Country Assessment

Morocco

12 September 2012

Index

Executive Summary

Morocco is a founding Member of the EBRD and has requested to become a recipient country of the EBRD. The report of the Board of Directors to the Board of Governors on the geographical extension of the Bank's operations to the member countries of the Southern and Eastern Mediterranean (SEMED) (BDS11-187(F)) and the related Resolutions Nos. 137, 138 and 139 of the Board of Governors, envision a three-phased approach to the geographical extension of the Bank's operations to the member countries of SEMED.

Consistent with this approach, on 22 November 2011, the Board of Directors approved the commencement of the first phase of activities in Morocco (technical cooperation and other similar activities).

In the second phase, the entry into force of the amended Article 18 of the Agreement Establishing the EBRD (the "Agreement") allows the Bank to start special operations in a member country which is not a recipient country, subject to the Board of Governors granting, for a limited period of time and under such terms as may be advisable, potential recipient country status to such member country. The amendment of Article 18 of the Agreement, as approved by the Board of Governors pursuant to Resolution No. 138, came into force on 22 August 2012.

Morocco requested to be granted potential recipient country status on 13 July 2012. Consistent with the provisions of Article 18, a decision to grant potential recipient country status can only be made if the member is able to meet the political and economic conditions of Article 1 of the Agreement. To inform the decision by the Board of Directors on whether Morocco meets the economic and political requirements, Management has prepared a report entitled "Morocco: Country Assessment and Operational Priorities" (attached). The report provides a political and economic assessment, including an analysis of Morocco's transition challenges.

Based on the attached report and the staff assessment, it is Management's view that Morocco meets the political and economic conditions of Article 1 of the Agreement. The assessment shows that:

- Morocco is committed to the principles of multiparty democracy, pluralism and market economics in accordance with Article 1 of the Agreement Establishing the Bank. Over the past year and a half, Morocco has achieved significant milestones in its political transition. While the application of reforms has been uneven, Morocco has made significant progress in the direction of multiparty democracy and pluralism; and
- Morocco is a country where the Bank can carry out its purpose and functions as set out in Article 1 and 2 of the Agreement, namely "to foster transition towards open market-oriented economies and to promote private and entrepreneurial initiative".

The report also outlines the Bank's proposed operational response to the transition challenges faced by Morocco, drawing on initial field visits and consultations. The following operational themes have been identified to guide the Bank's activities:

- Financing private enterprise to support competitiveness and employment, with a specific emphasis on SMEs;
- Modernising the agribusiness value chain to improve food security and develop a more open, competitive agricultural sector;
- Further strengthening the financial sector in order to promote risk-taking and a more diverse range of techniques and financial products;
- Supporting Morocco's sustainable energy strategy to improve energy security and enhance economic competitiveness;
- Promoting transport and municipal infrastructure reform and decentralisation of municipal services with a particular focus on non-sovereign financing and mobilisation of private sector investment, where possible.

These proposed operational priorities are consistent with the overall directions set in the context of the Deauville Partnership, including the economic and social development programme, "Plan Maroc dans la cadre du Partenariat de Deauville", prepared by the Moroccan authorities ahead of the Marseille G8 summit in September 2011, and a number of other specific sectoral strategies that have been developed. The pace and direction of the Bank's operational engagement will reflect the continuing economic and political reform environment in Morocco.

The EBRD has and will continue to cooperate with other IFIs[1], the EU and bilateral partners, so that its operational priorities take full account of the activities of other IFIs active in Morocco. By capitalising on the Deauville Partnership IFI platform, the EBRD will aim to create synergies, avoid duplication, and capitalize on the Bank's specific competencies, comparative advantage and transition mandate.

The EBRD has already been making considerable progress in the necessary preparatory work for operations in Morocco to start as swiftly as possible. The Bank has established a functioning office and is in the process of building a dedicated organisation and staff. With generous financial support from donors and from the Bank's net income, we have initiated technical cooperation projects and project preparation activities. The Bank is confident that it can contribute its experience to bringing about economic transition in Morocco, while at the same time realising that it has a lot to learn and will have to adapt. The recent Transition-to-Transition conference which was organised with the help of the authorities presented an opportunity to exchange views on needs and possibilities. All of this will allow for a rapid start of investments once all institutional requirements are met.

Accordingly I recommend that the Board of Directors:

- Endorse Management's conclusion that Morocco meets the political and economic conditions and that the Board of Governors should be asked to grant potential recipient country status to Morocco in accordance with Article 18 of the Agreement;
- Determine that the decision to grant potential recipient country status to Morocco should not be postponed until the next annual meeting of the Board of Governors and

[1] Notably the EIB and other Deauville IFI Partners (AfDB, IFC, IsDB, AFESD, AMF, World Bank, OFID and IMF).

does not warrant the calling of a special meeting of the Board of Governors; and that, as a consequence, the decision should be made by voting without a meeting in accordance with Section 10 of the Rules of Procedure of the Board of Governors;

- Approve the attached draft Report of the Board of Directors to the Board of Governors, which includes a draft Resolution for adoption by the Board of Governors, and direct the Secretary General to transmit to each Governor the proposal relating to the adoption of such Resolution with a request that the votes of the Governors reach the Bank on or before 12 September 2012; and
- Confirm the proposed operational response to Morocco’s transition challenges, noting that a Country Strategy will be prepared for consideration and approval by the Board of Directors once Morocco has been granted recipient country status.

Country Assessment and Operational Priorities

Morocco, a founding Member of the EBRD, has requested to become a country of operations of the EBRD. Consistent with the respective resolutions and amendments to the Agreement Establishing the Bank (AEB), the Bank is expected to follow a three-phase process in helping Morocco become a recipient country for EBRD operations:

(i) In the first phase, the Board of Directors were requested to approve the use of cooperation Funds in Morocco. This was done in November 2011.

(ii) In the second phase, resources from the EBRD SEMED Investment Special Fund – the "SEMED ISF" – will be made available to finance investment projects in Morocco and other SEMED countries. The Board of Governors at the 2012 Annual Meeting allocated EUR1 billion from the Bank's Net Income for potential drawdown by the Board of Directors to the SEMED ISF. Utilisation of these funds will only be possible after the entry into force of the amendment to Article 18 and upon granting by the Board of Governors of "potential recipient country" status to Morocco.

(iii) In the third phase, upon the entry into force of the amendment to Article 1 of the AEB, the Board of Directors and the Board of Governors would consider the granting of "recipient country" status to Morocco and therefore allowing the use of ordinary capital resources for operations.

This paper prepares for the utilisation of the SEMED ISF in Morocco under the second phase. In order for the Board of Governors to grant "potential recipient country" status to Morocco and approve use of SEMED ISF funds in the country, the Board of Directors will need to determine that Morocco meets the political and economic conditions of Article 1. This Country Assessment provides an analysis that aims to inform this judgement. In addition to providing a political and economic assessment, it also provides updated operational priorities for the Bank, drawing on the Bank's growing field experience.

1. Assessment of developments with regard to the political aspects of Article 1 AEB

Over the past year and half, Morocco has achieved significant milestones in its political reform programme, especially in issuing a new Constitution approved through a referendum, undertaking a free and fair parliamentary election, and forming a government from the parties with the largest number of parliamentary seats. The Moroccan authorities are committed to continue and deepen implementation of new laws passed to strengthen checks and balances, improve political and human rights and broaden participation.

Representative and Accountable Government

Free, fair and competitive elections

After the major transformations that the Arab world witnessed in 2011, King Mohamed VI formed a commission of constitutional lawyers and academics to draft a new Constitution that would broaden democratic rights and freedoms. Although there were only limited consultations with different political parties and civil society, the resulting constitutional referendum passed by a 98.5 per cent majority in July 2011. There were a limited number of independent (and non-official) observers, and some groups boycotted the vote, but there is little doubt that the results of the referendum reflected a widespread desire in Moroccan society for a separation of powers and increased authority for a freely elected Parliament.

Citizens directly elect representatives of municipal councils and the lower chamber of the bicameral legislature. Previous elections have been generally open and competitive. Morocco held its first parliamentary election under the new Constitution in November 2011. A number of observers pointed to evidence of irregularities, cases of vote-buying, and undue use of administrative resources, however, most observers, including the European Union's High Representative for Foreign Affairs, the EU Commissioner for Enlargement and European Neighbourhood Policy, and the Council of Europe (CoE), welcomed the election and described it as generally free and fair.

In 2011, the Parliamentary Assembly of the Council of Europe granted "Partnership for Democracy Status" to the Parliament of Morocco in recognition of the most recent reform steps, especially as regards reforms to the Constitution and further empowerment of the Parliament.

Representative government that is accountable to the legislature and electorate

In accordance with the new Constitution, five days after the elections the King appointed the new Chief of Government from the party that received the highest number of seats in the Parliament. The new Constitution empowers the Parliament with oversight over the Government. The Head of Government appoints members of the Governing Council and presents the government's programme to Parliament and is accountable to Parliament for its implementation. The Parliament assesses government policy, ratifies legislation, enacts laws and generally holds the Government to account. In the six months since the election, the new Parliament has held regular sessions with genuine debates on various political, economic, social and cultural policies.

Effective power to govern of elected officials

In Morocco, the monarchy is widely seen as the symbol of national unity and the guarantor of the preservation of the state. Under the new Constitution, the King continues to hold ultimate power, though the Chief of Government has an enhanced status, as the head of an executive body fully responsible for the government, public administration and the implementation of the government's programme. With the exception of certain areas designated as strategic and under the King's direct control (where he reserves the right to appoint their leadership), the new Constitution endows the Government with wide powers over making appointments, proposing policies and laws to the Parliament, and undertaking executive measures.

The King appoints the Chief of Government from the political party with the highest number of seats in the Parliament; he retains the right to appoint the head of the army, government ministers and ambassadors. The King can also dissolve the parliament, and dismiss the cabinet. The King chairs the Council of Ministers, though he can delegate his role as chair to the Head of Government.

Freedom to form political parties and existence of organised opposition

Out of 30 political parties that participated in the November 2011 parliamentary election, 18 won seats in the Lower House. The governing coalition encompasses parties with very different ideological backgrounds and experiences, corresponding to the vibrant and pluralistic political landscape in the country. However, the Political Parties Law states that political parties may not be founded on a religious, linguistic, ethnic or regional basis or, more generally, any other basis that is discriminatory or contrary to human rights.

Civil Society, Media and Participation

Scale and independence of civil society

Over the past decade, many associations have been formed in defence of human rights, women, children, Berbers and Amazighs and civil liberties. There are NGOs and civic groups to expose and fight corruption, address the concentration of economic power, promote the interests of specific segments of society (for example Moroccan workers or the owners of Moroccan Enterprises) and specific types of reform (for example judicial reform and reforms in the security services). There has also been very noticeable dynamism amongst university student unions, farmers' associations, and other groups. In general, Moroccan civil society organisations have credibility – some unions and associations had close and historic relationships with a number of opposition political parties – and operate at close proximity to the problems of ordinary citizens in some of the more deprived and disadvantaged parts of the country.

There has been a noticeable improvement from the 1976 Communal Charter that offered no legal framework for local and/or international collective associations. In 2002, the King approved the Decree on the Right to Establish Associations which effectively resulted in significant growth in the NGOs sector. In 2004, the authorities passed the Decree on Public Benefit Status for Associations which set out the procedures and requirements for qualifying as "public benefit". The 2011 Constitution further improved the overall environment for civil society organisations. The current regulatory framework is based on optional, no-objection basis notification by the associations to the authorities, as opposed to a registration and approval system. There are also no legal limitations on receiving foreign funding.

However, a number of observers have noted that the security services and especially the Interior Ministry have considerable influence over the notification process, for example by refusing to receive the founding documentation, a situation that could deprive many organisations from becoming legal entities. The current regulations also prohibit the formation of associations that are contrary to "good morals" or "the integrity of the national territory" amongst a number of other qualifications.

The current Government has repeatedly emphasised its "commitment to developing and empowering the Moroccan civil society". According to the Minister in Charge of Relations with the Parliament and Civil Society only 10 per cent of the 70,000 active associations in the country receive over 80 per cent of all public funding. To amend this concentration of funding, the Government has announced a programme of reaching out to NGOs in distant regions, especially ones that operate in and around sectors with low-income jobs (for example farming).

Independent pluralistic media that operates without censorship

Morocco has a pluralistic media scene. The new Constitution specifies the right to freedom of expression and the right to accessing information. It granted The High Authority for Audio-Visual Communication a Constitutional status. These developments have led to a spirited debate on the need for a new Press Code. The current Government announced the launching of a "Consultative Dialogue" aimed at producing a new Code that the Government said would protect journalists from discriminatory treatment and unwarranted or excessive detention. Last year, one of Morocco's best-known journalists was sentenced to a year in prison for "gravely offending state institutions".

A number of observers believe that Moroccan media practice self-censorship because the legal environment (for example the Penal Code and the Laws Against Defamation) contain a number of restrictions on what can safely be published or broadcast.

Multiple channels of civic and political participation

Over the past year and half, there has been a significant improvement in general political participation, openness in discussing the future of the country's governing system and power dynamics, and wide interactions on various issues ranging from the new Constitution, the performance of the Parliament and coalition Government, to various political, economic, and social reforms.

Rule of Law and Access to Justice

Separation of powers and effective checks and balances

The new Constitution deepens the separation of powers, with broadened competencies entrusted to the Government and the Chief of Government and to the Parliament. The judicial reform programme follows guidance from the European Commission for the Efficiency of Justice (CEPEJ). The Constitution provides for the enactment of two institutional acts on the Higher Council of the Judiciary and the Status of Magistrates. The Higher Council has the authority to hire, dismiss and promote judges and under the revised Constitution takes on the functions of inspection and oversight. The new Constitution also gives a new mandate to the Constitutional Court, allowing it solely to opine on the constitutionality of laws. The King heads the Higher Council of the Judiciary, half of whose members are to be elected and half *ex oficio* members or appointed by the King.

Supremacy of the law

The Constitution enshrines the supremacy of the law and prohibits arbitrary arrest. However, a number of observers including in submissions quoted by the Office of the UN High Commissioner for Human Rights, in March 2012, have expressed concerns on the considerable influence wielded by the security forces and excessive use of force, with reports of alleged cases of harsh police treatment of detainees, inhuman and degrading punishment, and deaths in police stations.

Government and citizens equally subject to the law

Following the constitutional reforms, the independence of the Central Corruption Prevention Authority (ICPC) is set to be consolidated and its powers extended. This is complemented by the development of the National Anti-Corruption Strategy, and more recently the passing of the Protection of Whistle-blowers Act in 2011. Morocco is also a Contracting Party to the United Nations Convention against Corruption. The new Government's current Plan on combating corruption gives a central role to the Inspectorate General of Finance in transaction-based investigations, which is part of the work led by the Inter-ministerial Commission in charge of monitoring the Government's Anti-Corruption Action Plan, itself chaired by the Chief of the Government. Corruption is a significant issue that the authorities are addressing through these and other measures. Several prominent families in the country with large business holdings are believed to use their political connections to attract favourable treatment.

The country has a law on financial disclosure that applies to judges, ministers and members of parliament.

Independence of the judiciary

The Constitution provides for an independent judiciary and guarantees conditions for a fair trial. In May 2012 the King appointed a 40-member High Commission for Comprehensive Judicial Reform. The Commission's primary focus will be to develop a national charter that protects individual and collective rights and freedoms and sets down operating rules, ensuring the complete independence of the judiciary. The new Government is also advancing a number of initiatives to improve the conditions of the judiciary staff and to develop and implement mechanisms for streamlining the administration of justice.

However, as noted above, the King chairs the Higher Council of the Judiciary and appoints half its members, which provides the King with substantial power over the judiciary. Many local observers have concerns that he remains the ultimate arbiter of justice. In May 2012, a significant percentage of Morocco's judges signed a petition calling for prosecutors to be allowed to operate independently of the executive branch and for the judicial reform to address corruption in the judiciary and political influence over legal proceedings.

Civil and Political Rights

Freedom of speech, information, religion and conscience, movement, association and assembly

The Equity and Reconciliation Commission which the King established in 2004 recommended improvements to strengthen freedom of expression, information, and conscience in addition to institutional and legislative reforms. In 2011, Morocco set up the Inter-Ministerial Unit on Human Rights which resulted in the preparation of national reports on human rights and the drafting of a new Law on Humanitarian Rights which is yet to be presented to the Parliament.

The new Constitution grants the National Human Rights Council a Constitutional Status; the Council's law was also amended to include civil, political, economic, social, cultural and environmental rights. The new Law widens the Council's mandate with respect to investigations, visits to places of detention and psychiatric centres and the processing of complaints of human rights violations. Its annual report is submitted to both chambers of Parliament. However, the Council's composition and regulations are under the direct authority of the King.

A number of observers, including in submissions quoted by the Office of the UN High Commissioner for Human Rights, in March 2012, raised concerns about activists, bloggers, journalists and others who had been apprehended for expressing their views, including speaking about the monarchy and the unity of Morocco. Other observers indicated that individuals exercising their right to freedom of assembly and association had also come under pressure from the security forces and that journalists and a number of civil society participants were penalized for commenting on issues that the authorities considered politically sensitive, including the monarchy. UNESCO, in submissions to the Office of the UN High Commissioner for Human Rights, released in March 2012, expressed concerns that "the political climate in the country contributed to weakening the full enjoyment of the rights to freedom of thought, opinion and expression".

Political inclusiveness

The past few years witnessed a significant improvement in political inclusiveness in Morocco. The authorities introduced affirmative action whereby the percentage of women in the Chamber of Representatives in the Parliament is now 15 per cent and their representation in Communal Elections in the different regions to 13 per cent. The Ministry for the Modernisation of public Sector introduced measures to increase the percentage of women in employment in the public sector and in senior positions. The authorities have taken a number of steps to support the political and economic empowerment of women with the aim of curbing gender violence, especially domestic abuse. Morocco's efforts to reduce gender discrimination in its legal system have also produced significant changes which are reflected in the country's Criminal Code, Labour Code, and Code of Personal Status. In February 2012, the Working Group on the Issue of Discrimination against Women in Law and in Practice urged the Government to prioritise the drafting of a law to establish the Authority for Parity, which the Government is studying. Morocco accessed to and ratified the Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children.

However, a number of international observers are concerned about the effectiveness of the legal framework protecting women's rights. For example, a number of human rights organisations strongly advocate the need to ensure that rapists do not evade criminal prosecution by marrying their victims.

The new Constitution provides for a new Authority for Parity and Combating Discrimination. It also orients the Government towards the empowerment of the Kingdom's different regions, which effectively means people from different racial and ethnic backgrounds. Recently, the authorities granted approvals to a number of radio channels broadcasting in the Amazigh language. However, the Committee on the Elimination of Racial Discrimination (CERD) at OHCHR has made a number of comments in the report released in March 2012 on the need to further improve the legal and administrative standards ensuring equality for Amazighs, while CERD expressed concern that some Amazighs continue to suffer discrimination in accessing employment and health services.

Morocco controls most of the disputed territory of Western Sahara, which remains the subject of UN resolution efforts that have yet to bear fruit. The Moroccan authorities made a proposal in 2007 to grant autonomy to this territory under Moroccan sovereignty, while the Polisario Front liberation movement requests the holding of a referendum on independence. There have been mutual accusations of human rights violations on both sides, in Western Sahara and in the camps of Tindouf in Algeria. The UN Security Council welcomed Morocco's recent commitment to further strengthening the national arrangements for the protection of human rights, including for Western Sahara. An independent National Council on Human

Rights was created in March 2011 and regional offices of this body in Western Sahara have been established.

Freedom from harassment, intimidation and torture

Morocco amended the Criminal Code to explicitly criminalise torture. The Code now provides for severe sentences for perpetrators of torture. There has also been notable strengthening of the Public Prosecution Service with regard to investigating police officers and the Royal Gendarmerie. The new Constitution provides for a clear and wide prohibition on torture, and the associated regulations now allow restricted access to judges and a limited number of NGOs to visit some prisons.

However, a number of observers, including in submissions made to OHCHR, indicated that torture was used by the security forces to obtain confessions from detainees. Observers also contend that ill treatment of prisoners persists and that the 2005 Terrorism Law, which remains in use, gives the security forces wide powers.

Morocco did not accede to the Optional Protocol to the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment and to the Rome Statute of the International Criminal Court.

2. Operational environment

2.1 Macroeconomic context

Over the last ten years growth of on average close to 5 per cent has been underpinned by an expanding agricultural sector, and increased openness to and investment in the tourism sector. Structural reforms – in particular in maintaining an open environment for foreign direct investment have started to pay off. Prudent fiscal policies have contained public debt and allowed the country continued access to international bond markets. This enabled the country to come through the global financial crises with fiscal room to embark on a stimulus package focussed on sustaining growth and responding to increasing social demands that have emerged during the Arab Spring. The government increased wages and pensions and provided food and energy price subsidies as increases in imported fuel and food prices were not passed through to administered prices.

Real GDP growth reached 5.0 per cent in 2011, buoyed by strong non-agricultural performance. Production outside the agricultural sector (which accounts for 86 per cent of value added) has experienced a strong rebound, with a projected growth rate of 4.9 per cent in 2011, and agricultural output has been helped by a favourable cereal harvest and other crops. There was, however, a slight slowdown in activity towards the end of the year, with exports and tourist receipts showing slight deceleration.

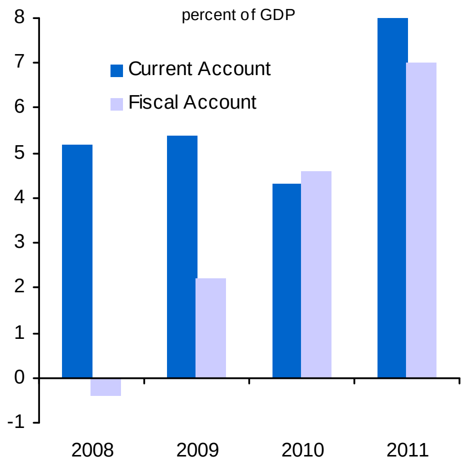
Due to its dependence on the Eurozone (which accounts for around 60 per cent of Morocco's exports, half of its tourism receipts and around 85 per cent of its remittance flows), Morocco's current account deficit reached 8 per cent of GDP in 2011. The trade deficit increased by 24 per cent in 2011 to an all-time high of USD19.4 billion (19.6 per cent of GDP), reflecting high commodity prices as well as a drop in demand from a number of EU countries (see Chart 1 below). Tourism receipts and goods exports held up well over the year, although tourism receipts fell by 0.2 per cent y-o-y in the first five months of 2012. Remittances remained a key source of foreign exchange income, growing by 7.8 per cent compared to 2010 (see Chart 2 below). Conversely, private foreign loans and foreign direct investment showed a substantial decline of 23 per cent between 2011 and 2010, reflecting both increased uncertainty in the region and problems in the main source of financial flows, the Eurozone.

In parallel, an increase in government expenditure on subsidies and social transfers has pushed up the fiscal deficit to a 20-year high of 6.9 per cent of GDP (excluding privatisation receipts) in 2011. Much of this increase can be attributed to subsidies for basic food staples and energy products, which amounted to 6.1 per cent of GDP, and other increases in social spending and subsidies, in particular motivated by the political and social unrest. In addition, the government plans to increase public investment by 12.5 per cent y-o-y to USD22 billion in 2012, its highest level since the 1980s. As a result Morocco faces a sizeable fiscal financing gap. The IMF has estimated that Morocco's fiscal financing needs (excluding grants) will reach USD14.6 billion in 2012 and USD15.6 billion in 2013, with external financing needs (excluding grants) amounting to USD7.8 billion and USD7.9 billion respectively.

Inflation has remained under control, although in part this has reflected price controls in food and energy. In March, the central bank cut its benchmark interest rate to 3 per cent, marking its first rate move in three years.

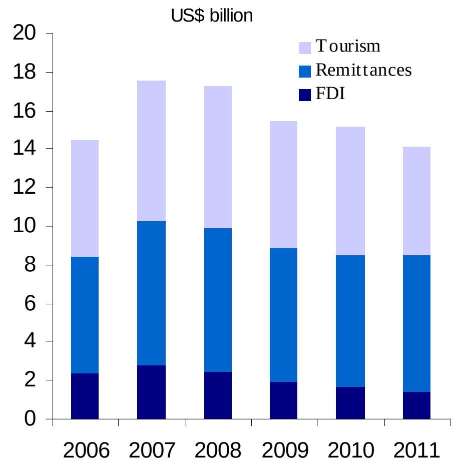
Although the overall macroeconomic position held up well in 2011, the Morocco economy remains very vulnerable to developments in the Eurozone and its widening twin fiscal and current account deficits. Official growth forecasts for 2012 have been revised from 4.2 per cent to 3.4 per cent on the back of continued drought and the difficult external environment. In 2012 the cereal harvest is expected to reach 44 per cent of its 2011 level (44 million of quintals in 2012 compared to 85 million in 2011). A small boost to the economy may come in

Chart 1: Twin Fiscal and Current Account Deficits



Source: National Authorities

Chart 2: FDI, Tourism, and Remittances



Source: National Authorities

the form of an agricultural trade treaty recently ratified between the EU and Morocco, which extends duty-free status to most food, agricultural and fisheries products.

2.2 Structural reform context

The recent paper “Morocco’s Request for Country of Operations Status: Technical Assessment” (SGS11-294) contained a detailed assessment of the remaining transition challenges in Morocco. The text which follows highlights some of the main findings of the earlier assessment. An updated assessment will be available towards the end of the year.

Morocco has made substantial progress in its privatisation agenda since the early 2000s. A number of sectors including telecommunications and several service sectors saw large scale privatisation and an increase in their overall competitiveness. As a result the privatisation agenda, with the exception of utilities and natural resources, is by now almost complete. These efforts were coupled with liberalisation and sectoral structural reform in the transport, energy and telecommunications sectors. Average import tariffs were substantially reduced even though non-tariff barriers, in particular in the agricultural sector, still remain substantial. However some capital account restrictions on residents remain including surrender requirements for export proceeds and limits on foreign investments by local institutional investors such as pension funds.

Reforms in the financial sector have resulted in comparatively effective bank supervision with a low level of foreign currency exposure. Foreign banks, in particular from France, play a significant role in the system. The capital-adequacy ratio of the system has improved to 12.3 per cent at 2010, up from 11.8 per cent in 2009. Banks rely mainly on Moroccan deposits in local currency for their funding.

At the same time, there remains a significant unfinished reform agenda. However, in summary, regulatory capture has had an adverse impact on entry and competition across a number of industrial sectors. Barriers to entry, cross-ownership in some sectors and low levels of corporate governance have contributed to lower levels of competitiveness. In addition, a low absorption rate of new technologies, some anti-export bias of large public investment programs in the non-tradable sector with high import content, as well as labour market rigidities are also playing a role.

A few structural reforms were put on hold as part of the crisis response. In particular, the government put off fuel and food import price increases to producers and consumers, putting an increasing burden on the budget and distorting consumer and investor behaviour. These policies were naturally left in place in the immediate aftermath of the Arab Spring, contributing to an increase in the fiscal deficit in 2011. Although the Competition Agency has recently been asked to look into ways to tackle the subsidy problem that has contributed to energy-inefficient production technologies, spending on food and fuel subsidies reached around 5 per cent of GDP in 2011, considerably above the originally budgeted 2.1 per cent. However, the Ministry of Finance is considering a fiscal rule that would tie policymakers’ hands as well as its subsidy system.

The energy and infrastructure sectors remain largely unreformed and tariff reform is needed across the board to improve cost recovery. Delivery of municipal services faces large reform challenges and is constrained by poor local capacity. After many years of delay, regulatory agencies in some sectors, including energy, insurance, and securities, have only recently moved to become more independent. Moreover, the Ministry of Energy has recently decided to move ahead with un-bundling of the vertically integrated energy utility ONE and corporatizing its units, with EU assistance.

The government has identified key reform challenges and priorities in its *Plan Maroc* prepared under the Deauville Partnership as follows:

- *Diversification of growth sources: development of sectoral strategies.* The *Pacte National d'Emergence Industrielle (PNEI) 2009-2015* aims to develop specific manufacturing industries such as off-shoring, automotive, aerospace and electronics. There are well developed plans for all important sectors: *Plan MarocVert* (agriculture) which aims at both increasing higher value-added production and supporting small scale farming; *Plan Azur et Vision 2020* (tourism*); Strategie Energetique* and *Plan Maroc Solaire* (energy and renewables*); Casablanca Finance City* (regional financial centre), *Phosphates et Dérivé* (for phosphate extraction and transformation) *Plan Halieutis* (modernizing the fishing industry), etc.
- *Improvement of infrastructure, the business climate, competitiveness and connectivity.* This focuses on investments in renewable energy (42 per cent share of renewable energy in electricity production by 2020), with significant public investments into a number of infrastructure projects for highways, rail, airports but also public sector logistics (including storage, distribution and trade logistics).
- *Human capital development and targeted support for the most vulnerable.* A national education plan focuses on a number of projects aiming at increasing educational quality; a special Initiative (INDH) is devoted to measures to reduce poverty, increase social inclusion in urban areas and improve the livelihoods of the rural poor.
- *Openness to the global economy and regional trade integration.* This requires completing liberalisation of trade policies and increasing regional integration including with the network of bilateral investment treaties. Morocco has already acquired "advanced status" with the EU, and has bilateral free trade agreements with the US, EU, Arab League and Turkey.

2.3 Business environment

The business environment in Morocco still faces a number of difficulties, but has improved during the past year. Morocco has taken steps to improve protection of minority interests, dealing with construction permits, and facilitating tax filings, thus propelling the country to the 94th rank in the World Bank's 2012 Doing Business report, which represents a substantial improvement from 115th place in the 2011 Doing Business report. Increases in subsidies and persistent price controls dampen the business environment across a number of industries. However, there still remains much scope to improve the business environment in Morocco. According to the same report, starting a business in Morocco has become significantly more difficult this year. Registering property and ensuring regular access to utilities, such as electricity, continues to pose a challenge for businesses. There remain impediments to accessing credit, mostly attributable to regulatory rigidities such as poor contract enforcement and weak mechanisms to resolve insolvencies. The World Economic Forum ranks Morocco at 73 out of 142 countries.

According to the 2011 Corruption Perception Index published by Transparency International, Morocco is ranked 80th out of 182 countries with a score of 3.4 (0-10 scale where 0 equals most corrupt), which compares favourably to Egypt and Tunisia and most of South East Europe.

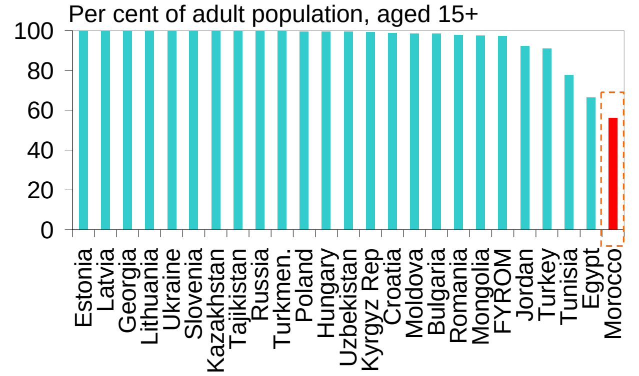
2.4 Social context

Morocco’s reasonably strong growth rate in the past decade has not translated into rapid improvement in its social indicators. Although the levels of absolute poverty have come down, around a quarter of the population still live in extreme poverty (on less than USD1.25 per day at Purchasing Power Parity) according to the World Bank. Poverty in Morocco varies widely across regions, with the rural/urban divide particularly sharp: 70 per cent of poverty is rural, and the poverty rates in rural areas are almost triple compared to those in urban areas. In addition, economic opportunities for the working poor are severely limited, especially because the vast majority of the poor are employed in agriculture and construction, where activity is mostly in the informal sector. Gender disparities are also acute (see Chart 3 below), especially among rural women, who fare much worse than their urban counter parts in terms of health and education. Around 20 per cent of children are malnourished in urban areas, where dropout rates from primary school range from 40-50 per cent leading to high levels of illiteracy (see Chart 4 below).

Chart 3: Female labour force participation: Gap between male and female participation in labour force, aged 15 years and older

Source: WDI

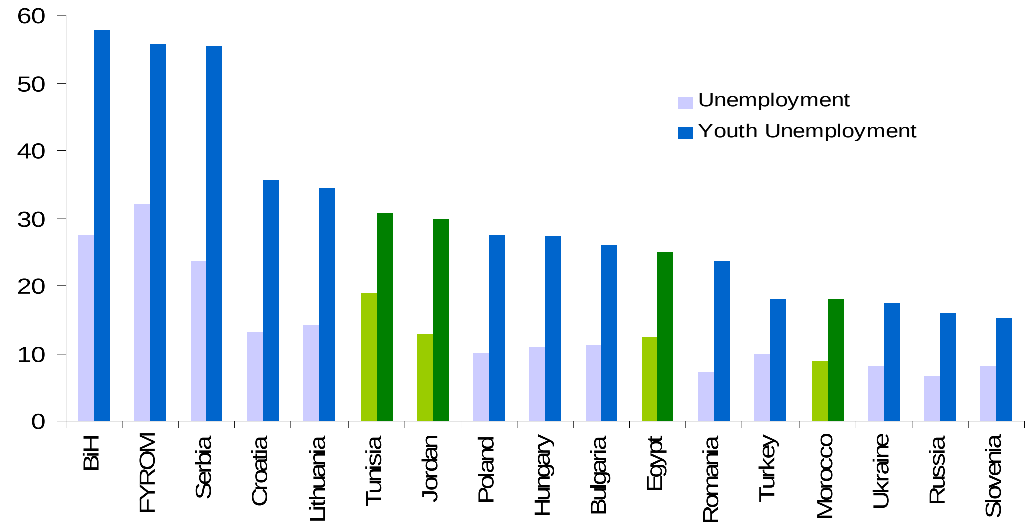
Chart 4: Literacy



Source: World Bank WDI, Data is earliest available, mostly 2009, except for Egypt, Jordan and Tunisia, where it is 2006, 2007, 2008 respectively.

The labour market is fraught with structural rigidities that ultimately affect competitiveness and job creation. First, while overall unemployment has fallen slightly from 13.4 per cent at the beginning of 2000 to 8.9 per cent in 2011, the unemployment among tertiary educated young people is much higher. Youth unemployment is high even in comparison with other countries in the region (see Chart 5 below) – and culminates in jobless rates of around 40 per cent for certain graduates. Second, the gap between male and female participation in the labour force is higher than anywhere in the EBRD region; 80.1 per cent for women versus 26.2 per cent for men. Third, the informal economy is significant, quantified at roughly 40 per cent of employment, reflecting, at least in part, problems with the business environment, particularly for smaller-scale investors/ SMEs.

Chart 5: Unemployment and Youth Unemployment in EBRD and SEMED



Source: National authorities

2.5 Legal context

The principal sources of commercial legislation in Morocco can be found in the *Dahir* of Obligations and Contracts dated 1913 and amended thereafter, in addition to the Code of Commerce dated 1996. For historical reasons, Moroccan law is largely based on French law and tradition. Even today, French case law can have authoritative value in Morocco in specific areas of the law. The EBRD Legal Transition Team is currently preparing a detailed assessment of Morocco's commercial laws that is expected to be completed in Q4 2012.

The establishment of special commercial courts in 1997 has reportedly led to some improvement in the handling of commercial disputes. Nevertheless, the lack of training for judges on general commercial matters remains one of the key challenges to effective commercial dispute resolution in the country. In general, litigation procedures are time consuming and resource intensive, and there is no legal requirement with respect to case publishing. A new Arbitration Law was passed in July 2007 which allows for international arbitration; mediation exists but is not often resorted to.

The 2006 law on the delegated management of public services constitutes the platform through which public entities and local authorities are allowed to conclude partnerships with the private sector for the performance of a public service, and the construction and operation of infrastructure and public works. The legal framework would benefit from the adoption of a new specific PPP law and from putting into operation the PPP unit which was recently established by the Ministry of Economy and Finance.

In the light of EBRD operational priorities, the Bank's Legal Transition Team will consider developing a number of initiatives, in particular:

- encouraging the diversification of the financing of the agricultural sector via well tested tools such as warehouse receipts law;
- promoting the development of a wider range of financial products via the development of a secured transactions law which would permit a more flexible security package, the revision of the mortgage law to address the problems of enforcement; and exploring other legal tools, such as factoring;

- strengthening the private sector via better corporate governance framework (including of banks and listed companies)

The Legal Transition Team is currently in contact with the CNEA (National Committee for Business Climate), in particular to discuss technical assistance for secured transactions reform. The Legal Transition Team intends to partner with the World Bank and the Arab Monetary Fund, which are already active in the areas of housing finance, including secondary mortgage markets (covered bonds).

2.6 Energy efficiency and climate change context

Morocco is highly dependent on imported energy, making its external energy dependence very high, at 93 per cent. In particular, electricity imports have almost tripled since 2002. In 2009, Morocco had an energy intensity of 0.09 toe/’000 USD PPP and carbon intensity of 1.24 kgC02/’000 USD PPP which was the lowest among SEMED countries and much lower than the OECD average (0.16 toe/’000 USD PPP for energy intensity). Continued industrial development and economic growth is likely to lead to an increase in energy and carbon intensity in the future, unless the ambitious government plans in this area are being fully implemented.

Climate change is also projected to intensify pressure on water resources, with potentially significant impacts on agriculture, tourism, hydropower and human health. Sea level changes and coastal erosion may also affect coastal regions and coastal infrastructure such as ports. Inefficient water use in irrigation is a particular concern, given Morocco’s large, export-oriented agricultural sector.

Morocco has one of the best wind resources in the World and abundant solar resources. Ambitious targets, laws and implementing agencies are in place, but discrepancies between capped retail prices and wholesale prices for electricity are a barrier to the introduction of an open market for electricity, and renewables in particular, and a disincentive for energy efficiency measures, while making ONE acting as single buyer dependent on State support and guarantees. This may not be reliable in the long run as the country is struggling with unsustainable public sector deficits. As a consequence, developers are also seeking long term PPAs with ONE, which may pose an increasing burden on the company and taxpayers if the pass-through of generation and system costs to customers will continue to be constrained. The costs of some renewable technologies (wind, solar PV) are decreasing each year and may in near future become competitive with conventional generation.

3. Strategic Orientations

3.1 Transition Challenges

Morocco faces a number of large transition challenges namely in the private enterprise (particularly SMEs), energy, and infrastructure sectors.

- **Transition gaps are significant in the private enterprise sector.** Morocco's manufacturing industry is in decline, losing export market shares and preventing Morocco from benefiting fully from its various free trade agreements. Significant challenges also exist in industry and service sector innovation and the development of a knowledge economy.
- **The agribusiness sector has medium yet pressing transition gaps**, as a vital sector for food security and employment. Challenges include developing a competitive processing industry and transforming primary production into higher value-added products.
- **The financial sector is relatively developed, but has important gaps in some areas, notably in terms of access to finance for SMEs and the development of local capital markets**. Regulatory frameworks are reasonably advanced in both the banking and non-banking sectors, with further improvements in the pipeline, including through a further strengthening of the independence of the regulatory agencies for the insurance and securities markets.
- **The energy sector has large transition gaps across-the-board.** The urgent needs include unbundling of the sector, gradual liberalisation of energy prices, creation of competitive wholesale and supply markets, improvement of performance and commercial sustainability of the network business, developing the independence of regulatory agencies, improving linkages with neighbouring energy markets and promoting an enabling policy framework for energy efficiency. Progress in this area is also critical for competitiveness. An ambitious "Green Energy" plan is under way, aiming at a significant increase in the use of renewables, but the overall transmission system needs significant upgrading and several electricity market and subsidy reforms need to be put in place if renewable energy is to develop sustainably to meet these targets.
- **The infrastructure sector also suffers from a number of large gaps**, especially in municipal services. Strengthening the capacity of municipalities to better manage their increasing responsibilities for infrastructure (water and waste management) under the authorities' regionalisation plan is a clear policy and reform priority. Tariff reforms to improve cost recovery and regulatory independence are also among key reform challenges. Promoting greater private sector participation in the provision of transport infrastructure and services as well as institutional restructuring and strengthening the regulatory framework for the rail sector will address the key transition gaps in the transport sector.

There are a number of themes that cut across sectors. Institutional frameworks and regulatory institutions should help create a level playing field in each sector. The on-going move toward greater regulatory independence needs to be completed, and the business climate improved primarily through better protection of investors (particularly minority shareholders), legal contract enforcement and easier property registration.

3.2 The Bank's Priorities for 2012-2013

In terms of medium-term structural challenges, Morocco’s main priority will be to enhance the economy’s competitiveness, both by reducing structural rigidities in the labour market and by improving regulations in the product market in order to create a level playing field and encourage entry. The rising fiscal and current account deficits are an indication that Morocco lacks competitiveness, resulting from a combination of poorly targeted subsidies, high barriers to entry, connected businesses in some sectors, low levels of corporate governance and a low absorption rate of new technologies. In addition, the labour market suffers from a number of deficiencies, manifested in high structural youth unemployment, a large gap between male and female participation in the labour force, and the large size of the informal economy.

In response to the transition challenges highlighted in Section 3.1 above, the following operational themes have been identified to guide the Bank’s activities in Morocco:

- Financing private enterprise to support competitiveness and employment, with a specific emphasis on SMEs;
- Modernising the agribusiness value chain to improve food security and develop a more open, competitive agricultural sector;
- Further strengthening the financial sector and capital markets in order to promote longer term financing and a more diverse range of techniques and financial products;
- Supporting Morocco’s sustainable energy strategy to improve energy security and enhance economic competitiveness;
- Promoting transport and municipal infrastructure reform and decentralisation of municipal services with a particular focus on non-sovereign financing and mobilisation of private sector investment, where possible.

Within this overall set of priorities, the EBRD has begun identifying possible opportunities for assistance. The priorities will not only guide project selection for “second phase” funding through the SEMED Investment Special Fund but also for pipeline development with a view to the Bank’s longer term engagement. The “Operational responses” in the following sections therefore cover a wider range of activities than can be expected to be completed over the SEMED ISF horizon. Under all operational themes, however, there are a number of concrete project leads which teams are developing in close consultation with the authorities.

3.2.1 Cross Cutting issues

There are a number of cross cutting issues which will be given strong emphasis in implementing the proposed operational priorities. The Bank will apply its usual high standards in due diligence, integrity and transparency in all of its operations. Such standards are especially important while the country rebuilds its institutions, which is reflected in the prominence CSOs as well as the authorities have placed on these issues.

In addition, the promotion of inclusive growth will be given prominence in the Bank’s engagement in Morocco. As mentioned above, the country’s main challenges are high youth unemployment, lower female participation in the labour market, rural-urban divides and low access to finance by female entrepreneurs. Initiatives are already underway at the Bank to better understand the issues which adversely affect women's economic participation in Morocco and the other SEMED countries, through dialogue with academics, representatives of the business community and partner IFIs working in the region (including at a recent conference held at the EBRD[2]). Specific opportunities and operational implications will be clarified once the Bank has gained more country specific knowledge and has finalised its new Gender Strategy. In addressing gender inequalities consideration will be given to a) working with financial institutions to increase access to finance for women borrowers, b) promoting equal opportunities in the work place and c) developing Corporate Social responsibility programmes to promote employment opportunities.

3.3 Transition Challenges and Bank Operational Response

3.3.1 Financing private enterprise

Transition challenges

- Diversify the sector away from the dominant role of the phosphate industry;
- Reduce the role of the public sector in favour of wider private ownership;
- Increase the overall competitiveness, productivity and efficiency of enterprises by promoting higher levels of research and development, modernising production facilities, developing suitable office and logistics premises and improving management and transparency; and
- Improve the business climate by strengthening competition policy, increasing investor protection and improving tax administration.

Operational response

The Bank would consider opportunities in several areas, including:

- Participating in the diversification of ownership of the Moroccan economy and the expansion of the private sector by providing acquisition or expansion finance for such purpose;
- Supporting local, family-owned and mid-sized companies which require efficiency and corporate governance improvements to meet the challenges of greater international competition arising from free trade agreements;
- Supporting investments into the manufacturing and services sectors that contribute to foreign currency inflows into the country and help job creation, including selectively in tourism and property projects;
- Supporting the development of the SME sector in Morocco to address structural weaknesses and improve competitiveness, productivity, transparency and modernise management via debt financing, equity participation and the Business Advisory Services and Enterprise Growth Programme; and
- Supporting the development of larger companies via complementing the financing available from local banks through mezzanine debt, equity and pre-IPO financing.

[2] Organised with Women for Women International

- Investments in high-tech and innovative companies to support the development of the knowledge economy.

3.3.2 Modernising the agribusiness value chain

Transition challenges

- Lower yields compared to other major agricultural countries as a result of insufficient investment, access to financing and inefficient production techniques in primary agriculture;
- Inefficient water usage, limited land sizes and dominance of cereal crops;
- An under-developed processing sector and the dominance of bulk food;
- Poor distribution infrastructure dominated by traditional retail and distribution, especially in second tier cities and rural areas;
- The dominance of monopolies or oligopolies in certain sectors; and
- Heavy weight of untargeted consumer subsidies (e.g. bread, sugar) on government budget (through the "Caisse de Compensation"); and
- Droughts have been a major issue in Morocco since the 1970s and it is expected that droughts will also impact the agriculture sector's contribution to GDP and domestic food security in the future.

Operational response

The Bank would consider opportunities in several areas, including:

- Investing in companies that compete with current monopolies/semi-monopolies (e.g. sugar, edible oil, dairy and retail) to improve competition in respective markets, including support for enterprises divested to private owners;
- Financing local private entities investing in modern processing targeting both domestic and export markets;
- Supporting the development of infrastructure across the agribusiness value chain, particularly in logistics, modern distribution and processing; Support direct energy efficiency investments in agribusiness companies to reduce energy and water consumption and promote use of waste and renewable energy;
- Supporting increased productivity and the transfer of skills and know how in primary agriculture with a focus on crops where Morocco has a competitive edge for export activity (e.g. olive production) and on crops that address food security concerns;
- Supporting initiatives that improve access to financing to farmers through innovative solutions (e.g. warehouse receipts);
- Supporting policy dialogue initiatives dealing with Agricultural land ownership and size, the harmonisation of the tax regime in farming and processing and the reform of the subsidy system.

3.3.3 Deepening the financial sector

Transition challenges

- The banking sector is relatively well developed, but there is limited finance available through the banking sector for MSMEs, particularly for smaller firms;
- The active government debt market has not yet translated into a deep corporate or municipal securities market;
- There is a current liquidity shortage in the market in local and foreign currencies, with heavy reliance on Central Bank interventions.[3]
- Local currency lending in long maturities is achieved by taking maturity mismatch risk as most funding is short-term;
- Low penetration of non-bank financial services, especially in insurance;
- The private equity industry faces challenges to strengthen and increase locally-based independent fund managers, given the lack of local management and investment expertise, as well as to further develop the institutional investor base and attract foreign institutional money.
- Undertaking a study to understand why so few women take up loans in rural areas so as to identify how EBRD can support Micro Financial Institutions support women entrepreneurs more effectively.

Operational response

The Bank would consider opportunities in several areas, including:

- Lending in long-term in foreign currency to local banks for on-lending to MSMEs, in foreign currency or local currency when the banks would cover any rate or currency mismatch through their asset and liability management;
- Funding and technical assistance to support the microfinance sector, help it resume growth on the basis of sound banking principles and facilitate access to finance, including in remote rural areas or poor urban areas. EBRD could also assist local banks to engage in downscaling programmes;
- Risk sharing with local banks, under the Medium-Sized Co-Financing Facilities (MCFF) or other instruments.
- Supporting the issuance of capital markets products such as securitisation or covered bonds to help the rebalancing of maturity mismatches and support the development of capital markets with possible cooperation with the World Bank, which is leading an effort to create the appropriate legal framework for these products;
- Issuing long-term EBRD bonds on the local markets, where there is pent-up demand for high-quality paper, and on-lending to local banks to develop the debt market, as well as being able to lending long-term in local currency to local banks;

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[3] However, according to the authorities, the situation is acceptable given that in 2011 Central Bank interventions amounted to only 4 % of the total financing resources of the Moroccan banking sector. Also, despite the crisis, the interbank market continued to function normally and credit to individuals and businesses has grown generally in line with the pace of economic activity.

- Offering TFP products in particular to locally owned banks, to resolve shortage in the trade finance market.
- Supporting the further development of good banking practices and strengthening the capital base through investments in capital instruments.
- Engaging in an active dialogue with locally-based funds or regional funds with a Moroccan focus that are currently raising capital with a view to becoming independent and/or regional players, in order to promote a stronger, more diversified domestic and Maghreb private equity industry which in turn will address an important gap in the availability of equity financing; and
- Cooperating with other IFIs in developing a stable international, regional and local investor base, promoting greater investor interest in both this asset class and the underlying investee businesses.

3.3.4 Supporting Morocco's sustainable energy strategy

Transition Challenges

- The key transition challenge in energy security, efficiency and climate change is to assist the development of the domestic energy and fuels efficiency and support the implementation of the Moroccan renewable strategy to reduce dependency on imported energy;
- Improving energy efficiency throughout municipal and public services, in public or private buildings, the transport sector and across numerous industries as well as improving fuel processing;
- Encouraging cleaner and alternative fuel uses; and
- Contributing to the reform of the electricity sector - including the reorganisation of the State owned Office National d'Electricité (ONE), the establishment of a market for electricity and an independent regulator.

Operational Response

The Bank would consider opportunities in several areas, including:

- Leveraging its experience to create products for intermediated energy efficiency lending, leasing or private equity capital for energy efficient and renewable energy technologies in Morocco;
- Providing support and funding to Energy Service Companies (ESCO) subject to the creation of an enabling policy and market conditions;
- Building on its experience in promoting private sector involvement in the construction and operation of new renewable capacity, principally wind, biomass, biogas and solar;
- Promoting energy efficiency by distribution companies to reduce losses, including through introducing smart metering;
- Developing "green mortgage" products, providing a price incentive to a mortgage borrower in exchange for implementing outstanding energy efficiency standards in residential buildings;

- Supporting public (initially sovereign guaranteed) projects that promote private sector development such as (i) connection to the grid of renewable plants; (ii) network adaptation to renewable production; (iii) SCADA for improvement of dispatch; (iv) support to regionalisation; and (v) High Voltage lines including a trans-border line; and
- Supporting private sector PPPs, including renewable projects and the construction of new thermal power plants, with the aim of reducing the reliance on ONE/ sovereign finance.
- Engaging in policy dialogue to reform the electricity sector in order to promote a free open market in electricity, reorganise the state owned Office Nationale d'Electricité (ONE), establish an independent regulator and help create a market for electricity which should foster the development of independent private energy producers over the medium term. This dialogue would also be helped by the Bank's co-operation with the IBRD, IFC, and AfDB in the management of the Clean Technology Fund.
- Studies to better understand household energy use and climate vulnerability, so that the Bank can help its clients to provide energy services to women and more vulnerable groups in Morocco.

3.3.5 Supporting the transport infrastructure reform and decentralisation of municipal services

Transition Challenges

- Lack of commercialisation of the operations of the national operators and infrastructure providers, including tariff reform and reducing operating subsidies;
- Greater private sector provision of transport infrastructure and services is needed, in particular of intermodal and logistic services, as well as potentially through PPPs; and
- Lack of commercialisation and private sector participation (i.e. in the form of transparent PPPs) in water supply and wastewater collection and treatment facilities and solid waste management, as well as in in urban transport to reduce network congestion; improve traffic management systems and street lighting.

Operational Response

The key transition challenge in the transport and municipal sector is to improve efficiency and attract private capital to speed up the pace of reform and develop key transport and municipal infrastructure. This could be done through:

- Conducting policy dialogue with the aim of creating a reform environment that could enable the Bank to be a catalyst for decentralised financing solutions, frameworks for PPPs, and sector reform and allow the bank to finance such solutions;
- Supporting the decentralisation and commercialisation of existing infrastructure, including of reform-minded municipalities and viable public sector entities committed to restructuring and commercialisation. The Bank will seek engagement on a non-sovereign basis, however, may also consider engagement on a sovereign basis with some clients on a case by case basis (e.g. ONEP);
- Supporting modernisation and extension of existing water and wastewater infrastructure, priority projects in urban transport, solid waste management and other municipal infrastructure.
- Support PPPs and private sector participation in municipal service provision;

- In the transport sector, supporting sector reform and restructuring of state-owned transport entities together with other IFIs including through selective sovereign or sovereign guaranteed structures, where financing gaps exist (e.g. by supporting rail station upgrades and/or track maintenance investments where EBRD's niche sector expertise is well placed to support commercialisation of such auxiliary activities).
- Supporting development and growth of private sector operators, such as logistic companies, private freight forwarders, and port concessionaires etc., who currently have limited access to long term debt to finance business expansion.
- Encouraging and supporting the privatisation plans of national transport companies, including support for divestment of ancillary activities, and supporting the introduction and implementation of PPPs.
- The Bank will adopt a participatory and culturally appropriate approach so that the respective priorities of men and women can be reflected in the development and implementation of both infrastructure and municipal services.
- Where appropriate, the Bank shall work with municipalities and public sector entities, as well as PPPs, to promote equal opportunities in the work place, building upon its experience in Turkey.

3.4 Environmental and Social Implications of Proposed Activities

Morocco's environment & the impact on development

Morocco's natural environment has historically suffered from the depletion of natural resources, air and water pollution from obsolete industrial plants and uncontrolled sewage and waste disposal. These issues will need to be reviewed in the context of individual project appraisal and in line with EBRD's Environmental and Social Policy and Performance Requirements and will assist Morocco in the process of alignment with international standards and compliance with Millennium Development Goals.

Modernising agribusiness and developing climate change resilience

Morocco is vulnerable to climatic change and the projected impacts over the coming decades. The Southern Mediterranean sub-region is expected to experience decreases in summer and especially winter precipitation. Droughts have been a major issue in Morocco since the 1970s and it is expected that drought will impact the agriculture sectors contribution to GDP and domestic food security. Projects in the agribusiness sector will require companies to explore climate change resilience opportunities and to promote efficient use of water and energy. The Bank's projects will seek to provide employment opportunities and raise labour standards by, for example, eliminating the dependence on cheap labour in the supply chain. Technical assistance funds may be deployed in raising E&S standards and promoting of equal opportunities in the work place across the agribusiness sector and throughout the value chain.

Strengthening the financial sector and supporting capacity building

The Bank's support to the strengthening of Morocco's financial sector and investment to SME's via Financial Intermediaries will include a programme of environmental and social capacity building and training on sustainable development. The Bank's FI training programme is well established and can be readily implemented in Morocco. Further, increased lending to SME's will increase the availability of capital and result in sustainable development through increased access to finance. In rural areas, there is a surprisingly low micro-credit take up among women. A study will to be undertaken with to understand the reasons for this and to identify how lending can be expanded to women micro-entrepreneurs.

Supporting Morocco's sustainable energy initiative

Power and energy projects supporting Morocco's sustainable energy strategy will improve energy efficiency and increase market share of renewable energy projects. Clean Development Mechanism projects in Morocco are well developed and opportunities for carbon finance will be identified. Rural electrification and safe and affordable access to power will be an important consideration in the development of projects in this sector. Proposed pilot work in Central Asia on household energy use and climate vulnerability, which will include a gender perspective, may provide lessons for how the Bank can help its clients to provide responsive energy services in Morocco.

Supporting infrastructure reform and municipal services

In the growing urban-industrial centres, local municipal infrastructure struggles to keep the balance between environmental protection, safe waste disposal and provision of clean water. The development of transport and municipal infrastructure may involve land acquisition or economic displacement for local populations but can deliver significant improvements in quality of life and support economic development. In developing municipal services efforts will be made to understand the differentiated priorities and needs of men and women so as to effectively address them and ensure that both can equally share the benefits of the proposed investments.

3.5 Status of the Bank's Engagement via Cooperation Funds

There are presently 16 donor-funded TC assignments in process in Morocco, including 11 regional SEMED assignments that represent EUR17.3 million of approved funding. These include the Food Security Initiative for the region, the implementation of SBS programme in the region, an expansion of the EBRD Italy Local Enterprise Facility and the Direct Company Assistance for agribusiness companies. The TC assignments also include 5 country-specific assignments representing EUR760 thousand of approved funding, including a Transport Sector Review, an Assessment of the Sub-Sovereign Financing Framework, a Sustainable Energy Initiative study, an Environmental and Social Assessment, and a Country Law Assessment.

In November 2011, a 2 year Agreement was signed with the EU to fund the launch of the Small Business Support Team (SBS) in Morocco through the Neighbourhood Investment Facility (NIF). This SBS supports economic transition by achieving enterprise change in viable MSMEs and contributing to the development of sustainable infrastructures of local business advisory services. This is achieved through two complementary programmes, Enterprise Growth Programme (EGP) and Business Advisory Services (BAS).

Under the EBRD's agribusiness 'Direct Company Assistance' programme one Moroccan company has so far been identified which could benefit from this TC programme, possibly leading to follow-on investments. This project is expected to start within the next two to three months and will possibly lead to an investment. In the coming months the teams will work on expanding the pipeline of eligible companies that could benefit from project preparation TCs.

On the policy dialogue front, the Bank has signed a two-year work-programme on Food Security as part of the expansion of the EBRD-FAO framework agreement to SEMED. This is a programme that focuses on identifying key bottlenecks along the food value-chain in the SEMED countries, bringing together key stakeholders and expanding the Bank’s successful EastAgri knowledge platform to SEMED (“MedAgri”). Currently, the team is considering various sectors which could be the focus of an in-depth food value chain analysis in Morocco.

In the energy sector, a technical, economic, social and environmental due diligence assessment of future project with the state-owned energy company ONE is being undertaken to prepare an electrification and introduction of smart metering project. In parallel, an in-depth assessment of the lessons learned, the economic and social benefits from the rural electrification program will be undertaken by ONE with TC support. This independent assessment will benefit key-stakeholders, the targeted population, central and local government authorities and financiers providing critical feedback on the programme, its success and possible shortcomings.

TC will also be sought to support policy dialogue in the energy sector, in particular for establishing an electricity market, independent regulator and reforming the legal framework for renewable energy and energy efficiency in all sectors and for putting in place more market based energy pricing also taking into account affordability issues. A resource audit facility will be put in place to offer energy audits and water use audits to private sector clients, principally in the Natural Resources, Agribusiness and Manufacturing and Services sectors.

The Bank’s priorities for TC in the municipal sector include project preparation work, including feasibility studies for specific projects such as investments in ONEP. A thorough analysis of the current framework for financing municipal projects and of the reforms necessary to make sub-sovereign financing approaches bankable is being finalised by international consultants and soon.

Cooperation funds are being employed in the transport sector primarily to conduct a mapping of private sector operators active in the sector, but also to identify niche or complementary public sector transport project priorities, which support sector reform and sustainable transport initiatives.

4. Access to domestic and international capital: private and public sources of finance

4.1 Access to capital

The financial sector in Morocco is relatively well developed and has weathered both the financial crisis and the regional turmoil comparatively well, but access to finance for SMEs remains challenging, and local markets still need to be further developed. As of end 2011, only 54 per cent of the population had a bank account, and SMEs lack the collateral, equity, and formalisation needed to borrow, despite the existence of government support and guarantee schemes. While the money and government bond markets are well developed, securities markets are small and lack liquidity and the regulatory and tax frameworks for more advanced products (securitizations, derivatives) are yet to be developed. Term deposits are a considerable resource of financing for banks, with an average maturity of 9 months and 6 days. Despite a fall in 2011, they represented 22 per cent of total deposits on non-financial actors. In this regard, big efforts are deployed in order to encourage more savings, through new financial products offered to clients. Morocco's sovereign rating by Moody's is stable at Ba1, and stands at BBB- with a stable outlook both at Fitch and S&P.

The banking system has proved stable, adequately capitalised, profitable and resilient to shocks and is well developed compared to other countries in North Africa. Asset management, consumer finance leasing, factoring and mutual funds are relatively well developed, ensuring access to credit by a wider pool of market participants. Overall credit growth has increased from 7.7 per cent in 2010 to 10.5 per cent in 2011, but credit growth to the private sector slowed from 10.7 per cent to 9.1 over the same time period. Despite a slowdown in credit growth since 2008, banking sector liquidity has declined in tandem with drops in deposit growth due to lower remittances.

The Moroccan banking system has not been strongly affected by the global financial crisis, mainly due to limited exposure to international markets. In 2011, NPLs reached 4.7 per cent and the loan to deposit ratio stood at 101 per cent. Deposit growth fell from 7 per cent in 2010 to 5.7 per cent in 2011. The solvency ratio, on a consolidated basis, reached 12.3 per cent as of end 2011. This is largely attributed to a decline in remittances, exports, and FDI, underscoring a structural lack of domestic savings.

Nevertheless, banks continue to lend moderately to the private sector, but credit provision is constrained by a number of factors. Limited long-term funding resources for banks continues to be an impediment to their granting of long-term loans, which constitute around a third of total loans. As a result, the banking system exhibits a significant degree of maturity mismatch risk, and reducing the availability of credit to longer-term projects such as those in the infrastructure sector.

4.2 MDB finance and collaboration with other IFIs and donors

Several international financial institutions (IFIs) and major regional and bilateral organisations continue to be active in Morocco. As repeatedly emphasised by EBRD Governors, it will be important to avoid duplication and competition and to ensure that any potential activity of the EBRD brings specific value-added based on its specific mandate and competencies. Field missions by EBRD staff over the past months offered numerous opportunities to meet with other IFIs and bilateral donors in Morocco.

This coordination process has been strengthened under the aegis of the Deauville Partnership, which was announced in May 2011 by G8 leaders.[4] The Partnership includes a "Coordination Platform" dedicated to (i) facilitating information sharing and mutual understanding, (ii) coordinating monitoring and reporting on the implementation of the

[4] Countries in the Partnership currently include the five Partnership countries (Egypt, Tunisia, Jordan, Morocco, and Libya), the G-8, Saudi Arabia, the United Arab Emirates, Kuwait, Qatar, and Turkey. The International Financial Institutions include the African Development Bank, the Arab Fund for Economic and Social Development, the Arab Monetary Fund, the European Bank for Reconstruction and Development, the European Investment Bank, the Islamic Development Bank, the International Finance Corporation, the International Monetary Fund, the OPEC Fund for International Development, and the World Bank. The Organization for Economic Co-operation and Development is also a Partnership member.

Deauville Partnership, and (iii) identifying opportunities for collaboration on financing, technical assistance, and policy and analytical work.

The Deauville Partnership has launched several important initiatives, including a Private Sector Development Initiative**,** led by the IFIs, aimed at fostering a competitive private sector, including developing local capital markets, addressing skills mismatches, and providing technical assistance for public-private partnerships. In order to improve the policy environment for SMEs IFIs are also jointly preparing an assessment of the conditions for SMEs to generate jobs and growth, which will include recommendations for further action and guide concrete actions by transition and donor countries in the area of SME development.

- Under the umbrella of the Private Sector Development Initiative, the EBRD and the AMF are co-leading a joint initiative to comprehensively develop local currency and local capital markets. Several IFI missions to the transition countries are planned for H1 and H2 2012, which will be used as a key assessment mechanism. Based on the assessments, recommendations will be developed together with country authorities and private sector participants. The aim is to complete the initial needs assessment and issue recommendations for most countries by mid/late 2012, after which options for technical assistance will be considered.

In addition to these broad-based efforts, the EBRD is also heavily coordinating its activities in the region with the EIB, AFD and KfW in the framework of the EU Neighbourhood Investment Facility. The Bank is participating in a donor coordination initiative which involves all multilateral and bilateral agencies, which have their offices in the country. The EBRD signed Memoranda of Understanding with several MDBs as well as, of course, making amendments to the one with the EIB. Overall the MoUs confirm the complementarity of EBRD and the other institutions and the shared intention to use their skills and experience to advance their respective mandates. Table 2 highlights the indicative commitments made by various institutions.

The EBRD will bring its particular expertise in private sector financing, which is seen as a key priority by the government. The EBRD’s activities will build on its business model. This business model includes mandate, institutional and operational attributes such as, inter alia, its transition focus, respect for additionality, capacity to evaluate, structure, mitigate and take debt and equity risks, experience in supporting local (less experienced) and smaller businesses, ability to support different ownership models, and ability to intervene directly at company level to promote high quality standards in areas such as governance.

Table 2: Summary of the activities of IFIs in Morocco

	Portfolio	ABV	Forecasts	Main sectors of activity	Private sector operations
World Bank (IBRD)	USD1.5 bn	Average of USD642 m a year; record level of USD729.5 m in 2010. WB will have delivered 7 DPLs, 7 ILs and 1 P-for-R in the FY10-12 period.	expected USD716 m in 2012. Lending in FY13-14 expected to be above USD600 m	All sectors under Growth, Competitiveness and Employment (CPS Pillar 1), Service Delivery to Citizens (CPS Pillar 2) and Sustainable Development in Changing Climate (CPS Pillar 3) and other	MSME Access to Finance loan approved in FY12; Economic competitiveness planned in FY13
IFC & MIGA	USD219 m in 10 companies as of end-April 2012 MIGA is USD6 m in 2 projects	USD18.5 m in FY11; USD106 m in FY12 ytd in cross border investments and financial markets sector	Expected annual commitments around USD150 m over the next three years MIGA = maybe USD20 m over next three years)	Financial markets (SMEs, MFIs, and Funds). Also exploring activities in agribusiness, IT, and high value-added industries Infrastructure	Private sector only MIGA: same, plus can support sovereign guarantees in support of private projects.
AfDB	EUR1.74 bn for 25 operations	EUR904 m expected in 2012 of which EUR168 m is already approved (energy)	Volume is expected to remain high and continue growing	Energy, public sector reform and governance, agriculture	No private sector projects as of yet
EIB	EUR4.5 bn	EUR700 m in 2011	EUR500-800 m for 2012; EUR1.8 bn over the period 2011-2013	Transport (50%), energy, water, environment	28% of volume on average over the last 3 years

	Portfolio	ABV	Forecasts	Main sectors of activity	Private sector operations
IsDB	USD2.0 bn	USD260 m in 2010 including USD174 m in Trade and USD32 m in Business Insurance. USD548 m was approved in 2011 including USD254 m in Trade and 102 mn in Busniess Insurance. So far USD143 m in project financing was approved in 2012 and another USD290 m are expected to be approved prior to the end of July 2012.	Similar volumes in the years ahead	Energy, transportation, education, MSME, trade, agriculture, water and health and infrastructure.	40% on average of volume
Arab Fund for Economic and Social Development	USD3.6 bn in loans since 1974	USD493 m in 2010		Agriculture, energy, transport, water & sewerage and social services	No recent project
OPEC Fund (OFID)	USD227 m	No operation in 2011		Energy, transportation, education	None in Morocco
Arab Monetary Fund (AMF)	USD292 m in loans	1 loan in 2010 for EUR120 m		Provide financial assistance to correct balance of payments disequilibria and implement structural reforms towards the modernization of financial systems	N/A

	Portfolio	**ABV**	**Forecasts**	**Main sectors of activity**	**Private sector operations**
KfW/DEG	EUR1.7 bn of loans over 40 years; EUR600 m of current commitments	Small		Water and environment	
AFD	EUR2.7 bn (since 1992)	EUR541 m in 2011	Special focus under the Deauville commitments (but no numbers)	SMEs, energy efficiency, urban transport, water & sanitation; environment; financial sector; education	Proparco signed a EUR220 m loan in 2012 for a high-speed train

Annex 1: Selected Economic Indicators

Morocco

	2006	2007	2008	2009	2010	2011	2012 *Projection*
Output and expenditure	*(Percentage change in real terms, s.a.)*						
GDP	7.8	2.7	5.7	4.8	3.9	5.0	3.5
Private consumption	6.9	3.8	6.0	4.6	2.2	7.4	...
Public consumption	2.9	4.3	4.8	12.1	-0.9	4.6	...
Gross fixed capital formation	9.7	14.3	11.5	2.6	-0.7	2.5	...
Exports of goods and services	11.6	5.2	7.3	-14.8	16.6	2.1	...
Imports of goods and services	8.2	15.0	12.2	-6.0	3.6	5.0	...
Industrial gross output	...	...	...	...	...	...	...
Labour Market	*(Percentage change)*						
Gross average monthly earnings(annual average)	...	...	...	...	...	...	...
Real LCU wage growth	...	...	...	...	...	...	...
	(In per cent of labour force)						
Unemployment rate (end-year)	9.6	9.5	9.6	9.1	9.1	8.9	...
Prices	*(Percentage change)*						
Consumer prices (annual average)	3.3	2.2	4.0	-1.6	2.2	0.9	3.0
Consumer prices (end-year)	3.3	2.1	3.7	1.0	1.0	0.9	1.8
Fiscal Indicators	*(In per cent of GDP)*						
Central government balance	-1.9	0.2	0.4	2.2	-4.6	-7.0	...
Central government revenues	23.4	25.4	27.0	23.7	22.8	23.7	...
Central government expenditure	25.0	24.8	26.6	25.9	26.5	29.0	...
Central government debt	57.3	53.5	46.8	46.5	49.0	53.6	...
Monetary and financial sectors	*(Percentage change)*						
Broad money (M2, end-year)	16.0	17.5	7.4	7.7	5.0	7.3	...
Credit to the private sector (end-year)	15.3	28.1	21.1	8.8	10.7	9.1	...
	(in per cent of total loans)						
Non-performing loans ratio	10.9	7.9	6.0	5.5	4.8	...	...
Interest and exchange rates	*(In per cent per annum, end-year)*						
Local currency deposit rate	...	...	...	...	...	...	...
Foreign currency deposit rate	...	...	...	...	...	...	...
Lending Rate	6.7	6.0	6.1	6.6	6.2	6.7	...
Interbank Rate (end-month)	2.8	3.5	3.6	3.5	3.3	3.4	...
Policy Rate (Rediscount Rate)	...	...	...	...	...	...	...
	(MAD per US dollar)						
Exchange rate (end-year)	8.46	7.71	8.10	7.86	8.36	8.58	...
Exchange rate (annual average)	8.80	8.19	7.75	8.06	8.42	8.09	...
External sector							
	(in per cent of GDP)						
Current account	2.7	-0.1	-5.2	-5.4	-4.5	-8.0	...
Trade balance	-14.3	-18.7	-21.9	-17.9	-16.5	-19.6	...
Merchandise exports	19.4	20.4	22.6	15.4	19.6	21.7	...
Merchandise imports	-33.7	-39.1	-44.5	-33.3	-36.1	-41.3	...
Foreign direct investment	4.5	6.2	4.1	3.4	4.6	3.2	...
Gross reserves, excluding gold (end-year)	29.6	30.0	25.9	23.5	23.8	20.0	...
External debt stock	26.6	26.0	25.2	27.1	29.6	31.4	...
Public external debt	11.9	11.3	10.5	12.1	13.5	13.6	...
Private external debt	14.7	14.7	14.8	15.0	16.1	17.8	...
	(In months of imports of goods and services)						
Gross reserves, excluding gold (end-year)	7.2	6.2	7.1	6.1	5.4	4.1	
Memorandum items	*(Denominations as indicated)*						
Population (end-year, million)	30.5	30.8	31.2	31.5	31.9	32.2	...
GDP (in billions of MAD))	577.3	616.2	688.8	732.4	764.3	804.8	...
GDP per capita (in US dollars)	1,951.3	2,128.3	2,412.8	2,820.3	2,854.1	2,821.1	...
Share of industry in GDP (in per cent)	15.9	13.3	18.6	16.1	16.8	18.4	...
Share of agriculture in GDP (in per cent)	14.3	13.5	12.8	14.3	14.1	14.5	...
FDI (In billion of US dollars)	3.1	4.9	3.5	3.2	3.9	3.0	...
External debt - reserves (in US$ billion)	-2.0	-3.0	-0.6	3.3	5.2	11.3	...
External debt/exports of goods and services (per cent)	146.6	129.5	111.5	175.6	152.7	145.2	...
Broad money (M2, end-year in per cent of GDP)	78.5	86.4	83.0	84.1	84.6	86.2	...

Annex 2: Small Business Support

The Small Business Support Team (SBS) supports economic transition by achieving enterprise change in potentially viable micro, small and medium enterprises (MSMEs) and contributing to the development of sustainable infrastructures of local business advisory services. This is achieved through two complementary programmes: the Enterprise Growth Programme (EGP) and Business Advisory Services (BAS). EGP focuses on substantial managerial and structural changes and supports the introduction of international best practice to SMEs by engaging experienced international executives and industry experts as advisers. BAS enables MSMEs to access a diverse range of consulting services by facilitating projects with local consultants on a cost-sharing basis.

In November 2011 a two-year Agreement was signed with the EU to fund the launch of SBS operations in Morocco, Egypt and Tunisia through the Neighbourhood Investment Facility (NIF).

MSME environment in Morocco

The SME sector forms the backbone of the economy in Morocco. It accounts for more than 95 per cent of the total number of operating enterprises, contributing to over 30 per cent to GDP and 48 per cent to total employment. The business environment has improved in the past five years due to continuous reforms; nevertheless, regional discrepancies are still pronounced especially outside the golden triangle of Casablanca, Rabat and Marrakech. SMEs are predominantly family-owned businesses and small in size.

MSME challenges

Access to finance is a major challenge and this is due to the lack of dedicated MSME products at the banking side and financial illiteracy at MSME side. The sector is characterized by the large size of its informal sector creating unfair competition, lower productivity and limited access to finance. Lack of qualified labour, specifically with technical skills, is a significant constraint for enterprises in the economically active areas that host manufacturing sites. Underdeveloped value chain is more pronounced in the agribusiness sector and is a major area of concern for export-oriented MSMEs, the State and other stakeholders. In addition, Moroccan enterprises have limited access to local and export markets and the business environment faces regulatory distortions.

MSMEs also face a number of internal challenges constraining growth. Excessive centralisation of management and lack of corporate governance is a common pattern at family-owned businesses. Moroccan enterprises often face other problems related to the lack of skilled labour, outdated HR practices, poor financial management, low productivity and lack of innovation and technology transfer.

Infrastructure of MSME support

State Policy and Governmental support: support organisations in Morocco include a number of governmental agencies with extensive regional networks. The Ministry of Industry, Commerce and New Technologies is the leading actor of the National Pact for

Industrial Emergence 2009-2015 and is in charge of all vertical and/or sectoral strategies including a set of SME support programmes implemented by Association Nationale de Petites et Moyennes Entreprises (ANPME). The Ministry of Economic and General Affairs (MAEG) is in charge of developing horizontal strategies and coordinating development policies.

Donor support: Donors and IFIs are becoming more active in Morocco, and embarking on a more structural reform agenda which have been possible thanks to the political and economic stability of the country. The EU has also been very active through the NIF and successful in supporting sector reforms while bilateral donors have supported targeted programmes in the area of water management, agriculture and competitiveness. Other donors and IFIs involved in private sector development include USAID, GIZ, World Bank and IFC, African Development Bank. The presence of many donors in the country creates even more opportunities for cooperation.

Private sector support: The private sector is also supporting SMEs as demonstrated by the large number of industry associations and federations, including the Confederation Generale des Entrerpises du Maroc (CGEM), Chambre de Commerce et de l'Industrie, Union Générale des Entreprises et des Professions, The American Chamber of Commerce, etc. Private equity is emerging in Morocco and is still fairly limited in scope.

Moroccan consultancy market

The management consultancy market in Morocco faces high transition gaps and is characterised by a number of consultancy companies mainly located in Rabat and Casablanca and very limited availability of consulting services outside of these areas. The range of consultancy services available in the market has been expanding within the past 10 years though consultants still require support in creating the demand and educating SMEs on the value of consultancy services. There is no professional representation of management consultants for consultants to network. Most consultants are keen to be further trained in core consultancy skills and specialised areas and would welcome support in improving local consultant's standards and make these programmes sustainable. There are strong technical skills and know-how available locally which if exploited properly could create a good base for local consultants.

Small Business Support Operational Response

SBS is commencing operations in Morocco with a focus on visibility activities to raise awareness about the potential benefits of accessing advisory services. The Team has identified priority sectors such as agribusiness, textile and apparel, ICT, engineering and electrical. Operations are expected to start from the Great Casablanca area and then extend coverage to less-developed areas. SBS recognizes the barrier to economic growth represented by the low participation of women in employment and by the high level of youth unemployment, particularly in rural areas of Morocco. The Team aims for its programmes to help address these and other cross cutting issues, such as energy and water efficiency, once a good operational level is reached.

The main areas of focus include:

- Increasing efficiency and productivity of enterprises
- Improving management practices of managers
- Promoting corporate governance and transparency, especially to family owned businesses
- Improving the quality of advisory services
- Developing the consultancy market especially in the rural regions
- Strengthening the existing infrastructure and contributing to the institutionalization of the business advisory market
- Promoting energy efficiency interventions
- Support larger agribusiness companies under the joint EGP-Agribusiness direct industry assistance
- Contributing to the policy dialogue between the Bank and local stakeholders

Banking linkages and project preparation

- SBS is working closely with ICA sectors especially Agribusiness, M&S, ICT and PE
- Project preparation for the agribusiness team through the joint EGP/AGRI programme.
- Coordination with Private Equity to support their potential "Equity Funds" partners by supporting enterprises in which they have stake.
- Coordination with the FI team by referring MSMEs to partner banks and raising awareness among MSMEs on the new financing products and instruments which FI has supported.

Business Advisory Services

BAS projects will support MSMEs in areas that respond to the challenges identified, focusing on:

- Strategy development and performance management techniques
- Market analysis, planning and strategy
- Organizational development and HR management
- Introduction of IFRS/Budgeting/Financial planning systems
- Introduction of costing systems
- Management information systems
- Operational planning/Quality management/ Certification
- Supply chain management
- Product development

Enterprise Growth Programme

EGP has been well received by the different parties interviewed, due to its unique approach and proven methodology. EGP will be implemented with the majority of its projects outside Casablanca and Rabat. Special focus will be given to the priority sectors: agribusiness, ICT, engineering and electrical. Larger agribusiness companies will benefit from the EGP-Agribusiness joint framework designed to improve value chain inefficiencies and prepare them to receive financing.

Market/Sector Development Activities

SBS will conduct market and sector development activities to support the achievement of the overall goals.

- Visibility and dissemination in cooperation with major representative bodies of Moroccan enterprises; such as the CGEM, which includes 30 sectoral confederations and AMITH (Moroccan Association of the Textile and Clothing Industries)
- Training of local consultants on advanced consultancy skills and support their preparation to achieve an internationally recognized accreditation;
- Support to and development of existing local institutions engaged in serving MSMEs (mentioned earlier), by providing advice on introducing innovative business development services.

Coordination

- Working in line with the strategies of the Ministry of Industry and Commerce and New Technologies. The "Emergence" plan framework is the ministry's competitiveness strategy of the Industrial sector for 2009-2015
- Cooperation and coordination with the Ministry's SME Development Agency (ANPME) and its programmes: Imtiaz and Moussanada.
- Coordination with the active IFIs and active donors.

Annex 3: Gender Profile Morocco

Gender inequality and Human Development

According to the UNDP's Human Development Report 2012, Morocco's Gender Inequality Index (GII) in 2011 was 0.510 which ranked the country 104th out of 187 countries. The GII is a new index for the measurement of gender disparity and is a composite measure which captures the loss of achievement, within a country, due to gender inequality, and uses three dimensions to do so: reproductive health, empowerment, and labour market participation. Morocco's Human Development ranking is 130 out of 187, indicating that there are higher levels of gender equality than would have been expected.

Education

In Morocco boys and men generally outnumber women with regards to participation in education; this can also be seen in the difference in literacy rate that is 72 per cent for women and 87 per cent for men. Primary school enrolment shows little difference as 88 per cent of girls and 91 per cent of boys have primary education according to UNICEF statistics. Secondary school enrolment ratios are low both for girls and boys according to World Development Report (WDR) 2012, with only 51 per cent of girls and 60 per cent of boys. The same is true for tertiary education, where only 14 per cent of men and 12 per cent of women participate. The Understanding Children's Work UCW report found that girls in rural areas are 33 per cent less likely to attend school than boys and also that illiteracy is particularly high amongst rural women. Primary education in rural areas is completed by less than 50 per cent of girls, as they are often engaged in housework and low paid agricultural work.

Labour participation and gender pay gap

Women's labour market participation is much lower as compared to men's labour market participation. Only 26 per cent of women aged 15 and above is engaged in either employment or looking for employment; whereas, 80 per cent of men are active in the labour market. The majority of women (59 per cent) are engaged in agricultural production. In rural areas 92 per cent of women work in the agricultural sector which is the only sector where women's employment is higher than men's, as the industrial sector employs 15 per cent of women and 24 per cent of men, whereas the service sector employs 25 per cent of women and 42 per cent of men according to the WDR2012.

Maternity leave is 14 weeks with 100 per cent of a woman's wage paid from the national social security fund and women can request an additional year of unpaid leave as well. The Labour Code also provides a 3-day paternity leave fully paid.

The revised Employment Code recognises sexual harassment in the workplace as an offence as well as discrimination. However the gender pay gap was still 0.576 in 2010 which ranks the country on the 127th out of 134 countries.

Entrepreneurship, Access to finance and credit

There is no legal discrimination against women in accessing bank loans or any other forms of credit, however, it is usually difficult for women to obtain credit from commercial banks. The government has set up various micro credit initiatives to encourage women's participation. Private micro-financial institutions report, however, a low take up of credit by women.

According to the women's economic opportunities index (WEO) of the Economist Intelligence Unit, Morocco is ranked 78th out of 113 countries. However, when countries are grouped according to income levels, Morocco is the 17th amongst the lower middle income countries. In a regional distribution, Morocco is 7th amongst the 25 African countries.

Inheritance and property rights

The Moroccan legal system is based on both the French civil code and the Sharia (Islamic code). Moudawana, the personal status code that depends on Sharia, covers matters related to inheritance, marriage, divorce and child custody. There is, however, no common personal status law that applies to all Moroccans as there a number of Christian and Jewish communities with their own separate family laws. The Moudawana was reformed in 2004 and is considered one of the most progressive codes in the Arab world in relation to rules of inheritance, minimum age of marriage and women's divorce rights.

Moroccan women have the same property ownership rights as men; however, women's access to land is often restricted, particularly in rural areas. In many cases even when women own land, it is managed by male relatives. Women have the legal right to access properties and to manage those properties as they wish. Moreover, the most common matrimonial system, i.e. Moudawana allows spouses to retain their own property. However, even after the 2004 reform of the code, there are still some inequalities in relation to inheritance rights. Although, the new code started significant reforms, it preserved inequalities in inheritance rights and it still forbids non-Muslim wives to inherit from Muslim husbands.

Participation in politics and decision making

Women have equal political rights; they can vote and stand for election. Since 2002, 30 seats are reserved for women in the House of Representatives, furthermore, after the elections in 2007 and 2009, there are 34 women in the Assembly of Representatives and 6 in the Assembly of Councillors. An agreement in 2008 secured 12 per cent of the local council seats for women and this encouraged women to run on elections, so in 2009 12 became mayors and other local leaders. The new constitution contains provisions for women magistrates in the Conseil Superieur du Pouvoir Judiciaire as well.