Public Disclosure Authorized

Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 05-Nov-2018 | Report No: PIDC25833

Public Disclosure Authorized

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Morocco	P168587	Financial Inclusion and Digital Economy DPL (P168587)	
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
MIDDLE EAST AND NORTH AFRICA	May 10, 2019	Finance, Competitiveness and Innovation	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Kingdom of Morocco	Ministry of Economy and Finance, Caisse Central de Garantie		

Proposed Development Objective(s)

The Program Development Objective (PDO) is to foster financial inclusion and digital transformation for individuals, enterprises, and entrepreneurs.

Financing (in US$, Millions)

SUMMARY

Total Financing	500.00

DETAILS

Total World Bank Group Financing	500.00
World Bank Lending	500.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

The proposed Financial Inclusion & Digital Economy Development Policy Financing (FIDE DPF), in the amount of Euro 434.9 million (equivalent to US$ 500 million), has an overarching objective of supporting an inclusive, competitive, and secure digital economy capable of facilitating access to services, finance, and job creation opportunities. The FIDE DPF is one financing instrument in a long-standing WBG programmatic engagement supporting Moroccan authorities on financial and private sector development and digital infrastructure objectives. The FIDE DPF supports the transformation of Morocco's economy towards a private-sector driven growth model focused on scaling productive and internationally competitive firms. It also supports foundational enablers related to digital infrastructure and digital platforms necessary

to provide efficient public services to Moroccan citizens. This helps facilitate economic and social inclusion, particularly in rural areas. Expanding digital service delivery platforms, underpinned by well-developed infrastructure and transaction pathways, is the next frontier to reduce service access between citizen and state.

The FIDE DPF supports and coordinates ongoing sector level strategies. The proposed operation supports the Government of Morocco's (GoM) National Financial Inclusion Strategy which aims to promote individual and firm access to financial services tailored to their needs. It also supports the GoM's Digital 2020 Strategy *(Plan Maroc Numérique 2020)* aimed at accelerating the digital transformation of the country through e-Government, private sector digitalization, and the use of digital services as a tool to promote financial and economic inclusion of individuals and micro, small and medium size enterprises (MSMEs). The program is in line with the 2017-2021 strategy outlining Morocco's new vision for economic and social growth.

Morocco has implement a set of first-generation reforms that improved financial stability created conditions for financial sector development. Due to a series of well-sequenced financial sector reforms focused on financial sector liberalization (moving the State out of banking), diversification (capital markets, Islamic finance), and continued financial stability, Morocco's financial sector is well positioned to act as a catalyst of economic growth. The total assets of Morocco's financial institutions currently exceed 200 percent of GDP a ratio well above the level predicted by Morocco's per capita income.

Financial inclusion of households and small enterprises however, remains a key challenge. Per the 2017 Findex survey, only 29% of Moroccan adults have access to a formal transaction account, lower than the average for the Middle East and North Africa (MENA) (44%) and the developing country average (63%). Nearly half of unbanked adults in Morocco cited lack of enough money as the only reason for not having an account (vs 18% at a global level). Formal financial intermediation amongst Moroccan households remains extremely limited. Only 10% of the borrowers in Morocco used a formal financial institution as a source of funds in the past year while 25% of Moroccan report borrowing for any reasons in the past 12 months.

The digital economy could contribute to the transformation of the country's growth model and the furthering of economic and social inclusion, expanding financial inclusion, bringing innovation and increasing efficiency. However, this will require upgrading digital infrastructure and addressing spatial inequalities in ICT access**.** Currently 37% of the population and 47% of rural households lack internet access. Internet speed is below the world average, and for 34% of households without internet access, the prices of the service and associated equipment are obstacles. Further, spatial inequalities are marked, with direct effects on access to financial services, territorial innovation, growth and job creation.

Relationship to CPF

The proposed operation will contribute to the WBG's twin goals of ending extreme poverty and boosting shared prosperity. It is also consistent with the World Bank Group's Country Partnership Framework (CPF) 2019–2023. The CPF Pillars 1 highlights the importance of job creation through private sector development. Development of digital platforms**.** Pillars 2 and 3 focus on human capital development, social and economic inclusion. The CPF intends to use technology as a cross cutting theme to achieve its objective, as it promotes efficiency, innovation and inclusion. 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. With the use of technology, 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 also 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.

C. Proposed Development Objective(s)

The Program Development Objective (PDO) is to (i) improve financial inclusion for Moroccan individuals and MSMEs; (ii) strengthen digital platforms; and (iii) enhance early stage equity financing for digital startups and entrepreneurs.

Key Results

The proposed operation supports reform actions aimed at (1) enhancing financial inclusion for households and SMEs, (2) promoting the development of inclusive digital platforms and digital infrastructure, and (3) supporting digital entrepreneurship. The proposed operation will:

- Promote the diversification of financing sources for SMEs through extending the regulatory and institutional framework for participative, or Islamic, finance.
- Advance credible solutions for smaller firms to access long-term finance in Morocco.
- Improve financial infrastructure and credit reporting framework in Morocco.
- Supports the development of digital platforms in Morocco with a focus on financial market infrastructures (FMIS) and mobile payments.
- Promotes the expansion of inclusive access to digital infrastructure by encouraging competition between, and investment by, telecom operators.
- Supports access to finance for entrepreneurs by providing pre-seed, angel/seed, and early VC financing for innovative SMEs. This operation is closely linked to ongoing advisory work in the financial, telecommunications, and social protection sectors.

D. Concept Description

The matrix outlines reforms supporting a competitive, open, and inclusive digital ecosystem in Morocco capable of promoting inclusive growth and an economic forward-looking economic structure, in light with Morocco's 2017-2021 strategy. The policy and results matrix as described in Annex 1 includes 14 prior actions (PAs; note the number of PAs will be consolidated prior to project appraisal). The program, through three pillars cutting across financial inclusion (for individuals and MSMEs), digital platforms and infrastructure, and digital entrepreneurship, addresses key bottlenecks preventing the digital economy from proliferating in Morocco.

Reforms reinforce each other and begin with a number of transformational infrastructure enablers. This includes reforms aimed at significantly expanding the deployment of broadband fixed infrastructure (PA#9) and promoting competition in the fixed broadband market (PA#10). These foundational enablers are critical to ensuring that financial inclusion and digital economy solutions are deployed successfully. The program places an emphasis on digital financial services, most notably through supporting Morocco's national mobile payment solution (PA #7) and promoting its uptake through related fiscal incentives (PA #8). A dedicated reform measure on gender (PA #3) addresses acute access to finance gaps facing women in Morocco and is also a fundamental enabler, ensuring the program promotes economic opportunity for Moroccan women and women-led businesses.

The program supports the uptake of digital platforms by young and innovative startup companies. The program supports the electronic registration of new firms (PA #12) and expands the supply of early stage equity market for young startup companies (PA #13 and #14). Digital platforms are applied and scaled by these young startups with the objective

of creating quality jobs in cross-sectoral teams. Consumers and households are connected to markets, services, and communities unimaginable using traditional physical methods. Realizing that firms requires a continuum of financing support both short and long-term in nature, the program supports financial sector diversification and deepening through new products spanning microfinance (PA #1) and Islamic Finance *(finance participative)* (PA #5), improved financial infrastructure (PA#2), and long-term finance/capital market access for SMEs (PA #6).

E. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

The operation is set to have a positive poverty and social impact through expanding access to finance for low-income households. Financial inclusion promotes economic well-being by assisting vulnerable households to build up productive assets, manage risks, and respond to financial shocks. Digital payments can conveniently and transparently connect entrepreneurs with financial service providers, supplies, and markets. Electronic wage payments to workers can increase security and reduce the time and cost of paying employees. The operation supports access to finance critical to grow SMEs and invest productively in local economies. The use of technology the program 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.

Environmental Impacts

The program is not set to have material environmental impacts. Reforms will support business expansion of small enterprises many of whom engage in small-scale manufacturing, handicrafts and revenue generating activities, agricultural production, or light service provision. The program does not support reforms related to real estate production or construction. It is recognized there may be some business activities in which environmental and social risks impacts may be triggered, however, their scale will be limited due to the size of SMEs. Moroccan financial institutions benefitting from proposed reforms have internal risk management frameworks in place, including policies towards environmental and social impact, as well as governance systems overseen by the Central Bank, including consumer protection systems. Furthermore, Morocco has sound environmental systems that can mitigate the potential negative effects of programs implemented as a result of the supported policy reforms. This legal framework has been complemented by the recent adoption (in March 2014) of the National Charter on Environment and Sustainable Development, which promotes a balance between environmental, economic and social dimensions, and aims at improving the living environment of citizens, enhancing sustainable management of natural resources, and promoting economic activities respectful of the environment.

CONTACT POINT

World Bank

Djibrilla Adamou Issa
Lead Financial Sector Specialist

Borrower/Client/Recipient

Kingdom of Morocco

Implementing Agencies

Ministry of Economy and Finance
Nouaman El Aissami
Deputy Director, Department of Treasury and External Finance
n.alaissami@tresor.finances.gov.ma

Caisse Central de Garantie
Taoufiq Lahrach
Secretary General
t.lahrach@ccg.ma

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

APPROVAL

Task Team Leader(s):	Djibrilla Adamou Issa

Approved By

Country Director:	Marie Francoise Marie-Nelly	15-Nov-2018