PROGRAM INFORMATION DOCUMENT (PID)
APPRaisal STAGE

Report No.: 89170
(The report # is automatically generated by IDU and should not be changed)

<table>
<thead>
<tr>
<th>Operation Name</th>
<th>MA Financial Sector DPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Region</td>
<td>MIDDLE EAST AND NORTH AFRICA</td>
</tr>
<tr>
<td>Country</td>
<td>Morocco</td>
</tr>
<tr>
<td>Sector</td>
<td>Capital markets (40%); SME Finance (30%); Financial Stability (20%); other financial sector (10%)</td>
</tr>
<tr>
<td>Operation ID</td>
<td>P147257</td>
</tr>
<tr>
<td>Lending Instrument</td>
<td>Development Policy Lending</td>
</tr>
<tr>
<td>Borrower(s)</td>
<td>KINGDOM OF MOROCCO</td>
</tr>
<tr>
<td>Implementing Agency</td>
<td>Ministry of Economy and Finance Quartier Administratif, Rabat Chellah Rabat, Morocco</td>
</tr>
<tr>
<td>Date PID Prepared</td>
<td>January 30, 2014</td>
</tr>
<tr>
<td>Estimated Date of Appraisal</td>
<td>March 17, 2014</td>
</tr>
<tr>
<td>Estimated Date of Board Approval</td>
<td>April 29, 2014</td>
</tr>
<tr>
<td>Corporate Review Decision</td>
<td>Proceed with appraisal.</td>
</tr>
</tbody>
</table>

I. Key development issues and rationale for Bank involvement

Morocco’s real economy has shown little productivity growth over the past 20 years despite high levels of capital formation. This outcome points to potential shortcomings of the bank-dominated financial system in allocating and monitoring capital, despite a fairly advanced and stable financial system. Financial access is reasonably advanced, but further gains are possible in access by small and young firms.

In Morocco, the functions of finance pertaining to allocating and monitoring capital inhibit better outcomes for growth and jobs. High levels of capital formation contrast with weak productivity outcomes. Financial intermediation through capital markets increases the diversity of savers and investors, and improves the transparency of capital allocation. More capital market intermediation would help bring discipline to the selection and monitoring of projects, and supplement banks in providing financing solutions to new and growth enterprises. Raising the proportion of risk capital in the financial structure of companies, in particular of SMEs via measures that facilitate access to external finance, enhances creditworthiness and mitigates the pro-cyclicality of bank lending.

This proposal is for a programmatic Development Policy Loan of two single tranches to support the policies of the Government of Morocco (GOM) to adapt the financial system to the evolving needs of the real economy and growth. The project contributes to the objectives of the Bank’s Country Partnership Strategy by supporting enterprise productivity and economic growth through more effective financial intermediation and better access to finance for small and young
firms. The program contributes to the cross-cutting governance objective of the CPS through several governance assessments of financial regulators.

II. Proposed Objective(s)

The proposed DPL has four objectives: (i) deepening capital markets by broadening the range of instruments and investors; (ii) initiating pension reform to anchor long-term savings and secure continued institutional demand for capital market securities; (iii) fostering solutions for the financing of small and young firms; and (iv) consolidating oversight to balance greater access with continued financial stability.

III. Preliminary Description

The Government of Morocco aims, in this third financial sector DPL, to develop market-based finance to complement bank-based finance in providing financing solutions and services to Moroccan enterprises and projects, with a view to achieve a better allocation of capital and higher growth. The proposed DPL falls under the “Enhancing growth, competitiveness, and employment” pillar of the 2010-13 CPS. The DPL would be aligned with the MENA region Framework for Engagement by facilitating greater opportunities for private sector initiative and job creation, and strengthening economic governance and regulators. The DPL builds on a comprehensive stream of engagements in the form of several FIRST activities in capital markets and the broader financial sector, access and financial inclusion, or activities under the MSME Trust Fund. Further projects in financial literacy, retail payment systems, and insurance sector governance are at various stages of implementation or design.

The proposed DPL complements: (i) the DPL on Economic Competitiveness (February 2013) in support of reforms to improve the investment climate, trade facilitation, and competition policy; (ii) the DPL on Accountability and Transparency (October 2013) focused notably on SOE performance, procurement policies, and public services to the business community. Also in preparation is a transversal DPL on labor market reforms that aims to better align the supply of skills by the education system with private sector requirements.

Taken together, these reforms aim to bolster productivity and growth across sectors (see flow chart below). Improving economic performance requires competition policies that facilitate the re-allocation of capital to more productive uses, as well as policies that adapt public sector services to the needs of private sector development. It also requires a financial system that: (i) enables capital formation and mobilizes saving; (ii) allocates capital to better performing companies across sectors; (iii) monitors financial resources and restructures non-performing companies.

IV. Poverty and Social Impact

Reforms are expected to generate benefits for lower income households mainly through pension reform, as well as job opportunities through economic growth and SME growth in particular. Consultations on Morocco’s reform program supported by the Bank were conducted with stakeholders (financial institutions, donors, government authorities, industry associations, etc.)
throughout the preparation of the DPL. The Government remains committed to monitoring the distributional impact of all key reforms and economic events.

The reform of CMR will help avoid pension-related budgetary spending from crowding out key social programs in health or education. The implementation in the coming years of a “two-pole” pension system and, later on, broadening coverage, is also expected to improve social outcomes. The development of credit scoring products for SME and microfinance borrowers will facilitate access to finance of credit constrained enterprises, thereby increasing the potential for job creation in the private sector and better social outcomes.

The gender impact would fall into two primary categories: (i) greater financial inclusion of women through the increase in the microfinance clientele; (ii) new financing solutions targeting women-led enterprises under the strategy of the CCG, including through the opening of branch offices in Morocco’s region.

V. Environmental Aspects

DPLs are governed by Operation Policy 8.60. The DPL does not have environmental aspects. It is a development policy credit in support of a broad program of policy and institutional reforms, for which the environmental requirements of OP/BP 8.60 apply. None of the activities supported by the program pose any likely and significant effects on the environment and natural resources.
VI. Tentative financing

Source: ($m.)
Borrower 0
International Bank for Reconstruction and Development 200
Total 200

VII. Contact point

World Bank
Contact: Gabriel Sensenbrenner
Title: Lead Macro-Financial Economist
Tel: (202) 473-6266
Fax: (202) 614-9234
Email: SensenbrennerG@worldbank.org

Borrower
Contact: Treasury, Ministry of Economy and Finance
Tel: (212-37) 677-266/267
Email: n.alaissami@tresor.finances.gov.ma

VIII. For more information contact:
The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: http://www.worldbank.org/infoshop