

## Summary description of the main changes to Morocco's policy matrix As of September 28, 2018

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The main changes to the Policy Matrix are as follows:

1. Introduction of two new major reforms under the Business Framework module:
  - i. Reform project of the Regional Investment Centers;
  - ii. Amendments to Law No. 86-12 on PPP Contracts;
2. Proposal for a new indicator for the "Development of Public-Private Partnerships" government action entitled "2 prefeasibility studies of PPP projects per year" instead of "Approval of 2 PPP projects per year".
3. Update of the partners' section of the matrix by the introduction of new support actions provided notably by the EU and GIZ in the context of the Business environment and regulation as well as by AFD, EBRD, OECD , Spain and GIZ as part of the Financing framework.

Over the past two decades, the Moroccan economy has undergone major structural changes, which have resulted in improved economic performance and increased resilience to exogenous shocks. These developments have been achieved through large-scale structural and sectoral reforms, aimed at strengthening the overall competitiveness of the economy and ensuring its better integration into the world economy.

Despite the progress made, however, the Moroccan economy continues to face major challenges, including the need to achieve strong, sustainable and inclusive growth, accelerate the structural transformation and diversification of the productive base, and promote the economic emergence of the country.

To meet these challenges, Moroccan authorities are determined to accelerate and deepen economic reforms, with a major focus on tackling obstacles to private investment and private sector development.

**In this regard, the main obstacles to be addressed are as follows:**

#### ▶ **MACROECONOMIC FRAMEWORK**

- Insufficient efficiency of the tax system, namely in terms of procedures and overall performance of the tax administration.
- A relatively narrow tax base due mainly to exemptions and informal sector.
- The fixed exchange rate regime, which no longer keeps pace with the economic structural transformation, hampers the overall competitiveness of the economy, while not offering buffers against external shocks.
- The low returns and efficiency characterizing public investment due to governance, design and implementation issues.

#### ▶ **BUSINESS FRAMEWORK**

- Although improving, the business regulatory framework remains fragmented and lacks efficiency and sufficient clarity, namely in such areas as corporate insolvency, secured transaction systems and investment incentives.
- Insufficient digitalization of administrative procedures to unleash the potential for doing business.
- Regulatory bodies, such as the Competition Council, need to have their capacities and resources strengthened to fulfill their duties.
- Difficulties in carrying out the identification, the preliminary studies and the preparation of PPPs projects despite a conducive legal framework.

#### ▶ **FINANCING FRAMEWORK**

- The lack of diversification of financing instruments and limited access to funding and risk mitigation instruments for SMEs.
- The lack of capital market attractiveness for SMEs and the predominance of self-financing and bank lending.
- Persistent needs in terms of financing start-ups and innovative companies
- The relatively limited depth and liquidity of the financial market tends to drive large investors away and hamper the development of long-term savings instruments.
- The lack of attractive instruments and financing to develop private sector investment in infrastructure.

# Report to G20 Compact with Africa – Policy Matrix

## Morocco

Goal: Improve framework conditions for private investment (domestic and foreign)

Focus Areas	Government action	Indicators and targets	Partners' support
<b>Macroeconomic framework</b>			
Macroeconomic stability	<ul style="list-style-type: none"> <li>Continued implementation of tax reforms seeking to improve the efficiency and equity of the tax system and make it more investment-friendly, along with the strengthening of the tax administration.</li> </ul>	Debt ratio below 60% of GDP by 2021	<ul style="list-style-type: none"> <li><b>IMF:</b> Operational aspects of the exchange rate transition and policy dialogue on comprehensive tax reforms and its distributional effects.</li> <li><b>IMF-METAC:</b> Tax Administration Diagnostic Assessment (TADAT) and Tax gap analysis (RA-GAP).</li> <li><b>EU-WBG:</b> Fiscal policy reform / twinning in favor of tax administration (DGI) with French and Spanish counterparts, and public governance (quality of service, control, recovery).</li> <li><b>AfDB:</b> Fiscal reform measures.</li> <li><b>EBRD:</b> Transition to a more flexible exchange rate regime.</li> <li><b>OECD:</b> Tax reforms specifically regarding international standards on transparency, information exchange, BEPS and revenue statistics, Tax Inspectors Without Borders Programme.</li> <li><b>France:</b> TA for capacity building and improved governance.</li> </ul>
	<ul style="list-style-type: none"> <li>Implementation of the transition to a more flexible exchange rate regime.</li> </ul>		
Public investment management	<ul style="list-style-type: none"> <li>Implementation of a new public investment management strategy.</li> <li>Improving state-owned Enterprises (SOEs) governance and performance.</li> </ul>	Setting up a legal framework to unify the investment management process	<ul style="list-style-type: none"> <li><b>WBG-IMF-AfDB:</b> PIMA.</li> <li><b>WBG:</b> Local government support program; City of Casablanca planning support; Infra diagnostic/cascade approach to infra investment strategy; de-risking SOEs.</li> <li><b>AfDB:</b> Support for the implementation of the transport and logistics overall strategy; Training for SOEs administrators.</li> <li><b>AfDB-AFD-KFW:</b> Support for the implementation of the Moroccan electricity network overall strategy (ONEE).</li> <li><b>AFD:</b> Loan to FEC; support for corporate governance of SOEs and/or associated legal/regulatory framework; and Support for studies and pilot projects of national reference (RAMSA) related to waste water re-use, industrial depollution and sewage sludge valorization.</li> <li><b>EBRD:</b> Corporate governance of SOEs and/or associated legal/regulatory framework.</li> <li><b>OECD:</b> Governance of public investment under the Morocco-OECD Dialogue on Territorial Development Policies, and Morocco's participation in OECD-WBG-led African Roundtables on Infrastructure Governance; and OECD Program for the Governance of Social Protection.</li> <li><b>EU:</b> New program for social protection.</li> <li><b>EIB:</b> Project loans directly to local Governments, municipalities or cities; Public investment projects with high social impact in under-developed regions; TA to FEC.</li> <li><b>AECID:</b> Modernization of public services, quality system of vocational and educational training, strengthening the local administrations in several areas, strengthening of public policy for employment and regionalization, strengthening of Social and Solidarity Economy policy, the establishment of an integrated information system for the childhood protection.</li> <li><b>GIZ:</b> Implementation of the vocational training reform, promoting youth employment in rural areas through green jobs.</li> </ul>

Business Framework			
Business environment and regulation	<ul style="list-style-type: none"> <li>▪ <b>Simplifying business related administrative procedures and strengthening dematerialization and creating one-stop shops:</b> <ul style="list-style-type: none"> <li>- Online business creation</li> <li>- Publication platform access (E-REGULATIONS)</li> <li>- Ownership transfer</li> <li>- Building permits and continued operationalization of one-stop town planning centers</li> <li>- Foreign Trade (Portnet)</li> <li>- Continued automation of trade tribunals and Electronic business management.</li> </ul> </li> </ul>	Rank among the 50 first countries in the Doing Business Report by 2021	<ul style="list-style-type: none"> <li>▪ <b>EU:</b> Public-private dialogue platform; EU multisectoral convergence programme ; <b>Budget Support programs for SMEs competitiveness (setting up of regional committees of the business environment and dematerialization of import/export procedures)</b></li> <li>▪ <b>AFD:</b> Modernization of SMEs, implementation of the National anti-corruption Strategy.</li> <li>▪ <b>EBRD:</b> Simplifying business-related administrative procedures; building the capacity of the national agencies for the protection of competition; implementation of the National Anti-corruption Strategy; establishment of platforms for public-private dialogue; enhancing access to financial information through the establishment of credit bureaus, reform of credit registries, and strengthening business registry agencies; promoting commercial mediation.</li> <li>▪ <b>OECD:</b> Business climate reforms; investment Policy; and Anti-corruption Strategy; update of the Morocco Investment Policy Review as a diagnostic tool following the new OECD Policy Framework for Investment.</li> <li>▪ <b>AfDB:</b> Reforms under the Industrial Acceleration Program; support to CNEA (Strategy formulation); identification of constraints to SMEs exports to Africa.</li> <li>▪ <b>WBG:</b> Portnet; secured transaction legal and regulatory; credit information infrastructure; competition council and business climate (Doing Business).</li> <li>▪ <b>JICA:</b> Training program for improvement of investment business environment for the members of the National Committee for Business Environment.</li> <li>▪ <b>GIZ:</b> Promotion of VSMEs (TAM III); <b>simplifying business related administrative procedures, Reform of Book V of the Commercial Code on corporate insolvency,;</b> Strengthening the Competition Council (Fund for Structural and Regulatory Policy Advice (SOF)), Support to Moroccan Energy Strategy (PAPEM).</li> <li>▪ <b>Japan:</b> promote investment by concluding bilateral investment treaty.</li> </ul>
	<ul style="list-style-type: none"> <li>▪ <b>Modernization of the legal, institutional and regulatory framework for business:</b> <ul style="list-style-type: none"> <li>- <b>Reform project of the Regional Investment Centers</b></li> <li>- Reform of Book V of the Commercial Code on the Regulation of corporate insolvency</li> <li>- Secured transactions system</li> <li>- Investment Charter</li> <li>- Establishment of a legal incentive framework setting out the conditions for planning, creating and managing reception areas for industrial activities.</li> <li>- Implementation of the public procurement reform, including the establishment of the National Commission on Public Procurement.</li> <li>- Establishment of the Competition Council and strengthening of its institutional capacities.</li> <li>- Creation of regulatory authorities: electricity, postal services...</li> <li>- Implementation of the National anti-corruption Strategy.</li> <li>- Development of a National Regulatory Convergence Program with the European Union and continued implementation of Sectoral Indicative Action Plans.</li> </ul> </li> </ul>		
Use of standard clauses in PPP	<ul style="list-style-type: none"> <li>▪ <b>Development of Public-Private Partnerships:</b> <ul style="list-style-type: none"> <li>- Development of methodological guides;</li> <li>- Development of a financial model for PPP projects;</li> <li>- Communication on the legal framework for PPPs in state owned enterprises and ministerial departments.</li> <li>- <b>Amendments to Law No. 86-12 on PPP Contracts.</b></li> </ul> </li> </ul>	2 prefeasibility studies of PPP projects per year	<ul style="list-style-type: none"> <li>▪ <b>AfDB-AFD-PROPARCO-EIB-WBG-KfW:</b> Financing PPP projects;</li> <li>▪ <b>AFD:</b> Support for the creation of training centers in delegated management to the private sector;</li> <li>▪ <b>AFD:</b> Support to the Health Ministry on PPP development;</li> <li>▪ <b>AfDB-WBG:</b> Development of PPP financial models;</li> <li>▪ <b>EU:</b> Launch of a two-year twinning in favor of DEPP, grant co-financing (blending) for capital-intensive infrastructure projects in sectors such as transport, energy, environment and social development;</li> <li>▪ <b>EIB:</b> Implementation of solid waste management contracts in Tangiers and Casablanca; PPP Projects preparation in the Southern and Eastern Mediterranean (MED5P).</li> <li>▪ <b>WBG:</b> Mainstream PPP in cascade infra investments.</li> <li>▪ <b>GIZ:</b> PPP development of sustainable solutions for waste in buildings, Program of the Strategic Alliance "Avoiding marine litter - the use of plastic waste in cement plant".</li> <li>▪ <b>KfW:</b> Green Hospitals (PPP structure in health sector, energy efficient and environmentally friendly) and telemedicine network to integrate and support health care centers in rural areas.</li> <li>▪ <b>Japan:</b> Promoting quality infrastructure development by catalyzing private funding in PPP projects.</li> </ul>

Financing framework		
<p><b>Reduce risks investments (Efficient risk mitigation instruments)</b></p>	<ul style="list-style-type: none"> <li>▪ <b>Strengthening and diversifying the financing instruments for SMEs and promoting financing for start-ups and innovative companies</b> (listed SMEs funds*, Exchange traded funds (ETF)*, guarantee system, Islamic finance, green projects financing, public / private seed funds, business angels, crowdfunding etc.).</li> <li>▪ <b>Implementation of the law on the derivatives market and the OTC</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>WBG:</b> equity financing of start-ups and high growth MSMEs; ecosystem for entrepreneurship; optimization of public loan guarantee system for MSMEs; UCITS/ETF legal and regulatory; green bonds; sukuk framework; REITS legal and regulatory; yield curve and investor diversification; broadening allowable financial assets for insurance and pension funds; pension reform to bolster soundness of core institutional investors in local debt instruments; equity investments in local banks and microfinance; SME banking programs</li> <li>▪ <b>AFD:</b> <b>Strengthening of non-sovereign loans and domestic resources mobilization, innovative instruments for infrastructure and MSMEs financing, direct participation in the capital of Moroccan companies or through investment funds, guarantee instruments or private financing (private equity, financing lines, co-financing, etc.). Technical (targeting both the credit demand &amp; offer) &amp; financial support to financial institutions in order to promote (sectorial) MSMEs investments &amp; financial inclusion : Sustainable Energy Financing Facility (MORSEFF / BCP &amp; BMCE), Ligne "bleue" (water - BMCE), small farms &amp; cooperatives facilities (TEF), farms &amp; rural agro-industrial SMEs (CAM), urban MSMEs (Apex FI). Equity participation in APEX Microfinance (JAIDA).</b></li> <li>▪ <b>PROPARGO:</b> Long term loans, guarantees, quasi-equity or private equity for SMEs, for infrastructure projects and for banking and non-banking finance institutions so they could facilitate access to finance for SME's and encourage green projects or blue projects (water, sanitation, remediation);</li> <li>▪ <b>AfDB:</b> Support for the Industrial Acceleration Program;</li> <li>▪ <b>EBRD:</b> Long term loans; guarantees; quasi-equity or private equity for SMEs; provision of credit lines to local banks to encourage green investments (MorSEFF) and inclusion (launch of Women in Business financing program); supporting access to finance to MFIs; anything related to legislative framework for access to finance (in particular factoring and leasing), <b>policy dialogue and technical assistance to develop local capital markets (secured transaction law, derivatives law), crowdfunding law;</b></li> <li>▪ <b>OECD:</b> Morocco's participation in MENA-OECD Working Group on SMEs and Entrepreneurship Policy, and in the OECD International Network on Financial Education (INFE), including Working Group on Financial Education for MSMEs;</li> <li>▪ <b>EU:</b> New implementation of EU External Investment Plan (namely guarantee instrument) and continuing Neighborhood Investment Facilities blending (grants to PPP projects and intermediated loans to private sector through European banks notably); <b>Budget support to SME's Competitiveness and Green Growth with a new (sept.2018) component dedicated to Innov Invest program (startups) and to the National Financial Inclusion Strategy.</b></li> <li>▪ <b>EIB:</b> TA to BMCE Bank for the implementation of "Ligne Bleue"; Development of project pipeline, marketing, individual project feasibility studies and promoter support; intermediated loans to local banks for SMEs &amp; midcaps; and loans to finance microcredits.</li> <li>▪ <b>AECID:</b> Reimbursable debt and equity financing through private financial institutions; financing investments in operations in the countries covered by the "FEMIP", targeting mainly risk capital activities for micro and small/medium enterprises; blending mechanisms combining EU grants with public and private financing.</li> <li>▪ <b>GIZ:</b> Promotion of VSMEs (TAM III); <b>Support to the new Crowdfunding Law and the development of Business Angels activities, support to elaboration of the SNIF (Stratégie Nationale d'Inclusion Financière);</b> Projects DKTI I+II+ III+IV: Support to the solar cluster, financial institutions for project preparation in renewable energies and energy efficiency; Introduction of Secured Bonds (Fund for Structural and Regulatory Policy Advice).</li> <li>▪ <b>KFW:</b> Sustainable Energy Financing Facility (MORSEFF); "PME Croissance" – equity financing for innovative SMEs and equity financing for start-ups; "SANAD" – long-term senior loans, subordinated loans and local currency loans as well as equity participations and TA facilities for banks, MFIs and leasing companies to support their SME business; Credit line to Crédit Agricole du Maroc (CAM) to expand lending to MSMEs; Credit lines to the CDG (subsidiary FINEA) as APEX institution to refinance their long-term financings to MSMEs; Credit line to refinance investments into energy efficiency measures; "JAIDA" - equity participation in a refinancing company to refinance senior and subordinated loans to Moroccan MFI in order to promote sustainable lending to MSMEs business.</li> <li>▪ <b>SPAIN:</b> <b>New bilateral R+D+i funding program co-sponsored by CDTI (Spanish Centre for Technological and Industrial Development) and Maroc PME aimed at technological cooperation projects between Moroccan-Spanish companies</b></li> </ul>
<p><b>Domestic debt market development</b></p>	<ul style="list-style-type: none"> <li>▪ <b>Deepening the financial market and developing market institutions:</b> <ul style="list-style-type: none"> <li>- Consolidation of the legal framework for financial instruments: Sukuk certificates, assets securitization, secured bonds, etc.</li> <li>- Operationalization of the legal framework governing collective investment in real estate or in capital.</li> </ul> </li> </ul>	<p>- Stock market capitalization: 57% of GDP in 2020 against 52% in 2015</p> <p>- Number of listed SMEs (Creation of a new market in Casablanca stock exchange (Alternative Market): target 20 listed SMEs in this market after 5 years</p> <p>- Number of SME benefiting from guarantee instruments: 11000 in 2020 against 7290 in 2016</p>