledged environmental legislation and articulating the different layers of the administration responsible for monitoring its implementation. Law No. 12-03 of 2003 and its implementing decrees defined the requirements for Environmental Impact Assessments (EIAs) and created review and oversight structures for implementation, such as national and regional EIA committees, and procedures for public consultation and disclosure. The monitoring and control

[16] A total of 80 percent of the unemployed live in urban centers, of which 650,000 are 15-29 years old, 300,000 of which are university graduates.

framework was recently strengthened through the creation of national and regional observatories for environmental protection, and the establishment of an environmental police corps. The Government intends to broaden the scope of application of the EIA law to other projects to further strengthen its scope, in particular in relation to the treatment of cumulative impacts of investments, in addition to the requirement for strategic environmental assessments of sector programs, policies, and strategies.

83. Second, the five largest Moroccan banks have participated in a training program on environmental and social safeguards within the framework of the World Bank-funded Morocco MSME Development Project. Third, the operation benefits from IFC protocols to screen and mitigate environmental impacts. In Morocco IFC is engaged in investment projects (both debt and equity) with leading banks and microfinance institutions that account for the majority of SME lending. This includes one of the largest banks in the MENA region and the three largest microfinance institutions accounting for over 89 percent of total microloans in the Kingdom. These investments follow a rigorous due diligence process based on IFC's performance standards on social and environmental sustainability. IFC uses a categorization process to reflect the magnitude of risks and impacts. If areas of improvement are identified, specialists work with the client to develop action plans and concrete deliverables and timelines, which are incorporated into a loan or investment package. This mitigation planned is supported through ongoing implementation support and embedded monitoring and evaluation for continuous mitigation of environmental impacts of their clients' investments.

5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS

84. CPS objectives related to enabling a more transparent and accountable management of public resources have been fully met. The 2015 adoption of the Organic Budget Law, introducing multi-annual and performance-based budgeting, is a major accomplishment that transforms the way public resources are programmed and managed. While an early implementation of this reform has started in 14 ministries, the full benefits will emerge over the next five years of Law's implementation. Other noteworthy milestones under this strategic outcome include: (a) the creation by decree (issued in end 2015) of the National Public Contracts Committee, which was given a strong mandate for oversight, complaints handling and training; (b) the rollout of an integrated expenditure management information system to all municipalities, which now have access to real-time information on budget execution; (c) filling of the legal vacuum around Public Private Partnerships; and (d) reinforcing the transparency and governance of State-Owned Enterprises (SOEs) and public agencies.

85. The 2016 Public Expenditure Framework Assessment (PEFA)[17] found a well-established public financial management (PFM) system that has enabled the government to maintain control of the budget and manage fiscal risks. The central government performs well in monitoring the financial position and operations of local governments, public agencies, and state-owned enterprises. The budget law and extensive documentation (13 supporting reports, for example, public debt and government guarantees, tax expenditures, performance of public enterprises, usage of public land, ministerial performance plans) are published on the MEF's website on time. Fiscal discipline is governed by a reliable budget preparation, internal control functions that ensure adequate execution processes, strong legislative oversight, and a Court of Account that contributes positively to the overall environment. Cash management practices provide a favorable environment for effective

[17] PEFA is a methodology for assessing PFM performance. It identifies 94 characteristics (dimensions) across 31 key components of PFM (indicators) in 7 broad areas of activity (pillars). The 2016 PEFA assessment for Morocco is final, however, it is not public. For more information, see: https://pefa.org/assessments/morocco-2016

service delivery and budget execution. The implementation of the expenditure management information system has led to significant improvement in terms of accounting and reporting capacities, which are not yet fully utilized.

86. The IMF's safeguards assessment of BAM in 2013 found a robust framework with strong controls. Since then, BAM has implemented recommendations from the assessment, including publication of audited financial statements. BAM's crisis resolution framework supported by this DPL improves governance and safeguard practices in the financial system.

87. The proposed loan will follow the World Bank's disbursement procedures for development policy financing. After the loan becomes effective, proceeds will be disbursed in compliance with the stipulated release conditions as defined in the Loan Agreement and in a single installment provided that the World Bank is satisfied with the program being carried out by the Borrower, and with the appropriateness of the Borrower's macroeconomic policy framework. The flow of funds (including foreign currency exchange) is subject to standard public financial processes. Loan proceeds will be deposited in a dedicated account at BAM and that forms part of the country's official foreign exchange reserves. The Borrower should ensure that upon the deposit of loan proceeds into said account, the equivalent of the funds in local currency will be transferred to the Treasury's current account. The MEF will furnish to the World Bank a confirmation of this transfer within thirty (30) days, advising that the total sum of the loan has been received in the dedicated account and credited to the Treasury's account. If the proceeds of the loan are used for ineligible purposes as defined in the Loan Agreement, IBRD will require the Borrower to promptly upon notice refund an amount equal to the amount of said payment to IBRD. Amounts refunded to the Bank upon such request shall be cancelled. The loan proceeds will be administered by the MEF. The closing date of the Loan is set to April 30, 2018.

88. The World Bank reserves the right to ask for a transaction audit. This audit would cover the accuracy of the transactions, that is, receipts and payments from the dedicated account, including accuracy of exchange rate conversions; confirming that the dedicated account was used exclusively for the purposes of the operation. In addition, the auditor will have to obtain confirmation from corresponding bank(s) involved in the funds flow regarding the transaction. The time period for submission of the audit report to the Bank is not later than four months from the date of its request.

5.4. MONITORING, EVALUATION, AND ACCOUNTABILITY

89. The responsibility for implementing the program rests with the MEF in collaboration with BAM. The MEF will take the lead in monitoring implementation and progress toward expected results. The World Bank staff will maintain close dialogue with stakeholders and counterparts and conduct periodic reviews in coordination with other international finance institutions. Dialogue will focus on the outcomes of the program and eventual adjustments, stakeholder support, and options for realizing the intended development goals.

90. Communities and individuals who believe that they are adversely affected as a result of a Bank supported operation, as defined by the applicable policy and procedures, may submit complaints to the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures.

Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate GRS, please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

91. Morocco has a number of institutions responsible for grievance handling and resolution. The available national GRS mechanisms and institutions have been recently elevated to constitutional bodies to provide them with more independence and financial autonomy, necessary to validate their power of self-referral. The World Bank's GRS mechanism does not affect the efficiency of the Moroccan complaints and resolution system.

6. SUMMARY OF RISKS AND MITIGATION

92. **The overall risk to PDOs achievement is moderate, as all sub-ratings of risks are either low or moderate, except:**

- **Sectors strategies and policies risk is substantial.** The substantial risk rating is called for by the complexity of G20 initiatives to reform the global financial system. The operation's design has tried to combine ambition and realism in line with the value added sought by the Government from the DPL series. Morocco strongly aspires to implement these reforms, notably in relation to its regional ambitions around CFC. The nature of pension reform or of the secured transaction framework adds to complexity. Mitigation revolves around the extensive ASA program supporting policy dialogue and reform implementation, including close collaboration with the IMF on financial stability issues.
- **Social risk is substantial.** Although the Parliament adopted the first stage of pension reform, there is a risk that the second and no less important stage will again give rise to contestation by labor unions. This risk is mitigated by the experience gained from the national consultations over the past decade. The highly public nature of the political debate on pension reform has raised awareness of what is at stake, namely safeguarding the old age safety net.

SORT Table

	Risk Categories	**Rating**
1.	Political and Governance	Moderate
2	Macroeconomic	Moderate
3	Sector Strategies and Policies	Substantial
4	Technical Design of Program	Moderate
5	Institutional capacity for implementation and sustainability	Moderate
6	Fiduciary	Low
7	Environment and Social	Substantial
8	Stakeholders	Moderate
	Overall	Moderate

ANNEX 1: POLICY AND RESULTS MATRIX

DPL1 Prior actions	DPL2 Prior actions	Expected Results
Pillar A: Improve access to finance for small and young enterprises		
By Resolution of its Board No. 7 dated July 3, 2013, the Borrower's credit guarantee institution (Caisse Centrale de Garantie) has adopted its 2013-16 strategic plan, which, inter alia, expanded bank guarantees and created new solutions for financing small and young enterprises.	1. The central bank (*Bank Al-Maghrib*), the credit guarantee agency (*Caisse Centrale de Garantie)* and the Moroccan banks association (*Groupement Professionnel des Banques du Maroc*), have established a co-financing arrangement supporting the financial restructuring of MSMEs.	Total financing of eligible MSMEs: from 0 in 2013 to MAD 6bn in 2018.
		MSME loans with CCG guarantees: from MAD 4.6 billion in 2013 to MAD 18 billion in 2018. Total MSME loans with CCG guarantees to majority female-owned MSMEs: from MAD 420 mn in 2013 to MAD 1.8 bn in 2018. MSME loans with CCG guarantees in Marrakesh and Oriental region: from MAD 555 mn in 2013 to MAD 1.5 bn in 2018.
	2. The Head of the Government has established the conditions for paying value added tax (VAT) credits to MSMEs.	Total MSME VAT credits paid: from 0 in 2013 to MAD 250 million by 2018.
By communication (attestation) dated March 13, 2014, the Central Bank has confirmed selection of the commercial entity that will be licensed to operate a second credit bureau.	3. The central bank (*Bank Al-Maghrib*) has issued the license for a second credit bureau that sets forth requirements to offer MSME credit scoring.	Total number of MSMEs with credit scores: from no scores in 2013 to 40,000 in 2018.

	4. The two regulations (*circulaires*) implementing the provisions of law No. 103-12 (the banking law) concerning providers of payment services, have been published in the National Gazette (*Bulletin Officiel*) No. 6548, dated March 2, 2017.	Total number of non-bank providers licensed: from 0 in 2013 to 4 in 2018.
Pillar B. Strengthen capital markets by improving the institutional framework and broadening the range of instruments		
Per minutes (compte rendu) dated February 5, 2014, the Council of Government (Conseil du Gouvernement) has adopted the draft Organic Law No. 12-14 on the higher civil service, which Law is a prerequisite for the appointment of the chairman of the Board of the new capital market authority (Autorité Marocaine du Marché des Capitaux).	5. The Board of the capital market authority *(Autorité Marocaine du Marché des Capitaux)* has appointed the members of its College of Sanction, and the Minister of Finance has adopted the rulebook (*Règlement Général*) of the capital market authority. 6. Law No. 19-14 on the stock exchange and investment advice has been published in the National Gazette *(Bulletin Officiel)* No. 6552, dated March 16, 2017.	Percentage of selected financial professionals certified by AMMC: from 0 certification in 2013 to at least 50% in 2018.
The Ministry of Economy and Finance has launched the reform of the government debt market by (i) transmitting, on March 12, 2014, draft agreements to the six primary dealers (intermédiaires en valeurs du Trésor), that set forth their commitment to quote continuous, tradable prices for a panel of Treasury securities; and (ii) concluding one of said agreements on March 14, 2014.		Expected results: continuous prices posted on Morocco's Bloomberg page by 2018 for the following government securities: less than 1 year residual maturity, less than 2 year residual maturity, 5-year benchmark, 10-year benchmark, more than 10 years residual maturity. Baseline June 2013: no Morocco's Bloomberg page.

	7. Law No. 70-14 on real estate investment trusts *(organismes de placement collectif immobilier)*, has been published in the National Gazette *(Bulletin Officiel)* No. 6552, dated March 16, 2017, and Decree No. 2-16-1011 exempting real estate investment trusts from corporate income tax, has been published in the National Gazette *(Bulletin Officiel)* No. 6530 bis, dated December 31, 2016.	Number of REITs managers licensed: from 0 in 2013 to 2 in 2018.
Pillar C: Improve the financial sustainability of the Caisse Marocaine des Retraites		
The plan to reform the civil service pension fund (Caisse Marocaine des Retraites) has been made public through the Government's position paper (note de présentation de la loi de finances) transmitting the draft 2014 Budget Law to Parliament, as published on the website of the Ministry of Economy and Finance.	8. The laws setting forth the new parameters of the civil service pension fund (*Caisse Marocaine des Retraites*) - Law No.71-14 amending Law No. 11-71 establishing the civil service pension fund, and Law No. 72-14 amending Law No. 12-71, setting the mandatory retirement age, have been published in the National Gazette *(Bulletin Officiel)* No. 6496, dated September 1, 2016.	Expected result: actuarial calculation projects 2028 as year in which CMR depletes its reserves, compared to 2022 without reform. Reserves are defined as holdings of cash and financial assets. Actuarial calculations are provided by the authorities in 2018 and validated by the World Bank.
Pillar D: Strengthen oversight of the banking sector		
Per minutes (compte-rendu) dated January 16, 2014, the Council of Government has adopted draft Law No 103-12 on credit institutions, which will create the oversight regime for financial conglomerates and will give the Central Bank licensing authority over microcredit institutions.	9. The central bank (*Bank Al-Maghrib)* has transmitted on September 8, 2016 to banks for consultation, the draft regulations on recovery planning to systemic banks belonging to financial conglomerates in application of Article 79 of Law No. 103-12 (banking law).	The three banks that have been designated as systemic as of 2016 file recovery plans by 2018, compared to 0 in 2013.

ANNEX 2: LETTER OF DEVELOPMENT POLICY

Annexe 9

Royaume du Maroc

Ministère de l'Economie et des Finances

Le Ministre

D1521/17/DTFE

17 AVR 2017

المملكة المغربية

وزارة الاقتصاد والمالية

الوزير

Second Prêt de Politique de Développement du Programme d'appui au développement du marché des capitaux et du financement des PME

Lettre de politique de développement

Monsieur le Président,

Le Royaume du Maroc s'est résolument inscrit, durant les deux dernières décennies, dans un processus de modernisation de son secteur financier afin d'accompagner et de soutenir le développement économique et social du pays. Ce processus a permis d'améliorer l'inclusion financière et l'accès au financement des Très Petites, Petites et Moyennes Entreprises (TPME), de renforcer le rôle du marché des capitaux dans le financement de l'économie et de consolider le cadre de contrôle et de supervision du secteur financier en vue d'assurer sa solidité, sa pérennité et sa stabilité. Aujourd'hui le Royaume dispose d'un secteur financier moderne doté d'une large gamme d'instruments financiers, de l'infrastructure de marché nécessaire et d'une base solide d'investisseurs institutionnels. De même, d'importants progrès ont été réalisés en termes de transparence et d'intégrité du secteur financier à travers la consolidation de notre système de paiement, et le renforcement des prérogatives des autorités de supervision de ce secteur.

Le Gouvernement a la volonté de continuer les efforts de modernisation et de développement du secteur financier et de franchir une nouvelle étape dans ce processus en capitalisant sur les acquis. Cette nouvelle génération de réforme est inscrite comme une priorité pour le Gouvernement qui ne ménagera aucun effort pour la faire aboutir. Nous souhaitons que la Banque Mondiale nous accompagne à nouveau dans cette nouvelle phase de réformes comme cela a été fait avec succès dans le cadre des précédents programmes de développement du secteur financier.

Le nouveau programme gouvernemental en matière de modernisation du secteur financier est structuré autour des principaux objectifs suivants :

- le renforcement des solutions de financement en faveur des petites et jeunes entreprises et de l'accès universel au financement qui constituent une source importante de développement socio-économique équitable et pérenne et de création de richesse et d'emplois ;
- l'approfondissement du marché des capitaux en élargissant la gamme des instruments et des investisseurs pour que le secteur financier joue pleinement son rôle en matière de mobilisation de l'épargne et de son allocation optimale pour le financement de l'investissement et de l'économie ;
- le lancement de la réforme du système de retraite pour garantir l'équilibre financier du système et sa viabilité dans une perspective à long terme ;
- le renforcement de la supervision du secteur afin d'assurer l'équilibre entre un meilleur accès aux instruments et services financiers et une stabilité financière durable.

Ces objectifs ont été traduits dans les quatre piliers suivants du programme de développement proposé pour un appui de la Banque Mondiale.

Pilier A : Renforcement des solutions de financement en faveur des petites et jeunes entreprises et l'accès universel au financement :

La fonction principale du système financier est de financer « l'économie réelle » notamment en offrant des solutions de financement adaptées aux besoins et aux spécificités des différentes catégories d'entreprises et en particulier des TPME.

Notre réussite économique est en effet largement tributaire de la capacité des TPME à réaliser pleinement leur potentiel de croissance. Les TPME constituent en effet un vivier pour le développement du tissu productif et une source non négligeable de croissance économique et ce, d'autant plus qu'elles forment l'ossature de nos entreprises.

Ces entités restent toutefois fragiles en raison de leur taille, la faiblesse de leurs moyens financiers, techniques et humains et leur manque de maitrise de l'évolution du marché.

Ce sont ces fragilités qui fondent les besoins de ces entreprises en termes d'accès aux marchés, de financement, et d'accompagnement de façon générale.

C'est pourquoi les TPME sont au centre des préoccupations des pouvoirs publics et des programmes de soutien au secteur privé.

Dans ce cadre, plusieurs réformes et mesures ont été programmées et qui sont orientées vers l'amélioration de l'environnement institutionnel de ces entreprises et la mise en place d'instruments d'appui pour faciliter leur accès au financement. On peut citer, à cet égard :

- La promotion de nouvelles solutions de financement dédiées aux petites et jeunes entreprises. Les efforts du Gouvernement dans ce cadre ont été soutenus par les autorités de supervision et les principales institutions financières de la place. Ainsi et en application de la stratégie gouvernementale, Bank Al-Maghrib (BAM), le Groupement professionnel des Banques du Maroc (GPBM) et la Caisse Centrale de Garantie (CCG) ont convenu en juin 2014 de la mise en place du « Fonds de soutien financier des TPME ». Ce fonds destiné au cofinancement, avec les établissements de crédit, des TPME viables mais connaissant des difficultés passagères en raison d'une conjoncture difficile dans l'objectif de préserver les activités productives des TPME, en particulier des entreprises exportatrices et celles opérant dans le secteur industriel. Ce fonds a été alimenté de 3,6 Milliards de Dirhams des ressources propres des banques et donné en gestion à la CCG. Il a bénéficié depuis son démarrage effectif en octobre 2014 et jusqu'au 31 mars 2016, à 245 entreprises pour une enveloppe globale de 1,55 milliard de DH jumelée à des crédits bancaires totalisant environ 1,1 milliard de DH.

- La notation du crédit qui devra contribuer à améliorer les conditions de financement des entreprises et faciliter le suivi de leur capacité financière par les institutions de crédit. Dans ce sens, et à l'issue d'un appel d'offres lancé en 2015, BAM a sélectionné deux sociétés dont l'une lance un nouveau Credit Bureau et l'autre reprends le Credit Bureau actuel. Les engagements des deux Credit Bureau, conformément à l'appel d'offres, incluent la fourniture, en plus du rapport de solvabilité utilisé actuellement par les établissements de crédit, de services à valeur ajoutée tels que le scoring et la gestion du portefeuille.

- La couverture des besoins de trésorerie des entreprises. Ainsi et suite aux recommandations des assises nationales sur la fiscalité tenues à Skhirat les 29 et 30 avril 2013, la loi de finances pour l'année budgétaire 2014 a prévu le remboursement du crédit de TVA cumulé selon les modalités à fixer par voie réglementaire. A cet effet, le décret d'application n°2-14-271 publié au

Bulletin officiel (B.O) n°6252 en date du 1er mai 2014 prévoit le remboursement, au profit des PME, des crédits de TVA et fixe le mode et le calendrier de ces remboursements. Ce décret a été mis en œuvre après deux mois de sa publication au B.O et les remboursements effectués au bénéfice desdites PME s'élèvent à plus de 254 MDH à la fin du premier semestre 2016.

Pilier B : Approfondissement du marché des capitaux en élargissant la gamme des instruments et des investisseurs ;

Le marché des capitaux marocain a connu des mutations profondes suite aux différentes réformes menées au cours des deux dernières décennies. Ces réformes ont permis de renforcer sa profondeur, son efficience et sa solidité.

S'inscrivant dans le même objectif, les pouvoirs publics ont lancé une nouvelle génération de réformes qui vise à mettre en place de nouveaux instruments répondant aux besoins exprimés par les opérateurs de marché des capitaux et à rapprocher ce dernier des meilleurs normes et standards internationaux.

Dans ce cadre, deux lois ont été adoptées à savoir la loi n°19-14 relative à la Bourse des valeurs, aux sociétés de bourse et aux conseillers en investissement financier et la loi n°70-14 relative aux organismes de placement collectif en immobilier (OPCI).

La loi régissant la Bourse des valeurs vise, d'une part, à moderniser le cadre législatif régissant cette institution et, d'autre part, à permettre la mise en place de nouveaux marchés. Les principaux apports de cette loi consistent en :

- La création de deux marchés à savoir le marché principal et le marché alternatif. Le marché principal comprendra notamment des compartiments réservés à la négociation des fonds collectifs notamment les Exchange Traded Funds (ETF) et les fonds immobiliers. Le marché alternatif sera pour sa part dédié aux PME avec des conditions d'accès adaptées aux spécificités de cette catégorie d'entreprises. La société gestionnaire peut également offrir des services de cotation pour des instruments financiers non admis à la négociation sur le marché réglementé.
- L'encadrement de l'activité des conseillers en investissement financier afin de mieux renforcer la protection des investisseurs. Cet encadrement sera effectué à travers la délimitation du champ des services d'investissement financier et l'obligation d'enregistrement auprès de l'AMMC des conseillers en investissement avant l'exercice de cette activité.

Par ailleurs, la gamme des instruments financiers offerte aux investisseurs sera renforcée également par le lancement des OPCI qui figurent parmi les principaux véhicules d'investissement répondant aux critères de placement moderne et contribuant fortement au dynamisme des marchés immobiliers et à la sécurité de l'épargne. Ainsi, la mise en place de cette loi permettra, d'une part, de mobiliser l'épargne longue et de l'orienter vers le financement de l'immobilier et de l'immobilier professionnel (Bureaux, commerce, zone industrielle) renforçant et améliorant ainsi l'offre immobilière pour les entreprises notamment les PME, et d'autre part, d'offrir aux investisseurs institutionnels un nouvel instrument de placement à long terme, réglementé et offrant des perspectives de rendement intéressantes.

Le Gouvernement est conscient que les transactions financières sont également porteuses de risque, c'est pour cela que le renforcement du dispositif de gouvernance et de sécurisation du secteur financier constitue un des piliers du processus de modernisation du secteur. La réalisation de cet objectif passe par le renforcement de l'indépendance et des pouvoirs d'intervention des autorités de supervision. Ainsi, au niveau du marché des capitaux, la loi relative à l'Autorité Marocaine du Marché des Capitaux (AMMC) vient consacrer l'indépendance de l'autorité chargée de la supervision du marché des capitaux et la doter de prérogatives larges notamment en matière de contrôle de l'ensemble des compartiments et des intervenants du marché des capitaux.

Dans le cadre de l'opérationnalisation de l'AMMC, et après la nomination, par Sa Majesté le Roi, de la Présidente de l'AMMC, il a été procédé à la nomination des membres du conseil d'administration qui comprend des administrateurs indépendants. Cette autorité a tenu sa première réunion le 10 mars 2016 et a nommé les membres de son collège de sanction dont la présidence est assurée par un magistrat.

Une deuxième réunion a été tenue le 30 mars 2016 et a examiné le Règlement Général de cette autorité qui fixe notamment les modalités de fonctionnement de cette institution et du collège des sanctions, la procédure des sanctions, les modalités et les conditions d'habilitation de certaines fonctions ainsi que les règles déontologiques applicables au personnel de l'AMMC. Ce Règlement Général a été approuvé par arrêté du Ministre de l'économie et des finances en date du 14 juillet 2016.

En outre, et afin de consolider l'efficience du marché des capitaux dont le marché de la dette publique constitue une composante importante, le Gouvernement a lancé une importante réforme pour renforcer la transparence et l'efficience de ce marché en précisant notamment les conditions de cotation des bons du Trésor ainsi que les engagements que doivent observer les intervenants sur ce marché. L'amélioration du fonctionnement du marché de la dette publique passe également par la réduction sensible du nombre de lignes des bons du Trésor en circulation.

L'approfondissement du rôle du marché des capitaux dans le financement de l'économie et le soutien des politiques sectorielles ambitieuses lancées par les Pouvoirs publics passe également par la diversification des instruments financiers.

Pilier C : Lancement de la réforme du système de retraite :

Le Gouvernement a lancé une réforme intégrée des régimes de retraite pour garantir l'équilibre financier du système et sa viabilité dans une perspective à long terme. Dans ce cadre, le Gouvernement a annoncé comme première étape la réforme paramétrique de la Caisse Marocaine des Retraites (CMR). Cet engagement a été reflété dans les projets de loi relatifs à la modification des paramètres de la CMR et à la réforme du système de retraite qui ont été adoptés par le CG en date de 07 janvier 2016.

Les mesures prévues dans ce cadre sont principalement de deux ordres :

- Renforcer la résilience des secteurs de la retraite à travers la réforme du régime des pensions civiles géré par la Caisse Marocaine des Retraites (CMR) pour introduire une réforme paramétrique du régime afin de renforcer sa viabilité et réduire sensiblement sa dette implicite ;
- Renforcer le caractère inclusif des secteurs de la retraite à travers notamment : (i) la couverture des indépendants par la Caisse Nationale de Sécurité Sociale (CNSS) en les intégrant dans l'assurance maladie obligatoire (AMO) et (ii) l'augmentation progressive du seuil minimum de la pension des retraités du secteur public (CMR et RCAR) de 1000 à 1500 DH.

Ces lois ont été adoptées par le parlement le 20 juillet 2016 et ont été publiées au BO du 30 août 2016.

La pérennité de ce secteur sera également assurée par le contrôle confié à la nouvelle autorité (ACAPS) qui a été dotée de pouvoirs larges et d'une indépendance confirmée. Son conseil autorisera la supervision sur site et hors site de nos régimes de retraite.

Pilier D : Renforcer la surveillance par les superviseurs afin d'assurer l'équilibre entre un meilleur accès au financement et une stabilité financière durable :

La nouvelle loi bancaire vise à renforcer la solidité et la stabilité du secteur financier. Les principaux apports de cette loi sont la mise en place d'un cadre de surveillance macro-prudentielle et de gestion des crises systémiques, le renforcement de la réglementation prudentielle et l'encadrement des conglomérats financiers.

Par ailleurs, les établissements de crédit sont tenus de préparer ex-ante des plans de redressement conformément aux dispositions de l'article 79 de la loi n°103-12 relative aux établissements de crédit et organismes assimilés. Ces plans décrivent les situations de crise majeure et les principales options dont disposent les banques pour pouvoir se rétablir en situation de gestion normale en limitant l'impact sur le système financier et surtout sans générer des coûts complémentaires pour l'État.

L'objectif de ces plans est de fournir aux régulateurs des informations sur les forces et les faiblesses de la structure juridique, organisationnelle et opérationnelle des groupes bancaires ainsi que le niveau de complexité des stratégies de redressement. Dans ce cadre, un projet de circulaire de Bank Al-Maghrib fixant les conditions et les modalités de présentation du plan de redressement a été élaboré en tenant compte des meilleurs standards internationaux en la matière.

Le gouvernement entend également faire aboutir deux textes de loi importants qui renforcent les réformes engagées à savoir :

- la loi sur les sûretés mobilières qui vise à faciliter l'accès au financement des entreprises, principalement des PME, à travers la mise en place d'un régime juridique moderne des sûretés mobilières permettant d'utiliser des actifs mobiliers corporels et incorporels comme garantie pour l'obtention d'un financement bancaire et l'institution d'un Registre National des Sûretés Mobilières qui devra permettre la centralisation des enregistrements relatifs auxdites sûretés ;
- la loi relative au statut de Bank Al-Maghrib qui vise à élargir les missions de la banque centrale pour couvrir la stabilité financière et à renforcer son indépendance et sa gouvernance.

Le Gouvernement est persuadé que le lancement de ce nouveau programme permettra d'atteindre des objectifs ambitieux et que sa réussite est facilitée par le large programme d'assistance technique fourni par la Banque et financé par le Trust Fund FIRST. Cette collaboration va renforcer davantage le partenariat exemplaire et stratégique entre le Maroc et le Groupe de la Banque mondiale particulièrement en ce qui concerne le secteur financier.

Nous sommes convaincus que notre partenariat donnera lieu à de nouvelles initiatives dans le développement du marché de capitaux et la réforme de notre système de retraite. À cet égard, nous exprimons notre intérêt pour poursuivre notre collaboration dans de nouveaux programmes d'appui du secteur financier qui cibleraient particulièrement le renforcement de l'inclusion financière, le développement du marché et la poursuite et la mise en œuvre de la réforme de retraite.

Tels sont, Monsieur le Président, les grands axes de cette nouvelle étape dans le processus continu de réforme et de modernisation de notre secteur financier.

En vous remerciant de votre précieux appui pour la mise en œuvre de cet ambitieux programme, je vous prie d'agréer, Monsieur le Président, l'expression de ma haute considération.

Ministre de l'Economie et des Finances

5 Signé: Mohammed Boussaid

Unofficial English Translation

Second Capital Market Development and Small and Medium-Size Enterprise Finance Development Policy Loan

Development Policy Letter
April 17, 2017

Mr. President,

Over the past two decades, the Kingdom of Morocco has resolutely embarked on the modernization of its financial sector, in order to accompany and support the economic and social development of the country. This process has been successful in improving financial inclusion and access to finance by Micro, Small and Medium-Sized Enterprises (MSMEs); enhancing the role of capital markets in financing the economy; and in consolidating the financial sector's supervisory framework so as to ensure its soundness, sustainability and stability. Today, the Kingdom has a modern financial sector, equipped with a wide range of financial instruments, market infrastructure and a solid base of institutional investors. Likewise, significant progress has been made in terms of transparency and integrity of the financial sector through the consolidation of our payment system and the strengthening of the role of the sector's supervisory authorities.

The Government is determined to continue its efforts to modernize and develop the financial sector, and to build on previous achievements in order to take new steps. The Government considers the new generation of reforms as a priority and will spare no effort to ensure success. We thus hope that the World Bank will once again accompany us in this new phase, as has been done successfully under previous financial sector development programs.

The new program of the government for the modernization of the financial sector is structured around the following main objectives:

- Improve financing solutions for small and young enterprises and universal financial access, an important source of equitable and sustainable socio-economic development, as well as wealth and job creation;
- Deepen capital markets by broadening the range of instruments and investors so that the financial sector plays its full role in saving mobilization and its optimal allocation for the financing of investment and the real economy;
- Launching reform of the pension system to ensure its financial soundness and long-term sustainability;
- Strengthen oversight of the banking sector in order to ensure a balance between access to financial instruments and services, and financial stability.

These objectives have been translated into the following four pillars of the proposed development program supported by the World Bank.

Pillar A: Improve access to finance for small and young enterprises and universal financial access:

The main function of the financial system is to finance the "real economy," by offering financing solutions adapted to the needs and specificities of the different categories of enterprises and in particular those of MSMEs.

Our economic success is largely dependent on the ability of MSMEs to fully realize their growth potential. MSMEs are indeed a pipeline for the development of the productive fabric and a non-negligible source of economic growth, all the more so that they form the backbone of our economy.

However, these entities remain fragile because of size, weaknesses in technical, financial and human resources, and less capacity to adjust to market developments. These weaknesses shape the needs of these enterprises in terms of market access, financing, and business support. This explains why MSMEs remain at the forefront of public policy concerns and of programs designed to support the private sector.

In this context, several reforms and measures have been programed to improve the institutional environment of these enterprises and to set up support instruments to facilitate their access to financing. In this regard, one may mention:

- Promoting new financing solutions for small and young enterprises. The Government's efforts in this area have been supported by the supervisory authorities and the main financial institutions. In accordance with the Government's strategy, the Bank Al-Maghrib (BAM), the *Caisse Centrale de Garantie* (CCG) teamed up in June 2014 with the bankers » association, the *Groupement Professionnel des Banques du Maroc* (GPBM) to establish a « *Fonds de soutien financier aux TPME »*. This public-private co-lending fund targets viable MSMEs experiencing temporary difficulties due to a difficult economic situation with the objective to preserve the productive activities of the MSMEs in particular exporting companies and those operating in the industrial sector. This fund was endowed with 3.6 billion MAD from the banks' own resources and is managed by the CCG. Since its effectiveness in October 2014, and until March 31, 2016, it has allocated 1.55 billion MAD to 245 enterprises with banks adding another 1.1 billion MAD in loans.

- Credit rating will help improve MSME financing conditions and facilitate the monitoring of their financial capacity by credit institutions. To this end, and following a call for proposals in 2015, BAM has selected two companies, one of which will be launching a new Credit Bureau and the other one taking over the current Credit Bureau. In accordance with the call for proposals, the two Bureaus have committed to the provision of value-added services such as scoring and portfolio management in addition to solvency reports already used by credit institutions.

- Financing the working capital of MSMEs. Following the recommendations of the National Conference on Taxation held in Skhirat on April 29th and 30th 2013, the Finance Act for the financial year 2014 provided for the refund of VAT credits in accordance with procedures to be laid down by regulation. To this end, implementing Decree No. 2–14-271 published in Official Bulletin No. 6252 dated May 1، 2014, provides for the reimbursement of VAT credits to MSMEs and sets out the method and the timing of such reimbursements. This decree was implemented two months after its publication and reimbursements made to the benefit of MSMEs amounted to more than 254 million MAD at the end of the first half of 2016.

Pillar B: Strengthen capital markets by improving the institutional framework and broadening the range of instruments

Moroccan capital markets have undergone profound changes following the various reforms carried out over the last two decades. These reforms have reinforced its depth, efficiency and soundness.

In line with the same objective, the Government has launched a new generation of reforms introducing new instruments that will respond to the needs expressed by capital market operators and bring market practices in line with international norms and standards.

In this context, two laws have been adopted, namely Law No. 19-14 on the stock exchange, brokers and financial investment advisers and Law No. 70-14 on Real Estate Investment Trusts (REITs).

The law governing the stock exchange aims, on the one hand, to modernize the legal framework governing the exchange and, on the other hand, create new markets. The main contributions of this law consist of:

- creating two markets, a main market and an alternative market. The main market will also include compartments dedicated to collective funds, in particular Exchange Traded Funds (ETFs) and real estate funds. The alternative market will be dedicated to SMEs, with listing requirement tailored to their specificities. The company managing the exchange may also offer trading of financial instruments not listed on these regulated markets.

- Supervising the activities of investment advisers, to strengthen investor protection. This supervision will be carried out by defining the scope of investment advice and by requiring investment advisers to register with the Capital Market Authority (AMMC) before they engage in such activity.

The range of financial instruments offered to investors will be broadened by the launch of REITs, which are vehicles that satisfy t modern investment criteria, contribute strongly to the dynamism of real estate markets, and safeguard investor protection. Thus, the enactment of this law will facilitate, on the one hand, the mobilization of long-term savings towards the financing of commercial real estate (offices, shops, industrial zones), thereby meeting the real estate needs of businesses, in particular MSMEs, and on the other hand, offering institutional investors a new long-term and regulated investment instrument with attractive prospects for return.

The Government is aware that financial transactions are also risky, which is why strengthening the governance and control of financial intermediaries is a pillar of the sector's modernization. The achievement of this objective requires strengthening the independence and powers of the supervisory authorities. Thus, as far as capital markets are concerned, the law governing the Moroccan Capital Market Authority (AMMC) confirms the independence of the authority responsible for the supervision of the capital market and its powers, particularly regarding the control of all asset classes and participants in the market.

As part of the operationalizing of the AMMC, and following the appointment of the President of the AMMC by His Majesty the King, the members of the Board of Directors which includes independent directors were duly appointed. This Authority held its first meeting on March 10، 2016, and appointed the members of its sanction college, chaired by a judge.

A second meeting was held on March 30، 2016, and examined the Authority's General Regulations which set out among others the operating modalities of the institution and of the sanctions college, the sanctions procedures, the terms and conditions for the authorization of certain functions, as well as the ethical rules applicable to the AMMC's staff. These General Regulations were thereafter approved by order of the Minister of Economy and Finance on July 14، 2016.

Furthermore, in order to strengthen the efficiency of the capital market, of which the public debt market represents a large share, the Government has launched a major reform to increase its transparency and efficiency, namely through the establishment of treasury bills listings and commitments of primary dealers. Improving the functioning of the public debt market also requires a significant reduction in the number of outstanding issuances of T-bills.

Deepening the role of the capital market in financing the economy and supporting the ambitious sectoral policies launched by the Government also requires diversification of available financial instruments.

Pillar C: Launch of the civil service pension fund reform

The Government has launched an integrated pension reform to ensure the financial soundness of the system and its long-term sustainability. In this context, the Government announced as a first step the parametric reform of the *Caisse Marocaine des Retraites* (CMR). This commitment has been reflected in the laws on CMR's parameters modification and pension system reform, which were adopted by the GC on January 07, 2016.

The measures provided for are of two types:

- Reinforce the resilience of the pension sectors through the reform of the civil pension system managed by the *Caisse Marocaine des Retraites* (CMR), so as to introduce a parametric reform of the regime in order to reinforce its viability and significantly reduce its implicit debt;

- Reinforce the inclusive nature of the pension sectors in particular by (i) ensuring coverage of the self-employed by the *Caisse Nationale de Sécurité Sociale* (CNSS), by including them in compulsory health insurance (assurance maladie obligatoire—AMO) and (ii) a progressive increase—from 1000 to 1500 MAD—of the minimum pension threshold for public sector retirees (CMR and RCAR).

These laws were adopted by Parliament on July 20, 2016, as published in the OB of August 30, 2016.

Sustainability of this sector will also be ensured by the new control authority (ACAPS) which has been endowed with broad powers and its independence confirmed. Its Board will allow on-site and off-site supervision of our pension plans.

Pillar D: Strengthen oversight of the banking sector in order to ensure balance between greater access to financial instruments and services and stability of the system

The new banking law aims to strengthen the soundness and stability of the financial sector. This law mainly includes provisions on the establishment of a macro-prudential supervision and systemic crisis management framework, the strengthening of prudential regulations and the supervision of financial conglomerates.

In this context, banks are required to prepare ex-ante recovery plans in accordance with the provisions of Article 79 of Law No 103-12 on credit institutions and similar bodies. These plans describe the main options available to banks, should they become distressed, in order to recover to normal operations without costs for the State, thereby mitigating any impact on the financial system.

The objective of these plans is to provide regulators with information on the strengths and weaknesses of the legal, organizational and operational structure of banking groups and the level of complexity of the recovery strategies. In this context, a draft circular from BAM setting out the terms and conditions for presenting the recovery plan was drawn up based on international best practices.

The Government also intends to bring forward two important pieces of legislation which reinforce the reforms undertaken, namely:

- the Secured Transactions Law, which aims to facilitate MSME access to finance through the establishment of a modern legal regime for movable collateral that uses tangible and intangible assets as collateral for bank financing and the creation of a National Collateral Registry which shall permit the centralization of registrations relating to movable collateral.

- the Central Bank Law, which aims to broaden BAM's formal scope of power to encompass financial stability and to strengthen further its independence and governance.

The Government is convinced that this new program will achieve these ambitious objectives. Its success will be facilitated by the broad technical assistance program financed by the Trust Fund FIRST. This collaboration will further strengthen the exemplary and strategic partnership between Morocco and the World Bank Group with regard to the financial sector.

We are convinced that our partnership will give rise to new initiatives in the development of the capital market and the reform of our pension system. In this regard we express our interest in continuing our collaboration in new financial sector support programs that would specifically focus on financial inclusion, strengthening, market development, and continuing pension reform.

These are, Mr. President, the main thrusts of this new stage in the ongoing financial sector reform and modernization process.

In thanking you for your valuable support for the implementation of this ambitious program, please accept, Sir, the assurances of my highest consideration.

ANNEX 3. FUND RELATIONS NOTE

INTERNATIONAL MONETARY FUND

COM COMMUNICATIONS DEPARTMENT

Press Release No. 17/25
FOR IMMEDIATE RELEASE
January 27, 2017

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2016 Article IV Consultation with Morocco

On January 23, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation with Morocco.[18]

Morocco's macroeconomic conditions have improved since 2012, but growth has remained sluggish. In 2016, growth slowed due to a sharp contraction in agricultural output and subdued non-agricultural activity. The unemployment rate decreased to 9.6 percent in Q3 2016 while youth unemployment remains high at 21.8 percent. Headline inflation (year-on-year) reached 1.6 percent, reflecting higher food and energy prices.

External imbalances have fallen substantially since 2012, even though the current account deficit increased to 2.9 percent of GDP in 2016, against 2.2 percent in 2015. Strong manufacturing and agriculture exports, and a rebound in tourism and remittances, have more than offset the impact of increased equipment and food imports and low phosphate prices. As a result, and with continued robust foreign direct investment (FDI), international reserves strengthened to about seven months of imports.

Fiscal consolidation has continued with a deficit down from 4.4 percent in 2015 to about 4 percent of GDP against the objective of 3.5 percent of GDP for 2016. This reflects resilient tax revenues and well contained current expenditures, which offset the grant shortfall of about 0.3 percent of GDP and allowed for an increase in investment spending.

Banks are well capitalized and have stable funding, but nonperforming loans are rising and credit concentration risks, while declining, are still elevated. The expansion of Moroccan banks into Sub-Saharan Africa opens new channels of risk transmission, but cooperation with host country supervisors is intensifying and supervisory requirements for cross-border activities are being upgraded.

[18] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Morocco's medium-term prospects are favorable, with growth expected to rebound to 4.4 percent in 2017 and reach 4.5 percent by 2021. However, risks remain substantial, and relate mainly to growth in advanced and emerging countries, geopolitical tensions in the region, world energy prices, and global financial market volatility. Stronger medium-term growth will hinge on continued implementation of comprehensive reforms with regard to labor participation and labor market efficiency, access to finance, quality education, public spending efficiency, and further improvements to the business environment. Continued poverty reduction, and lower regional and gender disparities, will also be crucial to achieve higher, sustainable and more inclusive growth.

Executive Board Assessment[19]

Executive Directors commended the authorities for their sound macroeconomic policies and reforms, which have helped reduce domestic and external vulnerabilities, enhance the fiscal and financial policy frameworks, and increase economic diversification. Directors noted that, while the medium-term outlook is favorable, risks remain elevated. Against this backdrop, they welcomed the authorities' continued strong commitment to sound policies, and encouraged them to sustain their reform efforts to further reduce vulnerabilities and promote stronger job creation and more inclusive growth.

Directors commended the continued progress made in fiscal consolidation, particularly the recent containment of current spending, the energy subsidy reform, and the reform of the public pension system. Going forward, they encouraged the authorities to gradually reduce the level of public debt over the medium term while preserving pro-growth and social spending. Directors agreed that efforts should focus on accelerating tax reforms to broaden the tax base and on careful and well-planned implementation of the fiscal decentralization to mitigate any related fiscal risks. Directors also encouraged the authorities to reform the civil service to help contain the public wage bill.

Directors endorsed the currently accommodative monetary policy stance in the context of moderate inflation and the nascent credit growth recovery. They supported the authorities' intention to move gradually to a more flexible exchange rate regime and a new monetary policy framework, which will help preserve competitiveness and better insulate the economy against shocks. In this regard, Directors concurred that the conditions for a successful transition in 2017 are in place. Directors also encouraged the authorities to submit to parliament the draft central bank law, which will strengthen Bank Al-Maghrib's (BAM) independence and expand its roles in the promotion of financial stability and inclusion.

Directors welcomed that the banking sector remains sound and well capitalized, and stressed that rising non-performing loans, credit concentration risks, and the expansion into Sub-Saharan Africa require continued monitoring. They also welcomed BAM's continued efforts to strengthen the financial regulatory and supervisory framework in line with 2015 Financial

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[19] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: http://www.imf.org/external/np/sec/m/qualifiers.htm.

Sector Assessment Program recommendations, including ongoing advances on cross-border bank oversight, more risk-based and forward looking supervision, a stronger Macroprudential policy framework, and efforts to strengthen supervisory resources in view of expanding responsibilities.

Directors emphasized the importance of sustained implementation of structural reforms to promote higher and more inclusive growth. They recommended continued efforts to improve the business climate, particularly for small and medium-sized enterprises, including by enhancing their access to financing. Directors also called for improved labor market regulations as well as increased efficiency of public spending on education and vocational training that better addresses skill mismatches, which will be critical to bolster growth, reduce unemployment— especially among the youth—, lower gender gaps, and strengthen competitiveness. Directors welcomed ongoing efforts to reinforce the governance and oversight of public enterprises, and looked forward to further progress in implementing the national strategy to fight corruption.

ANNEX 4: DEBT SUSTAINABILITY ANALYSIS[20]

Morocco's public debt remains sustainable. While the gross debt-to-GDP ratio declined between 2000 and 2010, external shocks and domestic factors have caused the ratio to rise again since then. Nevertheless, at about 64.1 percent of GDP at the end of 2015, public debt remains sustainable, and the DSA shows it to be resilient to various shocks. Vulnerabilities linked to the level and profile of the debt appear to be moderate for the most part. Gross financing needs (mainly linked to the rollover of existing debt) have exceeded the benchmark of 15 percent of GDP in 2014, but are now declining, further mitigating rollover risks.

This DSA updates the analysis conducted at the request for an arrangement under the Precautionary and Liquidity Line. The overall analysis is largely unchanged, and public debt remains sustainable. A slight downward revision to the real output growth projections for 2016–21 has not affected the debt to GDP ratio significantly given that the authorities maintain their deficit target for 2016-17 unchanged (3.5 percent and 3 percent of GDP respectively), plan to finance a portion of those deficits through deposits and privatization proceeds (for 2016), and intend to put the debt to GDP ratio on a downward path over the medium term.

After declining in the previous decade, Morocco's public debt to GDP ratio started rising in 2010 following a deterioration in its macroeconomic performance. Rising international commodity prices contributed to a significant increase in the fiscal deficit, mainly through higher food and fuel subsidies, and public debt rose from 48 percent of GDP in 2009 to about 64.1 percent in 2015. About half of this increase occurred in 2012, when the economy was most affected by the crisis in Europe (Morocco's main trade partner) and higher oil prices, and the authorities encountered difficulties in containing the fiscal deficit. The increase in public debt to GDP over the past three years has been mostly driven by the levels of the primary deficit and higher-than expected real interest rate/growth differential. However, the authorities' ongoing fiscal consolidation efforts are expected to help bring the debt ratio down to 60 percent of GDP by 2020.

Public debt is generally resilient to shocks, but there are residual risks linked to financing needs and, to a lesser extent, to shocks to growth and the primary balance (heat map). Baseline projections are realistic when compared to a group of market access countries. Morocco's projected fiscal consolidation efforts, aimed at lowering the overall deficit to about 2.4 percent of GDP in the medium term, do not appear exceptional relative to the distribution of other country cases. The debt level remains well below the debt burden benchmark of 70 percent of GDP for emerging markets when various shocks are assumed, except in cases of shocks to real GDP growth or to the primary balance where it slightly approaches the benchmark. Vulnerabilities linked to the profile of debt are mostly moderate and short-term debt still represents a very small part of the total debt (about 5 percent). Relevant indicators exceed the lower early-warning benchmarks but not the upper risk assessment benchmarks (chart). Gross financing needs, which exceeded the benchmark of 15 percent in 2014, declined under that benchmark in 2015, and are expected to continue declining over the medium term due to a lengthening of average maturities through improved debt management. Although gross financing needs could increase under the shock scenario, the nature of the investment base (mostly local investors, many of whom are long-term investors) mitigates the associated risks. Nonetheless, these risks highlight the importance of continuing on the path of fiscal consolidation to reduce debt-financed deficits, and of carefully managing the maturity profile of public debt.

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[20] 2016 IMF Article IV Consultation (published February 2017). Source: http://www.imf.org/external/pubs/ft/scr/2016/cr16265.pdf. IMF figures may different from figure 1 in main program document due to differences in coverage.

External Debt Sustainability

Risks to external debt sustainability are contained. Morocco's external debt to GDP is expected to decline slightly to 32.4 percent of GDP in 2016, and decline to 27.2 percent of GDP in the medium term due mainly to steady GDP growth, as well as strong FDI inflows reducing the need for external borrowing. The structure of external debt entails limited vulnerabilities: 75 percent is owed to official bilateral and multilateral creditors with long maturities, and about 75 percent carries fixed-rate terms. The external debt position remains resilient to a range of shocks (Figure 6); in the event of a large depreciation, external debt is projected to increase from 27 to 40 percent of GDP by 2021.

Figure 1. Morocco: Public Sector Debt Sustainability (DSA)—Baseline Scenario

(In percent of GDP, unless otherwise indicated)

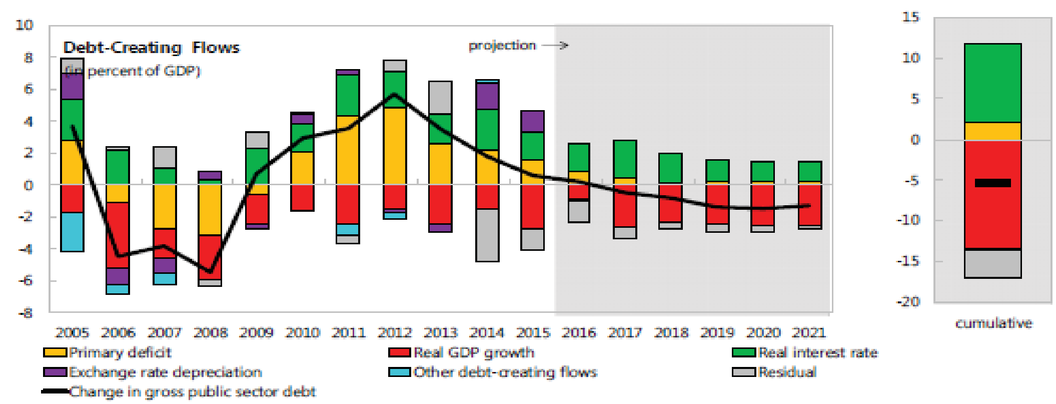
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2005-2013 [2/]	2014	2015	2016	2017	2018	2019	2020	2021
Nominal gross public debt	53.1	63.5	64.1	64.3	63.8	62.9	61.5	60.0	58.7
Public gross financing needs	13.6	16.6	13.6	9.9	11.0	10.2	8.8	7.4	6.1
Real GDP growth (in percent)	4.6	2.6	4.5	1.5	4.4	3.9	4.1	4.4	4.5
Inflation (GDP deflator, in percent)	1.4	0.3	1.7	1.6	0.3	1.0	1.5	1.5	1.5
Nominal GDP growth (in percent)	6.1	2.9	6.3	3.1	4.7	5.0	5.7	6.0	6.1
Effective interest rate (in percent) [4/]	5.3	4.6	4.7	4.3	4.2	4.1	3.9	3.7	3.8

As of November 07, 2016		
Sovereign Spreads		
Spread (bp) 3/		138
CDS (bp)		181
Ratings	Foreign	Local
Moody's	Ba1	Ba1
S&Ps	BBB-	BBB-
Fitch	BBB-	BBB

Contribution to Changes in Public Debt

	Actual			Projections							
	2005-2013	2014	2015	2016	2017	2018	2019	2020	2021	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	0.7	1.8	0.6	0.2	-0.5	-0.8	-1.4	-1.5	-1.3	-5.3	
Identified debt-creating flows	0.1	5.0	2.0	1.5	0.2	-0.4	-0.9	-1.1	-1.1	-1.9	
Primary deficit	1.0	2.2	1.6	0.9	0.4	0.1	0.2	0.2	0.2	2.1	-1.3
Primary (noninterest) revenue and gra	27.7	28.1	26.5	26.7	26.0	26.9	27.6	27.9	28.0	163.1	
Primary (noninterest) expenditure	28.7	30.3	28.1	27.6	26.4	27.0	27.8	28.1	28.3	165.1	
Automatic debt dynamics [5/]	-0.4	2.6	0.4	0.8	-0.3	-0.6	-1.1	-1.3	-1.3	-3.8	
Interest rate/growth differential [6/]	-0.4	1.1	-1.0	0.8	-0.3	-0.6	-1.1	-1.3	-1.3	-3.8	
Of which: real interest rate	1.9	2.6	1.7	1.7	2.4	1.8	1.3	1.2	1.2	9.7	
Of which: real GDP growth	-2.3	-1.5	-2.7	-0.9	-2.7	-2.4	-2.5	-2.5	-2.5	-13.5	
Exchange rate depreciation [7/]	0.0	1.6	1.4	...	...	...	...	...	...	...	
Other identified debt-creating flows	-0.5	0.2	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	-0.1	
CG: Privatization Proceeds (negative)	-0.5	0.2	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	-0.1	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
(Specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	0.6	-3.3	-1.4	-1.3	-0.7	-0.4	-0.5	-0.4	-0.2	-3.5	



Source: IMF staff.

1/ Public sector is defined as central government.

2/ Based on available data. Moody's credit rating is unsolicited.

3/ Bond Spread over U.S. Bonds.

4/ Defined as interest payments divided by debt stock at the end of previous year.

5/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the denominator in footnote 4 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).

8/ For projections, this line includes exchange rate changes during the projection period.

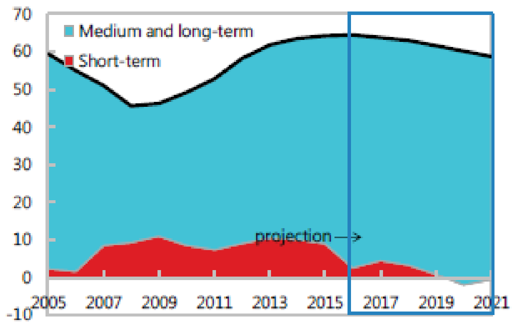
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 2. Morocco: Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

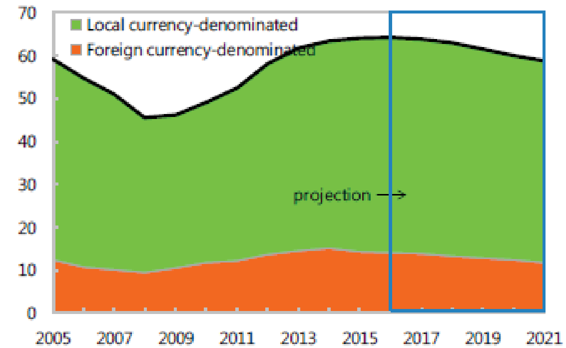
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

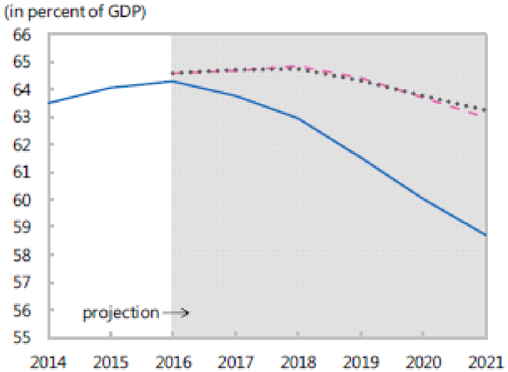


Alternative Scenarios

Baseline Historical Constant Primary Balance

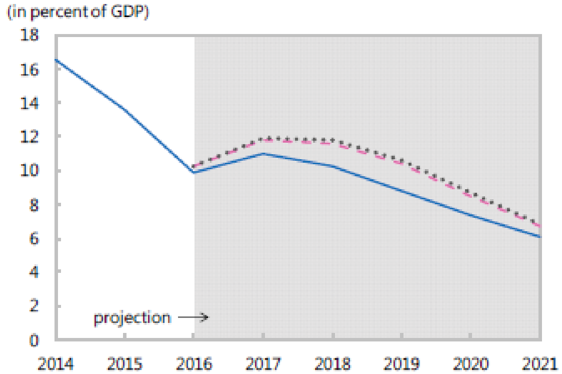
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

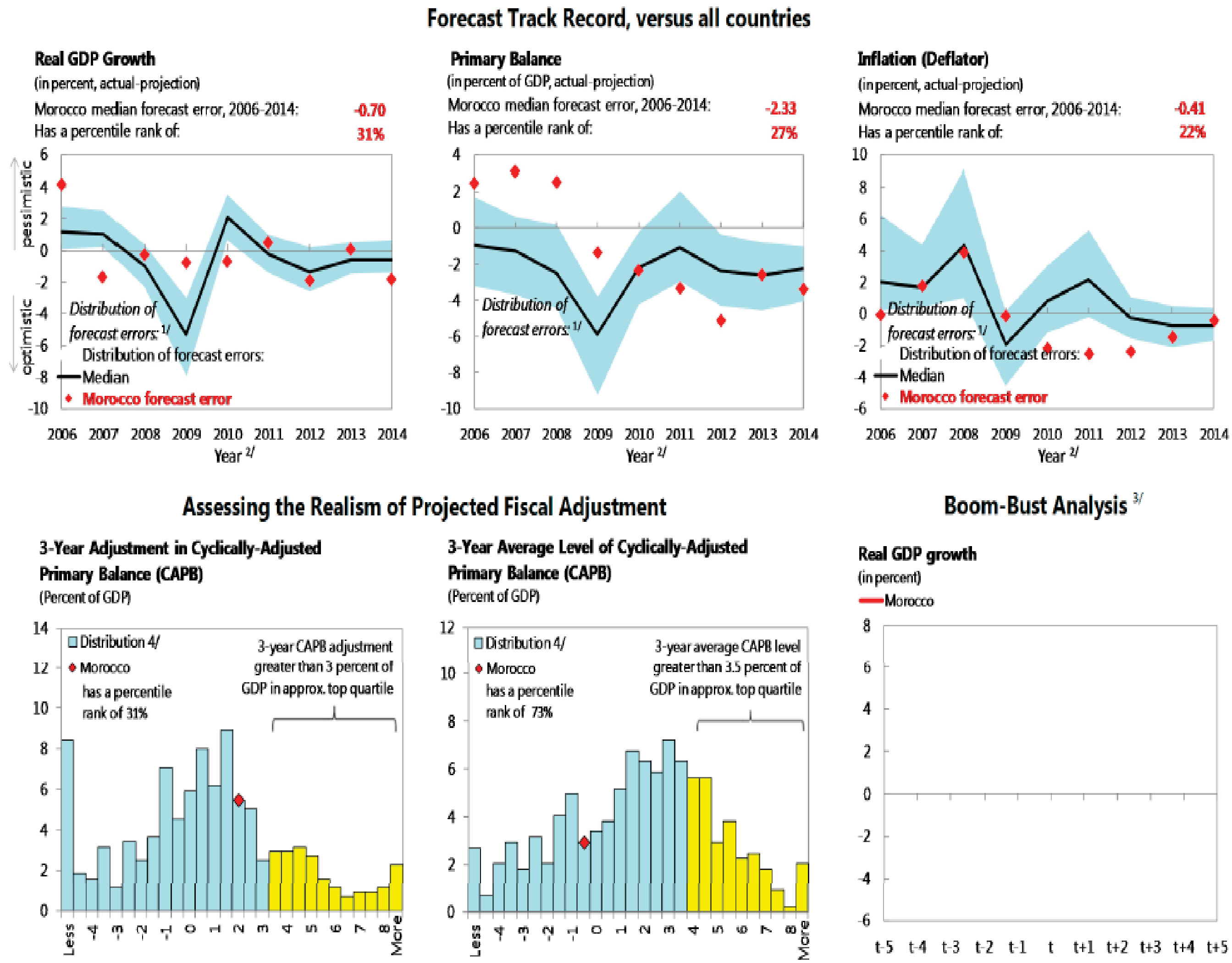
(in percent)

Baseline Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	1.5	4.4	3.9	4.1	4.4	4.5
Inflation	1.6	0.3	1.0	1.5	1.5	1.5
Primary Balance	-0.9	-0.4	-0.1	-0.2	-0.2	-0.2
Effective interest rate	4.3	4.2	4.1	3.9	3.7	3.8
Constant Primary Balance Scenario						
Real GDP growth	1.5	4.4	3.9	4.1	4.4	4.5
Inflation	1.6	0.3	1.0	1.5	1.5	1.5
Primary Balance	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Effective interest rate	4.3	4.7	4.6	4.5	4.2	3.9

Historical Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	1.5	4.5	4.5	4.5	4.5	4.5
Inflation	1.6	0.3	1.0	1.5	1.5	1.5
Primary Balance	-0.9	-1.0	-1.0	-1.0	-1.0	-1.0
Effective interest rate	4.3	4.7	4.7	4.7	4.4	4.0

Source: IMF staff.

Figure 3. Morocco: Public DSA—Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

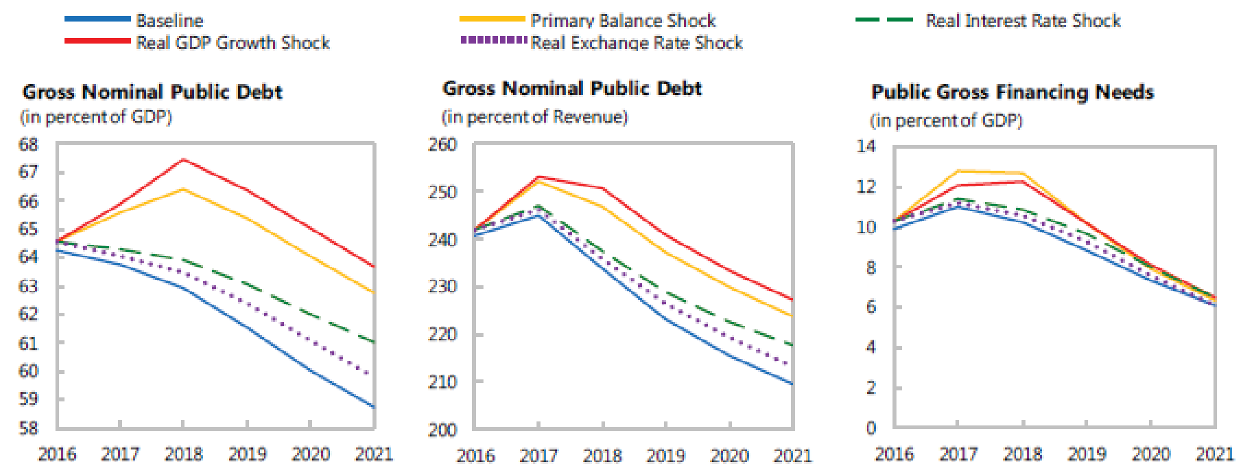
2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Morocco.

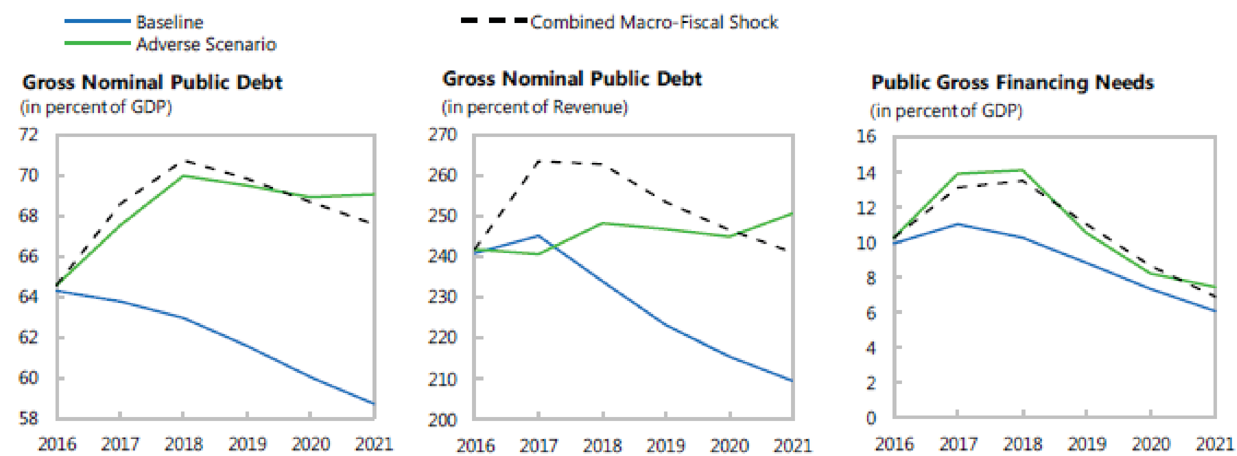
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. Morocco: Public DSA—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2016	2017	2018	2019	2020	2021
Real GDP growth	1.5	4.4	3.9	4.1	4.4	4.5
Inflation	1.6	0.3	1.0	1.5	1.5	1.5
Primary balance	-0.9	-1.8	-1.5	-0.2	-0.2	-0.2
Effective interest rate	4.3	4.7	4.6	4.6	4.2	3.9
Real Interest Rate Shock						
Real GDP growth	1.5	4.4	3.9	4.1	4.4	4.5
Inflation	1.6	0.3	1.0	1.5	1.5	1.5
Primary balance	-0.9	-0.4	-0.1	-0.2	-0.2	-0.2
Effective interest rate	4.3	4.7	4.8	4.9	4.6	4.4
Combined Shock						
Real GDP growth	1.5	2.9	2.5	4.1	4.4	4.5
Inflation	1.6	-0.1	0.7	1.5	1.5	1.5
Primary balance	-0.9	-1.8	-1.5	-0.2	-0.2	-0.2
Effective interest rate	4.3	4.7	4.8	5.0	4.6	4.4
Adverse Scenario						
Real GDP growth	1.5	2.7	2.3	2.5	2.8	2.8
Inflation	1.6	0.3	1.0	1.5	1.5	1.5
Primary balance	-0.9	-2.8	-2.1	0.4	0.0	-0.7
Effective interest rate	4.3	4.7	4.7	4.8	4.3	4.0

Real GDP Growth Shock	2016	2017	2018	2019	2020	2021
Real GDP growth	1.5	2.9	2.5	4.1	4.4	4.5
Inflation	1.6	-0.1	0.7	1.5	1.5	1.5
Primary balance	-0.9	-0.9	-1.1	-0.2	-0.2	-0.2
Effective interest rate	4.3	4.7	4.6	4.6	4.2	3.9
Real Exchange Rate Shock						
Real GDP growth	1.5	4.4	3.9	4.1	4.4	4.5
Inflation	1.6	3.5	1.0	1.5	1.5	1.5
Primary balance	-0.9	-0.4	-0.1	-0.2	-0.2	-0.2
Effective interest rate	4.3	4.7	4.5	4.4	4.1	3.8

Source: IMF staff.

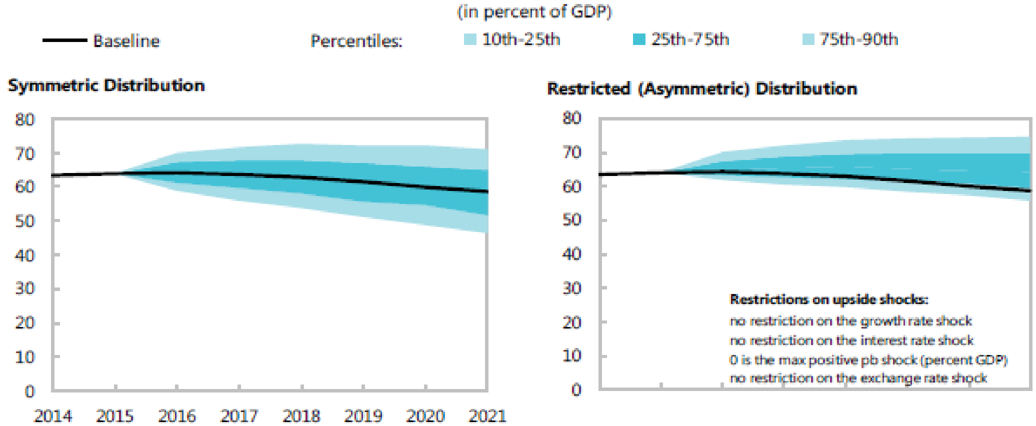
Figure 5. Morocco: Public DSA—Risk Assessment

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

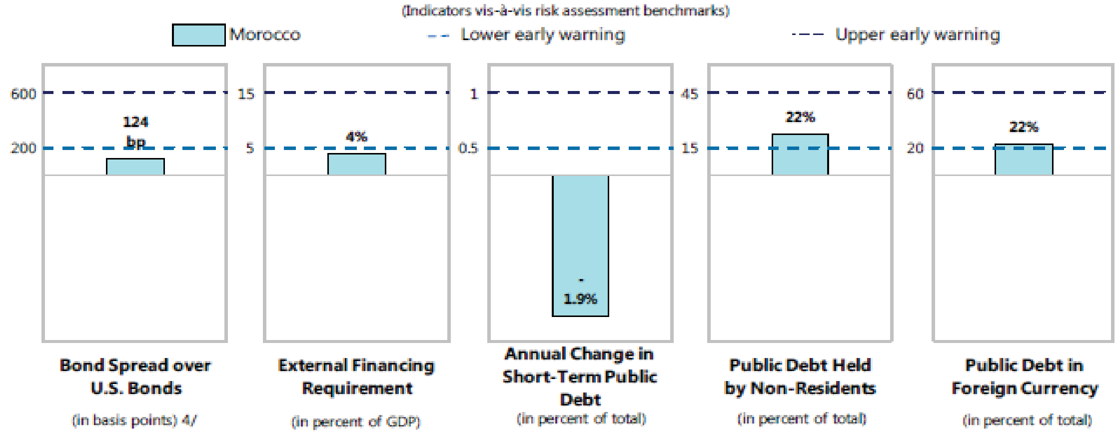
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70 percent is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15 percent is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ An average over the last 3 months, 09-Aug-16 through 07-Nov-16.

ANNEX 5: FINANCIAL INCLUSION AND UNIVERSAL ACCESS POLICIES

1. The Kingdom of Morocco, led by the Ministry of Economy and Finance (MEF) and the Central Bank (Bank Al-Maghrib – BAM), has made significant investments to promote access to finance for households and enterprises. Financial inclusion—access and usage of quality financial services, including credit, savings, insurance, and transfer services— is central to the Government of the Kingdom of Morocco's (GoM) broader goal of modernizing the role of finance to promote private sector led development, particularly for micro, small, and medium-size enterprises (MSMEs). Access to savings and payments has been strongly linked to poverty reduction through increased incomes, lower vulnerability, and consumption smoothing, while access to financing (credit and equity) is critical for firms to expand to improve their competitiveness and for households to access housing. Morocco has delivered steady gains in financial inclusion and access owing to programs targeting small/young firms (guarantees, public-private co-investing and co-lending, BAM refinancing of MSME loans), low-income housing (guarantees), and lagging regions (postal bank, decentralization of guarantee agency, low-income banking, microfinance, and crop insurance).

2. Private credit to GDP (64 percent) and household credit to GDP (31 percent) are above regional and income group averages.[21] Part of this growth has translated into gains in access: the share of SMEs with a loan or line of credit has doubled since 2007, and an estimated 41 percent of Moroccan adults use a formal financial product or service, placing Morocco above regional and income group averages (figure 4.1). Some 13 million people, however, are financially excluded to some degree and are disproportionately female or poor living in rural areas. The banking sector is not equipped to address their needs, and the microcredit sector is limited because of a restrictive legal and regulatory environment.

3. **Authorities' policies and milestones.** Financial inclusion is supported through strong leadership and commitment of authorities at the highest levels. BAM has historically taken the lead on financial inclusion, financial literacy, consumer protection, and branchless banking measures. BAM is a member of the alliance for financial inclusion and a signatory of the Maya Declaration.[22] The MEF has engaged on microfinance, SME, and housing finance issues. Coordination between both authorities has intensified in recent months, most notably around a National Financial Inclusion Strategy (NFIS). Key milestones include the following:

- **The transformation of Morocco Post into a commercial bank.** It has opened on average 500,000 new accounts per year since its creation, exceeding 6 million accounts in 2015.
- **Low-income banking.** BAM's directive of 2010, mandates banks to provide 16 basic services for free. The directive also instructs banks to offer deposit accounts without a minimum balance.

[21] Source: IMF Financial Access Survey Data (2015) and World Bank FAP Technical Note (2017).

[22] The Maya Declaration is a statement of common principles regarding the development of financial inclusion policy made by a group of developing nation regulatory institutions during the Alliance for Financial Inclusion's 2011 Global Policy Forum held in Mexico.

- **BAM finalizing the regulatory and oversight framework** to facilitate the provision of payment services by banks and nonbanks, including innovative forms of payment like mobile money.
- **Loan guarantee programs** supporting access to finance for MSMEs and low-income households.
- **Consumer protection and financial literacy** to strengthen the quality and sustainability of financial access; 2012 creation of the National Foundation for Financial Literacy housed at BAM; 2014 nationally representative financial literacy survey; and 2016 update of financial inclusion data.
- **Revamp of secured transactions framework and improved legal and regulatory environment for participatory banking**

4. **Morocco's National Financial Inclusion Strategy.** Authorities are developing a National Financial Inclusion Strategy (NFIS) with the objective of coordinating the various financial inclusion activities across the Kingdom and developing a roadmap for action among key stakeholders, including key metrics for monitoring and evaluation. The strategy will also assess and propose new initiatives to meet financial inclusion goals for both households and enterprises. Authorities are also updating financial inclusion data for Morocco, which has not been completed since 2011, thus enhancing the analytical base informing financial inclusion trends. A workshop formally launching the strategy development process is planned for May 22, 2017. This strategy is in line with the World Bank's Universal Financial Access (UFA) 2020 initiative – the goal being for adults globally to have access to an account or electronic instrument to store money and send and receive payment, as the basic building blocks to manage their financial lives. Morocco is one of the 25 priority countries.

5. **World Bank Group engagement.** The World Bank Group provides knowledge and lending to Morocco, including development policy lending, analytical work, and technical assistance on microfinance, financial literacy and consumer protection, regulation and supervision of mobile payment, SME banking, and low-income housing finance.

Analytical Work and Technical Assistance

- **2015 FSAP Update** - diagnosed vulnerabilities and analyzed development priorities in the financial sector and supported a coordinated dialogue with the national authorities.[23]
- **Transition Fund Microfinance Project (FY14–FY18)** a technical assistance program implemented by the Moroccan Ministry of Finance and focused on modernization of sector's regulatory/legal framework, supporting an NFIS, and driving sustainable expansion of the microfinance sector.
- **Transition Fund Project to promote housing finance for low-income households and households in lagging regions** through technical assistance to improve the outreach and efficiency of the housing loan guarantee program and related consumer protections measures.

[23] https://www.imf.org/external/pubs/ft/scr/2016/cr1637.pdf

- **Morocco micro, small, and medium-size technical assistance facility** focused primarily on SME finance, including institutional support to the Kingdom's credit guarantee agency.
- **Technical assistance on oversight and regulation of nonbank providers of payment services** supports the development of an oversight framework for effective oversight of these providers.
- Over the past 10 years, IFC has engaged with the three largest microfinance institutions in Morocco on technical assistance and advisory projects with the objectives to (i) reinforce their product offering, corporate governance, internal control and risk management systems to allow for sustainable growth, particularly in the aftermath of the microfinance crisis in the country and (ii) support IFC's investments in these institutions.
- **MSME banking** – IFC has an ongoing advisory project with Banque Centrale Populaire, one of the largest banks in the Middle East and North Africa Region, to help the institution expand its outreach to micro-enterprises.

Financing

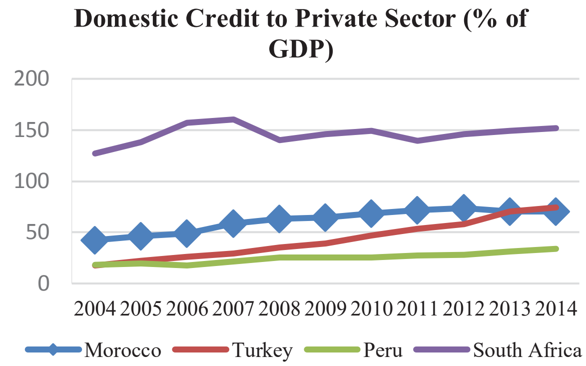
- **Second Capital Market Development and SME Finance DPL** include a pillar on fostering solutions for the financing of small and young enterprises and universal financial access.
- **Financing Innovative Startups and SMEs** which supports the development of an ecosystem for entrepreneurship and young firm growth through early-stage seed financing.
- **IFC** supports the largest microfinance associations through debt and guarantee packages (Fondation Al Amana in 2007, Fondation Albaraka in 2006 and 2012 and Fondation Attawfiq in 2013) and continues to engage with these institutions on debt and innovative capital market financing to help them scale-up their outreach and mobilize additional private sector funding. In addition, in 2012, IFC has made an equity investment in Banque Centrale Populaire, Morocco's second largest bank, to help consolidate its leadership position on the MSME segment. In 2008-2014, IFC also invested in several regional private equity funds (Mediterrania II, Capital North Africa Venture Funds, etc.) that support the growth of high potential SMEs.

Coming milestones of Morocco's Financial Inclusion Agenda

- Reform of the CCG for MSME finance and low-income housing finance
- Review the current ceiling on lending rates that prevents financial institutions from adequately pricing loans associated with higher cost or risk
- Amend the legal and regulatory framework for microfinance to enable microfinance institutions qualified under BAM criteria to provide basic services, including savings accounts
- Reduce the use of cash across the economy
- National Financial Inclusion Strategy

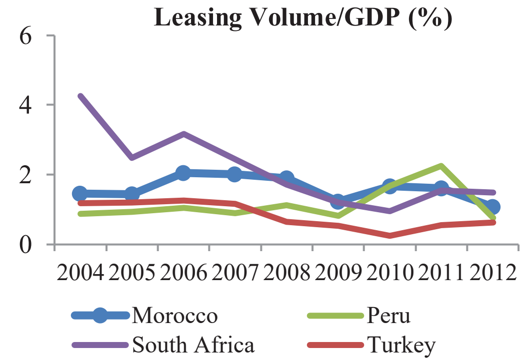
Figure 5.1. Financial Inclusion: Achievements

Steady growth in credit to the private sector …

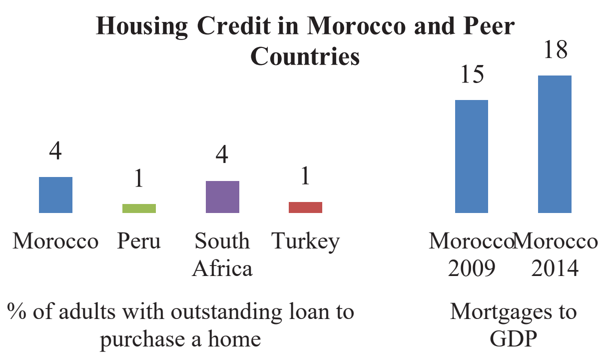


Source: World Bank World Development Indicators

... alternative financing such as leasing also ranking well

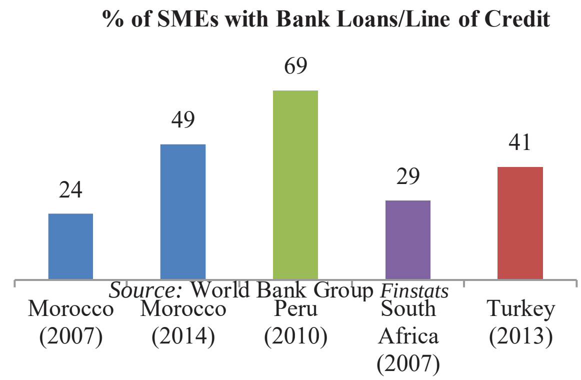


Access to housing finance compares favorably to peers ...



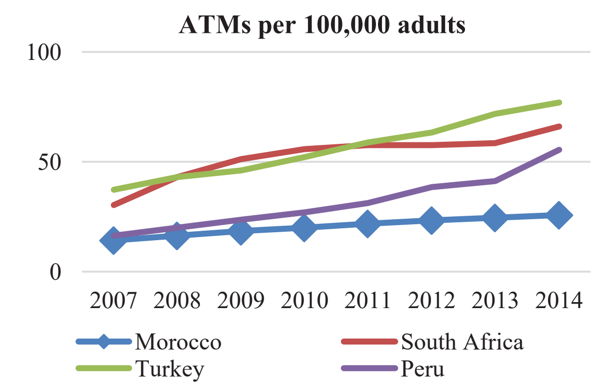
Source: 2011 World Bank Global Findex, BAM

... while MSMEs report having increasing access to bank credit



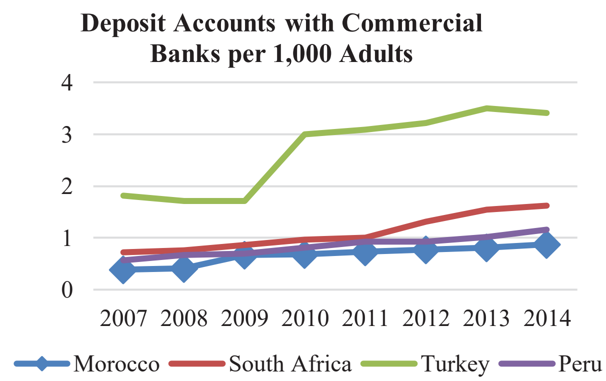
Source: World Bank Enterprise Surveys

Expansion of financial access points …



Source: IMF Financial Access Survey.

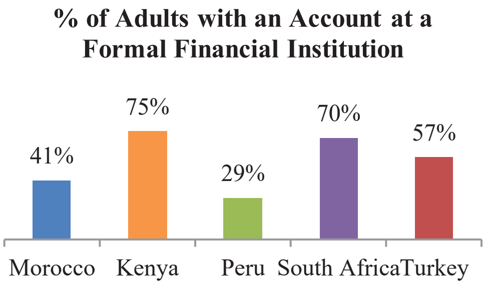
... higher density of deposit accounts, though not as much progress as peers



Source: IMF Financial Access Survey.

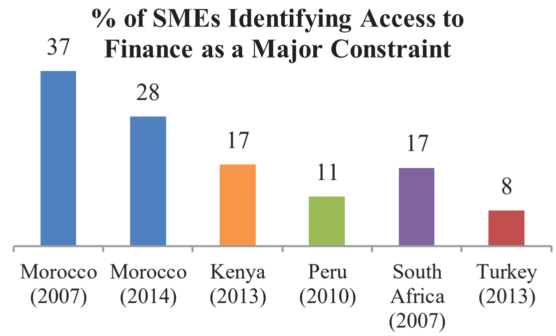
Figure 5.2. Financial Inclusion: Challenges

Large segments of the population remain excluded ...



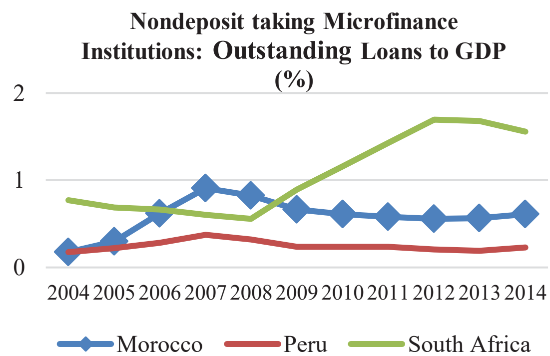
Sources: 2014 World Bank Financial Capability Survey (Morocco), 2014 Global Findex (Kenya, Peru, South Africa, and Turkey).

... and a significant proportion of MSMEs still identify access to finance as a barrier.



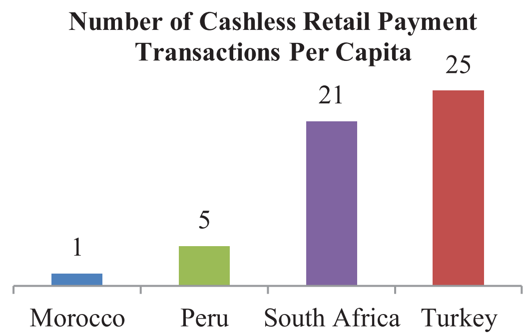
Source: World Bank Enterprise Surveys.

Microfinance stagnation since the 2008 crisis



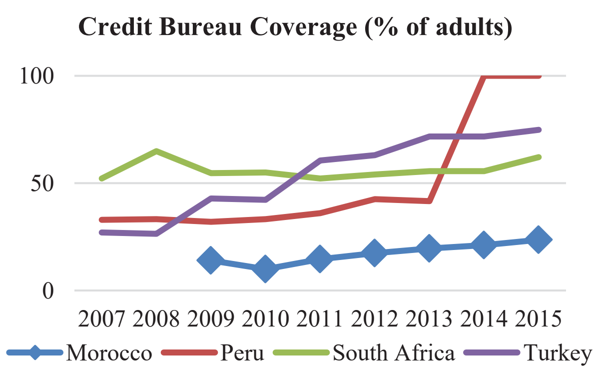
Source: IMF Financial Access Survey.

Use of electronic payment instruments remains low



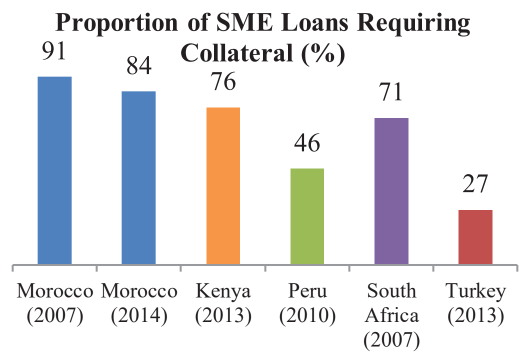
Source: World Bank Global Payment Systems Survey (2010).

Coverage of the credit information system lags peers significantly ...



Source: World Bank Doing Business Database.

... while collateral requirements to access financing remain high for MSMEs



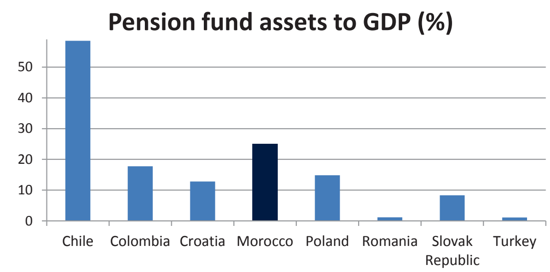
Source: World Bank Enterprise Surveys.

ANNEX 6: POVERTY AND SOCIAL IMPACT OF CIVIL SERVICE PENSION REFORM[24]

1. Morocco's pension system comprises four funds holding financial assets worth 26 percent of GDP:

Public sector funds:

- CMR (mandatory pay-as-you-go scheme for the civil service): assets under management (AUM): 8 percent of GDP;
- RCAR (mandatory pay-as-you-go scheme for employees of public enterprises and non-commercial agencies of the general government): AUM 10 percent of GDP.



Source: Global Financial Development database, as of 11/2015.

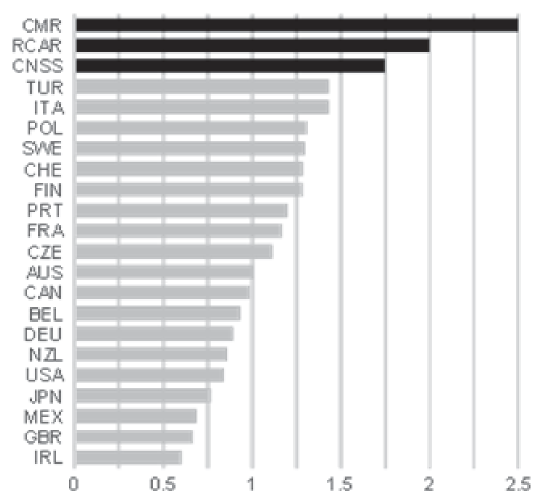
Private sector funds:

- CNSS (mandatory pay-as-you-go scheme for salaried employees of the private sector): AUM 4 percent of GDP.
- CIMR (voluntary partially funded scheme for the private sector): AUM 4 percent of GDP.

2. An international comparison of accrual rates and replacement rates shows that Morocco's pension system parameters are generous (Figure 6.1). The pension funds were set up in the 1970s at a time when labor demographics and life expectancy allowed Parliament to set favorable parameters.

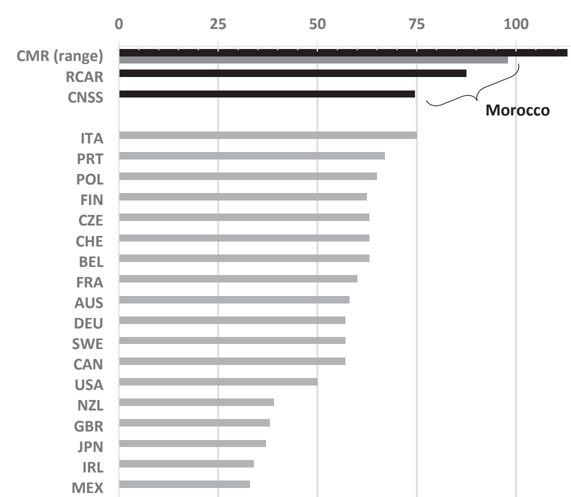
Figure 6.1: Unaffordable Pension System Parameters, Morocco v. Selected OECD

Accrual Rates



Pension rights per year of contribution, % of salary

Replacement Rates



Pension as % of after-tax salary.

Sources: World Bank staff calculations; ACAPS; OECD.

3. Successive governments have made it clear to the public since 2003 that three schemes are unsustainable to varying degrees because of the increasingly adverse demographics of their respective contributors and retirees. The financial reserves of the civil service fund (CMR, currently 302,000 retirees of which 40 percent are survivors, overwhelmingly women) are projected to run out by 2022; the reserves of the main private sector fund (CNSS, currently 500,000 retirees) are projected to run out by 2039 (Table

[24] Data used in this poverty and social impact analysis are the 2007 National Household Survey (for the general population) and 2016 data from Morocco's insurance and pension fund authority (for the population of retirees and salaried employees).

6.1). The pension fund for public enterprises (RCAR, 100,000 retirees) will exhaust its reserves in 2038. As in all defined benefits pension schemes around the world, restoring sustainability requires a combination of higher contributions and lower benefits (so-called parametric reform).

Table 6.1: Morocco: Pension System Summary, 2016

as of June 2016	Public sector		Private sector	
	CMR	RCAR	CNSS	CIMR
No of contributors (millions)	**0.7**	0.1	3.2	0.3
No of beneficiaries (millions)	**0.3**	0.1	0.5	0.2
Cash-flow (MAD billions)	**-6.0**	-2.8	-0.2	1.3
(in percent of GDP)	**-0.6%**	-0.3%	-0.0%	0.1%
Reserves (MAD billions)	**83**	98	38	43
(in percent of GDP)	**8.2%**	9.6%	3.7%	4.2%
Year when reserves run out	**2022**	2038	2039	> 2060

Source: ACAPS.

4. Parametric reform of the CMR civil service fund is most urgent. CMR financial reserves are projected to run out first, reflecting growing deficits in relation to reserves. Without reform, CMR trustees would sell reserves in the market, setting back the development of local capital markets and increasing long-term interest rates in the economy. To avoid this scenario, the budget of the central government could instead cover CMR deficits.[25] However, using the general budget for this purpose would add 5 percentage points to the deficit by 2022 (Figure 6.2), and potentially jeopardize spending in priority areas such as social spending, infrastructure investment and maintenance.

5. The need for pension reform has featured prominently in the national policy debate over the better part of the past decade. The design of the parametric pension reform has benefited from poverty and social impact analysis undertaken by the Government, local think tanks, and international organizations (including by the World Bank and ILO) and has been informed by a wide range of consultations with multiple stakeholders. The Government created in 2003 a National Commission of stakeholders chaired by the Head of Government. The Commission comprised trade unions, employers' association, government and management of pension funds. The National Commission established a Technical Commission of same composition to conduct actuarial work and technical consultations, as well as build awareness among representatives of trade unions. The Technical Commission met 80 times; the National Commission met 10 times since 2003, seven of which chaired by the current Head of Government. (Table 6.2).

6. The ILO published in 2012 a report[26] that reviewed and endorsed the thrust of the reform proposals prepared by the Technical Commission: a three-stage reform, starting with the parameters of the civil service pension fund. Stage 2 involves merging the pension fund of the civil service (CMR) with the pension fund of the public enterprises (RCAR), accompanied by a second parametric reform of the merged fund and by the creation of a voluntary defined contribution scheme. Stage 3 involves the merging of the private pension funds and extension of coverage. This PSIA concerns stage one.

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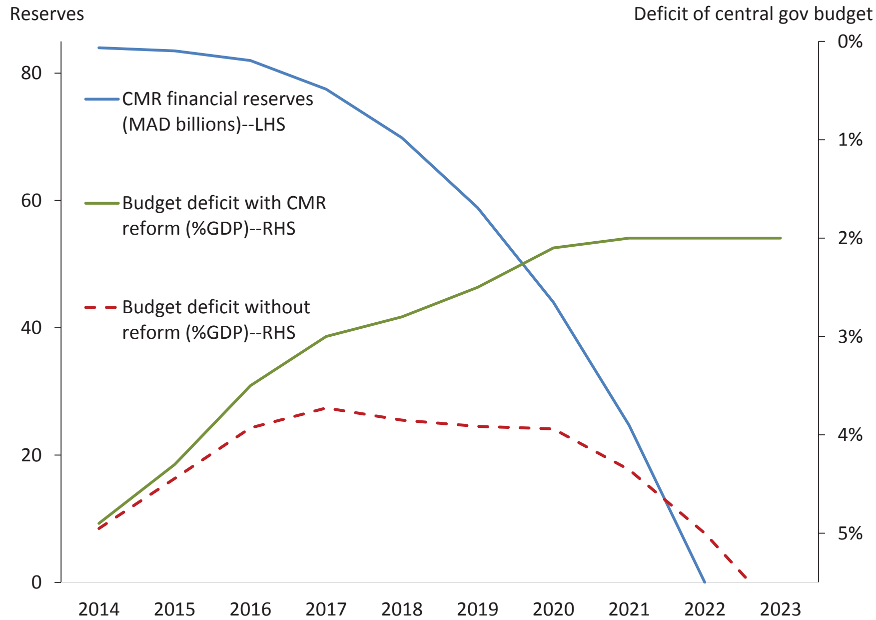
[25] The budget has been covering the deficits of the pension fund for the military service since 2013, as provided by the 1971 law that established this fund.

[26] International Labor Org., *Maroc : Révision d'une série de rapports concernant la réalisation d'une étude sur la réforme des retraites*, Genève: 2012.

Figure 5.2: Impact of Pension System Parameters on Budget Deficit with and without CMR Reform



Source: World Bank staff projections.

7. The National Commission also requested formal opinions from the *Cour des Comptes and the Conseil Economique, Social et Environnemental*. In published reports,[27] both agencies acknowledged the urgency of reforming the civil service pension fund (stage 1), proposed longer phase-in of some parameters, and emphasized the importance for future governments to carry out stages 2 and 3 in order to achieve goals of equity, efficiency, sustainability and adequacy.

Table 6.2. PSIA Underpinnings of the Civil Service Pension Reform

PSIA Questions:	**PSIA Findings**
1. Which reforms addressed in the Development Policy Operation were chosen for poverty and social impact analysis and why?	Reform of civil service pension fund. Civil servants are better paid, both during employment and when they retire, than the rest of the population. However, the large majority of employees and retirees live in urban centers, where social tensions can be a concern.
2. Through what reform mechanisms are reforms carried out?	Extensive consultations and negotiations with trade unions over past decade (see paragraph 5 above for detail). Parliament adopted legislation supporting stage one of pension reform in July 2016.

[27] Cour des Comptes, *Rapport sur le systeme de retraite au Maroc*, Rabat, 2013; Conseil Economique, Social et Environnemental, *Avis sur les projets de lois relatives au regime des pensions civiles*, Rabat, 2014.

PSIA Questions:	PSIA Findings
3. Which stakeholders are likely to be affected by the reform, positively or negatively? Which stakeholders are likely to affect the reform?	660,000 employees of the civil service. Pension rights accrued until 2016 are protected. Thereafter, pension rights become progressively less generous for all employees, although the changes are phased in over several years. Employees earning the least will however see an increase in pension income once they retire, compared to the current system. 306,000 current retirees and survivors of the civil service and their dependents. The lowest earning current retirees are better off (50% increase in minimum pension). No change for the others. A large majority of employees, retirees and their families live in urban areas that tend to be socially lagging. Most survivorship pensions are paid to women. Civil service unions staged several strike actions.
4. By which transmission channels will these groups or institutions be affected? By which transmission channels are they likely to affect the reform?	• Social security contributions deducted from the wages of civil service employees. • Transfers from higher earning future retirees to less well-off current and future retirees.
5. What are the impacts' expected direction and order of magnitude on the groups likely to be most affected? What are the key assumptions on which these impacts are predicated? (Specify the information or tools.)	• Short-run impact on retirees: the reform increases by 50% the pensions of least well-off retirees; higher earning future retirees slightly worse off. • Phased increase in a) retirement age and b) social security contributions of employees mitigates short-run impact, especially on employees close to retirement. • Long-run impact: all categories of civil service retirees are better off in present value terms. • Indirect impact: without reform, the cost of pensions would likely fall on general budget.
6. What are the main risks that could change a reform's expected impact? What is the likelihood of risks or their expected magnitude?	The reform has three stages: the CMR reform is the first stage. Overall pension reform success assumes that stages 2 and 3 are implemented within next ten years. Implementation risks would decline in case the economy delivers higher growth. Political economy and government commitment will remain key over the entire period of pension reform implementation.
7. How have the research findings been disseminated in country? Has the poverty and social impact analysis been publicly disclosed? What have been the governance mechanisms for decision-making? Which stakeholders have actively participated in the	• Since 2003, National Commission chaired by Head of Government, comprising trade unions, employers' association, government and management of pension funds; actuarial work devolved to Technical Commission of same composition. • National Commission met 10 times since 2003, 7 of which under current Government. Technical Commission met 80 times • 2012: ILO review endorsed proposal of Technical Commission; proposed defined contribution pillar to supplement a less generous defined benefit pillar.

PSIA Questions:	**PSIA Findings**
poverty and social impact analysis?	• 2013: review by *Cour des Comptes* supported the reform • 2014: review by *Conseil Economique, Social et Environnemental*—CESE recommended more gradual phase-in of reform. • 2015: meetings of National Commission led Government to agree 50% increase in min pension • Jan-Jul 2016: parliamentary debates and votes; Government accepts more gradual phase-in of higher retirement age. • The PSIA will be disclosed with the publication of this Project Document.
8. What is the process for feeding the analysis into national policy discussions? What impact is the PSIA expected to have on policy?	• ILO and CESE reviews, National Commission and parliamentary debates led the Government to undertake adjustments to mitigate impacts on least well-off civil service retirees and employees.

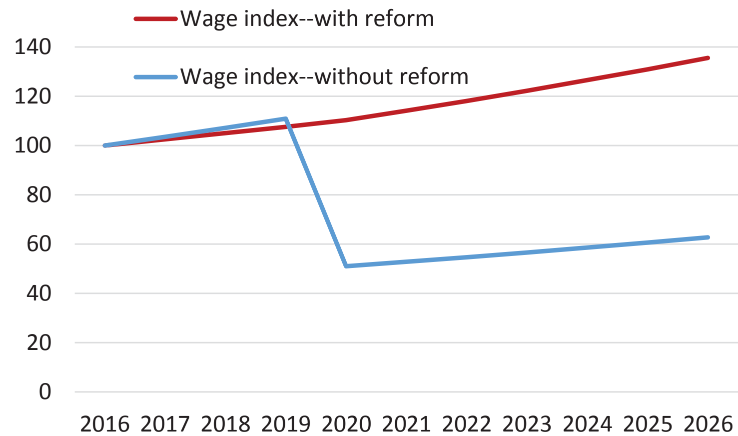
8. The Government released the contours of its proposal in the 2013 Budget Law. Following several meetings of the National Commission during 2014-2015, the Government made adjustments agreed with the trade unions to mitigate some of the impacts of the reform on the least well-off civil servants. In January 2016, the Government transmitted its proposal for parametric reform of the civil service pension fund to Parliament. Reviews and debates in both chambers of Parliament led to further adjustments. In July 2016, Parliament adopted a reform that mitigates the impacts (Table 6.3):

- on civil service employees: longer-phase-in of all parameters;
- on the least well-off civil service retirees: the Government agreed a 50 percent increase in minimum pension.

The Government has estimated the budget impact of the reform (higher employer contributions) at $700 million for 2016-19.

9. The civil service pension reform that Parliament adopted in July 2016 safeguards the pension rights that current employees and retirees have accrued until July 2016, as well as improve the pension income of employees at the bottom of the income distribution. The reform would protect an important aspect of the social contract—old-age safety net. Indeed, without reform, the law governing the civil service pension fund forces its trustees to increase salary contributions two years before financial reserves run out. This decision point would fall somewhere in 2019-20. Trustees are legally bound to increase contributions thereafter enough to rebuild reserves for ten more years of benefits. In this scenario, it is estimated that contributions would have to jump to 54 percent of salary (Figure 6.3), implying that the present value of salary income (for the next ten years) would be one-third lower than with reform. Such a catastrophic outcome would undermine society's trust towards state-organized old-age safety nets and lead Moroccans to question the reliability of accumulated pension savings generally, not just for the civil service fund.

Figure 6.3. Civil Service Wage Index, with and without Reform, 2016 = 100



Source: World Bank staff projections.

10. The increase in minimum pension will improve the retirement income of 54,000 out of the current 302,000 CMR retirees and survivors. Under the pre-reform pension plan, a 55 year old retiring at 60 with 35 years of contributions is eligible for a pension replacing 87.5 percent of his/her last salary, regardless of salary level (Figure 6.4, blue line). Post-reform, the same individual (now retiring at 63) would be eligible for a pension replacing 81 percent of his/her last salary, unless he/she earns less than 2000/month, in which case, the replacement rate increases gradually to 114 percent (figure 6.4, red line). It is estimated that, post-reform, some 54,000 retirees and survivors at the bottom of the wage distribution will have a replacement rate higher than the 87.5% of salary they enjoyed pre-reform. Some 33,000 will have a replacement rate between 81 percent (the new normal rate) and 87.5 percent.

11. The reform adopted by Parliament would also have positive spillovers for the wider population by supporting the income of urban families. Civil servants, both employees and retirees, overwhelmingly live in urban centers. Civil service employees represent 16 percent of contributors to pension funds in Morocco. The reform contributes to social stability in lagging pockets of urban centers by avoiding a large drop in the take-home pay of civil servants living in urban centers.[28] For their part, retirees of the civil service currently receive 43 percent of total pension benefits in Morocco. The reform safeguards also their income and contributes to social stability in urban centers, especially as the number of civil service retirees and survivors will exceed 400,000 by early next decade compared to 306,000 in 2016.

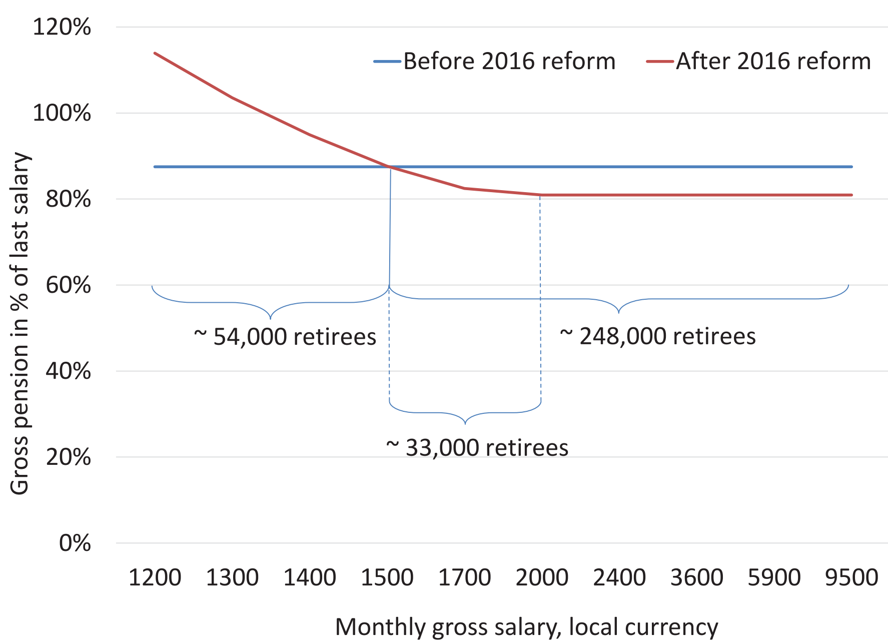
[28] 80% of the unemployed live in urban centers, of which 650,000 are 15-29 years old, 300,000 of which are university graduates.

Table 6.3. Wide-Ranging Consultations Led to Adjustments that Mitigate Social Impact of Reform

Parameter → **Reform proposals ↓**	**Accrual rate (*taux d'annuite*)**	**Retirement age**	**Contribution (*cotisation*) by employees**	**Minimum pension**	**Other parameters***
1. 2013 Government proposal following reviews by *Cour des Comptes* and ILO	Reduced from 2.5 per year to 2/year for new rights	Immediate increase from 60 to 62, then to 65 over three years	From 10% of salary to 14% (phased over 2 years)	Stays at 1000/month (previous increase: 2011 from 600 to 1000)	From final salary to average of last 8 years
2. 2015 Government proposal following CESE review	Same	Increase from 60 to 63 over three years	Same	Jan 2017: 20% Jun 2017: 35% Jan 2018: 50%	8 years in 2020; 6 years in 2019, etc.
3. 2015 Government proposal reflecting discussions of National Commission	Same	same	From 10% of salary to 14% (phased over 4 years)	50% increase	Same
4. 2016 parliamentary reviews	Same	Increase from 60 to 63 phased over six years	Same	Same	Same
5. Final package voted in July 2016	**Reduced from 2.5 per year to 2/year for new rights**	**Increase from 60 to 63 phased over six years**	**From 10% of salary to 14% (phased over 4 years)**	**From 1000/month to 1500/month over two years**	**From final salary to average of last 8 years, phased over 4 years**

* No change to rights accrued until July 2016 under all proposals.

Figure 6.4. Replacement Rates before and after the Reform, by Last Salary before Retirement



ANNEX 7: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects (yes/no/to be determined)	Significant poverty, social or distributional effects positive or negative (yes/no/to be determined)
Pillar A: Improve access to finance for small and young enterprises		
Prior Action 1: The central bank (*Bank Al-Maghrib*), the credit guarantee agency (*Caisse Centrale de Garantie)* and the Moroccan banks association (*Groupement Professionnel des Banques du Maroc*), have established a co-financing arrangement supporting the financial restructuring of MSMEs. *Prior Action 2:* The Head of the Government has established the conditions for paying value added tax (VAT) credits to MSMEs. *Prior Action 3:* The central bank (*Bank Al-Maghrib*) has issued the license for a second credit bureau that sets forth requirements to offer MSME credit scoring. *Prior Action 4:* The two regulations (*circulaires*) implementing the provisions of Law No. 103-12 (the banking law) concerning providers of payment services, have been published in the National Gazette *(Bulletin Officiel)* No. 6548, dated March 2, 2017.	Increased access to finance for MSMEs (*prior actions 1-4*) is not expected to have negative environmental effects; Any potential risk managed through three primary transmission channels:[29] 1. Reliance on GOM's environmental legislation and associated country systems for mitigation; WBG analysis have found these systems to be sound and having improved significantly over the past decade. 2. Training of banks in environment and social safeguards through WB MSME development project. 3. Reliance on IFC screening and environmental impact mitigation. This screening consists of a social and environmental sustainability assessment during due diligence phase, supported by action plans and regular monitoring during implementation phase. Action plans are incorporated into the loan/ investment package.	Prior Actions 1-4 are expected to have positive poverty, social, and distributional (PSD) effects through increased job, investment, and income generating opportunities for MSMEs. Below is a summary framework of this analysis.[30] • The co-financing arrangement (PA #1) will provide a platform for MSMEs to restructure, decreasing potential payments delays and safeguarding jobs. • VAT credits to MSMEs (PA #2) provide additional working capital for MSMEs. • The second credit bureau (PA#3) will improve the overall credit information systems underpinning SME lending, thus facilitating credit and business expansion. • Increased access to payment services (PA#4) are expected to promote financial inclusion of the unbanked, providing a mechanism to build productive assets, cope against shocks (e.g. illness), and reduce exposure to risk.
Pillar B: Strengthen capital markets by improving the institutional framework and broadening the range of		

[29] Elaborated on further in section 5.1
[30] Elaborated on further in section 5.1

instruments		
Prior Action 5: The Board of the capital market authority *(Autorité Marocaine du Marché des Capitaux)* has appointed the members of its College of Sanction, and the Minister of Finance has adopted the rulebook (*Règlement Général*) of the capital market authority.	No significant environment effects anticipated. The measure supports the institutional strengthening of the Board of the capital market authority. Positive environmental effects may be indirect due to an improved ability to regulate companies listed on the capital market authority.	The PA is to have positive PSD effects through improving the institutional framework for capital markets and expanding market-based financing opportunities for businesses in the Morocco.
Prior Action 6: Law No. 19-14 on the stock exchange and investment advice has been published in the National Gazette *(Bulletin Officiel)* No. 6552, dated March 16, 2017.	The law on the stock exchange and investment advice is not expected to have negative environmental impacts. The measure strengthens information functions for less sophisticated investors, thereby supporting responsible financial market development.	By strengthening the governance function underpinning the stock exchange, the PA is to have positive PSD effects through improving the institutional framework and ensuring sound management of capital market functions in Morocco.
Prior Action 7: Law No. 70-14 on real estate investment trusts *(organismes de placement collectif immobilier)*, has been published in the National Gazette *(Bulletin Officiel)* No. 6552, dated March 16, 2017, and Decree No. 2-16-1011 exempting real estate investment trusts from corporate income tax, has been published in the National Gazette *(Bulletin Officiel)* No. 6530 bis, dated December 31, 2016.	No significant environment effects anticipated.	The PA is to have positive PSD effects by allowing companies owning and operating commercial real estate (e.g. plants, warehouses) to replace bank financing with market financing, which will in turn have positive effects on business expansion and employment.
Pillar C: Improve the financial sustainability of the *Caisse Marocaine des Retraites*		
Prior Action 8: The laws setting forth the new parameters of the civil service pension fund (*Caisse Marocaine des Retraites*) - Law No.71-14 amending Law No. 11-71 establishing the civil service pension fund, and Law No. 72-14 amending Law No. 12-71, setting the mandatory retirement age-, have been published in the National Gazette *(Bulletin Officiel)* No. 6496, dated September 1, 2016.	No significant environment effects anticipated. The reforms supported concerns parameters of the civil service pension funds, through modifications to, inter-alia, employee contributions, accrual rates, and retirement age.	The design of the parametric pension reform has benefited from poverty and social impact analysis and wide ranging consultations which have been concurred by the World Bank. The reform would improve social outcomes of civil service employees at the bottom of the income distribution through an increase in minimum pensions. The replacement ratio (retirement income/salary) of higher-earning civil servants will drop

		progressively from 87.5% of last salary to 81%, reflecting less generous accrual rates after 2016. Any drop in the replacement rate will be progressive because the reform safeguards pension rights until 2016, with less generous parameters being phased in until 2022. The reform has positive PSD effects through: 1) contributing to social stability in lagging pockets in urban centers by avoiding a large drop in the take-home pay of civil servants; 2) safeguarding pensions of existing retirees; and 3) safeguarding survivorship pensions, which are particularly important for women as they represent 99 percent of survivorship beneficiaries.
Pillar D: Strengthen oversight of the banking sector		
Prior Action 9: The central bank (*Bank Al-Maghrib)* has transmitted on September 8, 2016, to banks for consultation, the draft regulations on recovery planning to systemic banks belonging to financial conglomerates in application of Article 79 of Law No. 103-12 (banking law).	No significant environment effects anticipated.	PA #9 is set to have positive social and poverty effects through ensuring greater financial access is balanced with continued financial stability, safeguarding against potential loses of savings and investment due to increases in non-performing loans in the case of financial distress in the banking sector. Financial crises can undo years of painstaking work related to financial inclusion.